

Economic conditions

International environment

The world economy remained on a path of growth after the middle of the year. According to the autumn 1997 IMF forecast, there are good prospects of the upward economic trend continuing and of the combined real gross domestic product of all countries expanding, at around 4%, more or less as sharply in 1997 as it did last year. On the whole, this assessment is likely to remain valid despite the recent turbulence in the financial and foreign exchange markets of several East Asian economies and some Latin American countries. Nevertheless, the market corrections made so far and the adjustment measures which have been taken in economic policy will have some retarding impact. From the present perspective, the pace of expansion in the world economy might tend to lose momentum in 1998, but the impetus of world trade is unlikely to be permanently impaired.

*Trends in the
world economy*

A clear need for consolidation is becoming apparent in the South-East Asian countries which have been directly affected; the rapid rise and industrialisation of their economies was also accompanied by speculative exaggerations and external imbalances. The risk of this turbulence spilling over to other economies with similar problems cannot be ruled out at present. Depending on the nature and intensity of trading and financial relationships with those countries, the recent developments will also have an adverse impact on growth in the industrial countries. That might particularly affect Japan, which conducts one-third of its exports with the East Asian

*Turbulence
in East Asia*

countries affected by the crisis, and whose banks have a significant involvement in that region. One-seventh of US exports go to that part of Asia, meaning that perceptible effects on its export activity have to be expected here, too. Economic prospects in western Europe seem to be affected less severely by the aforementioned financial and foreign exchange crises; about one-tenth of EU exports to third countries goes to the worst-hit countries in East Asia. Of course, the past few months have again demonstrated how abruptly distortions in the real economy are revealed by changed assessments in the financial markets and how slumps in these markets can proliferate.

Countries in transition in central and eastern Europe

Despite repeatedly arising difficulties and setbacks, the central and east European countries are continuing to make advances in the process of economic adjustment. According to the IMF forecast, there is a distinct strengthening of economic growth in this group of countries. The crucial factor in this would seem to be that the development of the real economy is gradually stabilising in Russia, where overall output in 1997 is expected to rise – albeit only slightly – for the first time since the collapse of the socialist command economy at the beginning of the nineties. In addition to Poland, the Baltic states have now attained a notably rapid pace of growth, whereas the driving forces behind the economy in the Czech Republic have become weaker. The west European countries also benefited from the restructuring and modernisation process in central and eastern Europe, which is generally becoming broader in scope, and sharply expanded their

exports to that region this year. This holds true, above all, for the German economy, which now sends just under one-tenth of its total exports to the east and central European countries in transition.

In the United States, overall output again expanded quite sharply in the summer months. Real gross domestic product, adjusted for seasonal and working day variations, rose by just under 1% compared with the second quarter, and was 4% higher than its level in the corresponding period last year. This was mainly due to the more buoyant demand from households – particularly for consumer goods – which had slowed down somewhat in spring. The associated peak in sales in the car market seems to have been only short-lived, however, since purchases of passenger cars were showing a marked downward trend at the beginning of autumn, as were retail sales as a whole. Appreciable expansionary stimuli again came from commercial investment, which exceeded the levels of the previous quarter and of the summer months of 1996 by 4% and 10½%, respectively, in seasonally adjusted terms. The renewed growth of investment activity since the beginning of spring seems to be connected, firstly, with the rise in capacity utilisation. Secondly, the increasingly scarcer supply of qualified labour might have induced some enterprises to make greater investments in rationalisation. As in the preceding quarters, foreign trade had a dampening effect on balance; in particular, the deficit in goods transactions with the Pacific rim states has risen sharply of late.

United States

All in all, the dampening effects on the economy resulting from the events in South-East Asia and the price adjustments on national stock exchanges should not be assessed only in negative terms from the US point of view, since they will tend to bring the economy back to a path of growth which is consistent with the potential. In the longer term, this is necessary for safeguarding monetary stability; even though the rate of inflation at the consumer level was 2.1% in October, this was the lowest rate since early 1987.

