

Economic conditions

International environment

The economic trend in the industrial countries continued to gain momentum after the turn of 1996/97. Seasonally adjusted, output in the producing sector (excluding construction) in the first three months of this year was just over 1% higher than its level in the previous quarter and 3 ½ % above the level a year earlier. Japan recorded the strongest growth, followed at some distance by the United States, whereas the European Community was at the lower end of the scale. According to the latest forecast by the International Monetary Fund (IMF), growth of real gross domestic product in the "advanced economies" (which include Israel and a number of South East Asian countries besides the industrial countries in the traditional sense) is likely to accelerate from 2 ½ % in 1996 to 3 % in both the current year and in 1998. An especially positive factor is that the cyclical upswing is mostly free of tension even in those countries where it has been under way for a comparatively long time. According to the IMF forecast, the rise in consumer prices, at 2.5 % in 1997 and 1998, will scarcely be any higher than it was last year.

*Industrial
countries*

The economies of the developing countries grew by as much as 6 ½ % in 1996 and will probably remain on this relatively steep path of growth in 1997 and 1998, too, according to the IMF forecast. The upward economic trend is also likely to persist in the central European countries in transition, although there will be considerable differences between them individually. Although Russia – as forecast by the IMF – might bottom out in the

*Developing
countries,
countries in
transition*

IMF forecasts for 1997 and 1998 *

Item	1995	1996	1997	1998
Real gross domestic product	Change from previous year in %			
Advanced economies 1	2.5	2.5	2.9	2.9
of which				
United States	2.0	2.4	3.0	2.2
Japan	1.4	3.6	2.2	2.9
EU	2.5	1.6	2.4	2.9
Inflation rate 2				
Advanced economies 1	2.6	2.4	2.5	2.5
of which				
United States	2.8	2.9	2.9	3.0
Japan	-0.1	0.1	1.3	1.2
EU	3.0	2.5	2.2	2.1
Unemployment	Number of unemployed as % of the labour force			
Advanced economies 1	7.3	7.3	7.2	7.0
of which				
United States	5.6	5.4	5.5	5.5
Japan	3.1	3.3	3.1	3.0
EU	11.2	11.3	11.3	10.8

* Source: IMF, World Economic Outlook, May 1997. — 1 Industrial countries plus Israel, China (Taiwan), Hong Kong, Republic of Korea and Singapore. — 2 Measured by the consumer price index.

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current year, the problems caused by the changeover to a market economy are still a long way from having been overcome.

United States

The upswing in the US economy is now in its seventh year. Since the cyclical trough at the beginning of 1991, real GDP has expanded by an average annual rate of 2½%. After a slight easing, which started in 1995 and persisted into 1996, the driving forces behind the economy have latterly regained momentum. After eliminating seasonal and working-day variations, overall output in the first quarter of 1997 grew by 1½% compared with the preceding period, and by 4% compared with the same period last year. The mainstays of growth were private consumption and gross fixed capital formation. Overall, capacity utilisation continued to rise. It must be

borne in mind, however, that stockbuilding increased after the turn of the year, which suggests a moderate expansion of production in the following months. The fact that there has not been a further rise in industrial output recently fits into that picture. A lack of specialised labour is becoming noticeable on the labour market; this has not yet led to increased wage pressure on a broad front, however. At 2.5% in April the rate of inflation at the consumer level was as low as at the end of 1995.

Japan

In the first four months of this year, industrial output in Japan expanded by 2½%, seasonally adjusted, compared with the previous four-month period in 1996, and by 6% compared with the same period last year. This was primarily due to the renewed sharp increase in exports, which was 12½% higher in the first quarter than at the beginning of 1996. The yen's depreciation against the currencies of major trading partners benefited the motor industry in particular. In the first three months, its exports rose – on a yen basis – by just over one quarter compared with the level a year earlier. Besides business investments, households' demand for consumer goods was also very buoyant at the beginning of the year. However, the rise in retail sales was partly due to purchases that were brought forward in anticipation of the rise in turnover tax, which became effective on April 1. With the start of the new financial year on April 1, various concessions regarding the taxation of income were abolished; in addition, fewer funds are to be provided for public investment. These

measures, which are aimed at consolidating the public sector budget will probably act as a constraint on domestic demand. Inflation at the consumer level rose from 0.5 % in March to 2.1% in May, which was predominantly due to the aforementioned increase in turnover tax.

Western Europe

In the first quarter of 1997, industrial output in western Europe (excluding Germany) was only slightly higher in seasonally adjusted terms than the level of the last quarter of 1996. Since then, the economy seems to have gained momentum, however. The indicator of confidence within EU industry, which is established by surveys, is steadily pointing upwards, and capacity utilisation in manufacturing was also noticeably higher at the start of spring than at the beginning of the year.

