

Economic conditions

International environment

According to the OECD's partly estimated figures, real gross domestic product (GDP) grew by 2½% in the western industrial countries in 1996, which was somewhat faster than in 1995. Of the major industrial states, the largest increase in total output was achieved by Japan, at 3½%, followed by the US economy, at a rate of 2½%. Canada and the majority of the European states lagged behind the average pace of growth of the OECD countries. In the course of the year, however, the growth differential between the major industrial regions narrowed. In North America and – overall – in western Europe the rate of expansion gained momentum from the spring of 1996, although in Japan seasonally adjusted real GDP in the second half of the year probably exceeded the level recorded in the first half of 1996 only marginally. The rate of price increases at the consumer level, at around 2%, remained unchanged in 1996 in the OECD area (excluding a few smaller states with high inflation rates).

Industrial countries as a whole

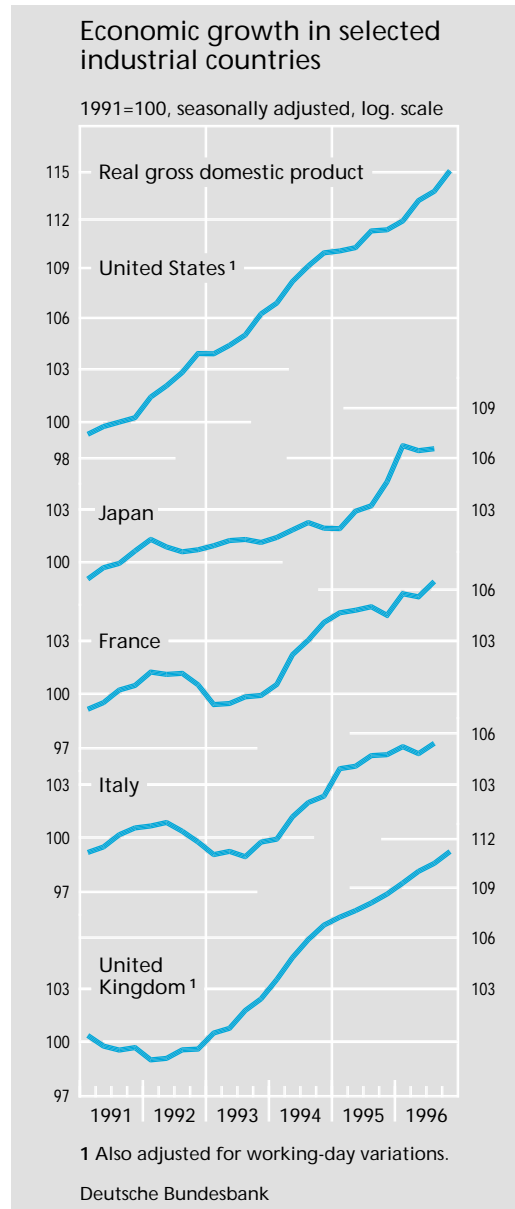
The particularly dynamic economies of south-east Asia did not grow at quite the same spectacular rate in 1996 as before, after monetary policy was tightened in many instances in the face of mounting inflationary pressure. In most central and south American states the rate of price increases declined perceptibly last year, thereby creating the basis for a stable upswing. The economic situation in the central and east European countries in transition was marked by sharp contrasts in 1996. Whereas – contrary to

Rest of the world

widespread expectations – the economies of Russia and the Ukraine, in particular, slumped further, the majority of the other countries in eastern and central Europe again raised their total output considerably.

United States

The US economy remained on a path of growth in the fourth quarter of 1996. However, there was a marked shift in the expansionary forces compared with the summer months. Private consumption, especially the demand for consumer durables, strengthened again noticeably following the rather moderate increase in the third quarter. One factor in this was that the cold winter weather led to greater outlays on energy than usual at that time of the year, and another was that the demand for banking services grew perceptibly in line with the bullish mood on the stock exchanges. By contrast, industrial investment provided a smaller impetus than it had done previously, while expenditure on residential construction contracted further. In contrast to the trend in the preceding three quarters, however, the external sector – partly influenced by special factors – again contributed to economic growth. Seasonally adjusted exports (although the figures to date are based only on the foreign trade statistics for the first two autumn months) exceeded the level of the summer months of 1996 by 6% in volume, whereas imports rose only slightly. According to the (still provisional) data, real GDP grew by just over 1% in the fourth quarter, seasonally adjusted, compared with the preceding period, and by 3½% against the final quarter of 1995. The increase in consumer prices accelerated distinctly in November-December



to 3.3%, but this was caused mainly by the steep rises in energy prices and – to a lesser extent – by higher food prices due to weather-related factors. The prices of the other items in the basket of goods, however, did not increase faster than before.

In Japan the trend in total output was largely determined last year by the fluctuations in construction investment by the public sector.

