Princeton Economic's The World Capital Market Review

Issue #4 May 1995 Copyright Princeton Economic Institue all rights reserved
214 Carnegie Center,Princeton NJ 08540 609-987-9522 Annual Subscription US$49.95

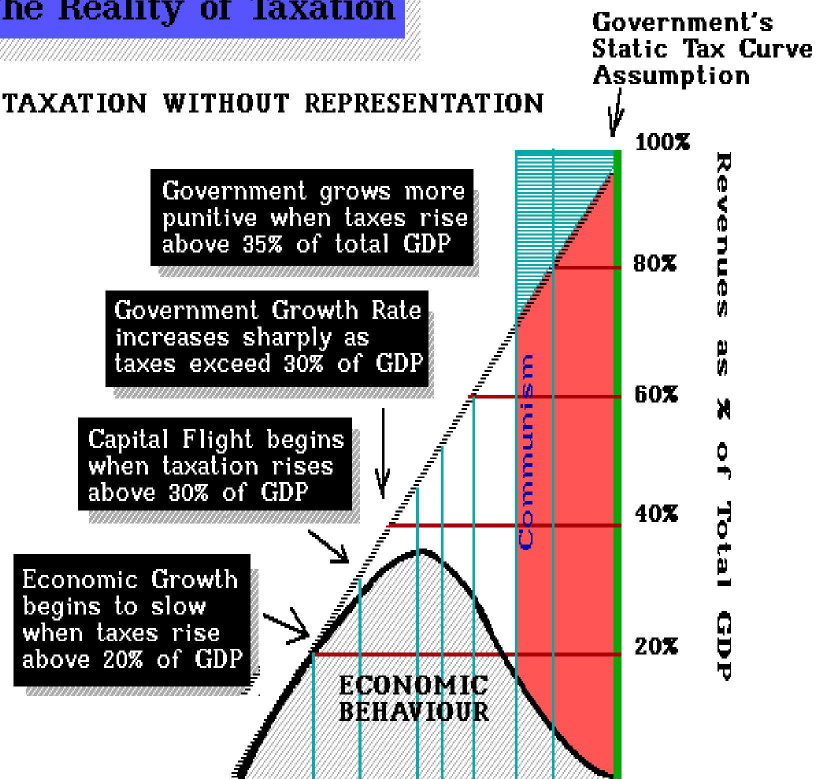
The Death of Socialism & the Plight of the World Capital Markets

by Martin A. Armstrong

There is little doubt that the overall outlook for the world capital markets has been anything but the steady path of the past. While gold rallies, the stock market soars and the dollar collapses, confusion reigns supreme in a world that many would have a hard time denying is at least somewhat strange. In fact, you can put 20 analysts in a room and they would most likely fail to reach a consensus on the perils of the present. Nonetheless, the one unanimous conclusion that would surface is the fact that something is seriously wrong.

For years we have focused upon the role of the central bank both in the private sector as well as from the political perspective. But this fascination with the central bankers of the world is slowly giving way to reality. Perhaps no other society believed so much in the power of the central bank as that of the Japanese. Just 10 years ago when I would deliver a lecture in Tokyo and forecast a minor swing in the yen of 3% or so, the arguments that I received were **NEVER** based upon analysis or even a difference of opinion relative to an interpretation of capital flows. The argument that was always made simply centered around the belief that the central bank would not allow such a swing to take place. Today, Tokyo has joined the ranks of the global community faced with the harsh reality of the fact that central bank intervention does not work and as such the central banks are not in control of the currency no less the world economy.

The question that begs to be answered is simply this: If the central bankers are not in control of the economy, who is? The ironic answer to this question is nobody and



everybody. This basically means that no single person, entity, agency or group is controlling the domestic economy in any nation no less on a global scale. However, the full and complete control does rest in the hands of everybody in a major collective sense. This implies that society as a whole operates within a perfect system of checks and balances that emerges from the collective process of each individual, entity, agency or group. In essence, this is the **"Invisible Hand"** some might believe to be the hand of God. Nevertheless, this natural system by which the **"Invisible Hand"** operates was in fact explained brilliantly by Adam Smith in his Wealth of Nations published back in 1776.

Smith explained that as each individual contributes to society he is so motivated purely out of self-interest while in pursuit of mere economic survival. Therefore, the butcher provides his services to earn income to pay the shoemaker and so on. In more modern terms, the investment banker does what he can to earn income to buy food for his family along with his Mercedes while the politician spends recklessly so that he may keep his job that provides him with power and capital. By insuring that they benefit from their participation within society, each guarantees that his role is self-sufficient which in turn is rewarding society as a whole as they contribute to the building of national wealth, with the exception of the politician, thereby broadening the scope of services available to all members within society.

This is the very basic mechanism that provides the foundation and the driving force for the world economy as a whole. For this reason, our belief that the central bankers are in control of currency value and inflation is absurd. The central bank may attempt to **"influence"** economic trends and currency values, however, the success of such intervention is totally dependent upon the willingness of society to submit. If society does not submit due to a collapse in their confidence within government, then there are numerous countermeasures that society may employ in its own self-interest.

What is far too often ignored is the role of the politician who makes up the third player within this never ending saga. Government, as narrowly defined by the political branch, is incapable of adding to the national wealth. Smith observed back in 1776 that politicians had always been the greatest spendthrifts within society should look well after their own expense and leave the private citizen alone. The observations of Smith in 1776 hold true today. For all the advancements man may have made in the fields of science, our political science experience is strikingly backward propelled by new slogans and dreams that ultimately result in the squandering of the national wealth. Irrespective of the political system, be it communist or democratic, the track record of government finance has been dismal. History reveals that it has always been the waste of government that has led to the ruin of the state and the primary, if not exclusive source of international wealth.

When the central banking system was first implemented in 1913, the role of government within the economy was generally far less than it is today. The central bank was indeed a much greater influence within the economy compared to government as a whole. However, since World War II, the socialistic forces have gained a strong presence worldwide. In places like Russia and China, the socialistic philosophies originated by Karl Marx grew into the communist state where less than 25% of the productive wealth remained in the hands of the people and the balance was consumed by the state. Within the so called **"free"** democratic states, Karl Marx's theories were still the driving force. Britain's Labor Party advocated that the state should own all productive means within society. Only recently has the British Labor Party struck that objective from their charter. This Marxist philosophy swept Europe and was carried off even into Australia and New Zealand as well.

The United States was by no means outside of this Marxist influence. The experience down the road of the **"Great Society"** was a journey down the same path of Marxism with only a minor twist - the ownership of the productive means could remain within private hands while the revenue would be heavily taxed for the benefit of the state. Corporate taxes rose to 70% during the 1960s and the top personal income tax rates rose to 91%. While the US political forces demanded the lives of its children to be slaughtered on the battle fields of Korea and Vietnam in the defense of democracy, the American experience with democracy had been seriously compromised. American politicians routinely chastised other regimes for following the Marxist doctrines when in fact the entire progressive tax structures within the United States were based solely upon the philosophies of Karl Marx.

