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World business trends

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WORLD BUSINESS TRENDS

Trends in World Trade

During the first quarter of 1974 world trade turnover (Eastern bloc countries excluded) calculated in US \$ was by 40 p.c. higher than a year ago. Thus its expansion rate reached once more such an extraordinarily high level as it did already during the second half of the preceding year. This time, however, variations of exchange rates, which had to a great extent inflated the expansion rates in 1973, played only a minor part. On an average, the external value of the dollar vis-à-vis the other currencies during the first three months was — except for roughly 1 p.c. — up to the preceding year's level. Thus the nominal increase of world trade turnover in terms of national currencies was about 40 p.c. higher than a year ago.

Price Increases Accelerated

Price increases in foreign trade were higher than ever since World War II. In several industrialised countries, for which first figures are already available, the weighted rate of increase of export prices amounted, on an average, to 20 p.c. For imports the corresponding rate was over 35 p.c.

Against this, in the raw material producing countries export prices rose by far more than import prices. The data which are available until now indicate that the rate of price increase in world trade has about doubled since the third quarter of 1973. Therefrom it can be concluded that the expansion of world trade in real terms (exports and imports) during the first three months of 1974 did not reach the rate of 9.5 p.c. that had been registered during the last quarter of 1973. The yearly average for 1973 had amounted to roughly 13 p.c.

The different developments of import and export prices reflect the extraordinary increases of prices for mineral oil and — on a reduced scale — for other raw materials. The heavy deterioration of the terms of trade of the industrialised countries as a whole (North America, West Europe and Japan) resulted in a substantial adverse development in their balance of trade vis-à-vis the raw material producing countries. While the aggregated deficit — exports fob, imports cif — had amounted to \$ 20.8 bn for the whole year 1973, it ran to \$ 13.5 bn alone

for the first quarter of 1974. This happened in spite of the fact that obviously the industrial countries' total volume of imports grew significantly slower than that of exports.

Slower Trade Expansion ...

During the last months growth prospects for 1974 have somewhat improved for most of the West European economies. Against this, the forecasts for the USA and Japan had to be revised downwards after the decline in production which, because of the lack of energy, occurred in these countries during the first quarter. With regard to the prospective increase of world trade during the year 1974 the effects of these corrections largely neutralised each other. After the expansion was relatively strong during the first quarter it will — adjusted for seasonal variation — substantially flatten in the further course of the year. On a yearly average the volume of world trade (with variations of prices and exchange rates eliminated) is expected to rise by 5 or 6 p.c.

... and Lower Rate of Price Increase

In contrast to 1973 the exchange rate element might during the whole year 1974 be of far lesser importance for the increment of nominal world trade turnover in dollar terms

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

Index and commodity group	1973			1974			
	June	September	December	March	June	June 28	July 12
HWWA-Index* (1952-1956 = 100)	172.2	195.7	226.5	296.2	304.9	295.9	296.7
Foodstuffs	168.7	188.7	200.9	246.5	251.6	243.0	250.2
Raw materials other than foodstuffs ...	173.8	199.2	238.9	320.2	330.6	325.9	322.1
Fuels	154.2	155.0	220.2	426.9	469.4	469.2	469.2
Raw materials for consumer goods ..	178.9	222.2	213.9	188.3	178.1	178.0	170.1
Raw materials for capital goods	190.1	227.9	274.6	302.4	294.4	282.1	277.3
Reuter's Index (18. 9. 1931 = 100)	975.0	1,193.5	1,355.1	1,422.1	1,277.1	1,245.4	1,222.1
Moody's Index (31. 12. 1931 = 100)	559.5	646.6	685.5	745.7	807.3	822.5	814.6

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

than the share resulting from price increases. But these will also slacken vis-à-vis the first quarter. Mineral oil prices will — if at all — be raised by a far smaller rate; the other raw materials will, taken altogether, rather become cheaper. Finally, the measures of counter-cyclical policy that have recently been adopted by the industria-

lised countries, mostly aim at a slowing down of the upward movement of prices. All the more it is to be expected that, in connection with a decreasing utilisation of productive capacities and a growing international competition, there will be a slackening of the tendency of prices to rise also in foreign trade.

with 2.13 mn t exceeded the result of the first quarter of 1973 by 3 p.c. (Chile alone + 23 p.c.); meanwhile consumption reduced by 1 p.c. to 2.15 mn t within the same space of time. If the improvements in the supply situation will not be interrupted by losses of production because of strikes in the American copper industry, a further decrease of copper prices during the second half of 1974 is not impossible any more.

Raw Material Markets

Copper: Enormous Price Decrease

In April 1974 the copper price boom reached its top position. Quotations in London went up to 1,400 £/t compared with 430 £/t in December 1972, when the steep upward trend began. Meanwhile the copper prices declined to 795 £/t. This price decrease indicates that the copper price had been forced up by speculative purchases and not by the fundamental market factors; for an essential boom factor, that is the permanent danger of strike in connection with the current collective bargaining process in the American copper industry, has in no way diminished. But is it likely that the copper processing industries stocked up already earlier for precautionary reasons. Substantially increased copper imports of the United States during the first months of 1974, for example, may indicate this fact.

According to the World Bureau of Metal Statistics, in 1973 it came to a production deficit in the Western world which has been evened up by deliveries from Eastern countries and drastic reduction of stocks at the copper exchanges. Stocks of copper at the London Exchange, for example, diminished from the end of 1972 to the end of 1973 by 150,000 to 35,000 t. On the assumption that there will be no or only a very short strike in the American copper industry, the deficit in the copper position of the Western world will at least be neutralised. Steep production increases, mainly in Chile, a cyclically very much diminished increase in consumption will provide for this neutralisation. Corresponding to the preliminary statistics, world copper production in the first quarter of 1974

On their fifth meeting in June in Lusaka the four CIPEC-states Chile, Peru, Zambia and Zaire decided to have a common price policy. But a definitive programme for a control of copper prices has not been established. There have been talks about the introduction of a minimum exporting price which would have to be maintained by supporting purchases and production limitations. It seems, however, as if the partners recognised that in such cases the CIPEC-countries might lose market shares to other copper producers. Therefore, CIPEC-states may at first try intensively to find new members among the other copper producing countries in the world.

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

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