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World Business Trends

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Expansion Slowing Down

In 1966 the Western countries' economic growth—as compared with the averages of the preceding years—was again comparatively strong although it decreased somewhat vis-à-vis the previous year. Their GNP should have grown by approx. 4.5% in terms of real value (after + 5% in 1965). The slowing down of expansion occurred mainly in the second half of 1966, when the expansionary forces in the most important economies weakened.

Most important was the slight slowing down of growth in the United States, where, however, also in 1966 the real GNP with 5% increased more than in most of the other industrial countries. Only in Japan, whose economic recovery progressed quickly, the rate of expansion was considerably higher even (+ 7 to + 8%). On the other hand, in Western Europe the growth of the GNP decreased again (+ 3.5%), although developments in individual countries were very different. The continuous upswing in Italy and France did not suffice to compensate for the pronounced slowing down in the Federal Republic of Germany and in Britain.

For several months the expansion of international trade has also been slowing down, but for the whole year its increase at 9 to 10% should have surpassed the previous year's rate. This acceleration was mainly caused by the higher import increases in North America and Japan but even in Western Europe total imports still were rising somewhat more than in 1965—although there was an exceptional differentiation between individual countries. This expansion of demand benefitted exclusively the transactions between industrial countries and the exports of devel-

oped raw material producing countries. The overseas developing countries taken collectively could obviously increase their exports to only about the same extent as in 1965.

At present there are indications that economic growth in the Western world will continue at the already slower speed of the last half year. Accordingly in all industrial countries taken together an increase of the GNP reduced to 4% has to be anticipated for 1967. However, factors of uncertainty are, on the one hand, the development of the Vietnam War and, on the other, the re-orientation of economic policies in important economies.

In its seventh boom year the United States' speed of economic expansion is mainly depending on government demand, i.e. at present above all on defence expenditure. According to the topical planning a slight easing-off should result for the second half of 1967. If this trend does not change also investments of private enterprises will grow more slowly than hitherto. The real GNP of 1967 will grow about 4% under these conditions. At the same time the rise in costs and prices will continue in the United States economy. The balance of payments troubles will hardly decrease.

In Western Europe, too, the first half of 1967 will be marked by the present constellation of forces. Expansion will be further supported by the continuing upswing in Italy and France while in most of the other economies the economic growth will remain calm or almost stagnating as e.g. in the Federal Republic of Germany and Britain. In the further course of the year the forces aiming at overcoming

this differentiation might gain more influence—if supported by a corresponding economic policy. In 1967 the real growth of the GNP will, however, differ very much in the most important countries (hardly 1% in Britain, more than 5% in Italy and France) and for the whole of Western Europe hardly exceed 3 to 3.5%.

The expansion of production to be expected for industrial nations enables the raw material producing countries to continue increasing their export volume in 1967. However, it will not be sufficient to cause a consolidation of raw material prices which have been declining for half a year (see page 28). Therefore in 1967 the export proceeds of the overseas raw material producing countries will rise more slowly. In view of their currency reserves accumulated for several years the deterioration of their balances of payments resulting from recent developments will only have somewhat delayed retroactive effects on import dispositions of overseas raw material producing countries.

In the course of 1967 the shaping of economic policy will gain increasing importance in the most important industrial countries—though from different aspects. Thus in the United States expansionary forces should weaken if the continuing tensions would cause a tightening of restrictive economic policies by tax increases. Vice versa in Britain and the Federal Republic of Germany there is a growing pressure on responsible authorities—caused by a progressing decline in employment—to take stimulating measures. This development in leading economies is underlining the fact that a permanent solution of the problem of simultaneously realising satisfactory growth rates together with stability is quite remote.