Japan

The latter surged in the first quarter of 1996 in the wake of the economic stimulus package of September 1995 but dropped markedly thereafter. This retarding influence was offset – with an impact on real GDP – *inter alia* by the fact that industrial output expanded substantially during the second half of 1996. It was fuelled by higher export orders, the growth of which was aided not least by the depreciation of the yen against the US dollar; this was accompanied by a growing domestic propensity to invest. The demand for new residential buildings was also quite buoyant in autumn; it was chiefly stimulated by the comparatively low interest rate levels. For the current year the Japanese government is planning a change of course in fiscal policy, which in the past few years has had a very expansionary bent with a view to raising the level of economic activity. Fiscal consolidation in the government sector now appears unavoidable as the public budgets have run up a sizeable deficit since 1993 as a result of the numerous economic stimulus packages, and the overall level of indebtedness has soared. In terms of price stability, Japan continues to outperform the other major industrial nations. Although the prices of mineral oil products rose distinctly and the cost of other imports also increased as a result of the currency's depreciation, the level of consumer prices at the end of the period under review was only ½% higher than it had been a year before.

According to initial estimates, economic growth in the European Union, at 1½% in 1996, was 1 percentage point lower than in 1995. However, this average figure conceals

substantial differences between the individual member countries. Ireland led the field, with 7%, while Italy languished at the bottom of the table, with not quite 1%. The rate of growth in the other EU countries varied between 1% and 2½%, with the majority of the smaller states achieving better results than the big continental European economies. More important than the average annual growth rates, however, is the fact that in the course of last year virtually every country in the Community was able to overcome the sluggish growth performance that had marked the winter half of 1995-6.

The quite dynamic trend in real GDP which the United Kingdom experienced in the first three quarters of 1996 continued in autumn. According to initial provisional calculations, British real GDP exceeded its level in the preceding period by just over ½%, seasonally adjusted, and the previous year's result by 2½%. Demand expanded across a broad front in the last quarter of the year: households' retail purchases tended to increase further, and enterprises' propensity to invest improved once more. The demand for residential construction was particularly buoyant; the number of construction starts in October-November was around 40% higher than a year before. Exports, too, continued their upward trend initially. However, given the sharp appreciation of the pound, the external value of which (measured against the currencies of the UK's main trading partners) in January 1997 was almost one-fifth above its last low point at the end of 1995, the export trend may have reached a turning point towards the end of the year, judging by the first fig-

*United
Kingdom*

*Western
Europe*

ures on trade with non-EU states. In addition, imports are probably being stimulated by the rapidly growing domestic demand. The appreciation of the pound has also had a favourable effect on the rate of increase of consumer prices; at 2.5% in December (3.1% excluding mortgage rates), the inflation rate was somewhat lower than in October-November. The situation on the labour market brightened markedly in the wake of the sustained cyclical upswing. In January 1997 the number of registered unemployed was well over one-third lower than four years before, while the unemployment rate, at 6½%, reached its lowest level for quite some time.

France

According to initial estimates, total output in France in the fourth quarter of 1996 stagnated at the level of the summer months. Industrial production in October-November, after seasonal adjustment, was 1½% below the result for the third quarter but still 1½% above the previous year's figure. The decline in industrial production is primarily attributable to the termination at the end of September 1996 of the government incentives to replace older cars by purchasing new ones. Aware of this deadline, French consumers had hastened to buy new automobiles in the summer on a large scale. As a result, car registrations – and hence private consumption in general – fell markedly towards the end of the year. In addition, the consumption climate was clouded by the persistent increase in unemployment which in autumn 1996, at a seasonally adjusted total of 3.1 million, or 12½% of the total labour force, again reached its mid-1994 level. A strong

counterweight to the lacklustre domestic economic trend was provided by exports, which expanded further overall in the first two autumn months. Imports, on the other hand, declined during the period under review, with the result that 1996 probably closed with a record trade surplus. The trend in consumer prices has been very moderate of late; in December the inflation rate came to 1.7%.

The Italian economy appears to have come to terms with last year's recovery of the lira in the foreign exchange markets, which corrected the currency's previous depreciation. At any rate, export growth accelerated noticeably at the start of autumn. By contrast, domestic demand had more of a retarding effect, which was due, among other things, to the raising of taxes and levies payable by households. On the positive side, the inflation rate fell to 2.6% at the end of 1996, its lowest level since 1969; in January it rose again, however, to 2.8%.

