

# Princeton Economic's The World Capital Market Review

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## Mr. Alley Ooops

by Martin A. Armstrong

**B**ill Clinton seems to have a lot of nicknames surfacing from his past but a new one might be just as appropriate - "Mr. Alley Ooops." The recent discovery that over 400 FBI personal files have been requested by the White House on Republicans both in and out of office, is another in a long string of "Ooops" we made a silly mistake incidents. The passport inspection of Republicans was another "Ooops" we didn't mean it as was the case with Whitewater, "Ooops we lost money and we had no idea what was going on" and, of course, Hillary's "Ooops" I have no idea how the billing records got into White House. And we cannot forget the "Ooops I Didn't inhale" excuse.

Partisan politics aside, if Clinton is telling the truth that all these mistakes, and many more, are simply innocent events that hold no malice or intent, then we must ask ourselves - are the Clinton's mentally capable of being in office? Do the Clinton's realize the responsibility of public office which means accountability on the bottom line? Is incompetence an acceptable ex-

cuse for the President of the United States?

I seriously doubt that so many accusations would have been possible against Carter, Mondale or Dukakis. There was no one in the Republican camp who ever dared to suggest that any of these men were possibly dishonest, corrupt or completely incompetent. Yet there is so much smoke surrounding the Clintons that the laws of probability seem to suggest that all these things are part of a broader picture that paints a dark and sinister character perspective.

We must keep in mind that Watergate never proved or even hinted that Nixon ordered the political action. Watergate was simply about Nixon's cover-up that amounted to obstruction of justice. Even the Iran-Contra affair boiled down to charges of lying to Congress. This seems to be a serious question that is not being confronted in the media. There is a reasonable chance that at the very least Hillary was involved in an obstruction of justice with both Travelgate and Whitewater. After all, the White House only came clean on the FBI files within a few hours prior to a Congressional vote on whether or not the White House would be held in contempt of Congress for refusing to hand over documents. This FBI list suddenly appeared as



part of the Travelgate affair. The Republicans were shocked - nobody was even looking for nor expected this time bomb. One can now only speculate that if this was previously withheld from Congress on the premise of "Executive Privilege," then there could be far worse things that lie ahead in the remaining 2,000 pages that are still being withheld.

The troubles for Bill and Hillary Clinton are only starting to get off the ground. There are rumors about the Clinton's being involved in the drug trade. Perhaps this sounds really off-the-wall, but there is some smoke here as well. After all, Clinton did pardon one of his buddies in Arkansas who was convicted of dealing in drugs in a very big way. It would appear, that drugs from Columbia were arriving in Arkan-

sas finding shelter in the state's bonded warehouse. Of course this might be just another "Oops I didn't know what was going on" defense, but why give a pardon to a CONVICTED drug dealer?

There are simply too many questions that are being answered with "Oops, it was an innocent mistake." It is not logical to request private FBI files on all your political opponents and then claim "but nobody looked at them." It rings the same bell as "but I didn't inhale."

If Clinton is honestly this incompetent, then he should resign before the elections and allow Gore to head the Democratic Party. Gore could then grant him a pardon before the elections or just after the elections even if he lost. If the heat starts to burn too close to the White

House this summer, don't be surprised if this far-out scenario unfolds.

Clinton is not JFK. He isn't even as honorable as Jimmy Carter. The independent counsel will be the one who could make or break this conspiracy and at this point there seems to be one. If McDougal can casually remark to the press that he expects a pardon, then so do the rest of the staff who simply cannot remember what they previously did even under oath. There are too many memories that have selectively vanished. Too many questions left unanswered. Maybe the smoking gun hasn't been found not because there isn't one, but because there is just too much smoke!

**Bloomberg - Internet**

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# The View From Japan

by Martin A. Armstrong

The Japanese economy is starting to improve to some degree, but it remains far from what could be termed a major recovery. The question in Japan is more about restructuring in both the financial aspects as well as industrial sectors. The economic decline that has developed since December 1989 has been a major force that ultimately is reshaping the very way business and the economy itself operates.

Major losses in Japan are still quite prevalent. Much has indeed been written off by companies who were fortunate enough to have some offsetting profits. However, there are still numerous positions that await the cold light of day and these will continue to drip out slowly as time goes on.

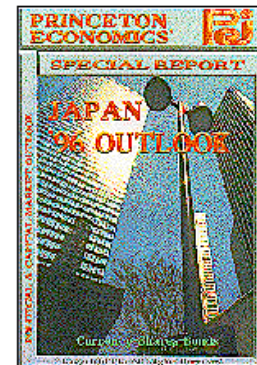
The "intelligent" Japanese Mafia is also being forced into restructuring. This branch of the Mafia in Japan are known as the "intelligent" group because they are not involved in prostitution or drugs - just corporate blackmail. Besides showing up at construction jobs, one of the biggest scams has been to threaten Japanese corporations with disrupting their annual shareholder's meeting. The mob would stand up and ask some very embarrassing questions that would cause the company to lose face. Naturally, the company would receive advance notice that they would be attending the meeting causing management serious anxiety attacks.

Nevertheless, Japanese corporations are fighting back. This June 27th will be a monumental day in Japan. The vast majority of share-

holder's meetings will all be held on the same day this year. It is an attempt by corporate Japan to break the back of the "intelligent" Japanese Mafia since they will be unable to attend all the meetings

simultaneously. This will be a real first in Japan and many are waiting to see if the outcome is a victory or a huge embarrassment for the corporate world in Japan.

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# Turmoil and Tension and the Balance of Power

by **Bruce Allen**  
**Executive Director,**  
**United Kingdom &**  
**Middle East**

he Balance of Power within Europe and the Middle East and the balance to stay in power seems to be the number one skill needed as we approach the second half of this politically tumultuous year. Tensions have erupted between the UK and the European Community structures and fellow members. Political elections have been inconclusive in the Czech Republic, similar to results elsewhere in the world. Turkish-Greek territorial disputes have arisen again and tension in the UN buffer zone in Cyprus increased with the shooting of a Greek-Cypriot soldier by Turkish troops while within Turkey, the coalition government is tottering near collapse.

Arab leaders plan to meet in Cairo on the 21st of June to forge a common approach to Israel's newly elected Prime Minister, Binyamin Netanyahu with neither side expected to have much flexibility to offer. Iran and the Gulf states, including Saudi Arabia, remain on a collision course. While the threat to security from Iraq is seen to be contained, the threat from Iran is seen to grow as Teheran improves relationships with Russia and negotiates to import Russian technology. US and British agencies have been warning their respective governments of Iranian sponsorship of "terrorism" in Egypt, Bahrain, Algeria, Saudi Arabia and Kuwait backed by a \$100 million budget. The United Arab Emirates has \$6 Billion to spend on war planes specifying a range to reach targets around Teheran and balancing this prize contract against Western

assurances of military and political support when needed. Other Gulf countries appear likely to purchase additional arms as rising oil prices reduce their deficits.

Within Russia itself, the extraordinary efforts by Yeltsin to be re-elected are only leading to further turmoil no matter who takes the presidency. The almost comic efforts to achieve a cease-fire in Chechnya on paper orchestrated for the predominantly pro-Yeltsin media were followed by the dramatic forced transfer of Rbs 5000 billion from the Russian central bank to the federal budget to pay for election promises only a few hours after the IMF disbursement approval of its last loan tranche (\$330 million) before the June 16th elections.

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## Balancing in the United Kingdom

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### The Prime Minister's Balancing Act.

