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West Europe: Free resources mobilised

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WORLD BUSINESS TRENDS

West Europe: Free Resources Mobilised

The West European economy went into 1969 with the impetus of an extraordinarily rapid expansion in business activity. The strength of the upward forces is still slightly underrated in view of the now accumulating results for the year 1968. The overall growth of the GNP in real terms reached already nearly 5 p.c. during the preceding year; during the second half of the year alone, the increase was even significantly higher. An indication for this is the development of the industrial production of Western Europe, which surpassed the corresponding values of the year before by about 5 p.c. in the first half-year of 1968 and by about 9 p.c. in the second half-year.

Many Countries Carried the Boom

The boom was carried by a growing number of countries. Expansion since the middle of the year—measured again on the industrial production—was

most vigorous in France, the Federal Republic of Germany, Spain, the Netherlands and Sweden. A considerable acceleration was also registered in Great Britain. The high elasticity of supply of the West European economy gives evidence of the considerable unoccupied resources which—after the precedent phase of a more or less pronounced damping of business activity in most countries—were disposable for an increase in production.

Employment Increased Again

At first, the business activity increase in Western Europe, which began after all in autumn 1967 already, had brought about above all a mobilisation of the internal organisation reserves in productivity; on account of the boom during the second half-year of 1968, the need for supplementary labour forces increased noticeably, too. The number of dependent employees in the manufacturing industry

overpassed again at the end of last year in several countries, namely in the Federal Republic, Italy, Austria, and Great Britain, the standing of the year before. Similar changes in tendency were observed in the Netherlands and in France. The number of open places began also to increase generally: in addition to the Federal Republic and the Netherlands, where this process had started earlier, in Great Britain, Sweden, Austria, and Belgium.

Unemployment Declined

The growing demand for labour forces showed its increasing precipitation on the labour market. Still, not considering seasonal movements, unemployment had decreased only in the Federal Republic and in the Netherlands during the first half of 1968; this tendency intensified, though, in most of the other West European countries. Therefore, at the end of 1968, the number of unemployed persons was again lower than the year before in a number of countries. The specific unemployment rate amounted, adjusted for seasonal variations, in the Federal Republic, the Netherlands and Norway to around 1 p.c. as well as to 2 p.c. in Sweden, Great

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

| Index and commodity group | 1968 | | | | 1969 | | |
|---|-------|-------|-----------|----------|-------|----------|----------|
| | March | June | September | December | March | March 28 | April 11 |
| HWWA-Index ¹ (1952-1956 = 100) | 99.1 | 94.7 | 94.6 | 97.5 | 100.0 | 100.3 | 101.2 |
| Foodstuffs | 90.3 | 87.8 | 86.5 | 91.9 | 94.3 | 93.7 | 94.4 |
| Raw materials other than foodstuffs ... | 103.4 | 98.0 | 98.4 | 100.2 | 102.8 | 103.5 | 104.5 |
| Fuels | 96.4 | 96.0 | 96.6 | 96.7 | 96.5 | 96.5 | 96.3 |
| Raw materials for consumer goods .. | 93.5 | 93.0 | 92.9 | 94.0 | 91.6 | 92.1 | 91.8 |
| Raw materials for capital goods | 117.1 | 103.4 | 104.0 | 107.9 | 116.7 | 118.3 | 121.3 |
| Reuter's Index (18. 9. 1931 = 100) | 510.4 | 488.1 | 480.0 | 513.4 | 524.4 | 525.7 | 528.9 |
| Moody's Index (31. 12. 1931 = 100) | 382.3 | 366.6 | 361.8 | 368.7 | 377.5 | 375.5 | 379.1 |

¹ Index compiled by the Hamburg Institute for International Economics.

Britain and France. It was noticeably higher in Austria, Denmark, Belgium and Italy with 3 to 4 p.c.

Higher Profits Promote Investments

The production thrust of the West European economy during the second half-year led as a whole to a noticeable increase in the usage of capacity. This process should have taken place predominantly in a sector with decreasing or at least constant unit costs, and should therefore have had generally a stabilising effect. Under these circum-

stances, entrepreneurial profits have strongly increased, and thus promoted the propensity to invest. The increase of private investments in fixed assets has therefore more and more become the most important guiding force of the upswing in Western Europe. Some tendencies towards a diminished increase of the other demand components—exports to the rest of the world, demand of the state—are all the more important in order to avoid that the expansion will overcharge the resources in different countries already in the near future.

Raw Material Markets

Sugar Prices Increased Further

The introduction of relatively tightly measured export rates for 1969 in the frame of the new International Sugar Agreement made sugar prices rise vigorously during the last months. The price in New York for promptly available goods of World Contract No. 8 has since the beginning of the season 1968/69 increased to more than the double and since the beginning of this year by roughly 25 p.c. to 3.82 cts per lb.

This considerable rise in the price level would hardly have occurred without the new sugar agreement. True, the production in the current season 1968/69 with probably 68.8 mn t (1967: 67.7 mn t) will not suffice to meet the consumption of 70.0 mn t,

which is estimated to be by almost 4 p.c. higher as compared with the preceding season (1967/68: 67.4 mn t). But the production gap of 1.2 mn t could easily be filled by the voluminous stocks. For, these will still represent with 17.4 mn t at the end of the season more than twice the sugar volume traded in the free world market within one year. But the export rate for 1969 has been reduced to 90 p.c. of the basic rate of the sugar agreement amounting to approximately 8.5 mn t, so that the import demand in the free sugar market can only be satisfied with difficulties.

In view of the great stocks and some considerable shortcomings of the International

Sugar Agreement, its functioning has initially been doubted. For the agreement comprises only the supply in the free world market of about 8 to 9 mn t of sugar, and not the deliveries within the framework of bilateral special agreements, which have at least the same size. Moreover, the EEC has up to now not joint the agreement. In the negotiations the EEC countries had demanded an export quota for themselves of 1.2 mn t. This size could however not be accepted by the other countries because of their own surplus productions. Should the EEC countries really sell sugar in greater quantities at lower prices outside the treaty, the effectiveness of the new sugar agreement could be seriously threatened.

A further danger for the agreement is, on the other hand, the further growing surplus stocks in some member countries as a result of export restrictions. This could to a certain extent be remedied at first by a transfer of the export rates not fully used by other member countries. In the long run, sugar prices can only be held at the present higher level, if, over several years, less sugar is produced than is consumed and if thereby stocks are reduced.

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

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