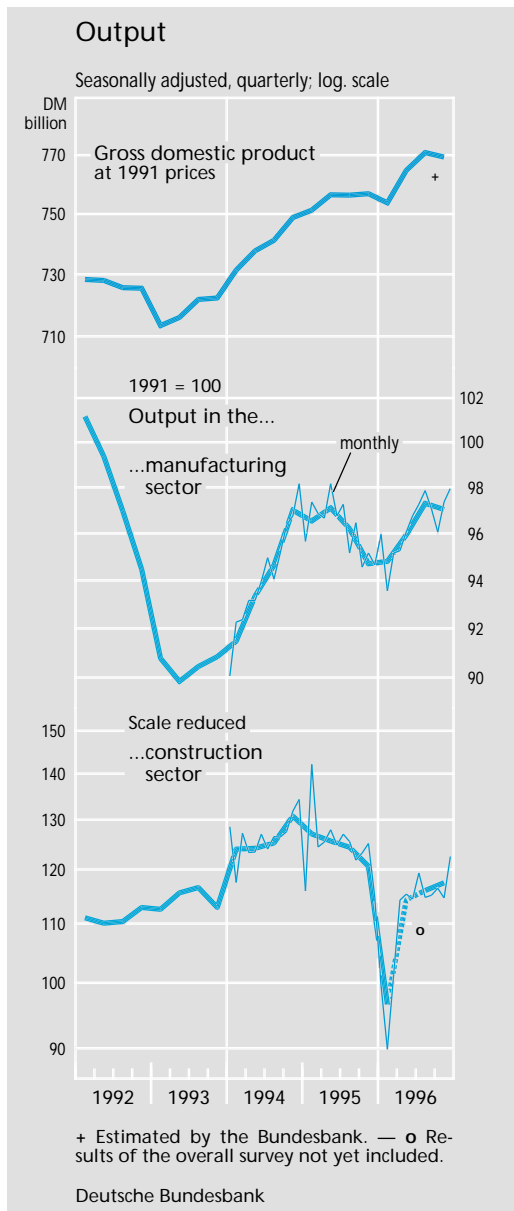
Italy

Germany

Output and labour market

The cyclical recovery in Germany which had begun in spring 1996 faltered towards the end of the year. Following vigorous growth in the spring and summer months, real GDP, after adjustment for seasonal and working-day variations, stagnated in the fourth quarter at the level reached in the preceding three months. Measured over 12 months, however, real GDP still grew by just under 2% –

Real GDP



slightly more than 1½% in western Germany and well over 3% in the new Länder. One reason why the economic upturn did not continue towards the end of 1996 was a short-term retarding reaction following the preceding vigorous revival, a phenomenon which is quite normal. But a second reason is that the forces of growth are still encountering considerable structural hurdles and uncertainties about major future underlying

conditions that are hindering the development of a broader momentum and are preventing the upswing from gathering pace. Further steps were taken last year towards dismantling these hurdles but, in view of the many persisting structural problems, those measures did not suffice to lay the basis for sustained economic growth, especially as the unavoidable structural adjustments need a very long time to take effect.

The pause in growth in the last quarter of 1996 was largely attributable to the trend in construction investment, which made up 13½% of real GDP on average during the past year; spending on construction projects in the fourth quarter was 2½% lower than in the third quarter, after eliminating the usual seasonal variations. This fall was caused by several factors. Towards the end of the year construction activity was hampered temporarily by particularly unfavourable weather conditions. The new agreement on annual working time also had a negative impact from November in that the greater flexibility which the agreement gives was used to concentrate building activity in the warmer months, i.e. to bring construction projects forward. The extent to which such largely external influences are reflected in the level of economic activity also depends, however, on the order situation at the time. In the construction sector the weakness in demand persisted after the beginning of autumn and so was probably responsible for part of the drop in output; thus cyclical factors also played a role. A countervailing influence, on the other hand, was the sharp rise in construction activity in eastern Germany in the

Construction sector

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									
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
4th qtr	770.4	767.7	436.6	156.9	66.7	103.3	2.7	216.0	213.3
Change from previous quarter in %									
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
4th qtr	- 0.0	- 0.0	- 1.0	0.5	2.0	- 2.5	.	3.5	4.5
at current prices in DM billion									
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
4th qtr	892.6	880.1	511.5	176.2	68.7	119.3	12.5	224.0	211.6
Change from previous quarter in %									
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
4th qtr	0.0	0.5	- 0.5	- 0.0	2.0	- 2.5	.	3.5	5.0

* Provisional figures which, owing to the shortness of the time series, are subject to major uncertainty. 4th qtr of 1996: calculated by the Bundesbank, partly estimated.

Deutsche Bundesbank

final weeks of the year in anticipation of the fact that special depreciation allowances for residential and certain industrial and commercial buildings were due to be severely curtailed from the start of 1997.

Manufacturing

After seasonal adjustment, manufacturing output in the final quarter of 1996 did not quite match the level in the preceding quarter, according to the data available so far (the figures for December may well have to be revised substantially downwards); compared with the same period in 1995, manufacturing output expanded by just over 2%. The production trend differed in the individual sub-sectors. Producers of intermediate goods raised their output, whereas manufacturers of capital and consumer goods reduced their production compared with the summer

months. Over the last few months of 1996 production trends in industry were broadly similar in eastern and western Germany; in the new Länder the corresponding previous year's level was exceeded by well over 8%, but in the old Länder by only 2%. In the last month of the year west German manufacturing capacity was utilised to a slightly greater extent than in September, after seasonal adjustment; the rate remained within the bounds of normal utilisation. In assessing the utilisation rate it has to be remembered that, at present, production capacity is increasing only slowly, if at all.

