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Article — Digitized Version

West Europe: Capacities and labour

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1968) : West Europe: Capacities and labour, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 03, Iss. 11, pp. 351-352, https://doi.org/10.1007/BF02930062

This Version is available at:
https://hdl.handle.net/10419/138073

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WORLD BUSINESS TRENDS

West Europe: Capacities and Labour

Since last fall, the resources of most European countries have been better utilised again due to the rapid increase in output. Production increased specially in the industrial sector at a much faster rate than capacity-growth. The most notorious example for this is the Federal Republic of Germany, where the utilisation of productive capacity had gone back considerably during the recession; but the same tendency has also been noted in other nations.

Slight Improvement in the Labour Market

With the increased utilisation of the technical capacity, the utilisation of the potential labour force went up, too. At first a better use of the already employed was achieved; a further employment reduction was thus often hindered through the growth of production. A comparison of the number of employed in industry in 1966 and 1967 shows clearly that this number decreased in almost all countries. But this falling trend has been weakening since 1968—as the United Kingdom, the Netherlands and Austria show—and has not surpassed the 2 per cent mark in any country. In June, the number of employed people in the Federal Republic of Germany was for the first time even higher in comparison with the year before.

A certain rising trend was also noticed in the supply of vacancies. This number, adjusted for seasonal variation, has rapidly increased in the Federal Republic of Germany since the end of 1967. First indications of this trend have been observed since spring also in the Netherlands and Sweden. The tightening of the restrictions stopped a similar development in the United Kingdom; the starting increase in the number of vacancies was interrupted in France through the strike.

Special Situation in Western Germany

But the adjustments in the labour-force demand have not changed the situation on the labour markets very much. Only in the Federal Republic of Germany has the number of unemployed, adjusted for seasonal variation, receded quickly; in nearly all other countries the rate of unemployment continued growing more or less. In the middle of the year only the Federal Republic reached the full-employment level, defined as a less than 2 per cent yearly average unemployment rate. In Belgium, Italy, Austria and Denmark the rate—adjusted for seasonal variation—was higher than the "traditional" threshold of 3 per cent. In the UK and France new social riots are feared, for, if the rate of unemployment stays the same, the number of unemployed workers during the winter is going to be very high.

The development on the labour-market slowed down the upward tendency of wages. Compared with the previous year's corresponding period, the rise of the standard hourly wages in industry during the second quarter of this year was only 4 per cent in Belgium, in the Federal Republic of Germany (the increase rate of the actual wages was even less), Italy and Switzerland, and about 6 per cent in France, the Netherlands and Sweden. Only the United Kingdom and Austria showed higher increase rates. But the 9 per cent rise of the standard wages in the United Kingdom occurred almost exclusively shortly after the relaxation of the wage freeze lasting from mid-1967 to early 1968; after that no remarkable rise has been registered, although the consequences of the newest tariff-agreements have not yet fully shown.

Rapid Growth of Productivity

The production costs of enterprises in a number of West European countries were positively influenced by the only moderate increase rate in wages and the rapid increase in productivity—the result of the expansion of production, without a considerable growth in the number of employed. This typical development shortly after a depression phase was particularly pronounced in the Federal Republic of Germany; but it was also noticeable—the extent depending on the actual cyclical development—in the other economies. A better profit position of enterprises has resulted, and this has stimulated the enterprise sector, i.e. specially its propensity to invest.

The greatest divergence from this picture is to be found in France. In this country the strikes induced heavy profit losses, and the collectively fixed wage increases bargained after the riots were considerably higher than the short-term increases in productivi-

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

Index and commodity group	1967		1968				
	September	December	March	June	September	Sep. 27	Oct. 18
HWWA-Index [1] (1952—1956 = 100)	90.9	97.0	99.1	94.7	94.6	94.7	95.4
Foodstuffs	84.9	90.3	90.3	87.8	86.5	87.1	88.2
Raw materials other than foodstuffs ..	93.8	100.2	103.4	98.0	98.4	98.3	98.8
Fuels	95.7	96.3	96.4	96.0	96.6	96.6	96.6
Raw materials for consumer goods ..	89.5	93.8	93.5	93.0	92.9	92.9	94.9
Raw materials for capital goods	94.7	108.2	117.1	103.4	104.0	103.8	103.7
Reuter's Index (18. 9. 1931) = 100	418.3	499.0	510.4	488.1	480.0	480.2	489.3
Moody's Index (31. 12. 1931 = 100)	363.9	364.3	362.3	366.6	361.8	360.5	357.3

[1] Index compiled by the Hamburg Institute for International Economics.

ty. The government's adjustment measures, particularly the temporary help for French enterprises competing internationally and the planned measures to facilitate investments, are supposed to achieve a new macro-economic equilibrium in the shortest possible time. The inducement of high increase rates in productivity play hereby a key-role, since they will have to "digest" the new cost level.

Raw Material Markets

Depressed Lead and Zinc Prices Expected

On the lead and zinc markets, rather brisk price fluctuations have occurred during the last months due to numerous special influences. Due to strikes, the crisis around Czechoslovakia and large East-bloc purchases, quotations for the two metals at the LME temporarily rose considerably. Since the £ sterling devaluation in November 1967, cash prices for lead at the LME have anyway increased by approximately 14 per cent to 107³/₄ £/lgt, while cash prices for zinc in the same period have fallen by fully 1 per cent to 110³/₈ £/lgt.

For the first time for several years, production surpluses had been expected on the world markets of lead and zinc for 1968. The cyclically conditioned increase in consumption had been expected to lag behind the strong expansion in production. However, in connection with the long duration of the metal workers' strike in the USA and the outbreak of the labour troubles in the Australian Broken-Hill Mine, this forecasting was jeopardised. But in the USA production experienced an unexpectedly rapid and strong expansion after the strike had ended; and the industrial conflict in Broken Hill could be confined, so that world production as a whole will nevertheless grow considerably in 1968.

On the other hand, the rise in demand is supposed to remain moderate in 1968. In the USA, processors had made ample provision against the strike, so that still today they can partially live on their stocks. Moreover—provided the increase rate in West Europe remains the same—the cyclical slowdown in the USA will make lead and zinc consumption in the western world grow more slowly than hitherto during the last months of 1968 and also after the year's end.

Under these circumstances, during the next months more depressed lead and zinc prices must be reckoned with. In the USA, due to production expansion and large imports, an over-supply and retrograde lead and zinc prices have already occurred. US producers fear an even stronger price decline and therefore demand the restriction of lead and zinc imports. Such restriction would, however, strengthen the supply on the European market and depress prices there. Further purchases from the East-bloc and backings of producers should, however, counteract the declining price tendency.

Apart from this, at the latest meeting of the lead-zinc industry, production surpluses of the two metals were anticipated for the years till 1971. Some big producers therefore intend to check the expansion of capacities planned by them.

Compiled by the Department for Business Trends Research of the Hamburg Institute for International Economics

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 Kebschull (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.