CIA OER EIW 74-04-24 - ECONOMIC INTELLIGENCE WEEKLY

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Approved For Release 2009/09/29 : [redacted]
CIA-RDP85T00875R00150015
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Economic Intelligence Weekly

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CIA No. 8031/74
24 April 1974

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Approved For Release 2009/09/29 : CIA-RDP85T00875R001500150019-6

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Note: Comments and queries regarding this publication are welcomed. They may be directed to Mrs. [redacted] 25X1

ECONOMIC INTELLIGENCE WEEKLY

Articles

SAUDI ARABIA WANTS FOREIGN INVESTMENT

The Saudi government is welcoming foreign investment – less to attract capital than to insure sound economic development.

The Saudis' fast-growing wealth and favorable investment climate have generated widespread business interest abroad. In the past year, investors have proposed hundreds of joint ventures. Saudi officials foresee as much as $2 billion worth of foreign investment annually over the next several years. Total foreign investment in Saudi Arabia now amounts to about $2.5 billion, of which four-fifths is held by US firms.

The government favors competition among potential investors as the most effective means for selecting projects and obtaining low-cost production. Foreign partners are valued for their administrative and technical expertise and for their access to international markets. The Saudis prefer a minimum of 25% capital participation by a foreign firm to assure its interest in the venture; private Saudi participation improves chances of acceptance by the government.

Investment opportunities range from multi-billion-dollar industrial complexes to small projects to serve the local market. The larger projects will feature energy-intensive and capital-intensive industries producing primarily for export; these are favored because of the small domestic market and lack of skilled labor.

The Saudis hope to use their huge output of natural gas – now wasted – in plants producing iron, steel, aluminum, magnesium, copper, zinc, and other metals.

The Eastern Province, along the Persian Gulf, is to be developed as the primary industrial center. Under the 1975-80 development plan, several large petrochemical projects, fertilizer plants, and oil refineries will be added to existing facilities in this area.

A smaller program of industrial and agricultural development is under consideration for western Saudi Arabia, around Jidda. To curb the rush to urban areas that usually accompanies industrialization, the Saudis are seeking to create modern communities centered on new local industries.

The government has assured foreign investors that it will respect private ownership and allow capital to move freely. Other incentives, intended primarily for Saudi investors, should also benefit their foreign partners -- loans on easy terms, exemption of imported equipment and raw materials from customs duties, and exemption of a foreign partner's share from the tax on corporate profits. The government also will assist new companies by providing space at industrial parks and helping to train Saudi workers.

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CHINA: SMALL PLANTS PERK UP ECONOMIC DEVELOPMENT*

China's small plants program has speeded up the modernization of the countryside through the vigorous mustering of low-cost labor and materials. Hundreds of thousands of small plants located in outlying areas now contribute more than half of China's output of chemical fertilizers, 50% of the cement, 30% of the coal, 15% of the iron and steel, much of the farm machinery, and 5% of the electric power. The quality and technical level of output, while below the standards of major urban plants, are sufficient for simple rural uses.

Given China's vast population and inadequate land and capital, the small plants program makes sense economically; failures are attributable to overzealous implementation during periods of political turbulence, such as the Leap Forward. Economic benefits from the program include:

- Provision of additional materials, equipment, and power needed to boost agricultural production;
- Fuller use of China's huge rural labor force;
- Reduction of transport costs;
- Diffusion of capital plant and technology into the countryside; and
- Increase in local control over local economic tasks, which lessens the burden on central administrative resources.

The Chinese tout the small plants program as a part of Chairman Mao's general political design – of preventing the dominance of a central bureaucracy, reducing the cultural differences between city and countryside, and establishing self-sufficient rural bases for strategic defense. Prospects for the further development and upgrading of small plants are excellent because their basic economic and political advantages will persist.

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* For further details, see the forthcoming OER report, *China: Role of Small Plants in Economic Development*

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SOVIET CHEMICAL INDUSTRY: MARKET FOR WESTERN EQUIPMENT

The USSR, unable to supply enough equipment for its chemical industry, must continue to rely on the West, especially for advanced items.

