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Uncertainty in world trade

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WORLD BUSINESS TRENDS

Uncertainty in World Trade

In the first half of 1971 world trade increased vigorously again. The foreign trade turnovers of all countries (without Eastern socialist states) were by 11 p.c. higher than a year ago. With that the extraordinarily high growth rate of more than 14 p.c. in 1969 and 1970 was not obtained anymore but the thus reflected slowing down of expansion had already begun in the course of the past year. Excluding seasonal variation foreign trade turnovers have even slightly increased again since the beginning of 1971. Many indications let us suppose that the average prices in world trade continued rising vigorously. This applies in particular after the sharp increase in prices of mineral oil and the de facto revaluation of important currencies that in general has led to a raise in prices in terms of dollar.

Pressure to Import in the USA

The incentives for a strong expansion of world trade originated in particular from North America, especially the USA. For in this country, in spite of its low utilisation of resources, the cyclical stimulation enhanced

by stockpiling purchases of steel has led to a pronounced pressure to import. In the first half of the year the corresponding value of the previous year was surpassed by almost 16 p.c. (1970 total: +11 p.c.). As against this the increase in import values, in terms of dollars, was distinctly lower in the West European countries with somewhat more than 10 p.c. (after 17 p.c.). The rise in Japan's import values with hardly 9 p.c. (after 26 p.c.) was even somewhat smaller still. Adjusted for seasonal variation imports are even declining since autumn 1970 as a consequence of the cyclical dampening. Imports of developing countries expanded briskly. (The OECD-countries' exports to these countries in the first half of 1971 were by 13 p.c. higher than a year ago.)

Just the other way round Japan could raise its exports by 24 p.c. (after 21 p.c. in 1970) most strongly in the first half of 1971. The West European nations' export values rose by almost 12 p.c. (after 16 p.c.). As against this the USA lagged far behind with a growth rate of only 5 p.c. (after 14 p.c.). A com-

paratively high export growth was obtained by the developing countries. (The OECD-states' imports from the LDCs in the first half of 1971 were 11 p.c. above those a year ago.)

Brisk Trade Expansion Continuing

The evaluation of the prospects for a further world trade expansion is being handicapped by the fact that the cyclical factors are presently more than ever before in the post-war period superimposed by uncertainties of trade and currency policies. To begin with a status-quo assumption is to be made, i.e. it is supposed that the US import impediments remain unchanged for a while without leading to a "trade war", the dollar maintains its gold parity and the revaluation trend of other currencies does not become considerably stronger. Under these circumstances the volume of world trade will be somewhat smaller than hitherto expected for the last four months of 1971. But this applies to a lesser extent to the value of world trade in terms of dollars, since it is known by experience that revaluations lead to higher export prices in foreign currencies. Thus for the whole of 1971 an increase of world trade turnovers by 11 p.c. remains probable, although only by 6 p.c.

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

Index and commodity group	1970		1971				
	September	December	March	June	September	Sept. 17	Oct. 1
HWWA-Index¹ (1952-1956 = 100)	108.4	108.0	109.2	108.4	109.3	108.9	109.2
Foodstuffs	103.4	106.7	107.1	104.1	100.6	99.9	101.3
Raw materials other than foodstuffs ...	110.8	108.6	110.3	110.5	113.5	113.3	113.0
Fuels	110.6	112.0	113.2	113.7	123.5	123.7	123.1
Raw materials for consumer goods ..	93.4	92.4	93.5	95.7	98.8	98.1	99.6
Raw materials for capital goods	122.8	116.2	118.6	117.1	113.5	113.2	111.9
Reuter's Index (18. 9. 1931 = 100)	560.6	549.0	532.8	525.7	508.9	506.0	502.6
Moody's Index (31. 12. 1931 = 100) ...	415.9	382.9	378.1	376.5	361.3	359.8	363.0

¹ Index compiled by the Hamburg Institute for International Economics.

if price changes are eliminated (1970: 9 p.c.).

For 1972 the status-quo assumption will become increasingly less realistic. The earlier and better one succeeds in lessening the uncertainties in trade and currency policies, the

better are also the prospects for the cyclical development in Japan and Western Europe. Together with a simultaneous boom in the USA the expansion of world trade in 1972 might very well reach the current year's magnitude.

which is at present the biggest buyer of raw wool. By balance the world consumption of wool might raise again during the season 1971/72 under the condition that wool processing in Western Europe keeps up its present level and the demand in the Communist countries increases as it has done up to now.

The world wool production went down by 2.2 p.c. to 3,474 mn lbs (washed) during the last season 1970/71 ending in June. This decrease was caused by unfavourable weather conditions and the comparatively low price level. Nevertheless production was still big enough compared with the reduced demand to force several producing countries to undertake supporting purchases on a large scale.

If also in the season 1971/72 the world wool production will be lowered only insignificantly (presumably 1 p.c. less in Australia) the whole available wool supply will hardly be smaller than 1970/71 because of enlarged stocks. A lasting recovery of wool prices is therefore to be expected if business trends lead to a distinct increase of wool consumption and if surplus stocks in the producing countries can gradually be reduced.

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

Raw Material Markets

Wool Prices Remained under Pressure

The recovery of prices in the international wool markets during the middle of 1971 did not last for long as dealers and consumers have meanwhile restrained from precautionary buying. Again the opinion prevails that the ample stocks of wool in the producing countries will also cause a continuous pressure on wool prices during the new season 1971/72. In Bradford Merino wool is presently quoted at 87 p/kg and Crossbred wool at 62 p/kg, i.e. by 7 p.c. and 2 p.c., respectively, below the last year's level.

This development is mainly due to the decline of wool consumption beginning in autumn 1969 as a consequence of cyclical movements. During the whole of 1970 wool consumption in 9 important industrial countries was lower by 7 p.c. than 1969. This decrease was only in part compensated by an increase of consumption in the

Communist states and in some of the developing countries. According to the newest statistics the decrease of wool consumption has also continued during the first months of 1971.

Economic revival in the USA in response to the recent measures of the American Government may bring about an increase in wool consumption. In this country wool consumption has lessened considerably for some years. But the USA has still remained fourth among the biggest consumer countries in the Western World, which means that a comparatively small increase of American wool processing will already noticeably effect the market in favour of the wool producers. On the other hand, it must not be overlooked that the import-surcharge will have negative effects on the US-import of woollen goods and consequently above all on the wool manufacture in Japan

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Address: Neuer Jungfernstieg 21, 2 Hamburg 36, Phone: (04 11) 35 62 307/308

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