United Kingdom

According to provisional calculations, after adjustment for seasonal and working-day variations, real GDP in the United Kingdom during the first three months of 1997 was 1% above the level of the last quarter of 1996 and 3% higher than the level a year earlier. Growth was particularly buoyant in the services sector, whereas industrial output stagnated at the level of the previous quarter. A contributory factor in this may have been that foreign demand tended to decline, especially given the rise in the pound sterling. Domestic demand generated strong expansionary stimuli, however. Households, in particular, sharply increased their retail purchases during the first four months of the year, i.e. by a seasonally adjusted 1½% against the pre-

ceding period and by 6% compared with the same period last year. In the first four months of 1997, the year-on-year rise in consumer prices receded continuously to 2.4% of late. This is primarily due to the decline in crude oil prices and the fall in import prices in the wake of the pound sterling's appreciation. By contrast, there was a marked increase in home-grown price pressure. The prices of services, for example, were 3.3% higher in April than a year earlier.

The French economy started into 1997 with a growth overhang of ½%. According to provisional estimates, real GDP in the first quarter was somewhat higher, seasonally adjusted, than in the autumn and about 1% higher than a year before. Economic growth was driven mainly by exports. Since imports declined simultaneously in terms of value, the surplus in the French current account in January/February – more recent figures are not yet available – continued to rise sharply. Right up to the present, the current indicators of domestic demand have been pointing in different directions. Construction activity appears to be recovering from the weather-induced slump at the beginning of the year, whereas households' demand scarcely generated any momentum. The mood of the consumers is suffering from the poor labour market situation, even though there was a slight fall in the number of unemployed recently. Consumer prices in April were only 0.9% higher than their level 12 months earlier.

France

Italy

Italy continued to make notable progress in price stability. The rate of inflation at the consumer level fell to 1.8% in May, and thus reached its lowest level since the beginning of 1969. However, it is doubtful whether inflation expectations have been revised downwards to the same extent. The development of the real economy was, if anything, rather disappointing after the turn of 1996/97. According to initial reports, real GDP, seasonally adjusted, was almost ½% below the level of the autumn months of 1996. The sharp rise in the burden of taxes and levies borne by households and the falls in real wages during the past few years have dampened Italian consumers' propensity to buy on a lasting basis. Some hopes are being placed in government incentives to replace older cars, which were introduced at the turn of 1996/97 and are intended to give a fresh stimulus to private consumption.

Germany

Output and labour market

Overall output

In the first few months of 1997, the German economy overcame the lull into which it had slipped in autumn 1996, and is now on a path of growth again. According to provisional calculations by the Federal Statistical Office, real GDP (after adjustment for seasonal and working-day variations) grew by ½% in the first quarter, compared with the last quarter of 1996 (see table on page 58). Compared with the previous year, and taking account of the differences in the number of working days this year and last year, this sig-

nifies an expansion of overall output by 2¾%¹. From that perspective, the rise in output in the new Länder was much higher than in western Germany; nevertheless, the east German economy did not make any further progress at the beginning of 1997: after adjustment for seasonal and working-day variations, GDP in the first quarter was 2% lower than in the last quarter of 1996. In the old Länder overall output rose by slightly more than ½%.

All in all, the previous basic pattern of the upward overall economic trend remained intact. Strong stimuli from exports continued to be the dominant driving force, whereas domestic demand has not yet experienced a fundamental revival, although a number of underlying conditions remain favourable. The current situation cannot be described adequately in terms of cyclical categories alone, however. The German economy is still faced with a large number of structural problems, which are tending to act as a brake on the upward cyclical trend.

Persistent stimuli to exports

The manufacturing sector once again made a significant contribution to overall growth. On an average of the first four months of this year, manufacturing output in Germany rose in seasonally adjusted terms by 1½% compared with autumn 1996, corresponding to a year-on-year increase of 3%. All the major industrial segments in the old and new Länder played an almost equally large part in

Manufacturing

¹ When interpreting this figure, it should be borne in mind that the estimated effects of calendar variation on value added, which are particularly marked in the current year, are subject to significant uncertainty.

