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World business trends

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WORLD BUSINESS TRENDS

Italy: Increase in Business

Italy's new center-left coalition Government is brought up against formidable problems of economic policy by the present cyclical situation. The upward trend of production, which had been striven after for a long time, has prevailed since last spring. At the same time, however, the tendency for prices to rise became considerably stronger than in the other West European countries. The numerous—partly tightened—price controls turned out to be not effective. Until some months ago the cyclical upward movement was hidden, however, by numerous social conflicts. During the first quarter industrial production—especially in the metal-using-sector—was even somewhat lower than in the corresponding period of the preceding year, due to production shortfalls caused by strikes. The importance of these labour troubles is stressed by the fact that during the first five months of this year production in this sector declined by 6.4 p.c. (compared to the last year) while in the other industrial sectors there was a 8.2 p.c. rise. In the aggregate, industrial production increased by 3.2 p.c. during this

period. As the trade unions meanwhile indicated their willingness to use their influence on workers for bringing about a higher degree of shop discipline than in the past years, it can be expected that the expansion of production will accelerate during the next months, all the more since the backlog of orders has risen.

Fight against Inflation

The future development of demand will happen under the impression of an economic policy whose different measures partly counteract each other. On the one hand, the Government intends to stimulate investment activities by a further reduction of the social and fiscal levies which have to be paid by enterprises, on the other, the upward trend of prices shall be fought emphatically. Thus the Central Bank recently only has applied slight credit restrictions, while the externally initiated stabilisation of the lira exchange rate has supporting effects. With an increase of consumer prices by 11.5 p.c. within one year, efforts for restraining the inflationary development are required in

order not to worsen the social climate again. Obviously this risk is existing in spite of the automatic adjustment of wages to price increases, which via the "scala mobile" is taking place with a delay of several months.

Endangered Upward Trends

The anticipation of further price rises should have led to earlier purchases during the course of the year. This applies particularly to private consumption and replenishments of stocks. This would suffice for the planned restraining of inflation to reduce domestic demand impulses. Here the problem arises that a policy of price stabilisation, that does not go considerably beyond the repeated announcement of more effective price controls, according to present experiences can hardly be made believable. A less expansive finance and credit policy, however, meets with considerable opposition due to the bad employment situation. In view of the comparatively low capacity utilisation stronger restrictions may impair the necessary rehabilitation of investment activities.

Expansion through Exports

During the further course of the year expansive effects should originate from foreign demand,

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

Index and commodity group	1972		1973				
	July	October	January	April	July	August 8	August 17
HWHA-Index * (1952-1956 = 100)	114.1	121.6	136.2	157.4	183.7	188.2	190.0
Foodstuffs	104.8	118.3	137.0	148.9	178.7	188.3	191.4
Raw materials other than foodstuffs ...	118.5	123.2	135.9	161.6	186.0	188.2	189.4
Fuels	130.5	130.2	137.3	146.2	155.5	155.4	154.7
Raw materials for consumer goods ..	109.4	121.5	143.6	168.7	190.6	197.1	208.8
Raw materials for capital goods	112.8	117.4	129.2	172.3	213.6	215.1	211.1
Reuters Index (18. 9. 1931 = 100)	569.2	656.5	798.5	872.9	1,073.0	1,120.6	1,190.3
Moody's Index (31. 12. 1931 = 100)	420.4	442.0	483.1	507.9	601.1	667.2	682.5

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

although between January and May exports—mainly due to troubles caused by strikes—were but slightly higher than a year ago. Simultaneously the value of imports increased by almost 25 p.c. But in spite of rising costs Italian products enjoyed competitive advantages owing to the fact that the lira devaluation exceeded the domestic price

increases. This tendency might be promoted by relatively short terms of delivery. Impulses on the entrepreneurs' investment activities to be expected from exports should, however, not yet be overestimated in view of the numerous still continuing economic and social risks. On a whole GNP in real terms should grow by about 5 p.c. this year.

edly raising their fixed sales prices. The last price increase up to 220 £/t occurred on July 11. In view of the considerable difference to the free market price the purchasers will probably pay additions to prices. Another raising of the fixed price is not unlikely, although for reasons of market cultivation the producers will probably not be interested in further price increases.

Raw Material Markets

Continuing Rise of Zinc Prices

In the first half of 1973 zinc was at the top of the exorbitant price boom at the London metal exchange. On July 23, the spot quotation with 405.5 £/t reached its highest level in the history of the London metal exchange. The level of July 1972 was surpassed by 173 p.c. It has, however, to be taken into account that the pound sterling had been devalued vis-à-vis the currencies of most consumer countries.

The strong market position of the West European zinc foundries is to be traced back to a gap between production and consumption in the western world during the last two years. For 1973 a deficit in production is to be anticipated, too. In the

USA the considerable decline in production — brought about by harder environment protection rules and increasing demand — promoted the extraordinary expansion of import demand. Added to this, the Administration confined itself to a relatively moderate expansion of zinc stockpile sales. Since a rise of the fixed price after the introduction of the price stop was rejected, the zinc foundries slowed down their deliveries.

In view of this unfavourable supply development a speculative stimulation of purchases in London was only natural. And the impulses originating from monetary policy have to be added, too. The West European producers followed by repeat-

During the next months the situation on the London zinc market will depend on events in the USA. The American Administration intends to increase considerably zinc stockpile sales up to 210,000 sht within the next three quarters. As for the USA a cyclical slowing down of the consumption increase is to be expected, its import requirements will not expand at the same rate anymore as before. Declining American purchases in the rest of the world might induce a reduction of the West European manufacturers' demand, since an easing of the supply situation would alleviate the fear of further price increases, and purchases for provident or speculative reasons will decline.

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

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