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Economic Intelligence Weekly

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ECONOMIC INTELLIGENCE WEEKLY

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Articles

UNITED KINGDOM: BALANCE OF PAYMENTS SWINGS INTO SURPLUS

The British balance of payments has improved dramatically this year, thanks to London's anti-inflation efforts and North Sea oil. Renewed confidence in sterling has brought a sharp turnaround in net capital flows. Official foreign reserves rose from $4 billion at yearend 1976 to $15 billion at the end of August. Foreign and domestic observers share serious doubts as to how well the British will use the respite provided by the oil bonanza. The easing of balance-of-payments problems furnishes another opportunity to seriously address underlying economic issues, notably the overdue modernization of the industrial sector. Britain so far has failed to take full advantage of the payments benefits from North Sea gas.

Current Account Surplus in Sight

The current account should be in the black by yearend 1977. Rising oil production is rapidly eliminating the deficit on oil trade, which topped $7 billion in 1976. In first half 1977, the oil trade deficit was cut by more than $1 billion from first half 1976.

United Kingdom: Current Account

Billion US $

	1970-73 Annual Average	1974	1975	1976	1976 [1] 1st Half	1977 [1] 1st Half
Exports, F.O.B.	$23.7	38.5	43.1	45.7	22.6	26.3
Imports, F.O.B. ..	25.5	50.7	50.2	52.2	25.3	29.1
Trade Balance ...	**−1.8**	**−12.2**	**−7.1**	**−6.5**	**−2.7**	**−2.8**
Services	2.5	4.3	3.4	3.8	1.8	1.7
Current account balance	**0.7**	**−7.9**	**−3.7**	**−2.7**	**−0.9**	**−1.1**

[1] Seasonally adjusted.

The non-oil trade balance worsened from a $1 billion surplus in first half 1976 to a $200 million deficit in first half 1977. Part of the deterioration stemmed from

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Note: Comments and queries regarding the ***Economic Intelligence Weekly*** are welcome. For the text, they may be directed to [redacted] of the Office of Economic Research, [redacted] for the Economic Indicators, to [redacted] of OER, [redacted]

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sharp increases in the prices of imported foodstuffs and basic materials. In addition, the trade surplus in manufactures declined. Imports of finished manufactures were up 17 percent in the first half, while exports rose only 7 percent.

Britain's surplus on invisibles has remained flat this year. It oftentimes has been big enough to offset a sizable deficit on trade. Gross earnings from invisibles are running about 50 percent of earnings from merchandise exports.

Within the invisibles account, Britain is posting a substantial increase in its surplus on tourism. Last year's depreciation of the pound and the nationwide activities associated with the Queen's Silver Jubilee figured in the $500 million gain from first half 1976 to first half 1977. Depreciation of the pound and a decline in real personal income explain sluggishness in overseas spending by Britons.

Turnaround in Capital Flows

In contrast to a deficit of $3.6 billion in first half 1976, Britain posted a capital account surplus (including errors and omissions) of $6.4 billion in the first six months of this year. The improvement reflected renewed foreign confidence in the pound and a regulation adopted last November prohibiting banks from providing sterling financing for third-country trade.

United Kingdom: Balance of Payments

Billion US $

	1970-73 Annual average	1974	1975	1976	1976 [1] 1st Half	1977 [1] 1st Half
Current account balance	0.7	−7.9	−3.7	−2.7	−1.3	−1.5
Investment and other capital flows [2]	1.0	3.8	0.8	−4.1	−3.7	4.0
Errors and omissions	−0.3	0.3	−0.4	.2	0.1	2.4
Balance for official financing	**1.4**	**−3.8**	**−3.3**	**−6.6**	**−4.9**	**4.9**

[1] Not seasonally adjusted.
[2] Including capital transfers in 1973 and 1974.

The rundown of foreign sterling balances in 1976 was reversed in first half 1977. Official sterling reserves rose by $326 million in the first quarter. Although these reserves fell by $674 million in the second quarter, foreign governments made

United Kingdom: Changes in Foreign Government Sterling Holdings

Billion US $

1971	1.7	1975	−1.2
1972	0.9	1976	−2.6
1973	0.2	1976 1st Half	−1.9
1974	2.2	1977 1st Half	−0.3

offsetting purchases of British bonds denominated in foreign currencies. Private sterling balances rose $1.4 billion from mid-1976 to mid-1977.

Investment flows contributed to improvement in the capital account balance. British private investment overseas declined in the January-June period; at the same time, foreign investment in both the British private sector and in British Government securities increased. The increased foreign investment in the private sector reflects a continued high level of investment in the North Sea and a sharp rise in portfolio investment.

Promising Prospects

With flows of North Sea oil on the rise, the British current account should remain in the black for some time. We expect a near balance this year and a $3 billion surplus in 1978. Current account transactions related to North Sea oil—imports of oil field goods and services, production of oil for import substitution or export, and repatriation of oil company earnings—will yield increasing net gains for Britain.

UK: Current Account Impact of North Sea Oil

	Billion US $
1976	−0.2
1977 [1]	2.5
1978 [1]	5.0

[1] Projected.

Optimism surrounding North Sea oil should be tempered by Britain's experience with North Sea gas. The British failed to take advantage of the comparative easing of their international financial situation to turn government energies to the modernization of the industrial sector and the raising of labor productivity.

Gas deliveries from the southern sector of the North Sea began in March 1967 and reached nearly 4.1 billion cubic feet per day in 1976 (equivalent to 730,000 b/d of oil, worth about $3.7 billion dollars at current oil prices). Gas output is expected to rise further as production starts in the northern sector fields.

While some portion of the natural gas has gone to replace domestic coal, much has been substituted for imported oil. Official British estimates put the current account benefits of North Sea gas at more than $10 billion for the three-year period 1974-76.

The balance on non-oil trade should improve in second half 1977, with import growth slowing and export growth moderately high. Imports may have been pushed up in early 1977 by deliveries on speculative import orders triggered by last year's anticipation of a drop in sterling.

As for non-oil trade next year, British businessmen have expressed concern about their competitive position in world markets in light of the recent firming of the pound and the termination of formal pay guidelines. If inflation continues higher in Britain than in most other industrial countries and North Sea oil keeps the pound strong, the non-oil trade balance is bound to weaken. Continued labor unrest stemming from confrontations over pay claims would disrupt production, slowing exports and encouraging imports.

The surplus on invisibles seems likely to hold near the present level through next year. The travel account and net earnings from construction work overseas should remain strong. On the other hand, growth in the earnings of foreign oil companies operating in the North Sea will act as an offset. Furthermore, net transfers abroad probably will rise because of a scheduled increase in the British contribution to the European Community.

The capital account surplus probably will decline over the next 18 months. The ban on sterling financing of third-country trade has produced its one-time gain, and the inflow of foreign investment in government securities should decline. Although no massive capital outflows are in prospect, the situation could change quickly if the government caves in to worker demands for wage hikes. A wage explosion probably would lead to an outflow of "hot money" and a buildup of unfavorable leads and lags in commercial payments. 25X1

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CHINA: HARVEST GROWTH MAY LAG POPULATION FOR SECOND YEAR

The 1977 PRC grain harvest is unlikely to significantly exceed the 285 million tons produced in 1976, and thus may not keep pace with population growth for the second consecutive year. In the north, a period of general drought during the winter and spring was followed by excessive rainfall and widespread flooding and waterlogging. Drought reduced the production of winter wheat, and the shortfall was not made up by the early rice crop. Prospects for the fall harvest are mixed; although output will probably increase over 1976, the gain will do little more than compensate for early losses. The Chinese have purchased 7 million tons of grain for delivery in 1977, compared with 2 million tons in 1976 and 3 million tons in 1975.

The Drought

China suffered a severe drought in late 1976 and early 1977. In the hardest hit areas, grain rations and controls over population movements were tightened. Cadres, army personnel, and white collar workers were mobilized to carry water, sometimes over long distances. The effects of the drought were mitigated by these labor-intensive methods and by the irrigation systems, which have expanded steadily over the past 15 years.

Winter Wheat

Winter wheat, which accounts for 15 to 20 percent of total annual grain output, took the full brunt of the drought—with output dropping one-tenth, or 4 million to 5 million tons. The dry weather coincided with both the location and growing period of this crop.

The various parts of the North China Plain, China's main winter wheat production area, suffered in differing degrees. Hopeh, Honan, and Shantung provinces, which produce almost one-third of the winter wheat, were dry until the end of April. Wheat stands were observed to be generally good in irrigated areas, which cover nearly one-half the plain, but yields were cut severely in nonirrigated fields. Outside the plain, the wheat crop in the mountainous region to the west incurred very severe damage, while production in the south was little affected by the drought.

Early Rice

The Chinese claim that national production of early rice in 1977 equaled the record set in 1976. Even so, the crop was a disappointment to them. Although they report the sown area was up slightly, it would have been higher if it were not for the drought. In fact, several provinces have stressed the importance of bringing in bumper late rice harvests to compensate for the lower than desired early rice crops.

Fall Harvest Prospects

The fall harvest, including late and intermediate rice as well as coarse grains, will determine whether increases in food production will match population growth in 1977. The fall grain harvest—which normally accounts for about 65 percent of total annual output, including soybeans and tubers—will probably be larger, but not by much. An increase of 3 percent over the 1976 fall harvest is needed to achieve the same annual total as in 1976—claimed by one Chinese official to be 285 million tons. An increase of 5 percent in the late harvest is needed to produce an overall 1.5-percent increase in the food supply; that is, to stay even with population growth.

The biggest problem so far this fall is in the North China Plain, where about one-half of the coarse grain is grown.* Abnormally wet conditions prevailed in the plain from the end of June until the first part of August. Flooding and waterlogging varied by region and were particularly bad in Hopei Province. The wet weather is almost certainly causing some decline in coarse grain output in the area. These losses presumably are being made up in part by the planting of quick-maturing catch crops.

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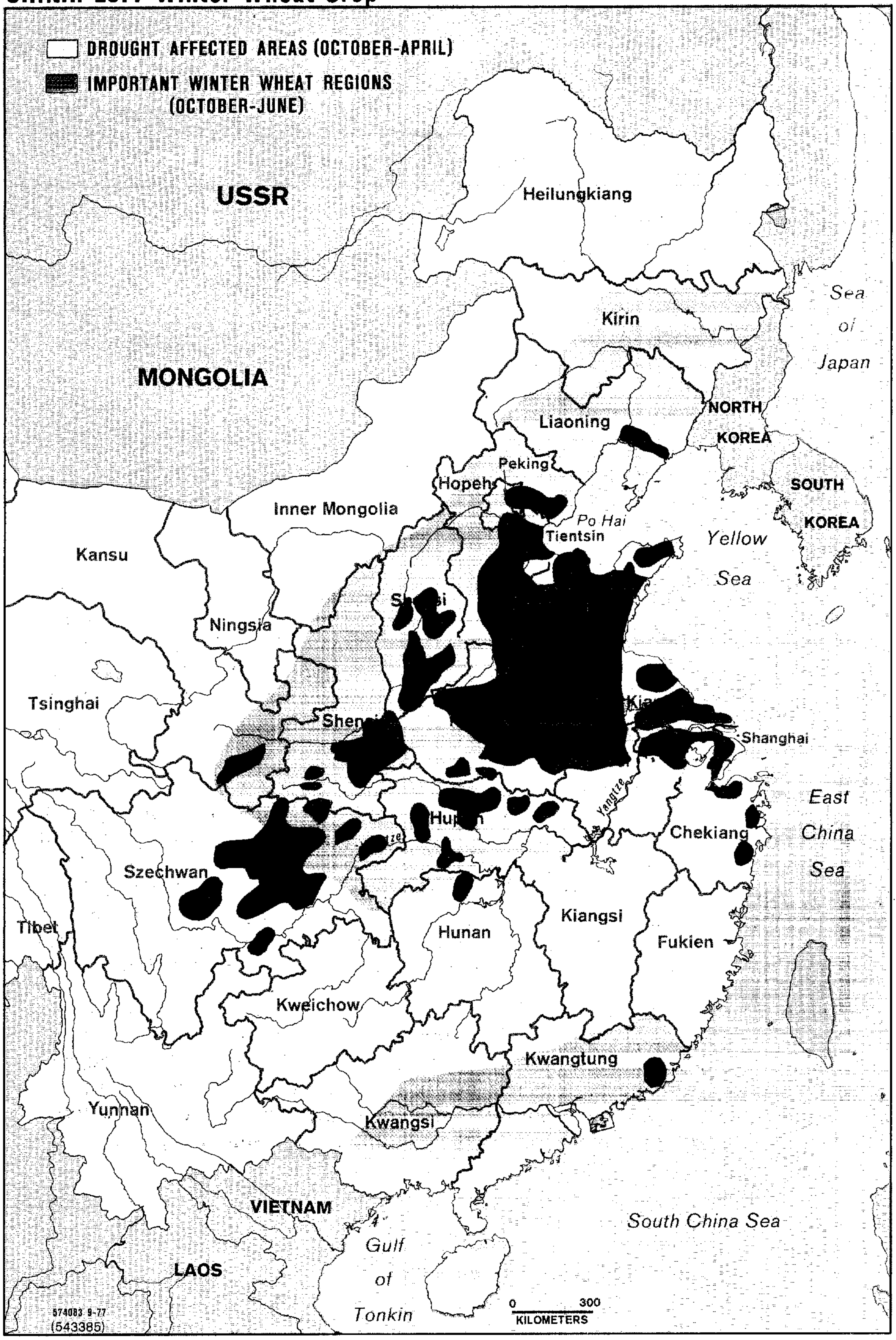
*Coarse grain (which includes corn, sorghum, and millet) and tubers normally account for about 25 to 30 percent of total grain output.

CHINA: 1977 Winter Wheat Crop



The late rice harvest should be much improved over 1976. This year late rice was transplanted earlier and all the major growing provinces have expressed hopes for a good harvest. Intermediate rice should also do well. Growing conditions in Szechwan, the largest producer of single-cropped rice, are much improved over 1976.

In the northeast the environment for fall crops has also improved over last year. Although the drought lingered in the Manchurian Plain during early summer, an above-average rainfall since then has more than compensated for the early dryness.

Cotton

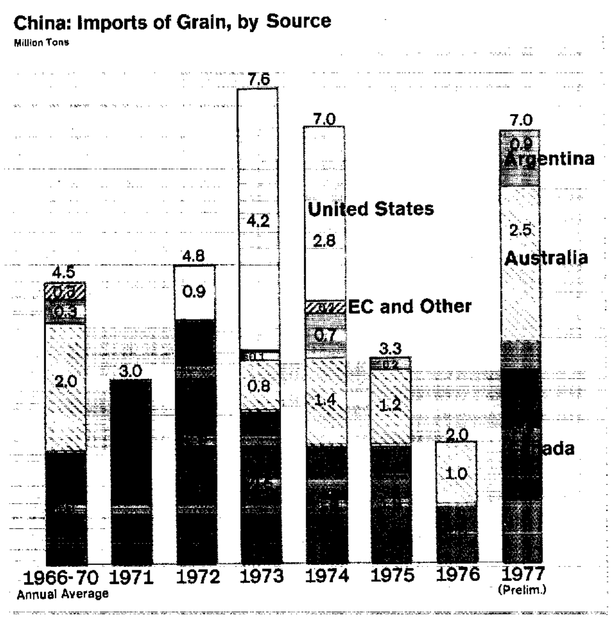
During July and August the Chinese press stressed the importance of cotton production without revealing how well the crop was doing. Because of this year's unfavorable weather, we expect a slight decrease in production. This would be the second year of decline in the cotton crop since 1975 when 2.4 million tons of ginned cotton were produced.

Impact on Trade

Since November 1976 the PRC has purchased 11.7 millions tons of wheat for delivery through July 1978. Seven million tons will be delivered during calendar year 1977—a new record for wheat imports and close to the record grain imports (including corn) of 7.6 million tons in 1973.

The Chinese bought large quantities of wheat this year largely because of the reduced winter wheat harvest and the poor fall harvest last year. In addition, probably because of low world prices, the Chinese imported wheat to replenish grain stocks, drawn down in 1975-76 to alleviate balance-of-payments problems.

Imports of other agricultural products, including sugar, soybeans, and cotton, also are up. These include a purchase of 178,000 bales of cotton from the United States, the first Chinese purchase of US agricultural commodities since 1974.



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US GENERALLY MAINTAINS POSITION IN NON-OPEC LDC MARKETS

The assessment of recent US export performance in non-OPEC LDC* markets depends on whether the issue is the impact on the US balance of payments or on jobs in the manufacturing sector. In value terms, the United States lost a substantial share (three percentage points) of this market to other Big Seven exporters (mainly Japan) between first half 1976 and first half 1977. In real terms, the United States has increased or maintained its share of the import market for manufactured goods in 12 of its 18 largest non-OPEC LDC markets, including Brazil and Mexico.

This striking difference in performance, depending on how performance is measured, stems mainly from three factors:

- Price and exchange rate movements have inflated trade in value terms during this period. This factor alone accounts for one of the three percentage points lost in market share by the United States.
- US sales are heavily concentrated in the Latin American market, where the volume of imports has declined. In contrast, the Japanese sell more than two-thirds of their LDC-destined goods to Asian countries where markets expanded sharply in 1976-77.
- US exports of agricultural products fell 11 percent in volume terms because of generally more favorable crops in several major LDC markets. Thus total export figures mask a relatively solid performance of US manufactures in this period.

The LDC Market

The non-OPEC LDC import market has lost its vigor in recent years. After climbing a rapid 8 percent per year from 1970 through 1974, import volume held steady in 1975 and has since increased at a moderate 4-percent annual rate. Individual countries have grown at widely varying rates. The Far Eastern countries, rebounding quickly from the global recession of 1974-75, have again become a rapidly expanding market. They have been joined in the growth group by several mid-East countries that have benefited from substantial infusions of OPEC funds. In contrast, the import volume for most major Latin American countries has either fallen or leveled off as governments have undertaken austerity measures to lessen trade deficits and inflationary pressures. Several South Asian countries have cut their import volume because of their excellent grain harvests and increased fertilizer production.

In 1976, non-OPEC LDC imports stood at $122 billion. This amount includes purchases by roughly 110 LDCs, with 20 accounting for 70 percent of the total transactions and 10 for one-half.

