INDUSTRIAL PRODUCTION AGAIN UP

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SEPTEMBER-OCTOBER INDUSTRIAL ACTIVITY in Western Germany changed abruptly the trend of the past few months with seasonal rises sharper than anticipated. A five percent monthly increase in September industrial production reversed the downward trend begun in June, and early indications of October production point to a new postwar record level of output. In particular, the consumer goods industries have revived from the summer slump, and account for a major part of increased employment in manufacturing.

There are continuing reports of increasing raw material and fuel shortages. Restrictions have been necessarily applied to the use of hydroelectric power because storage basins and coal stocks are low. During October, the persisting problem of the coal shortage, however, became the subject of open discussions in Germany between the Federal Minister of Economics and the director of the German Coal Mining Management (DKBL).

German newspapers headlined the economics minister's statement that actual coal consumption far exceeds DKBL reported coal availability, on which coal allocations are determined. This discrepancy can partly be explained by the fact that industry is using quantities of low grade hard coal, while other coal, the distribution of which is outside the control of the DKBL, is finding its way to industry at excessive prices. Nonetheless, there does appear to be a discrepancy between deliveries and consumption.

THE FOREIGN TRADE of the Federal Republic during September was greatly influenced by factors of a temporary nature and showed a deficit for the first time since March. Imports climbed to $375,000,000* — $88,000,000 above August; exports, on the other hand, rose to only $325,000,000. In terms of value, these are both postwar records. In view of the changes in the terms of trade, exports on a volume basis reflect a slightly regressive tendency. On the other hand, the volume of imports exceeds the November-December 1950 average — the previous high period for Federal Republic imports.

The principal reason for the large and sudden increase in imports was the revision of the tariff system effective Oct. 1. Rather than on the standard of quantity and weight, the new tariff law is on an ad valorem basis, which means a tariff increase on many items. There was a marked effect by importers, therefore, to use outstanding licenses to import commodities from neighboring countries which could deliver goods before the new tariff became effective. As a result, about four-fifths of the increase fell in the EPU category.

Another factor in September imports was the $7,000,000 coal shipments, mostly from the United States. Seasonal imports of grain, again primarily from the United States, also contributed, as did sizable imports of other agricultural products of European origin.

Beginning late in September and continuing through early November, there has been a remarkable variation between German trade and payments in the European Payment Union (EPU) area. Imports from such countries have increased substantially, but outpayments have not kept pace, primarily because of the rumor of franc and sterling devaluation. Hoping for windfall profits on possible devaluation, importers are evidently accepting delivery with payment deferred, which has resulted in substantial monthly surpluses with the EPU, despite larger imports.

Germany's cumulative accounting deficit with the EPU at the end of September was $106,000,000. In October, the trend of payment surpluses was even more pronounced, and the Federal Republic's surplus of $96,800,000 reduced its cumulative deficit to $9,200,000.

The trend of imports during the last half of 1951 is upward — imports for the third quarter exceeded midyear levels and are expected to be even higher for the fourth quarter. The use of outstanding licenses to produce the September import figure, however, indicates that many sectors will have no "surplus" licenses available and will be somewhat restricted in their imports for a short period. It is unlikely, therefore, that the level of imports will again reach this September level until after liberalization.

Complying with OEEC decisions, the Federal Government has drawn up a list of imports to be liberalized as of Jan. 1, 1952. The list, which will be further revised, represents slightly more than 50 percent of total imports in 1949 based on Bizeone statistics. By categories, 55 percent of raw materials, 50 percent of agricultural commodities and 45 percent of finished goods will be liberalized.

Exports rose slightly in September to $325,000,000, the highest postwar export figure. This was, however, more the result of increased prices than of a larger volume. Exports to the Western Hemisphere remained the same; exports to the EPU area rose by $510,000,000.

By commodity groups, the import of foodstuffs showed the greatest absolute increase in September — to

* DM 1,575,331,000 at official rate of 23.8 cents to the Deutsche mark.
$153,000,000 from $119,000,000 in August—mainly accounted for by grains, fruits, butter and cheese. Raw material imports also increased, primarily because of more coal imports as well as increased cotton and wool deliveries. Semi-manufactures imports increased by $15,000,000, due to larger textile imports. The 83 percent increase in imports of finished products—from $30,000,000 to $55,000,000—was spread evenly through all categories of finished goods.

There was almost no change in the commodity distribution of exports during September.

**Industry**

In September the usual seasonal factors effected a sharper than expected upswing in industrial output to push the index of industrial production up six points to 135 percent of the 1936 level. The consumer goods component of the index showed the major increase (up seven to 114 percent) following a slump during the summer months. Shoe production showed the largest separate industry increase (up 26 percent), with other important gains in leather goods and textiles. While this increase was an expected seasonal movement, the other major components also showed substantial increases despite continuing raw material shortages. Investment goods production rose by six points to 138 percent and general production goods by four points to 146 percent.

**Coal**

Daily average production reached a record level of 394,000 metric tons in April 1951, but showed steady monthly decrease to a 1951 low of 373,000 tons in September. This decline in production through the summer months was seasonal, and October output showed considerable improvement.