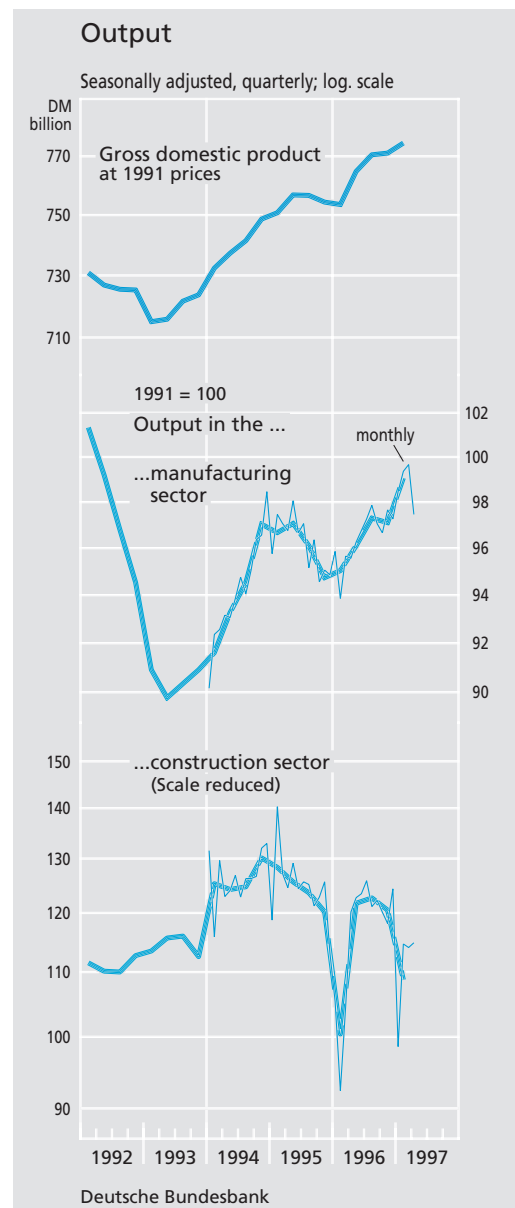
that increase. The ifo institute reports that there was also a sharp rise in the utilisation of production capacity. In western Germany, the level of normal utilisation was significantly exceeded for the first time in more than a year. However, the enterprises surveyed stated that the reach of the order backlog had so far remained unchanged at a below-average level.

Services

The services enterprises in Germany, for which only a small amount of statistical information with adequate informative value is available at the end of the series, likewise showed – as far as it is discernible – a positive trend during the first few months of this year. According to the calculations of the Federal Statistical Office, value added in the first quarter, after adjustment for seasonal and working-day variations, was 1% higher than in the previous quarter; the increase against the previous year was 4%. Following the revival in industry, those areas of the services sector, in particular, which have business links with that segment are likely to have witnessed a distinct improvement in their situation; for some time now, tasks which were traditionally performed by the industrial enterprises themselves have increasingly been shed as a result of restructuring requirements and transferred to independently operating contractors.

Construction

In contrast to industry and the services sector, the construction industry suffered a noticeable decline in output in the first few months of this year. At a seasonally adjusted 5%, construction investment in the first quarter once again lagged behind the already-low



level of the previous three months. Although the cold winter weather affected construction activity at the beginning of the year, output rose only comparatively moderately in the ensuing period, too, when the weather conditions increasingly returned to normal. Even though output, on an average of the months January to April, was significantly – namely 4% – higher than the previous year's level, this owed something to the severe and,

Expenditure of gross domestic product (GDP)

Adjusted for seasonal and working-day variations *										Germany
Period	GDP	Domestic expenditure	of which				Buildings	Foreign balance	Exports	Imports
			Private consumption	Government consumption	Machinery and equipment					
at 1991 prices in DM billion										
1996 2nd qtr	765.9	767.1	438.4	153.5	65.6	104.6	-1.3	201.4	202.7	
3rd qtr	771.6	766.7	438.9	154.7	65.7	106.0	4.9	207.8	202.9	
4th qtr	772.2	769.1	437.7	153.7	67.3	104.7	3.0	218.0	215.0	
1997 1st qtr	775.6	771.8	438.2	158.1	68.2	99.4	3.9	222.9	219.1	
Change from previous quarter in %										
1996 2nd qtr	1.5	1.0	0.5	1.0	1.5	10.0	.	0.5	-1.0	
3rd qtr	0.5	-0.0	0.0	1.0	0.0	1.5	.	3.0	0.0	
4th qtr	0.0	0.5	-0.5	-0.5	2.5	-1.0	.	5.0	6.0	
1997 1st qtr	0.5	0.5	0.0	3.0	1.5	-5.0	.	2.0	2.0	
at current prices in DM billion										
1996 2nd qtr	883.5	873.8	508.7	173.9	67.3	120.6	9.7	210.0	200.3	
3rd qtr	890.8	875.0	512.5	174.3	67.5	122.2	15.8	215.6	199.8	
4th qtr	892.9	879.9	513.2	173.2	69.1	120.6	13.1	226.6	213.6	
1997 1st qtr	903.2	891.0	516.5	180.2	70.3	114.8	12.2	232.5	220.3	
Change from previous quarter in %										
1996 2nd qtr	1.0	1.0	1.0	-0.0	1.5	9.0	.	0.5	-0.5	
3rd qtr	1.0	0.0	0.5	0.0	0.5	1.5	.	2.5	-0.0	
4th qtr	0.0	0.5	0.0	-0.5	2.5	-1.5	.	5.0	7.0	
1997 1st qtr	1.0	1.5	0.5	4.0	1.5	-5.0	.	2.5	3.0	

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

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above all, longer winter at the beginning of 1996, which made only a small amount of construction work possible.