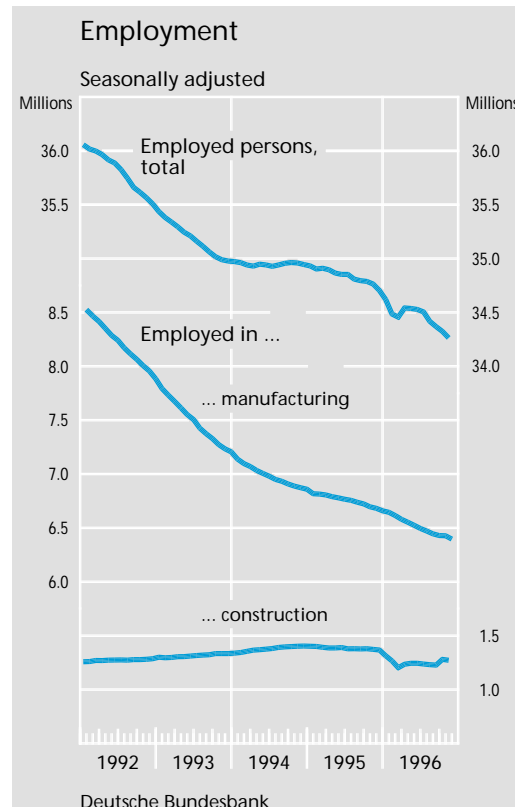
In contrast to the producing sector, services

Services

justment for seasonal and working-day variations, by well over 1/2% vis-à-vis the preceding quarter and by 4 1/2% compared with the fourth quarter of 1995. Business activity was especially buoyant among banks and insurance enterprises and in the health services field. One factor which is increasingly but-
tressing the services sector is that the industrial core area – not least in the wake of rationalisation measures – is outsourcing more and more activities, with the result that new fields of operation are opening up for enterprises in the tertiary sector.

Employment

The situation on the German labour market deteriorated further around the turn of 1996-7. According to initial estimates of the Federal Statistical Office, employment declined up to the end of November (the latest month for which data are available) to a seasonally adjusted 34.29 million. That was 1/2 million persons (1.4%) fewer than 12 months previously. A major part of the personnel reductions continued to stem from industrial firms which, over the year, shed a further 4 1/2% of their staff, the equivalent of around 290,000 employees. In addition, the construction industry has been running down its personnel levels for some time now. The employment situation is being exacerbated by the fact that the new financial arrangements introduced to replace the traditional bad weather allowances have so far been applied very sparingly by enterprises; many firms have resorted instead to (at least temporary) layoffs. Overall, the number of persons employed in the construction industry towards the end of 1996 is likely to have been



around 7% (100,000 persons) lower than a year before.

Partly owing to the cold weather, unemployment recorded a substantial further climb after the turn of 1996-7, reaching 4.3 million at the end of January 1997, after seasonal adjustment, which works out at 11.3% of the total labour force. The increase vis-à-vis January 1996, at approximately 1/2 million, was probably smaller than the simultaneous decrease in employment; hence the supply of labour presumably dropped over 12 months. In view of the unpromising labour market situation, more and more people appear to have abandoned their job-seeking efforts for the time being and to have withdrawn from the labour market, at least temporarily. Consequently, even a vigorous economic recovery

