

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

Article — Digitized Version

Western Europe: Strong expansion

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1968) : Western Europe: Strong expansion, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 03, Iss. 12, pp. 383-384,
<https://doi.org/10.1007/BF02930282>

This Version is available at:

<https://hdl.handle.net/10419/138094>

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WORLD BUSINESS TRENDS

Western Europe: Strong Expansion

The development of the West-European economy has shown since the middle of this year a definite upward economic trend. On the one hand, this is the result of the expansive factors, which in France became rapidly predominant after the normalisation of internal politics. On the other, the economic expansion in the Federal Republic of Germany went on undiminished. At the same time, the slackening of economic activity in Great Britain, as a result of the restrictive budget, was obviously substituted by a demand increase. In most of the other national economies, too, the economic growth has become stronger, due to the influence of external stimulations. The gross national product in real terms should increase in Western Europe during 1968 by 4.5 per cent, compared with an increase of only 2.5 per cent during last year.

Improved Industrial Production

The upward economic trend after the middle of the year was specially noticed in the industrial production. The level of industrial production in Western Europe during July/August was noticeably higher than the one registered before the beginning of the French disturbances—the usual seasonal influences taken into consideration. Compared with the year before, the increase should reach more than 7 per cent (excluding the building sector); during the first half of 1968 it was only 4 per cent. By far the highest growth rate of industrial production during the two summer-months was registered in the Federal Republic

of Germany with 13 per cent, whereas the increase in Great Britain and France was only half this size. If the demand expansion is continuous, as is expected, the volume of industrial production on the whole will increase during the year by 5 or 6 per cent, after having reached only 1.5 per cent during 1967.

The demand increase in Western Europe was induced by the strong expansion of exports to the rest of the world. But also the investment-boom—stocks and fixed assets—in Western Europe played an important role. The upswing in the Federal Republic of Germany was hereby decisive. This is also demonstrated by the development of private consumption which follows the expansion in other sectors generally rather hesitatingly. Only in the Federal Republic the private consumption, measured in real terms, will show 1968 a much higher rate of increase than during 1967, when it grew very little. In a number of other countries—e.g. Italy, the Netherlands, Norway, and Switzerland—a distinct slowdown is expected even. The aggregate growth rate of private consumption in Western Europe, measured in real terms, is estimated to be only 3.5 per cent during 1968; this would mean that it would stay considerably behind the overall economic growth.

Special Influences in France and Great Britain

The development of private consumption in 1968 was in part the result of special influences. In France, the large wage-increases

and the expectation of price-increases after the end of the strike induced a pressure to buy, which was of major importance for carrying through the expansive forces again. The purchase-high that preceded the budget in Great Britain was followed by a short-living decline in consumption, as a consequence of the introduction of restrictive measures; a new increase in consumption-expenditure during the last months has forced the government to bring forward more restrictive measures, due to the situation in the balance of payments.

The low increase of real consumption in France and Great Britain—with 4 per cent and 2 per cent, respectively, the same as the year before—reflects the strengthened "absorption" of the rise in expenditures through price increases. The private cost of living was recently in France nearly 5 per cent, in Great Britain almost 6 per cent higher than a year ago. In the other Western European countries—with the exception of Denmark and Spain—the price increase did not surpass the 3 per cent margin, according to the latest information available. Occasionally it was even under 2 per cent, as in the Federal Republic of Germany, Italy, Sweden and Switzerland.

Services Continually more Expensive

The prevailingly favourable development of prices during 1968 was supported by an extensive supply of agrarian products. The price increase in foodstuffs generally stayed under the average—in part they were even cheaper than a year ago. Moreover cyclical influences depressed the upward trend of prices, as is shown by the low price increases in industrial consumer goods; in some countries these prices showed nearly stability. By far the strongest price increases

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

Index and commodity group	1967	1968					
	October	January	April	July	October	Nov. 1	Nov. 15
HWWA-Index 1 (1952-1956 = 100)	92.2	97.6	96.1	94.2	95.2	96.2	97.1
Foodstuffs	86.8	91.1	91.0	86.2	87.9	90.3	92.1
Raw materials other than foodstuffs ...	94.8	100.7	98.5	98.0	98.7	99.1	99.5
Fuels	96.2	96.2	96.0	96.4	96.6	96.7	96.7
Raw materials for consumer goods ..	89.2	92.8	93.1	93.8	94.5	95.2	94.8
Raw materials for capital goods	97.2	110.5	104.8	102.4	103.8	104.2	105.6
Reuter's Index (18. 9. 1931) = 100	426.6	503.2	491.5	481.5	489.2	498.3	501.9
Moody's Index (31. 12. 1931 = 100)	360.4	361.6	362.2	364.8	358.5	362.2	367.4

¹ Index compiled by the Hamburg Institute for International Economics.

were registered again in the rents, the transport sector and other services. Apparently, short economic setbacks have little effect on the development of the prices in these sectors.

The development of private consumption expenditures in Western Europe even after the turn of the year will continue to be determined by the upward economic trend. Consumption in real terms on the continent will therefore grow even stronger during 1969, than it did during 1968. This will

be true for the Federal Republic of Germany and for most of the smaller economies. In France the growth rate will be influenced by the increase in consumption, registered since the middle of 1968, although its current expansion should diminish. On the other hand, the newly introduced extensive restrictive measures in Great Britain will probably have an effect to the extent that the volume of private consumption in terms of real values will hardly reach the previous year's level.

prises practically only the eight part of world production. Moreover, the United States' imports, the deliveries within the Commonwealth, and Cuba's exports to the Soviet Union and the other East-bloc countries are wound up on the basis of preference agreements. The United States' joining the new sugar agreement is not expected for the next future, as the USA deprecates the unilateral preference given to Cuba. The same applies to the EEC countries which demanded a higher export rate for their surplus beet-root sugar, and which can now, being outsiders, have a disturbing effect with their sugar exports.

Moreover, the elimination of inflexions of the contractual regulations by members remains problematic. After all, the planned stabilisation prices are considerably above the market price now valid, so that some producers could be inclined to sell sugar below the contractually fixed prices.

The stabilisation of sugar prices on an adequate level, aimed at by UNCTAD for developing countries, could mainly have been promoted by a limitation of sugar production. An agreement on this has however not been reached.

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

Raw Material Markets

Strong Recovery of the Sugar Price

The conclusion of the new international sugar agreement at the UNCTAD Sugar Conference in Geneva, on October 24, 1968, has led to a strong rise in prices on the free world sugar market. Before the beginning of the conference, the price of World Contract No. 8 in New York with 1.33 c/lb for prompt products had fallen to a year's bottom. Meanwhile, it has risen to 2.72 c/lb and thus lies now about 10 per cent above the level registered one year ago.

The extraordinarily high sugar surpluses, which made the free world market price for sugar fall far below the production costs in

producer countries, formed the background of the wearisome negotiations about a new sugar agreement. This price pressure shall now be alleviated by a quota system for sugar exports. A total export rate of approximately 9 mn tons of sugar is planned, of which among others Cuba got 2.15 mn tons, Australia 1.1 mn tons and—mostly for the re-export of Cuba sugar—the Soviet Union 1.1 mn tons. The export rates of the individual countries can be increased or reduced, in case prices should rise above 5.25 c/lb or fall below 3.50 c/lb.

A major disadvantage of the agreement is the fact that it com-

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: Dr. 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.