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World business trends

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WORLD BUSINESS TRENDS

Worldwide Continuing Inflation

The worldwide extraordinary strong upward tendency of prices has continued until the summer. The marked exacerbation of the inflationary problem within one year's time is shown by the fact that in the western industrialised countries the inflation rate of private cost of living (compared to the preceding year) was, on an average, in July 1974 with over 13 p.c. almost twice as high as in July 1973. With 25 p.c., the highest inflation rate was still registered in Japan. In Western Europe, Italy was the "No. 1" with 19 p.c. Inflation rates of under 10 p.c. could, recently, only be noticed in the Federal Republic of Germany, Norway, Sweden, and the Netherlands. The slight deceleration of price rises which could be observed in numerous economies this summer, is above all due to a (not only seasonally caused) slackening of the upward movement of prices for foodstuffs as a result of a substantial expansion of supplies. Currently the increases of prices for consumer goods contribute in an extraordinary degree to the high inflation rates. The decisive determinant might have

been the cumulative cost increase in the industrial sector which results from higher raw material prices, substantial wage increases, higher interest service (as a consequence of risen interest rates) as well as from the increase of unit costs conditional on a shrinking utilisation of capacities.

Return to Conventional Stabilisation Policies ...

If leaving rents out of account, it seems as if during the last months a certain "reasonable view" of the vast inefficiency of direct government controls for a lasting return to lower price increases has gained ground in a growing number of countries. This is indicated by the recent partial removal of price restrictions in Japan and Italy as well as by the abstention from a prolongation of controls in spite of still high inflation rates in the US and Great Britain. Since last spring no additional direct interferences with the development of prices occurred in any of the western industrialised countries. The emphasis of the fight against inflation has been shifted to a dampening of the ex-

pansion of demand which, in several cases, was complemented by a policy of "moral suasion". Vis-à-vis direct government interference this instrument has the advantage of being in conformity with the system; however, according to the experience gained hitherto, its efficiency seems to be very limited. Finally, in June, France and Italy also moved into conventional stabilisation policies.

... but No Change in the Trend

A deceleration of price increases already during the coming months, however, will be opposed by a number of factors. In several countries pent-up price increases might be made up for. As to costs, the price reductions for many raw materials have an easing effect. At the same time, however, though the employment situation has already deteriorated, a slackening of the upward movement of wages could hardly be observed anywhere; in some instances the wage increases even accelerated. In some economies, above all Great Britain and Italy, a short-term change in the tendency is additionally opposed by the introduction or existence of index-linked wages. The heavy increases of wholesale prices — compared with the preceding year they substantially surpassed the rise of

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

Index and commodity group	1973		1974				
	August	November	February	May	August	Sept. 9	Sept. 20
HWVA-Index * (1952-1956 = 100)	190.7	208.9	269.8	313.1	306.2	302.5	303.8
Foodstuffs	189.6	193.9	241.5	258.1	280.6	279.9	290.3
Raw materials other than foodstuffs ...	191.2	216.3	283.5	339.7	318.5	313.4	310.3
Fuels	155.0	182.7	340.9	469.8	468.6	467.6	467.6
Raw materials for consumer goods ..	209.1	194.4	198.3	180.2	164.4	163.2	158.1
Raw materials for capital goods	215.6	264.0	283.0	317.0	272.2	260.2	255.4
Reuter's Index (18. 9. 1931 = 100)	1,175.1	1,217.7	1,442.1	1,349.9	1,268.6	1,245.3	1,224.7
Moody's Index (31. 12. 1931 = 100)	678.9	671.8	755.4	712.8	848.9	836.2	817.2

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

consumer prices in all countries — point to a lasting "need to raise retail prices". The tendency of prices to rise is, in the short run, also accelerated by a stabilisation policy which — like in Italy — aims at an absorption of buying power through raising indirect taxes. Because of all these factors a lasting decline in inflation rates might be

long in coming. Nevertheless, many governments could fear a too strong decline in employment and therefore — so far as their balance-of-payments position permits — take stimulating measures too early. This would probably destroy all chances of a return to substantially lower inflation rates in the course of a new business cycle.

price increases of mineral oil, prices of nylon and other synthetic yarns increased by up to 45 p.c. during the first half of 1974. Already now the decline of wool prices therefore reduced the price differences between wool and synthetics considerably.

But even if wool consumption as a whole will decline more slowly than up to now — due to the re-increasing use of wool in textile manufacture — the pressure on prices will most likely last during the season 1974/75. The price boom produced a stocking up of flocks of sheep in nearly every producer country. As a result, for example Australia alone expects an increase in wool production by 10 p.c. This growing production might impede a success of the wool exporting countries' efforts to prevent a further price decrease. In 1973/74 about 200,000 bales of wool have already been taken out of the market by the Australian Wool Commission to stabilize the price; and at the first auctions of the season 1974/75, this Commission bought up almost 60 p.c. of the total wool supply.

Raw Material Markets

Surplus in Wool Supply

The downward trend of world-market prices for wool has continued during the last months. The present Bradford quotations for Merino wool are by 45 p.c. and for Crossbred wool by 37 p.c. below the highest level (March 1973). Background of this remarkable price decrease is the diminishing wool consumption, amounting to 14 p.c. in nine Western industrialised countries; and presumably this trend will continue in 1974. During the first quarter of 1974 anyhow — adjusted for seasonal variation — again a diminishing wool consumption by 5 p.c. compared with the last quarter of 1973 could be noticed in the most important processor countries. The worldwide stagnation in the textile industry and the prospects of a re-increasing wool

production in 1974/75 caused a reserved stock-keeping policy by the processing industries.

The slower increase of the demand for ready-made textiles is only partly the reason for the strong decline in wool consumption. It is rather the boom of wool prices that promoted the substitution of synthetics for wool. According to statistical data of the Commonwealth Secretariat the share of wool in the total input of textile fibres in the wool industries of seven important countries decreased on average from 45.4 p.c. to 30.4 p.c. from the beginning of 1972 to the beginning of 1974. Since the turn of the year 1973/74 an improvement of the competitiveness of wool vis-à-vis synthetics is in sight again. Mainly as a consequence of the strong

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