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Economic expansion will slow down

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WORLD BUSINESS TRENDS

Economic Expansion Will Slow Down

At the beginning of 1969 a slowing down of the world economy's growth rate is to be anticipated. The measures, taken by the leading economies, for fighting the domestic and external imbalances are mainly contributing to this development. Therefore, under the now foreseeable economic conditions, the GNP growth rate will decrease to approx. 4 per cent in the Western industrial countries. The expansion of world trade should also decline to 8 per cent in terms of money.

USA: Restrictions Becoming Effective

Political-economical uncertainty originates above all from the United States due to its change of government. If the USA's present economic policy is being continued, the growth rate of its GNP would decline to about 3 per cent, as the financial policy restrictions taken last year will become more effective since recently they

are supported by a credit policy on similar lines. A slowing down of the rise in costs and prices, however, will prevail but slowly and will have to be paid for with growing unemployment. After the end of the dockers' strike first successes will occur in the improvement of the trade balance, while the development of the balance of payments remains dependent on the—hardly foreseeable—changes in the flows of capital.

In Western Europe the leading economies' stabilisation measures in the field of foreign trade and payments on the whole impaired growth prospects but slightly. For, outside the Federal Republic of Germany the "substitute revaluation" of the D-Mark counteracts the contractive effects of the French and British measures. Thus in most West European economies a slightly accelerated economic growth may be anticipated—apart from France where, if no new troubles occur, a vigorous

production increase cannot fail to show up in comparison with the preceding year influenced by strikes. Besides the Federal Republic only in Britain, the Netherlands and Sweden a slowing down is to be anticipated, which, however, will be a slight one only. In the aggregate in 1969 the West European GNP will have about the same growth rate of 4.5 per cent as in the preceding year.

Developing Countries: Declining Export Expansion

Together with the declining expansion of all industrial nations' demand for raw materials incentives for developing countries will weaken, too. In 1969 their export proceeds will grow slower all the more since raw material prices are under pressure due to the market situation that deteriorated to the disadvantage of the producers. The developing countries' imports, however, can continue their rapid increase for a while yet, since last year their currency reserves increased still further.

In 1969, too, the world economy will continue to be confronted with the foreign trade problems of the previous year. The measures taken hitherto only gained

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

Index and commodity group	1967	1968				1969	
	December	March	June	September	December	Jan. 3	Jan. 17
HWVA-Index ¹ (1952-1956 = 100)	97.0	99.1	94.7	94.8	97.5	98.6	98.8
Foodstuffs	90.3	90.3	87.8	86.5	91.9	93.4	93.8
Raw materials other than foodstuffs ...	100.2	103.4	98.0	98.4	100.2	101.1	101.2
Fuels	96.3	96.4	96.0	96.6	96.7	96.7	96.7
Raw materials for consumer goods ..	93.8	93.5	93.0	92.9	94.0	94.5	93.3
Raw materials for capital goods	108.2	117.1	103.4	104.0	107.9	110.2	111.0
Reuter's Index (18. 9. 1931 = 100)	499.0	510.4	488.1	480.0	513.4	521.0	518.5
Moody's Index (31. 12. 1931 = 100)	364.3	362.3	366.6	361.8	368.7	370.3	372.9

¹ Index compiled by the Hamburg Institute for International Economics.

time, and that only by tolerating the ignoring of acknowledged basic principles of the international economic order. If this order is not to be impaired even more and finally destroyed to everybody's disadvantage, in

view of the fundamental character of international imbalances fundamental measures will be required. This, however, is impossible as long as the fortification of currency parities is considered a virtue.

sors in the USA, who had to reckon with a new outbreak of the dockers' strike at the end of the year. In contrast to this, the continuous de-escalation in Vietnam hardly exercised a pressure on prices, because this development had been discounted by the market partners.

Raw Material Markets

1968: Partly Vigorous Price Fluctuations

In the international markets for industrial raw materials in 1968 a series of special influences, against the background of a continued increase in the demand for raw materials, led to partly vigorous price fluctuations. They were especially marked for non-ferrous metals and rubber. But in full the price level in the industrial raw material markets remained unchanged between December 1967 and December 1968. On an annual average, in 1968 the level on a dollar basis, i.e. the currency devaluations of November 1967 being statistically eliminated, slightly declined, compared to the 1967 average.

Price Decline before the Middle of the Year...

During the first months of 1968, the continuously strong rise in demand for raw materials, which resulted from the cyclical revival in raw material consumption and the replenishment of stocks by processors, coincided with the shortage of copper, which was due to strikes. Thus a considerable rise in the price level occurred in the industrial raw material markets. After the wearisome strike in the US metal industry could be terminated,

prices of non-ferrous metals dropped, and consequently in April 1968 also the average price level in the industrial raw material markets fell below the level of December 1967. About the middle of the year, the growth in raw material demand temporarily slowed down, because the majority of processors had meanwhile increased their inventories and were expecting continuously receding prices.

... was Followed by a Recovery in the Second Half-year

But the anticipated price decline did not occur. Under the influence of relatively frequent special factors, prices of some industrial raw materials rose strongly, so that, as a whole, the price level in these markets increased again in the second half-year 1968. Repeated speculative raw material purchases, caused by the fear of currency devaluations, could be observed especially in the non-ferrous metal markets. In the rubber market, the price-raising speculation was evoked by the prospect of even larger East-bloc purchases. During the last months of 1968, the price rise was generally supported by the provident buying in of proces-

Prices of Industrial Raw Materials Supposed to Fall

In 1969, the demand for raw materials in the Western world will increase more slowly than hitherto, because—though a continuation of the economic growth in Western Europe can be expected—a check to economic activity in the USA is probable. In addition, US processors will, after a rapid end of the dockers' strike, first reduce again their providently increased stocks. On the other hand, a further expansion of East-bloc demand in some sectoral markets, which already in 1968 was rather strong, can hardly be anticipated. Demand, as a whole growing more weakly, will in 1969, too, be generally opposed by a wide supply of industrial raw materials. In case the endeavours for a peace in Vietnam should be successful, the stockpile offices in the USA will try to sell the raw material stocks more rapidly. However, the continuation of the stabilisation policy should enable producers to limit supplies to a certain extent. Due to this probable development of the supply-demand situation, slightly falling prices must be expected in the markets of industrial raw materials in the course of 1969.

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

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