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ECONOMIC INTELLIGENCE WEEKLY REVIEW

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Articles

ITALY: GOVERNMENT AND LABOR DISARRAY IMPAIR ECONOMIC PROGRAM

Preoccupied with the unsettling political developments of the last few months, Rome has backed away from its economic austerity program. While both the minority Christian Democrat government and its Communist backers still pay lipservice to austerity, they have been unable to agree upon the necessary steps to rein in the soaring public sector deficit. Deep splits and political maneuvering within the labor movement have hindered efforts to moderate the rise in labor costs. Unless Prime Minister Andreotti's government can begin picking up the pieces of its economic program, the continuing policy drift will lead to a strong resurgence of inflation in the months ahead.

Public Sector Deficit Skyrockets

Aiming for a real GDP growth rate of 4.5 percent by yearend 1978 and a maximum inflation rate of 13 percent, the economic program approved by Parliament last March focuses on reducing the massive public sector deficit. In the wake of the Moro and Leone affairs, however, governmental paralysis in implementing new taxes, spending cuts, and spending delays have put the program's target deficit of $27 billion out of reach. The deficit is now expected to hit $40 billion—almost double that of last year. Fifteen months ago Rome pledged the IMF that it would hold the 1978 deficit to $16.8 billion.

Failure to control expenditures is the main cause of this year's budget explosion. In addition to footing the bill for unbridled spending by the social security system and the health care administration, the Treasury continues to help cover the mounting deficits of regional and local governments and of state industry. The government's goal of reducing public sector expenditures by 5 percent across the board has been ignored.

Note: Comments and queries regarding the ***Economic Intelligence Weekly Review*** are welcome. For the text, they may be directed to [redacted]

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"Minibudget" Brings No Relief

Treasury Minister Pandolfi's long-awaited "minibudget," presented at the May Council of Ministers' meeting, initially sought to reduce the public sector deficit to a more manageable level. Instead, the Council approved a melange of measures that increased the size of the deficit by $1.4 billion. More than $3 billion in new spending was approved, primarily to cover the deficits of financially strapped state agencies. Approval of long-expected hikes in rail and electricity rates and in a variety of taxes yielded only $1.7 billion in additional revenue.

The Council pleased neither the labor unions nor the business community. The Communists and Socialists, whose parliamentary support is crucial if these measures are to be enacted, have been especially critical of the regressive nature of the price and tax increases and their tendency to feed inflation. Most of the revenue-producing measures will be translated into wage increases through the ***scala mobile***, or wage escalator.

Pandolfi has asserted that his minibudget was only the first step in the government's attack on the public sector deficit and that expenditure cuts will follow. Decisions on cost-cutting measures, however, have been postponed because officials were caught up in the problems surrounding President Leone's resignation and the selection of his successor.

To place an effective curb on expenditures, the government will have to tackle the mechanisms that tie various outlays to the cost of living. An estimated 90 percent of the central government budget is absorbed by salaries and pensions, which rise with the general price level. The expenditures of other government entities are similarly affected. Since no party is willing to run the political risk of tampering with these index machanisms, any measures likely to be adopted will have little effect on public spending.

Setbacks on the Labor Front

Rome has been equally unsuccessful in halting the rise in labor costs. Since late 1976, various labor leaders—especially Communist labor chieftain Luciano Lama—have urged restraint in wage and other labor demands. Little substance has emerged from the polemics. Last year, unit labor costs jumped almost three times faster than the OECD average. Real wages climbed an astounding 8 percent. Labor's prerogatives—indexation, job protection, and generous social benefits—remain inviolate.

Labor leaders have been unable to deliver on promised moderation because unions are sharply divided: politically, between Communist and non-Communist elements, and functionally, between national confederations tied to parent political parties and constituent unions more responsive to the rank and file. Rivalries among the various factions are preventing the adoption of wage restraint programs.

The deep divisions within the labor movement came to a head at a May meeting of the CCU—the joint body of the three major labor federations—convened to quantify the concessions labor was ready to make in support of the government's program. The conference erupted into a clash between Communist and non-Communist unionists over a Communist proposal to centralize collective bargaining. Centralization would allow the national confederations to impose contracts on constituent unions. The Christian Democrats and Socialists, who feared that greater centralization would increase the dominance of the Communists in the confederation, violently dissented. In the resulting furor, guidelines for pay policy and productivity improvement were shunted aside. Planned revivals of the conference have all been postponed: ostensibly because the government has yet to settle on its economic program; actually, labor leaders fear another public airing of their differences could only lead to a hardening of positions.

Labor moderation received another blow in mid-June when the heavily Communist metalworkers union—under intense rank-and-file pressure—passed a resolution denouncing austerity, defending all labor demands, and pledging battle without quarter in forthcoming bargaining sessions. Christian Democrat and Socialist labor leaders were quick to defend the metalworkers' action, leaving Lama alone to bear the brunt of the metalworkers defection. The rebellion of the metalworkers—the bellwether union of Italy—augurs ill for labor's behavior in upcoming negotiations, which will involve almost one-fourth of the work force.

In the effort to win labor cooperation, the tactics of CISL, the Christian Democratic labor organization, have been especially disruptive. CISL is determined to augment its popular following by frustrating Communist efforts to impose moderation. CISL's latest proposal—to increase employment by reducing hours worked with no corresponding loss of pay—is clearly demagogic.

CISL's actions have placed the Christian Democrats in a quandary. On the one hand, they support CISL in its desire to pull out from under the shadow of the Communists and assert itself as a viable force on the labor front. On the other hand, labor unity is essential if the government is to succeed in curbing labor costs.

Outlook

Policy inertia is threatening Rome's battle against inflation. After dropping consistently throughout 1977, monthly inflation rates bottomed out in first quarter 1978 and picked up in May to an annual rate of 15.4 percent. All factors point to a strong resurgence in coming months:

- With no firm commitment on wage restraint, upcoming contract renewals seem likely to swell the wage increases already provided for by indexation.

- The outsized budget is forcing up the money supply. Rome's 20 to 23 percent annual rates of money supply growth seem consistent over the long haul with 17 to 20 percent annual rates of inflation.

- Given the low investment rates and skilled labor shortages of recent years, the industrial recovery now under way could soon create capacity bottlenecks, further forcing up prices.

While Rome's current account has remained in the black, economic recovery and inflationary expectations could produce a speculative inventory boom that would suck in imports.

Economic ministers are now pinning their hopes on a triannual plan, based on a three-year budget forecast, as a blueprint for medium-term correction. Under the plan the $52 billion public sector deficit projected for 1979 would be whittled down by $2 billion in tax increases and $6 billion in expenditure cuts. Resistance to additional tax hikes will be staunch; antagonism to the spending reductions will run even deeper because most cuts would fall on the pension system. Italy's 13 million pensioners—compared with a work force of 20 million—are a formidable political army. Pandolfi will encounter especially stiff resistance within his own party since Christian Democratic chieftains rely on the pension system as a source of political support.

Although Andreotti's program was introduced with consensus backing, it has been stymied by political clashes and bureaucratic inertia. With the presidential succession resolved, Andreotti is now freer to concentrate on long-neglected economic issues than at any time since taking office in March, but he will be operating in a particularly tense political atmosphere. Conservative Christian Democrats will oppose any concessions to the Communists, and the latter have concluded that they must respond to losses in recent local elections by taking a more demanding stance toward the government. Andreotti will have to launch his economic plan from a more solid political base if the goals are to serve as more than a yardstick for measuring failures.

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CENTRAL AND SOUTH AMERICA: SOURCES OF ILLEGAL MIGRATION *

Illegal migration to the United States from Central and South America is growing more rapidly than from any other area. Almost nonexistent two decades ago, this movement is now estimated at 90,000 persons annually, and the region may soon overtake the Caribbean area as the second (to Mexico) most important source of illegal aliens in this country. At any one time, roughly 15 percent of the 3-5 million illegal migrants residing in the United States are of Central or South American origin.

Sources of Illegal Migration

Most of the illegal flow comes from a few countries in Central America and on the west coast of South America. The five most important source nations—El Salvador (25,000 illegals per year), Guatemala (15,000), Colombia (14,000), Ecuador (9,000), and Peru (6,000)—account for three-fourths of the flow with only one-fourth of the region's population. If Honduras (4,000) and Chile (4,000) are added to the list, we find that seven countries with 30 percent of the area's population supply 85 percent of the illegal migrants.

It is difficult to say why some countries are major sources of illegal migration and others are not. Almost all South American illegals come from the Andean nations of

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Central and South America: Main Sources of Illegal Migration to the United States

the west coast; Colombia, Ecuador, Peru, and Chile, with 25 percent of the continent's population, provide 85 percent of South America's illegals. The relatively rigid social structure of the Andean countries—with its sharp division between the middle and upper classes—appears to be a major factor. The ambitious and educated member of the middle class in these countries has less headroom than his counterpart in the more fluid societies of the east coast. The headroom differential is further increased in Brazil, Venezuela, and Argentina, where rapid economic growth and/or already high per capita incomes exist. Population densities also tend to be lower in the east coast countries. Distance, small populations, and poverty sharply limit the source potential of Bolivia and Paraguay.

In Central America, illegal migration is roughly a function of population and distance. El Salvador constitutes the only exception to this rule; with 20 percent of Central American population, it supplies 50 percent of the area's illegal flow. High population density (more than six times the average of other Central American countries) and low per capita income (80 percent of the average elsewhere in Central America) could explain this dominance. Relatively slow economic growth and a more rigid social structure than in most Central American nations act as added incentives for migration.

The Central American

In a typical year more than one-half of the illegal flow comes from the six countries of Central America. The average Central American illegal resembles his Mexican counterpart in many important respects. Like the Mexican:

- He is likely to have a rural background.

- He probably entered the United States by land, without use of real or forged documents.

- He often sees migration to the United States as an alternative to migration to a large city in his own country.

- Although relatively uneducated by the standards of his country, he is not from among the poorest of his society.

- He has friends or relatives who have already migrated to the United States, legally or illegally.

- He has been recently employed and is more likely to be seeking greater economic opportunity than fleeing unemployment.

In other respects, however, he differs from his Mexican counterpart. Most importantly, he plans on staying in this country for an extended period, whereas the Mexican illegal typically works only a few months before returning to Mexico. The Central American illegal is interested in making good in this country—however making good may be defined—and thus is less likely than the Mexican to take disagreeable, dead-end jobs. He is also much less likely to seek rural or agricultural work. A few Central Americans work only long enough to save the money needed to start a small business in their home country. Workers with well-established goals are the exception, however, and are more likely to come from urban than rural areas.

The South American

The South American illegal differs markedly from the typical Central American. The South American tends to be a relatively well-educated skilled worker or semiprofessional. He may speak fair-to-excellent English. He comes from an urban area and definitely considers himself a part of the middle class. Indeed, his annual earnings before migration, while low by US standards, probably place him among the upper 20 percent of wage earners in his country of origin. The South American illegal usually enters the United States by air. Given his education and financial position, he has little trouble obtaining a nonresident visa to the United States, which he subsequently abuses. Even more than the Central American or Caribbean migrant, the South American illegal has come to this country to stay. He hopes eventually to regularize his position, obtain US citizenship, and perhaps assist other members of his family to come to the United States.

There are some exceptions to this description. A fairly large minority of Ecuadorean illegals follow the Central American pattern; they are relatively uneducated, have rural backgrounds, and probably make almost all their trip to the US border by land. A smaller minority of Colombian migrants also fall into this category. A few cocaine-smuggling "mules"—individuals hired by narcotics traffickers to body-carry a kilogram or two of cocaine into this country in return for air fare and a small fee—apparently cash in their return tickets and remain here as illegals.

Economics of Migration

The economic incentives for migration are substantial. Wage differentials between the United States and the Central and South American countries are huge. For example, the average manufacturing wage in these countries is less than 40 percent of the US average wage for private household workers, 15 percent of that for nonfarm laborers, and roughly 10 percent of that for craftsmen. The prospect of higher wages thus largely explains why these illegals are drawn toward the United States. Limited opportunity at home for upward economic mobility, compounded by a rigid social structure based on family connections and inherited wealth that impedes even the most talented members of the middle class in a number of Central and South American countries, constitutes another incentive to leave.

At the same time, certain psychological and economic costs must be weighed by persons thinking of pulling up roots to come to the United States. The psychological

US, Central, and South American Wages

Index: US Craftsmen Wages = 100

	1960	1970	1975
Average US daily earnings			
Craftsmen	100	100	100
Nonfarm laborers	69	70	69
Agricultural workers	29	45	50
Private household workers	24	24	24
Average daily manufacturing wages			
El Salvador	10	10	9
Guatemala	12	11	8
Colombia	9	9	7
Ecuador	6	8	8
Peru	8	10	14
Other Central and South Amerian countries	10	12	11
Average daily agricultural wages			
El Salvador	6	6	6
Guatemala	7	7	6
Colombia	6	6	5
Ecuador	5	5	5
Peru	6	6	8
Other Central and South American countries	7	7	7

costs of permanently changing culture and language are especially high for rural Central and South Americans and for many of those living in urban areas who speak little English. The need to renew ties explains why so many illegal aliens apparently are willing to risk apprehension to return to their homeland for short visits.

The financial cost of migration is of even greater importance. While the illegal from Central Mexico may pay up to $300 for transportation and smuggling fees, the typical Central American pays $300 to $1,500 to reach the US east coast. US rules add to the costs for those migrants who enter with nonimmigrant visas. For example, the visitor must purchase a round trip ticket, which costs at least $550 between most South American countries and the United States. These costs effectively bar the poorest persons from migrating.

Development Potential

Economic development is unlikely to have a major impact on the illegal flow for many years. High rates of economic growth have often coincided with rapidly increasing migration. During this decade, for example, the economies of the five major source countries have been growing almost twice as fast as Latin America as a whole. In South America—though probably not in Central America—higher incomes and increased urbanization may have increased the pool of individuals with the wherewithal and desire to migrate. Future development efforts in the South American source countries, to the extent that they are directed at reducing unemployment and raising incomes among the poor, will have little effect on migration. To the extent that development efforts open domestic opportunities for ambitious members of the middle class, they should reduce the rate of expansion of the flow.

In Central America, successful economic development should have a greater impact. In this area, push factors such as unemployment and rural overcrowding are more important than in South America. Even here, however, successful economic development would be likelier to change the nature of the flow than to reduce its size; that is, the typical Central American illegal would come to resemble the South American more and the Mexican less. As long as wage differentials between Central America and the United States are large—and even the most rapid economic growth is unlikely to reduce them—the incentive to migrate will remain strong.

Outlook

On balance, we believe that illegal migration from Central and South America will continue to grow over the next two decades. The pool of potential migrants is large and expanding. Many in the under-20-age population bulge that emerged in the early 1970s are now entering the migration-prone 20- to 30-year-age group. Of equal importance, the demonstration effect of successful illegal migration will be increasingly felt. In both Mexico and the Caribbean, a tradition of illegal migration and the existence of friends or relatives in the United States are major factors in an individual's decision to migrate. In 1960 these factors were almost nonexistent as far as Central and South America were concerned; they have become increasingly strong.

The shares of the individual source countries in the illegal flow are likely to remain much the same over the next decade. El Salvador, given its demographic and economic characteristics, may become somewhat more important. Current political, social, and economic difficulties in Peru, Colombia, and Guatemala could increase pressures in these countries if not soon resolved, while marginal improvements in Chile's economic and political situation should have the opposite effect. We do not expect any country in the area that is currently not a major source of illegal migrants to become one during this period. 25X1

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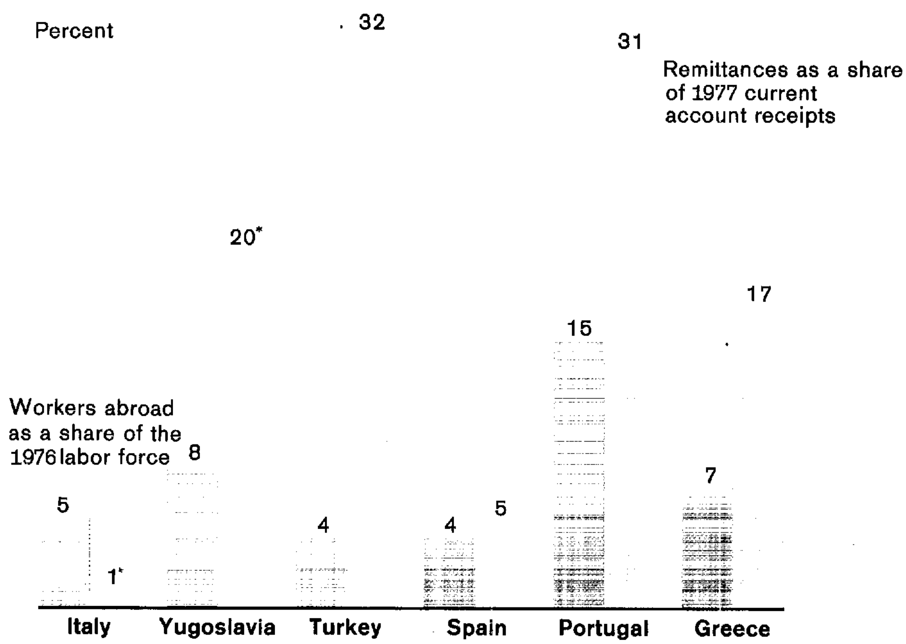
WESTERN EUROPE: FOREIGN WORKERS A DECLINING BUT IMPORTANT FACTOR*

Foreign workers still represent nearly 9 percent of the labor force in Northern Europe** after the exodus of 1 million to 1.5 million triggered by the 1974-75 recession. While foreign workers satisfied the burgeoning demand for unskilled labor in the 1950s and 1960s, they have remained culturally and socially isolated in the host countries. Since the recession, every government in Northern Europe has placed new restrictions on immigrant labor. With unemployment rates in Europe continuing to creep up, the number of foreign workers is expected to stabilize at slightly below the present level of almost 8 million over the next few years; the labor-supplying countries thus cannot expect worker remittances, a major source of current account receipts, to grow at anything like prerecession rates.

