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WORLD BUSINESS TRENDS

Sharp Recession in the USA

The decline in US production that began in early 1974 has been heavily accelerating since last autumn. Adjusted for seasonal variation, GNP decreased by 2.4 p.c. between the third and the fourth quarter. For some months the magnitude of the recession has been reflected particularly clearly by the 9 p.c. fall of industrial output between October and January (seasonally adjusted). Meanwhile the labour market situation was deteriorating drastically. With seasonal variation eliminated, the number of employed persons declined by 2 million, raising the unemployment ratio from 6.0 p.c. to 8.2 p.c. of the total labour force.

Broad Decline in Demand

Growth of disposable incomes has heavily decelerated. The decline in employment as well as uncertainty about the future cyclical trend induced such a significant rise in private household's saving, that consumption expenditures, adjusted for seasonal variation, showed a slight decline in the last quarter. Purchases of utility goods, above

all of motorcars, were substantially reduced. As compared with 1973, a 2.2 p.c. decrease (adjusted for price) was registered in 1974. Private investment in fixed assets even shrunk by 7.2 p.c. The most distinct decline occurred in private house-building, though finally there was also a reduction of capital expenditure on equipment in nominal as well as in real terms. The expansion of public expenditures on goods and services strengthened somewhat. Adjusted for price, however, they were stagnating as before.

Weakening of Inflation

The upward movement of domestic prices was decelerating towards the end of the year. From October until January wholesale prices showed only slight increases — partly as a consequence of the strengthening cyclical downturn —, but finally they were still by 17.2 p.c. higher than a year ago. The increase of private costs of living did not slow down quite as distinctly. In January they were still by 11.7 p.c. higher than in early 1974. The rise of wages which in

the course of the past year had been an important factor in cost increases, was slightly diminishing during the last months.

Change in the Trend Not Before the End of 1975

The sharp decline in production since last autumn shows that the contractive forces in this downswing are substantially stronger than originally expected. In view of the uncertainty about form, extent, and date of stimulating measures of economic policy, it is still difficult to forecast the cyclical development. There are signs, however, that the fiscal measures which are under discussion at present, will primarily aim at a substantial tax relief of private households in order to stimulate consumption. As against that, a further derestriction of monetary policies will be of greater relevance to investment activity. Efforts for stimulation will, however, be restricted by inhibitions to the switch to expansive policies resulting from the expected extraordinarily high budget deficit and the still remarkable speed of inflation. Thus it may be anticipated that the restraining effects which are obviously originating from the increase in the propensity to save, the decline in stockpiling, and a more cautious investment behaviour, will remain effective for a while.

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

Index and commodity group	1974				1975		
	February	May	August	November	February	February 28	March 14
HWWA-Index * (1952-1956 = 100)	269.8	313.1	306.2	321.9	290.9	285.6	283.9
Foodstuffs	241.5	258.1	280.6	365.4	277.4	256.3	257.1
Raw materials other than foodstuffs ...	283.5	339.7	318.5	300.9	297.4	299.7	296.9
Fuels	340.9	469.8	468.6	468.4	474.3	474.8	474.4
Raw materials for consumer goods ..	198.3	180.2	164.4	146.5	150.1	152.3	155.4
Raw materials for capital goods	283.0	317.0	272.2	237.1	219.4	223.7	214.4
Reuters Index (18. 9. 1931 = 100)	1,442.1	1,349.9	1,268.6	1,239.2	1,093.3	1,070.8	1,083.3
Moody's Index (31. 12. 1931 = 100)	755.4	712.8	848.9	886.5	771.9	746.5	748.4

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

In these conditions GNP in real terms cannot be expected to rise before the last months of the year. After a 2.2 p.c. decline in the preceding year, GNP is therefore likely to decrease further by about 4 p.c. in spite of the measures that have been taken in order to stimulate business activity. Half of this decline will be traceable to the low initial position (negative re-

sidue) at the beginning of the year. Unemployment will probably grow during the whole year. On these assumptions the slackening tendencies in the development of wages and prices may be expected to continue. But even if inflation lost half of its speed in the course of the year, private living expenses would still rise by an annual average of some 8 or 9 p.c.

quently, lead consumption in the western world will in 1975 again be below that of 1974. Furthermore lead processors are likely to give up their reservation in stockholding-policy only when an economic recovery in the industrial countries is indicated more clearly.

In view of the unfavourable development of demand within the near future, lead producers will not trust on stabilizing prices only by supporting purchases. Rather they will probably further reduce their production. The question remains, what the sales policy of the American Stockpile Authority in this year will be. In 1973 and 1974 it sold 192,000 t and 249,000 t of lead. Further 70,000 t are still at the disposal of current consumption. But the American Government might ask Congress for approval of a new sales programme, for the reserves which are thought to be not necessary any more account still to 500,000 t. Even if the USA will not practise such a liberal stockpile-sales policy like during the last two years, the weak basic tendencies on the lead markets will last till late this year.

Raw Material Markets

Stabilization on Lead Markets

During the last months no considerable price fluctuations could be noticed on the world lead markets. The cash price quotation at London Metal Exchange stabilized at nearly 230 £/t due to systematic supporting actions by the lead producers. On the peak of the last boom quotations had reached 317 £/t (at the beginning of May 1974); in 1971, a year of depression, the quotations had dropped to 85 £/t.

Estimates by the International Lead and Zinc Study Group indicate a fall of lead consumption during 1974 by 100,000 t. The main impulses came from worldwide slackness of the automobile industry. Although lead production was reduced slightly, already in 1974 a surplus situation in lead supply was created when taking into account the

very much increased sales out of the strategic reserves of the USA. A characteristic sign of the low demand of the processors and the slow-down of speculation is the heavy decline of lead transactions at the London Metal Exchange. In the USA, the stockpile authority still sold small quantities of lead out of their stocks.

An essential change in the "fundamental" situation on the lead markets is not in sight. The latest prognoses are expecting an improvement of the cyclical situation in the western industrial countries as a whole only late in this year. Above all, the automobile industry — which belongs to the main consumers of lead — cannot anticipate a re-increase of production under these circumstances. Conse-

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