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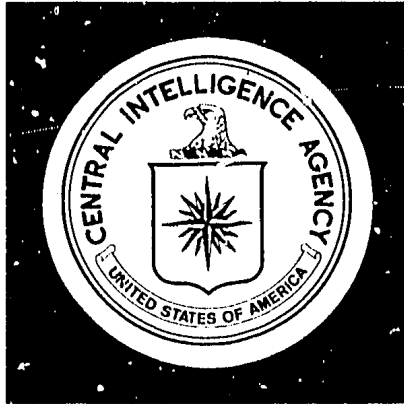
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Economic Intelligence Weekly

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CIA No. 8034/74
15 May 1974

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The oil situation is now being covered mainly in *International Oil Developments*, published each Thursday morning.

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Note: Comments and queries regarding this publication are welcomed.

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ECONOMIC INTELLIGENCE WEEKLY**Articles****ROME FURTHER TIGHTENS IMPORT RESTRICTIONS**

Rome has chosen to attack its payments problem by reducing its trade deficit rather than by inducing short-term capital inflows.

Last week the government required importers to deposit 50% of the value of their foreign purchases in a non-interest bearing account for six months. The Bank of Italy now has revoked the authority of domestic banks to guarantee foreign loans to Italian importers. Since many foreign banks will be reluctant to extend unguaranteed loans, Italian importers will be forced to turn to an already tight domestic market for financing. This followup measure thus improves chances of effecting the 8% cutback in imports Rome is hoping for.

The Bank of Italy has limited overall credit expansion to 15% from March 1974 to March 1975. Because most banks already have reached their limit, additional funds will have to come mainly from loan repayments. Small importers will be hit hardest because they are unable to obtain credit locally or to attract unguaranteed loans from abroad.

The Italian restrictions have not yet led to any countermeasures by most of Italy's major trading partners. But France - concerned about its second largest market - has set up a special body to examine the consequences of Italian restrictions and to consider remedial measures. In addition, a number of French banks and farm organizations have agreed to help cattle breeders and dairy producers finance their Italian sales. About 80% of French live cattle exports went to Italy last year.

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JAPAN: FLAGGING DEMAND FOR IMPORTED RAW MATERIALS

A marked slowdown in the growth of Japan's purchases of raw materials should ease pressure on international commodity markets during the next several months.

The volume of Japan's raw material imports in January and February was up only 1%, compared with the same period in 1973; demand will remain sluggish for at least the next several months. Such imports swelled by 20% last year, a

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major factor in the upward pressure on world commodity prices. Japan accounted for roughly one-half of the increase in world copper consumption and a substantial part of the rise in demand for steel scrap, bauxite, rubber, and other industrial materials. Underlying this demand was the near record 17% increase in industrial production.

Japan: Trends in Import Volume

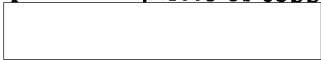
	1973		Percent Change	
	over 1972	Jan-Feb 1974 over Jan-Feb 1973	1973 over 1972	Jan-Feb 1974 over Jan-Feb 1973
Iron and steel scrap	116	-57		
Hides and skins	11	-34		
Wool	-6	-26		
Copper	34	-20		
Cotton	9	-11		
Logs and lumber	17	-8		
Wheat	5	-3		
Crude oil	16	....	
Copper ore	37	2		
Bauxite			12	2
Non-cereal feeds			40	4
Natural rubber			24	5
Soybeans			7	6
Iron ore			21	17
Coal and coke			15	19
Corn			28	21
Sorghum			30



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With industrial output falling in recent months, demand for certain US exports - steel scrap, wood products, hides, and skins - has fallen sharply. Nonetheless, Japan's overall purchases of US materials in January - February 1974 were 10% above the same period in 1973 because of strong demand for US coal and farm products. Imports of US coal and corn were up 67% and 30%, respectively.

Higher prices have raised Japan's raw material import bill markedly even though volume has increased little. Oil imports are running at about the early 1973 level of 5.3 million b/d, while prices have quadrupled. The prices of copper, rubber, tin, and scrap have doubled since early 1973.



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DEVELOPED COUNTRIES: PROSPECTS FOR 1974

Revised OECD forecasts and recent CIA estimates indicate that the economic situation of the developed countries in the first half of 1974 will turn out somewhat better than anticipated in January. Even so, depressed real growth, soaring inflation, and mounting current account deficits will dominate the economic outlook for Canada, Japan, and Western Europe.