Japan

The Japanese economy is still in the doldrums. Seasonally adjusted, industrial output in the four-month period between July and October was ½% lower than in the second quarter, although it was still 3½% higher than the level a year before. Housing construction and public investors imparted a contractionary stimulus. This was, at least partially, due to the restrictive course in fiscal policy. Private consumption recovered somewhat from the severe slump in spring, though the deep-rooted uncertainties of many Japanese consumers have probably not been overcome yet. Once again, exports proved to be a mainstay of the economy. In July/September, after eliminating seasonal factors, they failed to match the extremely high level of the second quarter, but exceeded the level a year earlier by 14%. As early as October, some exports to the South East Asian countries in crisis declined drastically, but this was more than offset by a sharp rise in exports to the United States and western Europe. However, it is doubtful whether shortfalls can be made up in this way in the longer term. Moreover, the prospects of the Japanese economy have

been clouded in recent weeks by escalating problems in the financial sector. The government has therefore prepared new economic recovery programmes which are geared less to stimulating short-term demand than to supporting the financial system and which contain medium- and long-term deregulation measures.

The upswing in western Europe continued after the middle of the year, with wide variations in the pace of expansion in the individual countries. Seasonally adjusted, industrial output in the EU (excluding Germany) in the third quarter was 1½% higher than in the spring; the year-on-year growth rate was 4½%. This was accompanied by a further increase in capacity utilisation; at the beginning of autumn, it was 2½ percentage points above the level of early 1997 and the long-term average.

Western Europe

The growth of the UK economy (in terms of real gross domestic product) in summer, adjusted for seasonal and working day factors, was again very vigorous at 1% compared with the preceding period and 4% compared with the third quarter of 1996. It was hence probably also much higher than the potential-oriented path. One of the driving forces behind this was again households' demand, which was boosted by the cyclical improvement of their income situation and special effects resulting from the transformation of building and loan associations and mutual insurance enterprises into public limited companies. Another notable factor is that, besides imports, exports also rose in terms of volume in the summer months

United Kingdom

Capacity utilisation in the manufacturing sector in selected industrial countries

Seasonally adjusted figures in %

Country	Annual average 1979-97	1997					October 1997 against annual average 1979-97 in %
		Total	January	April	July	October	
EU ¹	80.8	82.0	80.8	81.6	82.1	83.3	+ 2.5
of which							
Belgium	78.0	81.4	80.6	80.2	81.8	82.9	+ 4.9
France	83.6	83.5	82.9	82.7	83.7	84.7	+ 1.1
Italy	75.5	76.4	74.7	75.9	77.1	77.8	+ 2.3
Netherlands	82.6	84.4	84.6	83.8	84.3	84.8	+ 2.2
Spain	² 77.6	78.3	76.2	77.9	78.6	80.5	+ 2.9
United Kingdom	81.5	83.8	83.0	83.3	83.8	85.0	+ 3.5
Western Germany	83.2	84.5	82.8	84.5	84.7	86.0	+ 2.8
United States ³	80.5	82.8	82.4	82.6	82.9	83.3	+ 2.8

¹ Source: EU business survey; weighted overall result of the country figures. — ² Annual average 1988-97. — ³ Source: Federal Reserve Bulletin; annual average for

1997 calculated on the basis of the four monthly figures given.

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despite the sharp appreciation of the pound sterling since the beginning of 1996. At 3.7 % in October, the rise in consumer prices reached its highest rate since summer 1995. Excluding mortgage payments, the rate of inflation was 2.8 %.

France, Italy

In France, real gross domestic product in the third quarter, seasonally adjusted, was just under 1 % higher than in spring; it exceeded last year's level by 2 ½ %. The expansion now seems to be more broadly based; in addition to the continuing vigorous growth of exports, domestic demand has been gaining increasing momentum. Retail sales rose sharply in the summer months, for example, and building permits for new residential buildings were likewise showing a notable upward trend. The fact that the rate of inflation at the con-

sumer level fell back to 1.1% on an average of the months October and November is also a positive feature. The growth of the Italian economy in the third quarter was somewhat weaker than in most other EU countries, reaching ½ % compared with the previous period and 2 % compared with the level a year before in seasonally-adjusted terms. The main driving forces were exports and private consumption. The latter was again stimulated by the demand for passenger cars, which was encouraged by government incentives. The rise in consumer prices – as measured by the index for a four-person wage and salary earner household – accelerated to 1.6 % in October and November, the rise in VAT playing a major part in this.

Germany

Output and labour market

Overall output

In a favourable international setting and driven by strong external stimuli, the upward cyclical trend of the German economy continued in the summer months of 1997. Given persistent stable monetary and financial fundamentals, and under the impact of a further rise in capacity utilisation and growing optimism in major segments of the enterprise sector, the propensity to invest showed clear signs of improvement. The dampening effects emanating from the construction sector eased off only slightly, however, and the continuing reduction in employment remained a crucial detrimental factor which ultimately also set tight limits on private consumption.

