

## Economic conditions

### International environment

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The situation in the international financial markets has become noticeably calmer in the past few months. The factors weighing on expectations were now being counteracted by stabilising elements, too. Prices in major financial markets have recovered to a significant extent. In some cases, there has been a perceptible fall in the very high risk premiums in interest rates that were previously being asked of debtors from the emerging markets for new loans. Various factors played a role in this. Besides a relaxation of monetary policy in the United States and in western Europe (in the case of the latter, principally in connection with the process of interest rate convergence in the EMU countries), the signs of progress in adjustment that are now becoming apparent in the crisis regions in East Asia have contributed to an easing of the situation. Additionally, it was possible to bring the virulent risks of contagion for Latin America under control – not least owing to an extensive international aid programme for Brazil. Another positive influence was the fact that the sound domestic economic conditions in the industrial countries have so far enabled them to cope with the external shock without recourse to protectionist measures.

*Calming of the  
international  
financial  
markets ...*

Nevertheless, the risk of a crisis in the diverse regions of the world has by no means been averted. The preconditions for a lasting improvement have not yet been fulfilled even in some countries whose prospects are now being assessed somewhat more favourably. That applies to Japan, in particular, on whose economic recovery future global develop-

ments will very decisively hinge. The situation remains especially critical in Russia, where the reform process has largely come to a standstill following the severe economic setbacks.

*... but continuing burdens on the real economy*

Even though there has not been a continuation of the turbulence in the financial markets, the real economic burdens on the world economy, in general, and the industrial countries, in particular, that have been generated by the various regions in crisis, will persist for quite a while to come. The negative stimuli have been "transmitted" to North America and western Europe so far mainly through the perceptible decline in exports to the regions affected. According to OECD figures, the volume of exports from OECD members to other countries is likely to fall by 2% in the current year. Although a renewed rise in exports of 4% and 5% is being forecast for 1999 and 2000, respectively, this does not match the high rate of growth in the years before the outbreak of the crises. In the coming months, the effect of competition is likely to be felt more strongly: this will be triggered by the considerable depreciations of the currencies of the countries in crisis, and will be reflected by fiercer price competition in the relevant product markets and increasing imports of price-elastic products, above all, in the United States and the countries of the EU.

*Autumn OECD forecast*

Against that backdrop, in autumn the OECD – like other international institutions – made a consistent downward revision of its forecast for growth. According to the revised forecast, there will be an overall fall in the real growth of its member countries from

#### OECD forecasts for 1999 and 2000 \*

Item	1997	1998	1999	2000
<b>Real GDP</b>	Change from previous year in %			
OECD overall	+ 3.2	+ 2.2	+ 1.7	+ 2.3
of which				
United States	+ 3.9	+ 3.5	+ 1.5	+ 2.2
Japan	+ 0.8	- 2.6	+ 0.2	+ 0.7
EMU	+ 2.5	+ 2.9	+ 2.5	+ 2.7
<b>Inflation 1</b>	in %			
OECD overall 2	+ 1.5	+ 1.3	+ 1.3	+ 1.5
of which				
United States	+ 1.9	+ 1.0	+ 1.2	+ 1.8
Japan	+ 0.6	+ 0.7	- 0.4	- 0.5
EMU	+ 1.4	+ 1.6	+ 1.5	+ 1.6
<b>Unemployment</b>	Number of unemployed as a percentage of the labour force			
OECD overall	7.2	7.1	7.3	7.3
of which				
United States	4.9	4.6	5.0	5.4
Japan	3.4	4.2	4.6	4.9
EMU	12.4	11.7	11.3	10.8

\* Autumn forecast 1998; figures as of November 1998. Some of the figures for 1998 are estimated. — 1 Measured by the change from the previous year in the GDP deflator. — 2 Excluding high-inflation countries.

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3¼% in 1997 to 2¼% in 1998 and 1¾% in 1999. It is not until 2000 that a slight acceleration to 2¼% is expected. The slowdown in the pace of expansion could be especially marked in the United States, cyclical influences also playing a role. By contrast, according to the OECD, growth in overall output in the European monetary union (EMU) in the next two years, at 2½% and 2¾%, respectively, will at most be only ½ percentage point lower than in 1998. Among the industrial countries, Japan is again at the bottom of the table in these forecasts; following a sharp decline in output in the current year, it will recover only slowly from the recessionary trough.