When measured in terms of total output in the construction industry, the slump in eastern Germany was particularly severe. Eliminating the normal seasonal fluctuations, construction activity in the winter months was about one-fifth lower than in the fourth quarter of 1996. At that time, a great deal of construction work was completed quickly in anticipation of the reduction in special depreciation facilities, which came into effect at the beginning of 1997. There were drastic cut-backs at the beginning of the current year, which were further accentuated by the onset of the cold winter. Since the construction industry remains extremely important in the

new Länder, this largely shaped the overall economic situation.

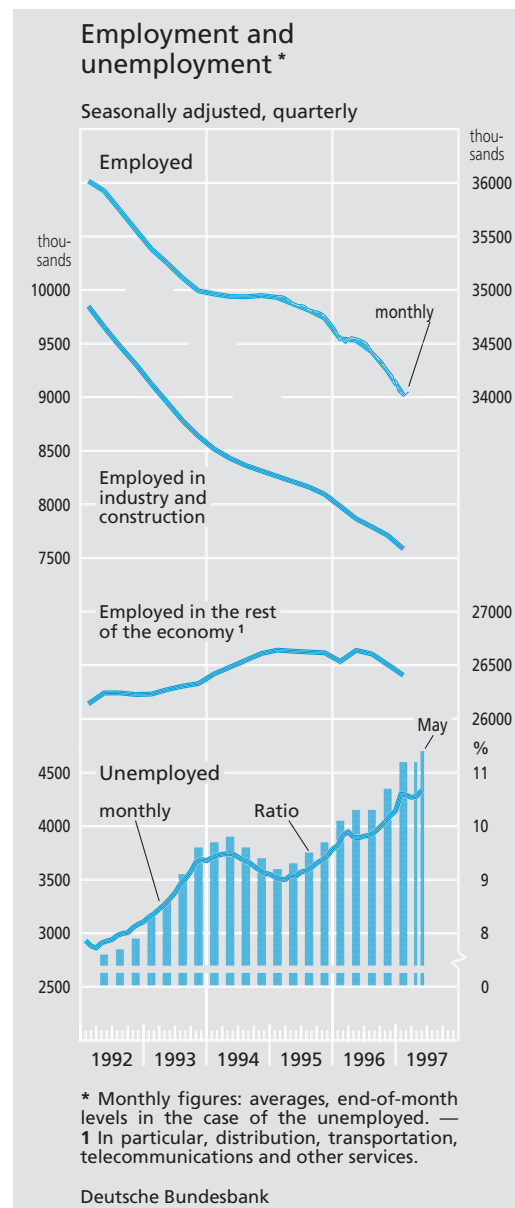
By and large, the situation on the labour market continued to present a gloomy picture at the beginning of 1997. The shedding of jobs has not, up to the present, come to a halt. There was, in fact, a sudden fall in the number of persons in work, which, after taking account of the usual seasonal fluctuations, stood at no more than 34.05 million on an average of the first three months. Compared with autumn 1996, this signifies a further fall of 0.7%. The difference compared with the previous year increased again. Whereas the number of employed persons fell by 490,000 in the last quarter of 1996, the decline has now accelerated to 530,000.

Employment

The main reason for this was the unfavourable trend in the construction industry. Firstly, further adjustments in production and the workforce were to be expected in view of the reduction in government incentives and the ample supply on the property markets. Secondly, the change in the bad weather allowance regulation was not accepted as expected; instead, many enterprises reduced the number of their employees, particularly as a cold spell occurred at the beginning of 1997. In addition, industry continued to reduce its workforce as well; however, this reduction was only slightly greater than is suggested by the longer-term trend resulting from advances in rationalisation and restructuring efforts. Of particular importance for the poor employment situation overall is the fact that, for some time now, the services sector has only been able to offset part of the reduction in jobs in the industrial sector. In addition to regulatory obstacles, wage costs are likely to play an important role in this respect.

Unemployment

There was a perceptible rise in unemployment, mirroring the reduction in employment. On the average of the first quarter, the number of unemployed was 4.29 million, seasonally adjusted. This corresponds to an increase of nearly 200,000 compared with the last quarter of 1996, and was 416,000 higher than the level in the comparable period of the previous year. A further slight rise occurred in the spring months; as a result, 4.36 million persons were registered as unemployed with the labour exchanges at the end of May. At the same time, the share of unemployed as a proportion of the total



labour force, was 11.4%, seasonally adjusted; in the fourth quarter of 1996 it had been 10.7%.

According to the initial results of the structural survey of September 1996, the number of persons who have been jobless for more than a year rose to almost 1.2 million – which is roughly 31% of all the unemployed. Another 850,000, and hence slightly more than

Structural problems in the labour market

one-fifth of all those persons concerned had been without employment for between six months and one year. Obviously, it becomes increasingly more difficult to find a new job, the longer unemployment continues. But a lack of qualifications, too, can pose a serious obstacle to recruitment. 1.5 million, or almost two-fifths, of those registered as unemployed stated that they had completed no vocational training. More than three-quarters of a million considered that they had no more than a limited ability to work owing to health restrictions. Although several features undoubtedly accumulate in the case of a large number of persons, these few data alone clearly reveal that the present unemployment contains a very large structural component.