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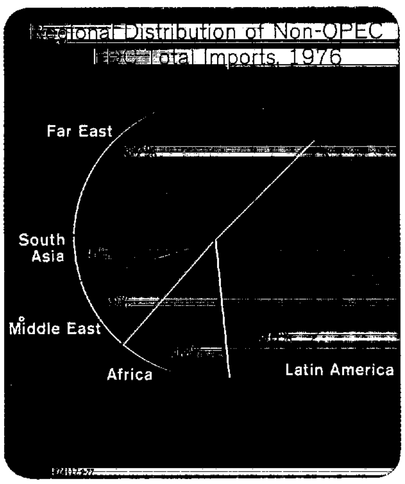
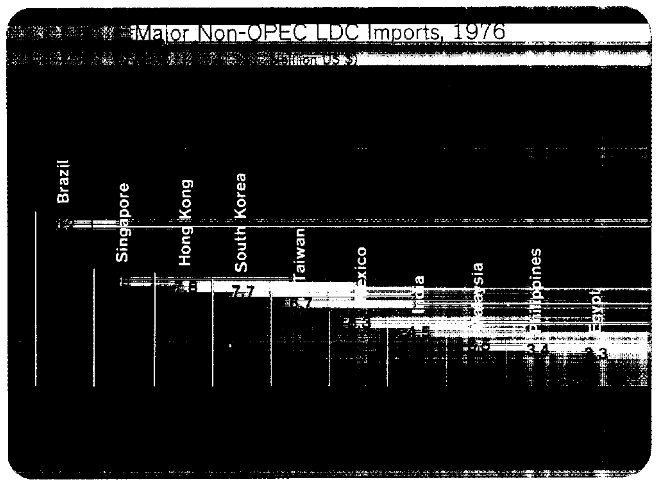
*For the purpose of this article, the ***non-OPEC LDCs*** are the non-Communist countries excluding the OECD countries, OPEC member countries, Israel, and South Africa.





The seven leading non-Communist developed countries—the United States, Japan, West Germany, France, the United Kingdom, Italy, and Canada—provide more than half of the non-OPEC LDC imports. Intra LDC-trade share accounts for 15 percent of total LDC shipments, in part because of the value of oil trade between the LDC oil refining centers and the other LDCs.

Non-OPEC LDCs: Share of Imports, by Supplier, 1976

	Percent
Big Seven	53.7
United States	20.7
Japan	12.5
France	6.1
West Germany	6.0
United Kingdom	4.6
Italy	2.3
Canada	1.5
Other developed	9.4
OPEC	17.7
Intra non-OPEC LDC	15.4
Communist	3.8

Trends in Market Shares

Our examination of competition in the non-OPEC LDC market focuses on the export performances of the Big Seven countries. More recent information is available for this group, and they account for more than two-thirds of non-oil sales to the LDCs. For comparative purposes, the non-OPEC LDC market was defined as the sum of Big Seven exports to these countries.

The United States and Japan outperformed the other members of the Big Seven between the early 1970s and 1976, whether exports are analyzed in value or volume terms. France did moderately well, while the other four all lost market shares. The United Kingdom, which had almost no increase in the physical volume of its exports, did especially poorly, losing nearly 3 percentage points over the period.

A different picture develops when we examine the most recent period—first half 1977 against first half 1976. In ***value*** terms, Japanese exports climbed 26 percent compared with a 2 percent rise for the United States. As a result, the US market share dropped by 3 percentage points and the Japanese share rose by a similar amount.

When dollar price changes are eliminated, the disparities narrow considerably. In ***volume*** terms, Japanese exports grew 8 percent while US sales fell 4 percent.* This large reduction in the differential between US and Japanese rates (as compared with value results) reflects the differences among the Seven in the combined movements of currency exchange rates and domestic prices. For example, Japanese dollar export prices rose 17.5 percent, West German, 10.8 percent, and US, 5.5 percent, between first half 1976 and first half 1977.

During this period the US market share in volume terms fell two percentage points—a large reduction in a one-year period. Japan meantime gained 1.6 percentage points while the other country changes were not significant. Two factors predominate in the loss of US market shares: (a) the geographic distribution of the Big Seven-LDC trade and (b) improved harvests in many foreign countries.

Big Seven: Trends in Exports to Non-OPEC LDCs

	Percent Change [1]		Percentage Point Change in Market Share [1]	
	Value	Volume	Value	Volume
US	2	−4	−3.3	−2.0
Japan	26	8	3.2	1.6
West Germany	12	2	0.1	0
France	10	4	−0.2	0.3
UK	10	−1	−0.1	−0.2
Italy	19	5	0.3	0.2
Canada	8	9	−0.1	0.2

[1] First half of 1977 over first half of 1976.

*Volume data should be used cautiously, as they depend on the accuracy of the price data, which are subject to inherent calculation problems. For example, changes in sophistication and quality of capital goods exports are rarely, if ever, captured by price indexes. Thus, changes in the volume market share of less than 0.5 percent are not likely to be meaningful.

Geographic Mix

The US regional market share losses are less ominous than the overall US decline suggests. This disparity is the result of great differences in regional import growth rates. More than one-half of the US sales are to the shrinking Latin American market. Mexico alone accounted for 19 percent of US sales; comparing first half 1976 and first half 1977, its import volume plummeted 24 percent. Thus, the United States suffered a severe loss in export sales in spite of a small increase in market share. In sharp contrast to the US situation, the Japanese direct more than two-thirds of their non-OPEC LDC exports to the rapidly expanding Asian market. Accordingly, even though Japan's share of the Asian market slipped, its absolute export sales to this growth area substantially increased.

Big Seven: Exports to Non-OPEC LDCs, by Region, 1976

Percent

	Latin America			Middle	
	Total	Mexico	Asia	East	Africa
United States	52.7	18.9	35.1	7.0	5.2
Japan	21.3	2.1	68.7	5.7	4.3
West Germany	35.0	5.6	26.4	18.6	20.0
France	21.0	2.8	16.0	11.2	51.8
United Kingdom	24.6	3.6	33.6	20.0	21.8
Italy	31.4	3.8	16.2	25.1	27.3
Canada	54.4	11.3	33.5	3.2	8.9

A measure of the impact of varying growth rates in the four major LDC regions can be determined by assuming no loss of US market shares in each region between first half 1976 and the same 1977 period. Under this assumption the US would have lost 1.2 percentage points in the aggregate LDC market compared with the actual 2.0 percentage point decline. The drop in US sales to Latin America greatly outweighs increases in the other areas. Thus regional differences in export trade are responsible for 40 percent of the drop in the US market share.

On an individual country basis, the US market share declined in only eight of the 18 most important non-OPEC LDC markets (excluding oil-refining centers).

Agricultural Impact

US agricultural exports accounted for 20 percent of sales to the non-OPEC LDCs in 1976. Between first half 1976 and first half 1977, these exports fell 11 percent in volume due to generally more favorable crops in the LDCs.

Big Seven: Change in Export Volume Market Shares to Non-OPEC LDCs[1]

Percentage Point

	United States	Japan	West Germany	France	United Kingdom	Italy	Canada
Non-OPEC LDC	−2.0	1.6	0	0.3	−0.2	0.2	0.2
Latin America	−1.4	2.0	0	0.1	−0.4	−0.4	−0.2
Argentina	6.1	2.7	−3.7	−6.8	0.6	0	1.2
Brazil	−0.8	0.1	0.6	0.9	0.6	0.2	−1.6
Chile	−3.0	3.3	3.2	−6.8	1.5	0	1.8
Colombia	−1.5	2.7	1.3	−0.8	−0.2	−1.8	0.4
Mexico	0.4	1.9	−1.0	0.2	−1.8	−0.4	0.5
Peru	1.3	1.4	−1.6	−0.6	0.1	−1.7	1.1
Middle East	−0.7	1.3	−1.3	−1.0	−0.3	1.7	0.3
Syria	−15.0	3.6	2.0	2.9	−0.4	6.8	0
Egypt	6.6	−1.3	−2.5	−1.0	−2.1	−0.5	0.8
Asia	0.7	−1.2	0.1	−0.2	0	0.1	0.7
Taiwan	5.1	−4.8	−0.9	0.2	−0.3	0	0.7
Hong Kong	1.9	−1.6	−0.7	0	−0.2	0.4	0.3
India	−9.6	5.0	2.5	−2.2	4.9	−0.2	−0.6
South Korea	0.5	1.1	0.3	−0.4	−0.7	−0.4	−0.4
Malaysia	−0.3	1.2	0.1	−0.7	−0.9	−0.2	0.8
Pakistan	−9.4	3.5	1.4	−2.6	0.6	2.5	3.9
Philippines	1.8	−5.4	−0.4	−0.3	1.5	−0.8	3.6
Singapore	3.6	−7.3	0.9	1.7	0	0.7	0.4
Thailand	3.6	−2.9	0	0.1	−0.4	−0.7	0.4
Africa	−1.3	1.3	1.3	1.2	−2.5	0.1	0
Morocco	−3.2	2.3	−1.0	2.8	−0.9	−0.2	0.5

[1] First half 1977 over first half 1976.

In three countries where US agricultural sales fell precipitously and where the overall US market is down—India, Brazil, and Morocco—the US market share for manufactures rose. In one case—Peru—the opposite happened; that is, an increase in agricultural sales hid a declining US market share for manufactures. In only six major non-OPEC LDC importing countries did US manufactures lose market position. The largest of these countries, Colombia, is the ninth ranking non-OPEC LDC market for the United States. The other five—Chile, Malaysia, Pakistan, Peru, and Syria—are near the bottom in terms of importance to the United States of the 18 countries examined.

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OPEC: TERMS OF TRADE REMAIN FAVORABLE

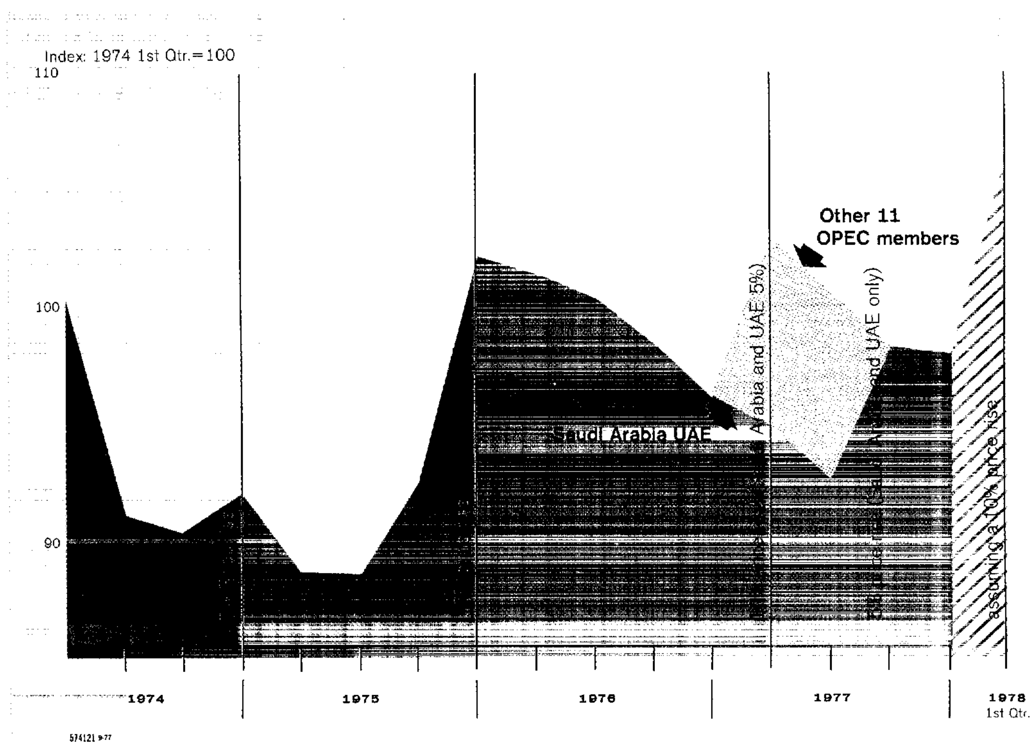
OPEC's 1977 oil price hikes, at a minimum, will compensate most member states for higher import prices.* Saudi Arabia and the United Arab Emirates (UAE) could be exceptions because they did not charge the full oil price increase until midyear. Even so, any terms-of-trade losses by these two would be slight.

A 10-percent oil price rise effective 1 January 1978 probably would lead to an appreciable improvement in OPEC terms of trade next year since import prices are not expected to rise as fast.

Trends 1974-76

The quadrupling of OPEC oil prices in 1973/74 came at a time when rampant global inflation was coming under control. The enormous oil price hikes

OPEC: Terms of Trade



*OPEC import prices are based on the calculated unit values of goods sold by the Big Seven countries. Evidence from indexes based on contract prices, available on a limited basis, indicates that unit values may overstate the actual price rise in goods exported to OPEC countries. In contrast, oil export prices are much more accurately known. We believe that the terms-of-trade numbers used, if they err, understate the improvement in the OPEC position.

rekindled inflation. OPEC members soon found that price increases on their imports were eroding the real value of their greatly enhanced export earnings. From mid-1974 until September 1975, OPEC terms of trade averaged about 90 percent of the early 1974 level. Between September 1975 and the end of 1976, terms of trade improved (fluctuating between 95 and 105) in response to further increases in oil prices, a reduced pace in industrial country inflation, and an appreciation of the dollar against other currencies (oil producers are paid in dollars). This last factor was especially important for purchases from Japan and West Germany, which together supply more than a quarter of OPEC imports.

The 1977 Situation

Oil price increases in 1977 will likely keep OPEC terms of trade near the early 1974 level, that is, at the level resulting from the 1974 oil price increases. OPEC dollar-based import prices rose 9 to 10 percent in the first three quarters of 1977 compared with the same 1976 period. Nearly half the increase is attributable to the appreciation of major currencies against the dollar.

The situation for OPEC in the final quarter is expected to improve as a consequence of the slower rise in wholesale prices in major developed countries—assuming no further major appreciation of the yen and mark against the dollar. For the year as a whole, OPEC dollar-based import prices will probably rise 8 to 9 percent compared with 1976.

The 1 January 1977 10-percent price hike by 11 of the 13 OPEC members thus will compensate for the higher import prices. Saudi Arabia and the UAE, which increased oil prices by 5 percent in January and a similar amount in July, could face a slight deterioration in their 1977 terms of trade—perhaps 1 to 2 percent.

In addition to the disparity in oil price movements, other factors have caused small differences in terms-of-trade trends among OPEC states. They include variations in the mix of imported products and the choice of suppliers. For example, countries buying more goods from the United States in 1977 did better than those that depended more on Japan and West Germany. Between mid-1976 and mid-1977, US export prices to OPEC rose 5.5 percent and French 2.2 percent, while Japanese and German export prices rose 17.5 percent and 10.8 percent in dollar terms. Thus, Ecuador and Venezuela, dependent on the United States for more than half of their imports, and Algeria and Gabon, traditional French markets, improved their terms of trade relative to Indonesia, which depends mainly on Japanese goods.

Outlook 1978

At its meeting in Caracas next December, OPEC probably will again raise prices, perhaps by another 10 percent effective 1 January 1978. Its Economic Commission Board—whose findings are generally moderated in most or all cartel price decisions—claims that world prices have increased 17.6 percent since the beginning of 1977 and that the appreciation of major currencies against the dollar is further eroding OPEC purchasing power. As in the past, the Board is greatly exaggerating the price rise of OPEC imports.

Saudi Arabia is far less likely than last year to challenge other OPEC members and cause another price split. Saudi threats to rapidly expand oil output to bring down prices of other OPEC countries failed earlier this year and would carry little weight at Caracas. Indeed, Riyadh has technical problems of undetermined severity at major oilfields that may reduce its flexibility in output decisions. We believe that, if pushed, the Saudis will accede to a price hike approximately equal to 1977 inflation and the decline in the value of the dollar—on the order of 10 percent.

Present indications are that next year dollar import prices will rise less than 10 percent. Overall demand in most industrial countries remains sluggish, and any revival resulting from recently announced stimulation programs is not expected to bring growth back to the postwar trend line. Agricultural prices are not expected to increase substantially in view of record crops and ample stocks. Currency movements also probably will play less of a role in pushing up dollar-based imports than this year. Under these conditions, OPEC will improve its terms of trade with a 10-percent hike. 25X1

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COPPER MARKET: GLOOMY OUTLOOK FOR PRODUCERS

Copper prices are unlikely to strengthen during the remainder of 1977 and early 1978, with large stocks continuing to overhang the market.

Unless economic growth in developed countries exceeds current low-key projections, copper output will continue to outpace consumption. Stocks will rise above the present record level of more than 2 million tons, putting additional downward pressure on prices. Although US producers can be expected to trim output further, LDCs will maintain production at near capacity. Spurred by sagging foreign exchange earnings, LDC producers will press even harder in upcoming UN Conference on Trade and Development (UNCTAD) meetings for stabilization agreements to raise prices. The "study" approach favored by consuming nations—but viewed by LDCs as a delaying tactic—could come under heavy attack as early as the next UNCTAD meeting on copper in November.

First Half 1977 Price Performance

World copper prices experienced a mild recovery early this year after a weak 1976 fourth quarter, rising to a spot high of 70 cents a pound in mid-March and posting a 68-cent average for the month. The rise was short lived, however, the price runup being based almost entirely on speculative activity on the London Metal Exchange (LME). Speculators had been bullish on three counts:

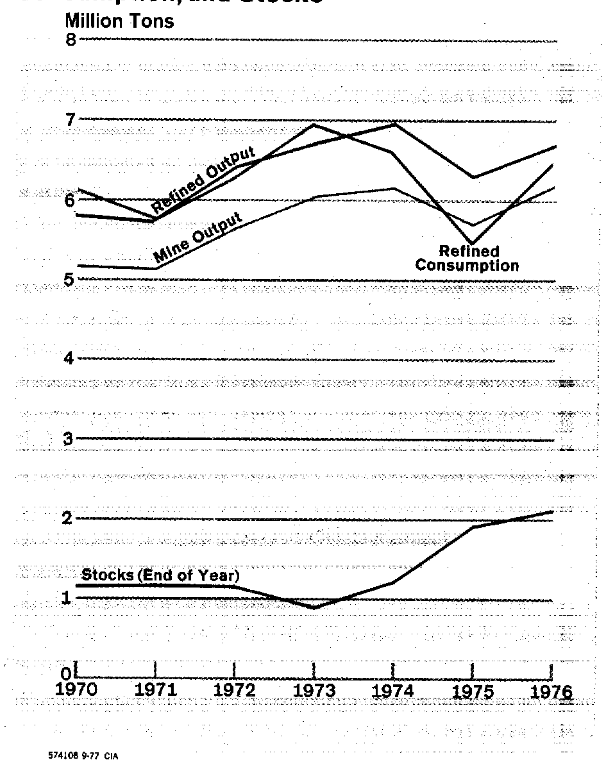
- Expectations that the new US Administration would adopt expansionary economic policies.
- Prospects for a prolonged strike in the US copper industry.
- Fighting in southern Africa, which threatened to cut off copper exports from that region.

