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Recent Economic Developments in Germany, June-September 1964

20 pages

Helen B. Junz

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Summary

From June to September, the tendencies evident earlier in 1964 of a relatively balanced business expansion in Germany continued, despite acute labor shortages and a pickup in domestic investment activity.1/ A slowdown in export orders which happened to coincide with a brisk expansion in domestic demand, especially in investment goods, contributed to the continued balanced growth. Developments in Germany during the period under review thus contrasted with trends in neighboring European countries: the fully-employed German economy continued to adjust to growing demands with only minimum strain on capacity and with only limited price advances.

Several factors contributed to the continued balance in the German economy. The decline in export orders came at a time when the investment climate improved. Growing order backlogs (in part from the earlier flood of export orders), widening profit margins (as capacity utilization increased and price rises abroad permitted German manufacturers to advance their prices) and the growing conviction that the German authorities would not attempt to curtail demand substantially gave a new impetus to investment. But strains on German resources were eased by a rise in productivity greater than had been anticipated; these gains grew out of new capacity which came into production from earlier capital-deepening (labor-saving) investments stimulated by Germany's persisting labor shortages. In addition,

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1/ For a review of earlier developments, see "Recent Economic Developments in Germany, March-June, 1964," dated July 10, 1964.

government efforts seem to have reduced somewhat the overstrain in the building sector which had been one of the major sources of inflationary pressure.

Despite labor market tension and repeated official statements that profit margins and productivity gains were growing faster than labor costs, wage increases under union settlement remained moderate, particularly in contrast with wage developments in neighboring European countries. The settlement in the metal industry early this summer appears to have set the pattern and helped to keep wage increases within a general average of about 6 per cent, although it does appear that wage payments above contract rates have accelerated with the economic expansion.

However, German prices advanced throughout the summer. Rising world market prices and favorable demand conditions both at home and abroad contributed to the upward drift of the price level. Particularly export prices for investment goods responded to the upward pull of rising demand. But German prices generally are not rising faster than are prices elsewhere in Europe.

At the same time, imports have been rising more rapidly. The general business expansion, the unilateral tariff reductions made by Germany on some EEC products in July and the uptrend in import prices contributed to rising import values. On the other hand, exports have been slowing down and the large trade surpluses of earlier this year seem to be receding. Because prices abroad are advancing, import competition may not help a great deal in holding down the German price level.

During the third quarter, the German balance of payments swung into deficit. The reduction in the trade surplus, the better-than-seasonal growth in German tourist expenditures and the stoppage of private capital inflows were three factors which contributed to this swing in the payments balance.

On the external side, therefore, two primary objectives of the authorities' anti-inflationary efforts seem to have been achieved: stopping the private capital inflow and reducing the large trade surpluses. But steps taken during the period under review to curtail domestic credit expansion--especially the higher minimum reserve requirements against resident deposits on August 1--have encouraged the German banks to bring back some funds from abroad. In September, for example, the banks reversed a sizeable part of the swap agreements they had with the Bundesbank to hold U.S. Treasury bills. Hence, tightening of credit conditions in German financial markets tends, under present circumstances, to defeat the attempts by the German authorities to encourage private capital outflows on a net basis.

Balanced growth of demand and output

The German economy entered the autumn period of seasonal upswing with considerably fewer signs of apparent strain than had generally been expected. Demand continued to expand during the summer months, but at perceptibly more moderate rates of growth as compared with the beginning of the year. On a seasonally adjusted basis, the total inflow of orders to industry in June-July rose by 6.6 per cent over the April-May average, but this was not quite sufficient for the index to regain the April, 1964 peak. (See Table 1.)

