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WORLD BUSINESS TRENDS

1975: World Trade Still Slightly Growing

The development of world trade during 1974 reflected the worldwide inflation even more distinctly than the national demand and income flows. The foreign trade turnovers of all countries (excluding the East-bloc states) in terms of US dollar should have increased by 45 p.c. as compared with 1973. The oil price explosion was particularly important in this context, but also the prices of semi-finished and finished goods advanced considerably. Adjusted for price and exchange rates the expansion of world trade is to be estimated at approx. 7 p.c. In view of the industrial nations' stagnating GNPs this is a remarkably strong increase even. On the one hand, this growth rate is to be traced back to the fact that in the West European economies, whose share in world trade amounts to about 50 p.c., total production still increased. On the other hand, the imports of the oil exporting countries, of the other developing countries — which to begin with still profited from the raw

material boom — and probably also of the East-bloc states expanded strongly.

High Deficits of the Industrial Nations

In particular the oil price explosion led to a drastic shifting in price relations in the international exchange of goods. The average values in the developed countries' foreign trade, i.e. mainly the industrial nations', in their entirety for imports should have risen by approx. 45 p.c. and for exports by 25 p.c. in 1974. This discrepancy emerged above all at the beginning of the past year. In their current development, after the middle of the year, price relations seem to have not continued deteriorating anymore from the industrial countries' point of view, but improved again slightly. In 1974 the combined trade balance of the industrial nations registered a deficit, that with US \$ 65 to 70 bn (export fob, import cif) was more than threefold the one

of the past year. This was a consequence of the wide gap between import and export prices. The developing countries depending on oil imports had also to suffer a considerable increase in their import surpluses. The contra assets are the oil exporting states' exorbitant surpluses.

Prospects: Only Slow Expansion of World Trade

In the industrial nations the generally anticipated small production increase — after the stagnation in the preceding year — indicates that in 1975 imports will expand slightly more, mainly in the later course of the year. This is valid under the assumption of a progressing reorientation of economic policy towards expansion and of an avoidance of external liquidity crises in important countries. The hereby assumed success of the recycling of "oil dollars" is of no less importance for import developments, also in the non-industrial countries. Above all the oil-importing developing countries would very soon drastically reduce their imports of other products if a recourse to emergency credits were impossible. But also under favourable circumstances it is not to be assumed that they are able to continue raising their imports

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

Index and commodity group	1973	1974				1975	
	Dec.	March	June	Sept.	Dec.	Jan. 1	Jan. 17
HWWA-Index * (1952-1956 = 100)	226.5	296.2	304.9	302.8	308.9	309.4	299.3
Foodstuffs	200.9	246.5	251.6	285.0	321.5	324.7	295.6
Raw materials other than foodstuffs ...	238.9	320.2	330.6	311.5	302.8	302.1	301.1
Fuels	220.2	426.9	469.4	467.6	476.8	477.3	477.5
Raw materials for consumer goods ..	213.9	188.3	178.1	159.8	147.9	145.5	147.3
Raw materials for capital goods	274.6	302.4	294.4	257.4	233.0	232.1	227.9
Reuters Index (18. 9. 1931 = 100)	1355.1	1422.1	1277.1	1237.3	1193.8	1272.0	1135.5
Moody's Index (31. 12. 1931 = 100)	685.5	745.7	807.3	825.9	830.5	815.5	771.5

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

even approximately as strongly as in 1974 — all the more since their export proceeds should be impaired by declining raw material prices. As against this the oil exporting countries will further increase their imports vigorously.

Protectionism as a Danger

Altogether, in 1975, the expansion of world trade should again be smaller than in the past year. An increase by 4 p.c. adjusted

for price appears not to be unrealistic under the conditions outlined above. The most important prerequisite in this context is certainly a successful curbing of the rising inclination for protectionist measures. If this were not possible the danger of trade restricting chain reactions would become urgent, which would slow down lastingly not only the expansion of world trade but also a cyclical expansion in industrial countries.

Already several months ago the danger of a still progressing price collapse had caused Chile to start negotiations on the stabilisation of the copper price with the other CIPEC-countries (Peru, Zambia, Zaire). In the middle of November 1974 this group of producers prescribed a reduction of copper exports by 10 p.c. Besides, Japan, probably at the instigation of the CIPEC-countries, had banned completely copper exports even before the announcement of this export limitation. So far the support measures could not stop the price deterioration on the world markets. Obviously the copper consumers expect that the reduction of the enormous supply surplus will take a longer time-span. Moreover, there are doubts that the CIPEC-countries and Japanese producers will stick to this sales policy.

The present support measures would have greater chances of success if the copper producers in other countries would also decide on a reduction of the production and export of copper. The probability that this will happen is growing together with a further dropping of the copper price.

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

Raw Material Markets

Slump In the Copper Markets

In the international copper markets prices declined again at the turn of the year 1974/75 owing to abundant supplies and a reluctant inclination to buy. The present London quotation is slightly above 500 £/t as compared with 1,400 £/t at the peak reached during the last boom early in April 1974. In view of the considerable supply surplus a further downward trend of the copper price cannot be excluded anymore during the next months. But the production and export cuts introduced by the copper producers should prevent a dropping of the price to the last bottom of 430 £/t reached before the beginning of the price boom in December 1972.

The slump on the copper market reflects the great change

in the market situation in favour of the consumers. In 1973 a production deficit of 150,000 t emerged in the Western world. As against that for 1974 a surplus of more than 200,000 t is anticipated due to increased production and reduced consumption. At the London Metal Exchange alone copper stocks increased from 10,000 t to 130,000 t within a few months. Moreover, the Japanese copper-works for instance dispose of considerable stocks that can be offered on the world market any time. Since in 1975 an increase in copper consumption can hardly be expected, a supply surplus of about 500,000 t would emerge without a throttling of production.

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