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WORLD BUSINESS TRENDS

Controlled Boom in Britain

In contrast to its economic policy principles the British Government decreed—early in November—a wage and price stop, limited to begin with to 90 days. This measure once again showed the dilemma of the stimulation policy carried through since the past year. The intention to reduce unemployment through a vigorous expansion of the gross domestic product (GDP) is being jeopardised to the same extent as the additionally created demand is being sapped by price increases. Wholesale prices (without foodstuffs) for instance in October surpassed last year's level by 6.7 p.c. Since April they even increased at a current annual rate of about 8 p.c. — in spite of voluntary price limitations, which had only ended in October. During the same period consumer prices have risen —after even higher increases in the last months—at a current annual rate of more than 8 p.c. and in October were by 7.9 p.c. higher than a year ago. The main reason for this development is to be found in the stronger pressure of costs resulting from extraordinarily high wage increases. As compared with the previous year the growth rates

of tariff-born hourly wages climbed abruptly from 12 p.c. in July to 18 p.c. in October. This is all the more remarkable since the rate of unemployment, in spite of some reduction, is still very high (3.4 p.c. in November).

Expanding Private Consumption

Although the rise in wages was accompanied by a considerable increase in productivity, a vigorous expansion of the payload still remained, whose passing on to the buyer was made easier by budgetary measures creating additional demand. Private consumption adjusted for price and seasonal variation expanded in the summer halfyear vis-à-vis the preceding six months by nearly 7 p.c. and thus supported the boom. But the positive influence on private investment activities, already expected from last year's stimulation measures, was limited to a few sectors only. For the rest of the year, too, a noticeable increase is not to be anticipated.

The aimed at acceleration of expansion did not yet come about. This is a consequence of the pronounced reduction of inventories to be noticed already

since spring, 1971, which, although to some extent an involuntary one resulting from strikes, continued this year. A comparatively large share of the additional demand was attracted by imports. During the first ten months of 1972 imports increased by 12.2 p.c. in terms of value and by about 8 p.c. in quantity as compared with the previous year's corresponding period. Simultaneously exports—last year supporting the business trend—rose by 5.4 p.c. only in terms of value and declined even adjusted for price. However, this year's foreign trade figures, and particularly those of exports, have been distorted considerably by the miners' and dockers' strikes. As against this the floating of sterling should not yet have influenced the trade flows.

Boom Consolidation Possible

The future development will depend largely on the degree in which wage and price escalations can be stopped. Whether or not the wage and price stop is a suitable instrument, is an open question, all the more since it is not even assured that the groups involved will submit to it. Furthermore, it will be important whether investment activities will finally react more strongly than hitherto on stimulations originating from consumption before they are "gone with the wind". Official polls are

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

Index and commodity group	1971		1972				
	November	February	May	August	November	Nov. 17	Dec. 12
HWWA-Index* (1952-1956 = 100)	106.6	116.6	118.5	115.1	122.7	122.9	125.0
Foodstuffs	99.3	114.6	110.5	108.4	119.8	120.3	124.7
Raw materials other than foodstuffs	110.1	117.6	122.3	118.4	124.0	124.2	125.1
Fuels	124.5	126.8	131.7	130.2	130.4	130.5	130.6
Raw materials for consumer goods	96.6	110.8	120.3	106.5	123.9	124.7	125.7
Raw materials for capital goods	104.8	112.9	114.3	114.5	117.7	117.5	119.1
Reuters Index (18. 8. 1931 = 100)	508.1	554.5	551.5	586.5	675.7	679.4	689.8
Moody's Index (31. 12. 1931 = 100)	368.1	393.5	403.6	426.3	447.5	444.3	461.5

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

indicating an increase of capital investments by 5 p.c. in 1973. A dampening of the conflict between the employers' representatives and the trade unions would improve the investment climate still further. Impulses are also to be expected from ex-

ports, since the factual sterling devaluation strengthens the international competitiveness of the British economy. Under most favourable conditions a growth of GDP in real terms by about 4.5 p.c., after 3.5 p.c. in 1972, seems to be possible.

of 1972 should not be overrated after the relatively high increase in the first quarter. This development was probably only a temporary one. The accelerating upward tendency in western industrial countries should promote a further sales expansion of textiles and with that of wool consumption in 1973.

Raw Material Markets

Scarce Wool Supply

The peak of a price-boom lasting for one year in the wool markets has been surpassed mid-October 1972. This price boom started at the end of 1971, when the Japanese processing industry began to stock up in an extraordinary way, expecting a favourable development of world market conditions. In mid-October the Bradford quotations of 64 Merino wool with 105 p/kg and 56 Crossbred wool with 165 p/kg had risen by 135 p.c./158 p.c. compared with December 1971. A similar high price-level has never been noted since the Korea-boom in 1951. The price decreases since mid-October amounted to only 10 to 15 p.c., and they came to a stop in the second half of November.

The little slump in wool demand may indicate that the manufacturers are reducing their stocks again and consuming more synthetics in view of high prices. The question remains for how long

and to what extent they can continue to do this. A number of important wool industries in the Western world have indeed larger stocks than at the end of 1971, when they were exceptionally small, but compared with the good sales opportunities of finished wool products they cannot be considered to be too high. The use of synthetics in place of wool is also limited in the short-run, since the present fashion trend promotes the sales of woolen clothes. It is therefore not improbable that wool manufacturers will soon give up their demand reluctance.

Since autumn 1971 a remarkable increase in wool consumption could be noticed. In the first and second quarters of 1972 nine western countries increased their consumption by 6 p.c. vis-à-vis the previous year's corresponding period. The slight decrease in wool consumption—adjusted for seasonal variation—in the second quarter

Wool production will decline during the season 1972/73 for the fourth time without interruption. With 1.510 mn/t it will be below last season's result by 2 p.c. and by nearly 7 p.c. vis-à-vis the record performance of 1968/69. The depression of wool prices, which lasted for years, induced the farmers to reduce their flocks of sheep. A stocking-up of flocks within a short period of time is impossible. The drastic reduction of excessive stocks in the producing countries indicates furthermore that wool supply will remain insufficient. The wool commissions in Australia and New Zealand have already stated that they will have cleared off their stocks by the end of 1972. Because of the expected development of supply and demand a new rise in wool prices can be expected to take place.

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

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