

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

## World business trends

Intereconomics

*Suggested Citation:* Hamburg Institute of International Economics (HWWA) (Ed.) (1974) : World business trends, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 09, Iss. 2, pp. 63-64,  
<https://doi.org/10.1007/BF02927460>

This Version is available at:

<https://hdl.handle.net/10419/138976>

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## 1974: Raw Material Prices Coming Under Pressure

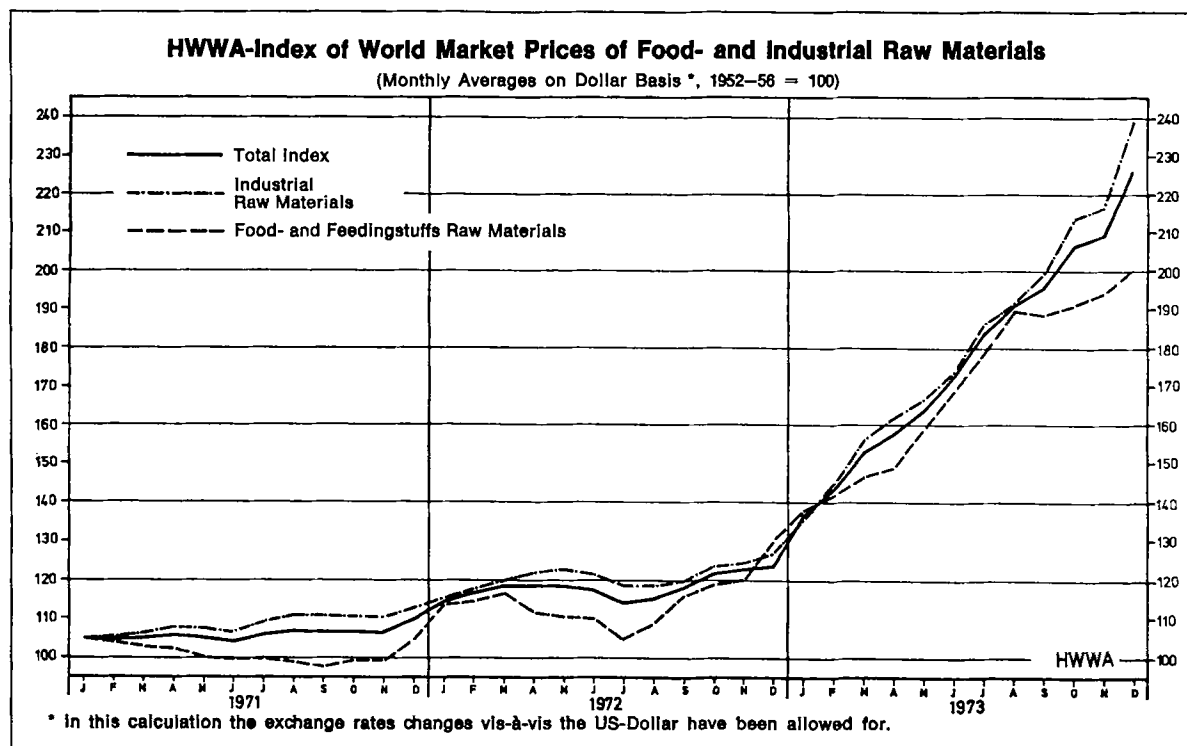
In 1973 the world markets of industrial raw materials registered a price explosion, which in its intensity and extent exceeded even the price-boom during the Korea-crisis of 1950/51. Measured by the Index of The Hamburg Institute for International Economics (HWWA), on dollar basis, the price level of these raw materials climbed by 89 p.c. between December 1972 and December 1973. On the annual average of 1973 it was 51 p.c. above the average of 1972. In the first half of the year the enormous increase of raw material prices was mainly caused by the rapid expansion of industrial production and with that of the western industrial countries demand for raw materials. In most

markets large stockpiling purchases of the processing industries, which tried to anticipate still higher prices, had additional price-enhancing effects. Moreover, the repeated currency disturbances promoted security purchases on the raw material markets. Production increases could not keep in step with this demand expansion and the producers' and traders' raw material stocks were quickly reduced.

