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# World Business Trends

Department for Business Trends Research,  
The Hamburg Institute for International Economics

## Western Europe 1968: GNP plus 4.5 per cent

In 1968 the Western European GNP in real terms will rise by approx. 4.5 per cent as compared with the previous year. With that economic growth reaches about the same rate as in the first half of the sixties, after in 1966 with about 3.5 per cent and in 1967 with only about 2.5 per cent a distinct slowing down had occurred. The most important national economies on the Continent—the Federal Republic of Germany, France and Italy—should show even above-average results in 1968. As against that, in Britain the expansion will be a comparatively modest one on account of the restrictions of demand.

The acceleration of West European growth originates above all from demand for capital goods. First a recovery of the enterprises' investments in stocks contributed to the cyclical stimulation in most countries, starting last autumn. After this important "initial aid" an increasing shifting of stimulation forces to other sectors is anticipated for the current year—mainly to investments in fixed assets. After in 1967 their volume increased less by about 2 per cent than the GNP in Western Europe, for 1968 a more than proportional growth rate of 5 to 6 per cent is to be anticipated in the light of forecasts available for individual countries.

True, this acceleration—as reflected by the annual results—is not characteristic of most of the West European countries. Rather was it determined by the turn of the trend in Western Germany where fixed investments in real terms declined by about 8 per cent in 1967, but where in the current year an increase by 6.5 per cent

may be anticipated. After all, in 1966 the Federal Republic's share in West European gross investments in fixed assets was almost 26 per cent, while later, in 1967, it dropped to 22 per cent. Excluding the Federal Republic for once, in the rest of Western Europe the expected net increase of gross investments in fixed assets at 5 per cent in real terms will be even smaller than in 1967 according to the present state of forecasts. This very result admits of the supposition that the stimulating effects originating from the boom in the Federal Republic and influencing enterprises in neighbouring countries are obviously understated still.

This should particularly apply to several of the smaller West European economies, where according to available estimates fixed investments in real terms are supposed to stagnate or to grow by an optimum of merely 2 per cent in 1968. This would apply to Austria, Switzerland, Belgium, the Netherlands, Norway, and Sweden. As against this, growth rates are much higher in the major national economies. Heading the list is Italy, where in 1968 the volume of investments should again expand by about 10 per cent. In France, too, the growth rate is anticipated to reach again 7 per cent as in the preceding year. In Britain, finally, according to government statements made when the budget for 1968 was introduced, the increase of fixed investments will reach 4 to 5 per cent.

Among the individual elements of fixed investments it is equipment investments that in most West European national economies

are indicating the effects of the cyclical change of tendency having started last autumn. Even a cautious forecast indicates an—although in part still slight—improvement wherever equipment investments had been slowed down considerably. On the other hand, the development of investments in building is frequently showing just the opposite trend, and apart from the Federal Republic a stimulation cannot be noticed in any other country. Declining government activities may contribute partially to the trend, as e.g. in the Netherlands and above all in Britain, where a wider capacity margin is to be created for bigger investments of enterprises and for exports.

In Western Europe the increase of fixed investments by 5 to 6 per cent in real terms for 1968 is still lagging far behind the growth rates of former boom years (1960, 1961 and 1964: 10 per cent in each case). On the other hand, what may contribute to this trend is the fact that the reincreasing propensity to invest will lead to a more vigorous stimulation of investment activities in the course of the year only. On the other hand, however, it cannot be excluded at all that—as mostly in phases of a changing trend—the effective forces are underestimated at first, all the more since the minor national economies have felt the changes in the business climate of the decisive major economies only with a delay via foreign trade.

In the present cyclical phase of the West European economy, investment expenditure stands foremost above all due to its effects on demand. In the long run, however, the general economic capacity effect is of greater importance. In this context it is quite

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

Index and commodity group	1967				1968		
	April	July	October	January	April	April 26	May 5
<b>HWWA-Index 1 (1952—1956 = 100) . . . .</b>	<b>91.8</b>	<b>90.9</b>	<b>92.2</b>	<b>97.6</b>	<b>96.1</b>	<b>95.5</b>	<b>95.0</b>
Foodstuffs . . . . .	86.0	83.9	86.8	91.1	91.0	91.7	90.8
Raw materials other than foodstuffs . . .	94.5	94.2	94.8	100.7	98.5	97.4	97.0
Fuels . . . . .	95.0	95.1	96.2	96.2	96.0	96.0	96.0
Raw materials for consumer goods . .	91.6	90.7	89.2	92.8	93.1	92.5	92.3
Raw materials for capital goods . . . .	96.1	95.8	97.2	110.5	104.8	102.1	101.1
Reuter's Index (18. 9. 1931) = 100 . . . .	429.8	428.3	426.6	563.2	491.5	488.7	488.1
Moody's Index (31. 12. 1931 = 100) . . . .	360.5	372.6	360.4	361.6	362.2	362.4	364.8

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

obvious that the 1966/67 phase of reluctant investments in Western Europe has left lasting traces, which concentrate to a large extent on the Federal Republic. While here fixed investments in real terms for 1968 will still remain under the level of 1965, the

corresponding increase reaches between 11 and 26 per cent in Britain, France, and Italy. In the longer run, too, the Federal Republic dropped back to the last place with an increase by 40 per cent between 1960 and 1968 (France: 84 per cent).

tin thus intending to back prices. 10,000 lgt tin are said to be in the pool at present. The Tin Council seems to be determined to prevent a further price decline below about 1,300 £/lgt through further backings, for which it has already provided new finance.

### Raw Material Markets

#### Tin Prices Being Supported

After in November 1967 tin prices at the London Metal Exchange had risen due to the pound devaluation, they continuously fell until recently, and this under partly strong fluctuations. So, with 1,304 £/lgt the quotation for cash tin is at present only by approx. 7 per cent above the level registered shortly before the devaluation. This means that the major part of the rise in prices, which was due to the devaluation, has been lost.

The continuous pressure on prices in the tin market must be traced back to the extraordinary increase in tin production accompanied by a simultaneous stagnation in consumption. Above all because of additional processing of older stocks of tin ores in Thailand, in 1967 production in the Western world

was with 173,900 lgt by 11.3 per cent higher than in 1966. Consumption, however, registered—due to the cyclical slackness in the most important industrial nations—a slight decrease by 0.4 per cent to 165,900 lgt. 1967, therefore, showed a production surplus of 8,000 lgt, whereas in 1966 production still was by approx. 10,000 lgt smaller than consumption.

True, urged by the producers, in 1967 only 4,900 lgt (1966: 14,600 lgt) were sold out of the American stockpile. But the supply surplus thus totally reached not less than 12,900 lgt in 1967. This quantity was absorbed by net imports of the East-bloc, by stockpiling producers' stocks and by backings. By the end of 1967 alone, the International Tin Pool bought about 6,000 lgt of

Meanwhile, the prospects for a price stabilisation on the present level—also without larger backings—have improved. In connection with the business revival in the Western world, in 1968 a considerable rise in consumption can be anticipated again. Production, however, will grow at a slower rate, not least because the surplus of Thai tin ores has been reduced. Moreover, the pressure on prices originating from the pool stocks is relatively small, as these stocks—according to the regulations of the International Tin Agreement—can only be dissolved at a market price of at least 1,515 £/lgt.

However, such a strong rise of the tin price cannot be expected, because previously the American Stockpile Office will probably abandon its reserves against tin sales. It can be assumed that only voluntary export restrictions would have a price raising effect. But even on the latest conference in La Paz at the end of April, no agreement could be reached about the restrictions.

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