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fiscal equilibrium and stabilisation of the balance of payments; these are amongst other subjects points to be considered during the second phase of the programme.

□ During the final phase the Government is to raise problems in connexion with the re-arrangement of the national economy. This policy of reform can be

regarded as the starting point for an organic construction of Indonesia.

This programme bears witness to the present Government's tendency towards extreme caution. It shows moreover what damage the previous Government has done to Indonesia's national economy.

World Business Trends

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Slowed Down Growth of the US Economy in 1967

During the last months there were increasing indications in the United States of a slowing down economic expansion for 1967. Although in the fourth quarter the GNP was rising somewhat faster once more by \$ 13,800 million to \$ 759,100 million (annual rate adjusted for seasonal variation), this unexpectedly good result was derived mainly from the considerably increased accumulation of stocks. Due to stagnations in sales the producing economy involuntarily had to stock finished products to a larger extent than hitherto. Above all the demand for goods and services of private enterprises and households is expanding more slowly. Weak points are in particular private expenditures for housing which have been declining for quite some time and the recently dragging sales of motor vehicles. Also the unfavourable development of foreign net demand is proving to restrain economic growth. As compared with the previous year imports increased considerably stronger than exports.

In 1967 the speed of economic growth in the United States should even more than hitherto depend on the development of military expenditure, all the more since the accumulation of stocks will not continue. After President Johnson on account of the Vietnam War has demanded a subsequent increase of defence expenditure by \$ 12,300 million to \$ 67,700 million during the current fiscal year, this expenditure should grow at least at the present speed until mid-1967.

Only thereafter it will hardly increase further provided the Vietnam War does not escalate unexpectedly.

In 1966 the private sector's investment activities were among the major expansionary forces of the boom. Now, however, there are first indications of a damped propensity to invest. In the first half of 1967, according to most recent surveys private enterprises will spend on new plant and equipment only 3% more (adjusted for seasonal variation) than in the second half of 1966, while during the whole of 1966 almost 17% more has been spent than in 1965. Apart from the cancellation of tax deductions for investments the propensity to invest is negatively influenced by the already reduced utilisation of capacities and the limitation of profits, that have led to a less optimistic assessment of future economic developments.

During the last months the expansion of private consumption has lost speed. Since September retail trade turnovers (adjusted for seasonal variation) have been declining and sales of motor vehicles have been developing sluggishly. Also during the next months the increase of private consumption should be damped because "primary demand" and with that incomes increase more slowly than up to now. Although standard wages will continue rising vigorously, income increases of private households will be more limited than hitherto due to reduced working hours and a lower growth of the number

of employed persons. The decline in private house-building that has been continuing since April will go on still for the time being if the Administration should not increase its financial aid.

The minor slackening in the upward trend of wholesale prices during the last months is based above all on a fall in prices of foodstuffs and industrial raw materials. On the other hand, the wholesale prices of investment goods and durable consumer goods, which are more important to business activities, have continued increasing vigorously. Although here, too, the acceleration of the price increase that started in spring 1966 seems not to have continued. In November, 1966, living costs were 3.6% above the previous year's level. Also in the first half of 1967 the upward trend of prices will continue comparatively strongly. The hourly wages in industry are increasing more strongly than productivity, so that the labour costs per production unit are rising noticeably. However, demand should remain sufficiently high to permit entrepreneurs to pass cost increases on to buyers.