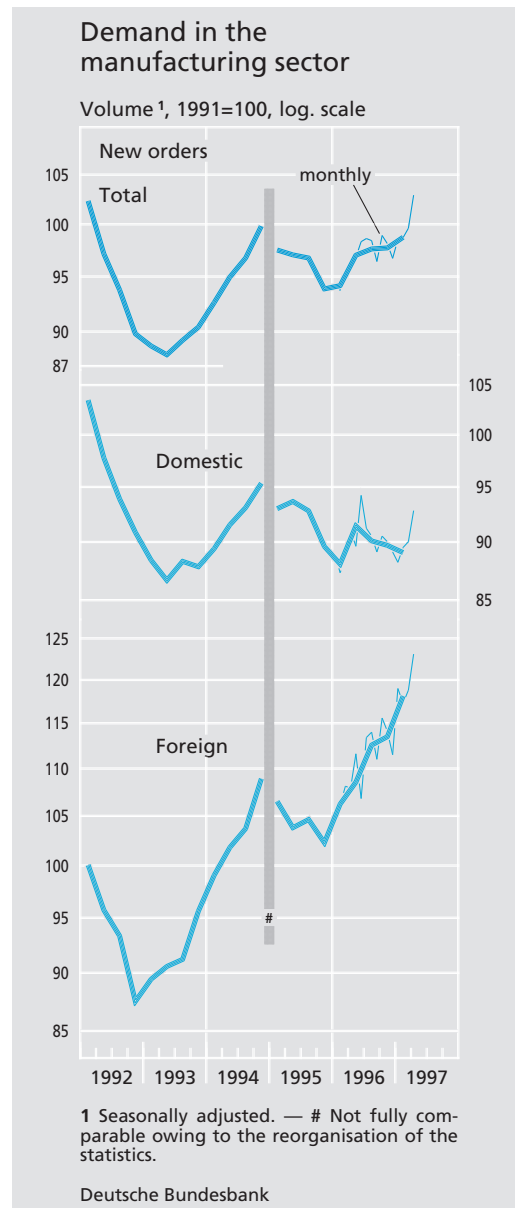
Trends in demand

*Orders received
by manu-
facturing*

Buoyant industrial output, which – as mentioned above – played a crucial role in the improvement of the overall economy in Germany in the first quarter of 1997, was closely related to an increased flow of orders during that period. On the average of the months January to April, manufacturing orders – after eliminating price changes – were 2 % higher than their autumn 1996 level, seasonally adjusted. Allowing for the different number of working days, they rose by slightly more than 5½ % compared with the previous year. The drop in demand which, especially in December 1996, also has to be seen in terms of how the Christmas holidays fell, hence proved to be only temporary.

*Foreign
demand*

As before, the recovery was driven solely by foreign demand in the first few months of



the current year, too. In seasonally adjusted terms, foreign customers ordered 5 % more goods on the average of the first quarter than in the last quarter of 1996. The year-on-year increase again widened to about 12 %. The entire range of German industrial products was in demand. In a year-on-year comparison, intermediate goods and consumer-related products showed double-digit growth rates. After easing off slightly for a while, the

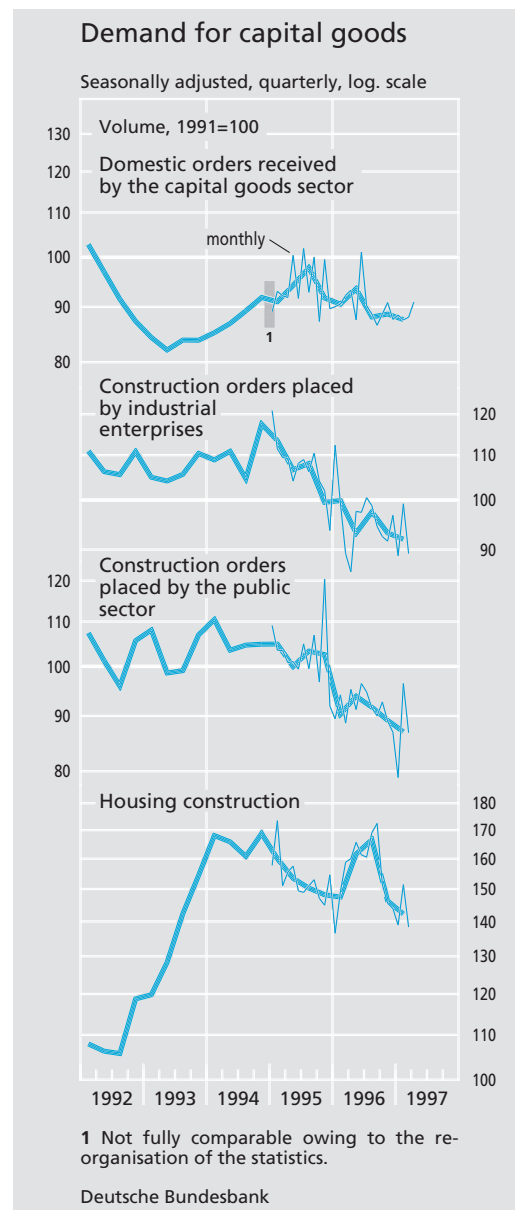
capital goods sector also recorded an increase in its inflow of orders recently.

