EARLY REPORTS FOR THE MONTH OF MAY indicate some slowing in the rate of improvement of the Western German economy evidenced during the earlier months of this year. The index of industrial production shows output slightly below the postwar record of April, with the greatest decline in the manufacture of consumer products. Holidays and the continuing shortage of raw materials were responsible for the slow expansion of production in some industries while in others, particularly the consumer goods industries, slackening demand and the resultant accumulation of excess stocks were the responsible factors. Crude steel and pig iron production during May advanced three percent and a little more than six percent respectively, but the daily average output of hard coal dropped two percent.

The reduction in world market prices noted during the preceding two months had only begun to reach the West German internal economy as basic materials prices dropped two percent, industrial producer prices halted their preceding month’s rises and consumer prices moved up, but only 1.4 percent. Earlier import licensing restrictions designed to end Germany’s foreign payments deficit, cut May’s imports to $248,000,000 and — for the third consecutive month — brought a favorable balance of trade as exports rose to $273,000,000.

WITH RISING PRODUCTION and employment, developments during April and May in the Western German economy showed a steady over-all improvement. The foreign trade surplus reported for April was repeated in May. Preliminary figures show that May exports exceeded imports by $25,000,000 as compared with April’s $18,000,000. With a payments surplus in May, the cumulative deficit has been brought below the credit quota originally set for the Federal Republic.

The index of industrial production rose another four points, but although a postwar record of 139 percent of the 1936 level has been reached, there are signs of weakening in the indexes for May or June, particularly in consumer goods output.

Employment reached a new peace-time high by the end of May, and the number of registered unemployed showed another decline to less than in mid-August 1950.

Basic material prices fell in April and May, and the May index of industrial producer prices remained at the April level. The consumer price index, however, continued to rise, 1.5 percent in April and 1.4 percent in May.

FOREIGN TRADE

In April 1951, for the first time in the postwar period, Western Germany’s monthly exports exceeded imports to show a $18,000,000 trade surplus. Total exports of $274,600,000 in April were a recovery level for the second consecutive month. Total imports of only $256,600,000, the lowest figure since October 1950, clearly showed the effects of the temporary suspension of licensing of imports from the EPU area in late February and in March.

The true significance of the April foreign trade figures becomes apparent when three facts are noted:

(1) Prior to April 1951, the postwar month of least total foreign trade deficit was May 1950, when imports were $161,100,000, exports were $140,300,000, and the deficit was $20,800,000. While trade in May 1950 amounted only to $301,400,000, the April 1951 total was $531,200,000, or 76.2 percent higher than a year ago.

(2) The highest postwar figure for monthly imports was $314,800,000 in December 1950, when exports were $241,100,000. Had imports in April been at this postwar high, they would still have been covered 87.3 percent by April exports.

(3) ECA- and GARIOA-financed imports in April 1951 amounted to $50,400,000. Thus, the commercial balance of trade in April shows exports exceeding imports by $68,400,000, as compared to the excess of $18,000,000 when total trade is considered.

On an area basis the export rise was chiefly accounted for by increased shipments to the United States ($18,700,000), South America ($24,200,000), Yugoslavia and Finland ($6,700,000), and the OEEC sterling area ($23,800,000). The decline in imports was almost entirely from the OEEC group, both sterling ($27,200,000) and non-sterling ($91,800,000). Imports from the USA ($54,400,000), South America ($21,600,000), and Yugoslavia and Finland ($4,800,000) were all higher than in March 1951. Both exports to ($6,200,000) and imports from ($5,200,000) the Soviet Bloc were slightly lower than in the previous month.

A commodity breakdown of exports disclosed that the increase was wholly in finished goods. These were $199,300,000, or almost three-fourths of total exports. Major commodity groups suffered equally in the import decrease.

