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## Limited success of sterling devaluation

Intereconomics

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# WORLD BUSINESS TRENDS

## Limited Success of Sterling Devaluation

In the last year the British economy has shown a remarkable, though in this particular instance by no means desired, power of resistance. The thorough-going economic restrictions of March, 1968, did not even suffice to slow down domestic demand to the extent necessary, although some quarters had considered them to be exaggerated. Therefore, in the interest of the rehabilitation of the foreign trade and payments situation new measures have been taken in November last, that—apart from direct import impediments through the introduction of import deposits—by increasing indirect taxes on consumption and tightened credit restrictions were supposed to slow down demand expansion once more.

### Trends in Consumer Demand

The erroneous trends, that this way are being opposed, can be clearly recognised in last year's economic balance. While the net position on goods and services—also calculated in dol-

lars—registered the highest deficit ever reached, the GNP in real terms increased with 3.5 to 4 p.c. much faster than in the preceding four years. Although foreign demand apparently has contributed to this trend even more than had been anticipated last spring still, for the rest the wanted shift in the utilisation of resources has completely failed. Thus above all investments of private enterprises rose more slowly than expected, while private consumption, that was supposed to stagnate, increased considerably. At the same time the growth rates of imports remained much higher than had been anticipated before the devaluation.

However, as regards the development of foreign trade and payments the annual balance does not give an accurate picture of most recent tendencies. Taking into consideration the unavoidable delay of noticeable effects in the field of exports, this vigorous increase in the 2nd half of 1968 is very remarkable,

since compared with the usual seasonal influences it corresponded to a growth rate of more than 20 p.c. for the whole year. Although this was to a large extent a reflection of the general acceleration of international trade turnovers, nevertheless this time British exporters succeeded in keeping abreast. The noticeable improvement of their competitive position has contributed to this development. In November, the average values of exports (in sterling) were only 8.6 p.c. above those of a year ago (at a devaluation rate of 14.3 p.c.).

As against this, average values of imports rose more, in the case of semi-finished and finished products by almost the full devaluation rate even. In spite of rising prices also of domestic manufactures (November 1968: +4.5 p.c. as compared with the previous year) the competitive position as to prices of British goods has thus deteriorated considerably after the devaluation.

### 1969: Stimulated Investments

On a whole, the British economy's growth prospects deteriorated only little through the recent restrictions, since the absorption of demand is to be

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

Index and commodity group	1968				1969		
	January	April	July	October	January	Jan. 31	Feb. 14
HWVA-Index <sup>1</sup> (1952-1956 = 100) .....	97.6	96.1	94.2	95.2	98.7	98.8	98.9
Foodstuffs .....	91.1	91.0	86.2	87.9	93.3	92.6	92.8
Raw materials other than foodstuffs ..	100.7	98.5	98.0	98.7	101.4	101.8	101.7
Fuels .....	96.2	96.0	96.4	96.8	96.7	96.7	96.7
Raw materials for consumer goods ..	92.8	93.1	93.8	94.5	93.5	92.6	91.2
Raw materials for capital goods .....	110.5	104.8	102.4	103.8	111.4	113.3	114.0
Reuter's Index (18. 9. 1931 = 100) .....	503.2	491.5	481.5	489.2	519.8	519.7	519.9
Moody's Index (31. 12. 1931 = 100) .....	361.6	362.2	364.8	358.5	373.5	377.3	376.5

<sup>1</sup> Index compiled by the Hamburg Institute for International Economics.

compensated mainly by import substitution. The main effect is rather to be found—beyond this influencing of the external contribution—in an increased pressure towards a shifting utilisation of resources, above all by preventing a rise of private consumption. On the other hand, a vigorous expansion of investments by enterprises is being anticipated for this year after the utilisation of capacities and profits increased considerably in 1968. Altogether the GNP in real terms should grow by about 3 p.c. in 1969.

The realisation of the British Government's income policy conceptions is decisive for fur-

ther developments, i.e. to what extent the rehabilitation in the field of foreign trade and payments will gain a major and lasting success after its present beginnings. The limitations to be noticed in this connexion let us expect a partial success only of the devaluation, too. Its realisation in the current year is of great importance not only to Britain but also to its trade partners and in general to the future of the existing international economic order. For, the alternatives for its failure would be either a new sterling devaluation, this time with a chain reaction, or the transition to direct import restriction.

the previous year's level. As until the beginning of the season stocks had gone back by 6 p.c. to 304 mn lbs, total supply will remain nearly unchanged in 1968/69. Further price rises are supposed to be limited, as in 1969 the cyclical upswing in the Western industrial countries in general will lose speed somewhat.

What can be anticipated in the longer run, are above all growing sales chances for Merino wool. In the total wool production, these kinds have a share of 70 p.c. by volume and 90 p.c. by value. Also in future, Merino wool will probably not be displaced by synthetics. According to the International Wool Secretariat, during the next years the demand for wool designed for clothes will grow more rapidly than production. Latin American wool producers consider this to be a chance for expanding their production quite as strongly as in Australia.

The inventories of the national New Zealand Wool Commission, which had grown to 700,000 bales during the recession year 1966/67, could be reduced by 100,000 bales from the beginning of the present season until December, 1968. In 1969, further 100,000 bales are to be sold out of these stocks without prices being feared to fall.

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

## Raw Material Markets

### Rising Prices in the Wool Markets

In autumn 1967, the considerable growth of demand in the international wool markets resulted in rising prices for Merino kinds of major quality as well as crossbreds from New Zealand. This development was interrupted temporarily in November only, when the restrictive measures of some European countries caused processors to make purchase disposals more carefully. Meanwhile, wool prices have recovered again. In full, prices for Merino tops in London have risen by 3 p.c. to 115.4 d/lb and for 56' crossbreds in Bradford even by 7 p.c. to 78 d/lb since the beginning of the sea-

son 1968/69. Thus, prices for Merino wool lie about 7 p.c. and for crossbreds about 17 p.c. above the level one year ago.

The rise in wool prices—supply having remained nearly unchanged—must be attributed to the increasing demand in the most important consumer countries. During the season 1968/69 e.g. Australia and New Zealand will, according to recent estimates, be able to expand their wool production by 9 p.c. and 50 p.c., respectively, as compared with the preceding season. Total wool production in 1968/69—cleaned—with 3,447 mn lbs will lie by only 0.6 p.c. above

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