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Strong growth of the world economy

Intereconomics

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WORLD BUSINESS TRENDS

Strong Growth of the World Economy

The strong economic growth in the Western countries continued during the winter half-year 1968/69. The pace of expansion has still accelerated in Western Europe, while a slowdown took place in the USA. World Trade increased strongly. The exports of developing countries also ascended considerably.

Slowdown in the USA

In the USA the speed of economic growth has diminished since autumn 1968, after restrictive fiscal policy measures had already been taken in the middle of the year. The latest credit restrictions and the change for the worse in marketing chances will have a stamping effect during 1969 on the private fixed asset investments, which up to now have been a stimulating factor. In the course of the year a slackening of the economic growth is expected in the USA. As a result the growth of imports will slow down considerably. Despite an expected

improvement in the balance of current transactions, a deterioration of the balance of payments is to be estimated. The strong price increase will only be able to diminish after a longer damping of economic expansion.

Strengthened Boom in Western Europe

The development of business activity in the Western European economy has been marked since autumn by a strengthened boom. The acceleration reflects especially the spreading of the demand stimulation—originating mainly from the public sector and export—upon the remaining spheres. Since autumn the economic policy has had increasingly restrictive effects in some West European nations. The wave of discount rate raises during the preceding months mainly aimed at counteracting the liquidity outflow. Only lately have the cyclical policy aims of demand damping moved into

foreground in a few countries, as in the Federal Republic of Germany and the Netherlands. Also without subsequent economic policy braking measures, Western Europe predominantly shows marks of a slowdown of demand increase during the course of this year—most important exception is Italy. Notwithstanding, an overall increase of the gross national product in real terms of 4.5 to 5 p.c. is expected for 1969, thus keeping the order of last year.

Improved Situation in Developing Countries

The foreign trade situation in the developing countries improved considerably during the year 1968. Their export proceeds increased in the second half-year by over 10 p.c.—as compared with the corresponding time of the year before—, since the demand for raw materials of the Western industrial nations revived strongly and the prices of raw materials increased. The developing countries reacted on this favourable development of exports in the second half of 1968 with an accelerated increase of imports. It is very questionable whether exports will increase at the same pace in the future. A slower in-

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

Index and commodity group	1968			1969			
	April	July	October	January	April	May 9	May 23
HWWA-Index ¹ (1952-1956 = 100)	96.1	94.2	95.2	98.7	101.1	101.7	102.4
Foodstuffs	91.0	86.2	87.9	93.3	93.9	93.9	94.1
Raw materials other than foodstuffs ..	98.5	98.0	98.7	101.4	104.5	105.5	106.4
Fuels	96.0	96.4	96.6	96.7	96.3	96.3	96.3
Raw materials for consumer goods ..	93.1	93.8	94.5	93.5	91.6	93.6	93.3
Raw materials for capital goods	104.8	102.4	103.8	111.4	121.6	122.7	125.4
Reuter's Index (18. 9. 1931 = 100)	491.5	481.5	489.2	519.8	528.5	531.1	535.9
Moody's Index (31. 12. 1931 = 100)	362.2	364.8	358.5	373.5	379.4	389.3	396.3

¹ Index compiled by the Hamburg Institute for International Economics.

crease of industrial production and herewith of consumption of raw materials in the Western industrial nations must be expected. The raw material prices will also not continue their upward development. Under these conditions it is improbable that the imports of the developing countries will increase as rapidly as they have done up to now.

1969: Difference in International Economic Growth

The economic growth in the industrial nations is to be estimated to about 4.5 p.c. on the average for the year 1969 (increase of the gross national product in real terms). During the course of the year demand

expansion will nevertheless weaken. The growth rate in the EEC member countries will be with an average of 5.5 p.c. considerably higher than in the Anglo-Saxon countries, where it will total 3 to 3.5 p.c. Hereby it is insinuated that a new sharpening of the international balance of payments problems will not enforce drastic economic policy interferences. Despite the differentiated expansion there is no sign for an equilibrium of the streams of transactions. As long as the Western world shrinks back from a correction of the rate of exchange distortions, it will because of this fact again have to take into the bargain economic growth losses.

duced stocks after the dockers' strike had ended.

A significant contribution to the price rise in the market for industrial raw materials was made by the American Stockpile Office through the announcement to restrict its raw material purchases or not to start them too soon, respectively. This way, the stockpile purchases of copper for the production of military goods were reduced and instead the obligation of firms to supply copper out of the current production was increased. In the case of tin and caoutchouc the hitherto fixed level of the strategical reserve was raised, and only in the case of lead an expansion of purchases was announced.

Raw Material Markets

Vigorous Rise of Raw Material Prices

In the international markets for industrial raw materials the continuously strong rise of demand led—during the first months of 1969—to a continuation of the price increase, which had started in autumn of last year. Above all, non-ferrous metals and caoutchouc became dearer, whilst prices for cotton and wool declined somewhat. On the whole, the price level in the markets for industrial raw materials has, since the beginning of this year, increased by 4.5 p.c. It thus lies by 8 p.c. above the previous year's level. It has, however, to be taken into con-

sideration that at that time especially copper prices had considerably declined after the preceding boom.

The background of the brisk demand for raw materials during the last months was the continuously strongly expanding industrial production in the Western world. In addition, processors and traders made provident purchases, because of the possibility of new currency corrections and strikes in some production fields. In the USA, processors moreover had to refill their considerably re-

In the further course of this year, a remarkable change of the price level in the markets for industrial raw materials can hardly be expected. True, the rise in the demand for raw materials will slow down in connection with the dampening of the business upswing in the Western world, but the then possible weakening of prices will be very limited. For, producers will reduce the offer of individual raw materials by backings (lead), production reductions (zinc) and export quotas (tin), in order to stabilise prices.

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

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