

## Economic conditions

### International environment

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The expansion of the world economy slowed down considerably in the winter half of 1997-98. A decisive role was played by the crises in East Asia, which resulted in a sharp slump in growth in the regions which were most severely affected. Since then, the contractionary effect caused by this has had a noticeable impact on a number of other economies and has hit Japan's economy, which had been weak already, particularly hard. At the beginning of the year, US exports to the emerging markets of East Asia fell distinctly, which, in view of the strong growth of the US domestic economy, however, contributed to a moderation which is desirable in terms of price stability. The west European industrial countries have so far been affected much less by the declining absorption capacity of the East Asian area. This is due in particular to the fact that their real economic links with the respective emerging countries are of comparatively low importance. Industrial output and capacity utilisation in the EU countries continue to suggest a rapid cyclical upswing.

*Implications of the crises in East Asia on the world economy*

Given the difficult situation in East Asia, the International Monetary Fund downgraded its forecast for worldwide economic growth this year by just over 1 percentage point to 3% compared with its autumn 1997 forecast. In the next year, however, an increase in output of just over 3 ½% might be reached again on the back of a distinct revitalisation and/or increasing momentum of the driving forces in the East Asian and South American emerging countries. Growth in the advanced econ-

*Current forecast by the IMF*

omies is expected to slow down to 2 ½ % in 1998 and 1999, not least as a result of the cyclical weakness in Japan. However, this forecast does not yet take into account the economic program recently passed by the Japanese government. According to the IMF, the increase in prices at the consumer level is likely to remain moderate in the period under review, at 2 % for each year.

*United States*

Although the setting has become more gloomy, the growth of the overall economy in the United States continued at a sustained rapid pace after the turn of 1997-8; adjusted for seasonal and working-day factors, real gross domestic product exceeded the level of the fourth quarter of 1997 by 1% and that of a year ago by 3 ½ %. In this process, foreign trade acted as a considerable constraint, which, seen in isolation, reduced overall economic growth compared with the previous quarter by ¾ percentage point. The decisive factor in the expansion of the foreign trade deficit was that exports of goods and services, adjusted for inflation and seasonal factors, were 1% lower than in autumn 1997, whereas imports rose by 4%. On the exports side, especially exports to the emerging countries of East Asia slumped in the first quarter – as already mentioned – notably, by one-sixth compared with the same period last year.

However, the decline in exports was more than offset by the sharp growth of private consumption and fixed capital formation, with housing construction, which had previously expanded somewhat more slowly, apparently receiving a distinct boost from the

**IMF forecasts for 1998 and 1999 \***

Item	1996	1997	1998	1999
Real gross domestic product	Change from previous year in %			
Advanced economies 1	2.7	3.0	2.4	2.5
of which				
United States	2.8	3.8	2.9	2.2
EU	1.7	2.6	2.8	2.8
Japan	3.9	0.9	0.0	1.3
Inflation rate 2	Change from previous year in %			
Advanced economies 1	2.4	2.1	2.1	2.0
of which				
United States	2.9	2.3	2.0	2.4
EU	2.5	1.9	2.0	2.0
Japan	0.1	1.7	0.9	0.4
Unemployment	Number of unemployed as % of the labour force			
Advanced economies 1	7.3	7.1	7.0	6.7
of which				
United States	5.4	4.9	5.0	5.0
EU	11.4	11.1	10.6	10.2
Japan	3.3	3.4	3.6	3.6

\* Source: IMF, World Economic Outlook, May 1998. — 1 Industrial countries plus Israel, China (Taiwan), Hong Kong (Special Administrative Region), Republic of Korea and Singapore. — 2 Measured by the consumer price index.

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low level of capital market rates. In the wake of the very buoyant trend of overall output, employment continued to rise, and unemployment hit its lowest level in 28 years, at 4.3 % in April-May. Nevertheless, price pressure has failed to emerge so far. Although unit labour costs tended to rise, the year-on-year rate of price increases at the consumer level slowed down appreciably to 1.5 % in the first four months of the current year, which was due in particular to the sharp fall in import prices.

In sharp contrast to this picture, the Japanese economy is currently showing recessionary tendencies. Industrial output, which has witnessed a downward trend since mid-1997, fell by 3 %, seasonally adjusted, in the period from January to April compared with the cor-

*Japan*

responding previous period, and by 4½% compared with its level of last year. Its downward trend has hence once again gained momentum since the turn of the year. Given the continued weakness of domestic demand, exports were hit hard by the drastic slump in the absorption capacity of the East Asian emerging economies, which had previously absorbed slightly less than four-tenths of Japanese exports. Recently, this decline could no longer be offset by higher exports to the US and other industrial countries, which meant that total exports in the first quarter of 1998, seasonally adjusted, were 4% below the level of the previous quarter. Japanese hopes of a cyclical improvement are now focused on the state's comprehensive stimulation programme, which was recently passed and is intended to deliver a fresh impetus to domestic demand. The fiscal stimuli which, as a whole, are estimated to correspond to just over 3% of GDP, might have an expansionary impact as early as the second half of 1998. However, it is doubtful whether consumers' and investors' confidence can be increased rapidly and lastingly in view of the structural problems in the Japanese financial sector, which continue to be serious.

