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Great Britain: Inflationary Downswing

During the past months the cyclical downward tendencies in the British economy became more obvious. True, during the third quarter of 1974 total production (adjusted for seasonal variation) still increased by 1 p.c. as compared with the preceding quarter. Industrial output, however, has been declining already since late summer, between August and November by almost 2 p.c. The labour market was not affected before the end of the year; adjusted for seasonal variation, the unemployment ratio which between August and November constantly amounted to 2.7 p.c., reached the 3.0 p.c. mark by January.

Decline in Investment

The cyclical expansion of private consumption was decelerating during the last quarter of 1974. With price and seasonal variations eliminated, it still increased by 1 p.c. (third quarter: 1.6 p.c.). It is likely that the accelerated upward movement of prices has significantly restrained the expansion of disposable incomes in real terms. The downward trend of investments in fixed assets, starting in the

second quarter of 1974, might have continued in view of the unfavourable development of profits, lasting liquidity bottlenecks, and gloomy sales prospects, in spite of the fiscal relief that had been granted in November.

No further Growth of the Foreign Trade Deficit

The British foreign trade situation has slightly improved during the second half of 1974. In contrast with the first six months exports in terms of value grew significantly faster than imports. This reflected an improvement of the terms of trade: between June and December export prices rose by 9.5 p.c., import prices by 5.3 p.c. A substantial part of the non-oil import surplus could be removed. If allowing for trade in crude oil and oil products the deficit increased from £ 2.4 bn in 1973 to £ 5.2 bn in 1974.

In spite of the continuing decline in economic activity the tendency for prices to rise has strengthened again since last autumn. After the value-added tax had been reduced and

higher subsidies had been granted to consumers, living costs were growing at a lower rate during the summer months. From September until December, however, they underwent a 5.3 p.c. increase and finally were by 19.1 p.c. higher than a year ago. At the same time standard wage rates surmounted those of December 1973 even by 28 p.c. Between September and December they rose by almost 7 p.c. For the time being a deceleration of the upward movement of prices can hardly be expected, the more so since higher prices are increasingly anticipated in bargaining.

It is primarily the rise in production costs, caused by the movement of wages, which will further support the upward tendency of prices. Export prices may be expected to rise as a consequence of domestic inflation. In view of the worldwide cyclical downturn the export volume, which has been declining since last autumn, will hardly rise in the near future. Nevertheless a slight reduction of the balance of trade deficit might occur due to the prospective decline of the import volume. However, the financing of the high foreign trade deficits remains problematic.

Even on the assumption that wages will further rise steeply, private consumption will — in

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

Index and commodity group	1974				1975		
	Jan.	April	July	Oct.	Jan.	Jan. 31	Feb. 14
HWHA-Index * (1952-1956 = 100)	241.3	312.1	301.3	307.5	300.6	296.8	293.7
Foodstuffs	214.0	250.1	255.2	312.2	297.3	286.2	286.0
Raw materials other than foodstuffs ...	254.5	342.0	323.5	305.2	302.1	301.9	297.4
Fuels	272.1	468.1	469.2	468.0	477.8	478.3	474.4
Raw materials for consumer goods ..	212.3	193.8	175.2	153.7	148.0	148.9	149.7
Raw materials for capital goods	265.4	315.7	277.6	244.4	230.1	228.3	219.6
Reuters Index (18. 9. 1931 = 100)	1,416.1	1,375.4	1,246.2	1,242.2	1,131.9	1,096.3	1,106.9
Moody's Index (31. 12. 1931 = 100)	711.3	723.2	842.4	866.8	783.5	769.1	791.3 ¹

* Index compiled by the Hamburg Institute for International Economics. On dollar-basis. ¹ Feb. 13, 1975.

view of the accelerated inflation — only slightly increase, the more so since the deterioration of the employment situation might induce consumers to more cautious dispositions. The investment promotion measures taken by the Government in November, will hardly cause a short-term change in the trend of private fixed investments. Against that a stimulation of

public investment activity may be anticipated. In the aggregate, GNP in real terms will probably only slightly increase (1974: — 0.5 p.c.) and even this slight increase has, in the main, to be regarded as a mere statistical reflection of the production shortfalls which had been caused by strikes a year ago. Under these conditions there will be a further decline in employment.

the Australian Wool Corporation, for example, for some time took up to 60 p.c. of the offered wool out of the market. Stocks of wool (clean) of the Wool Corporation have meanwhile grown to about 70,000 t; this means almost 10 p.c. of the expected Australian wool production. For more supporting actions the Australian Government raised the funds of the Wool Corporation from \$-A 150 mn to 350 mn.

Raw Material Markets

Continuing Pressure on Wool Prices

The cyclical downswing on the international wool markets is continuing. In November/December 1974 increasing purchases by European and Japanese traders on Australian auctions created the impression of a positive change of the price tendency. But already on the first auctions in 1975 the Australian Wool Corporation had to purchase large quantities in order to avoid drastic price decreases. At Bradford the quotations for Merinowool are at present by about 30 p.c. lower than a year ago; the average price level of 1971 — when we had a cyclical depression, too — is surpassed by about 100 p.c., however.

The continuous decline in wool prices since April 1973 is mainly the result of a strong downward trend of wool consumption which in 1974 in nine

western industrial countries amounted to 20 to 25 p.c. (14 p.c. in 1973). The worldwide stagnation of the textile industry induced the processors to reduce their stocks of wool. The consequence was that e.g. the Japanese wool industry made no purchases at all at the Australian wool auctions for a long time. The processors' tendency to a restraint in demand was intensified by a likely increase of wool production during the season 1974/75 by 4 p.c. to 1.48 mn t. Including the unsold carry-over of the preceding season, for 1974/75 a wool supply increasing by 10 p.c. is to be anticipated even.

The price decline — brought about by the surplus situation on wool markets — was a challenge for the producer countries to increase supporting measures. At the auction places

For the next months a lasting stimulation of demand, which might produce a changing tendency on the wool markets, is not in sight. Rather it cannot be excluded any more that the consumption of textile fibres will diminish for some more time in the Western industrial countries. On the other hand, processors will not reduce their — already very reduced — stocks of wool furthermore, so that the decrease in demand for wool will slow down gradually. If a cyclical upswing should come about during the second half of 1975, wool consumption will also increase. But the then possible price increase will be within narrow limits, because the producing countries will try under cost aspects to reduce their large stocks of wool.

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