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## World business trends

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# WORLD BUSINESS TRENDS

## Industrial Nations: Steeply Rising Production

The Western industrial nations' industrial production has been reinforcing strongly for more than one year. In the second quarter of 1976 it was by about 10 p.c. higher than in the trough of recession a year ago. The growth rate was particularly high in Japan at approx. 14 p.c. and in the USA at 12 p.c. As against that in the West European industrial countries it should have reached an average of "only" 7 p.c. This lower rate does not so much reflect a slower speed of the cyclical upswing in Western Europe but mainly the later start of the recovery.

### Pre-recession Level Soon to be Reached

The force of the cyclical expansion has generally surpassed anticipations. It must, however, be viewed against the background of the preceding slump in production. In the second quarter of 1976 the latter was on average made good again to more than 75 p.c. in the Western industrial states. There are indications that the pre-recession level will be reached again in

autumn. In this context it is being assumed that industrial production — as already indicated by the development during the last months — will in the aggregate grow somewhat more slowly than during the first phase of recovery that was marked by expansive arrangements for carrying stocks.

With that the consequences of the recession will, however, be not yet overcome at all, because the average capacity utilisation rate will remain quite low. For, the level of industrial production to be expected for the last quarter of 1976 in the Western industrial countries had already been reached at the end of 1973, and within the following three years the industrial production potential has continued rising noticeably. Even if its growth — above all owing to reduced investment during the recession — since 1974 would have been almost halved vis-à-vis the long-term average, at the end of 1976 the utilisation rate would statistically still be lower by three percentage points than three years ago. Considerable

differences doubtlessly exist between countries and between branches. Capacity calculations are also always very inadequate as is shown in the United States by the discussion on the "true" rate of utilisation.

### Unemployment Declined only Sporadically

Under these circumstances unemployment declined only in a few industrial countries in the course of the present process of recovery. This applies particularly to the USA where up to the second quarter of 1976 the share of the unemployed in the total labour force dropped from 8.7 p.c. to 7.4 p.c. within a year's time (adjusted for seasonal variation). In the Federal Republic of Germany the corresponding quota fell from 4.5 p.c. in the fourth quarter of 1975 to 4.1 p.c. in the second quarter of 1976. As against this in most of the other countries, among which France, Britain, the Netherlands, Belgium and Denmark register even higher quotas than the Federal Republic, the reduction of unemployment has not yet begun, which in several cases is also a consequence of the increase in the labour force. A tendency towards an improvement of the labour market situation is only shown by the increasing number of available jobs in most countries.

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

Index and commodity group	1975		1976				
	July	October	January	April	July	July 30	Aug. 13
<b>HWHA-Index * (1952-1956 = 100) .....</b>	<b>263.9</b>	<b>259.8</b>	<b>270.0</b>	<b>282.0</b>	<b>294.9</b>	<b>293.2</b>	<b>291.8</b>
Foodstuffs .....	201.7	204.3	200.2	212.0	226.3	224.0	220.4
Raw materials other than foodstuffs ...	293.8	286.6	303.7	315.8	327.9	326.5	326.3
Fuels .....	466.7	466.2	491.1	496.0	493.2	493.8	493.9
Raw materials for consumer goods ..	164.0	169.4	183.9	187.4	222.1	214.5	219.9
Raw materials for capital goods .....	208.1	185.7	196.5	221.8	233.5	234.3	230.1
<b>Reuter's Index (18. 9. 1931 = 100) .....</b>	<b>1,109.4</b>	<b>1,146.1</b>	<b>1,193.2</b>	<b>1,369.8</b>	<b>1,539.1</b>	<b>1,495.7</b>	<b>1,465.7</b>
<b>Moody's Index (31. 12. 1931 = 100) .....</b>	<b>765.7</b>	<b>782.3</b>	<b>762.1</b>	<b>802.0</b>	<b>868.7</b>	<b>829.4</b>	<b>821.7</b>

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

In view of the underutilisation of the potential and the priority of the employment target it would seem to be obvious for the economic authorities to stimulate the recovery by further incentives for demand. But this is opposed by the apprehension that inflation, which at any rate in most cases is vigorous still, would flare up again and an early collapse of the cyclical up-

swing would result. The chance for an approach towards a satisfactory rate of employment in the industrial countries is only offered by a lasting upswing. An important prerequisite to such a development would be that the tendencies, to be observed frequently at present, towards a consent in distribution policies continue beyond the moment when the labour market situation starts to improve.

other factor indicating a price boom — the supposition that the world cotton production will in 1976/77 reach at most 60 mn bales. Primarily in the US this year's crop is supposed to fall substantially short of the original expectations of 12 mn bales. On the other hand, a further considerable increase in world cotton consumption to a total of 65 mn bales is generally considered possible. If these expectations should prove realistic there would be another production deficit of 5 mn bales.

## Raw Material Markets

### Heavy Increase in Cotton Prices

In recent months the substantial reduction of world cotton stocks and the continuing uncertainty about the development of production in 1976/77 have repeatedly led to large purchases in the international cotton markets. In the US the price of medium long staple cotton increased by 51 p.c. between mid April and early July. On July 6 it reached with 91.3 c/lb almost its peak of 95.0 c/lb in the extraordinarily vigorous boom of 1973. Thereupon followed a decline since obviously many manufacturers began — due to the high price — to extend their processing of synthetic fibres. It seems that the Asian importing countries were a major exception. Their continuing purchases above all in

the US resulted in a re-increase of the price in the first half of August. In mid August cotton was traded at 79.0 c/lb which exceeds the price of mid April by 31 p.c.; the increase over the price of August 1975 amounts to 54 p.c.

In the International Cotton Advisory Committee's (ICAC) latest estimate the extent of world cotton stocks disposable at the beginning of the new season 1976/77 has again been revised downwards. The now expected stock of 21.4 mn bales corresponds only to the international consumption of 4 months while at the beginning of the preceding season the stocks still covered six months' consumption. Recently there is an-

Considered for itself the anticipated shortage primarily of first-class cotton points to an even steeper price increase in the cotton markets in 1976/77. The cotton manufacturers' recent withdrawal from the market shows however clearly that with a view to the returns cotton is not bought "at any price". In the US for instance an increased use of synthetic fibres is expected as soon as the cotton price exceeds 80 c/lb. Thus in the next months cotton prices will probably tend to rise further but will soon reach the limits set by the competition with substitutes. Substantial price variations seem possible.

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

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