In the month of May the surplus with EPU amounted to $81,152,000 ($45,071,000 in April), reducing the cumulative deficit to $319,585,000. The Federal Republic is thereby enabled to repay the special EPU credit, and, in addition, has brought its cumulative deficit within the quota originally accorded it. Germany will be refunded the net dollar payment of $30,666,000 made after it had exceeded the quota and will also receive a dollar payment of $332,000, which is 80 percent of the amount by which the net cumulative deficit fell below the original quota of $320,000,000. Therefore, Germany will receive a total dollar payment of $30,998,000. Repayment has occurred much earlier than had been anticipated.

INDUSTRY

The volume of industrial production in April expanded substantially to new postwar record proportions despite persistent reports of raw material shortages. During the month the index of industrial production (excluding building, stimulants and food processing) rose by four points to 139 percent of the 1936 level — well beyond the 135 postwar record of November 1950. Production in the iron and steel and steel construction industries, among those showing decreases during the last few months, increased in April from 10 and 13 percent, respectively.
The index of both investment goods and general production goods continued to increase. Production of raw materials, showing a nine-point increase in April, has had a remarkable expansion since January of almost 18 percent. Consumer goods output continued its slow increase from the January low point (115), but rose only 1 1/2 percent over the March index.

Production increases in the various industry groups were almost general during April, and especially strong in the finished goods group, steel construction rising 13 percent. Of the 29 industry groups for which data are available, 23 showed increases in output and five showed decreases. The largest increases were in stones and earths, iron and steel (excluding castings). Important decreases were in leather production, rubber and shoes.

The index of orders received in selected industry groups in western Germany during March went down for the first time in three months by 11.3 percent to 186 of the 1949 monthly average — a greater decline than in September 1950, when orders fell off after the first Korean boom. Orders received in March dropped in both the production goods and investment goods industries, but there was a sharper decline in the consumer goods industries. The discrepancy between orders received and current sales is still especially high in machinery (orders 157 percent of sales), drawing plants and cold rolling mills (149 percent of sales as compared to 302 percent in August 1950), and iron and steel foundries (146 percent of sales).

Coal

Hard coal production in May amounted to 9,372,000 tons, somewhat lower than April's 10,023,000 tons. Daily average production (excluding Sundays and holidays) was 388,038 tons, compared with 396,000 in April. Total commitments for US coal are now estimated to be approximately 2,500,000 tons with deliveries running through the first quarter of 1952. Actual US loadings of coal consigned to Western Germany for April were reported to be 210,000 tons. About 80 percent is scheduled for the iron and steel industries, the remainder for the textile, paper and cement industries.

The third quarter coal export allocation of 6,200,000 tons, as set by the International Authority for the Ruhr, has aroused considerable antagonism within the Federal Republic. Probably appeals will be made to the International Authority for the Ruhr, High Commission to reduce this quota substantially, since there is a recognized shortage of coal for increasing steel production and other basic commodities as well as the need for stock building by industries and public utilities.

The Federal Government has proposed an increase in coal export prices of DM 14.70 per ton, which, if adopted, would increase the differential of export prices over inland prices to DM 17 per ton. The Federal Government will attempt to justify this price increase as making a contribution to a proposed investment program for the coal mining industries, which would total some DM 3,000,000,000, and with other funds totaling DM 2,800,000,000 by the middle of 1952. The daily production of 450,000 tons of hard coal. The proposed increase may not be acceptable, since it appears to be contrary to the purpose of the Schuman plan.

Iron and Steel

Crude steel production (ingots and castings) during May totaled 1,154,000 metric tons (MT), with a daily average of 48,086 tons. Figures well above the April production, and set a new post-war daily production rate. April output totaled 1,121,300 MT, and a daily average of 44,852 MT. It is estimated that 125,000 MT of the total were produced with US coal imports. For the first time in months, orders received were in balance with outgoing shipments, so that April saw no increase in the backlog of domestic or export orders.

pig iron production rose from 866,500 MT in April to 919,900 MT in May, which increase is mainly the result of higher imports of coke from the US. However, there is almost negligible improvement of the inland situation of iron and steel, since the steel barter deals against American coke require extensive exports of steel to the States. Actual relief can be expected only with higher deliveries of German coke to the mills.