This postwar trend of Marxism is still with us today. It can be heard nearly any day in the retorts from the Democratic camp that such and such measure will benefit the rich in true Marxist fervor. Even Bill Clinton has proclaimed that he believes that government's primary purpose is the redistribution of wealth - clearly a Marxist sentiment. Still the evidence is quite clear that the general support for the socialist agenda has been declining since 1980 and it will continue to decline moving into 2032. The reality of this trend is only now rising to the surface within the capital markets themselves as evidenced by the bond crash of 1994, the alternative rise in the stock market and the narrowing of spreads between government and corporate debt worldwide. Of course the current flavor of the month is none other that the capital market's disruption concentrated with the currency markets themselves.

The rise in the yen and the dmark have been created not by currency traders or the lack of will

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on the part of the central banks. Instead, the rise in these two currencies is being caused more so by the extreme capital confiscation on the part of German and Japanese governments. What governments worldwide have chosen to ignore is the fact that taxation drains the net disposable income through the mere confiscation of capital. If that level were to rise to 70% or higher, then you are approaching the economic equivalent to communism.

In economic reality, communism can be defined as the confiscation of net disposable income in excess of 70%. The closer a society approaches that threshold, the greater the odds are that economic growth will simply collapse. Within a democracy, huge unemployment would emerge. Within a communist state, near full employment would be achieved with a collapse in productivity and living standards not to mention personal freedom. But high taxation even within a democracy leads to the confiscation of property for tax reasons and the loss of personal economic freedom.

The high tax rates in Germany and Japan are actually confiscating vast sums of disposable income from the productive forces within society. They may choose to ignore this impact, but the capital markets will not. As the tax rates have risen sharply within these two countries under the socialist philosophies of the state, the economic growth has declined rather steadily. In turn, their economies have moved deeper into recession propelled by the need for greater revenue in the face of rising social demands.

We can see the impact of the postwar socialism in Canada as well. Even during the current budget crisis, the Canadian government chose to raise taxes in an effort to shrink the budget deficit rather than reduce the social dependence of the population upon government. It is ironic that the higher the taxes have risen, the greater the economic decline that in turn increases the demand for greater revenues. The cycle is only broken when the economic system itself collapses as the case in Russia and China.

Somewhere along the line the political process became distorted and corrupt following the Great Depression. Politicians shifted their focus under the theories of Marx from being statesmen into mere drug pushers in some respects relative to society. In other words, the drug that they offered was vote for me and I will give you X,Y and Z program. This breakdown in the political process fell into the cycle of addiction. Every program that was offered would be billed as bigger and better. The people were not offered the opportunity to vote for the improvement of society and the good of God and country. Instead, politicians reverted to a form of lowly politics that were based entirely upon votes dependent upon handout programs at taxpayer's expense.

As the political forces found themselves compelled to compete for greater and greater handouts, not merely did the size of government expand, but the demand for greater amounts of revenue expanded as well. Along with this trend, government became ever more resourceful increasing the fines, penalties and interest derived on all sorts of technical violations. In the US, an income tax error made in 1988 will now cost you 100% in penalties and interest compounded at an astronomical rate. Laws in general become far more punitive as the need for revenue escalates with each passing election.

The capital markets have become increasingly more volatile as time goes on. The bond market crash of 1994 is merely one symptom of the problem at hand. Government has merely become a dog chasing its own tail. This incredible demand for greater revenue knows no bounds from the political perspective. Any tax increase is forecast by government to merely capture 100% of its expected intent. What fails to be taken into account is the change in behavior within the people at large. The luxury tax in the United States is one clear example. This tax alone single-handedly destroyed the boating industry that wiped out tens of thousands of jobs. Government **"assumed"** that everyone would simple pay their 10% sales tax and not change their consumption habits. What they didn't take into account was the fact that people could alternatively simply stop buying new boats, retain what they had or purchased used boats to avoid paying the 10% tax. Several years passed by and only after countless jobs were lost and the boating industry contracted by nearly 50% did government lift the tax while retaining it on automobiles.

The **"scoring"** that government performs on its own actions are purely based upon a "static" model. This means that they assume no change in the economy, interest rates or economic behavior by society. This also means that the natural dynamics of the economy as a whole is totally ignored by government in any of its budget process. In other words, the government **"assumes"** that you cannot forecast the future dynamics of the economy therefore it is pointless to do so and in the end the default forecast will be that "nothing" will change. We've all known that while forecast of the future may not be perfect, the one forecast that will be guaranteed to be incorrect is the one that assumes no change in anything from one year to the next.

The employment of this **"static"** form of forecast within the government leads to a number of false assumptions on the part of the politicians. What happens is that they actually believe that they have the right to raise taxes to whatever level they desire and that the population will comply. In other words, if to close the budget deficit a tax hike to 70% is necessary, they will do so and see no economic loss as a consequence. This was illustrated by Canada's latest budget where precious little was cut in spending or in government jobs and benefits but taxes were raised sharply once again on a population that already

pays nearly 20% higher taxes rates than their American neighbors.

The capital markets are acting strangely because they are aware of the escalating debt problems stemming from the postwar Marxist influence within government as a whole worldwide. This is manifesting itself in numerous ways. One such example is the off-shore investment sectors. In 1985, the largest futures fund stood at a couple hundred million. Today, multibillion dollar funds exist. Furthermore, it is now widely estimated that several trillion dollars exist in off-shore investment. This is not the result of any one nation's policies, but the accumulation of tax increases worldwide. As taxes have risen, more and more capital moves offshore. The more capital that leaves, the greater drive to enact punitive laws to stop it. This trend has also influenced migration trends. Even within the United States, upper class citizens have been relinquishing their citizenships to seek retirement in a lower tax nation. This merely prompted punitive laws by the Democrats that upon the resignation of one's citizenship, all assets are deemed to be sold and taxed on the spot even if those assets are not actually sold.

It is ironic that Americans are willing to resign their citizenship while countless others stand in line to get one. The socialist state has set up a system whereby the emigrant receives countless benefits that are not available to the legal citizen himself. Illegal aliens benefit from social services yet do not have to pay taxes. Somewhere in this maze of regulation, the redistribution of wealth has turned into a war against those who create it for the benefit of those who consume it. Yet at the same time, government employment has risen from 20% to 33% of the civil work force far outnumbering those who are so called disadvantaged.

One joke that was circulating around in Washington was very close to reality. In the agricultural department, one worker comes over to console another who is crying and asks... **"What is the problem"? The worker responds... "My farmer died today."** The truth in this joke is the fact that the Department of Agriculture has nearly as many employees as it has farmers. The real benefactor in this process is not the disadvantaged, but the government workers.

In New Jersey, a local cop or fireman can retire if he has 20 years in service regardless of age. We have ex-government workers retiring in their mid 40s with 80% of the pay immediately upon retirement! They do **NOT** have to wait until 65 to collect. The criteria is merely 20 years while the benefits are paid for life. Many of these workers then go out and get another state job and can conceivable retire at 65 with two pensions. If you analyze the budget, what you see is an employee retiring who is then replaced by another. The actual budget expense for a single policeman increases by 180% to the taxpayer.

