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Industrial expansion continuing in Western Europe

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integration and co-operation, and that is why the Alliance for Progress and the Latin American Free Trade Area (ALALC) would have the task of taking corresponding measures.

Export chances are being assessed very favourably for those capital goods which for instance the three countries leading in industrial development, the Argentine, Brazil and Mexico, but also the comparatively industrially less advanced countries, Chile, Columbia and Peru, produce already now. Important in this connection is the comparative cost advantage that Latin America is enjoying vis-à-vis other economic regions of similar character owing to its relatively cheap labour. Favourable chances are also existing for consumer goods to which among others pharmaceutical products and processed foodstuffs belong. The same applies to semi-finished goods, textiles, paper products, chemical basic materials, ironware, etc.

Concessions of Importing Countries and Own Efforts Required

Recommendations made, it is true, are not meant for the Latin American countries alone. Trade can be done between partners only. This explains why the countries importing Latin American goods are also being included into considerations aiming at increased exports of industrial products. What is partic-

ularly involved is a better appreciation of the Latin American countries' wishes, and that is why preferences should be granted for industrial products they are to export and technical aid as such should be secured. Last year's Geneva Conference on Trade and Development proved that the industrial countries absorbing the bulk of these exports are quite open-minded as regards these demands. In spite of the helpfulness the highly developed countries announced on principle and without which Latin American efforts necessarily remain unsuccessful, even greater endeavours must be made by the Latin American countries themselves. The existing problems can hardly be solved by appeals and demands frequently lacking any real basis whatsoever. It simply must not happen that, on the one hand, technical aid in its various forms is requested while, on the other, it cannot be utilised efficiently since the respective countries' own performance required is lacking.

In view of the urgent need for diversification of Latin American exports in order to finally enable the sub-continent to acquire more foreign exchange, the creation of purposeful prerequisites is inevitable. However, the consciousness of their necessity must not be restricted to the great supra-regional organisations as e.g. the Alliance for Progress and the ALALC, but must penetrate the individual industrial sectors themselves. Only this way will it be possible to successfully overcome the presently still existing dilemma of Latin America's foreign trade.

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World Business Trends

Industrial Expansion Continuing in Western Europe

The slowing down of economic growth in Western Europe in 1965 is most clearly shown by developments in industry, the most important sector of the economy. The volume of industrial production (excluding construction and power) rose by approx. 4% as compared with the previous year, after in 1964 the growth rate had reached about 7%. A considerable portion of this growth resulted from the comparatively vigorous expansion during the months around the turn of the year 1964/1965. Later the upward trend of industrial production levelled off noticeably and did not correspond to the mentioned rate of 4%.

The development in all important industrial branches—according to the results achieved during the first three quarters—has contributed to the slowing down of last year's production increase in Western

Europe. Thus e.g. the chemical industry, it is true, increased its production far above average by more than 9% as compared with the previous year's corresponding period, but at a lower rate than in 1964 (+ 11%). Simultaneously the growth rate in metal production decreased from 11% to 7-8% and in metal processing from 6% to 4%. Output declined by 3% and 1%, respectively, in the textile-, clothing- and shoe-industries as well as in mining, after in 1964 each of these branches had still shown an increase by a bare 3%. Only the food processing industry with 3% was able to expand at almost the same rate as before.

Last year's development of West European industrial production was characterised by remarkable changes of regional business trends. By a comparison of the individual countries' annual growth rates they are

not yet revealed. Thus e.g. in 1965 the volume of industrial production increased most—by almost 6%—in the Federal Republic of Germany, while Italy and Britain followed with about 4.5% and 3.5%, respectively, and finally France with 1.2%. However, short-term inspection applying data adjusted for seasonal variations clearly shows that Germany and Britain as countries leading in industrial expansion until then had been replaced by Italy and France by early summer 1965 after the process of economic recovery had started there.

At present everything seems to indicate that these tendencies will continue for the time being. Therefore in 1966 industrial production will grow considerably more in Italy and in France than in Germany and Britain. However, the slowing down of the production increase will not intensify much more in the latter countries. Under these conditions the stimulation in Italy

and France will suffice to cause a slight acceleration of the expansion of total industrial production in Western Europe. Thus the increase will again amount to 4 to 5% as has been usual for the last five years. The boom-year of 1964 with 7% had been an exception only.

