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WORLD BUSINESS TRENDS

Japan: Upswing in Sight

In the second quarter signs of a cyclical recovery were registered in Japan. Above all industrial sales and production, adjusted for seasonal variation, showed a substantial re-increase. The movement of stocks played the decisive role in improving the cyclical situation while no stimulating effects emerged from exports. After its marked deceleration at the end of 1974 the increase in prices remained modest. The authorities concerned with economic policies have announced further stimulating measures for autumn which are to support the beginning recovery and lead to an upswing.

Since March industrial production, adjusted for seasonal variation, has been continuously increasing; in the second quarter it was by almost 4 p.c. higher than in the first one. In the manufacturing industry the utilisation of capacities has risen again, and the decline in the number of employed persons has stopped. As compared with the preceding year, the inflation rate, in terms of the consumer price index, has declined to almost half of its value at the end

of 1974 (22 p.c.). The wholesale price level remained even stable since spring.

Demand Impulses through Public Investment

Apart from the changed trend in stockpiling, demand received strong impulses from growing government investment activities. As against that, data available hitherto on orders placed in mechanical engineering, on sales of lorries, and on the building industry do not indicate yet a recovery of the private enterprises' propensity to invest. The fact that wages rose by "only" 13 p.c. (last year: 33 p.c.) in nominal terms and the summer bonuses were lower than in the preceding year, took a dampening influence on the development of private consumption.

The worldwide recession affected also Japan's exports. However, in real terms they declined clearly less than those of most of the other industrialized countries. Obviously, substantial price reductions were, among others, employed as a means to support sales abroad. Owing to the weakness of domestic demand, imports in real terms continued their decline which

has been lasting for more than a year. In the second quarter their level was by one-fifth lower than a year ago. In terms of money their decline amounted to 14.8 p.c. as compared with the corresponding period of the preceding year. Average import values have decreased in the second quarter for the first time for more than three years.

Fourth Economic Policy Programme Envisaged

In order to support the cyclical recovery, the Government is making arrangements for a fourth packet of measures of cyclical policy. There are, however, differing opinions which give rise to difficulties: the Ministry of Foreign Trade and Industry demanded vigorous actions to stimulate demand. As against that, the economic planning authority insists on its target, to reduce, the inflation rate to less than 10 p.c. in the course of the current year. The Bank of Japan, too, gives high priority to the stabilisation target, although it does not rule out a further reduction of the bank rate.

The chances for an upswing have improved since spring. Along with the stimulation of production, productivity and revenue trends in enterprises have also markedly improved. On the other hand, no decisive

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

Index and commodity group	1974				1975		
	August	November	February	May	August	Aug. 29	Sep. 12
HWVA-Index * (1952-1956 = 100)	306.2	321.9	290.9	269.4	267.2	266.4	263.4
Foodstuffs	280.6	365.4	277.4	211.2	215.7	213.2	208.7
Raw materials other than foodstuffs ...	318.5	300.9	297.4	297.4	292.0	292.1	289.8
Fuels	468.6	468.4	474.3	468.5	465.4	465.3	465.3
Raw materials for consumer goods ..	164.4	146.5	150.1	165.8	166.3	170.2	168.1
Raw materials for capital goods	272.2	237.1	219.4	214.7	202.9	200.6	196.1
Reuters' Index (18. 9. 1931 = 100)	1,268.6	1,239.2	1,093.3	1,074.5	1,171.5	1,167.3	1,156.5
Moody's Index (31. 12. 1931 = 100)	848.9	886.5	771.9	728.7	802.7	812.4	805.3

* Index compiled by HWVA-Institut für Wirtschaftsforschung-Hamburg. On Dollar-basis.

impulses are to be expected from abroad, particularly because of the lack of foreign exchange of the non-petroleum exporting developing countries. Thus cyclical policy will keep its key role for the time being. In view of the announced continu-

ation of policies for stimulating economic activity, the recovery may be anticipated to last until the propensity to invest starts to rise. Taken altogether, real GNP is likely to rise only by a rather small amount in the current year.

during the first quarter of 1975 in nine of the most important wool processing countries. The increase was confined to Japan, Great Britain, Italy and the Netherlands; but now there are indications that in the other countries the downward trend of consumption has been stopped, too. A larger increase of the world wool consumption, however, can hardly be reckoned with during this year, mainly because a cyclical change in the West European economies is expected at the turn of the year.

Raw Material Markets

Wool: Price Stability at the Beginning of the Season

On the international wool markets, the new season 1975/76 began with prices which were on the same level as at the end of the last season. But on the first auctions in Australia in August the Wool Corporation had to take 23 p.c. of the total supply out of the market to keep the basic price for clean wool of 21 micron on a level of a little more than 250 c/kg. Just as during the last months of the past season mainly Japanese and East European processors covered their requirements of wool. A greater stimulation of demand from the West European countries after the summer break did not materialize yet.

According to the latest estimates, in 1975/76 a total volume of clean wool of about 1.76 mn t will be available on the world markets which means a rise of 9 p.c. compared with the last season. The considerable increase of 148,000 t almost ex-

clusively reflects the surpluses of the last season. Stocks in the most important wool exporting countries are to be estimated at about 247,000 t (clean) compared with 106,000 t at the beginning of the season 1974/75. For the sake of stabilizing the price the Australian Wool Corporation alone had to take about 123,000 t out of the market additionally in 1974/75. The world wool production will in 1975/76 probably increase only by 0.5 p.c. up to 1.51 mn t. In Australia, the flocks of sheep have been enlarged considerably indeed, but the continuing draught will cause a lower wool yield per sheep, and a decrease of the total wool production is expected.

In connexion with the general cyclical recession, the world wool consumption diminished in 1974 by 11 p.c. down to 1.25 mn t. Adjusted for seasonal variation consumption increased, however, by a total of 3 p.c.

During the next months, the development of wool prices will mainly depend on the moment when West European traders and processors will — putting their trust in a cyclical upswing in 1976 — begin to pile up their stocks of wool again more intensively. Even then a steep wool price increase cannot be expected. The Australian Wool Corporation will probably start selling wool out of its stocks already when the basic price will rise by 20 p.c. up to 300 c/kg. On the other hand, the Corporation has enough funds to take even more wool out of the market to stabilize the prices, if demand does not rise as soon as expected.

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

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