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World business trends

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WORLD BUSINESS TRENDS

USA: Accelerating Boom

Early in 1972 the USA's economic situation is characterised by a further acceleration of the cyclical upswing. The Administration's expansive measures within its new economic programme of August 1971 contributed considerably to this development. Above all these measures restored the confidence of private enterprise in a favourable cyclical development. At present GNP in real terms should cyclically increase at a rate of approx. 6 p.c. annually. The rate of unemployment adjusted for seasonal variation amounted to still 6.1 p.c. also in December 1971. The rise in prices has—probably temporary only—slightly increased after the transition from the stop to the control of price and wage developments. The price and wage increases applied for and approved hitherto partly still surpass considerably the guidelines of 2 to 3 p.c. with prices and 5 to 6 p.c. with wages.

Stimulated Propensity to Invest

The growth rate of the private economy's capital expenditure

on buildings and equipments flattened out during most of 1971. Obstructive influences originated mainly from the extraordinarily low utilisation of capacities and the uncertainty about the further development of demand and profits. In future capital expenditure will rise more speedily due to the more optimistic evaluation of the business trend. According to first surveys for the first half of 1972 the enterprises are supposed to aim at an expansion of their expenditure on new buildings and equipments by 6.5 p.c.—adjusted for seasonal variation—vis-à-vis the second half of 1971. The strong expansion of private consumption will continue in 1972. Incomes from wages and salaries will grow vigorously due to rising employment in spite of the continuing limitation of standard wages. In this election year public expenditure on goods and services should expand at an undiminished rate in spite of further growing deficits. To balance the deficiency of revenue caused by tax cuts the Administration is

planning the lowest possible increase of this kind of expenditure for the current fiscal year (July 1971 / June 1972). But unavoidable raises of salaries and expenditure on armament supplies have led to a re-increase above all of military expenditure. Civil service cuts can also not be achieved to the planned extent.

1972: Continuously Vigorous Economic Growth

Therefore the cyclical upswing will still accelerate slightly during 1972. In the aggregate a GNP growth rate in real terms of 5.5 p.c. is to be anticipated for 1972 vis-à-vis 3 p.c. in 1971. The still considerable unutilised capacities will, however, decline only slowly due to the current capacity increases. The unemployment rate will fall, but hardly below 5 p.c. until the end of 1972. The stronger boom will—last but not least owing to price regulations—be accompanied by an only moderate price increase.

Delayed Improvement of Balance of Payments

The realignment of currencies in December 1971 has finally created improved prerequisites to the balance of payments crisis. The effective dollar de-

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

Index and commodity group	1971				1972		
	January	April	July	October	January	Feb. 4	Feb. 18
HWWA-Index * (1952-1956 = 100)	104.7	105.7	106.0	106.6	114.4	116.4	117.0
Foodstuffs	104.7	102.1	99.7	99.1	113.3	116.9	114.3
Raw materials other than foodstuffs ...	104.7	107.4	109.0	110.3	114.9	116.1	118.3
Fuels	112.9	114.2	119.7	124.6	124.6	124.6	128.5
Raw materials for consumer goods ..	87.7	89.0	93.0	96.0	107.2	108.9	111.5
Raw materials for capital goods	108.1	113.1	109.2	105.6	110.2	112.6	112.7
Reuters Index (18. 9. 1931 = 100)	551.1	534.5	525.6	506.2	546.7	550.1	554.6
Moody's Index (31. 12. 1931 = 100) ...	385.0	376.2	370.9	366.8	389.2	393.6	388.9

* Index compiled by the Hamburg Institute for International Economics. On dollar-basis. 1 Jan. 20, 1972.

Since the frequent parity changes impaired the indicative value of the HWWA-Index as hitherto calculated and published here, in future our Index will be published on a dollar basis also in World Business Trends. This calculation, that for several years has been carried through on parallel lines, takes into consideration parity changes vis-à-vis the dollar. Other values than the monthly and annual averages published here may be obtained from our Department on Business Cycles and Statistics.

valuation remains below the rate of parity changes because the Canadian dollar and the currencies of most developing countries followed more or less. But just vis-à-vis the main competitors in the world markets, i.e. Western Europe and Japan, the devaluation rate is considerably higher. The activation of the American trade balance will, however, not only be retarded by the fact that the improved competitive position will only have gradual effects. Even if

finally the effects of the realignment will be fully realised, a swing of the American balance of current transactions to the tune of \$ 9 bn—the last target mentioned—is hardly to be anticipated. In the short run at any rate the most effective easing of the balance of payments had been expected in the sector of capital movements. But so far the policy of lower interest rates oriented towards the American domestic business trends has prevented a reflux of capital.

During the next months the pressure upon tin prices should remain. But the Administration of the Tin Pool will probably try to stabilise the price a little over 1,400 £/t through continuous buying. According to the regulations of the International Tin Agreement, the tin stock can be increased up to 10,000 t. Taking into account the current 5,000 t on stock, the Pool Administration can buy once again the same quota. Should this not be enough to support prices, then export restrictions can be introduced, which were once before very effective. A renewed upward price development can in any case be expected only towards the end of the year, when tin demand in the Western world will rise during the cyclical revival. The probable price rise will, however, remain within bounds, since the US-Administration can resume its commercial selling of tin from stockpiles at any time. The Administration of the Tin Pool must furthermore reduce its stocks in the course of the improvement of the market situation, in order to gain a margin for further support actions in times of declining demand.

Raw Material Markets

Decline of Tin Prices Stopped

On the world market for tin the price fall, which began in April 1971 mainly as a result of declining demand, has come to a standstill during the last months. The International Tin Pool succeeded in avoiding an over-supply situation through its buying policy. On February 7, 1972, the cash price for tin at the London Metal Exchange was with 1,400 £/metric ton by about 7 p.c. below the highest price level for 1971, which was reached in April.

According to data published by the International Tin Council, tin production of the Western world should have increased during 1971 by 3 p.c. to 186,000 t. Consumption has probably risen

by only about 1 p.c. to 181,000 t, so that a production surplus of about 5,000 t for 1971 can be expected. The demand-supply situation was nearly balanced in 1970. The production surplus tending to force prices down was reduced in the second half of 1971 through the decision of the International Tin Pool to buy 3,000 t off the market. The net tin export to the Eastern socialist countries should have reached at the most 1,000 t in 1971. Therefore, a supply surplus of 3,000–4,000 t should be the result in the Western tin markets for the whole of 1971, if also the non-commercial tin deliveries (around 2,000 t) of the US-stockpile are taken into account.

Compiled by the Department on Business Cycles and Statistics of the Hamburg Institute for International Economics

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