Leonid Kostandov, Minister of the Chemical Industry, recently blamed shortages on the failure of machine building plans to reflect the needs of the chemical industry. Moreover, production of chemical equipment in 1973 fell 12% below plan, the shortfalls being particularly pronounced in equipment for modern production processes.

In his critique, Kostandov pointed out that:

- Output of major lines of equipment satisfies only 50%-70% of chemical industry requirements, far less than previously claimed.
- Production of plastics processing equipment remained practically unchanged during 1966-72, while plastics output more than doubled.
- Inadequate output of corrosion-resistant equipment compels the substitution of pumps and other equipment ill-suited for chemical plant operations.

Delays in deliveries from Eastern Europe have aggravated the shortages. In the two years 1971-72, the area shipped only 21% of the $1.4 billion worth of East European chemical equipment scheduled for the Soviet 1971-75 plan.

Kostandov's complaints help explain the record 1973 orders for Western chemical equipment – estimated at $900 million. Although orders in 1974 may not match those of 1973, current negotiations suggest that they will be large. Western firms will have a new opportunity to make sales in September during a petrochemical trade fair to be held in Moscow.

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INDIA: ECONOMIC PROBLEMS PILE UP*

India faces a bleak year of tight grain supplies, retarded industrial production, and a massive foreign payments deficit.

Grain reserves were exhausted during the 1972 drought, imports in 1973 were minimal, and the 1973/74 grain crop is not providing the surplus needed to rebuild depleted stocks. Meanwhile, India needs an additional 2.5 million to 3 million tons of grain each year to feed the 14 million persons added to the population. The 1974/75 crop will be hurt by fertilizer shortages; weather remains the major unpredictable factor. A good crop in 1974/75 would meet immediate consumption needs without doing much to rebuild inventories. A poor crop would push New Delhi's grain import requirements up to 10 million tons or more. Most of this grain, which would cost India a minimum of $2 billion, would have to come from the United States.

Industrial production, recently increasing at less than 5%, will continue to be held back by government restrictions on private foreign investment and by inadequate funding of public investment. Transport bottlenecks and chronic energy shortages also impede production. New Delhi must import two-thirds of its petroleum requirements, and increased crude oil production is a long way off. Coal production and construction of new power stations lag far behind schedule.

Increased prices of petroleum, fertilizer, food, and industrial raw materials will push the import bill up 43% to an estimated $4.7 billion in the fiscal year ending 31 March 1975. For instance, fertilizer imports, even at last year's inadequate level, will cost an extra $300 million in 1974. Prices for the country's key exports – cotton textiles, tea, and jute – have not increased commensurately. India's exports will increase only about 13% to $3.4 billion.

Under these conditions, a balance-of-payments deficit of $2.3 billion is expected. About $825 million would be offset by the $200 million remaining from the Soviet food loan, the $250 million oil credits from Iran and Iraq, and a recently requested $375 million IMF standby credit. Additional means to finance the remaining $1.4 billion deficit would be required. The government, as always, will be reluctant to draw down its foreign exchange reserves, now totaling $1.1 billion. Unused non-project aid of about $450 million cannot be drawn down rapidly, because it is generally tied to specific products and countries. If large amounts of new foreign aid are not forthcoming, the government would probably squeeze the volume of imports down below last year's austere level.

* For further details, see CIA ER IM 74-5, *India: Economic Performance and Prospects*, April 1974.

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The United States, for its part, has been reviewing its economic policies toward India since December 1971, when US aid was suspended. US officials will discuss the resumption of aid with Indian officials in New Delhi later this month. Both sides have taken steps to move away from a donor/client relationship. US aid, if resumed, will be small compared with the $500 million per year provided during the late 1960s. 25X1

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JAPAN: SOARING WAGES AND SLIPPING PRODUCTION

The sharp wage hikes won in organized labor's "spring offensive" will keep Japan's inflation rate in the 20%-25% range this year, making it one of the highest among the developed countries. Tokyo thus will move cautiously in trying to stimulate a flagging economy.

So far, wage increases averaging about 30% have been won by railway employees, seamen, postal employees, auto workers, steel workers, and shipbuilders. Small and medium-sized manufacturing firms generally have been slow in coming to terms. The recent credit squeeze, rising materials costs, and slumping demand have produced a wave of bankruptcies among such firms.