EMU

In the countries of the future European monetary union (EMU) the cyclical upswing accelerated after the turn of the year 1997-8. In terms of the real gross domestic product of four major participating countries (Germany, France, Spain and the Netherlands), for which current data are available, output in the first quarter of 1998, seasonally adjusted, rose by ¾% compared with the previous quarter, and the corresponding figure of the previous

year was exceeded by 3¾%. The decisive factor was the acceleration of domestic demand. In the meantime, the first signs of improvement in the labour market have appeared, too; the number of persons employed in the EMU area has been rising, and the (standardised) unemployment rate in March was ¼ percentage point lower, at slightly below 11½%, seasonally adjusted, than a year ago.

The price climate in the area of monetary union remained mostly relaxed in the first few months of 1998. Measured against last year's rate of harmonised consumer prices, overall inflation was 1.4% in April, compared with 1.5% in the fourth quarter of 1997. Germany and France continued to be well below the average, whereas the inflation rates in Italy and the Netherlands exceeded this clearly. The margin between the countries with the comparatively highest and lowest inflation rates has not shrunk further of late.

Domestic demand in France recovered noticeably in the winter months. Seasonally adjusted, real gross domestic product was hence ½% higher in the first quarter of 1998 than in the corresponding previous period and 3½% higher than a year before. This was also due to increased demand by households for consumer goods, which – measured in terms of real private consumption and seasonally adjusted – were ½% above the level of the fourth quarter of 1997 and 3% above that of the corresponding period last year. Of importance was, amongst other things, the improvement in the labour market situation, which, however, was due in part to the imple-

France

mentation of labour market programs which had been adopted by the government. The seasonally adjusted unemployment rate was 11.9 % in the period under review, compared with 12.5 % in summer 1997.

*Italy*

In the first three months of 1998, growth of industrial output in Italy, which had caught up with the other EMU countries in the course of 1997, stagnated in seasonally adjusted terms at the level of the previous quarter and exceeded that of the year before by 3 %, compared with 5 ½ % in autumn 1997. The recent development could be due to the receding impacts of state incentives for the purchase of new cars and lower foreign demand. In the further course of the year, however, the downward trend of short and long-term interest rates is likely to favour the investment climate and deliver a fresh stimulus to growth.

## Germany

### Output and labour market

*Favourable start  
to the year*

Although unemployment remained high, the German economy got off to a good start in 1998; the cyclical driving forces once again clearly gained momentum. According to initial calculations by the Federal Statistical Office and after eliminating seasonal fluctuations and working-day variations, real gross domestic product rose by just under 1 % in the first quarter of 1998 compared with autumn 1997. This corresponds to a year-on-year growth rate of almost 4 %. Compared with the previous year, overall output – again

on a comparable basis, adjusted for working-day variations – increased by 3 %; the year-on-year rate of increase was 3¾ %. Utilisation of overall economic capacity hence rose noticeably.

Temporary factors also contributed to the favourable overall performance, which means the data currently overstate the underlying cyclical trend. In addition to the relatively mild weather at the beginning of this year, purchases brought forward in view of the raising of the standard rate of value-added tax from 15 % to 16 % as of April 1 probably played a role as well. Apparently, the implications of the crises in East Asia on the German economy remained within narrow bounds, although individual sectors were affected by the slowdown of business with East Asia.

