

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

## World business trends

Intereconomics

*Suggested Citation:* Hamburg Institute of International Economics (HWWA) (Ed.) (1972) : World business trends, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 07, Iss. 4, pp. 127-128,  
<https://doi.org/10.1007/BF02929457>

This Version is available at:

<https://hdl.handle.net/10419/138625>

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# WORLD BUSINESS TRENDS

## Worldwide Steep Price Increase

In the past year an extraordinarily strong upward trend in prices prevailed in all western industrial countries although their business cycles were quite differentiated. The rise in prices of private consumption remained extremely steep in almost all of these countries. At the turn of the year the rates of consumer price increases (as compared with the previous year in each case) reached from 3.4 p.c. in the United States to 9 p.c. in Great Britain. For the majority of countries these rates concentrated around 5.5 to 6.5 p.c. The price increase rate remained somewhat below this level only in Japan (4.6 p.c.), Italy (4.7 p.c.) and Canada (5 p.c.); above this level it was in Finland, (7.8 p.c.), the Netherlands (8.3 p.c.) and Spain (8.4 p.c.).

Between 1961 and 1970 the average annual increase in prices was considerably lower than in 1971 in almost all big industrialised countries. This discrepancy would have been even

more pronounced in a number of countries if they had not introduced government price controls. However, these controls generally did not lead to a lasting slowing down of prices but only to a temporary check of the upward price trend. In the countries without aggravating direct interferences with the price formation process the price increase—excluding Japan—in the consumption sector hardly slowed down in the last months of 1970.

### Inflation of Costs In Almost All Countries

In almost all countries the upward trend in prices showed the characteristics of an inflation of costs. Within the framework of social disputes wage and salary increases considerably exceeding the productivity progress were granted everywhere with the consequence that the labour costs per unit enhanced strongly and kept the price increase going. The defla-

tor of the GNP, the most comprehensive price indicator of an economy, in 1971 rose by 5.5 p.c. for the total of OECD-countries, as well as in 1970 (5.9 p.c.), considerably more steeply than the GNP in real terms, whose growth rate amounted to 3.5 p.c. (1970: 2.8 p.c.). This discrepancy was most pronounced in Western Europe, where last year the price increase at 7 p.c. (1970: 6.5 p.c.) turned out to be more than double the rise in GNP in real terms at 3 p.c. (1970: 5 p.c.). Particularly Great Britain, Italy and Sweden contributed to this development with an increase of the deflator between 6 and 9 p.c., on the one hand, and only a minimum economic growth, on the other.

### 1972: Slightly Reduced Price Increase

In the current year the price increase will also remain strong in the western industrialised countries. Its tendency to slow down, which could frequently be noticed in the second half of 1971, should make only gradual progress. In the United States the conditions are most favourable still. Apart from certain price increase "arrears" after the relaxation of the price stop of August, the cyclical stimulation will promote productivity and

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

Index and commodity group	1971				1972		
	February	May	August	November	February	March 3	March 17
<b>HWWA-Index * (1952-1956 = 100) ....</b>	<b>104.7</b>	<b>105.0</b>	<b>106.9</b>	<b>106.6</b>	<b>116.6</b>	<b>118.7</b>	<b>118.0</b>
Foodstuffs .....	104.1	100.2	98.9	99.3	114.6	118.0	114.0
Raw materials other than foodstuffs ...	104.9	107.2	110.8	110.1	117.6	119.0	120.0
Fuels .....	113.5	114.5	124.9	124.5	126.8	128.5	128.5
Raw materials for consumer goods ..	87.9	91.5	94.8	96.6	110.8	111.8	114.6
Raw materials for capital goods .....	107.9	110.6	107.5	104.8	112.9	114.5	115.0
Reuters Index (18. 9. 1931 = 100) .....	540.4	529.6	522.1	508.1	554.5	556.9	559.4
Moody's Index (31. 12. 1931 = 100) ...	388.9	376.6	364.9	368.1	393.5	391.6	396.3

\* 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.

reduce cost increases, so that the chances for stability will be improved. In this phase the slowing down of price rises will be promoted by government wage and price controls. In most Western European countries, however, the weak cyclical expansion or even stagnation, respectively, is impeding the productivity growth rates. Simultaneously the wage increases decline only slowly and correspondingly also the upward trend in costs and wages—in

spite of an easing of the supply and demand ratio. The behaviour of entrepreneurs and trade unions reflects distinctly their ever firmer anticipations of inflation. On a whole, the price index of the West European GNP under these conditions should rise again by about 6 p.c. in 1972, while in the United States an increase by 3.5 p.c. is to be expected. Both rates continue to exceed considerably the average level of the sixties (4 p.c. and 2.5 p.c., respectively).

For 1972 an approximately balanced increase of natural rubber consumption and production up to 3.2 mn t is expected. Therefore, the US-stockpile policy will remain an important price determining factor. As a result of the intervention of the producing countries stockpile deliveries were only restricted to 4,000 t monthly. Furthermore, the price depression on the natural rubber market was advanced by the continuing substitution competition between natural and synthetic rubber. The synthetic rubber production is to be expanded by 350,000 t in 1972 alone.

## Raw Material Markets

### Rubber Prices Remain Depressed

The expected change in climate in the international natural rubber market did not take place in 1971. Except for a temporary recovery during the spring, the lasting previous price decline continued until November 1971, although at a slower pace. Since then prices fluctuate around the extraordinary low level. At the beginning of March natural rubber R.S.S. 1 was noted about 15 p.c. under the price level one year ago.

According to data up to October 1971 of the International Rubber Study Group, world consumption of natural rubber was with around 3 mn t only slightly higher than in 1970. The cyclical improvement of US rubber de-

mand remained within bounds and was impaired by the strike of the east-coast-dockers. World rubber production increased by 100,000 t to 3 mn t in 1971, as a result of which there was no production deficit for the first time in several years. From the consumers' point of view the satisfactory development of the supply/demand situation was promoted through the renewed US stockpile deliveries of monthly 6,000 t since July 1971. These US-deliveries were only partly neutralised by support purchases of the Malaysian Government; they were, however, big enough to prevent a continuing of the price decline in the world rubber markets.

As a result of these developments a continuous price recovery in the natural rubber market is hardly to be expected in the short run. The Malaysian government has announced its intention to purchase substantial quantities of rubber; but this support action should hardly be possible without international assistance because of financial difficulties. On the other hand, the leading producing countries will not be able to reduce their production due to the many nearly unsolvable problems of such a measure.

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

**PUBLISHER:** HWWA-Institut für Wirtschaftsforschung—Hamburg (Professor Dr Heinz-Dietrich Ortlieb, Dr Dietrich Kerschull) and Stiftung Deutsches Oversea-Institut (Professor Dr Günther Jantzen)

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#### PRODUCTION AND DISTRIBUTION:

**Verlag Weltarchiv GmbH, Hamburg**

**Advertisements:** Representative Dr Hans Klemen

**Advertising Price List:** No. 13 of January 1, 1971

**Rates of Subscription:** Single Issue: DM 4.20; Annual rate: DM 48.— (Students: DM 24.—)

**Publication Dates:** monthly

**Printing:** Otto Schwitzke, Hamburg

**Address:** Neuer Jungfernstieg 21, 2 Hamburg 36, Phone: (04 11) 35 62 500

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