The start of the talks in Ulster to reach a settlement of Northern Ireland's problems were marred by the exclusion of the Sinn Fein delegation on the one hand and the threat by the Unionist delegations to walk out because of their perceptions of Mr. George Mitchell - the former US senator, appointed as chairman of the talks. John Major, the British prime minister, appealed for reason and flexibility from all parties to get the talks moving. This appeal might well puzzle senior European Commission officials and European ministerial colleagues who are furious at Britain's blocking tactics since Mr. Major announced his program of non co-operation in Europe over the ban on British beef exports. While there is hardly a country who will import

British beef anyway since the BSE epidemic broke out several years ago - it is the principle of the thing. Just like in Northern Ireland.

### The Chancellor's Balancing Act.

The UK Chancellor, Kenneth Clarke, reduced interest rates from 6% to 5.75% in May balancing the inflation-concerned stance of the Bank of England against the government's political agenda. The Bank's view that the March quarter percent cut was insurance against a short term weakening of the economy and should not need to be repeated was obviously brushed aside as the Chancellor pointed to easing cost pressures to justify the move. His stated aim is to narrow the gap to achieve the same real interest rates as France and Germany. This gives a target of 5 percent. Supporting his action was the fall in industry's cost of fuel and raw materials last month prompting manufacturers to cut their prices for the first time in four years. Other commentators point to the strongly rising trend in consumer credit and spending together with the rise in average earnings growth. Figures released by the Office for National Statistics revealed falling oil prices caused the 0.5 percent seasonally adjusted fall in industry input costs, more than halving the annual rate of increase from 2.4 percent to 1 percent. While the market feels now that odds have shortened on further interest rate cuts, rising oil prices in the second half of this year will give the Bank of England justification for saying "I told you so!".

# The Czar, His Nobles, and the Soviet Serf

by **Dana Schneider**  
**Director of Russian Studies**

t is interesting to note how Boris Yeltsin is returning his country to a familiar pre-Soviet condition instead of a post-Soviet democracy. The Russian constitution provides for a broad individualized power that is most unlike that in the western democracies. Since assuming control of the Russian Federation, Yeltsin has created a strong independent presidency, a coterie of monopolistic businessmen, a Chechnyan War, and a disaffected public. Yeltsin has become more and more accustomed to utilizing these broad powers if not exploiting them, thus creating a dangerous precedent. In this respect, the Russian presidential elections in general are more critical to world stability than most world leaders have let on.

The ability to govern unchecked underscores the mistaken stability of this vast land mass and should serve as a warning for western leaders to direct their concerns toward Russian foreign policy as a whole and not just the June elections. Of interest should be Yeltsin's decision to send troops into Chechnya in December of 1994 apparently without approval from the Parliament or Ministers of the government. Surely, the case for this action was not made clear nor convincing to the Russian people let alone the world community. Other military movements include troops in Georgia, Tajikistan, and meddling in Armenia and Azerbaijan. A recent trip to China produced a pact between Yeltsin and Jiang Zeming in which strategic information of troops, military actions on the Chi-

nese borders and within the former Soviet Republics along these borders would somehow be mutually communicated. Exactly who, if anyone, is advising the President in these movements and influencing negotiations is not clear.

The highly personalized nature of the Russian presidency provides great opportunity to slide toward the political culture similar to that of the Czars. Many policies and changes have been done by presidential decree. Yeltsin moved the former KGB under his authority and away from the Defense and Interior Ministries. He has recently decreed the central bank to hand over \$990 million although in violation of the IMF agreements and the governments monetary and fiscal policies (the Parliament took the "recommendation" and passed the legislation). Despite a protest from the bank, Yeltsin overruled it and used the money to pay off the huge cost of campaign promises. The media, press, and political opposition groups have been subjected to various attacks on freedom of speech and assembly. A report on human rights violation published by the UN is 30 some-odd pages long. Along the way, the Duma, Federation Council, and the Ministers have been noticeably absent from the decision-making process.

The political system of the Czars allowed them to rule and maintain power through a unique relationship with the Nobility. Unlike the Soviet regime where the Party and its mechanisms were highly subordinated to the Soviet Premier, the Czars held power in a tenuous relationship with the gentry through appeasement and punishment. There is no better illustration of this alliance than the Charter of the Gentry decreed by Catherine the Great in 1785. In effect, the Nobility was released from mandatory

military and administrative duty, received freedom from taxation and corporal punishment, access to address the Senate and court directly, and gained absolute right to all living and non-living entities on their land. However, the Czar held absolute right to end any such privilege. The serfdom of the peasants was sealed during this period and the symbiotic relationship of the Czar and the Nobility would continue until 1917.

Today, Russia's Parliament is dominated by old participants of the Communist party and the government regime. Indeed, much of the privatization of industry, financial institutions, and natural resources has benefited an extraordinarily small number of people. The arbitrary and dubious application of Russia's tax, lending and acquisition laws has given an unusually corrupt appearance. The inability of the Russian government to stop the contract murders associated with big business and the mafia is viewed as evidence of collusion in corruption and appeasement to these rogue capitalists. Challenges to the legitimacy of industry acquisitions have been ruled invalid and the Russian Constitutional Court has been dismissed. A small class now exists who both provide to and receive from the government a variety of political, economic, and legal services. Indeed, members of this group maintain their own small private army for security purposes - against the struggling power groups and even against one another. Yeltsin and his corporate gentry are swaying Russia's government, her market institutions, and her rule of law.

Toward the latter part of this past April, a full page proclamation to Yeltsin and his main rival, Zyuganov, was run in *Izvestia* by 13 prominent wealthy businessmen

who represent major banking, oil, natural resource, and communication industries. They have often participated in the "loans for shares programs" with the government and provided consultation for a variety of legislative actions and presidential decrees. Although not highly visible to the public in the daily political activities of the government and the parliament, their access to Yeltsin and the influence and benefits received under Yeltsin can not be ignored. This cozy yet tedious arrangement bears some similarity to the Nobles and patrons of the Czars.

The Russian Orthodox Church was also deeply linked to the affairs of the Czars. In 1054, the Eastern Orthodox Church broke from the Roman Catholic Church. Attempts to reunify were rebuked and the Russian churches finally left the Eastern Orthodox church in 1589 to become its own national institution aiding the power and legitimacy of the Czar. Although the Church was virtually subjugated to the state under Peter the Great in 1721, the clergy remained exempt from many of Peter's dictates and received from the state its salary, perks, and aid in enforcing its religious hegemony. The role the Church played in the process of coronation of the Czar was deeply revered by the masses and legitimized the political system as morally representative of the people and the empire.

It is not so odd with this historical precedent in mind to understand why the City of Moscow has launched a tremendous campaign to rebuild many of the historic buildings and churches. Mayor Yuri Luzhkov has pledged millions of dollars to restore Christ the Savior Cathedral Church and Yeltsin has given his support. A major Russian bank donated 50 kilograms of gold for embellishments. Churches and remnants from the Czarist period are being restored at an unprecedented rate - ignoring budgetary restraints. Increasingly, corporate institutions and political officials alike are donating large sums of money while seeking the stamp of

patriotic and national approval from the Church.

Although Catherine the Great had secularized all church lands in 1764, the Pugachev Revolt shortly thereafter demonstrated the ability of the state to service the clergy's interests. The revolt was fueled, in part, by an unwillingness of the people of the lower Volga region to give up the predominantly muslim faith in favor of Orthodoxy. Often, the Old Believers and non-Orthodox were persecuted at the hands of the state as sanctioned by the Church. Today, the Russian Orthodox Church is working hard not only to fill the spiritual void left by 70 years of communism but also to petition officials to limit the growth of differing religious sects in Russia that threaten its 1,000 year hegemony.

