

## Economic conditions in Germany

### Underlying trends

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The German economy is once more on a distinct cyclical upswing. After growing signs of an upturn in the spring, the economy as a whole gained momentum during the summer months. This means that the current business cycle has entered a new phase following the setback in the autumn of 1998. The prospects for the future likewise appear to be favourable at present. According to the Bundesbank's initial estimates, real gross domestic product in the third quarter may have been around  $\frac{3}{4}\%$  higher in seasonally and working-day-adjusted terms than it had been in the preceding three-month period, which would signify a similar figure for year-on-year growth.

*Greater  
underlying  
momentum  
of the economy  
as a whole*

It was again industry that generated the crucial stimuli to growth; a major part in this was played by the fact that foreign demand for German products has been very buoyant for some time. Furthermore, the high degree of price stability that has been achieved, continuing rationalisation efforts and the considerable level of investment are likely to have decisively enhanced the attractiveness and price competitiveness of German products. With economic activity becoming steadier internationally and the improvement in the economic situation in major partner countries, these developments were able to make a stronger impact. Not least important was the fact that, during the past few months, more domestic contracts were concluded than before.

*Industry's  
expectations  
are optimistic*

The cyclical recovery has given rise to a perceptible improvement in industrial sentiment. While the ifo surveys showed that negative responses when judging the current situation were still predominant in the spring, positive assessments have recently been on the increase: in September – for the first time in almost a year – positive and negative sentiment was, on balance, almost equally divided. The fact that expectations are quite optimistic on the whole gives hope that the development in output will continue to be favourable in the coming months.

*Construction  
sector with  
stabilising  
tendencies*

By contrast, the mood in the construction industry remained significantly more restrained in the summer as well. It is only gradually that the phase of structural adjustment can be overcome. This is also likely to be confined initially to western Germany, whereas the restructuring process does not yet appear to be complete in eastern Germany. At all events, looking at the overall picture, output in the construction sector has largely stabilised recently. Taking the ifo surveys as a yardstick, the assessment of the current situation – at least in western Germany – was much less negative than it had been at the turn of 1998-99; business expectations for the immediate future have recovered noticeably from their low in the summer of last year. Measured by the development in turnover, the situation in construction-associated crafts likewise appears to have taken a turn for the better.

From the services sector, some chambers of industry and commerce are reporting a positive development in business during the sum-

mer months and favourable prospects for the immediate future. This applies to commercial service providers, in particular, which according to the findings of the *Zentrum für Europäische Wirtschaftsforschung* (Centre for European Economic Research), too, have largely overcome the slowdown in the first few months of the year. The retail trade has also recovered. This is apparent from turnover, which was somewhat higher, seasonally adjusted, than the low level of the preceding quarter. Households' purchases of home furniture and appliances, and of motor vehicles continued to be buoyant. The mood of consumers became much brighter. According to the surveys of the consumer research institution, *Gesellschaft für Konsumforschung*, it was not only income expectations that became more settled; the future development of the economy as a whole is now also generally perceived in a more favourable light.

Up to now, there has been hardly any progress in the labour market, however. Firstly, according to an initial estimate by the Federal Statistical Office – for more than three-quarters of the year, no information was available on the economy as a whole owing to the lack of data on wage and salary earners subject to social security contributions – employment is likely to have declined somewhat during the first half of 1999. Secondly, unemployment remained virtually unchanged at the same high level during the summer months, affecting four million persons in October in seasonally adjusted terms.

Prices in Germany have been edging upwards more strongly since the spring, but the rate of

*Service  
providers/retail  
trade with  
positive contri-  
butions to  
growth*

*Standstill in the  
labour market*

*Price  
movements  
calm overall*

price increase has remained within quite narrow bounds. The main reason for the upward movement in prices was the increase in international oil prices. Following a temporary calming in October, they rose sharply again at the end of the period under review. Apart from tax increases, domestic inflationary pressures tended to remain slight. Overall, consumer prices in October were 0.8% higher than twelve months previously, the figure excluding energy being + 0.1%.

