Industrial Activities Slacken

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Advance reports disclose that economic activity in Western Germany during August continued the sluggish tendencies of the preceding two months. Post-Korean speculative factors, based on the fear or hope of rising prices, have lost much of their force, while current expectations of stable or falling prices have retarded demand for the time being.

Meanwhile, Western defense requirements are already having some influence on the over-all trend of industrial output, in that production in certain industries (building, steel, chemicals) would certainly be lower but for defense orders (including expenditures from occupation costs). While orders booked continued to recede, coal and raw material shortages prevented some industries from increasing their output, and in some cases led to production cutbacks. This occurred in industries where backlogs of orders and unused capacity actually permit higher levels of production than those presently reached.

Seasonal declines in production (summer vacations and normal summer decreases in demand) only served to aggravate the more-than-normal lull in industrial activity. Favorable developments were evident again, however, as employment continued to expand, and unemployment decreases (at about the same rate as in July, but well below the spring rate) and prices remained relatively stable. But it was the foreign trade situation that brought the most satisfaction. Although the balance of payments difficulties of the year were far from resolved, the Federal Republic's external trade was more satisfactory than at any time since the war.

Early estimates for August indicate little change from the level of trade reached in July when exports brought a positive balance of trade for the fourth successive month, and reached a postwar record of $315,000,000. The series of surpluses in recent EPU settlements have carried foreign reserves to a level high enough to neutralize any short-term fluctuations that may occur. And, finally, the terms of trade have shifted to Western Germany's favor as prices of exports continued to increase while the cost of imports, particularly raw materials, will reflect for a certain time the downward world market trend of the past few months. A preliminary report for August shows the index of industrial production at 129 percent of the 1936 level — three points below July.

Foreign Trade

July exports from the Federal Republic increased again over June's postwar record level, reaching $315,000,000 despite drops in domestic production for the second consecutive month. Total imports showed a $30,000,000 rise after the slight rise in June, and stood at $284,500,000 for the month. Imports financed by ECA and GARIOA funds amounted to $40,000,000, therefore the commercial trade balance (excluding foreign aid) amounted to $+70,500,000.

The most noteworthy element in West German July trade developments was the rise in imports by almost $30,000,000 over the June figure of $255,000,000. The greatest part of the import increase was from the EPU area — $26,000,000 higher than in June. Total import payments from the EPU area, however, are estimated at $150,000,000 to $155,000,000, still considerably under the $170,000,000 import licensing figure set by the OEEC.

Imports from the dollar area decreased, although this was in part due to decreases in ECA deliveries. Imports financed with free dollars increased over June, conforming to an upward trend which has been noticeable since February. The import rise from participating countries, of $20,000,000, was split almost evenly between the sterling and non-sterling areas.

Although exports to the Western Hemisphere as a whole increased by $7,000,000, exports to the United States showed almost no change. The increase was almost entirely in exports to South America, particularly to those countries with which Germany has concluded payments agreements. Exports to other non-participating countries decreased by almost $3,000,000 while exports to the non-participating sterling area increased by $1,600,000. Exports to participating countries made up the greater part (61 percent) of July's increase. Of this $11,000,000 increase, approximately $4,700,000 went to sterling-participating and $6,200,000 to non-sterling participating countries. Exports to the EPU area reached $224,000,000. Deliveries to Finland and Yugoslavia moved up to $11,400,000 while exports to the Soviet bloc remained at $5,000,000.

The import of non-agricultural commodities made up the greatest rise in imports as agricultural commodities have been relatively little affected by the import restrictions of the last several months. Of the $30,000,000 import increase, $21,800,000 was in non-agricultural commodities. Of the rise, approximately 22 percent was in industrial finished goods, 34 percent in industrial raw materials, and 44 percent in semi-manufactures.

The greatest part (79 percent) of the July rise in exports was accounted for by manufactured goods, while the export of raw materials dropped by $3,000,000 and semi-manufactures rose by $2,400,000. Further, the rise in manufactured goods was made up at almost equal parts of finished products (Enderzeugnisse) and pre-manufactures (Vorzerzeugnisse). Ten percent of the total exports increase was due to the $1,800,000 rise in exports of food and agricultural products.