Capital is acting strangely because it is trying desperately to survive. It is moving away from government sector investment because it knows that there is a bubble that is near bursting stage. As a result, confusion rises along with volatility. This increase in volatility forces more and more players into the marketplace who can no longer afford sitting on the sidelines. Even if someone is unaware of the economic catastrophe ahead, they move their capital because the bonds crash by 20%. They too gradually move into investments that are performing like the stock market. The more these two markets diverge, the greater the economic pressure will be applied to move investment from one sector to the other. As individuals do this, even if totally unaware of the economic consequences, the greater the pressure will be upon government.

In the end, all capital will move in an effort to preserve its own self-interest and integrity. Not everyone possess the same knowledge or understanding of the economic cycle. Those who have been through the 1980s will remember and act differently from someone who has just entered the investment cycle in the post-1987 era. We are quickly approaching the majority level even within the brokerage community that were not employed during the 1987 crash. Many brokers have no idea that interest rates stood at 22% in 1981 no less how the 1987 crash took place in 2 days. This constant new supply of players within the cycle ensures that man as a whole never learns from his mistakes of just a few years ago no less between generations.

In the final analysis, everyone will indeed act out of their own self-interest including government. If the government employees and the benefactors of government's redistribution of wealth system exceeds 50% (currently around 42%), the democratic will of the working class will be forever lost. Their vote will become meaningless and their future will be no different than that of an indentured servant who's labor is exploited to support the ruling class. Democracy was born from the feudal system where 50% of the wealth was paid to the lord. Even the American Revolution with all its slogans of **"No taxation without representation"** fades into the history books as we come full circle in the cycle of economics. So for those who doubt the existence of cycles, one need other read the passages of time and circumstance for we of all nations have arrived at the same point where taxation is no longer connected to the representation of the voting working class. The capital markets are warning, that the age of socialism is collapsing in the same manner as the once great Russian state. What many may think is unthinkable does indeed take place within the compressed space of a few years. The reason why dramatic change is always swift is because it takes a great deal of time to force the majority to see that indeed they are being exploited. As you reach a point of critical mass, it rises to the surface abruptly. This dissent has been rising in the US since the 1992 election where a third-party candidate suddenly captured 19%

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of the popular vote. Clinton chose to ignore the fact that he won with the lowest total percent of the popular vote in nearly a century and moved on to build an ever bigger government state. That was totally rejected in the 1994 elections that swept the Republicans into a controlling position. As the arguments now rise from those who benefit from government, the dissatisfaction of the wage earner builds. The Republicans will **NOT** be given 40 years to work out the problems. At best, they have perhaps a 2 year window to produce dramatic change before the political process begins to totally disintegrate. This trend is evident in just about every nation on earth. This is what is wrong and it is also this trend that is self-evident within the capital markets. Be prepared for dramatic change and high volatility as we

approach a year that will prove to be a major turning point on a global basis - 1998.

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UNITED STATES:

CONSUMER CONFIDENCE: US consumer confidence rose strongly in April to its highest level in five years, indicating that the economic expansion may regain momentum later this year.

The Conference Board, a New York analysis group, said its confidence index rose to 105.5 against 100.2 in March and 92.1 a year ago. Confidence readings this high usually signify robust economic growth. The figures surprised many Wall Street economists who have been revising down growth projections following a series of weaker then expected economic statistics.

EXISTING HOME SALES: Existing home sales rose moderately in March in response to lower mortgage rates and strong consumer confidence, showing tentative signs of a recovery in the housing index. House sales were well off the red-hot rate of 4.11 million homes in March 1994, but many analysts are encouraged that the housing market may be gaining ground.

INDEX OF LEADING INDICATORS: The index of leading economic indicators fell 0.2% after not changing in January, another indication that the US economy is slowing.

A separate report disclosing a surge in wholesalers' inventories also suggested that a weakening of consumer demand could lead to production cutbacks in coming months. Wholesalers' inventories climbed 1.2% in February to a seasonally adjusted $241.2 billion following a 1.5% increase in January. The Commerce Department said it was the largest back-to-back increase in wholesale inventories since September and October 1987. Still, wholesalers' sales were up a healthy 1% in February.

The index of leading indicators is supposed to forecast turns in the economy 6-9 months in advance, but has an inconsistent record. Many economists regard it as a more reliable guide to current economic conditions. The Commerce Department said seven of the 11 components of the leading index were down in February. The biggest negative was a decline in prices of industrial materials, a sign of waning factory demand.

Many forecasters now project economic growth at an annualized rate of 2.5% or less this quarter, half the figure at the end of last year. However, some regard the slowdown as a pause before faster growth resumes in the second half of the year.

PURCHASING MANAGERS INDEX: The purchasing index - a widely followed guide to conditions in manufacturing industry - fell to 51.4% against 54.5% in February. Most economists had expected a smaller decline - to about 53.5%. The index, however, remained above the 50% level that marks the threshold for an expanding manufacturing sector.

This report and weak spending data for February is seen to confirm earlier figures that point to a deceleration of economic growth in the first quarter. The Commerce Department said personal incomes rose 0.5% between January and February, slightly more than economists expected. However, it revised figures down for January to show a gain of 0.7% rather than the 0.9% previously reported.

The report confirmed previous signs of a lull in consumer spending. Personal consumption rose only 0.1% in February, the smallest gain since April of last year. After allowing for inflation, spending was down 0.1%. But data for January were revised up to show a gain of 0.7% rather than 0.4%.

MANUFACTURING EMPLOYMENT: Official figures showing an unexpected drop in US manufacturing employment indicated that factories may be scaling back production plans in response to weaker consumer spending. The overall unemployment rate rose 5.5%, against 5.4% in February. The Labor Department said payroll employment rose 203,000 last month, less than expected. Manufacturing employment fell by 4,000, following a small increase in February and monthly gains of about 40,000 between October and January.

PRODUCER PRICE INDEX: Official figures showing producer prices were flat in March were seen as further evidence that the US economy will be heading for a soft landing. The Labor Department said the producer price index for finished goods was unchanged last month and up 1.6% in the year to March. Most Wall Street economists had expected an increase of about of about 0.2%. The figures raised the likelihood the Federal Reserve will keep monetary policy on hold for several months, regardless of the dollars weakness in the currency markets.

The price data is consistent with sales and employment figures indicating economic growth indicating economic growth slowed in the first quarter in lagged response to interest rate rises last year. The consensus view is that the economy may now be growing at an annualized rate of about 2.5%, half that of last year.

Many economists believe greater upward pressure on producer prices remains likely, despite the economic slowdown, as companies pass on cost increases on goods at earlier stages of production. So far there is little evidence of this. Price pressures have been offset by restrained wage inflation. Companies are also afraid that they will lose market share if they pass on cost increases.

INDUSTRIAL PRODUCTION: Further evidence that the Fed's efforts to cool the economy have been successful was the report showing the first drop in industrial production for six months. The Fed said industrial output fell 0.3% in March and it revised figures for February to show an increase of

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only 0.1%, rather than the 0.5% previously reported. The production decline was lead by the big three car companies, but also reflected a broad-based industrial weakness. Output of cars and trucks fell 2.6% from February while output of consumer durables dropped 1.9%.

In an important sign that upward pressure on inflation may be easing, the Fed said that the rate of capacity utilization dropped for the second month running in March, to 84.9% from a revised 85.4% in February.