Importance of Foreign Workers to Labor-Exporting Counties



*Data are for 1976.

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** European Community, Switzerland, Austria, Sweden, and Norway.

Role of Foreign Labor Still Large

Foreign workers comprise 12 percent of the work force in Switzerland, 9.5 percent in West Germany, 7 percent in France, and 6 percent in Austria despite the persistence of abnormally high unemployment in Northern Europe. They account for a much larger percentage of unskilled workers and are especially important in automobile manufacturing and other metal processing, and in sanitation, food, and tourists services. In construction and domestic service, they are the main source of labor.

Most of Northern Europe's foreign workers come from Greece, Italy, Portugal, Spain, Turkey, and Yugoslavia. North Africa—Algeria, Morocco, and Tunisia—is also an important source of labor, especially for France. A major exception to the pattern is the United Kingdom, where more than 80 percent of the foreign labor comes from Ireland and English-speaking countries in the Commonwealth. West Germany, France, Switzerland, and Austria employ the most southerners, but large numbers also work in the Benelux and Scandanavian countries. Guest workers have functioned as a safety valve for the northern economies, their numbers expanding and contracting in response to market conditions. The cyclical flows of these workers have no precise counterpart in the United States and partially explain why unemployment rates do not rise as much in Western Europe as in the United States when production drops.

The availability of large numbers of immigrant workers probably has slowed increases in wage rates and productivity over the long term. Immigration increases the supply of labor relative to demand and lowers the capital/labor ratio. While immigrants are considered hard workers, their sheer numbers, limited education, lack of job skills, and language problems—as well as outright discrimination—hold down their marginal product and their earnings.

Departures of guest workers slowed markedly last year, following a mass exodus induced by the 1974-75 recession. Some employers already are complaining about shortages of foreign workers to fill the unskilled, dirty, or menial jobs nationals often will not take. In West Germany the number of guest workers was down only about 60,000 in 1977—less than one-third of the reduction in each of the previous two years. The number of foreign workers in Switzerland declined by only about 20,000 in 1977 after plummeting an average of about 95,000 each year from 1973 to 1976. The number of foreign workers in Austria actually increased last year.

Social Problems

The number of illegal residents in the European Community, Austria, and Switzerland is estimated at about 1 million. The number is growing as host countries

Selected Labor-Importing Countries: Foreign Workers [1]

Thousand

	West Germany	Switzerland[2]	Austria	Sweden
1973	2,479	621	226	222
1974	2,397	551	218	235
1975	2,212	425	185	251
1976	2,034	342	174	267
1977	1,975	320	189	—

[1] Complete and uniform statistics on foreign workers in Western Europe are not available. Some countries do not report data on foreign workers and those that do use different methods of classifying them. For example, some countries include seasonal workers in their reporting, while others do not. Data are also inadequate on daily international commuters, Common Market migrants who cross member state borders freely, illegal immigration, and those who enter a country as visitors but stay to take temporary employment. France probably hosted 1.5 million to 1.9 million foreign workers throughout the period despite some decline after 1974.

[2] Excluding aliens with residence permits.

respond to labor market slack by making registration of foreign workers more difficult. Some entered as visitors, students, or dependents and remained to work without permits. Others initially entered their host countries illegally. People-smuggling organizations operate in all the major labor importing countries, extracting large fees from aliens for helping them evade immigration restrictions. The illegal resident lives an underground existence, hiding from the authorities and often working for lower wages and without government-provided social benefits.

Foreign workers have not been integrated into the domestic labor forces or social fabric of Northern Europe. Host countries have traditionally regarded foreign workers as transients. Legal requirements and discrimination discourage integration and make social adjustments difficult. Social problems have been aggravated over the years by the arrival of more families and by the higher birth rate among foreigners. Most immigrants remain in social and cultural isolation in the poorest sections of large cities.

Few political parties have been inclined to exploit the guest worker problem as a political issue. The foreign workers themselves have shunned political involvement. Foreigners often are unaware of their rights and reluctant to complain for fear of triggering further restrictions. Unemployed guest workers have staged scattered small demonstrations; for the most part, host governments have not been faced with serious protests.

Policies on Foreign Workers

Not surprisingly, immigrant labor has been a target of far-reaching restrictions as unemployment rates continue to creep higher almost everywhere in Western Europe:

- West Germany, France, Belgium, Denmark, and Luxembourg have banned recruitment of labor from outside the European Community.

- West Germany has prohibited non-EC immigrants from moving to areas where such people already make up more than 12 percent of the population.

- Switzerland has directed that nationals be given preference in hiring and that no nationals be laid off until the foreign workers have first been dismissed. It also has placed a limit on the total immigrant population and reduced the number of work permits issued annually, even though it enjoys an exceptionally low unemployment rate.

- The Netherlands has put a ceiling on immigration of non-EC workers and the number each firm may hire.

Programs to integrate the foreign workers vary widely from country to country, and results have been uneven at best. The meager funding typically allotted such efforts is indicative of their limited scope. Most focus on information and counseling on jobs, housing, and schools. West Germany has set up day care centers, youth clubs, and special schools for immigrant children and is spending about $12 million annually to subsidize private services for immigrants such as language and vocational training, legal aid, and social assistance. France has allocated funds for expanded language and vocational training and passed legislation aimed at reducing discrimination in work places and in union activities. Sweden in 1976 became the first country to grant all foreigners the right to vote as well as the right to run for local and regional office.

The European Community established free movement of labor in 1968. Nationals of EC countries are entitled to equal treatment by employers anywhere in the Community and to preference over non-EC workers in hiring. The EC Commission has recommended a program to extend equal treatment to non-EC workers and to expand and standardize assistance to all workers. Community financing is available from the European Social Fund for member country projects on behalf of migrant workers. Some $24 million will be provided this year.

Economic Implications for Labor-Supplying Countries

The return of workers from abroad in the mid-1970s, combined with reduced emigration, has raised the number of available workers in labor-supplying countries by 3 to 4 percent over what it otherwise would have been. Unemployment is high in nearly all these countries even though a sizable proportion of their labor forces remain abroad.

After years of steady growth, remittances dropped with the recession just as trade deficits widened under the impact of soaring oil prices. Worker remittances nonetheless continue to represent an important share of current account receipts for most labor-supplying countries. In dollar terms, worker remittances—while far short of prerecession growth rates—are recovering smartly in most labor-supplying countries, thanks to rising wages and exchange rate adjustments. All the major supplying countries are adopting measures to attract more of their workers savings from abroad.

Outlook

The decline in the foreign work force in Northern Europe should level off over the next few years to just under the current level of nearly 8 million. Further small reductions are likely in West Germany, Switzerland, Austria, and possibly Norway and the United Kingdom. Merely moderate economic growth, coupled with a faster rise in the working-age population, is forecast for Western Europe, keeping labor markets soft. Hence, northern governments will want to retain administrative measures aimed at discouraging new inflows of labor.

The principle of free movement of labor is a major stumbling block in consideration of full European Community membership for Greece, Portugal, and Spain. With unemployment already a serious and persistent problem in the Nine, accession of these countries is likely to be tied to a gradual removal of restrictions on the movement of their workers.

The economic outlook for most of the labor-supplying countries is bleak—a continuation of slow growth, unemployment, inflation, and inadequate investment. Worker remittances will continue to rise in most South European countries but are unlikely to grow in the next several years at rates achieved before the recession.

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LDCs: IMF TRUST FUND AT HALFWAY MARK

The IMF Trust Fund, designed to channel proceeds from IMF gold sales to a broad group of developing countries, has furnished more than $700 million in profit payouts and loans to this group during the first two years of a four-year program. These transfers have helped the LDCs finance balance-of-payments deficits at little or no cost.

Less Developed Countries: IMF Trust Fund [1]
1 July 1976 – 30 June 1978

Million US $

	Total	Profit Distributions	Loans
Total	**717.0**	**362.6**	**354.4**
Afghanistan [2]	1.7	1.7	
Algeria	5.8	5.8	
Argentina	19.7	19.7	
Bahamas	0.9	0.9	
Bahrain	0.4	0.4	
Bangladesh [2]	31.2	5.6	25.6
Barbados	0.6	0.6	
Benin [2]	3.3	0.6	2.7
Bolivia [2]	1.7	1.7	
Botswana [2]	0.2	0.2	
Brazil	19.7	19.7	
Burma [2]	15.0	2.7	12.3
Burundi [2]	4.8	0.9	3.9
Cambodia [2]	1.1	1.1	
Cameroon [2]	8.8	1.6	7.2
Central African Empire [2]	3.3	0.6	2.7
Chad [2]	3.3	0.6	2.7
Chile	7.1	7.1	
Colombia	7.0	7.0	
Congo [2]	3.3	0.6	2.7
Costa Rica	1.4	1.4	
Cyprus	1.2	1.2	
Dominican Republic	1.9	1.9	
Ecuador	1.5	1.5	
Egypt [2]	46.8	8.4	38.4
El Salvador [2]	1.6	1.6	
Equatorial Guinea [2]	0.4	0.4	
Ethiopia [2]	1.2	1.2	
Fiji	0.6	0.6	
Gabon	0.7	0.7	
Gambia [2]	1.7	0.3	1.4
Ghana [2]	3.9	3.9	
Grenada [2]	0.5	0.1	0.4
Guatemala [2]	1.6	1.6	
Guinea [2]	6.0	1.1	4.9
Guyana	0.9	0.9	
Haiti [2]	4.7	0.8	3.9
Honduras [2]	1.1	1.1	
India [2]	42.0	42.0	
Indonesia [2]	11.6	11.6	
Iran	8.6	8.6	
Iraq	4.9	4.9	
Ivory Coast [2]	2.3	2.3	
Jamaica	2.4	2.4	

Less Developed Countries: IMF Trust Fund [1]
1 July 1976 – 30 June 1978 (Continued)

Million US $

	Total	Profit Distributions	Loans
Jordan [2]	1.0	1.0	
Kenya [2]	11.9	2.1	9.8
Kuwait	2.9	2.9	
Laos [2]	0.6	0.6	
Lebanon	0.4	0.4	
Lesotho [2]	1.2	0.2	1.0
Liberia [2]	7.2	1.3	5.9
Libya	1.1	1.1	
Madagascar [2]	6.5	1.2	5.3
Malawi [2]	3.8	0.7	3.1
Malaysia	8.3	8.3	
Mali [2]	5.5	1.0	4.5
Malta	0.7	0.7	
Mauritania [2]	3.3	0.6	2.7
Mauritius [2]	5.5	1.0	4.5
Mexico	16.5	16.5	
Morocco [2]	28.2	5.1	23.1
Nepal [2]	3.4	0.5	2.9
Nicaragua	1.2	1.2	
Niger [2]	0.6	0.6	
Nigeria	6.0	6.0	
North Yemen [2]	0.4	0.4	
Oman	0.3	0.3	
Pakistan [2]	58.6	10.5	48.1
Panama	1.6	1.6	
Papua-New Guinea [2]	0.9	0.9	
Paraguay	0.8	0.8	
Peru	5.5	5.5	
Philippines [2]	38.6	6.9	31.7
Portugal	5.2	5.2	
Qatar	0.9	0.9	
Romania	8.5	8.5	
Rwanda [2]	0.8	0.8	
Saudi Arabia	6.0	6.0	
Senegal [2]	8.5	1.5	7.0
Sierra Leone [2]	6.2	1.1	5.1
Singapore	1.7	1.7	
Somalia [2]	0.8	0.8	
South Korea	3.6	3.6	
South Yemen [2]	7.2	1.3	5.9
Sri Lanka [2]	24.4	4.4	20.0
Sudan [2]	3.2	3.2	
Swaziland [2]	0.4	0.4	
Syria	2.2	2.2	
Tanzania [2]	10.5	1.9	8.6

Less Developed Countries: IMF Trust Fund [1]
1 July 1976 – 30 June 1978 (Continued)

Million US $

	Total	Profit Distributions	Loans
Thailand [2]	33.4	6.0	27.4
Togo [2]	3.8	0.7	3.1
Trinidad and Tobago	2.8	2.8	
Tunisia	2.1	2.1	
Turkey	6.8	6.8	
Uganda [2]	1.8	1.8	
United Arab Emirates	0.7	0.7	
Upper Volta [2]	3.3	0.6	2.7
Uruguay	3.1	3.1	
Venezuela	14.8	14.8	
Vietnam [2]	2.8	2.8	
Western Somoa [2]	0.5	0.1	0.4
Yugoslavia	9.3	9.3	
Zaire [2]	28.2	5.1	23.1
Zambia	3.4	3.4	

[1] SDR values converted to US dollars at period average exchange rates.
[2] Eligible for Trust Fund loans.

Financing of the Trust Fund

The IMF Trust Fund, established in mid-1976, is principally financed by profits from periodic IMF gold sales. Financing was made possible by the IMF's 1975 decision to reduce the role of gold in the international monetary system and to auction one-sixth of the 150-million-ounce IMF gold holdings. The gold, mostly paid in by IMF members as part of their membership subscription, was originally valued at $35 per ounce. It subsequently appreciated to $42 per ounce as the value of the SDR changed. The London market price for gold, on the other hand, has ranged daily from $103 to $190 an ounce, hence the profits from gold sales. The Trust Fund has received about $1.5 billion from the gold sales to date.*

Operations of the Trust Fund

For the initial two-year period ending 30 June 1978, about 30 percent of the Trust Fund's assets was designated for distribution as a capital dividend to 104 LDCs, based on their relative IMF quotas. The remainder was earmarked for loans to the poorest 61 LDCs for balance-of-payments assistance. The loans are repayable within 10 years at an annual interest rate of ½ of 1 percent.

* The net figure is around $1.4 billion after allowing for items like operating expenses, investment income, and the impact of currency fluctuations.

During the first two years of the Trust Fund's existence, $363 million of the Trust Fund assets have been paid out to the 104 LDCs, with Argentina, Brazil, India, Mexico, and Venezuela receiving nearly one-third of the total. Some beneficiaries, mostly OPEC countries, have elected to reassign some or all of their payout to the Trust Fund. Loans of $354 million have gone to 35 low-income countries, with Bangladesh, Egypt, Pakistan, the Philippines, and Thailand borrowing one-half of this amount.

The IMF plans to sell an additional 12.5 million ounces of gold for the benefit of the Trust Fund over the next two years. At current market prices, this would provide another $1.88 billion. [redacted] 25X1

* * * * *

USSR: LITTLE CHANGE IN OUTLOOK FOR HARD CURRENCY TRADE AND PAYMENTS IN 1978

Despite a $1.5 billion hard currency trade deficit in first quarter 1978, the Soviet hard currency trade deficit this year is expected to land between $2 billion and $3 billion—about what it was in 1977. A deficit of this magnititude, accompanied by substantial gold and arms sales, should enable Moscow to balance its current account for the second straight year, enabling the USSR to minimize borrowing from Western commercial banks.

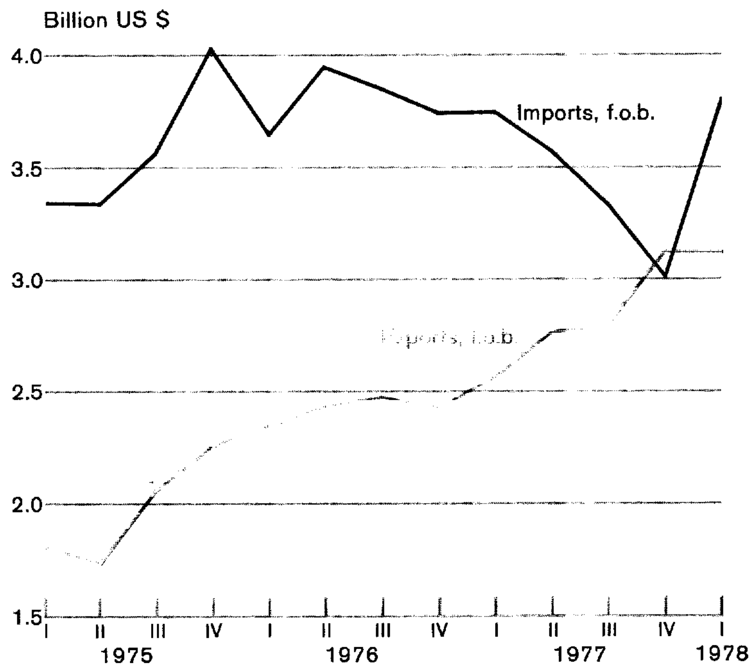
The first quarter trade deficit, while substantial, was $400 million below that registered for the same period in 1977 because of a 21-percent increase in exports. On a seasonally adjusted basis, the first quarter deficit amounted to an annual rate of $2.8 billion. The implied annual deficit is probably overstated because of abnormally high grain imports in the first quarter.

Imports

Despite the increase in grain imports, total hard currency imports are expected to increase by little more than 5 percent over the $13.7 billion registered last year:

- Grain imports in 1978 are expected to range between $2.5 billion and $3.0 billion unless the Soviet harvest falls well short of current estimates. Soviet grain imports in 1977 were roughly $1.6 billion. Western data for the first half of 1978 show that the volume of grain deliveries to the USSR is more than double the same period last year; US grain exports to the USSR through May totaled $842 million, more than for all of last year.

USSR: Hard Currency Trade[1]



1. Seasonally adjusted.

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- Soviet equipment imports, in contrast, are expected to fall considerably, reflecting a sharp decline in new orders for Western equipment last year—from $6.0 billion in 1976 to $3.6 billion in 1977.

