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Economic Intelligence Weekly Review

9 November 1978

Secret

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9 November 1978

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ECONOMIC INTELLIGENCE WEEKLY REVIEW

9 November 1978

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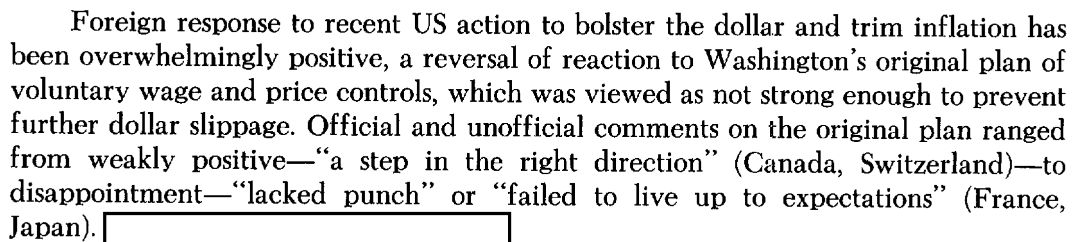
Current Survey

MAJOR RECENT DEVELOPMENTS AFFECTING THE INTERNATIONAL ECONOMY

Reaction to US Monetary Measures



Foreign response to recent US action to bolster the dollar and trim inflation has been overwhelmingly positive, a reversal of reaction to Washington's original plan of voluntary wage and price controls, which was viewed as not strong enough to prevent further dollar slippage. Official and unofficial comments on the original plan ranged from weakly positive—"a step in the right direction" (Canada, Switzerland)—to disappointment—"lacked punch" or "failed to live up to expectations" (France, Japan).

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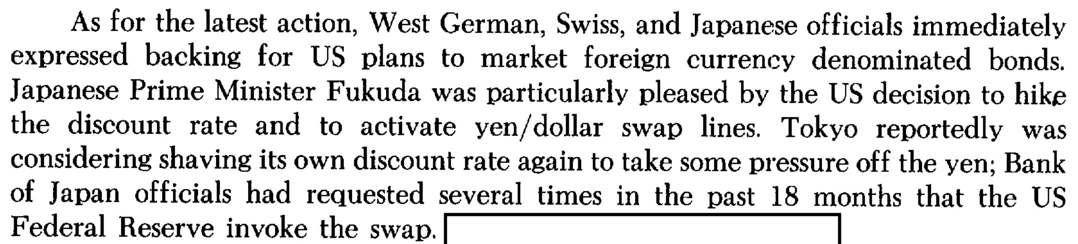

As for the latest action, West German, Swiss, and Japanese officials immediately expressed backing for US plans to market foreign currency denominated bonds. Japanese Prime Minister Fukuda was particularly pleased by the US decision to hike the discount rate and to activate yen/dollar swap lines. Tokyo reportedly was considering shaving its own discount rate again to take some pressure off the yen; Bank of Japan officials had requested several times in the past 18 months that the US Federal Reserve invoke the swap.

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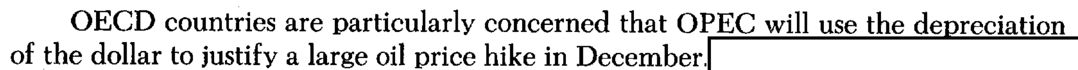
Spillover to Oil Prices



OECD countries are particularly concerned that OPEC will use the depreciation of the dollar to justify a large oil price hike in December.

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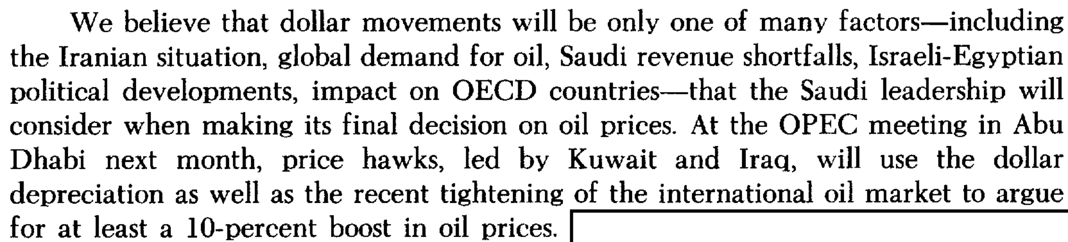
We believe that dollar movements will be only one of many factors—including the Iranian situation, global demand for oil, Saudi revenue shortfalls, Israeli-Egyptian political developments, impact on OECD countries—that the Saudi leadership will consider when making its final decision on oil prices. At the OPEC meeting in Abu Dhabi next month, price hawks, led by Kuwait and Iraq, will use the dollar depreciation as well as the recent tightening of the international oil market to argue for at least a 10-percent boost in oil prices. 25X1

Iranian Position

The Shah's domestic problems no doubt will make it tougher for Iran to maintain its moderate stand on the price hike. Iran has lost substantial revenue from the strikes in the oilfields. 25X1



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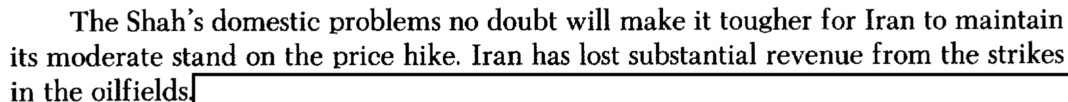
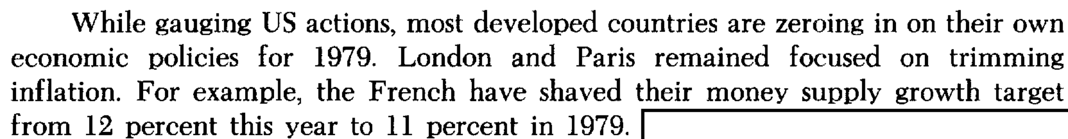


Economic Policies Abroad

While gauging US actions, most developed countries are zeroing in on their own economic policies for 1979. London and Paris remained focused on trimming inflation. For example, the French have shaved their money supply growth target from 12 percent this year to 11 percent in 1979. 25X1

In Tokyo, the privately held view of government economists is that GNP growth in fiscal year 1978 (which began on 1 April 1978) will be under 6 percent—well below Prime Minister Fukuda's target of 7 percent. The Japanese Economic Planning Agency blames the growth shortfall on slipping export volume—induced by yen appreciation—and sluggish consumer spending. 25X1



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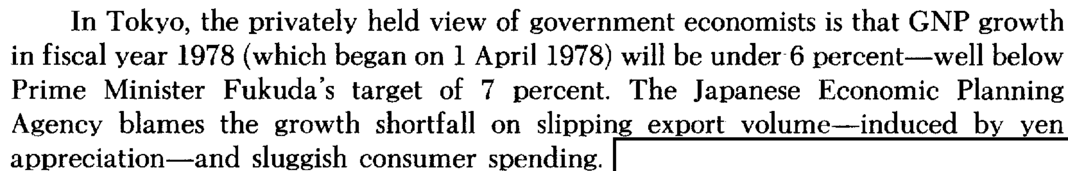

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Articles

ITALY: DEBATE OVER EMS *

A sharp debate over participation in the proposed European Monetary System (EMS) is dividing Italian policymakers. High-ranking politicians, led by Prime Minister Giulio Andreotti, charge that failure to join in so widesweeping an enterprise as EMS could consign Italy forever to the cellars of Europe. Technocrats, taking aim from the bastions of the Bank of Italy, argue that exchange rate rigidity is a sure formula for economic disaster given Italy's high inflation rate. Andreotti, the master of compromise, is attempting to smooth over the dispute. While affirming Rome's intent to join EMS, he is pressing for a system flexible enough to accommodate Italy.

During October, Italy's EMS advocates took a beating. West German insistence on a parity-grid system for regulating exchange rates had sparked a technocrat revolt. Voices from every quarter were being raised against Italian participation in what would allegedly be a reconstituted snake. Once passive observers of the fray, the Communists and Socialists were remonstrating against an EMS built to West German specifications. Though Andreotti at first hedged, government policy seemed to shift away from EMS. Several officals called for a delay in Italian entry of six to 12 months. Some private economists were warning that if the West Germans had their way, Italy's entry would have to be postponed for at least several years.

New EMS understandings made public after the Schmidt-Andreotti bilateral discussion of 1 November represent a clear attempt by the Chancellor to find a formula suitable for Rome and, possibly, London. Under the proposals, a weak currency may be admitted into EMS with allowable margins of fluctuation much wider than those for current snake members. A two-tier system should help appease technocrats agitated over the potential deflationary impact on the Italian economy of a rigid EMS. Most importantly, the new EMS proposals contain concessions Andreotti can deliver to the leftists in Rome. While technical details could still torpedo his efforts, Andreotti has strengthened his political hand to draw Italy into EMS. The odds for entry now seem better than even.

The Policy Conflict

Italians have long hoped that through participation in a united Europe they could attain the stability, both political and economic, which they have been unable to achieve on their own. All the major political parties applaud the principle of European integration; a greater proportion of the population supports the European Community

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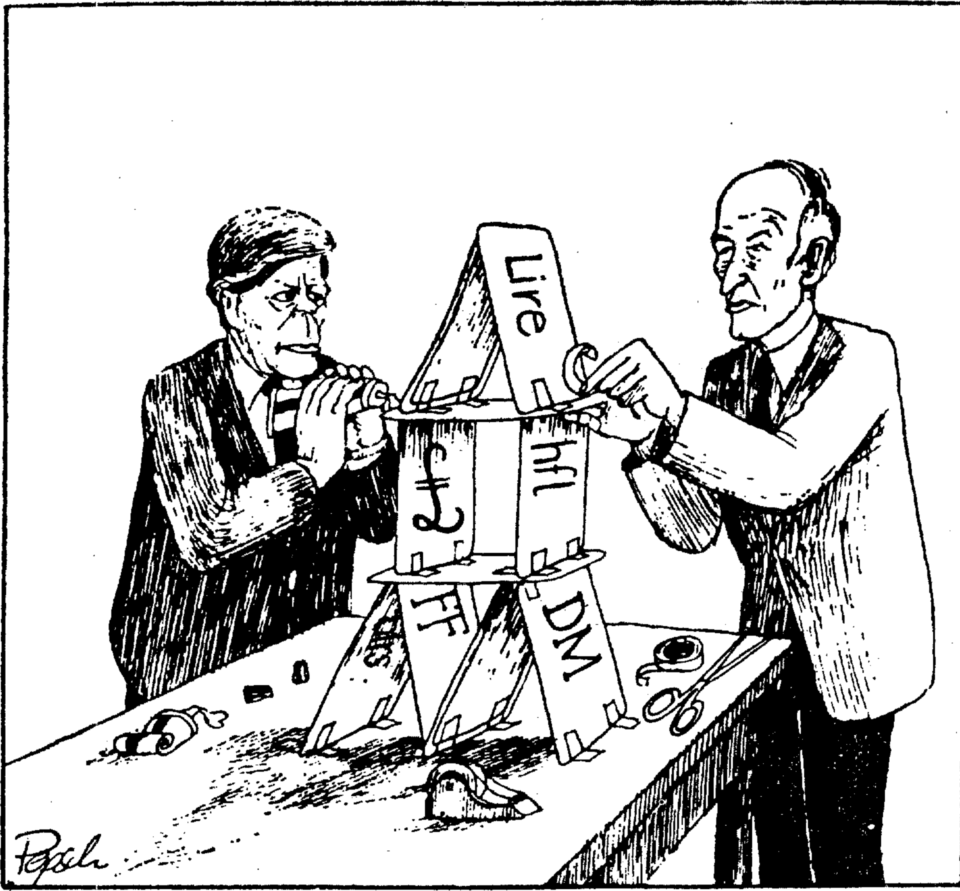

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Deutsch-französische Stabilisierungsbemühungen Gottscheber/HannoverscheAllgemeine

than in any other West European country. Italians recognize, however, that their position in the EC has deteriorated in the 1970s. Sharp depreciation of the lira, soaring prices and wages, low investment, and the political shift to the left have generated anxiety that Italy is being gradually forced from the European mainstream. Fears of isolation and underdevelopment are the driving forces behind the Italian desire to enter EMS. Many are convinced that if Italy cannot join the EMS, it will be forever condemned to second-class status in Europe.

For several months following the Bremen summit of July 1978, Italian officials were optimistic about Italy's ability to join. The elements most concerned with Italy's international orientation—the foreign ministry and leading Christian Democrats—led the chorus of yeas. The advocates cited the slackening of inflation and the big

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surpluses being run up on the current account as evidence that prospects had improved for tying the lira to competitor currencies.

The monetary authorities, however, have always viewed life under the proposed EMS as particularly difficult. Central Bank Governor Paolo Baffi has repeatedly stressed that continual devaluations of the lira would be required to maintain export competitiveness with inflation still at the 14-percent level and no relief from rising labor costs in sight. Before the monetary authorities can support EMS, two prerequisites must be met, according to Baffi: the system itself must be extremely flexible and the government's three-year plan aimed at gradual realignment of the Italian economy with the rest of Western Europe must be well on its way to enactment. Baffi doubts that these prerequisites will be fulfilled. Moreover, he has expressed his resentment that since the Bremen meeting certain countries—in particular, West Germany—have moved backward on fundamental aspects of the EMS system, opting for a rigidity that would perforce exclude Italy.

Technocrat Revolt

In his skeptical approach to EMS, Baffi has found an able ally in Treasury Minister Filippo Pandolfi. He represents the younger and more independent breed of Christian Democrats and has no qualms about publicly expressing his reservations on EMS. Though favoring the EMS concept, Pandolfi is adamantly opposed to a reemergence of an expanded snake. He has been explicit in stating the conditions under which Italy could join EMS. These are:

- An exchange rate mechanism that would (a) provide flexibility and (b) assure intervention and, ultimately, policy adjustments by both weak and strong currency countries.

- A generous credit facility to ward off speculative attacks.

- Structural investment and resource transfer programs to benefit the poorer EC regions.

Trade Minister Rinaldo Ossola has been even more demanding, insisting that the government should seek a major overhaul of the EC's Common Agricultural Policy as a price for entry.

While EMS advocates cite reduced inflation and a strong current account as arguments for joining EMS, Pandolfi has focused on the fragility of these improvements. He notes that they are threatened by new wage contract demands and ever-rising public spending. Even under the optimistic scenario of his own three-year plan,

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Pandolfi expects inflation to be at the 8-percent level in 1981. Under these circumstances, a close linkup with the deutsche mark could not be sustained.

Other technocrats stress that Rome, unlike Bonn, has no reason to be perturbed by the dollar's fall. Almost half of Italian exports go to other EC countries; most imports are dollar-price denominated. By allowing the lira to remain stable or appreciate slightly against the dollar while dropping against the deutsche mark, Italy has been able to maintain both export competitiveness and import price stability. The technocrats argue that in return for leaving the safety of the "dollar umbrella," the government must press for the maximum in resource transfers from its EC neighbors.

EMS Becomes Political Football

For several months following the Bremen summit, debate over EMS participation was confined to cabinet circles. The silence of the political parties, however, was broken in late October when the small but influential Republican Party issued a lengthy policy statement on EMS. The Republicans linked government implementation of the three-year plan with Italy's ability to join EMS, arguing that the former was a prerequisite for the latter. The Republicans have threatened to return to the opposition if the government wavers from its announced stabilization plan—particularly by allowing wage increases incommensurate with Italian "reentry" into Europe. The Republicans also seconded Pandolfi in demanding that the exchange rate system be flexible and not discriminate against weak currency countries.

Most ominous for the advocates of EMS, the Communists have inserted themselves into the debate. Already under intense heat for trying to impose wage moderation on the unions, the PCI has watched with growing alarm the rigid EMS proposals coming from Paris and Bonn. It is convinced that Italy could adhere to these arrangements only through the adoption of a straitjacket incomes policy. Speaking from the party daily *L'Unita*, the Communists have denounced an EMS based on present snake arrangements as totally unacceptable to Italy. Always suspicious of West German influence in Europe, the PCI views the rigid system favored by Schmidt as a threat to Italian autonomy in setting economic policy goals.

The voice of business was heard when Guido Carli, former Bank of Italy governor and now president of the national manufacturers association, came down squarely against the Franco-German design. Echoing business fears that tying the lira too closely to the deutsche mark would spell export disaster, Carli has insisted that the government resist West German efforts to impose the parity grid. He has repeated the complaint often heard in Italian business circles that tying European currencies tightly together would accentuate imbalances with the dollar area and exacerbate the boom-and-bust cycle to which Italian industry is subject.

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Bargaining for Italian Entry

Andreotti entered recent meetings with Giscard and Schmidt with his back to the wall. Though himself strongly supportive of EMS, Andreotti knew he must gain substantial concessions on the flexibility of the system to deflate opposition at home.

Andreotti emerged from the 26 October meeting with the French president sounding confused. Though Giscard announced that the Italians shared his "vision of Europe" and that agreement "in principle" had been reached on the 1 January startup date for EMS, Andreotti's remarks were cautious and contradictory. He confirmed agreement on the startup date provided "we can insert ourselves by then." Andreotti reiterated demands that the EMS provide wider bands of currency fluctuation than the present snake.

The 1 November meeting with Schmidt seems to have been more productive. Andreotti has apparently secured West German approval of a two-tier exchange rate system for EMS. To avoid having the lira publicly labeled a second-tier currency, the Italians have proposed that all currencies be allowed to move into or out of either tier. In practice, however, the lira, and possibly the pound, would be admitted into the system with an allowable spread much wider than the 2.25 percent prescribed for present snake currencies.

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How Far Will Italy Go?

Clearly, political pressure is being exerted at the highest European levels to assure Italian entry into EMS. By personally negotiating on the size of permissible currency fluctuations, Schmidt and Giscard have revealed the priority they place on Italian participation. They apparently hope they can pressure the United Kingdom into joining by first inducing Italy to join. The Italians recognize that, in this sense, they have become the linchpin of an expanded EMS and will try to exploit this leverage in subsequent bargaining.

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Andreotti, however, faces greater obstacles in setting economic policy than Schmidt or Giscard. His minority government faces a host of contentious economic policy issues in the coming months, including wage contract renewals, budget cuts, and pension reform. The strong stance of the PCI against a rigid EMS could prove especially irksome for Andreotti. While the Communists have not totally rejected EMS, Andreotti will have to bring home substantial concessions to still their opposition.

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The concession offered on a two-tier exchange rate mechanism may still not win Italian acceptance of EMS, although we estimate that the odds in favor of acceptance are now slightly above 50-50.