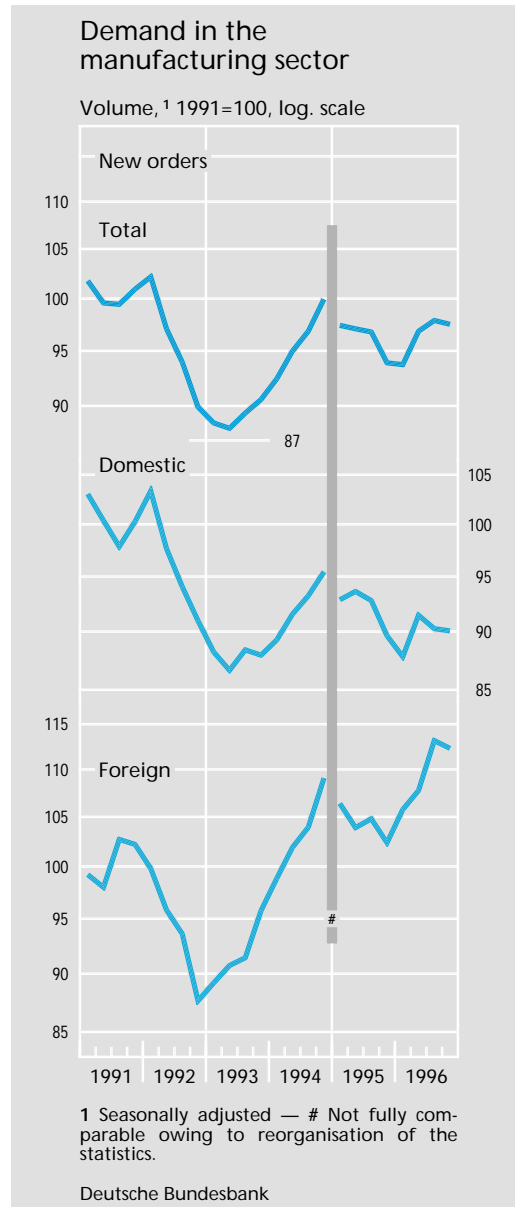
Unemployment

would presumably not translate immediately into a fall in unemployment. The prospects of finding a job have deteriorated further, in particular, for the problem groups among the unemployed. These include unemployed individuals aged 55 or older. They accounted for roughly one-fifth of all jobless persons at the end of 1996; the share of this age group in the total of employed persons, by contrast, is about one-tenth. Many of these older unemployed persons also belong to the category of long-term unemployed, whose professional knowledge and skills become more and more obsolete the longer they remain out of work and whose chances of finding a new job therefore decline over time. Just short of one-third of all registered unemployed at the end of January belonged to this largest problem group.

Trends in demand

*Orders
received by
manufacturing*

In the core area of the economy, which is traditionally the starting point of a more broadly based upswing, the demand situation remains divergent. The order level in foreign business was still quite favourable towards the end of 1996, even though export orders did not quite maintain the high level of the summer months. Domestic business, by contrast, continued to be very muted. Export activities, which grew in the course of the past year, have failed so far to galvanise domestic demand, especially investment in capacity extensions. At first sight the demand and production trends seem to have certain parallels with the downturn in the second half of 1995. On closer inspection, however, it becomes clear that the important economic



fundamentals have improved considerably since then. This applies especially to exchange rates, wage settlements and interest rates; the latter have now reached historical lows. The expectation of accelerated growth in 1997 is grounded on those favourable conditions.

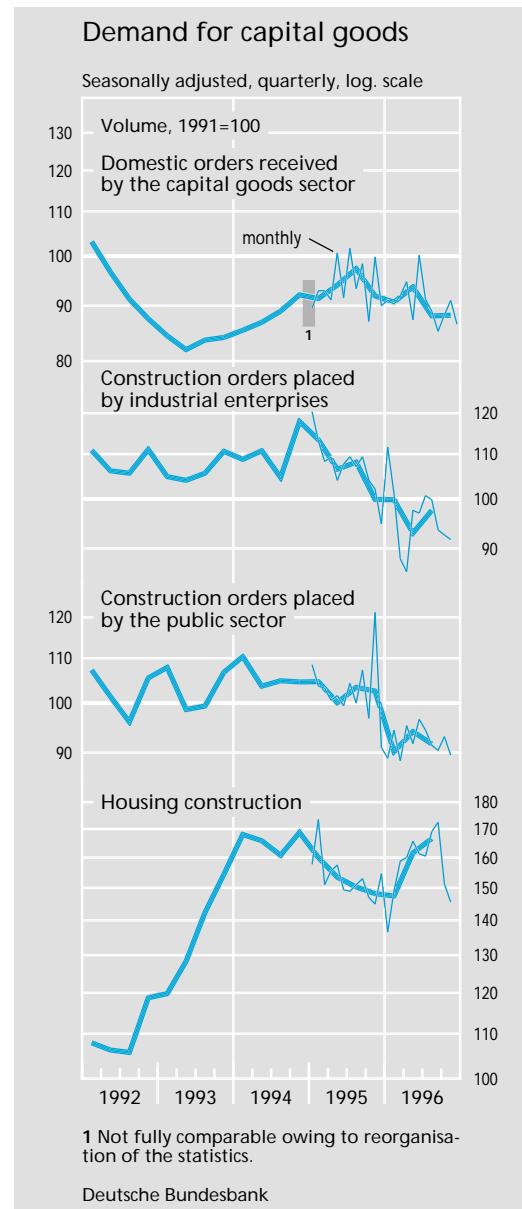
Export demand fell slightly in the last quarter, after seasonal adjustment, compared with

the third quarter ($- \frac{1}{2} \%$), mainly because the previous strong expansion in foreign orders for capital goods turned into a decline at the end of the year. Overall, however, export orders still exceeded the comparable figure in the previous year by $9 \frac{1}{2} \%$. In domestic business, on the other hand, incoming orders were no higher than a year before and, seasonally adjusted, fell a little below the level of the summer quarter. All in all, therefore, demand for industrial goods stagnated towards the end of 1996 but, owing to the sharp expansion of export orders in the course of the past year, it still surpassed the corresponding 1995 level by 3%.