JAPAN

BANK OF JAPAN WARNING: Japan's central bank issued its strongest warning yet that the yen's rise risks terminating the economic recovery. The Bank of Japan warned in its quarterly economic bulletin that moderate economic growth was continuing, yet the pace was slowing "conspicuously". Economic uncertainty has increased rapidly as a result of the currency turmoil.

The yen's rise , by more than 20% so far this year, has accelerated "price destruction" and has increased the pressure on financial institutions to restructure their balance sheets, said the bulletin. It predicted that export growth would weaken, causing a reversal in the recent improvement in corporate earnings and business confidence. Wholesale prices, which fell an estimated 1.8% last year, will be dragged down further by the increase in low cost imports resulting from the yen's strength. The bank said that consumer prices will grow fractionally - just above zero.

The slowdown in export growth and sharp rise in imports will bring a moderate decline in the current account surplus. At $129.3 billion last year, the surplus is the root of the yen's strength and has so far responded little to what is widely regarded as ineffectual attempts by the government.

MANUFACTURERS' INVESTMENT IN EUROPE: The pace of growth of Japanese manufacturers' investment in Europe is expected to recover this year, after lagging for five consecutive years, according to the Japan External Trade Organization. In a Jetro survey, the projected recovery is a reflection of how the yen's sharp rise of more than 20% so far this year has forced Japanese companies to plan a fresh wave of foreign investment to maintain their international price competitiveness.

According to the survey, by the end of last year their were 720 manufacturers affiliated to Japanese companies in Europe, 19 more than at the end of 1994. That was the smallest annual increase this decade and reflects a general retrenchment in investment by Japanese companies, many of which are still generating historically low profit margins because of weakness in their domestic economy. According to Jetro, of the total surveyed, 55.3% said they planned to expand in Europe, a sharp rise on last years 45.3%. The growing interest is as much due to the yen's appreciation as it is to the growth of central European countries.

INTEREST RATES: The central bank cut the official discount rate, at which it lends to commercial banks, by 3/4 of a percentage point to a record low of 1%, the first drop since September 1993.

The Bank of Japan cut its main interest rate to stimulate the economy, limit the rise in the yen and bolster an otherwise weak economic package designed to promote the recovery. Economists greeted the cut with relief, coming three hours after the government published an eagerly awaited package of public spending and deregulation. It turned out to be short on detail and the financial markets were thoroughly unimpressed.

Mr Tomiichi Murayama, the prime minister, admitted that the package was only "more or less" satisfactory. Mr Masayoshi Takemura, the finance minister, said it was the result of the government's "utmost efforts". Mr Yasuo Matsushita, the central bank's governor, said he cut interest rates because the yen's rise was "threatening to choke the recovery's momentum. The cut was "expected to provide the bank's utmost support for the Japanese economy to assure its fundamental trend toward recovery and sustained growth without inflation.

IMPORTS: Japan's imports of finished products in 1994 jumped 21% to $151.7 billion, the biggest year-to-year jump since 39% growth in 1988.. The Japan External Trade Organization cited the yen's strength and a recovering economy. Also contributing to the increase were continued growth in imports of low-priced products from Asia and purchases of high-priced items such as autos and clothing from thee US and European Union. Japan's ratio of imported finished products to overall imports rose to 55.2% in 1994 from 52% in 1993. Imports from the US grew 18% to $40.36 billion.

With a strong yen allowing lower prices, March sales of imported cars, trucks and buses in Japan surged 39% to 45,105 vehicles. The showing marked the 15th monthly year-to-year increase in a row. The total included a 43% jump in auto sales to 42,202, a record for March because of dealers' aggressive campaigns ahead of the fiscal year end on March 31. Cars made at Japanese plants abroad rose 28% to 13,061. For the year, sales of imported cars soared 53% to 332,952 from the earlier.

CURRENT ACCOUNT: The announcement by the Finance Ministry that February's current account surplus increased by 1.5% on a year earlier dashed hopes that a long awaited fall in the Japanese current account deficit would relieve the pressure on the yen. The surplus rose to $12.33 billion on an unadjusted basis, according to the preliminary report. This was larger

than analysts' forecasts and enough to suggest that the underlying pressure on the Japanese currency is unlikely to abate soon.

But the rise in the yen was clearly partly responsible for the increase, since the surplus rose in US dollar terms only, as Japanese exports grew in value, and the price of imports declined. Measured in yen, the gap narrowed by 6.2%.

In February, the recovery in activity helped to boost total exports 18.7% on a year earlier to $34.28 billion. Though imports continued to rise faster, by 32.5%, they were unable to match the increase in exports, and reached just $20.97 billion, leaving the trade gap at $13.31 billion, 2% higher than the same month a year earlier.

The deficit on the long-term capital account was again far lower than the current account surplus, suggesting that Japanese investors are still reluctant to re-invest much of the money generated from the current account surplus into investment overseas. This factor has been a main reason for the continuing rise in the value of the Japanese currency. In February, Japan's capital account recorded a net outflow of just $5.3 billion, leaving a basic balance of $7.03 billion.

CAR OUTPUT: Japan's vehicle output fell for a fourth year in 1994/95 as the strong yen dampened exports. The industry expects production to continue dropping this year. Japan produced 10.62 million vehicles in the year to March 31, 1995, a 2.1% decline from the previous year, according to the Japan Automobile Manufacturer's Association. It has been 15 years since Japan last produced so few vehicles. In 1979/80, the country's car plants turned out 10.07 million vehicles.

CARMAKERS TO CUT COSTS: Japanese carmaker, battered by the yen's persistent rise against the dollar, have embarked on a campaign to reduce costs by a further 25-30%, according to a Japanese trade official. The move makes it highly unlikely that they will agree to increase their procurement of foreign car parts as was requested by the US, Mr Osamu Watanabe, director-general of the Machinery and Information Industries Bureau of the Trade Ministry said. The country's car industry has made substantial cost cuts over the past several years as they faced a rising yen and in the latest round of cuts they were "fighting for their survival", Mr Watanabe said.

FRANCE:

FRENCH TRADE SURPLUS: High aircraft sales helped lift the French trade surplus to FFr 11.03 billion ($2.28 billion) during February, according to official statistics. The seasonally adjusted trade surplus, or the level by which exports exceeded imports, jumped sharply from FFr8.64 billion in January and was only a little below its record level of FFr11.9 billion in December 1993. The rise included the sale of 14 Airbus aircraft accounted for during the month for FFr6.49 billion, compared with the sale of three for FFr1.01 billion in January this year.

The total value of exports reached a high of FFr119.48 seasonally adjusted against FFr 116.47 billion in January. Imports rose to a new high of FFr108.45 billion in February, against FFr107.83 billion the previous month. The agro-food surplus was FFr4.722 against FFr4.37 billion in January, and industrial net sales, including military equipment, was positive by FFr7.91 billion against FFr4.26 billion in the previous month. There was a positive surplus of FFr493 million with other European countries, against a surplus of FFr4.04 billion in January. This included a deficit of FFr870 million against Germany.