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IRAN: ECONOMY IN UPHEAVAL

The Iranian economy, which managed real growth of less than three percent last year, is reeling from several months of intermittent private and public sector strikes, culminating in the recent oil sector walkout. Oil workers ignored the government ultimatum that they return to work by 4 November or be fired and face possible legal action. Elsewhere in the economy, additional groups of workers staged walkouts, while some who had returned to work following resolution of earlier strikes resumed their walkouts. The ability of the new military government to convince strikers to return to work will provide a major test of the leadership's effectiveness.

The effects of the turmoil will clearly be felt for years to come. While a reordering of development priorities and a cleanup of government corruption would have considerable beneficial effects, further economic difficulties seem inevitable over the intermediate term.

Oil Production Hard Hit

Oil production and exports have fluctuated widely since the first interruption of production

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As of 5 November, workers in the postal, telephone, and communications sectors were still off their jobs, as were employees of the Central Bank and the national

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airline. Although information on private sector walkouts is spotty, the strikes have increasingly disrupted private business activity. One of the first actions of the new military government was to man Tehran's service stations to assure supplies of gasoline.

Current Account Into the Red

The slowdown in oil exports has already cost Tehran $600 million to $700 million in forfeited oil revenues; the losses are now running at $50 million to $60 million a day. Even before these losses, Iran's current account was headed for a substantial ($1.5 billion) deficit in 1979 in the absence of an oil price increase. These and any further losses will have their greatest impact during calendar year 1979 due to the normal 45- to 75-day credit terms extended oil buyers. Moreover, when the workers settle down, the sizable wage gains granted in recent months will sharply increase the demand for imported consumer items.

The value of Iran's imports was already picking up substantially earlier this year due to both volume increases and price inflation. For the year, payments for foreign goods are expected to total about $18 billion, 17 percent above last year's total, even though strikes and civil disorders have curtailed imports in recent months. The current account surplus should fall from $4.6 billion in 1977 to $1.0 billion in 1978. A 10-percent oil price hike next January would just about balance Iran's current account for 1979, provided oil exports return to normal.

Iran is also losing capital and access to capital. Capital flight, which cannot be accurately measured, has been variously estimated at $3 billion to $5 billion since the start of the year. 25X1

25X1 the Central Bank advised commercial banks that limits of $20,000 per transaction and $40,000 per year should be placed on noncommercial transfers. Up until the fifth, Iran had practically no exchange controls. Transfers abroad for education, medical care, and tourism (which already is limited by the government) and for normal commercial transactions will not be affected. In addition, the new limits may be exceeded with permission of the Central Bank. The exemption for educational purposes is a potentially large loophole since many families have relatives studying abroad.

The political strife has at least temporarily impaired Iran's strong external credit rating. Foreign bankers have warned that new international issues might prove embarrassingly unmarketable at this time and that Iran should no longer expect to get prime rates. 25X1

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So far, neither the outflow of capital nor the damage to Tehran's credit rating has hurt Iran's ability to pay for imports. The recent outflow of capital appears to have come mainly from liquid assets built up over many years and from Iran's "gray market" of noncommercial foreign exchange dealers. International reserves, a healthy $11.7 billion at the end of September, remain a bright spot in the external account picture. Iran also has an additional $6 billion in nonreserve assets, mostly nonliquid private placements abroad and large blocks of foreign corporate stocks, which could be liquidated only at a substantial loss.

Domestic Implications

On the domestic front, once a measure of political stability is established, the government will find that its problems have been made more complex and immediate by recent events. The Shah recently stated his willingness to reassess economic priorities, with a view to cutting back on high-posture industrial, military, and nuclear power projects in favor of agriculture and rural development. The financing of any new development projects, however, will have to take a back seat to covering costs generated by pay hikes and increased fringe benefits.

The diversion of resources from investment to consumption will refuel inflation in the short run and cut into real economic growth in the long run. Holding down the cost of living has been the one successful economic policy of the past year. Living cost increased at an annual rate of less than 10 percent during the first eight months of 1978, compared with a 24-percent increase in 1977. We anticipate a near-term jump to at least 25 to 30 percent in view of recent pay hikes and output disruptions. Even if additional consumer imports help meet this demand, time lags and distribution problems will blunt their effect.

To remain afloat, Iranian industry, already suffering from high capital costs and low labor productivity, will need a relaxation of price controls to pass on to consumers the costs of extravagant wage settlements. Moreover, domestic producers almost certainly will petition the government for special tax treatment and protection against imports so that they can retain their share of domestic markets. Hopes of achieving competitiveness in world markets have been further dashed. Private investment, which declined last year, will continue to fall.

Within the Iranian labor force, those least well off and unorganized—that is, agricultural and construction workers—will experience a further worsening of their relative incomes. Moreover, the leverage of the construction sector has declined with the substantial cooling of construction activity during the past 12 months. Widening income differentials and worsening inflation could breed future unrest among the unskilled, underemployed laborers who have not participated in recent wage gains.

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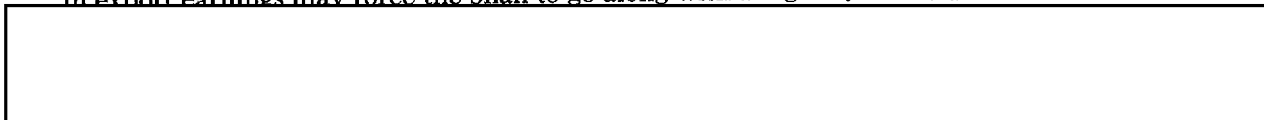
Iran's nascent labor movement, previously consisting of weak, unaffiliated, company unions, can be expected to evolve rapidly based on its recent experiences. Having seen the benefits of direct confrontation with the government, workers presumably will be more willing to defy the authorities for economic gain. The workers' actions, of course, will be tempered by the severity of any military crackdown.

International Implications

Oil pricing policy is becoming a domestic political issue, with some strikers calling former Finance Minister Yeganeh a traitor for Tehran's recent moderation in oil pricing. The increased revenue needs brought on by the strike settlements and the loss in export earnings may force the Shah to go along with a higher January price increase



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NORTH-SOUTH DIALOGUE: BACK TO THE COMMON FUND *

The proposed Common Fund for commodity price stabilization, now into its third year as the centerpiece of the North-South dialogue, will be the subject of another set of formal negotiations in Geneva from 14 to 27 November. Since the last session broke down in November 1977, prospects for an agreement on the framework for this institution have improved appreciably, largely because of energetic LDC diplomacy and greater receptivity among developed countries.

Individual LDCs still differ considerably on important aspects of the G-77 (Group of 77, the LDCs' UN caucus) negotiating package. As in the past, this diversity *could* result in a breakdown in negotiations, with radical LDCs bullying the ill-prepared and less-interested delegations into mutual stonewalling. On balance, however, we believe it more likely that the G-77 tradition of unity, together with the flexibility of key leaders, will permit the LDCs to seize opportunities for further progress on the Common Fund.

Any basic agreement at this month's conference would tend to refocus attention on other North-South topics. Several of the topics are of greater concern to key LDCs than creation of a Common Fund. These LDCs—as well as many of the developed

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countries—would prefer to settle the Common Fund issue before next spring's UNCTAD V, the major North-South event of 1979.

Events Since November 1977

Going into last November's negotiating session, the G-77 negotiating position stressed the need for prior, direct funding of a Common Fund, the functions of which would include:

- The financing of buffer stocks under existing international commodity agreements and the encouragement of new agreements (the "first window").

- The financing of "other measures"—in addition to stabilization—such as economic diversification, market promotion, commodity research and development, and productivity improvements (the "second window").

The 1977 meeting was suspended at the initiative of the G-77 when the developed countries would not agree to the LDC demands. A statement issued by the G-77 then left open the possibility of resuming the talks at a later date. To place the burden of failure on the developed countries, the G-77 noted that it would not sit down again until the other side showed the necessary "political will" for progress in the negotiations.

Since last November a clearer and stronger political consensus has emerged among the developed countries and between them and the G-77 leadership that a Common Fund should be created. The final communique of the Commonwealth ministerial meeting in April 1978 reflected a degree of compromise on the part of Australia, New Zealand, Canada, and the United Kingdom in the direction of considering direct government contributions and a second window. This was taken by the LDCs as an important policy shift on the part of some developed countries and as a signal to increase pressure on the United States, West Germany, and Japan to modify their opposition to the G-77 package. The anouncement at the Bonn Summit in July that the developed countries meant to pursue the negotiations "to a successful conclusion" and positive US statements at the August ASEAN talks in Washington gave further impetus to the LDC belief that the developed countries were ready to return to the negotiating table.

Current G-77 Stances

To date, the G-77 has not softened its official positions on the Common Fund put forth at last year's suspended conference, despite vigorous activity by the UNCTAD

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Secretariat and key LDC officials to win backing for various compromise proposals. Bolstered by perceived disunity among the developed countries, hardliners such as Tanzania, Libya, and Venezuela have successfully insisted on maintaining the official G-77 position.

This veneer of G-77 unity cloaks considerable churning and reevaluation. LDCs hold disparate views on each of the three major discussion areas—financial resources and capital structure, the second window, and voting and organization.

Financial Resources and Capital Structure. *The official G-77 position calls for payments of mandatory capital subscriptions by participating countries before any Common Fund operations begin (the so-called prior, direct financing stance). Borrowing on capital markets and voluntary contributions would supplement this source of financing. This Common Fund would serve as a central source of finance both for buffer stocking under international agreements and for "other measures" to assist LDCs in producing and marketing commodities.*

The majority of LDCs support the concept of prior, direct financing, but with important national shadings. Among the stalwarts, some—India, Bangladesh, and a number of African countries—see in the Common Fund a chance to create yet another development finance institution. Others—Tanzania, Jamaica, Libya, and Peru, for instance—take the offensive mainly for political reasons such as support for the concept, of a New International Económic Order, interest in regional or G-77 leaderships roles, or logrolling purposes. This group is especially influential in the caucuses and may attempt to provoke confrontation unless a consensus emerges among other LDCs to push for compromise.

The less zealous supporters of direct funding include two prominent factions. One—composed, most notably, of the ASEAN countries—lends support to this aspect of the G-77 formula because it seeks to augment the funds available to existing international commodity agreements (ICAs). Another faction reportedly presses for direct financing because it feels that a Common Fund with its own resources would be catalytic in the formation of new ICAs. Adherence to this position has weakened, primarily because related commodity discussions in UNCTAD's Integrated Program have underlined basic technical and political problems hindering the creation of new ICAs.

A number of wealthier LDCs are flatly uncomfortable with the G-77 insistence on prior, direct financing. They prefer some cosmetic arrangement, such as a variant of pooling of funds from ICAs, that would cost them less. Generally these are the countries—Brazil, Saudi Arabia, Argentina, and Yugoslavia—that would as easily

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Key Common Fund Issues: Individual LDC Attitudes Toward G-77 Positions

	Hardliners	Willing to Negotiate	Opposed	Not Interested
Financial Resources and Capital Structure	Algeria Ghana Iraq Jamaica Libya Mexico Peru Sudan Tanzania Venezuela	*Willing to consider departures from G-77 position* Indonesia Ivory Coast Kenya Malaysia Pakistan Philippines Sri Lanka Zambia *May be willing to consider departures if other features satisfactory* Bangladesh Egypt India Nigeria Zaire	Argentina Brazil Chile Colombia Iran Saudi Arabia	Cuba Kuwait Singapore Thailand Yugoslavia
Second Window	Algeria Bangladesh Ghana India Jamaica Libya Mexico Nigeria Peru Sudan Tanzania Venezuela Zaire	*Wants mainly as sop to other LDCs* Indonesia Iraq Malaysia Philippines Zambia *Seriously interested, but Could compromise* Egypt Kenya Pakistan Sri Lanka	Argentina Brazil Chile Colombia Iran Saudi Arabia	Cuba Ivory Coast Kuwait Singapore Thailand Yugoslavia
Voting and Organization	Algeria Bangladesh Iraq Libya Mexico Peru Sudan Tanzania Venezuela	*Probably insist on ICA autonomy* Argentina Brazil Chile Colombia Cuba Ghana Indonesia Ivory Coast Kenya Malaysia Philippines Zaire Zambia *Probably skeptical of bloc or unweighted voting* Argentina Brazil Chile Colombia Indonesia Malaysia Philippines *Use issues as bargaining points* Egypt India Jamaica Nigeria Pakistan Sri Lanka Yugoslavia		Iran Kuwait Saudi Arabia Singapore Thailand

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welcome the demise of the Common Fund notion. As the negotiations move toward agreement on the basics, several of these LDCs will probably work to tone down the more onerous G-77 financing proposals and may be willing to cooperate in this area with the developed countries.

Second Window. *The G-77 position paper calls for the Common Fund to actively support producers of a broad range of commodities through measures other than stabilization—such as product diversification, productivity improvement, and market promotion activities. (Historically, some ICAs and regional production agreements—in rubber and coffee, for example—have played such roles.)*

The *political* importance of the second window to several major LDC actors should not be underestimated. The Indians, usually well prepared for negotiations, advertise it as their brainchild and will battle vigorously for it. The Tanzanians and Sudanese, eager for both more project aid and more influence in the Organization for African Unity, have been especially vehement on the need for a strong second window, controlled by LDCs. The Jamaicans, who usually field especially competent diplomats in North-South exchanges, have cemented their relations with the Africans in other parts of the dialogue with their stand on this issue. Mexico, Peru, and Venezuela, often represented by aggressive and influential spokesmen, continue to champion LDC solidarity on the issue with little risk to their own interests.

For the faithful followers of these hardliners, the second window is mainly a vehicle for development aid. Moderate African countries--notably Zambia and Kenya, but probably a large number of the poorer African countries—seek improvement in the terms of commodity-related project assistance and view a second window as a touchstone of appropriate political commitment by the developed countries. Some of these LDCs, however, have become increasingly doubtful that the second window itself could provide aid flows at the desired levels. Left to their own devices, they could probably accept a facility limited to nondevelopmental measures (such as market promotion) for a few commodities, especially if it were coupled with increased aid from other sources.

Although the number of LDCs seriously interested in a second window is small, the possibility of any LDC coalition opposing this facility is near zero. All the LDCs will hew to the official G-77 line supporting formation of a second window, while harboring their own perceptions of suitable scale. A possible source of early dissension in this field would be an initial negotiating figure so small as to offend an India or so large as to worry stabilization-minded Malaysia.

Voting and Organization. *The official G-77 position is that the LDCs must have a majority (51 percent) stake in any voting mechanisms. This would be assigned evenly on the basis of an implied minimum country share. Broad, centralized control*

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of all parts of the organization—first window, second window, and member commodity agreements—would be held by the LDCs.

Only the hardliners now seriously support the original G-77 demand for LDC majority control of the Common Fund. They could use this issue for stonewalling if they saw any collapse in other aspects of the dialogue. Other LDC positions on voting primarily reflect financial concerns or vested national interests in existing or possible ICAs.

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A common threat among these national positions on the voting issue is a reluctance to settle on any system before financial arrangements are clearer.

The parallel questions of how broad a charter to grant the Common Fund has always provoked controversy within the G-77. Some of the hardliners, who stand the least to gain or lose, still pay lip service to a Common Fund with broad, ill-defined powers, but the majority of LDCs probably will not vigorously defend this stance. Influential LDC members of ICAs strongly support a management structure preserving the independence of these organizations on a wide range of internal matters. Nor is consolidated management of the first and second windows—a related issue that is still firmly supported on paper—likely to provoke much G-77 interest so long as the resolution of the financing issues is satisfactory. If a compromise were framed along the lines of a second window based largely on voluntary funding, donors would

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probably insist on separate management to preserve a measure of control over the use of their contributions.

Developed Country Attitudes

At this point, the developed countries are edging closer to acceptance of the key features of the Common Fund demanded by the G-77, even though they have yet to work out agreed positions. Most now concede that agreement on limited direct contributions to the first window and (at least) voluntary contributions to a second window is necessary to ensure the success of next month's negotiations. Nevertheless, they adhere to the notion that the Common Fund should basically be financed through international commodity agreements. Differences remain on the size and form of direct contributions and how they should be used; the Europeans, especially, believe that these details should be taken up after the basic elements are agreed upon with the G-77. The Japanese, still reluctant to take any stand, have said that even they are considering what kind of direct contribution to make.

The key foreign governments—West Germany, France, the United Kingdom, and Japan—still agree on the importance of maintaining developed country solidarity and are waiting for the United States to decide on its approach. They believe the developed countries should consider, as a last fallback position, symbolic direct contributions to the first window and voluntary contributions to the second window. Some, however—such as West German economics ministry representatives—contend that the G-77 leadership has given little indication that it would be willing to accept anything less than manadatory cash contributions to both windows. In any event, European anxiety over the possibility of being tapped for contributions at both the November meetings and UNCTAD V will encourage support for a concerted developed country approach.

In an odd twist, the developed countries have achieved general consensus on the issues of least immediate concern to the LDCs, that is, management and voting procedures for the Common Fund. Nearly all of the industrial countries agree that the Fund should have a three-tier decisionmaking structure consisting of a general assembly, an executive board elected by the assembly, and a professional management and staff. Some differences persist on a scheme for weighting country votes in the decisionmaking bodies; the United States and West Germany prefer a system based solely on contributions, rather than any composite indexes.

Prospects

Despite the apparent rigidity of their opening positions, both sides are expected to move closer to an agreement on principles at this November session. On the crucial

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financing issue, developed countries like the United States, West Germany, and Japan are weighing the appropriateness of direct contributions, possibly totaling as much as $200 million to $300 million. Assured of some element of "own" resources for the Common Fund, many of the less seriously interested LDCs would, in turn, probably trade off their original demand for a $1 billion subscribed capital base. Indeed, a number have already expressed discreet interest in the $500 million figure peddled by certain UNCTAD and LDC leaders. Other potential areas of compromise at this session are the sources of funding and scope of the second window. Some voluntary financing for research and development and market promotion—while likely to fall short of the expectations of second window enthusiasts—is a possible starting point for a resolution in this area. If the key financing provisions are settled, a host of less critical issues (including borrowing arrangements, voting and organization, and second window commodity coverage) will fall into place more easily. Threatening compromise at all stages, however, is the likelihood that some LDCs will see in the current softening of the developed country positions a signal to hold out for even more concessions.

Allowing for the strong drive among such radicals as Libya and Tanzania to create an LDC-dominated institution, counterpressures to move the North-South dialogue on to other issues before UNCTAD V are substantial. Basic agreement at the upcoming Common Fund meetings would permit a shunting of the details on commodity price stabilization and the second window to technicians, thereby freeing developed country personnel and resources and LDC political energies for more important economic issues. In particular, large Latin American and OPEC countries, never enamored of the Common Fund concept, are especially eager to get on to technology transfer and trade preference issues. Equally concerned about trade barriers is a broad spectrum of middle- to high-income LDCs—such as the Philippines, India, Mexico, and Pakistan—that have been numbered among the strong supporters of the Common Fund. Among the poorer countries, many are arguably more concerned with the stakes in further debt relief than in limited transfers through a Common Fund. Finally, even in the commodities area, the Common Fund suffers from competition, as regional arrangements—such as the ASEAN stabex proposal or the renegotiation of the Lome Convention—overlap with preparations for the May UNCTAD meeting.

