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World Business Trends

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Western Europe: Stimulation of Demand

This spring the West European cyclical stimulation, which asserted itself in autumn last year, is continuing. It had been special influences of financial policy, that in important countries temporarily led to a shifting forward of planned purchases and this had been very significant for the rise in demand. In the meantime, however, the endogenous cyclical incentives have also grown noticeably. These months they enable a production increase in most of the West European countries, that surpasses considerably the stimulation usual at this season. True, in industry, where production is always particularly responsive to cyclical trends, expansion in Western Europe should not continue at the extraordinarily high speed as at the time of change in tendency in the last four months of 1967. Applied to a full year the production increase corresponded to a growth rate of about 14 per cent at that time. Thus in spite of a stagnation continuing up to late summer a production level was reached already at the end of 1967, which considerably surpassed the previous year's average. According to this development the increase of West European industrial output would amount to between 6 and 7 per cent in 1968 even at a considerably slower rate of expansion in the current year.

Industry's elasticity of supply was very high after the preceding phase of stagnation in most West European countries. The increase of production could therefore come about largely through the utilisation of productivity reserves within the enterprises, while to begin with hardly any new workers were engaged. Therefore also at the

turn of the year the number of those employed in industry was distinctly smaller than a year ago in most of the countries which are publishing such data, so e.g. particularly in the Federal Republic of Germany, Britain, and France, i.e. the most important industrial states. Exceptions were Italy, Sweden, and Norway with a slight increase in the number of employed persons.

Under these circumstances the situation in the West European labour markets has been little influenced so far by cyclical stimulation. Nevertheless in several countries data adjusted for seasonal variation are indicating a change of tendency. This applies, for one thing, to the development of demand for manpower. Since last autumn it has grown distinctly, above all in the Federal Republic, but in Britain, too. In France, the Netherlands and Sweden there are increasing indications that the number of reported jobs available begins to grow again.

The development of unemployment points also in the same direction. Here during the winter months the increase was considerably smaller than usual at this season in Western Germany and Britain. In some minor economies, too, similar tendencies were to be noticed more or less, while also in France the growing trend of unemployment seems to have weakened. True, in view of the preceding deterioration of the situation in the West European labour market the cyclical tendencies towards improvement did generally not suffice to keep the seasonal peak of unemployment below the previous year's corresponding lev-

el, as a rule it rather was surpassed noticeably. The only exception worth mentioning was Italy, although there unemployment continued to be much higher than in the other big industrial countries.

Since in Western Europe the increase of production could hitherto largely be managed by a mobilisation of productivity reserves, the result was a but relatively minor stimulation of incomes of employed salary and wage earners. The development of standard wages was still marked by the damping influences in the labour market. In comparison with a year earlier, according to recent data always referring to industry, the increase amounted to between 4 and 6 per cent in most countries, thus e.g. in Austria, Switzerland, the Netherlands, Belgium, France, and even Italy—a symptom of a continuously tension-free situation in this country. Exceptions were, on the one hand, the Federal Republic of Germany with a smaller increase and, on the other, Britain with a considerably higher one (Jan./Feb. 1968: + 9 per cent). This is a warning for stabilisation policy even if in this case the effects of the wage freeze in mid-1967 and the indirect consequences of devaluation have to be considered.

While during the winter months in West Europe the seasonal influences overshadowed the cyclical change of tendency in the labour market, in months to come both factors will have parallel effects and make for a fast decline in unemployment. Here it is possible that the seasonal tension will be interpreted as a purely cyclical development. In fact, however, the West European labour market is presently offering more favourable prerequisites to a cyclical upswing than for a long while past and the

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

Index and commodity group	1967				1968		
	March	June	September	December	March	March 29	April 11
HWHA-Index ¹ (1952—1956 = 100)	91.9	92.2	90.9	97.0	99.1	97.9	96.5
Foodstuffs	84.0	86.8	84.9	90.3	90.3	90.7	90.7
Raw materials other than foodstuffs ...	95.7	94.8	93.8	100.2	103.4	101.3	99.3
Fuels	95.1	95.1	95.7	96.3	96.4	96.4	96.0
Raw materials for consumer goods ..	92.1	91.7	89.5	93.8	93.5	94.4	92.8
Raw materials for capital goods	98.8	96.6	94.7	108.2	117.1	111.0	107.0
Reuter's Index (18. 9. 1931) = 100	425.8	445.2	418.3	499.0	510.4	502.8	492.1
Moody's Index (31. 12. 1931 = 100)	366.2	373.8	363.9	364.3	362.3	365.9	361.8

¹ Index compiled by the Hamburg Institute for International Economics. ² March 14, 1968

risk of an overheating of the economic atmosphere can be excluded for the current year. That finally competition for available manpower will become more keen as soon

as industry tries to regain to a certain extent lost workers is by no means critical, since thus compulsion for a rational employment of labour will be growing stronger.

growth by 1.7 per cent to 52.5 million bales is expected. Within a period of two years only, world stocks will decline by one third to approx. 21 million bales at the beginning of the season 1968/69. Especially stocks of medium-and long staple cotton types will be reduced, so that here shortages will become visible to a growing extent.

Raw Material Markets

Again Slightly Falling Cotton Prices

The upward trend in cotton prices since the end of 1966—especially for medium-and long staple types—has come to a standstill in early February. Since then, quotations at the cotton exchange fell by 2 per cent to 2.81 DM/kg. But the present price level still surpasses by 10 per cent that of one year ago.

During the current season 1967/1968, the world cotton market is—like in the preceding year—distinctly marked by a drastical reduction of the US cotton production. The restrictive cultivation policy pursued by the Commodity Credit Corporation was so successful that already in the 1966/67 season production with 9.5 million bales lay by one third below the average yields of the previous years. For the season 1967/68, a further production decline by 2.2 million to 7.3 million bales is

anticipated, as the once again reduced areas planted were frost-bitten considerably. As a consequence, production has fallen below the United States' domestic consumption, which for 1967/68 is estimated at 9.1 million bales. With rather invariable exports of 4.7 million bales annually, a reduction of the stocks amounting to 17 million bales in August 1966 to 7 million bales in August 1968 can be reached.

The production loss in the USA was only partly compensated by increases in the production of other cotton cultivating regions. In 1966/67 world production decreased by 11.1 per cent to 47.3 million bales and, in this season, is supposed to fall by further 1.5 per cent to 46.6 million bales. In contrast to this, world consumption in 1966/67 rose by 1.8 per cent to 51.6 million bales, and for 1967/68 a

Under these circumstances, the slight price decline will not last long. This fall was mainly caused by the restraint of West European processors, which is due to the fact that the cyclical upswing in the cotton textile industry of these countries is advancing but slowly. In case of an acceleration of European demand for cotton, even rising prices would have to be anticipated soon. For the next season 1968/69, however, in the USA a production expansion to 13.5 million bales is intended, which is to comprise above all medium-and long staple types. It will probably hardly be possible to reach such a doubling of production within one year only, but the prospect of noticeably higher yields might set close limits to price increases in the next future.

Erratum:—The heading of column 3 of the table on page 117 in *INTERECONOMICS*, No. 4, 1968, should read: Volume on March 31, 1967.

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