GROSS DOMESTIC PRODUCT: The French economy grew slightly faster than expected last year. Gross domestic product rose at least 2.6% against a forecast 2.5%, according to Insee, the national statistics institute. Insee publishes two sets of GDP figures, one annual and one quarterly. The yearly figures put GDP growth at 2.6% compared with a decline of 1.4% in 1993. Quarterly figures put the rise at 2.7% after a fall of 1.5% the previous year. The statistics confirmed, however, that growth slowed in the final quarter of last year, with GDP in the period expanding by 0.6% compared with 0.8% in the previous quarter. Insee attributed the recovery last year to a sharp fall in exports. Consumer spending and investment remained sluggish.

INDUSTRIAL PRODUCTION: French Industrial production rose by 0.2% in January, leaving output 5.6% higher than in January 1994, according to seasonally adjusted data from the national statistics office, INSEE. Manufacturing output fell 1.8%, but this was offset by a 7.2% increase in energy production. Electricity exports were particularly strong. Semi-finished goods output fell 3.8%, partly due to severe flooding in parts of the country that closed factories.

French industrial production continued to rise in March, with office equipment and food processing businesses showing the strongest growth, according to the Bank of France.

M3 MONEY SUPPLY: M3 money supply, the Bank of France's preferred indicator of domestic inflation, rose 0.9% during February and 2.8% in the quarter ending that month, compared with the same period a year earlier. In the last six months, M3, the broad measure of money supply, has been rising at an annual rate of 5.4%, the bank said. That's above the target of 5% a year for the medium term, which the Bank of France reaffirmed in December when outlining its 1995 monetary policy. M3 is composed of cash in circulation, demand and most savings deposits.

The growth in total domestic debt, another inflation indicator the

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bank is monitoring, remained firm. It grew at an annual 3.9% in January after 4.2% in December. Bank lending fell an annual 1.4% in January, after falling 0.7% in September.

M1, which includes notes and coins in circulation as well as sight deposits, grew 1% in February after shrinking 2.4% in January. M2, which includes M1 plus savings accounts grew 0.8%.

CURRENT ACCOUNT: An exceptional payment by the European Union boosted France's current account surplus to 32.3 billion French Francs ($6.5 billion) in January, according to the Economy Ministry. That compares with a surplus of 8.4 billion francs in December, revised from an initial estimate of 12.93 billion francs. Excluding the EU payment of 20.4 billion francs, the current account surplus was 11.3 billion francs, compared with 17.39 billion francs in December. Figures are adjusted for seasonal variations. The current account includes transactions in goods and services as well as transfers to and from international organizations. In 1994, the current account totaled 52.1 billion francs, unchanged from 1993.

CONSUMER PRICES: French consumer prices rose 0.3% in March compared with the previous month and 1.8% from a year earlier, according to the National Statistics Institute. As the economy gears up, French retail price inflation has been steadily creeping up since December, when it stood at 1.5%, a near 40-year low. These numbers came after the Bank of France, in an annual report, reaffirmed its goal to cap inflation at 2%. The Economy Ministry said the "very slight increase" in the annual rate of inflation for March came from "transitory factors." These were a rise in fresh food prices and wage increases in the health services.

Manufacturing prices rose 0.7% in March, after 0.6% in February and 0.3% in December. That's because the impact of last year's discounting on cars is no longer felt in the statistics, the ministry said. Nonetheless, prices could rise in coming months if employers give way to wage claims. The last few weeks have seen a rash of strike actions in the public and private sectors.

In contrast, prices in the private sector were relatively well- behaved, increasing 0.1% in the month and 2.2% in the year, down from 2.5% in December and 3.5% in December 1993. In February, consumer prices rose 0.4% in the month, giving an annual increase of 1.7%. The inflation rate differential between France and Germany, its favored yardstick, has narrowed to 0.5 percentage point: Germany's annual rate of inflation has fallen to 2.3% in March, down from 2.4% in February.

UNEMPLOYMENT: Mr Michel Giraud, labor minister said French unemployment fell in March for the sixth month in succession, declining by almost 10,000 to 3.29 million and keeping the government on course to reduce the number of jobless by 200,000 this year.

France's unemployment rate, at 12.3% the highest among the G7 group of industrialized nations, has been one of the main issues in the contest to succeed President Francois Mitterand.

CONSUMER SPENDING: Consumer spending in March showed a marked decline, reflecting a continued caution on the part of French consumers and remain a weak point in the broader economic recovery. The 1.1% fall in consumer spending on manufactured goods in March was seen by economists as disappointing, particularly given concerns that the strength of the franc might limit French exports.

CANADA:

NEW-HOUSING INDEX: Canada's new housing index fell 0.3% to 135.4 in February from January, according to Statistics Canada. The house-only index and the land-only index fell 0.2%. In January, the new-housing price index stood at 135.4. The index had a base year of 100 in 1986. The biggest decrease in new-housing prices was in London, Ontario, down 2.5%. It was paced by price declines in Edmonton, Alberta and in Ottawa-Hull. The index declined 0.4% from the year earlier month, the eighth consecutive month of negative annual change.

MARCH HOUSING STARTS: Canada's national housing starts dropped to their lowest level since 1982 on higher mortgage rates and a stalled jobs market, according to Canada Mortgage and Housing Corp. National starts fell 18.4% to 110,400 units from 135,300 units in February. All figures are seasonally adjusted at an annual rate. Both single-detached and multiple markets "fizzled last month", according to the CMHC. Construction of single-family homes fell 23.6% from February, while construction of apartments and condominiums fell by 21.1% from the previous month.

BUDGET DEFICIT: Increased revenues and lower public spending helped shrink February's budget deficit to C$2.352 billion (US$1.69 billion) from the year-ago $2.415 billion, the Finance Department said. Public debt charges increased 30% to $3.573 billion from $2.748 billion a year earlier because of higher interest rates and costs associated with servicing a higher stock of debt. However, increased revenue more than offset much higher public debt charges, the department said.

Revenue totaled $9.974 billion, up 8.6% from the year-earlier $9.182 billion, while spending dropped 1.1% to 8.753 billion from $8.849 billion in the year-ago month. In the first 11 months of the

fiscal year, the deficit has decreased $5.4 billion because of higher-than-expected revenues and lower program spending, Finance said. The April-February budget gap fell 16% to $28.708 billion from the year-ago $34.135 billion. Revenue rose to $109.421 billion, up 7.4% from the year-earlier $101.855 billion. Program spending, meantime, slipped to 100.078 billion from the year ago $101.088 billion. Public debt charges in the 11 month period rose 9% to $38.051 billion from the year ago $34.902 billion.

Finance Minister Paul Martin projects the deficit for the year ended March 31 will come in at $37.9 billion, or 5.1% of GDP. By 1996-97, Martin has pledged to lower the gap to $24.3 billion, or 3% of the county's output of goods and services.

JOBLESS CLAIMS: The number of people receiving unemployment insurance in Canada fell 2.2% in February from January, Statistics Canada said. Some 752,000 Canadians received benefits in February, down from 769,000 in January. The decline, according to the statistics agency, continues the downward trend started in mid-1992. In February, the number of people who filed new claims fell 0.5% to 250,000. New claims were down 3.5% from the year earlier month. All figures were seasonally adjusted.