- No significant change is expected in the level of other imports, such as steel and consumer goods, which have stabilized in value over the last few years.

Exports

Because of the slow pace of Western recovery and Soviet supply constraints, Moscow will be unable to match the rapid annual rates of export growth of 1976-77 despite its strong first quarter performance. Given the above developments, there will be less pressure to expand exports this year because of a stabilized level of imports and the prospect of substantial earnings from gold, invisibles, and arms sales. An increase in merchandise export earnings on the order of 10 percent over the $11.3 billion exported last year seems likely:

- Prices for diamonds and timber, two of the USSR's major export earners, have moved up sharply from 1977.

- Natural gas deliveries to Western Europe should rise by about $200 million, to $800 million this year.

- Although longer term oil export prospects are dim deliveries may rise slightly this year.

Balance of Payments

Earnings from gold and arms sales should be large enough to keep Moscow's hard currency current account roughly in balance. During the first quarter of 1978, the Soviets continued to sell large quantities of gold. [redacted] 25X1 25X1 Arms deliveries for hard currency are expected to total roughly $1 billion in 1978.

Moscow's evident effort to keep its 1978 trade deficit in check reflects its traditional financial conservatism. The Soviets have become more restrained in their commerical borrowing in 1977-78, apparently preferring to more closely tie equipment and steel imports to long-term, government-backed credits. [redacted] 25X1 25X1 25X1 New drawings on medium- and long-term credits, mostly government backed, should roughly offset the estimated $3.5 billion in debt service payments this year. [redacted] 25X1

* * * * *

BRAZIL WILL LEAD FREE WORLD IN STEEL EXPANSION

Brazil will create more new steel capacity through 1985 than any other Free World country. By that year the nation will not only be self-sufficient but also will have exportable surpluses of competitively priced steel. As steel production grows, the extensive protection and large incentives given to the Brazilian steel industry are likely to become an increasingly contentious issue between Brazil and other major steel-producing countries.

Industry Goals and Structure

The Brazilian Government has placed a high priority on the development of a steel industry in order to exploit huge reserves of top-quality iron ore. Their major goal is self-sufficiency in steel production, with a 20-percent margin to cover demand peaks and maintain moderate export earnings. Since completion of the first large-scale integrated mill in 1946, steel production has doubled approximately every eight years, reaching 11.2 million tons in 1977.

The industry is dominated by three government-owned companies operated by the Brazilian Steel Corporation (SIDERBRAS). They account for more than three-fifths of total steel output and produce mainly ingots and flat rolled products, leaving the more specialized items to private firms. Since 1970, the industry has been directed by the Steel and Nonferrous Metals Council (CONSIDER), which establishes industry development plans, sets prices, selects technology, and administers an investment incentive program for private steel producers. The degree of conformance with CONSIDER's development objectives determines duty exemptions on imported equipment and preferential financing, which may halve the cost of qualifying projects.

International Competitiveness and Trade Relations

At present Brazil is competitive in a wide array of rolled steel products and high-quality ingots; World Bank studies indicate that Brazilian rolled steel products are cheaper than comparable West European products but somewhat more costly than US products. This largely reflects the level of labor productivity in Brazil's better steel plants compared with that in foreign mills.

Brazil's domestic steel market is insulated against foreign competition by an import licensing system and by duties ranging from 20 percent on basic flat steel to 55 percent on shaped items. Because production has often fallen short of demand, import restrictions have periodically been suspended to admit needed supplies. Steel imports soared from little more than half a million tons in 1970 to 2.8 million tons in 1975 and then declined to 0.6 million tons in 1977.

Although Brazil remains a net steel importer, it achieves sizable exports in some years, largely reflecting temporary surpluses in certain products as new capacity comes on stream. Such exports are promoted by subsidies and tax incentives amounting to one-fourth of export value. Steel exports, nevertheless, are controlled by licenses to assure adequate domestic supplies. With accelerating domestic demand, exports have declined from 11 percent of production in 1970 to about 2 percent in 1977.

Constraints

Brazilian steel expansion faces a number of constraints, most important being the lack of domestic fuels and coking coal, which has kept the industry dependent on higher cost imports. These disadvantages are offset by the ready availability of high-quality domestic iron ore.

Gains from ongoing programs to reduce dependence on imported fuels and coking coal have been mixed. On one hand, the share of pig iron reduced with charcoal rather than coke has been increased from 36 percent in 1966 to 49 percent in 1975. On the other hand, geologic exploration has uncovered only small quantitites of high-quality domestic coal, and the steel industry has failed to raise the share of domestic coal used in coke-making to the 30 percent goal set by the government. The industry average was only 22 percent in 1976.

Brazil is pioneering direct reduction (DR) methods of converting iron ore to iron by use of oil or gas rather than coke. Technological problems and the soaring cost of imported petroleum have prevented realization of import savings from the three operating DR plants, however. Consequently, construction of a fourth plant has been postponed.

The steel industry also suffers "growing pains" in the form of out-of-phase development. The meshing of development schedules at even the plant level presents great difficulties for the three major state-controlled plants. Poor coordination was a major reason for achievement of only 75 percent of rated production capacity in 1976. Phasing of industrywide development poses much greater difficulties because the nation's infrastructure of road, rail, and sea transport is being developed simultaneously. Delays in railroad construction have been a notable bottleneck.

Lack of a strong management cadre has also been a constraint. The big government steel companies, in particular, have been hampered by incompetence and corruption. Two of the largest companies underwent top management overhauls in 1976 and 1977. Although criticism by funding banks was instrumental in triggering the actions, SIDERBRAS won plaudits for prompt execution of extensive corrective measures.

Steel Expansion Plans

As recently as last year, Brazil planned to push steel production as high as 37 million tons by 1985 through expansion of existing high-capacity integrated plants and construction of new plants in coastal sites with major ore and coal terminals. The coastal plants are to be export-oriented joint ventures with minority foreign investors providing much of the required capital—largely in the form of high technology equipment—and facilitating entry to foreign markets. Ties have been established with Japanese, Italian, and West German steel firms.

This year, however, fading foreign interest induced by growing world overcapacity and intensified domestic austerity have forced Brasilia to slow its program. Although construction of most major government-owned projects is proceeding apace, several joint ventures with foreign investors have had to be cut back:

- Itaqui, the annual capacity of which was to be 4 million tons in 1985—and eventually 16 million tons—was indefinitely postponed because of the enormous cost of infrastructure and the withdrawal of Japanese interest.

- Tubarao's planned 1985 capacity was halved, to 3 million tons per year, when Japanese and Italian companies reduced their import commitments from two-thirds of the planned output to 40 percent in anticipation of a glut on the world steel market.

Outlook

We expect Brazil to reach about 25 million tons of installed steelmaking capacity by 1985, some 12 million tons less than projected a year ago. Despite the recent cutbacks, Brazil will add more steelmaking capacity—about 14 million tons—than any other nation between now and 1985. At least one-fourth of the new capacity will be export oriented.

Steel production should continue growing through 1985 at about 11 percent annually. As demand is expected to grow by only 8 percent per year, Brazil should have an exportable surplus of about 4 million tons in 1985. Existing agreements call for Japan and Italy to absorb about a million tons of the anticipated surplus. The US market will constitute an attractive target for the remaining 3 million tons.

Although 4 million tons will not bulk large in world steel trade, Brazilian exports could become a serious point of contention with other major steel-producing countries. Expansion behind protective tariffs is gradually closing the once-lucrative Brazilian market to exporters. At the same time, growing exports, aided by an array of incentives, may well lead to dumping charges against Brazil as it penetrates developed-country markets. Brasilia considers protection and export incentives a necessary part of its import substitution and export promotion programs; it will accede only grudgingly to modify its policies. 25X1

* * * * *

Notes

USSR Has Problems With Cotton Exports

The Soviet Union, which has been vying with the United States for primacy in world cotton trade in recent years, may be forced to restrict exports this year. The Soviets have been asking 3.5 cents per pound more than the going market rate during recent negotiations with Japan—traditionally a major buyer—in an apparent attempt to discourage foreign purchases.

Up to now Moscow has been an aggressive trader in the world cotton market with exports reaching $1 billion in 1976—$400 million for hard currency—and accounting for roughly half of Soviet agricultural exports. This switch to a lower profile in the market seems to be tied to reports of serious crop damage in the major cotton-producing areas in late May. [redacted] 25X1

Peru Makes Progress Toward a New IMF Agreement

Lima has reportedly reached a preliminary accord with the IMF for a new standby to replace a previous agreement that collapsed in March. A final agreement could come as early as August. The relatively speedy negotiations contrast sharply with last year's protracted exercise. They reflect (a) the military government's acute awareness that it faces certain default on foreign obligations by fall without a new IMF accommodation, (b) scrupulous administration of draconian austerity measures imposed in May, and (c) increased domestic political support for austerity obtained by granting greatly increased civilian authority.

25X6

[redacted]

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National
Foreign
Assessment
Center

Economic Indicators Weekly Review

20 July 1978

ER EI 78-029
20 July 1978

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FOREWORD

1. The **Economic Indicators Weekly Review** 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 Weekly Review** 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 Weekly Review** are revised every few months. The most recent date of publication of source notes is 16 February 1978. Comments and queries regarding the **Economic Indicators Weekly Review** are welcomed.

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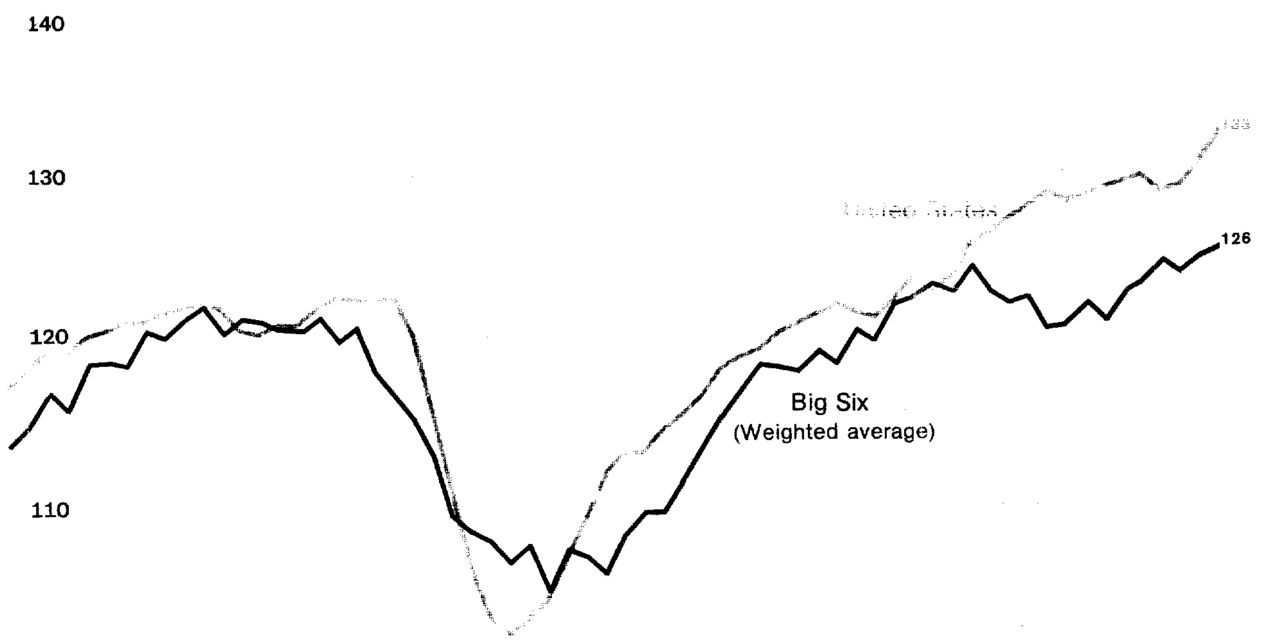
BIG SIX FOREIGN COUNTRIES[1] COMPOSITE INDICATORS

Industrial Production

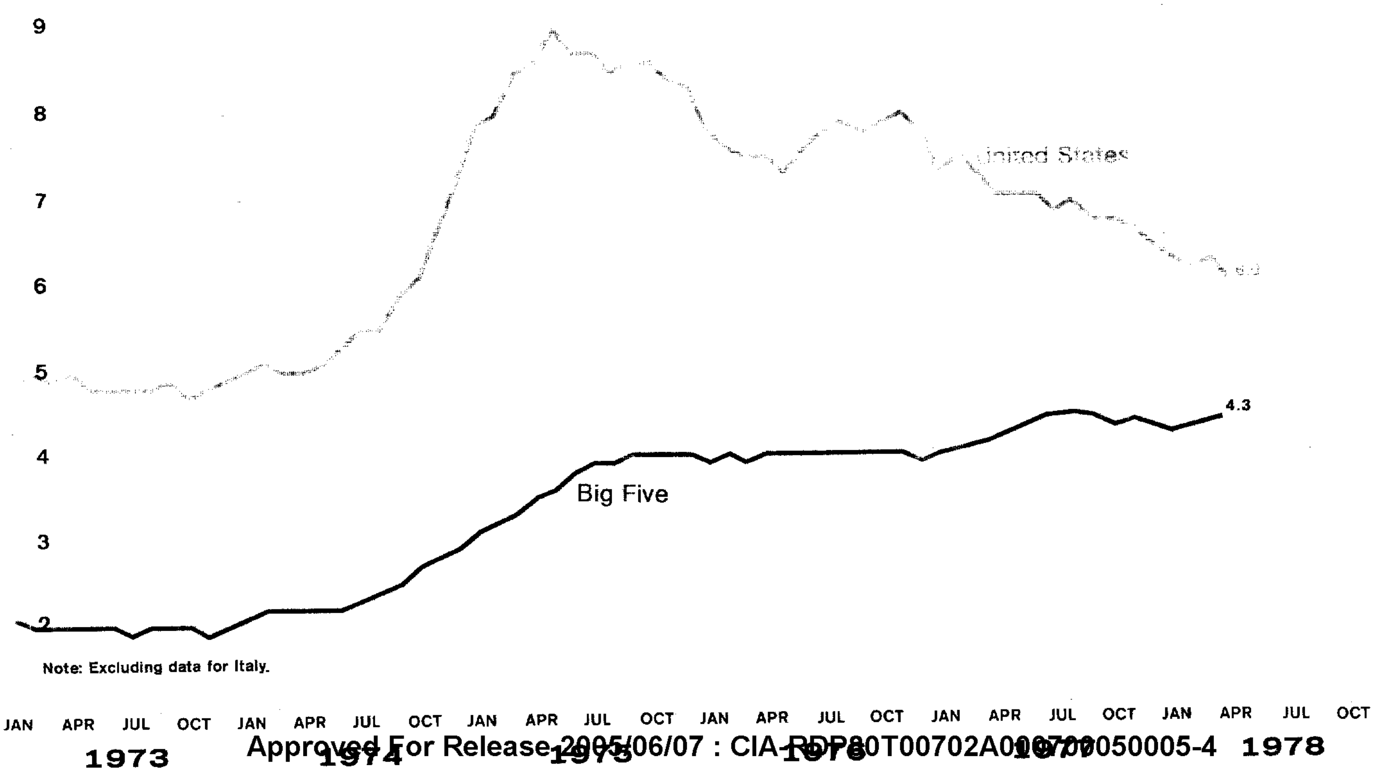
INDEX: 1970=100, seasonally adjusted

Semilogarithmic Scale



Unemployment Rate

Percent

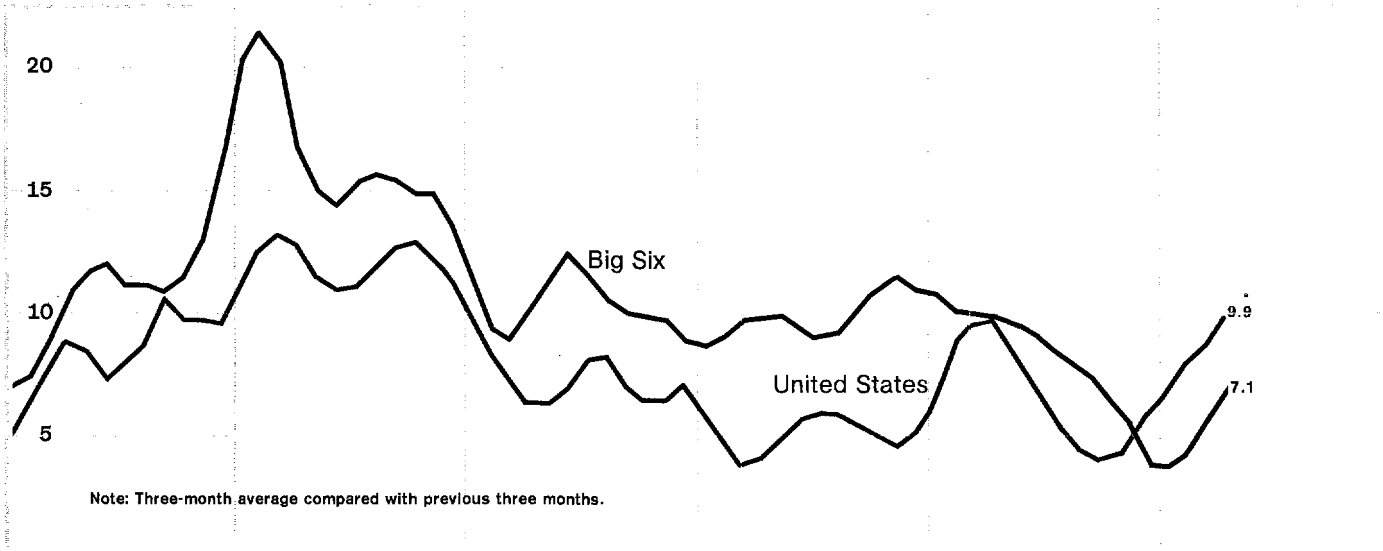


Note: Excluding data for Italy.