Demand for capital goods

Enterprises' propensity to invest

Towards the end of the year, as before, both the propensity to invest and actual investment remained weak across the board. Corporate demand for machinery and equipment – gauged by domestic orders received by German capital goods producers – had picked up noticeably in the spring months. The same applied to industrial construction orders, which had gone up sharply in the summer. Both trends turned out to be short-lived. In the final quarter domestic orders for industrially produced capital goods stayed at the level of the preceding quarter, seasonally adjusted; this meant that they were far lower than a year before. In October-November industrial firms, again after seasonal adjustment, placed 6% fewer construction orders than in the summer months; compared with October-November 1995 this represented a drop of around $11 \frac{1}{2} \%$.



Up to the end of last year, however, the recent weakening of demand probably had little impact on the level of investment, which was still buoyed by the preceding temporary recovery in the order situation. After seasonal adjustment, gross fixed capital formation by producing enterprises thus increased in autumn by just under 1% in both volume and value compared with the previous quarter and regained the level last seen at the

Investment by producing enterprises

turn of 1994-5. Its share in GDP had been greater at that time, though.

The continuing investment weakness of producing enterprises, as well as being connected with the still relatively low level of capacity utilisation, is presumably due mainly to investors' pronounced uncertainty regarding the further course of economic development and important underlying political conditions.

*Trend in
earnings*

This wait-and-see attitude stands rather in contrast to the improvement in the current earnings position that has occurred in the meantime. According to our calculations, which are based on the partly estimated data of the national accounts, the profits of producing enterprises staged a rapid and distinct recovery after overcoming the recession of 1993. It is likely that they increased further in 1996, albeit not as strongly as in the preceding years. The German Council of Economic Experts came to the same conclusion in its report for 1996-7. As a rule, however, investment decisions are not based on the current or past earnings position but rather on profit expectations. It appears that many firms are dubious at the moment about the sustainability of the improvement in earnings. Moreover, the persisting increase in profitability has apparently not occurred "across the board"; the trend in profits has differed considerably. That is shown by initial (still very provisional) evaluations made by the Bundesbank of the annual accounts of west German manufacturing firms whose business year ended in the course of the first nine months of last year. Those evaluations indicate that

larger enterprises, in particular, were able to raise their profit for the year substantially, whereas small and medium-sized firms with a turnover of between DM 10 million and DM 100 million quite often experienced a deterioration in their earnings situation. That probably holds true for most construction enterprises, too. The persistently high number of insolvencies, not least in eastern Germany, likewise points to very disparate earnings trends.

In line with the divergent cyclical pattern to date, it is likely that profits have improved especially for enterprises in sectors oriented towards export business, which picked up during the course of 1996. But the picture no doubt looks very different for many firms in the manufacturing sector that are reliant more on domestic business, which is very muted at present. Even for that segment, however, one should be wary of generalising too much. Thus according to the first results of the corporate balance sheet statistics, smaller firms (with a turnover of up to DM 10 million), for which export activity generally tends to play a subordinate role, raised their profit levels markedly last year, notably by cutting costs.

Not only producing enterprises but also the public sector and investors in residential construction showed restrained demand for construction work of late. Overall, construction orders in October-November were 6% lower, seasonally adjusted, than on average during the summer quarter and were 10% down on the year.

*Orders received
by construction*

*Demand for
housing
construction*

The reasons for this investment restraint differed, however, in the case of the public sector and private builders, on the one hand, and producing enterprises, on the other. A prime consideration among public authorities was the exigency of fiscal consolidation. The pattern of demand for housing construction over the past two years was influenced predominantly by the change in tax regulations which in 1996 had both expansionary and contractionary effects but, on balance, tended to raise the level of orders in the first three quarters, especially in eastern Germany. In the first two months of autumn, by contrast, the demand for residential construction declined perceptibly in both the old and the new Länder; it fell by 11%, seasonally adjusted, against the average level in the summer quarter, managing to outstrip the corresponding previous year's figure by only ½%. Judging by the number of building permits, the weaker inflow of orders of late stems from a substantial decline in apartment house construction, whereas the demand for the construction of owner-occupied houses has strengthened somewhat vis-à-vis the summer months.

Households' consumption, income
and saving

*Private
consumption*

Consumption was not as buoyant towards the end of last year as before, which affected the retail trade especially. Between October and December, seasonally adjusted retail turnover slipped 2½% below the third quarter's result. There was a fall in demand, in particular, for clothing, shoes and leather goods as well as for radio and television sets.

The interest in buying passenger cars was likewise not as great in the final quarter as in the summer months. New car registrations of private individuals fell by 7%, after seasonal adjustment. By contrast, spending on holiday trips abroad increased substantially (by a seasonally adjusted 5½% compared with the third quarter) – a rise which stands in sharp contrast to the rather subdued underlying tendency in the two previous years. All told, private consumption in the last quarter of 1996 fell short of the level in the summer months by ½% in nominal terms and by not quite 1% in real terms. It exceeded the comparable previous year's figure by 3% in value and 1% in volume.

