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Recent Economic Developments in Germany

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Recent Economic Developments in Germany, June-September 1963

Summary

The underlying business situation has continued to improve in Germany. ^{1/}
The economy now appears to be in a period of cyclical upswing, spurred mainly by a vigorous expansion in export demand, but also benefiting from continued growth in consumer spending and a slight revival in investment demand. Reflecting the growing mood of confidence regarding future prospects, the joint mid-year report of the six major German economic research institutions estimates that GNP will grow appreciably faster in the second half of this year than during the first six months, when output was impeded by the severe winter.

The current strengthening of expansionary factors is accompanied by a lessening of inflationary pressures. With wages and prices rising more slowly than in 1962 and with productivity rising, pressures on profits have moderated. In addition, Germany seems to be benefiting from inflationary troubles in France and Italy, which have permitted some German prices to be adjusted upward without impairing the country's competitive position. However, the authorities have expressed concern about the possible influence on the German position of inflation elsewhere, notably in France and Italy; and both the now Chancellor Mr. Erhard and Finance Minister Dahlgruen have called for a check on budget expenditures, which for 1964, it is alleged, are not to exceed the anticipated increase of 4.2 per cent in real gross national product.

^{1/} See "Recent Economic Developments in Germany, March to June 1963," July 23, 1963.

The German balance of payments has again moved into substantial surplus on an over-all basis, totalling almost \$700 million in the first eight months of this year, as compared with a \$30 million deficit in the corresponding period of 1962. Continuing foreign interest in German securities, especially long-term bonds, and a substantial improvement in the trade balance, were the main elements in this change.

The re-emergence of a substantial German payments surplus, together with the active competition of German goods with French and Italian products, represent the major shift in European international payments that has occurred during the course of 1963. During 1962 German exporters found their competitive position more difficult by the revaluation of the D-mark in the preceding March. But this year they have found their position increasingly favorable. Last year the German economy underwent a cooling-off process, while increasing cost and price pressures led to a deterioration in the French and Italian competitive position. The German revaluation contributed to this cooling off process. To the extent that it did, the currency appreciation, which had an unfavorable initial impact, had a favorable longer-run impact on Germany's competitive position--in a situation in which costs have continued to rise in France and Italy. For the German economy has been experiencing further expansion this year, aided by growing export orders and export shipments, while both France and Italy have recently found it necessary to apply substantial anti-inflationary measures to restrain domestic spending.

Despite the large trade surplus this year, bank liquidity has tightened somewhat because of a net cash flow to the public sector and the consequent accumulation of its cash balances; as a result the pressure on German interest rates has been upward. However, the net flow of cash to the public sector should moderate as payments to the domestic economy from the authorities exceed cash receipts in the near future under present fiscal programs.

German official reserves increased by \$423 million in the first nine months of this year, as compared with a decline of \$68 million in the same period in 1962. The D-mark has continued firm in exchange markets throughout the period under review.

Further expansion in output

Industrial output, which had started to recover vigorously in the spring, expanded further during the summer. The industrial production index, after seasonal adjustment, moved up 2.8 per cent between May and August 1963. (See Table 1, page 3a.)

All major industrial sectors, with the exception of food, beverages and tobacco, contributed to the rise. However, the most encouraging development was the renewed growth in capital goods output which, rising by 4.6 per cent in the three months period May-August 1963, became the fastest growing component of the index. Construction and the output of basic and producer goods grew 3.7 per cent and 3.2 per cent, respectively, during the period, while consumer goods output rose at the slower rate of 0.9 per cent.

The somewhat erratic month-to-month changes in output probably reflected the heavy seasonal influences during this period; the growing tendency for business to close down for summer vacation is probably not fully reflected in the seasonal adjustments. On a year-to-year basis, industrial output appears to be growing somewhat faster than in past months; in August, the rate of increase was 3.9 per cent. There appears to be no doubt that the basic upward trend in economic activity was recently strengthened, and that the vigorous upswing in the spring reflected renewed cyclical expansion on top of the recovery from the effects of the severe winter.