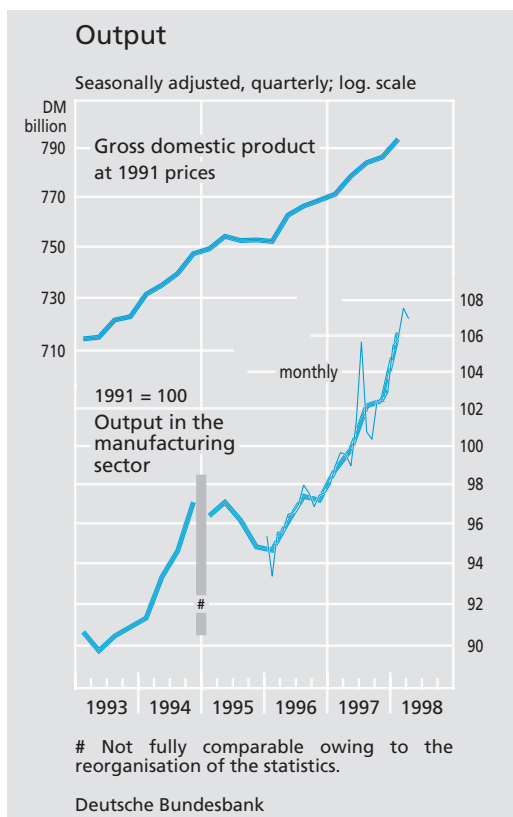
According to the Ifo surveys, west German industry's export expectations have recently no longer been quite as optimistic as they were as late as summer 1997. However, by contrast, the assessment of the current business situation improved considerably and was better in the past few months than at any time since the period of reunification; this reflects a noticeable strengthening of the driving forces in the domestic economy. Supported by the continued high level of exports, they were so buoyant in the most recent past that there are increasing signs of a turn for the better in the labour market, although the structural situation in the construction industry remains unfavourable.

Manufacturing contributed distinctly towards overall economic growth. As an average of

*Special factors*

*Optimistic  
sentiment*

*Manufacturing  
industry*



the first four months of 1998, industrial output, seasonally adjusted, was 4% above the level of the last quarter of 1997. As a result, the slowdown in growth witnessed at that time seems to have been overcome, and the expansion forces have again gained the upper hand. Compared with the previous year, production rose by 7½%; as an average of the months of October to December 1997, this rate of increase was still 4½%.

*Capital goods industry*

The rise in output was especially vigorous in the case of capital goods producers. The year-on-year rate of increase jumped from around 4½% in the last quarter of 1997 to one-tenth in the first four months of 1998. Not least the mechanical engineering sector, which ranks among the most important producers of machinery and equipment, saw a

distinct revival. A similar trend was witnessed in the manufacture of structural metal products. Manufacturers of motor vehicles fared even better, which likewise had an impact on the consumer goods sector. The former were reported as having difficulties in the change-over to new models in autumn 1997, which apparently have now been overcome. On the other hand, the producers of television and radio transmitters and apparatus for line telephony and line telegraphy could no longer quite repeat their previous production successes. The major area of intermediate goods industries lost some of its momentum in the recent past.

The vast majority of capital goods production, together with the corresponding imports, is likely to have been used to improve and renew the enterprises' machinery and equipment. According to the calculations for the national accounts, investment in machinery and equipment by the German economy, seasonally adjusted, rose by 5½% in real terms in the first quarter of 1998 compared with the previous quarter, exceeding the corresponding level of last year by just over 10½% compared with 4½% in the last quarter of 1997. But industrial firms continued to show much restraint with a view to construction measures which normally go in line with expansions. For that reason, too, construction investment as a whole, which also includes housing construction and public sector construction, only rose by ½%, seasonally adjusted, in the first three months of 1998, which corresponds to a year-on-year rate of increase of 3½%.

*Investments in machinery and equipment*

## Expenditure of gross domestic product (GDP)

Adjusted for seasonal and working-day variations \*

Germany

Period	GDP	Domestic expenditure	of which				Buildings	Net exports	Exports	Imports
			Private consumption	Government consumption	Machinery and equipment					
at 1991 prices in DM billion										
1997 2nd qtr	779.7	773.2	441.8	155.4	67.0	98.7	6.5	226.4	219.9	
3rd qtr	785.2	771.8	438.5	153.3	67.9	98.9	13.4	237.4	224.0	
4th qtr	787.6	777.7	440.5	151.0	68.8	98.3	9.9	240.4	230.5	
1998 1st qtr	795.1	789.6	445.5	153.7	72.5	99.0	5.5	243.4	237.9	
Change from previous quarter in %										
1997 2nd qtr	1.0	0.5	1.0	1.0	0.0	1.0	.	3.5	1.5	
3rd qtr	0.5	-0.0	-1.0	-1.5	1.5	0.0	.	5.0	2.0	
4th qtr	0.5	1.0	0.5	-1.5	1.5	-0.5	.	1.0	3.0	
1998 1st qtr	1.0	1.5	1.0	2.0	5.5	0.5	.	1.5	3.0	
at current prices in DM billion										
1997 2nd qtr	909.1	894.4	522.7	178.4	69.2	113.3	14.7	237.6	222.9	
3rd qtr	916.3	895.6	521.9	175.5	70.1	113.6	20.7	249.8	229.2	
4th qtr	919.5	902.9	525.2	173.2	71.5	112.8	16.6	253.7	237.1	
1998 1st qtr	932.4	917.3	530.6	177.0	75.3	113.5	15.1	257.4	242.3	
Change from previous quarter in %										
1997 2nd qtr	1.0	0.5	1.0	0.0	0.0	0.5	.	4.0	2.0	
3rd qtr	1.0	0.0	-0.0	-1.5	1.5	0.0	.	5.0	3.0	
4th qtr	0.5	1.0	0.5	-1.5	2.0	-0.5	.	1.5	3.5	
1998 1st qtr	1.5	1.5	1.0	2.0	5.5	0.5	.	1.5	2.0	

\* Provisional figures.

