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World business trends

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WORLD BUSINESS TRENDS

Vigorous Boom in the USA

The programme announced by the US Administration in August 1971 for a reduction of inflation and promotion of the business recovery, that started at the turn of the year 1970/71, has proved to be successful. The GNP growth rate in real terms reached 6.5 p.c. in 1972 after a growth of 2.7 p.c. in 1971. The price and wage controls concurred with high productivity increases, so that the GNP inflation rate declined to 3 p.c. after 4.8 p.c. in 1971. However, due to the strong increase of the labour potential, the rate of unemployment during 1972 declined only from 6 p.c. to 5.6 p.c. in spite of the pronounced expansion of production. The external situation has also remained problematical. The considerable improvement of capital transactions after the currency realignment at the end of 1971 was still opposed by an extraordinary deterioration of the balance of trade during the first four months of 1972. The following trend improvement did not even last till the end of the year.

In 1973 the USA's economic growth will continue strongly. Of particular importance is the fact that the decline in the growth of capital investment expenditure to be noticed during 1972 has come to a halt. The most recent surveys of enterprises showed that business quarters revised their investment plans noticeably upwards. Apart from an increasing utilisation of capacities the more optimistic anticipations of sales and profits are the major stimuli for an improved propensity to invest. Besides a continuous strong expansion of investment in stock and of private consumption is to be expected.

Cautious Financial Policy

The anticipated growth of private demand will require of the economic and financial policy makers great "steering abilities" in 1973. So far the Administration indicated that in consideration of the still high unemployment it will not brake the cyclical upswing. Only in the second half of 1973 a slower growth of

public expenditure is to oppose an acceleration of price increases due to the strong expansion of private demand. But even if the growth rate declines as a result of a more restrictive monetary policy, a GNP growth in real terms by about 7 p.c. is to be anticipated.

Abolition of Wage and Price Controls

Wage and price increase trends will grow stronger cyclically in 1973. The trade unions will point at the favourable development of profits and demand higher wage and salary increases than in 1972. On the other hand, the rise in productivity will finally decline together with the increasing capacity utilisation. Enterprises will then try to pass on cost increases more than before. In view of these risks for price stability, the abolition of direct wage and price controls is quite surprising. In principle this new third phase of incomes policy is based on voluntary co-operation of trade unions and firms. It is an open question whether this system will function better than the system of price and wage guidelines of former years.

For 1973 there are, in spite of another dollar devaluation, not yet any prospects of a further noticeable improvement of the balance of payments. Interest

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

Index and commodity group	1972				1973		
	January	April	July	October	January	Feb. 2	Feb. 16
HWHA-index * (1952-1956 = 100)	114.4	118.4	114.1	121.6	136.2	139.6	142.6
Foodstuffs	113.3	111.6	104.8	118.3	137.0	139.4	140.9
Raw materials other than foodstuffs ...	114.9	121.7	118.5	123.2	135.9	139.7	143.3
Fuels	124.6	131.9	130.5	130.2	137.3	137.5	138.1
Raw materials for consumer goods ..	107.2	117.7	109.4	121.5	143.6	148.2	151.8
Raw materials for capital goods	110.2	114.1	112.8	117.4	129.2	136.3	142.8
Reuter's Index (18. 9. 1931 = 100)	546.7	548.3	569.2	656.5	798.5	812.8	820.9
Moody's Index (31. 12. 1931 = 100)	389.2	395.8	420.4	442.0	483.1	495.3	501.3

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

policy allows a certain latitude for a policy of "dear money". The utilisation of this latitude mainly by most West European central banks opposes a major change in international capital flows in favour of the USA. The hoped for reduction of the deficit in the trade balance will be delayed since first the effects of higher import prices are prevail-

ing. Moreover, the US economy's continuing growth will further stimulate import demand. On the other hand, the USA's competitive position in international trade has certainly been improved noticeably by the dollar devaluation. Therefore in the longer-term a conspicuous improvement of the trade balance can be expected.

1972/73, and the recent devaluation of the dollar and the pound vis-à-vis important consumer countries caused another price increase.

In 1973 another rise in lead quotations in London and New York is to be expected. These will not be only "monetary-conditioned" price increases. The probable supply and demand developments are also indicating higher prices. The prognosis of the International Lead and Zinc Study Group, i. e. that in 1973 a considerably bigger production surplus is to be expected, should not be misleading. This estimate is based on a vigorously rising lead production and a weaker consumption increase than in 1972. But since according to newest data for 1973 another stimulation of the cyclical expansion is to be anticipated in the Western World, a higher growth rate than assumed by the Study Group should be possible. In this case additional replenishments of stocks of processors and trade are to be expected. The producers, on the other hand, should attempt to continue last year's successful supporting policy.

Raw Material Markets

Rising Lead Prices

On the London Metal Market the present cash price quotation of lead at 138 £/t is about 50 p.c. higher than in early 1972. Nevertheless this price can be called bullish with reservation only. For it has to be taken into consideration that during the two preceding years lead prices had dropped to a comparatively low level. Moreover, for many non-British buyers the price increase has been softened considerably by a factual devaluation of the pound.

The year of 1972 started for the lead market with considerable stocks held by lead works and the London Lead Exchange. But the prospects of a cyclical stimulation of lead sales in 1972 has caused the West European pro-

ducers to plan an increased fixed selling price. Thereupon processors and trade providently stocked up. Until early March 1972 prices rose by about 30 p.c. Thereafter the buyers took up a wait-and-see attitude again and the producers renounced the introduction of the planned fixed price.

In the further course of 1972 the increase in the Western World's demand for lead did not come up to the producers' anticipations and only repeated supporting purchases kept the London lead price on an average level of 122 £/t. In the USA the producers even had to reduce the fixed price. Only the stimulation of demand, that set in even before the turn of the year

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