Table 1. Germany: Industrial Production 1962-Aug. 1963
(1950=100, seasonally adjusted)

| | <u>All industries</u> | <u>Basic & Producers goods</u> | <u>Capital goods</u> | <u>Consumers goods</u> | <u>Food, beverages and tobacco</u> | <u>Building</u> |
|------------------|-----------------------|------------------------------------|----------------------|------------------------|------------------------------------|-----------------|
| <u>1962</u> | | | | | | |
| February | 269 | 279 | 372 | 228 | 228 | 228 |
| May | 272 | 291 | 372 | 231 | 227 | 260 |
| August | 280 | 300 | 380 | 234 | 238 | 275 |
| November | 285 | 300 | 387 | 239 | 241 | 272 |
| <u>1963</u> | | | | | | |
| February | 264 | 271 | 359 | 221 | 238 | 124 |
| May | 283 | 309 | 369 | 235 | 249 | 301 |
| June | 295 | 322 | 399 | 240 | 248 | 343 |
| July <u>1/</u> | 289 | 307 | 379 | 248 | 256 | 304 |
| August <u>1/</u> | 291 | 319 | 386 | 237 | 245 | 312 |

1/ Preliminary

Source: Bundesbank, Monthly Report.

Foreign demand sparked upswing

The continuing expansion of foreign demand is the most important single factor in the current expansion. The strong inflow of export orders, which has exceeded the preceding year's levels consistently by margins ranging from 6 per cent in the first quarter to 17 per cent in August, has in turn helped to spark a recovery in domestic orders. Although export as well as domestic orders fell below the May level in August, this probably was the result of erratic month-to-month movements caused by shifting seasonal influences. (See Table 2, page 4a.) Reports regarding order activity at the fall trade fairs indicate that both export and domestic orders continue to expand vigorously. Moreover, the inflow of new orders for industry as a whole has stopped falling below deliveries since March. Consequently, order backlogs are no longer being reduced and, except in July, have actually been growing again.

Consumer spending and pick-up in GNP

The current upswing in domestic order activity also reflects a rise in retail sales. Earlier this year consumer demand for goods was growing more slowly than in 1962 partly because, with smaller wage increases, incomes were rising less rapidly and partly because private households increased their rate of savings. Thus,

Table 2. Germany: New Orders Received by Industry, 1962-Aug. 1963
(1954 turnover = 100; seasonally adjusted)

| | <u>All industries</u> ^{1/} | <u>Domestic orders</u> | <u>Foreign orders</u> | <u>Basic industries</u> | <u>Capital goods</u> | <u>Consumers goods</u> |
|----------------------|-------------------------------------|------------------------|-----------------------|-------------------------|----------------------|------------------------|
| <u>1962</u> | | | | | | |
| February | 206 | 198 | 239 | 186 | 252 | 168 |
| May | 214 | 207 | 249 | 192 | 268 | 169 |
| August | 207 | 199 | 241 | 191 | 247 | 172 |
| November | 208 | 200 | 242 | 190 | 252 | 168 |
| <u>1963</u> | | | | | | |
| February | 196 | 184 | 258 | 169 | 245 | 167 |
| May | 225 | 210 | 289 | 208 | 278 | 169 |
| June | 202 | 188 | 264 | 177 | 257 | 159 |
| July | 224 | 210 | 301 | 196 | 290 | 174 |
| August ^{2/} | 212 | 200 | 282 | 195 | 262 | 169 |

^{1/} Excludes mining, construction, food and power.

^{2/} Preliminary.

Source: Bundesbank, Monthly Report.

private savings were more than 12 per cent higher during the first half of 1963 than during the first half of 1962. The higher rate of savings may, to some extent, have been involuntary. The bad weather early this year cut into sales of household durables because housing construction was held down. In addition, the short spring affected sales of spring clothing adversely. The rate of savings was probably reduced somewhat during the summer, but the increased spending went for services connected with holiday travel. In the fall, there was a brisk revival in retail sales. Preliminary estimates put September retail sales 8 per cent above the September 1962 level.

This indication that consumers may be spending more freely is supported by the projections of the six major economic research institutes for final demand in the second half of 1963. They estimate that private consumption demand will grow at a year-to-year rate of 6 per cent during the second half of the year, as compared with 5 per cent during the first six months of the year. Since it is also estimated that consumer prices will increase somewhat more slowly (by 2.5 per cent between the second half of 1962 and 1963 as against 3.0 per cent for the year-to-year increase during the first half), the volume of consumer demand should increase more rapidly. More importantly, the institutes also estimate a faster increase in investment demand for the second half of the year.

