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WORLD BUSINESS TRENDS

World-wide Stability Concern

During the first half-year of 1969, the development of business activity of the world economy was characterised by an unexpectedly strong demand expansion. It became thus more difficult for the instances responsible for economic policy to realise the target concepts regarding stability policy. The limitation of the price increase moved thereby into the spotlight besides the maintenance, i.e. reinstalment of the foreign trade equilibrium. Thus, in its latest report, the EEC-Commission set the equilibrium problems, with special emphasis upon price stability, in the focus of the debate about the business activity policy, and recommended all member countries, except Italy, a damping of internal demand. Outside the EEC, the even intensified restrictive policy in Great Britain as well as in the USA during this year stands specially out.

Consumer Prices Increased

The consumer prices still prevail as the most important, since most comprising and at the same time to a certain ex-

tent internationally comparable criteria for measuring internal economic stability. When this measure is taken, the price increase in most of the Western industrial states has by tendency become stronger during the current year. Nevertheless, it still remained, according to the latest available data, in the majority of the Western European national economies — when compared with the year before—between 2 and 3 p.c., as in the Federal Republic of Germany, Italy, Norway, Austria, Spain, Sweden, and Switzerland; and around 4 p.c. in Belgium and Denmark. The higher rate of increase in the cost of living of fairly 5 p.c. in Great Britain—this is here already a clear decrease—, of more than 6 p.c. in France and 8 p.c. in the Netherlands are, however, very obvious to the eye. In the overseas industrial countries, Japan, Canada and the USA, the increase of consumer prices reached, too, in each case around 5 p.c.

Foodstuffs Much More Expensive

The often strong increase of foodstuff prices contributed par-

ticularly to the rise in the cost of living. In Western Europe it only remained within moderately narrow confines in Italy, Sweden, Switzerland, and Spain, with 2 to 3 p.c. In contrast to this, the price increase within a year amounted to 4 to 5 p.c. in Belgium, the Federal Republic of Germany, Denmark, France, Norway and Austria — as well as in Japan, Canada and the USA—, to more than 6 p.c. in Great Britain and to 8 p.c. in the Netherlands. The relatively scarce supply of some "seasonal" foodstuffs—when compared with the year before—obviously played an important role in this connection. The price increase extended itself also upon other agrarian products. Here, the fact is surely of importance that with an accelerated increase of mass incomes the chance of passing over price increases have improved.

Little Increase in Industrial Consumer Goods

The calm price development of industrially produced consumer goods has changed little in Western Europe. In some important branches, the prices were furthermore even lower than a year ago, particularly for household equipment. Besides this, the price increase remained under 2 p.c. in most countries. The special cases of Great

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

Index and commodity group	1968		1969				
	July	October	January	April	July	August 1	August 15
HWWA-Index ¹ (1952–1956 = 100)	94.2	95.2	98.7	101.1	104.0	104.5	105.3
Foodstuffs	86.2	87.9	93.3	93.9	94.6	94.1	92.1
Raw materials other than foodstuffs ..	98.0	98.7	101.4	104.5	108.5	109.5	111.6
Fuels	96.4	96.6	96.7	96.3	95.8	95.5	95.5
Raw materials for consumer goods ..	93.8	94.5	93.5	91.6	92.2	92.1	91.8
Raw materials for capital goods	102.4	103.8	111.4	121.6	132.3	135.5	141.3
Reuter's Index (18. 9. 1931 = 100)	481.5	489.2	519.8	528.5	531.1	533.1	534.0
Moody's Index (31. 12. 1931 = 100)	364.8	358.5	373.5	379.4	396.7	396.6	402.1

¹ Index compiled by the Hamburg Institute for International Economics.

Britain with nearly 4 p.c., France with 5 p.c. and the Netherlands (clothing, shoes) with 8 p.c. are the only exceptions. In these three countries, the increases in indirect taxes also had their effect on prices, although especially in the two last-mentioned countries other factors, not least the strong demand increase, had a stronger weight.

Stability Policy Remains Pre-eminent

The fight against the price uplift in the world economy will still remain a prior aim of the instances responsible for eco-

nomie policy during the second half of 1969, although with certain shiftings in the accent. Thus, the countries that have already throttled noticeably their economic growth—as Great Britain and the USA—can expect first stability effects, while in most of the Continental European national economies, which find themselves in a stage of increased business activity, the price-wage-spiral has just come into motion. Insofar, the continued increase of the international price gap is counteracted, but its decline on this path still appears impossible.

consumption annually rises by approx. 2 mn t. Stocks would therefore only decrease further in the coming season, if production in 1969/70 will increase by at least 3.3 mn t. But such a production expansion can hardly be expected.

The prospect of a further improvement of the statistical situation in the sugar market to the benefit of producers could, however, not prevent the latest price reduction. Relatively cheap sugar supplies in the British market have reminded those participating in the sugar market of the producers' unsold stocks, at present lying still far beyond the volume considered as "normal".

Raw Material Markets

Sugar Prices are Gradually Weakening

The vigorous boom in the sugar price—having started after the International Sugar Agreement had come into force early this year—has meanwhile surpassed its peak. Since mid-June, the sugar price for prompt commodities of World Contract No. 8 has dropped at the New York Stock Exchange from 4.22 c/lb to 3.77 c/lb (August 20).

At the beginning, apart from the conclusion of a new International Sugar Agreement, the second estimate of the statis-

tical situation in the world sugar market during the current season, made by the firm of F. O. Licht, had contributed to this price increase until mid-June. According to this, an increase of production by 1.2 p.c. to 68.4 mn t in the current season coincides with a consumption rise by 3.1 p.c. to 69.7 mn t. The sugar stocks should therefore, until the end of the season, fall by 1.3 mn t to 17.3 mn t, a fact which could be the starting point of a general reduction of surplus stocks. By experience, sugar

Moreover, it must be expected that at the current meeting of the International Sugar Council it will be indirectly decided on an expansion of sugar supplies in the world market. An increase of the total export rate, which comprises 85 p.c. of the basis rate of the Agreement, is supposed to fail, but the quota quantities, which some exporting countries—due to bad harvests—cannot absorb, will probably be transferred to other countries having vast production surpluses.

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

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