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WORLD BUSINESS TRENDS

Steep Price Rises also Abroad

Although at present in almost all Western industrial countries the utilisation of production factors is distinctly lower than on the peak of the past economic cycle in 1969 and 1970, the price developments so far do not show any general decline of the inflationary forces. The most important exception is the USA, where due to the cooperation between accelerating productivity increases, still continuing underemployment and wage and price controls price increases have weakened. In the middle of the year the US cost of living were "only" hardly 3 p.c. above the previous year's level. Simultaneously the corresponding price rises reached almost 5 p.c. in Japan and an average 6 p.c. in the West European economies. Although here the upward trend in prices has not been quite as strong as in the past year, the temporary tendency towards a slight slowing down did not continue during the last months.

Western Europe's Price Rise

A relatively high utilisation of economic resources is corresponding with this "leading posi-

tion" of Western Europe, but considered separately such relations frequently are not decisive. Thus in Western Europe the group of countries with the lowest price increases in private consumption, namely by about 5.5 p.c. vis-à-vis the previous year's corresponding period, consists, on the one hand, of Italy with the highest rate of underemployment, and, on the other hand, apart from Belgium, also of the Federal Republic of Germany and France with their comparatively high utilisation of production factors. The other West European industrial nations register an increase in consumer prices by 6 to 8 p.c. Among them are countries like Britain and Sweden marked by the after-effects of a recession as well as countries such as Austria, Switzerland and Norway where up to now the production increase did not lag at all, or only a little, behind the expanding capacities.

Symptomatic of the inflationary tendencies is inter alia the fact that all classes of goods are involved. Due to the development of consumer goods prices of wholesale trade or of

producers, respectively, no decline of these price increases can be expected for the near future. Obviously the vigorous expansion of the private households' incomes continuing during the whole phase of cyclical slow down in Western Europe allowed the entrepreneurs almost the old latitude for price increases.

International Mutual Stimulation

Last years' worldwide upward trend in prices reflects to a certain degree similar internal difficulties for the industrial nations' economic policy orientated towards stability. Insofar this trend is "homemade". But beyond this a mutual stimulation certainly resulted from the direct international interrelationship of prices. Last year's change in exchange rates interfered with these relations. True, the national revaluation rates vis-à-vis the dollar convey a false impression. Thus in the West European industrialised countries the effective exchange rate changes—as weighted according to the regional interlocking of trade—in April/May 1972 as compared with the level of early May 1971 were -2 p.c. for Italy and Sweden and +3 p.c. for Austria (the only important exception was the Federal Republic with +6.5 p.c.). This clearly indicates that the new exchange rates changed

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

Index and commodity group	1971		1972				
	August	November	February	May	August	Sept. 1	Sept. 15
HWWA-Index * (1952-1956 = 100)	106.9	106.6	116.6	118.5	115.1	118.1	117.3
Foodstuffs	98.9	99.3	114.6	110.5	108.4	116.3	114.0
Raw materials other than foodstuffs ...	110.8	110.1	117.6	122.3	118.4	119.0	118.9
Fuels	124.9	124.5	126.8	131.7	130.2	130.2	130.2
Raw materials for consumer goods ..	94.8	96.6	110.8	120.3	106.5	107.2	107.2
Raw materials for capital goods	107.5	104.8	112.9	114.3	114.5	115.7	115.4
Reuter's Index (18. 9. 1931 = 100)	522.1	508.1	554.5	551.5	586.5	598.7	609.5
Moody's Index (31. 12. 1931 = 100) ...	364.9	368.1	393.5	403.6	426.3	432.3	435.7

* Index compiled by the Hamburg Institute for International Economics. On dollar-basis.

only little the foreign trade conditions for the fight against inflation outside the Federal Republic. For the foreseeable future a considerable decline of the high price increase rates in

the West European economies is rather improbable in view of the general priority of full employment over price stability and the only temporary effectiveness of price controls.

ed to the preceding quarter respectively). The increasingly expanding wool consumption has continued since and is expected to continue. Indications for this development are the lasting cyclical upswing in the USA, business revival in Japan and the expected acceleration of economic growth in the West European countries.

Raw Material Markets

Rise of Wool Prices Continues

During the recent months the price increase, which has set off in November 1971 in the world wool markets, has continued strongly. The reason for this development is mainly the lasting and strong demand of processors in Japan and other important consumer countries. The considerable surplus in stock, which had been piled up until the end of 1971 in the producing countries, have meanwhile drastically been reduced due to declining production. In Bradford Merino wool is presently quoted at 135 p/kg and Crossbreeds at 103 p/kg, which represents an increase of 53 p.c. and 63 p.c. respectively as compared to August 1971.

It is characteristic of the profound change in the market situation in favour of the producing countries as compared to 1971 that the competition of demand has become keen in the wool auction-places. The Japanese wool industry tries—because of improved cyclical prospects—to replenish its stocks

nearly "at any price" since the beginning of this year, since they have been depleted by ample yarn supplies to the USSR. The decline of wool stocks in the producing countries caused by these events and the prospect of a further price increase induced, on the other hand, the remaining importing countries to intensify their wool purchases. Above all the West European countries were forced in view of low stocks to give up their hesitation in order to take precautions against a scarcity of supply.

The substantial increase of wool demand is however not only due to a change of stock arrangements. In addition to this a rapid growth of current wool consumption is to be noticed since the beginning of the year. In nine of the main consuming countries of the Western World the rate of growth adjusted for seasonal variation amounted to 4 p.c. in the first quarter of 1972 against a rate of 1 p.c. in the fourth quarter of 1971 (compar-

The total supply of wool will be considerably lower in the new season 1972/73 than in 1971/72, above all because the stocks could be reduced substantially in the producing countries during the first half year of 1972. The stock reduction was supported by a further decline of the world wool production by an estimated 2.5 p.c. during the season 1971/72. Due to the recent price rise the reduction of live stocks of sheeps might come to a general stop in the next future. Nevertheless, an increase of wool production already during the season 1972/73 is hardly to be expected; on the contrary, another slight reduction should take place. Under these circumstances the prices of wool will presumably continue to rise during the next months.

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

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