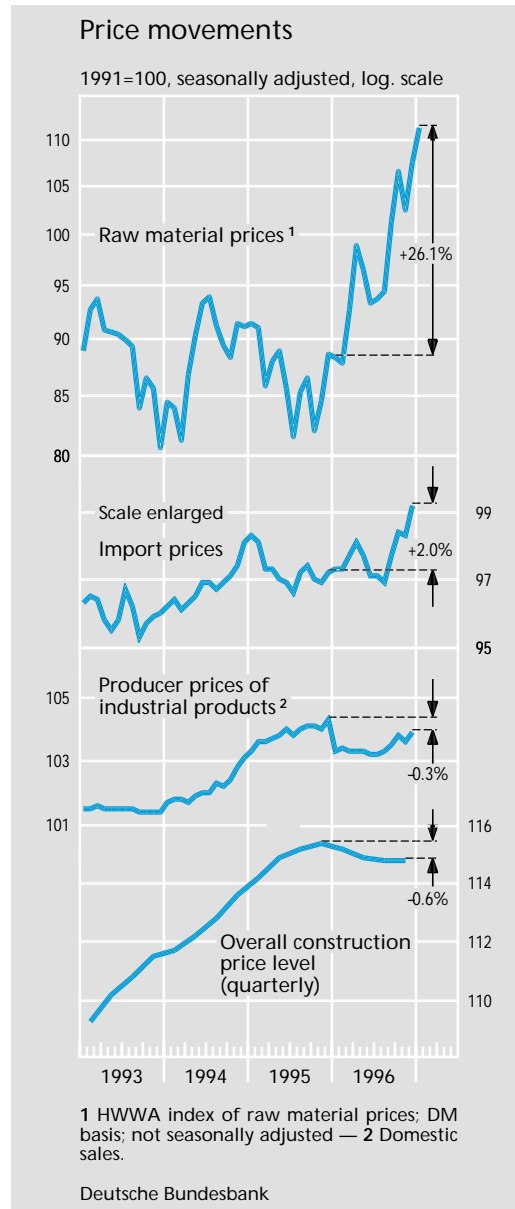
The income trend in the last few months was subdued in several respects. Thus the traditional end-of-year special payments in the metal-working industry and in the public sector remained "frozen" at the level of 1993 and 1994, respectively; hence these Christmas bonuses did not benefit – as is normally the case – from the rise in basic pay rates (which in 1996 was moderate anyway). In addition, earnings in the construction industry declined markedly; this was due in part to the shortening of weekly working hours during the winter months which was agreed as part of the wage settlement. All in all, seasonally adjusted total gross wages and salaries in the last quarter of 1996 were ½% lower than in the preceding quarter. In net terms, i.e. after deducting wage tax – which rose fairly sharply against the third quarter (but not against the previous year) – as well as employees' contributions to the social security funds, labour income dropped by

*Disposable
income*

1½%. On the other hand, households received slightly higher public transfers in the fourth quarter than in the summer months. After including other income, which comprises property income and the presumably increased private withdrawals from entrepreneurial income by self-employed persons, households' disposable income towards the end of 1996, seasonally adjusted, was virtually the same as in the third quarter; it was 3% up on the year. A slightly greater portion of this income was saved than in the summer months. In seasonally adjusted terms, the saving ratio increased marginally to 12½% between the third and the fourth quarters, thereby equalling the previous year's level.

Households' investment behaviour

The pattern of households' financial operations was noticeably influenced by the increased acquisition of owner-occupied homes towards the end of 1996, not least owing to the relatively low construction and real estate prices and the favourable borrowing rates. This is not fully reflected, however, in the transfer of home buyers' own funds to the housing sector via building and loan associations, as own resources for the acquisition of real property were evidently mobilised to a greater extent than usual via other channels, e.g. by liquidating bank deposits or securities holdings. An additional impulse for the private acquisition of real assets was given by the curtailment of the depreciation facilities for real estate in eastern Germany, which seemingly triggered a run on such buildings by investors. A further factor which found favour with investors for a time was the acquisition of equities, notably during the flotation of Deutsche Telekom shares. Households



bought a total of around DM 8½ billion (or just over two-fifths) of that particular share issue. After adding their other equity purchases, shares accounted for roughly one-tenth of their total financial asset acquisition in the fourth quarter of 1996. These real property and equity acquisitions were presumably financed largely by cash deposits held at banks. Consequently, the additions above all to private cash holdings, which