According to initial provisional calculations, overall output between July and September, adjusted for seasonal and working-day variations, rose by slightly less than 1% compared with the previous quarter. Compared with the summer of 1996, this corresponds to an increase of almost 2½%. In the first nine months of the current year, real growth, adjusted for working-day variations, was likewise about 2½%.

There were no larger differences in growth between the new and the old Länder in the trend analysis of the past few months. However, a year-on-year comparison reveals that the east German economy lagged well behind the performance of western Germany. This demonstrates once again that the process of catching up in the new Länder still

lacks depth and a broad base, despite unmistakable successes in the industrial sector; however, the severe slump in the construction industry is a particularly significant factor. The assessment of the economic situation and outlook was correspondingly restrained and cautious in many cases. This was perceptibly different from the positive mood in western Germany.

Industry was again at the centre of the cyclical upswing in both parts of Germany. Although marked holiday influences and corresponding fluctuations in output were being felt in the period under review, overall manufacturing output between July and October, seasonally adjusted, again rose by about 2% compared with the spring; the year-on-year increase was slightly more than 5%, compared with 4½% in the previous quarter. In the new Länder, the year-on-year rise in output was as much as 10½%, whereas the increase was much lower in western Germany, at 4%. This is probably also an indication that the modernisation of industrial plants in east German factories has now reached a notable level.

Some of the sharpest increases in output were in the case of intermediate goods producers, which include, in particular, the chemicals and steel sectors. Capital goods producers likewise achieved considerable growth. An analysis of the turnover figures shows that exports remained strong in autumn, and that, for the first time in a long while, domestic turnover also increased sharply. Particularly high growth rates were recorded by communication equipment as

Manufacturing

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	Construction			
at 1991 prices in DM billion									
1996 4th qtr	769.7	767.6	439.0	152.0	66.2	102.0	2.1	214.2	212.1
1997 1st qtr	772.0	769.7	438.2	154.2	67.1	97.5	2.3	218.5	216.2
2nd qtr	779.8	771.5	443.6	154.8	66.6	98.5	8.2	226.3	218.0
3rd qtr	785.9	772.2	438.9	155.8	68.2	97.6	13.7	235.1	221.4
Change from previous quarter in %									
1996 4th qtr	0.0	0.5	-0.5	-2.0	2.0	-1.0	.	3.0	3.5
1997 1st qtr	0.5	0.5	-0.0	1.5	1.5	-4.5	.	2.0	2.0
2nd qtr	1.0	0.0	1.0	0.5	-0.5	1.0	.	3.5	1.0
3rd qtr	1.0	0.0	-1.0	0.5	2.5	-1.0	.	4.0	1.5
at current prices in DM billion									
1996 4th qtr	893.4	882.7	515.1	173.6	68.3	117.4	10.7	222.1	211.5
1997 1st qtr	901.9	891.6	518.4	178.3	69.1	113.1	10.3	228.1	217.8
2nd qtr	909.3	892.3	526.0	178.6	68.8	113.3	17.0	237.7	220.7
3rd qtr	916.2	894.8	524.2	177.8	70.7	112.3	21.3	247.8	226.5
Change from previous quarter in %									
1996 4th qtr	0.5	0.5	-0.0	-2.0	2.0	-1.0	.	3.0	5.0
1997 1st qtr	1.0	1.0	0.5	2.5	1.0	-3.5	.	2.5	3.0
2nd qtr	1.0	0.0	1.5	0.0	-0.5	0.0	.	4.0	1.5
3rd qtr	1.0	0.5	-0.5	-0.5	3.0	-1.0	.	4.0	2.5

* Provisional figures. Original figures for the first and second quarters 1997 have been revised; the overall effect is only slight, however.

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well as by office machinery and computers. Moreover, car sales remained at a high level. In mechanical engineering, the traditional capital goods sector, domestic activities remained very subdued right up to the present.

Investment

All in all – according to the national accounts which were supplemented by our own estimates – real investment in machinery and equipment by producing enterprises in the third quarter, adjusted for seasonal and working-day variations, were 2 ½ % higher than in the second quarter; they exceeded the level of the comparable period last year by 5 %, compared with 2 ½ % in the preceding quarter. This more than offset the slight decline in expenditure on commercial buildings.

