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WORLD BUSINESS TRENDS

Italy's Business Cycle with Heavy Uncertainties

In Italy the cyclical recovery has been unexpectedly vigorous in the course of this year. Industrial production rose more rapidly from the — in this country admittedly particularly deep — trough of the downswing than in most of the other West European economies. In September the brisk expansion induced the Government to revise the forecast growth of GNP in real terms for 1976 from 2.5 p.c. to 4.5 p.c. The final result might even exceed this figure.

Balance of Payments Problems

The cyclical recovery very quickly led again to external difficulties. Owing to the strong expansion of domestic demand imports and consequently the deficit in the balance of trade reincreased strongly already at the end of 1975 and the balance of payments problems soon exacerbated again. Because of the price-enhancing effects of a devaluation the Government was striving to keep the external value of the Lira as stable as possible. Since however the funds available for interventions on the foreign exchange markets

were scanty while the country's international indebtedness was already high, the free convertibility of the Italian currency was continuously reduced in the course of the year. It is nevertheless questionable whether the present Lira exchange rate can be maintained for a longer period.

Another Turn of the Price and Wage Spiral

This sceptical view is supported in particular by development trends of prices and wages. Already during the first four months of the year the price increases accelerated strongly again. This development was mainly triggered off by the devaluation wave during the first months of the year. Even after its effects diminished, the current rate of inflation remained high. At present also the vigorous increase in numerous official rates and charges as well as of the state-controlled prices, which is to absorb the surplus purchasing power and to reduce the public authorities' respectively enterprises' deficits, is contributing to this trend. Official quar-

ters expect that the rise in consumer prices, that this year should amount to about 17 p.c., next year would mount up to about 20 p.c. on an annual average, if no further restriction of the institutional wage dynamics comes about.

1977: Curbed Domestic Demand — Rising Exports

The measures taken already now aim at a reduction of private consumption. With that also the conditions of a stimulation of investment activities have deteriorated again, all the more since the interest rate level rose steeply (discount rate: 15 p.c.) and the tendency to reduce the social losses due to friction cannot yet be regarded as permanent. Under these circumstances next year's development depends particularly on growing exports. If they rise to about the same extent as world trade, for which an increase by approx. 8 p.c. in real terms is expected, an improvement in the balance of payments position without a renewed recession seems to be obtainable. But a considerable increase of GNP in real terms is hardly to be anticipated.

Forecasting Very Uncertain

This forecast is, however, afflicted with considerable uncertainties in positive as well as in negative respects. On the one hand, due to the drastic restric-

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

| Index and commodity group | 1975 | 1976 | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | October | January | April | July | October | Nov. 5 | Nov. 19 |
| HWVA-Index * (1952—1956 = 100) | 259.8 | 270.0 | 282.0 | 294.9 | 292.8 | 294.0 | 295.9 |
| Foodstuffs | 204.3 | 200.2 | 212.0 | 226.3 | 219.4 | 223.7 | 229.9 |
| Raw materials other than foodstuffs ... | 286.6 | 303.7 | 315.8 | 327.9 | 328.1 | 327.8 | 327.7 |
| Fuels | 466.2 | 491.1 | 496.0 | 493.2 | 499.6 | 498.0 | 500.6 |
| Raw materials for consumer goods .. | 169.4 | 183.9 | 187.4 | 222.1 | 224.5 | 231.0 | 226.3 |
| Raw materials for capital goods | 185.7 | 196.5 | 221.8 | 233.5 | 226.2 | 222.5 | 222.7 |
| Reuter's Index (18. 9. 1931 = 100) | 1,146.1 | 1,193.2 | 1,369.8 | 1,539.1 | 1,530.0 | 1,539.0 | 1,540.1 |
| Moody's Index (31. 12. 1931 = 100) | 782.3 | 782.1 | 802.0 | 868.7 | 807.7 | 811.1 | 819.2 |

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

tion of domestic demand a, relatively to world trade, stronger expansion of exports seems to be quite possible. This would result in direct and indirect impulses for an increase of GNP in real terms. But, on the other hand, a reduction cannot be excluded. In particular such a reduction is to be apprehended if efforts at checking the wage dynamics effectively are unsuccessful. The inflation and balance of payments problems would of necessity even inten-

sify. In view of the almost fully utilised international credit potential the Government has already threatened with further demand restrictions as a coercive alternative although it did not reify them as yet. These restrictions would doubtlessly be directed towards an even stronger check to private consumption. In this case, however, it is hardly foreseeable whether such an austerity programme would be enforceable under domestic policy aspects.

cause of the abundant supply a new wave of purchases for stockpiling purposes by the processors is not to be expected in the near future. In view of this market trend the copper policy of the major producer country Chile, which is directed at a vigorous expansion of production, appears surprising. The stabilisation of copper prices on a level substantially above the present one is, according to Chile, to be achieved through the building up of large stocks as suggested by UNCTAD rather than through production cuts. The remainder of the CIPEC countries hold the opposite view having in mind the extraordinarily high financial expenditure which would be connected with the establishment of such a large buffer stock. Their appeals to Chile's solidarity however have so far been unsuccessful. In case of a continuation of Chile's production policy a further increase of the oversupply of copper in the western world must be expected for 1977. A certain slackening of the supply pressure could however result from an eventual prolonged strike in the North American copper industry where most of the collective wage agreements expire in mid 1977.

Raw Material Markets

Decline in Copper Prices

Since mid July 1976 the price at the London Copper Exchange has been declining again. This was due to the cautious purchasing behaviour and to the abundant supplies. In the preceding months the increase in demand which had been supported mainly by speculation had led to a temporary annual maximum level of the cash quotation of 936 £/t (July 15). With 775 £/t the present quotation is by 17 p.c. (by 22 p.c. if converted into US-Dollar) lower. In the US copper producers were forced to reduce their sales price to 70 c/lb.

The new decline in copper prices reflects the slackening growth of demand in the western industrialised countries. On

the other hand, copper production has been substantially extended so that the reduction of the producers' copper stocks has stopped. The copper stocks of the London and the New York metal exchanges have even continued to rise further and reached record levels of 586,000 t and 170,000 t, respectively. According to rather conservative estimates the western world can expect a production surplus of 570,000 t in the second half year.

During the next months the pressure on copper prices is likely to persist. True, with the anticipated steeper increase of industrial production in the western countries copper consumption will again rise at a faster pace. But even then be-

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