The shift in demand from foreign to domestic customers, which emerged earlier this year, became more pronounced over the summer. Foreign orders grew by only 1.8 per cent between April-May and June-July, while domestic orders were up 7.0 per cent. On a year-to-year basis foreign orders were up only 2.4 per cent in July as compared with earlier annual growth rates of around 20 per cent; but this was in part to be expected since the upsurge in foreign demand was particularly strong in the summer of 1963. In July, domestic orders exceeded the preceding year's level by 17.7 per cent, indicating the continuing strength of the demand situation,

Table 1. Germany: New Orders Received by Industry, 1962-July 1964
(Index numbers, 1954 turnover = 100, seasonally adjusted)

	All Industries1/	Domestic orders	Foreign orders	Basic industries	Capital goods	Consumer goods
1962						
January	207	200	244	190	255	166
April	207	198	237	184	261	156
July	203	199	224	183	246	174
October	211	203	248	194	281	176
1963						
January	206	196	254	184	252	174
April	218	204	290	194	270	175
July	223	209	294	197	285	174
October	235	221	305	211	292	188
1964						
January	236	220	311	216	290	188
April	266	248	253	242	325	206
May	219	210	265	194	284	161
June	260	244	328	228	330	198
July 2/	257	246	301	236	313	210

1/ Excludes mining, construction, food and power.
2/ Preliminary.
Source: Bundesbank. Monthly Report.

although rates of increase appear to be moderating somewhat. However, it is increasingly difficult to assess changes in rates of growth during the summer months because of the growing tendency towards longer summer vacations which cannot be fully accounted for in the seasonal adjustment process.

As in preceding months, the pattern of demand continued to reflect the favorable investment climate. A mid-year survey of business investment plans showed that an earlier forecast of an increase of 5 per cent was revised upward to an increase of 10 per cent. A good part of this increase has apparently already materialized in the inflow of orders to the investment goods sector in the first half of the year. However, recent growth rates of orders for investment goods tend to understate the rise in demand for industrial equipment since the capital goods sector includes automobiles; and demand for automobiles--partly because of a drastic reduction in exports to Italy--has recently been growing more slowly.

The order flow to the basic industries in June-July also failed to regain the April peak, possibly because the building boom was moderating. Demand for residential building and road building has been falling off, and was partially offset by rising demand for industrial building in the current investment expansion. Although no appreciable relaxation in the building sector is yet evident, the easing of some pressures is beginning to weaken the effect of one of the principal inflationary stimuli.

Industrial output expanded more or less in line with the growth in demand. In July-August the index of industrial production (after seasonal adjustment) was 1.5 per cent above May-June and about 8 per cent above the preceding year's level. (See Table 2.) These rates of growth were somewhat more moderate than those recorded earlier in the year; they may in part reflect the trend toward longer vacations.

Table 2. Germany: Industrial Production, 1962-August 1964
(Index numbers, 1950 = 100, seasonally adjusted)

	All Industries	Basic & producer goods	Capital goods	Consumer goods	Food, beverages & tobacco	Building
1962						
February	270	280	373	228	228	238
May	273	291	375	232	226	265
August	280	300	382	234	237	278
November	283	297	382	237	241	265
1963						
February	266	274	360	222	238	135
May	284	308	373	236	247	302
August	291	318	385	242	246	314
November	300	330	403	247	246	306
1964						
February	300	329	405	246	248	270
May	319	357	428	258	271	344
June	301	339	402	249	246	289
July 1/	315	354	418	262	262	301
August 1/	314	356	421	254	258	309

1/ Preliminary.
Source: Bundesbank, Monthly Report

On the whole, supply availabilities have remained rather elastic. This year, the upswing in investment activity, particularly for capital-deepening projects, started well before industrial capacities were being strained. In addition, the existence of sufficiently large inventories of finished goods served to supplement current production. As a result, industrial sales have generally exceeded additions to output and have temporarily helped to hold down the growth of order backlogs. In June-July the ratio of order inflows to turnover of 103 was appreciably lower than in April-May, when it stood at 107; the only exception was the capital goods sector, where order backlogs continued to rise significantly.

Labor reserves squeezed

The extremely tight labor market became even more strained during the summer months. Unemployment from June to September was down to 0.5 per cent of the labor force, the same percentage as in the preceding year, but job vacancies were appreciably higher. In September there were 6.6 vacancies for each person unemployed compared with 6.0 a year ago.

