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## Declining expansion of the world economy

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Horizonte). ENI subsidiaries are drilling on behalf of the Indian, Greek, and Argentine governments oil and gas. ENI has designed, supplied and set up refineries in Yugoslavia, Greece, Jordan, China and elsewhere.

Similar information is naturally also available on foreign activities of the IRI firms. IRI subsidiaries have supplied complete industrial plants, machinery, finished products but have also built and taken part

in constructing infrastructures. Among the plant and equipment delivered have been cement kilns, petrochemical plants, nitrogenous fertilizer works, electric power stations, etc., e.g. for India, South America, and others. The Alitalia commercial air line and Italy's shipping lines do not only ply from Italian terminals to a large number of overseas countries, they also operate on runs between different overseas countries, thus promoting international goods exchanges and human contacts.

## *World Business Trends*

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### *Declining Expansion of the World Economy*

The world economy's cyclical expansion has slowed down conspicuously since autumn 1966. In North America total demand increased but slightly during the current year, in Western Europe the factors retarding for some time already gained growing influence. The world economic contraction was reflected by a smaller growth rate of world trade and a continued decline of raw material prices. The decreasing utilisation of resources induced those responsible for economic policy to relax cautiously restrictive economic policies.

In the first quarter the United States' GNP adjusted for seasonal variation hardly changed in real terms. The strongest contractive effects started from cautious orders placed for additions to stocks, but also industrial investments in fixed assets have obviously been declining. On the other hand, the growth of private consumption has again accelerated somewhat and also public expenditure continued to expand vigorously. Government spendings will go on growing strongly. Although this development does not prevent a pronounced slowing down of overall economic growth, it nevertheless contributes to the cyclical support of total demand and is thus a prerequisite to overcoming the present downward tendencies of economic activity. Another decline in imports and an improvement of the net position on goods

and services are to be anticipated, but just the same it will not be possible to eliminate the balance of payments deficit.

In Western Europe the retarding influences have grown noticeably since autumn, 1966. In most national economies the production increase was lagging more or less behind the development of capacities. The authorities responsible for economic policies relaxed restrictions existing above all in the sphere of monetary and credit policies. The cooling of the economic climate could be observed clearly in the labour markets. In the winter-months the increase in unemployment surpassed almost generally the usual seasonal movement. The rising trend in prices has continued to abate since autumn, 1966. In almost all countries the decline in business activities was mainly caused by private capital expenditure on equipment. The exceptions are Italy and France. The increase of private consumption also slowed down noticeably in most countries. In contrast to private demand, public demand expanded as before or even more so.

In the second and third quarters of 1967, too, the growth of the West European GNP at a rate of approx. 2.5 % (in real terms, on an annual basis) will be as small as before. The unfavourable development in the Federal Republic of Germany remains the decisive

factor for this trend, but also in other countries—apart from Italy—expansion will go on at a retarded rate. Braking influences are exercised mainly by private investment activities, whose volume will remain below the previous year's level in a number of countries. Moreover, the Federal Republic's declining demand for imports has impeding effects on the economic growth of its trade partners.

The development of demand in international commodity markets, that on the whole is not as favourable as it used to be, impaired exports of industrial nations as well as those of developing countries. Due to the unsatisfactory development of demand and declining prices in raw material markets, the growth rate of the developing countries' exports declined from 8.5 % in the first half-year to 3.5 % in the second half of 1966. Here particularly their one-sided export structure (share of raw materials approx. 90 %) and the insignificant price elasticity of their supplies had disadvantageous effects. The developing countries' share in world exports declined. Hitherto their export proceeds—growing at a smaller rate—did not cause them to cut down the growth of their imports correspondingly. Since currently their foreign exchange position is somewhat better than in previous years, an almost unchanged growth rate of their imports should be anticipated.