The sharp rise in industrial output resulted in an equally distinct increase in capacity utilisation. According to the ifo figures, capacity utilisation in the old Länder reached a level in September which was slightly more than 3 ½ percentage points above the previous year's level and which exceeded the upper end of the range of normal utilisation by an almost equal margin. Such a high figure was last achieved in 1991. The difference vis-à-vis the cyclical trough of summer 1993 has now grown to 8 ½ percentage points. The new Länder likewise experienced a noticeable rise in the degree of capacity utilisation in the past twelve months.

Capacity utilisation

As is shown, for example, in the autumn survey of the DIHT, the expansion in manufacturing is imparting increasingly positive stimuli to

DIHT survey

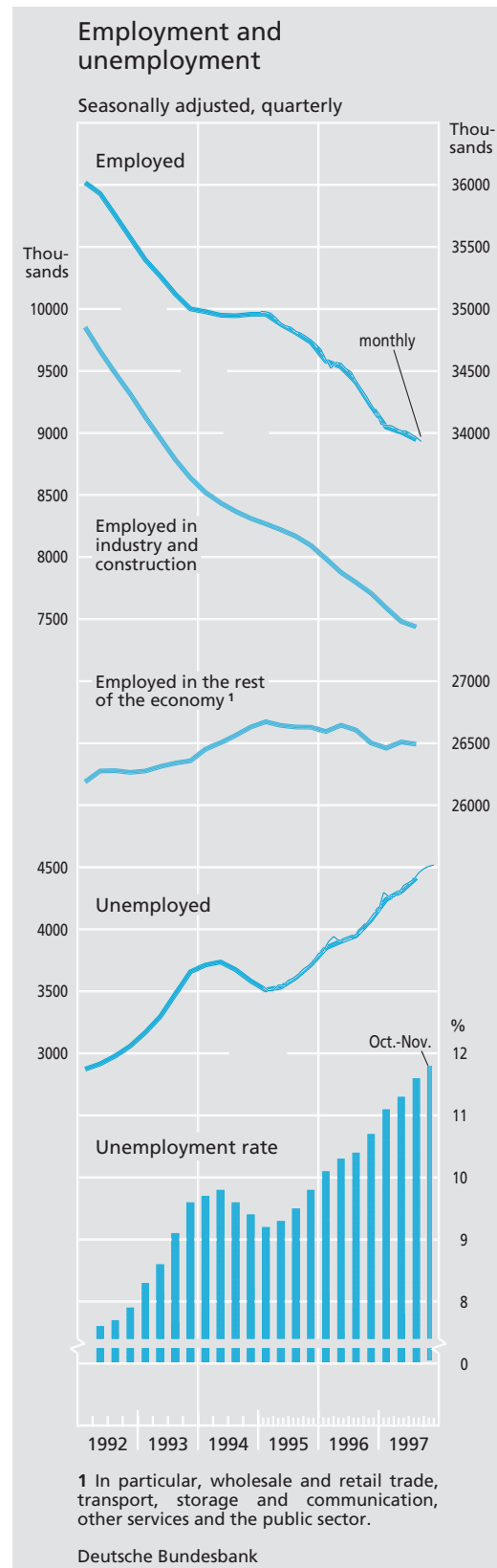
the rest of the economy. In particular, the transport sector, the wholesale trade which links production, and some enterprise-oriented service segments are reporting favourable trends. Other sectors – especially those which are primarily geared to private consumption or the construction sector – continue to report a rather restrained trend. In particular, value added in retailing was much lower in the third quarter than in spring according to the national accounts.

Construction

Construction output between July and October, seasonally adjusted, was slightly above the level of the preceding three-month period. One factor in this might have been that the collective pay agreements now permit the time of year with favourable weather conditions to be used more than before for overtime work. However, the unchanged large disparity vis-à-vis the preceding year indicates that the construction sector has not yet overcome its structural adjustment phase. The general building sector has been particularly affected, but the civil engineering segment also suffered considerable shortfalls. According to the ifo surveys, the level of utilisation of machinery and equipment in autumn was not lower than 12 months ago in western Germany and only slightly lower in the new Länder, despite the noticeable decline in construction work. This may be taken as an indication of a dramatic reduction in capacity.

