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Article — Digitized Version

Raw material markets: 1966 — Pressure on prices in raw material markets

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1967) : Raw material markets: 1966 — Pressure on prices in raw material markets, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 02, Iss. 1, pp. 28-, <https://doi.org/10.1007/BF02930338>

This Version is available at:

<https://hdl.handle.net/10419/137686>

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Raw Material Markets

1966—Pressure on Prices in Raw Material Markets

In 1966 the weak conditions of international markets for industrial raw materials have become clearly visible. In March and April the price increase that had started in late summer of the previous year, came to a stop. In the Western industrial countries economic expansion slowed down and with that demand for raw materials increased but moderately. Simultaneously raw material supplies from production and stock-pile releases rose considerably. Stock dispositions promoted a relaxation of the market situation. Above all in the second half of the year stock-keeping was rendered more difficult and expensive by credit restriction and rising interest cost. Therefore processing industries bought only raw material quantities as required for maintaining current production. In some instances (e.g. wool) existing stocks were reduced even. Although on an annual average the price level in markets of industrial raw materials has remained almost unchanged in 1966 as compared with the preceding year, from December, 1965, to December, 1966, it declined by no less than about 5%.

At times events on the raw material markets were overshadowed by occurrences in the non-ferrous metal markets. The continuous bull movement in the copper market, mainly causing the remarkable increase in the price level of all industrial raw materials in spring, by mid-April was followed by a serious collapse of prices after the strikes in Chile and Sambia had been brought to an end. At the same time the retrograde price trend in the lead and zinc market became more pronounced, although recently in the case of zinc this trend did not continue due to supporting purchases by producers. Tin

prices also declined and at present lie hardly above the support price of the international tin pool. Fluctuating copper prices have recovered noticeably in the meantime due to losses in production and delivery in Sambia.

Slowed down growth of industrial production in the Western world will continue to damp demand for industrial raw materials. Only in the case of several strategically important raw materials a still more strongly increasing demand will continue in the United States. But this demand should be covered to a large extent from stock-pile releases (e.g. copper) and thus price raising influences will be kept within narrow limits. A temporary growth of demand is possible for some raw materials if the processing industries cannot fall back on their stocks anymore but have to cover all of their current demand in the market.

In 1967 raw material production will still increase noticeably. Above all in the case of non-ferrous metals the expansion of capacities—initiated two years ago at a time of rising prices—leads to rapidly rising outputs. This would also apply to copper if there had not been continuous disturbances of production. As regards caoutchouc, production is also growing more quickly than consumption, while in the case of wool and jute the supply/demand situation will hardly develop more favourably for the processing industries.

Also during the next year American stock-pile policies should be directed towards a rapid reduction of stocks considered to be redundant, in order to influence favourably the American balance of payments. But even if stocks should

already have declined below the minimum level (e.g. copper) the stock-pile authority will influence the market by regulating prices through sales. On the other hand, the Administration will hardly be in a position to increase stock-pile sales irrespective of the developing countries whose foreign exchange proceeds would be reduced through price cuts at least in the short run.

The development of the supply/demand situation in the market of industrial raw materials therefore is indicating another slight reduction of the price level in 1967. For in general the growth of demand should somewhat lag behind supply increases. Due to a growing elasticity of supply even an animation of demand caused by stock policies will hardly lead to a tension in the supply situation. Only in the case of another acceleration of economic growth basing on cyclical trends or an unexpected escalation of the Vietnam War rising prices are to be anticipated.

In 1966 food markets continued to be marked by a continuous imbalance between production and consumption. Although already now the exporting countries have considerable unsold stocks on hand they are expanding their production still more strongly than would be required for the covering of the but slowly increasing consumption. Only in the case of cocoa and wheat did the supply/demand conditions change somewhat in favour of the producers. On an annual average the price level in the food markets was only 1.3% lower in 1966 than in 1965. The coming year will hardly bring about major changes of food prices.

Erratum:—The heading of the article by Karlheinz Kleps in *INTERECONOMICS*, No. 12, 1966, p. 13, should read: Prices and Incomes Policy—The Way out of Inflation?

INTERECONOMICS • Monthly Review of International Trade and Development

Edited by The Hamburg Institute for International Economics (Hamburgisches Welt-Wirtschafts-Archiv), Director: Prof. Dr. Heinz-Dietrich Ortlieb, and The German Overseas Institute (Deutsches Übersee-Institut), President: Prof. Dr. Dr. h. c. Andreas Predöhl. Editorial staff: Christian Franck (chief editor), Dietrich Keschull (managing editor), Hubert Höping (editor), Karl-Muck-Platz 1, Hamburg 36, published by Verlag Weltarchiv GmbH., Eppendorfer Landstraße 106, 2 Hamburg 20. Advertising Representative: Dr Hans Klemen. Printed by Otto Schwitzke, 2 Hamburg 70. Annual rate of subscription DM 48,— (US-\$ 12,—). Copyright by Verlag Weltarchiv GmbH.