The economy of the Western industrial countries is marked by

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

Index and commodity group	1966				1967		
	Feb.	May	Aug.	Nov.	Feb.	March 17	March 31
<b>HWWA-Index 1 (1952—1956 = 100) ....</b>	<b>98.8</b>	<b>96.9</b>	<b>93.5</b>	<b>92.4</b>	<b>92.0</b>	<b>91.9</b>	<b>91.9</b>
Foodstuffs .....	86.9	85.3	85.1	83.8	85.0	84.2	84.5
Raw materials other than foodstuffs ...	104.6	102.5	97.6	96.5	96.3	95.6	95.4
Fuels .....	95.6	95.5	95.4	95.6	95.2	95.1	95.1
Raw materials for consumer goods ..	92.7	96.3	95.2	91.2	92.6	91.9	92.0
Raw materials for capital goods .....	121.6	113.8	101.8	101.5	99.9	98.5	98.1
<b>Reuter's Index (18. 9. 1931 = 100) .....</b>	<b>472.0</b>	<b>463.3</b>	<b>443.0</b>	<b>425.3</b>	<b>432.5</b>	<b>424.6</b>	<b>427.2</b>
<b>Moody's Index (31. 12. 1931 = 100) ....</b>	<b>414.5</b>	<b>397.4</b>	<b>394.3</b>	<b>369.0</b>	<b>369.1</b>	<b>367.4</b>	<b>362.4</b>

<sup>1</sup> Index compiled by the Hamburg Institute for International Economics.

retarded activity. In 1967 the average GNP growth rate of all national economies (in real terms) should not grow more than 3 % vis-à-vis 1966. The employment to capacity of capital assets is therefore showing a preponderantly declining tendency, and at the same time the number of those looking for a job surpasses the number of vacancies. The cyclical pattern of forces in the world economy

is thus differing from that in previous years. An international parallelism together with small growth rates—as may currently be noticed—burdens economic policy with more responsibility. At present it can rely less on “favourable accidents” and will therefore have to form more actively the economic process, if a higher growth rate is to be achieved again.

rest of the world. Owing to the high lead price in the United States imports to this region rose considerably. Besides this, growing production, too, is beginning to intensify the pressure on US lead prices, especially as hitherto a stimulation of demand has not become visible. But in order to avoid too much pressure on the US fixed price a re-introduction of import quotas is under consideration.

## Raw Material Markets

### Supply Surpluses in Lead and Zinc Expected

During the last months lead and zinc prices at the London Metal Exchange showed only slight fluctuations. The cash price of lead was about £80/lgt; temporary rises resulted above all from producers' backings on American account. Thus the price difference of approx. £30 between the US fixed price of 14c/lb (= £112/lgt) and the London exchange price was intended to be reduced. For a longer period zinc prices fluctuated only slightly around the producers' fixed price of £102/lgt. The relative stability was also to be attributed to systematic backings by the producers. However, since early in April zinc prices have dropped to £99/lgt; for this increased supplies from the East-bloc are likely to be the main reason.

Whilst in 1966 there had still been a supply deficit of 13,000 lgt, for the current year a supply surplus of approx. 50,000 lgt is expected. Due to moderate business trends in some West European countries lead consumption in 1967 is supposed to extend only by approx. 2 % to 2.87 million lgt. The expected net imports from East-bloc countries of about 60,000 lgt would consequently more than cover the production gap.

The supply surplus will, however, be even higher if the North American stockpile offices will continue to clear their stocks in the free market. In addition to this the increasing balancing between supply and demand in the US-market will not remain without consequences for the price development in the

In the zinc market the supply surplus in 1967 will extend to approx. 128,00 lgt (1966: 38,000 lgt). A consumption increase by 5 % to 3.67 million lgt will be opposed by a production grown by 10 % to 3.65 million lgt. Net imports from the East-bloc estimated at 148,000 lgt are fully able to fill the production gap. Like in the case of lead in this estimate US stockpile releases are missing, so that an even bigger supply surplus is quite possible.

The latest price development in the zinc market has again revived the debates on the producers' fixed price. Partly total abolition is already discussed, for outside the USA producers' stocks are steadily growing. The agreed production cuts by 10 % have hardly become effective, because only a few producers complied with them. At least a reduction of the producers' fixed price can, therefore, probably not be avoided.

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