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World Trade in a Cyclical Downswing

The development of world trade during the last year was characterized by inflation and a downward tendency of economic activity in the industrialized countries. The increase of the foreign trade turnovers of all countries (excluding the East-bloc states), in terms of US-dollar, by 47 p.c. was only based on a quantitative growth of approximately 4 or 5 p.c. (1973: 14 p.c.) which again resulted primarily from the cyclical expansion until spring 1974. Already in the summer half-year world trade turnover – adjusted for seasonal variation – was only slightly expanding and in the last quarter of the year it showed a substantial decline; evidently it hardly surpassed the previous year's level. The structure of world trade which in the past years had proved itself remarkably stable, was shattered in 1974. The change originated from the oil exporting countries whose share in world exports, as a consequence of the oil price explosion, had more than doubled from 8 p.c. in 1973 to 17 p.c. This increase occurred to the debit of all other groups of countries, particularly the industrialized countries. Their world export ratio declined from 76 p.c. to 69 p.c.

With reference to the rating of the factors determining the development of world trade in the current year, there have been some shifts during the last months. The development of the deficit countries' balances of payments tends to improve; thus the trade political elements of uncertainty do not seem that important any more. As against this, the cyclical framework has substantially deteriorated: the worldwide aggravation of the downswing in last autumn affected world trade, too, and significantly forced down its initial level at the beginning of this year. A forecast of the further development is also complicated by the fact that, with such a distinct decline in the utilization of productive capacity, the connections between changes of overall demand and production, on the one hand, and variations of import demand, on the other, – which are not very strict anyhow – become even more loose.

As a consequence of the worldwide recession of 1958 world trade had declined by about 1 p.c. while the industrial nations' GNP had still risen by about 1 p.c. in real terms. In view of the indications of a slight decline in their aggregated GNP, an even heavier contraction of world trade turnover could be expected by simple analogy. With reference to the imports only of the industrialized countries such a tendency would in fact seem plausible if allowing for the available data. Moreover, in view of the decrease of proceeds from commodity exports and the heavy expansion of expenditures on mineral oil imports, the remarkable rise of imports of most of the developing countries should have come to an end already. However, on the other hand, there should be an extraordinary steep increase of demand of the mineral oil exporting countries.

In the aggregate, approximate stagnation of world trade in real terms seems likely on an annual average for 1975. Starting from a negative "carry-over" at the end of 1974, the expectations for the course of the year are characterized by a revival of world trade expansion particularly in the second half-year. The stimuli to this development should originate from a gradual change of the cyclical trend in

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

Index and commodity group	1974				1975		
	March	June	Sept.	Dec.	March	March 27	April 11
HWWA-Index * (1952–1956 = 100)	**296.2**	**304.9**	**302.8**	**308.9**	**283.1**	**282.4**	**277.3**
Foodstuffs	246.5	251.6	285.0	321.5	253.1	249.9	243.5
Raw materials other than foodstuffs ...	320.2	330.6	311.5	302.8	297.5	298.1	293.6
Fuels	426.9	469.4	467.6	476.8	474.5	474.2	465.6
Raw materials for consumer goods ..	188.3	178.1	159.8	147.9	155.6	157.7	159.6
Raw materials for capital goods	302.4	294.4	257.4	233.0	215.9	216.3	211.6
Reuter's Index (18. 9. 1931 = 100)	**1,422.1**	**1,277.1**	**1,237.3**	**1,193.8**	**1,079.7**	**1,091.0**	**1,090.5**
Moody's Index (31. 12. 1931 = 100)	**745.7**	**807.3**	**825.9**	**830.5**	**745.7**	**751.1**	**740.0**

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

the industrialized countries. Foreign trade is supposed to show a more than proportionate reaction because of the relatively important role of arrangements for carrying stocks. In view of the substantial tightening of competition between the industrialized countries during the downswing, of the still continuing downward pressure on raw material prices, and of the now stable, if not declining, oil prices, price increases in foreign trade should fall off; if compared to the previous year they are, however, inflated for the time being, by the price increases which occurred up to the end of 1974.

Raw Material Markets

Natural Rubber: Price Stagnation

During the first months of this year the downward trend of natural rubber prices did not continue. The London quotations for standard quality R.S.S. 1 are about 26 p/kg since December 1974. The last lowest quotation of 12 p/kg of April 1972 is thus surpassed by far still; considering the higher price level, the general inflation, having appeared meanwhile, and the devaluation of the pound sterling are worth noting.

Statistical data for the first eleven months of the International Study Group for Natural Rubber indicate that in 1974 production and sales out of the American strategic reserves surpassed consumption by 110,000 t. In view of the large reductions in the automobile industries' production and the unfavourable development of other rubber-using industrial sectors, consumption might in reality be far below the estimates of the Study Group. Demand remained furthermore very weak this year, but was high enough to prevent further decreasing prices. Most likely an end of reducing of the stocks by the processors explains this effect, meaning that current consumption was again equivalent to current demand, while before consumption had been satisfied by using the processors's stocks. Repeated announcements by the producing countries to introduce support measures have hardly contributed to ending the price decrease. For until now no support programme at all became reality. Therefore, processors always were incited only partly and temporarily to buy rubber.

Also during 1975 the weak constitution of the natural rubber market will change only very little. For the automobile industries in most of the countries an enduring re-increase of production is not in sight, so demand on the natural rubber market will not intensify noticeably during the next months. Although a reduction of the natural rubber production has been suggested by the Government of Malaysia, a realization, however, on the large number of small plantations is nearly impossible without endangering their existence. To take the surplus supply out of the market, a buffer pool would have to be built up indeed (suggested: 300,000 t). On the last session of the Association of Natural Rubber Producing Countries (ANRPC) such a procedure was already decided on, but due to financial difficulties it seems to fail. Moreover, with constant or slightly decreasing prices for crude oil derivates, a rising utilization of synthetic rubber is threatening again. Taken all in all, due to a slightly improving cyclical development in the rubber processing industries only a slight price increase for natural rubber is to be anticipated about the turn of the year 1975/76.

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

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