On an unadjusted basis, unemployment insurance benefits paid out in February totaled C$1.353 billion, down from the month earlier $1.535 billion. Such payments were down 15% from the year-earlier month. February's average weekly jobless benefits payment fell 0.2% from the year-earlier month to $265.26, StatsCan said.

IMF - CANADA'S ECONOMIC GROWTH: According to the International Monetary Fund, Canada will have the highest economic growth rate among the group of seven industrial countries this year. In its World Economic Outlook, the IMF said Canada's 4.3% rate of growth in its GDP is outpacing the US, Japan, Germany, Italy and Britain among the leading industrial countries. The IMF said that this rate is likely to be sustainable throughout the year.

The IMF said the national Liberal government had acted effectively to control the deficit in its February budget. Still, more action was needed to reduce public spending. Canada's growth rate will likely slow to 2.6% in 1996, reflecting a weaker US economy and the effects of high real interest rates, the organization said. The report said that Canada's exports and growth have been buoyed by robust US growth, strong market for commodities throughout the past year and by the weakness of the Canadian dollar. In February, Canada posted a record C$2.41 billion (US$ 1.76 billion) trade surplus. In the past 12 months to February, Canada's exports surged 37%; they gained 6.2% since November, StatsCan reported earlier.

RETAIL SALES: Canada's retail sales fell 0.5% in February from January as Canadians bought fewer cars and durable goods, Statistics Canada Said. February's sales totaled C$17.689 billion, the federal statistics agency said. The decline matched economists expectations. January's sales were revised downward to $17.772 billion from the originally reported 17.88 billion.

Excluding car sales, February's retail sales fell 0.3% to $13.595 billion. January's sales were revised to $13.63 billion from the originally reported $13.71 billion. Department store sales dropped 0.5% to $5.961 billion. January's sales were revised to $5.992 billion from $6.01 billion. All figures are seasonally adjusted at an annual rate.

Following a pause in January, when sales rose 0.8%, StatsCan said retail sales are continuing a slump started in the fourth quarter after mostly increasing since mid-1993. February's sales dropped largely because of a 0.7% decline in automotive sales and a 2.3% drop in purchases of durable goods, StatsCan said.

WHOLESALE TRADE: Wholesale merchants' sales rose 0.7% to C$20.809 billion (US$15.18 billion) in February from January on higher automotive and food sales, StatsCan said. February's was better than economist's expectations of a 0.3% decline. January's sales were revised upward to $20.66 billion from the originally reported $20.5 billion. Sales were 15.6% higher than the year earlier month, the federal statistics agency said. All figures are seasonally adjusted.

In February, wholesalers' inventories rose 1.2% to $30.046 billion from January's $29.695 billion. Inventory levels were up 13.1% from the year-earlier month. The inventories-to-sales ratio was changed at 1.44. Canadian wholesalers have lowered their inventories-to-sales ratio as much as possible over the past decade, StatsCan said. Improved transport and extensive use of computerized inventory control systems have helped wholesalers move to "just-in-time" order and delivery policies, StatsCan said.

RAW MATERIALS PRICE INDEX: Canada's raw materials price index rose 0.5% in March from February because of higher crude oil and wood prices, StatsCan said. The monthly increase was above economists expectations of a 0.3% gain. March's index stood at 132.4, up 16.5% from the year-earlier month. The index stood at 100 in 1986.

Excluding mineral fuels, the index gained 0.3% from the year-earlier month. Five of the index's seven components rose last month and two fell. StatsCan said that wood prices jumped 1.67% on the month and crude oil prices moved up 0.8%.

INDUSTRIAL PRODUCT PRICE INDEX: The industrial product price index rose 0.6% in March from February because of higher pulp and paper prices and the ef-

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fect of the Canadian dollar's slipping against the USD. March's increase was higher than economist's expectations of a gain of 0.4% The index stood at 127.6 in March, showing prices were up 9.3% from the year earlier month. the index stood at 100 in 1986.

Excluding petroleum and coal products, the PPI gained 0.6% in March at 129.9 and was up 9.3% from the year earlier month. Prices on intermediate goods (those destined for manufacture into consumer goods) gained 0.8% from February and were up 13.1% on the year. Prices for finished goods - mainly consumer items or those for capital investment - rose 0.2% on the month and were up 3.6% from March 1994. StatsCan said that about 50% of the 0.6% increase in industrial prices was due to domestic and export price increases in pulp and paper. The decline in the value of the Canadian dollar against the US dollar accounted for about 1/3 of the March to March increase, StatsCan said. Other significant contributors to the monthly increase were 1.6% increase in printing product prices, a 1% gain in chemicals and a 0.6% increase in autos, trucks and transport equipment.

The 12-month increase in Canadian industrial prices remains the highest among the Group of Seven industrialized nations, StatsCan said. Canada's 9.3% annual increase is about 7.55 percentage points higher than in the US and a little under 6 percentage points higher than in Germany and the UK. Canada's natural- resource - based economy and a nearly 5% drop of the Canadian dollar over the past 12 months accounts for much of the difference in the rates of change in producer prices.

CONSUMER PRICE INDEX: Higher prices for gasoline and television helped push Canada's March consumer price index to its highest level in two years, according to StatsCan. At 133, the index rose 0.2% from February and 2.2% from March 1994. Although March's price gain was below economist's expectations of a 0.3% increase, the effect of a new 1.5 cents- a liter gas tax and higher food prices pushed the index to its highest level since February 1993, when the CPI rose 2.3%.

DEPARTMENT STORE SALES: Canada's department store sales fell 1.2% in February to $1.117 billion (US$816.3 million) from $1.131 billion the previous month, according to StatsCan. The February sales were 3.6% lower than a year ago. All figures are seasonally adjusted. Inventories in February fell 0.9% to $5.24 billion from $5.29 billion the previous month. Inventories were 0.7% higher than a year ago.

Statscan said, in an advance estimate, it expects department store sales in March to fall 0.9% to $959.1 million from the yea- earlier month. Sales by discount stores are set to rise 8.3% to $504.9 million, while spending in major department stores is seen falling 9.4% to $454.2 million.

AUSTRALIA:

WESTPAC CONSUMER CONFIDENCE INDEX: A widely watched measure of consumer confidence in Australia rose 9.8% to a five-month high in April, reflecting expectations that interest rates may not rise much further. The latest rise follows an 8.9% increase in March. Of the 1,204 people surveyed 34% said they expect their personal finances to improve in the next 12 months, while only 18% predicted worse times ahead. About 55% of the respondents also said it was a good time to invest in major household items. About 22% said it was not.

The Reserve Bank has raised the benchmark short-term rate three times since August to 7.5% from 4.75%. In turn, variable home loan rates have risen, sapping some consumer confidence. For the past year, 30% of people said their situations improved, compared with 36% who felt they were worse off. The survey showed people were divided on prospects for the coming year, with 36% saying they expect the economy to pick up and the other 36% expecting harder times. About 33% of those questioned said the economy will improve further in five years, while 32% were less optimistic.

DUN & BRADSTREET BUSINESS CONFIDENCE: Conversely, according to the June quarter survey of 950 executives by Dun & Bradstreet, business confidence in Australia dived to its lowest point in two years, signaling that domestic growth has passed its peak. The survey of the April-June quarter shows business executives are more pessimistic about sales, profit growth, orders, employment and inventories. The outlook for expanding capital investment also is weak.