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Developed Countries: Economic Projections

	1973	Total 1974 Estimated		1st Half 1974 Estimated		2d Half 1974 Estimated	
		OECD ¹	CIA	OECD ¹	CIA	OECD ¹	CIA
Real GNP Growth (Percent change from previous period)							
Canada	7.1	4.7	4.5	4.8	5.0	4.3	4.0
Japan	11.0	1.1	4.0	-2.3	1.0	5.5	6.0
France	6.1	4.5	3.8	4.4	3.8	3.8	4.6
West Germany	5.3	2.1	2.5	2.5	2.6	3.1	4.6
Italy	5.9	4.8	3.5	3.6	2.0	2.6	1.0
United Kingdom	5.9	-2.5	-2.0	-8.7	-8.0	8.3	9.0
GNP Deflator (Percent change from previous period)							
Canada	7.1	9.1	8.2	9.7	8.5	8.0	7.8
Japan	12.2	22.7	25.0	25.5	32.0	19.6	10.0
France	6.9	10.0	10.0	11.9	11.0	7.8	9.0
West Germany	6.1	8.0	7.0	8.7	9.8	8.0	8.4
Italy	11.0	12.2	18.0	13.5	20.0	11.6	15.0
United Kingdom	8.0	12.0	11.0	11.6	14.0	11.0	9.0
Current Account Balance (Billion US \$)							
Canada	-0.3	-0.5	-1.2	....	-0.5	....	-0.7
Japan	-0.1	-7.5	-7.9	....	-5.9	....	-2.0
France	-0.2	-6.0	-4.3	....	-2.0	....	-2.3
West Germany	3.5	5.0	2.5	1.5	1.0
Italy	-2.8	-7.5	-5.5	-4.5	-1.0
United Kingdom	-3.6	-10.0	-9.0	-5.0	-4.0

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Real GNP in the United Kingdom and possibly Japan is declining in the first half but is increasing moderately in Canada, France, West Germany, and Italy. Inflation rates generally exceed 10%, and, except for West Germany and Canada, the current accounts are in substantial deficit.

The OECD and CIA forecasts, as well as most other forecasts, point to a second half recovery. The forecasts assume that restrictive economic policies will

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be relaxed or stimulative policies introduced in a number of countries, and investment will be encouraged by shortages of capacity and the introduction of energy-conserving processes.

For the year as a whole, real GNP growth in the developed countries will probably fall to half the rate of 1973. Japanese growth will be negligible in the first half; we do not, however, expect GNP to decline as predicted by the OECD. Increased investment spending and business pressure for relief from restrictive policies should increase real growth to nearly 6% in the second half. British GNP will probably plummet by 8% in the first half because of the coal strike, weak consumer demand, and deflationary budget and credit policies. The resumption of a normal work week and renewed consumer confidence should result in a spurt of 8%-9% in the second half.

With the threat of recession diminishing, however, many governments are hesitant to stimulate demand for fear of worsening inflation.

- Tokyo is expected to maintain its restrictive monetary and fiscal policies at least until July; if a recovery is then evident, policies could remain tight until the fall.
- In the United Kingdom the prospects of a second half recovery have allowed the Wilson government to tighten fiscal policy; the new budget increases taxes \$1.6 billion.
- Paris has strengthened price controls, speeded up tax collections, and kept credit tight.

Thus, better than expected performance in the first half could, paradoxically, have the effect of moderating the projected second half recovery.

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CANADA: INFLATION ISSUE HEATS UP

Disagreements within the informal government coalition on measures to deal with Canada's accelerating inflation resulted in last week's budget defeat and the fall of the Trudeau government. The inflation issue is expected to dominate the campaign leading up to the 8 July election.

The rate of inflation, after slowing at the end of 1973, accelerated to 12% in the first quarter of 1974. This is still below the rate in most other industrialized countries. Nevertheless, as a result of the sharp inflationary trend, the opposition

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Progressive Conservative Party proposed sweeping price and wage controls. In turn, the New Democratic Party – the Liberal Party's coalition partner – became concerned about sharing the blame for the inflation and demanded an excess profits tax and other controversial measures as the price for continued support of the government.

Trudeau argued that the price rises stemmed primarily from external causes, such as the worldwide jump in the prices of oil, food, and other materials. He has continued to emphasize growth in output and employment, resisting Conservative and New Democratic calls for restrictive policies. Thus his proposed budget for fiscal year 1975 lacked both the strong anti-inflationary elements that would have mollified the Conservatives and the reformist elements that the New Democrats sought.

The election will test voter sentiment on the dominant issue of inflation. If Canadians are determined to see stronger government action against inflation, they probably will shift to the Conservatives – who had only three fewer seats than the Liberals in the dissolved Parliament. Recent polls show that the Liberals still have a narrow lead, although probably not enough to gain a Parliamentary majority. The outcome of the election and the future course of Canadian economic policy thus remain uncertain.

