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World business trends

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WORLD BUSINESS TRENDS

Britain: Stabilisation Troubles Continuing

Of the numerous incomes policy efforts during the post war period Britain's approach initiated August last year is one of the few examples of success. During the first year at any rate the agreement has been observed. Thus, a distinct reduction of the upward trend in wages and prices emerged — although they are rising rapidly enough still. Up to July the standard hourly wages have risen by 17.5 p.c. within a year after 32.1 p.c. during the corresponding previous period of a year. The consumer prices increased by 12.9 p.c. after 26.3 p.c. until July. This process has been favoured by the insignificant strain on the production apparatus which is continuing in spite of the conquered recession. In particular the continuous increase in external demand and expansive arrangements for carrying stocks but also — in connection with the decline of the saving ratio — the increase of private consumption during the winter half-year resulted in the recovery of production from its low level in summer last year. Industrial production, however, reached on

the average of the second quarter only the level which had already been realised four years ago. Therefore the unemployment ratio has been rising slightly up to now. In August it amounted to 5.6 p.c.

Devaluation Impedes Checking the Upward Trend in Prices

The checking of the upward trend in prices has been impeded particularly by the advance in import prices conditioned by the devaluation. Therefore the Government's objective of reducing the price increase rate of private cost of living to 10 p.c. cannot be obtained anymore until the end of the year. Although economic policy authorities and economists considered a reduction of the external value of the pound to be necessary for reasons of maintaining the international competitiveness, at 10 p.c. between January and August it has surpassed considerably the desired extent. Surprising was above all that the pressure on the pound also continued when a somewhat modified continuation of the incomes policy and

with that a further, although not as spectacular flattening of the rising tendency in wages and prices seemed to be secured. The heavy pressure on the pound indicates anticipations of continuing relatively unfavourable developments of the British economy.

Monetary and Financial Support Sufficient?

These anticipations may mainly base on the monetary and financial support of incomes policy appearing to be insufficient. Only after persistent criticism the Government committed itself hesitatingly to a "controlled" expansion of the monetary framework. The public deficit which this year at almost 9 p.c. of GNP can hardly be described as being correct in view of the cyclical trend, will also in 1977 remain precariously high in spite of the announced cut in public expenditure by £ 1 bn. Last but not least monetary policy would come into conflict by such a development. The — in view of the expansive demand in particular from abroad — probably soon noticeably increasing propensity to invest and with that finally a turn in the development of employment might be checked by an unfavourable trend in the interest rates. Although a too strong re-increase of interest rates could be avoided by a

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

Index and commodity group	1975		1976				
	August	November	February	May	August	Sept. 10	Sept. 24
HWWA-Index * (1952—1956 = 100)	267.2	259.5	273.4	287.4	291.8	291.1	288.7
Foodstuffs	215.7	200.7	200.9	223.9	219.9	220.2	214.5
Raw materials other than foodstuffs ...	292.0	287.8	308.4	318.1	326.4	325.2	324.4
Fuels	465.4	467.1	495.8	492.6	494.2	494.7	496.6
Raw materials for consumer goods ..	166.3	174.1	184.4	195.2	218.3	217.7	214.0
Raw materials for capital goods	202.9	184.8	204.2	226.0	231.1	227.8	226.4
Reuter's Index (18. 9. 1931 = 100)	1,171.5	1,335.5	1,222.9	1,444.4	1,469.8	1,489.0	1,470.7
Moody's Index (31. 12. 1931 = 100)	802.7	742.5	777.0	821.7	818.8	841.9	821.6

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

corresponding expansion of the monetary framework, this would endanger stabilisation successes. The Government will, however, hardly be able to decide autonomously on this problem: The already indicated redemption of the most recent foreign exchange credit through funds of the IMF will be linked up with economic policy conditions.

It will depend to a considerable degree on the further development of the balance of trade how drastic these conditions will be, i.e. particularly on whether imports will not grow too strongly together with a further increase of demand and production — for, GNP in real terms should rise this year by about 3 p.c. vis-à-vis 1975.

for zinc, which had simultaneously been induced by this, continued even when the anti-speculative measures were abolished in London and when the anti-trust steps were not considered as serious as before. Apparently speculators had overestimated the increase in the zinc processors' demand for meeting the growing consumption and for adding to their stocks, above all in West Europe.

Raw Material Markets

Intricate Situation in the Zinc Market

In the last months the situation in the world zinc markets has become very intricate. In London a weaker price tendency has reasserted itself since mid-July; previously the speculative stimulation of demand had led to a rapid increase in the cash quotation up to 444 £/t. On September 17, the quotation was with 406 £/t by 10 p.c. below the price fixed by the West European zinc producers which since the beginning of the year amounts to 795 US \$/t (presently about 449 £/t). As against this, in August some major US-producers raised their fixed selling price by 3 p.c. to 40 cent/lb (505 £/t). This price exceeds substantially the price level at the London exchange as well as the fixed selling price of the West European zinc producers. Given that such large discrepancies in the international price

structure will hardly last over a long period, the question arises on which level a "uniform" zinc price will develop in the next months.

The final stage of the boom in the London zinc market was initiated in May when the Bank of England instructed the members of the zinc exchange to stop mediating all apparently speculative orders. Besides, at the time there was talk of an antitrust inquiry to be made by the European Commission. Therefore the West European zinc producers did not make the boom at the exchange the occasion of an increase in their fixed selling price. US-producers, too, adjourned the planned price increases, as the US Government announced investigations concerning international price-fixing agreements in the zinc market. The slackening demand

Against the background of these abundant supplies of zinc it is easy to understand that the American price increases have so far hardly led to any additional purchases and to significantly higher quotations in London. Generally it is to be anticipated, however, that the recovery of US-demand for zinc which is expected for autumn will result in an increase of the relatively cheap imports. Since at the same time in West Europe the cyclically-induced expansion of demand will probably continue, a quicker reduction of the existing stocks than before is to be anticipated. Under these conditions the London zinc prices are likely to reincrease soon and to approach the higher American price level.

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

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