Employment

Despite the continuing cyclical recovery, there has so far been no improvement in the situation in the labour market. Rationalisation measures, resulting in a considerable shedding



of labour, continue to predominate in industry. Although a few sectors – such as the motor industry – are raising their workforce levels again, last year's employment level in the enterprises of the manufacturing industry reporting to the monthly industrial statistics was again undershot by some 3 % in September.

Given the unfavourable general situation, the construction sector, too, has been reducing its number of employees right up to the present. The services sector is likely to have again benefited from the fact that industry tends to outsource service-oriented operating units or make them independent; nevertheless, the previously witnessed rise in employment did not continue in summer. Not least for that reason, the total number of employed persons fell further to 33.94 million in September, which is some 435,000 persons or 1½ % less than a year before. These figures for Germany as a whole conceal very different trends in the old and new Länder. Whereas cuts in the number of jobs seem to be gradually coming to an end in western Germany and the fall of 1% compared with the previous year was distinctly below the average, the east German Länder suffered a decline of 3%.

Unemployment

The picture is similar regarding unemployment. At the end of November, after eliminating seasonal fluctuations, 1.48 million persons were registered as unemployed in the new Länder, exceeding last year's level by 265,000. The share of persons registered as unemployed as a proportion of the total labour force rose to 19.6%, seasonally adjusted, compared with 17.1% in the first

quarter of 1997. The sharp rise in unemployment in the new Länder is also due to the reduction of labour market policy measures, so that unemployment which had hitherto been concealed became evident. In western Germany, however, the rate has remained largely unchanged since the beginning of the year, reaching 9.9% of late. Seasonally adjusted, 3.05 million persons were registered as unemployed at the end of November; this is slightly less than 120,000 higher than the corresponding level of the previous year and only half as much as in eastern Germany. Owing to the further deterioration of the situation in the east German labour market, total unemployment hit a new peak of 4.5 million, which corresponds to 11.8% of the workforce.

Trends in demand

A continuing broad flow of orders is likely to secure industrial output in the next few months as well. Seasonally adjusted and at 1991 prices, orders received by manufacturing between July and October 1997 were 2½% higher than the average of the previous three months, which had already seen a sharp rise. Compared with the corresponding period last year and after eliminating working-day variations, this means an increase in orders of latterly just over 7%, compared with somewhat above 6% in spring.

*Orders
received by
manufacturing*

As had been the case for some time, the crucial stimuli to demand came from abroad. Orders received from foreign customers again rose by 5½% in seasonally adjusted terms. The disparity vis-à-vis the preceding year rose

*Foreign
demand ...*

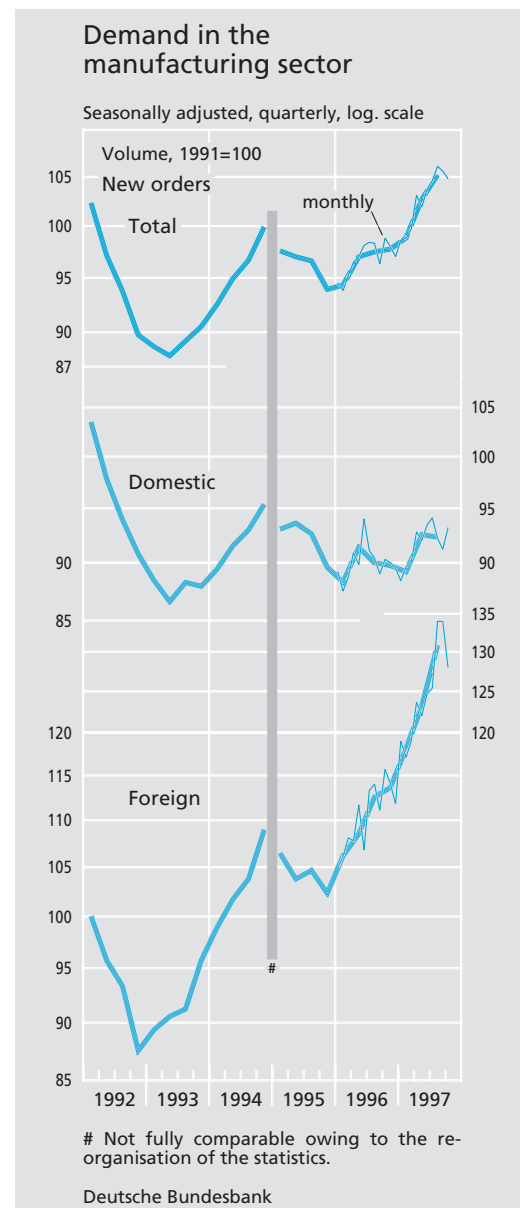
to 14½ % in the period from July to October, compared with as much as 13½ % in the second quarter. Demand was almost equally buoyant for intermediate goods and capital goods, whereas orders in the durable and non-durable goods sectors lagged somewhat behind. However, the latter only holds true for west German enterprises; in the new Länder, by contrast, orders in this sector continued to grow vigorously. The good market position, especially of producers of durable consumer goods, is mainly reflected by the high year-on-year growth rate of more than one-third.

