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World business trends

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WORLD BUSINESS TRENDS

USA: Growth Continued to Slow Down

In the USA economic growth has once again slightly slowed down. The GNP increase determined by the trend of economic activity at present should total up to a little more than 1 p.c. on an annual basis. The decline of the upward tendencies has reached investment in stocks, Federal expenditures for military purposes, housing activities and by this time private expenditures for investment in commercial buildings and equipment. As belonging to the few supporters of the slow economic growth there are the continuously increasing expenditures of the constituent states and the local authorities as well as private consumption. The pressure on production forces has hardly decreased up to now. The rate of unemployment adjusted for seasonal variation has almost remained unchanged from March to August 1969 with 3.5 p.c. on an average.

Less Inclination to Invest

Investment activity of private enterprises is restricted by the fact that they judge the future

development in sales and profits less favourable. Moreover, financing conditions deteriorated. Profits did not increase anymore so that the possibility for self-financing investments diminished. Borrowing funds, however, has been embarrassed by the restrictive credit policy. Also for the coming months, pressures on profits and their unfavourable influence on entrepreneurial expectations will hold.

Federal expenditures for goods and services have further declined, whilst expenditures of the constituent states and the local authorities increase as before. Military expenditures of the Federation are to be restricted before long to compensate indispensable excess expenditures for other budget positions. With an accelerated de-escalation in Vietnam this goal should be attainable, even if expenditures for other defense purposes are increased.

Private consumption still expands strongly, for the increase in disposable income has hardly weakened up to now. But a damping in private demand

might result from an increase in the savings ratio which has dropped substantially below the last years' average level. A further decline in private consumption will take place later on only, when the slow down in economic growth will diminish the increase of the private households' disposable income. In case the surcharge on the income tax will not be expanded in the first half-year of 1970, however, it certainly could receive new impulses.

Private Consumption Expands Strongly

The most important target of last months' credit and fiscal restrictions—namely restraining the tendency for prices to rise—has not yet been fulfilled, if one uses the CPI as indicator, which is often the case. For, this index exceeded the corresponding last year's level by not less than 5.6 p.c. in August, 1969, and was by 3.7 p.c. higher than in February, 1969, which rather points at a reinforcement of the increase in prices. At the whole-sale trade level, however, we notice a beginning tendency towards price stability. The expected downturn of cyclical trend in the increase in demand will support the damping of upward trend of prices during the months to come. On the other hand, however, cost-

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

Index and commodity group	1968		1969				
	September	December	March	June	September	Sep. 26	Oct. 17
HWWA-Index ¹ (1952-1956 = 100)	94.6	97.5	100.0	103.9	105.4	105.7	106.4
Foodstuffs	86.5	91.9	94.3	95.4	94.3	95.9	96.8
Raw materials other than foodstuffs ..	98.4	100.2	102.8	108.0	110.8	110.5	110.1
Fuels	96.6	96.7	96.5	96.4	95.6	95.6	96.8
Raw materials for consumer goods ..	92.9	94.0	91.6	92.9	92.3	92.0	93.8
Raw materials for capital goods	104.0	107.9	116.7	129.8	138.6	137.9	137.3
Reuter's Index (18. 9. 1931 = 100)	480.0	513.4	524.4	534.6	532.3	536.2	540.8
Moody's Index (31. 12. 1931 = 100)	361.8	368.7	377.5	397.1	407.5	409.6	408.3

¹ Index compiled by the Hamburg Institute for International Economics.

push originated impulses to raising prices still remain quite strong for the next time.

Prospect: Minimal Growth to be Expected

The underlying forces of expansion will further slacken, for Government and Federal Reserve Board are to be expected to maintain the fiscal and credit restrictions for the next time to match the increase in prices. The further decline in demand will lead to a minimal growth of the GNP—in real terms

—until spring 1970. During this period utilisation of production capacities will already decrease. The rate of unemployment might go up—adjusted for seasonal variation—to 4 p.c. If restriction policies are abandoned at the right time, a somewhat more favourable tendency is supposed to gather way in the second half-year of 1970. Under these preconditions there might still be reached a GNP growth—measured in real terms—for the USA of 1.5 p.c. (1968: 3 p.c.) in 1970.

from countries with lower production costs and substituting cotton through chemical fibres.

The current season 1969/70 began in August with a stock carried over of 21.5 mn bales (1968/69: 21.7 mn bales). 6.5 mn bales of the total were stocked in the USA. This world stock is not so high as to exercise an appreciable pressure on the world market prices. On the whole, production should increase by nearly 3 p.c. to 54.5 mn bales. The USA should again contribute the greatest share to this increase, since its production should rise by 8 p.c. to 11.8 mn bales. But other producer countries are also striving at an expansion of their arable acreage, as for instance Brasil, Pakistan, the USSR and Australia. Vis-à-vis to this, the acreage of other agrarian products is being enforced at the expense of cotton production in Egypt, Turkey and Mexico.

Similarly to past years, world consumption of cotton will only increase slightly during the new season 1969/70, so that, in view of the anticipated increase in production, it is expected that the supply situation in the cotton market will stay continuingly favourable. The prices should remain at about the present level.

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

Raw Material Markets

Cotton Prices Relatively Stable

Cotton prices have changed little during the past months. The price for contract No. 2 at the New York Exchange lies at the moment with 24.98 c/lb by about 12 p.c. under last year's price.

During the season 1968/69 that ended with July 31, the world production of cotton increased by 11 p.c. to 53.0 mn bales. Alone in the USA the cotton production was extended by 51 p.c. to 10.9 mn bales, after the government had abolished the restricting measures of the years 1966/67 and 1967/68. Due to this fact the USA could satisfy their need for home consumption and exports, without having to fall back on their strongly reduced stocks.

World consumption of cotton has increased only insignificantly during the season 1968/69 to 52.9 mn bales. Manufacturing of cotton took another strong upswing in quite a number of developing countries and in the Eastern Bloc, while it went back—as far as already ascertainable—e.g. in the USA, the biggest consumer of cotton, and in a number of other Western industrial states. This change in the regional structure of cotton consumption is to be related back mainly to the strong enlargement of the cotton manufacturing industry in the developing countries. The industrial countries are increasingly importing semi-manufactured and manufactured cotton products

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