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WORLD BUSINESS TRENDS

Japan: Growth Rate in 1976

Since the turn of the year Japan's cyclical expansion has increased so much that, besides the USA, France and the Federal Republic of Germany, this country now belongs to the pace-makers of the worldwide cyclical upswing. During the first quarter of 1976 foreign demand accelerated still, but also domestic demand has now recovered noticeably. During this quarter a very strong increase of GNP came about (adjusted for price + 3.5 p.c. vis-à-vis the preceding quarter) and the situation on the labour market improved slightly.

Exports, Private Consumption and Investment

After the turn of the year demand impulses from abroad intensified. Thus the value of export letters of credit granted rose speedily adjusted for seasonal variation. The pace of the export increase in real terms has also risen extraordinarily according to the results so far available. Smaller, but also remarkable, was the growth rate of imports in real terms. With this development of foreign

trade flows the balance-of-trade surplus reincreased strongly.

During the first quarter of 1976 private consumption, at a rate of 3.7 p.c. in real terms, has risen considerably more strongly than in the preceding quarter, because at the beginning of the year the prerequisites to the development of consumption improved again due to rising incomes. Between January and March 1976 the private enterprises' expenditure on equipment goods reincreased for the first time since the second quarter of 1974. With unchanged prices of capital goods this means a slight rise also in real terms — after a decline lasting for two years. The turn in the trend is reflected even more distinctly by the incoming orders of the machine building industry. Still into the fourth quarter of 1975 they had declined continuously, but around the turn of the year a rapid expansion has set in. Private housing also reincreased strongly.

At the end of the fiscal year, in March, the price increases as compared with a year earlier, with 4.5 p.c. in wholesale trade and 8.8 p.c. at the consumer

stage remained within the scope projected by the Government. Current developments, however, are showing trends towards a renewed acceleration. From January to May 1976 the rise in wholesale prices already corresponded again to an annual rate of 7 p.c. Not least of all this development may be explained by the fact that with the cyclical stimulation of demand higher prices could be enforced, all the more since the production of some basic materials was cut down for stabilising the market. But also the considerable price increases of import goods during the second half of 1975 had after-effects.

Favourable Conditions for a Continued Upswing

The conditions for a continuing upswing are favourable. Obviously now as before Japan's international competitiveness is sufficient enough to let the country participate more than proportionately in the expansion of world trade. The incentives for production originating from this will continue to stimulate domestic demand. This is particularly valid for investment activities since the relatively moderate wage agreements — wage rises by about 9 p.c. — together with the foreseeable productivity and price developments will

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

Index and commodity group	1975			1976			
	June	September	December	March	June	July 2	July 16
HWWA-Index * (1952-1956 = 100)	263.5	262.7	266.9	277.0	291.7	298.5	294.6
Foodstuffs	194.8	207.9	197.3	207.9	227.0	236.0	220.3
Raw materials other than foodstuffs ...	296.6	289.2	300.5	310.4	322.9	328.6	330.4
Fuels	468.6	465.2	491.0	495.8	492.4	492.4	493.5
Raw materials for consumer goods ..	163.9	169.0	179.0	183.5	210.4	227.4	231.3
Raw materials for capital goods	213.7	193.8	191.4	210.1	228.9	232.8	233.6
Reuter's Index (18. 9. 1931 = 100)	1,061.8	1,159.2	1,158.5	1,277.7	1,514.4	1,553.7	1,553.2
Moody's Index (31. 12. 1931 = 100)	171.5	803.9	746.3	784.2	856.3	894.9	870.2

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

enable a strong expansion of profits. Later this year, after a "normalisation" of exaggerated stocks-turnover-relations, the arrangements for carrying stocks should also exercise expansive effects. Private consumption in real terms will probably grow but moderately. Thus the reduction of the saving ratio will finally come to a standstill and the private household's pur-

chasing power will — in view of the hardly rising hourly wages adjusted for price — rise but slowly. In the aggregate a rapid expansion of GNP in real terms is indicated for the further course of the year, which will also lead to an increasing utilisation of capacities. On an annual average for 1976 a growth rate of 7 to 8 p.c. (1975: 2 p.c.) should result.

results, will reincrease somewhat more strongly than in the previous season — probably to 1.53 mn tons — but this will not compensate for the reduction in stocks.

Starting from this "fundamental" situation in the season 1976/77, further rising wool prices are to be anticipated. Mainly the processors will determine the scale of price rises. If at the beginning of the new season they should undertake further extensive stockpiling purchases, a vigorous price boom might come about. It is more probable, however, that the processors will make more cautious arrangements than during the last cyclical upswing in the textile industry in order to limit price increases. This buyers' behaviour should be encouraged by the recent moderate increase of the representative Australian minimum price of 250 c/kg to 275 c/kg for the coming season. On the one hand, the Australian Government had to benefit the wool farmers whose earnings dropped owing to rising costs; on the other hand, it obviously intends to avoid jeopardising the competitiveness of wool vis-à-vis synthetic fibres, which has improved but recently.

Raw Material Markets

Wool Quotations Rising Vigorously

The textile industry's continuous upswing has led to a further strong recovery of wool prices in almost all important consumer countries. Mid-July 1976 at Bradford e.g. 64s Merino wool with 270 c/kg was quoted more highly by 44 p.c. than a year ago — calculated in US\$ by 17 p.c. On the auctions of unprocessed wool in Australia, New Zealand and South Africa prices also continued rising up to the end of the sales season 1975/76. In Australia the representative price of clean wool of 21 micron reached 285 c/kg in June and with that surpassed by 35 p.c. the minimum level of 250 c/kg, which during the season 1975/76 for a long time could only be kept by support purchases of the Australian Wool Corporation. Only during the last months not only the total

current supply was sold at rising prices but AWC — as well as the Wool Commissions in New Zealand and South Africa — continued the reduction of their large intervention stocks.

In the coming season 1976/77 the increase in demand for wool will continue. After the unexpectedly high reduction of wool stocks in the most important export countries during the last months of the past season, a decline of total wool supplies is to be anticipated on the wool markets. At present Australia still disposes of 1.3 mn bales of unprocessed wool (or about 110,000 tons of clean wool, after 137,000 tons a year ago). In the other producer countries the stocks have obviously been reduced to a small remnant. True, in 1976/77 world wool production, with again normal shearing

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