

## Economic conditions

### International environment

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Economic trends in the industrial countries after mid-1996 were positive overall. The expansion of real gross domestic product in the United States (which had been quite rapid in the spring) moved on to a path that was more consistent with potential, leading to an improvement in the outlook for tension-free growth. In western Europe the cyclical revival continued in the summer months, even though there were marked differences between the individual countries. The previously rather unsteady upswing in Japan has gained in strength in the past few months.

*Industrial  
countries*

According to the International Monetary Fund's autumn 1996 forecast, there will be a slight acceleration in the pace of economic growth in the industrial countries as a whole (with an increase in real GDP of 2¼% this year and of 2½% in 1997). Nevertheless, the rise in the price level – which is likely to be 2½% at the consumer level in both of these years – will remain moderate. These more favourable economic prospects are due, firstly, to the fact that a fairly sharp rise in domestic demand is likely in the industrial countries. Secondly, it is probable that the Third World oil-exporting countries and the countries in transition of central and eastern Europe (which are continuing to make good progress in their catching-up process) will step up their demand for imports. The expansionary stimuli emanating from south-east Asia, on the other hand, will become weaker since looming signs of overheating have prompted some countries in that region to take restrictive economic policy measures

*IMF forecast*

that are slowing down economic growth and curbing the demand for imports.

*United States*

There was a lull in the US economy in the summer months following vigorous growth in the spring. In the third quarter seasonally adjusted real GDP expanded by ½%, compared with the second quarter (and by just over 2% against the previous year). A considerable part of the rise in overall output was caused by a particularly strong increase in stocks as well as a renewed expansion of fixed capital formation, which reflects the continuing favourable earnings position of US enterprises. In the third quarter, private consumption (which had hitherto been one of the driving forces behind the upturn in the United States) stagnated at the level of the previous period, in price and seasonally adjusted terms. Consumers refrained, in particular, from acquiring durables. Given the undiminished growth in disposable income (which was fuelled, not least, by the positive trend on the labour market), there was a marked increase in the saving ratio which attained its highest value since the end of 1992. Capital spending on housing construction remained below its level in the second quarter, which is likely to be due in part to the rise in interest rates during the first nine months.

Foreign trade in goods and services in the United States once again generated a restraining influence on economic activity. Not least on account of the recovery of the US dollar rate against the currencies of major trading partners (which had been persisting for some time), exports remained at their

spring level in price and seasonally adjusted terms, whereas imports continued to grow sharply. The marked slackening of growth after the middle of the year, which (measured by industrial output) continued in October, is likely to have played a major part in the brightening of the price climate. At 3.0%, inflation at the consumer level was slightly higher than at the start of the year. This acceleration is attributable solely to the fairly sharp rise in the prices of energy and (on account of the weather) of food.

Following the economic ups and downs in the first two quarters of this year, expansionary forces appear to have regained the upper hand in Japan after the middle of the year. In seasonally adjusted terms, industrial output in the period from July to October exceeded the figure for the spring months by 2½% and that of a year before by 4½%. Housing construction activity, too, has increased further. This expansion of industrial output was caused, *inter alia*, by a sharp rise in production in the motor vehicle industry, which was able to step up its sales both at home and abroad. The Japanese export industry is also on the ascent in other markets for industrial products; in the first ten months exports of goods were 8% above the comparable figure last year. The decisive factor in this was, not least, the greater price competitiveness as a result of the yen's perceptible depreciation, principally against the US dollar; the weighted external value of the yen in November was one-quarter below the peak reached in April 1995. Right up to the present, however, imports still grew faster than exports, thus resulting in a further de-

*Japan*

### Capacity utilisation in the manufacturing sector in selected industrial countries

Seasonally adjusted figures in %

Country	Annual average 1979-96	1996					October 1996 against annual average 1979-96 in %
		Total	January	April	July	October	
EU 1	80.7	81.3	82.3	81.0	80.8	81.0	+ 0.4
of which							
Belgium	77.8	79.5	79.7	79.3	79.1	79.9	+ 2.7
France	83.6	84.1	84.7	85.2	84.0	82.6	- 1.2
Italy	75.5	76.5	78.5	76.2	75.4	75.9	+ 0.5
Netherlands	82.5	83.8	84.7	83.2	83.4	83.9	+ 1.7
Spain	<sup>2</sup> 77.6	77.1	76.5	77.3	77.1	77.5	- 0.1
United Kingdom	81.3	82.5	83.3	82.0	82.2	82.6	+ 1.6
United States <sup>3</sup>	80.4	81.9	81.4	81.9	82.5	81.6	+ 1.5

1 Source: EU business survey; weighted overall result of the country figures. — 2 Annual average 1988-96. — 3 Source: Federal Reserve Bulletin; annual average for

1996 calculated on the basis of the four monthly figures given.