The Federal Republic's cumulative accounting position with the EPU again improved by $51,000,000 at the end of August, reducing its cumulative deficit to $151,000,000 as against the peak of $457,000,000 on Feb. 28, 1951.

Industry

The index of industrial production fell by three points in July, reaching 132 percent of the 1936 level. This is the second straight month in which the index has declined — following the steady rise from a winter low of 127 in January to a postwar high of 139 in April and May. The consumer goods sector of the production index dropped particularly in July (seven percent) and has now fallen 16 percent below the postwar high of 125 in November 1950. Part of the decline in production was seasonal — summer vacations of workers and some normal summertime

This review is based on contributions submitted by reports officers in the Office of Economic Affairs and the Office of Labor Affairs, HICOG.

* DM 1,123,529.40 at the official rate of 28.8 cents to the Deutsche mark.
decrease in demand. However, in contrast to the long-
term up-trend since currency reform, the declines, in June
and July are probably something more than seasonal.

Industry as a whole was producing at a rate six percent
below the postwar record; in some industries the declines
from the postwar highs were far greater — shoes (down
60 percent), leather production (down 40 percent), rubber
products (down 25 percent), textiles (down 15 percent)
and flat glass (down 11 percent). Only eight industry
groups (out of a total of 31 reporting) were at postwar
record levels in July.

It was clearly apparent from the statistics that much
potential output was lost due to the continued decline
in orders. This decline in turn may be ascribed to several
factors: lack of funds, high prices, seasonal factors
(especially in the consumer goods sector), and expectations
of some wholesalers that industrial prices will decline.
This wastage of productive capacity comes, paradoxically
enough, at a time when German officials have expressed
fears of the dangers of inflation and increasing consumer
purchasing power.

In addition to this loss of production from proven ca-
pacity (i.e., the postwar record levels), it is well known
that in many industries, especially outside the heavy in-
dustries, additional capacity exists which has never been
brought into production in the postwar period. When
these facts are taken in conjunction with western Ger-
many's vast manpower resources, it is clear that great
possibilities exist for combating inflationary pressures
through actual production increases.

Coal

The Federal Government's request for a 1,000,000-ton
reduction of the third quarter export allocation was con-
sidered by the International Authority for the Ruhr (IAR)
in August but was not approved and the Council's deci-
sion of a total export of 6,200,000 tons, including the usual
Saan exchange, stands. In addition, the Council of the IAR
with the German delegation voting negatively decided
that the export allocation in the fourth quarter as well
will be 6,200,000 tons, including the Saan exchange. These
decisions have been protested vigorously by all sectors
of the German economy and Vice-Chancellor Blucher,
head of the German delegation, has threatened to resign.

As of Aug. 15, export shipments were 100.4 percent of
the allocated quantities due and inland shipments were
running at 101 percent of the domestic allocations origi-
nally established for the third quarter. To these inland
shipments, imports and South German production are to
be added. (Imports in July were 678,906 tons, of which
332,696 tons were received from the United States.) The
original allocations planned inland shipments of 20,200,000
tons but on the basis of present increasing production
and including imports, it appears that actual availabilities
will exceed these allocation plans by approximately
3,000,000 tons.

Daily average output of hard coal in July was 376,600
tons compared with 389,000 tons in the second quarter
and 386,000 tons in the first quarter of 1951. Total July
hard coal production, which did not drop much because
of one more working day, was 9,814,275 tons compared
with 10,041,300 tons in June. Preliminary figures for
August, however, show daily hard coal output at 374,062
tons and total hard coal production of 10,119,377 tons for
the month.

Production trends in August were irregular and daily
output varied by as much as 22,000 tons per day. In
the first week, production was only 367,000 tons, but
output rose slowly and at the beginning of the fourth week
reached 380,000 tons per day. However, output fell off
to 372,000 tons at the end of August and for the first three
working days in September just topped 370,000 tons.

As of Aug. 22, the measurable loss in production was
15,628 tons per day compared to 12,715 tons per day in
July. Of this, 1,984 tons per day was due to lack of equip-
ment or breakdown, 8,618 tons was due to geological
faults or disturbances, 1,499 tons to mine accidents, and
3,563 tons to unexcused absenteeism. There were in
August, no reported strikes or work stoppages.