Labor's push for big pay increases was spurred by rapidly rising consumer prices. In the second half of 1973, consumer prices rose at an annual rate of 20%; by January, real wages were 4% lower than a year earlier. Unions sought gains that would both compensate for recent price increases and offer protection against future rises. Government units such as the national railways and postal system offered little resistance because the ruling party wanted to avert labor disputes before the coming parliamentary elections.

The new pay increase will push up prices much more strongly than did the 20% pay increase in 1973. Under the impetus of the boom, last year's increase was largely offset by sharp gains in labor productivity. With production sagging and firms observing the custom of not laying off workers, productivity gains will be small this year. In 1971, during a less severe slump, labor productivity rose by only 4%, compared with the long-term average of 11%.

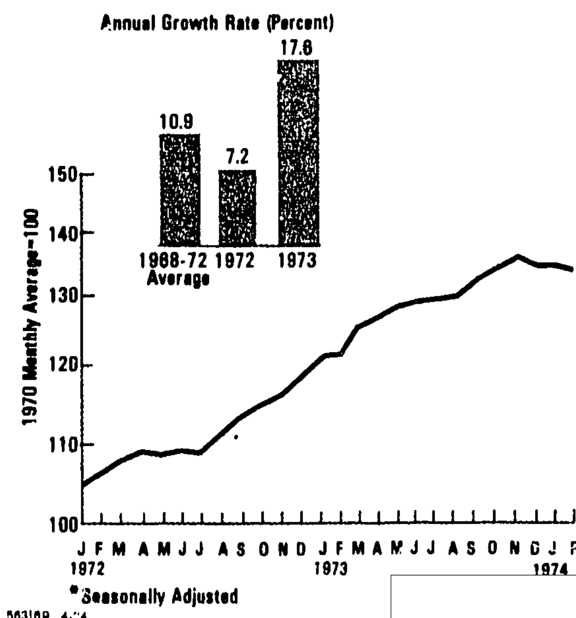
Other inflationary factors should ease as the year wears on. The jumps in international oil prices during the past seven months are not likely to be repeated, although past increases still are working through the system to the consumer. Electric power rates, for example, will have to be hiked soon.

Recent surges in the cost of key imports such as coal and copper are expected to taper off, and grain prices should remain below last year's highs. On the demand side, fiscal and monetary restraints have brought a noticeable cooling.

Meanwhile, production continues weak. Industrial output declined 2% in December, stagnated in January, slipped another half percentage point in February, and showed little if any improvement in March. Inventory buildups and a 5% drop in shipments of manufactures in February suggest that further production cuts are coming. Demand for automobiles and steel is way down, and orders for machinery (excluding ships) and construction have declined sharply.

The course of production during the rest of the year depends on how quickly and decisively Tokyo eases monetary and fiscal restraints and relaxes price controls. Because the high inflation rate is a sensitive political issue, the government will continue to restrain demand at least until the summer election is past. Minister of Finance Fukuda and central bank head Sasaki imply that restrictive policies will be maintained beyond that time, despite the pinch on economic growth. We still expect real GNP to grow between 3% and 5% this year [redacted]

INDUSTRIAL PRODUCTION*



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CANADA: TEST OF THE NEW FOREIGN INVESTMENT LAW

Ottawa intends to stringently apply the new foreign investment law, which became effective on 9 April. A test case of the law's first phase, which provides for the screening of takeovers of Canadian firms, involved the purchase by a medium-sized US manufacturer of a 49% interest in a Canadian company in February. Although not bound by the new law, the

US company agreed to Ottawa's request for government review of the transaction.

In his review, Trade Minister Gillespie emphasized that the government wanted the manufacturer:

- To submit a letter of commitment detailing specific actions the firm was prepared to take to benefit the Canadian economy.
- To refrain from limiting exports through licensing restrictions or sales agreements with its Canadian partner.
- To keep a large share of the firm's earnings in Canada, either through reinvestment or distribution of stock dividends.

Gillespie apparently was conducting a dry run to uncover weaknesses in the first phase of the law and to work out interpretations favorable to Canada's interests. Under this phase, takeover bids for Canadian companies with assets above $250,000 or annual sales exceeding $3 million will be screened by Ottawa to control the number of such firms passing out of Canadian hands. A second phase, which regulates establishment by foreign firms of new businesses in Canada and expansion by foreign firms already in Canada into unrelated activities, will become effective at an unspecified date.