Throughout the campaign, Yeltsin has been using rhetoric more and more laden with nationalism in an effort to keep up with Zyuganov. Yeltsin made his weekly church attendance visible and engaged in several campaign stops to emphasize his nationalism and patriotism. The number of churches that have been restored since 1991 is representative of the huge growth in membership and attendance. Over 85% of Russians regard the Church positively while approximately 20% attend church regularly. The Church has also managed to organize representatives in the Army. Despite these developments, more and more western officials and investors cite the growing strength of the church as one of the developing currents that will awaken civil society and eventually secure democracy. However, it is questionable if the history of the Russian Orthodox Church supports this western interpretation, especially when considering the emerging characteristics of Russia's political system and her history.

Beyond the elections and its immediate problems lingers the silent but sure movement of the Russian political and governmental structures closer to a modern day oligar-

chy. The office of the Presidency has grown into a central, individualized power lending itself to unaccountable decrees. The business community - finance, natural resources, and entrepreneurial - has emerged as a pseudo-nobility and has shown an unusual ability to skirt the law, direct the reform, and enjoy high-level access to power. In the meantime, the re-emergence of the Russian Orthodox Church has given the moral and spiritual authentication to the "democratic" process that has become uniquely Russian.

Having no history of a free-enterprise democracy, it would not be that unrealistic if Russia first moved to a similar system of governance under which she lived for over a 1000 years. One certainly could argue that this process toward autocratic/oligarchic rule is already underway. The stability in this region is sure to be volatile as Russia's emerging political system has proven its sensitivity to whimsical decrees, expansionist policies, and socio-economic turmoil. Although much has been done to emancipate the Soviet serf and bring up democracy, many of the same socio-economic and political problems exist today that led to radical and violent political events then.

\*The elections on June 16th resulted in a Yeltsin victory of 35% over Zyuganov's 32% with an unexpected third for retired General Lebed of 15%. Lebed is now the wild card to draw for either candidate to get a leg-up on the other. In a blink of an eye, Yeltsin has recruited Lebed to run the Security Council and fired Defense Minister Pavel Grachev. The Security Council oversees and coordinates the military and police. A run-off is needed for a final poll scheduled on July 3rd or July 7th.

# The View from Germany

by **Harry Groenert**  
**Executive Director**  
**Continental Europe**

In the first quarter of 1996 there had been more insolvency than ever. The number of companies who went bankrupt during the first three months of 1996 were a total of 6,090. This is an increase of 14.1 percent.

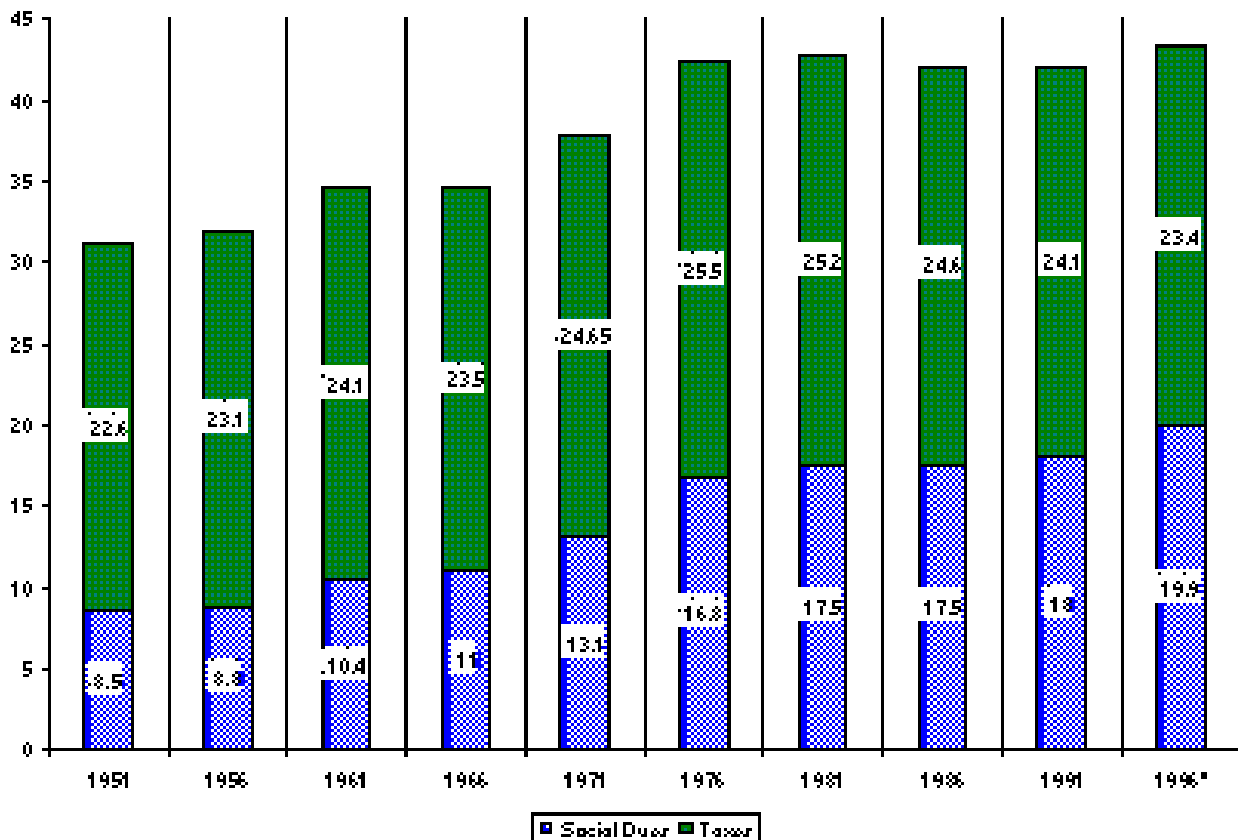
The construction industry is in severe recession. The unfilled orders will decline by three to four percent for 1996 and even more for 1997. The President of the Haupt-

verbandes der Deutschen Bauindustrie (Building association) Mr. Christian Roth : "With another 100,000 unemployed and a record of more than 6,000 insolvency in the construction industry the situation is far more critical than we thought."

The "Bund der Steuerzahler" (Society of taxpayers) has called the 6<sup>th</sup> of June a special "Memorial Day." Up to this date the average German has paid his duty in taxes and dues. The increase in social dues and taxes has led to another record for 1996.

The recently announced drop of 0.5 percent in real first quarter gross domestic product does underline the challenge Germany faces in meeting the Maastricht Treaty's debt and deficit criteria. The Emu is a subject which will not lie down - both - internally and externally. With the decision upon the founder members of the European economic and monetary union still being 18 months away, there is acute concern that neither Germany nor France will qualify. Germany should bring its budget deficit under the all important three percent of GDP next year and in the following years. But the government debt ratio looks set to break

TAXES AND SOCIAL DUES IN PERCENT OF GDP





through the upper limit of 60 percent of GDP this year and even rise to 61.5 percent in 1997. This could develop into serious embarrassment for the German Finance Minister Mr. Waigel. He is the one who insists that the Maastricht criteria should be strictly interpreted if Emu is to go ahead as planned.

Internally the challenge will become even bigger. Europe's single currency will only be credible if investors are convinced that the Emu area will be one of monetary stability, underpinned by strict interpretation of the treaty. Some German money has already started to travel to Switzerland due to concern for the future of the Mark. 1,034 billion of Deutsche Mark are resting for a meagre return between five to seven percent before taxes and inflation in savings, while 989 billion are invested in private life insurance. Up to date the German press has not yet published any negative article or even dared to ask uncomfortable questions with respect to the "Euro." But some Muellers and Maiers start to contemplate about a possible hidden devaluation which might happen to the Mark when she is renamed to "Euro."

#### **"There is something rotten in the State of Germany"**

There is a collective subtle "Angst" about the future. Everybody thinks there is something wrong but nobody wants to start to say it loudly. She took off vertically, climbing with grace and strength, displaying precision planning and German engineering all those who had derided the value of European co-operation. But just as she was about to break free from gravity, she burst into flames and disintegrated.