Deutsche Bundesbank

cline in the foreign trade surplus on a yen basis. The depreciation of the yen and the rise in crude oil quotations on the world market led to the consumer price level in October and November being ½ % higher than a year previously. In view of the considerable spare capacity that exists in the Japanese economy, however, any significant home-made inflationary pressure is not to be expected in the foreseeable future.

Western  
Europe

The economic upturn in western Europe is shown not least by the increase in capacity utilisation in the manufacturing sector between the middle of the year and the beginning of autumn. The slowdown in growth in the winter half year 1995-6 was comparatively moderate in most of the smaller EU member countries, and the recovery which

began in the spring made greater headway than in the large partner countries on the European continent.

Trends in the British economy have been divergent from those on the continent for some considerable time. The upturn which began in mid-1992 is now entering its fifth year and shows no signs of abating yet. Growth in real GDP came to just over ½ % in the summer, seasonally adjusted, compared with the spring (and to 2 ½ % in comparison with the third quarter of 1995). Expansionary stimuli have recently been generated by domestic demand. There was sharp growth again in retail turnover, and the demand for residential buildings picked up considerably in the summer. By contrast, the appreciation of the pound sterling in the foreign exchange

United  
Kingdom

markets also meant that foreign trade became a less significant factor as an engine of economic growth. Given the continuing economic expansion, the prospects of the British government's own inflationary target of 2½% (measured by the rise in consumer prices, excluding mortgage rates) being achieved next year have, if anything, deteriorated recently. The pace of inflation has accelerated since mid-year. However, the rate of 3.3% for October overstates this trend to the extent that, owing to special circumstances, there had been a perceptible fall in inflation in the same month last year. The rate of inflation, including mortgage rates, was latterly 2.7%.

*France*

In France, the cyclical upward trend appears to have prevailed again following a temporary setback. Seasonally adjusted, overall output in the third quarter of the year rose by 1% against the previous quarter and was 1½% higher than its level a year before. In the summer months it was, above all, private consumption that gave new impetus to the economy. The key factor in this was that the French government's reintroduction of measures (that were phased out at the end of September) to promote the replacement of older cars vigorously stimulated demand for motor vehicles and hence pushed up output. Even if some of households' additional expenditure on passenger cars was to the detriment of other goods purchases, this means that a slackening of consumer demand is likely for the fourth quarter. Besides private consumption, foreign trade once again proved to be an important mainstay of the economy in the summer quarter. Seasonally

adjusted exports were 3½% above their spring level and 5% higher than a year before. The upturn in the economy has not led to an easing on the labour market, however. Unemployment has remained on an upward trend over the past few months. As in other industrial countries, too, the price climate has become slightly more overcast – chiefly on account of the rise in crude oil prices; even so, the rate of inflation at the consumer level in October and November remained distinctly below 2%.

In Italy, too, there are increasing signs that the economy has returned to a sounder footing after the middle of the year. According to provisional calculations, real GDP rose by ½% in the summer months against the second quarter (seasonally adjusted) and in comparison with the corresponding period of last year. Domestic demand is likely to have been encouraged, firstly, by the decline in interest rates. Secondly, the domestic economy was stimulated by the fact that households' real disposable income rose more strongly in the light of the great success in combating inflation. Despite higher energy prices, the inflation rate in Italy continued to fall in autumn and, at 2.6% in November, reached its lowest level since 1969.