It is now estimated that real GNP will grow on a year-to-year basis by 4.5 per cent during the second half of the year, as compared with no change during the first quarter of the year and a 3.5 per cent annual rate of growth during the second quarter. (See Table 3, page 5a.) The pick-up in the second quarter resulted from faster expansion of foreign demand, a rebound in construction activity after the harsh winter and a very slight increase in investment activity. Consumption demand grew at about the same rate as in the first quarter, while public demand

Table 3. Germany: Gross National Product, 1962-II Qtr. 1963
(Current prices, per cent change from preceding year)

| | 1962 | | | | 1963 | |
|------------------|------------|-------------|-------------|-------------|-------------|------------|
| | <u>I</u> | <u>II</u> | <u>III</u> | <u>IV</u> | <u>I</u> | <u>II</u> |
| Consumption | | | | | | |
| Private | 8.5 | 11.5 | 8 | 8 | 5.5 | 5.5 |
| Public | 12 | 10 | 18 | 16.5 | 17 | 14.5 |
| Total | <u>9</u> | <u>11.5</u> | <u>10</u> | <u>9.5</u> | <u>8</u> | <u>7</u> |
| Gross investment | | | | | | |
| Construction | 1 | 20.5 | 16.5 | 14 | -20.5 | 15.5 |
| Equipment | 10 | 6.5 | 7 | 7.5 | 0 | 3 |
| Total <u>1/</u> | <u>6.5</u> | <u>8.5</u> | <u>11.5</u> | <u>10.5</u> | <u>-5.5</u> | <u>5.5</u> |
| Exports | 3 | 3 | 6 | 7 | 2 | 8.5 |
| Less Imports | <u>11</u> | <u>9</u> | <u>10.5</u> | <u>9</u> | <u>6</u> | <u>9</u> |
| Total GNP | <u>6.5</u> | <u>9</u> | <u>9</u> | <u>9</u> | <u>3</u> | <u>6.5</u> |
| Price change | 4 | 5 | 4 | 4 | 3 | 3 |
| Real GNP | <u>2</u> | <u>4</u> | <u>5</u> | <u>5.5</u> | <u>0</u> | <u>3.5</u> |

1/ Includes construction, equipment and inventory change.

Source: Deutsches Institut fuer Wirtschaftsforschung.

increased more slowly. The year-to-year increase of 3 per cent in the GNP deflator in both the first and second quarters this year was less than in 1962, and despite the business expansion the economic research institutes expect a further slowing in the rise of the price index for the second half of 1963.

Inflationary pressures lessen

Although the labor market became tighter again with the increase in economic activity, the situation remains somewhat easier than in 1962. In July and August, unemployment was reduced to a seasonal low of 0.4 per cent, and there were six vacancies for each person unemployed. The influx of foreign labor has been larger than in 1962, and labor mobility continues to increase. Industry as a whole has managed to raise output by close to 4 per cent over the preceding year while employing about 100,000 persons fewer than in 1962, because labor is no longer being hoarded and productivity is increasing faster than last year.

Wage pressures also continue to be more moderate; in line with the pattern set this spring, new wage contracts continue to be written for 18 months or longer, and provide an average 5 per cent wage increase for 1963 and additional increases of 3 to 4 per cent for 1964. Although profits still continued to be squeezed, the pressure has moderated.

With competition continuing keen, prices are moving up only fractionally. Producer prices increased 0.1 per cent between May and August to a level only 0.4 per cent above August 1962. (See Table 4, page 6a.) Prices for investment goods moved up slightly during the summer, but they still were only 0.5 per cent above the year-ago level in August. Consumer goods, which did not have to cope with the lagging demand affecting investment goods, registered a somewhat larger price increase, of 1.0 per cent, over the year. Over-all export prices, (as measured by an index having important inadequacies and not adjusted for the 1961 revaluation)

Table 4. Germany: Prices and Wages, 1962-Aug. 1963
(Index numbers, 1958=100)

