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WORLD BUSINESS TRENDS

Federal Republic: Propensity to Consume Recovers

With the conclusion of the collective wage agreement in the iron and steel producing industry (220,000 workers and employees), frequently regarded as the preamble to the next general wage increase, the wage talks for 1975 have been concluded. The result of this last agreement again approximated to the price increase rate of private consumption. With that in 1975 the level of standard wages and salaries will be higher by about 8 p.c. than in the previous year. The actual earnings per person employed have not risen that strongly. This reflects the further reduction of the actual working hours and of additional benefits. While in the last phase of recession the "wage drift" (difference between the percental increase of actual and standard earnings) became thus negative, in 1967 it had declined distinctly but had still remained positive.

Because the number of employed wage and salary earners was reduced greatly, the gross wage and salary total adjusted for seasonal variation rose but

slowly during the first three quarters of 1975. It surpassed the previous year's level by hardly 4 p.c. only. Owing to the tax reform the net incomes of the employed increased within a year, but in contrast to the usual relation somewhat stronger. The public income transfers rose much more rapidly owing to the reform of the Children's Allowances Law and the high unemployment benefits — as compared with the previous year they rose by 25 p.c. Although the disposable incomes of all private households recently expanded more slowly, in 1975 they should still be by about 10 p.c. higher than in the preceding year. Even after allowing for the rise in consumer prices the available income in real terms has grown strongly within the year.

Extremely High Propensity to Save

The expansion of incomes resulting mainly from the tax and children's allowances reform would have enabled a vigorous

extension of consumption expenditures, but the enormously grown risk of jobs led to a considerably weaker increase of private consumption. The doubling of the number of unemployed to more than a million within a few months explains the cautiousness of most workers' households regarding spending. Last but not least major acquisitions, usually connected with temporary borrowings, were reduced strongly.

An exception is the demand for cars which already has grown again distinctly; for, not only the registration of new cars for enterprises and self-employed, i.e. investors favoured by a bonus, increased by more than 40 p.c. during the first three quarters, but also the purchases made by the employed rose vigorously by about 25 p.c. Even the group of workers particularly hit by unemployment bought by about 20 p.c. more new cars (all figures as compared with the previous year). As for the rest, the pronounced cautiousness of the consumers led to the result that the savings ratio (as share of savings in disposable income) rose to the extreme level of 17 p.c.: every sixth D-Mark was thus saved. Since autumn only the propensity to save has begun to decline slightly.

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

Index and commodity group	1974	1975					
	October	January	April	July	October	Oct. 31	Nov. 11
HWWA-Index * (1952-1956 = 100)	307.5	300.6	277.3	263.9	259.8	261.1	259.0
Foodstuffs	312.2	297.3	224.2	201.7	204.3	205.7	199.6
Raw materials other than foodstuffs ...	305.2	302.1	294.1	293.8	286.6	287.9	287.6
Fuels	468.0	477.8	465.9	466.7	466.2	467.3	467.1
Raw materials for consumer goods ..	153.7	148.0	161.3	164.0	169.4	172.4	173.7
Raw materials for capital goods	244.4	230.1	211.4	208.1	185.7	185.9	184.4
Reuters Index (18. 9. 1931 = 100)	1242.2	1131.9	1091.1	1109.4	1146.1	1144.4	1125.8
Moody's Index (31. 12. 1931 = 100)	866.8	783.5	743.1	785.7	782.3	751.3	741.9

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

1976: Saving Ratio Declining

When around the turn of the year 1975/76 the employers and the employed negotiate the general wage-increase the beginning of a cyclical recovery will perhaps be noticeable. Clearly visible, however, will be the increasing numbers of unemployed: during January/February the unemployment ratio will, due to weather conditions, probably rise to more than 6 p.c.. Since, moreover, the price increase rate is declining — it should by then still amount to 5.5 p.c. — it is to be anticipated that the increase in standard wages will be lower than this year's rates (6–7.5 p.c.). Since cyclically the labour market situation, seasonally it will grow better slightly in spring, will not improve much during 1976, the actual incomes

to begin with will hardly rise more than standard earnings. Higher instalments of levy and a at first still decreasing work volume will permit only a small increase of the sum of net wages and salaries. Since, moreover, the income transfers will grow considerably more slowly than this year, the total of disposable incomes will grow considerably less than in 1975. But the expansion of private consumption — in contrast to this year — will be stronger than the rise in incomes owing to the again declining savings ratio. This will be valid above all for the second half of 1976, when the labour market situation improves noticeably for cyclical reasons. In real terms consumption will grow at least to the same extent as this year (+ 2 p.c.).

ed by the fact that the French balance of trade registered in September a deficit for the first time since January.

