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WORLD BUSINESS TRENDS

Western Europe: Boom Holds

Nearly all West European economies are at the moment showing a strong increase in business activity. After the extraordinarily rapid increase in business expansion during the second half-year of 1968 which was favoured partially by special factors, the expected decrease at the beginning of 1969 has remained apparently in quite confined boundaries. At any rate, the available data pertaining to the development of industrial production results in Western Europe point in this direction. It should have surpassed in the first quarter of 1969 by almost 10 p.c. its corresponding volume of the year before, which at that time had been already seized by the stimulation of business activity.

Internal European Demand as an Impulse

The rapid demand expansion is now determined completely by the internal European demand, since the retardation of exports in the first months of the current year due to the dock-workers' strike in the USA led

temporarily even to a decrease of the deliveries to non-European regions. The acceleration in Western Europe, on the other hand, is primarily a result of the private demand. This applies mainly to investment expenditure. But also the overall development of private consumption has already been stimulated clearly by the economic boom. Therefore, the first estimates for the past year had to be raised often after the unexpected strong increase during the last months before the turn of the year; in real terms, private consumption in West Europe should have increased by nearly 4 p.c. during 1968. The growth of the GNP (5 p.c.) was herewith not reached, but the acceleration was considerable as compared with 1967, when private consumption increased by about 3 p.c.

Differentiated Price Uplift

The raised tax burden on private consumption has strongly contributed to the fact that the most pronounced increase in the cost of living during this

spring was registered in France and Great Britain with 6 p.c. (compared in each case with the year before) and in the Netherlands with 8 p.c. True, the increase in the Netherlands, due to the introduction of the added value tax, was higher than the calculated effect, so that the government had to impose a price stop. In the other West European countries the upward trend of prices showed most strongly in Belgium, Denmark and Norway with 3 to 4 p.c., while it remained between 2 and 3 p.c. in the Federal Republic of Germany, Austria, Sweden and Switzerland. The lowest price increase was registered in Italy and Spain. Apart from the tax burdens, tendencies towards an acceleration of the price increase came often from foodstuffs. Although this is overwhelmingly the result of a non-cyclical factor on the supply side, this was also surely partly the result of a demand revival.

1969: Increase of Consumption Predominantly Higher

The prospects for an expansion of private consumption are more favourable for many countries, during the course of the year than in 1968 when income development is taken into account. On the other hand, the stimula-

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

Index and commodity group	1968			1969			
	May	August	November	February	May	June 6	June 20
HWWA-Index ¹ (1952-1956 = 100)	95.0	94.3	96.9	99.1	102.1	103.6	104.3
Foodstuffs	90.8	88.5	91.5	93.2	94.1	95.4	95.7
Raw materials other than foodstuffs ..	97.1	98.1	99.5	101.9	106.0	107.5	108.5
Fuels	96.0	96.5	96.7	96.7	96.3	96.4	96.4
Raw materials for consumer goods ..	92.4	93.5	94.8	91.6	93.5	93.6	92.8
Raw materials for capital goods	101.3	102.8	105.4	114.1	124.2	128.2	131.2
Reuter's Index (18. 9. 1931 = 100)	488.9	479.9	504.1	521.7	532.9	537.1	533.2
Moody's Index (31. 12. 1931 = 100)	364.6	357.7	385.5	376.5	392.0	399.0	395.7

¹ Index compiled by the Hamburg Institute for International Economics.

tions that resulted from a decrease of the propensity to save were because of their nature of passing effect only. Measured in real terms, the increased price uplift will often—independent of the cause—slow down the increase in consumption. In accordance with the present estimates, the Federal Republic of Germany and Italy will be at the top with an increase of about 6 p.c. during 1969, followed by France and Austria with about 5 p.c. In the remaining West European economies, private consumption should mainly increase in real terms by 3 to 4 p.c.

Therefore, the outlook for Western Europe during 1969 is an increase of private consumption by again about 4 p.c. It will herewith remain once more clearly under the one of the GNP. This shows that, on the whole, the year 1969 can still be characterised as corresponding to a cyclical boom-phase, in which the company earnings always make special advances. This constellation is surely favourable for a strengthening of the factors affecting growth, but in the following course a correction is unavoidable if only to avoid the creation of social instability.

expansion that has taken place during the current season 1968/69 under the influence of the past increase in prices. Hence the overall cultivation should be extended only insignificantly, so that the production would increase only slightly—unchanged acre-yield assumed.

The development of the world cotton consumption in the season 1969/70 beginning in August will depend mainly upon whether the measures to dampen the increase in business activity in the USA and the reduction of the military presence in Vietnam that is being considered will lead to a continued decrease in consumption. In the West European countries a continuation of the increase of consumption is to be anticipated during the next months due to the generally favourable business activity expectations. The consumption of cotton in Japan will hardly reach in the near future the high growth rates of the past months, in view of the large stockpiles of yarn. Since an increase of the stockpiles by the consumers is not to be counted on, the overall requirements of world cotton will hardly rise during the first half of the season 1969/70 so that the prices of cotton will probably remain at most on the present level.

Raw Material Markets

Cotton Prices Relatively Stable

The cotton year 1968/69 ending in July was determined by a strong increase of cotton production in the USA by 51 p.c. to 10.9 mn bales. In the rest of the countries of the Western world the production has also increased, so that—with a nearly unchanged harvest in the Eastern Bloc—the world production of cotton will increase in 1968/69 by 10 p.c. to 52.5 mn bales. However, the total supply has herewith not experienced an expansion, since the stocks available at the beginning of the season were considerably lower than they were a year ago. For 1968/69 the world consumption

of cotton has—as far as it can be overlooked—remained nearly unchanged with about 53.0 mn bales. Declining consumption in the USA is compensated by an increase in the rest world.

Exact forecasts about the development of the world production of cotton during the coming season 1969/70 is not yet possible. In the USA, the programme to promote the production of long-stapled cotton will probably lead to a continued widening of the cultivation area. As against this, the cultivation area of the other Western nations will be reduced after the considerable

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