This is not Ariane 5, the ill-fated European space rocket. This is the German economy, still avoiding to be in recession officially. The criterion will be negative growth for two consecutive quarters. The truth of the matter is that Germany's economy is in trouble. Mr. Kohl's problem is not whether the economy is in recession this quarter or not. The

real problem is that Germany's version of the "social market economy" is breaking down. The slow growth does not help at all - it is even a vicious circle because the real reasons for Germany's trouble are indeed its high wages, its inflexible industrial legislation and its boundless welfare spending.

Six weeks ago the ruling party announced after months of procrastination a \$33 billion saving package. It includes tougher rules on unemployment payments, a one year freeze on social welfare hand-outs, reduction on sick leave, a higher retirement age and bigger fees for medicine. Mr Kohl even tried to sell the whole package by saying that it was not an "attack on the social welfare state". Politicians should understand that austerity should be the order of the day for the government. There are not yet any signs of a recovery. Worse, while the government struggles to turn its planned supply measures and spending cuts into action, businesses are voting with their wallets and investing abroad.

How is business done within Germany? If you would be faced with the problem of finding a painter to decorate your office you would probably experience the following:

Painters are in abundance and all were willing to do the job straight away. But they all set the same condition: payment in cash to avoid German's crippling tax and social charges. If you want to have the job done with a proper invoice in order to deduct the costs from your own tax burden you must wait for five to seven months before you would get your office painted. This is Germany's efficient tax system.



# Hong Kong Update

**by Craig H. Stephen**  
**Chief Analyst**  
**Hong Kong Branch**

## Beijing's PR Offensive

aunching an unprecedented PR offensive, Beijing has swapped its guns for words as it seeks to calm 1997 handover worries and promote its one China policy. After the sabre rattling off the Taiwan Straits in April and unsettling rhetoric by minor officials about Hong Kong's post 1997 future, now Beijing is doing its best to present a more acceptable face. Seeking to systematically calm fears about the handover, the silver haired and silver tongued Lu Ping, China's top man on Hong Kong affairs has been rolled out to audiences, appearing on two US television networks and visiting key Asian leaders in the past two weeks.

## China - afraid of democracy ?

Refuting assertions that China was simply afraid of democracy, Lu Ping replied not at all and promised that by the end of 1998 there will be the first elected legislature according to the Basic Law. This is the clearest commitment yet given that new polls will replace the provisional legislature which Beijing will set up next year to supplant the one elected in 1995 which is viewed as tainted by Governor Patten's endorsement. Lu Ping even went as far as to say that the territory's Liberal Party led by vocal China critic Martin Lee would be free to stand in elections as long as they abide by Hong Kong law.

What will Hong Kong's law be by then? Concerns remain that the interim legislature will be used to change laws as directed by Beijing, particularly in matters relating to

any sort of behaviour that might be deemed to be subversive or interpreted as advocating changes to the status quo. After 20,000 gathered in a Hong Kong park to hold candles to keep a vigil on the anniversary of the June 4th 1989 Tiananmen crackdown, fears were expressed that even this form of civil protest might not be permitted after 1997.

Turning to Hong Kong's media, Lu Ping promised it would be free even to criticise Beijing. However this rests on Beijing's interpretation of freedom, a delicate subject, such as advocating independence for Hong Kong, Taiwan or Tibet, would be off-limits. While this may sound a pretty weak concept of freedom by western standards, those used to the democratic ways of the Anglo Saxon world should realise that what Lu Ping is offering is comparable to Singapore and better than many citizens of other Asian countries can hope for. During his week long trip to Japan, Lu promoted Hong Kong's economy and stressed that any talk of lack of confidence is unfounded. A pledge not to raid Hong Kong's \$70bn currency stabilisation fund was reiterated.

**While action not words will be the final adjudicator, the fact that China is making an effort to engage the media and international opinion must be encouraging. If the much quoted vanishing of the Hong Kong market's political risk discount factor after 1997 is to materialise, more work still remains to be done by Lu Ping (who retires on 1st July 1997) his successors, and their political masters in Beijing.**

## China embraces ASEAN

China's engagement tactics have also been seen in its dealings with ASEAN - the Association of Southeast Asian Nations grouping Brunei, Indonesia, Malaysia, the

Philippines, Singapore, Thailand, and Vietnam. This week officials from China and ASEAN concluded the second round of consultative meetings on various security issues, including sovereignty over the disputed Spratly Islands and the proposed ASEAN nuclear free Zone. Discussions were "productive" and the Chinese government was generally viewed as having talked more freely and openly than before on the Spratlys, even going as far as to give direct answers as to why it attacked one of the disputed islands, Mischief Reef about a month ago. Although China's apparent policy stance may be genuine, it may also reflect Beijing's desire to beef up its chance of gaining formal acceptance as ASEAN's newest member. China's diplomatic embrace - some may call it a bear hug - also has the motive of isolating Taiwan which is already finding its diplomatic profile, ambiguous at best in the ASEAN capitals, hard to maintain.

## Taiwan gets diplomatic cold shoulder

One particular focus of China's diplomatic efforts is an official level bi-lateral dialogue with ASEAN scheduled for mid-June in Indonesia where it hopes to sign a political accord. Those familiar with the treaty say it frames a closer relationship between Beijing and ASEAN and includes an affirmation of the latter's one China policy which furthers the policy of isolating Taiwan from its neighbours. However it is thought to be unlikely any agreement will be signed.

## Taiwan market region's top performer

So far the Taiwanese stock market is unimpressed by these moves to isolate Taiwan diplomatically as it has been the region's top performing bourse recently - now up 36% from its March lows when

China was threatening invasion. In the new spirit of China engagement by newly elected President Lee Deng Hui, Taiwan has seen a return of funds given a further boost last week by the announcement by Morgan Stanley that the Taiwan

market will be included on its influential Emerging Markets Index. A tangible sign that relations in the economic sphere are improving between China and its rogue province was the signing of an agreement to allow partial direct flight between

the mainland and Taiwan, although landing in Hong Kong is still required and a change in flight number.

**Bloomberg - Internet**

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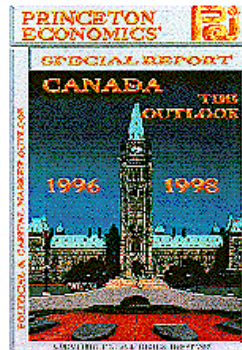
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# World Capital Market Review

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## US Share Market

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The Dow rallied reaching our target objective of 5800 on May 23rd precisely in line with our Economic Confidence Model. Here we see that a weekly closing BELOW 5433.6 will signal that a sharp correction is indeed going to follow. Overall, the major support in the Dow honestly begins back at the 5051.7-4976.5 area. A weekly closing below 5458.5 will signal that a correction has indeed begun. A monthly closing BELOW 5342.5 would also signal that a correction may develop going into at least August or October.

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## Precious Metals

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Silver is poised to crack the \$5 level with a serious risk of decline down to the 4.75-4.50 zone. The ideal target date where a major low might form remains June 27th. If silver does not reach at least 4.75 during June then there remains the distinct risk of a continued decline at least until August. Any new lows beyonds August warns that the final low could extend into the Feb/Mar 1997 time period. Under this scenario, silver still shows the potential to drop slightly below the \$3 area. That would tend to provide an excellent buying opportunity for thereafter we see a rally extending into 2003.

Gold continues to show critical support at the \$380.70- \$379.30 area. Our computer models are not as bearish for gold as there are for silver. This would only develop should gold penetrate below the \$341 level. We do see that a monthly closing below \$379.30 on spot will be a very bearish signal warning that a continued decline will be possible into the months ahead. We do see July as a key target for a low in gold. Therefore, pay close attention to the closing for gold at the end of June.