In Japan, it was manufacturing enterprises

*Japan*

output in the four-month period of July to October was slightly less than ½ % down on the already very depressed level of the preceding four months. It was thus 8 % lower than twelve months previously even though exports to western Europe and the United States were quite buoyant. At present, there are no signs of the contractionary process coming to an end soon. Firstly, exports might tend to lose momentum again in the wake of the deceleration in growth in major customer countries and the firming of the exchange rate of the yen. Secondly, and more seriously, domestic demand continues to be on a downward spiral. At all events, most indicators – insofar as they concerned domestic economy – were showing a marked downward trend up to the end of the period under review. Given the deteriorating situation in the labour market and the generally unfavourable outlook, households made a further cutback in their demand for consumer goods in the third quarter. For the same reason, the downward trend in the housing sector continued despite extremely favourable financing terms. Mainly on account of declining aggregate demand – accompanied in some cases by credit restrictions imposed by the banks – enterprises were compelled to make further cutbacks in their investment plans. The hopes associated with the extensive economic stimulus package of spring 1998 have so far not been fulfilled. The principal reason cited for this is that the poor cash position of the local authorities has meant they are often not in a position to make the contributions for additional investment in the infrastructure that were envisaged in the programme. In view of that situation, it remains

to be seen whether the recently adopted eighth stimulus package since August 1992 will produce the expansionary impulses needed to overcome the crisis.

By contrast, the US economy grew more sharply than expected in the third quarter, although it appears to have lost momentum since then. According to provisional calculations, real GDP in the summer months rose by 1 % against the preceding period and was thus 3½ % up on the year. Crucial stimuli were again generated by private consumption, although these were no longer as strong as in the two preceding quarters. Above and beyond that, growth was fostered by a sharp expansion of stockbuilding, which is likely to have been a reaction to destocking in spring. Furthermore, the dampening effects emanating from foreign trade were no longer as strong as in the months of April to June. In contrast to the very buoyant construction sector, industrial investment – which for a long time had been the main driving force behind the upswing in the United States – slackened somewhat. Together with the other indicators, this points to a deceleration in the basic pace of growth in the United States. At the end of the period under review, seasonally adjusted industrial output was only slightly above its April-to-May level, i.e. before the start of the strikes in the motor industry. Capacity utilisation in the manufacturing sector has been showing a downward trend since the end of 1997. Furthermore, the growth in employment in the economy as a whole has slowed down. On balance, in fact, jobs have been shed in industry since the start of the year. This is reflected in a slight rise in the un-

*United States*

employment rate since the beginning of spring to 4.5 % in October and November.

*United  
Kingdom*

The economic situation in the United Kingdom in summer was marked by conflicting trends. According to provisional calculations, real GDP, seasonally adjusted, was ½ % higher than in the previous quarter, and just over 2 ½ % up on its level a year before. This growth was sustained solely by the services sector, however, whereas value added in the manufacturing sector was stagnating (mainly on account of the sharp decline in foreign demand) and the activities of the construction sector were also showing a downward trend. The outlook for the British economy has also deteriorated significantly over the past few months. According to surveys of enterprises and consumers, the distinct slowdown in economic activity (which had previously been concentrated mainly on the export industry) is threatening more and more to spread to the domestic economy.

*EMU*

The economies of the future EMU achieved quite a good output figure in the third quarter of 1998. There was a further sharp rise in industrial production in that three-month period, although the extremely high output in Germany in the summer months was a special factor which played a crucial role in that result. It was also one of the reasons for a renewed acceleration in overall economic growth in the EMU. According to initial estimates, the level of summer 1997 is likely to have been overshot by 2 ½ %. But this must not obscure the fact that major indicators of business activity are pointing to a perceptible slowdown in the upward trend of the econ-

omy after the middle of the year. For the first time in some while, for example, there was a fall in industrial capacity utilisation in the EMU, due principally to the cooling-off of foreign demand. The confidence indicator for industry, which reflects both the current situation and the outlook, indicates a perceptible deterioration of sentiment.

The trend in unemployment in the EMU was slightly down from what is still a very high level, although extensive labour market policy measures in the individual countries also contributed to this. The pace of the rise in consumer prices has slackened. Measured by the harmonised index, the year-on-year rise in October was 1.0 %, compared with 1.2 % in the third quarter. This easing was due in part to a fall in prices for seasonal and weather-dependent foodstuffs which had risen at the start of spring. Above and beyond that, it is mainly energy sources that have become significantly cheaper when comparing this year with last year.