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USSR: SUCCESSFUL HARD CURRENCY DEBT MANAGEMENT

Western governments and banks are now willing to extend far more credit on favorable terms than the USSR actually requires. This marks a rapid turnabout from the situation in 1975-76, when a sizable increase in Moscow's hard currency debt had

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led to widespread concern in the West about Soviet creditworthiness and had limited Soviet ability to obtain new commercial credits at satisfactory interest rates. The change stems from a series of pragmatic Soviet policy decisions, orchestrated by USSR State Bank Chairman Vladimir Alkhimov. The availability of ample credits will not likely cause Moscow to deviate from its present conservative borrowing policy. The USSR seems to be opting for a reduction in resource transfers from the West in the short term in exchange for larger resource transfers in the 1980s.

Problems of the Past

In the 1970s, the Soviet Union has relied heavily on Western credits to manage its hard currency balance of payments. As a result of the growing Soviet commitment to Western technology and equipment for economic development, Soviet imports from the West increased substantially after 1971. Since the USSR could not generate sufficient hard currency earnings from merchandise exports, tourism, and transportation services to pay for rising imports, it had to look to foreign financing, gold sales, and increased sales of arms for hard currency to cover its trade deficits. Apart from heavy gold sales and some bank borrowing to pay for large grain imports in 1973, the Soviets typically financed their deficits before 1975 by drawing on low-cost Western government-backed credits granted for the purchase of machinery and equipment.

Moscow's trade and financial policies proved inadequate for dealing with the unexpected events that produced massive hard currency trade deficits in 1975 and 1976. Despite the need for large grain imports due to a poor 1975 harvest and a drop in export growth caused by Western recession, the USSR maintained a growing level of capital goods imports from the West. The failure to scale back nongrain imports produced trade deficits of $6.3 billion in 1975 and $5.5 billion in 1976, forcing the Soviets to finance a gross hard currency debt which soared from more than $7 billion at yearend 1974 to $18 billion at yearend 1976.

The Soviet Foreign Trade Bank, which is responsible for financing Moscow's foreign trade, compounded the damage from the trade deficits by failing to fully coordinate and control Soviet borrowing

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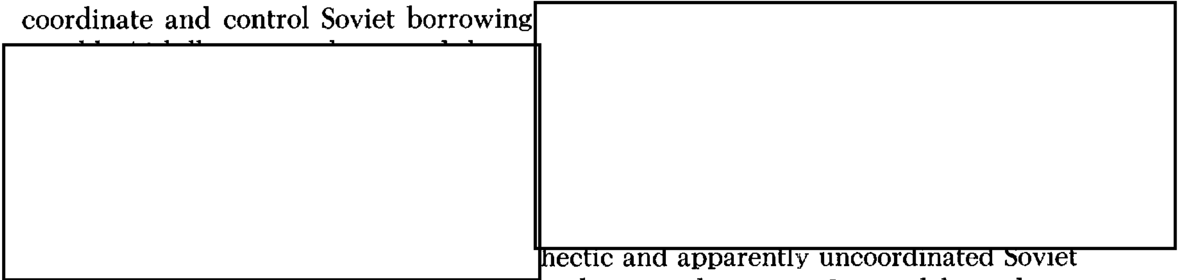

hectic and apparently uncoordinated Soviet borrowing produced widespread publicity about mushrooming Soviet debt and put some major Western banks close to internal lending limits, leading to demands for higher interest rates on loans to the USSR.

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Addressing the Situation

The Kremlin perceived its image was being tarnished by the adverse publicity about the rapidly rising hard currency debt and the demands of the bankers for higher interest rates. In October 1976, the Soviet leadership turned to its most astute international financier, then Deputy Foreign Trade Minister Vladimir Alkhimov, to put Soviet finances in order. Alkhimov, who had been overseeing the Ministry of Foreign Trade's Foreign Currency Administration, was moved from his second-rung job in the foreign trade bureaucracy to the chairmanship of the USSR State Bank.

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In line with his view of the central banker as one who must exercise discipline over resources, Alkhimov orchestrated a strategy aimed at tightening control over Soviet hard currency trade and finances. Direct statements by Alkhimov along with decisions attributed to him by Soviet officials describe this strategy as including:

- Placing limits on further debt growth during the 1976-80 plan period and ordering a number of major industrial projects postponed until the 1981-85 plan period to reduce credit needs.

- Ordering a reduction in direct borrowing from Euromarket banks in favor of greater use of Western government-backed credits.

- Increasing hard currency export earnings by the brisk expansion of raw materials exports and the establishment of specialized export industries.

- Forcing greater coordination between the Soviet Foreign Trade Bank and USSR foreign trade organizations and, in particular, giving the bank veto power over all foreign trade deals.

- Demanding more compensation trade arrangements with Western suppliers, thus making imports of material and technology contingent on generation of sufficient foreign currency to pay principal and interest.

The Happy Outcome

Since the beginning of 1977, Moscow has in fact regained control of its current account, restrained the growth of its debt, lessened its dependence on Western bank

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credit in favor of government-backed financing, and moved to offset the impact of substantial debt service payments in 1979-81:

- Moscow brought its current account into surplus in 1977. The merchandise trade deficit was reduced to $3.1 billion as the dollar value of Soviet exports rose by 20 percent on the strength of larger oil deliveries while a 50-percent drop in grain imports allowed Moscow to cut back slightly on total hard currency imports.

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- The growth of gross Soviet debt slowed to $2.5 billion in 1977; despite a substantial increase in debt service, the USSR was able to hold new drawings well below the totals of 1975 and 1976.

The Soviet Union also reduced its exposure to Western banks. Net bank claims on the USSR declined in 1977, indicating that net Soviet borrowing was tied more closely to government-backed credits. After raising more than $1 billion in publicized syndicated Eurodollar loans in 1975-76, Moscow refrained from this form of borrowing from mid-1976 until March 1978, when it raised a $400 million loan on favorable terms. In particular, repayments on this last loan are not scheduled to begin until 1982 when payments will be completed on earlier syndications.

The USSR both reduced its use of promissory note financing and took steps to minimize the impact of this type of borrowing on its credit rating. To control the flow of Soviet paper into Western bank portfolios and thus ease pressure on its credit lines, the Soviet Foreign Trade Bank began inserting provisions into its guaranteed notes that give it the first right to repurchase should the Western exporter decide to sell them. The USSR also began spreading its nonrecourse borrowing among more banks in order to prevent major commercial lenders from reaching their lending limits vis-a-vis the USSR.

At the same time, Moscow strengthened its ability to draw on low-cost, long-term government-backed credits for future imports of Western machinery and equipment by obtaining new government-backed credits from Japan, Italy, and France on terms more favorable than those stipulated by the OECD gentlemen's agreement.

Slowing the growth of long-term debt and shifting new borrowing from bank loans to government credits have allowed Moscow to address the problem of rapidly rising debt service payments. The Soviet Union is taking other steps to soften the impact of financing costs on its balance of payments. Soviet buyers are demanding more compensation trade in import contracts in order to make more credits "self-financing." Furthermore, Moscow has prepaid a portion of its Eurodollar debt and is

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seeking refinancing on more favorable terms.

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Current Ample Credit

These pragmatic financial policies have produced a rapid turnabout from the 1975-76 period, when there was general concern in the West about Soviet creditworthiness, to the current situation in which the amount of credit Western governments and bankers are willing to extend at favorable rates far exceeds current anticipated Soviet needs. In addition to the sizable amounts of equipment under order for which credits have been granted, the USSR has access to several billion in unused lines

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Although we expect the USSR's trade deficit to increase to roughly $4 billion in 1978, Moscow should be able to keep its current account roughly in balance. The Soviet Union is taking advantage of the bullish gold market to make heavy sales that will net it record earnings of more than $2 billion. Moscow is also continuing sizable sales of arms for hard currency. Long-term credit drawings, although down from previous years, will again be substantial; however, their impact on import capacity will be largely offset by Soviet Euroloan prepayments and rising debt service. Moscow will probably obtain the Eurocurrency syndication presently sought for refinancing its prepayments.

Pragmatic Policies To Continue

The Soviet Union will probably continue its pragmatic financial policies in order to preclude a recurrence of its earlier heavy borrowing. It will try to limit imports to levels that can be financed without renewed substantial dependence on Western banks. The Soviet Union will look mainly to its ample supply of government-backed credits, some promissory note refinancing, and sales of gold and arms to cover its trade and payments deficits.

The Soviet Union will not renounce direct bank financing, but will seek to be in a position to secure funds, when needed, on very favorable terms. A sharp drop in the price of gold would likely induce Moscow to draw more heavily on its bank credit

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lines. The USSR will probably maintain moderate hard currency balances with Western banks as a hedge against uncertainties as to future grain import needs, money market conditions, and gold prices.

The USSR State Bank's reluctance to draw heavily on Western credit offerings will slow the growth of capital goods imports from the West. Declines in the volume of Soviet orders for Western machinery and equipment in 1977 and 1978 suggest that industrial projects have been scaled back to reduce the need for new credits. Since debt service will probably continue to offset a major portion of new medium- and long-term drawings, growth in import capacity will be largely dependent on growth in export earnings and Moscow's ability to sustain heavy gold and arms sales. In essence, the USSR seems willing to accept a lower net resource transfer in 1978-80 in return for greater assurance of a continued positive net resource transfer in the 1981–85 period and beyond.

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USSR: ESTIMATED SAVINGS FROM MBFR AGREEMENT *

Although Soviet savings in defense expenditures through 1985 from an MBFR (Mutual and Balanced Force Reduction) agreement conceivably could reach 5 billion rubles, a more likely figure is "up to 800 million rubles"—equivalent to less than 0.2 percent of defense spending and less than 15 percent of the potential savings from a SALT II pact.

Issues in MBFR

In a proposal tabled during the MBFR negotiations in June 1978, the East adopted a number of provisions contained in previous Western proposals. In particular, the East accepted provisions for a phased reduction of ground forces personnel in the NATO Guidelines Area (NGA) ** to a common ceiling of 700,000 men. A number of unresolved issues continue to block progress toward an agreement, however. Perhaps the most contentious of these is the number of Warsaw Pact ground forces personnel to be reduced to reach the common ceiling. According to the Eastern position, a reduction of 105,000 Warsaw Pact personnel is required, of which some 56,000 would be Soviets. According to Western calculations, the reduction should be nearly 300,000, of which some 130,000 would be Soviets.

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** The NGA includes East Germany, Poland, and Czechoslovakia, as well as West Germany, the Netherlands, Belgium, and Luxembourg.

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Estimating Savings From Force Reductions

We have estimated the potential Soviet savings from force reductions by calculating the difference between a projection of Soviet defense spending from 1978 to 1985 that assumes no arms control constraints and projections based on specific arms control scenarios.* The estimate of savings is based on the assumption that, if an agreement is reached, the Soviets could alter planned defense expenditures by the amount we calculate and transfer the savings to alternative military or civilian uses. This analysis is complicated both by conceptual problems and by uncertainties concerning the outcome of negotiations. The effect that a reallocation of defense resources would have on the Soviet economy is difficult to measure because many of these resources are highly specialized and could be transferred to other uses only with difficulty and with a considerable time lag.

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Estimating the potential savings and economic effects from an MBFR agreement is complicated further by the current disagreements between East and West as well as by uncertainty as to how many of the Soviet troops withdrawn from Eastern Europe under MBFR would be redeployed to bases in the Soviet Union and how many would be demobilized. Considerable uncertainty also surrounds the financing of Soviet troops in Eastern Europe. Any contributions made currently by the Warsaw Pact allies toward maintaining Soviet forces in Eastern Europe would reduce potential Soviet savings from an MBFR agreement.

Savings From MBFR

We present below three alternative estimates of savings based on possible outcomes of the current MBFR negotiations.

High Estimate

The greatest savings—between 1.5 billion and 5 billion rubles through 1985—would result if the Soviets were to demobilize all of the forces withdrawn from

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the NGA and reduce total ground forces procurement proportionately.* A 5 billion ruble saving is less than 1 percent of projected Soviet defense spending through 1985 and would reduce the average annual rate of growth in defense spending by less than one-sixth of a percentage point.

It is unlikely, however, that the Soviets will pursue this course of action. They have made a major effort since the mid-1960s to increase the size and combat ability of their forces in Eastern Europe. They probably would not demobilize forces but rather redeploy them to bases in the western Soviet Union so that they could be reintroduced into Eastern Europe should the need arise.

Low Estimate

If the Soviets redeployed all the ground forces units withdrawn from the NGA to bases in the western Soviet Union and maintained these units at full strength, estimated savings through 1985 would range from 100 million rubles to slightly over 300 million rubles. These are negligible amounts in comparison to total defense spending. The projected savings would result from the elimination of supplementary pay for ground forces personnel serving in Eastern Europe and transportation costs associated with equipping and supplying these personnel. The savings would be even smaller if the redeployment required construction of new base facilities in the USSR.

Best Estimate

The most likely Soviet action would be to redeploy ground forces units to the western Soviet Union and maintain them at reduced strength. (Most of the divisions currently based in the western Soviet Union are at reduced strength.) Some of the personnel assigned to these units could then be demobilized. Reduced spending for personnel and for operation and maintenance associated with these units probably would range from about 300 million rubles to 800 million rubles through 1985. A savings of 800 million rubles represents less than 0.2 percent of total defense spending projected through 1985. If construction of new bases within the Soviet Union is required to house these units, the savings would be smaller—about 200 million to 500 million rubles.

Economic Impact

The high estimate of savings from an MBFR agreement—at most 5 billion rubles—is less than the estimated savings resulting from a SALT II agreement as it is

* All ruble figures are in constant 1970 prices. In this range, as well as in the ranges that follow, the lower value reflects the Eastern MBFR proposal and Eastern data on forces in Central Europe; the higher value reflects the Western proposal and Western data.

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currently being discussed—some 6 billion rubles over the 1978-85 period.

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The best estimate of savings from MBFR—up to 800 million rubles—is less than 15 percent of the potential savings from a SALT II agreement. Using the best estimate, reallocation to the civilian economy of the savings from both agreements would boost Soviet GNP in 1985 by less than 1 percent.

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MOROCCO: RETRENCHMENT FOLLOWS FINANCIAL CRISIS

Morocco has experienced a marked economic downturn since late 1977, following five years of impressive expansion when real GDP growth averaged almost 5 percent annually. A domestic budgetary crisis, serious foreign exchange shortages, and hostilities in the Sahara have provoked a number of emergency economic measures, which include a scaling down of the development effort and the imposition of stringent controls over imports. As a result, growth prospects for the next several years are dim.

Government Spending Up

A rapid expansion in public expenditures in recent years underlies Morocco's liquidity crisis, the Treasury dificit soaring to $1 billion last year. Development outlays were upped in 1975 on the assumption that high price levels for phosphates, the primary export, would be maintained indefinately. When world phosphate prices collapsed in early 1976, Rabat was slow to adjust its finances to declining demand, which led to increased foreign borrowing to cover the costs of the ambitious development program.

Sizable expenditures on military operations in the Western Sahara and on peacekeeping operations in Zaire have further drained the public coffers. In the last two years alone, direct military spending has almost quadrupled. While much of this rise has been financed externally—almost $800 million in 1977 was provided by Saudia Arabia alone—the large indirect costs of the expanded military effort have fallen on the Moroccans. An estimated 40 percent of Morocco's 1978 budget of $4.3 billion goes for military expenditures, if both direct and indirect costs are included.

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While Morocco has been heading for a crunch for several years, the crisis was accelerated when Saudi aid flows were interrupted in early 1978. At a minimum, Morocco had expected to continue to receive inflows at the 1977 level. Riyadh's position may have been motivated by a desire to prod Morocco toward a Sahara peace settlement in the negotiations now under way.

Payments Deficit and Austerity

Morocco has relied heavily on Arab aid and foreign borrowing to finance its burgeoning current account deficit. Last year the deficit reached about $1.4 billion as phosphate sales—more than one-third of total exports—continued to slide because of lagging demand in Western Europe. Imports, inflated by Morocco's desire to proceed

Morocco: Balance of Payments

Million US $

	1975	1976	1977 [1]	1978 [2]
Trade balance	−1,035.4	−1,367.4	−1,896.6	−1,650
Exports, f.o.b.	1,529.4	1,247.3	1,301.2	1,480
Of which:				
Phosphate rock	846.4	495.8	468.8	480
Imports, c.i.f.	2,564.6	2,614.7	3,197.8	3,130
Net services and transfers	602.6	435.6	546.3	510
Current account	**−432.8**	**−931.8**	**−1,350.3**	**−1,140**
Capital account	403.7	919.8	1,351.7	970
Private (net)	113.5	71.5	126.8	35
Public (net)	290.2	848.3	1,224.9	935
Errors and ommissions	−12.1	1.4	11.5	0
Changes in reserves	−41.2	−10.6	12.9	−170

[1] Estimated.
[2] Projected.

with industrialization and the military buildup, increased more than 20 percent. Service exports—mostly remittances from Moroccans working abroad—were still below the 1975 peak. Government borrowing to cover the deficit pushed external public debt to $5 billion at yearend 1977, compared with $1.4 billion at yearend 1974.

Morocco was headed for an even worse payments situation in 1978 unless it could cutback spending on imports or receive more Arab aid. Although some upturn in exports was anticipated, potential gains were limited, in part because of EC import restrictions on Morocco's textiles and agricultural products. In these circumstances the interruption in Arab aid flows threatened to exhaust foreign exchange reserves by mid-1978. Accordingly, Rabat moved to toughen austerity measures, which were gradually being imposed since the start of the year.

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As part of the austerity program, Rabat has abandoned its five-year plan (1978-82) and replaced it with a less ambitious three-year plan. The revised 1978 spending target calls for a 30-percent slash in investment expenditures for the year as a whole, with the cutback concentrated in second half 1978. Although few details are available, most development projects now under construction apparently will be sharply curtailed. The major exceptions will be the phosphate mining expansion program and the construction of related fertilizer capacity; key projects include enlargement of rock mining capacity at three sites and development of the Jorf Lasfar chemical complex.

