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WORLD BUSINESS TRENDS

1974: Shifts in World Trade

In 1973 world trade turnovers in US-\$ (imports and exports, excluding East-bloc states) increased by approx. 35 p.c. This extraordinary growth resulted from the coincidence of steep rises in exchange rate- and price-components as well as in the volume of international trade adjusted for price. In the fourth quarter, however, this inflation of world trade effected by exchange rates has again declined owing to the recovery of the dollar rate. With exchange rates and prices eliminated world trade should have increased by approx. 12 p.c. in 1973.

Strong Shifts in the Terms of Trade ...

Already before the price explosion of mineral oil during the last months there occurred a considerable gap between the nominal growth of world trade, as measured in national currencies, and its increase in real terms. This gap was to be traced back mainly to the continuous boom on the international raw material markets. The majority of the industrialised countries as the main importers of raw

materials were above all affected by this development. During the second half-year their terms of trade developed even more unfavourably than during the first six months. The rise in average export values frequently lagged increasingly behind that of average import values. In both "devaluation countries", Great Britain and Italy, import prices rose most.

... and in Trade Balances

A conformity of the industrialised countries' export and import developments with the theoretically to be expected effects of shifts in foreign exchange rates since mid-1971 could be noticed only partially. Among the "devaluation countries" only the USA was able to obtain an improvement of its trade balance. The USA's import volume – probably because of the considerable increase of import prices and also owing to the first indications of a weakening domestic business trend – rose comparatively weakly, while its exports rose strongly. For 1973 the USA's trade balance registered a surplus of \$ 1.7 bn (imports fob), while in 1972 it had

been adverse with \$ 6.4 bn. In Great Britain and Italy, however, the foreign trade position deteriorated considerably still. Japan, too, had an unfavourable trade balance. After the record surplus in the preceding year Japan's import volume increased by more than 25 p.c. within one year, and, moreover, in spite of the yen-revaluation of spring 1973, the import values rose by approx. 13 p.c.

1974: Weaker World Trade Expansion

The prospects for the development of world trade in 1974 are marked by the uncertainty that as a consequence of the oil crisis superimposes the cyclical events in the industrialised countries. Even on optimistic assumptions it has to be anticipated that economic growth above all in the West European countries and Japan will be noticeably weaker than prognosticated last autumn. The growth rate of world trade adjusted for price might under these conditions decline to the last low level of hardly 6 p.c. reached in 1971. And this on the assumption only that in view of the weak development of demand in real terms, oil supplies will in general be sufficient for the avoidance of bottlenecks in production.

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

Index and commodity group	1973				1974		
	January	April	July	October	January	Feb. 2	Feb. 15
HWHA-Index * (1952-1956 = 100)	136.2	154.4	183.7	206.2	241.3	249.3	254.9
Foodstuffs	137.0	148.9	178.7	190.9	214.0	228.2	243.4
Raw materials other than foodstuffs ...	135.9	161.6	186.0	213.6	254.5	259.4	260.5
Fuels	137.3	146.2	155.5	178.8	272.1	276.6	284.7
Raw materials for consumer goods ..	143.6	168.7	190.6	206.2	212.3	202.1	195.5
Raw materials for capital goods	129.2	172.3	213.6	253.6	265.4	261.0	280.2
Reuter's Index (18. 9. 1931 = 100)	796.5	872.9	1073.0	1188.2	1416.1	1438.5	1429.3
Moody's Index (31. 12. 1931 = 100)	483.1	507.9	601.1	641.2	711.3	728.6	772.3

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

High Surpluses of the Oil Exporters

The nominal expansion of world trade, however, will be larger by far, even if its exaggerated growth conditioned by exchange rates, in comparison with the previous year, will be replaced by a reverse development. For, simultaneously, there will be an immediate increase of average prices in international trade in the magnitude of

15 p.c. caused by the explosion of oil prices alone. Taken by itself this measure taken by the oil producers means higher expenditures of oil importing countries of about \$ 60 bn in 1974, if the volume of supplies remains unchanged. Most of it will be reflected by the oil importing countries' trade balances becoming adverse even if the oil exporters' imports increase strongly.

sible within an international raw material agreement to prevent extraordinary price developments contrary to market forces.

The recurrent increase of tin prices during the last weeks is to be attributed almost exclusively to speculative purchases of a large volume. These purchases are a result of lasting disturbances in the currency situation, on the one side, and the not transparent development in Bolivia, on the other. An abolition of these uncertainties would make it quite probable that the speculation gives up its boom position and then price decreases would follow.

Raw Material Markets

Tin: Price Boom without End?

The exorbitant upward trend of tin prices, which began in the middle of 1972, was interrupted at the beginning of December 1973. The cash price of tin at the London Exchange went down to 2,412 £/t until mid-December after having had its top position on December 5 (3,175 £/t); this was the highest level in the history of the Tin-Exchange. But meanwhile a new vigorous rise could be noticed which may generate top prices again.

Last year began with a limitation of tin supply through export quota restrictions within the International Tin Agreement. With that the Tin Council wanted to prevent supply surpluses. The consequences of these quotas were precautional purchases and the accelerating

price increases. These facts made the American Stockpile Authority start again the selling of tin in the middle of 1973. Nevertheless, extensive stockpiling purchases mainly by the Japanese processing industry brought about shortages and rapidly increasing prices. The International Tin Council found itself confronted with a situation that enforced a total change of its market policy. During the second half of 1973 about 10,000 ts of tin from the Tin Council's stocks were sold; in autumn a cancellation of the export quotas followed. But all these measures could not prevent speculative purchases and the resulting enormous price boom. Once again this demonstrates that it is nearly impos-

The presumptive development of the fundamental market factors seems to indicate a reduction of demand and thereby an end of the price boom. Due to the expected decline of the economic expansion in the western industrial countries a reduction of tin consumption will follow. These considerations will prevail more than at present with market partners within the next months, so that the inclination to buy may be reduced. Simultaneously a more liberal stockpile policy of the USA will probably generate a distinctly increasing supply.

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

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