Ottawa's use of the new law will be tempered by consideration of Canada's dependence on foreign investment. Ambitious plans to exploit natural resources over the rest of the decade will require large amounts of foreign investment. Moreover, most of the provinces are actively seeking foreign investment as part of their industrial development programs.

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Peru: The Anchovies Are Back

Peru's anchovy catch for 1974 may be more than 4 million tons, compared with 1.8 million tons last year. The size and quality of the anchovies have been excellent, and fishmeal production is expected to total about 900,000 tons. Encouraging reports of the Peruvian catch have contributed to a drop in world soybean meal prices from a January high of $173 per ton to $115 per ton. The soybean meal price may recover, however, because fishmeal has remained at a high of $400 per ton.

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Soviet Birth and Death Rates Inching Up

The decline in Soviet birth and death rates of the last half century has been reversed, if only temporarily. The rise in the birth rate since 1970 results from the growing proportion of women in prime child-bearing ages and the increase in the birth rate among these women. A tendency toward earlier marriage suggests that couples are having children earlier; it is not yet clear that family size is actually increasing. The rising death rate seems to be related to increased industrialization and the accelerated pace of urban life. The offsetting trends in birth and death rates have kept annual population growth practically unchanged at about 1% since 1965. In the United States, by contrast, a declining birth rate and a stable death rate reduced annual population growth to 0.7% in 1973, compared with 1.2% in 1965. [redacted] 25X1

Possible Attempt to Set Copper Prices

Next week four major copper exporters – Chile, Peru, Zambia, and Zaire – are meeting in Austria, with copper prices one of the major topics. Trade sources believe that the copper exporters will seek to set a minimum copper price in a range of 75 to 90 cents a pound. This range is well below the current price of about $1.30 per pound. With world copper supplies tight through 1974, prices are not expected to fall to this range. Nonetheless, the excursion into price setting could break the ice for more significant price setting in the future. [redacted] 25X1

Dominican Republic Seeks Better Deal from ALCOA

The Dominican Republic intends to renegotiate its contract with ALCOA Exploration Company. The firm currently exports about 1.0 million tons of Dominican bauxite annually to the United States; these shipments meet 4% of US needs. Santo Domingo will insist on increased revenues. Moreover, it will probably pressure the company to process the bauxite locally if supplies prove adequate to justify a $100 million to $150 million alumina plant. Dominican officials meanwhile are considering joining the new Intergovernmental Bauxite Association, whose members already account for about 80% of Free World bauxite exports. [redacted] 25X1

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INTERNAL ECONOMIC INDICATORS

GNP*

Constant Market Prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since: 1970	1 Year Earlier	Previous Quarter
United States	74 I	1.4	4.0	0.4	5.6
Japan	73 IV	1.4	8.3	7.0	5.8
West Germany	73 IV	0.1	3.1	3.4	0.3
France	73 III	0.9	5.6	6.1	3.8
United Kingdom	73 III	1.3	3.9	6.0	5.2
Italy	73 I	0.8	3.1	5.2	3.4
Canada	73 IV	2.8	6.1	7.2	11.6

WHOLESALE PRICES

Industrial

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since: 1970	1 Year Earlier	3 Months Earlier
United States	Mar 74	2.9	8.1	19.6	30.7
Japan	Mar 74	0.7	11.2	35.4	48.2
West Germany	Jan 74	2.7	5.9	10.6	20.5
France	Feb 74	3.5	11.6	29.5	62.6
United Kingdom	Mar 74	3.1	10.0	18.7	41.3
Italy	Nov 73	1.3	8.6	21.2	17.8
Canada	Jan 74	3.3	9.4	19.8	27.8

INDUSTRIAL PRODUCTION*

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since: 1970	1 Year Earlier	3 Months Earlier**
United States	Mar 74	0.4	4.4	0	7.9
Japan	Feb 74	0.5	8.2	8.7	2.9
West Germany	Jan 74	0.6	3.2	0.6	4.3
France	Feb 74	0.5	6.6	4.1	2.0
United Kingdom	Jan 74	6.7	0.1	7.0	17.7
Italy	Jan 74	3.6	5.4	19.7	24.6
Canada	Feb 74	1.2	6.7	4.5	8.7