Controls designed to reduce imports by 20 percent also form part of the government's austerity program. Included in a list of 190 prohibited imports are luxury items and products that could be produced locally. License requirements have been placed on 125 imported items such as machinery, industrial supplies, and commercial vehicles. Moreover, a 25-percent deposit on the value of import orders with the Bank of Morocco has been implemented to ease the bank's liquidity shortages and to discourage imports. Finally, to stimulate repatriation of worker remittances, a preferential rate of exchange has been established in favor of Moroccan workers in France, two-thirds of all workers overseas.

Effect of Austerity

We expect the austerity program to hold GDP gains to 2 to 3 percent this year, compared with 5 percent in recent years. Even before the program was strengthened, budgetary and foreign exchange shortages were forcing a slowdown in government payments to private contractors, causing project delays and bringing some firms close to bankruptcy. The government is only now beginning to pay some bills incurred as long ago as 18 months. The austerity measures have caused a slowdown in manufacturing, especially in automobile and truck assembly, leading to increased layoffs and reduced work-weeks.

Unemployment in Casablanca has reached an unprecedented 20 percent of the labor force. The 15- to 20-percent inflation has cut the real income of urban workers, even though prices of certain basic consumer items are ostensibly controlled through an extensive subsidy program. Overdue government and private payments, import deposit requirements, and tight credit limits are worsening the condition of labor. As a result, strikes are on the rise and may become more severe.

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Outlook: Continued Sluggish Growth

Export earnings are destined to languish until the new industrial expansion program begins to come on stream in the mid-1980s. Putting this capacity in place depends on success in the government's austerity program. If peace is not reached soon, the continued drain of the Sahara conflict and the threat of further interruptions in Saudi financial support may require a further stretching out of the development effort. Present constraints on foreign borrowing and rising debt service will also inhibit economic recovery.

A more general factor in the Moroccan equation is the degree to which demands will revive in the world economy, especially demand in Western Europe. Even though Rabat has shown itself to be a reasonably disciplined manager of monetary affairs, improvement in the balance of payments largely depends on a strong revival in world demand for its exports.

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Note

Chinese Grain Prospects Continue Favorable

Chinese grain output in 1978 almost certainly will show the first sizable increase since 1975. Peking already has claimed a 10-million-ton increase in spring- and summer-harvested crops above the 1977 level, and the fall harvest appears promising, especially for coarse grains—primarily corn, sorghum, and millet. Considerably improved growing conditions this summer, particularly in the North China Plain and the northeast (where most of the coarse grains are grown) account for the favorable fall outlook.

China: Total Grain Production

Million Tons

1974	1975	1976	1977	1978 [1]
275	284	285	285	Roughly 300

[1] Preliminary.

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Even though production should rise substantially, China probably will import between 8 million and 9 million tons of grain this year, and again in 1979, to maintain a steady supply to cities in the north while stocks are being rebuilt. (The population of China in 1979 will be about 12 percent higher than in 1974.) China continues to buy US grain for delivery during 1979 without first attempting to meet its needs from traditional suppliers, indicating that the PRC no longer considers the United States merely a residual supplier.

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Secret

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National
Foreign
Assessment
Center

Economic Indicators Weekly Review

9 November 1978

ER EI 78-045
9 November 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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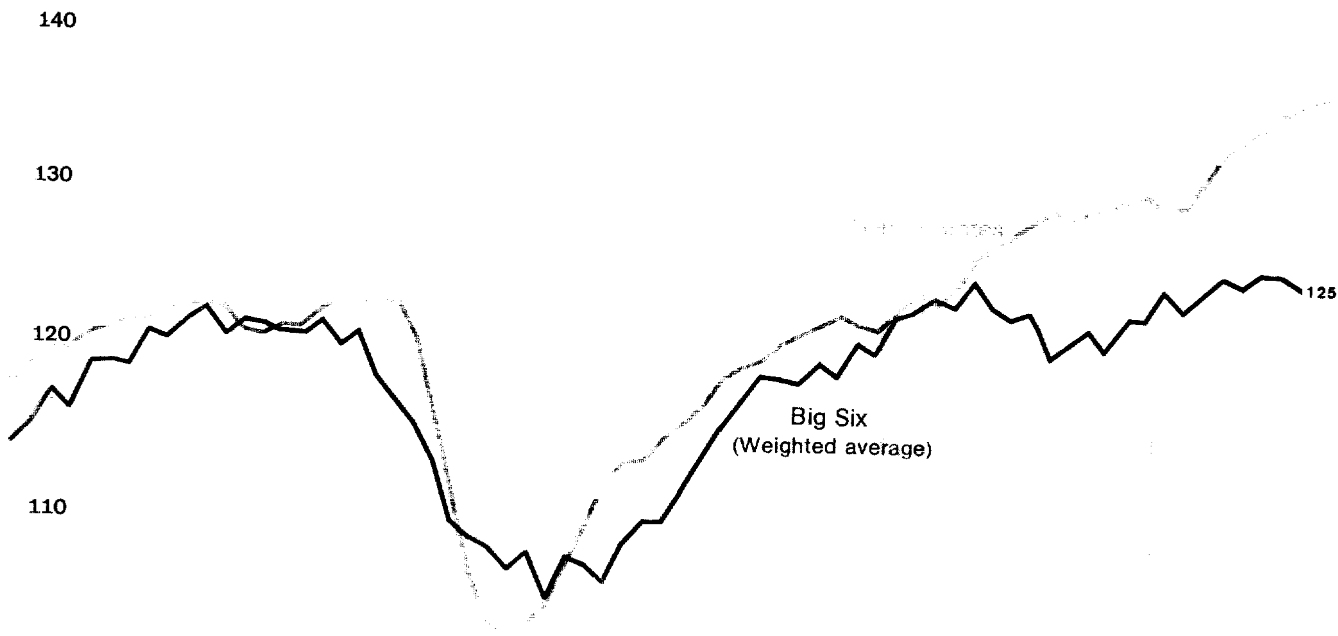
BIG SIX FOREIGN COUNTRIES[1] COMPOSITE INDICATORS

Industrial Production

INDEX: 1970=100, seasonally adjusted

Semilogarithmic Scale



Unemployment Rate

Percent

Note: Excluding data for Italy.

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1973 1974 1975 1976 1977 1978

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

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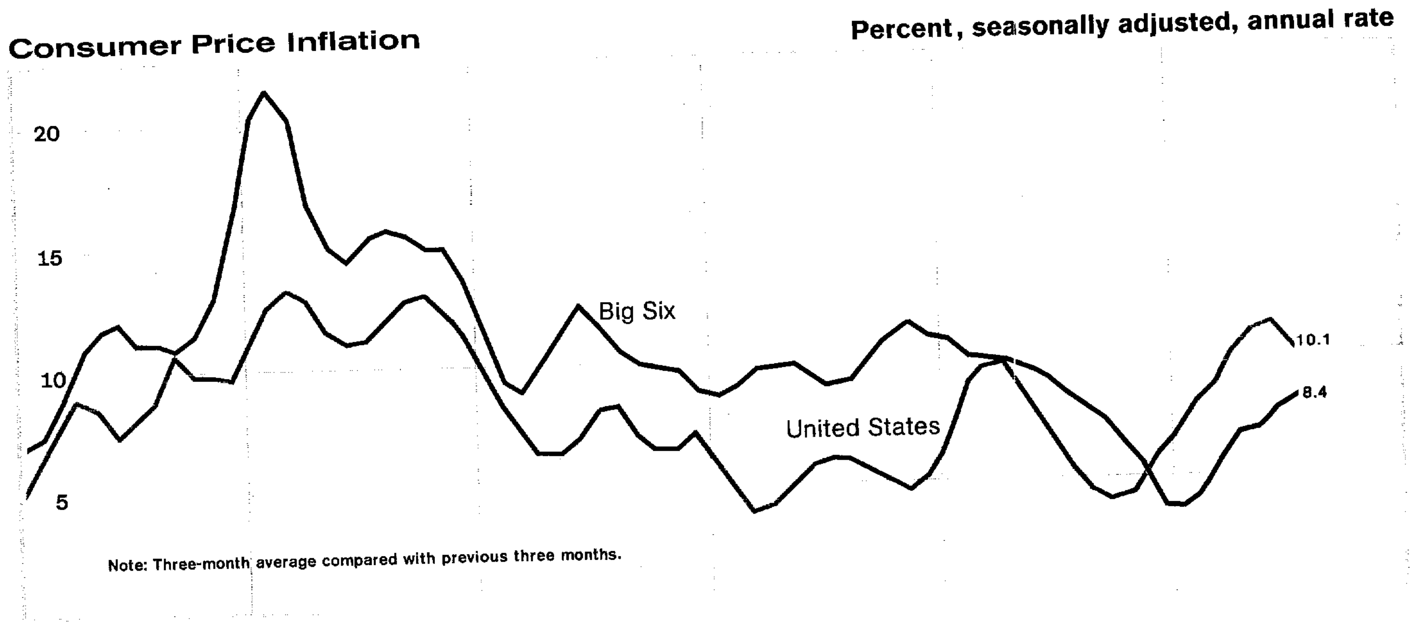

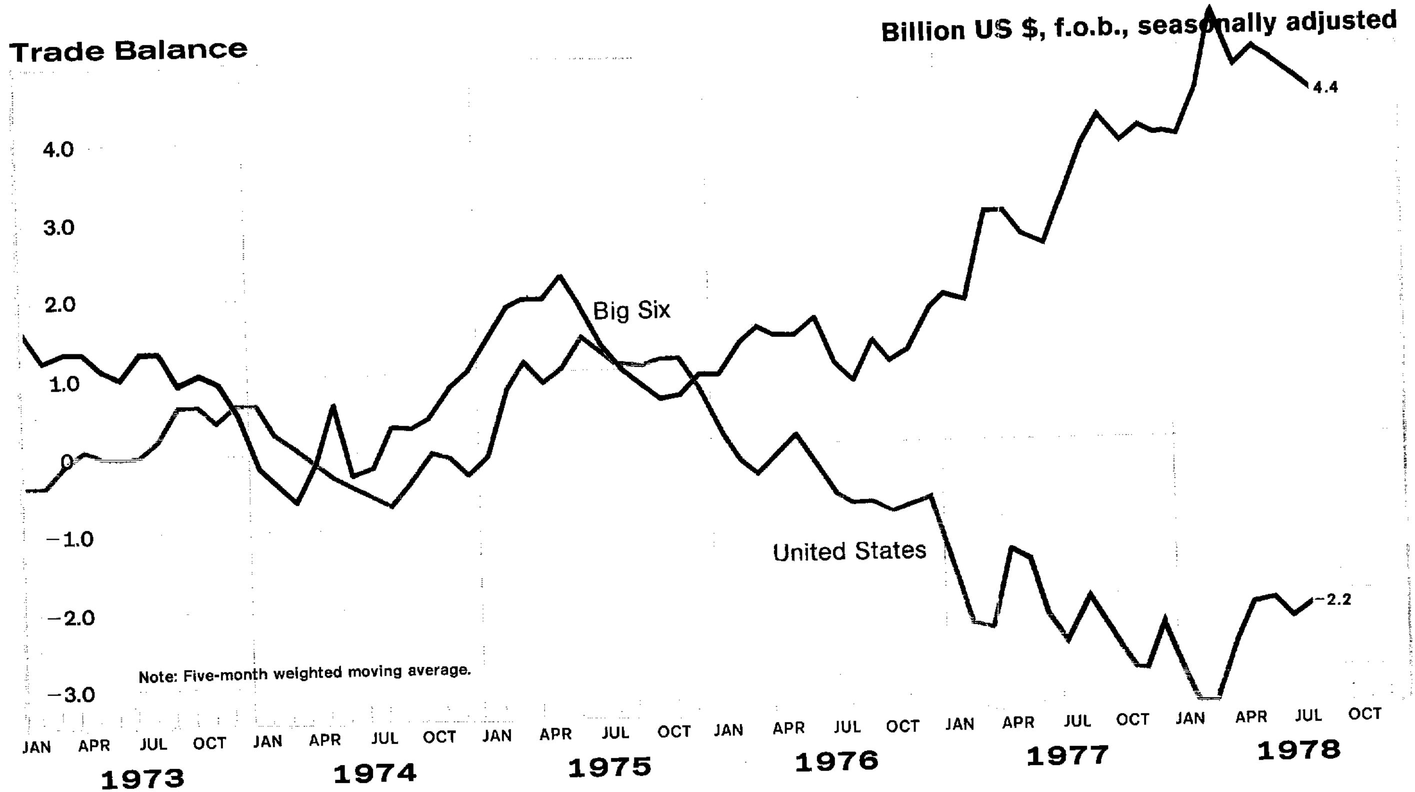

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[2]
Industrial Production					
Big Six	AUG 78	−0.6	2.8	3.0	1.4
United States	AUG 78	0.5	3.9	6.2	9.2
Consumer Prices					
Big Six	AUG 78	0.7	9.2	6.6	8.4
United States	AUG 78	0.5	6.7	7.9	10.1

	LATEST MONTH		1 Year Earlier	3 Months Earlier
Unemployment Rate				
Big Five	AUG 78	4.6	4.4	4.4
United States	AUG 78	5.9	7.0	6.1

	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	Change
Trade Balance					
Big Six	AUG 78	5,559	36,972	20,145	16,827
United States	AUG 78	−1,621	−20,976	−16,050	−4,926

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

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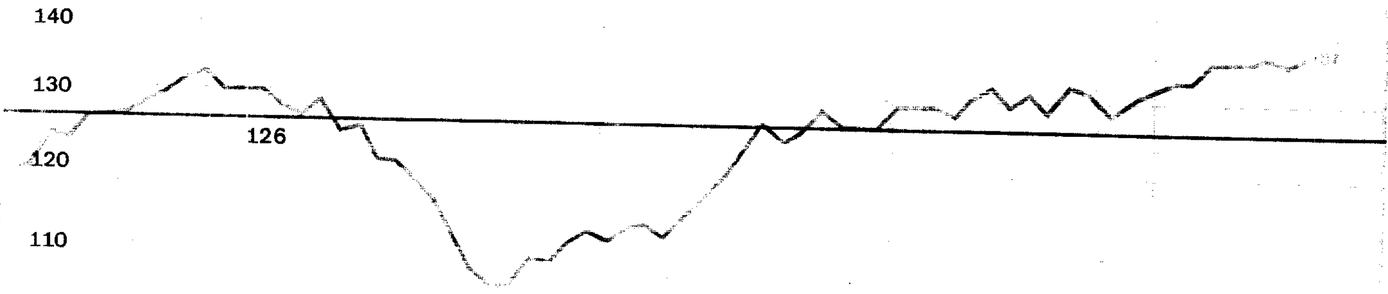
INDUSTRIAL PRODUCTION INDEX: 1970=100, seasonally adjusted

Semilogarithmic Scale

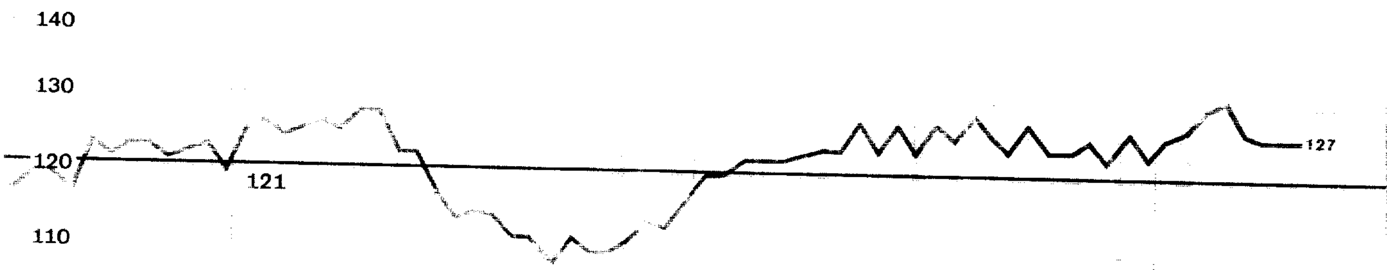
United States

Japan



West Germany

France



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1973 1974 1975 1976 1977 1978

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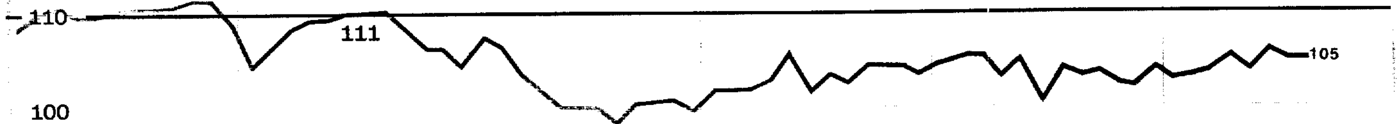
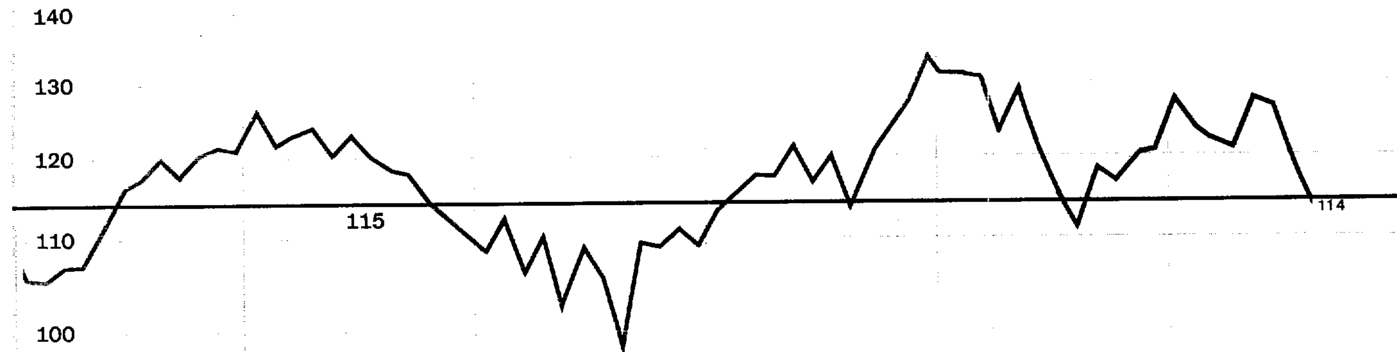
United Kingdom

