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## World business trends

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# WORLD BUSINESS TRENDS

of about 2.5 p.c. grow as slightly as in 1974.

## The Situation of the World Economy

The cyclical levelling off in western industrialised countries continued during the second and third quarters of this year. The high inflation rates remained almost unchanged. Simultaneously the balance-of-payments problems intensified, particularly as a result of rising mineral oil prices; the risks to employment increased. Governments and central banks had to face a conflict of targets intensifying in a hitherto unknown degree. These are the results arrived at by the Association of German Economic Research Institutes in its recent report.

### Declining Utilisation of Capacities also in Western Europe

In Western Europe the cyclical downturn continued during the summer months. Industrial production hardly increased at all, the utilisation of material capacities declined and the labour market situation worsened in a growing number of economies. The expansion of investment

continued weakening as a result of restrictive economic policies. The deficit of the aggregated trade balance was exceptionally high. Inflation was alarming everywhere although price increase rates differed widely from country to country. Therefore those concerned with economic policy made efforts, mainly with monetary measures, to curb the upward trend of prices. In view of the extraordinarily high inflation rates and balance-of-payments deficits several governments will probably feel compelled to maintain the restrictive course longer than in former contractive phases. A gradual relaxation will at first probably emerge more in financial than in monetary policies. In a number of European countries tax reductions — already decided on or planned — justify the anticipation of a faster increase in private consumption already in the first half of 1975. Altogether the national product in real terms in 1975 will on an annual average

### Stagflation in the US

The US economy experienced a stagflation phase in the second and third quarters of the year. In the further course of the year demand will also not be stimulated. Apart from financial policy measures the monetary instruments were employed, too. Since during the next months unemployment will rise more quickly, a relaxation of monetary restrictions will probably be undertaken sooner or later. A slight revival of overall economic activities is to be expected.

### Securing Employment Impeded ...

In the western world a stimulation of demand and production during the next year can only be anticipated in case of a reorientation of economic policies. In some countries indications of a relaxation of restrictions can already be noticed — others will probably follow. Generally a worldwide recession is not to be expected, although only on the assumption that serious balance-of-payments problems will not lead to an escalation of protectionist measures. Under these condi-

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

Index and commodity group	1973		1974				
	Sept.	Dec.	March	June	Sept.	Sept. 20	Oct. 3
HWWA-Index * (1952-1956 = 100) .....	195.7	226.5	296.2	304.9	302.8	303.8	304.9
Foodstuffs .....	188.7	200.9	246.5	251.6	285.0	290.3	293.5
Raw materials other than foodstuffs ...	199.2	238.9	320.2	330.6	311.5	310.3	310.3
Fuels .....	155.0	220.2	426.9	469.4	467.6	467.6	467.7
Raw materials for consumer goods ..	222.2	213.9	188.3	178.1	159.8	158.1	161.7
Raw materials for capital goods .....	227.9	274.6	302.4	294.4	257.4	255.4	253.0
Reuter's Index (18. 9. 1931 = 100) .....	1,193.5	1,355.1	1,422.1	1,277.1	1,237.3	1,224.7	1,252.1
Moody's Index (31. 12. 1931 = 100) .....	646.6	665.5	745.7	807.3	825.2	817.2	865.8

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

tions the growth rate of the western countries' national product will amount to about 2.5 p.c. after 0.5 p.c. this year.

**... by Balance-of-Payments and Inflation Problems**

The balance-of-payments disequilibria have become the central problem of the world economy. Joint efforts of the surplus and deficit countries are required to straighten them out. In order to cover the financial requirements of oil consuming countries, which will exist in the foreseeable future, a return flow of the funds flowing to the surplus countries must be pro-

vided for in due time and under consideration of the regional distribution of deficits. In the longer term, however, a real transfer from the oil consuming countries will be unavoidable. Therefore support actions for individual deficit countries should be linked with conditions, which will remove imbalances under medium-term aspects. Here a policy for the securing of employment is obviously connected with particularly great risks. But other industrialised countries, if they abandon an economic policy course of restriction during the next year, must also not neglect the target of stabilisation.

raw materials will stay on a low level. Encouraged by the expectation of higher prices the stockpiling-policy of the raw material processors will be a reserved one. The supply with raw materials might increase more slowly than up to now because producers will tend to adjust the production of raw materials to the decreasing demand. Prices of industrial raw materials will presumably slow down even until the first months of the next year. The improvement of the cyclical trend during 1975 will promote a gradually increasing demand for raw materials, so that the pressure on prices will diminish.

## **Raw Material Markets**

### **Continuing Decline of Raw Material Prices**

The exorbitant price boom of the last two years on the world markets for industrial raw materials ended in May 1974. The prices of most of the goods have dropped noticeably during the last months. Raw material consumption has registered — due to the continuing stagnation of the industrial production in the western countries — no further growth, while, on the other

hand, raw material production increased, influenced by the still high prices. One reason for the changing tendency on raw material markets is the normalizing of the crude oil supply and the non-appearance of other products' supply restrictions.

Considering the continuing cyclical downward trend in the western world the demand for

After a short decline in the middle of this year, prices of foodstuffs have again strongly increased on average during the last months. Behind this trend are growing doubts about an improvement of the supply situation in the new harvest-year in most of the markets. As long as reliable estimates of the new harvest are not available, wide fluctuations of the world market prices are to be expected in view of the very much reduced stores of food.

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

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