Domestic orders

Domestic orders, by contrast, remained rather weak in the period under review. In seasonally adjusted terms, they were scarcely higher than in the last quarter of 1996 on an average of the months January to April. Their volume was no more than just under 1½% higher than their level in the same period last year. The sole beneficiaries of this trend were the suppliers of intermediate goods. Fewer orders than 12 months before were placed with manufacturers of capital goods and producers of durable and non-durable consumer goods. However, such an analysis of average figures conceals the fact that the picture has brightened in the last two months.

Demand for industrial construction work

Despite the overall distinct increase in capacity utilisation in manufacturing, enterprises still showed restraint regarding investment projects. This not only affected machinery and equipment but also construction work. For example, on a seasonally adjusted basis, trade and industry again placed fewer orders with the construction industry in the first quarter of 1997, even though the transport sector recorded a major order. At constant prices, ordering activity was 7½% below the level of the first quarter of 1996. One of the factors which might have contributed to this trend was the large-scale completion of office and sales space, which resulted in vacant properties that it will be possible to market only gradually. Long planning and production times often lead here to time-lags in adjustment to market conditions.



As was consistent with the continuing restraint in the placing of orders, the slight recovery in producing enterprises' investment activity at the end of last year did not continue at the beginning of 1997. In seasonally adjusted terms, the sharp weather-induced production losses in the case of industrial buildings had a severely adverse impact. All in all, enterprises' expenditure on machinery, equipment and buildings was 2½% below

Fixed capital formation of producing enterprises

the level of autumn 1996 in both nominal and real terms, after eliminating the usual seasonal fluctuations. Investment in capital goods in the first quarter of 1997 exceeded the level of the corresponding period last year by 1½ % in terms of both value and volume.

Construction demand of the public sector

Given the continuing need for consolidation, the public sector once again cut back its volume of orders. Seasonally adjusted, it was 2½ % lower in the first quarter than in autumn 1996; compared with the same period last year, this was a decline of 4 % in real terms. Both the reduction of tax incentives as well as an excess supply in some cases in specific market segments had a dampening impact on housing construction, the third and largest key area of the construction industry. Rented housing construction, in particular, lost its attractiveness in view of poorer yield prospects and current rent discounts in the case of new lettings. In addition, the raising of the tax on the acquisition of land and buildings at the beginning of the year from 2 % to 3½ % is likely to have had a negative impact as well. It was only the owner-occupied housing sector which generated a stabilising effect.

Housing construction

Households' consumption, income and saving

The level of consumption, which had tailed off towards the end of last year, remained quite subdued in the first few months of 1997 as well. Households' real consumption in the first quarter was no higher than in the last quarter of 1996 and no higher than in the previous year (after adjustment for sea-

sonal and working-day variations). However, it must be borne in mind that, in addition to the weather-induced rise in demand for energy and fuel, Easter business – in contrast to the usual pattern – is fully included in the first-quarter figures this year on account of the holiday falling very early.

From the income side, conditions for an expansion of private consumption were not particularly favourable at the beginning of the year. As described above, the shedding of jobs accelerated in seasonally adjusted terms. Furthermore, employees in the construction industry suffered appreciable income losses, not only because of the cold spell in January, but also on account of the expiry of the earlier bad weather allowance regulation. Despite the lump-sum payments granted in the metal-working industry, total gross wages and salaries therefore rose only slightly in the first quarter of 1997 in seasonally adjusted terms; they were ½ % below the level of the corresponding period last year. In net terms, i.e. after deducting wage tax², which had fallen compared with the last quarter of 1996 and which more than offset the renewed rise in employees' contributions to social security insurance, income from wages and salaries rose by 1%, seasonally adjusted, compared with the end of 1996 (but not against the corresponding period last year). Households likewise received higher payments from public cash offices in the first quarter – especially

Disposable income

Private consumption

² This seasonally adjusted fall is due to the fact that the child benefits affected wage tax revenue more than in the fourth quarter, when the tax determination basis was considerably increased owing to the payment of Christmas bonuses. The raising of child benefits at the beginning of the current year had a similar effect.

in the form of wage substitutes – than in the previous months. Including other income (which, in addition to property income, comprises self-employed persons' private withdrawals from entrepreneurial income, which are likely to have declined) households' disposable income was no higher at the beginning of 1997 in seasonally adjusted terms than at the end of last year: it exceeded its level of the corresponding period last year by almost 1½% and was thus much less than before; in real terms, the scope of income is hence unlikely to have grown.