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### Capacity utilisation

Industry's vigorous output activity could only be accomplished by a continued strong utilisation of capacity. According to the findings of the Ifo survey, the degree of utilisation in March remained at the level reached at the end of 1997. In the old Länder, it exceeded the upper end of the normal utilisation range by four percentage points. In eastern Germany, the highest degree of utilisation witnessed so far was reached in early spring; however, there are still considerable output reserves in diverse economic sectors.

### Eastern Germany

In the narrower segment of industry, the east German enterprises were able to gain considerable ground. According to the available statistical information, their growth was well above average. Compared with the corresponding level of the previous year, output

growth was in double digits in all sectors with the exception of non-durable consumer goods; capital goods producers even achieved an increase of almost one-quarter.

Structural change in eastern Germany, in the sense of strengthening the industrial basis and reducing the predominance of the construction sector, has thus made further progress. Measured in terms of value added, the proportion of manufacturing industry rose to 16 ½ % in 1998; nevertheless, the importance of the construction sector, which accounts for more than 13 ½ % of value added – compared with just over 4 % in the west – is still so great that its unfavourable trend has had an effect on the overall situation. This was also the case in the first quarter of 1998 and contributed to a great extent

to the fact that overall output in eastern Germany, after eliminating seasonal and working-day variations, fell somewhat, and its development diverged even more strongly than before from that in the old Länder – where growth rose to around 1%.

*Other sectors of  
the economy*

In the rest of the economy as a whole, on which there is traditionally only very little statistical information available, value added in Germany as a whole rose further in the first quarter. Especially enterprise-related services are likely to have participated in the recovery of industry. The transport, storage and communication sectors have likewise benefited from the general cyclical improvement. In wholesale and retail trade, turnover received a positive stimulus from purchases brought forward in anticipation of the raising of the value added tax as of April 1, although the general sales trend was relatively weak.

*Rays of hope  
in the labour  
market*

The increased momentum of the economy partially also spilled over to the labour market. After a longer period of intensive efforts by enterprises to save and rationalise, the available scope now seems to be increasingly exhausted. Moreover, the possibilities of making more flexible use of labour created by the wage negotiations in the past few years are now being utilised to a large extent. This is also reflected in the steady and continuous rise in the number of vacancies reported to the labour exchanges. The labour exchanges' job creation programmes have probably played a role as well, but the increase in jobs vacancies by 120,000 within a year also suggests a cyclical rise in demand. At 440,000 at the end of May, seasonally adjusted, the

number of vacancies was higher than at any time since reporting for Germany as a whole started in 1991. Furthermore, the decline in employment since the reunification-induced boom waned has nearly come to a halt. In March at least, the number of employed persons according to the estimates by the Federal Statistical Office, seasonally adjusted, was 33.8 million, and thus only slightly lower than at the end of 1997; the comparable level of the previous year was undershot by 210,000, but at the end of the past year the decline was still 280,000.

A decisive factor contributing to the stabilisation of the employment situation was that, on balance, the number of persons employed in the manufacturing sector increased. There were even reports of personnel bottlenecks in certain groups of occupations, especially engineers and computer specialists. The improvement of the situation in industry provided at least something of a counterweight to job losses in construction. In the construction sector, for which current statistical information is available, the year-on-year decline in March was almost 9½%, compared with 6% at the end of last year. In the rest of the economy, there was probably a moderate increase in personnel.

*Employment in  
industry*

The trend in unemployment, for which data up to May are already available, suggests a continuation of the more favourable employment trend. At any rate, the number of unemployed, seasonally adjusted, was 4.32 million last month, and thus around 200,000 lower than at the end of 1997. The comparable level of the previous year was undershot

*Slight fall in  
unemployment*

for the first time since August 1995, namely by 60,000. The number of unemployed persons as a proportion of the total labour force fell from 11.8% at the end of 1997 to 11.2% at present, in seasonally adjusted terms.

