

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

World business trends

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1975) : World business trends, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 10, Iss. 9, pp. 295-296,
<https://doi.org/10.1007/BF02929294>

This Version is available at:

<https://hdl.handle.net/10419/139265>

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WORLD BUSINESS TRENDS

Gleam of Hope in World Trade

The sharp recession in the industrialized countries has left its mark also upon world trade which — adjusted for price and seasonal variation — was decreasing in the fourth quarter of 1974, and, even faster, in the first quarter of 1975. During the first months of this year imports of all industrialized countries for which data are available were lower than a year ago. In nominal terms world trade turnovers (measured in US\$) exceeded those of the preceding year still by 17 p.c.; but in this case, too, a very heavy deceleration is obviously following upon the expansion rate of 47 p.c. for the whole year 1974.

The declaration would have been even substantially more obvious if the turnovers had not been inflated by a temporary weakening of the dollar at the beginning of the year. For, the decline of world trade in terms of volume was accompanied by a marked slackening of the up-trend of prices. While in 1974 the prices (unit values, in terms of national currencies) in the industrialized countries' foreign trade had risen at an average of

35 p.c., their inflation rate went down to roughly 20 p.c. in the first quarter of 1975. The result was a lasting shift in the price relations at the expense of the raw material countries. On the average the industrialized countries have so far been able to compensate for approximately one quarter of what they lost in the terms of trade after the oil price explosion.

Prospects for a Ceasing of the Recession...

This development was reflected, last but not least, in the substantial decline in the balance-of-trade deficits which had considerably grown during 1974. This applies particularly to Japan, Italy, France, Great Britain, and Denmark. As against this, in the Federal Republic of Germany the trade surplus showed a decrease which also contributed to the reduction of the external imbalances in the industrialized countries. As to the other countries, there should have been heavily declining export surpluses in the petroleum exporting countries and further increasing deficits in the rest of the developing countries.

The efforts for a stimulation of business activity in the industrialized countries and the ceasing of the retarding effects of the accelerated reduction of stocks give rise to hopes for a gradual recovery of demand and production in the course of the second half of 1975; this trend has already become distinct for the "pioneer" USA. This means an improvement of prospects for a quick recovery in world trade, at least in the industrial countries' imports. On the other hand, the non-petroleum-exporting developing countries' ability to import should be significantly affected by the consequences of the recession, while in the petroleum exporting countries the steep increase in imports will only lose some speed.

... and Recovery in World Trade

A recovery of world trade beginning in the further course of the year will come too late to prevent that on a yearly average world trade — with price variation eliminated — will substantially fall behind the preceding year's volume, according to our calculations by at least 5 p.c. As against this, the industrialized countries' GNP would show a decline by roughly 2 p.c. The more than proportionate reaction — in spite of the import boom in petroleum exporting countries — is probably traceable to the fact that the

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

Index and commodity group	1974		1975				
	July	Oct.	Jan.	April	July	Aug. 1	Aug. 15
HWHA-Index * (1952—1956 = 100)	301.3	307.5	300.6	277.3	263.9	263.4	270.1
Foodstuffs	255.2	312.2	297.3	224.2	201.7	204.3	225.3
Raw materials other than foodstuffs ...	323.5	305.2	302.1	294.1	293.8	291.9	291.7
Fuels	469.2	468.0	477.8	465.9	466.7	465.4	465.4
Raw materials for consumer goods ..	175.2	153.7	148.0	161.3	164.0	163.2	166.5
Raw materials for capital goods	277.6	244.4	230.1	211.4	208.1	204.8	202.1
Reuter's Index (18. 9. 1931 = 100)	1,246.2	1,242.2	1,131.9	1,091.1	1,109.4	1,138.0	1,186.5
Moody's Index (31. 12. 1931 = 100)	842.4	866.8	783.5	743.1	765.7	777.5	812.7

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

development of world trade is more closely connected with the industrial production which has also been particularly severely affected. In this context the movements of stocks in the

course of the business cycle play an important part so that a correspondingly strong upward reaction of world trade may be expected for the phase of recovery.

the increase of the supply surplus, but not prevent it.

The prospective development of supply and demand on the lead market indicates, nevertheless, that the latest price recoveries will continue. If the cyclical upswing in the USA will gather momentum and the cyclical depression in Japan and Western Europe will be surmounted, a noticeable increase of demand for lead can altogether be reckoned with already during this year. An increasing trust in a new worldwide upswing might cause lead processors and traders to begin with reincreasing their stocks of lead. Considerably higher price rises — as they were noticed during the last months — can, however, hardly be expected for the near future. Increasing demand is confronted with a very elastic supply because of large stocks in the hands of the producers and a possible re-employment of closed down production capacities. Furthermore, the American Stockpile Authority which has still more than 490,000 t of lead will take up selling lead again, if the price rises will continue.

Raw Material Markets

Further Dullness in Lead Sales

During the last months prices on the international lead markets started moving. Until mid-March 1975 the European lead producers were able to keep the London cash price by supporting actions on a level of 225 to 230 £/t. Large deliveries of lead by non-European producers and the demand of the processors being down to a minimum produced a great supply surplus in London so that efforts for stabilizing have been given up for some time. The cash price dropped to 145 £/t (on June 6) correspondingly. Since then, the price reincreased to 184 £/t (August 4). As a remarkable change in the fundamental supply-demand-relation did not happen, the European lead producers must have taken up their supporting measures again. With regard to increasing marketing difficulties, the producers in the USA reduced the sales prices — which were stable since

June 1974 — from 24.5 c/lb. to 19 c/lb.

Astonishingly, the worldwide recession produced in 1974 a reduction of lead consumption in the western countries by only 2.5 p.c. to 3.2 mn t. Nevertheless, it came to a "statistical" supply surplus of 151.000 t, because with 3.11 mn t production did not change remarkably and the sales out of the American strategic lead reserves amounted to 241,000 t. During the second half of 1974 the real market situation became, however, much more unfavourable for the producers than these data indicate. For, processors and traders reduced their stocks of lead and did only rarely appear as buyer on the metal markets. The minimum of demand has obviously been reached, in the first months of this year. Production reductions by the lead works in Europe, Japan, Australia and the USA could therefore only slow down

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

PUBLISHER: HWWA—Institut für Wirtschaftsforschung—Hamburg (Professor Dr Heinz-Dietrich Ortlieb, Professor Dr Wolfgang Michalski, Dr Dietrich Kobschull) and Stiftung Deutsches Übersee-Institut (Professor Dr Günther Jantzen)

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Address: Neuer Jungfernstieg 21, 2 Hamburg 36, Phone: (0 40) 35 62 306/307

PRODUCTION AND DISTRIBUTION:

Verlag Weltarchiv GmbH, Hamburg

Advertisements: Representative Dr Hans Klemen

Advertising Price List: No. 13 of January 1, 1971

Rates of Subscription: Single Issue: DM 5.20; Annual rate: DM 60,— (Students: DM 24,—)

Publication Dates: monthly

Printing: Otto Schwitzke, Hamburg

Address: Neuer Jungfernstieg 21, 2 Hamburg 36, Phone: (0 40) 35 62 500

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