| | 1962 | | | | 1963 | | | |
|-------------------------------------|-------------|------------|-------------|-------------|-------------|------------|---------------|---------------|
| | <u>Feb.</u> | <u>May</u> | <u>Aug.</u> | <u>Nov.</u> | <u>Feb.</u> | <u>May</u> | <u>Julya/</u> | <u>Aug.a/</u> |
| <u>Producer Prices</u> | | | | | | | | |
| Total industrial products | 102.6 | 103.1 | 103.1 | 103.3 | 103.6 | 103.4 | 103.4 | 103.5 |
| Investment goods b/ | 107.2 | 109.5 | 109.9 | 109.8 | 109.9 | 110.1 | 110.4 | 110.4 |
| Consumer goods b/ | 104.9 | 105.6 | 105.8 | 106.3 | 106.7 | 106.6 | 106.9 | 106.9 |
| <u>Consumer Prices</u> | | | | | | | | |
| General index | 107.4 | 109.2 | 108.6 | 108.8 | 112.5 | 112.4 | 111.6 | 109.9 |
| Food | 106.5 | 110.2 | 107.3 | 106.8 | 114.1 | 112.9 | 110.3 | 108.0 |
| <u>Export Prices</u> | | | | | | | | |
| General index | 100.3 | 100.6 | 100.7 | 100.6 | 100.6 | 100.4 | 100.6 | 100.6 |
| Investment goods b/ | 105.7 | 107.0 | 107.4 | 107.3 | 107.4 | 107.3 | 107.8 | c/ |
| Consumer goods b/ | 100.8 | 100.9 | 100.9 | 100.9 | 101.3 | 101.2 | 101.2 | c/ |
| <u>Import Prices</u> | | | | | | | | |
| General index | 93.3 | 94.5 | 92.4 | 93.8 | 96.2 | 95.3 | 94.7 | 94.7 |
| Investment goods b/ | 97.4 | 97.6 | 97.8 | 97.5 | 97.6 | 97.8 | 98.1 | c/ |
| Consumer goods b/ | 93.7 | 94.0 | 94.7 | 94.4 | 94.5 | 94.6 | 94.6 | c/ |
| <u>Earnings</u> | | | | | | | | |
| Average hourly earnings in industry | 137.0 | 140.7 | 143.3 | 145.8 | 147.2 | 151.6 | c/ | c/ |

a/ Preliminary.

b/ Grouped according to end-use of goods.

c/ Not available.

Source: Statistisches Bundesamt, Wirtschaft und Statistik.

remained slightly below the 1962 level, but finished goods prices were fractionally higher. Export prices for investment goods moved up 0.5 per cent between May and July 1963, possibly as a result of the improving competitive situation of Germany in export markets vis-a-vis France and Italy where prices are increasing more rapidly.

Foreign trade expands

Germany's improved competitive situation is reflected in the continuing rise in exports, which increased by 11 per cent during the second quarter and in August were 5 per cent above the second quarter level. (See Table 5, page 7a.) After being interrupted in June, exports resumed their rise in July and August, while imports were up in July, but fell back slightly in August. Consequently, the trade balance continued to improve. On a year-to-year basis, August exports were up 13 per cent and imports only 5 per cent. Since the latter contain fairly large deliveries of pre-paid military equipment, the balance on commercial trade should have been even more favorable than the data indicate. In addition, the competitive position of the steel, textile, and leather industries may improve if the German Government's proposed increases in turnover tax rebates for these industries become effective after discussions with the EEC Committee.

Balance of payments in substantial surplus

The increasing trade balance surpluses have helped to shift the German balance of payments from a substantial deficit position in 1962 back to a continuing large surplus position. The surplus virtually disappeared in July, owing to substantial short-term private capital exports and heavier official payments abroad, but re-emerged in August, when short-term capital flows were reversed and the trade surplus increased further. (See Table 6, page 7b.)

Table 5. Germany: Merchandise Trade, 1962-Aug. 1963
(seasonally adjusted, monthly averages, in billions of DM)

| | <u>Exports</u> | <u>Imports</u> | <u>Industrial goods imports</u> | <u>Trade Balance</u> |
|-------------|----------------|----------------|---------------------------------|----------------------|
| <u>1962</u> | | | | |
| I | 4.33 | a/ 4.11 | a/ 2.89 | a/ .22 |
| II | 4.46 | a/ 4.09 | a/ 2.80 | a/ .37 |
| III | 4.45 | 4.19 | 3.02 | .26 |
| IV | 4.39 | 4.20 | 3.09 | .19 |
| <u>1963</u> | | | | |
| I | 4.37 | 4.15 | 3.07 | .22 |
| II | 4.83 | 4.34 | 3.26 | .49 |
| June | 4.42 | 4.11 | 3.14 | .31 |
| July | 4.94 | 4.54 | b/ | .40 |
| August | 5.06 | 4.41 | b/ | .65 |

a/ Change in import accounting procedure raised imports for the first quarter, 1962 by DM 0.124 billion (monthly rate) and those for April by a negligible amount.

b/ Not available.