This growth rate of West European industrial expansion is not much smaller than that of the preceding five years from 1955 to 1960 (averaging + 5.5% annually). But in contrast to that time this growth rate is no longer sufficient to continue to reduce the leeway vis-à-vis the leading industrial country, the USA, that in 1960—considering the value of net production in both areas—still amounted to almost one third. Quite the contrary, last year the USA with 8% achieved an extraordinarily high production increase and also in 1966 should raise its industrial production noticeably more than the West European countries.

In future in the USA incentives originating from increased demand for defence supplies will contribute considerably to this development. Hitherto, however, the increasing growth rate of industrial production—from annually 2.6% between 1955 and 1960 to an annual 5.6% between 1960 and 1965—has been mainly a result of the growth policy introduced by President Kennedy. This success is all the more important as it has been achieved in connection with a high degree of price stability. However, a comparison with Western Europe must not ignore the fact that the USA is favoured by less utilisation of its resources particularly in the labour market. On the other hand, under long-term aspects a permanent solution of the balance of payments problems is a prerequisite to the

United States' present growth policy.

In Japan the increase of the industrial production volume last year had not been higher than in Western Europe. As compared with the previous year its growth rate still amounted to 6% in the first six months, but in the second half-year it was no more than 2%. The busi-

ness trend stagnation has been continuing since as early as autumn 1964. The increase in exports by almost 27% in 1965, in view of stagnant production, emphasises the extraordinary weakness of domestic demand. So far the transition to an expansive credit- and financial policy did not yet stimulate production.

Raw Material Markets

Firm Tendency in the Wool Market

After in 1964 and the first half of 1965 wool prices had been declining, from July 1965 on—i.e. the beginning of the new season—they started to rise again and at present at 114 d/lb for 64' wools are 6.5% above the level at the beginning of the season 1965/66. Due to the present supply-demand situation it should be possible to maintain this price level also during the current season or at least it should not fall considerably.

Last autumn's consolidation of wool prices had been caused by the drought periods in Australia and South Africa with its detrimental consequences for the clip. In particular the supply in good qualities, just now more in demand owing to competition with synthetic fibres, has declined noticeably. This season's total wool production is estimated at 3,274 million lbs clean. This would be somewhat less than in the previous season (3,309 million lbs).

At the beginning of the current season stocks surpassed those of the previous year by 12 million lbs. However, as production should lag behind that of the last season by about 35 million lbs, total supply will decrease by about 23 million

lbs to 3,430 million lbs. In contrast to this decline in supply there is a slight increase in consumption that has already started in the second half of 1965 and should continue. It is mainly based on higher demand in Japan and the USA.

The introduction of a so-called reserve-price-system in Australia, as is practised in New Zealand and South Africa, has been refused by the Australian farmers. The advocates of these proposals for price adjustments alleged that wool would lose ground to synthetic fibres mainly due to the continuously recurring pronounced price fluctuations. Therefore by way of a contribution (3% of the production value) an emergency fund was to be collected in order to buy up wool that could not be sold in the world market at a minimum price to be fixed in each season. When clips were poor these stocks were supposed to be sold in order to bring down prices. The Australian sheep-breeders, however, were afraid that such support measures might become very expensive without greatly improving the competitiveness of wool. The funds saved should rather be spent for the production of better wool qualities.

Index Numbers of World Market Prices of Foodstuffs and Industrial Raw Materials

Index and commodity group	1965				1966		
	January	April	July	October	January	21. 1.	4. 2.
HWHA-Index 1 (1952—1956 = 100)	94.9	97.0	94.0	95.3	98.0	98.3	99.0
Foodstuffs	88.4	88.1	84.7	85.4	88.4	88.5	87.3
Raw materials other than foodstuffs ...	98.0	101.4	98.5	100.0	102.6	103.1	104.6
Fuels	96.4	96.1	95.3	95.5	95.6	95.6	95.6
Raw materials for consumer goods ..	89.4	90.0	90.5	91.9	91.6	91.8	92.3
Raw materials for capital goods	105.5	114.4	107.0	110.0	117.0	118.2	122.0
Reuter's Index (18. 9. 1931 = 100)	455.2	461.0	442.4	448.4	470.4	472.5	474.1
Moody's Index (31. 12. 1931 = 100)	370.3	373.1	387.3	385.9	412.4	413.1	413.9