## **Germany**

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### **Output and labour market**

The German economy grew quite sharply in the summer months after having stagnated in spring – more or less as a reaction to the lack of the favourable special factors applying in the first quarter. According to the provisional calculations of the Federal Statistical Office, overall output – after adjustment for seasonal and working-day variations – rose by just under 1% in the third quarter compared

*Overall output*

## Expenditure of gross domestic product (GDP)

Adjusted for seasonal and working-day variations *								Germany	
Period	GDP	Domestic expenditure	of which			Construction	Net exports	Exports	Imports
			Private consumption	Government consumption	Machinery and equipment				
at 1991 prices in DM billion									
1997 4th qtr	782.3	774.3	443.9	149.0	68.7	96.7	7.9	239.3	231.4
1998 1st qtr	793.5	788.3	447.6	154.7	73.7	96.1	5.2	239.8	234.6
2nd qtr	793.8	785.7	445.8	154.0	72.1	90.0	8.1	246.1	237.9
3rd qtr	800.7	790.3	450.0	153.8	73.7	91.8	10.5	247.0	236.5
Change from previous quarter in %									
1997 4th qtr	0.3	0.7	0.8	-3.0	1.3	-0.7	.	-0.3	1.2
1998 1st qtr	1.4	1.8	0.8	3.8	7.3	-0.6	.	0.2	1.4
2nd qtr	0.0	-0.3	-0.4	-0.5	-2.2	-6.3	.	2.6	1.4
3rd qtr	0.9	0.6	0.9	-0.1	2.2	2.0	.	0.4	-0.6
at current prices in DM billion									
1997 4th qtr	915.5	900.2	529.1	171.2	71.3	110.7	15.3	253.3	238.0
1998 1st qtr	933.5	917.2	533.6	177.8	76.3	109.8	16.3	253.7	237.4
2nd qtr	936.5	915.6	534.3	177.7	74.5	102.6	20.9	259.9	239.0
3rd qtr	945.1	923.0	540.4	177.5	76.3	104.7	22.1	259.9	237.8
Change from previous quarter in %									
1997 4th qtr	0.5	0.8	0.8	-2.5	1.6	-0.7	.	0.5	1.7
1998 1st qtr	2.0	1.9	0.9	3.9	7.0	-0.8	.	0.2	-0.3
2nd qtr	0.3	-0.2	0.1	-0.1	-2.4	-6.6	.	2.4	0.7
3rd qtr	0.9	0.8	1.1	-0.1	2.4	2.0	.	0.0	-0.5

\* Provisional figures.

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with the preceding three-month period; real GDP was more than 2¾% up on the comparable period last year. A similarly high rate of growth is produced when taking the first nine months of this year together. The pace of economic expansion has so far quite clearly exceeded the simultaneous increase in aggregate production potential; there has thus been a perceptible rise in the utilisation of production capacity. This has increasingly benefited the labour market; this – as well as the high degree of price stability and cost discipline that has been achieved – had a positive impact on the economy.

Up to now, it has been largely possible to cope with the disruptions and burdens emanating from the crisis regions in the world. Even though this has brought about a shift

from weakening external stimuli to domestic factors, a smooth changeover does not appear to be assured as things look at present. This is suggested, for example, by the pessimistic outlook that is emerging in parts of the economy, which is also attributable to “home-made” uncertainties.

Manufacturing made a major contribution to the growth of the economy as a whole in the summer months. Seasonally adjusted manufacturing output in the period of July to October was 1½% up on the preceding quarter. The year-on-year rise in output was 5%, compared with 4¾% in the period of April to June.

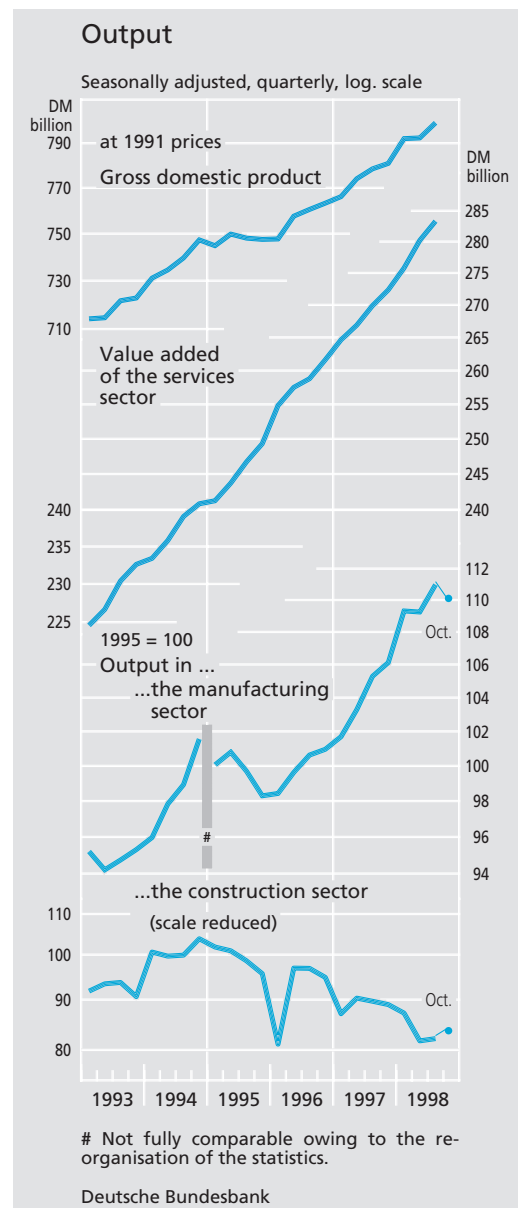
Production was stepped up particularly in the motor industry, where large reserves of orders