CONSUMER PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since: 1970	1 Year Earlier	3 Months Earlier
United States	Mar 74	1.1	5.6	10.3	14.0
Japan	Feb 74	3.4	11.0	26.3	56.3
West Germany	Feb 74	0.9	6.3	7.6	10.2
France	Feb 74	1.3	7.3	11.5	15.6
United Kingdom	Feb 74	1.7	9.5	13.2	19.0
Italy	Dec 73	1.4	7.7	12.5	14.5
Canada	Feb 74	1.0	5.8	9.6	9.9

RETAIL SALES*

Current Prices

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since: 1970	1 Year Earlier	3 Months Earlier**
United States	Mar 74	2.0	10.5	4.8	5.5
Japan	Nov 73	3.4	14.6	27.4	32.0
West Germany	Dec 73	0.5	7.8	5.8	7.6
France	Nov 73	2.4	5.6	15.2	20.1
United Kingdom	Nov 73	0.7	12.1	14.8	21.9
Italy	Aug 73	6.7	12.4	19.0	5.0
Canada	Jan 74	2.9	11.2	12.9	15.9

MONEY SUPPLY*

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since: 1970	1 Year Earlier	3 Months Earlier**
United States	Mar 74	0.9	7.4	7.1	7.4
Japan	Dec 73	0	17.5	16.7	14.7
West Germany	Jan 74	0.1	8.9	0.6	9.8
France	Jan 74	1.1	13.2	12.3	18.7
United Kingdom	Feb 74	-0.5	9.0	3.6	0.2
Italy	Oct 73	1.6	20.7	23.0	21.4
Canada	Feb 74	0	13.0	11.6	13.3

MONEY MARKET RATES

	Representative Rates	Percent Rate of Interest: Latest Date		1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Prime finance paper	29 Mar	8.00	6.63	8.00	7.25
Japan	Call money	15 Mar	12.50	5.50	12.00	12.00
West Germany	Interbank loans (3 Months)	29 Mar	11.38	NA	13.00	10.38
France	Call money	22 Mar	11.88	7.25	NA	12.75
United Kingdom	Local authority deposits	29 Mar	16.00	7.32	16.91	14.63
Canada	Finance paper	29 Mar	9.00	5.13	9.50	8.50
Euro Dollars	Three month deposits	29 Mar	10.00	8.63	10.13	8.88

***Seasonally adjusted.**
****Average for latest 3 months compared with average for previous 3 months.**

24 April 1974
Office of Economic Research/CIA

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EXTERNAL ECONOMIC INDICATORS

EXPORTS*
f.o.b.

	Latest Month		Cumulative Million US $ 1974	1973	Percent Change
		Million US $			
United States	Feb 74	7,810	14,720	10,042	46.6
Japan	Mar 74	3,739	11,023	8,082	36.4
West Germany	Feb 74	6,527	13,541	9,324	45.2
France	Mar 74	3,871	10,542	7,913	33.2
United Kingdom	Mar 74	2,830	7,704	6,434	19.7
Italy	Jan 74	1,966	1,966	1,494	31.6
Canada	Feb 74	2,458	4,902	3,941	24.4

EXPORT PRICES
US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Jan 74	0.6	10.2	26.6	27.5
Japan	Nov 73	-0.3	13.2	27.4	11.6
West Germany	Jan 74	-4.5	19.6	21.8	-37.8
France	Oct 73	2.9	17.9	31.9	15.7
United Kingdom	Dec 73	0.1	8.7	17.3	12.4
Italy	Oct 73	2.1	11.6	23.7	29.1
Canada	Dec 73	3.1	10.2	26.8	50.1

IMPORTS*
f.o.b.

