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World Business Trends

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Western Europe: Declining Expansion of Demand

In Western Europe total private consumer expenditure is distinctly marked by the recession in business. While in 1966 the growth rate amounted to about 7.5 per cent still, in 1967 it should reach between 5 and 6 per cent. Since more than 60 per cent of the West European Gross National Product is covered by private consumption, the expansion of the GNP will also be slowed down correspondingly. However, the causes proper of the downward business trend are to be found in other sectors, particularly in the unfavourable development of investment activities in most countries. The impairment of the employment situation and of the formation of income resulting from this unfavourable trend was decisive for the smaller growth of private households receipts and thus of consumer expenditure, too.

It is true, though, that individually the development shows considerable regional differences. Above all the extraordinarily small increase of private consumer expenditure in the Federal Republic—by probably less than 2 per cent as compared to 1966—is quite exceptional. In the other countries this growth rate will, after all, reach about 7 per cent. The deviation from this average should be comparatively minor in France, the Netherlands, Sweden, Switzerland, and Austria. In the current year, however, private consumer expenditure with 4 per cent will grow considerably less in Britain, while, on the other hand, it will even increase by approximately 9 per cent in Italy and Norway, the only West European economies showing a continuously vigorous cyclical expansion.

Correct conclusions from the development of private living standards can, however, be drawn only after a consideration of price changes. Then it will be noticed that, after all, private consumption was not influenced by the sluggish trend to the extent that consumer expenditure seemed to indicate: On the whole the price increase of corresponding goods and services has slightly declined in Western Europe, although on an average it should surpass 3 per cent still in 1967. Accordingly the increase of private consumption with price variations eliminated is to be estimated at an average of between 2 and 3 per cent in Western Europe. With that the margin between a slight decline in the Federal Republic of Germany and a growth rate of 6 per cent in Italy remains a wide one.

The calming down of price developments was particularly pronounced in West Germany and Britain. In September the private standard of living was still dearer by only 1.3 and 1.5 per cent, respectively, than a year ago. Both cases reflected the temporary recession or stagnation, respectively, of demand, but in Britain governmental price regulations also contributed to the development. The same applied to France, although here the increase of consumer prices nevertheless amounted to 2.6 per cent. In the other countries, however, according to the latest data available the rising trend was considerably more pronounced still, so in Belgium, Italy, the Netherlands, and Austria by 3 to 4 per cent, in Norway, Sweden and Switzerland by 4 to 5 per cent.

Price developments showed major differences in the indi-

vidual groups of goods. In general, price increases remained below the average not only with industrial products, as e.g. clothing, footwear and household goods, but also with foodstuffs, which are still the most important category of expenditure by far. Here above all the more abundant supply due to better crops and cyclical supply increases (e.g. in the case of animal products) had their effects. Prices of the different services and especially of rents continued to rise most. They surpassed the previous year's corresponding level by 6 per cent and more, for instance in the Federal Republic, France, Austria, Sweden, and Switzerland. Nevertheless, also in this sector a certain slowing down is evident, which is certainly connected with the cyclical sluggishness of the expansion of incomes.

Mass incomes were already impaired by the worsening of the employment situation in Western Europe, but simultaneously the wage increases declined distinctively in most countries. So in the Federal Republic and Britain the standard hourly wages of industrial labour surpassed those of the previous year by but slightly more than 3 per cent. However, after the easing of the wage freeze there was again a slight acceleration in Britain. In the remaining countries the growth rates amounted to between 5 and 7 per cent, only in Sweden and Norway the wage increases were somewhat higher.