None of these elements developed as expected. The US economy failed to grow at the rate anticipated early in the year; the US copper strike lasted only a few weeks instead of the usual three months or longer; and the invasion of Shaba Province in Zaire interrupted copper shipments only briefly. When it became clear that a tight market would not develop, speculators ceased buying, and LME prices tumbled to 51.6 cents in mid-August, only 0.3 cents above the lowest point since early 1973. The average for July was 25 percent below July 1976.

A Three-Year Stock Buildup

Since the end of the 1973 boom when copper consumption exceeded production by 250,000 tons, the Free World copper industry has been plagued by weak demand and overproduction. In the last three years, production outstripped consumption by more than 1.6 million tons, increasing Free World copper stocks to more than 2 million tons by yearend 1976. The accumulation of large stocks is attributable to (a) the global recession and the slow pace of recovery on the demand side and (b) substantial additions to productive capacity and the unwillingness of major LDC exporters to cut output on the supply side.

Free World Copper Output, Consumption, and Stocks



Entering 1974, Free World producers expected copper demand would equal or even exceed 1973's record of almost 7 million tons and boosted production. By midyear, the economies of the industrial nations had begun to falter, yet copper output surged ahead as consumers and merchants replenished stocks at bargain prices–prices dropped from $1.52 on 1 April to 92 cents on 1 July. As a result, production for the year reached a record high of almost 7 million tons, nearly 0.5 million tons more than was consumed.

Supply inelasticities became a serious problem as the economic recession deepened in 1975. Whereas copper consumption fell by a startling 1 million tons–to less than 5.5 million tons, the lowest level in seven years–producers cut output by only 0.7 million tons. Most of the cuts were made by US and Japanese firms. Production in 1975 totaled 6.3 million tons, 0.8 million tons more than was consumed. This addition to stocks, which had been more than replenished the previous year, raised holdings to 1.9 million tons, nearly three times normal levels.

The economic upturn in the developed countries in 1976 provided only a brief respite for the copper industry. Copper demand was strong in the first half of the year as the rate of economic growth of the Big Seven increased 6.6 percent over second half 1975. In second half 1976, however, economic growth tailed off, and for the year as a whole consumption totaled a disappointing 6.4 million tons–nearly 1 million tons above 1975 but 0.5 million tons below 1973's record level. Meanwhile, in response to improved demand and higher prices in early 1976, production rebounded, reaching 6.7 million tons for the year.

Inventories have continued to build in 1977, particularly with the weakening of demand in the third quarter. Cuts in US output will only slightly reduce the worldwide glut, and, with prospects poor for a vigorous upturn of the major economies, stocks are expected again to end the year at record levels. About 40 percent of current stocks are held in LME warehouses by merchants, producers, consumers, investors, and speculators; 25 percent are in producers' inventories; 20 percent are in consumers' inventories; and the remainder is held by merchants or in national stockpiles.

A Troubled Industry

The problem of oversupply during periods of weak demand has intensified in recent years following government takeovers of private firms in the major LDC copper-exporting countries. Production cuts in response to weak demand had been common among private firms. In contrast, LDC governments in making production decisions emphasize foreign exchange earnings and domestic employment in the industry. Producers such as Chile, Zambia, Zaire, and Papua New Guinea, which depend on copper exports for 40 to 80 percent of their foreign exchange earnings, maintain production and exports at high levels in situations where private firms would elect to cut back. These four nations account for 40 percent of total mine output.

The major European nations refine only about one-half their normal consumption and import the balance, mainly from LDC producers. When European demand weakens, LDC exports of refined copper are shifted to other markets, primarily to the LME, further weakening prices.

Because Japanese refiner costs have risen sharply under a strict pollution-abatement program, low-priced imports are making inroads in the domestic market. Last year, for instance, imports supplied nearly all of the 28 percent rise in Japanese consumption. In spite of production cuts of about 14 percent since 1974, Japanese inventories have accumulated and now total close to 35 percent of annual consumption.

Copper Output by Major Producers, 1976

Thousand Tons

	Mine Output	Refined Output
Major Exporters		
Chile	1,005	632
Canada	724	510
Zambia	709	695
Zaire	445	66 [1]
Peru	216	135
Australia	214	189
Papua New Guinea	177	0
Other Major Producers		
United States	1,462	1,715
Japan	82	864
Germany	2	447
Belgium	0	458

[1] Normally about 225,000 tons.

The US copper industry faces a similar situation. In recent years costs have escalated, largely because of the high cost of pollution abatement controls, and now are the highest among major Free World refiners. Never very large, US exports have declined while imports have risen, more than doubling in 1976. These developments—weak domestic demand, escalating costs, and poor export demand—have already forced cutbacks in US output. Last year, a number of obsolescent smelting and refining plants were closed because of the prohibitive cost of meeting pollution standards. With producer and consumer stocks at alltime highs, further production cuts are planned at a number of marginal mines and plants. These actions will be insufficient to halt further accumulation of world stocks.

Short-Term Outlook

From the viewpoint of Free World producers, prospects for the rest of this year are gloomy. Demand is expected to remain close to lackluster third-quarter levels, and excess production will continue, notwithstanding US cutbacks. Although LME prices will remain depressed, low-cost producers will continue to operate profitably close to capacity levels. In all, the year's performance should be similar to 1976 when 6.7 million tons were produced in the Free World and 6.4 million tons were consumed.

Few signs point to an early upturn in 1978. European consumption is forecast close to present levels on the assumption that residential construction markets will remain soft and that restrictive economic policies in some countries will continue.

According to current indicators, US consumption may increase slightly over 1977. Production almost certainly will again exceed consumption, especially since even small improvements in demand will call forth output increases by individual producers.

The bearish outlook for producers points to even greater pressure by LDCs on developed nations to agree to UNCTAD-sponsored stabilization measures for buffer stocks. Whatever the conclusions of the studies agreed to in the August UNCTAD meetings, the LDCs are increasingly impatient with what they see as delaying tactics by consuming nations. At the November meetings they no doubt will urge faster progress toward an international agreement providing for stabilization measures. 25X1

* * * * *

Notes

North-South Dialogue: LDCs Push Ahead

The developing countries have followed a tactic of restrained pressure in their renewed exchanges with developed countries. 25X1

The reconvened session of the 31st UN General Assembly, set up to review the results of the Conference on International Economic Cooperation (CIEC), lasted an extra three days without producing a resolution. The LDC representatives arrived in New York with a much tougher draft resolution than the one they circulated during the summer. This new version sharply criticized the CIEC results and proposed timetables for achieving their "new international economic order." The harsh tone of the revised draft contrasted with the generally low-key tone of the LDCs in discussions and with the absence of moves to turn disagreement into confrontation.

An important new development is the redirection of the issue of debt relief to the UNCTAD. Opposition by LDCs and a lack of support from other developed countries scuttled US efforts to have the IMF/IBRD Development Committee undertake a study of LDC debt. The United States and other developed countries had hoped that such a study would defuse this issue before the UNCTAD ministerial meeting took it up in March 1978. In the past, they have found UNCTAD a difficult forum because of LDC voting superiority. Moreover, the UNCTAD Secretariat has consistently drafted reports and resolutions that many industrialized countries find wanting in objectivity.

LDC discussions on the Common Fund continue to reveal disagreements within the Group of 77 (G-77). Brazil, Mexico, and Argentina reportedly are disturbed because the G-77 working group produced a suggested draft agreement on the

Common Fund rather than a working paper. Common Fund issues will be thrashed out in regional and G-77 caucuses during October to construct a unified position in time for the November negotiations. 25X1

OECD: Shipbuilding Discussions

The current meetings of the Organization for Economic Cooperation and Development (OECD) Shipbuilding Working Party in Paris are designed to coordinate adjustments to the decline in the ship order backlog, from a worldwide peak of 133.4 million Gross Registered Tons (GRT) in March 1974 to 45.8 million tons (GRT) at the end of June 1977. The West Europeans are arguing that price increases and export curbs imposed by Tokyo in February have not sufficiently trimmed Japan's market share. The Japanese believe they may have gone too far.

Japan accounted for 47 percent of world ship production in 1976, down from 50 percent in 1974 and 1975. Its share of orders from OECD countries has also fallen off, amounting to about three-fourths of the total in first half 1977, compared with nearly 90 percent in fourth quarter 1976. Japan has lost ground to the Europeans in terms of tonnage on order because cancellations–mostly for tankers–outweighed new orders placed in Japan over the past two years. At the end of March, European yards had nearly 19 months of work on order, compared with about 13 months of work booked with Japan's shipyards.

The Japanese are concerned that recent increases of 25 percent or more in state subsidies offered by France, Germany, the Netherlands, Norway, Sweden, and the United Kingdom on LDC ship contracts–plus increased incentives for domestic orders–will swing the balance in Europe's favor. Both groups are alarmed at the continued growth of ship production in non-OECD nations. South Korea and Taiwan have low labor costs and modern yards. Brazil and Poland, among others, have the assurance of orders from their growing state fleets.

A series of OECD discussions of retrenchment in shipbuilding over the last 18 months have produced little agreement to date on market shares. Exchanges of formatted data on orders won, canceled, and on hand, however, have substantially reduced the misunderstanding that nearly precipitated West European restrictions on Japan's ship exports early this year. We foresee continuation of the proliferation of protectionist programs, which will prolong market adjustment to the surplus of shipbuilding capacity. 25X1

Soviets Seek Onshore Fishing Facilities in New Zealand

New Zealand is considering a Soviet bid to use onshore port and crew-transfer facilities for the Soviet fishing fleet. As an inducement, the Soviets are holding out the prospect of continuing their large purchases of agricultural products from New

Zealand. They have argued that the disparity between Soviet purchases from New Zealand ($100 million last year) and New Zealand's purchases from the USSR (less than $4 million) makes it advisable for New Zealand to make some compensatory gesture.

Wellington, which had turned aside at least three earlier approaches, now believes circumstances dictate a serious study of the latest proposal. Rather than depending on sales to the USSR, New Zealand would prefer a guaranteed market in Japan for its beef and dairy goods. Japan, however, has been unresponsive to New Zealand's pleas to help production planning through advance-purchase commitments. 25X1

South Korea: Import Liberalization Policy—a Facade

South Korea's long-range import liberalization plan to be announced later this year reportedly will keep the import control system basically intact. Despite South Korea's improved balance-of-payments position and pressure from trading partners, the plan will only appear to ease barriers.

This summer, the government removed or eased restrictions on several minor commodity imports. Although officials also indicated that a further easing of barriers would be included in the long-range plan, the government apparently has adopted a go-slow approach.

South Korea's balance-of-payments position has improved dramatically since late 1975. A sharp increase in exports and service receipts suggests a current account surplus this year, compared with a $1.9 billion deficit in 1975 and a $300 million deficit in 1976. Stepped-up exports to the United States are one of the most important factors in this improvement. 25X1

ECONOMIC INDICATORS

Prepared by

The Office of Economic Research

ER EI 77-039
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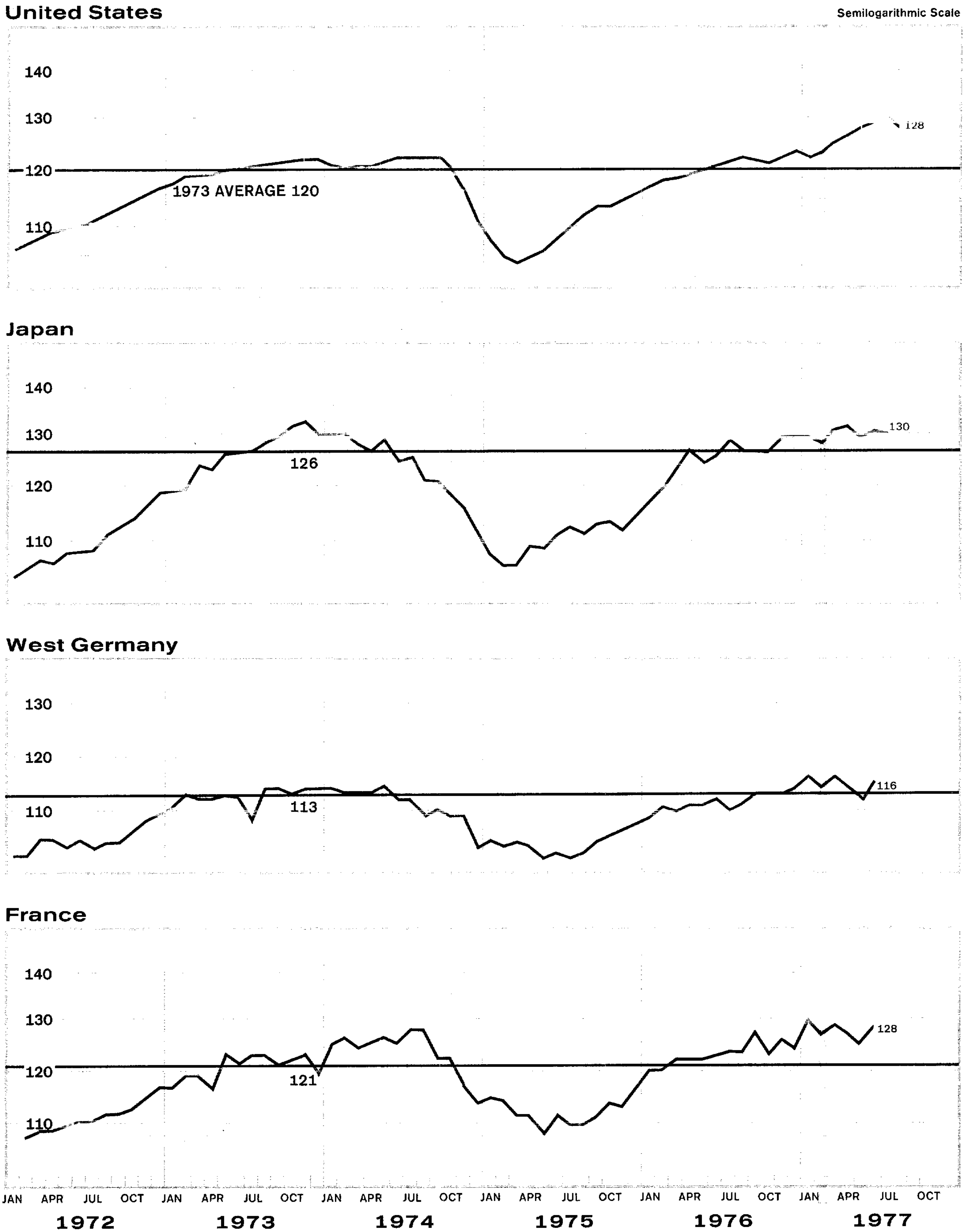
FOREWORD

1. The **Economic Indicators** provides up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the **Economic Indicators** is updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks—or sometimes months—before receipt of official statistical publications. US data are provided by US government agencies.

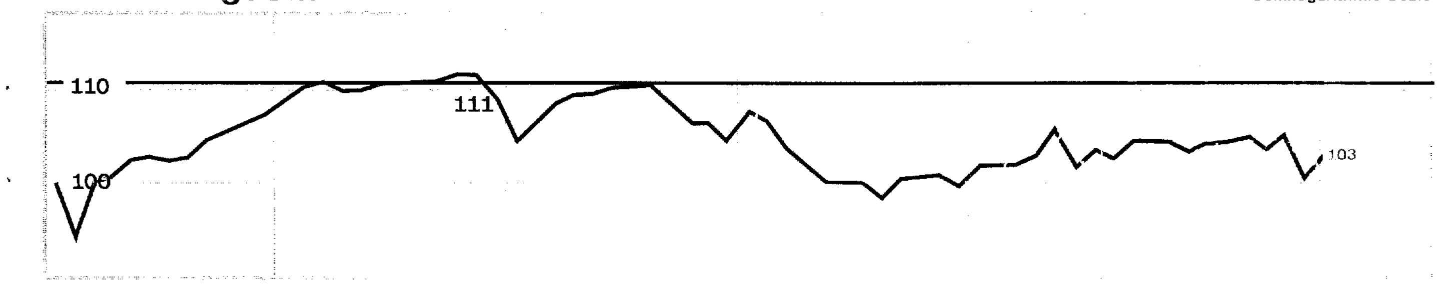
2. Source notes for the **Economic Indicators** are revised every few months. The most recent date of publication of source notes is 20 April 1977. Comments and queries regarding the **Economic Indicators** are welcomed.