## Orders

*Buoyant  
ordering*

The cyclical momentum in industry is reflected most clearly by incoming orders. On an average of the third quarter they were roughly 5% higher, seasonally adjusted and at constant prices, than they had been in the preceding three-month period. This means that the flow of orders, which had already expanded by just over 3½% between autumn 1998 and spring of this year, has again become perceptibly broader. Numerous major orders also contributed to this. The level of new orders in summer was likewise around 5% higher than in the comparable period last year. By contrast, the figures for each of the three preceding quarters had shown a year-on-year decline.

*Foreign  
demand with  
strong stimuli*

There was a particularly sharp increase in the demand from abroad for manufactured products. After eliminating seasonal fluctuations, the rise against the preceding quarter was around 9½% on an average of the summer months. The year-on-year increase was almost 13%, compared with no more than

## Orders received in the manufacturing sector by main industrial grouping \*

Change from previous year in %

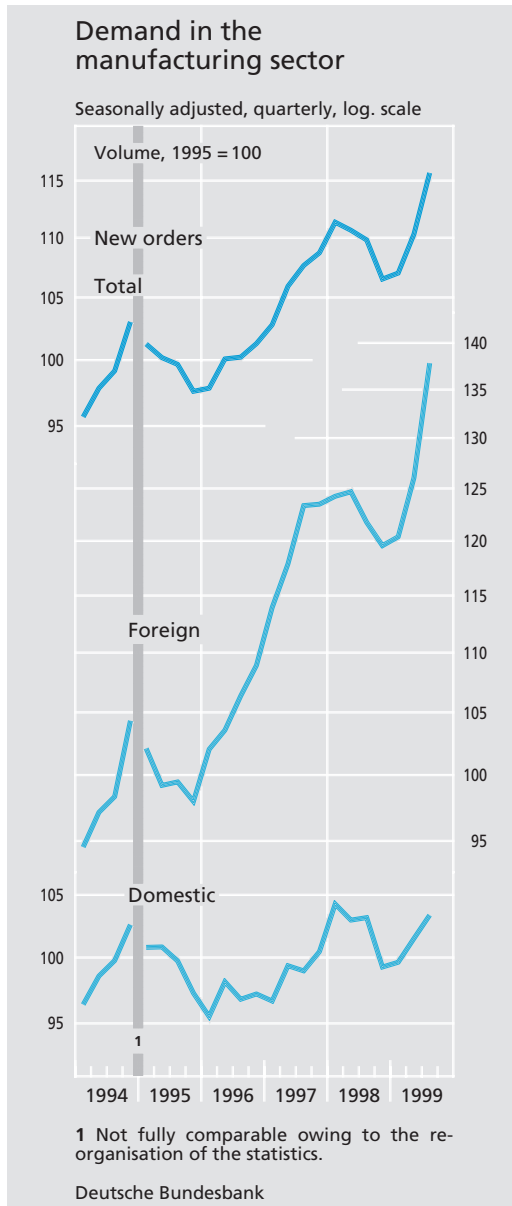
| Item               | 1998 |         | 1999    |         |         |
|--------------------|------|---------|---------|---------|---------|
|                    | Year | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr |
| Foreign demand     | 2.6  | -3.2    | -3.3    | 1.1     | 12.9    |
| Intermediate goods | -1.6 | -8.4    | -3.1    | 2.1     | 12.4    |
| Capital goods      | 5.2  | -2.3    | -6.3    | -1.6    | 14.0    |
| Consumer goods     | 7.1  | 8.3     | 4.0     | 5.8     | 11.5    |
| Domestic demand    | 3.6  | -1.3    | -4.4    | -1.3    | -0.0    |
| Intermediate goods | 3.0  | -2.3    | -3.2    | -1.2    | 3.4     |
| Capital goods      | 6.8  | 0.7     | -6.6    | 0.2     | -3.2    |
| Consumer goods     | -0.3 | -2.0    | -3.9    | -3.9    | -4.1    |

\* Volume, adjusted for working-day variations.

