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Britain: 1970 weak growth rate again

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WORLD BUSINESS TRENDS

Britain: 1970 Weak Growth Rate Again

The new Government, in office since summer last year, contrary to numerous expectations so far maintained a restrictive course in its economic policy. The internal stabilisation aimed at which might become the point of departure for a lengthy phase of expansion has, however, not been achieved—not even a tendency toward it can be observed. The conflict of aims rather intensified. The decline in demand permitted only an increase of the GNP in real terms by less than 2 p.c. in 1970 vis-à-vis 1969. This weak growth was also accompanied by increasing unemployment. Nevertheless the development of wages and prices did not show the desired effects.

Acceleration of Prices and Wages

In spite of the tight restriction the price increase enhanced even. In November, 1970, consumer prices surpassed the previous year's level by 7.9 p.c. This steep rise in prices is mainly to be traced back to the fact

that hitherto the increase in wages and salaries did not decline. To the contrary, their rising trend accelerated even more. In November the standard weekly wages were 13.5 p.c. higher than a year ago. Thus wage costs per unit rose also vigorously together with only minor productivity increases.

Small Growth Rate of Investments

The reduction of profits and the deterioration of profit anticipations impaired the entrepreneurs' propensity to invest. Therefore last year total investments in fixed assets in real terms surpassed their 1969 level by approximately 2 p.c. only. The rising trend was slowed down particularly by the reduction of investment in building, which, being sensitive to changes in the interest rates, probably declined vis-à-vis 1969. The slowing down of the rising trend in capital expenditure on equipment that occurred in the course of the year should continue in 1971. Polls even showed that the

entrepreneurs hardly plan an increase of the investment volume as compared with the preceding year.

Private Consumption Rose More Steeply

In contrast, private consumption in 1970 made a more than proportional contribution to the total economic expansion. Due to vigorous income increases expenditure on private consumption increased by 9 p.c. as compared with the preceding year. But the major part of this increase was absorbed by the rising price level, so that private consumption in real terms rose by 3 p.c. only.

Expansionary Effects of Foreign Trade

In spite of vigorous price increases the British balance of current accounts with £ 600 mn registered the highest surplus since the end of the war. The balance of services made the major contribution to this trend. But also the balance of trade, whose development deteriorated by the dockers' strike last summer, concluded with a surplus, since in the 4th quarter of 1970 a distinctive trend towards improvement prevailed. Nevertheless, at least the long-term prospects for the British trade balance are not very favourable.

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

| Index and commodity group | 1970 | | | | 1971 | | |
|---|---------|-------|-------|---------|---------|---------|----------|
| | January | April | July | October | January | Jan. 29 | Feb. 12 |
| HWHA-Index ¹ (1952-1956 = 100) | 109.4 | 111.2 | 109.3 | 107.7 | 108.9 | 109.5 | 108.6 |
| Foodstuffs | 100.7 | 102.7 | 102.0 | 104.2 | 109.0 | 110.3 | 108.3 |
| Raw materials other than foodstuffs ... | 113.6 | 115.3 | 112.8 | 109.4 | 108.8 | 109.1 | 108.8 |
| Fuels | 96.5 | 100.4 | 108.8 | 112.5 | 112.3 | 112.6 | 112.6 |
| Raw materials for consumer goods .. | 93.0 | 92.7 | 93.8 | 91.8 | 93.1 | 93.2 | 93.3 |
| Raw materials for capital goods | 144.9 | 145.5 | 129.8 | 118.2 | 116.0 | 116.4 | 115.5 |
| Reuter's Index (18. 9. 1931 = 100) | 558.7 | 568.1 | 564.4 | 557.2 | 551.1 | 552.3 | 543.5 |
| Moody's Index (31. 12. 1931 = 100) ... | 426.9 | 414.1 | 410.2 | 398.2 | 385.0 | 385.1 | 394.9 *) |

¹ Index compiled by the Hamburg Institute for International Economics. *) February 11, 1971.

The foreign trade position will finally worsen again, if Britain's export prices continue to rise more than in the other industrial countries.

The continued upward trend in prices and wages in connection with growing underemployment seems to make it doubtful whether the employment of monetary and financial instruments alone will suffice to overcome the economic dilemma. Nevertheless the Government intends

to continue its restraint with regard to its incomes policy. This return to a wider scope for market economy forces corresponds to a long-term concept, that, however, does not help in a short-term solution of difficulties. The adherence to a restrictive economic policy, as shown again by the recent defensive measures against the inflow of foreign capital, will permit an increase of the real GNP by about 2 p.c. only also in 1971.

cause of this, 25 p.c. of producing countries' sugar reserves were released for export. But it is hardly to be expected that the theoretically possible additional 200,000 t of sugar will be offered on the market, since by experience not all exporting nations have such extensive reserves as are stipulated in the contract. Many sugar producing countries had not been able to take advantage of the preceding increase of export quotas because they lacked sugar reserves.

Raw Material Markets

Strong Price Fluctuations in the World Sugar Market

On the international sugar market, the worsened supply situation since autumn 1970 has led to an increasing price trend which is however accompanied by strong fluctuations due to speculative influences. In New York, for example, prompt commodity of the world contract No. 8 reached the highest quotation in this recovery period with 5.28 c/lb on January 29, 1971. Until February 12, the quotation went back to 4.71 c/lb; but this price continues to lie by 65 p.c. above the level at the beginning of 1970.

According to the estimates of F. O. Licht world sugar production in the season 1970/71 will

reach 73.1 mn t, thus falling below the level of 1969/70 by 1.5 p.c. World sugar consumption should, on the other hand, increase by 3.6 p.c. to 74.9 mn t, so that a production deficit of 1.8 mn t is expected for 1970/71. It will be compensated mainly through sugar stocks of the exporting countries, which should decrease by 1.4 mn t.

The International Sugar Council has reacted time and again to the strained supply situation and the increasing prices by raising the export quotas. But even the increase to 110 p.c. of the basis quota stipulated in the agreement was not sufficient to stop the price increase. Be-

If the Sugar Council fails soon to keep the price increases within certain limits, the probability grows that sugar surpluses will again come into being after some time as high prices will induce specially in the smaller producing nations an expansion of sugar cane cultivation, which might surpass the increase in sugar consumption. Due to this the continuation of the International Sugar Agreement, which in the past had provided a sufficient sugar price for the sugar producing developing countries, could be endangered.

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

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