Source: Bundesbank, Monthly Report.

Table 6. Germany: Balance of Payments 1962-August 1963
(in millions of DM)

| | Jan.-Aug. | | 1963 | | | |
|--|-------------|---------------|-------------|---------------|-----------|-------------|
| | 1962 | 1963 | I | II | July | Aug. a/ |
| 1. GOODS & SERVICES | | | | | | |
| Trade balance | b/1,945 | 2,818 | 544 | 1,268 | 410 | 596 |
| Services | -668 | -1,056 | 81 | -474 | -323 | -340 |
| Total | 1,277 | 1,762 | 625 | 794 | 87 | 256 |
| 2. OFFICIAL PAYMENTS | | | | | | |
| Donations | -2,454 | -2,414 | -931 | -911 | -256 | -316 |
| Long-term capital | -567 | -376 | -96 | -256 | -62 | 38 |
| Short-term capital 1/ | -597 | 260 | 219 | c/120 | -47 | -32 |
| Total | -3,618 | -2,530 | -808 | -1,047 | -365 | -310 |
| 3. PRIVATE CAPITAL | | | | | | |
| Securities transactions | | | | | | |
| Foreign purchases 2/ | | | 700 | 730 | | |
| German purchases (increase-) 3/ | 673 | 2,083 | -161 | -48 | 245 | 143 |
| Other long-term | | | 205 | 269 | | |
| Short-term 4/ | -121 | 513 | 78 | 278 | -265 | 422 |
| Errors and omissions | 1,556 | 950 | 183 | 266 | 299 | 202 |
| Total | 2,108 | 3,546 | 1,005 | 1,495 | 279 | 767 |
| SURPLUS OR DEFICIT (-) | <u>-233</u> | <u>2,778</u> | <u>822</u> | <u>1,242</u> | <u>1</u> | <u>713</u> |
| Financed by: | | | | | | |
| 1. COMMERCIAL BANKS | | | | | | |
| Foreign Exch. Assets (increase-) | -1,270 | -1,206 | -891 | -224 | 381 | -472 |
| 2. RESERVE MOVEMENTS | | | | | | |
| Drawing rights on IMF (increase-) | 420 | -61 | -9 | -- | -- | -52 |
| Bundesbank liabilities | -54 | -79 | 77 | -9 | -114 | -33 |
| Gold and foreign ex- change (increase-) | 1,137 | -1,432 | 1 | -1,009 | -268 | -156 |
| Total | 1,503 | -1,572 | 69 | -1,018 | -382 | -241 |
| TOTAL FINANCING | <u>233</u> | <u>-2,778</u> | <u>-822</u> | <u>-1,242</u> | <u>-1</u> | <u>-713</u> |

a/ Preliminary.

b/ A change in import accounting procedure has resulted in approximately DM 400 million of goods in bonded warehouses being included in the first 4 months imports. This is offset in errors and omissions.

1/ Short-term capital inflow will not agree with Bundesbank figures, after adjustment for differences in definition, because of the apparent omission of a DM 20 million IMF transaction from the Bundesbank data in June.

2/ Foreign purchases of German securities.

3/ German purchases of foreign securities.

4/ Includes commercial bank capital other than foreign exchange assets.

Source: Basic data from Bundesbank and International Financial Statistics rearranged by author.

For the first eight months of 1963, the cumulative balance-of-payments surplus amounted to DM 2,778 million as compared with a DM 233 million deficit for the corresponding period of 1962. Large increases in the trade balance more than offset the continued growth of the deficit on service account and produced a DM 0.5 billion improvement in the goods and services balance. But heavier private capital inflows, which rose by close to DM 1.5 billion, were the most important factor in the re-emergence of the German balance of payments surplus. Most of the capital inflow was concentrated in the acquisition of German securities, especially long-term bonds.

German reserves increasing

With the rising balance of payments surplus (approximately \$695 million for the first eight months of 1963), the Bundesbank's holdings of gold and foreign exchange increased by \$358 million between December 1962 and August 1963 and by a further \$65 million in September. (See Table 7, page 8a.)

So far in 1963, the commercial banks have increased their foreign exchange holdings by \$302 million, but most of this was concentrated early in the year when banks were unwinding the year-end window-dressing operations. Actually, not all the funds repatriated then were put abroad again. Consequently, total foreign exchange holdings of commercial banks, amounting to \$943 million at the end of August, were about \$70 million below their August 1962 level. The fact that banks are not adding to their foreign holdings, despite the continually increasing trade surplus, is one indication of a tighter domestic credit situation.