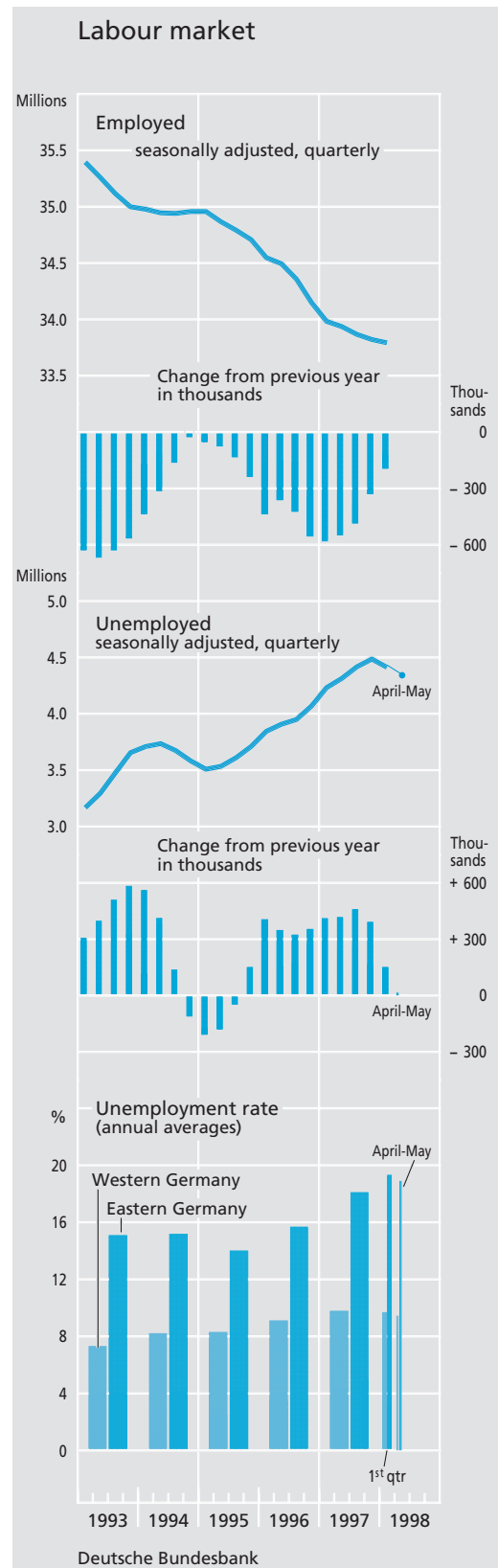
*Labour market  
policy measures*

The unemployment rate continued to be much higher, in the new Länder, 18.7%. But this also is a slight improvement, since 19.7% of the labour force was still reported as being unemployed at the end of December 1997. A considerable part of this improvement is due to the increase in labour market policy measures. Special job creation schemes were promoted in particular. At the end of May, 280,000 employed persons participated in those measures in eastern Germany, around 75,000 more than at the beginning of the year and 40,000 more than twelve months ago. At the same time, 150,000 persons attended training courses.