*Italy*

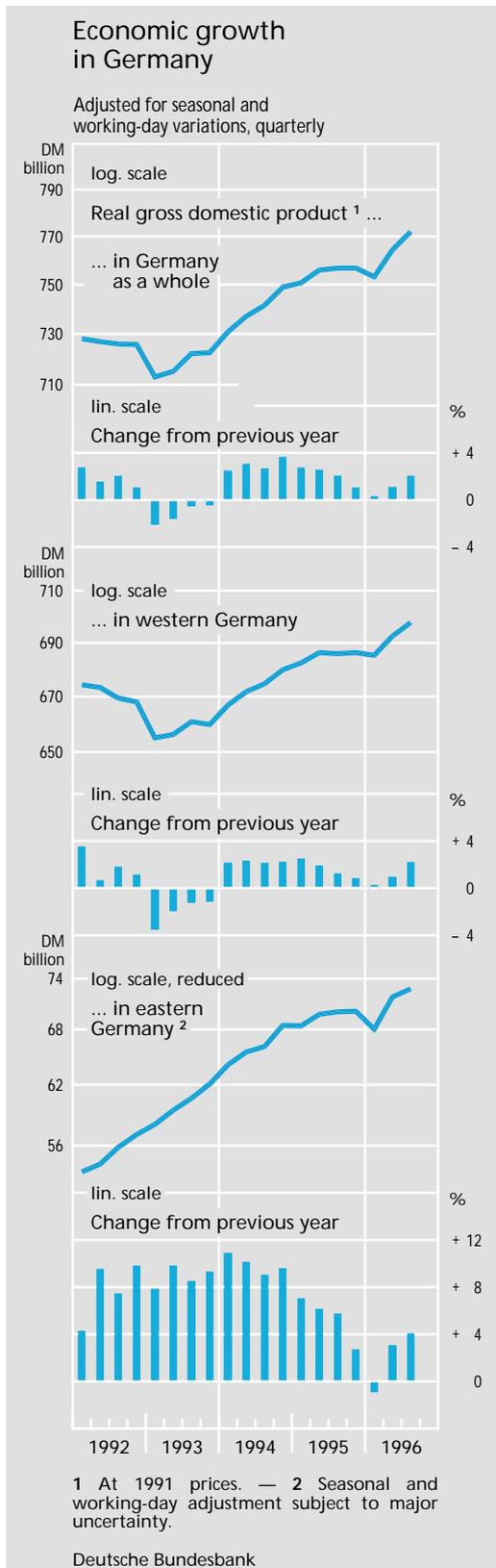
## Germany

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### Output

In the summer months, too, the upward economic trend in Germany which began in spring 1996 continued – following a pro-

*Overall output*



nounced slowdown in economic activity until the turn of 1995-6. After adjustment for seasonal and working-day variations, real GDP in the third quarter of 1996 rose by just under 1% against the previous quarter and by as much as 1½% in the new Länder. This means that overall output in Germany as a whole exceeded its level in the comparable period last year by 2½% (i.e. by just over 2% in western Germany and by 4% in the new Länder). Nevertheless, these figures should not obscure the continued existence in Germany of considerable structural problems that are slowing down the growth process. Eliminating those problems remains a major priority of economic policy.

The situation in the core sector of the economy – manufacturing – improved further after mid-year. This is made clear by industrial enterprises' sharp expansion in production; on an average of the months July to October, it exceeded its spring quarter level and the figure for the comparable period last year by around 1% and by 1½%, respectively, in seasonally adjusted terms. Although industrial production in the new Länder remained below its comparatively high level in the second quarter, it did exceed the corresponding 1995 level by 7%.

*Manufacturing*

There is a certain inconsistency between that notable figure and the pessimistic views taken in many quarters (by the economic research institutes in their autumn report, for example) that there are identifiable signs of a flagging of the driving forces behind the upturn in manufacturing – as in the east German economy in general – resulting not least

*The east German economy's increasing responsiveness to cyclical changes*

from a lack of competitiveness. The fact that competitive problems of this kind exist, a considerable number of which are home-made, cannot be disputed. What should not be overlooked either, however, is that the economy in the new Länder has become more responsive to cyclical changes, not least on account of its increasing economic integration with western Germany – something which the German Council of Economic Experts pointed out in its 1996-7 Report; one indication of this has been the largely similar trend in manufacturing, in particular, in both parts of the country over the past one-and-a-half years. It may hence be expected that the east German economy, too, will benefit increasingly from a continuation of the economic upturn in western Germany (quite apart from the fact that, like the west German economy, the east German economy is faced with a growing foreign demand for its own industrial products). During the past four years industrial output in the new Länder grew at an annual average of 9½%. In the medium term it was not to be expected that this expansion would carry on with the same intensity from the comparatively high level that has now been achieved; instead, it was to be anticipated that the pace of growth would slow down. A much more pronounced slackening was to be expected in the construction sector; in contrast to the past few years, this is likely, if anything, to generate a restraining influence on overall output in the immediate future.

