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Sluggish trend in world trade

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the developing countries are concerned, licences can become an important form of aid to help themselves—aid that does not affect their political and economic self-reliance and meets their desire for independence and self-determination. The combination of state-aid

for development and the private granting of licences in the way it has been shown would be a workable instrument of development policy—all the more so as many developing countries have already realised that know-how is as important as capital.

World Business Trends

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Sluggish Trend in World Trade

The foreign trade turnovers of all countries (excluding the East-bloc states) adjusted for seasonal variations did not completely maintain the level reached at the beginning of the year. As compared to the previous year's corresponding value the 1967 growth rate should at best amount to half of that in 1966 (+ 9.8 per cent). Although it reached almost 7 per cent in the first half year, in the third quarter it came to only 1 per cent according to data hitherto available. Since the temporarily deferred deliveries after the blocking of the Suez Canal should have been made up to a large extent by September, it is quite obvious that in many economies the cyclical recession of demand had more than proportional effects on supplies from abroad.

The cyclical stagnation or even contraction of demand for imports during 1967 was a worldwide phenomenon applying to most industrial as well as raw material producing countries. There were only a few exceptions worth mentioning, among them Japan as the most important one. From January to September this country's imports surpassed constantly the previous year's corresponding level by 22.5 per cent. In Western Europe, too, some countries, i.e. Italy and Norway, had a high increase of imports, but on the whole imports slowed down conspicuously. The growth rate of imports, which in 1966 still amounted to 8.2 per cent, declined to 3.5 per cent in the first half of 1967 and

to only 0.8 per cent in the third quarter. The North American import increase declined even more distinctly (from 18.7 per cent to 9.6 per cent and 1.3 per cent). Here the interruption of growth at the beginning of the year led to a considerable relaxation of the supply-demand-ratio, that still has its after-effects during the present revival of business activity.

Since the contraction of demand occurred in most of the major industrial countries, trade between them was also considerably involved. Formerly, when a cyclical recession was more limited, this trade had still been stimulated by the differentiation between countries with a strong and those with a weak expansion and a correspondingly differing utilisation of production factors. Characteristic of this is the development in Western Europe, where—starting above all from the Federal Republic of Germany—the internal exchange of goods reflected the recessive influences. The West European countries' export values, that in 1966 rose by 9.2 per cent and in the first half of 1967 still increased by 8.0 per cent, in the third quarter surpassed the previous year's corresponding value by 2.1 per cent only. Simultaneously and in a similar way the growth rate of North American exports declined from 12.2 per cent to 8.9 per cent and 1.9 per cent. Again it was Japan, whose exports kept rising by about 9 per cent (1966: 15.7 per cent), that asserted itself best.

Although the interruption of the industrial countries' export expansion was a remarkable indication of the distribution and force of the cyclical tendencies of contraction in the world economy, the raw material countries were hit most. Their export proceeds, which in 1966 rose by more than 7 per cent still, according to data supplied by the International Monetary Fund already in the first half of 1967 increased by 2 per cent only, and in the third quarter obviously lagged behind the previous year's corresponding value. The developed raw material producing countries, i.e. Australia, New Zealand and South Africa, came off quite well (from January to September, 1967: + 8.5 per cent), while the developing countries' exports on the whole were so much involved by the worsened sales chances in industrial countries that also for the whole of 1967 there will be a decline.

First the developing countries showed comparatively slight reactions to the reduction of their exports proceeds, but for several months already they reacted rather heavily by restricting their demand for the industrial nations' products. The growth rate of their imports declined from almost 8 per cent in 1966 to about 6 per cent in the first half of 1967, while thereupon the previous year's corresponding values were obviously not even reached anymore. The scissor-movement between exports and imports occurring in the middle of the year threatened to double the developing countries' balance of trade deficit to more than \$ 4,000 million (fob values) in 1967.

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

Index and commodity group	1966		1967				
	November	February	May	August	November	Nov. 17	Dec. 1
HWWA-Index 1 (1952—1956 = 100)	92.4	92.6	92.6	90.5	94.2	93.7	96.0
Foodstuffs	83.8	85.0	87.8	83.5	87.9	88.2	88.5
Raw materials other than foodstuffs	96.5	96.3	94.9	93.9	97.3	96.4	99.6
Fuels	95.6	95.2	95.0	95.3	96.5	96.6	96.6
Raw materials for consumer goods	91.2	92.6	91.7	89.7	89.4	88.3	93.1
Raw materials for capital goods	101.5	99.9	96.9	95.2	103.3	101.7	107.2
Reuter's Index (18. 9. 1931) = 100	425.3	432.5	438.6	420.7	456.6	445.1	490.5
Moody's Index (31. 12. 1931 = 100)	369.0	369.1	372.7	367.2	362.8	363.1	363.0

¹ Index compiled by the Hamburg Institute for International Economics.

The prospects for another expansion of world trade in 1968 are improving in line with a progressing stimulation of demand in the United States and the overcoming of the cyclical decline in Western Europe. After in the first phase of recovery or consolidation, respectively, in each case the domestic producers obviously profited most, in the next year international trade will also reflect increasingly the stimulation of demand for industrial products as

well as raw materials. In this connection it will be decisive for the less developed countries, whether the speed of expansion in industrial states—and with that the increase of demand for raw materials—will suffice for a recovery of raw material prices. As there are quite a few indications to this effect, the developing countries—just due to their restraint in the current year—will be able to gradually increase their imports again.

(+ 3 per cent), New Zealand (+ 4 per cent) and South Africa (+ 6 per cent) will more than compensate the anticipated lower yields in Argentina and the USA. In 1967/68, the total wool supply available will even grow by approximately 8 per cent as compared with the previous season, because due to sales difficulties producers' stocks trebled from mid-1966 to mid-1967 to 330 million lb. These stocks, however, partly consist of wool qualities being slow of sale, so that the price pressure for high-quality kinds, originating from the wool surplus, will probably be very limited.

Raw Material Markets

Further Depression of Wool Prices

In the producer countries, on July 1, 1967, the new wool season started with lower prices than at the closing auctions of the season 1966/67. During the first months of the current season, prices continued falling slowly, in September and October, however, they could keep their lower level. Then, in mid-November, there was another sharp price decline; in Bradford, prices were only 104 d/lb for 64' wools and 62 d/lb for 56' crossbreds. Thus they were 9 per cent and 29 per cent, respectively, below the preceding year's level. So, the price increase to 119 and 77 d/lb, respectively—decided after the devaluation of pound—has obviously nothing to do with the market situation.

First, a lack in buying interest became noticeable, above all with regard to lower qualities. Due to the bad sales situation for crossbreds the New Zealand Wool Commission, for instance, was obliged to cut the lower price limit for its backings from 30 to 19½ d/lb. But recently also high-quality Australian Merino kinds were difficult to sell, although—as an impact of the strong economic boom—a considerable demand from Japan, the main wool buyer, could be noticed

In the current season 1967/68, world wool production is—whith 3,437 million lb, cleaned—to grow by 2 per cent against 1966/67. The higher production in Australia

In the current season, the revival of demand will have a price supporting effect in the wool markets. In connection with the beginning business upswing, in some important processor countries wool consumption, which during the first half of 1967 still showed a decline of 10 per cent, meanwhile should presumably slightly increase again. Moreover, in the next months, processors will rather be inclined to supplement their considerably reduced stocks. However, the pound devaluation and the resulting restriction measures in Britain, which is one of the greatest wool consumers, will perhaps make processors temporarily show a certain reserve.

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