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WORLD BUSINESS TRENDS

1976: World Trade Reincreasing

The turn in the trend of the world economy's cyclical development has obviously early involved world trade. After in the middle of 1975 the sharp contraction of turnovers adjusted for price and seasonal variation had come to a stop, a recovery should have started already during the summer months. For, in the most important industrial countries imports adjusted for seasonal variation and price for the first time since a year ago increased already during the third quarter of 1975 — and that at a remarkable speed. For the whole of 1975, however, a decline of the foreign trade turnovers of all countries (excluding those with state monopoly trading) by 6 p.c. is indicated. The simultaneous increase of foreign trade prices by about 10 p.c. (average values, in dollar) reflects almost exclusively the trend up to the first quarter of 1975. Thereafter prices of finished goods obviously rose hardly any more while the raw material prices continued falling. Towards the end of the year, however, a certain price push originated again from the rise in mineral oil prices.

In the industrial countries the phase of the extremely rapid reduction of the balance of trade deficits has apparently come to a stop. It was closely linked to the recession, above all because the steep decline in production put a pressure simultaneously on import quantities and prices of raw materials. So far it was to be anticipated straightaway that together with a cyclical recovery a renewed worsening of the balances of current transactions would come about in the industrial countries. But in 1976 this trend will be limited, on the one hand, owing to the slow speed of the expected cyclical stimulation and, on the other, because the lasting energy price increases initiated adjustment processes that put a permanent pressure on specific mineral oil consumption.

The Developing Countries' Balance of Payments Troubles

The OPEC-countries' surpluses in their balances of current transactions dropped from \$ 65 bn to \$ 35 bn in 1975, but in 1976 they should not continue

declining. Contributing to this will be mainly the fact that their imports will not rise so explosively any more, because in many instances their absorption capability cannot be increased as rapidly as hitherto and because some oil exporting countries even make already full use of their scope for expenditure. Other raw material countries' high deficits will decline slightly in 1976. On the one hand, the developing countries, which do not export oil, in view of their extraordinarily worsened balance of payments situation began to throttle their imports; on the other, their export proceeds will rise, since the industrial countries' raw material requirements will grow cyclically, pushing up prices. Similar influences are valid for state monopoly trading countries, too.

Moderate Cyclical Stimulation

The increasing indications of a cyclical stimulation in the industrial countries permit a phase of progressing recovery for international trade. But we reckon with a comparatively moderate expansion although the speed of import increases in the industrial countries will surpass that of the general economic demand and production growth. On the other hand, however, the recovery of world trade will be slowed down by the import re-

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

Index and commodity group	1975				1976		
	January	April	July	October	January	Jan. 30	Feb. 12
HWWA-Index * (1952–1956 = 100)	300.6	277.3	263.9	259.8	270.0	270.1	272.3
Foodstuffs	297.3	242.3	201.7	204.3	200.2	198.0	199.0
Raw materials other than foodstuffs ...	302.1	294.1	293.8	286.6	303.7	304.8	307.7
Fuels	477.8	465.9	466.7	466.2	491.1	491.2	496.0
Raw materials for consumer goods ..	148.0	161.3	164.0	169.4	183.9	186.3	182.9
Raw materials for capital goods	230.1	211.4	208.1	185.7	196.5	198.0	203.2
Reuter's Index (18. 9. 1931 = 100)	1,131.9	1,091.1	1,109.4	1,146.1	1,193.2	1,203.3	1,219.3
Moody's Index (31. 12. 1931 = 100)	783.5	743.1	765.7	782.3	762.1	767.5	773.7

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

ductions of the non-oil exporting developing countries and the state monopoly trading nations. In the aggregate a real expansion of world trade by about 6 p.c. is indicated for 1976 on an

annual average. Regarding prices, increases are to be expected after the stabilisation in 1975. This is particularly caused by rising prices for raw materials and semi-finished products.

In 1976 the cyclical upswing in the Western industrial countries will result in a significant re-increase in copper consumption. However, production is also expected to rise by about 5 p.c. to 6.50 mn t, thus outpacing consumption. The formation of a worldwide cartel for the purpose of restricting copper supply seems unlikely. After Indonesia, Australia, and Papua New Guinea have joined CIPEC, the member countries as a whole still dispose of a share of only 46 p.c. in the copper production of the whole Western world and about 72 p.c. in world copper exports. Moreover, the CIPEC countries do not even agree on the expediency of the hitherto employed stabilizing measures. In spite of the continuance of the abundant copper supply it does not seem unlikely that the prices, which have fallen substantially, will show a modest increase in 1976. For, owing to the more optimistic cyclical expectations the manufacturers will build up their stocks. By this they would contribute to a reduction of the producers' copper stocks, which today still exert a downward pressure on prices.

Raw Material Markets

Over-supply in the Copper Market

In the international copper markets the downward pressure on prices continued during the last months. After a short high in August 1975, the London cash quotation moved between 550 and 600 £/t. All the speculators' efforts to initiate an uptrend of prices through additional purchases did not proceed beyond the first steps. For, in view of the slowly proceeding cyclical recovery and the over-supply in copper, the West European consumers have generally not given up their cautious purchasing behaviour. A significant increase in the manufacturers' demand could be registered so far only in the USA and Japan.

In view of the low demand level, the tightening of production and export restrictions by the producers in the course of 1975 was not sufficient to prevent a heavy increase in the supply surplus. On the other hand, however, these restrictions

have probably prevented a heavy depression of prices. In 1975 consumption of refined copper in the Western world has supposedly gone back by 17 p.c. to 5.36 mn t. Production declined by 11 p.c. to 6.20 mn t so that total copper stocks reached about 2.26 mn t by the end of 1975 (as compared with 1.41 mn t at the end of 1974). At the London Metal Exchange the stocks which were almost exclusively in hands of the producers and dealers had by mid-January 1976 risen to 517,000 t. During the last slump in 1972 they had reached their highest level with "only" 192,000 t. American copper producers, too, registered a substantial increase in unsold stocks around the turn of the year 1975/76, after a significant decline in autumn. Obviously the US copper production was extended too early, relying on a further substantial increase in sales.

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

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