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WORLD BUSINESS TRENDS

Cyclical Problems in Italy

In Italy the growth of production and probably also of employment again declined during the last months, while the rise in prices accelerated strongly. The oil crisis contributed much to this development, but is not its only cause. The intensified rising price trend was even more a consequence of the economic policy of the preceding period which, while aiming at a promotion of expansion, built up a strong inflation potential. In December cost of living exceeded by 12.5 p.c. the level reached at the end of 1972.

Strong Recovery of Demand

This acceleration of price increases occurred together with a comparatively small drain on resources, although the overall-economic demand recovered vigorously last year. Thus private and public consumption in real terms rose by almost 6.5 to 7 p.c., after in 1972 it only increased by 3.8 p.c. Investments in fixed assets should have expanded almost as strongly (after a stag-

nation in 1972). The recovery of demand led to a vigorous stimulation of domestic production — although with a widely overproportional increase of imports. GNP in real terms rose by more than 5 p.c., industrial production alone by almost 9 p.c., although during the first months of 1973 strikes impaired production.

Wages Rising Vigorously

The acceleration of price increases indicates a growing perforation of the price stop, that formally ended at the end of October, but was practically prolonged. The efforts of the enterprises to recover price rises were accompanied by cost increases. Thus wages continued rising at an extraordinary rate, partly because of high wage agreements, partly due to the securing of real wages through index-linked wages. In November 1973 standard hourly wages exceeded by 26.5 p.c. their previous year's level. Index-linked wages stimulate also internal

cost increases considerably, if and when imported price advances are as strong as in 1973. First they resulted from the boom in international raw material markets and rising import prices in connection with the Lira-devaluation, but recently mainly from the drastic enhancing of mineral oil prices. Since the floating of its exchange rate early last year, till March 1974 the Italian currency was devalued by 15.1 p.c. vis-à-vis the currencies of Italy's most important trade partners.

Rising Foreign Trade Deficit

The major deterioration of the terms of trade considerably increased Italy's balance of payments troubles already last year. The deficit of the Italian trade balance reached an extraordinary level. While last year the value of imports climbed by about 40 p.c. vis-à-vis the previous year, exports rose "only" by about 17 p.c. Since the turn of the year the deterioration of the trade balance due to higher oil prices should have continued more strongly still. Italy is highly dependent on imports of energy resources. Mineral oil is the most important primary energy (74 p.c. of energy supply) and has to be imported almost entirely. Even if measures for saving energy, particularly the ra-

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

Index and commodity group	1973				1974		
	February	May	August	November	February	March 1	March 15
HWWA-Index * (1952-1956 = 100)	142.8	163.7	190.7	208.9	269.8	291.7	291.7
Foodstuffs	141.5	158.9	189.6	193.9	241.5	245.9	247.2
Raw materials other than foodstuffs ...	143.4	166.1	191.2	216.3	283.5	313.8	313.2
Fuels	137.9	153.3	155.0	182.7	340.9	413.7	413.8
Raw materials for consumer goods ..	153.9	171.8	209.1	194.4	198.3	195.4	184.0
Raw materials for capital goods	141.9	175.1	215.6	284.0	283.0	293.6	299.5
Reuter's Index (18. 9. 1931 = 100)	827.1	905.4	1175.1	1217.7	1442.1	1451.6	1415.8
Moody's Index (31. 12. 1931 = 100)	499.9	529.4	678.9	671.8	755.4	758.5	753.1

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

tioning of gasoline, and rising prices of mineral oil products should have curbed oil consumption noticeably, the expenditure of foreign exchange would rise by approx. \$ 4 bn because of higher prices. This alone runs up to nearly 75 p.c. of last year's extraordinarily high import surplus.

1974: Lower Growth Rate

The effects of the oil crisis and the remaining doubts about its continuation will brake cyclical developments. In this situ-

ation economic policy has only small chances to take compensatory measures for promoting expansion, if the development of prices and of the balance of payments is not to get out of control completely. But in 1974 Italy's economic growth at a rate of 3 to 4 p.c. will possibly be stronger than in most of the other European economies even with a very slow production advance during this year — a development due to the statistical carry-over in view of the level reached at the end of 1973.

son 1973/74 — although to a diminished extent. The reduced wool production in Australia (by about 40,000 t) should not be balanced by a higher one in other countries. In consideration of the low stocks at the beginning of this season the total wool-supply in 1973/74 will be 5 p.c. below that of 1972/73. It has to be reckoned with that in the following season 1974/75 wool-supply will increase due to the expansion of the flocks of sheep. On the other hand in 1974 wool consumption will probably decrease furthermore in connexion with the expected slowdown of the economic growth in the Western industrial countries.

Raw Material Markets

Decrease in Wool Prices

During the first months of the present season 1973/74 (beginning on July 1, 1973) prices on the international wool markets decreased steadily. Due to the exorbitant high price level the processors were holding back purchases and intensified the use of synthetics; during the first nine months of 1973 in eight important Western industrial countries the consumption of wool declined by 8 p.c. vis-à-vis the corresponding period in 1972. Since November 1973, however, increasing purchases for stockpiling mainly by Japan generated a new price boom. In connexion with the oil crisis

processors feared a scarcity and price increases in synthetics which might be used as substitutes of wool. It seems as if this fear has diminished a bit during the last weeks. The reduced demand generated a tendency to decreasing wool prices. Presently the Bradford quotations of Merino wool with 260 p/kg were by 35 p.c. below those of March 1973, when the wool price boom reached its top position.

Following latest evaluations the recurrent trend in world wool production, which began in 1968, will continue in the sea-

The question remains how the competitive situation between wool and synthetics will develop in the near future. High price increases in mineral oil indicate that synthetics will remain dear products. In these circumstances the increasing use of mixed fabrics in the wool industry might be hampered and the demand for the natural product wool be promoted. Therefore the decrease in wool prices may be within narrow limits within a foreseeable time.

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

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