Deutsche Bundesbank

somewhat over 1% in spring. This means that the losses in the wake of the crises, above all, in the Asian emerging economies and in South America, were far more than offset. With the brightening of the international setting, German industrial exports were once more in increasing demand.

Interest was focused on capital goods. Between the second quarter and the third quarter, orders for capital goods went up by around 11% in seasonally adjusted terms, compared with a rise of 14% on the year. The rates of growth in the case of manufacturers of communications equipment and of manufacturers of structural metal products were, in fact, even higher. Motor vehicles, too, continued to be ordered on a large scale. By contrast, there was a significant year-on-



year fall in demand for office machinery and computers. The manufacture of machinery and equipment likewise remained below its level 12 months previously, albeit at declining rates.

New orders in the other major areas of industry also increased noticeably in summer. In the intermediate goods sector, there was an 8¼% rise in orders on the preceding quarter

and an increase of slightly more than 10% on the year in seasonally adjusted terms. The seasonally adjusted increase for durable and non-durable consumer goods was nearly 7%, and 11½% over 12 months, with private cars making a large contribution to that good figure.

Domestic demand for industrial products has likewise become more buoyant in the past few months, although the quarter-on-quarter rise was not yet very pronounced or broadly based at just under 2% in seasonally adjusted terms. At all events, new orders matched their level in the corresponding period last year, after having been 1¼% down on the year in spring. The improvement in the order situation was confined almost entirely to the intermediate goods sector, where the level in the comparable period of 1998 was exceeded appreciably by around 3½%. By contrast, there was scarcely any seasonally adjusted rise in orders placed with manufacturers of capital goods, and orders for durable and non-durable consumer goods even fell slightly. Furthermore, incoming orders were significantly down on the year in both sectors. With year-on-year growth rates for orders of around 80%, the manufacturers of communications equipment are a striking exception to the general rule. However, for the first time in a long while, domestic orders for motor vehicles fell below the previous year's level.

*Domestic demand more buoyant*

Demand in the construction sector, having experienced a slight upturn in the first half of 1999, just about managed to hold its own in the summer months. On an average of July