Scrap collection has not improved materially, and were estimated in April at 525,000 MT, of which 40,000 MT were exported. The German scrap drive has developed very slowly and tangible results are not expected before July. The iron industry will contribute DM 5,000,000 for promotion of scrap mobilization. This money will be spent for salvaging ships, bridges and other scrap projects, and for wide publication on scrap collection.

Severe sheet metal shortages are reported by the iron, metal and steel industry. Some firms were forced to dismiss workers, and 70 firms introduced the "short week." Only 60 percent of the needed metal wares were delivered, which is already affecting some buyers, e.g., the export business of the chemical industry is endangered by insufficient metal packing material.

The production of aluminum increased to 6,000 tons, and the production of copper and zinc remained about the same. Lead production showed a slight decrease, however, due to the insufficient supply of ores and scrap, and it is expected that two smelters will close down soon.

Copper scrap as well as ores are in short supply. The copper smelters can maintain the present level of production only by accepting more processing contracts for foreign accounts. Processing contracts a year ago averaged 2,500 tons monthly, but now run 3,000 to 3,500 tons monthly. The coal allocation, although slightly increased, is insufficient and some US coal has been imported. Average stocks are 14 to 16 days' supply — half normal stocks.

Chemicals

Although the May coal allocation was reduced to 246,000 tons from 282,000 tons in April, overall production has been maintained at about the previous level. The smaller coal allocation is partially alleviated by imports, barter deals and use of more low grade fuels. There was adequate hydroelectric power in Bavaria for the chemical plants, but the shortage of coal cut the production of calcium-carbide and calcium-cyanamide. Due to curtailed imports of phosphate rock from North Africa, two major superphosphate firms were forced to close down. The French agreed to ship 40,000 tons of phosphate before the end of June, however, and it was hoped trade negotiations in Paris would soon bring increased imports.

Current potash production, only two percent below the 1951 average of 198,600,000 tons for the German fiscal year just ended, a 20 percent increase. A further 20 percent boost in output is planned for the coming year.

The cement industry continued to complain during May of coal shortages, which caused many plants to continue at 40 to 50 percent operation. Plants with a large export business, however, are getting US coal from their dollar earnings to permit full operation.

The cotton textile industry began to curtail operations in May. Many weavers operated five days per week instead of the customary six days, due to serious decline in domestic sales without any increase in exports. The trend, it was feared, might worsen during June and July. This comes at a time when raw cotton is becoming scarce, and perhaps many plants will be forced to curtail operations anyway, before the new US cotton crop becomes available this fall. Raw cotton stocks are now about 21/2 months, with 4-5 months’ yarn stocks on hand at the spinners and weavers. In view of this situation, an increased interest is being taken in exports of cotton textiles.

The tanning, shoe and leather goods industries continued curtailment in May due to declining domestic sales and despite price reductions. Many firms reported difficulties from a shortage of operating capital which is aggravated by the drop in sales. Loans from banks or the government have been requested to tide over this period.
Rail Traffic Developments

The month of May with its many holidays brought a drop in freight car demands on the federal railroads. Consequently the critical freight car situation improved considerably and the Federal Railroad System was able to return 2,000 freight cars hired from France and 1,000 rented from Belgium. In spite of this momentary improvement, the outlook for the harvest remains unfavorable. The stock of serviceable freight cars now is 247,000, but a minimum of 270,000 will be required in the fall and no orders for new construction have yet been placed.

The 100,000 common wagon park between the German railroads and the French railroads (SNCF) became operative on May 1. The common car office opened in Paris on that date is headed jointly by one German and one French rail official. The additional marking on the cars belonging to the common pool will consist of the word "EUP", which will strongly underline the intention of the French and German railroads that this pool is intended as a forerunner of a single European car park.

Finance

Combined federal and state fiscal operations yielded a surplus of DM 454,800,000 for the last quarter (January-March) of the 1950-51 German fiscal year. The overall deficit of DM 1,014,000,000 resulted from the deficits incurred in the first three quarters: April-June 1950, DM 993,300,000; July-September 1950, DM 834,000,000; October-December 1950, DM 393,400,000; and January-March 1951, DM 454,300,000.

