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WORLD BUSINESS TRENDS

USA: Bad Growth Prospects for 1974

During the first quarter of the year the cyclical downswing in the USA was accelerating under the influence of the energy supply crisis. Due to the seasonal trend, GNP in real terms even declined by 1.6 p.c. (i.e. by a yearly rate of over 6 p.c.). Among the individual sectors the automotive industry was especially affected. But also in the manufacturing industry altogether the utilisation of capacities has been decreasing more speedily since the beginning of the year. Adjusted for seasonal variation the decline of industrial production (November until March: -2.6 p.c.) did not continue after the Arab oil producing countries had put an end to the oil embargo.

Decline of Private Demand

As to demand, private consumption further decreased during the first quarter due to the strong upward tendency of prices. As a consequence of the energy crisis, capital expenditure on equipment declin-

ed. Private building again suffered from the heaviest decrease. Against this there was a further significant increase in industrial building. The American foreign trade position deteriorated as compared with the preceding quarter. In terms of value, imports showed a much steeper increase than exports. Consequently, the balance of trade surplus diminished rapidly. Increments of foreign trade are for the most part traceable to price increases. Between September and March import prices - primarily because of the heavy increase of crude oil prices - had risen by 33 p.c., export prices by 11 p.c.

Steep Price Increases

The domestic tendency of prices to rise has strengthened until spring. Between January and April wholesale prices increased by a yearly rate of 14 p.c. Costs of living rose by a corresponding rate of 13 p.c.; finally they exceeded those of the preceding year by 1.2 p.c.

The heavy advance in prices of industrial consumer goods was to a great extent caused by the rise of petrol and fuel oil. Stabilisation efforts were restricted to the Federal Reserve System's policy of high interest rates. Before the Administration abandoned its income policy at the end of April, the price controls were gradually removed. The official controls had - at least during the second half of their almost three-years' employment - been nearly ineffectual in restraining the upward movement of prices and had only a one-sided dampening influence on the development of wages. Now wages threaten to give new impulses for price increases. After the end of the controls, workers might raise their demands in order to compensate for their real income losses of the last months. Since, however, prices for mineral oil products, food-stuffs and some industrial raw materials might exercise a dampening influence, prospects for a slight slowing-down of the inflationary process are not bad.

Tendencies towards Economic Recovery

After the calming of the energy crisis there will be a recovery in several economic sectors. Thus during the second

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

Index and commodity group	1973			1974			
	May	August	November	February	May	May 31	June 14
HWVA-Index * (1952-1956 = 100)	163,7	190,7	208,9	269,8	313,1	308,6	303,3
Foodstuffs	158,9	189,6	193,9	241,5	258,1	256,1	253,3
Raw materials other than foodstuffs ...	166,1	191,2	216,3	283,5	339,7	333,8	327,4
Fuels	153,3	155,0	182,7	340,9	469,8	469,4	469,0
Raw materials for consumer goods ..	171,8	209,1	194,4	198,3	180,2	176,9	172,7
Raw materials for capital goods	175,1	215,6	264,0	283,0	317,0	303,9	290,0
Reuter's Index (18. 9. 1931 = 100)	905,4	1175,1	1217,7	1442,1	1349,9	1296,8	1266,7
Moody's Index (31. 12. 1931 = 100)	529,4	678,9	671,8	755,4	712,8	781,7	795,8

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

quarter, a slight increase of production might be noticed, which will counter a bigger reduction of the extensive investment plans. Hence the business enterprises' investment in fixed assets — in spite of the restraining influence of the restrictive monetary policy — may be assumed to be the decisive factor in supporting production and employment. Since government expenditures, in view of the forthcoming congressional elections, will probably keep their expansive course, a stimulating impact on demand and production can be expected, provided

that there are no more recessive influences originating from private consumption. In this field the negative effects of the declining employment on incomes might be opposed to the strengthened increase of wages. For the real outcome it will be of decisive importance whether the tendency of prices to rise will slacken and thus favour the development of consumers' purchasing power. Even such a relatively favourable economic trend will still be connected with rising unemployment. On a yearly average, GNP in real terms will only slightly increase.

viously been nearly ignored. On the other hand, an opposite development was, for example, that of the prices for cotton, wool and rubber, which declined nearly continuously since the turn of the year 1973/74. On these markets the connexion between the development of basic consumption and production relations and the market behaviour has obviously been maintained.

The question is now, whether on markets affected by speculation a change in tendency happened, too. During the last months repeated price reductions could be noticed already. But they were only short-term and technical reactions to the preceding very strong price-increases. In order to take profits the speculators offered raw materials on a larger scale. Following the selling pressure the bulls bought very much and fast, effecting new price rises. This time, however, a changing tendency of speculative dispositions did not happen for several weeks already. This produces the impression that in general the boom on raw material markets has meanwhile passed its highest level.

Raw Material Markets

New Tendency on Raw Material Markets

In May 1974 significant price decreases on world raw material markets could be noticed partially. In London, the fall of the quotation for non-ferrous metals was 20 to 30 p.c.; and in New York sugar and cocoa became considerably cheaper, too. Altogether the price level on world markets for foodstuffs and industrial raw materials decreased by 4 p.c. from the beginning to the end of May according to the HWWA-index on dollar basis. (Compiled by the Hamburg Institute for International Economics).

The large-scale price reductions were concentrated on goods being greatly affected by speculation. Reiterating purchasing waves created "unrestrained" price increases on these markets during the last months. Without doubt the flight into these raw materials was caused by the fear of an increasingly inflationary development and by uneasiness in the foreign exchange markets. The prospect of a cyclically considerably diminished increase of raw material consumption and a stronger expansion of raw material production has ob-

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