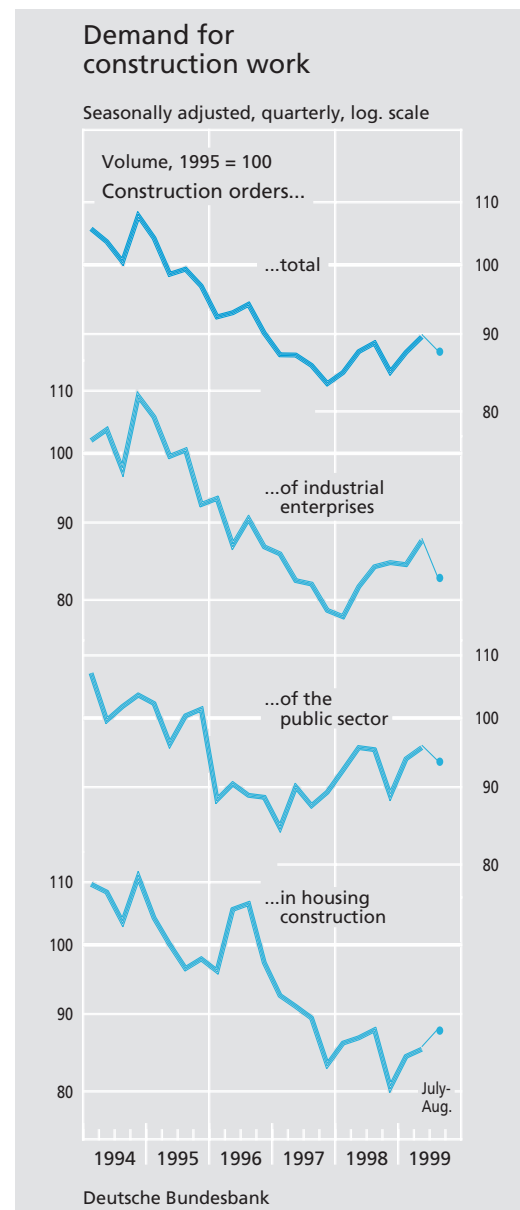
*Construction sector*

and August (more recent statistical data are unavailable at present), construction orders received were slightly lower than in the spring in seasonally adjusted terms. The comparable level in 1998, which had been exceeded by just over 2 % in the second quarter, was not quite matched at the end of the period under review. Taking construction permits as a yardstick, this hardly indicates a sustained weakening of demand, however.

A more subdued development in orders "at the end of the series" is apparent especially in industrial and public non-residential construction, which mainly affected eastern Germany. In residential construction, however, the increase in orders placed in western Germany was comparatively sharp and offset the slight decline in eastern Germany. As construction permits in western Germany show, demand was still focused on single-family and two-family housing; not only was there a further seasonally adjusted rise in the summer months, there was also a 5 % growth on the year in the number of dwellings in these properties for which a permit was granted. In apartment house construction, the seasonally adjusted number of permits was, at all events, no lower than it had been previously; the year-on-year fall went down to around 6 %, having been more than one-tenth in the first half of the year.

### Output and labour market

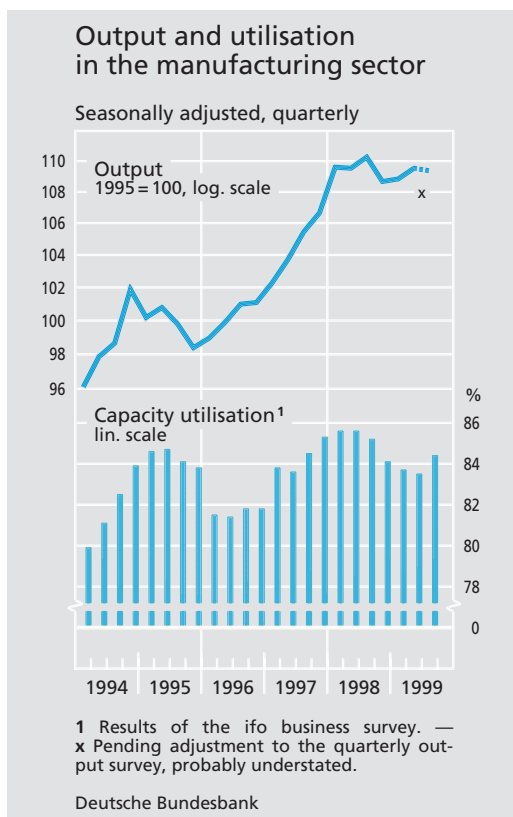
According to the available data, seasonally adjusted manufacturing output in summer did not exceed its level in spring, and was



thus again slightly more than ½ % down on the year following a rise of just under ½ % in the second quarter.

Statistical uncertainties make a precise economic assessment of the development in industrial output much more difficult at present, however. These uncertainties are due to the fact that the monthly figures on industrial output which are initially to hand have proved

*Statistical uncertainties*



to be far too low when the quarterly figures become available. Output in the first and second quarters, for instance, was subsequently adjusted upwards by  $\frac{3}{4}\%$  and as much as just over  $1\frac{1}{2}\%$ , respectively. The extent of the adjustment for the summer quarter is currently unknown. On the basis of the revisions so far, a marked upward correction can be expected.

According to the ifo surveys, utilisation of production capacity increased considerably in summer. At the end of the third quarter, it was slightly less than 1 percentage point above its June level in seasonally adjusted terms. This meant that the year-on-year fall declined to around  $\frac{3}{4}$  percentage point, having been just over 2 percentage points around the middle of the year. There was a

marked reduction in the number of firms which rated orders on hand as being too small. Stocks of finished products were assessed more positively than in previous surveys.