*Manufacturing*

had built up with some firms following the introduction of new models. According to the surveys of the ifo Institute, in June these orders corresponded to 4.2 months of production; the last time there had been a similarly large number of orders on hand was during the "reunification boom" in the early nineties. Given that situation and in view of buoyant current demand, many enterprises were compelled to forgo the traditional summer break and at least keep some production running. On an average of the months July and August, output was no less than roughly 20% up on the corresponding figure for last year, after double-digit rates of growth were already being achieved before that. Output was still high in September and October. Capacity utilisation remained at a level far above its multi-year average.

*Investment in machinery and equipment*

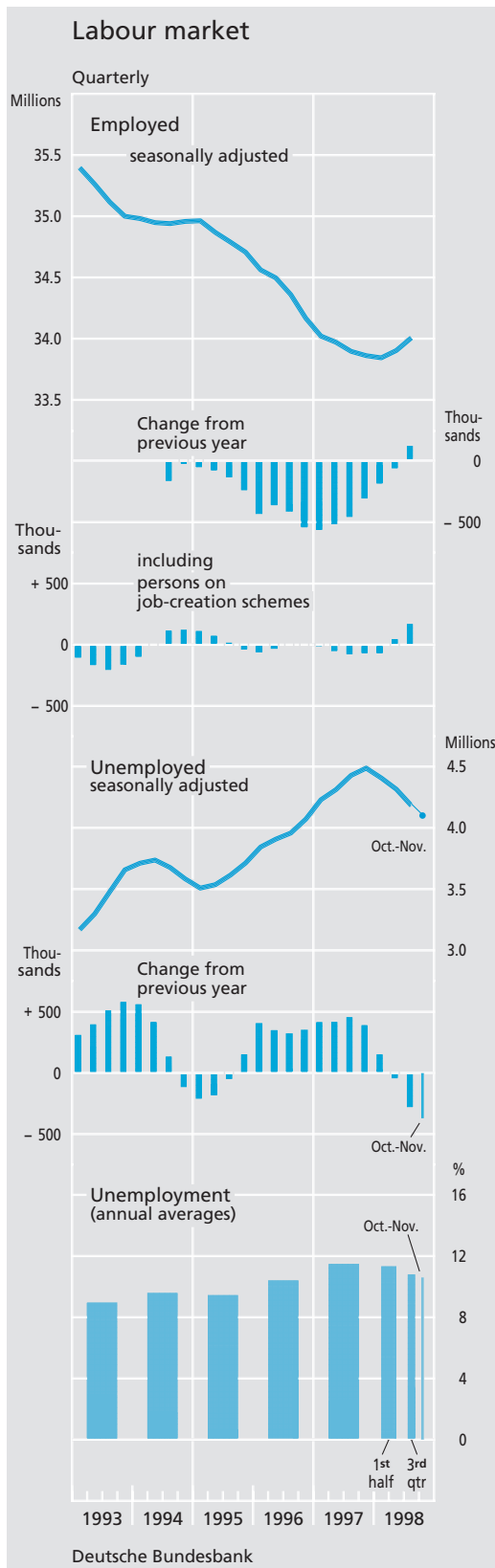
There has been a moderate revival in investment recently following a decline in the second quarter that had been in reaction to the sharp rise in the first few months of 1998. Enterprises have acquired mainly passenger and commercial vehicles on a major scale. After adjustment for seasonal and working-day variations, investment in machinery and equipment in the third quarter was just over 2% higher – at constant prices – than in the preceding period. They thus matched the quite high volume of the first quarter of this year. The year-on-year rise was just under 9%, compared with 8¾% in the first half of 1998. What may have a dampening effect on the future propensity to invest, however, is that (according to the surveys of the ifo Institute) the utilisation of industrial production capacity in September did



not exceed its level in June, even though it was significantly above its medium-term level. Business expectations, too, have become gloomier recently – especially in the industrial sector – which might induce some investors to take a wait-and-see attitude.

