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Italy: Progress in Stabilization

In Italy the most unfavourable developments of the past year could be curbed. The inflationary process has become weaker during the last months. Above all the deficits in the net position on goods and services, which had drastically increased after the oil price explosion, could be removed almost totally. Nevertheless there was only a gradual advancement towards a new "overall economic equilibrium" since the strict anti-inflationary policies of the last summer, by means of which the external economic rehabilitation successes were achieved, led into a recession. Notwithstanding, the increase in the number of unemployed persons was nothing like as high as in other countries with a similarly fast decline in economic activity.

Slower Production Decline

Adjusted for seasonal variation, GNP in real terms has been decreasing since the middle of the previous year. At the beginning of this year the decline has substantially decelerated although from January until May industrial production was by 13 p.c. lower than one year ago. This sharp decline in production

occurred in the producer and capital goods industries as well as in the branches of production directed to serving consumers and is to be regarded as a reflection of the broad decline in demand. The calming of the recession in this year might in part be traceable to the decreasing impact of the retarding factors relating to the stock cycle.

The decrease of internal demand supported the improvement of the external economic situation substantially. In the first quarter imports in real terms showed a 5 p.c. decline as compared to the corresponding value of the preceding year. As against this, exports developed more favourably than frequently expected. In contrast to the decrease of world trade turnover, Italy's export volume rose by 5 p.c. vis-à-vis the preceding year. The reduction in the balance of trade deficit to two-fifths of the value reached one year ago can also be traced back to a clear improvement in the terms of trade.

Stronger Tendency of the Lira

The recovery of the external value of the Italian currency as

well as the lasting downward trend of raw material prices in the international markets have curbed the inflationary pressure from abroad. This facilitated a change in the domestic price trend. During the first quarter private living expenses rose by 3.1 p.c. vis-à-vis the fourth quarter of 1974. During the preceding quarter they had risen by more than twice this rate. On the other hand, in April consumer prices were by 20.4 p.c. higher than a year ago.

The deceleration of the up-trend of prices would have to continue for the rest of the year, in order to achieve significant approximation to the stabilization objective. The chances for such a development, however, must be regarded with substantial scepticism since the course of economic policy has been changed meanwhile, leading to considerable stabilization risks. The monetary alleviations and also the purposive measures for the support particularly of the building industry, of small and medium-scale industries indicate an easing of the highly restrictive credit policy that had been decisive for breaking the inflationary trend. Together with a renewed intensification of the distribution-struggle the extended monetary framework might quickly be filled up again by additional price and cost increases.

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

Index and commodity group	1974			1975			
	June	Sept.	Dec.	March	June	July 7	July 18
HWWA-Index * (1952-1956 = 100)	304.9	302.8	308.9	283.1	263.5	261.1	263.0
Foodstuffs	251.6	285.0	321.5	253.1	194.8	189.6	200.4
Raw materials other than foodstuffs ...	330.6	311.5	302.8	297.5	296.6	295.5	293.1
Fuels	469.4	467.6	476.8	474.5	468.6	468.2	465.3
Raw materials for consumer goods ..	178.1	159.8	147.9	155.6	163.9	163.9	164.3
Raw materials for capital goods	294.4	257.4	233.0	215.9	213.7	211.2	206.8
Reuters Index (18. 9. 1931 = 100)	1,277.1	1,237.3	1,193.8	1,079.7	1,061.8	1,073.7	1,112.4
Moody's Index (31. 12. 1931 = 100)	807.3	825.9	830.5	745.7	717.5	729.7 ¹	762.6

* Index compiled by the Hamburg Institute for International Economics. On Dollar-basis. ¹ July 3, 1975.

Lower GNP than in 1974

In any case the scope for stronger internal expansion to begin with remains limited due to external influences as long as exports do not rise considerably. This, however, presupposes a vigorous recovery of the business trends in important partner countries, which will start gradually only. There-

fore it is to be anticipated that Italian production — after meanwhile it has probably reached its lowest level — will increase but slightly, all the more since the result of the regional elections will probably have dampening effects on the private economy's propensity to invest. On an annual average GNP in real terms will be lower by 3 p.c. than in 1974.

an end in the near future. A remarkable intensification of zinc demand can, however, not be expected very soon. As long as possible, processors will use their own zinc reserves and delay purchases until the end of the recession really comes in sight. The supporting measures of the producers will insofar be tested severely for some time to come. Probably the European zinc works will restrict production even more in order to stop the growth of stocks. The question remains whether the producers' financial potential for supporting purchases will last until zinc consumption will grow again.

Raw Material Markets

Zinc: Great Pressure on Prices

On the international zinc markets, pressure on prices increased during the last months. In London, zinc producers took supporting measures more frequently and intensely. Nevertheless they were not able to hold a cash price of 330 £/t recently.

Due to the unfavourable cyclical development, the demand for zinc dropped steeply in the western industrialized countries since May 1974. The restrictions of production by the zinc works, therefore, up to now did not suffice to prevent the creation of remarkable supply surpluses. The unsold zinc stocks in Western Europe are estimated to be about 200,000 t. A great danger

for the stabilization policy of the European producers is the surplus production in Japan. There alone, stocks are larger than 200,000 t. During the last months already, announcements of additional Japanese zinc deliveries increased the pressure on prices at the London exchange repeatedly. In the United States the stocks of zinc may also have doubled up to 100,000 t meanwhile. Therefore, the American Stockpile Administration stopped selling zinc in the second quarter of this year.

The prospects for the development of industrial production in the Western World justify the conclusion that the decrease of zinc consumption will come to

Only towards the end of this year the processors' expectations of an improvement of the world cyclical situation might grow strong enough so that a change in the stockholding policy comes in sight. The increase in demand will then be high enough for a gradual recovery of the zinc prices. A speculative boom of demand should not happen this time, for a reduction of the zinc producers' large stocks is a longer-term process.

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

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