INDUSTRIAL PRODUCTION INDEX: 1970=100, seasonally adjusted

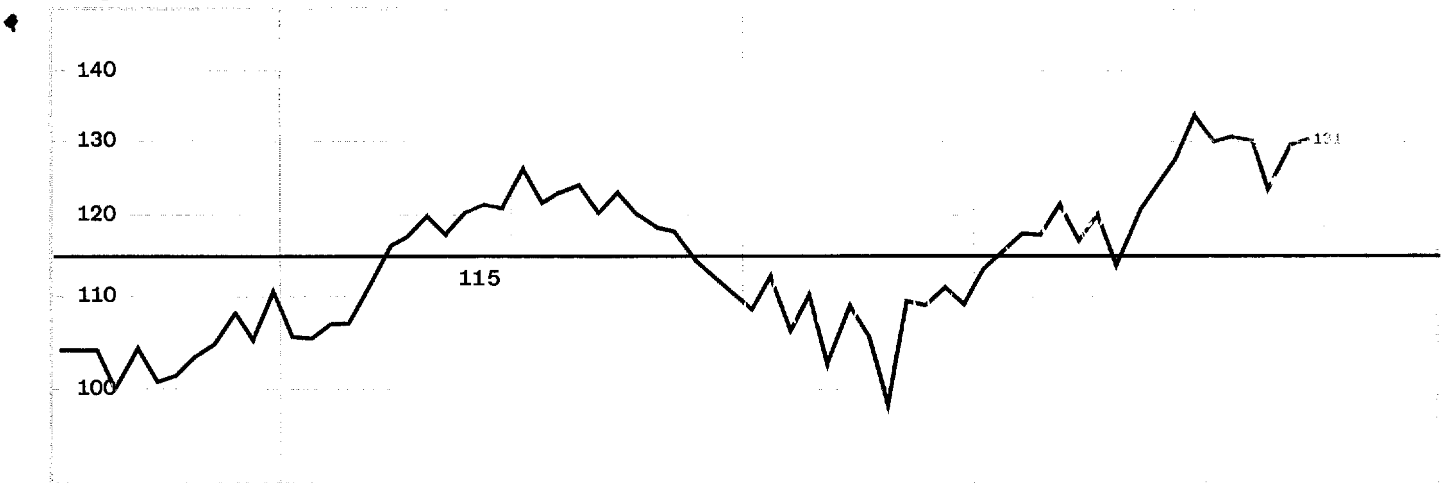


United Kingdom

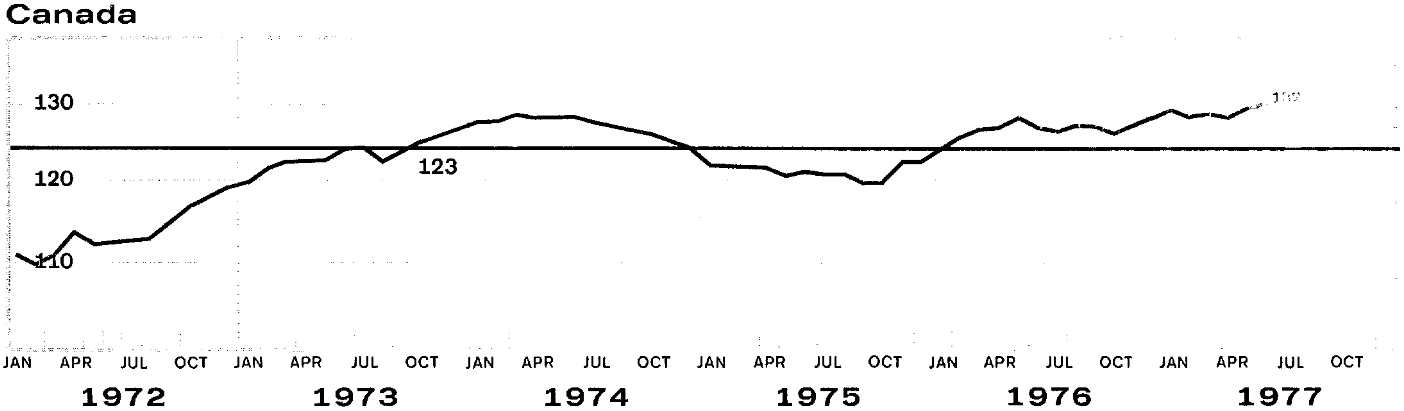
Semilogarithmic Scale



Italy



Canada



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[1]
United States	AUG 77	-0.6	3.5	5.3	6.7
Japan	JUL 77	-0.9	3.8	1.2	-0.7
West Germany	JUN 77	1.8	2.2	3.6	-6.6
France	JUN 77	3.2	3.6	4.1	-8.0

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[1]
United Kingdom	JUL 77	2.8	0.4	-1.0	-8.5
Italy	JUN 77	0.7	4.0	12.2	-7.3
Canada	JUN 77	0.3	4.1	4.5	1.4

[1]Average for latest 3 months compared with average for previous 3 months.

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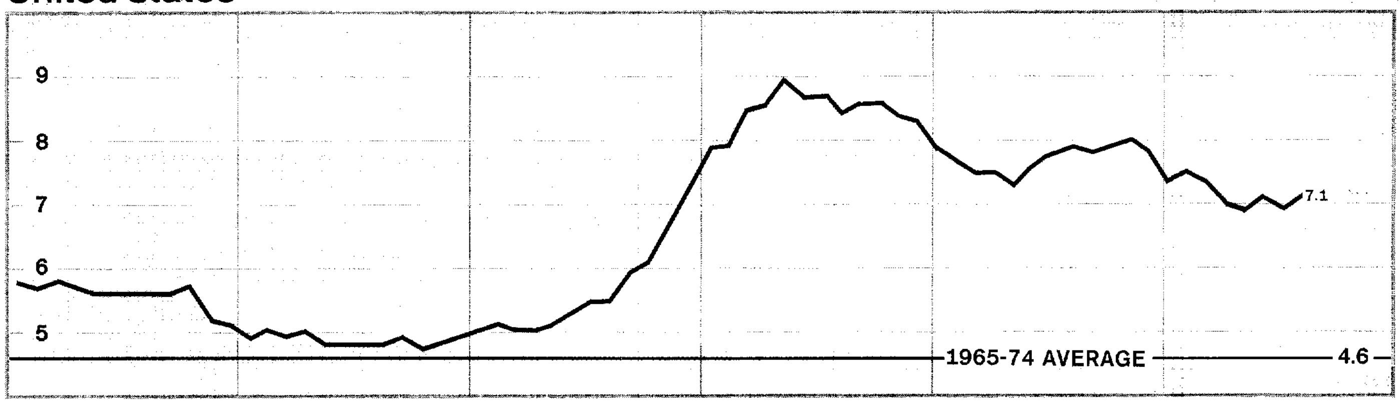
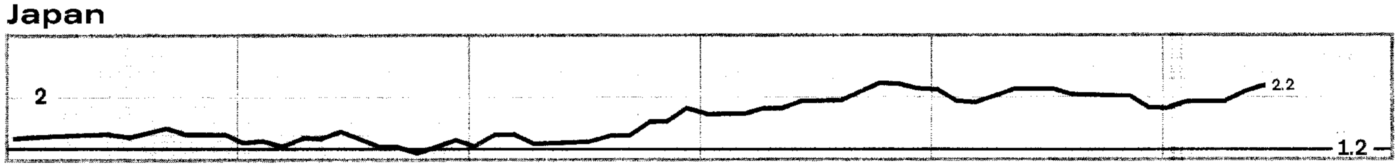
UNEMPLOYMENT PERCENT OF LABOR FORCE

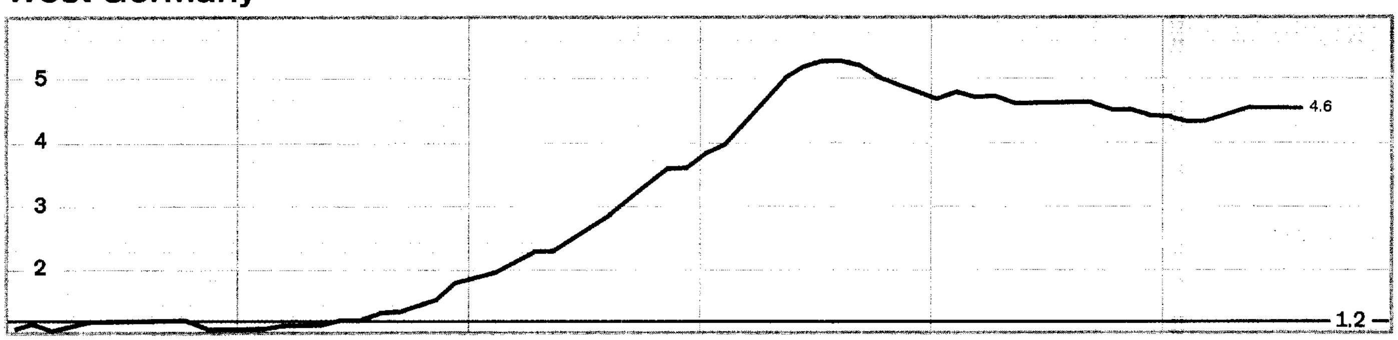
United States



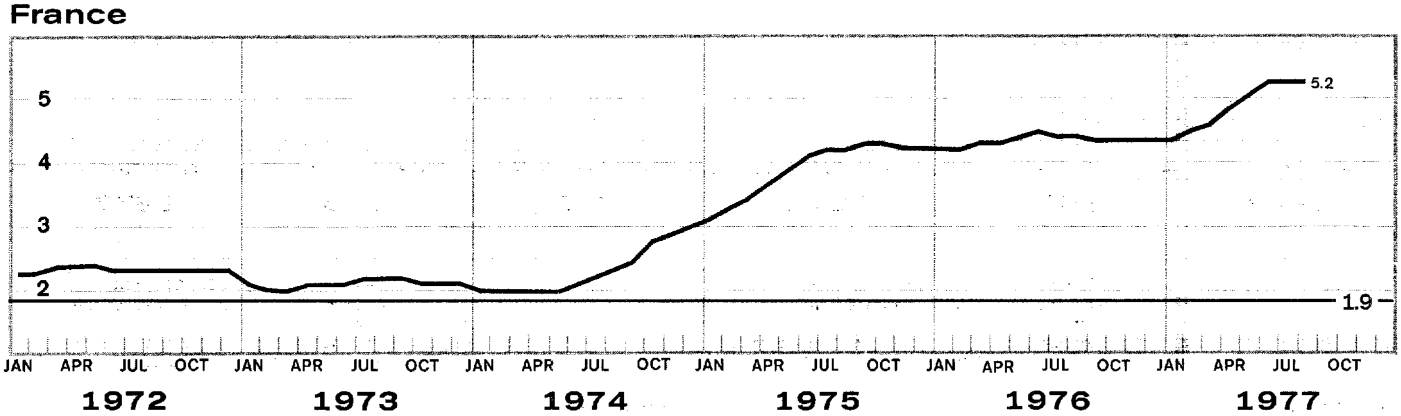
Japan

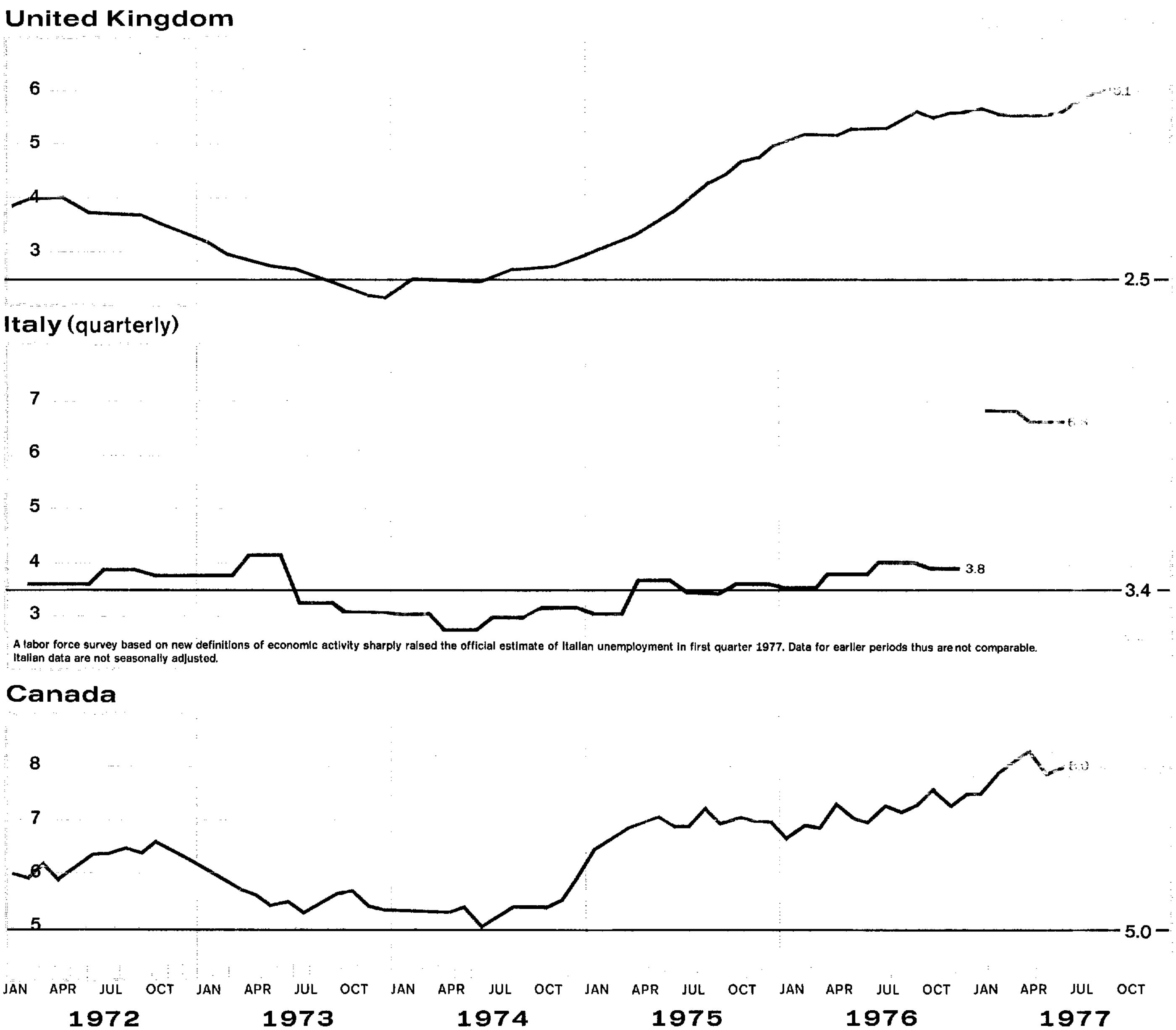


West Germany



France





THOUSANDS OF PERSONS UNEMPLOYED

	LATEST MONTH		1 Year Earlier	3 Months Earlier
United States	AUG 77	6,926	7,517	6,750
Japan	JUN 77	1,190	1,120	1,050
West Germany	AUG 77	1,052	1,049	1,038
France	AUG 77	1,216	962	1,097

	LATEST MONTH		1 Year Earlier	3 Months Earlier
United Kingdom	SEP 77	1,446	1,319	1,353
Italy	77 II	1,432	NA	1,459
Canada	JUL 77	859	751	870

NOTE: Data are seasonally adjusted. Unemployment rates for France are estimated. The rates shown for Japan, Italy and Canada are roughly comparable to US rates. For 1975-77, the rates for France and the United Kingdom should be increased by 5 percent and 15 percent respectively, and those for West Germany decreased by 20 percent to be roughly comparable with US rates.

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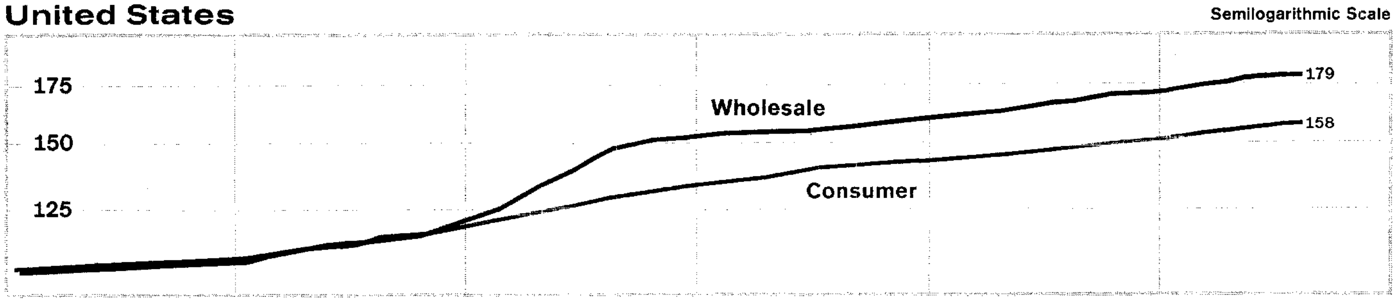
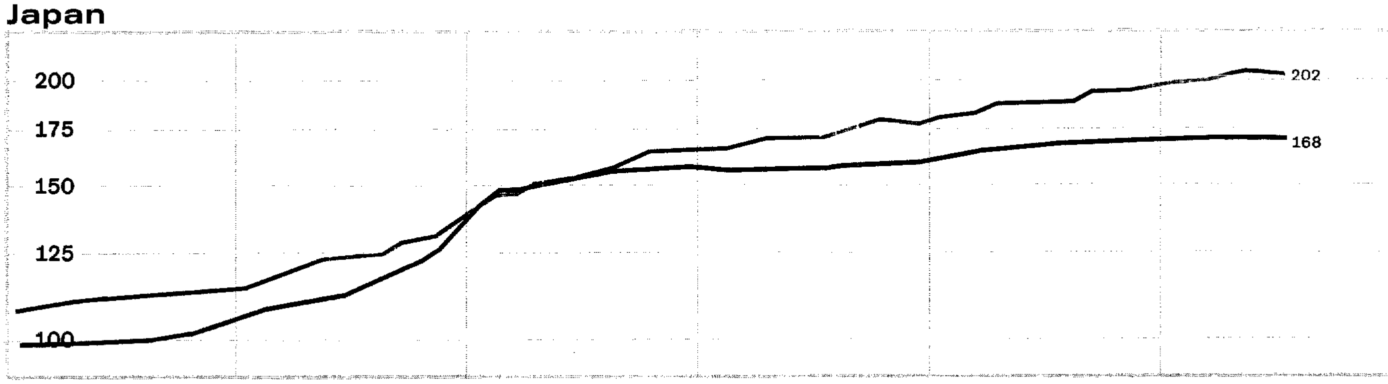
DOMESTIC PRICES[1] INDEX: 1970=100