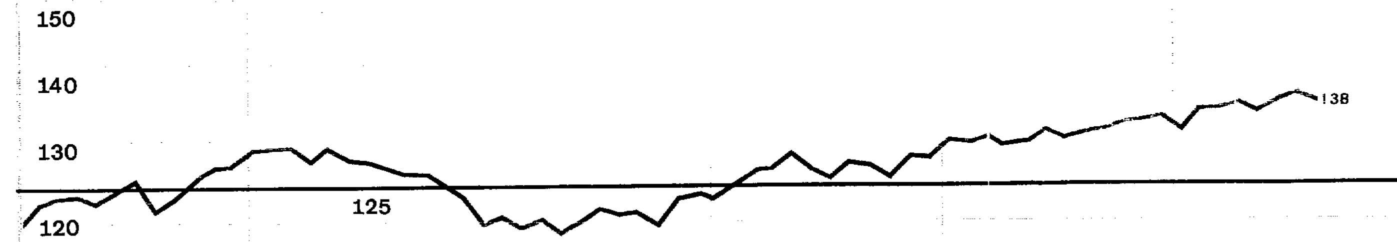
Semilogarithmic Scale



Italy



Canada



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[1]
United States	SEP 78	0.5	3.9	6.5	7.7
Japan	AUG 78	0.8	4.0	5.5	1.3
West Germany	AUG 78	-1.7	2.1	1.7	12.1
France	AUG 78	0.0	3.0	1.6	-7.1
United Kingdom	AUG 78	0.9	0.6	1.2	5.0
Italy	AUG 78	-5.4	1.6	1.7	-11.3
Canada	AUG 78	-0.8	4.1	3.8	3.6

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

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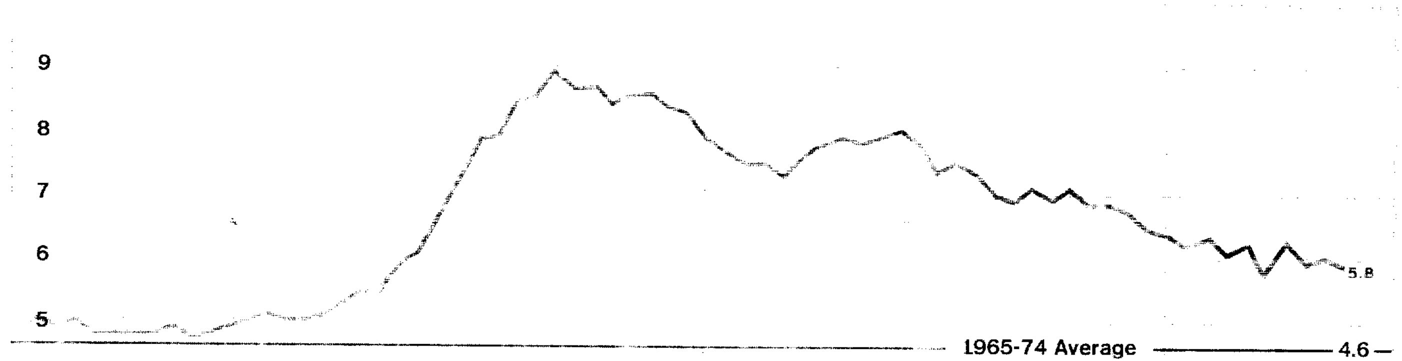
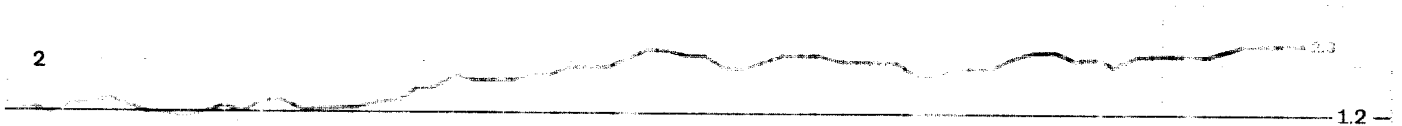
UNEMPLOYMENT RATE

PERCENT

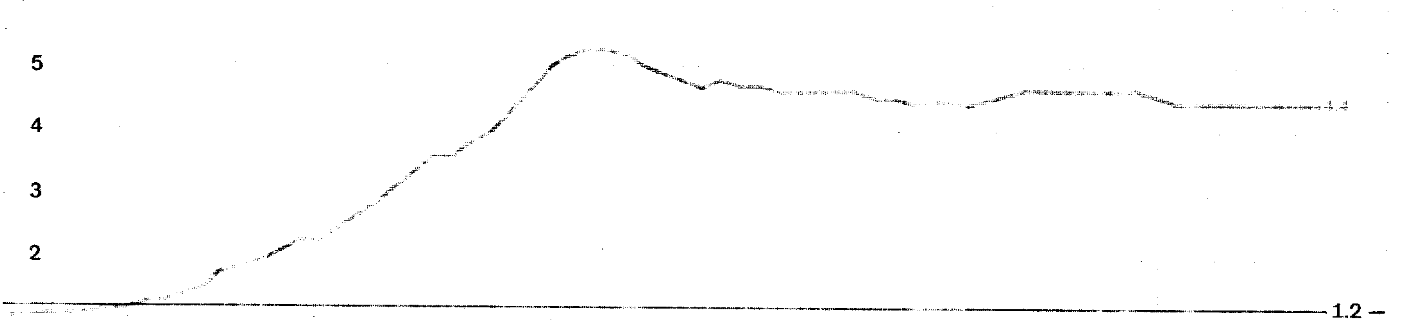
United States



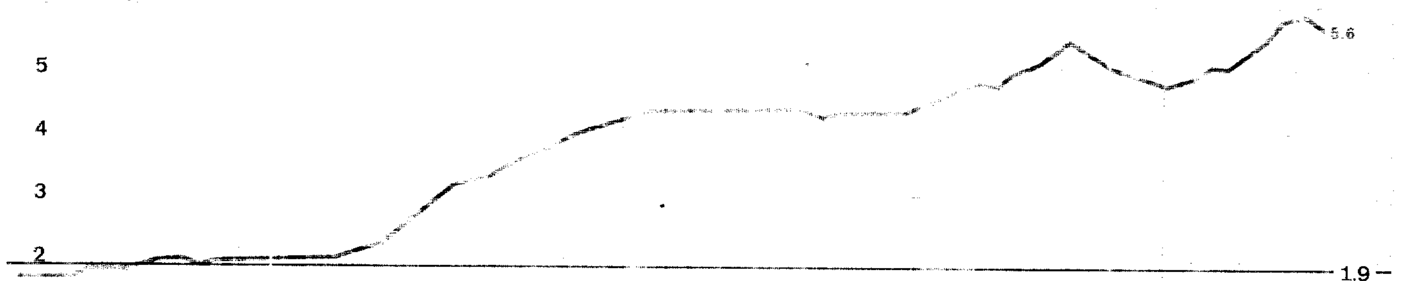
Japan



West Germany



France



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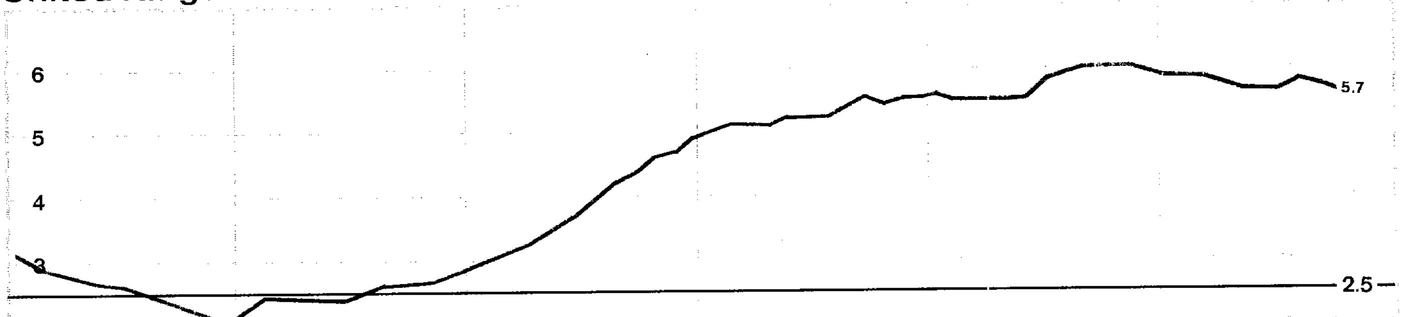
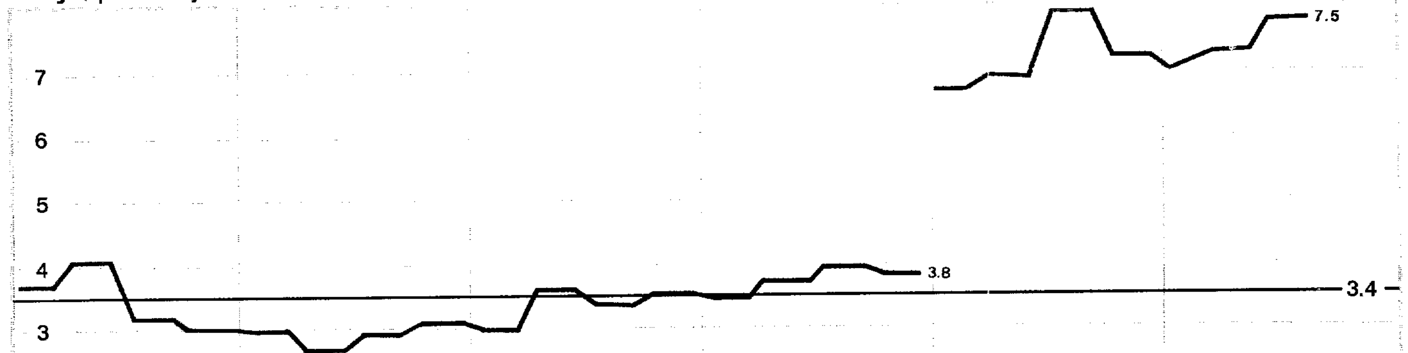
United Kingdom

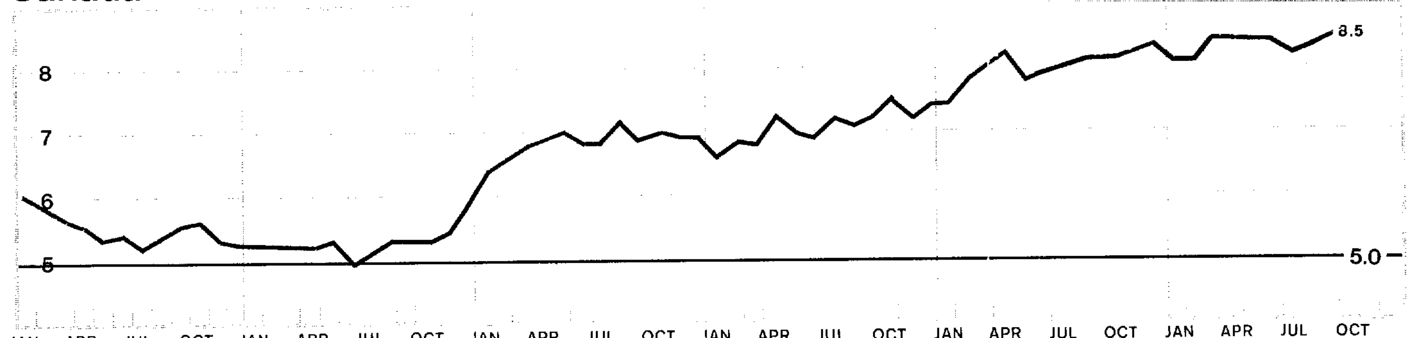


Italy (quarterly)



A labor force survey based on new definitions of economic activity sharply raised the official estimate of Italian unemployment in first quarter 1977. Data for earlier periods thus are not comparable.
Italian data are not seasonally adjusted.

Canada



THOUSANDS OF PERSONS UNEMPLOYED

	LATEST MONTH		1 Year Earlier	3 Months Earlier
United States	OCT 78	5,870	6,688	6,193
Japan	AUG 78	1,270	1,130	1,270
West Germany	SEP 78	986	1,035	986
France	SEP 78	1,235	1,132	1,186

	LATEST MONTH		1 Year Earlier	3 Months Earlier
United Kingdom	OCT 78	1,360	1,432	1,371
Italy	78 III	1,658	1,692	1,455
Canada	SEP 78	946	887	944

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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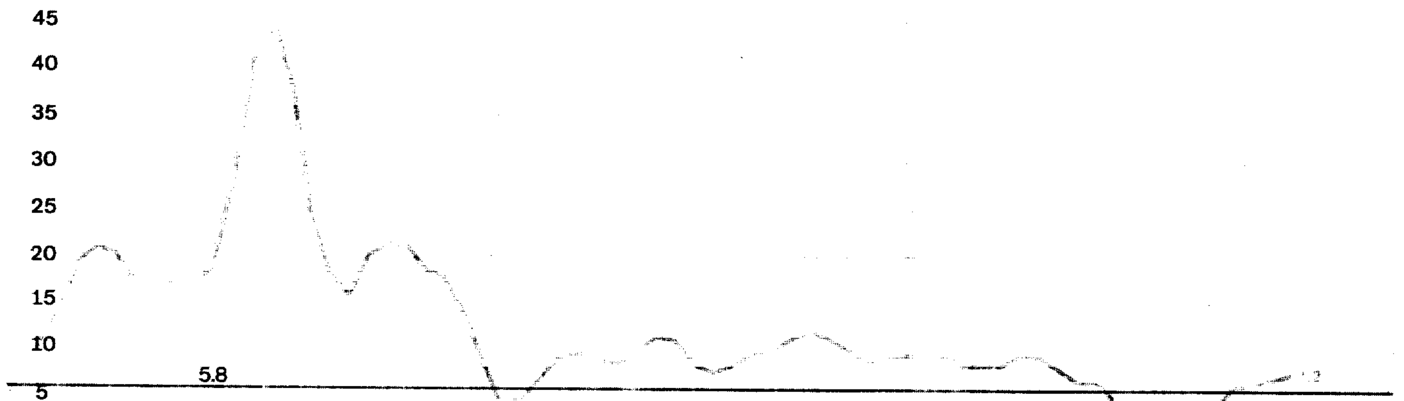
CONSUMER PRICE INFLATION

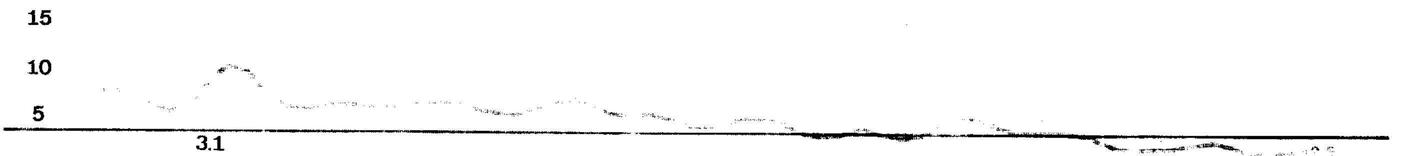
Percent, seasonally adjusted, annual rate[1]

United States

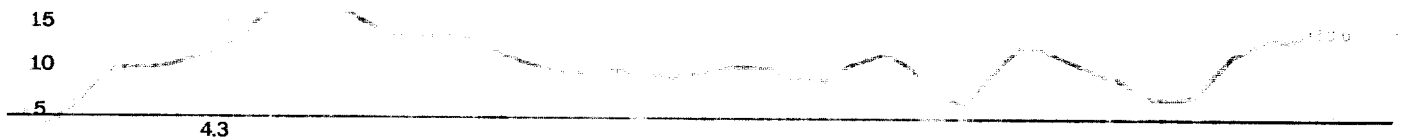
Japan



West Germany



France



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1973 1974 1975 1976 1977 1978

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

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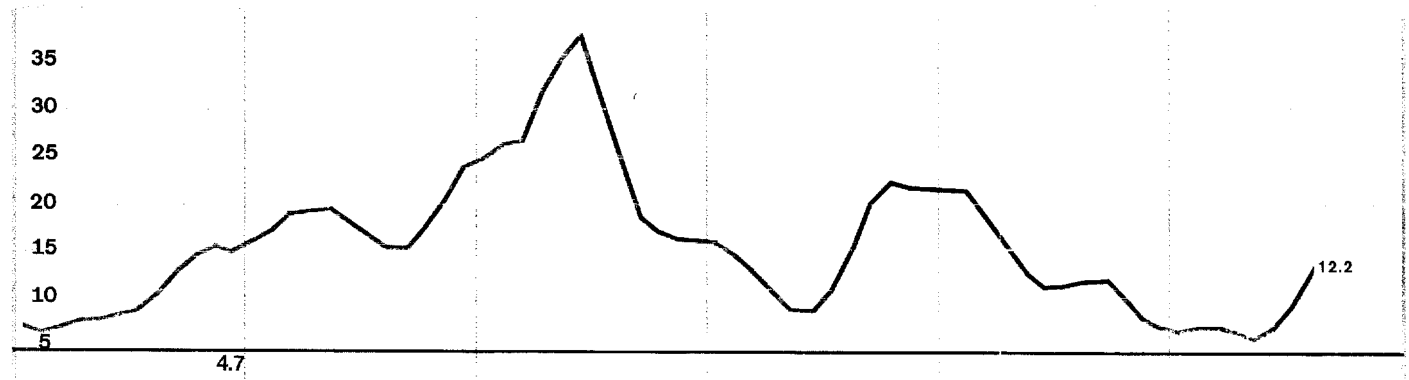
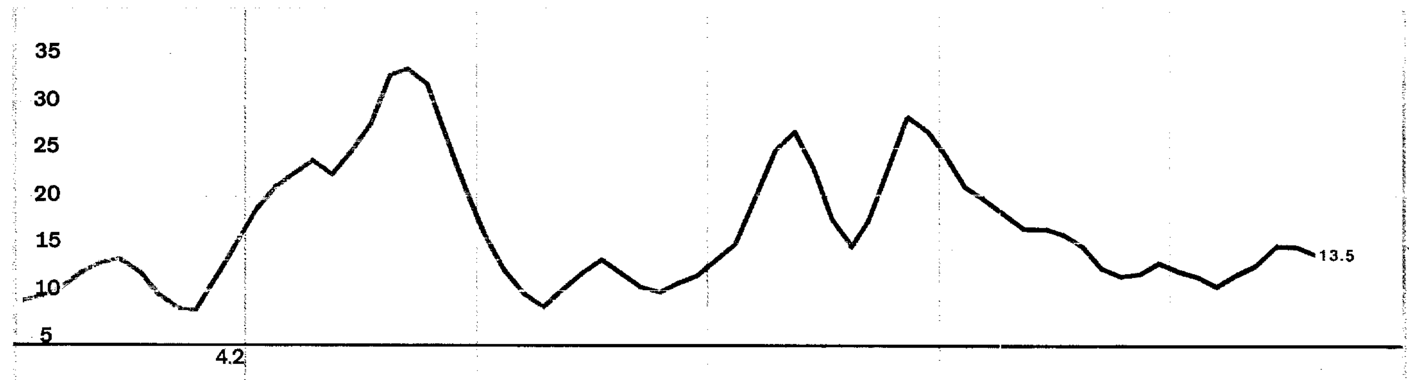
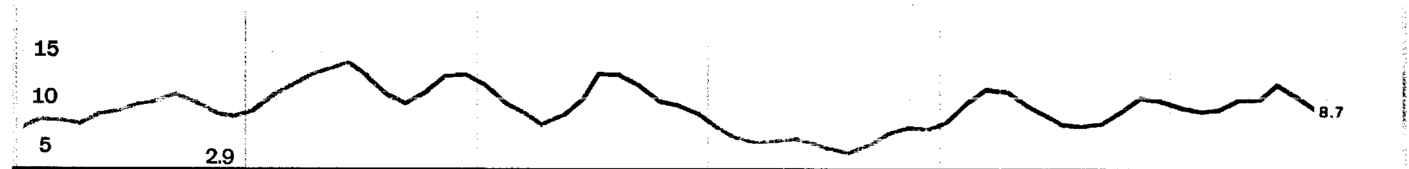
United Kingdom