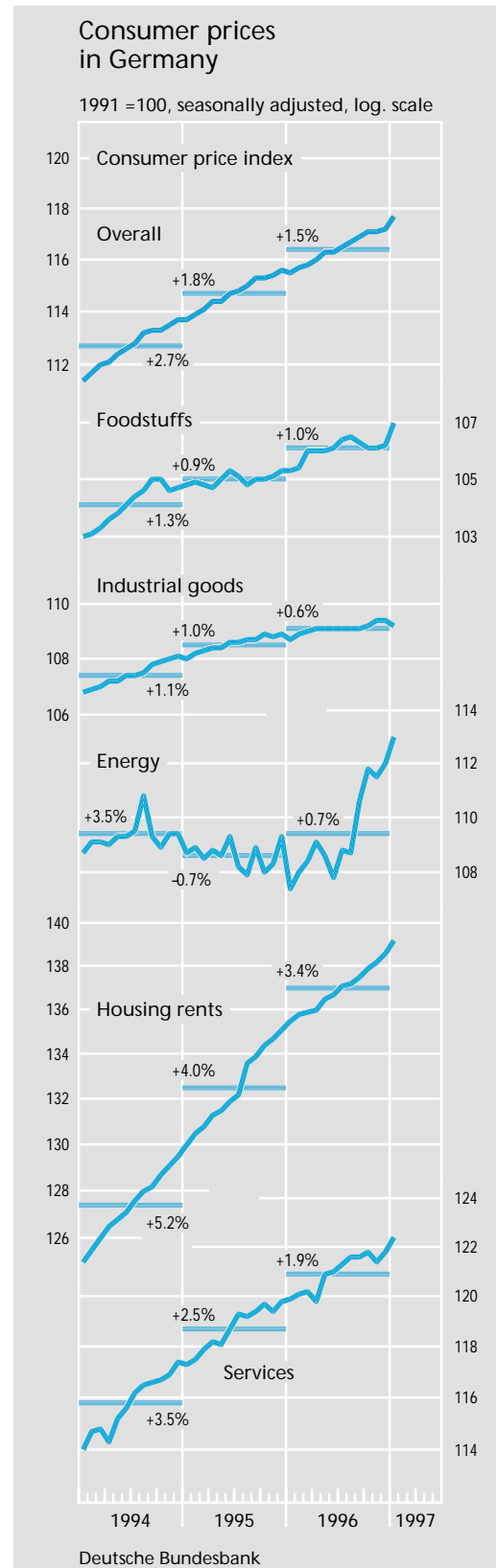
previously had been abundantly endowed, were lower than in the same period in 1995. Given the present low interest rates, however, the preference for short-term, risk-free forms of investment nevertheless remained quite high on the whole. By comparison, the propensity to borrow for consumption purposes was still moderate.

Prices

Broad price level stability continued to prevail on Germany's domestic markets at the turn of 1996-7. That is all the more remarkable as upward price pressures made themselves felt for a time, including external pressures in the form of sharply rising oil prices. That inevitably affected the domestic prices of mineral oil products; however, this did not trigger a widespread inflationary impetus, mainly because the domestic cost trend has been extremely moderate.

World market prices

The main reason why the dollar quotations for crude oil on the world markets climbed substantially over the past few months is to be found in weather-related fluctuations in stockkeeping by consumers and producers alike. Following the long cold winter of 1995-6, consumers' stocks had dwindled drastically. Their efforts last autumn to replenish those stocks coincided with rather low storage levels at the production companies, with the result that prices went up. The early onset of cold weather towards the end of last year reinforced this upward price movement, which in Germany was compounded by the appreciation of the US dollar. In contrast to the price of oil, world market



quotations for other raw materials have tended rather to decrease.

Import prices

The rise in the cost of crude oil and mineral oil products on the international markets meant that the import price level began to drift upwards at the start of autumn. After eliminating seasonal fluctuations, the import price level in December exceeded that in September by 1½% and that 12 months earlier by 2%; the average rate of increase during the third quarter had been only 0.2%.

*Industrial
producer prices*

The external upward thrust of prices had only a small impact on domestic markets. Thus although the seasonally adjusted selling prices of German industry rose somewhat during the past few months, the rate of increase remained within fairly narrow bounds. In December industrial producer prices were again 0.3% down on the year. Construction work in the fourth quarter of 1996, seasonally adjusted, was no dearer than in the summer. The overall construction price level was

*Construction
prices*

just over ½% below that of the previous year.

In January 1997 the rate of increase of consumer prices for Germany as a whole, at 1.8%, was higher than at the end of last year. This was caused partly by presumably temporary factors which may cease to apply later in the year. Besides the sharp increase in heating oil prices, the cold weather also pushed up the prices of foodstuffs substantially. These rises were supplemented at the beginning of the year by an increase of around one-fifth in radio and television licence fees and, in the new Länder, by the implementation of the second stage of the Rent Transference Act, which led to further upward adjustments of east German rents. That the higher inflation rate is not a reflection of sustained endogenous price pressures is demonstrated, for example, by the trend in manufactured goods prices, which in January were 0.5% dearer than a year before; in December the rate of increase had been 0.6%.

*Consumer
prices*