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## US 30 Year Bonds

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The economic numbers for the economy going into May appear to be very strong. Most of these numbers will be released during June so expect this trend for the near-term to act as a bearish influence for the time being. However, the US economy will start to slow down somewhat following May. The bonds themselves appear to have support at 10801 on a monthly closing basis. If June closes below this area on a nearest futures basis, then a further decline down to the 10100-10110 level should unfold. Additional support lies at the 10422 and 10215 level. Only a monthly closing BELOW 9601 would signal a continued bear market ahead.

Long-term, we see that the bond market is still within the broader trend of a bullish posture. This suggests that we could find a sharp inverted yield curve developing with the 30 year bonds making one more new high during early 1997. Again, this scenario would come under question if we experienced a monthly closing below 10100 followed by 9600.

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## US Dollar

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The US dollar remains strong against most currencies. However, we are nearing a period where a short-term correction is likely. A weekly closing below 14969 for the Dollar/Dmark will signal that a correction is underway. Resistance for the dollar stands at 15626 and 15838. Only a weekly closing above the 15838 level will signal a breakout to the upside for the dollar.

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## Canadian Share Market

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The Canadian TSE reached its intraday high on May 28th precisely in line with our Economic Confidence Model. The correction we

have been expecting appears to be taking shape. We see support forming at 50022, 49679 and 46114. Monthly support lies at 48182, 44867 and 39807 followed by 39307. A weekly closing below 50022 will signal that this market should continue to decline. A monthly closing below 49679-48182 area. If we see a monthly closing below 48182, then there will be a risk that the TSE could decline at least going into the October time period. A monthly closing below 44867 would then raise the possibility that this market will collapse sharply back to retest the 39000 zone. Worst case scenario for a correction would be if new lows unfolded beyond October. This would then point to a possible correction into March or May of 1997.

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## London Share Market

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Here we find the London FT reached its high on April 22nd at the 38589 level intraday. Very critical support lies at the 36474 area on a weekly closing basis. A break of this area could set the stage for a more serious decline in the weeks ahead. A monthly closing below 34334 would warn that a sharp decline back to the 29250 area is entirely possible.

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## German Share Market

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The German Dax reached its high on June 12th. Here we see support starting at the 25250 level on a daily basis. A weekly closing below 25360 will at least warn that a temporary top has been established. A weekly closing below 24535 would warn that a more serious correction is indeed possible in this market as well. Our computer models clearly warn that a high is possible during June. Clearly, a monthly closing back below 23620 would warn that a correction of 3 to 6 months could be in the making at this time.

# World Economic Review

by Hal Ludwig  
Director PEI US

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## UNITED STATES

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**INDUSTRIAL PRODUCTION:** Figures for industrial output reflected modest economic growth and little underlying upward pressure on inflation. The Federal Reserve said total industrial production jumped 0.9% in April, but the rise reflected mostly the resumption of production at General Motors after a strike in March closed most of its plants for three weeks. Excluding the effect of the strike, industrial output would have been flat in April.

**MODERATE ECONOMIC GROWTH:** The US economy grew modestly in the prior two months, with little sign of inflationary pressures, a survey of regional business conditions by the Federal Reserve shows.

The survey by the Fed's 12 regional banks showed all districts except New York were sharing in the expansion. Several districts "noted the pace of expansion had quickened recently".

"Price increases remained generally subdued and there were only scattered reports of wage pressures despite continued tight labor markets and somewhat stronger economic growth," the survey summary said.

**RETAIL SALES:** The Commerce Department said retail sales had fallen 0.3% in April against expectations in financial markets of a zero increase. The overall fall in retail sales reflected a 2.5% decline in car sales from March. Excluding cars, sales were up 0.4%. Officials also revised sales figures for March to show an overall gain of 0.5%, rather than the 0.1% as previously reported.

**INFLATION:** The Labor Department said consumer prices had risen 0.4% in the month and 2.9% in the year to April. However, the closely watched "core" consumer price index - which excludes food and energy - rose only 0.1%, less than feared. The consumer price index was pushed up mainly by higher energy costs, which rose 3.2% from March. Energy costs have risen sharply for 5 months running.

**PURCHASING MANAGERS' INDEX:** The purchasing managers' index - a guide to conditions in manufacturing industry - rose to 50.15 in April from 46.9% in March. It was the first time the index has risen above the 50% level - the threshold for expansion in the sector - since last July.

The reports also contained encouraging news on orders. The association's index of new orders rose to 53.8% from 49.7%, signaling the first expansion in corporate order books in six months. Its production index also rose sharply, although this may have been distorted by the end of the strike at General Motors, the car company.

**CONSTRUCTION SPENDING:** The Commerce Department reported a 3.1% increase in construction spending in March - the largest monthly gain in four years.

**CONSUMER CONFIDENCE:** US consumer confidence rose in April to its highest level in more than a year. The Conference Board, a business group based in New York, said its confidence index rose to 105.3 from 98.4 in March. Mr. Edgar Fiedler, economic counsellor at the board, said the improvement was "largely attributable to less apprehension about employment conditions". In the latest survey, the proportion of people saying jobs were difficult to get fell from 26.2% to 21.3%, the lowest percentage in more than six years.

In May, the US consumer confidence index fell to 101.2 from a revised reading of 104.8 in April, the Conference Board said. The Conference Board said consumers were not as optimistic about the next six months as they were the previous month. A larger proportion of consumers expect business conditions to worsen. The expectation component of the index fell to 89.7 from a revised 95.9 in April, and the present situation component rose to 118.3 versus a reading of 118.2 in April.

**EMPLOYMENT COST INDEX:** The Labor Department said its employment cost index - which includes the cost of fringe benefits such as healthcare - rose 3% in the year to March, against 2.8% in the year to December.

**PRODUCER PRICES:** The Labor Department said the producer price index for finished goods rose 0.4% in the month and by 2.5% in the year to April. However, excluding the volatile food and energy components, "core" producer prices rose only a marginal 1%.

**TRADE DEFICIT:** A surge in imports led to a sharp increase in the US trade deficit in March, according to the Commerce Department. The deficit rose to \$8.9 billion. However, the March shortfall was significantly higher than the deficit in February, which was revised down to \$7 billion from an initial estimate of \$8.2 billion.

The monthly deficit has averaged about \$8 billion in the past three months, from a peak of \$10 billion-\$11 billion last summer.. The deterioration between February and March mainly reflected a 1.7% jump in imports to \$77.7 billion, a record in cash terms. This increase was led by higher imports of industrial supplies and capital goods. The nation's oil bill fell in spite of higher oil prices because of a fall in the volume of petroleum imports.

Exports fell 0.8% to \$68.8 billion, reflecting declines in sales of cars and consumer goods.

The overall deficit rose in spite of significant declines in the bilateral deficit with several important trading partners, including China and Mexico.

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## UNITED KINGDOM

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**TOURISTS:** The UK expects to welcome a record 25 million visitors in 1996, after seeing a 6% jump in numbers in January and February. There were 24 million visitors to the UK in the 12 months to the end of February, up 12% on the previous 12 months, according to National Statistics. The figure was swelled by a 9% rise in American visitors, a 12% increase in West European visitors, and a 12% jump in visitors from the rest of the world. UK visits overseas rose 4% to 42.0 million in the 12 months to the end of February.

**TRUCK REGISTRATIONS:** Statistics from the Society of Motor Manufacturers and Traders showed that April's registrations fell to 4,257 vehicles compared with 4,983 in the same month a year ago. The market for the first four months of the year plunged to 6% below the same period last year, with 17,080 vehicles registered compared with 18,169.