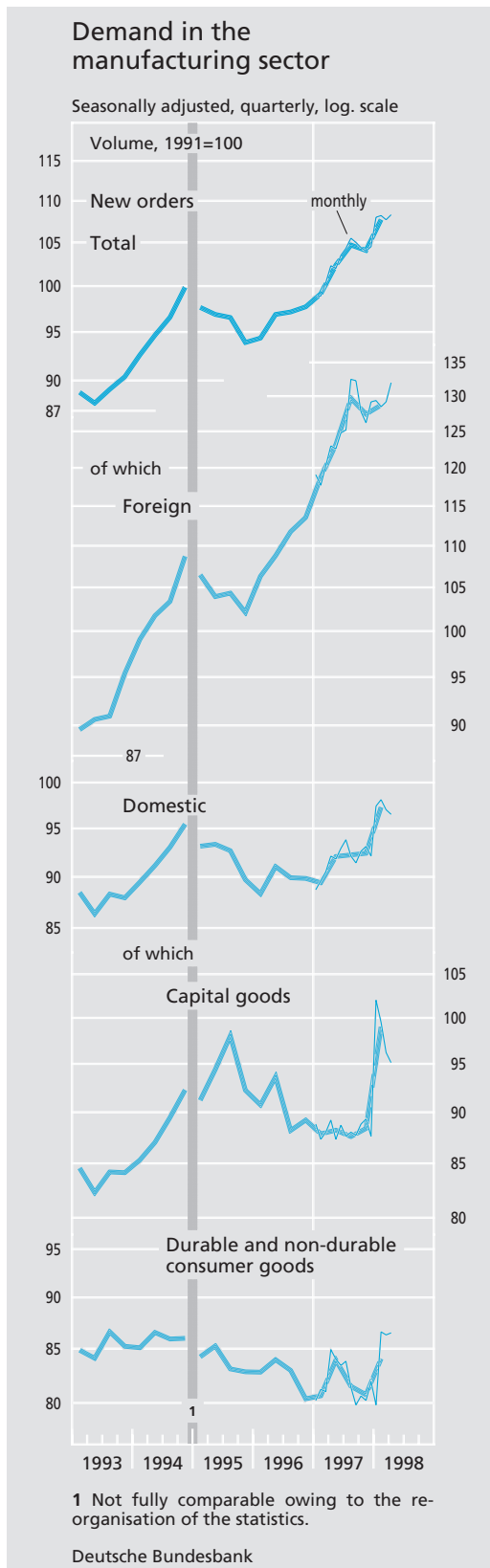
**Trends in demand**

*Stronger  
domestic  
demand*

Orders received by the manufacturing industry also showed that the basis of the cyclical expansion has become distinctly broader in the recent past. In addition to continued strong foreign demand, there was a noticeable increase in orders by domestic customers. As an average of the first four months of 1998 – seasonally adjusted and at 1991 prices – they placed just over 5% more orders than in the fourth quarter of 1997; the corresponding level of the previous year was exceeded by 7½%, compared with 3% in the last quarter of 1997.







Capital goods producers benefited from a particularly marked revival of domestic demand. After they had for some time been left out of the economic upswing, they recorded an increase in new orders of almost 11% in the first four months of 1998 compared with the last quarter of 1997, after eliminating seasonal fluctuations. On a year-on-year basis, this means an expansion of 11%, while in autumn 1997 the order level of 12 months ago was still undershot by 1%. Especially the manufacture of transport equipment, with its segments of motor vehicles, aircraft, railway and tram locomotives, as well as the building and repairing of ships and boats, played a key role in this turnaround. In addition, mechanical engineering recorded a distinct rise in orders compared with the previous months.

*Vigorous demand for capital goods*

Orders received by German industry from abroad were also higher in the first few months of 1998 as well; however, seasonally adjusted, the volume was only slightly higher than at the end of the past year. The year-on-year rise was 8%, having still been more than 12% in the last quarter of 1997. Here, one cannot rule out the possibility that the crises in East Asia negatively affected business in some segments. In addition, following the previous stockbuilding, international ordering of some primary products may have been done cautiously. In any event, the producers of intermediate goods suffered a distinct fall in orders.

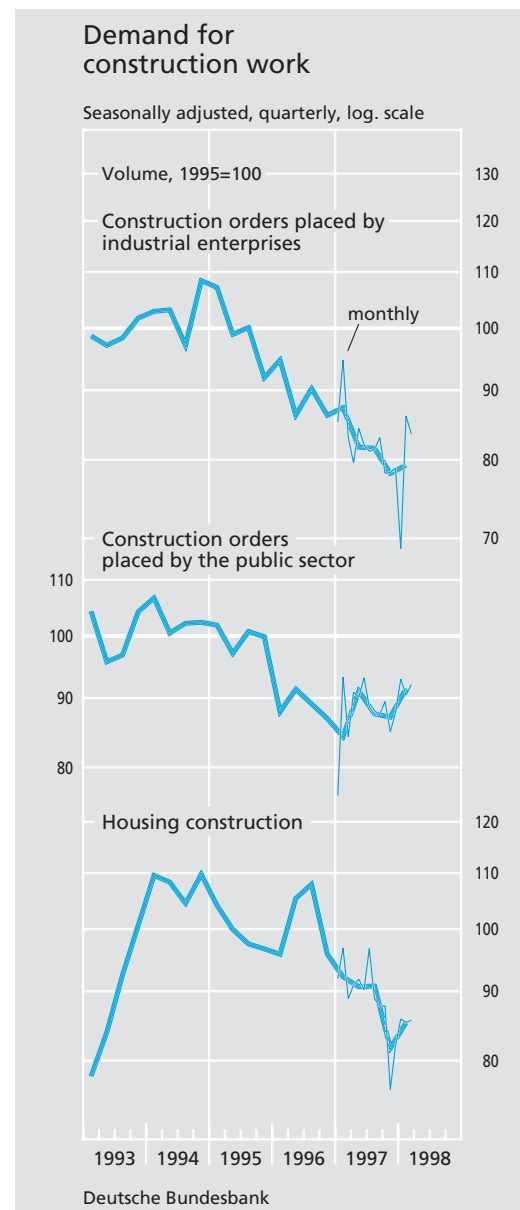
*Continued high level of foreign demand*

Orders received by the construction industry were characterised by marked monthly fluctuations in the recent past. This applies in particular to eastern Germany. At the beginning

*Temporary rise in construction demand*

of the year, housing construction registered a surge in orders, followed by industrial construction in February. Especially those movements contributed to orders in the first quarter of 1998 being around 3½% higher, seasonally adjusted, than in the last quarter of 1997, and the level of the previous year being undershot only by 3½%, compared with almost 8% at the end of 1997. But this tends more to be a reaction to the relatively unfavourable development in the past few months of the previous year than a cyclical improvement. Building permits in east German housing construction showed an accelerated downward trend at the beginning of 1998. As an average of the first three months, the number of building permits for housing accommodation in the new Länder was two-fifths below the already very low level of the previous year. Since permits in commercial and public sector construction likewise showed a negative trend, an easing of the pressure to adjust is not in sight for the east German construction sector.