The magnitude of crumbling confidence the past six months has been at a faster rate than in the last stages of the last economic boom in the 1980s, just before the economy plunged into the worst recession in 50 years, Dun & Bradstreet aid.

Inflation prospects were a bright prospect in the survey. Manufacturers and wholesalers said they expect selling prices to rise but retailers' expectations for higher prices dropped to the lowest point in six months. The June quarter survey shows that expectations of net sales tumbled 14 points, with 57% now saying they believe sales will rise and 18% saying they expect a decrease. On the index, the net difference is 27 points below the peak last December.

Expectations for profits are now 25 points below the peak in the third quarter of 1994, with 52% of respondents anticipating profit growth and 19% anticipating declining profits. According to D&B, actual profits typically lag expected profits.

Retailers' expectations plunged 25 points to their lowest level since

the September quarter of 1992. Only 44% of the retailers now expect sales increases.

Expectations for growth in inventories has dropped for two consecutive quarters for the first time since 1990. The inventories index has fallen 9 points, with 33% now expecting stockpiles to rise and 23% braced for decreases, according to Dun & Bradstreet. The index on expectations for further rises in capital investment fell to 14 points below its high point last December, with 33% expecting more money will be spent on expansion and upgrading.

CORE INFLATION: The Reserve Bank of Australia again warned that the core rate of inflation may exceed 3%, the upper edge of its target range. The central bank said in its April bulletin on the economy that increasing costs of wages and raw materials, and the decline in the Australian dollar are fueling inflation. It affirmed, however, that interest rates will continue to be directed toward maintaining underlying, or core, inflation at between 2% and 3%. The central bank raised interest rates three times last year to 7.5% from 4.75%.

Underlying inflation exclude volatile prices such as oil and mortgage interest. Core inflation in 1994 was 2.8%. The bank said that the underlying rate of inflation is expected to move upwards, and could rise above 3%, during 1995, as a result of strong demand conditions, increasing wage and salary costs, and higher raw material input prices.

The bank said that the widening trade deficit makes it imperative the government develop and adopt policies that encourage people to save more. The bank also said that growth in personal credit is rising, while credit to businesses remains weak. Although the economy has slowed from its rapid pace of growth last year, the government must deliver an austere budget for the fiscal year that begins July 1. The next budget is due to be made public on May 9.

INFLATION RATE: Australia's inflation rate rose 3.9% on an annual basis, in the first quarter of 1995, compared with 2.5% in the year to end-December. But the upward move was attributed to mortgage rate increases resulting from the three interest rate rises which occurred in the latter half of 1994.

The "underlying" rate - which attempts to filter out extraneous one-off factors, rose just 0.3% in the March quarter, for an annual rate of 1.9%. This compared with 0.5% increase in the December quarter, when the annual underlying rate of inflation stood at 2.1%. The inflation rise was in line with analysts expectations, but the underlying increase was significantly lower than financial markets had expected, igniting a bond rally.

The figures were welcomed by Mr Ralph Willis, Australia's Treasurer, who said that they demonstrated that inflationary pressures remained subdued, although he warned that the impact of last years' interest rate increases would also be felt in the current quarter, pushing up the inflation rate again.

Separate data showed that average weekly earnings rose by 1.7% (unadjusted) in the three months to February, after a 1.5% rise in the previous quarter. The annual rate increased from 4.1% to 4.%%, which was slightly higher than predicted, but was within the range thought by the Reserve Bank to be acceptable, given the rate of productivity improvements.

GOVERNMENT REVENUE: The Australian government's revenues in the year beginning July 1 will be A$1 billion ($733.7 million) less than previously expected because the economy is growing more slowly than previously thought. This means that the government will have to find additional spending cuts or new revenue if it intends to stick with its promise of a budget surplus by 1996-97. The slower economic growth means that the starting point for the budget deficit for the year beginning July 1 - before changes in budget policy - is a A$7 billion deficit, against A$6 billion previously as reported by *The Australian* newspaper.

MERCHANDISE IMPORTS: Australian merchandise imports surged 8% from February to A$6.64 billion (US$4.87 billion), the highest monthly level recorded to date, according to the Bureau of Statistics. That compares with imports of A$6.17 billion in February. Analysts expected imports to rise about 1% in the month. The higher than expected report triggered expectations of a record current account deficit for the month and concern that interest rates may have to rise to subdue it.

HOUSING FINANCING APPROVALS: Approvals for housing financing in Australia fell to their lowest level in three years in February as higher interest rates discouraged potential home buyers. The 1.1% decline in the number of homes financed in February from the previous month followed a record 18.2% slump in January, according to the Bureau of Statistics. February's 33,706 approvals were down 31.1% from a year earlier.

The figures were further confirmation that the housing boom of recent years is over and that the Australian economy is slowing because of higher interest rates. In a further sign that domestic economic growth has passed its peak, Dun & Bradstreet said that its survey of corporate executives showed that business confidence in Australia dived to its lowest point in two years.

Home mortgage rates being offered by banks have risen about 1.75 percentage points to about 10.5% since August last year. The Reserve Bank of Australia, the nation's central bank, has pushed benchmark short-term interest rates up three times since August in an attempt to slow the economy and curb inflation.

February's 33,706 home loan approvals were down from January's revised 34,074 approvals. The bureau said housing financing

was valued at A$3.16 billion (US$2.32 billion), down from A$3.18 billion in January, and the lowest figure since February 1993. The bureau's trend estimate on housing financing fell 2.3% in February, and was down 26.6% on the year. The trend figures smoothes anomalies in the seasonally adjusted data. Most economists expect the housing market to reach the bottom of its cycle in the next three to six months.

GERMANY:

WAGE INCREASES / D-MARK STRENGTH: Germany's leading economic institutes warned the government that the impact of a strong D- mark and a round of generous wage increases are undermining the ability of German companies to crate jobs. The report from six of Germany's most influential forecasters said exports and corporate profits would be dampened by the strong D-mark. It also urged the government to overhaul the tax structure to stimulate demand.

The report did please the government, however, in its forecast of an increase in the GDP of 3% for this year, even though the strong D-mark would restrain growth. The institutes said that west Germany's economy would grow 2.5% this year and east Germany's by 8.5%, compared with 2.3% and 9.2% of last year. They forecast a decline of only 203,000 in the jobless level this year to 3.5 million, an unemployment rate of 9.1%. Unemployment at the end of last year was 9.6%, but the institutes said the government had not paid enough attention to job creation. They argued that pension and unemployment contributions should be cut to reduce labor costs and encourage the growth of jobs.

Although the D-mark had risen by 7% against the currencies of Germany's leading trading partners over the year, the report said companies would maintain market share through cutting prices. It also pointed out that the strong mark would reduce the price of imported materials.

The six research institutes also took aim at the recent round of annual wage increases of about 4%. They said the increases were too large and had put too much of a burden on German companies. The institutes said taxes and social levies totaled 44.5% of GDP and the "state is thereby withdrawing financial resources from the private sector at an unprecedented level. The goal of fiscal policy should not just be to cut the budget deficit, the report said, but also to limit the tax burden and stimulate business activity. The institutes' criticism of tax policy is based on tax cuts for those on lower incomes agreed for 1996.

