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Great Britain: Recovery to be expected

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regional sectional markets where labour of the required qualification standard is scarce. On the contrary there are vocational groups showing a particularly high excess supply to which belong mercantile callings and office and administration personnel. There unemployed and vacancies are in the ratio of six to one. Nevertheless first tendencies towards improvement are asserting themselves here. Thus in January/February the number of unemployed in these vocational groups was about 10% below the previous year's level.

In the last months the total number of unemployed persons was approximately as high as a

year ago; adjusted for seasonal variation it showed, as mentioned above, a slightly falling tendency. Thus it has become "safer" to forecast an essentially unaltered annual average level of unemployment, since the initial level, which is known now, corresponds largely to the assumption of the annual forecast. A 3% increase of the real gross national product is still to be expected. Under these circumstances the risks of forecasting unemployment are primarily based on alterations of factors which are difficult to foresee, such as migration of foreigners and the transfer into the latent labour reserve of persons so far registered as unemployed.

cently shown a vigorous re-increase. This partly reflects the recovery of overall demand which — after a period of stagnation — seems to have come about around the end of the year. Expansionary effects are likely to have originated from the development of stocks. Simultaneously the recovery of private consumption that started last summer made progress, its further increase being supported not least by the tax-free extra-payment to pensioners in December and the retroactive reduction of income tax. Over and above this, average earnings have increased faster and have grown also in real terms. As against that, the increase of investments in fixed assets in manufacturing industry was interrupted.

While the real gross domestic product, on an annual average, hardly increased in 1977, underemployment grew further. In view of a — seasonally adjusted — unemployment ratio of about 6% since late summer 1977, the fight against unemployment gains increasing priority, the more so since the explosion of wages, which was feared by many after two years of a tight incomes policy, will probably be avoided. In spite of the premature repayment of part of the IMF-loans obtained in 1976/77, it is intended to fulfil the economic obligations undertaken in connection with these loans. This indicates that it is recognized that inflation must be curbed as an important precondition for a lasting reduction of the still prevailing cyclical and employment problems. Thus it may be expected that the money supply (M3) which between the spring and the end of last year grew somewhat faster than intended, will be expanded more cautiously again.

There is scope for additional stimulating measures of fiscal policy. For, in case of an unaltered policy the budget deficit

Great Britain: Recovery to Be Expected

The remarkable slowing-down of inflation has for some time been the most prominent feature of the development of the British economy. From August 1977 to January 1978 consumer prices rose at a current annual rate of only 6% (one year earlier: about 20%). The price-reductions for foodstuffs which are particularly sensitive to seasonal influences exaggerate the tendency towards price stability, but even if leaving this sub-group out of account the cost of living in the same period increased merely by about 7% (on an annual basis). In January there was a one-digit inflation rate for the first time since 1973 (9.9% as compared with the preceding year). This spectacular deceleration was largely due to two factors, namely the wage trend and the revaluation tendency of the pound. The heavy deceleration of the upward movement of wages was largely achieved in the framework of phase II of the

incomes policy which ended last July and led even to substantial losses in the real incomes of employed persons: in 1977 their average income in real terms was about 5% lower than in 1976, thus only slightly exceeding the 1972 level. At the same time the sensible deceleration of the upward tendency of wages and prices was one of the causes of the conversion of the devaluation into a revaluation tendency of the British pound which again favoured stabilisation through declining import prices.

The external value of the British currency increased by 9% between August 1977 and January 1978; this reflects in the main the significant improvement of the current account to which the further expansion of North Sea oil production made a major contribution. The phase of growing surpluses, however, seems to have come to an end, not least because imports have re-

would probably remain markedly below the maximum level agreed with the IMF. But even if allowing for new expansionary measures which will certainly be taken in the framework of the spring budget the British growth expectations of over 3 % for 1978 seem too high. Even an annual average increase of the real gross national product of 2.5 % must be regarded as a rather optimistic estimate, since in view of the small carry-over it would pre-suppose a marked acceleration of the current ex-

pansion. Since a significant increase of real incomes can be expected, stimuli will originate from private consumption. Due to the markedly improved profitability and the more favourable sales and earnings prospects, private investment in fixed assets, too, should — according to surveys — increase substantially. In view of the growing oil production a sensible stimulation of domestic demand seems compatible with the continuation of a significant surplus in the current account.

statistical shortage of 15,000 t and 19,000 t, respectively, a production deficit of 18,000 is expected for 1978. The consumption should rise somewhat more slightly than in 1977 and reach about 203,000 t, while with production an increase at the same moderate pace to 185,000 t is being expected. After the sellout of the stocks of the International Tin Pool an evening up of the production gap — at any rate in part — would still be possible through a reduction of the tin stocks in the producing countries. This, however, has been refused by them at the last meeting of the Tin Council because the stocks at about 25,000 t have already dropped to a minimum level.

The development of tin prices in the further course of the year will strongly depend on the discussion between the producing countries and the USA of the stockpile policy.

Taken all in all further strong price fluctuations are to be anticipated during the next months, in which case an upward price trend might again assert itself. Only a positive American decision on tin releases from the US-stockpile would cause a downward tendency of tin prices.

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

Raw Material Markets

Unquiet Tin Markets

During the first months of 1978 the London cash quotation for tin has been moving between 6,000 and 6,400 £/t, after a new maximum level of 7,355 £/t had been reached on December 12, 1977. The fall to a lower level of the tin price was caused by the increased probability of substantially higher tin sales from the strategic reserve of the USA. In deference of the tin producing developing countries only 2,640 t of tin from this source were thrown on the market in 1977. Presently 205,000 t are still in the stockpile of which 173,000 are considered superfluous. A possible change of the American stockpile policy in 1978 was indicated by the firm refusal on

the part of the USA — and other consumer countries — to raise intervention prices once again within the framework of the International Tin Agreement at the end of the beginning year. Of the producer countries it was mainly Bolivia which had determinedly supported this claim, arguing that the urgent expansion of capacities could be secured only by substantially higher tin prices.

In the absence of markedly higher tin sales from the US-stockpile the restrictive production and export policies of the few tin producer countries would lead to further shortages and renewed price increases in 1978. After the western world had already in 1976 and 1977 faced a

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

Index and commodity group	1977				1978		
	February	May	August	November	February	March 3	March 17
HWWA-Index * (1952–1956 = 100)	313.9	328.4	309.0	310.0	317.0	315.7	315.3
Fuels	264.5	296.7	248.2	255.7	263.5	256.6	255.1
Raw materials for consumer goods ..	337.7	343.7	338.3	336.2	342.8	344.2	344.4
Fuels	522.6	545.3	548.8	552.2	562.7	563.8	563.4
Raw materials for consumer goods ..	216.5	213.7	187.9	176.6	181.4	182.6	185.8
Raw materials for capital goods	234.0	229.1	228.6	227.4	231.3	233.0	231.8
Reuter's Index (18. 9. 1931 = 100)	1,630.3	1,678.4	1,491.3	1,477.4	1,395.1	1,386.8	1,394.8
Moody's Index (31. 12. 1931 = 100)	907.2	935.1	833.5	839.7	901.4	901.2	905.1

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