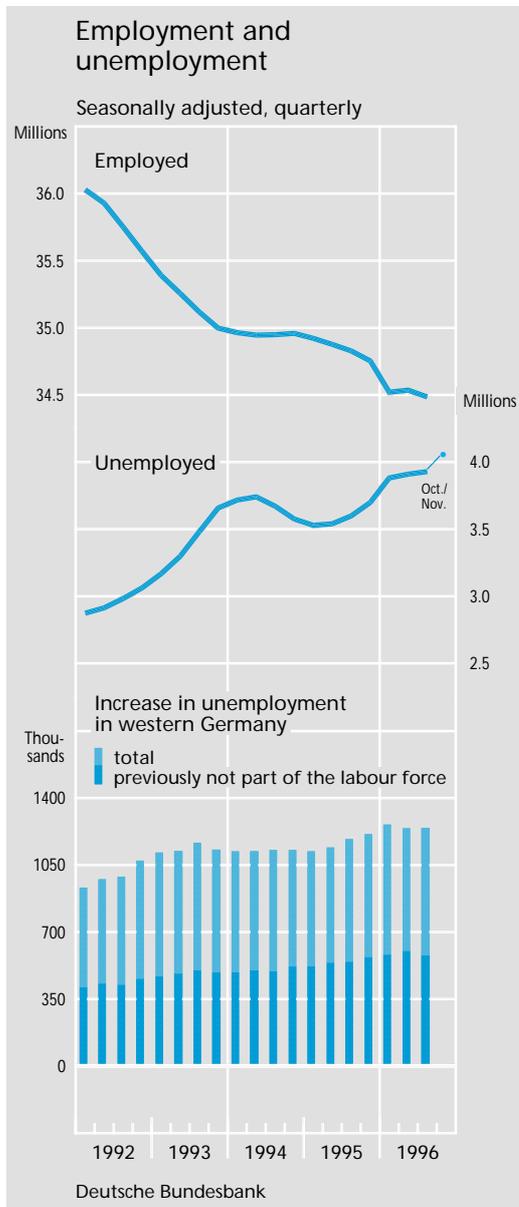
*Capacity  
utilisation*

It may be taken as an indication of the economic recovery in western Germany that, after the middle of the year, distinctly greater

use than before was made of operating capacity in manufacturing. According to the ifo business survey, capacity utilisation in September was 1% higher, seasonally adjusted, than it had been in June. It thus moved away from the lower part of the range of normal capacity utilisation. This increase in the degree of capacity utilisation is, at the same time, a reflection of the rationalisation efforts in the manufacturing sector, which probably also involved the dismantling of less profitable or unprofitable operating plant.

The construction sector likewise raised its output after the middle of the year – and did not cut it back as had been anticipated in many quarters. Between July and October output in the construction industry in Germany as a whole was 1% higher, seasonally adjusted, than in the spring months. Construction equipment was utilised much more than in the spring, albeit less than a year before. One of the reasons for this surprisingly encouraging output figure is likely to have been the fact that in the construction sector new arrangements in negotiated working hours came into force at the beginning of this year which make it possible to transfer construction work to months in which the weather is comparatively favourable. This greater degree of flexibility was evidently used for the first time during the summer months, admittedly with the result that there could be correspondingly less construction activity in the last few months of this year and at the beginning of 1997 to offset that (which might hence have a restraining impact on the growth of real GDP).

*Construction*



quarter was hence accounted for by this sector.

### Labour market

The labour market has hitherto not benefited from the marked upturn in the economy. Employment, the decline in which appeared to have come to a halt around the middle of the year, has fallen again recently, and there has been a further rise in unemployment.

According to initial calculations by the Federal Statistical Office, the seasonally adjusted number of persons employed in Germany came to 34.46 million in September, i.e. around 90,000 fewer than in June and 360,000 (or 1%) fewer than 12 months earlier. It is true that this fall is partly due to a change in the discharge dates of conscripts (who are counted as employed persons) resulting from the reduction in the length of military service. Above and beyond that, however, the decrease in the number of jobs in the economy is likely to have outweighed recruitments. This is something which applies to western Germany, in particular. Staff levels were cut further mainly in the manufacturing sector, where the number of employees at the end of September was once again almost 3½% lower, seasonally adjusted, than at the turn of 1995-6. Compared with the same month last year, this was a reduction in employment of around 270,000 (or 4½%). There were likewise heavy losses of jobs in construction. By contrast, the trend in employment in the area of general services (including such different sectors as the catering trade, health care, business consultancy and

*Employment*

*Services*

Other enterprises involved in transactions in goods and services with other countries – such as the wholesale trade – have significantly expanded their activities as a result of the buoyant export business in manufacturing. The services sector was likewise able to increase its value added, i.e. by 1% against the second quarter, after adjustment for seasonal and working-day variations. Roughly one-half of aggregate growth in the third

advertising) has remained uninterruptedly positive of late. Overall, just over 5 1/2 million employees were working in this area at the end of the period under review; right up to the present the year-on-year increase in their number has been around 2 1/2 %, corresponding to between 130,000 and 150,000 employees. This was a long way from being able to make up for the above-mentioned adverse trend in the other sectors of the economy, however.

