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WORLD BUSINESS TRENDS

World Economy in Strong Expansion

The development of business activity of the Western World was so far marked by a strong expansion during the course of this year. The GNP of the OECD-countries was—measured in real terms—by about 5.5 p.c. higher during the first half of 1969 than the year before; the economic growth remained thus only slightly behind the rate of the second half-year of 1968. At first a far more distinct slowdown had been reckoned with. But the damping of production increase in the USA was much weaker than expected. At the same time, the economic growth has become even slightly stronger in Western Europe.

High Elasticity in Industry

Just as during last year (OECD-countries: +6.5 p.c.), industrial production of the Western World has increased more than proportionate; the preceding year's volume should have been excelled by about 9 p.c. in the first half-year of 1969. The expansion speed of industrial production was continually remarkably high, also when viewed in the short-term: under consideration of the usual seasonal influences, it

equalled still a yearly rate of about 7 p.c. during the course of this year until now. The increase gives testimony of a high production elasticity that is to be explained not only with a continual capacity expansion but reflects also the margin in many industrial countries that had originated from the decline in capacity employment in the preceding damping phase of business activity.

Developments Abroad

The strength of the expansive forces in the USA were, above all, surprising. True, it is incorrect to term the restrictive measures, adopted in the middle of 1968, as inefficient. Measured by the development of the nominal GNP, the overall demand has since then increased appreciably slower, and the increase of the GNP in real terms has become continually smaller. It corresponded during the second quarter of 1969 only to a yearly rate of 2 p.c. But the slowing down process was apparently mainly limited so far to the service branches. The industrial production exceeded its last year's corresponding level by

5 p.c. during the first half-year of 1969.

The Japanese economy registered still the strongest economic growth by far. After a short "breathing-space" at the year's turn 1968/69, the industrial output continued its brisk cyclical increase. The corresponding result of the preceding year was excelled \$ in the first half of 1969 by more than 16 p.c.

Western Europe: Strong Economic Growth

The growth of industrial production in Western Europe was smaller than in Japan, but uncommonly high in comparison with former results. Still, it reached about 10 p.c. during the first half of 1969, even if the excess is approximately eliminated due to the French strikes in the spring of 1968. The Federal Republic of Germany, the Netherlands and Spain stood at the top with growth rates (partly only 5 months until May) between 13 and 15 p.c. In a number of countries 8 to 10 p.c. were reached, e.g. in Belgium, Italy, Austria and Sweden; a similar rate should be the result for France, when "adjusted for strikes". In contrast to this, the industrial production of Great Britain was only by about 4 p.c. higher than a year before.

A slower expansion of the Western World's industrial pro-

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

Index and commodity group	1968		1969				
	August	November	February	May	August	August 29	Sep. 12
HWHA-Index ¹ (1952-1956 = 100)	94.3	96.9	99.1	102.1	104.8	104.9	105.0
Foodstuffs	86.5	91.5	93.2	94.1	92.2	91.7	93.4
Raw materials other than foodstuffs ...	98.1	99.5	101.9	106.0	110.8	111.3	110.6
Fuels	96.5	96.7	96.7	96.3	95.5	95.5	95.6
Raw materials for consumer goods ..	93.5	94.8	91.6	93.5	91.8	92.1	92.4
Raw materials for capital goods	102.8	105.4	114.1	124.2	139.0	140.1	137.9
Reuter's Index (18. 9. 1931 = 100)	479.9	504.1	521.7	532.9	532.4	534.3	528.6
Moody's Index (31. 12. 1931 = 100)	357.7	365.5	376.5	392.0	401.8	402.5	407.4

¹ Index compiled by the Hamburg Institute for International Economics.

duction is to be expected for the second half-year of 1969. On the one hand, the contractive measures of the USA should not remain without effect on the industrial sector in the long run, on the other, the production increase in Western Europe can hardly continue at the present rate, if only due to capacity reasons. The anticipated development will, however, be sufficient to guarantee an increase in the industrial production of 7 to 8 p.c. in the Western World for the year 1969.

The recognisable tendencies for the industrial production will also be distinguishable for the GNP: the expansion will slow down in a number of important countries during the second half-year of 1969. The increase for the whole year will, however, remain notably high with about 4.5 p.c., measured in real terms (1968: 5.6 p.c.). The development in Western Europe contributes mainly to this, as the GNP in real values there should grow still slightly stronger this year than in 1968 (+5.0 p.c.).

the total crop. Accordingly, the deficit of 60,000 tons in the season 1967/68 will grow to more than 100,000 tons in 1968/69.

According to the London firm Gill & Duffus, the reduction in consumption should continue owing to the high price level in 1970, too. As against this, cocoa production will probably expand in the coming season 1969/70. This is indicated by the good result of the still continuing intermediate crop, that by experience is to be regarded as an indicator of the following season's main harvest. Gill & Duffus therefore forecast a production surplus for the season 1969/70. Under these circumstances cocoa prices will probably remain under a slight pressure in the next months. It must, however, be taken into consideration that due to voluminous advance sales a large part of the new crop has already been disposed of.

The Preparatory UNCTAD Conference held at Geneva at the end of June failed again to make progress towards concluding a cocoa agreement. Brazil considered the price margin of 20-29 c/lb, agreed on in former meetings, as being too small and recommended a margin of 25-34 c/lb. This proposal was opposed mainly by the USA and other important consumer countries.

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

Raw Material Markets

Relatively High Level of World Cocoa Prices

Cocoa prices maintained—apart from minor fluctuations—also in the past months the high level they had reached at the end of 1968 in the course of a boom lasting for six months. Only in the last days indications increased that the solid price structure has become more shaky. At present the New York Exchange price of Ghana cocoa with 44 c/lb exceeds by almost 35 p.c. the level reached a year ago and surpasses by about 15 p.c. the level at the beginning of the current season. At the end of July and the beginning of August cocoa prices temporarily had risen to more than 48 c/lb, since due to the repeated monetary uncertainty speculative purchases had occurred. Moreover, the producer countries had

carried through large-scale advance sales.

In the season 1968/69 ending in the last days of September a production deficit will occur for the fourth time without interruption. According to estimates published by the US Agricultural Department the production of 1968/69 will decline to 1.187 mn tons (−10.3 p.c.) and that of ground cocoa will decrease to 1.320 mn tons (−4.6 p.c.) in 1969. The world's main crop is considerably more unfavourable than in the pre-season. This decline will only be compensated for to a small extent by the favourable results of the not yet finished intermediate crop, as it carries too little weight in comparison with

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