Despite rising difficulties in the recruitment of foreign workers--because of the competition from other countries and the exhaustion of labor reserves in Southern Europe--there were about 100,000 more foreign workers in Germany during the first eight months of 1964 than in the preceding year. Foreign workers numbered 980,000, and constituted 4.3 per cent of the labor force in 1964.

The continuing trend toward more efficient use of labor (reflected in the large increases in capital-deepening investment) acted to relieve somewhat the overall labor shortages. In addition, the growth industries, particularly in the investment goods sector, continued to attract labor from the slower growing branches.

Wage and price movements up moderately

Despite the potential pressure generated by the tight labor market--which was intensified by repeated official statements that both productivity and profit margins were growing faster than wages--wage increases remained comparatively moderate. The settlement concluded for the metal industry during the summer appears to be setting the pattern for other wage contracts. In general, increases are being held to about 6 per cent, although contracts now are being written for a somewhat shorter period than last year--averaging 15 rather than 18 to 24 months. Evidently, labor is sufficiently concerned about possible inflationary pressures generated by the tight labor situation not to press wage negotiations too forcefully; this is suggested by the decision of the metal union to put off for one year--from July 1965 to July 1966--an agreed reduction in working hours. But demands for labor are so strong and competition for workers so keen that employers often pay prices above union levels so that workers do not have to press union officials to undertake hard bargaining. As a result, the difference between hourly wage rates and hourly earnings has tended to widen during the first half of the year.

Buoyant demand in Germany and rising world market prices continued to push prices upward, though on the whole only moderately. Price rises were largest in those sectors in which prices had earlier been cut because of lagging demand. Thus, export prices of investment goods rose by 1.4 per cent between April and July, 1964 to a level 4.1 per cent above July, 1963. (See Table 3.) Export prices in general rose 0.6 per cent between April and July and 3.8 per cent over the year. Over-all producer prices, on the other hand, were up only fractionally between April and July and rose a moderate 1.4 per cent over the year, despite a comparatively large increase--by 3.8 per cent--in industrial raw materials prices over the year. Consumer prices also continued to trend upward primarily because of higher food and service prices. Prices for consumer goods other than food remained comparatively stable.

Table 3. Germany: Prices and Wages, January 1963 - July 1964
(Index numbers, 1958 = 100)

	1963				1964			
	Jan.	April	July	Oct.	Jan.	April	June	July[a]
Producer Prices								
Total industrial products	103.5	103.5	103.4	103.9	104.3	104.6	104.7	104.8
Investment goods[b]	107.3	107.2	107.3	107.4	107.5	108.0	108.3	108.3
Consumer goods[b]	106.0	106.6	107.1	107.5	108.5	109.1	109.1	109.2
Consumer Prices								
General index	111.1	112.8	111.6	112.1	114.0	114.6	114.9	115.3
Food	111.0	114.1	110.3	110.1	113.6	114.1	114.2	115.0
Export Prices								
General index	100.4	100.4	100.6	100.8	102.2	103.8	104.3	104.4
Investment goods[b]	107.0	107.3	107.8	108.0	110.2	110.6	111.0	112.2
Consumer goods[b]	101.2	101.2	101.1	101.5	101.7	102.0	102.3	102.5
Import Prices								
General index	95.6	95.7	94.7	96.2	96.9	98.6	97.4	97.5
Investment goods[b]	97.4	97.7	97.9	98.3	101.5	101.6	102.0	101.9
Consumer goods[b]	94.5	94.8	94.6	94.5	94.3	93.7	93.6	93.7
Earnings								
Average hourly earnings in industry[d]	147.2	151.6	154.1	156.4	158.1	c/	c/	c/

a/ Preliminary.
b/ Grouped according to end-use of goods.
c/ Not available.
d/ February, May, August, and November for 1963.

Source: Statistisches Bundesamt, Wirtschaft und Statistik.

The relatively moderate price developments may reflect the lag in the growth in private consumption demand behind the expansion in disposable incomes. Disposable incomes grew at an annual rate of 9 per cent during the first half of 1964 but private consumption demand rose by only 7.5 per cent. (See Table 4.)