[1] Including Japan, West Germany, France, the United Kingdom, Italy, and Canada.

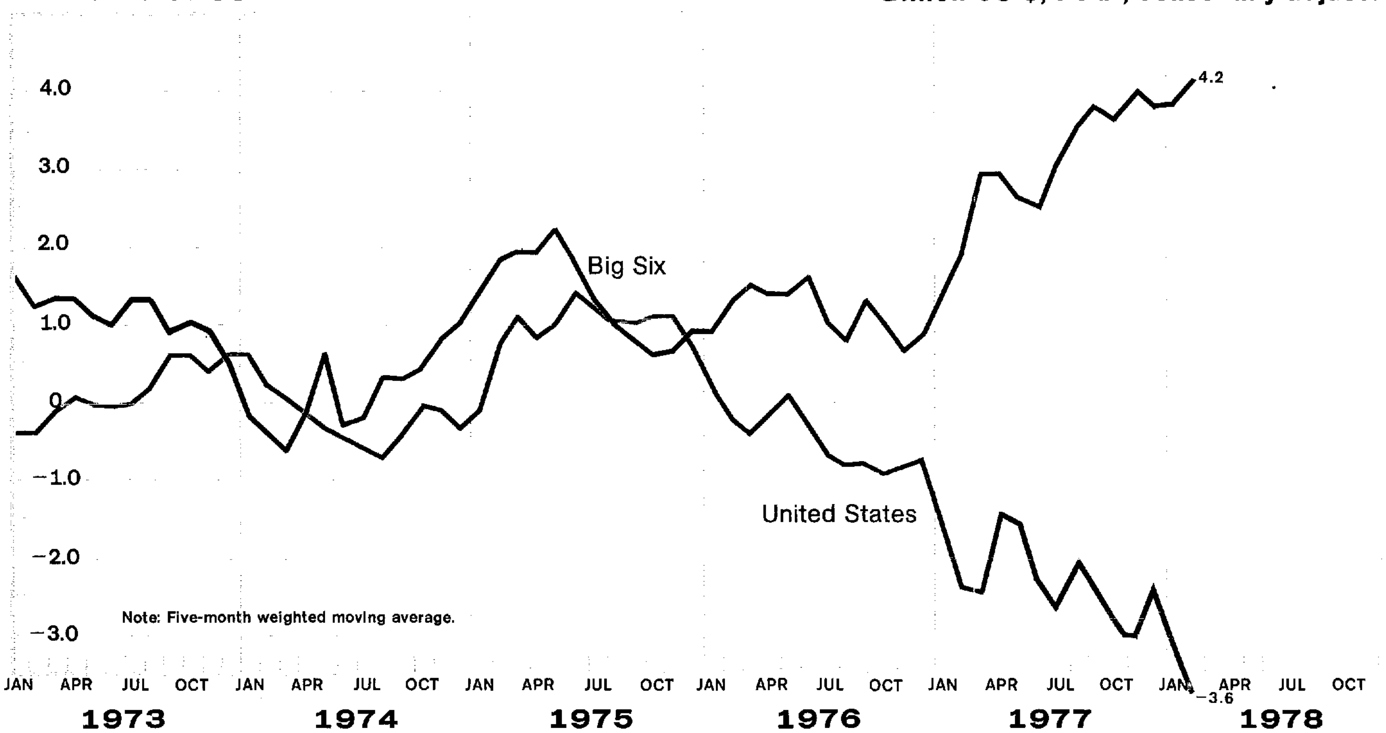
Consumer Price Inflation

Percent, seasonally adjusted, annual rate



Trade Balance

Billion US $, f.o.b., seasonally adjusted



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[2]
Industrial Production					
Big Six	APR 78	0.7	3.0	3.1	4.4
United States	APR 78	1.4	3.7	5.0	5.1
Consumer Prices					
Big Six	MAY 78	0.8	9.2	6.3	7.1
United States	MAY 78	0.8	6.7	7.0	9.9

	LATEST MONTH		1 Year Earlier	3 Months Earlier
Unemployment Rate				
Big Five	APR 78	4.3	4.2	4.2
United States	APR 78	6.0	7.1	6.3

	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	Change
Trade Balance					
Big Six	FEB 78	5,140	7,790	3,178	4,612
United States	FEB 78	−4,518	−6,884	−3,495	−3,389

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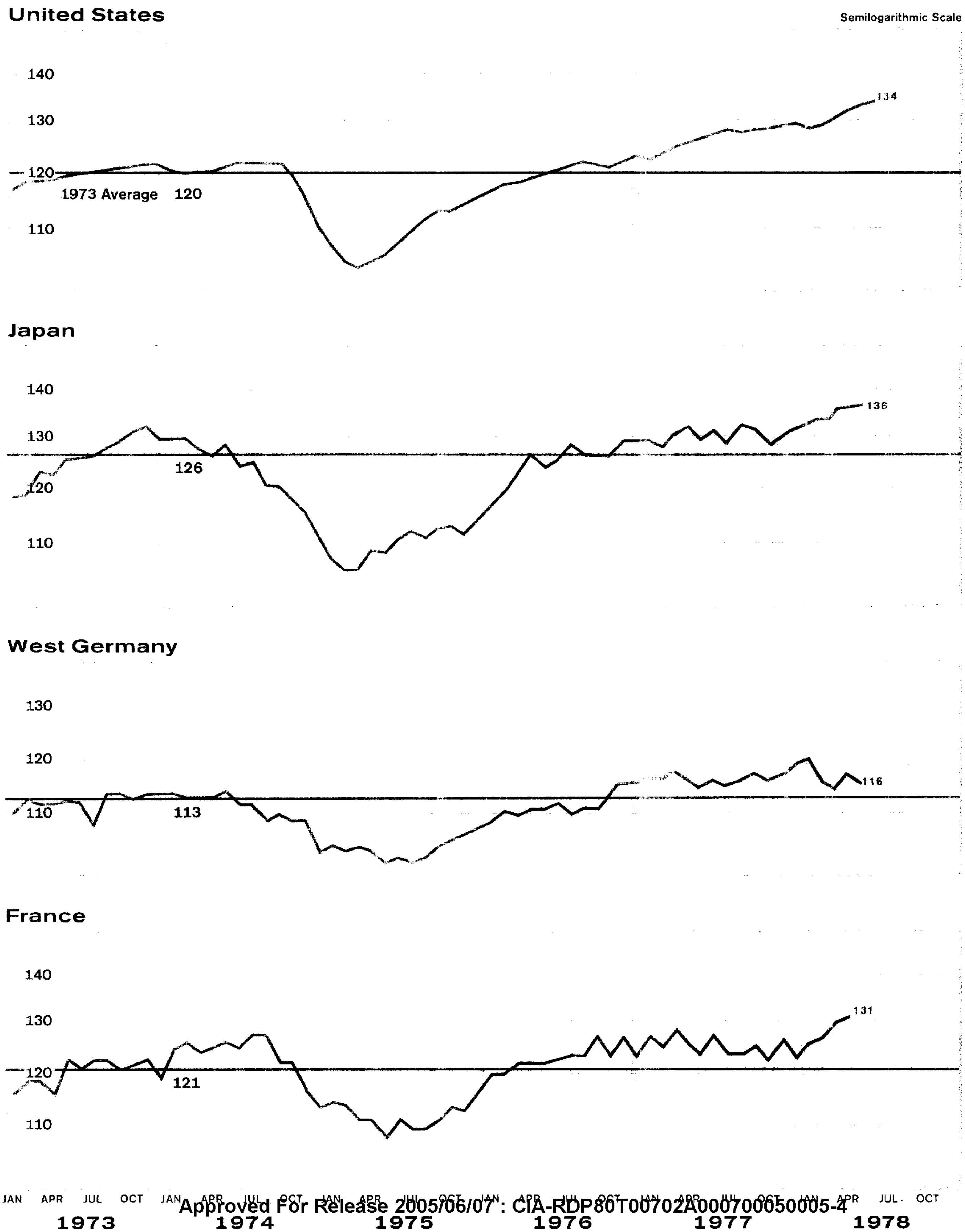
[2]Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

INDUSTRIAL PRODUCTION INDEX: 1970=100, seasonally adjusted



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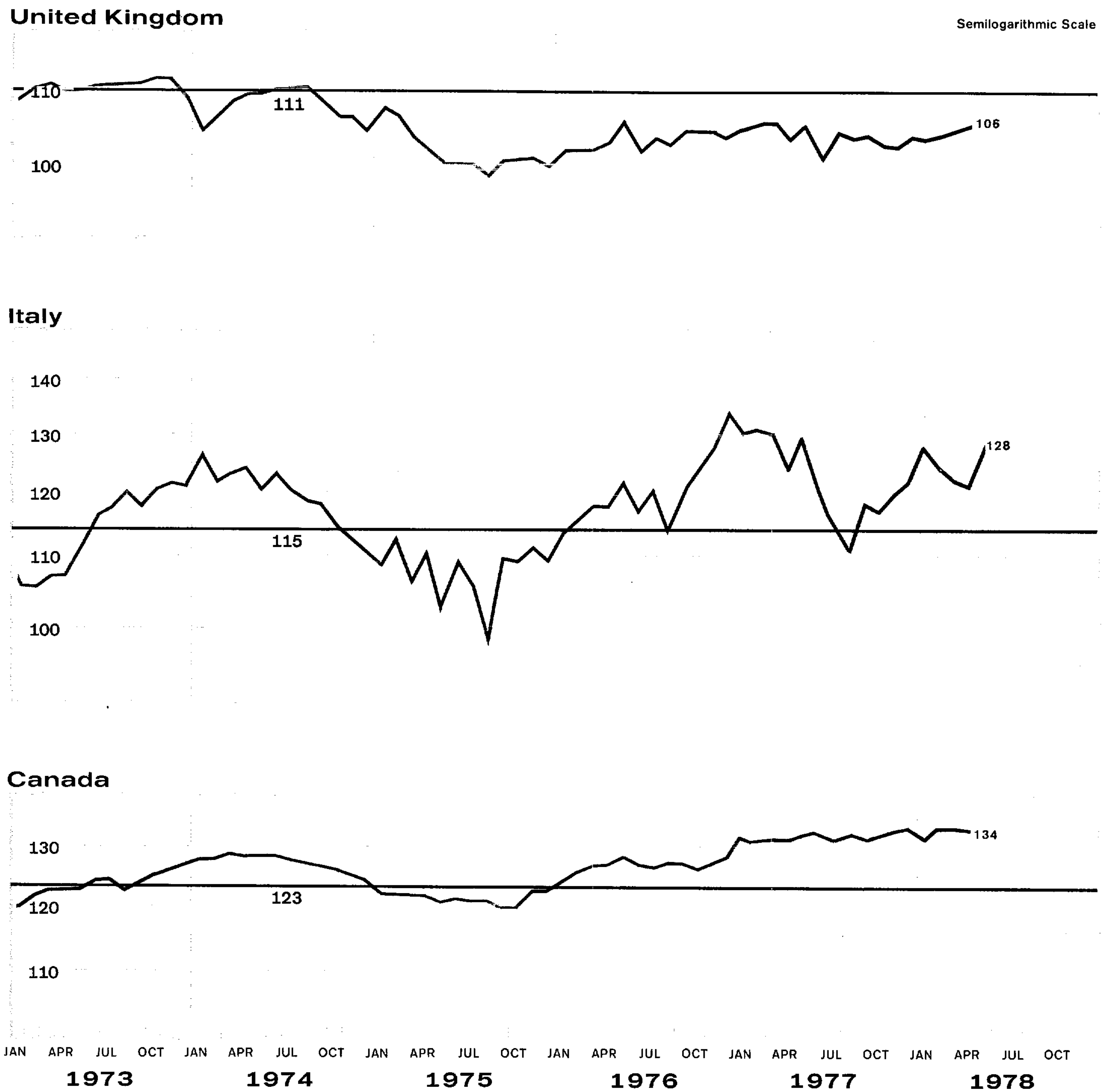

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[1]
United States	JUN 78	0.3	3.7	4.7	12.2
Japan	MAY 78	0.3	4.0	6.7	11.4
West Germany	MAY 78	−1.7	1.9	0.9	−6.6
France	APR 78	0.8	3.5	4.8	13.4

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[1]
United Kingdom	APR 78	1.0	0.7	1.9	6.1
Italy	MAY 78	6.0	3.2	−1.4	−2.2
Canada	APR 78	−0.2	3.8	2.1	3.7

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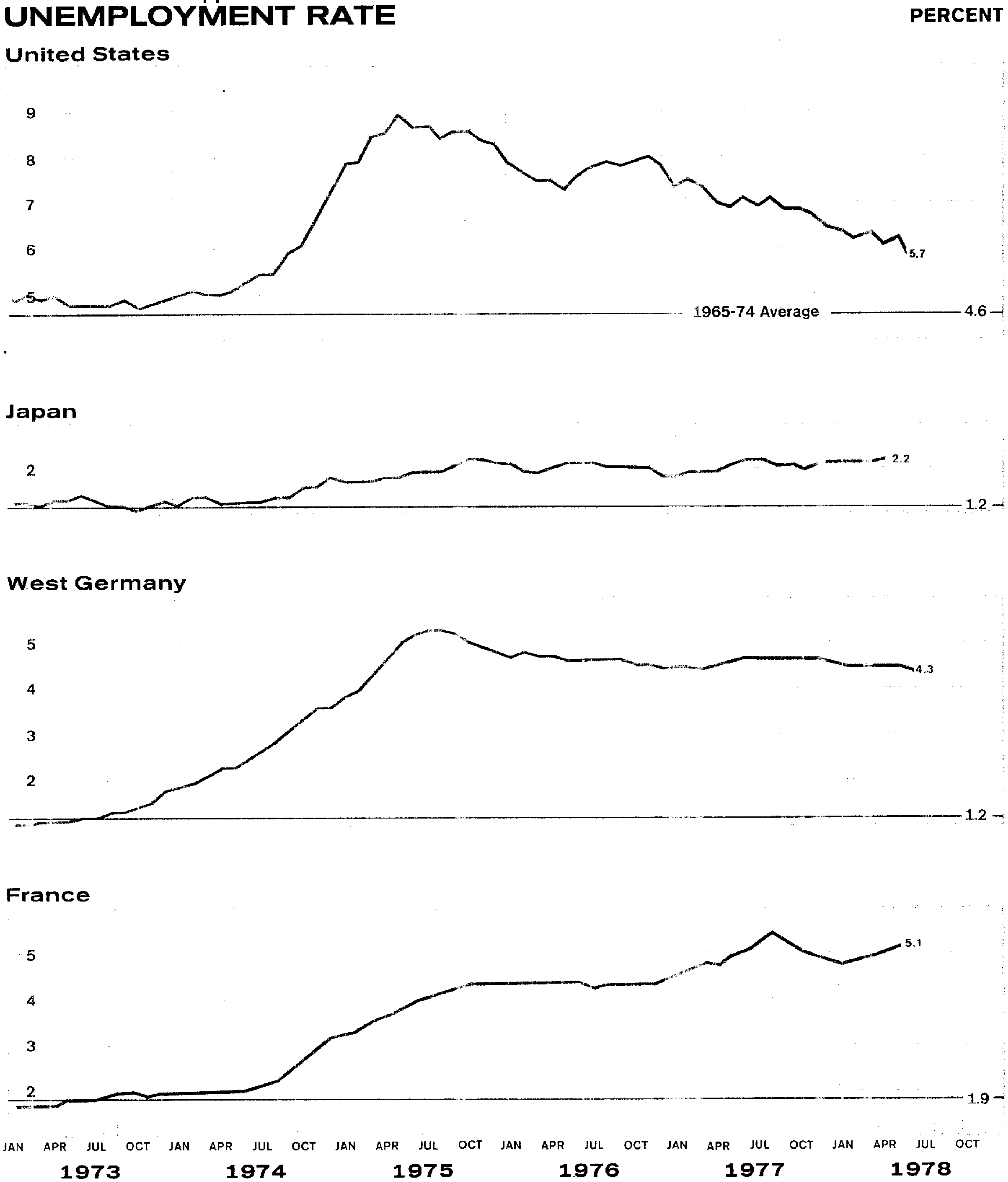
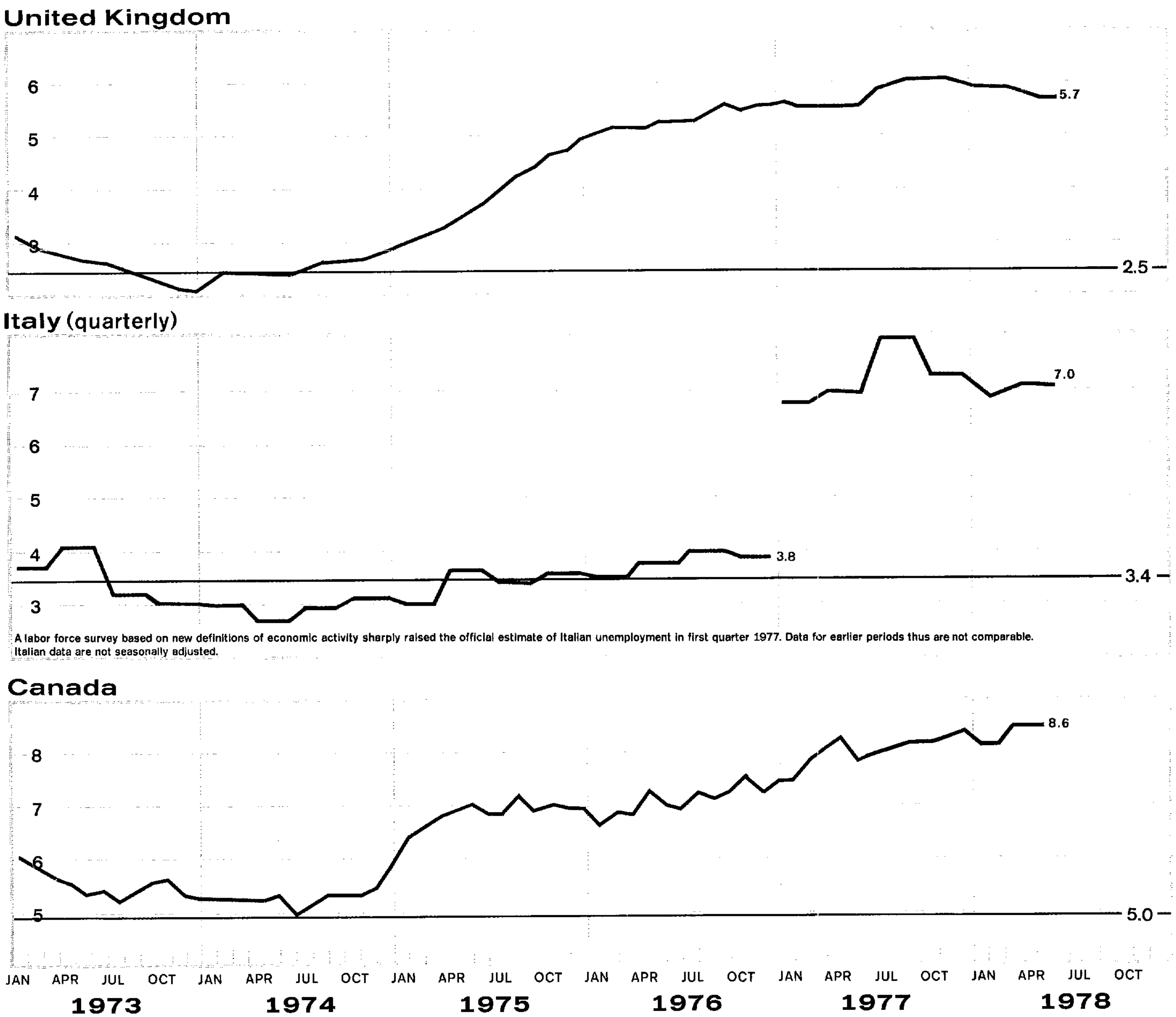
[1]Average for latest 3 months compared with average for previous 3 months.

