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World business trends

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WORLD BUSINESS TRENDS

Worldwide Boom in Prices

The world economy is in a phase of a general and vigorous upsurge of prices. Although the rates of economic growth and the cyclical situation are quite different in the individual national economies, in 1970 the price indices of GNP have been rising almost unexceptionally by 4 to 7 p.c. in the OECD countries. Within two years the price level as a whole has thus risen by approx. 10 p.c. on average in these countries. It is symptomatic of this inflationary trend that also prices in world trade have increasingly started moving. In 1969 the average export values rose by about 3 p.c. after complete stability lasting for three years, and 1970 this rate should even reach 4 p.c. For industrial products alone this enhanced price increase in world trade is even more pronounced in 1970.

Industrial Prices Rose Vigorously

The producer and wholesale prices, respectively, of semi-finished and finished manufactures have increased rapidly in the current year above all in Western Europe. About the

middle of this year the indices were 5 to 7 p.c. above those a year ago in Belgium, the Federal Republic of Germany, Britain, Austria and the Netherlands, whilst in France, Italy, Norway and Sweden they rose even by 8 to 10 p.c. In this context the advance in prices of capital goods was in general considerably more pronounced than in the case of consumer goods. The price increases in industry are in so far characteristic of the measure of instability reached, as industry is a sector that due to structurally above average productivity growth rates offers favourable prerequisites to maintaining an approximate price stability. In Japan wholesale prices of industrial finished products have risen by only 2 p.c. within one year's period. Against this in the middle of the year industrial products in the USA were by 4 p.c. dearer than a year ago. In the last months, however, there are increasing indications that the recession has at last resulted in a slowing down of price rises.

A comparison of price indices for private households is more comprehensive as regards the

composition of goods as well as the number of countries for which data are available. Here the picture of a worldwide price upsurge is strongly affirmed. An increase in consumer prices of about 4 p.c. as compared with the previous year's corresponding period, as is to be registered in the Federal Republic and in Belgium, was clearly below the international average in the middle of the year. Among the OECD-countries only Switzerland and Canada with 3 p.c. and Finland with 2 p.c. had smaller price increases. As against that in most economies the cost-of-living rose by 4.5 to 6 p.c. within one year's period, so e.g. in Denmark, France, Italy, Austria, Spain, USA, and the Netherlands. Most pronounced was the price rise in Britain and Sweden with about 7 p.c. and in Japan with 7.5 p.c. These price increase rates in most instances showed a still rising tendency in the course of the year.

Few Chances for a Quick Stabilisation

The development of food prices is of considerable importance for the individual countries' position in the "scale of price rises". Here in the middle of the year Finland, Canada and Switzerland were also at the lower limit with price increases of 1 to 2 p.c. within one year,

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

Index and commodity group	1969		1970				
	August	November	February	May	August	Sep. 4	Sep. 18
HWWA-index ¹ (1952-1956 = 100)	104.8	108.3	110.0	111.4	108.2	108.2	108.8
Foodstuffs	92.2	99.2	100.1	102.8	102.4	103.3	103.1
Raw materials other than foodstuffs ...	110.8	112.7	114.7	115.5	110.9	110.5	111.5
Fuels	95.5	96.8	99.4	105.9	109.5	109.5	111.9
Raw materials for consumer goods ..	91.8	94.4	92.4	93.2	94.0	94.3	93.5
Raw materials for capital goods	139.0	141.4	145.3	140.4	123.9	122.6	123.3
Reuter's Index (18. 9. 1931 = 100)	532.4	552.4	560.1	563.8	557.1	558.2	562.2
Moody's Index (31. 12. 1931 = 100) ...	401.8	412.0	430.1	413.7	409.9	421.3	415.1

¹ Index compiled by the Hamburg Institute for International Economics.

outpointed but insignificantly by the Federal Republic and Spain. The other extreme were Japan and Sweden with price increases of foodstuffs by 4 and 7 p.c.

Since the vigorous price upsurge has hit almost all industrial countries alike, it has objectively and subjectively become more difficult to overcome it: for one thing, rising import prices support inflationary tendencies in the home market, and, for another, the latter do not lead anymore quite easily to

external disequilibria with a corresponding compulsion to react. But in the advanced stage of instability already reached by now, prospects of abolishing in the short run anticipations of more inflation have worsened if one is not prepared for a powerful cyclical recession that would impair employment noticeably as shown by the American example. Most governments, however, would recoil from such a policy in view of growing social instability.

6,000 to 8,000 t annually of the 24,000 t surplus tin stocks in the world market. By the way, this decision had contributed considerably to the price fall in the second quarter of 1970.

But now Bolivia's interventions against this decision have caused the Stockpile Authority to postpone its sales for the moment. If the Authority keeps to this decision, slightly rising tin prices should be anticipated in the next months. If not, tin prices would fall markedly, because the sales volume, initially provided for 1970, would then suffice to cover the statistical production deficit.

Raw Material Markets

Revival of Tin Prices

The fall of tin prices, which had begun in April 1970, was interrupted during the last weeks. Contrary to the depressive tendencies in the other markets for non-ferrous metals, tin prices have steadily climbed since mid-July. But with 1523 £/metric t the cash price at the London Metal Exchange was still about 5 p.c. below the level at the beginning of the year.

The cause for the recurrent price rise in the tin market is the increasing certainty that in 1970 the initially expected easing of the statistical demand-supply-situation will not come true. For, the growth of world tin production, after the cancellation of restrictions by the

International Tin Council, remained within narrow limits in the first months of 1970. For the whole of 1970, therefore, a world tin production of 186,000 lgt can hardly be expected, which would, however, be necessary to meet the probably somewhat rising demand of Western industrial countries and the net demand of the East bloc. The production deficit is estimated at 5,000 to 10,000 lgt in 1970.

The further development in the tin market will, during the next months, once more be influenced mainly by the sales policy of the American Stockpile Authority. After a sales stop in the last two years it has been decided to sell from 1970 on

The meeting of the International Tin Council in June this year brought no agreement on important problems of the world tin business. The producing countries had demanded to raise the intervention margin of the administration of the Tin Pool from at present 1260/1605 £/t to 1360/1750 £/t. Also Malaysia's proposal was postponed, namely to make—in case the American Stockpile Administration should realise the sales plans—the pool administration buy the total volume of offered tin.

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

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