Mine employment dropped by 553 workers in July.
There was a decrease of 1,476 face workers and an in-
crease of 1,170 of other underground workers, a net
decrease of 306 underground workers. Surface workers
decreased by 247 in the month. Since May 1, when the
number of workers began to decline, the industry has
suffered a net loss of 2,101 underground workers com-
pared to a net increase of 2,777 face workers and an increase
of 676 other underground workers. With the additional
loss of 140 surface workers, the total decrease in employ-
ment from May 1 through July 31 has been 2,241 workers.

This trend appeared to be changing, however, in August.
In the first three weeks of the month, there was only a slight
loss of face workers, and an increase of more than
1,000 other underground and surface workers.

The German Coal Mining Management (DKBL)
production prize competition and special bonus plans announced
in July ran into trade union opposition in August when
the union formally called the DKBL proposals unsuitable
and refused to approve the prize plans. The union chair-
men emphasized that the miners were conscious of their
responsibilities and that the union executive group "would
take all steps which it must do to make suitable to increase
production" and "furthermore, the union would consider
effective measures in order to achieve a reduction of the
coal export quota such as laid down by the IAR."

In reviewing the trend of daily and Sunday output in
August, it is clear that this position of the union is largely
responsible for the substantial drop in production. After
the union decision of Aug. 22, production fell from
380,000 tons to 372,000 tons per day and is just above
370,000 tons in the first part of September.

Steel, Power and Fuels

The order book for rolled products and semi-finished
steel rose from 8,157,204 metric tons on July 1 to 8,197,204
on Aug. 1. During July, orders were booked for 808,256
tons, representing the lowest booking for any month in
1951. Of the July bookings, however, 147,087 tons, or
18 percent, were for export in contrast to 85,561 tons or
nine percent in June.

During August heavy rains supplied excellent water
inflow to the run-of-river hydro power stations and to
storage basins so that the over-all capacity averaged
900 MW, of which 520 to 630 MW were recorded in
Bavaria. All storage lakes are filled above 95 percent of
capacity and so are in an excellent position to meet the
forthcoming autumn demand.

Approximately 100,000 tons of coal was saved by the
usually good summer water conditions, which have
allowed an increase in coal stocks to 584,000 tons. Coal
deliveries are presently meeting allocations.

German crude oil production continues to increase ac-
cording to schedule, several new wells being completed
during the month. Gasoline and oil stock did not change
appropriately, although there was an increase in consump-
tion with which refining activities kept pace. Tetra-Ethyl-
Lead imports are being made at a satisfactory rate so
that blending operations are not being endangered as
was the case early in the summer. A check on the increased
number of vehicles in the second quarter indicates that
it was nine percent, but the bulk were motorcycles, which
explains the small gasoline consumption increase.

The approved refinery program for the coming fiscal
year calls for a total production of 5,463,600 tons, of which
1,723,200 tons will be motor gasoline and 1,478,000 tons
diesel oil. The proposed increase in refined products for
the coming year indicates that this Federal Government
program is progressing more rapidly than scheduled.

The Iranian oil situation may affect the German petro-
leum industry only indirectly by the additional demands

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placed on other oil fields by countries which have been obtaining supplies from Iran. Western Germany does not obtain supplies directly from Iran.

The chemicals industry suffered its fourth successive monthly cutback in production in August. It is estimated that production dropped seven points. An even more serious decline was prevented by the use of US coal and a change to other fuels. BASF-Ludwigshafen and Bayer-Leverkusen together consumed 25,000 tons of fuel oils during the month.

The firms BASF-Ludwigshafen, and Farbwerke Hoechst, Hoechst, contracted with US firms to deliver dyestuffs and fertilizers against US coal. The firm at Ludwigshafen will receive 25 to 30 percent of its coal requirements from the US, and Hoechst 35,000 tons for the months of August and September. Even so, BASF was obliged to curtail its production by 20 percent.

With a shortage of rock phosphate, the production of superfosphates declined 29 percent.

Rail traffic demands remained at the same level for the third consecutive month. Freight car demands per work-day averaged 56,700 cars and were met satisfactorily by the Federal Railways.