*Deployment  
of labour  
market policy  
instruments*

Pressure on the labour market continued to be eased by the extensive deployment of labour market policy instruments. In total, 895,000 persons were taking part in training or job-creation schemes in Germany at the end of November, which was around 30,000 fewer than a year before. In the new Länder, in particular, the job-creation schemes are still of major importance. In mid-November the Federal Labour Office granted assistance to 215,000 employees on short time, which was 5,000 more than in the corresponding period last year.

*New  
unemployment*

The loss of a job resulted in unemployment for many of those affected. Just over half of all those who have registered as unemployed at the labour exchanges in the past few months were previously gainfully employed. In the new Länder the proportion was, in fact, even higher. There was an especially marked increase in registrations of persons previously employed in construction. Many also came from industry. Furthermore, a particular role in eastern Germany was played by redundancies in the public sector, even though their share in job losses was not quite as great as it had been in 1995.

Nearly every other person registering as unemployed was not previously part of the labour force or had been unemployed for a lengthy period. This includes school leavers who did not find a job; in terms of its percentage share, this group is not very large, however. Of greater quantitative significance – particularly in western Germany – is the influx of women who were not employed previously; this inflow has risen right up to the present, despite a lack of any improvement in the labour market.

At the end of November the number of unemployed registered at the labour exchanges came to 4.10 million, seasonally adjusted; this was 175,000 higher than it had been in mid-year and 365,000 higher than a year before. The increase in unemployment has been especially marked in the old Länder. After adjustment for the usual seasonal fluctuations, the unemployment rate in western Germany rose from 9.0% at the end of June to latterly 9.5%. Although the percentage of unemployed in the labour force in the new Länder, at 15.8%, was not higher at the end of November than at the beginning of spring 1996, the rate had been significantly lower during the intervening period.

*Number of  
unemployed*

A lasting improvement in the situation on the labour market cannot be expected solely from a sustained recovery in the economy. Prerequisites which are just as important are a continuation of the moderate wage trend over a number of years as well as the reduction of structural impediments; these include, *inter alia*, insufficient flexibility in working hours and a lack of wage differentiation. The

*Wage  
differentiation*

“downward opening of pay rates” which was agreed in the chemical industry for recruiting the long-term unemployed and for taking on trainees, for instance, has so far found few imitators in other economic sectors. In this year's pay round, too, the (overall moderate) wage agreements were comparatively close together; there was no great degree of wage differentiation, say, by sector, region or in terms of qualifications. A greater differentiation of labour income could be brought about by relaxing strict adherence to pay settlements, i.e. paying employees a wage or salary below the negotiated level (which is being reported from various sectors of the west German economy). According to surveys, a much greater spread between actual earnings and agreed earnings is observable in the new Länder. In the interests of preserving jobs, in particular, it is evident that enterprises are themselves increasingly taking the initiative in improving their competitiveness – which had suffered appreciably not least as a result of the rapid adjustment of east German pay rates to conditions in western Germany, irrespective of differences in labour productivity.

*Greater  
flexibility in  
working hours*

Management and labour have recently made headway in terms of making working hours more flexible. In a number of sectors the negotiated pay agreements now allow a broad range of options. In the metal-working and electrical engineering industry, for example, weekly working hours can be reduced by up to five hours to secure employment if the order position is poor; the monthly wages and salaries are then correspondingly lower. Furthermore, it is possible to harmonise

working hours more closely with seasonal fluctuations in sales. In the construction sector, which is particularly susceptible to the impact of the weather, there are now shorter weekly working hours in the winter months than in the summer because of the importance of external conditions for output. Making working hours even more flexible by internal or individual agreements has been possible in that sector since April of this year. Moving away from the rigid framework of working hours which remain constant from week to week by setting up “working time accounts”, for example, could alleviate or even prevent the shedding of jobs in the event of a deterioration in the economic situation. Conversely, given an economic recovery, it is likely that the enterprises would also endeavour initially to make greater use of the available upward scope for flexibility. In effect, this might mean an increase in the time lag between an upturn in the economy and the ensuing expansion of employment. Even so, more flexible working hours and greater wage differentiation are likely to generate a positive impact on employment overall.