UNEMPLOYMENT: The Bundesbank stressed the need for changes in wage and tax policies to improve competitiveness and help employment in a debate which is gathering strength as doubts grow about Germany's long-term economic health. Its annual report stated that unemployment has reached a level which is unacceptable over the long-term. This has led to a high fiscal burden which ultimately had to be shouldered by those in work and "threatens to endanger the basis for economic growth and increased unemployment. Noting that unemployment totaled 3.7 million last year (9.6% of the workforce), the bank Said companies were discouraged from hiring new labor because of pay levels, a high tax burden and legal and structural rigidities. High pay rises in 19095 and the D-Marks rise would hinder economic growth and employment.

While making no firm recommendations, the Bundesbank was clear on where it saw the need for action:

- Laws and regulations to protect against redundancies and mitigate the impact of cuts in the workforce take into account the needs for those in work, but "largely exclude the interests of those seeking employment". Such laws limit companies' readiness to take on new people. Competition is also hampered by restrictive shopping hours and by planning hurdles to setting up new business zones.

- The high employee social costs assumed by companies, and the high level of social security costs paid by employees themselves, have made labor more expensive and held back the rise in purchasing power.

- Increased wage differentials could help create jobs. It questioned whether pay differences by sector, region, experience and qualification were large enough to combat structural unemployment. Also, the pay round, in which the first big settlement sets the pace, does not take enough account of varied conditions in different industries.

- Pay deals should meet the needs not just of those in work but also of the unemployed.

The Bundesbank rejected the argument that unemployment should be dealt with by more expansive fiscal or monetary policies. Since monetary policy affected short-term interest rates, a relaxation would not stimulate investment; more than 80% of bank loans - the industry's most important external financing source - are long-term.

CONSUMER CONFIDENCE: German consumer confidence improved in March compared with February on expectations the economy and income levels will improve, the ICON consumer confidence index reported. The improvement was not enough, however, to change the balance of the index in which pessimists continue to outweigh optimists. The index rose 2 points to 90 in March compared to February. It rose 8 points from a year earlier. For optimists to overcome pessimists, the index would have to rise to more than

100. Although demand for consumer durables rose, it still remained below previous levels, and it remains to be seen in the next few months whether the improvement in confidence will continue, ICON said.

PRODUCER PRICE INDEX: The Bundesbank said the Western German PPI on a 6-month annualized basis was 3.2% in March, up from 3.0% in February. The figure, which is adjusted for seasonal factors, is based on unadjusted data reported earlier by the Federal Statistics Office in Wiesbaden. The statistics office said producer prices rose 0.1% in the month to mid-March and were up 1.8% from last year.

WHOLESALE PRICES: Wholesale prices in Western Germany rose 0.6% in March from February were up 3.9% from a year earlier, according to the Federal Statistics Office. The increase was larger than expected. That compares with a monthly 0.7% rise and an annual climb of 3.4% in February. The index for wholesale prices, or WPI, rose to 100.2 in March from 99.6 in February. As with most indicators, the government continues to publish separate inflation data for the country's eastern and western regions.

M3 MONEY SUPPLY: German M3 money supply fell at an annual rate of 2.6% in March from the fourth quarter of 1994, following a contraction of 4% in February, the Bundesbank said in a preliminary report. The contraction was smaller than expected.

The Bundesbank's target for M3, set in December, is for average growth of 4% to 6% from the fourth quarter of 1994 to the fourth quarter of 1995. The Bundesbank said M3 rose at an annualized rate of 3.6% relative to the fourth quarter of 1993, compared with a 3.7% increase in February. M3 averaged a seasonally adjusted DM1.8573 trillion in March, up from DM1.8546 billion in February. German nonbanks ceased shipping funds outside the country in March, contributing to the absolute rise in M3 from a month earlier, the bank said.

German bank lending to companies and private individuals rose by an annualized 6.8% in the six months to March, down from 7.7% in February. The slower pace of outflows also put a brake on credit expansion in March, with lending to both businesses and the government sector abating.

Capital formation, its term for purchases of longer-term bank debt, rose at an annual rate of 10.5% in the six months through March, compared with 10.7% in February.

The Bundesbank said its extended M3 measure, which includes the newly legalized money funds, fell at an annualized rate of 0.3% in the six months to February. During that period standard M3 contracted at a 2.5% annual rate.

Standard M3, under the Bundesbank's definition, consists of cash in circulation, demand deposits, time deposits with maturities of less than four years and most savings deposits. Extended goes beyond standard M3 to include offshore Euromark deposits, some short-term bank debt and domestic and offshore investments in money market funds.

UNITED KINGDOM:

GROSS DOMESTIC PRODUCT: Pressure for a further rise in the UK base rates intensified after official figures showed UK economy grew a faster-than-expected 0.8% in the first quarter. Gross domestic product, the main measure of national output in most industrialized countries, climbed 3.9% in the first quarter from a year earlier, according to the Central Statistical Office, a slightly slower rate than at the end of last year.

This was the same rate of expansion as the previous quarter, but slower than the spurt of growth of last summer, which triggered the first of three recent interest rate rises.

The data startled the City and boosted expectations that Mr Kenneth Clarke, the UK chancellor, and Mr Eddie George, governor of the Bank of England, will raise rates from their current level of 6.75%. The CSO pointed out that despite the slowdown among retailers and manufacturers, the service sector had continued to expand strongly in the last quarter, accounting for about 85% of the overall growth.

INFLATION AND THE "FEEL GOOD" FACTOR: UK consumers are worried about accelerating inflation and think the economic recovery is little more than "average" according to a joint survey by Gallup and Business Strategies Ltd. The quarterly consumer survey shows inflation expectations have worsened in some parts of the country.

In the Southeast, Northwest and East Anglia, consumers expect the rate of inflation to be nearly 6% in a years time, compared with their estimate of about 4% made at the end of last year. Inflation is now running at 3.5%. The government's preferred measure, which excludes home loan payments, is at 2.8%, above its 2.5% target.

The survey also shows the "feel good" factor remains elusive, with consumers experiencing a "feel average" recovery. Although the recovery appears to be putting more money back in peoples pockets, consumers are choosing to save rather than spend.

In the Southeast and Southwest, pessimism about economic prospects has increased significantly and spending growth is slowing from already low levels, the survey shows. By contrast, in East Anglia, optimism is at its highest level since the recovery began and the rate of growth of spending is increasing in the East Midlands, Yorkshire and Humberside and the North.

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1ST QUARTER HOUSE PRICES: UK house prices rose by 1.5% in the first quarter of 1995, compared with the last quarter of 1994, the Times, London reported, citing figures published by Nationwide Building society. Prices were down 0.5% from the same period last year and net sales were about 17% lower. Concern over job security is undermining confidence in the housing market, the paper said.

NEW CAR REGISTRATIONS: New car registrations in the UK fell by 2% to 178,000 in March from March 1994, the *Independent* re-

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ported, citing the UK Department of Transportation. The number of cars produced in the UK, however, rose. The Central Statistical Office said the number of cars produced in tune UK in March totaled 170,530, up 15% from a year earlier.