	Latest Month		Cumulative Million US $ 1974	1973	Percent Change
		Million US $			
United States	Feb 74	7,390	13,860	10,822	28.1
Japan	Mar 74	4,390	11,949	6,356	88.0
West Germany	Feb 74	4,376	9,363	7,449	25.7
France	Mar 74	3,953	11,226	7,633	47.1
United Kingdom	Mar 74	3,890	10,592	7,313	44.8
Italy	Jan 74	2,170	2,170	1,487	46.0
Canada	Feb 74	2,507	4,733	3,637	30.1

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	Jan 74	0.6	10.2	26.6	27.5
Japan	Nov 73	3.6	4.8	14.9	34.1
West Germany	Jan 74	1.1	2.7	7.1	14.5
France	Oct 73	1.8	6.6	10.7	34.9
United Kingdom	Dec 73	3.1	9.8	18.8	33.4
Italy	Oct 73	2.4	8.3	20.4	17.0
Canada	Dec 73	3.1	8.7	27.0	44.8

TRADE BALANCE*
f.o.b./f.o.b.

	Latest Month		Cumulative (Million US $) 1974	1973	Change
		Million US $			
United States	Feb 74	220	860	-780	1,640
Japan	Mar 74	-651	-926	1,725	-2,651
West Germany	Feb 74	2,151	4,178	1,875	2,303
France	Mar 74	282	-684	280	-964
United Kingdom	Mar 74	-1,060	-2,888	-878	-2,010
Italy	Jan 74	-205	-205	8	-212
Canada	Feb 74	49	169	304	-135

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	Jan 74	3.7	14.3	34.4	58.6
Japan	Nov 73	3.7	4.6	19.8	31.0
West Germany	Jan 74	6.2	5.0	19.5	82.3
France	Oct 73	-1.5	5.3	14.3	35.2
United Kingdom	Dec 73	5.2	16.4	43.1	53.1
Italy	Oct 73	3.4	14.0	38.7	30.8
Canada	Dec 73	2.4	6.3	15.8	19.5

BASIC BALANCE**
Current and Long Term Capital Transactions

	Latest Period		Cumulative (Million US $) 1973	1972	Change
		Million US $			
United States*	73 IV	200	1,186	-9,838	11,024
Japan	Mar 74	-1,150	-9,702	2,137	-11,839
West Germany	Feb 74	1,161	3,950	4,566	-616
France	73 IV	-352	-2,391	-369	-2,022
United Kingdom	73 IV	-1,394	-3,164	-1,989	1,175
Italy	72 IV	800	N.A.	2,983	N.A.
Canada	73 IV	27	376	1,155	-779

EXCHANGE RATES Spot Rate
As of 19 April 74

	US $ Per Unit	Percent Change from Dec 66	18 Dec 1971	19 Mar 1973	12 Apr 1974
Japan (Yen)	0.00361	30.77	11.12	-5.13	0.25
West Germany (Deutsche Mark)	0.39640	57.68	27.75	11.95	0.99
France (Franc)	0.20570	1.88	4.47	6.67	1.08
United Kingdom (Pound Sterling)	2.38450	-14.55	-8.49	-3.11	1.00
Italy (Lira)	0.00157	-1.81	-8.60	-11.19	0
Canada (Dollar)	1.00350	12.26	3.78	3.79	0.59

OFFICIAL RESERVES

	Latest Month End of	Billion US $	Billion US $ Jun 1970	1 Year Earlier	3 Months Earlier
United States	Feb 74	14.6	16.3	14.0	14.4
Japan	Mar 74	12.4	4.1	18.1	12.2
West Germany	Feb 74	32.0	8.8	29.7	34.1
France	Mar 74	8.1	4.4	11.2	8.5
United Kingdom	Mar 74	6.4	2.8	6.0	6.5
Italy	Feb 74	5.4	4.7	6.4	6.1
Canada	Mar 74	6.1	4.3	6.2	5.8

TRADE-WEIGHTED EXCHANGE RATES***
As of 19 April 74

	Percent Change from Dec 66	18 Dec 1971	19 Mar 1973	12 Apr 1974
United States	-17.34	-7.93	-1.27	-0.58
Japan	19.06	5.21	-6.75	0.03
West Germany	33.82	16.69	11.64	0.44
France	-20.95	-7.45	-9.89	0.39
United Kingdom	-33.96	-19.76	-5.39	0.52
Italy	-23.42	-22.08	-15.19	-0.75
Canada	8.89	2.29	3.93	0.45

*Seasonally adjusted.
**Converted into US dollars at current market rates of exchange.

***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.