The already visible stimulation of demand in Western Europe will effect employment and wage developments but gradually. All the same, this should guarantee that to begin with the increase of private consumer expenditure does not slow down anymore and will accelerate again during the next

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

| Index and commodity group | 1966 | | 1967 | | | | |
|--|---------|---------|-------|-------|---------|--------|---------|
| | October | January | April | July | October | Nov. 3 | Nov. 17 |
| HWWA-Index 1 (1952-1956 = 100) ... | 92.6 | 92.3 | 91.8 | 90.9 | 92.2 | 93.1 | 93.7 |
| Foodstuffs | 83.7 | 83.7 | 86.0 | 83.9 | 86.8 | 87.9 | 88.2 |
| Raw materials other than foodstuffs ... | 96.8 | 96.4 | 94.5 | 94.2 | 94.8 | 95.6 | 96.4 |
| Fuels | 95.5 | 95.2 | 95.0 | 95.1 | 96.2 | 96.2 | 96.6 |
| Raw materials for consumer goods ... | 91.2 | 92.5 | 91.6 | 90.7 | 89.2 | 88.9 | 88.3 |
| Raw materials for capital goods | 102.3 | 100.2 | 96.1 | 95.8 | 97.2 | 99.6 | 101.7 |
| Reuter's Index (18. 9. 1931 = 100) | 429.1 | 425.6 | 429.8 | 428.3 | 426.6 | 432.1 | 445.1 |
| Moody's Index (31. 12. 1931 = 100) | 371.1 | 370.7 | 360.5 | 372.6 | 360.4 | 362.4 | 363.1 |

¹ Index compiled by the Hamburg Institute for International Economics.

year. An enhanced upward trend of prices is not yet to be anticipated. Thus in 1968 consumption in real terms will expand slightly also in the Federal Republic (+ 0.5 per cent) and noticeably more so in Britain (+ 2.5 per cent) than in

1967. A higher increase is to be expected in France (+ 4 per cent), while in Italy (+ 6 per cent) it will be the highest one again. In Western Europe as a whole private consumption should grow by about 3 per cent in real terms.

3 per cent, as compared with the preceding year, as was formerly estimated by the International Rubber Study Group, will, however, not be reached. A decline in consumption by probably 1 to 2 per cent to 2.49 million lgt must rather be expected, so that—considering 70,000 lgt stockpile releases—there will be a statistical oversupply of approximately 80,000 lgt. As a result of this contrary development of production and consumption, particularly in the producer countries, a strong growth of stocks has set in.

Raw Material Markets

Further Decline of Rubber Prices

The Middle East war entailed a relatively stable price tendency in the international rubber market. In August, however, a new depression of prices set in again, which was only temporarily stopped by a Malaysian price supporting measure. At present, prices at the London and New York exchanges with 14 5/8 d/lb and 18.2 c/lb, respectively, for the standard quality have reached the lowest level since the war.

A further rise in world production and the decline of consumption, lasting until recently, must be blamed for the price pressure in the natural rubber market. But different special influences, which under normal circumstances would have caused an upward trend of prices, had no effect. So, the cut of the American stockpile sales from 120,000 lgt to 70,000 lgt per annum,

the termination of the strikes in the five biggest US tyre firms and in the automotive industry as well as the war in Nigeria, where after all 70,000 lgt rubber come from per annum, had no influence on the price development in the rubber market.

Also the attempt of the Malaysian government to maintain rubber prices by buying up had no constant success, as this measure was not supported by other producer countries. So e.g. Indonesia delivered considerable quantities to Kuala Lumpur and Singapore, which then—apart from the own production—would have had to be bought up, too.

For 1967, an increase in production of natural rubber by slightly more than 4 per cent to approximately 2.5 million lgt is anticipated. The consumption rise of

In connection with the cyclical upswing in the Western industrial nations, rubber consumption will rise again during the next months. But higher rubber prices cannot be anticipated in the near future, above all as Malaysia will make efforts to get rid of the stocks having accumulated by backings. Moreover, especially Indonesia is supposed to intensify its production, in order to turn the restriction of production decreed by Malaysia to its advantage. Other important producer countries, however, agree with Malaysia that prices in the natural rubber market must be stabilised by means of an international regulation agreement.

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