Total hard coal production in October was 10,480,000 tons for the 27 working days, a daily average of 388,100 tons. This increase resulted from less absenteeism (the end of summer vacations), and a larger underground labor force, although there was a slight decrease in underground output per manshift and from extra shifts.

Inland availability in the third quarter exceeded by more than 1,000,000 tons the estimates forecast in Chancellor Adenauer’s memorandum of June 13 to the High Commission, and were only 200,000 tons short of the revised estimates submitted by the German delegation to the International Authority for the Ruhr (IAR) on July 23.

Availability estimates are based largely upon forecasts of hard coal output, and in the third quarter, these were revised several times. The original estimate was 392,000 tons per day and the final estimate made in July was 379,000 tons per day. Actual average daily output in the quarter was only 374,496 tons and imports were lower than the July forecast, but total availability closely matched the revised German forecasts because of higher net merchantable output.

Imports of solid fuels increased in the third quarter to 2,600,000 tons with 1,300,000 tons coming from the United States. Exports totaled 6,140,088 tons—98.9 percent of the allocations established by the IAR and 99.9 percent of the export orders placed.

There is increasing pressure for a general increase of coal prices and adoption of a uniform or mixed price for all availabilities. Representatives of German industry, in discussions with the Ministry of Economics, have demanded such an increase and its application to all consumers, including household users. The coal and steel industry has stated that it can accept allocated surcharge coal in the fourth quarter only if there is a corresponding increase in iron and steel prices. The economics ministry has replied that these measures have been discussed in the Federal Cabinet, but that the Federal Government does not believe it possible to consider a general increase at present.

In accordance with the Federal Government’s solid fuels distribution plan for the fourth quarter, all industrial groups including iron and steel have been allocated 2,234,806 tons of coal at the surcharge price level. This represents 45 percent of the total industrial consumer allocations and compares to 20 percent in the third quarter.

It is estimated that solid fuel stocks held by the Federal Railways, utilities and industry increased by 700,000 tons in the third quarter, from 2,500,000 tons to 3,200,000 tons. This increase matches the over-all goal established in the Chancellor’s memorandum of June 13, but is 125,000 tons short of the target set in the Federal Government’s requirement estimates of May 10.

The German-Allied committee established to consider coal distribution problems relating to the dissolution of the Central Coal Sales Organization (DKV) in October announced a report to the Allied High Commission (AHC). This report recommended creation of six independent coal sales agencies in the Ruhr to replace the DKV, and also recommended that a Federal Coal Office be established as well as a Ruhr services organization to coordinate planning, statistical and transport functions presently handled by the DKV.

The German members of the committee signed the proposed plan because it is the best possible agreement that could be had under the terms of reference as laid down by the AHC. They stated, however, that it is their opinion that retention of a centralized sales agency is preferable, and that in the event of a change of the committee’s terms of reference, they would insist upon acceptance of the German proposal for one selling agency.

The Council of the Allied High Commission has agreed to inform the Federal Chancellor that it has accepted the committee’s report and intends to act upon its recommendations.

Meanwhile, the miners’ union and the German Coal Mine Management (DKK) have protested against acceptance of the plan and have demanded that the German proposal for retention of a single Ruhr selling agency be accepted. It has also been reported that the Federal Cabinet has objected to the plan and desires new discussions with the AHC regarding the future of the DKV.

**Iron and Steel**

Total production of pig iron and crude steel showed major increases in October, because of both increased daily output and the number of working days. Total steel production was 1,256,500 metric tons, with a daily average output of 46,500 tons. October pig iron production totaled 972,000 tons, a daily average of 31,400 tons. While shortage of coal continues to be subject of considerable general interest, the iron and steel industry during October has evinced little specific interest, except in costs. This appears due in part to increased consumption of US coal and in part to the availability of “excess” coal under the domestic dual pricing system.

In spite of the scrap collection drive, the scrap situation worsened during September. The principal iron and steel producers in the Federal Republic started August with scrap stocks of 293,500 tons and ended the month with 286,000 tons. During the month these works consumed 583,500 tons (compared with 582,200 in July) of which 270,600 represented internal generation (as compared with 257,400 in July).

The production of pig iron and steel directly attributed to US coal imports continued its steady upward climb. The first month on which statistics are available, March 1951, attributed production of 63,800 tons of pig iron and 56,600 tons of steel to US coal. In September, 300,000 tons of pig iron and 250,000 tons of steel are so attributed, and in October, 373,000 and 255,000 tons, respectively. The
comparative monthly average in the April-September period is 216,400 for pig iron and 191,100 for steel.

It has been reported that the steel producing industry has filed an application with the Federal Ministry of Economics for a further increase in the domestic price of steel. One of the reasons given in justification is directly related to the dual pricing system for coal. The industry asserts that it is presently purchasing some 34 percent of its coal at the price fixed for the so-called excess output.

The order book as of September 1, 1951 decreased for the first time since January 1950.

Electricity
In October hydroelectric power availability decreased to a figure below normal for this season of the year. Storage basins were drained more than is considered safe for emergency operation in January and February. The short water situation and the shortage of generating capacity was further aggravated by an accident at one power station, with a direct loss of 135,000 kilowatt hours in peaking power.