Seasonally adjusted construction output in the third quarter of 1999 persisted at the level of the spring months. Although this represented a year-on-year decline of  $2\frac{1}{2}\%$ , the figures will very probably be revised upwards as part of the annual overall survey. In cyclical terms, output has maintained its (low) level.

*Construction*

The labour market has hardly benefited so far from the improved situation in the economy. Firstly, employment is likely to have continued declining into the summer months. Secondly, unemployment went up again in comparison with the spring; since June it has remained virtually unchanged at the same high level as before. For the first time in a long while, the Federal Statistical Office recently again published quarterly estimates of the number of employed persons. For a long time, no figures had been available because the statistics on wage and salary earners subject to social security contributions were unobtainable owing to technical reorganisation. The official statistics now show the number of people in work in the second quarter at a seasonally adjusted 36.13 million. Compared with the three-month period of January to March (which has likewise been newly estimated), in which there had already been a slight fall, this signifies a further decline of around 20,000 persons, or of 0.1%. This represented a year-on-year increase of 200,000, or  $\frac{1}{2}\%$ . However, the rise in employ-

*Employment*

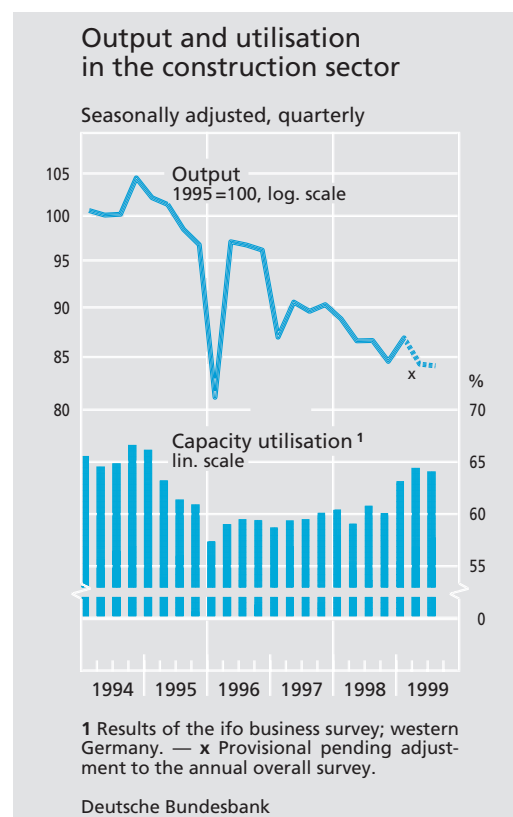
*Capacity utilisation*

ment before then had been nearly 1%. The fact that around 20,000 new jobs have been created as part of the Federal Government's special programme for young people has had a positive impact. Information from some sectors of the economy point to a slight easing of the trend in employment during the summer. This indicates that the shedding of jobs in both the manufacturing and construction sectors is gradually coming to an end.

