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sult of weakening "turnround" effects of the recovery from the recession at that time was perfectly compatible with the expectation of a gradual strengthening of the endogenous impulses for a further upswing. Assumptions to this effect are however hardly warranted at the present time for the early slackening of the expansion must be attributed to the failure of the hoped-for lasting improvement of the propensity to invest to materialize. There are certainly many different reasons for this, and the conjuncture of political, economic and social factors involved varies from country to country. Whatever weight may have to be given to each in the individual case, a further overall upswing with increasing utilization of capacities can no longer be looked forward to in Western Europe, at any rate not in the absence of fresh stimulatory measures. On the other hand it is not likely that we shall slide into another world-

wide recession in the near future because previous excesses — for instance the stocking-up in 1974 — have this time been avoided and the upswing is continuing in the USA.

Economic Policy Dilemma

As unemployment is expected to rise further, more pressure will be brought to bear on the governments to resort to expansionary measures. Implicit in stimulation of demand, production and employment is however in many cases a danger that inflation will be given a fillip. As long as this danger persists in an acute form, a return to satisfactory employment levels will remain elusive in many countries. This also tends to fuel efforts to protect threatened jobs by pursuing more protectionist trade policies. Greater attempts in this direction however will ultimately merely aggravate the inflation and employment problems facing the industrialized countries.

Recessionary Tendencies in Sweden

The latest devaluation in Sweden has come at a time when the economic trend in the country is pointing downward. In the first half of 1977 the industrial production was, seasonally adjusted, about 4 p.c. lower than in the second half of 1976. The restraint shown by private domestic demand contributed to the decline as did the slow export business. The continued grant of stock-keeping subsidies to industry had apparently no longer the desired effect. Use of this instrument has enabled Sweden to avoid getting caught in the vortex of the world-wide recession of 1974/75 but the large stocks which were thus accumulated hindered a fresh upswing from the outset. The Government has avoided an in-

crease in unemployment, which remains unchanged at a low level, by making considerable use of measures of labour market policy (retraining courses, extra recruitment for the public services).

Strong Price Rises

Despite the worsening economic trend prices have continued to rise strongly, and a price stop for domestic goods in April and May made little difference; the raising of the value added tax by 3 percentage points in June put an extra burden on the consumer. The rise of wage costs has eased off since much lower wage increases have been agreed for 1977 after the big collective wage hoists in the two preced-

ing years. The employers' social insurance contributions had however been raised again already earlier. Moreover, advances in productivity are being made more difficult by the downturn of production.

Export Revival Fails to Show Up

Contrary to expectations it proved impossible to reduce the exceptionally large stocks when the world economy recovered, for the volume of exports started declining at the middle of last year already. That the expansion in Western Europe, Sweden's most important market, was only moderate played undoubtedly a major part in this. The upsurge of costs and prices since 1975 probably also caused Sweden's competitive position to deteriorate. The previous devaluations in the framework of the European currency compound made little difference in this respect; in July the external value of the krona vis-à-vis the country's trading partners was overall still a little higher than it had been a year earlier. The import volume has also fallen off since the beginning of the year, not least presumably because of more cautious stock dispositions; the large trade deficit was therefore cut back in a short time. The improved external situation however merely reflects the fact that Sweden has been lagging behind the cyclical development in other countries. The aim of the withdrawal from the currency compound and the subsequent devaluation is to provide room for manoeuvre in the external sphere for a stronger expansion.

No Cyclical Improvement Yet in Sight

For the time being the economic outlook is still in general lack-lustre. Further material contractive impulses must be expected to issue from the stock dispositions. Since real wages

will probably decline, private consumption will at best increase only slightly. The industrial investment activity will definitely decline because of the unfavourable outlook for sales and profits and the low level of capacity utilization. Public sector demand on the other hand may be expected to expand further. Overall it must be assumed that in the annual average the real gross national product in 1977 will probably not come up to the result of the preceding

year (1976: + 1.5 p.c.). In these circumstances it is doubtful whether increased unemployment can be avoided also in future. It will take some time for the improvement of the country's competitiveness as a result of the devaluation to work through to exports — and this only if the continuing cost and price updrift is moderated. All this sets narrow limits to any support to be given to domestic demand by the means of economic policy.

respectively in the two previous years. Besides, more cotton has been sown in a number of other countries as prices were high in the sowing season. So, given normal weather conditions, it seems to be quite realistic to forecast an increase of the world cotton production by about 6 mn bales to 64 mn bales. The total 1977/78 supply (carry-over + production) would thus be distinctly higher than for 1976/77.

Moderate Demand Expansion

Cotton consumption will rise only slightly during 1977/78 because the cyclical trend suggests a relatively small increase in textile requirements. The demand for cotton may however revive to some extent over the season if the manufacturers, especially in the Asian countries, have by then drawn their cotton stocks down to a minimal level. Following the price fall more cotton may also conceivably be used instead of synthetic fibres although prices of the latter are also under pressure. So, all in all, there is little reason, if allowance is made for the anticipated increase of supplies, to expect the cotton price to recover significantly in 1977/78.

Raw Material Markets

Big Fall of Cotton Prices

At the end of August 1977 the New York Cotton Exchange standard-quality quotation was down to 54.20 c/lb compared with a high for the year of 82.25 c/lb on March 21. The big fall (–35 p.c.) was due to the mill buyers' reticence. During 1977/78 cotton requirements are not expected to increase much whereas production is quite likely to rise sharply, to go by the latest cotton acreage estimates. In the first few months of this year the predominant impression had still been in general that the supply position would remain tight again in 1977/78.

Strong Production Rise Likely

According to the latest estimates of the International Cotton

Advisory Committee (ICAC) the world cotton consumption in the 1976/77 season which closed at the end of August was 1.1 mn bales down at 61.6 mn bales. The production probably increased at the same time by 3.2 mn bales. At 57.8 mn bales it was however far below the consumption — just as in 1975/76. The 1977/78 season is therefore opening with world cotton stocks down to about 19 mn bales, a further big fall from the 22.7 mn bales carried over a year earlier.

The world cotton production on the other hand may be expected to increase markedly in 1977/78. The US Department of Agriculture estimates the country's new crop at 13.5 mn bales as against 10.7 and 8.5 mn bales

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

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

Index and commodity group	1976		1977				
	August	November	February	May	August	August 26	Sept. 9
HWWA-Index * (1952–1956 = 100)	291.8	294.2	313.9	328.4	309.0	307.8	305.6
Fuels	219.9	226.4	264.5	296.7	248.2	244.2	244.8
Raw materials for consumer goods ..	326.4	326.8	337.7	343.7	338.3	338.4	335.0
Fuels	494.2	499.4	522.6	545.3	548.8	548.9	548.8
Raw materials for consumer goods ..	218.3	225.6	216.5	213.7	187.9	187.3	181.6
Raw materials for capital goods	231.1	222.0	234.0	229.1	228.6	229.3	224.1
Reuter's Index (18. 9. 1931 = 100)	1,489.8	1,552.7	1,630.3	1,678.4	1,491.3	1,481.2	1,492.9
Moody's Index (31. 12. 1931 = 100)	818.8	816.7	907.2	935.1	833.5	835.5	830.1

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