Commercial vehicle sales are considered a useful indicator of economic activity. But the figures are sending out conflicting signals, as registrations of lighter commercial vehicles continued to be relatively buoyant in April. Total new commercial vehicles registrations last month were 0.8% higher than in the previous April.

**NEW CAR REGISTRATIONS:** New car registrations leapt by more than 17% in April, the largest year-on-year upturn for a single month for several years. The SMMT's statistics showed that new car registrations to private motorists were 15.9% higher in April compared with the previous April, reversing a

'year of almost unbroken decline. However, private motorists' share of April's total of 162,618 new car registrations remained at 43%, the same as April last year.

**FACTORY OUTPUT:** Britain's manufacturing industry is technically back in recession because, in the first three months of the year, factory output recorded its second successive quarterly fall. Weak export markets and an unwanted build-up of unsold goods have persuaded many manufacturers to cut production and meet demand from the storeroom shelf. Output is now no higher than its pre-recession peak in 1990.

The Office of National Statistics revised down its estimates of factory output in January and February and reported a rise in production of just 0.2% between February and March. As a result factory output was 0.2% lower in the first quarter of 1996 than in the final quarter of 1995.

**INFLATION DATA:** The cost of living for tax payers fell sharply in April, as the last budget's tax cuts took effect and mortgages became cheaper. The drop left the annual inflation rate in the tax and price index - which includes tax payments, services and goods - showing the sharpest monthly improvement for ten years.

The improvement should boost consumer spending power - particularly now that wages are rising faster than prices. However, other elements of the inflation data were less comforting for the government, which made no progress in moving towards its inflation target. Measured overall, the Office for National Statistics said the retail price index, which excludes taxes, was 152.6 in April, with 100 representing the level of prices at the start of 1987.

This left the annual inflation rate at 2.4% - sharply lower than the previous month's rate of 2.7%, and the best figure for 18 months. But the underlying rate of inflation - which excludes mortgage interest

payments - was 2.9%, unchanged from the previous three months.

The difference in the two trends arose because of improvements in mortgage costs due to previous changes in home loan interest relief and lower rates.

**INFLATION TARGET:** Mr. Eddie George, governor of the Bank of England - the UK's central bank - warned that the chancellor of the exchequer would probably have to raise UK interest rates at some point if he was to hit the inflation target in two years.

The Bank believes that weak export markets and excess stocks of unsold goods could still prompt a sharp slowdown in economic activity, although the risk of this had diminished over the last three months. The slowdown in "hard-core" Europe is expected to be relatively short-lived following cuts in interest rates there.

The Bank predicts that underlying inflation in the UK - excluding mortgage interest payments - will fall from its current 2.9% to below 2.5% over the next year, reflecting the recent weakness of economic growth. Inflation is then expected to pick up again to around 2.5% in March 1998 as growth accelerates, driven by a stronger consumer spending and investment.

**UNEMPLOYMENT:** The number of people without work and claiming social security benefits fell modestly in the UK in April. After adjusting for normal seasonal effects, unemployment fell by 3,200 in April to a five-year low of 2,183,500. But the Office of National Statistics said that a number of special factors had limited the size of the decline.

The statistics office estimates that unemployment is still falling at a trend rate of about 10,000 a month as it has done for the past six months or so. Unemployment fell by 5,500 among men and rose by 2,300 among women, leaving 7.8% of the labor force employed in

April - unchanged on the previous month.

The number of people unemployed for six months or more rose for the second consecutive quarter in three months to April, but statisticians said seasonal factors were masking a continued downward trend. Some 56.3% of the unemployed had been without work for six months or more in April, the lowest share for four years. The number of people unemployed for six months or more was 9,700 lower in the three months to April than in the previous three months to January, taking the total figure to 806,300 or 36.3% of the overall unemployment count.

**STAGNATING INDUSTRY:** Britain's manufacturers reported the first fall in factory output for 31/2 years as companies suffered the biggest decline in new orders since September 1992.

The Chartered Institute of Purchasing and Supply's overall index of manufacturing activity - which collates data on stocks, employment, output, delivery times and orders from purchasing managers at 310 companies across the UK - was a seasonally adjusted 48.3 in April compared with 49.4 in March. A reading below 50 indicates a contraction in activity.

This was the third month in a row activity has declined. Mr. Peter Thomson, the institute's director-general, said there had now been no growth in manufacturing for nine months.

The institute's measure of price pressures fell to the lowest level since the survey began in 1991 as manufacturers cut prices for the sixth consecutive month.

**TWO SPEED ECONOMY:** Consumer spending recorded its strongest growth for more than two years in the early months of 1996 - but UK manufacturers' orders books are in their weakest state since the end of 1993. The dichotomy between the UK's stagnating manufacturing sector and its buoy-

ant service industries was underlined by a series of official statistics and business surveys. They highlight the difficulties posed to the Treasury and the Bank of England by Britain's two-speed economy.

After taking account of inflation, consumer spending grew by a seasonally adjusted 0.8% in the first quarter of the year, according to the Office for National Statistics. This was the highest figure for nine quarters. Output in manufacturing fell for the second successive quarter, reflecting weak export growth and company's efforts to shed stocks of unsold goods.

**CONSUMER SPENDING:** The UK's largest banks lent more money to consumers in April than in any month for five years, providing further evidence of the growing momentum behind consumer spending. The British Bankers' Association reported a BP566 million (\$860 million) rise in consumer credit in April, more than double the increase seen in April last year. Within the total, credit card lending was also well up on last year.

Lending by banks and building societies - mutually owned home loans and savings institutions - as a whole rose by BP4.2 billion in April, the lowest since last November. Bank and building society deposits also rose relatively modestly, although the annual rate of increase in the broad money supply measure M4 edged up from 9.9% to 10%.

**GOVERNMENT BORROWING:** Rapid growth in spending by ministries meant that the government had to borrow more in April than the City of London expected to meet the shortfall between its spending and its tax revenue. The public sector borrowing requirement totaled BP3.3 billion in April, the Treasury said. This was more than BP400 million down on the same month a year earlier, but nonetheless slightly higher than economists had predicted.

**FIRST\_TIME HOUSE BUYERS:** First-time house buyers are

returning to the housing market, according to figures on mortgage lending by retail banks. In the first three months of this year, 43% of the home loans approved by the banks went to first-time buyers. This is the highest proportion during a three-month period in almost two years.

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## JAPAN

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**LEADING INDICATORS:** Japan's index of leading economic indicators fell below a symbolic boom-or-bust line in March for the first time for six months. The Economic Planning Agency said the diffusion index of leading indicators for the month was 45.5%, its lowest level since August. The index is generally a reliable indicator of conditions about six months ahead; the figure of 50 is seen as marking the borderline between growth and stagnation.

The coincident index, measuring current economic activity, also fell below the 50 figure for the first time since last Autumn, hitting 40%. But EPA officials said the March setback did not alter their overall assessment the economy was on a moderate recovery track.

**TRADE GAP FALLS:** Japan's trade surplus fell by nearly two-thirds in April to the lowest monthly level in 13 years, a far sharper decline than expected and evidence of the impact of companies shifting production abroad.

The trade gap shrank 65.5% to Y320.66 billion (\$3.05 billion) in the year to April, the 17th consecutive month of decline, according to customs-cleared figures published by the finance ministry.

Imports grew by nearly 31% in April, led by computers, semiconductors and manufactured goods, drawn in by robust private and corporate demand as Japan's economic recovery gathers pace. There were also one-off factors, including a cut in import duties on pork and a 27% rise (in yen terms) in the price of oil, which affect



nearly 40% of the import bill. Exports, by contrast, rose by just 5%, less than half last year's average export growth rate, and in part explained by a fall in overseas car sales.

