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## World business trends

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# WORLD BUSINESS TRENDS

## USA: End of the Recession

In the United States the recession that started last autumn has stopped. According to first calculations the GNP in real terms has even grown slightly in the second quarter of 1970. The most important supports of business activities are—even after the middle of the year—private consumption and expenditures of the individual Federal states and local authorities. Stockpiling, whose development caused highly restraining influences since last autumn, and private house-building have also recovered slightly. As against that the economy's expenditure on equipment and industrial buildings should hardly increase at present. The Administration's expenditure on goods and services continues to decline due to the progressing de-escalation of the Vietnam war.

### Price Increases Declining but Slightly

The end of the recession was promoted through tax reductions and higher social insurance payments by the Admin-

istration, and at least as regards the general trend by a slight relaxation of credit restrictions. These measures were taken although hitherto there had been no indications of a declining trend in prices to rise. In the meantime, however, it has been noticed that the increase particularly of prices responsive to cyclical developments, as e.g. of capital goods and durables, declined at the wholesale level. The overall index of wholesale prices of industrial products rose hardly at all. As against that consumer goods prices increased comparatively strongly until the very last moment (June 1970: +6 p.c. as compared with the previous year).

### Precarious Propensity to Invest

Private consumption supported by the abolition of the remaining extra charge on the income tax and rising tax-free allowances should continue to rise vigorously even after the middle of the year. Private investment activities are the most important factor of uncertainty.

True, the enterprises are planning higher expenditure on capital investments for the second half of 1970. But so far this year planned expenditure on investments was always reduced or postponed under the impression made by declining profits and a reduced utilisation of capacities. As a result investment activities stagnated almost completely. The stimulating effects originating from tax reductions above all on private consumption, and from a relaxed credit policy on house-building and building activities of public authorities, will also promote the entrepreneurs' propensity to invest, although indirectly via anticipated higher sales and profits. So far there are at present favourable indications for a realisation of investment plans.

### Balance of Payments Remains in Deficit

In the first half of 1970 the export surplus corresponded to an annual result of \$ 3.2 bn (calendar year 1969: \$ 1.6 bn). If, however, in the second half of the year a stimulation of domestic demand sets in, imports, too, will be enhanced additionally. Thus the export surplus—with an unchanged growth rate—under cyclical aspects will be

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

| Index and commodity group                       | 1969  |         | 1970    |       |       |        |         |
|---|-------|---------|---------|-------|-------|--------|---------|
|   | July  | October | January | April | July  | Aug. 7 | Aug. 21 |
| HWHA-Index <sup>1</sup> (1952–1956 = 100) ..... | 104.0 | 106.7   | 109.4   | 111.2 | 109.3 | 108.7  | 107.9   |
| Foodstuffs .....                                | 94.6  | 97.3    | 100.7   | 102.7 | 102.0 | 101.6  | 102.8   |
| Raw materials other than foodstuffs ...         | 108.5 | 111.1   | 113.6   | 115.3 | 112.8 | 112.2  | 110.3   |
| Fuels .....                                     | 95.8  | 96.5    | 96.5    | 100.4 | 108.8 | 109.5  | 109.5   |
| Raw materials for consumer goods ..             | 92.2  | 93.6    | 93.0    | 92.7  | 93.8  | 94.4   | 93.7    |
| Raw materials for capital goods .....           | 132.3 | 138.2   | 144.9   | 145.5 | 129.8 | 127.0  | 122.3   |
| Reuters Index (18. 9. 1931 = 100) .....         | 531.1 | 543.0   | 558.7   | 568.1 | 564.4 | 555.9  | 558.0   |
| Moody's Index (31. 12. 1931 = 100) ...          | 396.7 | 409.4   | 426.9   | 414.1 | 410.2 | 405.3  | 411.9   |

<sup>1</sup> Index compiled by the Hamburg Institute for International Economics.

smaller again than in the first half of the year.

### Prospects: Revival in Sight

In view of the element of uncertainty regarding the entrepreneurs' propensity to invest, the future cyclical development in the US is depending on what progress the shifting towards a more expansive economic policy will make. The discernible tendencies justify the anticipation of a cyclical revival in the course of the second half of 1970. But the GNP in real terms

will at best reach the previous year's volume—even if a strike in the automotive industry could be avoided. The utilisation of growing resources will increase but slowly and the rate of unemployment even rise in the near future. Under present conditions a stronger growth rate may only be anticipated for 1971. This should soon enhance the risks for the balance of payments, whilst stabilising influences on price developments may even be expected due to increasing improvements of productivity.

count. The slump in business activity has come to a standstill in the USA, but a strong business upswing that would stimulate wool consumption considerably is not expected until the turn of the year. On the other hand, economic growth in Western Europe and in Japan will slow down during the second half of 1970, mainly because of the restrictive measures taken.

The recurrent wool consumption is faced by a continued strong supply. In the now closed season 1969/70 world production of wool achieved a new record high with 3,548 mn lbs. This result could still be surpassed in 1970/71, since a fleece increase is expected in Australia, which provides one third of world wool production. Moreover, above average wool stocks exist in some producing countries; the national wool commissions are therefore planning to bring as much as possible of these stocks additionally on the market. Due to this expected development of supply and demand in the world wool market, the prices will continue to remain under pressure.

## Raw Material Markets

### Wool Prices Continuing to Retrograde

World market prices for wool have continued to retrograde noticeably during the last months because of the uninterrupted decline of wool consumption. The current price quotations of Bradford Merino Wool (113 d/lb) and Crossbred (72 d/lb) lie by 9 and 8 p.c., respectively, below last year's price quotations.

World consumption of wool increased in 1969 again by 2.4 p.c. to 3,531 mn lbs (washed). But during the second half-year a declining tendency in wool consumption was already to be observed. According to the newest statistical figures of the

Commonwealth Secretary's Office wool consumption decreased by 3 p.c.—adjusted for seasonal variation—in eight important industrial countries during the first quarter of 1970 vis-à-vis the fourth quarter of 1969. This was mainly due to the recessive business development in the USA; but also in Great Britain, Italy, Belgium and the Federal Republic of Germany less wool was consumed than before. An increase was registered only in Japan, France and the Netherlands.

During the next months a further decline in wool consumption must be taken into ac-

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