United States

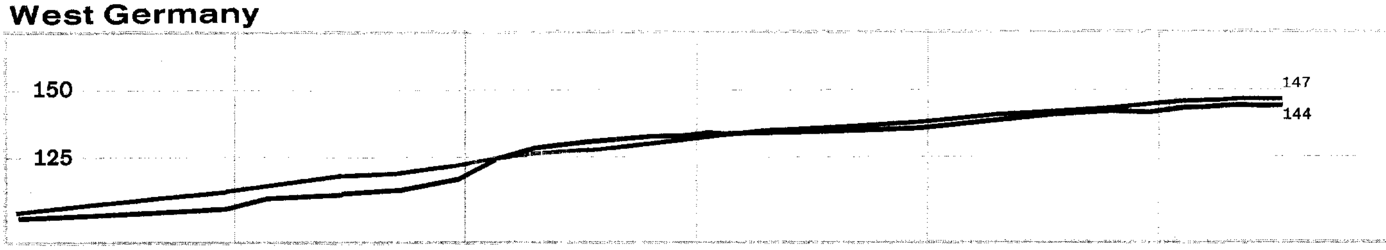
Semilogarithmic Scale



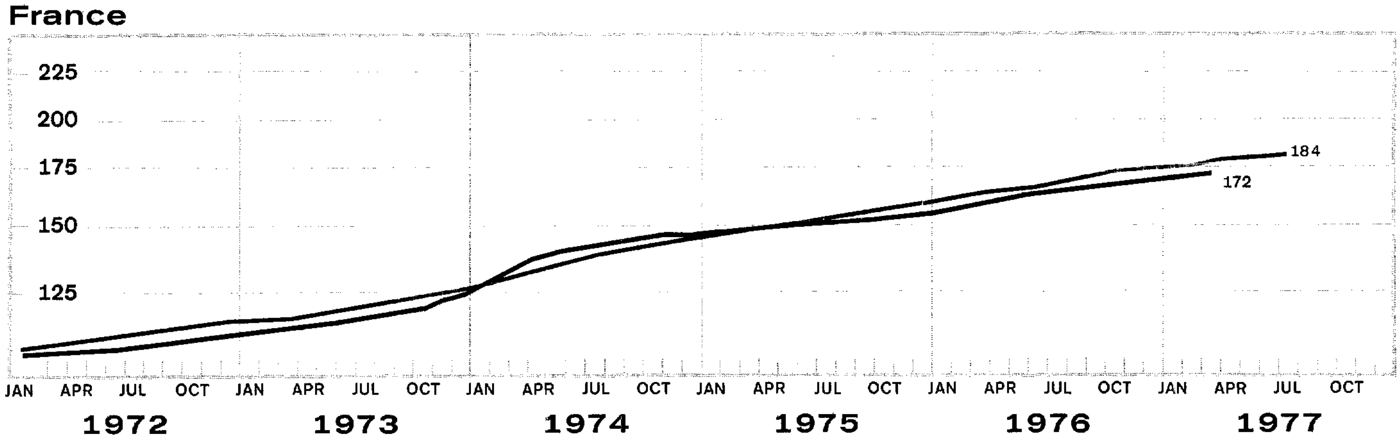
Japan



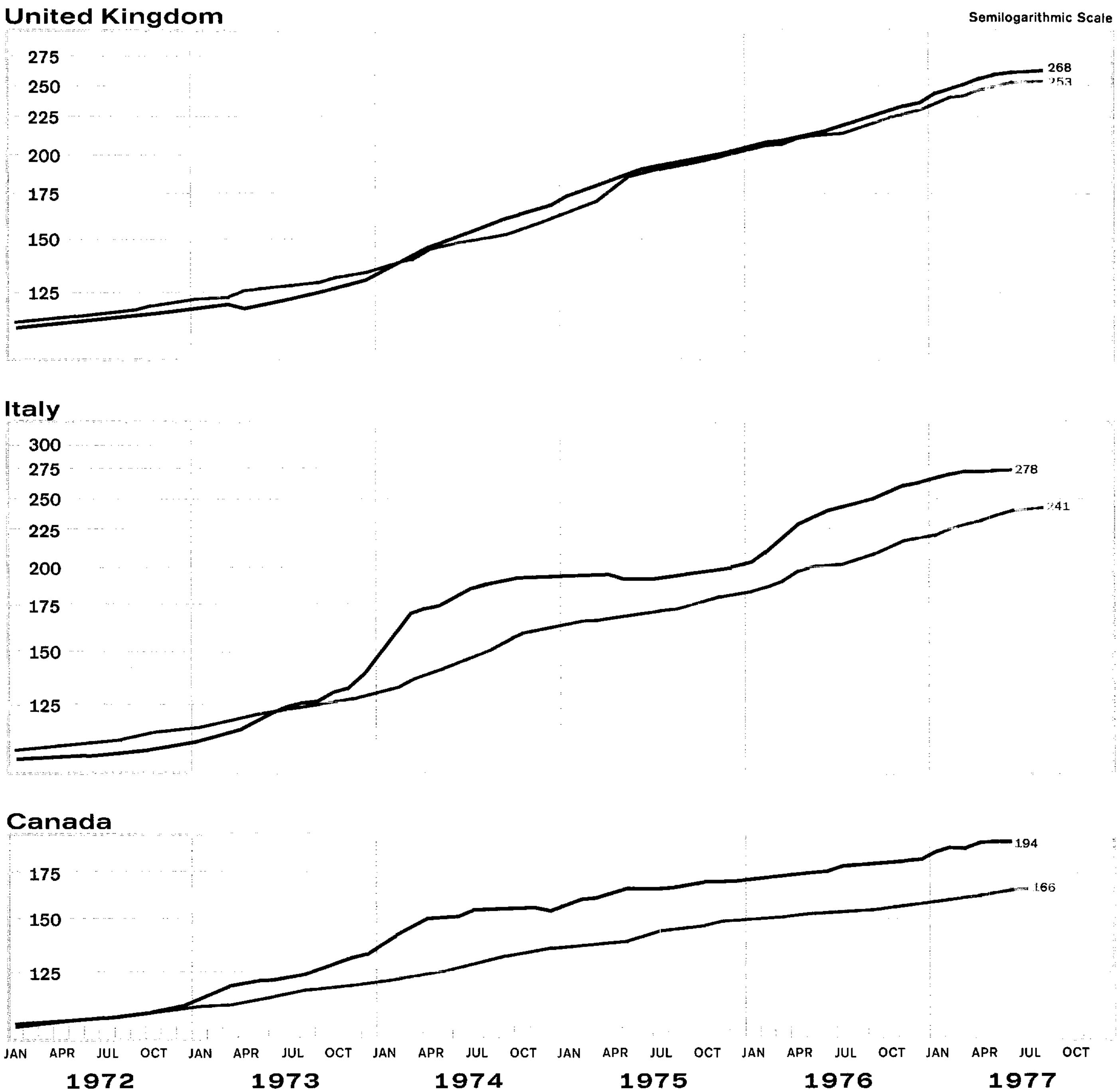
West Germany



France



[1] Wholesale price indexes cover industrial goods.



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier
United States	AUG 77	0.6	8.5	7.2	5.7
	AUG 77	0.4	6.6	6.6	6.1
Japan	JUL 77	−0.5	7.7	1.1	−2.6
	JUL 77	−0.3	10.5	7.7	0.7
West Germany	JUL 77	0	5.3	2.2	0.3
	JUL 77	−0.1	5.6	4.3	3.1
France	MAR 77	0.9	8.4	8.2	7.6
	JUL 77	0.9	9.1	10.1	10.9

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier
United Kingdom	AUG 77	0.9	14.8	20.0	13.4
	AUG 77	0.5	13.9	16.5	6.8
Italy	JUN 77	0.3	15.8	15.9	6.7
	AUG 77	0.7	13.2	20.0	9.8
Canada	JUN 77	−0.2	10.0	9.6	2.2
	JUL 77	0.9	7.5	8.4	10.3

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GNP [1]

Constant Market Prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	1 Year Earlier	Previous Quarter
United States	77 II	1.6	3.2	4.7	6.4
Japan	77 II	1.9	5.6	5.6	7.6
West Germany	76 IV	1.5	6.7	5.1	6.0
France	76 IV	0	3.9	4.9	0
United Kingdom	77 I	−1.9	1.6	−1.3	−7.5
Italy	76 IV	1.1	3.0	5.5	4.6
Canada	76 IV	−0.6	4.8	3.4	−2.5

[1] Seasonally adjusted.

RETAIL SALES [1]

Constant Prices

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
United States	Jun 77	−0.2	3.2	4.1	3.3
Japan	May 77	−3.8	9.9	2.3	9.5
West Germany	Jun 77	0.9	2.4	4.4	−9.8
France	Jun 77	7.7	−0.3	1.0	−8.1
United Kingdom	Aug 77	0	1.1	−1.7	9.2
Italy	Mar 77	0.2	2.9	−0.3	16.3
Canada	Jun 77	−0.7	4.1	−3.7	−8.7

[1] Seasonally adjusted.
[2] Average for latest 3 months compared with average for previous 3 months.

FIXED INVESTMENT [1]

Non-residential; constant prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	1 Year Earlier	Previous Quarter
United States	77 II	2.2	2.1	9.6	9.0
Japan	77 II	0.5	1.1	4.5	2.0
West Germany	76 IV	7.7	0.5	5.8	34.5
France	75 IV	8.8	4.2	2.9	40.1
United Kingdom	77 I	−0.6	0	3.4	−2.5
Italy	76 IV	5.2	3.0	15.4	22.4
Canada	76 IV	8.5	6.8	5.1	38.7

[1] Seasonally adjusted.

WAGES IN MANUFACTURING [1]

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
United States	Jul 77	0.6	7.5	7.6	8.1
Japan	Jun 77	1.7	17.3	12.5	8.7
West Germany	77 II	1.7	9.5	7.5	7.2
France	77 I	2.3	14.1	13.9	9.5
United Kingdom	Jun 77	0.3	15.7	3.4	3.6
Italy	May 77	5.3	21.1	29.4	33.2
Canada	Jun 77	1.3	11.5	10.7	11.7

[1] Hourly earnings (seasonally adjusted) for the United States, Japan, and Canada; hourly wage rates for others. West German and French data refer to the beginning of the quarter.
[2] Average for latest 3 months compared with that for previous 3 months.

MONEY MARKET RATES

	Representative rates	Latest Date	Percent Rate of Interest	1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Commerical paper	Sep 21	6.00	5.33	5.39	5.89
Japan	Call money	Sep 23	4.88	7.00	5.63	5.75
West Germany	Interbank loans (3 months)	Sep 21	3.95	4.54	4.22	4.06
France	Call money	Sep 23	8.50	9.00	8.75	8.25
United Kingdom	Sterling interbank loans (3 months)	Sep 21	5.88	12.65	7.78	6.60
Canada	Finance paper	Sep 21	7.25	9.27	7.12	7.47
Eurodollars	Three-month deposits	Sep 21	6.59	5.45	5.80	6.36

EXPORT PRICES
US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Jun 77	−0.4	9.8	5.6	2.5
Japan	Jun 77	2.0	10.8	14.9	10.1
West Germany	Jul 77	3.5	11.7	12.8	17.0
France	May 77	0.9	11.3	7.1	3.6
United Kingdom	Aug 77	2.9	11.0	13.9	15.7
Italy	Apr 77	−0.3	11.1	17.4	12.6
Canada	Jun 77	0.1	11.1	8.6	13.0

EXPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Jun 77	−0.4	9.8	5.6	2.5
Japan	Jun 77	0.4	6.5	4.7	−1.0
West Germany	Jul 77	0.9	4.5	0.5	2.1
France	May 77	0.6	9.5	12.8	1.3
United Kingdom	Aug 77	1.9	16.1	16.7	10.1
Italy	Apr 77	1.9	16.9	18.5	16.6
Canada	Jun 77	−0.7	9.5	5.4	10.3

IMPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Jun 77	−1.4	13.5	7.9	2.1
Japan	Jun 77	−0.8	10.9	0.3	−14.8
West Germany	Jul 77	0.3	4.4	−0.3	−1.2
France	May 77	−0.4	10.6	15.4	2.6
United Kingdom	Aug 77	−1.0	19.3	13.9	1.7
Italy	Apr 77	1.0	21.1	13.7	15.1
Canada	Jun 77	0.3	8.6	8.5	7.7

OFFICIAL RESERVES

	Latest Month: End of	Latest Month: Billion US $	Billion US $: Jun 1970	1 Year Earlier	3 Months Earlier
United States	Aug 77	19.1	14.5	18.6	19.2
Japan	Aug 77	17.8	4.1	16.3	17.3
West Germany	Jun 77	35.1	8.8	33.3	34.7
France	Jun 77	10.2	4.4	9.6	9.8
United Kingdom	Aug 77	14.8	2.8	5.0	9.9
Italy	Jul 77	10.5	4.7	6.2	6.8
Canada	Jun 77	5.1	4.3	6.0	5.1

CURRENT ACCOUNT BALANCE [1]

	Latest Period	Million US $	Cumulative (Million US $) 1977	1976	Change
United States [2]	77 I	−4,317	−4,317	540	−4,857
Japan	Aug 77	660	5,321	1,255	4,066
West Germany	Jul 77	−546	1,731	1,188	543
France	77 II	−438	−2,101	−2,052	−50
United Kingdom	77 I	−773	−773	−502	−271
Italy	77 I	−929	−929	−1,413	484
Canada	77 I	−1,624	−1,624	−1,911	287

[1] Converted to US dollars at the current market rates of exchange.
[2] Seasonally adjusted.

BASIC BALANCE [1]
Current and Long-Term-Capital Transactions

	Latest Period	Million US $	Cumulative (Million US $) 1977	1976	Change
United States		No longer published [2]			
Japan	Aug 77	260	3,781	1,472	2,309
West Germany	Jul 77	−875	−2,039	1,196	−3,234
France	77 I	−1,354	−1,354	−2,015	660
United Kingdom	76 IV	−277	N.A.	−4,171	N.A.
Italy	76 III	779	N.A.	1,096	N.A.
Canada	77 I	−583	−583	882	−1,465

[1] Converted to US dollars at the current market rates of exchange.
[2] As recommended by the Advisory Committee on the Presentation of Balance of Payments Statistics, the Department of Commerce no longer publishes a basic balance.

EXCHANGE RATES
Spot Rate
As of 23 Sep 77

	US $ Per Unit	Percent Change from 19 Mar 73	1 Year Earlier	3 Months Earlier	16 Sep 77
Japan (yen)	0.0037	−1.42	7.54	1.88	0.05
West Germany (Deutsche mark)	0.4296	21.33	6.53	1.12	−0.13
France (franc)	0.2027	−8.03	−0.76	0.10	−0.21
United Kingdom (pound sterling)	1.7427	−29.19	0.50	1.34	0.01
Italy (lira)	0.0011	−36.10	−4.88	0.09	−0.09
Canada (dollar)	0.9320	−6.59	−9.18	−1.11	0.05

TRADE-WEIGHTED EXCHANGE RATES [1]
As of 23 Sep 77

	Percent Change from 19 Mar 73	1 Year Earlier	3 Months Earlier	16 Sep 77
United States	6.34	2.21	0.26	−0.01
Japan	4.60	10.20	2.07	0.04
West Germany	26.16	5.91	1.27	−0.04
France	−7.83	−2.69	0.09	−0.16
United Kingdom	−28.95	0.88	2.14	0.09
Italy	−38.46	−6.67	−0.09	−0.02
Canada	−4.43	−9.45	−1.19	0.06

[1] Weighting is based on each listed country's trade with 16 other industrialized countries to reflect the competitive impact of exchange rate variations among the major currencies.

Developed Countries: Direction of Trade [1]

