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WORLD BUSINESS TRENDS

The World Economic Situation

The situation of the western industrial countries is still largely characterised by the deep recession into which they had slithered in the winter half year 1974/75. In most countries, employment and utilisation of capacities have reached their lowest post-war level. Primarily in Western Europe the self-accelerating forces of the worldwide downswing were stronger than initially expected, the substantial reduction of stocks being a major cyclical factor. The fact that in most countries the authorities concerned with economic policies — with regard to the heavy inflation and the pressing balance-of-payments problems — removed their tight restrictions only gradually, played an essential role for the cumulative slackening of economic activity. Stimulating policies were not enhanced before 1975 after unemployment had already reached an extraordinarily high level and the upward movement of prices began to slow down.

Upswing in the US

In autumn 1975, of all industrial countries only the US is at

the beginning of a new upswing. The cyclical recovery originated primarily from a strong expansion of private consumption. Industries producing capital goods, too, show first signs of a change. The increase in production led almost immediately to a change in the labour market trend. During the winter half year 1975/76 the upswing may be anticipated to grow stronger. After its 3.5 p.c. decline during this year, real GNP will probably grow by 5 or 6 p.c. in 1976.

Slow Recovery in Japan and Trough in West Europe

In Japan the tendency towards a cyclical recovery has only hesitantly grown stronger until autumn. Since spring it had been initiated primarily by stimulating measures of fiscal policy. The successful fight against inflation made it easier for the Government to stimulate demand through an additional comprehensive programme. For the whole year 1976 real GNP may be expected to grow also by 5 or 6 p.c., after 1.5 p.c. in 1975.

In Western Europe the recession lasted until the summer months. Unemployment rates have in most countries reached their highest levels for about 20 years. The uptrend of prices has slackened significantly, at last even in Great Britain. Although real income had still markedly risen in the first half year, private consumption showed hardly any increase. Demand for capital goods continued to decline in almost all countries. As the employment situation was deteriorating everywhere, stronger expansive measures of fiscal policy were adopted by numerous countries. At the same time the authorities concerned with monetary policy switched over to a more expansive course. The Western European countries' real GNP which, on an average, will fall by more than 2 p.c. in 1975, may be expected to rise by 2 or 3 p.c. in 1976.

Outlook: Upswing in 1976

During the winter half year 1975/76 the stimulation of demand is likely to gain ground in more and more countries. The stimulating measures which in the last months have been enhanced in almost all countries, are decisive for breaking the back of the recession. They are

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

Index and commodity group	1974		1975				
	August	November	February	May	August	Sep. 12	Sep. 26
HWWA-Index * (1952-1956 = 100)	306.2	321.9	290.9	269.4	264.2	263.4	260.6
Foodstuffs	280.6	365.4	277.4	211.2	215.7	208.7	203.7
Raw materials other than foodstuffs ...	318.5	300.9	297.4	297.4	292.0	289.8	288.1
Fuels	468.6	468.4	474.3	468.5	465.4	465.3	465.0
Raw materials for consumer goods ..	164.4	146.5	150.1	165.8	166.3	168.1	170.8
Raw materials for capital goods	272.2	237.1	219.4	214.7	202.9	196.1	189.8
Reuter's Index (18. 9. 1931 = 100)	1,268.6	1,239.2	1,093.3	1,074.5	1,171.5	1,156.5	1,164.5
Moody's Index (31. 12. 1931 = 100)	848.9	886.5	771.9	728.7	802.7	805.3	815.0

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

more promising than the previous expansive measures, if only because in the meantime there has been substantial progress in the reduction of stocks. This time, however, a forecast on how much the cyclical upward trend will gain in intensity, is a particularly risky business. In many countries the tendency of prices to rise will probably show no further significant deceleration in the

course of the coming year. With a view to steadying the economic trend, the authorities concerned with monetary policy would be ill-advised to try to reduce unemployment by tolerating a higher inflation rate. Instead the central banks ought to make timely announcements about the extent of monetary expansion which they aim at in order to achieve stability.

more, processors will probably pile up their stocks of raw materials again. The rise of demand for raw materials meets with a rather elastic supply. The producers will try to reduce their large stocks and reactivate the closed down production plants very soon. Therefore, raw material prices will not rise too much in the coming months. In view of the continuing pressure of supply the price increase of crude oil will be significantly below the price rise decided by the OPEC.

Raw Material Markets

Raw Material Prices: Small Increases Expected

On the world markets for industrial raw materials the price decrease continued in general hardly anymore during the last months. Prices for non-ferrous metals and textile fibres increased even a bit; as far as quotations are in £, however, by reason of the £-devaluation this rise was insignificant for most of the importing countries. On the other hand, goods quoted in \$ registered price rises owing to the \$-revaluation for most of the countries since the middle of this year.

The reduction of the raw material consumption in the western industrialised countries may have

come to an end at the middle of this year, as in the USA and Japan the industrial production recovered and the recession in Western Europe will soon be over. Up to now, the processors mostly saw no reason to pile up their stocks which are down to a minimum. To reduce the supply of surpluses, raw material producers continued with their supporting sales and stuck to their production limitations.

The continuing cyclical upswing in the USA and Japan, and the contours of a production increase in Western Europe will lead to a slow re-increase of raw material consumption. Further-

On the international markets for foodstuffs, the price rise — produced by the large Soviet grain purchases — meanwhile has come to an end. For the next months a stable price level can probably be expected. Concerning vegetable products, the essentially enlarged supply will suffice to cover the growing demand and to make possible a limited piling up of stocks. In the short term, the international markets for animal products will probably be characterized by the supplying countries' ability to deliver and a cautious development of demand.

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

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