#### Unemployment

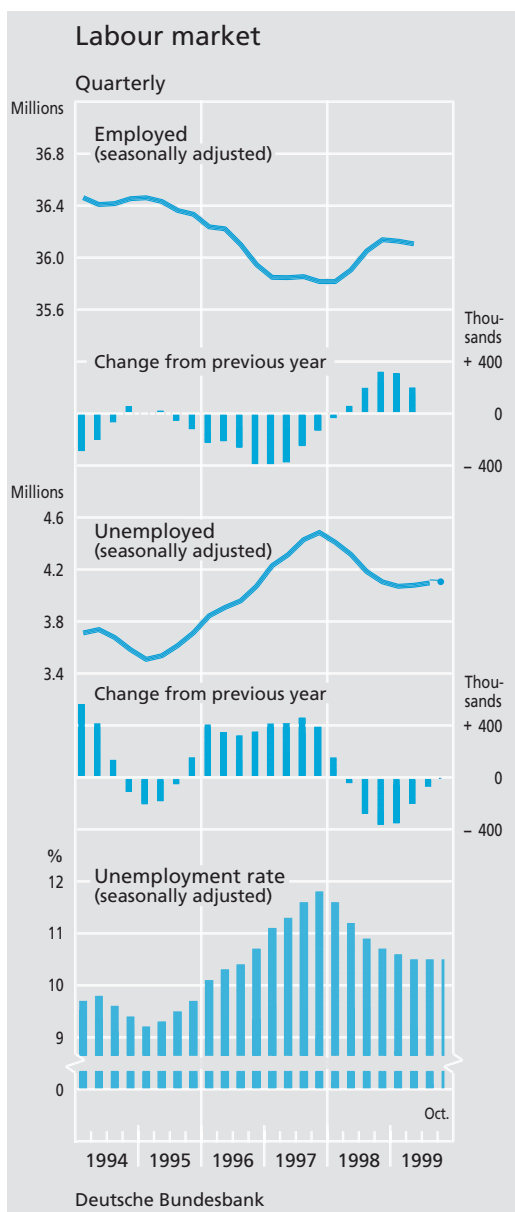
Unemployment remained decidedly high up to the end of the period under review. In October, the Federal Labour Office reported a seasonally adjusted 4.12 million persons out of work; this was somewhat fewer than in September, but virtually just as many as around the middle of the year. For the first time since spring 1998, the year-on-year figure showed scarcely any further decline. The seasonally adjusted unemployment rate was 10.5%. The differences between western and eastern Germany in terms of the trend in unemployment have become greater of late. Whereas the share of unemployed persons in western Germany at the end of October, at 8.6%, seasonally adjusted, was 0.2 percentage point lower than in the middle of 1999, there was a rise in eastern Germany during the same period of 0.7 percentage point to 18.3%, corresponding to a jobless total of 1.4 million. This meant that the mid-year level was exceeded by slightly more than 50,000; the year-on-year increase amounted to just under 105,000.

A major factor in the deterioration of the situation in eastern Germany was the reduction in supportive labour market policy measures.



In October, no more than 305,000 persons were benefiting from job-creation measures, which was 130,000 below the level one year earlier. At the end of the period under review, there were 139,000 persons taking part in vocational training programmes, i.e. 45,000 fewer than 12 months previously. The sharp increase in reintegration subsidies and grants for new business start-ups to a total of just under 35,000 beneficiaries formed no more than a small counterweight to this in terms of numbers.

After adjustment for seasonal fluctuations, unemployment in western Germany was still falling right up to the end of the period under review. At the end of October, 2.72 million persons were registered as unemployed, i.e. almost 60,000 fewer than in mid-1999 and



113,000 fewer than 12 months previously. The sharp, higher-than-average fall in male unemployment indicates a cyclical improvement in the situation.

## Prices

### Consumer prices

The year-on-year rise in German consumer prices went up to 0.8% in October 1999. In

the first two months of this year, the rate over 12 months had still been 0.2%. Seasonally adjusted, the increase since the low in February amounted to somewhat more than 1%, which corresponds to an annual rate of around 1½%.

The main reason for the renewed rise in prices was the energy sector. As a result of greater cartel discipline in OPEC, there were sharp increases in prices on the international oil markets. Another factor was that energy taxes were raised sharply on April 1 on ecological grounds. Together, this resulted in a jump-rise in year-on-year energy prices from -4.0% at the start of 1999 to +8.6% in October. At the same time, mineral oil products on their own had become 19.3% more expensive by the end of the period under review (compared with a fall in prices of 6.6% in January 1999).

By contrast, price movements in the case of other goods, services and housing rents, which account for more than nine-tenths of consumption expenditure, remained within narrow bounds. Seasonally adjusted prices during the eight-month period from February to October went up by less than ½%. The year-on-year rate went down from 0.6% to 0.1% at the end of the period under review.

