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1970 growth decline in world economy

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WORLD BUSINESS TRENDS

1970 Growth Decline in World Economy

Economic growth in the Western industrial countries declined considerably during 1970. The total GNP in real terms was only by barely 3 p.c. higher than in the previous year, after in 1969 it had risen by approximately 5 p.c. At the same time the upward trend of prices has once more accelerated; the price indices of the GNP increased by 5.5 p.c. on an average (1969: 4.5 p.c.), i.e. far more than production. Characteristic of the world economic development were the marked differences between the USA, where the GNP in real terms as a consequence of a slight recession and the lengthy strikes in the automotive industry was even somewhat lower than in the previous year, and in other industrial countries. So, the growth in Japan is estimated at 12 p.c. and in the Western European industrial countries it reached barely 5 p.c. on an average.

1971: Diminishing Differences in Business Cycles

During 1970, however, a change in cyclical tendency became noticeable. On the one

hand, in the USA the recession came to a standstill already before the middle of the year; the beginning process of recovery was interrupted only temporarily by disturbances due to strikes. But on the other hand, in Western Europe—and to a smaller degree also in Japan—the forces stimulating business activity at the same time weakened noticeably. These trends will become still stronger in 1971, so that the “business differential” between the USA and the other industrial countries should be reduced and at the end of the year should gradually even be reversed. As a whole, in 1971 the growth rate of the GNP in real terms in the Western industrial countries will again rise to about 4 p.c.; in the USA presumably to 3 p.c. at least, in Western Europe to about 4 p.c., and in Japan it will reach 10 p.c.

Further Recovery in the USA

The further business recovery in the USA will at first be particularly stimulated by private consumption. Hampering factors are still the declining investments in fixed assets by

the private industry. In contrast to this, expenditures of the Federal Government will—despite the cyclically induced shortfalls in tax revenue—not be further reduced, after the Administration has advocated an increased promotion of expansion. With a rate of unemployment of just under 6 p.c. the concerns about the employment situation have—despite an equally high rate of price increases (measured by the higher cost of living compared with the previous year)—got priority, although thus also the recent reduction of the imbalance in foreign trade and payments is jeopardised.

Declining Expansion in Western Europe

In contrast to this, in Western Europe the future trend of economic policy in the present situation is one of the factors of uncertainty. On the one hand, the tensions on the labour markets have hardly slackened up to now and the vigorous price rises have continued. On the other hand, above all the decreasing propensity to invest in most of the West European countries makes preventive measures against an undesirably strong weakening of the forces encouraging business activity increasingly opportune. We suppose that under these circumstances the postulate of growth policy will soon get again priori-

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

Index and commodity group	1969		1970				
	October	January	April	July	October	Nov. 13	Nov. 27
HWWA-Index ¹ (1952-1956 = 100)	106.7	109.4	111.2	109.3	107.7	108.2	108.8
Foodstuffs	97.3	100.7	102.7	102.0	104.2	105.4	106.4
Raw materials other than foodstuffs ...	111.1	113.6	115.3	112.8	109.4	109.6	109.6
Fuels	96.5	96.5	100.4	108.8	112.5	113.6	113.6
Raw materials for consumer goods ..	93.6	93.0	92.7	93.8	91.8	92.2	92.3
Raw materials for capital goods	138.2	144.9	145.5	129.8	118.2	117.3	117.3
Reuter's Index (18. 9. 1931 = 100)	543.0	558.7	568.1	564.4	557.2	553.9	554.1
Moody's Index (31. 12. 1931 = 100) ...	499.4	426.9	414.1	410.2	396.2	385.8	383.5

¹ Index compiled by the Hamburg Institute for International Economics.

ty in the economic policy of many countries. Together with the immanent expansive factors—above all the consumer demand—the result should be in most Continental European economies a rise in the GNP in real terms between 3.5 and 4 p.c. In France and Italy growth will be above average, with 5 and 6 p.c., respectively; it will again be weakest in Great Britain with hardly more than 2 p.c.

Few Incentives for LDC's

In case the economic growth in the industrial countries as a whole will in 1971 again

strengthen, exports of developing countries will in the next future hardly be encouraged by this fact. For, the repercussions of the recovery in the USA are limited because this country participates in the exports of developing countries with only one fifth, whereas more than half of them is absorbed by Western Europe and Japan, where the cyclical expansion is weakening. However, in the next future most of the developing countries can continue their vigorous import growth, after their currency reserves rose with an accelerated rate until the middle of the year.

again increase strongly, since the automotive industry must expand its production considerably in order to satisfy backlog automobile demand. Against this, business expansion in Western Europe will continue to slow down well into 1971, so that its rubber demand will increase even less than up to now. But possibly the countries of the Eastern block will again make a stronger showing as buyers on the rubber market than during 1970. The International Rubber Study Group calculates for 1971 a world rubber consumption of 3.10 mn t as against 2.97 mn t in 1970.

Raw Material Markets

Turning-Point on the Rubber Market?

The price decline that started in autumn 1969 on the international market of natural rubber continued at a slower pace only during the second half-year of 1970. Lately rubber prices have even increased slightly after the arrangement between the parties involved in labour negotiations in the US automotive industry. The question remains if thus a recovery of prices has already been started. At present, the notation of natural rubber e.g. in London lies by no less than one third under the level before the beginning of the bearish market.

The continuing decline of rubber prices was mainly due to the consumption decrease in the USA as a result of the business activity slump. In addition, a slowed-down increase in Western European automotive production and a decreasing rubber demand from the Eastern countries were noted. Against this, world rubber production was expanded considerably at first.

If the upswing in US economic activity should continue during the next months as expected, then its rubber consumption will

It is supposed now that 3.10 mn t of natural rubber will be produced in 1971 (1970: 2.98 mn t). This would mean that this alone would be sufficient to satisfy demand. It is therefore understandable that the decision of the US stockpile authorities to stop the sale of rubber was welcomed by the producer countries. Because of the presumptive development of supply and demand slowly rising prices on the world rubber markets are again expected during the course of 1971.

Compiled by the Department for Business Trends Research of the Hamburg Institute for International Economics

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