Japan's trade surplus with the US fell by 56% in April to Y172.09 billion, the largest fall for 16 years, while its surplus with the European Union fell by just over a half. Its surplus with other Asian countries, normally eager to buy Japanese machinery to equip their fast-industrializing economies, declined by a third, the first drop in two months.

**UNEMPLOYMENT:** Japanese unemployment fell slightly to 3.1% in March. The jobless rate fell for the second month in a row, from 3.3% in February and a post-war peak at 3.4% in January. At the same time, the number of people in work rose by 170,000, or 0.3%, during the year to March.

To underline the job market's continuing relative weakness, the labor ministry reported that there were just 67 vacancies available per 100 applicants in March, the same as the previous two months. The latest job figures illustrate a shift of economic activity from production into services and from large companies to small. Businesses with 500 or more employees shed 320,00 jobs in the year to March, while companies below that size created 810,000 over the same period.

Service industry employment rose by 1% to 15.62 million jobs in the year to March, while manufacturing industry lost 1% of its workforce, down to 14.27 million in March. The biggest job loss was agriculture, where jobs fell by 5.6% to 2.89 million over the period.

By sector, construction was the biggest creator of jobs, up 3.8% to 6.8 million, the beneficiary of public works programs.

**HOUSING STARTS:** The construction industry announced an 8.2% year-on-year rise in housing

starts to 122,394 in March, a consequence of Japan's low interest rates.

**VEHICLE SALES:** New vehicle sales in Japan fell in April for the second straight month, according to figures published by the Japan Automobile Dealers' Association. Registrations of new vehicles dropped 0.1% on a year earlier to 374,405.

The main reason for the fall was a big drop in sales of commercial vehicles. Trucks declined 2.6% to 118,182 units, while buses fell 13.3% to 1,593 units. A slight rise of 1.2% in sales of passenger vehicles to 254,630 units was not enough to offset the commercial side's slump.

Once again, the figures showed the growing Japanese taste for large, imported cars. Of the total, foreign-made vehicles made up 9%, at 33,042, a jump of 23.7% from a year ago.

**FOREIGN EXCHANGE RESERVES:** Japan's foreign exchange reserves reached another global record of \$205.7 billion in April, the finance ministry said. The monthly increase of \$1.7 billion was the thirtieth straight rise, bringing total reserves to a record high for the fifteenth consecutive month.

But the increase in April was considerably below the average monthly rise in the past two years, reflecting somewhat subdued intervention in foreign currency markets by the Bank of Japan.

**BANKRUPTCIES:** Fewer Japanese companies are going out of business, according to the latest monthly survey of bankruptcies. In April, 1,159 companies closed, down nearly 11% on April last year, the third monthly decrease in a row said Teikoku Databank, an independent credit research agency. The decrease is broadly spread: manufacturing bankruptcies fell 11.7%, while property company collapses were down a fifth and wholesalers by 17.6%.

But Teikoku warned that the overall improvement is not as great as it appeared because bankruptcies were unusually numerous in 1995, when there was a chain reaction of collapses of banks and credit associations in the Kansai region, western Japan. Corporate collapses will continue to run at more than 1,000 month, as they have done for more than a year, for some time, predicted the agency. Of the total, just over 60% of company bankruptcies were the result of poor sales, a sign that the pace of the recovery, while broadly spread, is as yet moderate.

**INDUSTRIAL OUTPUT:** Japan's industrial output rose by 3.9% from March to April, in line with a modest recovery, but this was not thought strong enough to tempt the central bank to raise its record low official discount rate. The April increase in production, according to seasonally adjusted preliminary data from the Ministry of International Trade and Industry, appears to mark a steep bounce from a record 6% month-on-month decline in March.

Both figures are, in fact, exaggerated by statistical factors. Quarterly averages, giving a clearer measure of the trend, show that industrial production rose by 0.4% from the last three months of 1995 to the three months ending in March and it is set to rise 1% in the second quarter to June, the third quarter of growth, according to MITI's latest forecast. That would bring year-on-year output growth to 1.9% in the second quarter, a level last seen in the same period last year, just before production started to slow, due to the after-effects of the Kobe earthquake. MITI officials said increased sales of personal computers and mobile phones led this latest recovery.

The ratio of inventories of unsold goods to deliveries fell by 4.4% in April but, even after that fall, stocks were slightly above February levels, swollen by an end of 1995 production increase in anticipation of a sales boom in the new year which failed to materialize.

**MONEY SUPPLY:** The most commonly used measure of money supply, M2 plus certificates of deposits, grew 3% in April, slightly down from 3.1% in March, according to preliminary report from the Bank of Japan. Economists greeted the slowdown as a sign that the economic recovery is still modest.

The narrow measure of money, M1 - composed of cash in circulation and demand deposits - also slowed, though it continues to grow faster than broader money supply. M1 expanded by 15.3% in April, down from 16.1% in the previous month.

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## GERMANY

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**GERMANY SLIPS INTO RECESSION:** The German economy contracted for the second consecutive quarter in the first three months of this year, implying the country was in a recession, according to US and UK definition.

Without giving figures, the Bonn government reported that GDP in the first quarter declined on a price and seasonally adjusted basis "to an extent similar to the previous quarter" and showed hardly any increase compared with the first quarter of last year.

The statement from the Bonn economics ministry implied that the economy shrank by about 0.5% in the three months to the end of March, which was the decline reported for the October to December period.

The ministry blamed the downturn on the unusually long and harsh winter that hit the construction industry and other and other sectors. It said the available economic activity, which mostly included March figures, gave hardly any indication of a recovery

**ECONOMIC SLOWDOWN REDUCES REVENUE FORECAST:** The German economy probably contracted in the first quarter of this year, prompting the Bonn finance

ministry to scale back sharply its expectations of tax revenues for federal, state and local authorities between now and 2000.

The Berlin-based DIW research institute reported that an unusually harsh winter helped push first quarter real gross domestic product 0.5% below the previous three months' level and 0.1% below the first quarter of 1995. The DIW figures, adjusted for inflation and to reflect normal changes in the seasons and the working days, are released some weeks ahead of official GDP statistics.

The institute said output in eastern Germany contracted 2.5% compared with the final 1995 quarter and was 0.7% below the first 1995 quarter, largely because of a weather induced collapse of construction activity.

Its statistics showed the western German economy stagnated in the first quarter while output nationwide was flat in the final quarter of 1995. This latter finding contrasted with an earlier DIW report and recent official figures which pointed to a drop in GDP last year.

Mr. Leo Waigel, finance minister, said the long winter had forced the government to cut its expectations of growth and tax income for this and subsequent years. Reporting on the findings of group of expert officials, he said overall revenues for federal, state and local authorities this year were now expected to be DM807.1 billion (526 billion), or DM21.7 billion below a forecast of last October.

The minister said federal tax income alone was expected to be DM11.8 billion less this year than was thought seven months ago.

According to a report issued by the Munich-based institute for economic research (Ifo), Germany's business community is showing signs of cautious optimism for the first time in more than a year.

The new mood is based on a rise in export orders and hopes of a

long-awaited recovery in retailing. But the east German business community does not share the optimism, says the report. Wholesale and retail trade in the five eastern states remains depressed as consumers continue to save and unemployment continues to rise.

The upturn in confidence is expected to provide a psychological boost for industry, after the discouraging statement from Bonn regarding the GDP.

Ifo, which bases its report on research conducted in April, believes the grounds for cautious optimism among the business community stem partly from the rise in the US dollar. The strong D-Mark and the weak US currency were among the main reasons for lower profits, particularly in the machine building and pharmaceutical industry last year.

Construction and retailing remain fragile, but Ifo says retailing is no longer in the "hypothermia zone". In April, the German consumer had started to buy more clothes, shoes and home electronic equipment.