Since currency reform (June 20, 1948), the expenditure pattern has shown the greatest spending during the April-June quarter, with a decrease during the October-December and January-March quarters to a low in the July-September quarter. Thus, the seemingly favorable development of a surplus in January-March 1951 stemmed primarily from seasonal factors affecting both revenues and expenditures. Expenditures other than occupation and related costs were DM 352,000,000 lower than in the preceding quarter.

Revenues reached record heights for January-March 1951. Most of the increase over the previous quarter resulted chiefly from the many annual tax accounts collected in January, and also from the increasing general revenue trend, especially in the turnover and income taxes. Much of the profits of the July-November period of business expansion was reflected in January-March income tax collections.

Another factor affecting this surplus was the fact that the increase in occupation costs and related expenditures was less than expected. These expenditures increased by only DM 1,225,000,000 over the previous quarter to reach DM 1,180,000,000, which is approximately DM 400,000,000 below estimated cash requirements of the various administrative services. As the 1951-52 budget calls for greatly increased occupation costs, substantial deficits can be expected in the near future if these costs are accurately estimated at their high level and unless federal and state revenues are increased or sources extended.

Labor

The downward movement of unemployment, which had slackened appreciably during the first part of May (down 9,700), regained momentum during the latter half when unemployment dropped by 49,500 for a monthly decrease of 59,200. Since mid-January 1951, unemployment has declined by 624,000, thus compensating for 77 percent of the winter increase.

As of the end of May 1951, registered unemployment in the Federal Republic had been reduced to 1,386,900, or somewhat less than in mid-August 1950. In terms of the estimated wage- and salary-earning labor force, the unemployment rate has dropped to 8.7 percent as against 9.1 percent in April 1951 and 10.9 percent in May 1950.

The improvement in the unemployment situation continues to be most evident in the agricultural states which were most severely affected last winter by seasonal influences. The three major farm states, which have 61 percent of total unemployment, accounted for 72 percent of the unemployment drop during the latter half of May 1951.

On the whole, the employment situation continues to be favorable with higher employment in building and construction, manufacturing industries taken as a group, agriculture, and in trade and commerce. Estimated employment of wage and salary earners, climbing slightly above the 14,500,000 mark, achieved another new peak time high for the federal area.

Seasonal causes, especially expanding activity in building and agriculture, remain the chief factors in the employment rise. The increase in building employment, however, was significantly less in May than in April 1951 due perhaps to the interim which usually prevails between the completion of construction begun the year before and new building. The effect of difficulties in financing, especially in the "chemicals, plastics, rubber and asbestos" group, while the upward trend in "sawmills, woodworking, paper and printing" continued caused by rising pulp and paper prices. The consumer price index went up by 1.5 percent to reach 163 percent of 1938. All the items with exception of rent increased slightly.

Berlin

In April, with one more working day than March, the value of industrial deliveries totalled DM 210,300,000 (excluding building industry), a slight increase over the previous month, and a new post-blockade record. The largest percentage gains, as compared with March, were recorded in fine mechanics and optics, chemicals and pharmaceuticals, and structural engineering.

Industrial employment, which in March had also reached its highest level since the end of the blockade, increased somewhat during April, reaching almost 160,000. Total employment during May increased by 4,200, due chiefly to new hirings under the Work Relief Program. The number of gainfully occupied totalled 887,900 at the end of May. The labor force increased by less than 1,000; during the second half of the month, it showed a slight decline for the first time this year. Unemployment was 286,700, a decrease of 3,300 below April.

For the first four months of 1951, Berlin's deficit in current commodity trade with Western Germany and foreign countries amounted to an estimated DM 519,200,000. Since exports to foreign countries (DM 64,300,000) were approximately balanced with imports from such areas (DM 60,300,000), the deficit arose in trade with Western Germany. For the comparable period of 1950, the deficit was about DM 406,000,000, but since the 1950 total trade volume was substantially smaller, the relative position of the city has improved.