Million US $

	Exports to (f.o.b.)						Imports from (c.i.f.)					
	World	Big Seven	Other OECD	OPEC [2]	Com-munist	Other	World	Big Seven	Other OECD	OPEC [2]	Com-munist	Other
UNITED STATES [3]												
1974	98,507	45,866	15,630	6,723	3,406	26,882	100,218	49,490	9,415	15,636	1,282	24,395
1975	107,592	46,926	16,191	10,765	3,699	30,011	96,140	46,715	8,170	17,083	1,156	23,016
1976	114,997	51,298	17,612	12,567	3,936	29,584	120,677	56,626	9,058	25,017	1,445	28,531
1st Qtr	27,360	12,184	4,088	2,751	1,144	7,193	27,319	12,884	2,226	5,570	327	6,312
2d Qtr	29,695	13,383	4,496	3,113	1,088	7,615	28,367	14,332	2,242	5,582	372	5,839
3d Qtr	27,437	11,944	4,073	3,106	850	7,464	32,452	14,285	2,228	6,952	389	8,598
4th Qtr	30,505	13,787	4,955	3,597	854	7,312	32,539	15,125	2,362	6,913	357	7,782
1977												
1st Qtr	29,454	13,752	4,716	3,136	951	6,899	34,990	15,124	2,566	8,324	366	8,610
2d Qtr	31,673	14,282	4,707	3,389	816	8,479	37,907	17,059	2,578	8,673	411	9,186
JAPAN												
1974	55,610	18,591	6,862	5,450	4,367	20,340	62,074	18,755	6,219	19,970	3,684	13,446
1975	55,812	16,468	6,091	8,423	5,283	19,547	57,853	16,917	6,083	19,404	3,382	12,067
1976	67,364	22,406	8,588	9,278	5,049	22,043	64,895	17,534	7,777	21,877	2,926	14,781
1st Qtr	14,429	4,848	1,827	1,872	1,289	4,593	14,832	4,083	1,696	5,213	671	3,169
2d Qtr	16,431	5,402	2,092	2,271	1,348	5,318	15,903	4,347	1,948	5,400	667	3,541
3d Qtr	17,542	5,897	2,272	2,476	1,135	5,762	16,818	4,497	2,137	5,406	747	4,031
4th Qtr	18,962	6,259	2,397	2,659	1,277	6,370	17,342	4,607	1,996	5,858	841	4,040
1977												
1st Qtr	17,911	5,848	2,449	2,459	1,409	5,746	17,452	4,717	1,845	6,246	801	3,843
Apr & May	13,017	4,404	1,611	1,823	875	4,304	11,988	3,195	1,380	3,925	575	2,913
WEST GERMANY												
1974	89,365	30,820	36,431	4,066	9,473	8,575	69,659	23,878	25,504	9,211	5,153	5,913
1975	90,181	28,331	36,406	6,776	10,629	8,039	74,986	27,085	27,761	8,239	5,526	6,375
1976	101,980	33,443	41,811	8,245	10,310	8,171	88,211	31,281	32,632	9,720	6,718	7,860
1st Qtr	23,467	7,918	9,519	1,710	2,430	1,890	20,147	7,130	7,577	2,189	1,502	1,749
2d Qtr	24,570	8,215	10,110	1,838	2,421	1,986	21,571	7,704	8,133	2,223	1,625	1,886
3d Qtr	25,147	8,003	10,272	2,235	2,510	2,127	21,791	7,565	7,894	2,575	1,699	2,058
4th Qtr	28,796	9,307	11,910	2,462	2,949	2,168	24,701	8,883	9,028	2,732	1,891	2,167
1977												
1st Qtr	27,804	9,281	11,609	2,307	2,156	2,451	24,084	8,465	8,828	2,578	1,270	2,943
Apr	9,230	3,058	3,849	799	694	830	7,991	2,892	2,949	756	428	966
FRANCE												
1974	45,914	19,361	14,854	3,017	2,265	6,417	52,874	22,062	13,620	10,117	1,714	5,361
1975	52,189	19,960	15,454	4,909	3,477	8,389	54,238	23,039	14,350	9,665	2,065	5,119
1976	55,680	22,438	16,081	5,067	3,558	8,536	64,256	27,750	16,894	11,336	2,384	5,892
1st Qtr	13,639	5,524	3,921	1,240	917	2,037	15,529	6,567	4,157	2,818	595	1,392
2d Qtr	14,769	5,911	4,395	1,221	1,059	2,183	16,187	7,149	4,324	2,610	593	1,511
3d Qtr	12,409	4,922	3,446	1,280	729	2,032	14,841	6,431	3,733	2,723	577	1,377
4th Qtr	14,863	6,081	4,319	1,326	853	2,284	17,699	7,603	4,680	3,185	619	1,612
1977												
1st Qtr	15,323	6,250	4,540	1,392	847	2,294	17,885	7,494	4,840	3,056	600	1,895
Apr	5,232	2,193	1,569	460	288	722	5,788	2,499	1,543	879	194	673
UNITED KINGDOM												
1974	38,615	11,704	15,544	2,554	1,458	7,355	54,107	18,158	17,968	8,695	1,870	7,416
1975	43,751	12,399	16,310	4,535	1,768	8,739	53,260	18,387	18,370	6,912	1,726	7,865
1976	46,312	14,016	17,492	5,133	1,619	8,052	56,029	19,653	18,732	7,292	2,143	8,209
1st Qtr	11,637	3,415	4,362	1,238	433	2,189	13,641	4,704	4,597	1,824	510	2,006
2d Qtr	11,553	3,532	4,307	1,259	420	2,035	14,052	5,041	4,547	1,738	579	2,147
3d Qtr	11,058	3,430	4,100	1,262	386	1,880	13,787	4,744	4,547	1,893	528	2,075
4th Qtr	12,064	3,639	4,723	1,374	380	1,948	14,549	5,164	5,041	1,837	526	1,981
1977												
1st Qtr	13,150	4,008	5,145	1,521	413	2,063	15,575	5,786	5,068	1,783	514	2,424
2d Qtr	14,375	4,195	5,700	1,687	530	2,263	16,623	6,009	5,718	1,702	602	2,592

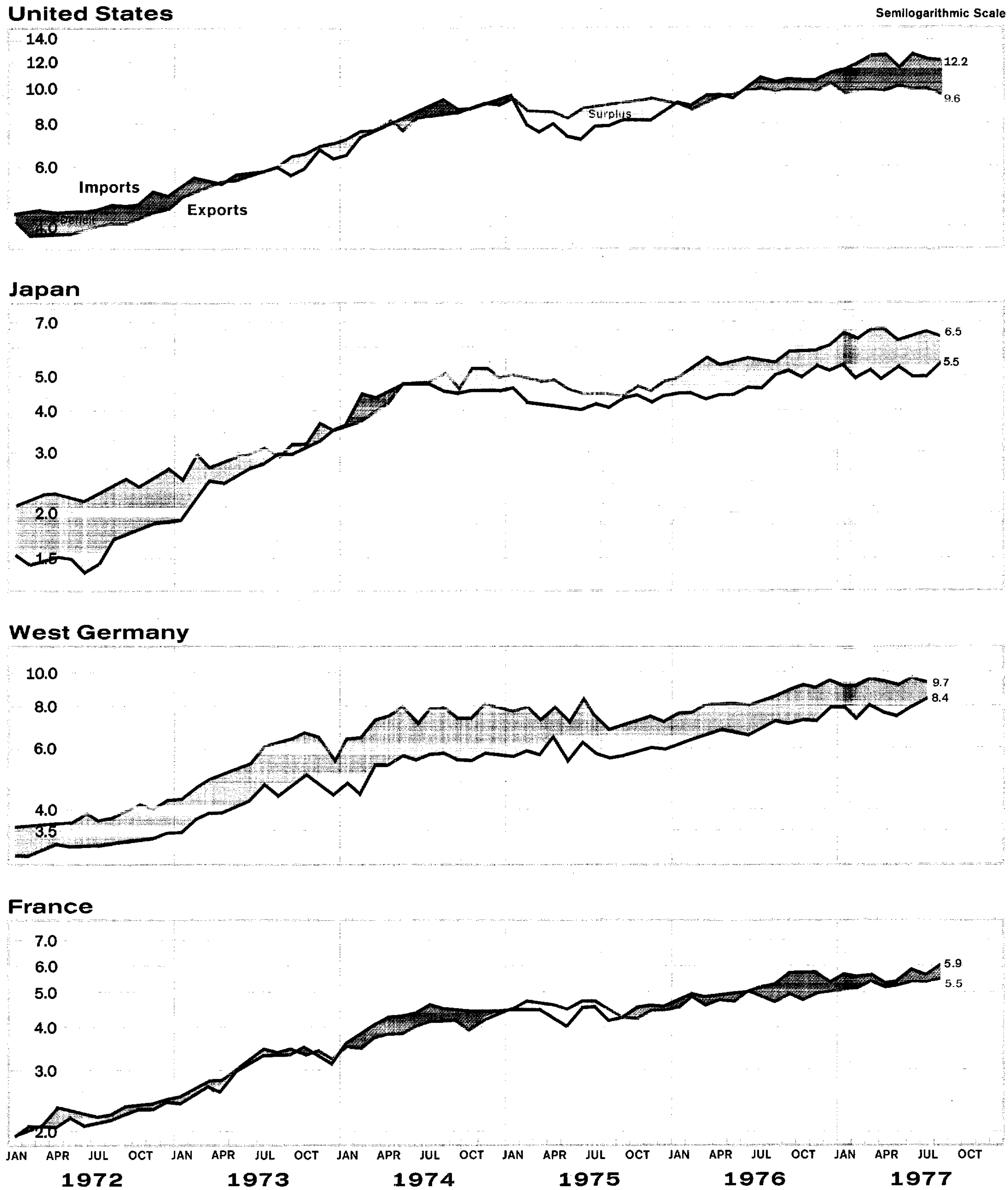
Developed Countries: Direction of Trade [1]
(Continued)

Million US $

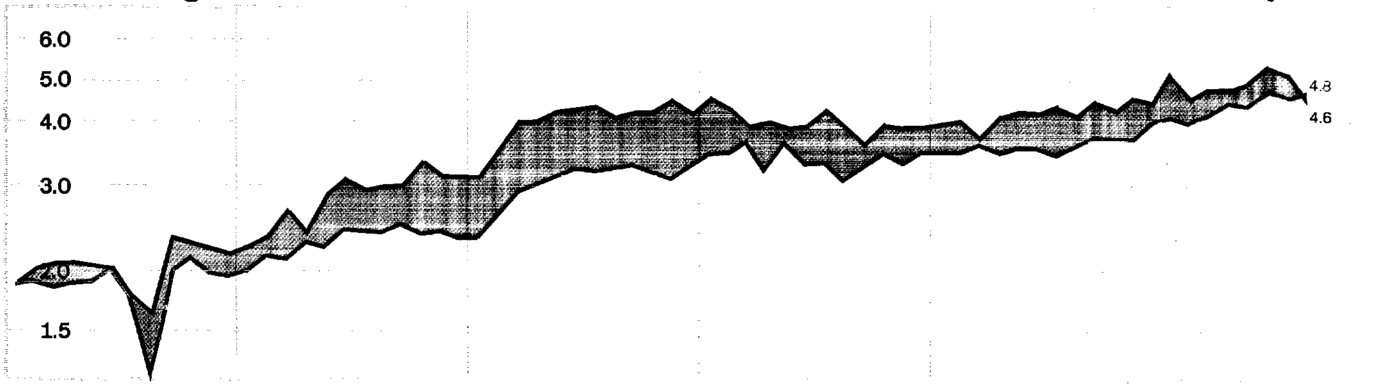
	Exports to (f.o.b.)						Imports from (c.i.f.)					
	World	Big Seven	Other OECD	OPEC [2]	Com-munist	Other	World	Big Seven	Other OECD	OPEC [2]	Com-munist	Other
ITALY												
1974	30,252	13,894	7,135	2,238	2,701	4,284	40,682	17,949	6,394	9,384	2,513	4,442
1975	34,825	15,626	7,519	3,718	3,228	4,734	37,928	17,284	6,189	7,854	2,431	4,170
1976	35,364	16,698	8,276	4,027	2,592	3,771	41,789	18,585	7,755	7,831	3,000	4,618
1st Qtr	7,398	3,513	1,713	756	597	819	9,092	4,063	1,708	1,689	608	1,024
2d Qtr	8,705	4,157	2,040	951	623	934	10,716	4,786	1,918	2,092	744	1,176
3d Qtr	9,398	4,505	2,191	1,057	657	988	10,335	4,497	1,860	2,035	792	1,151
4th Qtr	9,863	4,523	2,332	1,263	715	1,030	11,646	5,239	2,269	2,015	856	1,267
1977												
1st Qtr	9,668	4,520	2,264	1,236	655	993	11,299	4,964	2,130	2,166	720	1,319
Apr & May	7,480	3,435	1,719	981	540	805	8,523	3,829	1,561	1,605	523	1,005
CANADA [4]												
1974	32,390	26,827	1,970	626	851	2,116	32,408	25,965	1,508	2,613	343	1,979
1975	31,778	25,885	1,753	827	1,255	2,058	34,050	27,181	1,579	3,126	311	1,853
1976	37,746	31,415	2,048	930	1,270	2,083	37,922	30,383	1,661	3,171	363	2,344
1st Qtr	8,539	7,197	424	167	334	417	9,159	7,331	367	843	85	533
2d Qtr	10,015	8,441	496	183	345	550	10,290	8,175	421	954	95	645
3d Qtr	9,216	7,486	568	271	354	537	8,834	6,965	433	716	91	629
4th Qtr	9,976	8,291	560	309	237	579	9,639	7,912	440	658	92	537
1977												
1st Qtr	9,672	8,201	524	248	231	468	9,640	7,850	391	742	87	570
2d Qtr	10,740	9,055	540	278	292	575	10,841	9,007	430	677	96	631

[1] Data are unadjusted. Because of rounding, components may not add to the totals shown.
[2] Including Gabon.
[3] Import data are f.a.s.
[4] Import data are f.o.b.

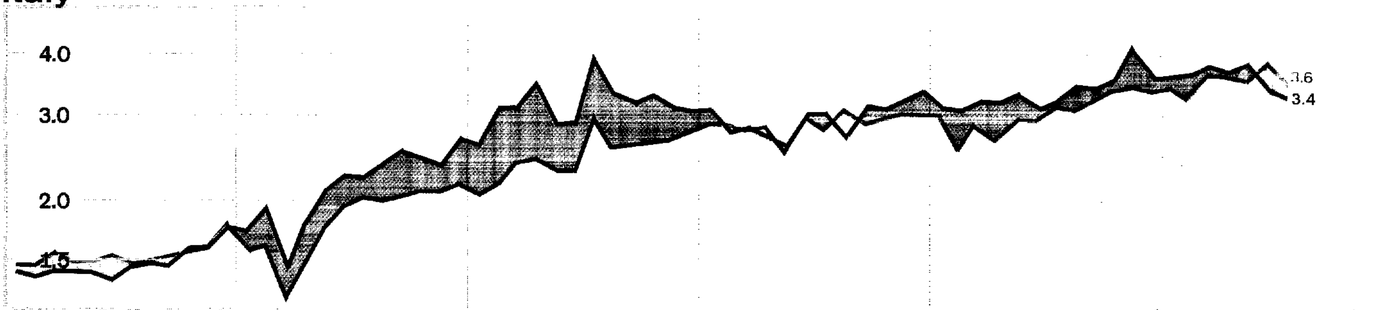
FOREIGN TRADE **BILLION US $, f.o.b., seasonally adjusted**



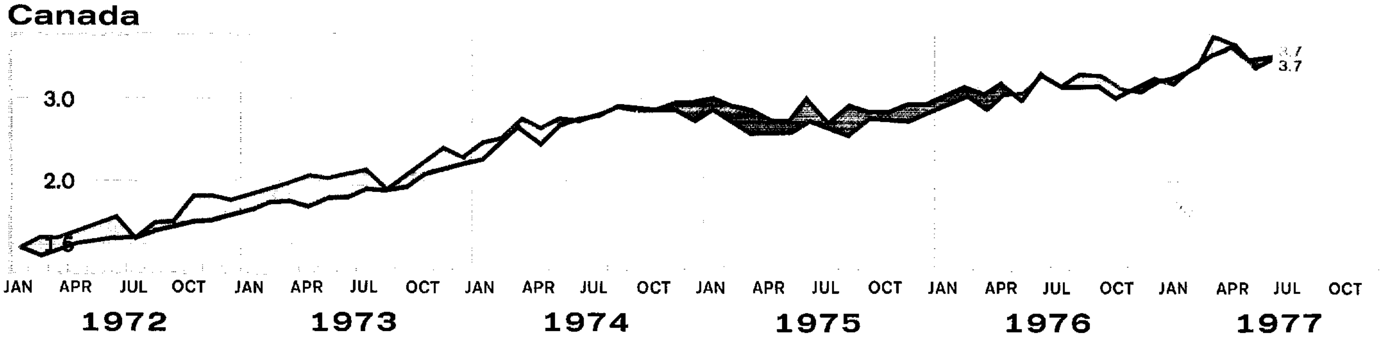
United Kingdom



Italy



Canada



	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1977	1976	CHANGE
United States	AUG 77	9,563	79,668	75,383	5.7%
		12,232	97,251	77,646	25.2%
	Balance	−2,670	−17,583	−2,263	−15,320
Japan	AUG 77	6,521	51,989	42,541	22.2%
		5,466	40,645	35,772	13.6%
	Balance	1,055	11,344	6,769	4,575
West Germany	JUL 77	9,657	66,317	56,282	17.8%
		8,384	54,989	46,344	18.7%
	Balance	1,273	11,328	9,938	1,390
France	AUG 77	5,515	41,968	37,453	12.1%
		5,893	44,178	39,000	13.3%
	Balance	−379	−2,210	−1,548	−663

	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1977	1976	CHANGE
United Kingdom	AUG 77	4,824	36,064	28,808	25.2%
		4,579	39,260	33,044	18.8%
	Balance	245	−3,196	−4,236	1,041
Italy	JUL 77	3,571	25,194	20,227	24.6%
		3,365	25,581	22,305	14.7%
	Balance	206	−388	−2,078	1,691
Canada	JUN 77	3,719	22,475	18,774	19.7%
		3,703	21,728	18,940	14.7%
	Balance	16	747	−166	912