For the first time in a long while, construction investment again generated positive stimuli to some extent. Seasonally adjusted, they ex-

*Construction investment*



ceeded the level of the preceding quarter (in which they were admittedly showing a sharp decline) by 2 %. However, at constant prices, spending was still at a perceptibly lower level than in the comparable period of 1997, albeit to a declining extent. At the end of the period under review, construction output was 6 % down on the year. The identifiable recovery in the seasonally adjusted trend compared with the spring might be an indication that the trend has bottomed out. A clear upward trend has not yet been established, however.

Despite the remaining weaknesses and the flagging momentum of exports, the situation in the labour market has continued to brighten somewhat as a result of the ongoing upward economic trend. According to the calculations of the Federal Statistical Office, the number of people in work increased to just over 34.0 million on an average of the summer months. This was 100,000 more than in the preceding quarter, and 115,000, or 0.3 %, more than twelve months previously, and thus the first year-on-year rise since the beginning of the nineties.

That applies to western and eastern Germany alike. However, whereas the increase in employment in western Germany was sustained principally by the growth of the economy as a whole, a crucial role was played in eastern Germany by the continuing expansion of labour market policy measures. Job-creation programmes, in particular, have again been stepped up considerably. At the end of November 445,000 persons were taking part in such programmes, i. e. 115,000 more than at the end of June. Within one year, the number

*Labour market*

of people employed in this segment of the secondary labour market rose by 220,000. At the same time, 180,000 persons were participating in vocational training courses, which was 25,000 more than in the middle of the year.

#### *Unemployment*

That meant a matching reduction in terms of registered unemployment. In seasonally adjusted terms, the number of unemployed in eastern Germany had fallen to 1.28 million at the end of November, which was 180,000 fewer than twelve months previously. Even so, the seasonally adjusted unemployment rate remained very high, at 16.9%. The respective rate in western Germany was 9.1%, which corresponded to 2.83 million people out of work. Compared with November 1997, this was a fall of almost 200,000 persons. In Germany as a whole, the rate was 10.6%, compared with 11.7% a year before.

The fact that the difference between the reduction in unemployment and the simultaneous increase in the number of people in work has become much greater over the past few months reveals that, in the short term, there is no complete direct correspondence between these two labour market variables. Unemployment is not just the mirror image of employment. Firstly, many persons end their unemployment by entering retirement. Others, at least temporarily, leave the workforce – in some cases after the period of their entitlement to unemployment benefits has expired; this group of persons then belongs to the “hidden reserve”, i. e. the latent available supply of labour which, however, eludes

statistical measurement. Furthermore, participants in vocational training measures are generally regarded as being neither unemployed nor in employment for the duration of their courses. Secondly, experience has shown that persons not previously seeking work become employed again if there is a suitable supply of jobs. Additionally, movements in the number of school-leavers and in the balance of people emigrating may be significant. All of these processes take place between the statistically estimated aggregate of employment and registered unemployment and contribute to a quantitative asymmetry. From an economic point of view, employment (or the number of hours worked) is the more appropriate indicator, being concerned with corporate sector demand in the primary (the “real”) labour market.

#### **Trends in demand**

Current demand for manufacturing products lacked stimuli in the summer months. On an average of the months of July to October, the seasonally adjusted volume of orders received was around 1½% lower than in the second quarter. They were thus significantly below their level at the beginning of the year. Compared with the corresponding period of last year, the increase was down to 1¼% from almost 5% in the period of April to June. Orders received are likely to have been no longer so large as output in the same period. According to the survey of the ifo Institute, the backlog of orders in September, seasonally adjusted, was somewhat smaller than it had been in June.

*Orders received*



### Orders received in the manufacturing sector \*

Change from previous year in %

Item	1998			
	1st qtr	2nd qtr	3rd qtr	Oct.
Total	7.7	4.8	2.1	-1.5
Domestic orders	7.2	4.0	4.1	0
Producers of				
Intermediate goods	6.9	4.5	2.0	-2.0
Capital goods	11.8	5.4	9.4	4.1
Consumer goods	1.3	0	0.7	-1.1
Foreign orders	8.3	5.8	-0.9	-3.7
Producers of				
Intermediate goods	5.0	1.0	-4.5	-7.6
Capital goods	14.0	10.3	-0.7	-4.5
Consumer goods	3.6	7.3	8.2	8.2

\* Volume, adjusted for working-day variations.

