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## USA: Recovery continuing

Intereconomics

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# WORLD BUSINESS TRENDS

## USA: Recovery Continuing

The economic recovery in the USA that started before mid-1970, should have continued since the settlement of the strike in part of the automotive industry. This is indicated mainly by the vigorous advance in private consumption. In addition there is the Administration's expansive financial policy, although the price increases of the last months slowed down but little under cyclical aspects. This policy has been decided on in view of the high, and still growing, rate of unemployment and the presidential elections in 1972. Expansive influences are also originating from the economy's arrangements for carrying stocks. Motor car stocks must be replenished after the strike, and due to the threatening strike in the steel industry the steel processing manufacturers take precautions and begin to fill up their stocks. Taking into consideration the further increase of private house-building, the contractive influences of the economy's at present still declining investments in buildings and equip-

ments will be out-weighed by far. Therefore GNP in real terms will again grow in the first quarter of 1971.

### Change in Course of Financial Policy

The drastic change in the course of financial policy will be reflected already in the current fiscal year 1970/71. Instead of a surplus of \$ 1.3 bn as stipulated for earlier, there will be a remarkable deficit of approx. \$ 13 bn. Since also the next budget of 1971/72 is to be characterised by a full employment policy, a vigorous increase of Federal expenditure on civil account is to be anticipated. The limitation of military expenditure will be stopped by mid-1971 at the latest. The individual states and local authorities will increasingly expand their future expenditure in connexion with the easier supply of credits.

The growth of private consumption slowed down in the second half of 1970, because the rise in available income declined and private house-

holds increased their saving ratio strongly. During the last months the strike in the automotive industry had also additional damping-effects on private consumption. After the termination of the strike, private households should have raised their expenditure speedily again, because they intended to cover their pent-up demand for motor cars. The latest polls are confirming that consumers intend to increase their purchases. Private households could counter slower income increases by reducing their strongly raised saving ratio. Moreover, at the beginning of 1971 further tax reductions have come into effect.

### Declining Investments

The private economy's investments in buildings and equipments did not rise anymore in the course of 1970 and since autumn should even be declining. According to the first polls the enterprises intend to expand their capital expenditure on new buildings and equipments by but 2 p.c. (after approx. 6 p.c. in 1970). In this context it is to be expected that in 1971 investment activities will first continue declining, to rise again later. Private housing activities, on the other hand, should contribute increasingly to the cyclical recovery during the whole of 1971.

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

| Index and commodity group                              | 1969         | 1970         |              |              |              | 1971           |              |
|--|--------------|--------------|--------------|--------------|--------------|----------------|--------------|
|  | December     | March        | June         | September    | December     | Dec. 31        | Jan. 15      |
| <b>HWWA-Index <sup>1</sup> (1952-1956 = 100) .....</b> | <b>108.7</b> | <b>110.8</b> | <b>110.5</b> | <b>108.4</b> | <b>108.0</b> | <b>107.9</b>   | <b>109.1</b> |
| Foodstuffs .....                                       | 98.4         | 101.7        | 102.3        | 103.4        | 106.7        | 107.8          | 110.0        |
| Raw materials other than foodstuffs ...                | 113.7        | 115.1        | 114.5        | 110.8        | 108.6        | 108.0          | 108.6        |
| Fuels .....  | 96.8         | 99.2         | 107.5        | 110.6        | 112.0        | 112.0          | 112.0        |
| Raw materials for consumer goods ..                    | 93.9         | 92.6         | 93.8         | 93.4         | 92.4         | 92.4           | 93.0         |
| Raw materials for capital goods .....                  | 114.4        | 146.3        | 135.5        | 122.8        | 116.2        | 114.6          | 115.8        |
| <b>Reuter's Index (18. 9. 1931 = 100) .....</b>        | <b>555.2</b> | <b>565.5</b> | <b>559.3</b> | <b>560.6</b> | <b>549.0</b> | <b>547.5</b>   | <b>549.7</b> |
| <b>Moody's Index (31. 12. 1931 = 100) ...</b>          | <b>415.7</b> | <b>421.0</b> | <b>411.6</b> | <b>415.9</b> | <b>382.9</b> | <b>383.5 *</b> | <b>385.2</b> |

<sup>1</sup> Index compiled by the Hamburg Institute for International Economics. \*) Dec. 30, 1970.

**1971: Increase  
in Business Activity**

Cyclical expansion might temporarily slow down before the middle of the year, because the particularly vigorous growth of private consumption will be normalised after the backlog demand for motor cars has been covered. In the second half of 1971, however, a continuation of the accelerating upswing is to be anticipated due to the stimulation of private capital ex-

penditure and Federal expenditure enhancing more strongly. On the other hand, a steel strike of longer duration may have considerable retarding effects. With this qualification, in 1971 a growth of GNP in real terms by at least 3 p.c. is to be expected. The inadequate utilisation of the growing production potential will be overcome to a small extent in the course of 1971. The unemployment ratio first might even rise to 6 p.c.

will lead to an increase of wool consumption in the course of 1971.

Wool supply in the season 1970/71 will reach 3,718 mn lbs (washed) and will thus only be lower by 1.5 p.c. than 1969/70. Wool stocks remained very high at the beginning of the new season, although the producing countries did everything to reduce them as quickly as possible. World wool production with 3,515 mn lbs in 1970/71 will nearly reach last years level.

**Raw Material Markets**

**Continuous Decline of Wool Prices**

The prices on the international wool markets during the second half of 1970 have continued to decline as a result of the worldwide consumption decrease. At present, Merino wool with 98 d/lb and Crossbred wool with 71 d/lb are being listed by 17 p.c. and 4 p.c., respectively, below the price quotation at the beginning of 1970.

According to the newest statistics, wool consumption decreased again during the third quarter of 1970 in eight important countries taken together by 5 p.c.—adjusted for seasonal variation—vis-à-vis the second quarter of 1970. Since there were no signs of a change in tendency during the last months,

total wool consumption in 1970 should have been lower by about 6 p.c. in these countries in comparison with 1969. This decline is mainly due to the recessive business development in the USA, but also in Great Britain and Italy less wool was consumed.

During the first months of 1971 wool consumption could still decrease a little, since in Western Europe and in Japan the tendency of business activities to slow-down will rather increase and the US-economic recovery is only developing slowly. Only a strong business revival in the USA and the termination of the slump in economic growth in Western Europe

Due to this expected development of supply and demand, at first no change in wool markets' price tendency is to be expected. Characteristical of the market weakness is the fact that the light price recovery as a result of the coming into force of the lowest-price-system in Australia only lasted a very short time. Such measures should not be sufficient in the effort to bring wool prices to a higher level, if wool consumption does not at the same time increase strongly due to the trend of business activities, which can be expected during the course of the second half of 1971.

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

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