With the favorable external position, the D-mark continued firm in the foreign exchange market. (See Table 8, page 8a.) After declining in mid-July when the German banks were putting money market funds abroad, the spot rate moved up from 25.09 U.S. cents on August 2 to 25.14 cents in mid-October.

Table 7. Germany: Changes in Reserve Position 1962-September 1963
(in millions of U.S. dollars)

| | <u>Jan.-Sept.</u> | | <u>1963</u> | | | | |
|---|-------------------|-------------|-------------|------------|-------------|-------------|---------------------------|
| | <u>1962</u> | <u>1963</u> | <u>I</u> | <u>II</u> | <u>July</u> | <u>Aug.</u> | <u>Sept.^{a/}</u> |
| A. Bundesbank gold and foreign exchange | | | | | | | |
| Gold | 4 | 82 | 69 | 5 | 8 | -- | -- |
| Foreign exchange | -72 | 341 | -70 | 248 | 59 | 39 | 65 |
| Total | -68 | 423 | -1 | 253 | 67 | 39 | 65 |
| B. Drawing rights on IMF | -102 | b/15 | 2 | -- | -- | 13 | |
| C. Commercial banks foreign exchange | 125 | b/302 | 223 | 56 | -95 | 118 | |
| Total A through C | -45 | 740 | 224 | 309 | -28 | 170 | |

a/ Estimated.

b/ January-August only

Source: IMF, International Financial Statistics; Bundesbank, Monthly Report.

Table 8. Germany: Exchange Rate in U.S. Cents per DM 1962-June 1963
(monthly averages)

| | | | | |
|------------------|-------------|--------|------------------|--------|
| | Par Value | 25.000 | | |
| | Upper Limit | 25.188 | | |
| | Lower Limit | 24.875 | | |
| <u>1962</u> | | | <u>1963</u> | |
| January-March | 25.017 | | March | 25.023 |
| April-June | 25.018 | | April | 25.045 |
| July-September | 25.033 | | May | 25.090 |
| October-December | 24.981 | | June | 25.121 |
| | | | July | 25.109 |
| <u>1963</u> | | | August | 25.101 |
| January-March | 24.991 | | September | 25.121 |
| April-June | 25.085 | | October (9 days) | 25.132 |
| July-September | 25.110 | | | |

Source: Federal Reserve Bulletin

From mid-August until the end of September, the premium on the forward D-mark rose from 0.1 to 0.4 per cent per annum. This rise reflected in part uncertainties regarding the proposed U.S. interest equalization tax, and in part the usual bank preparations for the heavy seasonal requirements in September. At the end of September, the three-month forward rate moved to a discount in anticipation of the banks' year-end window dressing operations.

Financial markets tighten somewhat

German money markets have tightened somewhat as commercial bank liquidity lessened because of seasonal factors, such as tax dates and mid-year window dressing operations. However, the principal factor in the developing money market stringency has been the Government's cash position, with funds being withdrawn faster from the domestic economy than they were put back in circulation. But in August public cash expenditures acted to ease bank liquidity positions, and it is expected that during the remainder of the year public payments will flow faster to the domestic economy.

Although the bond market appeared to be saturated during the summer at the prevailing 6 per cent rate of interest, the authorities determined to maintain that rate. Consequently, the Central Capital Market Committee decided to limit new flotations in July and August. In addition, two public loans issued in August were offered at shorter maturities and without advance redemption features in order to facilitate absorption. As the market turned more active after the summer lull, these issues were readily placed; and in early October a DM 300 million Federal loan was fully subscribed within a few days. As in previous issues, foreign participation was heavy. Since foreign interest in German public bonds comes mainly from European sources, the proposed U.S. interest equalization tax had little or no effect on the German bond market.

The stock market was temporarily affected at the time the U.S. tax proposal was announced, and also moved temporarily lower in August when the U.S. threatened tariff retaliation in its chicken dispute with the EEC. In general, however, the stock market has reflected the growing confidence in the growth in German economic activity, and the stock index reached a new high for the year in early September. Since then prices have shaded off slightly, reportedly because of some selling by American interests. Stock yields are currently 3.09 per cent, some 2 percentage points under bond yields.