In the old Länder, too, there is no sign so far that the unfavourable trend will come to an end. The increased placing of orders by the public sector in the first few months of the year can hardly be regarded as a lasting trend in view of the continued tight budget situation faced by many local authorities. In housing construction, the upward trend of demand for single-family houses witnessed in 1997 – in terms of the number of building permits – does not seem to be continuing to the same extent. That removes a counterweight to the trend decline in apartment house construction, which had already been



decreasing for some time. However, the flow of orders for commercial buildings has become more vigorous in the first few months of the year.

### Households' consumption, income and saving

The combination of a cut in income taxes at the beginning of the year and the foreseeable

*Private consumption*

raising of the value added tax from April led to increased buying by households in the first quarter of 1998, with the retail sector benefiting from that for the first time in a long time. The general brightening of economic prospects, too, is likely to have had a positive effect. There was buoyant demand for consumer durables such as household furniture and appliances. The same applies to passenger cars, where the launching of new models, some car producers' improved ability to deliver cars, and purchases brought forward for tax reasons fuelled sales. All in all, households' real consumption in the first quarter, adjusted for seasonal and working day variations, was 1% higher than in the last quarter of 1997; on a year-on-year basis, it also rose markedly at a rate of just over 1½%.

*Disposable  
income*

From the income side, there was definitely scope for private consumption to expand. As described above, employment stabilised on the whole. Owing to the extremely mild winter, earnings of employees working in the construction sector and other outdoor occupations rose noticeably in seasonally adjusted terms. All in all, total gross wages and salaries in the first quarter of 1998 grew by just over ½% compared with the last quarter of 1997. In addition, there was some considerable relief brought by the cut in the solidarity surcharge, effective from early January, and the simultaneous rise in the basic tax allowance. In net terms and after eliminating seasonal fluctuations, labour income rose by 1% compared with the end of 1997 (yet not when compared with the corresponding period last year). Households received fewer transfer payments from public cash offices in the first

three months of 1998 than in the last quarter of 1997; this, however, was due to changes in the terms of payment for unemployment benefits. Including other income, which, in addition to property income, comprises self-employed persons' private withdrawals from entrepreneurial income, households' disposable income rose by 1%, seasonally adjusted, in the first quarter of 1998, and thus more sharply than before. It exceeded the corresponding level of the previous year in real terms by 1½%, which also reflects the high degree of price stability that has been reached.

Households did not fully take advantage of the improvement in their income situation to expand consumption, so that there was still room for a rise in saving. At 12¼% (following 12% at the end of 1997), seasonally adjusted, the saving ratio corresponded to the level at the beginning of the previous year, which meant the decline which had been observed since then has been virtually cancelled out. Whether or not the latest trend can already be taken as a sign of a strengthening of the saving ratio must remain unanswered for the time being, especially since it remains to be seen how consumers will react in the long term to the increase in the value added tax, effective from April 1, 1998.