Low capacity and inadequate coal stocks necessitated the application of load restrictions in North Rhine-Westphalia and Bavaria early in the month. These particular restrictions were replaced by general restrictions of power consumption applicable to all states in accordance with a new decree issued by the Ministry of Economics.

Traffic demands on the railways continued to rise during October until they reached 72,500 cars per working day. Despite excellent traffic performances, only 90 percent of these demands could be met by the railways, and in the week Oct. 14-20 not more than 86 percent could be covered. The position was especially critical with regard to gondolas, since for goods other than coal and sugar beets only 58 percent of gondolas requested could be spotted on time.

The increase in railway rates proposed by the Federal Government was approved by the Bundesrat (upper house) Oct. 5 and became effective Oct. 15. The increase was necessitated by the steadily rising costs of personnel and material. The increase in passenger rates will amount to five percent in revenues. Freight tariffs were increased more sharply, ranging from 15 to 25 percent, and are expected to boost revenues by 18 percent.

If the present price level remains stationary, the new railway rates will make it possible for the German railways to pay their own way in 1952, though 1951 will still show a substantial deficit.

Tax Increase Program
In its efforts to find new sources of revenues to cover part of the deficit in its 1951-52 budget, the Federal Government has introduced a special luxury tax which it hopes will yield DM 300,000,000 per year. The Bundesrat provisionally disapproved the draft law in October. Finance Minister Schaeffer has tried to convince the states that the projected tax would not lead to any noticeable decrease in the sale of goods affected. He termed it "an enormous exaggeration" that was frequently expressed by the interested enterprises. He has also reminded the Bundesrat (upper house) of the obligation under Article 110 of the Basic Law which requires the government to keep revenues and expenditures in balance, since only a balanced budget could ward off inflationary trends.

Another important reason for the enactment of luxury tax legislation is, in Dr. Schaeffer's opinion, the fact that the Federal Government should not be burdened with a political handicap in the talks on Germany's financial capacity to contribute to Western defense. Indications are, however, that the law will not pass the Bundestag (Lower House) in its present form.

On Oct. 2, the Federal Cabinet agreed upon a draft law increasing the Berlin aid tax in order to increase the annual revenue DM 100,000,000. The draft law provides an increase of the former rates and a more detailed scale of progressive rates. Proposed to become effective Jan. 1, 1952, the law is expected to be approved by the Bundestag and the Bundesrat.

Labor
Registered unemployment declined to the lowest point in two years as the number of jobless dropped during October by 21,000 to a total of 1,214,000 — some 16,000 lower than in October 1950. About one-half of the decrease is probably due to higher employment in manufacturing, particularly in the consumer goods industries, which are recovering from the slump earlier this year. The remainder came from increased employment in building and trade and commerce.

New building activity which gained some momentum in September may keep building employment at a comparatively high level until the advent of inclement weather. The rate of unemployment in terms of the wage and salary-earning labor force dropped in October 1951 to about 7.5 percent as against 7.9 percent in October 1950.

Food and Agriculture
Although most of the data on the 1951 crop is still preliminary, it is clear that western Germany has an excellent harvest and this year has produced a greater proportion of its own food than at any time since the war. During October, supplies of all foodstuffs continued to be adequate for current requirements. In view of increased deliveries of grains and the continued heavy import of grains, sugar, fats and oils from trade agreement sources, reserve stocks of these commodities continued to improve.

Tonnage-wise, the only noteworthy production decrease is in potatoes, because of a smaller average. The crop, nevertheless, is good and supplies will be adequate.

As a result of the bumper grain harvest, increased producer prices, and the premiums for early threshing and delivery, grain collections will reach a postwar record. July-October deliveries are so far nearly 50 percent higher than those of a year ago, and 1951-52 collections may total more than 2,700,000 metric tons bread grain and 750,000 metric tons coarse grain.

Berlin
In mid-October, the total registered labor force in West Berlin (including self-employed) was approximately 1,175,000. Employment, including 42,000 subsidized workers hired under the GARIO Work Relief Program, was 907,000. Employment was 267,000, or 23 percent of the labor force.

The value of industrial deliveries rose in September by more than six percent (DM 13,700,000) to a figure of DM 226,500,000. In terms of deliveries per working day, the rise was approximately 15 percent. Practically all of the increase in the value of goods delivered (DM 13,000,000) was accounted for by increase in the electrical industry. This was partly due to the circumstance that a number of large contracts in process of production were completed during September. For example, one of the four largest electrical engineering firms reported that its deliveries increased from DM 9,500,000 in August to DM 12,600,000 in September.

On the basis of value per working day, sizable increases were also shown in clothing (primarily a seasonal gain), structural engineering, chemicals and pharmaceuticals, paper and printing, and some other industrial sectors.

Berlin's second postwar Industrial Fair closed Oct. 21, and early reports indicate that exhibitors were generally satisfied with results. Visitors to the two-week exhibition totaled 778,000, approximately 45 percent of whom were residents of East Berlin or the Soviet Zone. Some 30,000 West German and 4,500 foreign guests were registered in the city during the fair.