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WORLD BUSINESS TRENDS

1969: Vigorous Economic Expansion

Economic growth in the Western world slowed down only insignificantly in 1969. The GNP in real terms of the industrialised countries rose by about 5 p.c. after almost 6 p.c. in the previous year. The decline in the growth rate reflects the slackening business in the United States. For, the restriction policy adopted by the USA during the second half of 1968 pressed the growth of the GNP in real terms down to 3 p.c. in 1969 (1968: 5 p.c.), without, however, reaching already positive results with regard to stopping the wage and price rise. Among the other industrial nations, it was Japan which witnessed an almost as vigorous an expansion as in the preceding year, namely by an increase in the GNP by more than 12 p.c. In Western Europe, the growth of the GNP in real terms accelerated up to 6 p.c. (after 5 p.c.), although Great Britain, as one of the most significant economies, suffered a setback of a growth rate of only 2 p.c. and with this was far below the average. But during the second half-year, demand in

Western Europe was more and more influenced by the limited potential. World trade turnovers in 1969 rose with 13 to 14 p.c. (after 11.5 p.c.) more rapidly than in all the years since the Korea boom in 1951.

1970: Slowdown in Growth

The growth of the world economy will once again weaken in 1970. In the Western industrial countries the rise in the GNP in real terms will reach only about 3.5 p.c. and will thus lie considerably below the average speed of growth in the 'sixties. The decisive cause for this is the insignificant production growth in North America. The more important for the development of world economy is the strong expansion in Western Europe which, for the time being, is only checked from the supply side. Above all the impulses evoked by this allow the assumption that in 1970 world trade will grow by roughly 10 p.c.

Changed Course in the USA

After production in the USA around the end of the year

should have reached a phase of cyclical stagnation, it must be expected that the restrictions, which for a long time had shown only relatively poor effects, will now operate more noticeably. So entrepreneurs will hardly realise their—up to now very optimistic—investment plans to the projected extent. Together with the spreading of weak tendencies, the increasing unemployment and the prospect of an actual recession, the objectives of employment policy will soon have priority and restrictions will be released. Only in this way it is possible, during the second half of 1970, to reach a business recovery, for the whole of the year a growth rate of about 1.5 p.c. can be realised.

Bottlenecks in Western Europe

In Western Europe, however, demand will temporarily still expand vigorously and the rise in production will become slower due only to the advanced approach to the maximum utilisation of resources. The tensions between supply and demand will therefore often become more pressing and lead to a tightening of the restrictions; but only in the further course of the year 1970 will it be possible to dampen demand effectively. The increase of the GNP in real terms will, under

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

Index and commodity group	1968	1969				1970	
	December	March	June	September	December	Jan. 2	Jan. 16
HWWA-Index ¹ (1952–1956 = 100)	97.5	100.0	103.9	105.4	108.7	109.4	109.5
Foodstuffs	91.9	94.3	95.4	94.3	98.4	99.6	101.5
Raw materials other than foodstuffs ..	100.2	102.8	103.0	110.8	113.7	114.1	113.4
Fuels	96.7	96.5	96.4	95.6	96.8	96.8	96.8
Raw materials for consumer goods ..	94.0	91.6	92.9	92.3	93.9	93.5	92.4
Raw materials for capital goods	107.9	116.7	129.8	138.6	144.4	145.9	144.6
Reuter's Index (18. 9. 1931 = 100)	513.4	524.4	534.8	532.3	555.2	554.3	557.0
Moody's Index (31. 12. 1931 = 100)	368.7	377.5	397.1	407.5	415.7	419.0 ²	426.2

¹ Index compiled by the Hamburg Institute for International Economics ² December 30, 1969

these conditions, in the current year largely correspond to the growth of potential and will, according to estimates, reach 4.5 p.c. Italy, which will probably reach 7 p.c., and Great Britain, with hardly more than 3 p.c., will considerably deviate from this average.

Slower Exports of LDC

The slowdown of economic growth in the industrialised nations will also hamper the export rise of the developing

countries; export yields will, moreover, also be influenced by the expected price pressure in the international raw material markets. However, just in the main areas requiring raw materials, namely in Western Europe and Japan, the production rise will be above average. In view of their currency reserves, which in 1969 had been growing further, in any case, the developing countries will, for the time being, be able to increase their imports to about the same extent as hitherto.

tive purchases due to currency unrests) will dampen the growth of demand in the world raw materials markets. On the other hand, for a number of raw materials, e.g. non-ferrous metals, production will supposedly rise vigorously, so that prices will get under pressure. In view of the existing production deficits, the easing of the supply situation will make progress only hesitatingly. The considerably reduced reserves in the producing as well as in the consuming countries must first be stocked up in order to guarantee a supply without frictions.

Raw Material Markets

1969: Steep Rise in Prices

In the international markets for industrial raw materials, the price pressure, which had been expected for 1969, has failed to come. The demand for raw materials continued, during the course of the year, to rise so vigorously that in some markets, in spite of the noticeable expansion of production, delivery shortages emerged which caused prices to rise. From mid-December, 1968, to mid-December, 1969, the average level of prices of all industrial raw materials—measured by the index of the Hamburg Institute for International Economics—rose by no less than 12.8 p.c., and on

the annual average 1969 it was by 7.9 p.c. higher than on the average 1968. The strong rise in the demand for raw materials must mainly be traced back to the further continuing business expansion in the Western European industrial countries. Moreover, the slowdown of economic growth and consequently of the rise of raw material consumption in the USA only became effective very sluggishly in 1969.

The further slackening of economic expansion in the USA in the first half of 1970 and the absence of price-pushing special influences (e.g. specula-

In the foodstuffs and semi-luxuries markets the price level rose by 5.2 p.c. between mid-December 1968 and mid-December 1969. Especially the prices for coffee have jumped up, after the rate of world coffee exports had been raised only slightly. The quotations for wheat, sugar and cocoa, however, went down. In 1970, foodstuff prices in general will presumably remain constant. The price level will in this case, on the annual average 1970, lie somewhat above the 1969 average.

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

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