*Households'
savings ratio*

The higher expenditure for consumption was hence financed by private savings, whose share in disposable income, at around 12% after seasonal adjustment, was somewhat lower than in the previous quarter. One factor which is also likely to have been of significance was the loss in momentum of those components of income, from which a comparatively large amount is traditionally saved. This applies particularly to earnings from private financial assets which, given the continued decline in interest rates, acted as much less of a support to households' income and saving. A similar development is that savers are increasingly turning towards those investments whose return is based not so much on current earnings but on capital appreciation – such as equities, for example.

Prices and wages

*World market
influences*

The price level on the domestic markets has been relatively stable right up to the present. A part was played in this by the fact that the price pressures emanating from foreign

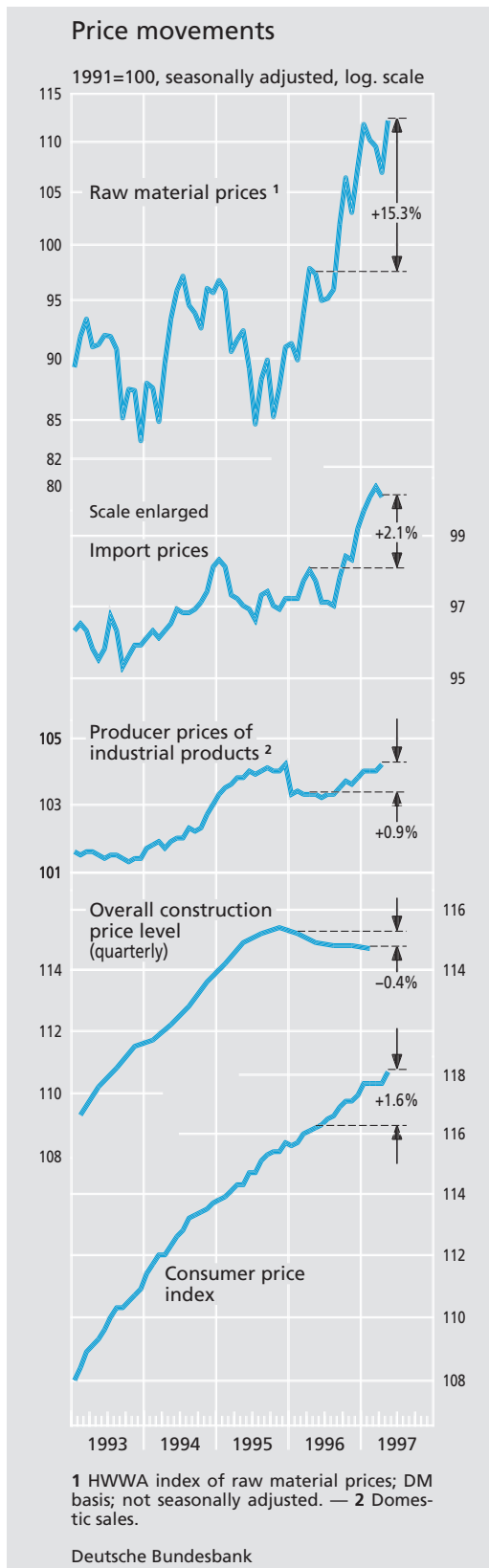
markets, especially at the turn of 1996/97, noticeably receded. Seasonally adjusted import prices did not show a further rise in April, for example; the year-on-year rate fell to 2.1% against 3.0% still in February. What was crucial for the favourable price climate, however, was the fact that no particular inflationary pressures are discernible either on the demand side or on the cost side in Germany.

Prices of industrial products which are earmarked for domestic sales have remained largely constant since the beginning of the year. The year-on-year increase in prices was 0.9% in April. It was only in the food, drink and tobacco industries that the upward trend in prices was significantly higher. The price of the capital goods industry's products rose by only 0.4% compared with a year before. The average prices of intermediate goods and consumer goods even fell on a year-on-year basis.

Producer prices

There were also only slight price movements at the consumer level during the past few months. The year-on-year increase, which had risen to 1.8% at the beginning of 1997 owing to administrative price increases, declined again in the ensuing period, falling to 1.6% in May. The rise in prices for industrial products, in particular, was much lower; their year-on-year increase was no more than 0.5%. By contrast, there were above-average rises in the prices of services (2.2%) and rented apartments (2.8%). Although rents for the first-time occupation of apartments in new buildings have been showing a marked fall for some time in a number of cases owing to the frequently quite extensive supply,

Consumer prices



upward adjustments are still continuing to be made in the case of the large number of old contracts in which comparatively low rents were agreed in most instances.