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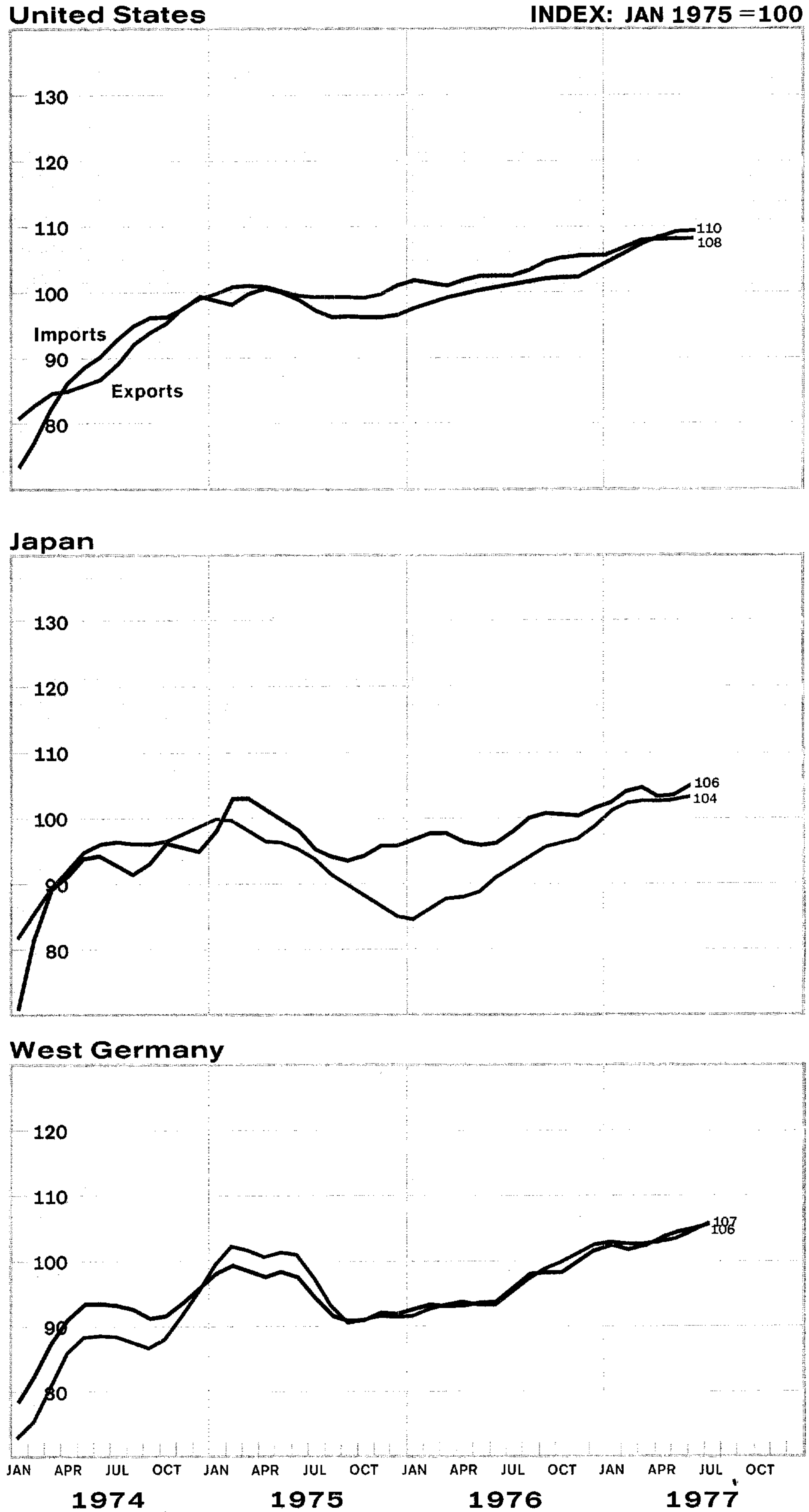
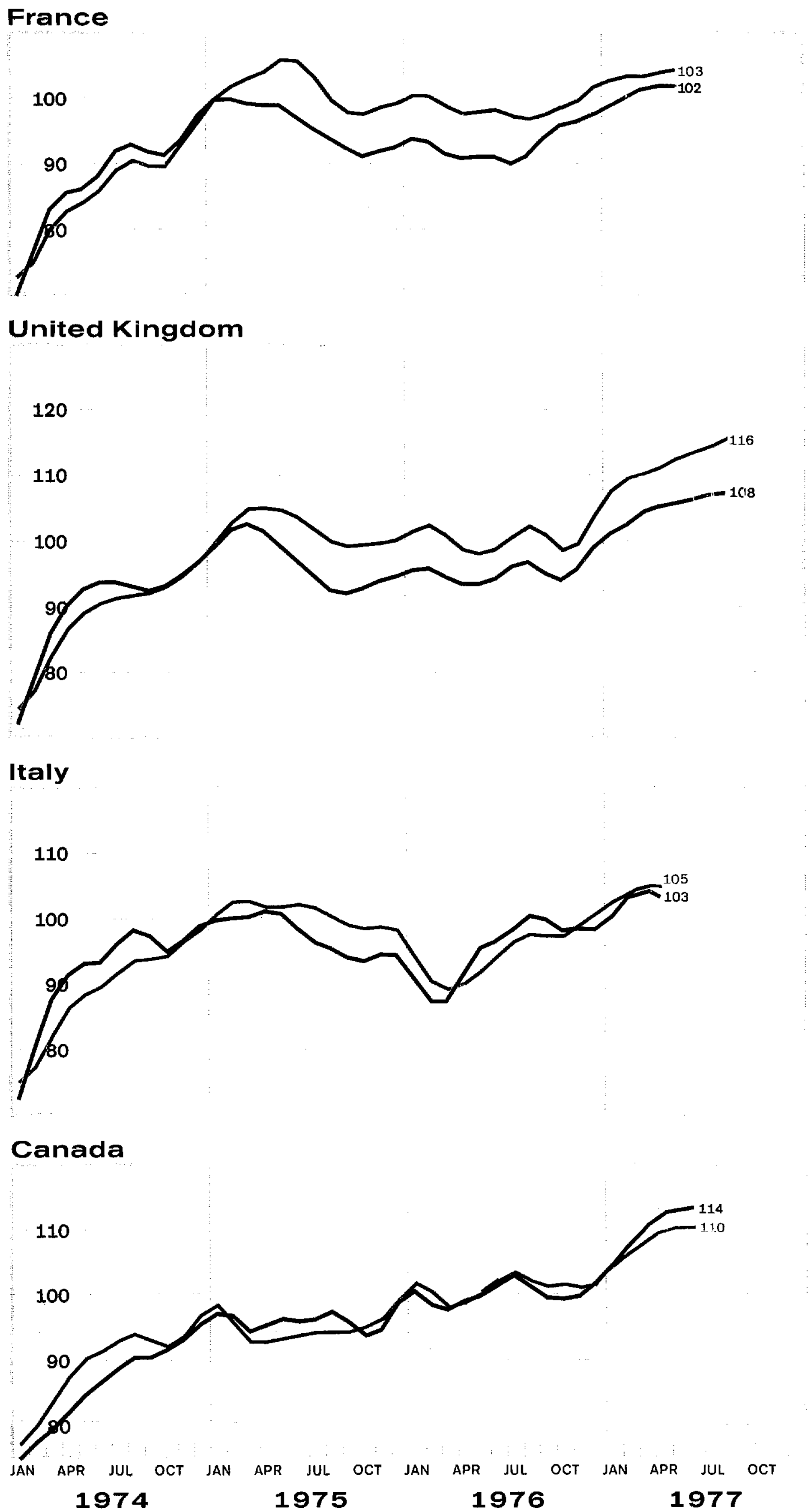
FOREIGN TRADE PRICES IN US $[1]



[1]Export and import plots are based on five month weighted moving averages.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SELECTED DEVELOPING COUNTRIES

INDUSTRIAL PRODUCTION [1]

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
Brazil	76 II	0.1	11.0	10.7	0.4
India	Feb 77	3.5	5.5	6.9	18.7
South Korea	Jun 77	8.3	22.7	14.3	21.6
Mexico	Apr 77	0.6	5.6	0.4	17.5
Nigeria	76 IV	0.2	11.3	9.0	0.7
Taiwan	Apr 77	1.9	14.9	12.7	−8.4

[1] Seasonally adjusted.
[2] Average for latest 3 months compared with average for previous 3 months.

MONEY SUPPLY [1]

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	Jan 77	−3.1	35.5	28.2
Egypt	Apr 77	1.2	18.6	23.0
India	Mar 77	1.8	12.3	20.5
Iran	Mar 77	14.5	30.4	52.2
South Korea	Jun 77	9.5	32.6	44.0
Mexico	Jun 76	−0.3	17.0	16.6
Nigeria	Feb 77	5.9	35.9	54.8
Taiwan	Mar 77	−0.2	24.4	21.2
Thailand	May 77	1.5	13.5	13.0

[1] Seasonally adjusted.
[2] Average for latest 3 months compared with average for previous 3 months.

CONSUMER PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	Apr 77	3.3	26.6	44.4
India	Mar 77	0.6	8.2	9.1
Iran	May 77	2.6	12.4	29.3
South Korea	Aug 77	1.3	14.6	9.7
Mexico	Jun 77	1.2	14.7	32.5
Nigera	Feb 77	−1.7	14.5	8.2
Taiwan	May 77	0.4	10.4	3.0
Thailand	Jun 77	0.7	8.7	8.5

WHOLESALE PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	Apr 77	4.3	27.3	45.9
India	Mar 77	0.2	9.3	11.9
Iran	May 77	1.8	11.0	22.2
South Korea	Aug 77	0.7	16.3	9.2
Mexico	Jun 77	1.0	16.5	50.9
Taiwan	May 77	0	9.2	4.4
Thailand	May 77	1.2	10.1	5.9

EXPORT PRICES

US $

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
Brazil	Oct 76	−0.4	14.5	26.5	17.0
India	Sep 76	−3.8	9.2	6.4	−6.6
Iran	May 77	0	36.5	18.6	0
South Korea	77 I	1.7	8.8	11.9	6.9
Nigeria	May 76	−0.1	33.2	8.2	6.6
Taiwan	May 77	0.4	12.3	9.4	14.7
Thailand	Dec 76	2.0	13.3	13.1	77.7

OFFICIAL RESERVES

	Latest Month: End of	Latest Month: Million US $	Million US $: Jun 1970	1 Year Earlier	3 Months Earlier
Brazil	Feb 77	5,873	1,013	3,667	5,139
Egypt	Apr 77	405	155	375	389
India	May 77	4,431	1,006	2,258	3,481
Iran	Jun 77	11,025	208	8,621	10,355
South Korea	Jun 77	3,502	602	2,044	3,212
Mexico	Mar 76	1,501	695	1,479	1,533
Nigeria	May 77	4,740	148	6,087	4,937
Taiwan	Apr 77	1,289	531	1,146	1,581
Thailand	Jul 77	2,017	978	1,929	2,006

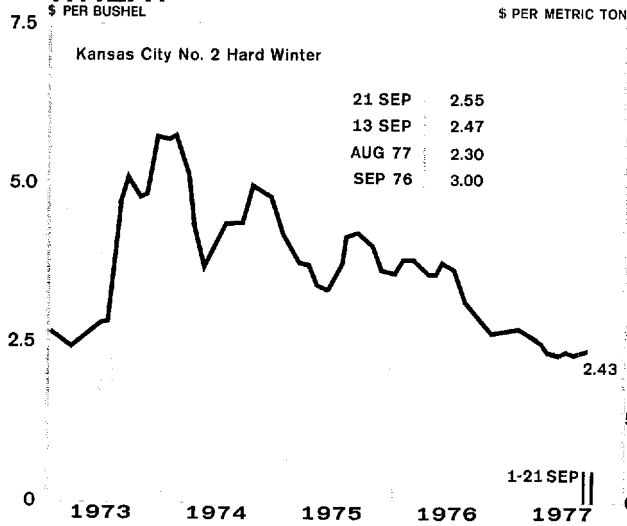
FOREIGN TRADE, f.o.b.

	Latest Period		Latest 3 Months Percent Change from 3 Months Earlier [1]	Latest 3 Months Percent Change from 1 Year Earlier	Cumulative (Million US $) 1977	Cumulative (Million US $) 1976	Cumulative (Million US $) Change
Brazil	Apr 77	Exports	−1.2	38.6	13,904	11,244	23.7%
	Apr 77	Imports	−11.5	−1.1	16,077	16,064	0.1%
	Apr 77	Balance			−2,173	−4,821	2,648
Egypt	76 IV	Exports	−97.9	−47.8	NA	NA	NA
	76 IV	Imports	−93.5	−54.7	NA	NA	NA
	76 IV	Balance			NA	NA	NA
India	Mar 77	Exports	77.7	11.2	6,496	5,612	15.7%
	Mar 77	Imports	−18.2	3.2	5,650	6,595	−14.3%
	Mar 77	Balance			845	−982	1,828
Iran	May 77	Exports	32.1	14.4	34,022	28,883	17.8%
	Mar 77	Imports	135.4	9.1	15,148	12,200	24.2%
	Mar 77	Balance			14,710	12,956	1,754
South Korea	Jun 77	Exports	107.4	23.8	12,233	8,360	46.3%
	Jun 77	Imports	158.0	31.7	12,632	10,208	23.7%
	Jun 77	Balance			−399	−1,848	1,449
Mexico	May 77	Exports	25.9	28.9	5,071	4,240	19.6%
	May 77	Imports	−33.8	−23.1	7,665	8,728	−12.2%
	May 77	Balance			−2,594	−4,488	1,894
Nigeria	Apr 77	Exports	−25.0	5.2	13,706	11,320	21.1%
	Dec 76	Imports	83.0	6.6	NA	NA	NA
	Dec 76	Balance			NA	NA	NA
Taiwan	May 77	Exports	128.9	20.6	12,325	8,953	37.7%
	May 77	Imports	122.4	21.3	10,766	8,750	23.0%
	May 77	Balance			1,559	203	1,356
Thailand	Jan 77	Exports	34.3	22.9	4,206	3,172	32.6%
	Mar 77	Imports	30.1	22.7	4,205	3,748	12.2%
	Jan 77	Balance			−301	−812	511

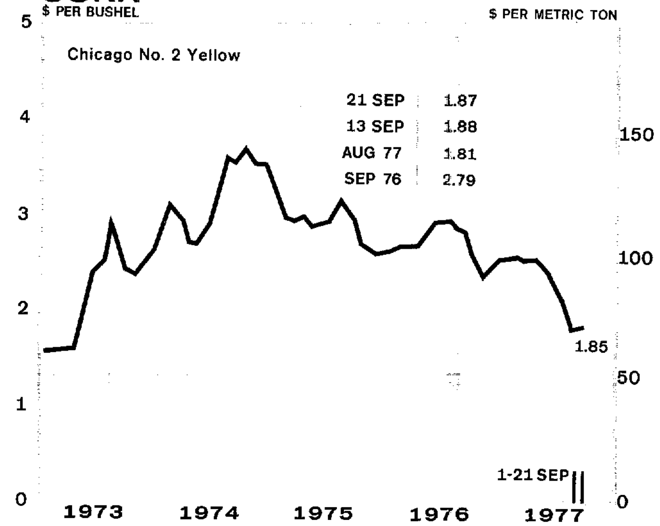
[1] At annual rates.