... and domestic demand

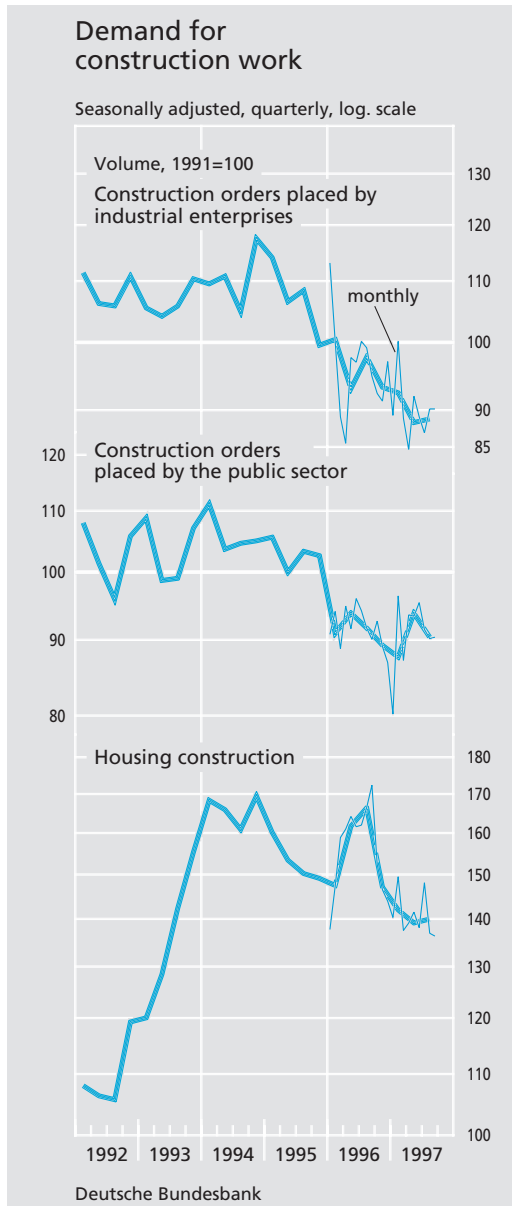
The revival of domestic demand for manufactured products in the second quarter did not continue in the summer; indeed, orders received on the average of the months of July to October, seasonally adjusted, persisted at the level reached at that time. Although this signifies a year-on-year increase in growth to 2½ %, compared with 1½ % previously, this shows that most domestic customers are still predominantly showing restraint. Orders continued to rise only in the case of producers of intermediate goods. In the area of durable and non-durable consumer goods as well as in the case of the producers of capital goods, demand again showed a declining trend and remained below the last year's figures.

Propensity to invest

Nevertheless, it would be misleading to conclude from this that there is an unchanged low propensity to invest within the German economy. On the contrary, the latest survey by the DIHT showed that there has been a distinct rise in the propensity to invest, in particular, in machinery and equipment. For ex-



ample, the proportion of enterprises which intend to increase expenditure on investment has risen noticeably during 1997 and, in autumn, even gained the upper hand over those in west German industry intending to cut spending. The same trend is indicated by the latest investment survey by the ifo institute. According to this, yet more purchases of capital goods are planned for the next few months.



Moreover, when interpreting statistical data on investment activity, it must be borne in mind that an assessment of its effectiveness in production has become more difficult. This applies in particular to the increasing use of electronics in operational processes. Firstly, price discounts have often prevailed in this segment owing to very fierce competition. Therefore, expenditure on investment in so far does not necessarily rise, even if more

new equipment has been bought. Secondly, technical progress is particularly rapid in this area. This might lead, for example, to increased efficiency, not only of new plants but also of existing ones. Such improvements in productivity are, however, very difficult to quantify. As a result, improved quality, including that of replacement investments or refitted plants, is easily underestimated. Moreover, new investments as well as the existing capital stock can be better used because of a more flexible deployment of working time, which additionally raises the existing capacity limits.