UNEMPLOYMENT RATE





THOUSANDS OF PERSONS UNEMPLOYED

	LATEST MONTH		1 Year Earlier	3 Months Earlier
United States	JUN 78	5,754	6,904	6,148
Japan	APR 78	1,220	1,020	1,130
West Germany	JUN 78	984	1,044	1,014
France	MAY 78	1,113	1,066	1,042

	LATEST MONTH		1 Year Earlier	3 Months Earlier
United Kingdom	JUN 78	1,365	1,353	1,400
Italy	II 78	1,455	1,432	1,520
Canada	MAY 78	949	840	901

NOTE: Data are seasonally adjusted. Unemployment rates for France are estimated. The rates shown for Japan and Canada are roughly comparable to US rates. For 1975-78, 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. Beginning in 1977, Italian rates should be decreased by 50 percent to be roughly comparable to US rates.

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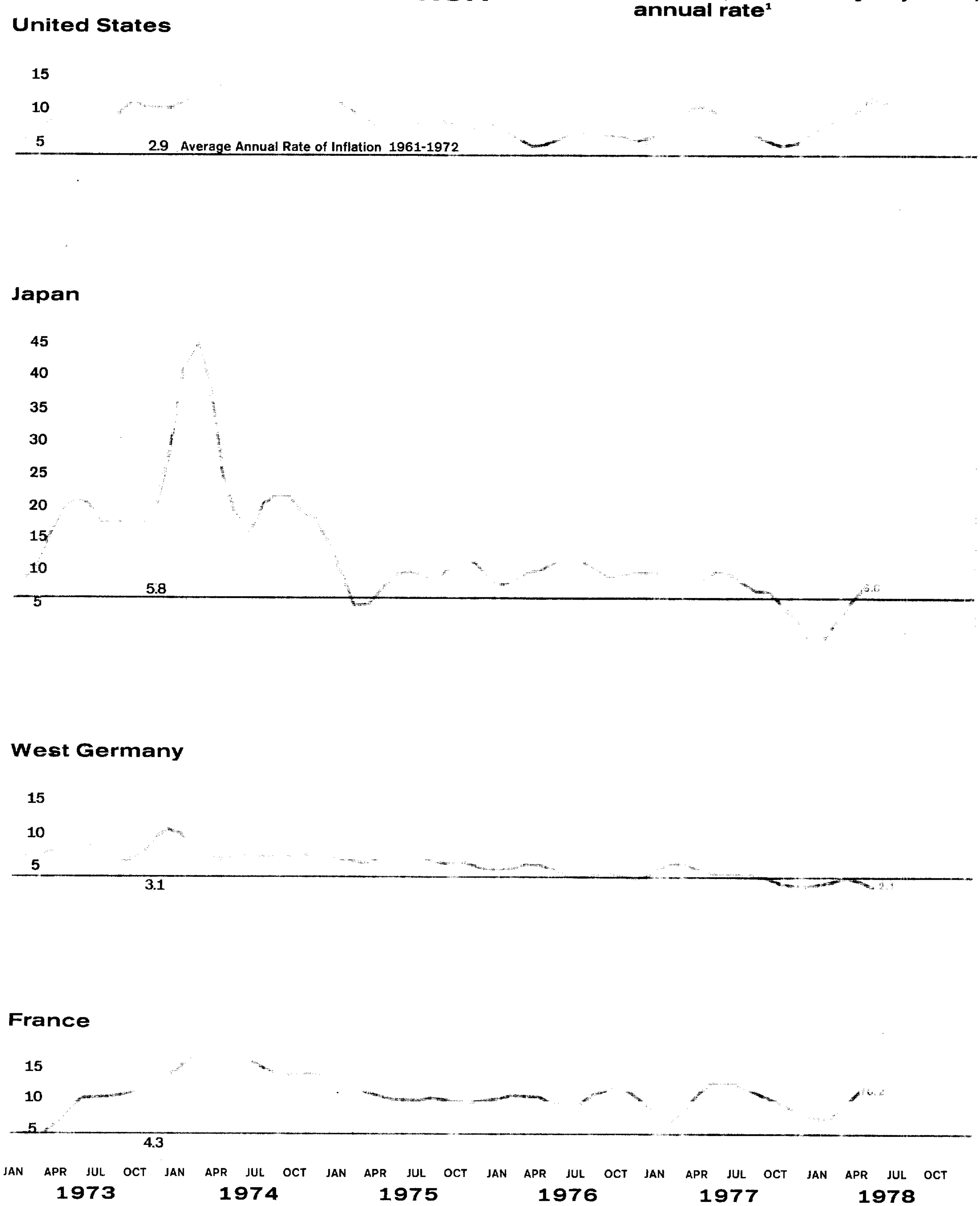
CONSUMER PRICE INFLATION

Percent, seasonally adjusted, annual rate[1]



[1]Three-month average compared with previous three months.

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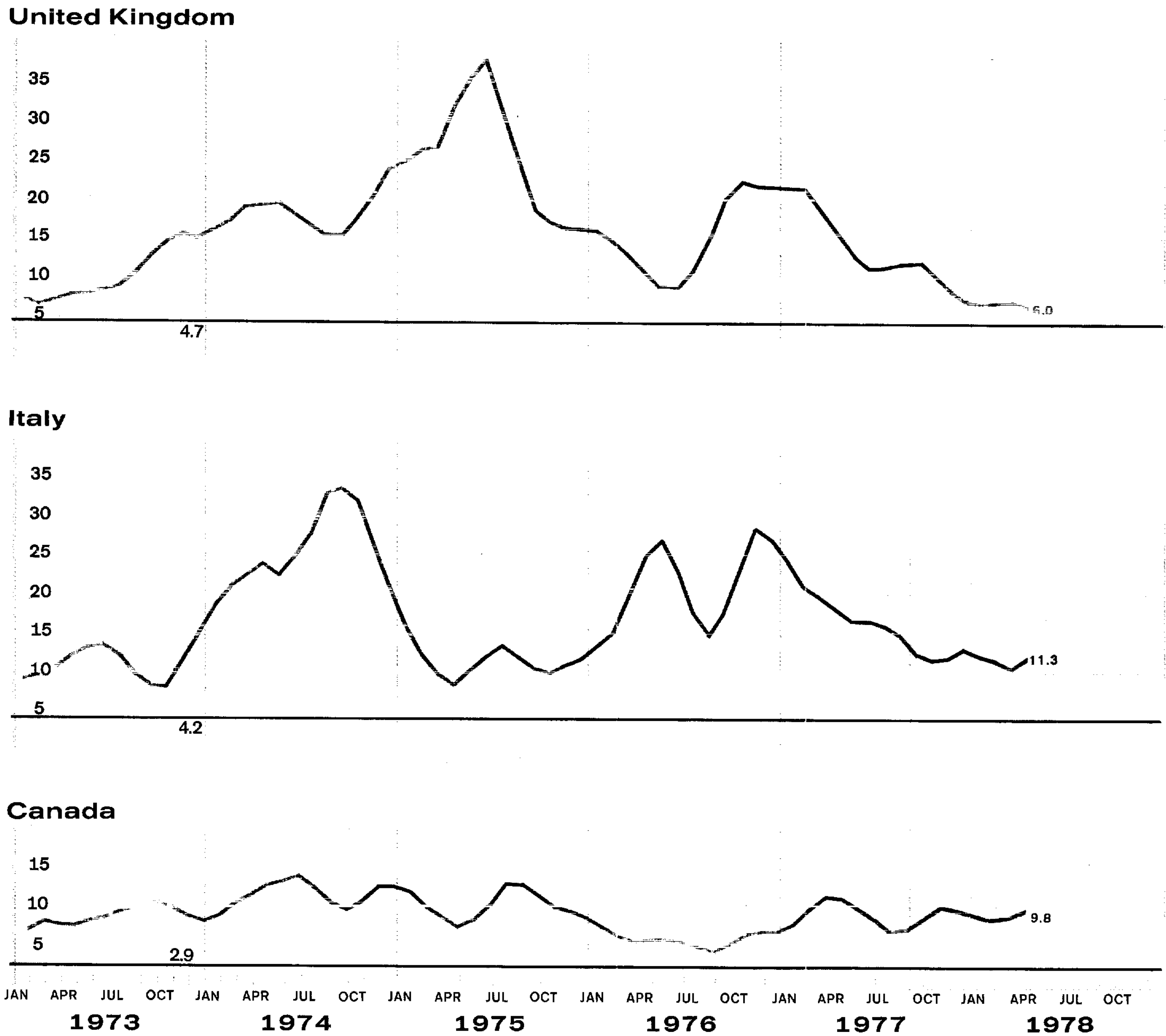

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[2]
United States	MAY 78	0.8	6.7	7.0	9.9
Japan	MAY 78	1.0	9.8	3.5	6.0
West Germany	JUN 78	.0	5.2	2.4	2.1
France	MAY 78	1.0	9.0	9.1	10.2
United Kingdom	MAY 78	0.4	13.2	7.7	6.0
Italy	MAY 78	1.2	13.1	12.3	11.3
Canada	MAY 78	1.2	7.7	9.0	9.8

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[2]Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

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	78 I	0	3.1	3.8	0
Japan	78 I	2.4	5.5	5.7	10.0
West Germany	78 I	0.1	2.4	1.1	0.4
France	77 IV	1.4	3.8	3.4	5.8
United Kingdom	77 IV	−0.5	1.6	−1.1	−1.9
Italy	77 IV	−3.7	1.7	−5.9	−13.9
Canada	78 I	0.7	4.7	2.8	2.7

[1] Seasonally adjusted.

RETAIL SALES

Constant Prices

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
United States	May 78	−0.9	3.1	1.9	5.5
Japan	Jan 78	2.9	9.2	1.0	−2.8
West Germany	Apr 78	−0.8	2.5	7.0	−7.3
France	Jan 78	9.9	0	1.0	10.5
United Kingdom	May 78	1.6	1.2	5.0	4.5
Italy	Feb 78	1.3	2.8	2.1	5.9
Canada	Apr 78	2.0	4.2	3.0	5.9

[1] Seasonally adjusted.

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

FIXED INVESTMENT [1]

Nonresidential; constant prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	1 Year Earlier	Previous Quarter
United States	78 I	1.0	2.2	4.7	4.1
Japan	78 I	0.9	1.1	−0.4	3.6
West Germany	78 I	−0.5	0.7	1.6	−2.1
France	77 IV	0.8	4.0	4.7	3.3
United Kingdom	77 IV	−1.5	1.3	4.1	−5.9
Italy	78 I	5.3	1.7	−11.4	22.7
Canada	78 I	−3.7	4.8	−12.7	−14.1

[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	Jun 78	0.5	7.6	7.6	7.2
Japan	Jan 78	1.2	16.3	9.4	4.7
West Germany	78 I	0.9	8.9	4.3	3.9
France	77 IV	3.1	14.1	12.0	12.9
United Kingdom	Jan 78	0.5	14.7	3.3	2.7
Italy	Apr 78	0	20.1	17.4	13.4
Canada	Apr 78	−0.1	10.9	7.7	6.8

[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	Commercial paper	Jul 12	7.84	5.38	6.79	7.54
Japan	Call money	Jul 14	4.50	5.63	4.12	4.13
West Germany	Interbank loans (3 months)	Jul 12	3.67	4.30	3.53	3.58
France	Call money	Jul 14	7.50	8.69	8.50	8.00
United Kingdom	Sterling interbank loans (3 months)	Jul 12	10.00	7.77	7.59	10.16
Canada	Finance paper	Jul 12	8.17	7.30	8.22	8.19
Eurodollars	Three-month deposits	Jul 12	8.46	5.77	6.82	8.09

EXPORT PRICES
US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Mar 78	−0.1	9.3	3.8	7.6
Japan	May 78	1.1	12.2	23.6	45.4
West Germany	Apr 78	−0.9	11.8	13.3	8.6
France	Apr 78	3.4	12.1	17.9	36.2
United Kingdom	May 78	0.6	11.4	15.6	−10.8
Italy	Dec 77	0.6	15.8	9.6	−4.7
Canada	Mar 78	12.8	10.1	14.7	62.2

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	Mar 78	−0.1	9.3	3.8	7.6
Japan	May 78	3.1	5.8	0.7	14.3
West Germany	Apr 78	−0.7	3.7	−2.3	−6.1
France	Apr 78	0.9	9.4	8.9	21.0
United Kingdom	May 78	2.0	15.4	9.3	15.6
Italy	Dec 77	0.9	10.7	8.6	−1.3
Canada	Mar 78	1.3	9.4	9.1	11.9

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	Mar 78	2.0	13.1	7.8	27.5
Japan	May 78	5.3	7.1	−17.0	−12.3
West Germany	Apr 78	−3.1	3.1	−6.3	−11.1
France	Apr 78	−2.2	9.3	0.2	−1.6
United Kingdom	May 78	1.0	17.6	2.6	14.2
Italy	Dec 77	−0.7	19.5	9.7	−13.1
Canada	Mar 78	−2.7	8.8	10.2	3.5

OFFICIAL RESERVES

	Latest Month: End of	Latest Month: Billion US $	Billion US $: Jun 1970	1 Year Earlier	3 Months Earlier
United States	Apr 78	18.8	14.5	18.9	19.5
Japan	May 78	27.7	4.1	17.3	24.2
West Germany	May 78	40.0	8.8	34.8	41.9
France	Apr 78	10.6	4.4	10.0	0.1
United Kingdom	Apr 78	17.7	2.8	10.2	21.4
Italy	May 78	12.2	4.7	7.9	11.4
Canada	May 78	4.7	9.1	5.2	3.7

CURRENT ACCOUNT BALANCE [1]

	Latest Period	Million US $	Cumulative (Million US $): 1977	1976	Change
United States [2]	78 I	−6,954	−20,115	−1,430	−18,685
Japan	May 78	739	11,112	3,680	7,432
West Germany	May 78	323	3,584	2,659	926
France	78 I	0	−3,179	−5,721	2,541
United Kingdom	77 IV	682	−14	−2,172	2,157
Italy	77 III	2,390	1,629	−2,028	3,657
Canada	78 I	−1,417	−4,020	−4,230	210

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

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

	Latest Period	Million US $	Cumulative (Million US $): 1977	1976	Change
United States		No longer published [2]			
Japan	May 78	−685	7,876	2,696	5,180
West Germany	May 78	−722	−1,648	2,472	−4,120
France	78 I	−1	−3,218	−6,842	3,624
United Kingdom	77 IV	1,389	5,353	−2,254	7,607
Italy	77 III	2,520	2,128	−2,083	4,211
Canada	78 I	−744	84	3,751	−3,667

[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 14 Jul 78

	US $ Per Unit	Percent Change from: 19 Mar 73	1 Year Earlier	3 Months Earlier	7 Jul 78
Japan (yen)	0.0049	29.71	30.68	11.63	0.28
West Germany (Deutsche mark)	0.4876	37.70	12.48	1.22	0.36
France (franc)	0.2247	1.95	9.45	4.17	0.27
United Kingdom (pound sterling)	1.8850	−23.41	9.62	3.26	0.64
Italy (lira)	0.0012	−33.38	4.24	2.25	0.25
Canada (dollar)	0.8910	−10.69	−5.59	1.92	0.16