High Unemployment, Strong Price Increase

On the labour market reactions on the ending of the production decline were to be noticed. Adjusted for seasonal variation the number of unemployed did not continue to rise during the summer months. However, the unemployment rate stagnating now near 4 p.c. (unemployed in p.c. of employed persons) is the highest by far since 1950. Simultaneously the number of available jobs remained steady at an extraordinary low level. In spite of the — since autumn 1974 — rapidly worsening situation on the labour market, the increase of wage rates slowed down very slightly only up to the summer. In July the standard hourly wages were by 17 p.c. higher than a year ago. The rise in consumer prices has also hardly continued levelling. During the course of the year a quite constant current rate of price increases was to be registered (9 p.c. on an annual average).

GNP Rising Again in 1976

The recent cyclical programme providing funds to the tune of 2.5 p.c. of the gross domestic product for the promotion of public and private investments as well as for consumption has already produced psychological effects. Therefore the availability of tax credits — until the end of 1975 — for ordered capital goods should stimulate demand. But the effects on this year's output will not be worth mentioning. GNP in real terms will probably be about 2.5 p.c. below that of 1974. Next year, however, it should increase by 3 to 4 p.c. The prerequisite to such a development is — apart from a tolerable price development —

France: Improved Economic Prospects

In France the cyclical downswing has distinctly slowed down during the last months. The utilisation of capacities did not decline as quickly as before. Industrial production, which always reflects cyclical fluctuations particularly strongly, adjusted for seasonal variation still declined but slightly after the sag in the winter half-year. The stabilisation tendency of production — although on a level which had been surpassed already three years ago — apparently bases on the fact that the contractive impulses originating from arrangements for carrying stocks decreased. The number of industrial enterprises, that regarded their stocks of finished products as being too large, has visibly declined.

The weakening of domestic demand obviously stopped mainly due to the fact that economic policy was increasingly directed towards stimulating business activities. The invest-

ment promotion measures taken this year have obviously counteracted noticeably a further decrease of the propensity to invest. Since last summer at any rate the enterprises anticipate again an increase of orders for capital goods after a steep decline in the first half-year. Above all the propensity to consume hardly decreased, but, if anything, increased.

Recovery in Foreign Trade

The slump in foreign demand seems to have ended. Exports should have reached their lowest level during the second quarter, after that they slightly recovered. Adjusted for price they were by about 7 p.c. lower than a year ago. Most recently imports re-increase, too, which since mid-1974 dropped considerably more quickly than exports. This development may reflect a slight cyclical lead vis-à-vis most of the West European economies. This is also indicat-

that demand from abroad recovers lastingly. This is all the more important to France as a bigger lead of its business

trends vis-à-vis its most important partner countries would result in balance-of-payments difficulties.

Raw Material Markets

Cotton Prices: No Remarkable Further Increase

On the world markets for cotton the growth of demand in several countries did not suffice to support the upward trend of cotton prices. Since the beginning of October in the USA for example, the prices for medium long staple cotton decreased by 6 p.c. with at present 53 c/lb the last low point of 38 c/lb in January 1975 is surpassed by 37 p.c. and the November-level of 1974 by 26 p.c.

The deep recession in the textile industry has been overcome up to now only in a few countries. Only in the USA, Japan and in several Asian countries the consumption of cotton increased somewhat during the last months. In the West European textile industries the very depressed production level could hardly be kept. Relatively large imports of textiles and the lasting weak domestic demand prevent here a fast upswing of textile manufacturing. So it is easy to understand that the West European yarn producers

whose stocks of cotton are nearly exhausted appear as buyers only hesitatingly.

The cautiousness of the buyers even in countries where the cyclical upswing has already started is to be explained by the fact that a shortage of cotton is not to be reckoned with within the near future. In the season 1974/75 world cotton consumption went down by 5 p.c. to 58.3 mn bales. Production on the contrary increased still slightly to 63.0 mn bales. Therefore, the new cotton-year 1975/76 began in August with stocks which were by 4.5 mn bales larger than at the beginning of the pre-season. Even if world production of cotton should — as estimates indicate — diminish by 5 mn bales, a nearly constant total supply of 87.5 mn bales is to be expected.

As apparently the recession in most of the West European textile industries comes to an end only now, the increase of

world cotton consumption to 60.0 mn bales, as forecast for the current season, should be regarded as an optimistic assumption. This, however, does not exclude a more vigorous increase of demand because of a change in the arrangements for carrying stocks on the cotton markets during the first half of 1976, if hopes of a cyclical upswing prove to be justified also in West Europe. The question remains whether this time e.g. the Asiatic textile firms will undertake particularly large stockpiling purchases as they did when former improvements of sales were indicated worldwide. Under the remaining impression of the deepest recession of the post-war period they, too, will probably place orders more cautiously on the cotton markets. The growth of demand resulting from the increase of consumption and the piling up of stocks might indeed support a small price increase during the season 1975/76, but probably will not lead to a new boom. Only near the end of the season new price tendencies may result, if the cultivation of cotton will be restricted again owing to insufficient profitability.

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