All in all, the high degree of price stability which has been achieved and the confidence in monetary stability had a positive impact on wage formation in the current year, too. The wage round produced moderate pay settlements for the second year in a row. In trade and industry, management and labour agreed on increases in wages and salaries of 1½ % across the board. However, the focus of this year's pay negotiations was not so much on the rates of wage and salary increases, but on efforts to protect jobs, and, above all, on the continued payment of wages and salaries during illness. In the vast majority of cases, a continued 100 % payment of wages and salaries during illness was agreed in the collective pay settlements. This was contrary to legislative intentions, which envisage a rate of 80 %. Nevertheless, wage costs in some sectors will be eased to a certain extent as a result of the lowering of the basis on which the continued payment of wages and salaries during illness, holiday bonuses, and Christmas pay is calculated. Including all ancillary agreements, the rise in negotiated pay rates is likely to be below the aforementioned 1½ %.

Trends in negotiated pay rates

The 1997 wage round was initiated as early as in December 1996 by the agreement in the metal-working and electrical engineering industry of Lower Saxony, which had a guiding function with regard to the pay rate

Metal-working and electrical engineering industry

negotiated³. Employees obtained a lump-sum payment of DM 200 for the first three months of 1997. Negotiated wage rates were increased by 1.5 % as of April 1, 1997. Another rise in pay of 2.5 % is envisaged from April 1998. Because it was extended to run for two years, this pay settlement gives the enterprises in the metal-working and electrical engineering industry greater certainty of planning – compared with the other sectors – in respect of wage costs, albeit at the expense of an accelerated rise in wages and salaries next year.

*Construction
industry*

In the west German construction industry, management and labour did not reach agreement until the second round of arbitration. The wages of west German construction workers were raised by 1.3 % retroactively as of April 1. The continued payment of wages during illness was, for a long time, a matter of contention and was ultimately improved from the point of view of the employees. In exchange, Christmas pay was cut by 23 percentage points (to 77 % of its former level) and holiday bonuses were reduced by 5 percentage points. All in all, the agreement should ease the labour costs of the enterprises bound by the collective bargaining process. The lower initial pay rates for long-term unemployed German construction workers and the spread of the pay-rate pattern in the lower wage groups are to be regarded as positive factors in this wage compromise. This innovation allows greater scope for company-specific pay patterns in this economic sector, which is suffering from fierce competitive pressure and hard structural adjustments.

In December 1996, management and labour in the chemical industry had already come to terms on a rise in negotiated wage rates of 1.5 % for the agreements due for renewal in the current year. The introduction of a “wage corridor” for the around 600,000 employees of this industry, which was agreed recently and which will apply from January 1998, represents a notable step towards a reform of industry-wide wage bargaining. The “wage corridor” will allow management and the workers’ council to cut the wages and salaries of all employees in an enterprise by up to 10 % below the negotiated pay rates for a limited period, provided that management and labour consent to this as well. In contrast to the agreements on the opening-up of pay rates – which were also concluded in some other wage-bargaining sectors – the focus here is not just on preventing lay-offs in the short term but also on regaining or maintaining the competitiveness of the enterprise and safeguarding the location. It will now be important for management and labour as well as for those involved locally to use the scope of flexibility this has created and to take increased account of company-specific special factors, not least in the interests of the employees, too.

*Chemical
industry*

Negotiated pay rate trends in eastern Germany in 1997 were again marked by further adjustments to basic west German pay levels. For example, pay rates in the banking sector

*Eastern
Germany*

³ No round of pay talks is due this year for the public sector employees. Here, the second stage of last year’s pay settlement entered into force, under which negotiated wages and salaries were raised by 1.3 % as of January 1, 1997, and the remuneration for civil servants was raised by 1.3 % in most cases from March.

were raised from 96 % to 100 % of pay in western Germany as of April 1, 1997. In the insurance sector and in retailing, too, wages and salaries were (or will be) brought more closely into line with the west German pay level. Full adjustment has been agreed in these two sectors for the next year. In the public sector, remuneration will be raised from 84 % to 85 % of the amounts paid in western Germany as of September 1. In the construction industry, the earlier phased agreement on negotiated pay rate adjustment was terminated by the employers last year on account of the difficult situation in that industry. Negotiations are to be held in that sector this month. In the east German metal-working and electrical engineering industry, where negotiated pay rates have been at the western level since the middle of last year, negotiated wages and salaries rose – as in western Germany – by 1.5 % as of April 1, 1997, following the payment of a lump sum of DM 200 for the first quarter of 1997.

90 % of the western level. In the case of actual wages, the corresponding ratio in the first quarter of the year was 78 %, however. The difference between the two figures lies in the fact that, firstly, additional negotiated payments are not being made on the same scale in eastern Germany as in western Germany; secondly, many enterprises in eastern Germany are paying their employees less than the agreed rates. This is suggested by the negative wage drift which has been observed since 1993, i.e. the deviation between the rates of change in actual wages and negotiated pay rates – a trend which also continued in the first quarter of 1997. This did not take account of the massive imbalance between wage costs and the level of productivity, however. In the past few years, there has been no further narrowing of the gap between wage costs and productivity; as a result, wage costs per unit of sales are still about one-third higher in eastern Germany than in western Germany.

*Comparison
between east
and west*

The basic negotiated pay levels in eastern Germany are now likely to be higher than