Prices, Labor and Wages

In July, the three major West German price indexes showed very little change, and have stayed relatively stable since April. The basic materials index rose one point, the industrial producer index dropped one point and the consumer index remained unchanged. The period of rapid rise in prices stemming from the Korean war seems to be definitely over, and there are even some signs of falling prices.

The decline in registered unemployment in the Federal Republic during August 32,700, approximated the decrease during July (34,100) with about the same distribution between the states. Total end-August unemployment of 1,259,000 roughly equaled the mid-October 1950 level and exceeded the 1950 low (end-October) by 30,000. The unemployment rate in the wage and salary earning labor force dropped to 7.8 percent, the lowest end-August rate in the past three years (August 1950, 8.7 percent; August 1949, 8.8 percent). Employment is estimated at slightly more than 14,900,000 at end-August.

Tension between the German Trade Union Federation (DGB) and the Federal Government was eased considerably during August as high-level discussions continued between union and government officials. A crisis had arisen when the DGB executive committee recommended the withdrawal of union representatives from all government bodies on economic policy. No action will be taken, however, until the discussions have been completed.

Agriculture

The program for testing the suitability to German agriculture of American farm machinery brought in by ECA in experimental quantities, is progressing well. A large portion of the testing operations is taking place on farms in all sections of the Federal Republic. Local supervision is being exercised by the Curatorium for Agricultural Technology (KTL). The basic principle being followed is to try out the machinery on one farm and utilize other comparable farms as “control groups.” For example, on three farms of similar size, structure, soil and climatic conditions, Farm A will use the American machinery, Farm B will use German machinery, and Farm C will use draft power. The purpose of the program is to cover two years.

Financing is shared joinly by the United States and ECAG Special Mission to Germany (DM 144,000 counterpart funds), and the German agencies (DM 36,000). German scientific and professional circles so far are favorably impressed with the American equipment and are seriously endeavoring to isolate those features which can be taken over successfully into German agricultural practice.

Basic research for the production from farm offal of methane gas for motor fuel has been completed at Aller-hopf farm, near Fallingsbostel in Lower Saxony, and a practical installation for the production of the gas is in operation. The gas is produced chiefly from farm manure, but all farm vegetable waste such as straw, corn stalks, potato vines, etc., are raw materials for the purpose.

Western Berlin

Manufacturers' current deliveries* during July amounted to DM 191,600,000, a decline — chiefly seasonal in nature — of DM 11,100,000 as compared to June. (Both June and July had the same number of working days.) The total number of hours worked declined by five percent for all reporting industry groups because of the large number of vacations. Despite this decrease, however, industrial employment increased slightly for the second consecutive month, reaching more than 166,000 in July.

The city's index of industrial production, which is estimated from the value of manufacturers' current deliveries, declined from 44 to 42. The producers' goods index declined by three points to 43, and the consumers' goods index by two points to 26. These decreases are largely the result of the seasonal summer slump.

Data on total employment for August are not yet available, but labor developments during the first half of the month were marked by continued small increases both in the number of employed and in the size of the registered labor force. Total employment (including 45,000 subsidized emergency workers) rose by about 5,000 to a figure of more than 901,000. The increase was accounted for by hirings in the metals processing, clothing, construction, woodworking and transportation fields, and by the hiring of several hundred white-collar employees. Some 2,000 new emergency workers and apprentices are also included in the figure. An increase of 2,300 in the total labor force was due entirely to the registration of additional adult women and juveniles.

The number of unemployed seeking work diminished by 2,600 to a reported figure of 289,000. The number of unemployed (excluding subsidized workers) is now approximately 25 percent of the registered labor force.

West Berlin's negative balance in its current commodity trade** increased from DM 151,600,000 in June to DM 154,600,000 in July, according to advance information received from the Federal Statistical Office. The average monthly trade deficit for the first half of the calendar year was DM 135,000,000. As has been the case throughout most of the year, exports to foreign countries exceeded imports during July — DM 20,200,000 compared with DM 9,700,000. However, shipments of goods to West Germany declined while receipts of goods increased. The net result was a slight increase in the trade deficit.

* Excluding building construction and electric power and gas production.

** Excluding parcel post shipments. It is believed that normally goods of a higher total value are shipped from Berlin via parcel post than are received in this manner.

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