Moreover, personal consumption has continued to grow more slowly than gross national product. The major expansionary factors in the 9 per cent growth of GNP in the second quarter were an 11 per cent increase in gross investment and a 12.5 per cent increase in exports of goods and services. Public sector consumption grew at

Table 4. Germany: Gross National Product, 1963 - II Quarter 1964
(Current prices, per cent change from preceding year)

	1963				1964	
	I	II	III	IV	I	II
Consumption						
Private	5	4.5	6	5.5	8	7
Public	16.5	14	6.5	3.5	5.5	2
Total	5	7	6	5.5	7.5	6
Gross investment						
Construction	-20	14	14	11.5	53	11.5
Equipment	--	3	3.5	4	8.5	11
Total 1/	- 9	8.5	9	8	26	11
Exports	2.5	9	11	12	18	12.5
Less Imports	6	9.5	11.5	1	11.5	7
Total GNP	3	7	7	7.5	11.5	9
Price change	3	3.5	2.5	2.5	2	2
Real GNP	--	3.5	4.5	5	9.5	7

1/ Excludes inventory change.
Source: Deutsches Institut fuer Wirtschaftsforschung.

a much diminished rate of only 2 per cent, in line with the general policy of fiscal restraint. The reduced rate of growth is also due to the acceleration in public sector expenditures in the second quarter of 1963 to make up for the effects of the severe winter last year. With over-all price deflators rising by 2 per cent, real GNP increased at a year-to-year rate of 7 per cent during the second quarter.

The rate of growth during the second half is expected to slow down slightly, resulting in a third quarter year-to-year rise of about 6 per cent in real GNP. Investment demand is expected to remain the major expansionary factor, although consumption demand, both private and public, may grow slightly faster than during the first half of the year. Private consumption demand should increase because incomes in the fourth quarter will reflect previously contracted wage increases. With imports expected to rise faster than exports during the second half of 1964, the effects of external influences should decline.

Trade surplus declines

The decline in the trade surplus, already apparent in the second quarter, continued in July and August as imports grew more rapidly than exports. (See Table 5.)

Commercial imports had not risen appreciably through the end of last year, but at the beginning of the year they began to respond to the industrial expansion. The increase in industrial demand for imports was somewhat obscured because of a rather large decrease in the imports of armaments. Thus, total imports during the second quarter rose only 6.8 per cent over the second quarter of 1963, but commercial imports were up by 14 per cent. The upward trend of imports was apparently stimulated by the intensified export efforts of a number of European countries as part of their stabilization programs, and by the unilateral tariff reductions *vis-a-vis*

Table 5. Germany: Merchandise Trade, 1962 - August 1964
(seasonally adjusted, monthly averages, in billions of DM)

	Exports	Imports	Industrial goods imports	Trade balance
1962				
I	4.35	a/ 4.08	2.91	.27
II	4.42	a/ 4.07	2.80	.35
III	4.44	4.10	3.00	.34
IV	4.41	4.22	3.13	.19
1963				
I	4.45	4.12	3.11	.33
II	4.85	4.40	3.33	.45
III	5.00	4.57	3.41	.43
IV	5.07	4.30	3.21	.77
1964				
I	5.34	4.46	3.38	.88
II	5.41	4.71	3.50	.70
June	5.68	4.97	3.67	.71
July	5.44	5.14	n.a.	.30
August 1/	5.04	4.84	n.a.	.20

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.
1/ Preliminary.
n.a. - not available.
Source: Bundesbank, *Monthly Report*.

other EEC countries effected by Germany at the beginning of July. In addition, higher world market prices were automatically reflected in increased values of raw materials imports.

The accelerated growth in imports was accompanied by a perceptible slow down in exports. The bouyant domestic demand situation, particularly in the investment goods sector, probably shifted some sales to the domestic sector, but exports of raw materials and semi-finished goods also slowed down. On a regional basis, falling demand from Italy and France, was about offset by increases in demand elsewhere, particularly from the United States and the United Kingdom. Exports to the primary producers also began to rise.