TRADE-WEIGHTED EXCHANGE RATES [1]
As of 14 Jul 78

	Percent Change from: 19 Mar 73	1 Year Earlier	3 Months Earlier	7 Jul 78
United States	−1.71	−6.42	−3.76	−0.26
Japan	34.30	28.26	10.67	0.19
West Germany	30.87	3.90	−0.77	0.13
France	−7.27	0.35	2.48	−0.03
United Kingdom	−28.99	3.05	1.35	0.44
Italy	−41.85	−4.59	0.13	−0.02
Canada	−11.30	−8.17	0.91	0.08

[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]

Billion US $

	Exports to (f.o.b.)						Imports from (c.i.f.)					
	World	Big Seven	Other OECD	OPEC	Com-munist	Other	World	Big Seven	Other OECD	OPEC	Com-munist	Other
UNITED STATES												
1975	107.65	46.94	16.25	10.77	3.37	29.82	103.42	49.81	8.83	18.70	0.98	25.08
1976	115.01	51.30	17.68	12.57	3.64	29.44	129.57	60.39	9.75	27.17	1.16	31.09
1977	120.17	53.92	18.53	14.02	2.72	30.98	156.70	70.48	11.08	35.45	1.22	38.47
1st Qtr	29.46	13.75	4.73	3.13	0.86	6.99	37.37	16.07	2.76	8.97	0.30	9.27
2d Qtr	31.67	14.39	4.81	3.69	0.71	8.07	40.45	18.14	2.77	9.31	0.35	9.88
3d Qtr	28.75	12.23	4.39	3.58	0.47	8.08	39.50	17.73	2.78	8.92	0.32	9.75
4th Qtr	30.29	13.55	4.60	3.62	0.68	7.84	39.38	18.54	2.77	8.25	0.25	9.57
JAPAN												
1975	55.73	16.56	6.07	8.42	5.16	15.87	57.85	16.93	6.08	19.40	3.36	12.05
1976	67.32	22.61	8.59	9.27	4.93	17.84	64.89	17.58	7.78	21.88	2.91	14.72
1977	81.11	28.02	9.73	12.03	5.32	26.01	71.33	18.87	7.93	24.33	3.41	16.79
1st Qtr	17.89	5.89	2.45	2.46	1.36	5.73	17.44	4.72	1.84	6.24	0.79	3.85
2d Qtr	19.73	6.73	2.41	2.91	1.19	6.49	17.88	4.88	2.10	5.74	0.86	4.30
3d Qtr	20.63	7.40	2.47	3.05	1.33	6.38	17.63	4.68	1.84	5.88	0.84	4.39
4th Qtr	22.86	8.00	2.40	3.61	1.44	7.41	18.38	4.59	2.15	6.47	0.92	4.25
1978												
Jan	5.66	2.18	0.65	0.78	0.29	1.76	6.00	1.57	0.73	2.14	0.27	1.29
WEST GERMANY												
1975	91.70	28.33	36.44	6.78	8.81	11.05	76.28	27.09	27.78	8.24	4.87	8.21
1976	103.63	33.44	41.86	8.25	8.72	11.04	89.68	31.28	32.64	9.73	5.93	10.01
1977	119.28	39.01	48.00	10.78	8.59	12.90	102.63	36.38	37.37	10.12	6.14	12.62
1st Qtr	28.19	9.28	11.62	2.31	2.11	2.87	24.45	8.46	8.85	2.58	1.42	3.14
2d Qtr	29.20	9.59	11.79	2.69	2.07	3.06	25.21	9.09	9.04	2.43	1.54	3.11
3d Qtr	28.75	9.20	11.45	2.71	2.26	3.13	25.27	8.99	8.97	2.54	1.65	3.12
4th Qtr	33.14	10.94	13.14	3.07	2.15	3.84	27.70	9.84	10.51	2.57	1.53	3.25
FRANCE												
1975	52.87	20.00	15.50	4.90	3.13	8.61	53.99	23.04	14.33	9.43	1.94	5.21
1976	57.05	22.49	16.15	5.08	3.23	8.75	64.38	27.81	16.93	11.36	2.24	6.01
1977	65.00	25.90	18.19	5.97	3.00	11.94	70.50	30.28	18.24	11.82	2.46	7.70
1st Qtr	15.68	6.25	4.55	1.40	0.75	2.73	17.89	7.50	4.84	3.06	0.52	1.97
2d Qtr	16.69	6.60	4.79	1.57	0.83	2.90	17.96	7.84	4.71	2.65	0.61	2.15
3d Qtr	14.75	6.02	4.08	1.32	0.67	2.66	16.14	6.99	3.85	2.87	0.62	1.81
4th Qtr	17.88	7.03	4.77	1.68	0.75	3.65	18.51	7.95	4.84	3.24	0.71	1.77
1978												
Jan	5.49	2.21	1.49	0.52	0.19	1.08	6.29	2.69	1.71	1.00	0.21	0.68
UNITED KINGDOM												
1975	44.03	12.55	16.59	4.55	1.56	8.64	53.35	18.47	18.52	6.91	1.68	7.67
1976	46.12	14.03	17.53	5.13	1.39	7.92	55.56	19.66	18.81	7.29	2.08	7.65
1977	57.44	16.99	22.56	6.78	1.63	9.48	63.29	24.02	21.34	6.31	2.40	9.22
1st Qtr	13.14	4.02	5.16	1.51	0.35	2.10	15.45	5.80	5.12	1.78	0.49	2.26
2d Qtr	14.35	4.20	5.72	1.69	0.44	2.30	16.52	6.02	5.73	1.70	0.58	2.49
3d Qtr	14.59	4.47	5.55	1.75	0.46	2.36	15.20	6.05	4.74	1.44	0.66	2.31
4th Qtr	15.36	4.30	6.13	1.83	0.38	2.72	16.12	6.15	5.75	1.39	0.67	2.16
1978												
Jan	5.22	1.58	1.92	0.68	0.14	0.90	6.27	2.42	2.27	0.64	0.18	0.76
ITALY												
1975	34.82	15.61	7.86	3.72	2.46	4.67	38.36	17.32	6.75	7.85	2.09	4.34
1976	36.96	17.41	8.69	4.23	2.18	3.96	43.42	19.35	8.04	8.12	2.65	5.24
1977												
1st Qtr	9.80	4.56	2.30	1.26	0.53	1.15	11.37	5.00	2.14	2.18	0.60	1.45
2d Qtr	11.47	5.33	2.61	1.51	0.60	1.42	12.49	5.51	2.24	2.50	0.64	1.60
3d Qtr	10.93	5.01	2.51	1.41	0.63	1.37	10.55	4.39	1.80	2.10	0.73	1.53
Oct & Nov	7.73	3.68	1.66	0.99	0.40	1.00	7.97	3.52	1.48	1.34	0.53	1.10

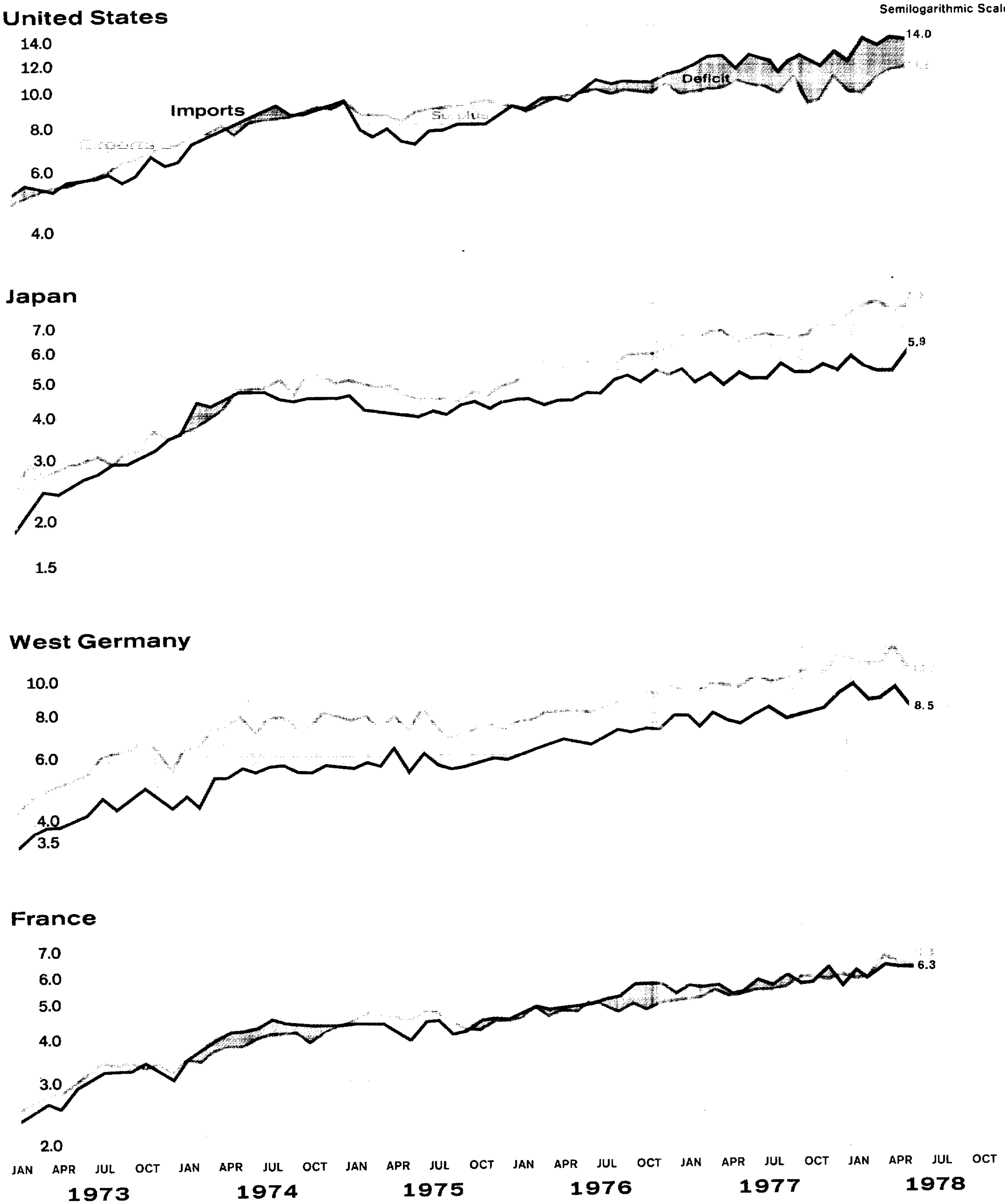
Developed Countries: Direction of Trade [1]
(Continued)

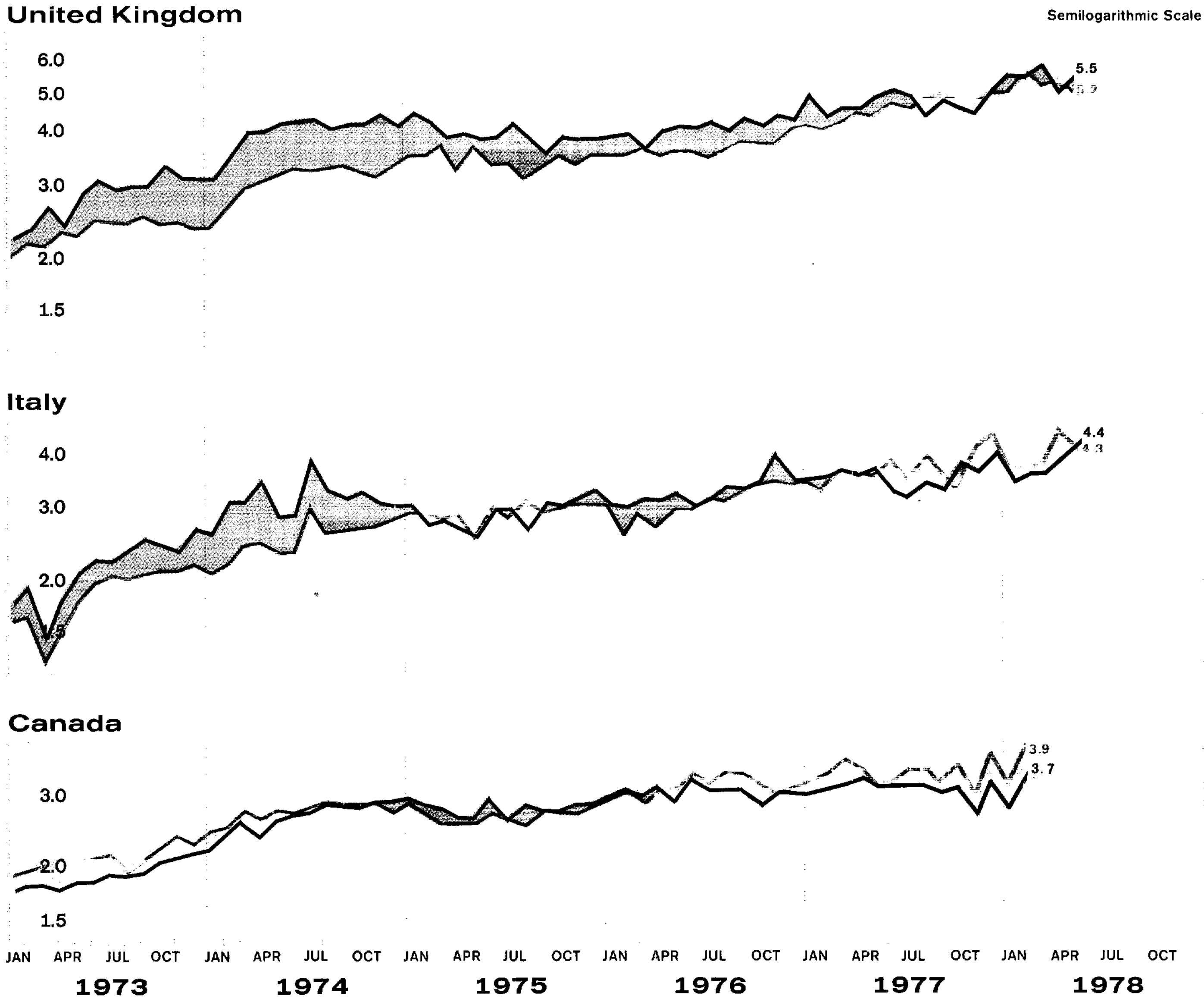
Billion US $

	Exports to (f.o.b.)						Imports from (c.i.f.)					
	World	Big Seven	Other OECD	OPEC	Com-munist	Other	World	Big Seven	Other OECD	OPEC	Com-munist	Other
CANADA												
1975	33.84	26.30	1.73	0.71	1.20	2.00	38.59	29.78	1.70	3.43	0.32	2.02
1976	40.18	32.01	2.03	0.81	1.25	2.09	43.05	33.55	1.82	3.48	0.38	2.56
1977	42.98	34.77	2.13	0.94	1.06	4.08	44.67	35.67	1.77	3.05	0.33	3.85
1st Qtr	10.35	8.37	0.53	0.23	0.22	1.00	10.92	8.64	0.43	0.82	0.09	0.94
2d Qtr	11.34	9.23	0.54	0.24	0.29	1.04	12.28	9.92	0.47	0.74	0.10	1.05
3d Qtr	10.25	8.12	0.54	0.23	0.29	1.07	10.38	8.17	0.43	0.82	0.07	0.89
4th Qtr	11.04	9.05	0.52	0.24	0.26	0.97	11.09	8.94	0.44	0.67	0.07	0.97

[1] Source: International Monetary Fund, Direction of Trade.