AGRICULTURAL PRICES MONTHLY AVERAGE CASH PRICE

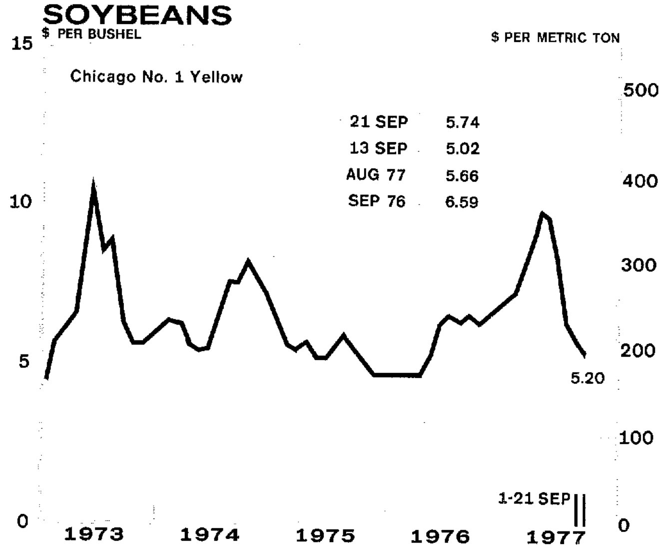
WHEAT



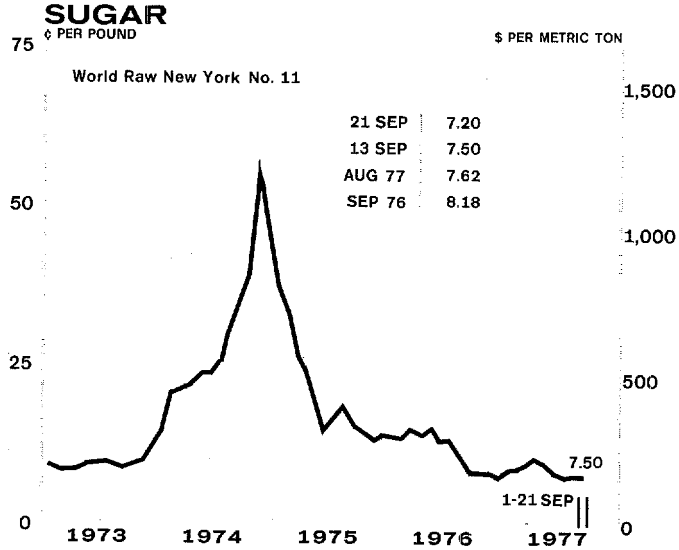
CORN



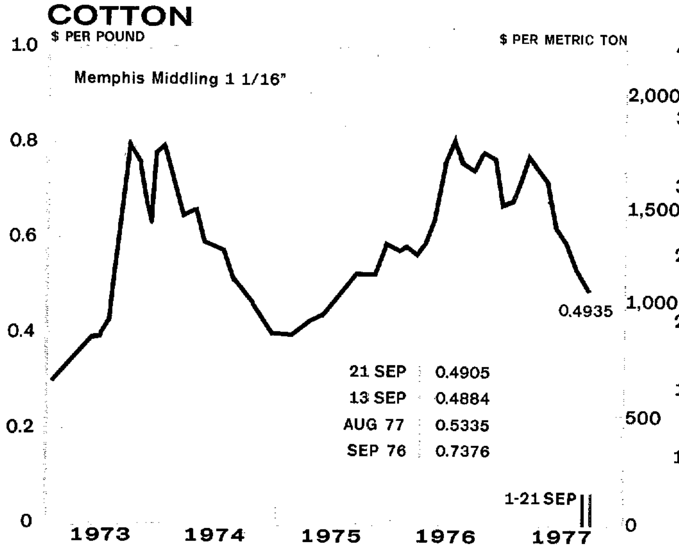
SOYBEANS



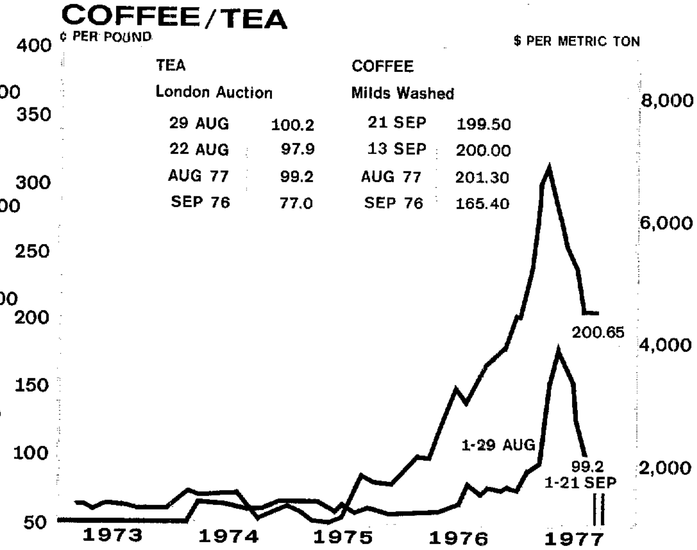
SUGAR

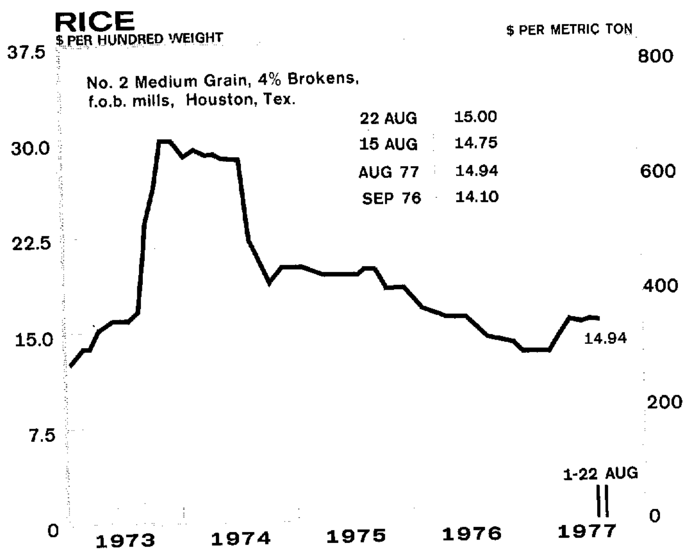


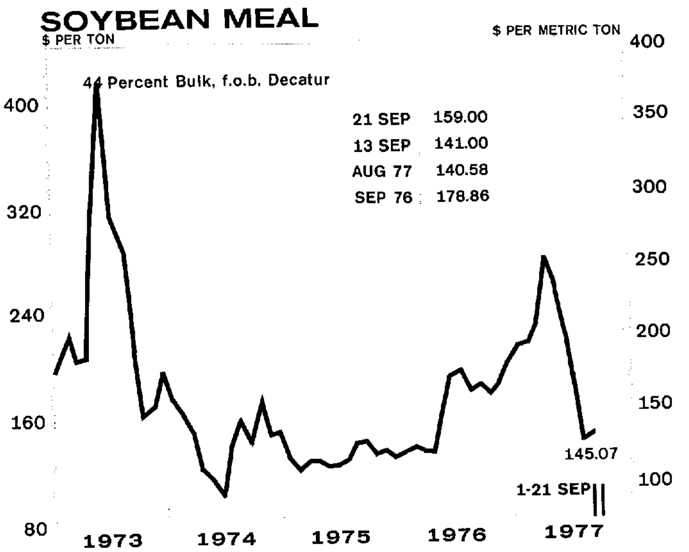
COTTON

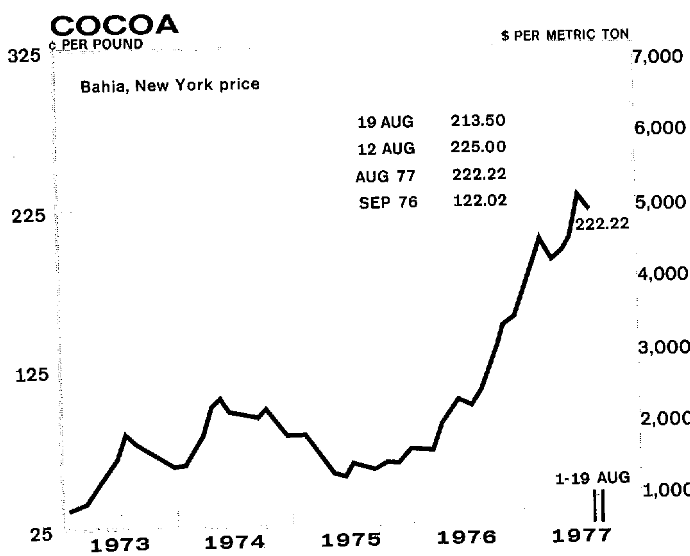


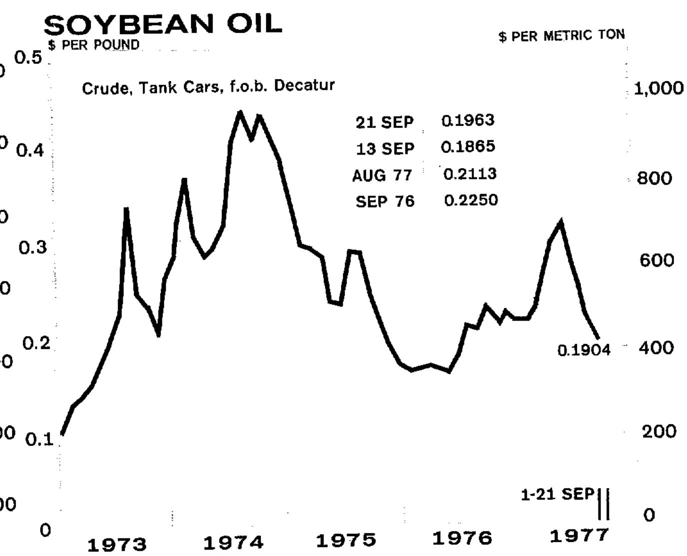
COFFEE/TEA

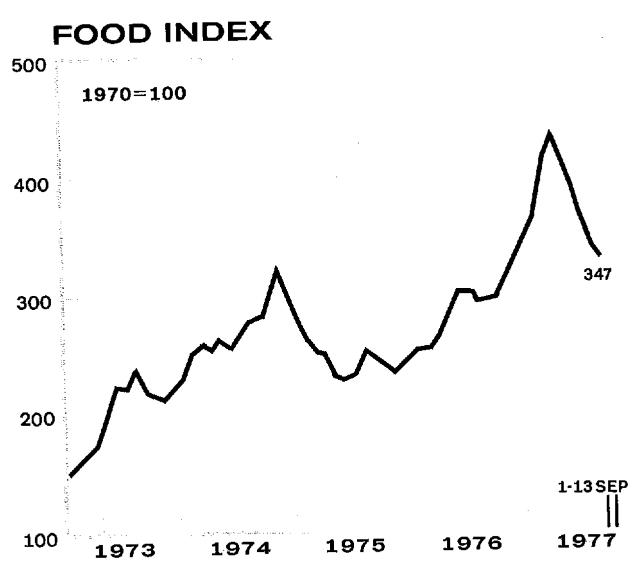












NOTE: The food index is compiled by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

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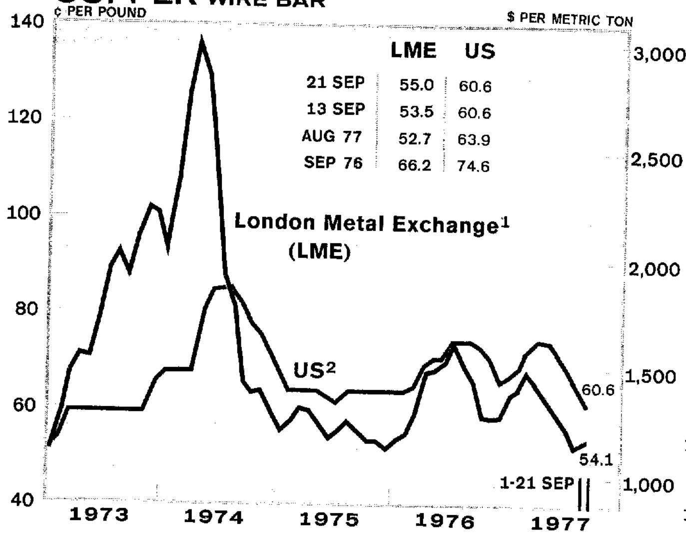
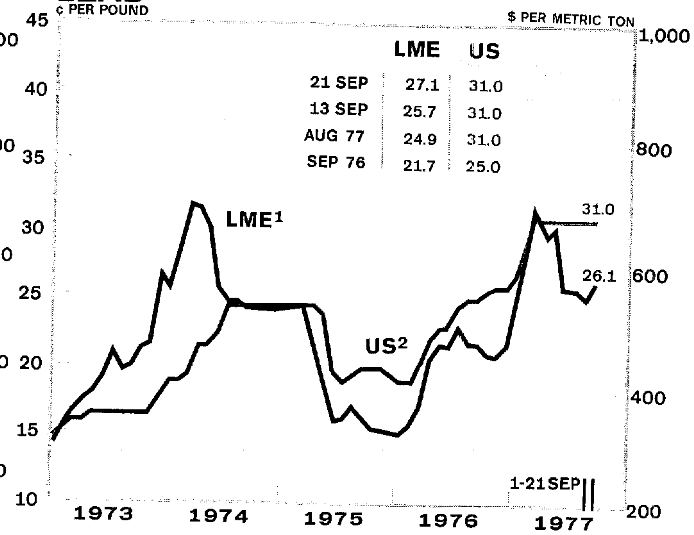
INDUSTRIAL MATERIALS PRICES MONTHLY AVERAGE CASH PRICE

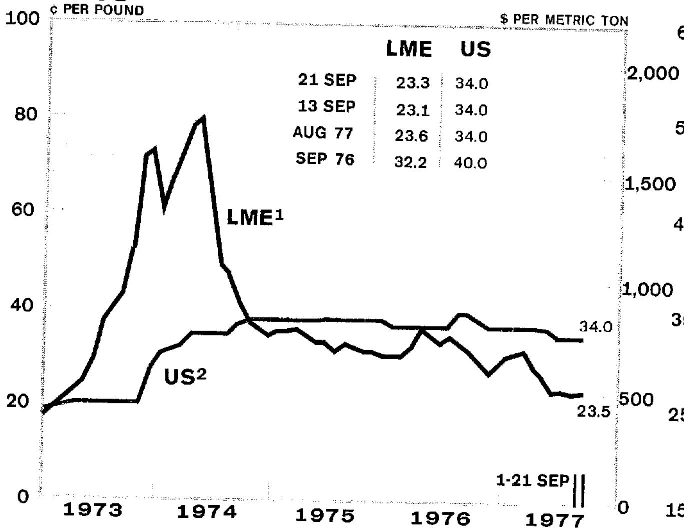
COPPER WIRE BAR



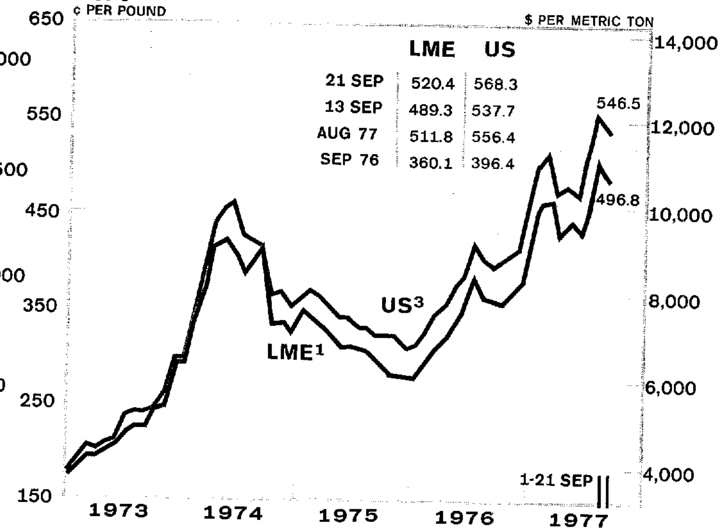
LEAD



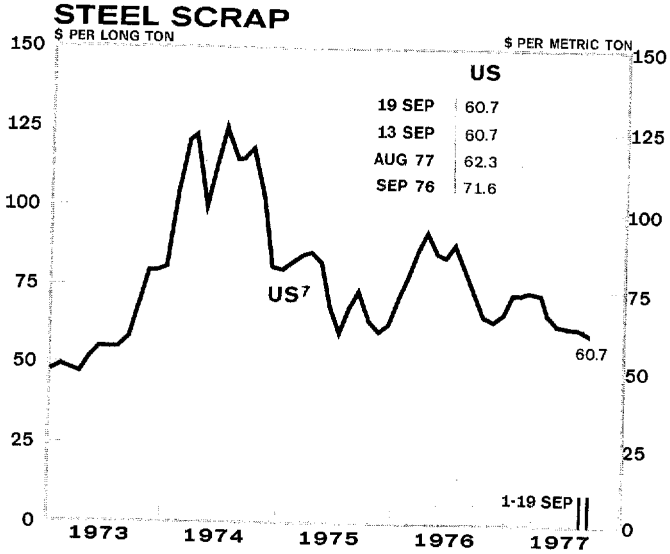
ZINC



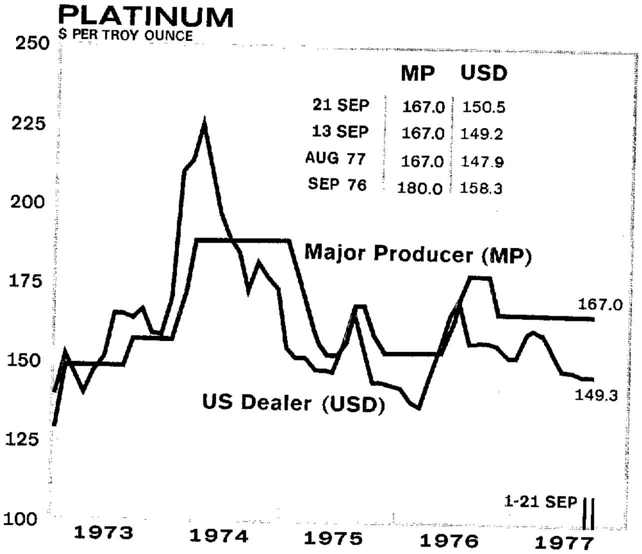
TIN



STEEL SCRAP



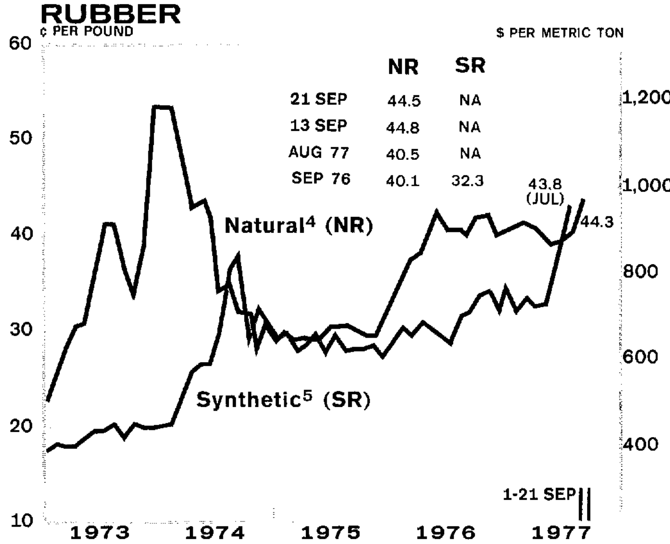
PLATINUM



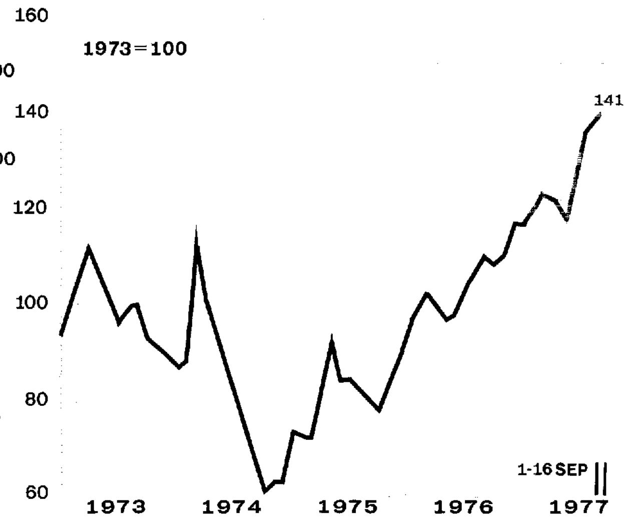
SELECTED MATERIALS

			CURRENT	MAR 77	SEP 76	SEP 75
ALUMINUM	Major US Producer	¢ per pound	53.00	49.17	48.00	41.00
US STEEL	Composite	$ per long ton	359.36	339.27	327.00	290.33
IRON ORE	Non-Bessemer Old Range	$ per long ton	21.43	21.43	20.51	18.75
CHROME ORE	Russian, Metallurgical Grade	$ per metric ton	150.00	150.00	150.00	150.00
CHROME ORE	S. Africa, Chemical Grade	$ per long ton	58.50	58.50	42.00	44.50
FERROCHROME	US Producer, 66-70 Percent	¢ per pound	41.00	43.00	44.00	53.50
NICKEL	Composite US Producer	$ per pound	2.16	2.41	2.24	2.20
MANGANESE ORE	48 Percent Mn	$ per long ton	72.48	72.00	72.00	67.20
TUNGSTEN ORE	65 Percent WO_3	$ per short ton	9169.22	10,534.69	7,502.70	5,241.58
MERCURY	NY	$ per 76 pound flask	135.00	173.20	116.90	138.10
SILVER	LME Cash	¢ per troy ounce	447.50	486.01	428.96	449.50
GOLD	London Afternoon Fixing Price	$ per troy ounce	147.98	148.23	114.14	144.09

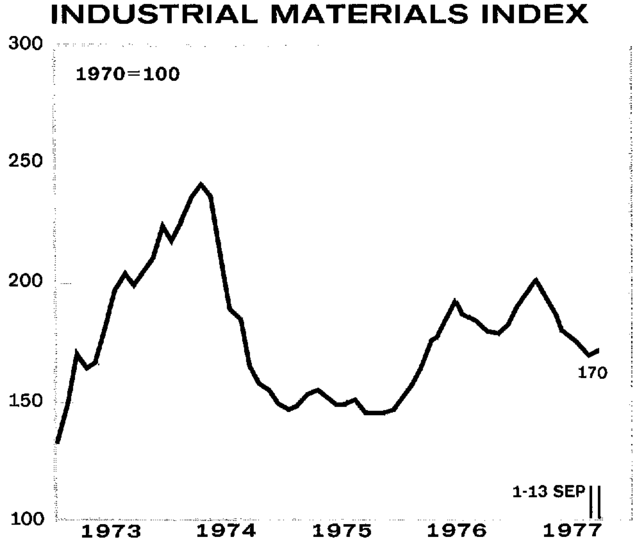
RUBBER



LUMBER INDEX[6]



INDUSTRIAL MATERIALS INDEX



[1]Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.

[2]Producers' price, covers most primary metals sold in the US.

[3]As of 1 Dec 75, US tin price quoted is "Tin NY lb composite."

[4]Quoted on New York market.

[5]S-type styrene, US export price.

[6]This index is compiled by using the average of 13 types of lumber whose prices are regarded as "bell wethers" of US lumber construction costs.

[7]Composite price for Chicago, Philadelphia, and Pittsburgh.

NOTE: The industrial materials index is compiled by the Economist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

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