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World business trends

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WORLD BUSINESS TRENDS

World Economy Beginning to Recover

The constellation of forces supporting the level of economic activity indicates, above all in the four leading industrial countries — USA, Japan, Federal Republic, France — that an upward trend is reasserting itself in the world economy. Its strength, however, is difficult to estimate, although there are many indications of a relatively moderate rate. The anticipation of an only gradual stimulation of the propensity to invest is playing a key role in this context. This expectation bases not at all primarily on the fact that there is no necessity of increases in capital investments owing to the low utilisation of capacities. The longer-term consequences of the energy price explosion, which for the time being are difficult to anticipate by entrepreneurs, and the fear of a future stop-and-go policy in consequence of the unsolved inflation problem seem to be more important.

USA — Monetary Policy as a Warning Signal

In the USA, too, where the stimulation of private consump-

tion through extensive tax reductions and the vigorous impulses relating to the stock cycle had, to begin with, given the recovery an extraordinary strength, the current rate of expansion should in 1976 remain noticeably smaller than in former upswing phases. More than half of the increase by 6 p.c. of GNP in real terms to be expected on an annual average is a reflection of the high carry-over from the previous year. This forecast not only considers already the prolongation of the previous year's tax cuts, but also a pronounced continuation of a policy directed towards a narrowly limited expansion of the money supply which is to prevent an acceleration of the price increase.

Japan — Reduced Growth Targets

Differing from the situation in the USA, in Japan a comparatively early change in the tendency was followed by a quite hesitating recovery. But the latest export developments have improved the preconditions for a success of cyclical stimula-

tion measures and for a reversal of the declining trend in the propensity to invest. Since, however, presently no cyclical boom can be anticipated from cyclical prospects abroad, and the Government, in the interest of a lasting price stabilisation, aims at considerably lower growth rates than formerly, the upward trend will certainly not lead back to the familiar expansion rates. Nevertheless, in 1976 in the aggregate an increase of GNP in real terms by 5 to 6 p.c. is quite probable.

Western Europe — Differentiated Cyclical Picture

In the aggregate Western Europe is lagging behind in the world economy's present cyclical phase of recovery. This is also reflected in the low average growth rate of real GNP of probably only 3 p.c. as anticipated for 1976. This lagging behind may, on the one hand, be explained by the fact that in Western Europe the contractive forces mutually strengthening each other were particularly persistent due to the close external integration. On the other hand, however, here the obstinacy of inflation has frequently delayed the transition to a promising stimulation policy and limited its effectivity.

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

Index and commodity group	1974	1975				1976	
	December	March	June	September	December	January 2	January 16
HWWA-Index * (1952-1956 = 100)	308.9	283.1	263.5	262.7	266.9	269.8	270.3
Foodstuffs	321.5	253.1	194.8	207.9	197.3	200.7	202.0
Raw materials other than foodstuffs ...	302.8	297.5	296.6	289.2	300.5	303.1	303.3
Fuels	476.8	474.5	468.6	465.2	491.0	491.0	491.2
Raw materials for consumer goods ..	147.9	155.6	163.9	169.0	179.0	183.5	182.4
Raw materials for capital goods	233.0	215.9	213.7	193.8	191.4	195.3	196.4
Reuter's Index (18. 9. 1931 = 100)	1,193.8	1,079.2	1,061.8	1,159.2	1,158.5	1,180.9	1,199.6
Moody's Index (31. 12. 1931 = 100)	850.5	745.7	717.5	803.9	746.3	750.2	763.6

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

With an upward trend the industrial countries will realise that they have by no means already solved the balance-of-payments problem originating from the oil price explosion, although probably but a few countries will have to anticipate severe difficulties. At any rate the unsolved inflation problem is much more important. The average increase of consumer prices by about 8 p.c. as indicated in the industrial countries for 1976 means a halving of the

inflation rates temporarily reached in 1974, and this success was the most important prerequisite for a production effecting stimulation policy. But the fact that the progress in stabilisation has obviously stopped too quickly raises considerable doubts whether the inclination to distribution struggles has been sufficiently checked in the industrial countries during the stabilisation crisis as to offer a realistic chance for a regaining of full employment in the foreseeable future.

In 1976 the progressing cyclical recovery in the USA and in Japan as well as the beginning increase in West European production will result in a re-increase in raw material consumption — although a relatively cautious one. In the short term, however, the demand and price trends will be particularly dependent on the further course of the inventory cycle. Since the manufacturers' raw material stocks have generally been drastically reduced meanwhile, their replacement during the phase of cyclical recovery could lead to considerable demand increases in raw material markets. With the cyclical recovery gaining ground in West Europe — supported by speculative transactions — prices would in that case rise in spite of the abundant supplies. After the rush caused by the replacement of stocks has abated, the uptrend of prices may be expected to slow down on the higher level during 1976. The enormous stocks of raw materials of the producers and at the commodity exchanges as well as the big idle productive capacities support the opinion that the abundant supplies of raw materials will continue even if the increase in consumption will last for a while.

Raw Material Markets

1976: Modest Increase in Raw Material Prices

After mid-year, following upon the end of the recession in West Europe, the decline in raw material consumption should have come to a standstill — although on a substantially reduced level. On the other hand, the expectations of a new cyclical upswing still did not gain enough ground to cause manufacturers to replace their stocks to a significant extent. The cautiousness on the demand side confirmed the producers of some raw materials in their decision to mitigate the pressure on prices by reducing supplies. However, the adjustment of supplies to the considerably reduced demand by means of production cuts

was started relatively late, since the producers first tried to counter the decline in prices by the usual market interventions such as supporting purchases. In several cases producers could not come to an agreement on a "sufficient" production cut. For this reason the raw material stocks of producers and at the commodity exchanges have, for the most part, risen significantly almost over the whole year. The supply-demand situation would have become even worse, above all for the producers of non-ferrous metals, if the USA had not stopped the raw material sales from its strategic reserve.

Compiled by the Department on Business Cycles and Statistics of HWWA-Institut für Wirtschaftsforschung-Hamburg.

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

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