A major reason for this development was that industrial products – which had been around ¾% dearer over 12 months at the beginning of the year – were scarcely any higher at the end of the period under review than they had been in the corresponding period of 1998. In the case of food, there were, in fact, signifi-

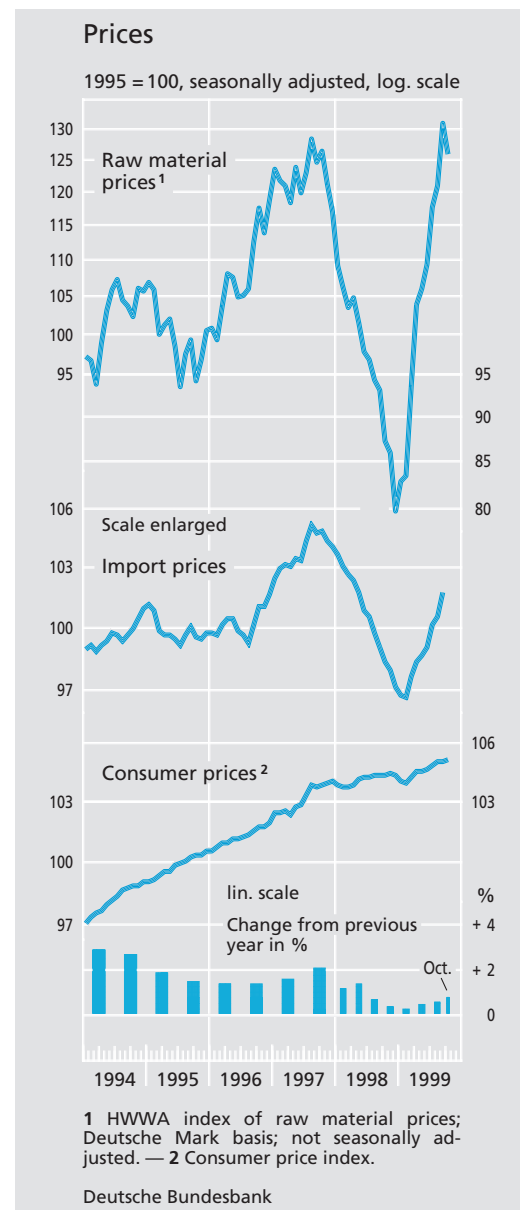


cant price reductions. The level of prices for food was 1½ % down on the year in October. Normal harvests and fiercer competition among major chain stores resulted in falling consumer prices. Services, which have been subject to appreciable price reductions for some time in the wake of deregulation in the communications sector, were scarcely more expensive overall during the past few months than they had been in 1998. In October, only housing rents exceeded their previous year's level, the year-on-year rise being around 1%, compared with 1.4 % at the end of 1998.

The international upsurge in oil prices, which had come to a temporary standstill in October, continued again in the first weeks of November. The daily quotations for Brent North Sea Oil reached a new high in mid-November at almost US\$ 25 per barrel. By contrast, there has been scarcely any further rise recently in prices for the other items included in the HWWA world market price index, i. e. cereals, oil seed and sugar, and industrial raw materials.

*Import prices*

There was a further quite sharp rise in German import prices in September (more recent information is unavailable at present). Although they had been down over 12 months in summer, they were latterly 2.7 % up on the year. Seasonally adjusted, imports have thus become 5¼ % more expensive since their last low in February 1999. In this area, too, the crucial price stimuli came from raw materials and semi-finished products. By contrast, even in September finished goods were still somewhat cheaper than a year earlier.



Domestic industrial selling prices were still 0.5 % down on the year in September. The decline at the start of the year, at 2.3 %, had been much greater, however. Mainly on account of the raising of energy taxes in spring, seasonally adjusted producer prices went up by just under 1% between winter and September. They have been largely stable over the past few months.

*Industrial producer prices*

*Construction  
prices*

There was scarcely any change in prices for construction work during the summer months. Measured by the aggregate construction price level, they were still 0.5% lower in August than one year earlier; in May, they had had been 0.7% lower than the

1998 level. Movements in supply prices in the individual construction subsectors – residential construction, commercial and office buildings, road construction – were largely uniform.