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Stability Worries also in France

Economic growth has been stronger in France than in the other industrial countries during the current year. From the second half of 1970 to the first half of 1971 the country's industrial production has grown at an annual rate of about 6.0 p.c. As compared with the previous year the growth rate was only half that size which reflects the stagnation lasting until October, 1970. However, the vigorous expansion of production in the current year was concentrated on the first months. After that there was even a temporary reduction to which labour conflicts contributed considerably.

Strong Expansion of Exports

Exports expanded particularly strongly among demand components. In the first half of 1971 the export of goods rose by 13.0 p.c. in terms of value as compared with the previous year's corresponding period. The Government's apprehensions, that the slowing down of international trade expansion would also be reflected by French supplies, did not come true. Hitherto the export increase has continued without interruption

also adjusted for seasonal variation. The trade balance deficit—imports at cif-values—has been reduced considerably during the first half of 1971, since the increase of imports (+10.0 p.c. in comparison with the year before) has lagged behind that of exports. But, adjusted for seasonal variation since March/April a stimulation of imports is to be noticed after a phase of near stagnation.

Steady Domestic Demand

This import development alone is already an indicator of a continuously strong expansion of domestic demand, although the stimulating factors do not seem to be as vigorous as in the winter half-year. Remarkable is the result of the last investment test in June, according to which the enterprises covered by the test increased again the growth rate of their planned capital expenditure to 13.0 p.c. after they had previously reduced it to 11.0 p.c. Building activities, on the other hand, stagnated on a low level during the whole of the first half-year. The slowing down of private consumer expenditure was obviously caused

partly by the supply situation since the production of motor vehicles was impaired by a prolonged strike. This may account for a temporary rise of the saving ratio. For wages and salaries have continued increasing steeply. In April standard hourly wages surpassed the previous year's level by 11.0 p.c. In spite of the Government's threats not to accept exaggerated price rises, costs-of-living increases accelerated during the current year and in July were 5.6 p.c. above those a year ago.

Monetary Policy Promotes Import of Inflation

Stabilisation is also impeded by the French Government's monetary policy. In May the Federal Republic of Germany, the Netherlands, Switzerland and Austria started floating their currencies or revalued them, respectively, and already then a quasi-devaluation of the Franc set in vis-à-vis these countries. The effect has even been strengthened because recently also other states applied wider margins of fluctuation for their currencies, whilst France stuck to the old exchange rate of the dollar as regards foreign exchange transactions. Although this improves the international competitiveness of French exports, the import of inflation is simultaneously favoured.

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

Index and commodity group	1970		1971				
	August	November	February	May	August	Sept. 3	Sept. 17
HWWA-Index¹ (1952-1956 = 100)	108.2	108.4	108.8	109.1	110.6	109.7	108.9
Foodstuffs	102.4	105.9	108.4	104.4	102.6	101.1	99.9
Raw materials other than foodstuffs ...	110.9	109.5	109.0	111.4	114.4	113.8	113.3
Fuels	109.5	113.6	112.9	113.6	123.6	123.7	123.7
Raw materials for consumer goods ..	94.0	92.1	93.2	97.0	100.0	98.6	98.1
Raw materials for capital goods	123.9	117.2	115.7	118.9	115.0	114.2	113.2
Reuter's Index (18. 9. 1931 = 100)	557.1	555.9	540.4	529.6	522.1	516.1	506.0
Moody's Index (31. 12. 1931 = 100) ...	409.9	386.0	388.9	376.6	364.9	361.4	359.8

¹ Index compiled by the Hamburg Institute for International Economics.

The prerequisites to a further vigorous increase of exports are favourable, as export developments are hardly impaired directly by the USA's import impediments. Moreover, the share of French exports to the USA in its total exports (5.0 p.c.) is a minor one and the cyclical decline in the West European market is rather limited only. Therefore a growth rate of GNP in real terms of about 5.0 p.c.

(1970: 6.0 p.c.) is probable under the given economic conditions. With that the Government's plans for economic growth are, however, not fully achieved. But stimulating measures would only be possible if the stabilisation targets were even more neglected, all the more since the trade unions announced new wage claims for this autumn.

rials that are found amply in Europe—have already gone down considerably on the London metal exchange. A noticeable pressure upon West European prices is also expected for those raw materials that have their origin in the dollar-region and that have become more competitive because of the revaluation of other currencies. Finally, American raw material producers whose domestic prices have been frozen due to the price stop can evade to foreign markets in order to achieve higher prices.

Raw Material Markets

The Effects of the Monetary Crisis

The new economic policy of the Nixon-Administration and the sharpened international monetary crisis that followed produced complete confusion on the raw material markets in the middle of August. In the USA commodity-exchanges were closed for several days in order to avoid hectic speculative buying induced by the fear of a dollar devaluation. And in London hardly any produce turnover was registered after the cessation of exchange quotations. But also after the reopening of the commodity-exchanges in the USA and of the foreign exchange markets the dealers didn't give up their reserved attitude towards buying. They wanted first to have certain knowledge about

the effects of the US-import supplementary tax and the price stop for 90 days upon the raw material markets. In addition to this the uncertainty about the further development of exchange relations between the dollar, the pound sterling and other currencies of important consumer nations remained.

Consequences for the Raw Material Prices

The levy of the import supplementary tax in the USA, means for the foreign producing countries of tax-burdened raw materials that they must lower their prices in order to remain competitive against US-producers. The quotations for example of lead and tin—raw mate-

A continued decline of raw material prices on the world markets should be shackled by the outlook that the US-demand for raw materials will increase following the economic promotion measures of the Nixon-Administration. Under the further assumption that industrial production in Western Europe will continue to grow at a nearly unvarying pace and that business expansion will take place in Japan due to government promotion measures—and in spite of the unfavourable export possibilities—price supporting influences from raw material demand of the Western world can be expected.

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

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