#### Trends in demand

The process of growth in Germany, which was resumed in the spring months, continues to be driven primarily by foreign demand. Apart from public consumption (the persistent sharp rise in which was caused by increases in expenditure in the health sector), only private consumption has imparted significant expansionary stimuli so far this year in terms of domestic demand; the tax reductions which came into effect at the beginning

## Expenditure of gross domestic product (GDP)

Adjusted for seasonal and working-day variations \*

Germany

Period	GDP	Domestic expenditure	of which				Foreign balance	Exports	Imports
			Private consumption	Government consumption	Machinery and equipment	Buildings			
at 1991 prices in DM billion									
1995 4th qtr	757.9	762.1	433.1	151.4	64.3	103.8	- 4.2	200.5	204.7
1996 1st qtr	754.8	758.9	436.3	152.3	64.5	94.2	- 4.1	200.9	205.0
2nd qtr	765.8	767.8	438.9	154.0	65.5	104.7	- 2.0	200.8	202.8
3rd qtr	772.0	768.0	439.9	155.9	65.5	105.8	3.9	208.2	204.3
Change from previous quarter in %									
1995 4th qtr	0.0	0.0	- 0.0	0.5	0.0	- 1.5	.	1.0	1.0
1996 1st qtr	- 0.5	- 0.5	0.5	0.5	0.5	- 9.0	.	0.0	0.0
2nd qtr	1.5	1.0	0.5	1.0	1.5	11.0	.	- 0.0	- 1.0
3rd qtr	1.0	0.0	0.0	1.0	0.0	1.0	.	3.5	0.5
at current prices in DM billion									
1995 4th qtr	872.1	864.4	498.6	170.5	65.9	120.7	7.7	208.2	200.5
1996 1st qtr	872.7	864.8	504.0	173.9	66.2	109.6	7.9	208.8	200.9
2nd qtr	883.5	874.8	508.9	174.7	67.3	120.7	8.7	209.3	200.6
3rd qtr	891.2	876.6	513.5	176.4	67.3	122.1	14.6	216.3	201.6
Change from previous quarter in %									
1995 4th qtr	0.5	0.5	0.5	- 0.5	0.5	- 1.5	.	0.5	1.0
1996 1st qtr	0.0	0.0	1.0	2.0	0.5	- 9.0	.	0.5	0.0
2nd qtr	1.0	1.0	1.0	0.5	1.5	10.0	.	0.0	- 0.0
3rd qtr	1.0	0.0	1.0	1.0	0.0	1.0	.	3.5	0.5

\* Provisional figures which, owing to the shortness of the time series, are subject to major uncertainty. Original

figures for the first and second quarters 1996 have been revised; the overall effect is only slight, however.

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of 1996 played a part in this. The propensity to invest, on the other hand, remains weak.

The growth in export orders received by the German manufacturing sector continued after the middle of the year. Between July and October foreign orders were, on average, a seasonally adjusted 5% higher than in the spring quarter; this signified an increase of 11%, compared with the low point reached in the last quarter of 1995. There was a sharp rise, above all, in export orders for capital goods. This is an indication that the propensity to invest is now much more buoyant in Germany's partner countries than in Germany itself. The weakness of the propensity to invest both in the old and the new Länder is a major reason for all domestic business in manufacturing being in the dol-

drums – something that seemed to have been overcome in the spring but which was exposed again in the summer months by a drop in domestic orders. For that reason, total orders between July and October were on average only just under 1% higher, seasonally adjusted, than in the second quarter.

The prolonged sharp expansion in export orders also led to an appreciable increase in export deliveries in the summer months. As defined in the national accounts (i.e. including services) and after adjustment for seasonal and working-day variations, exports in the third quarter of 1996 were 3½% higher than their second-quarter level and 6% higher than in the comparable period last year in both nominal and real terms. Import activity, on the other hand, was not nearly so

Orders  
received by  
manufacturing

Exports

buoyant (as is shown by the table on page 57). There was hence a sharp rise in the balance of exports and imports in the third quarter. This may be regarded as an indication of how important the foreign trade sector is at present for the state of the German economy.

### Demand for capital goods

There have been certain glimmers of hope recently that the demand for capital goods is picking up in Germany, too. Ordering in industrial construction, for example, showed a perceptible seasonally adjusted rise in the third quarter (at least in the old Länder), which was ultimately due to investment by enterprises. On the whole, however, producing enterprises' propensity to invest remains weak.