With exports slowing down and imports rising more rapidly, the trade surplus declined from the very high $220 million monthly rate (seasonally adjusted) registered in the first quarter of 1964 to $175 million in the second quarter and further to $50 million in August. But the latter figure may have been exceptionally low because of inadequate seasonal adjustment.

For the first eight months of the year, however, the cumulative trade surplus amounted to $1,107 million, as compared with $703 million for the corresponding period of 1963.

Balance of payments in deficit in July

As a result of the reduced trade surplus and the seasonal increase in the outflow on service account, the current balance swung into deficit in July. The net outflow of long-term private capital, which had persisted since the announcement in March of the intended withholding tax on income from fixed-interest securities held by foreigners, was reversed in July. There were also some short-term inflows, but these were not sufficient to offset the small current account deficit of DM 44 million ($11 million) plus the continued substantial official payments abroad of DM 463 million ($116 million).

As a result, there was an over-all balance of payments deficit of DM 193 million ($48 million) in July. (See Table 6.) The July deficit reduced the cumulative balance of payments surplus for the first seven months of 1964 to DM 1,206 million ($302 million), as compared with a surplus of DM 2,080 million ($520 million) registered over the corresponding period of 1963.

The reduction in the 1964 balance of payments surplus largely reflects the success of the Government's measures to prevent further capital inflows and to promote capital outflows. The small inflow on long-term private capital account in July was due to foreign purchases of newly issued shares of German subsidiaries of foreign companies; there were also small net sales of fixed-interest bearing securities by foreigners. In August, however, the Bundesbank reported slight net additions to foreign holdings of such securities for the first time since April. But private capital imports in August were probably not sufficient to offset the seasonal current account deficit--estimated at about $100 million--plus the continued outflo on Government account. It is therefore likely that the balance of payments was in deficit in August. The deficit may have continued in September, when sales of German bonds by foreigners resumed following Government statements that the authorities would not accept any weakening of the withholding tax proposal, e.g., by exempting existing issues. The flurry of foreign sales of German bonds in September probably reflected public belief that the measure will eventually be passed without much alteration, though Parliamentary action might be postponed until early next year.

In view of the large propensity of Germans to spend their summer vacation abroad, the German payments balance tends generally to be seasonally weak in the third quarter.

Table 6. Germany: Balance of Payments, 1963-July 1964
(in millions of DM)

	January-July 1963	January-July 1964	1964 I	1964 II	1964 June	1964 July a/
1. Goods and Services						
Trade balance	2,207	4,458	2,227	2,005	447	226
Services	- 124	- 353	45	- 128	-133	-270
Total	2,083	4,105	2,272	1,877	314	- 44
2. Official Payments						
Donations 1/	-3,024	-2,897	-1,093	-1,369	-376	-435
Long-term capital	- 498	- 486	- 176	- 231	- 56	- 79
Short-term capital	493	- 319	- 382	12	20	51
Total	-3,029	-3,702	-1,651	-1,588	-412	-463
3. Private Capital						
Securities transactions						
Foreign purchases 2/	1,712	124	610	- 707	-156	221
German purchases 3/	- 279	- 685	- 299	- 317	-164	-69
Other long-term	585	- 42	124	123	65	-15
Short-term 4/	106	- 623	- 618	181	215	-186
Errors and omissions	902	1,755	896	496	481	363
Total	3,026	803	713	- 224	441	314
Surplus or Deficit (-)	2,080	1,206	1,334	65	343	-193
Financed by						
1. Commercial banks						
Foreign exchange assets (increase-)	- 749	- 928	- 942	288	828	-274
2. Reserve Movements						
Drawing rights on IMF (increase-)	- 9	- 552	- 368	- 216	-276	32
Bundesbank liabilities	- 46	67	34	38	56	- 5
Gold and foreign exchange (increase-)	-1,276	207	- 58	- 175	-951	440
Total	-1,331	- 278	- 392	- 353	-1,171	467
Total Financing	-2,080	-1,206	-1,334	- 65	-343	-193

a/ Preliminary.
1/ Also includes foreign workers' remittances.
2/ Net foreign purchases of German securities.
3/ Net 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.

