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Repercussions of the DM-revaluation

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WORLD BUSINESS TRENDS

Repercussions of the DM-Revaluation

As for the Federal Republic of Germany the DM-revaluation signifies an important interference in the data of foreign trade and payments also for the foreign countries. This is due to Germany's by far greater role which it plays in international economic relations than would be appropriate in respect to its production performance. Thus its share in world trade of 10 p.c. (1968) is only exceeded by the USA with 16 p.c. Even including the exchange of services the Federal Republic reaches almost 60 p.c. of the United States' external turnovers.

Revaluation Effects on Western Europe

The outstanding position of the Federal Republic mainly results from its extremely tight foreign trade and payment relations with the other Western European economies. Almost two thirds of German foreign trade fell to their share in 1968, and vice versa the Federal Re-

public is an important trade partner everywhere, in many countries even the leading one. Thus in Austria the Federal Republic is engaged with 33 p.c. and in the Netherlands with 27 p.c. (each 1968), in Switzerland, Belgium, France and Italy with 18 to 22 p.c., in Denmark, Sweden and Norway still with 14 to 16 p.c., concerning foreign trade of these countries.

These shares characterise to a high degree the importance of the Federal Republic for the international exchange of goods and services of these countries, since goods turnover usually dominates the service sector by far. The importance to the income stream in the individual economies and therefore to economic development, however, will not become evident until relating the figures to the GNP. At this point the smaller neighbouring states to the Federal Republic are shown to be particularly sensible. Thus GNP-related import and export figures realised with Germany

reached for the Netherlands resp. 10 and 9 p.c., for Belgium 8 p.c. each, for Austria resp. 9 and 4 p.c. and for Switzerland resp. 8 and 3 p.c.

The full effects of the DM-revaluation on international trade will need some time. After all, for the rest of the world already in 1970 there is expected a revaluation-related reduction in import surpluses in trading with the Federal Republic by more than \$1 bn—measured in real terms, i.e. taken prices from 1969. Calculating at current prices and in foreign currency the deficit might, however, even increase for the next time. These differences between nominal development and the one in real terms show, that the DM-revaluation has an impact on the supply/demand relation abroad in the direction of a further tension.

Balance of Payments Aspects

Doubtless, considerations of direct price and income effects of the DM-revaluation abroad mostly stand back behind balance of payments aspects. Considering this, during the last years growing disturbances of the international payments equilibrium originated in the Federal Republic, especially when

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

Index and commodity group	1968	1969					
	October	January	April	July	October	Oct. 31	Nov. 14
HWVA-Index ¹ (1952-1956 = 100)	95.2	98.7	101.1	104.0	106.7	107.4	108.3
Foodstuffs	87.9	93.3	93.9	96.4	97.3	98.9	99.5
Raw materials other than foodstuffs ..	98.7	101.4	104.5	103.5	111.2	111.5	112.6
Fuels	96.6	96.7	96.3	95.8	96.5	96.8	96.8
Raw materials for consumer goods ..	94.5	93.5	91.6	92.2	93.6	93.9	94.7
Raw materials for capital goods	103.8	111.4	121.6	132.3	138.2	138.7	140.9
Reuters Index (18. 9. 1931 = 100)	489.2	519.8	528.5	531.1	541.5	551.9	555.6
Moody's Index (31. 12. 1931 = 100)	350.5	373.5	379.4	396.7	408.9	411.9	413.3

¹ Index compiled by the Hamburg Institute for International Economics.

it became point of crystallisation of speculation on account of its strong basic position. And just in this respect the revaluation even in the short run—contrary to squaring the net position on goods and services only in the longer run—means a contribution to relaxing the international monetary situation, as foreign exchange outflows from Germany prove.

Surely, in revaluating the DM there were not solved all problems of reaching an equilibrium in international payments particularly since in the meantime Japan has started making high

surpluses despite having a booming demand at home. Furthermore it is still an open question, how far the reduction of German surpluses will finally benefit just the deficit countries. After all, Great Britain and France were able to improve substantially their possibilities to restore foreign trade and payments after the devaluation of Pound and Franc. Prospects for an improvement of the USA's balance of payments in direction of a permanent solution of the Dollar problem are hardly basing on solid ground—despite some activating tendencies.

Western world's tin production should hardly have increased so far in 1969 due to the sales-obstructing export quotas. During the first half year with 89,100 t output at any rate it still remained at about 1 p.c. below the 1968 first half year's level. As against that, tin consumption of the Western world has increased—in connection with the cyclical upsurge especially in Western Europe and Japan—by altogether 4 p.c. to 89,000 t. Also during the last months the increase in consumption should have continued without any loss.

With a noticeable slackening in the consumption increase is to be reckoned for 1970 when industrial production in the USA will only grow at a minimum speed and manufacturing production in important Western European countries will expand more slowly than in 1969, partially on account of capacity reasons. The damped increase in consumption, however, will hardly be accompanied by declining tin prices, since the International Tin Council in fixing export quotas and handling the bumper pool has two efficient instruments at hand for stabilising prices.

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

Raw Material Markets

Increasing Tin-Prices

In the international markets shortage of supply during the last months has led to a noticeable price increase. With 1,505 £/t (31.10.) the tin-quotation for cash-settlement at the London Metal Exchange lies at present about 10 p.c. over last year's level. The provision bottlenecks in the international tin market are chiefly caused by the export restrictions permitted through the International Tin Agreement. Certainly, for the 4. quarter of 1969 the Tin Council has raised the world tin export quota by 5 p.c. to 41,500 t

compared with the 3. quarter, but even this quantity is not sufficient to meet the current requirements in tin at constant prices.

A certain relaxation of the supply situation has ensued through the bumper stores of the International Tin Council for some time. It is true, these stores have decreased already until June 1969 to 8,450 t so that the pool administration ever since only lends tin to carry out contract engagements but it does not sell any more.

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