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#### Foreign orders

In particular, orders from abroad for industrial products showed obvious signs of a slowdown. In comparison with the spring quarter, up to when there had been a slight recovery, they declined by 2 %, seasonally adjusted. For the first time since the turn of 1995-96, the previous year's figure was undershot, namely by around 1½ % on an average of July to October. Up to the end of 1997, year-on-year rates of growth had been in double figures.

The gloomier international outlook for growth is likely to have played a major role in the slowdown in foreign business. Another factor is that some Asian countries in crisis have probably started to get back on their feet in terms of exporting and are now increasingly forcing their way into markets abroad with a favourably priced range of

goods. An additional influence was that the US dollar has been tending for some time to depreciate against the Deutsche Mark. Partly as a result of the strengthening of the external value of the Deutsche Mark, German exports were dearer for foreign buyers in year-on-year terms than at any time since the turn of 1995-96.

Large, strongly export-oriented industries such as manufacturers of machinery and equipment, and manufacturers of chemicals and chemical products, suffered considerable losses in export orders, which was reflected by high year-on-year negative rates. The iron and steel industry was even worse affected. By contrast, foreign demand continues to be sustained by the motor industry, which can point to rates of growth approaching 20 % within one year.

Domestic manufacturing orders failed to produce a full counterweight to the overall slowdown in exports. After eliminating seasonal fluctuations, the flow of orders in the period of July to October was on average no higher than it had been between April and June. In comparison with the same period last year, this was a growth of 3 %, compared with 4 % in spring. Here, too, the motor industry was the mainstay. Added to this were a number of large orders in the manufacture of other transport equipment, which includes aircraft as well as railway and tramway locomotives and rolling stock. Excluding those two industries, year-on-year growth was no more than just under 1 %, compared with almost 2 % in the second quarter.

#### Domestic orders

*Demand for  
construction  
work*

Whereas industry increasingly came to feel the headwind of external conditions, some positive trends were apparent in the construction sector. Orders received by the construction industry have been on a moderate upward trend since early 1998 and continued to increase in the summer months. Seasonally adjusted, they were on average just over 2% higher in the period of July to September than they had been in the preceding three-month period. They were around 4% up on the year, compared with just ½% in the second quarter.

*Industrial/public  
construction*

It was industrial construction, in particular, which sustained the recent improvement. Notably, the railways and the post office have tackled major projects. Although public-sector customers placed somewhat fewer orders in the third quarter than in the preceding months, the level of demand was nevertheless quite high recently and exceeded the level in the comparable period of 1997 by nearly one-tenth.

*Housing  
construction*

Housing construction, too, continues to show slight tendencies of recovery. In seasonally adjusted terms, orders placed for new buildings and renovations in summer were almost 8% above the low level of the last quarter of 1997. Although this was still 1½% down on the corresponding figure for last year, this was still much less than in spring when the undershooting had been 4½%. Despite these positive signs, it would seem premature to speak of a sustained reversal of trend in the housing sector. The number of construction permits for dwellings went back down in the third quarter in seasonally adjusted terms,



and the year-on-year decline increased again to just under one-tenth. This was not primarily due to the situation in single-family housing – even though this did show a perceptible slowdown in what is otherwise a fundamentally positive trend. What did have a crucial impact was a further marked slowdown in rented housing construction. The number of permits in the third quarter was nearly 30% down on the same period last year. The de-

### Construction permits for dwellings

Year-on-year change in the number in %

Item	2nd hf 1997	1998		memo item: num- ber in thou- sands 3rd qtr 1998
		1st hf	3rd qtr	
Western Germany				
Dwellings total	+ 1.7	- 2.0	- 4.8	93.6
Construction of residential buildings with 1 and 2 dwellings	+ 14.9	+ 14.5	+ 9.0	50.2
with 3 and more dwellings	- 7.5	- 15.5	- 20.9	31.1
Construction projects	- 3.0	- 12.1	- 8.7	9.2
Eastern Germany				
Dwellings total	- 26.7	- 34.2	- 18.8	29.5
Construction of residential buildings with 1 and 2 dwellings	- 5.9	- 11.5	- 2.4	14.7
with 3 and more dwellings	- 43.1	- 57.6	- 44.4	7.9
Construction projects	+ 0.8	- 4.2	+ 0.7	5.7

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crease was very large in western Germany, but in eastern Germany it amounted to no less than roughly 45%. Renovation work continued to be a mainstay of demand for residential construction.