Official reserves decline

The July balance of payments deficit was financed by drawing down official reserves, which declined by $109 million during the month. (See Table 7.) In August there was a further decline of $26 million in official gold and foreign exchange holdings. Although the official position was unchanged through the first half of September, there probably were some reserve gains during the month as commercial banks reversed swaps with the Bundesbank for investment in U. S. Treasury bills to the tune of about $110 million.

DM-quotations ease

Demand for the D-mark eased slightly from July to mid-September. The announcement in early July of further restrictive measures by the Bundesbank generated some additional demand for the D-mark; but with trade surpluses diminishing and a balance of payments deficit emerging, D-mark quotations in foreign exchange markets moved down from 25.165 U. S. cents at the beginning of July to 25.150 cents at the end of the month and remained at about that level through mid-September, when it started to move back up to 25.161 cents. (See Table 8.) This strengthening may well have been caused by the repatriation of some funds by commercial banks because of the very tight money-market conditions in Germany.

Financial markets under pressure

In early July the authorities took further measures to contain inflationary pressures emanating from the large foreign trade surplus and the expansion of domestic demand. Effective August 1, the Bundesbank increased minimum reserve requirements which commercial banks have to maintain against resident deposits by 10 per cent; this immobilized an estimated DM 1.2 billion of bank funds in August. In addition, in order to discourage credit institutions from borrowing abroad, rediscount quotas

Table 7. Germany: Changes in Reserve Position
1963 - September 1964
(in millions of U.S. dollars)

	1963 Jan.-Dec.	1964 I	1964 II	1964 June	1964 July	1964 Aug.	1964 Sept. 1-15.
A. Bundesbank gold and foreign exchange							
Gold	164	110	128	11	36	22	10
Foreign exchange	491	-94	-84	226	-145	-48	-10
Total	655	16	44	237	-109	-26	0
B. Drawing rights on IMF	35	92	54	69	- 9	--	n.a.
C. Commercial banks foreign exchange	73	236	-71	-207	69	n.a.	n.a.
Total A through C	763	344	27	99	-49	n.a.	n.a.

n.a. - not available.
Source: International Financial Statistics; Bundesbank, Monthly Report.

Table 8. Germany: Exchange Rate and Forward Rate in U.S. Cents per DM and Per Cent per Annum 1963-Sept. 1964

Par Value	25.000
Upper Limit	25.188
Lower Limit	25.875

	Spot Rate 1/	Forward Rate 2/
1963 - Jan.-March	24.991	+0.3%
April-June	25.085	-0.1%
July-Sept.	25.110	+0.2%
Oct.-Dec.	25.152	-0.2%
1964 - Jan.-March	25.160	+0.9%
April-June	25.161	+0.6%
June-Sept.	25.155	+0.6%

	Spot Rate	Forward Rate
1964 - July 3	25.165	+1.0%
17	25.158	+0.8%
31	25.150	+0.8%
Aug. 14	25.151	+0.6%
28	25.152	+0.5%
Sept. 4	25.150	+0.6%
11	25.153	+0.6%
18	25.158	+0.5%
25	25.161	+0.4%

1/ Noon buying rates.
2/ Quarterly and monthly data averages of Friday quotations.
Source: Federal Reserve Board.

of individual credit institutions were reduced by the amount by which credits taken up abroad by each institution exceeded the average end-of-month amount of all credits taken abroad between January 31 and June 30, 1964.

These measures supplemented earlier attempts to discourage capital inflows into Germany: the proposed 25 per cent withholding tax on income from foreign-held German bonds and the prohibition of payment of interest on new foreign-held time deposits.

The new measures, combined with seasonal factors--an increase in private needs for liquid funds during the vacation period and the approach of the big mid-September tax date--resulted in a considerable tightening of the money market. Call money rates in Frankfurt were quoted well above the discount rate--between 0.5 and 1.0 percentage points higher--through most of August and September. Recent data indicate that bank reserves were tightening considerably: bank holdings of open market paper towards the end of September were about DM 400 million below the preceding year's level and rediscount liabilities increased by about DM 2 billion to DM 3.8 billion.