Italy



Canada



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1973 1974 1975 1976 1977 1978

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[2]
United States	SEP 78	0.8	6.8	8.3	9.1
Japan	AUG 78	1.0	9.8	4.2	7.2
West Germany	SEP 78	0	5.1	2.2	2.5
France	SEP 78	1.5	9.2	10.2	13.0
United Kingdom	SEP 78	0.9	13.2	7.8	12.2
Italy	SEP 78	1.0	13.1	12.2	13.5
Canada	SEP 78	0.1	7.6	8.6	8.7

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

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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	78 II	1.8	3.2	4.0	7.4
Japan	78 II	1.1	5.4	5.3	4.4
West Germany	78 II	2.1	2.7	4.2	8.8
France	78 I	1.8	4.1	1.4	7.4
United Kingdom	77 IV	−0.5	1.6	−1.1	−1.9
Italy	78 I	2.0	2.8	−0.8	8.2
Canada	78 II	1.1	4.7	3.7	4.5

[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	Jul 78	0.3	3.3	2.7	−0.8
Japan	Jun 78	1.3	9.3	5.8	11.0
West Germany	Jun 78	1.6	2.6	3.3	−3.2
France	Jan 78	9.9	0	1.0	10.5
United Kingdom	Sep 78	−1.2	1.3	6.8	12.8
Italy	May 78	12.1	3.5	3.5	12.1
Canada	Aug 78	3.7	4.1	1.3	1.1

[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 II	3.6	3.0	7.4	15.1
Japan	78 II	1.8	1.5	5.1	7.6
West Germany	78 II	−0.5	1.2	7.8	−2.0
France	77 IV	0.8	4.0	4.7	3.3
United Kingdom	78 I	2.8	1.8	11.3	11.6
Italy	78 I	2.3	1.1	−19.6	9.4
Canada	78 II	10.6	6.5	6.1	49.9

[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 78	1.2	7.6	7.6	6.8
Japan	Jun 78	1.2	15.8	5.6	4.0
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	Jun 78	0.1	16.3	20.5	84.0
Italy	Jul 78	0	19.9	14.5	15.0
Canada	Jul 78	1.0	10.7	6.7	5.9

[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	Nov 1	9.33	6.55	7.78	8.64
Japan	Call money	Nov 3	4.13	4.63	4.25	4.25
West Germany	Interbank loans (3 months)	Nov 1	3.90	4.06	3.68	3.86
France	Call money	Nov 3	7.00	8.75	7.62	7.00
United Kingdom	Sterling interbank loans (3 months)	Nov 1	11.08	4.84	9.58	9.70
Canada	Finance paper	Nov 1	9.98	7.38	8.68	9.35
Eurodollars	Three-month deposits	Nov 1	10.98	7.14	8.28	9.58

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EXPORT PRICES
US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Aug 78	1.3	9.7	11.0	19.5
Japan	Jul 78	1.0	11.7	26.8	37.9
West Germany	Jun 78	1.7	11.5	12.9	−4.0
France	Jun 78	2.2	11.5	13.6	7.8
United Kingdom	Sep 78	1.7	12.3	21.8	41.9
Italy	Jun 78	0.5	10.8	8.1	2.7
Canada	Jul 78	0.9	8.3	0.6	10.3

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	Aug 78	1.3	9.7	11.0	19.5
Japan	Jul 78	−5.8	3.8	−4.3	−8.8
West Germany	Jun 78	0.7	3.9	−0.1	4.9
France	Jun 78	0.6	8.8	5.3	−2.8
United Kingdom	Sep 78	0.8	15.1	8.3	9.6
Italy	Jun 78	−0.8	15.3	4.9	4.6
Canada	Jul 78	1.5	9.3	6.6	3.8

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	Aug 78	0.6	12.7	7.9	3.3
Japan	Jul 78	−6.6	5.8	−20.9	−22.7
West Germany	Jun 78	−1.6	3.0	−5.9	−12.5
France	Jun 78	−0.6	9.1	0.2	−9.1
United Kingdom	Sep 78	0.9	17.1	4.3	3.8
Italy	Jun 78	−0.7	18.7	1.8	2.4
Canada	Jul 78	2.3	9.7	11.3	17.4

OFFICIAL RESERVES

	Latest Month: End of	Latest Month: Billion US $	Billion US $: Jun 1970	1 Year Earlier	3 Months Earlier
United States	Sep 78	18.8	14.5	19.0	18.9
Japan	Aug 78	29.2	4.1	17.8	27.7
West Germany	Jul 78	41.1	8.8	35.1	41.3
France	Apr 78	10.6	4.4	10.0	10.2
United Kingdom	Aug 78	17.4	2.8	15.0	17.3
Italy	Aug 78	14.9	4.7	10.5	12.2
Canada	Sep 78	3.7	9.1	4.8	4.7

CURRENT ACCOUNT BALANCE [1]

	Latest Period	Million US $	Cumulative (Million US $) 1978	1977	Change
United States [2]	78 I	−6,954	−6,954	−4,158	−2,796
Japan	Sep 78	1,900	13,982	6,442	7,540
West Germany	Jul 78	−868	2,831	1,406	1,425
France	78 I	−84	−84	−1,628	1,543
United Kingdom	78 I	−803	−803	−896	94
Italy	78 I	288	288	−1,025	1,313
Canada	78 II	−1,201	−2,381	−2,658	277

[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 $) 1978	1977	Change
United States		No longer published [2]			
Japan	Sep 78	600	6,746	4,390	2,356
West Germany	Jul 78	−881	1,915	−2,363	4,278
France	78 I	−863	−863	−1,889	1,025
United Kingdom	78 I	−326	−326	543	−869
Italy	77 III	2,427	N.A.	N.A.	N.A.
Canada	78 II	883	327	−557	884

[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 3 Nov 78

	US $ Per Unit	Percent Change from 19 Mar 73	1 Year Earlier	3 Months Earlier	27 Oct 78
Japan (yen)	0.0054	40.77	34.60	0.49	−3.45
West Germany (Deutsche mark)	0.5283	48.61	19.49	3.91	−7.03
France (franc)	0.2326	4.80	12.56	−0.02	−5.70
United Kingdom (pound sterling)	1.9820	−19.83	11.54	0.92	−3.93
Italy (lira)	0.0012	−31.95	5.36	−0.17	−4.62
Canada (dollar)	0.8558	−14.70	−5.36	−2.77	0.50

TRADE-WEIGHTED EXCHANGE RATES [1]
As of 3 Nov 78

	Percent Change from 19 Mar 73	1 Year Earlier	3 Months Earlier	27 Oct 78
United States	−4.05	−9.14	0.02	2.86
Japan	43.76	30.37	0.27	−1.94
West Germany	33.93	5.26	1.87	−2.25
France	−10.41	−2.23	−2.65	−0.36
United Kingdom	−29.09	−0.25	−0.85	0.34
Italy	−43.72	−7.95	−2.21	0.57
Canada	−16.38	−8.75	−3.07	1.52

[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.

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Developed Countries: Direction of Trade [1]

Billion US $

	Exports to (f.o.b.)					
	World	Big Seven	Other OECD	OPEC	Com- munist	Other
UNITED STATES						
1975	107.65	46.94	16.25	10.77	3.37	29.82
1976	115.01	51.30	17.68	12.57	3.64	29.44
1977	120.17	53.92	18.53	14.02	2.72	30.98
1978						
1st Qtr	30.94	13.65	4.60	3.76	1.00	7.93
Apr	12.06	5.40	1.68	1.38	0.42	3.17
JAPAN						
1975	55.73	16.56	6.07	8.42	5.16	15.87
1976	67.32	22.61	8.59	9.27	4.93	17.84
1977	81.11	28.02	9.73	12.03	5.32	26.01
1978						
1st Qtr	22.11	7.83	2.39	3.35	1.32	7.22
Apr	7.89	2.80	0.80	1.19	0.57	2.53
WEST GERMANY						
1975	91.70	28.33	36.44	6.78	8.81	11.05
1976	103.63	33.44	41.86	8.25	8.72	11.04
1977	119.28	39.01	48.00	10.78	8.59	12.90
1978						
1st Qtr	32.45	11.17	13.05	2.76	1.97	3.50
FRANCE						
1975	52.87	20.00	15.50	4.90	3.13	8.61
1976	57.05	22.49	16.15	5.08	3.23	8.75
1977	65.00	25.90	18.19	5.97	3.00	11.94
1978						
1st Qtr	18.49	7.66	5.07	1.57	0.66	3.53
Apr	6.74	2.82	1.90	0.56	0.28	1.18
UNITED KINGDOM						
1975	44.03	12.55	16.59	4.55	1.56	8.64
1976	46.12	14.03	17.53	5.13	1.39	7.92
1977	57.44	16.99	22.56	6.78	1.63	9.48
1978						
1st Qtr	16.86	5.09	6.27	2.03	0.55	2.92
Apr	5.75	1.73	2.19	0.74	0.18	0.91
ITALY						
1975	34.82	15.61	7.86	3.72	2.46	4.67
1976	36.96	17.41	8.69	4.23	2.18	3.96
1977	45.04	20.92	10.20	5.85	2.45	5.62
1978						
1st Qtr	10.80	5.25	2.37	1.37	0.48	1.33
CANADA						
1975	33.84	26.30	1.73	0.71	1.20	2.00
1976	40.18	32.01	2.03	0.81	1.25	2.09
1977	42.98	34.77	2.13	0.94	1.06	4.08
1978						
1st Qtr	10.75	8.78	0.55	0.23	0.22	0.97
Apr	4.20	3.44	0.16	0.08	0.07	0.45

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

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Developed Countries: Direction of Trade [1]

Billion US $

	Imports from (c.i.f.)					
	World	Big Seven	Other OECD	OPEC	Com-munist	Other
UNITED STATES						
1975	103.42	49.81	8.83	18.70	0.98	25.08
1976	129.57	60.39	9.75	27.17	1.16	31.09
1977	156.70	70.48	11.08	35.45	1.22	38.47
1978						
1st Qtr	43.14	20.39	3.51	8.15	0.47	10.62
Apr	15.42	7.54	1.27	2.73	0.18	3.70
JAPAN						
1975	57.85	16.93	6.08	19.40	3.36	12.05
1976	64.89	17.58	7.78	21.88	2.91	14.72
1977	71.33	18.87	7.93	24.33	3.41	16.79
1978						
1st Qtr	18.32	5.04	2.06	6.46	0.87	3.89
Apr	6.28	1.64	0.74	2.01	0.36	1.53
WEST GERMANY						
1975	76.28	27.09	27.78	8.24	4.87	8.21
1976	89.68	31.28	32.64	9.73	5.93	10.01
1977	102.63	36.38	37.37	10.12	6.14	12.62
1978						
1st Qtr	28.24	10.11	10.88	2.32	1.39	3.54
FRANCE						
1975	53.99	23.04	14.33	9.43	1.94	5.21
1976	64.38	27.81	16.93	11.36	2.24	6.01
1977	70.50	30.28	18.24	11.82	2.46	7.70
1978						
1st Qtr	19.76	8.58	5.40	3.05	0.64	2.09
Apr	6.79	3.02	1.84	1.00	0.23	0.70
UNITED KINGDOM						
1975	53.35	18.47	18.52	6.91	1.68	7.67
1976	55.56	19.66	18.81	7.29	2.08	7.65
1977	63.29	24.02	21.34	6.31	2.40	9.22
1978						
1st Qtr	18.87	7.44	6.68	1.80	0.55	2.40
Apr	5.67	2.27	2.04	0.39	0.16	0.81
ITALY						
1975	38.36	17.32	6.75	7.85	2.09	4.34
1976	43.42	19.35	8.04	8.12	2.65	5.24
1977	47.56	20.80	8.67	9.03	2.80	6.26
1978						
1st Qtr	11.26	5.03	2.10	2.18	0.51	1.44
CANADA						
1975	38.59	29.78	1.70	3.43	0.32	2.02
1976	43.05	33.55	1.82	3.48	0.38	2.56
1977	44.67	35.67	1.77	3.05	0.33	3.85
1978						
1st Qtr	10.80	8.60	0.44	0.77	0.08	0.91
Apr	4.61	3.84	0.18	0.03	0.19	0.37

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

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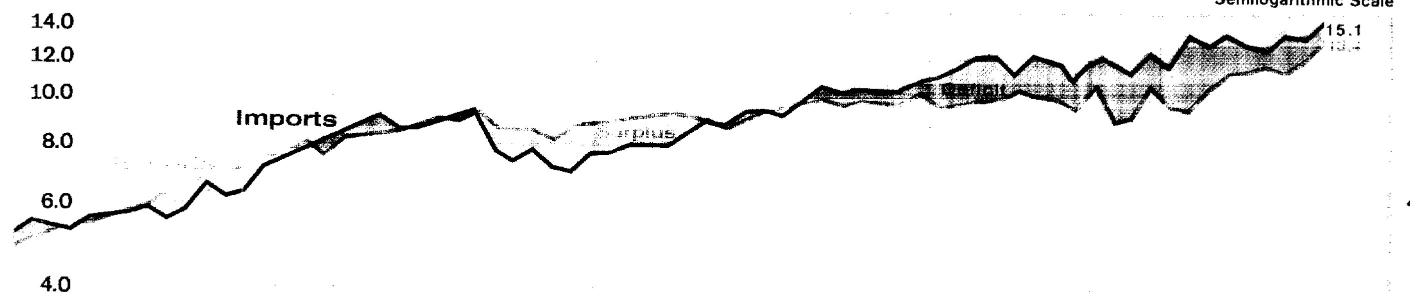
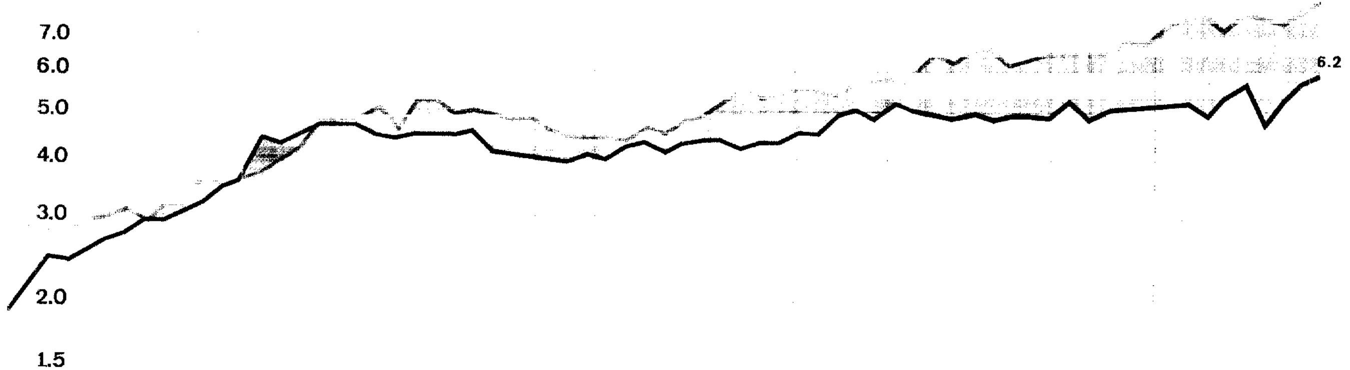
FOREIGN TRADE **BILLION US $, f.o.b., seasonally adjusted**

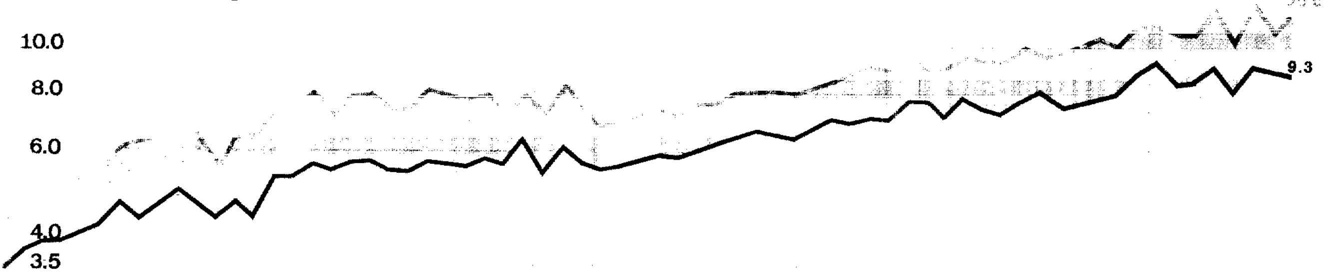
United States



Japan



West Germany



France

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1973 1974 1975 1976 1977 1978

