

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

World business trends

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1976) : World business trends, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 11, Iss. 4, pp. 123-124,
<https://doi.org/10.1007/BF02928672>

This Version is available at:

<https://hdl.handle.net/10419/139365>

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WORLD BUSINESS TRENDS

Japan: Upswing Late in Coming

The stimulating measures taken in 1975 in the framework of four economic programmes together with a simultaneous easing of monetary policy so far produced an only moderate recovery of overall production. During the second and third quarter of 1975 GNP in real terms increased by only 1 p.c. in each case, during the fourth quarter probably even less. In January consumer prices exceeded those of a year ago by 9 p.c. (January 1975: 17.4 p.c.). When already in the second quarter Japan, owing to the rapid stimulation of its industrial production, together with the USA had become the forerunner in the overcoming of the worldwide recession, more optimistic expectations emerged. During the second half of the year industrial production as a whole did not rise any further. The frustrated anticipations of an upswing were reflected by a noticeable stockpiling. The labour market situation worsened somewhat still.

1976: Demand Abroad Becoming an Expansion Factor

At the beginning of 1976 a shift of emphasis in the constellation of forces determining the

business trend seems to be indicated. While the budget of 1976/77 does not justify expectations of government stimuli as strong as in the ending fiscal year, demand abroad will again become a strong factor of expansion as shown by the vigorously increasing export letters of credit. With that the prospects for a stimulation of entrepreneurial investments are becoming more favourable. As against that the prerequisites to a noticeable acceleration of the hitherto weak expansion of consumption did not yet improve much.

At the end of 1975 even the annual premiums of the employed, adjusted for price, were markedly smaller than a year ago. Concerning the general wage round this spring, standard wages are expected to rise by 10 p.c. Since, however, for the first time for 16 years no income-tax reduction is provided for in the budget, net wages will probably rise but slightly more than consumer prices. At the same time an only small expansion of the employment volume will come about. This means, however, that in view of the growing labour force, unemployment will probably rise

still and with that also the prospects for an early reduction of the high rate of savings are unfavourable.

First Indications of a Recovering Propensity to Invest

Recently an official poll of larger firms revealed first indications of an improved investment climate. During the first half of 1976 their expenditures on investments in buildings and equipments adjusted for seasonal variations are to be increased by 9 p.c. as compared with the preceding six months. In view of the tendency towards more price stability this would also mean a noticeable growth rate in real terms. Although this does not definitely indicate that this partial observation is generally a representative one, it is hardly accidental that it coincides with a revival of exports. Considering the special role of this factor as a signal for the Japanese economy, in the present situation the decisive impulses for a changing trend in investment activities might originate from it. True, in view of the high capacity reserves this change will come about relatively slowly to begin with. Only with investments in housing, which are promoted by government stimulation measures, a considerable expansion is to be anticipated.

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

Index and commodity group	1975				1976		
	February	May	August	November	February	Febr. 27	March 11
HWHA-Index * (1952-1956 = 100)	290.9	289.4	287.2	259.5	273.4	276.1	275.8
Foodstuffs	277.4	211.2	215.7	200.7	200.9	205.3	207.2
Raw materials other than foodstuffs ...	297.4	297.4	292.0	287.8	308.4	310.3	308.9
Fuels	474.3	468.5	465.4	467.1	495.8	495.7	495.6
Raw materials for consumer goods ..	150.1	165.8	166.3	174.1	184.4	187.5	181.0
Raw materials for capital goods	219.4	214.7	202.9	184.8	204.2	207.2	208.1
Reuter's Index (18. 9. 1931 = 100)	1,093.3	1,074.5	1,171.5	1,135.5	1,222.9	1,233.3	1,271.3
Moody's Index (31. 12. 1931 = 100)	771.9	728.7	802.7	742.5	777.0	792.2	783.2

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

There are many indications that domestic demand and with that also GNP in real terms will expand more strongly only later in 1976 because in the short run no special stimuli are to be expected of investment in stocks. At the beginning of the phase of recovery too optimistic disposi-

tions had obviously been undertaken in this field. Considering a carry-over not worth mentioning at the turn of the year 1975/76, the increase should with 4–5 p.c. on an annual average for 1976 (1975: + 2 p.c.) be slightly smaller than formerly expected.

a supply bottleneck in consequence of a smelters' strike in Thailand. Obviously a price boom was then only prevented by new tin sales from the American stock.

In the next months the tin price is likely to remain on its higher level. The increase in export quotas for the next quarters which was recently agreed on by the International Tin Council will probably be just sufficient to meet the consumer countries' further rising demand. Besides, the lower price margin of the Tin Agreement was raised from 900–980 mal.-\$ to 950–1,000 mal.-\$ enabling the Tin Pool in cases of large-scale price reductions to make support purchases earlier than before. The signing of the 5th International Tin Agreement by the USA that will become effective in July 1976 should also have a price supporting effect. As a member of this Agreement the USA would have to consider the tin producer countries' interests even more than hitherto as regards its stockpile-sales policy. On the other hand, the USA as the biggest tin importer would also have to advocate the consumer countries' interests in the International Tin Council in an appropriate manner.

Raw Material Markets

Substantial Recovery of Tin Prices

In the last months of 1975 the continuously low demand led again to a downward pressure on prices in the tin markets although the International Tin Pool had until then built up buffer stocks of about 14,000 t and tin exports had been made subject to quotas since April 1975. The quotation in Penang was steadily threatening to fall below the intervention price of 900 mal.-\$ per picul as fixed by the International Tin Agreement. At the same time the London tin price was only slightly above the level of 3,000 £/t which was regarded as too low by the producers. Therefore, in November the Tin Council decided to increase substantially the funds for further support purchases by the International Tin Pool. In addition, one month later the decision was taken to tighten the quota restriction from 35,000 t to 32,000 t in the first quarter of 1976. Both measures

contributed fundamentally to the re-increase in the London tin price which, in the course of the general upward tendency of prices of non-ferrous metals, reached its peak with 3,572 £/t on March 3, 1976.

According to a calculation so far available tin consumption in 1975 has — due to the worldwide recession — probably gone back by another 16 p.c. Production was probably even a little lower, but together with the significantly increased tin deliveries from the PR China to the USA there was still an oversupply which put pressure on prices and was practically taken out of the market by the International Tin Pool. In connection with the cyclical recovery in the western industrialized countries the gradual increase in tin manufacturers' demand thus resulted in a fast increase in tin prices during the last months. At times there even threatened

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

PUBLISHER: HWWA—Institut für Wirtschaftsforschung—Hamburg (Professor Dr Heinz-Dietrich Ortlieb, Professor Dr Wolfgang Michalski, Dr Dietrich Kebschull) and Stiftung Deutsches Übersee-Institut (Professor Dr Jens Lübbert)

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PRODUCTION AND DISTRIBUTION:

Verlag Weltarchiv GmbH, Hamburg

Advertisements: Representative Dr Hans Klemen

Advertising Price List: No. 13 of January 1, 1971

Rates of Subscription: Single Issue: DM 5.20; Annual rate: DM 60,— (Students: DM 24,—)

Publication Dates: monthly

Printing: Otto Schwitzke, Hamburg

Address: Neuer Jungfernstieg 21, 2 Hamburg 36, Phone: (0 40) 35 62 500

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