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WORLD BUSINESS TRENDS

USA: Economic Growth Interrupted

In the USA economic growth has come to a standstill. The GNP in real terms is supposed to have declined slightly in the first quarter of 1970 as well as in the fourth quarter of 1969. Industrial production has shown a backward trend since August, 1969. In February, 1970, the rate of unemployment reached with 4.2 p.c. (adjusted for seasonal variations) the highest level for more than two years. The vigorous enhancement of prices has, in contrast to this, continued undiminishedly. The cost of living in January, 1970, was by 6.2 p.c. above the level registered one year before, wholesale prices for industrial goods after all by 3.7 p.c.

Decline in Federal Expenditure

Against the background of a stagnating economy with a continuously strong price rise, the provisional budget estimate of the Federal Government for 1970/71 was expected with close attention. According to the now available government draft the restrictive course is further to be adhered to and a surplus

of revenues is to be reached. Provision is above all made for a drastic cut in defence expenditures, whilst a new increase in taxes is renounced. As a consequence, for 1970 this would for the first time since 1960 mean a reduction of Federal expenditure on goods and services. Its realisation, however, depends on the development in Vietnam.

In 1969, the investment activity of the private economy, in spite of the stringent credit restrictions, has been one of the strongest factors of improvement. But now the propensity to invest is influenced by a number of unfavourable elements. The capacity utilisation in the processing industry in the course of 1969 decreased steadily, so that an expansion of capacities as an investment motif has more and more lost its significance. In addition to that, profits are falling and outside financing is being made more difficult. Moreover, the abolition of the tax rebate for new investments was finally decided on. Plans of private enterprises—which had been ascertained in a poll be-

fore the beginning of 1970—namely to raise investment expenditure on new buildings and equipment in 1970 by 11 p.c. have under these circumstances to be judged with some reserve.

Expansion of private consumption should during the last months have lost its speed. The private households held back above all with regard to purchases of motorcars and other durable consumer goods. But during the months to come the weakening trend in consumer expenditure will hardly go on. True, the gross incomes from wages and salaries will, due to the expected decrease in the number of employed as well as in the actual working hours, rise more slowly. But the halving of the 10 p.c. surtax on income taxes simultaneously brings about a diminishing of deductions. Moreover, from April on, the social contributions are to be increased considerably with retroactive effect.

High Balance of Payments Deficit in 1969

Foreign trade in 1969 closed with a slightly increased export surplus. Exports in 1969 were by 9.5 p.c. higher than one year before, but imports, too, have on an annual average after all augmented by 8.5 p.c. The export surplus was with \$1.3 bn far too low for representing a

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

Index and commodity group	1969				1970		
	February	May	August	November	February	Feb. 27	March 13
HWHA-Index ¹ (1952–1956 = 100)	99.1	102.1	104.8	108.3	110.0	110.1	110.9
Foodstuffs	93.2	94.1	92.2	99.2	100.1	100.2	101.6
Raw materials other than foodstuffs ...	101.9	106.0	110.8	112.7	114.7	114.9	115.4
Fuels	96.7	96.3	95.5	96.8	99.4	99.4	99.2
Raw materials for consumer goods ..	91.6	93.5	91.8	94.4	92.4	92.4	92.9
Raw materials for capital goods	114.1	124.2	139.0	141.4	145.3	145.6	142.8
Reuter's Index (18. 9. 1931 = 100)	521.7	532.9	532.4	552.4	560.1	563.1	565.3
Moody's Index (31. 12. 1931 = 100) ...	376.5	392.0	401.8	412.0	430.1	426.0	421.4

¹ Index compiled by the Hamburg Institute for International Economics.

significant counterbalance—as in former years—to the high deficit of the balance of capital transactions. In 1969, the total deficit reached, on the basis of the liquidity calculation, with \$ 7 bn an all-time high. In 1970, a noticeable improvement in the foreign trade development can be expected. But this year, too, the surplus in the net position on goods and services will not suffice to meet the deficit in the field of capital movements and transfers.

1970: Weak Growth Only

During the next months, a further slight decrease in the GNP in real terms has still to be expected. Braking influences

will above all originate from the reserved policy of expenditure of the Federal Government, but also the investment activity of the private economy will take a dampened course. The rise in private consumption could—in contrast to this, being supported by tax releases and higher social contributions—at first continue nearly undiminishedly. If the easing of the restrictive credit policy is maintained, before the end of 1970 there will be the chance of another cyclical revival. The increase in the GNP in real terms should, however, in 1970 lie below 1 p.c., after the growth rate in 1969 had reached just under 3 p.c.

1969, in the world 2.302 mn lgt natural rubber were produced and 2.385 mn lgt were consumed. In total, according to this, in 1969 on the world rubber market a supply of 2.880 mn lgt (inclusive of 34,800 lgt from the US stockpile) should have been counterbalanced by a consumption of 2.900 mn lgt (excluding, however, commercial stock fluctuations).

For 1970 a statistical equilibrium of supply and demand is generally expected for natural rubber. World consumption will, due to the cyclical slowdown in the Western industrialised nations, only increase by 3 p.c. to hardly 3.0 mn lgt and an expansion of world production by 5 p.c. to about the same quantity is probable.

Raw Material Markets

Rubber Prices Remain Depressed

In the international rubber markets prices during the last months have slightly risen again, after they had from August to November, 1969, fallen uninterruptedly from a relatively high level. In London and New York rubber is at present quoted with 23 d/lb and 26 c/lb, respectively, this being roughly the same prices as one year ago.

The sharp fall of prices of natural rubber in the second half of 1969 has its roots main-

ly in the cyclical slowdown in the automotive production and thus in the demand for rubber in the USA. World rubber demand, therefore, in those months showed a considerably weaker increase than supply. It was the voluminous purchases of the PR of China and of other East-bloc countries which led to the recent rise in prices.

According to data of the International Rubber Study Group covering the first 10 months of

As the supply gap hitherto registered should this way be filled, a slight pressure on rubber prices is to be anticipated in 1970, unless unexpectedly big purchases are carried through by the East-bloc. The sales of natural rubber from the US stockpile will probably not be taken up again for the time being.

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

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