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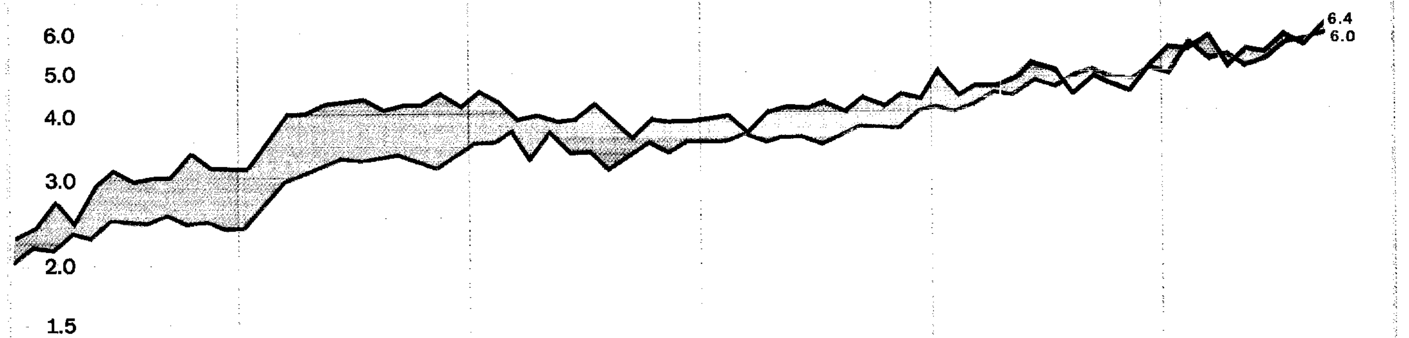
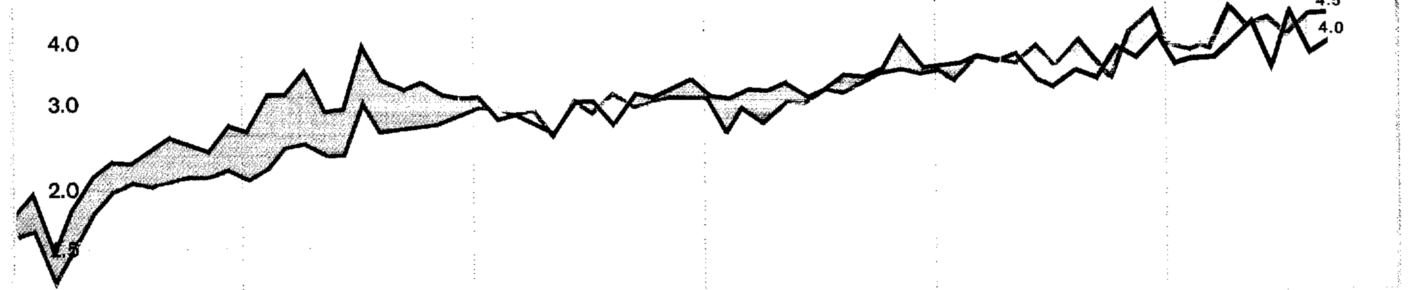
United Kingdom

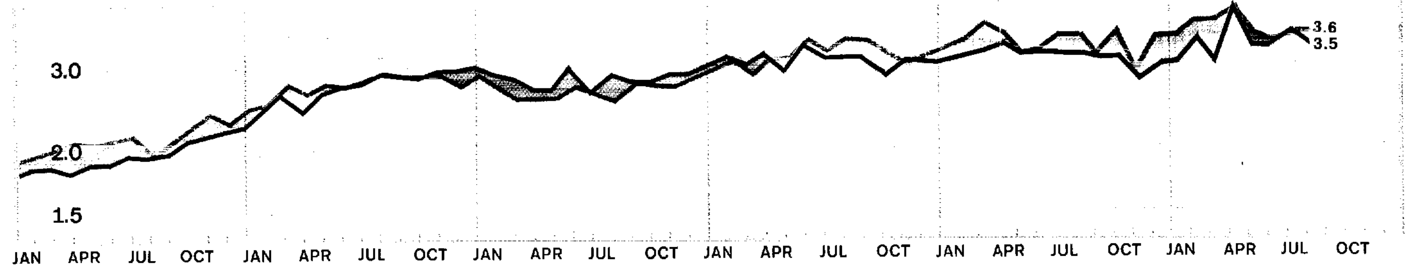
Semilogarithmic Scale



Italy



Canada



	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	CHANGE
United States	SEP 78	13,429	104,054	91,352	13.9%
		15,120	126,721	109,305	15.9%
	Balance	-1,691	-22,667	-17,953	-4,714
Japan	SEP 78	8,618	71,117	58,515	21.5%
		6,216	50,210	46,130	8.8%
	Balance	2,402	20,907	12,385	8,522
West Germany	AUG 78	11,974	90,233	76,223	18.4%
		9,258	74,131	62,846	18.0%
	Balance	2,715	16,102	13,378	2,725
France	SEP 78	8,907	59,761	47,645	25.4%
		6,776	57,511	49,999	15.0%
	Balance	2,131	2,250	-2,354	4,604

	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	CHANGE
United Kingdom	SEP 78	6,043	50,004	41,298	21.1%
		6,423	51,895	44,234	17.3%
	Balance	-380	-1,891	-2,936	1,044
Italy	SEP 78	4,509	37,843	32,756	15.5%
		4,005	35,250	32,347	9.0%
	Balance	504	2,593	409	2,184
Canada	AUG 78	3,640	29,739	27,962	6.4%
		3,478	28,071	26,672	5.2%
	Balance	162	1,668	1,289	379

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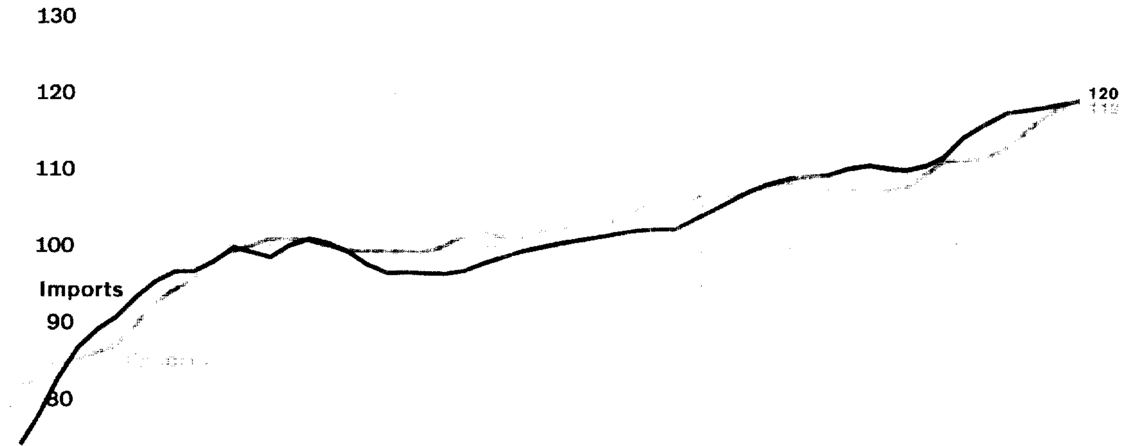
FOREIGN TRADE PRICES IN US $[1]

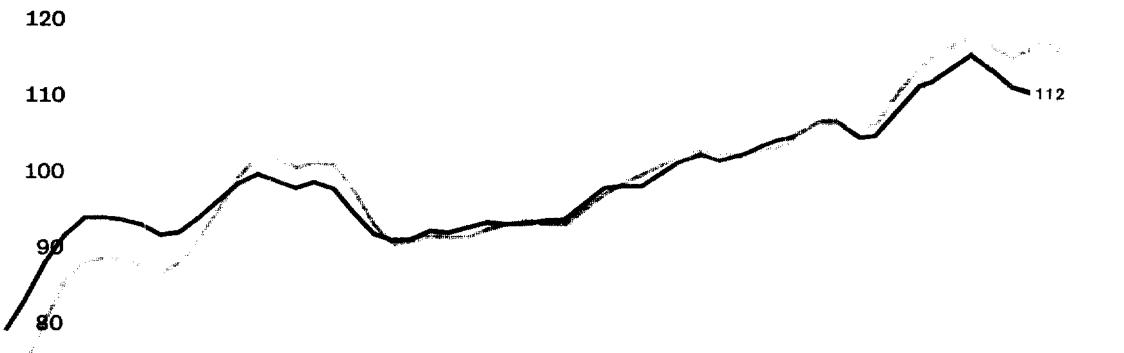
United States

INDEX: JAN 1975 = 100



Japan

West Germany



JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT

1974 1975 1976 1977

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

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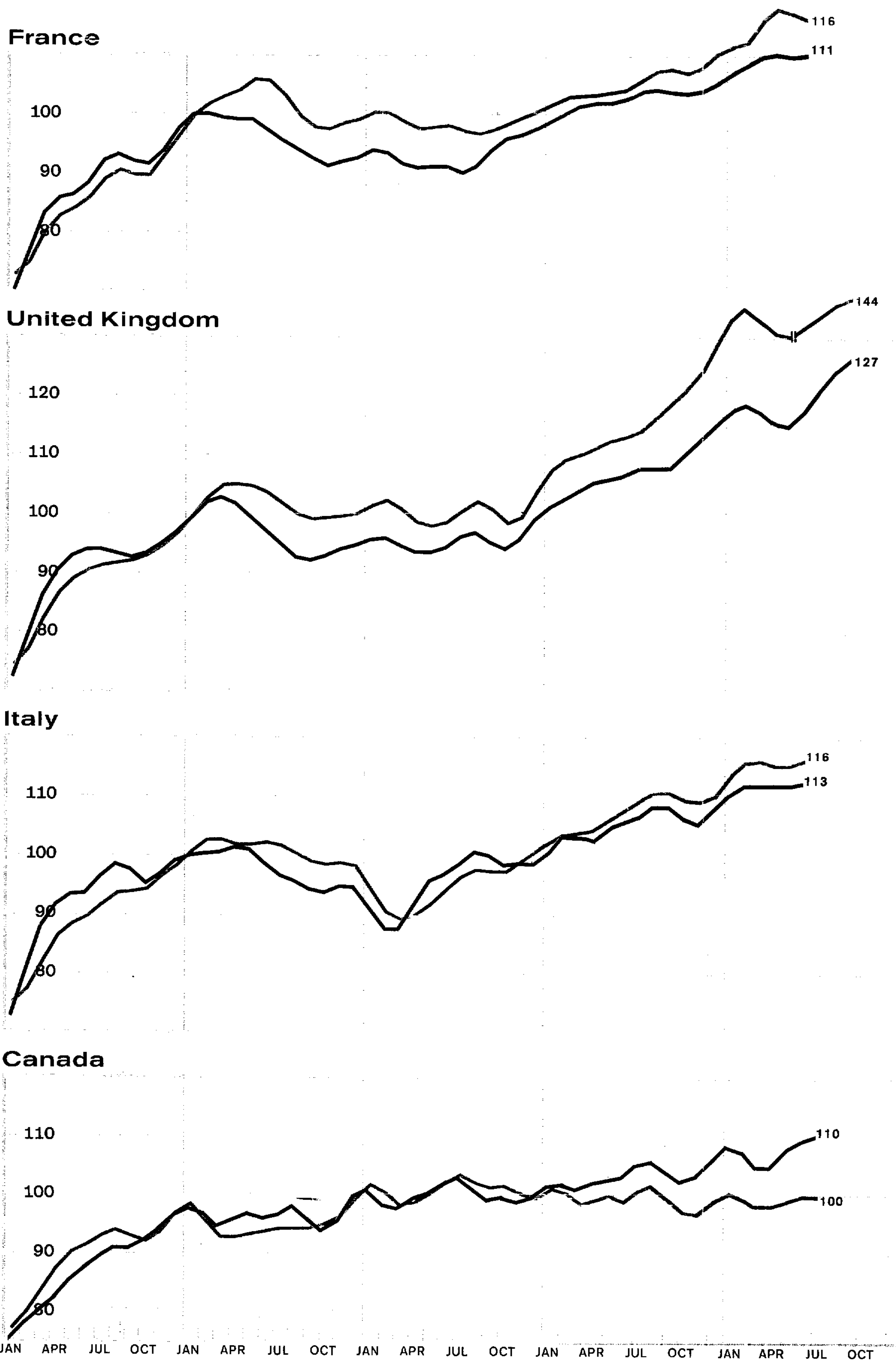

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SELECTED DEVELOPING COUNTRIES

INDUSTRIAL PRODUCTION [1]

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
India	Jun 78	−2.8	5.2	5.4	21.1
South Korea	Jun 78	−1.2	22.5	20.1	26.5
Mexico	Jun 78	0	6.2	8.5	27.7
Nigeria	78 I	6.8	11.4	0.5	30.0
Taiwan	Aug 78	2.9	16.3	33.6	40.6

[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	Apr 78	2.5	14.0	16.2	13.0
Iran	May 78	0.4	29.0	21.4	66.2
South Korea	Jun 78	4.3	31.6	30.4	20.9
Mexico	Jul 78	1.9	21.0	37.3	36.4
Nigeria	Mar 78	5.6	35.3	18.9	3.3
Taiwan	May 78	0.6	25.1	32.8	40.8
Thailand	Apr 78	−3.2	13.3	12.5	32.3

[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	Jun 78	1.2	7.5	2.2
Iran	Jun 78	−0.1	12.2	10.2
South Korea	Aug 78	0.3	14.5	13.5
Mexico	Aug 78	1.0	15.1	17.0
Nigeria	Dec 77	3.1	16.6	31.3
Taiwan	Aug 78	1.9	9.8	−0.6
Thailand	Jun 78	0.9	8.7	8.4

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	May 78	0.6	8.0	−2.8
Iran	Jun 78	−1.3	10.7	9.3
South Korea	Aug 78	0.1	15.7	10.9
Mexico	Aug 78	−0.2	16.3	13.8
Taiwan	Aug 78	0.4	8.1	1.6
Thailand	Mar 78	−0.1	9.4	5.8

EXPORT PRICES
US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	Feb 78	0.4	14.0	1.5
India	Sep 77	−2.7	10.0	18.4
South Korea	78 I	0.7	8.7	7.7
Taiwan	Jun 78	1.9	11.3	3.3
Thailand	Dec 77	0.1	10.2	−7.8

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	Jun 78	6,140	1,006	4,559	5,823
Iran	Aug 78	11,949	208	11,561	12,468
South Korea	Jul 78	4,298	602	3,656	4,138
Mexico	Mar 78	1,766	695	1,422	1,723
Nigeria	Aug 78	1,872	148	4,611	2,609
Taiwan	Jun 78	1,462	531	1,411	1,433
Thailand	Aug 78	2,295	978	1,992	2,129

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FOREIGN TRADE, f.o.b.

	Latest Period		Latest 3 Months Percent Change from		Cumulative (Million US $)		
			3 Months Earlier [1]	1 Year Earlier	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	Mar 78	Exports	−19.6	−13.5	1,476	1,707	−13.5%
	Mar 78	Imports	−24.1	9.7	1,444	1,316	9.7%
	Mar 78	Balance			32	391	−358
Iran	Jul 78	Exports	49.4	14.0	13,913	13,562	2.6%
	May 78	Imports	−1.6	1.6	5,705	5,259	8.5%
	May 78	Balance			4,087	4,871	−783
South Korea	Jul 78	Exports	39.3	23.5	6,749	5,351	26.1%
	Jul 78	Imports	83.0	29.2	7,284	5,695	27.9%
	Jul 78	Balance			−535	−344	−191
Mexico	Jul 78	Exports	78.8	29.8	2,867	2,453	16.9%
	Jul 78	Imports	225.3	41.9	3,596	2,751	30.7%
	Jun 78	Balance			−728	−298	−430
Nigeria	78 II	Exports	86.7	−26.0	1,808	2,526	−28.4%
	78 I	Imports	579.5	115.0	1,808	841	115.0%
	78 I	Balance			−974	368	−1,342
Taiwan	Aug 78	Exports	84.2	38.7	8,044	5,884	36.7%
	Aug 78	Imports	68.9	32.5	6,439	5,119	25.8%
	Aug 78	Balance			1,605	765	840
Thailand	May 78	Exports	21.9	4.5	1,609	1,506	6.8%
	May 78	Imports	105.7	21.3	1,908	1,624	17.5%
	May 78	Balance			−299	−117	−182

[1] At annual rates.

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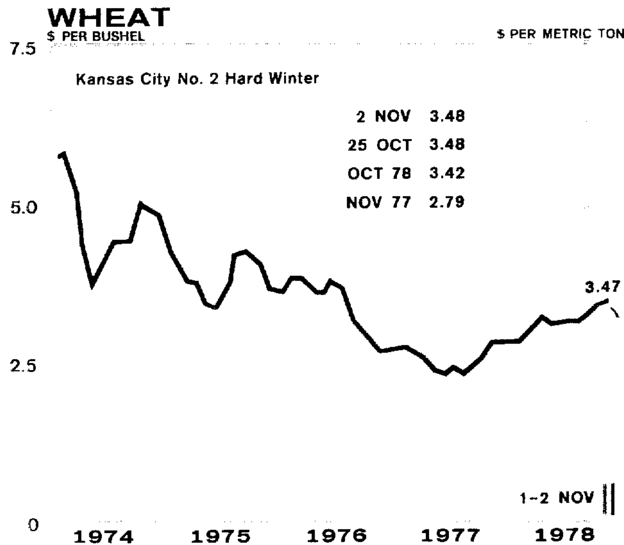
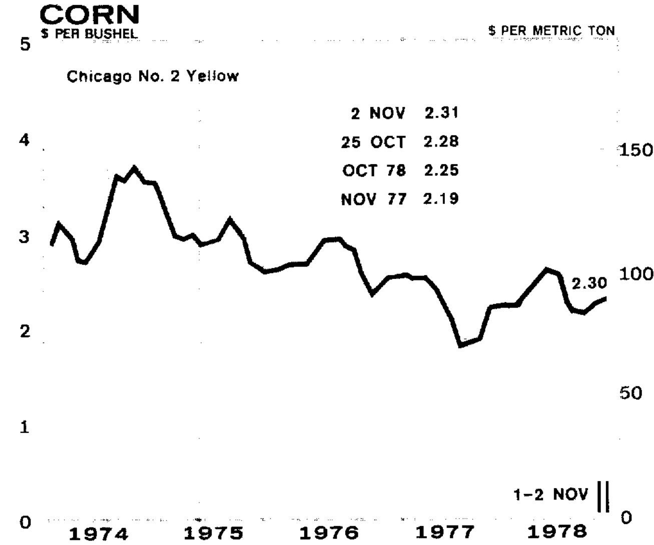
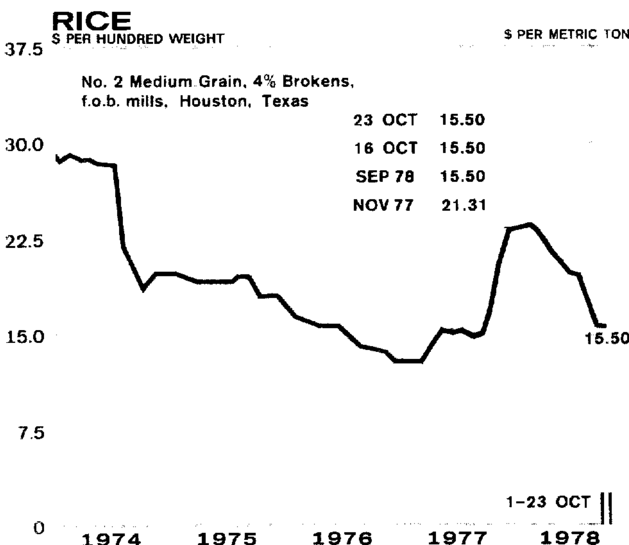
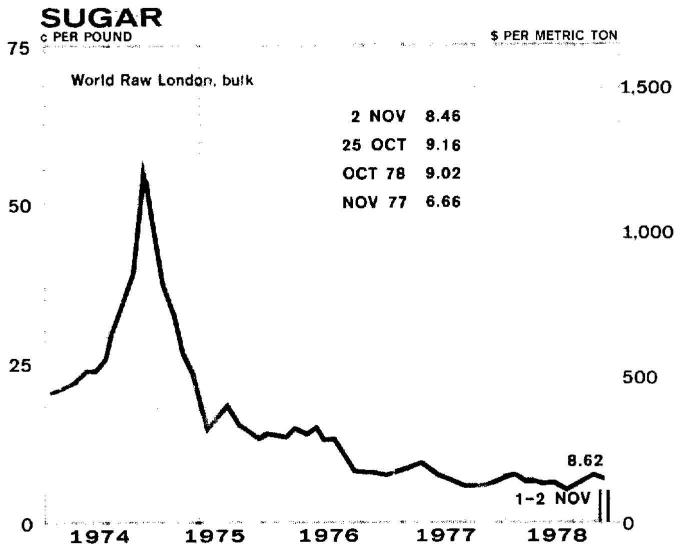
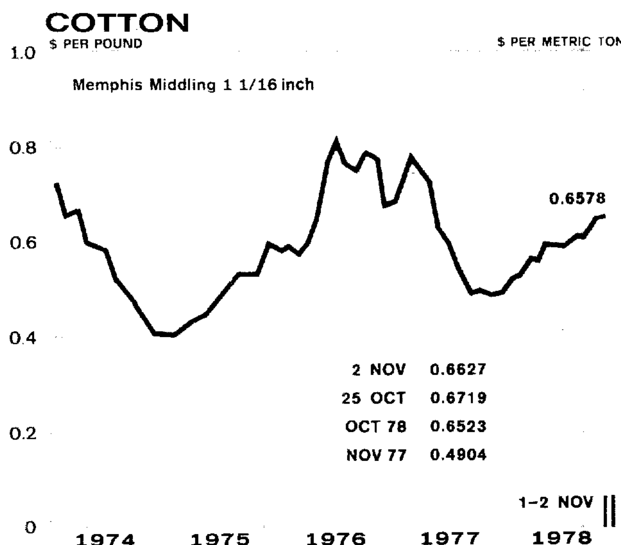
AGRICULTURAL PRICES MONTHLY AVERAGE CASH PRICE

