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World business trends

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WORLD BUSINESS TRENDS

Europe as Inflation Community

The US \$ was devalued in February although in 1972 the rising trend in prices was considerably weaker in the USA than in the other industrial countries of the West. As against this the exchange rate of the Swiss franc was actually revalued over and above this, although in Switzerland the deterioration of the purchasing power, as measured by consumer prices, was about twice as bad as in the USA. Obviously price fluctuations of consumer goods are of limited indicative value as regards a country's external situation if only because many non-price factors play an important part for a country's international competitiveness and development of its external balances.

Cyclical Independence

The connection between the business cycle and price developments, formerly to be noticed regularly, is to be observed at present only in the West European countries whose economies are expanding vigorously in 1972. Among these are France and Austria, where at the end of the year a high utilisation of resources was accompanied by consumer price rises

of 6.9 and 7.6 p.c., respectively, in comparison with a year earlier. But also in national economies where, as e.g. in the Federal Republic of Germany, resources were utilised about normally, or, as e.g. in Italy, where labour and capital were underutilised, consumer goods prices climbed between 6 and 8 p.c. until the turn of the year. In almost all countries, independent of the cyclical situation, an acceleration of price increases occurred during the second half of the year. In contrast to this trend, in December the US price increase rate of 3.4 p.c. was relatively low in spite of vigorous expansion. In Japan, too, consumer prices rose more slowly by 5.3 p.c.

A main reason for the rising cost-of-living, continuously separated from the cyclical trend, is the increase in foodstuffs prices. Apart from a few exceptions, as e.g. Japan, they were above average in all countries. In Western Europe they increased by about 8 p.c. in almost all economies. The prices of services (including rents) climbed more than proportional in most countries — in the Netherlands, Austria and Britain this rate was

more than 10 p.c. even. Prices of manufactured consumer goods rose above average everywhere. In Western Europe their increase by 5 to 6 p.c. was in most cases extraordinarily steep, while in Japan 5 p.c. were often reached in the last years. In the USA the same products got only 2.5 p.c. dearer.

Economic Policy and Employment

In about all Western industrial countries a lasting dampening of price increases is opposed by the fact that the economic policy authorities are for social reasons giving priority to full employment and with that to an adequate economic growth. The "pressure" towards price stabilisation is all the easier to bear by the individual governments, because almost all the other industrial nations experience about the same price increases. But in numerous countries even this relative stability is only obtained with "cosmetic" corrections. A reduction of consumption tax rates as in France, or voluntary agreements on slowing down price rises as in Austria, just the same as public price controls (Italy) and an absolute price stop (Britain) have usually in the past proved at best to be a temporary curing of symptoms, if there were no simultaneous restrictions of de-

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

Index and commodity group	1972				1973		
	February	May	August	November	February	March 2	March 18
HWWA-Index * (1952-1956 = 100)	116.6	118.5	115.1	122.7	142.8	149.4	152.3
Foodstuffs	114.6	110.5	108.4	119.8	141.5	146.1	146.6
Raw materials other than foodstuffs ...	117.6	122.3	118.4	124.0	143.4	151.0	155.1
Fuels	126.8	131.7	130.2	130.4	137.9	141.5	141.5
Raw materials for consumer goods ..	110.8	120.3	106.5	123.9	153.9	156.1	172.7
Raw materials for capital goods	112.9	114.3	114.5	117.7	141.9	157.0	156.8
Reuter's Index (18. 9. 1931 = 100)	554.5	551.5	596.5	675.7	827.1	857.0	872.4
Moody's Index (31. 12. 1931 = 100)	393.5	403.6	426.3	447.5	499.9	520.5	509.4

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

mand. Since these measures came mostly into force at the turn of the year only, in the first half of the year a temporary slowing down of consumer price increases is to be anticipated.

Nevertheless, for the whole of 1973 the price increase rate should not be lower than in 1972, because the price level reached already at the beginning of 1973 is a very high one.

Raw Material Markets

Commodity Markets and the Monetary Turmoil

The new international monetary crisis has released such a hectic development in the raw material markets as was unknown in the post-war period. For the market participants the consequences of the numerous crises during the last years and of the political and warlike contests were always more distinct than this time. In the past such events were either followed by strong demand expansions and price increases (Korea-war, Suez-crisis, pound devaluation in 1967) or by a reserved attitude in the sellers' or buyers' decisions (after the proclamation of the "new economic programme" in the USA in August 1971), so that price fluctuations remained within confined bounds in comparison to present developments. This time speculations in each and every direction are registered. While formerly commodity trade was stopped when exchange markets closed down even for a short period, this time such a measure was incomprehensibly not taken. The result

were hectic up- and downward price fluctuations within one market day. On average, however, prices in London and New York were until the middle of March considerably higher than at the start of the currency crisis.

The price level on the markets for foodstuffs and industrial raw materials rose according to the HWWA Index on dollar-basis by 14 p.c. between January and mid-March 1973 and by 26 p.c. between mid-March 1972 and 1973. It is nearly impossible to work out how much of this development was due to monetary policy or market reasons.

The monetary disturbances took place in a period of faster economic growth and thus a higher demand for commodities in the western world. Already before the end of 1972 a renewed upward trend of commodity prices, which had been observed since the end of 1971, began. Extensive purchases as a precaution were undertaken

in nearly all raw materials because consumers feared higher prices. Mainly sizeable purchases by Japanese manufacturers caused a remarkable rise of the rubber prices, wool prices reached the Korea-war level and on the non-ferrous metal markets an upward price trend was also noticed. The new boom-period was promoted by the continued pound devaluation and speculation about a new dollar devaluation. As a result of this dollar devaluation in mid-February and the floating of the pound, producers of raw materials from the dollar and pound area endeavoured to cash-in as high a share of the "devaluation-profits" through price rises as possible, while producers from other currency areas tried to minimise their profit losses in their own currency.

The hectic in the commodity markets reached its peak at the end of February/beginning of March. After it became clear that the monetary crisis had not yet been overcome, new "security purchases" and price increases took place. The rapidly changing speculations about the final form of the new currency agreement led finally to strong demand- and price fluctuations.

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

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