

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

Article — Digitized Version

International industrial production rising

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1968) :
International industrial production rising, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv,
Hamburg, Vol. 03, Iss. 9, pp. 283-284,
<https://doi.org/10.1007/BF02930038>

This Version is available at:

<https://hdl.handle.net/10419/138034>

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WORLD BUSINESS TRENDS

International Industrial Production Rising

In the first half of 1968 the world economy was marked by a vigorous expansion. In particular the extraordinary boom in the USA contributed to this development, although in the second quarter only stockpiling purchases—initiated by the threatening strike in the steel industry—covered up the already slower increase of ultimate demand. Just the other way round, in Western Europe strong special influences—e.g. particularly the prolonged strike in France—obstructed economic growth. Obviously, however, the total of expansive forces did not weaken in the first half of the year. As against this the slowing down of the Japanese production increase indicates a slackening growth of demand as a result of a restrictive credit policy.

USA: Vigorous Expansion of Demand

The special influences were mainly reflected by the development of industrial production. In May/June in the Western countries (OECD-area) its increase had been interrupted due to the production losses in France, that, after all, participates with 8 per cent in total production. Nevertheless the total result of the first half of 1968 should have surpassed that of the previous year by 5 per cent. The growth rate was thus double the one of 1967, although it lagged considerably behind the growth rates of former boom periods.

In the USA the increase of total demand reached an annual rate of about 10 per cent in the first half of 1968. The GNP in real terms, however, rose by a good half of this rate, the rest fell to the share of price increases. Simultaneously industrial production surpassed the previous year's corresponding result by about 4 per cent (1967: +1.1 per cent). The growth of basic industries, supported by steel production, was above average. Production of consumer goods expanded as quickly while capital goods showed but a slight increase.

Losses In France

In Western Europe the production losses in France became particularly noticeable. After all, this country participates in this area's production with one fifth of the total. Therefore the losses of May/June pressed West European industrial production down to a level, which, adjusted for seasonal variation, almost approximated to the level at the turn of the year. For the first half of 1968 its growth rate amounted to approximately 4.5 per cent (1967: +1.3 per cent). In the other countries it should have reached an average of 7 per cent.

Of greatest importance was the expansion in the Federal Republic, where in the first half of 1968 industrial production surpassed the previous year's level by 11 per cent. Only in the Netherlands the growth rate was of the same

magnitude, while the other economies lagged behind noticeably. This applies also to Italy where industrial production surpassed its previous year's corresponding level by 5 per cent in the first five months. The British growth rate was but slightly smaller at 4 per cent. In France, finally, the net result for the first half of 1968 was a decrease by approximately 4 per cent, after from January to April a growth rate of 6 per cent had been recorded still.

Leading Basic Industries

In Western Europe, too, among the individual industrial sectors the basic industries experienced the strongest expansion in the first quarter of the year. Apart from the structurally favoured chemical industry the vigorous growth of metal production contributed to this trend. On the other hand, the increase of the metalworking industry generally remained below average. A very differentiated development was to be noticed in the textile, clothing and shoe industries. While here in several countries, among them France and Italy, a marked recession occurred, in Britain and the Federal Republic, on the other hand, a considerable recovery set in.

In the current year, too, Japan is again recording the highest growth rates of industrial production. With 18 per cent on average they were but slightly below those of 1967. However, data adjusted for seasonal variation nevertheless indicate a distinctive slowing down of expansion and the level of end-1967 was surpassed but relatively slightly in the first months of 1968. Production of the textile and clothing industries was even declining, but production of basic materials

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

Index and commodity group	1967		1968				
	July	October	January	April	July	Aug. 2	Aug. 16
HWWA-Index ¹ (1952—1956 = 100)	90.9	92.2	97.6	96.1	94.2	94.1	94.3
Foodstuffs	83.9	86.8	91.1	91.0	86.2	86.4	86.1
Raw materials other than foodstuffs . . .	94.2	94.8	100.7	98.5	98.0	97.9	98.2
Fuels	95.1	96.2	96.2	96.0	96.4	96.5	96.5
Raw materials for consumer goods . .	90.7	89.2	92.8	93.1	93.8	93.4	93.8
Raw materials for capital goods	95.8	97.2	110.5	104.8	102.4	102.2	102.9
Reuter's Index (18. 9. 1931) = 100	428.3	426.6	503.2	491.5	481.5	481.4	479.4
Moody's Index (31. 12. 1931 = 100) . . .	372.6	360.4	361.6	362.2	364.8	357.6	357.1

¹ Index compiled by the Hamburg Institute for International Economics.

and durable consumer goods (passenger cars) continued growing.

In the second half of 1968 a quite differentiated development of industrial production has to be anticipated in the different regions of the world economy. In the USA in view of the reduction of stocks, which will occur after the steel-strike could have been avoided, and in view of the restrictive measures taken, a temporary cyclical decline of industrial production is

possible even. In Japan under these circumstances there is but little evidence of an early overcoming of the recession. For Western Europe, too, the braking influences originating abroad will make themselves felt. But in the first instance the continuation of the production increase is depending on the inner-European development of demand. With that the authorities responsible for economic policy will have to take a greater responsibility.

Under these circumstances, world cocoa production will presumably grow only slightly in the season 1968/69, so that—with consumption but slightly increasing—in the fourth successive year a production deficit will prospectively occur again. A new deficit could lead once more to higher prices, because traders and processors have only small stocks available.

In this situation in the cocoa market, being very favourable for producers, the conclusion of an international cocoa agreement at the UNCTAD conference, which ended early in July, had been anticipated. But regarding some points of the method of stabilising cocoa prices no consent could be reached between the participating producer and consumer countries, so that further negotiations have become necessary.

Raw Material Markets

Lasting Uncertainty in the Cocoa Market

In the international cocoa markets, the differing judgements of the future consumption and production development and the repeated currency unrests during the last months resulted in slight price fluctuations. However, the high level lasting for almost two years remained unchanged. At present, the loco price for Ghana cocoa at the New York Exchange lies with 30 $\frac{1}{3}$ c/lb about 10 per cent above the previous year's corresponding level.

The uncertainty in the cocoa market was born above all because hitherto no exact estimate of the world cocoa production in the coming season 1968/69 could be submitted. Up to now, it is only assumed that the crop in Ghana with 500,000 t will exceed that of the season 1967/68 by 100,000 t. On the other hand, in Nigeria, an important producer, the civil war must be blamed for the expected production drop; and in Brazil a very bad mid-crop is expected.

Moreover, consumer countries fear that the completion of a stabilisation agreement could push up cocoa prices even more. In contrast to this, producer countries point out that they are not interested in further price increases, because this way a rising cocoa consumption would be hampered. According to their opinion, an agreement should be completed already now, in order to counter a future price decline, which would perhaps be the result of over-production.

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. 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.