### Households' income, consumption and saving

In the summer months, new stimulus was given to the level of consumption, which had been calm following the peak in sales at the start of the year in anticipation of the rise in value added tax. The further rise in employment as well as the high degree of general price level stability are likely to have been the main reasons for this. Overall, households' real consumption in the third quarter was almost 1% higher than in the preceding three-

month period in seasonal and working-day-adjusted terms, and was thus just over 2% above the level in the corresponding period of 1997. There was a particularly high level of interest in the acquisition of private cars. New private-sector registrations were around one-sixth higher than the admittedly depressed level in the spring months, and almost matched the record figure of the first quarter, which had been due to purchases being brought forward. However, in the summer months households also spent more on household furniture and appliances as well as on clothing, footwear and leather goods. By contrast, spending on holiday travel abroad was no higher than before.

In nominal and seasonally adjusted terms, expenditure on consumption in the third quarter of 1998 expanded more than income, being 1½% higher than in the preceding quarter and 3% higher than in same period last year. In specific terms, gross wages and salaries exceeded their level in the corresponding period of last year by just over 2%. Employment-related growth in income and back payments of the 1.5% increase from January 1998 in the remuneration of civil servants had a similar effect. Net, i.e. after the deduction of tax and social security contributions, labour incomes rose at more or less the same pace as gross remuneration.<sup>1</sup> In the summer months – as in the second quarter – households also received higher transfer payments from public budgets than a year before. In addition to the pension adjustment, increased payments in connection with

*Disposable  
income*

*Private  
consumption*

<sup>1</sup> By just over 2% on the year and, seasonally adjusted, by ½% compared with the second quarter of 1998.

a marked expansion of job-creation measures by the Federal Labour Office were major items in this. Including the other incomes, which comprise private withdrawals for consumption and saving in addition to property income, disposable income in the third quarter was just under 3% higher in nominal terms, and 2% higher in real terms, than a year before. Seasonally adjusted and at constant prices, this exceeded the previous quarter's level by almost 1%.

*Private saving*

Despite the greater scope from the income side, the increase in private consumption was partly to the detriment of saving. In the summer months, the volume of private savings was quite clearly below the level of the preceding quarter in seasonally adjusted terms. At the same time, the saving ratio went down to 11¾%. Lower private saving should also be seen in the context of higher new indebtedness to banks. A significant part of this was due to more overdrawn accounts or short-term loans, but not to the procurement of long-term instalment credits with which major acquisitions are usually financed. Evidently, households used the short-term funds to a major extent as bridging loans. Given the slide in share prices, a role may also have been played by the fact that it was possible in this way to avoid money-losing sales of securities and to wait for a future market recovery for any planned mobilisation of their own assets.

**Prices**

*Consumer prices*

Price rises at the consumer level were very subdued in autumn. According to the figures