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





	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	CHANGE
United States	MAY 78	11,754	54,237	50,167	8.1%
		13,992	69,009	58,447	18.1%
	Balance	−2,238	−14,771	−8,280	−6,491
Japan	MAY 78	7,855	39,337	32,397	21.4%
		5,925	27,500	25,370	8.4%
	Balance	1,930	11,837	7,027	4,810
West Germany	MAY 78	10,313	55,032	46,735	17.8%
		8,522	45,808	38,606	18.7%
	Balance	1,791	9,224	8,128	1,096
France	MAY 78	6,342	31,008	25,833	20.0%
		6,321	30,973	27,033	14.6%
	Balance	21	35	−1,200	1,235

	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	CHANGE
United Kingdom	MAY 78	5,231	27,077	21,791	24.3%
		5,538	27,973	24,164	15.8%
	Balance	−307	−896	−2,372	1,476
Italy	MAY 78	4,276	20,329	17,623	15.4%
		4,358	19,314	18,630	3.7%
	Balance	−82	1,014	−1,008	2,022
Canada	FEB 78	3,946	7,175	6,761	6.1%
		3,710	6,680	6,509	2.6%
	Balance	235	495	252	243

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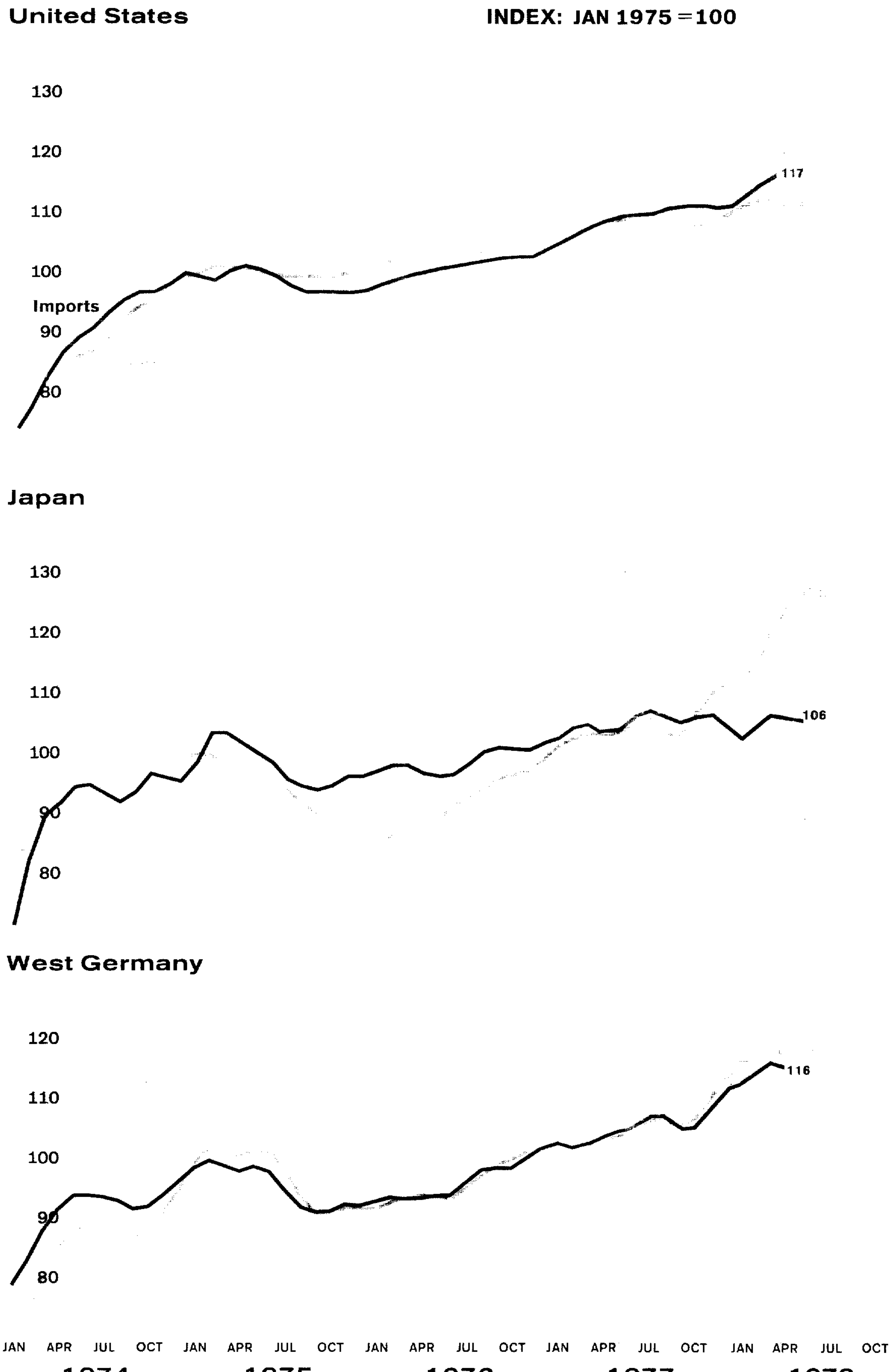
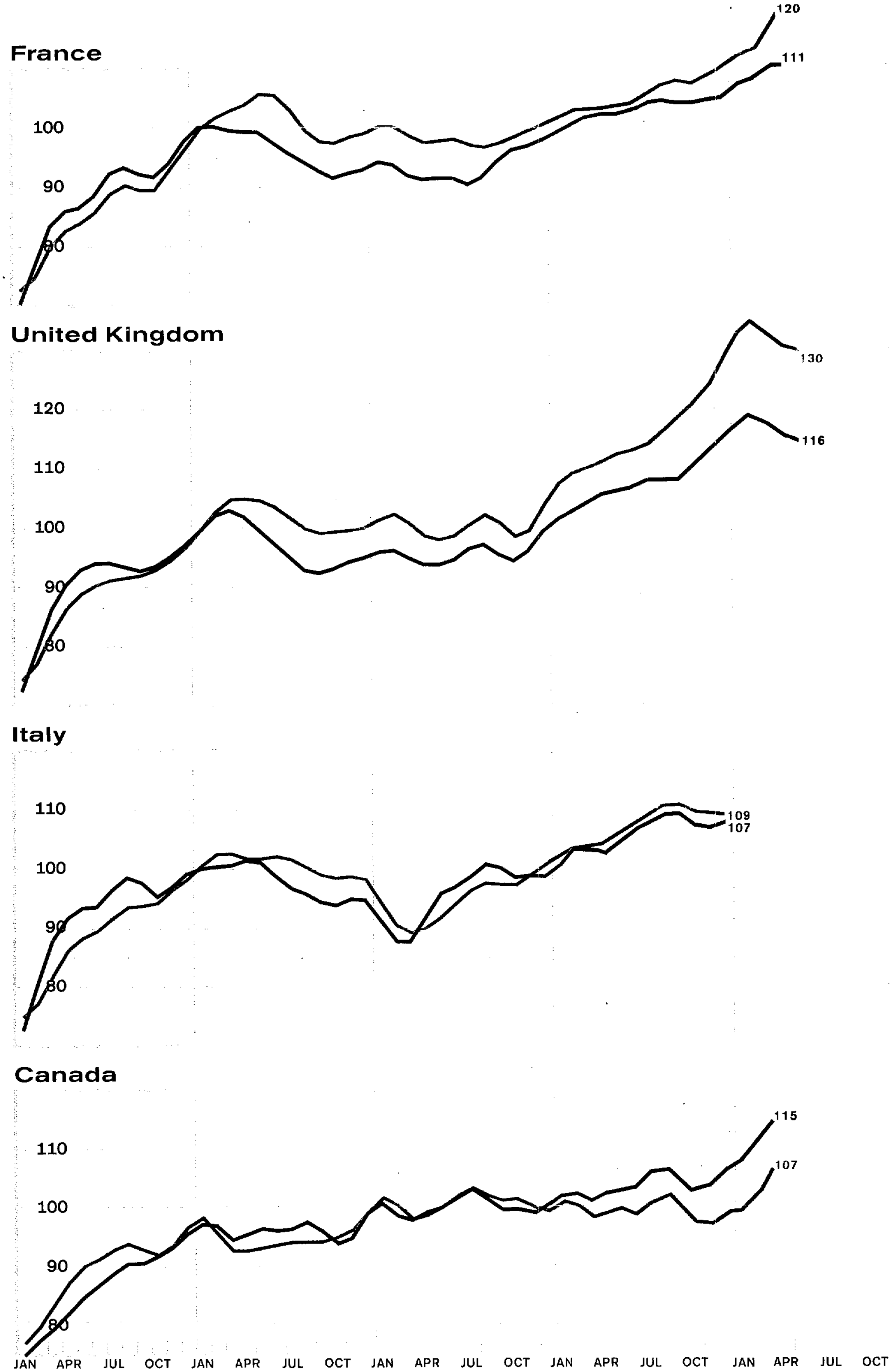
Approved For Release 2005/06/07 : CIA-RDP80T00702A000700050005-4

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]
India	Dec 77	3.3	4.7	4.6	2.5
South Korea	Mar 78	5.8	22.7	26.8	16.9
Mexico	Feb 78	1.4	5.9	11.2	3.3
Nigeria	76 IV	0.2	11.3	9.0	0.7
Taiwan	Apr 78	1.5	15.3	17.4	− 2.0

[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	3 Months Earlier [2]
Brazil	Mar 78	2.7	36.4	43.3	34.7
India	Dec 77	1.0	13.8	13.6	26.1
Iran	Feb 78	0.8	28.1	27.7	30.3
South Korea	Apr 78	0.4	31.4	33.3	34.4
Mexico	Mar 78	3.0	20.5	30.5	40.3
Nigeria	Apr 77	−2.3	36.9	47.5	99.7
Taiwan	Mar 78	5.3	25.2	31.0	24.3
Thailand	Nov 77	3.3	13.1	12.3	4.7

[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	Jun 78	4.1	28.3	38.0
India	Feb 78	−1.5	7.5	3.2
Iran	Apr 78	1.8	12.6	15.3
South Korea	May 78	1.0	14.4	12.6
Mexico	May 78	1.0	15.0	17.2
Nigeria	Dec 77	3.2	16.6	31.0
Taiwan	Apr 78	1.8	10.1	7.6
Thailand	Apr 78	1.0	8.6	8.8

WHOLESALE PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	May 78	3.4	28.4	34.5
India	Mar 78	0.8	8.1	−0.6
Iran	Apr 78	1.0	11.1	12.5
South Korea	May 78	0.8	15.9	11.2
Mexico	May 78	2.5	16.5	16.3
Taiwan	Mar 78	1.1	8.2	1.2
Thailand	Jan 78	−0.2	9.5	6.4

EXPORT PRICES
US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
Brazil	Feb 78	0.4	14.1	1.5	25.6
India	Mar 77	−0.9	9.6	17.9	36.5
Iran	Mar 78	0	32.0	0	0
South Korea	77 IV	4.6	8.9	8.8	19.5
Nigeria	May 76	−0.1	27.3	12.3	8.7
Taiwan	Dec 78	−0.7	11.2	3.8	−2.0
Thailand	Mar 76	2.0	13.3	13.1	77.7

OFFICIAL RESERVES

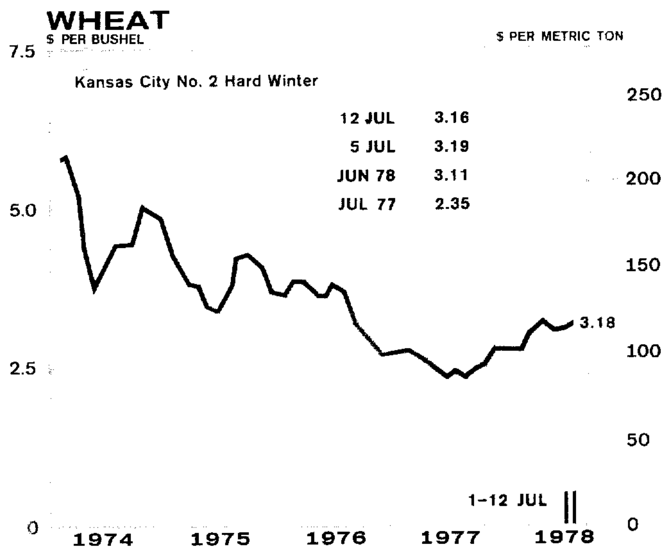
	Latest Month: End of	Latest Month: Million US $	Million US $: Jun 1970	1 Year Earlier	3 Months Earlier
Brazil	Feb 78	6,733	1,013	5,878	5,994
India	Mar 78	5,823	1,006	3,747	5,184
Iran	May 78	12,468	208	11,460	13,728
South Korea	Apr 78	4,138	602	3,247	4,418
Mexico	Mar 78	1,640	695	1,422	1,723
Nigeria	Apr 78	3,768	148	4,784	3,900
Taiwan	Mar 78	1,433	531	1,349	1,447
Thailand	May 78	2,129	978	2,005	2,087

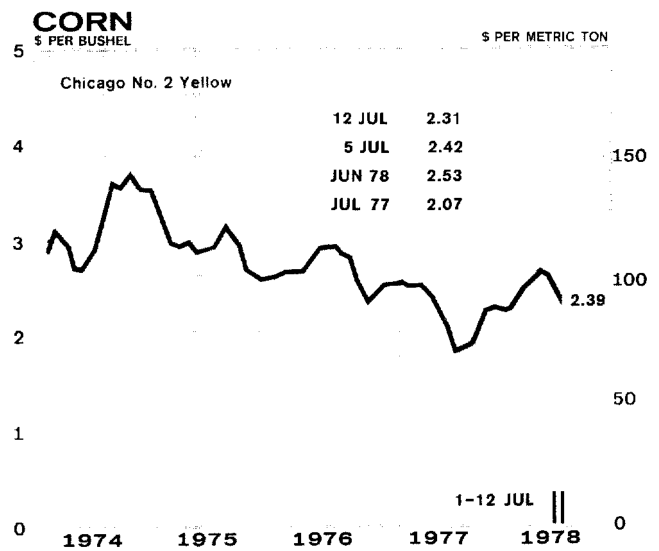
FOREIGN TRADE, f.o.b.

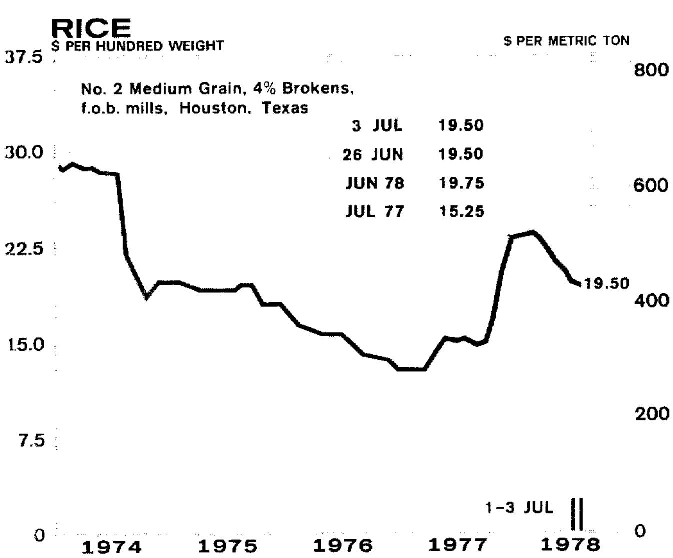
	Latest Period		Latest 3 Months Percent Change from: 3 Months Earlier [1]	1 Year Earlier	Cumulative (Million US $): 1978	1977	Change
Brazil	May 78	Exports	84.8	−3.7	4,743	4,979	−4.7%
	May 78	Imports	26.6	1.4	5,110	4,939	3.5%
	May 78	Balance			−367	40	−407
India	Dec 77	Exports	−22.1	13.9	N.A.	6,142	N.A.
	Dec 77	Imports	14.4	25.9	N.A.	5,365	N.A.
	Dec 77	Balance			N.A.	777	N.A.
Iran	Apr 78	Exports	−30.9	−7.1	7,682	8,012	−4.1%
	Mar 78	Imports	105.8	14.2	3,694	3,235	14.2%
	Mar 78	Balance			2,025	2,795	−770
South Korea	Apr 78	Exports	−15.7	30.8	3,638	2,832	28.5%
	Apr 78	Imports	12.5	25.8	3,849	3,035	26.8%
	Apr 78	Balance			−211	−203	−9
Mexico	Mar 78	Exports	91.6	14.9	1,217	1,060	14.9%
	Mar 78	Imports	−47.3	23.8	1,348	1,090	23.8%
	Mar 78	Balance			−131	−30	−101
Nigeria	Mar 78	Exports	−28.5	−15.2	1,018	1,200	−15.2%
	Dec 76	Imports	86.7	8.4	N.A.	N.A.	N.A.
	Dec 76	Balance			N.A.	N.A.	N.A.
Taiwan	Apr 78	Exports	−27.6	32.3	3,365	2,543	32.3%
	Apr 78	Imports	−14.5	20.4	2,869	2,338	22.7%
	Apr 78	Balance			496	205	291
Thailand	Feb 78	Exports	76.0	8.2	635	574	10.6%
	Mar 78	Imports	−8.8	13.7	1,069	940	13.7%
	Feb 77	Balance			−29	−23	−5

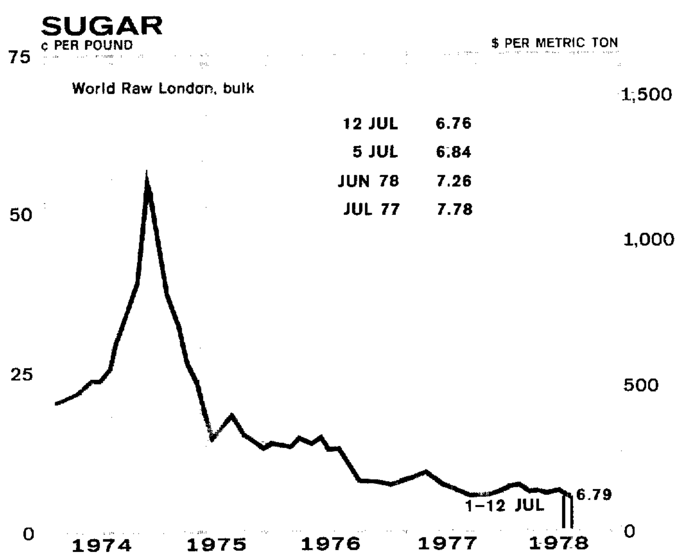
[1] At annual rates.

