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**World business trends**

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# WORLD BUSINESS TRENDS

## Progressing Boom in the USA

The USA's cyclical recovery which started one year ago is continuing briskly during the current year. In the aggregate the speed of expansion during the past twelve months matched that of former recovery phases. In spring the overall economic production approached again the highest level which it had reached before the deep recession. Industrial production, however, which had shrunk considerably more, is still significantly below its former level. The number of persons employed increased quite strongly since the beginning of the recovery. In spite of a distinct reduction above all during the current year, unemployment still remained comparatively high because the number of persons earning or seeking to earn a living by gainful activity — particularly that of women looking for work — continued rising strongly.

### Investment Plans Lagging Behind

Together with a rapid growth of disposable incomes and a slight decline of the savings ratio the expansion of private

consumption in real terms during the current year has accelerated noticeably with the slowing down of the upward trend in prices. But since autumn 1975 expansive impulses also originate again from the enterprises' investments in fixed assets. Up to now, however, contradictory indicia are to be observed in this field. According to an official poll, still in January/February the enterprises anticipated a further decline of their real investments for the current year. But the recovery of new orders for equipments and the stimulation of investment activities since autumn are obviously at variance with the result of the poll. Formerly the enterprises also underestimated the increase in investments at the beginning of a boom. Since now the doubts in the development of a vigorous cyclical upswing vanish, the improved sales prospects permit the anticipation of more optimistic investment decisions. In view of the still comparatively low capacity utilisation the correction of the enterprises' plans may come about more slowly than in former similar phases. The entrepreneurs'

arrangements for carrying stocks have already become more optimistic: Since the beginning of the year the stocks are being increased strongly. While in this sector only temporarily expansive effects are to be anticipated, lasting cyclical stimulations will originate from the re-increase of private house-building.

### Lasting Upswing through Tendency towards Price Stability

Thus in the USA the process of self-acceleration of expansive forces — originating from the expansion of consumer demand initiated by tax reductions during the past year — will start. The economic framework conditions for this development seem to be sufficient even without new financial impulses. Particularly after the distinctly declining upward trend in prices since the end of last year, the stabilisation-orientated limitation of the scope for monetary expansion will hardly be an obstruction for the time being. Although it is not to be anticipated that the current price increase will remain as weak as — mainly under the influence of declining agricultural prices — in the first months of 1976, the prospects for a relatively subdued price development are favourable in view of the low ca-

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

| Index and commodity group                | 1975    |         |         | 1976    |         |         |         |
|--|---------|---------|---------|---------|---------|---------|---------|
|  | April   | July    | October | January | April   | May 7   | May 21  |
| HWWA-Index * (1952-1956 = 100) .....     | 277.3   | 263.9   | 259.8   | 270.0   | 282.0   | 289.5   | 287.2   |
| Foodstuffs .....                         | 242.3   | 201.7   | 204.3   | 200.2   | 212.0   | 227.8   | 225.0   |
| Raw materials other than foodstuffs ...  | 294.1   | 293.8   | 286.6   | 303.7   | 315.8   | 319.2   | 317.2   |
| Fuels .....                              | 465.9   | 466.7   | 466.2   | 491.1   | 496.0   | 492.8   | 492.3   |
| Raw materials for consumer goods ..      | 161.3   | 164.0   | 169.4   | 183.9   | 187.4   | 195.6   | 194.0   |
| Raw materials for capital goods .....    | 211.4   | 208.1   | 185.7   | 196.5   | 221.8   | 228.5   | 224.8   |
| Reuters Index (18. 9. 1931 = 100) .....  | 1,091.1 | 1,109.4 | 1,146.1 | 1,193.2 | 1,369.8 | 1,445.5 | 1,454.3 |
| Moody's Index (31. 12. 1931 = 100) ..... | 743.1   | 785.7   | 782.3   | 782.1   | 802.0   | 824.1   | 821.1   |

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

capacity utilisation. The upward trend in wages has also slowed down until spring; but the recent wage agreement with the truck drivers might signal a turn in the trend. Altogether it may

be expected that a lasting cyclical upswing will come about in the USA exceeding the vigorous increase of production in 1976. GNP in real terms should rise by 6.5 to 7 p.c.

to 63 mn bales may be taken for realistic. This, however, would mean that the overall supply in 1976/77 would almost reach the level of 1975/76 or — if circumstances are favourable — even exceed the latter.

## Raw Material Markets

### Further Increase in Cotton Prices

Around the turn of the year 1975/76 the rising demand for cotton had resulted in a re-increase in quotations. Thereupon followed a tendency towards price stability; in the US, for instance, the price of medium long staple cotton fluctuated around a level of 60 c/lb. When in April the American Department of Agriculture in its estimates, contrary to expectations, reduced the area under cotton for the coming season 1976/77, a re-increase in demand could be registered. Since then the New York quotation rose to 64.5 c/lb, thus exceeding the price of May 1975 by 43 p.c. In the extraordinarily strong boom of 1973, though, a maximum level of 95 c/lb had already been reached.

According to the latest statements by the International Cotton Advisory Committee (ICAC) only 55.0 mn bales of cotton will be produced in the season

1975/76. As against this, in the course of the worldwide re-increase of activity in the textile industry consumption is expected to rise to 61.2 mn bales so that world cotton stocks will fall substantially until the end of this season. At that time stocks will correspond to the international consumption of 4½ months while at the beginning of the current season 1975/76 the stocks still covered six months' consumption. On the other hand, world cotton production is likely to rise significantly in 1976/77. After all the area under cultivation in the US is estimated now at 11.25 mn acres and thus exceeds that of the current season by about 12 p.c. Furthermore a rising cultivation of cotton is expected also in a number of other countries. Consequently — given normal atmospheric conditions — an increase in world cotton production to 60

In 1975/76 the re-increase in cotton consumption concentrated — according to the hitherto available statistics — particularly on the US and a number of far-eastern countries. For the coming season, however, a heavy increase is anticipated also for the other manufacturing countries, especially those in Western Europe. Therefore the assumption seems justified that in 1976/77 world consumption of cotton will again rise by 2 to 3 mn bales, the more so since the probably continuing increase in prices of synthetic yarns supports the use of cotton.

If the expected heavy increase in cotton production should actually materialize, there should be no supply bottlenecks within a foreseeable time. Therefore cotton prices are likely to rise but moderately in 1976/77.

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

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