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Stabilisation Problems in Japan

Last year a strong economic upswing was registered in Japan. Compared to 1971 GNP rose by 9.2 p.c. in real terms, and this is even being surpassed significantly by the current expansion rate. This development continued after the turn of the year; during the first three months the industrial production went up by 17.2 p.c. compared to the year before. At the same time stabilisation problems came to the fore. While last autumn only wholesale prices started moving, during the last months consumption prices increased rapidly, too.

Government demand, which last year had induced the economic upswing, also remain extremely expansive in the fiscal year 1973/74 (April/March): with a 24.6 p.c. rise the regular budget shows the greatest increase hitherto. The parallel credit and investment programmes will be raised by 28.3 p.c. this year. During the last months the private enterprises' readiness to invest has obviously grown further determined by the trend of economic activity. The output

of investment goods was accelerated; adjusted for seasonal variation there was a 10.7 p.c. rise from the last quarter of 1972 to the first quarter of 1973.

Private consumption which after last year's strong stimulating impact of government expenditures had increased very steadily, seems to have grown even faster in spring 1973. This development was determined by the accelerated rise of household incomes. First, the gratuity payments which have been raised considerably at the end of last year have produced a still lasting effect, while the current upward drift of wages has grown stronger, too. Second, the total number of employed is clearly rising. As these wage and employment tendencies will last at first, a heavy expansion of private consumption can further be expected.

Export vs. Import

Due to a continuously increase of imports and a clear decline in the expansion of exports the high trade balance surplus has diminished considerably. Compared to the year before the

increase of exports amounts to 22.7 p.c., while imports rose by 35.0 p.c.

Besides the factual revaluation of the yen the increase in import prices by almost 13 p.c. was also responsible for this trend. Unlike 1971, this tendency only underwent a very short interruption due to the variations of the exchange-rate in February.

Since the turn of the year Japan's stabilisation problems have grown at an unexpected speed. Wholesale prices as well as retail trade prices have gone up to an extraordinary high level. Until April wholesale prices had increased by 11.4 p.c. vis-à-vis last year. The lasting worldwide boom on raw material markets was essential for this development. Consumption prices, which had risen by only 1.1 p.c. from February to December 1972, jumped up to 6.4 p.c. within four months. Decisive for this development were the prices for food and rents. Thus the development of consumption prices cannot simply be regarded as a pointer to an overheating of the economic development in Japan.

Already during the first months of this year the business trend of Japan has headed for a boom situation. Even if the new factual revaluation of the yen

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

Index and commodity group	1972			1973			
	May	August	November	February	May	June 8	June 22
HWWA-Index * (1952-1956 = 100)	118.5	115.1	122.7	142.8	163.7	169.7	174.1
Foodstuffs	110.5	108.4	119.8	141.5	158.9	164.7	171.6
Raw materials other than foodstuffs ...	122.3	118.4	124.0	143.4	166.1	172.0	175.2
Fuels	131.7	130.2	130.4	137.9	153.3	154.0	154.3
Raw materials for consumer goods ..	120.3	106.5	123.9	153.9	171.8	176.0	178.5
Raw materials for capital goods	114.3	114.5	117.7	141.9	175.1	187.4	194.0
Reuter's Index (18. 9. 1931 = 100)	551.5	586.5	675.7	827.1	905.4	947.0	992.3
Moody's Index (31. 12. 1931 = 100)	403.6	426.3	447.5	499.9	529.4	552.5	565.3

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

should contribute to dampen excessive exports and to encourage imports, this will not have a determining influence on the general economic picture. Now it is the investment goods

boom which has an impact on the upswing. Thus in 1973 real GNP will grow at a rate of approximately 13 p.c., similar to the rates during the boom phases of the sixties.

forecasts came to the conclusion that production of the new season 1973/74 will be below last year's result by 5 p.c. A piling up of the flocks of sheep, which have been reduced during the *baisse*, is impossible in the short term. Taking into consideration a progressing reduction of stocks in the producing countries the total wool supply will decrease even by about 10 p.c. These dates indicate that the prices will have a strong upward trend again. On the other hand it is expected that wool consumption in 1973/74 will not increase with the same rate as in 1972/73. As prices are still relatively high, they will promote an enlarged consumption of synthetics instead of wool — even if the tendency of fashion supports the purchase of clothes made of pure wool. Moreover, Japan and other important consuming countries have at the moment large wool stocks compared with the situation at the middle of last year. Due to this fact manufacturers see no necessity to buy "at any price" as a precaution, as they did last year.

Raw Material Markets

Wool Prices on a High Level

Severe price movements in the international wool markets were noticed since the beginning of 1973. The increasing demand of Japan and East European countries caused a steep price increase lasting up to the end of March; prices sometimes reached a higher level than during the Korea-crisis. After that the sudden retreat of Japan from the market produced a rapid decrease in prices within a two weeks period. Since then only small price fluctuations were noticed in the wool markets. The Bradford quotations of 64 Merino wool with 315 p/kg and 56 Crossbred wool with 185 p/kg had risen by 160 p.c./95 p.c. compared with June 1972.

This still very high price-level is a result of the critical wool supply situation. The permanent decrease in wool production during the last three years

seems to have continued in the season 1972/73. With about 1.504 mn t the production will be below last season's result by 3 p.c. Mainly in Australia a wool production decline is expected, because the farmers reduced their flocks of sheep and the climate was too dry. Furthermore it must be taken into consideration that at the beginning of the season 1972/73 the producing countries had only small stocks. On the other hand wool consumption increased due to the good cyclical consumption development of textiles in 1972/73. So the manufacturers began to pile up their stocks, which had been reduced before. By this action they promoted bottlenecks in supply and extraordinary price increases in the wool markets.

During the next months, a noticeable decrease in wool prices is not in sight. Latest

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