

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

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Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1968) : 1967: Sluggish business trends, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 03, Iss. 2, pp. 59-60, <https://doi.org/10.1007/BF02930410>

This Version is available at:

<https://hdl.handle.net/10419/137888>

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World Business Trends

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1967: Sluggish Business Trends

Last year the development of the world economy was mainly marked by a pronounced slowing down of business activities. The Western industrial nations' GNP's still increased at an average of about 3 per cent only, after an increase of 5 per cent last year. Above all in the first half-year the influences checking activities, originating from demand, had been very effective. In the second half of the year, however, forces of expansion began to grow.

The slowing down caught hold of North America and Western Europe, the two most important economic areas, at the same time, while in Japan the boom accelerated once more somewhat, after already in 1966 the country's GNP in real terms had grown by 10 per cent. In the United States economic growth showed a particularly pronounced decline, from almost 6 per cent in 1966 to about 2.5 per cent in 1967. In Western Europe, too, the growth of production surpassed 2 per cent by a small margin only—after 3.5 per cent in the preceding year. Above all the recession in the Federal Republic of Germany contributed to this. The contractive influences originating from this development checked noticeably the expansion of demand also in most neighbouring countries. Among the major economies only Italy could largely avoid the general sluggishness.

The development of world trade was completely determined by the weak trends of business activities. Till into the second half-year it remained, apart from seasonal fluctuations, on the level reached at the beginning of the year. At

an annual average the increase of all countries' foreign trade turnovers (excluding the East-bloc states) still reached only about 5 per cent, i. e. half as much as in 1966. The developing countries were drastically hit by the worldwide decline in demand and their export proceeds should have hardly increased still in 1967. A reduction of imports in the second half-year was the result.

At the turn of the year 1967/68 the omens for the world economy's development of business activities are again favourable. In the most important industrial countries a stimulation of demand asserted itself, that also in 1968 will continue. The growth of the aggregate GNP for the current year at 4.5 per cent in real terms should be almost as high again as in the first half of the sixties. This acceleration will originate from North America as well as from Western Europe.

In 1968 the United States' economic expansion will be based on private demand. Consumption and investments will grow vigorously. The Federal Administration, however, will be forced by the threatening budgetary deficit to show more cautiousness. Together with an increasing utilisation of productive capacities a restrictive monetary and fiscal policy for checking private demand becomes more probable, all the more as a deterioration of the balance of current transactions must be avoided. In the course of the year a renewed slowing down of economic growth has to be anticipated. In 1968 the GNP in real terms will

nevertheless be higher by 4.5 per cent than in 1967.

In Western Europe, too, the economic growth rate will accelerate vigorously in 1968. Above all the stimulation of business activities in the two biggest economies will contribute to this, after in the Federal Republic and Britain the expansive economic policy created the necessary prerequisites. In both cases there are indications of an increase by about 4 per cent of the GNP in real terms. Concerning Britain, however, the possibility of tougher restrictions of domestic demand to secure the success of the pound sterling devaluation is an element of uncertainty. At the same time the increase of French and Italian production should amount to about 5 per cent even. Therefore, Western Europe as a whole—with an expansion below average in most of the minor economies—has a fair chance of achieving the growth target of 4 per cent in 1968—i. e. for the first time since 1965.

This year the acceleration of the growth of production in industrial countries will cause demand for raw materials to grow faster again. Thus the developing countries will also profit from the world economy's stimulation of demand. The increase in export proceeds, however, will be but limited, because the high elasticity of supplies in the raw material markets will only admit of a moderate recovery of prices. The developing countries' import policy should therefore remain restrictive for the time being, but be relaxed in the course of 1968.

The pound devaluation by no means guarantees a future equilibrium of international payments as

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

Index and commodity group	1966	1967				1968	
	December	March	June	September	December	Jan. 5	Jan. 19
HWWA-Index 1 (1952—1956 = 100)	92.4	91.9	92.2	90.9	97.0	97.2	97.4
Foodstuffs	84.5	84.0	86.8	84.9	90.3	90.5	91.1
Raw materials other than foodstuffs . . .	96.1	95.7	94.8	93.8	100.2	100.5	100.5
Fuels	95.2	95.1	95.1	95.7	96.3	96.2	96.2
Raw materials for consumer goods . .	92.4	92.1	91.7	89.5	93.8	93.2	92.2
Raw materials for capital goods	99.6	98.8	96.6	94.7	108.2	109.8	110.4
Reuter's Index (18. 9. 1931) = 100	423.6	425.8	445.2	418.3	499.0	505.0	501.0
Moody's Index (31. 12. 1931 = 100)	374.4	366.2	373.8	363.9	364.3	362.8	361.0

¹ Index compiled by the Hamburg Institute for International Economics.

yet, but a first and indispensable step in this direction has been made. The increased pressure on the dollar even forces the United States to intensify its endeavours for an elimination of the balance of payments deficit, and in Britain economic policy must still enforce a change in the direction of pro-

duction factors towards exports and a substitution of imports, respectively. The continental European economies alleviate even more these processes—that by all means are to their long-term interest—the more they utilise the scope for expansion created by the sluggishness.

After the pound devaluation the lower intervention price of the Tin Pool was lifted to 1,400 £/lgt in order to enable the Tin Pool to carry out further backings. Early this year, it came to the market's notice that the Pool had indeed effected considerable purchases. Total purchases made by the Pool up to now are estimated at 5,000 lgt, for which one fourth of the cash funds were spent. As the means of the Pool are not inexhaustible, an export restriction is expected to be striven for on the next session of the International Tin Council, in order to reach a price supporting effect.

Raw Material Markets

Tin Prices under Pressure

Prices in the international tin markets remained under pressure also in the second half of 1967, if one leaves out of account the extraordinary lifting of the pound quotation in connection with the devaluation of sterling. From August till the end of October, cash prices at the London Exchange largely lay under the intervention limit of the International Tin Pool of 1,200 £/lgt. A further decline in prices was prevented only by purchases of the Pool on the free market. Moreover, the market price was supported by the fact that the American stockpile authority raised its selling price to 154 c/lb—i.e. 1,236 £/lgt—and that consequently tin purchases fell to a negligible minimum.

It was not before the end of October 1967 that the 1,200 £ mark was surpassed at the London Exchange, as, due to rumours about an approaching pound devaluation, the European processors effected hedge purchases. In mid-November the devaluation proper caused a strong rise in prices to nearly 1,360 £/lgt for cash qualities in London, since the most important tin producers in the sterling area did not devalue. The correction in prices did, however, not correspond to the full percentage of the pound devaluation. In addition, the quotation meanwhile fell to 1,334 £/lgt because of the market situation remaining unfavourable for producers.

The statistical situation in the tin market is more and more tending towards a production surplus. During the first eight months of 1967, production of metallurgic tin in the Western world rose by 16 per cent to 118,300 lgt (1966: 102,000 lgt). Consumption with 111,300 lgt remained, however, almost stable during the same period. But in the course of reviving business trends in Western Europe, tin consumption is supposed to increase, too, all the more as processors will begin again to replenish their considerably reduced stocks. Since, however, production will continue to grow, for the time being prices will probably rather decline somewhat.

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 Office: Dietrich Kobschull (Chief Editor), Wolfgang Reisener, Hubert Höping; published by Verlag Weltarchiv GmbH., Address: 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.