The findings will be welcomed by Germany's Association of Retailers, which recently reported a 2% fall in retail sales last year, with little prospect of growth this year. As for the construction industry, any upturn which Ifo detects may allay fears of this sector remaining in recession this year. In April, Ifo said the building industry was in its first recession since German reunification, would face job losses of 80,000-100,000 this year and would record a decline in investment by 2-3%

**PUBLIC SECTOR DEFICIT:** The Bundesbank warned in a report that Germany's large and rapidly growing public sector deficit threatens to upset domestic capital markets by taking up too large a slice of available funds.

The Bundesbank said in its monthly report that last year's public sector deficit of DM117 billion

(76 billion) was 42% higher than in 1994, and was equivalent to 4% of total disposable income. So far, the state's high borrowing requirement had not caused too many problems on capital markets because investment by industry slowed down last year as a result of slackening economic growth.

Company's external financing needs fell in 1995 by 45% to DM32 billion. Finance for new construction stagnated after sharp rises in previous years. The economy's remaining financing needs, met by borrowing abroad, fell by 35% to DM29 billion. The public sectors weight in Germany's overall borrowing structure had increased rapidly since reunification in 1990.

Public borrowing had risen by an average 14% a year; a rate that was 1 1/2 times greater than in the period 1979-89. At the end of last year, around a third of the DM6,700 billion total domestic non-banking debt was accounted for by the public sector. It was only a quarter in 1989 and a fifth in 1979

**CURRENT ACCOUNT SURPLUS:** Germany had a current account surplus of DM700 million (\$460.5 million) in February, compared with a deficit of DM3.8 billion in January and a deficit of DM2.3 billion a year earlier, according to the Federal Statistics Office.

Germany's trade surplus grew DM8.8 billion in February from DM5.2 billion in the previous month and DM5.8 billion in February 1995. In the two months to February, Germany had a current account deficit of DM3.1 billion, narrower than a deficit of DM3.8 billion a year earlier.

Germany's trade surplus in the 2-month period totaled DM14 billion, narrower than DM14.5 billion a year earlier. The balance of invisible trade in February showed a deficit of DM1.8 billion, down from DM4.4 billion in January and compared with DM2.4 billion a year earlier.

**INDUSTRY:** German industry was working on average at 81.9% of its capacity in March, down from 84% in December, according to the latest economic survey conducted by the leading Ifo economics institute.

But new orders for German manufacturing industry rose 1.2% in March, faster than expected, according to the Economics Ministry.

**M3 MONEY SUPPLY:** Germany's M3 measure of money supply rose an annualized 12.3% in March compared with the last quarter of 1995. In February M3 had risen 12.8%.

**IMPORT PRICES:** German import prices rose by 0.3% in April from March and by 0.8% from a year earlier. Export prices climbed 0.1% and 0.6% respectively.

**UNEMPLOYMENT:** The number of Germans out of work has fallen below 4 million for the first time this year according to official figures for April. The headline figure for the number of people without jobs fell to 3.97 million, or 10.4% of the workforce, down from 4.14 million in March. The seasonally adjusted figure showed that the number of jobless had fallen by 62,000 to 3.94 million, down from 4 million in March, but still 363,000 more than in April last year.

**EAST GERMAN BUSINESS CLIMATE WORSENS:** The business climate in east Germany declined notably in the first quarter of the year, according to the Institute of the German Economy. A survey of the turnover and profit expectations for 1996 of 500 companies produced the worst result since 1993. The construction industry was particularly pessimistic, the institute said. Companies in the service and investment goods sectors were more positive.

There seems little chance of improvement in unemployment as the number of east German companies planning redundancies rose to 64% from 40% last autumn. This is partly due to the generally poor economic

situation in the electrical, chemical and energy distribution industries.

Seen on a regional basis, Berlin was the most pessimistic. Nearly 70% of the companies in the city expect turnover and profits to drop this year. Saxony, where there was a small increase in the number of companies expecting better results, was the most positive. The survey shows export expectations have generally remained robust.

**EAST GERMAN TRADE:** Eastern Germany's trade with the rest of the world grew last year by 15.4% to DM26.3 billion (17.5 billion), the federal economics ministry announced. Following the slump in trade with traditional markets in central and eastern Europe, companies in Eastern Germany have concentrated on expanding trade with western countries.

The biggest increase was with the US, where trade grew by 84% and for the first time crossed the DM1 billion (\$600 million) level. Russia remains east Germany's largest trading partner in central and eastern Europe, accounting for 13.8% of exports and 20.8% of imports. In total, central and eastern Europe accounted for 35.5% of exports from east Germany and 40.8% of imports.

Total exports from eastern Germany rose 12.4% to DM13.9 billion, but imports went up 18.1% to DM12.5 billion resulting in a slight dip in the regions overall trade surplus which stood at DM1.4 billion. east Germany's share of Germany's total foreign trade increased slightly from 1.7% to 1.9%.

**WHOLESALE PRICE:** German wholesale prices rose 0.2% in April from March, and fell 1.1% from April 1995.

## FRANCE

**INDUSTRY SURVEY:** A majority of French industrialists predicted an upturn of activity in their sectors following a stabilization of production in the first quarter, according to Insee, the official statistics agency. The survey showed general gloom about industrial output, with the number of pessimists outweighing optimists by 21 percentage points in April, compared to 23 in March.

But the number of industrialists who saw improvement in their sector in April surpassed those forecasting deterioration by 11%. This continues the improvement from January, when pessimists outweighed optimists by 13 points.

The government has forecast gross domestic product will expand 1.3% this year, but hopes a sharp recovery in the second half will push this higher.

**EMPLOYMENT:** The labor ministry reported that the number of job-seekers fell in March by 2,400 to 3,027,400, with most of the reduction benefiting the young and long-term unemployed.

But, according to the International Labor Organization, which uses a stricter definition than the French government, the jobless rate rose to 11.9% in March, up 0.1% from February.

**TRADE SURPLUS:** France's seasonally adjusted trade surplus rose to a provisional FF12.137 billion (\$2.33 billion) in March from a revised FF10.361 billion in February. March exports rose to FF124.887 billion from a revised FF118.719 billion in February. Imports rose to FF112.750 billion in March from FF108.358 the month before.

**CURRENT ACCOUNT:** France's current account showed a seasonally adjusted surplus of FF10.97 billion (\$2.13 billion) in February, down from FF14.32 billion the month before. The total for the two months compares with a

FFr28.25 billion surplus for a similar period in 1995.

**CONSUMER SPENDING:** French consumer spending fell 1.4% in April, due mostly to a sharp drop in car registrations, the national statistics institute Insee said. Consumer spending in the retail sector was unchanged in April after a 2% fall in March. This result was due in part to weather-related factors and occurred despite an unfavorable number of working days.

Insee said that, in April consumer spending on cars fell 7.8% after a drop of 0.2% in March and a 2.1% decline in February. January had seen a rise of 21.8%. Year-on-year, consumer spending in the motor sector was up 3.8% in April.

## AUSTRALIA

**UNEMPLOYMENT:** Australia's unemployment rate shot up last month to almost 9%, its highest

level for more than a year. According to the latest figures from the Australian Bureau of Statistics, the rate reached 8.9% in April in April on a seasonally adjusted basis compared with 8.5% in the previous month. The last time the figure was at this level was in February 1995.

**SURGE IN GROWTH:** Australia's year-on-year economic growth rate surged to 4.8% in the quarter to the end of March - up from just over 3% in the 12 months to end-December and well in excess of most economists' forecasts. However, Mr. Peter Costello, the federal treasurer, quickly reaffirmed that Australia's new conservative government would push ahead with its planned spending cuts - amounting to around A\$8 billion (US\$6.2 billion) over the next two fiscal years - despite the stronger than expected results.

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