Demand for construction work slackened again slightly in summer. After eliminating seasonal factors, real orders received by the construction sector were slightly less than 1% below the level of the previous quarter. The disparity vis-à-vis the preceding year rose from 6% in the spring months to just over 8%. This more clearly reflects the scale of the persistent weakness of demand. The public sector, in particular, again placed fewer orders of late following vigorous ordering activity in the preceding few months. By contrast, residential housing demand recovered somewhat. This was solely due to the trend in western Germany where – in terms of permits – the construction of single-family houses attracted increasing interest. In eastern Germany, however, the trend in residential housing demand was clearly downwards. The order situation in commercial construction improved slightly in the summer months.

Demand for construction work

Households' consumption, income and saving

Private consumption

Consumer demand had a dampening effect on the domestic economy in the summer months. All in all, households' expenditure in the third quarter, adjusted for inflation as well as seasonal and working-day variations, fell by 1% compared with the previous quarter. The level of the same period last year was undershot slightly. The slowdown in retailing particularly affected the specialist trade in clothing, shoes and leather products, which suffered a decline in turnover that was only partly due to the hot summer weather. A large number of consumers also showed restraint regarding purchases of household furniture and appliances. There was, however, an extremely buoyant demand for passenger cars. In the third quarter, new registrations for private persons rose by 6%, seasonally adjusted, compared with the previous quarter; they did not quite match the level of the preceding year, however. The fact that fewer funds were earmarked for foreign travel budgets in the summer months than, for example, in spring or a year before, fits into this picture of generally subdued consumer demand.

Disposable income

Despite all the differences in the particulars, households clearly adjusted their consumption behaviour to the tighter scope of income in many instances. Thus, total gross wages and salaries in the third quarter of 1997, seasonally adjusted, were below their spring level and did not quite match the level of the preceding year ($- \frac{1}{2}$ % in both cases). This decline was attributable to the reduction in em-

ployment and the trend in average earnings; here, the cuts in holiday pay which had been agreed in the collective wage settlements in several important branches of industry, were being felt. Another factor might have been that enterprises are increasingly taking advantage of the expanded scope of discretion in the compensation of employees. For example, hours worked overtime are not compensated by higher wage and salary payments but are booked as time credits to working time accounts. The previous widespread parallel trend in working time performed and working time paid is likely to have been reduced by this.

In net terms, i.e. after deduction of wage taxes and pro-rata contributions to the social insurance funds, labour income in the third quarter, seasonally adjusted, fell by $\frac{1}{2}$ % compared with the second quarter and by just over above $1\frac{1}{2}$ % compared with the year before. Households likewise received lower transfer payments than before from public cash offices. For some time now, income from other sources, comprising, in addition to property income, especially private withdrawals, has been a considerable counterweight to mass income. Nevertheless, households' nominal disposable income in the third quarter, persisted at the previous quarter's level in seasonally adjusted terms.

With consumer behaviour adjusting to the fall in real disposable income, the private savings ratio, taken as a whole, remained at slightly below 12%, seasonally adjusted, in the third quarter, matching the reduced level of spring. Nevertheless, the differentiation of

