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# WORLD BUSINESS TRENDS

## USA: Economic Recovery Continuing

The USA's economic recovery—in autumn 1970 interrupted by the strike in the automotive industry—has continued more strongly in the first half of 1971. Above all private consumption and private housing as well as the expenditure of the individual states and local authorities are expanding vigorously. Expansive forces are originating also from replenishments of stocks, while the economy's capital investments and Federal expenditure are contributing little only to the new revival.

### Private Consumption Rising Steeply

The continuing vigorous increase of private consumption is being supported by the relatively high growth of available incomes from wages and salaries—above all in industry—and higher insurance payments. The economy's propensity to invest should remain sluggish for the time being. The profit situation of

the enterprises has improved since the beginning of the year, but the utilisation of capacities is still far below its optimum. Threatening strikes in important economic sectors and reincreasing interest rates have obstructive effects. In the further course of the year the upswing in private house-building should gradually decline in connection with the again growing cost of financing.

### Prices Increase Partly Slower

The renewed increase of the index of wholesale prices in the first months of 1971 is mainly to be traced back to the considerable price increases for farm products. With industrial goods—excluding raw materials and semi-finished products—the upward trend in prices has weakened. In May 1971 consumer prices were by 4.4 p.c. higher than a year ago. The preconditions of a further tendency towards price stability should very soon improve. Productivity

is increasing vigorously because the utilisation of technical production capacities is gradually approaching its optimum. With that the increase in wages, although it should hardly decline, will be compensated for to a higher extent and the inducement to pass cost increases on to buyers via prices will weaken.

### Export Surpluses Declining

For 1971 a reduction of export surpluses is already indicated again in foreign trade with goods. In the first four months it corresponded to an annual result of less than \$ 1 bn vis-à-vis \$ 2.7 bn in 1970. Imports should grow more strongly than hitherto due to the again accelerating growth of total domestic demand towards the end of the year. Exports, on the other hand, in the second half of the year will at best continue at the same rate as hitherto. The balance of payments deficit, that due to a number of special factors had reached an extraordinary size, after the cessation of these unfavourable influences will decline somewhat in future.

### Tax Incentives Instead of Expansive Monetary Policy

The economic recovery will continue in the second half of 1971, if a prolonged strike in the

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

Index and commodity group	1970			1971			
	June	September	December	March	June	July 9	July 23
HWWA-Index <sup>1</sup> (1952-1956 = 100) .....	110.5	108.4	108.0	109.2	108.4	109.9	111.0
Foodstuffs .....	102.3	103.4	106.7	107.1	104.1	104.1	103.0
Raw materials other than foodstuffs ...	114.5	110.8	108.6	110.3	110.5	112.7	114.8
Fuels .....	107.5	110.6	112.0	113.2	113.7	113.8	124.2
Raw materials for consumer goods ..	93.8	93.4	92.4	93.5	95.7	100.8	99.2
Raw materials for capital goods .....	135.5	122.8	116.2	118.6	117.1	119.5	116.0
Reuter's Index (18. 9. 1931 = 100) .....	559.3	560.6	549.0	532.8	525.7	527.8	525.2
Moody's Index (31. 12. 1931 = 100) ...	411.6	415.9	382.9	378.1	376.5	373.5	369.6

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

steel industry does not break out, which would obstruct production in the processing industries by creating supply bottlenecks. In case of a short strike or a peaceful agreement between the employers and the employed, only a temporary slowing down of expansion will result from the reduction of stocks. The insufficient increase of capital investments will furthermore cause a certain danger to the recovery. If the expected extension of investment plans takes too long a time, the Administration should grant tax incentives or reduce

the income tax prematurely in order not to endanger the economic recovery and to reduce unemployment. The continuation of the expansive monetary and credit policy is ruled out due to the risk of a renewed acceleration of price increases and an enhanced deterioration of the balance of payments. The renewed increase of interest rates is indicating that the Federal Reserve Board is already switching over to braking measures. On the whole in 1971 a growth of GNP in real terms by 3 p.c. vis-à-vis 1970 should be possible.

"Columbian Milds" there was an unused quota during the period of 0.7 mn sacks (13 p.c.) and 0.2 mn sacks (7 p.c.), respectively.

After Brazilian coffee has again become competitive regarding the price, it should become more difficult for "African Robustas" to find sufficient outlets without a price decrease. Price reductions could, however, become an illusion if the overall world coffee production reaches—as forecasted recently—only 58.3 mn sacks due to the unfavourable weather conditions in the South American producing countries and remains therefore well under the result of last year's season with 67.6 mn sacks.

## Raw Material Markets

### Uncertainty in the World Coffee Markets

The price decrease in the world markets for coffee has continued generally at a slower pace during the last months. The noticeable reduction of Brazilian export prices for "uncleaned Arabicas" in the spring of 1971 led to the fact that for the first time this coffee type was quoted below "African Robustas".

The African producers have up to now been able to market their coffee quite favourably as a result of the Brazilian price

supporting policy. During the first half of the current coffee year, which runs from October 1970 until March 1971, they utilised their export quota within the framework of the International Coffee Agreement up to a residual of 0.5 mn sacks (8 p.c.). Against this, from the export quota for "Uncleaned Arabicas", mainly the allotted share of Brasil, there remained 4.2 mn sacks (37 p.c.) unmarketable due to the weak demand. On the markets for "other Milds" and

In this case the switching back of demand from "Robustas" to "uncleaned Arabicas" would remain within bounds. This presumption must, however, be confirmed by the crop development in the next months. The uncertainty about the future price development in the coffee market is increased by the decision of the USA not to renew its membership to the International Coffee Agreement for the time being.

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

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