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Booming raw material markets

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Booming Raw Material Markets

The unexpectedly strong increase of demand in recent months has led to in part substantial advances of the world market prices for industrial raw materials. Between the beginning of December and the beginning of March they were most marked for copper (+ 32 %), lead (+ 30 %), Zinc (+ 15 %), scrap iron (+ 33 %) and hides (+ 27 %). The prices of steel, rubber, wool and cellulose also rose. The improvement of the general demand did not however spread to tin, cotton, jute and timber; the prices of these commodities declined or remained stationary. The general price level in the industrial raw material markets rose — in US dollars — by 5.4 % (excluding fuels by 8.2 %) ¹. It was 13.7 % (excluding fuels 29.5 %) higher than 12 months earlier, in March 1978.

The strong expansion of the demand for raw materials is to be attributed in part to the more marked rise of production in Western Europe and Japan. Another factor was that economic growth in the USA has so far failed to slow down as expected in response to the stabilization measures. The cyclical rise in the demand for raw materials was reinforced by specu-

lative buying due to a number of special influences including in particular continuing uncertainty about the political developments in Iran and — in consequence — about the future of oil supplies to the Western world.

Raw material buyers felt overwhelmingly apprehensive about a possible crude oil shortage and further price increases for oil products which would strengthen the inflationary tendencies world-wide and put pressure on the US current account, thus weakening the dollar again. Non-ferrous metals in particular came in for heavy buying to forestall the effects of such a development. The steep rise of prices in turn caused fabricators to make precautionary additions to their raw materials stocks to an extent which in view of the prospect of a cyclical decline in the USA and a corresponding shift in market conditions in favour of raw material users during 1979 was not to be expected. The buying was heaviest in a few raw materials (copper, lead and zinc) the output of which was deliberately kept down in the last two years.

¹ As regards crude oil the rise of the OPEC export prices on Jan. 1, 1979 (by 5 %) only has been taken into account.

Generally speaking, there are no signs at present of calm returning to the markets for industrial raw materials. Apart from the political turmoil in Iran, the warlike conflict in South-east Asia has lasted unexpectedly long and became a cause of uncertainty in the markets. More raw materials, like tin and natural rubber which are produced in areas close to the new trouble spot may soon be drawn into the speculative vortex. The China-Vietnam conflict is however unlikely to trigger a general boom in industrial raw materials unless there are signs of a major escalation. The prices may fluctuate sharply in the coming weeks as views on the situation in the crisis areas chop and change; the underlying price trend will for the present continue upward.

Once the special influences have lost their force, weaker cyclical trend in the USA will also have a damping effect on the rising demand in the raw material markets. Users will desist from adding further to their by then considerably increased raw material stocks. How far prices decline will depend largely on any relaxation of the restrictive production policies by producers.

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 | 1978 | | | | 1979 | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | February | May | August | November | February | Feb. 16 | March 16 |
| HWWA-Index * (1952–1956 = 100) | 317.0 | 314.9 | 315.6 | 333.9 | 341.8 | 341.9 | 352.5 |
| Fuels | 263.5 | 245.9 | 231.9 | 251.0 | 244.2 | 243.7 | 246.7 |
| Raw materials for consumer goods .. | 342.8 | 343.8 | 356.0 | 373.8 | 388.8 | 389.3 | 403.6 |
| Fuels | 562.7 | 556.7 | 561.6 | 565.7 | 585.4 | 585.5 | 607.4 |
| Raw materials for consumer goods .. | 181.4 | 186.5 | 196.4 | 210.3 | 213.8 | 216.1 | 227.2 |
| Raw materials for capital goods | 231.3 | 236.5 | 257.6 | 291.7 | 309.9 | 309.4 | 318.2 |
| Reuter's Index (18. 9. 1931 = 100) | 1,395.1 | 1,473.3 | 1,441.5 | 1,519.9 | 1,532.1 | 1,534.4 | 1,554.2 |
| Moody's Index (31. 12. 1931 = 100) | 901.4 | 916.1 | 927.8 | 980.0 | 1,038.1 | 1,045.0 | 1,067.2 |

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