Private savings

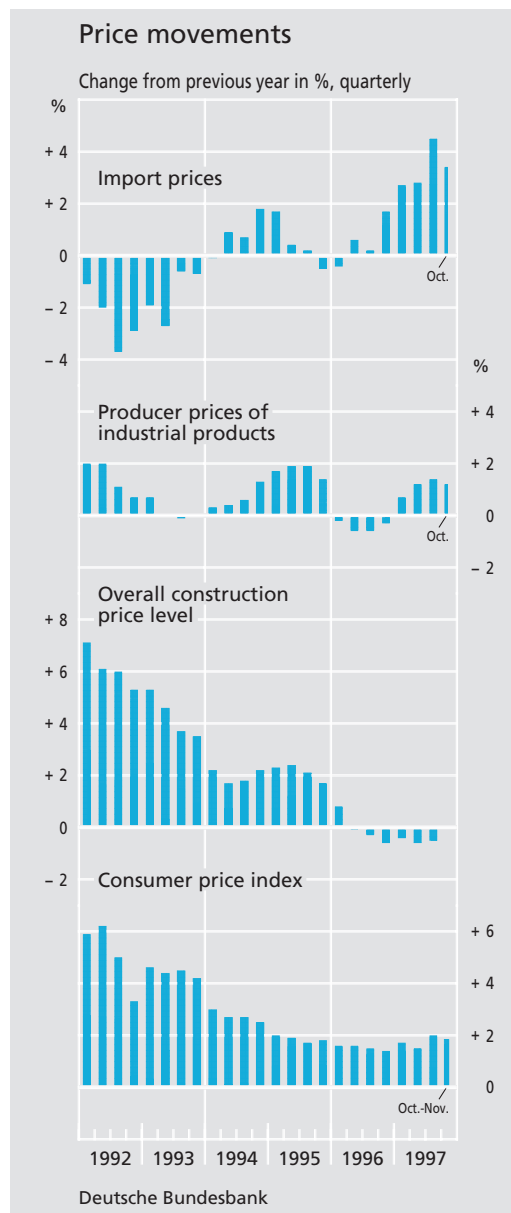
income and savings between the individual groups of households is likely to have continued and also left its mark regionally. That probably holds true, in particular, for private savings activity in the new Länder. Firstly, since self-employed persons have only a small economic weight, entrepreneurial and property income may support the private income and savings trend less than in western Germany. Secondly, the east Germans' ability to save has been affected more by losses of income resulting from lower employment, the reduction in labour market policy measures and the sharper increase in contribution rates to statutory health insurance than it has simultaneously benefited from increases in actual earnings.

Prices

The inflationary pressures which had risen perceptibly at the end of spring and in the first few summer months have receded recently. Firstly, the international commodity markets calmed down again, and the Deutsche Mark made good some of its previous losses against the US dollar. Secondly, the disrupting influences of the sharp increases in administered prices petered out in Germany, and the subdued domestic demand set tight limits on the possibility of achieving higher selling prices. Nevertheless, it was not possible to match the level of price stability recorded in the spring.

*Import prices,
producer prices*

The influences spilling over from world markets had a relatively quick and massive impact on German import prices. Whereas the latter had risen perceptibly up to August, they sub-



sequently declined again. The year-on-year rate of increase which had been as much as 5.4% fell to 3.4% in October. Domestic industrial selling prices have not risen further of late. The year-on-year rate of increase fell from 1.5% in August to 1.2%.

Construction prices were still being influenced by the weakness of demand. Seasonally adjusted, the overall level of construction

prices declined again in autumn and was again $\frac{1}{2}$ % lower than the level of the previous year. Although construction prices fell only by slightly more than 1% from their last peak of some $1\frac{3}{4}$ years ago now, such a long phase of declining prices has not been recorded previously in (western) Germany.

Contrary to the general price trend, the producer prices of agricultural products have again been showing an upward trend since the middle of the year. In October, they exceeded the corresponding level of the previous year by 3%; towards the middle of the year they had still been more than 1% below their previous level. Factors contributing to this rise were less plentiful harvests of some kinds of fruit and increasing prices of animals for slaughter.

*Consumer
prices*

Despite the accelerated rise in food prices, including at the consumer level, the overall rise in the consumer price index has only been slight in recent months. In seasonally adjusted terms and at an annualised rate, the rise in the period from September to November was no more than 1%, against $2\frac{3}{4}$ % in the preceding three-month period. The year-on-year rate of increase did not exceed 1.9%, compared with 2.1% in August. The major factor in this reduction was that the

inflationary pressures in the area of commercial goods (which had previously been determined, in particular, by dramatic increases in administered prices) perceptibly receded. In the case of services, where labour costs are especially important and which are much less affected by cyclical ups and downs, the rise in prices was within quite narrow bounds. Housing rentals continued to rise to an above-average degree, the partly administered rise in incidental payments also being a factor. Compared with past years, however, there is now a marked slowing-down of rental costs.

Compared with other European countries, the rate of inflation in Germany was slightly lower than the average rate of the 15 member countries of the EU. The annual rate of inflation of all EU countries calculated by the Statistical Office of the European Communities (EUROSTAT) using harmonised national indices was 1.7% in October – more recent data are not available. For Germany, the year-on-year rate for the same month, which is not calculated on such a broad statistical basis as the national index, was 1.4%. The rate of inflation was higher than the average in Greece (4.6%), but the Netherlands and Sweden, too, recorded an inflation rate in excess of 2%. Ireland and Austria, in particular, were below the average.

*Harmonised
price index*