### Special Factors Inciting Speculation

The slower increase of industrial production in the USA, in Japan and in several important West European countries during the second half of 1973 did not

lead to the expected decline of the demand for raw materials. Quite the contrary, a number of special factors stimulated speculatively demand time and again, so that an enhancing of the price increases came about even. Among these special factors were extensive purchases by China (natural rubber, cotton, non-ferrous metals), the danger of limited raw material supplies from the USA (cotton) and — more often than ordinarily — production and supply losses through strikes and political troubles (copper, lead, zinc, aluminium). The prospects of a lastingly limited production of synthetic raw materials due to the Arabian countries' oil embargo stimulated again the demand for directly competing natural products (cotton, wool, natural rubber). On the markets of non-ferrous metals the USA's sudden restraint regarding metal sales from its strategical reserves and speculative purchases on the London market for fear of a new decline of the



pound sterling were the main factors behind the boom. Hardly any attention was paid to the probability that the lack of energy would impair the economic development and with that the western industrial nations' demand for raw materials, but the latest downward price corrections seem to indicate a change in opinions.

#### **Damped Demand for Raw Materials in Sight**

In 1974 the development of world market prices of raw materials will be decisively influenced by the progression of the Arabian countries' oil embargo. For, on the one hand, the economic development in the western industrial countries depends on the extent and duration of the oil supply limitations and with that also the demand for raw materials. But, on the other hand, the extent and costs of the production of raw materials will also be influenced considerably. At present it cannot be foreseen when the Arabian countries will stop their oil embargo. But even in case of a continuing derstriction the shortages of mineral oil products, caused mainly by the USA's strongly rising import demand, will be felt noticeably. For, these shortages set in in 1973 even before the supplies were cut down. In any case it has to be anticipated that in 1974 the western countries' growth rates of industrial pro-

duction will slow down much more than could be expected before the oil crisis. The consequence should not only be a more moderate rise of raw material consumption, but also a restraining of speculative purchases.

#### **1974: Progressive Pressure on Prices**

The damping of demand for raw materials will, however, hardly be immediately connected with a rapid and extensive decline of the price level on the raw material markets. During the last two years in many countries supply bottlenecks appeared, which cannot be eliminated that quickly. Besides the higher and still rising prices of mineral oil and its derivatives are raising the costs of production and distribution of raw materials. The production of synthetics on a mineral oil basis will also be impaired and become more expensive. Here again the consumption of competing natural raw materials might profit from this. But the influences on the price development of the individual raw materials cannot yet be accurately defined at present. Taken all in all it can only be said that during 1974 the slowing down of growth in demand will put raw material prices under pressure. Then a pronounced reduction of some prices, which due to the preceding speculation have reached an extraordi-

narily high level, cannot be excluded.

#### **Decline of Food Prices Possible**

In 1973 an exceedingly strong price boom was to be registered on the international markets for foodstuffs, too. The average increase — measured by the HWWA-Subindex for Foodstuffs, on dollar basis, amounted to 52 p.c. between December 1972 and December 1973, after 30 p.c. in the preceding twelve-months-period. On the annual average of 1973 the price level on these markets surpassed the average of 1972 by 49 p.c. This strong price increase for foodstuffs reflects the insufficient expansion of supplies — lasting for several years — as compared with the expansion of demand on a number of markets. The present promotion policy of numerous countries, particularly also of the USA, will lead to a "normalisation" on the foodstuffs markets naturally only gradually. Generally, however, already 1973/74 considerable increases of crops are to be anticipated. Provided that 1974 crops will not be impaired considerably by inclement weather influences, declining food prices have become probable during 1974.

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

**PUBLISHER:** HWWA—Institut für Wirtschaftsforschung—Hamburg (Professor Dr Heinz-Dietrich Ortleb, Dr Dietrich Kerschull) and Stiftung Deutsches Overseas-Institut (Professor Dr Günther Jantzen)

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#### **PRODUCTION AND DISTRIBUTION:**

**Verlag Weltarchiv GmbH, Hamburg**

**Advertisements:** Representative Dr Hans Klemen

**Advertising Price List:** No. 13 of January 1, 1971

**Rates of Subscription:** Single Issue: DM 5.20; Annual rate: DM 60,— (Students: DM 24.—)

**Publication Dates:** monthly

**Printing:** Otto Schwitzke, Hamburg

**Address:** Neuer Jungfernstieg 21, 2 Hamburg 36, Phone: (0 40) 35 62 500

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