The general trend in foreign trade continues to be marked by a more pronounced growth of imports as compared with exports. In 1966 imports were 20% higher than in the preceding year, while exports increased by 10% only. However, the declining export surpluses together with the growing foreign exchange expenditure for the war in Vietnam render the equalisation of the balance of payments more difficult. In the third

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

| Index and commodity group | 1966 | | | | 1967 | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Jan. | Apr. | Jul. | Oct. | Jan. | Jan. 20 | Feb. 3 |
| HWWA-Index¹ (1952-1956 = 100) | 98.0 | 99.1 | 95.8 | 92.6 | 92.3 | 92.4 | 93.0 |
| Foodstuffs | 88.4 | 86.7 | 85.6 | 83.7 | 83.7 | 84.4 | 85.4 |
| Raw materials other than foodstuffs ... | 102.6 | 105.0 | 100.8 | 96.8 | 96.4 | 96.2 | 96.6 |
| Fuels | 95.6 | 95.7 | 95.7 | 95.5 | 95.2 | 95.2 | 95.2 |
| Raw materials for consumer goods .. | 91.6 | 96.0 | 95.9 | 91.2 | 92.5 | 92.3 | 92.7 |
| Raw materials for capital goods | 117.0 | 120.4 | 109.6 | 102.3 | 100.2 | 99.9 | 100.7 |
| Reuter's Index (18. 9. 1931 = 100) | 470.4 | 470.7 | 462.9 | 429.1 | 425.6 | 421.7 | 433.7 |
| Moody's Index (31. 12. 1931 = 100) | 412.4 | 395.7 | 407.9 | 371.1 | 370.7 | 371.0 | 371.0 |

¹ Index compiled by the Hamburg Institute for International Economics.

quarter of 1966 the deficit reached \$ 872 million—annual rate adjusted for seasonal variation—while in the preceding quarter it amounted to only \$ 564 million. An even more pronounced deterioration would have occurred if the high domestic level of interests had not favoured the inflow of foreign capital.

Against the background of a slowed down economic expansion President Johnson in this year's State of the Union Message de-

manded a 6% increase of the income tax from mid-1967 on. With that the budget deficit of the fiscal year 1967/68 is to be reduced in spite of the vigorous expansion of expenditure. During the current year the restrictive effects of the tax increases on private demand will be kept within narrow limits, as simultaneously a considerable rise of social insurance benefits is provided for. The real growth of the GNP of 4% to be expected for 1967 (1966: 5.5%) will thus not be jeopardised.

declined considerably when e.g. in the summer of 1966 Brazil—contrary to cartel agreements—sold 530,000 tons of sugar (only a bare 1% of world production) to intermediaries. Apart from these stocks in second hand the pressure on prices is increased by the possibility that the East-bloc might offer Cuban sugar on the narrow free world markets.

The deterioration of prices on the sugar market has caused only a few countries to cut down production, although prices do not cover even approximately the production costs also of producers working at particularly favourable conditions. By sales at high prices within the scope of special agreements the exporting countries get a certain compensation for sales at low prices in the free market. (e.g. in the United States). The individual countries' expectations to extend their sales to these special markets, and the necessity to earn foreign exchange at any price also in the free market, rather promote sugar growing.

Last but not least for this reason no new international regulation agreement foreseeing also drastic production cuts has been concluded at the last UNCTAD sugar conference in autumn, 1966. Under these conditions a sudden change in tendencies on the sugar market cannot be anticipated soon.

Raw Material Markets

Continuing Pressure on Prices in the Sugar Market

The continuing pressure on prices in the sugar market lasting for three years now has again increased during the second half of 1966 after the export cartel founded as recently as April collapsed and the first estimates for the season 1966/67 signalled a considerable growth in production. Until January 6, 1967, the New York sugar price declined to a new post-war bottom of 1.16 c/lb.

For the sugar-year 1966/67 F.O. Licht forecasts a new production increase by 4.7% to 66.5 million tons (1966: 63.5 million tons). Even with a similarly high increase of sugar consumption as in the last

year, by 2.5 million tons to 63.5 million tons, world stocks would rise by about 3 million tons and reach a volume of more than 23 million tons by the end of the 1966/1967 season. However, stocks of at most 13 to 15 million tons may be considered "neutral as regards the effect on prices", so next year about 9 million tons or 15% of one year's production will put pressure on the market.

But the surplus situation on the free world market alone is even more precarious, because due to the expanding special markets only 15% of world demand are still covered here. Therefore prices

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