**Consumer price index**

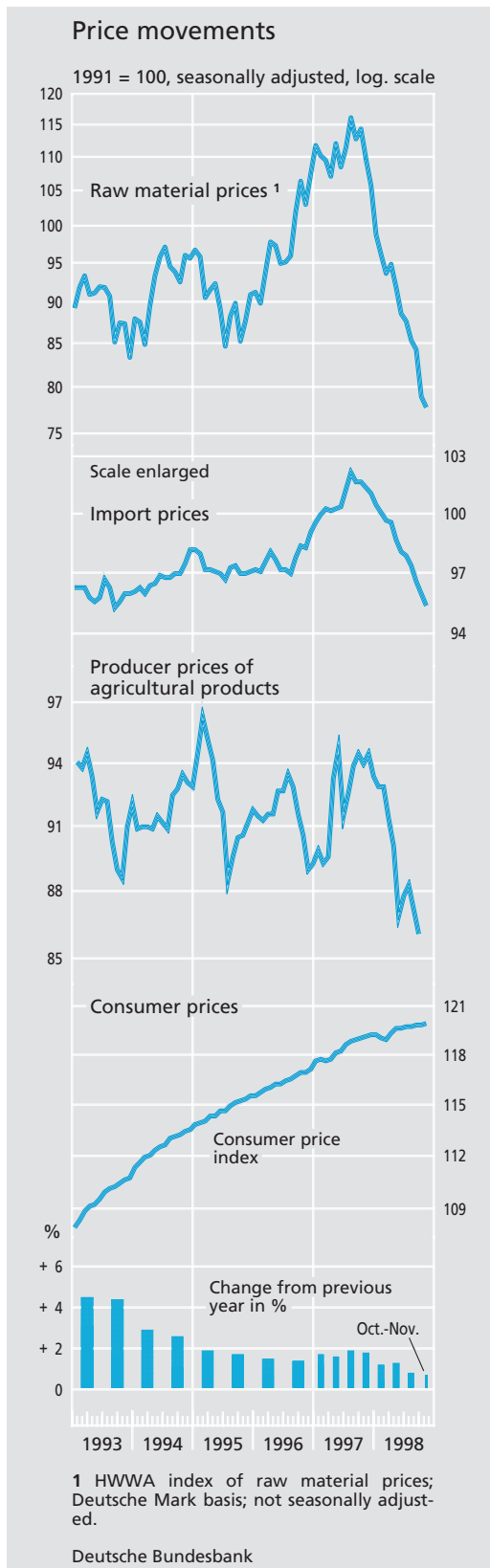
Changes from the previous year in %

Item	1997	1998			
	2nd hf	1st qtr	2nd qtr	3rd qtr	Oct.–Nov.
Food	+ 1.8	+ 1.7	+ 1.5	+ 0.6	0
Energy sources	+ 1.5	- 2.7	- 1.9	- 3.5	- 4.7
of which: Mineral oil products	+ 1.4	- 6.3	- 4.9	- 7.8	- 9.5
Manufactured products	+ 1.3	+ 1.0	+ 1.5	+ 1.1	+ 1.3
Services	+ 2.5	+ 1.5	+ 1.5	+ 1.0	+ 1.3
House rents	+ 2.5	+ 2.0	+ 1.7	+ 1.6	+ 1.6
Total	+ 1.9	+ 1.1	+ 1.3	+ 0.8	+ 0.7
of which: excluding food and energy	+ 1.9	+ 1.3	+ 1.7	+ 1.2	+ 1.3

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of the Federal Statistical Office, the consumer price index in October and November did not exceed its level in the corresponding period of 1997 by more than 0.7%. Taking due account of the inevitable lack of precision in measuring prices, this virtually reaches the zone of stability.

Besides favourable fundamentals, several special influences played a crucial role in this outcome. These include price movements for food. Although food had cost 1.6% more in May compared with a year before, at the end of the period under review it was no more expensive than twelve months previously. In particular, fresh meat and meat products became cheaper. Also, consumer prices for mineral oil products were recently quite some way below their previous year's level – in No-



vember by around 9%. Gas prices, too, which follow the prices for light heating oil, have started to move downwards. As regards the other products in the basket of goods, their year-on-year rate of increase, by contrast, amounts to just over 1¼%. Year-on-year price rises for industrial products, services and rents have not decreased for some time; in some cases, there are signs of a slight increase.

The lower prices for food were closely linked to the dramatic fall in producer prices for pigs. In September, the level in the same month last year was undershot by more than 40%. The reason for this was a major supply pressure which was intensified in the domestic markets by worsened conditions for exporting to a number of east European countries. The fall in prices was so sharp that overall agricultural producer prices in the third quarter were 7% down on the comparable period of 1997.

*Agricultural producer prices*

National energy prices – as usual – followed the pronounced price slump in the world markets. According to the HWWA index of raw material prices, crude oil prices in November – calculated in the trading currency of US dollar – were around one-third below their value in November 1997. Given the dollar's depreciation in the foreign exchange markets, the figure was even somewhat larger, in fact, when invoiced in Deutsche Mark. This trend and the fact that prices for a large number of other internationally traded foodstuffs and industrial raw materials that have been weak for some time, also brought about a fall in German import prices that per-

*Import prices*

sisted up to the end of the period under review. In total, they were 5.7 % down on the year in October. Raw materials and semi-finished goods were even around one-fifth cheaper, and finished goods were just under 2 % less expensive.

*Terms of trade*

Given the mixed developments in export and import prices, the trend in the terms of trade has remained positive. In October, the improvement in the terms of trade was just over 5 % when comparing this year with last year.

The dramatic fall in price of a large number of raw materials and primary products has also

led to significantly lower industrial producer prices in domestic sales. Industrial selling prices in October were 1¼ % lower than a year before. Products which are sensitive to the world market, such as non-ferrous metals or mineral oil products, undershot their previous year's level by slightly more than 10 %. By contrast, there were moderate price increases of 1% and more for mechanical engineering products, road vehicles and products of wood. Seasonally adjusted prices for construction work remained unchanged in the third quarter. Including value added tax, they were no higher than a year before.

*Industrial  
producer  
prices/  
construction  
prices*