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Restrained Inflation in the Industrialized Countries

Within the Western world the upward trend of prices has significantly lost power since last autumn. This was the aimed-at result of the strict deflationary policies pursued by most countries up to the end of the last year. The turning point in the trend of consumer prices, however, was not reached before the downswing changed into a recession, while the increase of producer and wholesale prices had slowed down already earlier. Accordingly, the connection between cyclical development and price trend — in contrast to frequently expressed fears — is still existing, though it seems to have become somewhat looser as compared to previous periods.

More Favourable Cost Trends

Obviously, the possibilities to pass cost increases on in prices have been more and more restricted by the strict deflationary policies, particularly in the form of a rigorously controlled limitation of the expansion of money supply. This is indicated by the fact that the inflationary process was widely curbed. In most countries the uptrend of prices has

decelerated for almost all groups of goods, provided that the trend had not been distorted as a consequence of partial direct interference. At the same time the upward tendency of costs was slowing down. Imported industrial raw materials, for instance, have become markedly cheaper. Interest rates have declined everywhere. The upward tendency of wages has also slackened in many cases — apparently in response to the deterioration of labour market conditions. This will, however, hardly lead to a deceleration of the increase in unit costs since, in spite of the decline in employment, the productivity of labour should have diminished as a consequence of the steep decline in production. Since inflation was restrained almost everywhere — Great Britain being the most important exception — the uptrend of prices of internationally traded industrial goods, and thus the direct import of inflation, has lost power, too.

Still High Inflation Rates

The slackening of the inflationary process found only a relatively slight reflection in the ex-

pansion rates of consumer prices that follow from a comparison with the preceding year. As before, they are in most cases double figures, although the oil price-induced basic effect has meanwhile largely ceased. Observed in the course of time, however, the average inflation rate has substantially decreased in the industrial countries. In terms of annual figures, it amounted to a little less than 10 p.c. during the first quarter, after approximately 15 p.c. until last year's autumn. The current inflation rate did not show any further decrease, however, after the turn of the year. This gives rise to fears with respect to the continuation of the stabilisation process.

"Base of Inflation" Remains High

Against this background the problems become obvious that are connected with a worldwide return of economic policies to an expansive course. True, the current efforts to reduce costs, and the productivity reserves which are accumulating as a consequence of production increases will raise private enterprises' profits substantially, and, to start with, the upward movement of prices may well decelerate. However, in spite of this "stabilisation potential", most countries should start into the new upswing from a significantly higher initial price

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

Index and commodity group	May	1974		1975			
		August	Novemb.	February	May	June 6	June 20
HWHA-Index * (1952-1956 = 100)	313.1	306.2	321.9	290.9	269.4	266.7	262.5
Foodstuffs	258.1	280.6	365.4	277.4	211.2	204.6	190.9
Raw materials other than foodstuffs ...	339.7	318.5	300.9	297.4	297.4	296.7	297.1
Fuels	469.8	468.6	468.4	474.3	468.5	468.6	468.6
Raw materials for consumer goods ..	180.2	164.4	146.5	150.1	165.8	163.7	167.6
Raw materials for capital goods	317.0	272.2	237.1	219.4	214.7	214.2	212.5
Reuter's Index (18. 9. 1931 = 100)	1,349.9	1,268.6	1,239.2	1,093.3	1,074.5	1,063.8	1,057.2
Moody's Index (31. 12. 1931 = 100)	712.8	848.9	886.5	771.9	728.7	704.0	729.7

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

position than in previous business cycles. This is particularly dangerous since the authorities concerned with economic policy must, after the heavy cyclical downswing, give priority to the employment target and, in many cases, take the risk of building up a new inflation potential. The intense efforts for an expansion

are connected, in most countries, with high budget deficits that have to be financed by borrowing. If monetary policy is used too vigorously in support of a fiscal stimulation, the monetary expansion may in many cases exceed the bounds that are consistent with a lasting slowing down of inflation.

decline of demand during the last months forced the Tin Council by this time to take the most rigorous supporting measure. During the second quarter of this year the tin export was reduced by 18 p.c. to 26,500 t; this reduction shall to a great extent be connected with a slowdown of production. Thus, the Tin Council intends to reduce the supply surplus which is estimated to be 10,000 t for the first half year of 1975.

Raw Material Markets

Tin Markets: Decrease in Demand

Increasing pressure on tin prices during the first months of 1975 made the International Tin Council to establish export limitations and to organize the market interventions more efficiently. At the beginning of May, a change-over in the managerial board of the International Tin Pool took place. Furthermore, an increase in the tin quantity from 20,000 t to 50,000 t, which the tin pool could take out of the market for supporting prices, is under discussion. The firm attitude of the producing countries concerning this question at the present International Tin Conference, and the starting of the supply reduction led to a re-increase of the cash price of tin at the London Exchange up to more than 3,000 £/t since mid-May. Before this, the price had nearly fallen to the lowest level of 2,900 £/t — which is stipulated within the frame-

work of the International Tin Agreement.

According to the latest estimates by the Tin Council, tin production in the western world decreased in 1974 by 5,500 t to 179,000 t compared with 1973. Consumption dropped more steeply by 12,000 t to 200,300 t. In 1974, consumption surplus (incl. net tin exports to CMEA-countries) was nearly balanced by sales of 23,500 t out of the strategic tin reserves of the USA. Nevertheless, prices went down by about 30 p.c. within a few months since September 1974, when speculations on a further decrease in consumption produced purchase restrictions by the processors. Only a stop of tin sales out of the US-stockpile, and the increase of the Tin Pool stocks by about 7,000 t up to now, nearly stopped the downward trend of prices. The continuing

The Tin Council's last measures probably shifted the points towards a successful defence of the present price level. On the other hand, no large price increases are to be expected for the next months, for a cyclical increase of demand in the western industrial countries is to be reckoned with only at the end of this year. Should, nevertheless, a noticeable price-rise come in sight, this might be a chance for the American Stockpile Authority to offer those 7,000 t of tin which are available. Furthermore the US Congress has been asked to permit the selling of another 162,000 t. But the producers hope that the USA will join a new International Tin Agreement. In this case the USA would probably undertake to liquidate the tin reserve without disorganizing the market policy of the Tin Council. This obligation to a "good conduct" would have stabilizing effects on the prices.

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