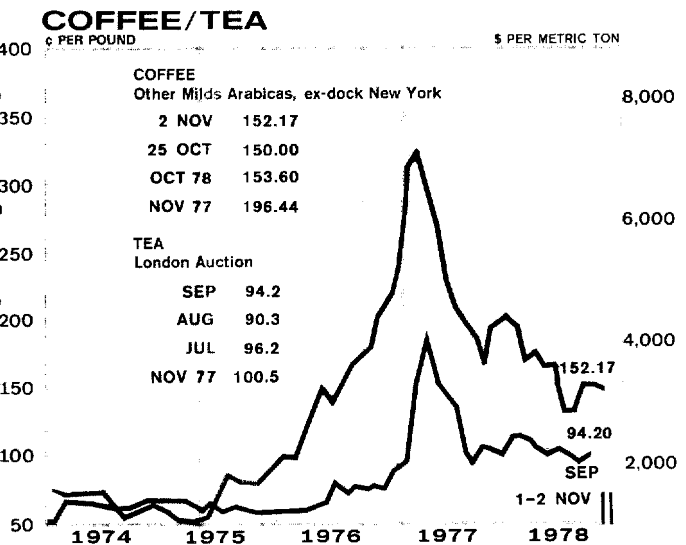












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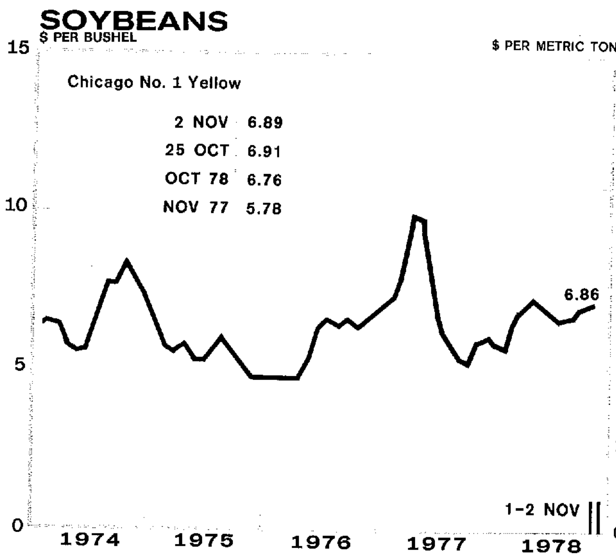

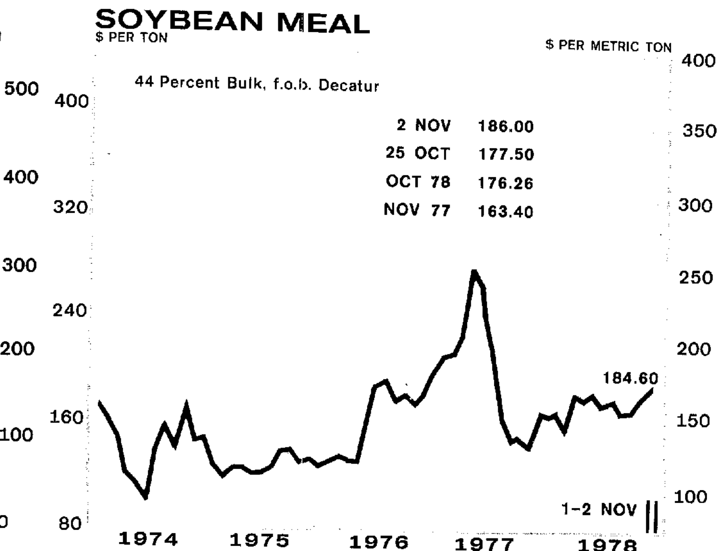

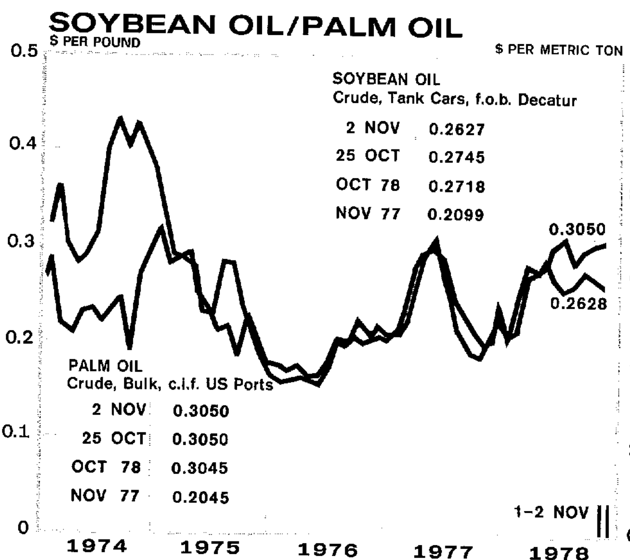

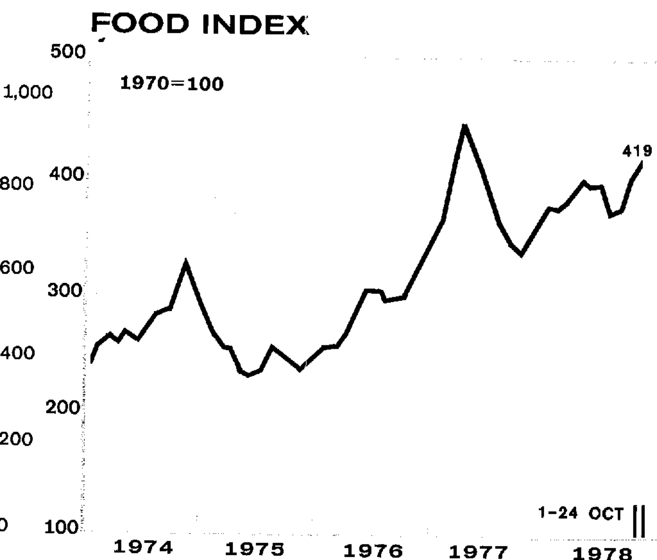

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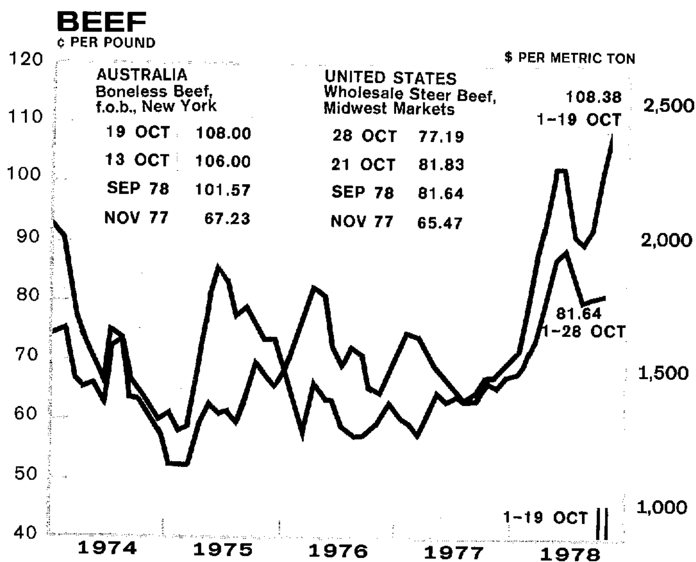

NOTE: The food index is compiled by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

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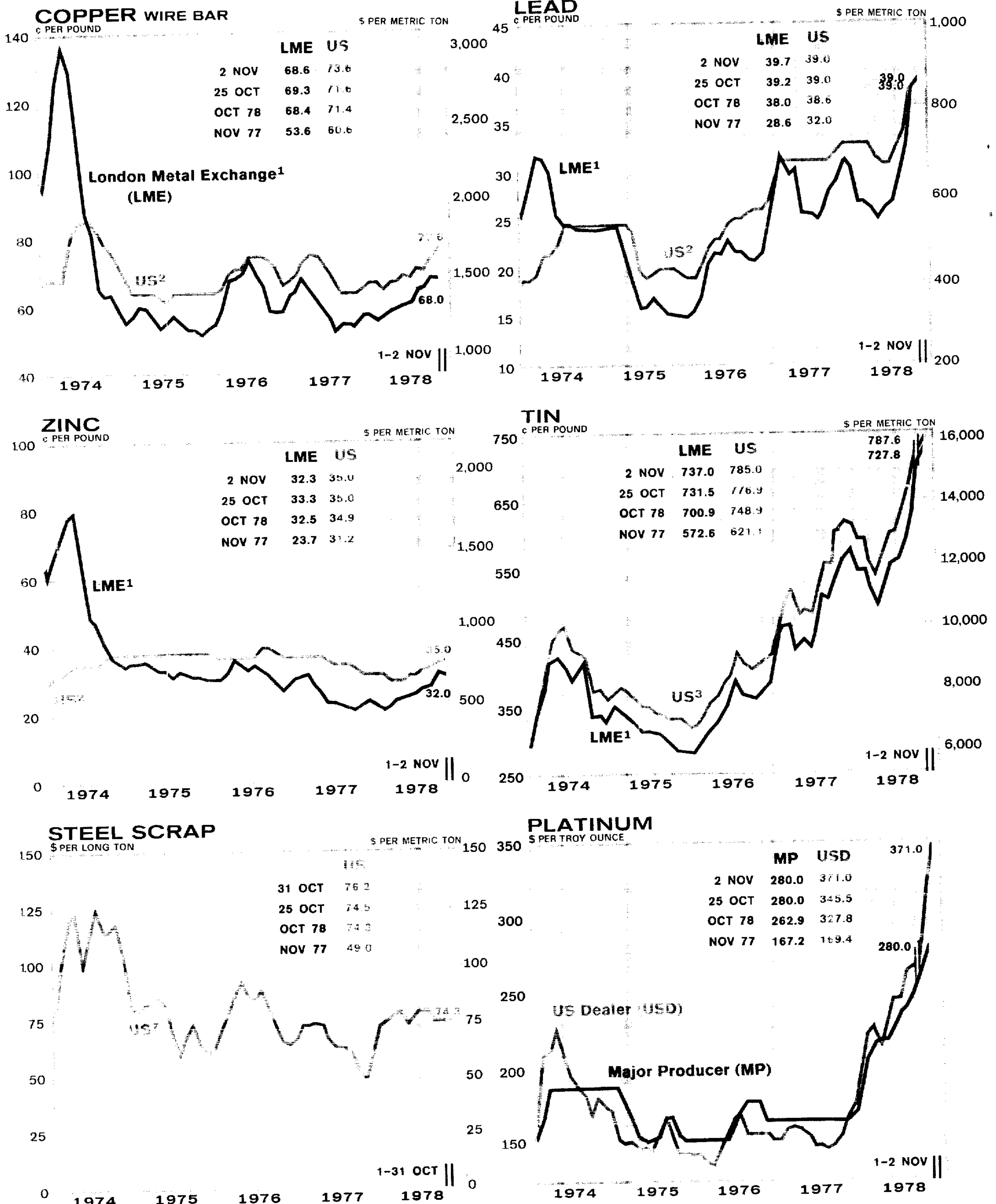
INDUSTRIAL MATERIALS PRICES MONTHLY AVERAGE CASH PRICE



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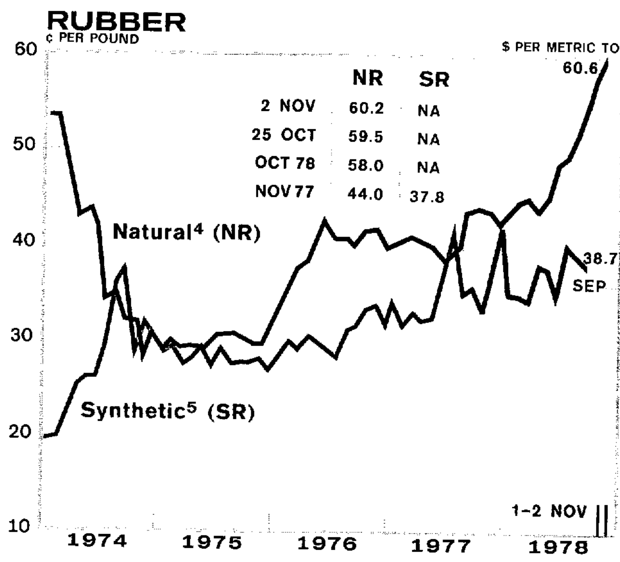
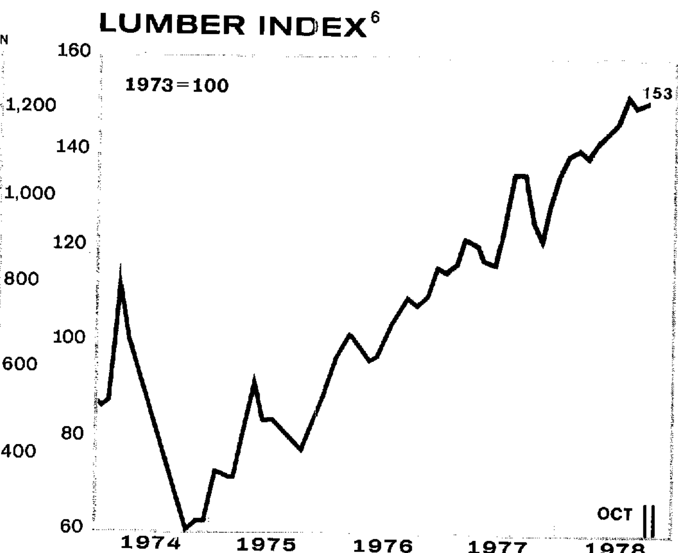
SELECTED MATERIALS

			CURRENT	MAY 78	NOV 77	NOV 76
ALUMINUM	Major US Producer	¢ per pound	55.25	53.00	53.00	48.00
US STEEL	Composite	$ per long ton	419.31	395.81	359.36	327.00
IRON ORE	Non-Bessemer Old Range	$ per long ton	22.55	21.43	21.43	20.51
CHROME ORE	Russian, Metallurgical Grade	$ per metric ton	NA	NA	150.00	150.00
CHROME ORE	S. Africa, Chemical Grade	$ per long ton	56.00	56.00	58.50	42.00
FERROCHROME	US Producer, 66-70 Percent	¢ per pound	42.00	42.00	41.00	43.00
NICKEL	Composite US Producer	$ per pound	2.02	2.06	2.07	2.41
MANGANESE ORE	48 Percent Mn	$ per long ton	67.20	67.20	72.24	72.00
TUNGSTEN ORE	Contained Metal	$ per metric ton	18,411.00	17,169.00	22,113.00	18,082.00
MERCURY	New York	$ per 76 pound flask	151.00	150.55	138.43	134.50
SILVER	LME Cash	¢ per troy ounce	598.31	514.64	482.70	436.90
GOLD	London Afternoon Fixing Price	$ per troy ounce	230.33	176.31	162.10	130.44

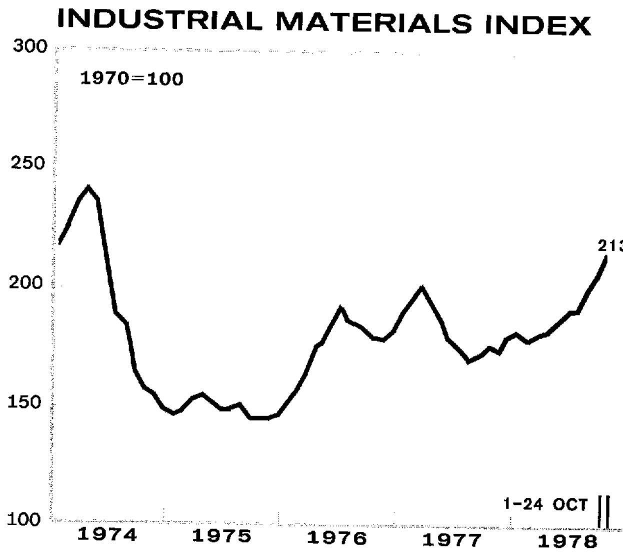
RUBBER



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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