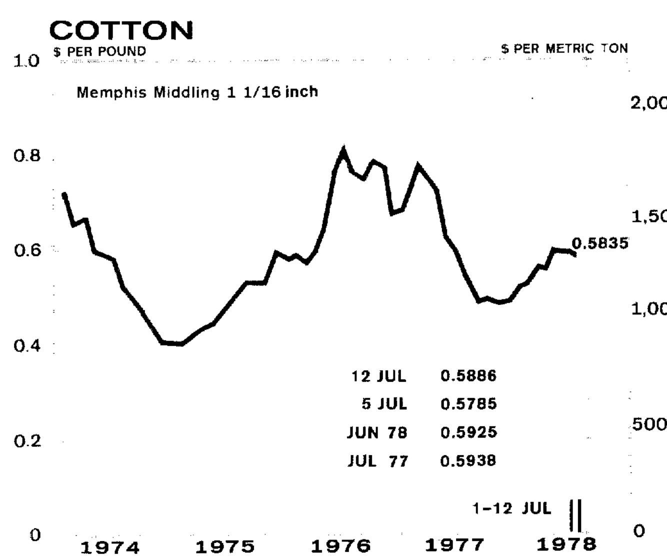
AGRICULTURAL PRICES MONTHLY AVERAGE CASH PRICE

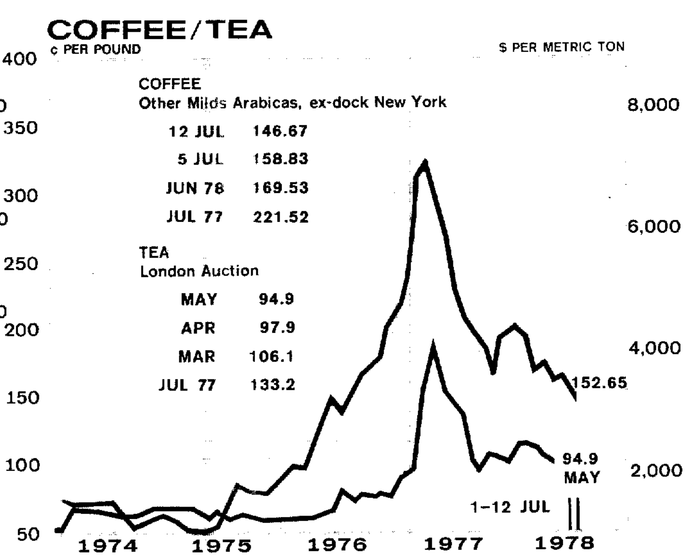




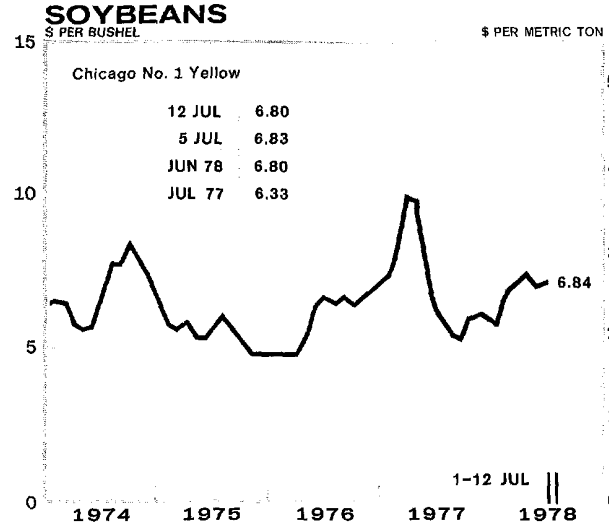




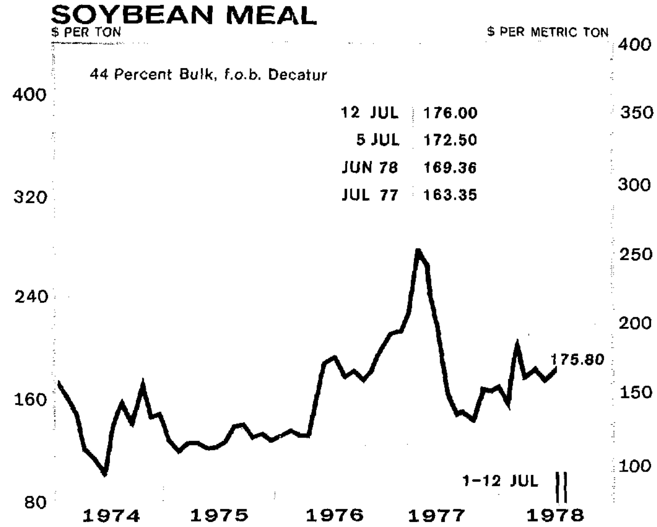




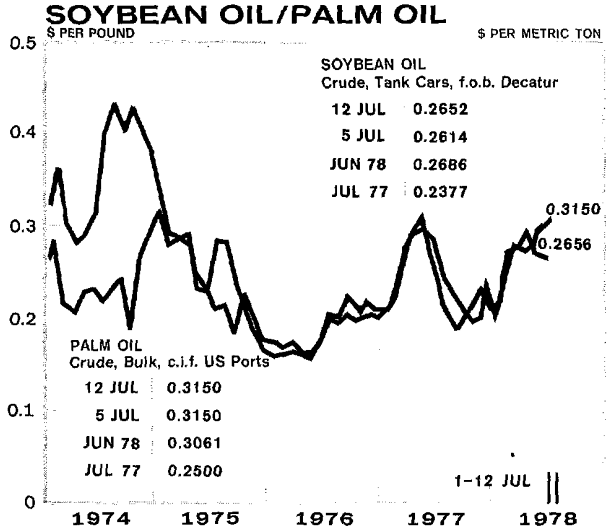
SOYBEANS



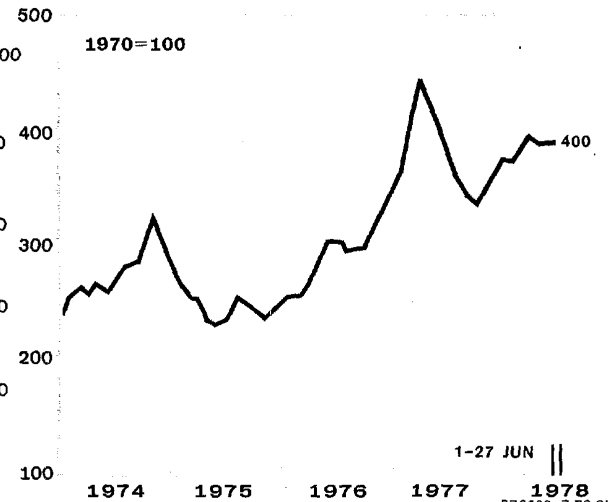
SOYBEAN MEAL



SOYBEAN OIL/PALM OIL



FOOD INDEX



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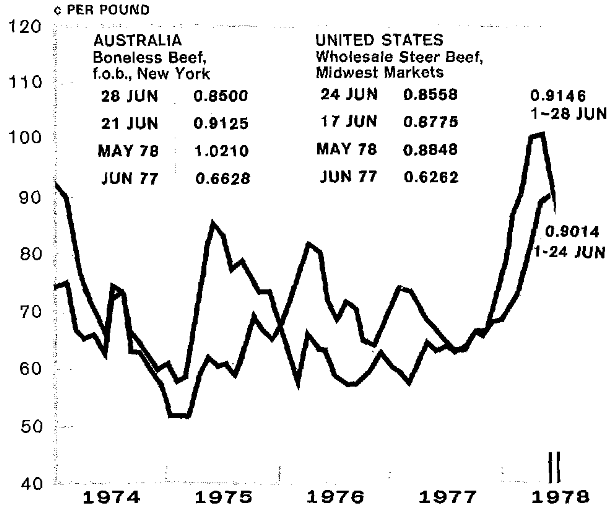
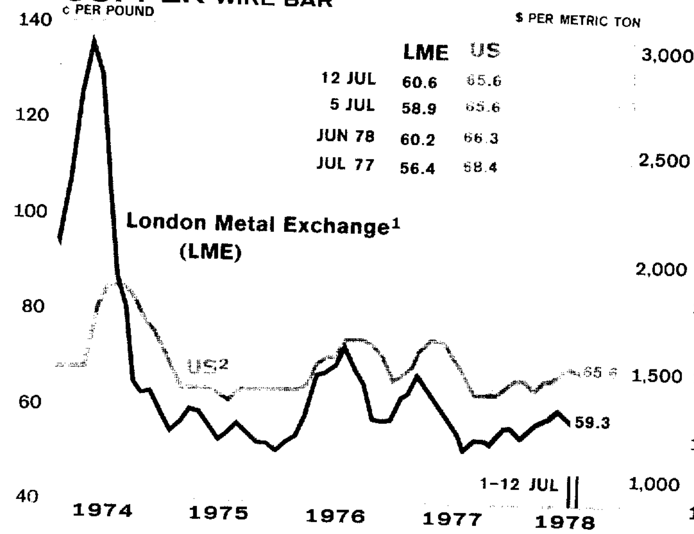
BEEF



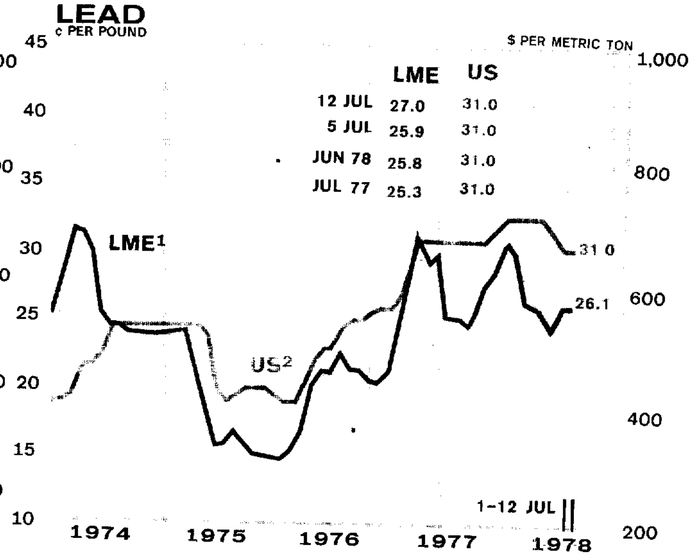
NOTE: The food index is compiled by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

INDUSTRIAL MATERIALS PRICES MONTHLY AVERAGE CASH PRICE

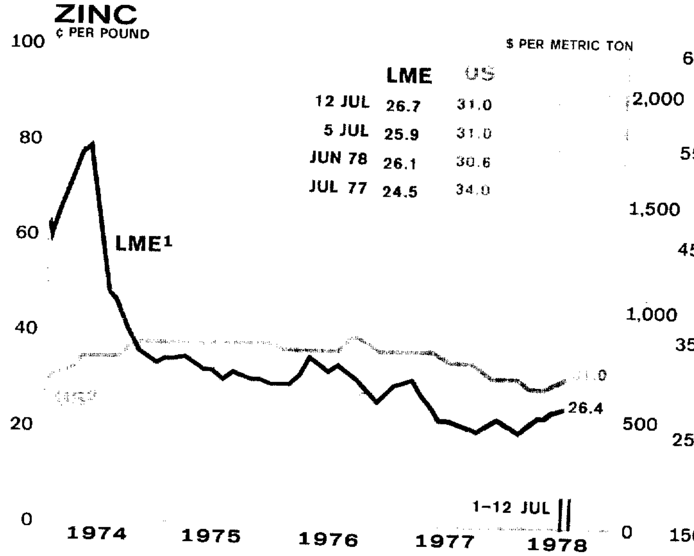
COPPER WIRE BAR



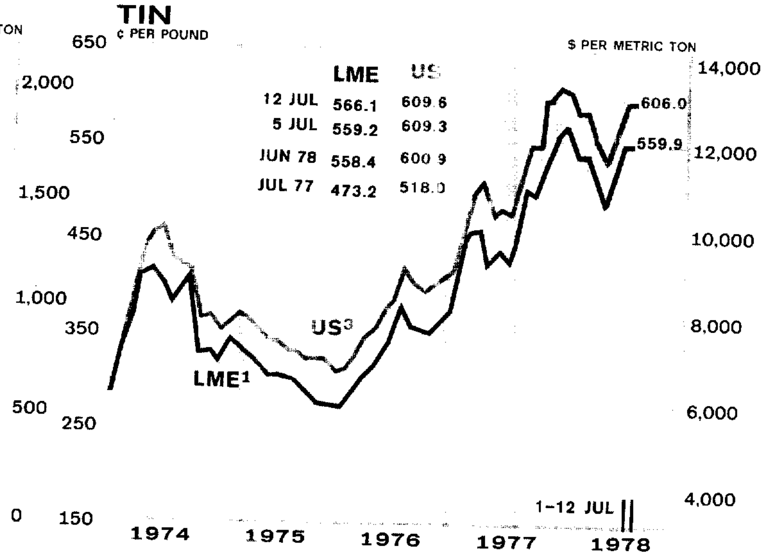
LEAD



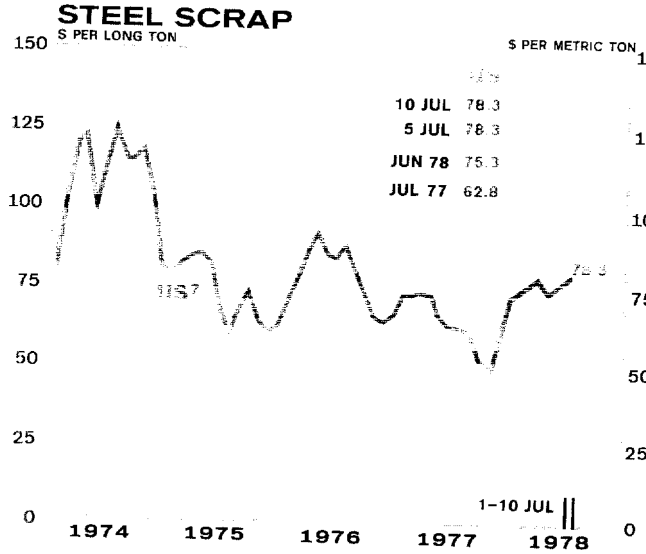
ZINC



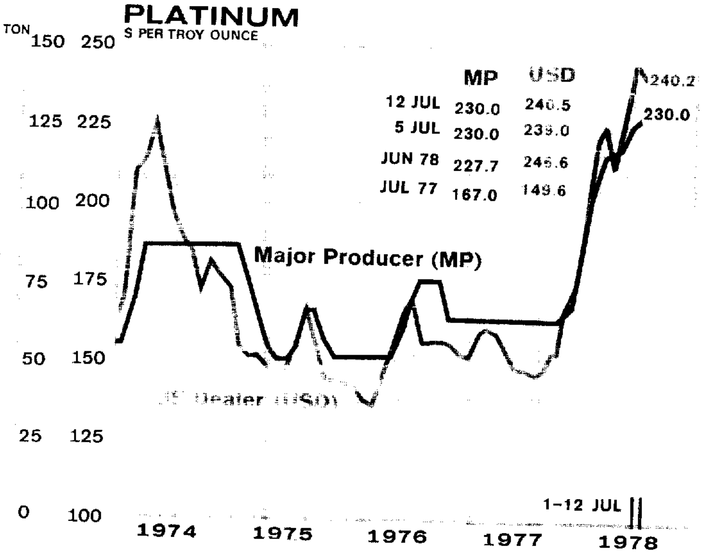
TIN



STEEL SCRAP



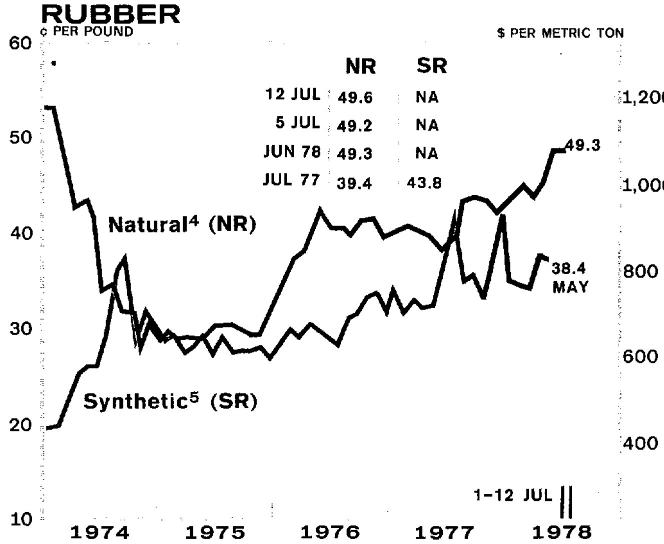
PLATINUM



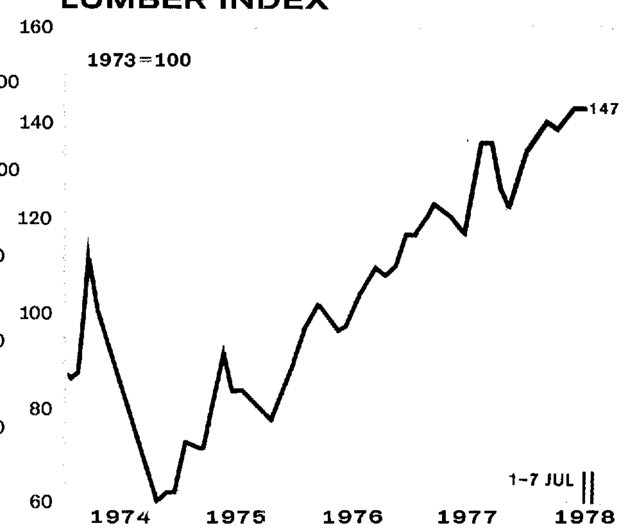
SELECTED MATERIALS

			CURRENT	JAN 78	JUL 77	JUL 76
ALUMINUM	Major US Producer	¢ per pound	55.00	53.00	51.00	44.00
US STEEL	Composite	$ per long ton	395.81	359.36	339.27	316.36
IRON ORE	Non-Bessemer Old Range	$ per long ton	21.43	21.43	21.43	19.50
CHROME ORE	Russian, Metallurgical Grade	$ per metric ton	NA	150.00	150.00	150.00
CHROME ORE	S. Africa, Chemical Grade	$ per long ton	56.00	58.50	58.50	39.00
FERROCHROME	US Producer, 66-70 Percent	¢ per pound	42.00	41.00	43.00	45.00
NICKEL	Composite US Producer	$ per pound	2.07	2.06	2.41	2.20
MANGANESE ORE	48 Percent Mn	$ per long ton	67.20	72.24	72.00	72.00
TUNGSTEN ORE	Contained Metal	$ per metric ton	16,961.00	21,549.00	22,821.00	13,954.00
MERCURY	New York	$ per 76 pound flask	153.00	124.33	126.23	110.00
SILVER	LME Cash	¢ per troy ounce	534.45	472.49	446.93	478.82
GOLD	London Afternoon Fixing Price	$ per troy ounce	184.44	160.45	140.78	125.71

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 bellwethers 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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