*Private saving*

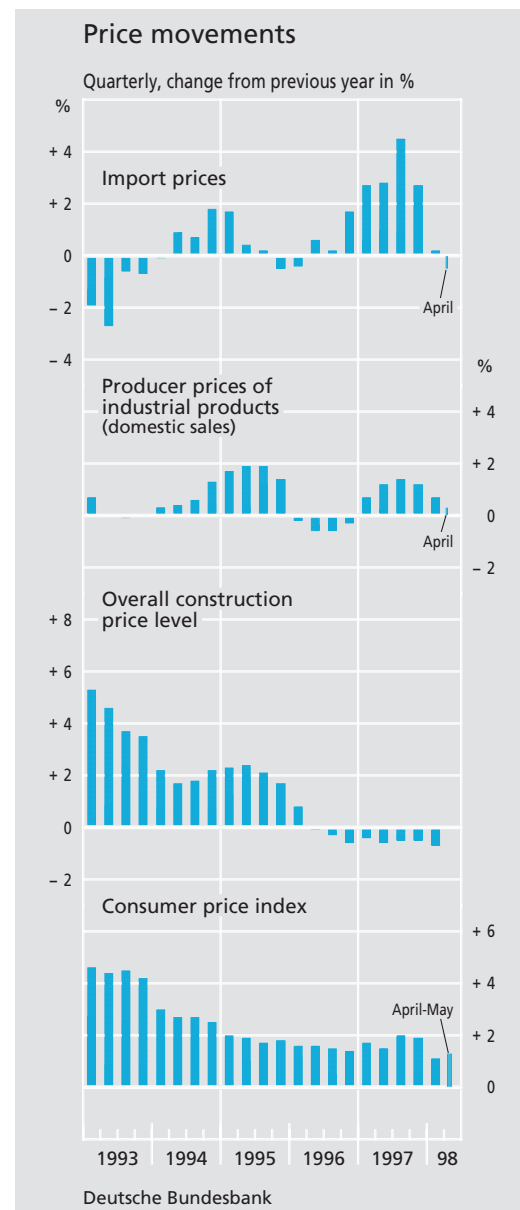
### Prices and wages

Price movements remained within narrow limits at the beginning of spring, too. Although the standard rate of value-added tax was raised – as previously mentioned – from 15% to 16%, the prices at the consumer

*Continued  
favourable  
price climate*

level, normally regarded as a benchmark of inflation, did not rise as sharply as the purely mechanical effect, which the Federal Statistical Office puts at 0.5 percentage points, would suggest. Seasonally adjusted, the consumer price index only rose by 0.3% between March and April; the year-on-year rate of increase expanded from 1.1% to 1.4%. The reported changes in prices indicate that the tax increase has been fully passed on to consumers only in the case of a very few products. In May, the year-on-year rate fell to 1.3%.

Of major importance for the calm price trend were the price movements of industrial products, which account for a large part of households' total consumer expenditure. Firstly, domestic producer prices of industrial products, seasonally adjusted, have been mostly stable for some time, and the year-on-year rate of inflation was 0.3% of late. Secondly, import prices fell in the past few months in seasonally adjusted terms; in April imports were 0.5% cheaper than a year ago. Here, the fall in international oil prices up to March and the abundant supply on many commodity markets had a positive effect.



Wage  
settlements ...

With the wage settlements in this year's wage round, employers and unions not only took account of the favourable price situation but also created an important precondition for a persistently calm and relaxed price climate. That additionally means they stuck to the basic, employment-oriented strategy of the past two years. The 1998 wage round in western Germany was started by the settlement for public sector employees. In ar-

... in the public  
sector

bitration proceedings, employers and unions agreed on a rise in negotiated pay rates for employees and workers by 1½% as of January 1, 1998. The level of Christmas pay remained unchanged. There are plans to adopt this outcome for the remuneration of civil servants as well. In addition, employers and unions agreed to reorganise the supplementary pension fund system for government employees. Accordingly, half of the pension

fund's financing requirements in excess of 5.2 % of gross wages and salaries is to be borne by the employees from 1999.

*... in  
construction*

In the west German construction industry as well, a rise in negotiated pay rates of 1½ % was agreed, effective April 1, 1998. Furthermore, the construction pay increment to the tune of 5.9 % of basic pay will no longer be paid to those employees who, for the most part, are not working on construction sites; however, there is a "grandfather clause" for existing employees. From 1999 on the 13th monthly salary will be excluded from the calculation basis for holiday pay for the total workforce. According to the employers this will reduce annual wage costs by around 1 %.

*... in the  
chemicals  
industry*

Settlements of this year's pay round in western Germany were much higher for employees of the chemicals industry. Here, monthly pay rates were raised by 2.4 % in spring with a duration of 14 months. In addition, employees receive a one-off payment of 1.1 % of negotiated annual pay. However, enterprises may conclude agreements on postponing or cutting the one-off payment on economic grounds. This takes at least partial account of the uneven sales and profit situation in the chemicals sector. Recalculated at a duration of twelve months, the settlement has a volume of 3 % at most. The metals industry already concluded a contract with a duration of two years in the past year providing in addition to the rise in pay rates of 1½ % in 1997,

a further increase of 2½ % as of April 1, 1998. In purely mathematical terms, this means a volume of 1.9 % for this year.

The 1998 wage round in western Germany has thus been completed in major sectors. To summarise the settlements reached so far, negotiated pay rates in the old Länder are likely to rise by somewhat more than 1½ on annual average in 1998, compared with just over 1 % in 1997.

*... in eastern  
Germany*

In addition to the rise in negotiated pay rates by 1½ %, effective from January 1998, another step has been taken to adjust wages and salaries of the public sector employees in eastern Germany from 85 % to 86½ % of the western level, effective September 1, 1998. In other east German sectors of the economy as well, such as in the insurance industry or retail trade, further adjustment measures which were already previously agreed became effective or will become effective this year. By contrast, the east-west ratio of remuneration in the construction sector remains unchanged at 93.8 %. Here, pay rates of east German employees rose by 1½ % as in the west; however, they will only come into force on October 1, 1998, and thus six months later than in the old Länder. In terms of negotiated basic pay rates, the overall level of pay rates is likely to exceed 90 % of comparable western pay rates this year.