The effect of the recent monetary measures on credit extensions cannot be assessed as yet. Data through the second quarter of 1964 show a quickening of the pace of credit extension as compared with the preceding year, but the rate of increase was not very substantial particularly when measured against the upswing in economic activity. (See Table 9.) In addition, deposits received from nonbank customers rose substantially and the first half 1964 excess of credit extensions over deposits received, of DM 2.3 billion, was no greater than that registered during the first half of 1963. However, the second quarter drain of liquid funds to non-banks of DM 0.7 billion contrasted with an excess of deposits received over credit extended of DM 0.1 billion in the second quarter of 1963.

Table 9. Germany: Change in Selected Bank Statistics 1962--June 1964
(billion DM)

	Year		1963		1964	
	1962	1963	I Q	II Q	I Q	II Q
Credit extended to domestic customers 1/						
Private sector	18.9	19.1	3.5	6.0	2.8	6.7
Public sector	2.4	4.6	1.0	0.5	1.6	1.0
foreign customers	1.6	0.9	0.2	0.4	0.4	0.3
Purchases of securities	3.3	4.1	1.7	0.9	2.0	1.4
Total	26.2	28.7	6.4	7.8	6.8	9.4
Deposits received from domestic customers 1/						
Private sector	13.9	16.9	0.5	3.6	1.1	4.6
Public sector	5.8	4.6	-0.8	1.6	-0.6	1.5
foreign customers	0.3	0.2	-0.6	0.1	-0.8	0.0
Sale of bank bonds	6.6	8.3	2.5	1.8	3.3	1.8
Other	-0.4	1.2	2.4	0.8	2.2	0.8
Total	26.2	31.2	4.0	7.9	5.2	8.7
Balance credit extensions less deposits received	--	-2.5	+2.4	-0.1	+1.6	+0.7
Commercial banks' foreign exchange assets	--	+0.4	+0.9	+0.4	+1.1	-0.1
Borrowings at Bundesbank	+0.8	-0.3	+0.6	+0.5	+1.1	-0.3

1/ Non-bank sector

Source: Deutsches Institut fuer Wirtschaftsforschung

But there can be no doubt of the restrictive effects of recent developments on the financial markets. Dr. Troeger, a member of the Board of the Bundesbank, was quoted in the press on October 2 as saying that "the minimum reserve action, which earlier had been considered to have been a mild measure, has, in interaction with other developments, led to a substantial restrictive effect." If the tightening credit conditions are having the desired effect upon domestic credit extensions, they may well again stimulate further inflows of funds into Germany. German firms, for example, continue to have the option of seeking credits from foreign sources such as can be found in the Euro-dollar market, to offset any reduction in domestic bank accommodation.

Capital markets weaken

Both the bond and the stock market reflected the effects of the latest Government actions. The bond market, which had steadied considerably during July and August, weakened in September when it became clear that the Government was going to insist upon passage of the 25 per cent withholding tax proposal without any compromise.

In addition, a large volume of new Government issues--amounting to about DM 1 billion--came on the market in September and early October, further depressing bond prices. The Bundesbank reportedly engaged in support purchases of Government bonds to a very limited extent only--about DM 60 - 70 million--according to press accounts--and prices of some 6 per cent Federal Government bonds were allowed to decline below 98 (the issue price announced for the new DM 400 million tranche of the Federal Government loan to be floated in early October) for the first time since announcement of the withholding tax proposal. According to the Frankfurter Allgemeine Zeitung, yields of 6 per cent Government issues increased to 6.39 per cent in September, while average yields on industrial issues rose from 6.25 per cent to 6.41 per cent per annum.

The Stock market also weakened in September, after having recovered a large part of the losses sustained between April and June. Foreign sales of German shares came to a halt during the summer and the general business optimism eventually affected the stock market, particularly when the public became more confident that the Government was not going to move drastically to curtail the expansion of demand. And, the weakening of share prices during September was generally attributed to the shortage of liquid funds rather than to any loss in business confidence.