#### *Spare capacity*

There are several likely reasons for the persistent low level of investment. Despite rising production in large sections of the economy, a considerable amount of spare capacity continues to exist – as is demonstrated by the utilisation figures collected by the ifo institute. In those terms, it is only if demand goes on rising that new investment will become a greater priority. The expected profitability will be crucial in deciding whether Germany is the location for that investment. Since the recession year of 1993, there has been a continuous overall improvement in enterprises' profit situation – a basic trend that continued in 1996 as well. Admittedly, this does not hold true for all sectors of the German economy – the construction sector, in particular, is an exception – nor does it apply to every single

enterprise. The earnings position in the enterprise sector is likely to be a disparate one, depending on the share in the expansion of export business.

In connection with corporate investment, moreover, what is of importance is not only the trend in profits but also their level and the ratio of profits to the capital stock deployed in the enterprise, i.e. its profitability. The most significant reason for the present low level of investment is probably the fact that profit expectations have been adversely affected over the past year not least by the sharp appreciation of the Deutsche Mark and the high wage settlements in the 1995 pay round, i.e. that there is a discrepancy between the profit situation and earnings prospects as assessed by enterprises. Although the causes of that adverse situation have now largely ceased to exist, their impact on expectations does not by any means appear to have been entirely overcome at present. One indication of this is provided by the results of ifo institute surveys on business prospects in manufacturing, which have been quite slow in brightening so far. Preventing a renewed suppression of expectations will be of prime importance in the forthcoming pay round, especially in terms of improving the situation on the labour market; that will depend, not least, on much more buoyant investment activity.

There can be no question of that being the case recently. Producing enterprises' gross fixed capital formation was only 1% higher than its (very low) level in the previous year in terms of value, and only 1½% higher in terms of volume. The share of corporate in-

*Profitability  
trend and  
profit  
expectations*

*Fixed capital  
formation of  
producing  
enterprises*

vestment in GDP was hence, in fact, slightly lower than a year before.

*Orders received  
by construction*

The demand situation in the construction sector showed a marked improvement after the middle of the year. Whereas ordering had remained low overall in the spring quarter, despite a number of catching-up influences to offset the weather-induced slump in the first few months of the year, orders placed with the construction industry in the third quarter were 2% higher, seasonally adjusted, than in the preceding three-month period. The key factor in this was the above-mentioned growth in industrial construction orders, although these were lower again in September. Aggregate demand hence rose somewhat more sharply than output; in western Germany the forward reach of orders on hand increased, thus slightly exceeding the (admittedly quite low) level of the comparable period in 1995.

*Demand for  
housing  
construction*

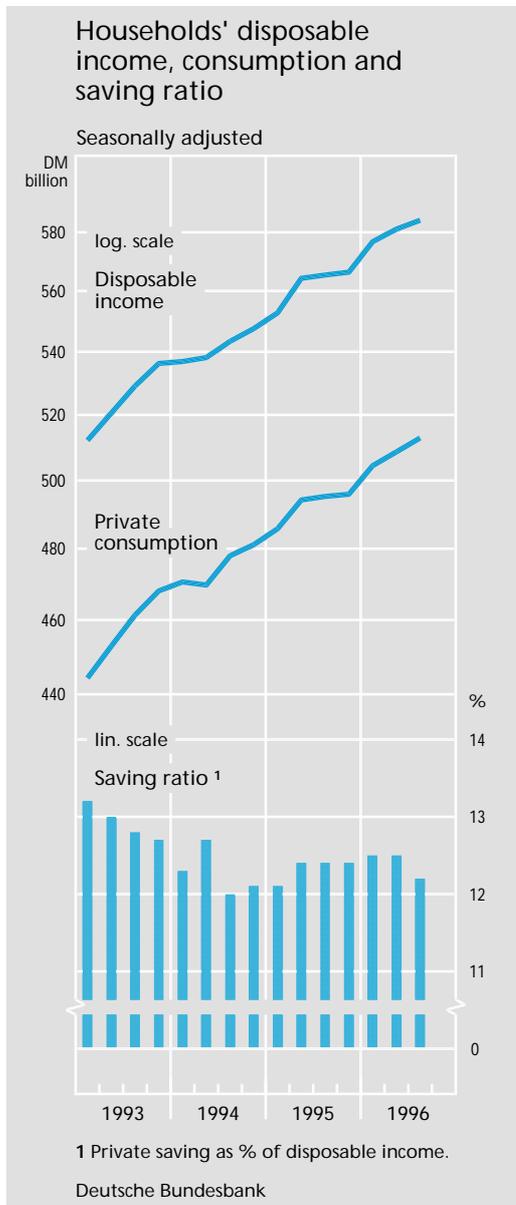
Whereas the public sector cut back its orders again following a temporary revival in spring, there was a further increase in the demand for housing construction in the third quarter, even though it was no longer quite so marked as before. As had long been the case, the trend in housing construction orders has lately been determined, in particular, by impending or already effected changes in the underlying fiscal conditions as well as by favourable market conditions (including both low mortgage rates at present and the stability of construction prices). In the new Länder, in particular, the considerable cut-backs to be made in some of the special arrangements under the Promotional Area

Act from the beginning of 1997 are likely to be a contributory factor in many of the orders being placed. In western Germany, the reduction in tax concessions for households with higher incomes may have been of significance in the quite sharp rise in the number of building permits for one-family housing in the first few months of 1996; the submission of a building application by the end of 1995, which could then be translated into a construction order, was enough to be able to benefit from the old arrangements. A part was probably also played by the fact that recipients of lower incomes made use of the (for them) much more favourable new incentives provided by the allowance for owner-occupied homes and by increased assistance for saving for building purposes.

**Households' consumption, income and saving**

Private consumer demand has lately been quite buoyant, too. According to the now updated and largely complete information on turnover from the retail trade, seasonally adjusted demand for clothing, shoes and leather goods, in particular, as well as for household furniture and appliances was more buoyant in the third quarter than in the preceding months. There was also an extremely sharp rise in private fuel purchases; many households were obviously endeavouring to replenish their stocks of heating oil which had been severely depleted last winter, particularly as rising prices for light heating oil made it appear advisable not to wait longer. Purchases of new passenger cars, on the other hand, remained at the high level of the

*Private  
consumption*



spring months. For the first time in a long while, German tourists spent significantly less on foreign travel in the summer season than before. Between the second and the third quarters (nominal) private consumption went up by a total of 1%, after adjustment for seasonal and working-day variations. It was 3½% higher than its level in the corresponding period last year (1½% in real terms).

In terms of income, the scope for an expansion of private consumption increased only slightly after the middle of the year. The (seasonally adjusted) rise of ½% in total gross wages and salaries between the second and third quarters was largely used up by higher deductions, the raising of the contribution rate to the nursing care insurance scheme from July 1 being a particularly significant item. Households also tended to receive lower current transfers from public cash offices than in the second quarter. Including the overall marked increase in private withdrawals and property income, households' disposable income in the third quarter was a seasonally adjusted ½% higher than in the previous quarter and 3½% higher than in the corresponding period last year. The rise in consumption has hence partly been to the detriment of saving of late. In seasonally adjusted terms, the saving ratio fell by ½ percentage point against the second quarter to 12% and undershot its comparatively low level in the previous year.

*Disposable income*

## Prices

There has been a sharp upward trend in international oil prices over the past few months which has clearly left its mark in price movements in Germany. Within a short space of time crude oil prices (calculated in US dollars) rose by one-quarter, corresponding to a 50% increase against the previous year. At the beginning of November the markets became calmer, world market prices fell somewhat and have stabilised of late.

*International oil prices*

*Import prices*

The import price level in Germany reacted perceptibly to these price changes, particularly as the European spot market quotations for mineral oil products followed the rise in crude oil prices almost immediately. The seasonally adjusted import price index rose very sharply in September and October (more recent data are not available); import prices overall were 1½% above their comparable 1995 level, having been slightly below it still in August. Excluding oil and oil products, imported goods were nearly 1% cheaper in October than they had been 12 months earlier.

*Industrial producer prices*

For those reasons, the domestic selling prices of German industry likewise moved upwards. This is shown by the year-on-year rate which was –0.6% in the third quarter but which had fallen to –0.3% by October. Excluding mineral oil products, however, it remained unchanged at around –1%. Construction work became slightly cheaper again in summer. The overall construction price level in August was ½% below its level in the comparable period of last year.

*Construction prices*

The increase in the cost of fuels and heating oil led to a slight increase in the consumer price level. It remained stable in November under the impact of the moderation of prices on the international markets. The year-on-year rate was hence 1.4% at the end of the period under review (compared with 1.5% in October). There has been a sharper rise within one year in rents (2.6%) and the prices of services (1.6%); the cost of industrial goods (0.6%) increased at a below-average rate.

*Consumer prices*