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Argentina Increases Economic Relations with the USSR

An Argentine delegation on a trade promotion tour of Communist countries already has negotiated sales to the USSR of more than \$200 million in meat, rice, and fruit. This is more than seven times the level of Argentina's 1972 exports to the USSR. Recent press reports of \$600 million of new Soviet aid for power projects in Argentina seem to be exaggerated. Although preliminary aid discussions for major projects are under way, the only new Soviet commitment is a \$75 million contract for power generating equipment at the \$600 million Salto Grande project. The Argentine delegation is scheduled to sign several other agreements on its tour of Prague, Budapest, and Warsaw, including one for \$100 million to \$150 million in credits from Poland.

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Rail Strike Adds to India's Economic Woes

India, harried by a host of major economic problems, hopes to bring its potentially disastrous rail strike to a quick end. Mrs. Gandhi is using the military and "loyal" railroad workers in a determined effort to break the strike. In the meantime, business and commercial activity in the major cities has fallen off sharply.

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Although food is still available, prices in some cities have risen 50% since the strike started. Coal (essential for industrial production), kerosene, and cooking oil are especially scarce. [redacted]

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UK-USSR Ten-Year Cooperation Agreement

Great Britain and the USSR last week concluded a 10-year scientific, technical, and industrial cooperation agreement following two years of negotiation. The agreement resembles those the USSR has signed with a number of West European countries and hopes to conclude with the United States this year. UK interest in the agreement was probably spurred by the record 1973 deficit of more than \$500 million in trade with the USSR. British firms have recently fared badly in the competition for major Soviet contracts, which will determine the pattern of Soviet trade over the next few years. [redacted]

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Algeria Awards Refinery Contract to Italian Firm

Algeria's state oil enterprise, Sonatrach, has awarded Snam Progetti of Italy a contract to build Africa's largest petroleum refinery at Skikda. The refinery, with a capacity of 300,000 b/d, is to be completed by 1978 at a cost of \$300 million. Oil and gas production currently accounts for 18% of Algeria's GNP and three-fourths of its exports. Sonatrach has been negotiating with US and other petrochemical firms for additional plants to be built at Skikda, to produce ethylene, polyethylene, and polyvinyl chloride. [redacted]

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Dollar Decline Continues

The dollar continued to decline sharply on most European exchanges last week. The mark and other joint float currencies gained from 1%-2% on the dollar. The Swiss franc appreciated by more than 4%. The pound declined slightly. Extremely high Eurodollar deposit rates have apparently had little effect in stemming the dollar's decline. Speculation continues over a mark revaluation. \$200 million in intervention has been required so far this month to keep the mark from rising above the narrow 2.25% joint float band. The Italians are continuing their support of the lira despite the imposition of import curbs. [redacted]

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Eastern Europe: Rain Brings Partial Relief

Early May rains have removed crops from the critical list in Hungary and Czechoslovakia but have brought only slight relief to other East European countries. Precipitation in the first week of May ranged from approximately 1.6 inches in Hungary to about 0.8 inch in Bulgaria and East Germany. Hungarian officials said that a grain harvest "disaster" was only a few days away when rain finally fell. The rainfall in Eastern Europe undoubtedly spurred the development of

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spring-planted crops – particularly root crops and sunflowers – and insured the germination of corn. Nonetheless, subsoil moisture remains below average, and more rain must come this month if above-normal grain imports are to be avoided.

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Publication of Interest

Jordan: Economic Prospects
(CIA ER IM 74-4, May 1974,

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The outlook for Jordan's economy is favorable, barring a renewal of major fighting. The balance of payments, which was \$20 million in the black last year, probably will show a surplus of at least \$70 million in 1974. Export earnings, foreign aid payments, and capital inflows for development all are slated to increase. Growth in imports probably will be held to 25% because of the reduced need to import grain and the continued receipt of low-priced petroleum from Saudi Arabia.

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INTERNAL ECONOMIC INDICATORS

GNP*

Constant Market Prices

	Average Annual Growth Rate Since				
	Percent Change		1970	1 Year Earlier	Previous Quarter
	Latest Quarter	from Previous Quarter			
United States	74 I	-1.4	4.0	0.4	-5.8
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 IV	-0.4	3.1	3.9	-1.4
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

	Average Annual Growth Rate Since				
	Percent Change		1970	1 Year Earlier	3 Months Earlier
	Latest Month	from Previous Month			
United States	Apr 74	2.4	8.8	20.8	30.2
Japan	Apr 74	0.7	11.2	35.0	22.9
West Germany	Feb 74	2.3	6.5	11.9	26.5
France	Mar 74	4.9	12.8	33.4	72.7
United Kingdom	Mar 74	3.1	10.0	18.7	41.3
Italy	Nov 73	1.3	8.6	21.2	17.8
Canada	Feb 74	1.5	9.7	19.8	27.8

INDUSTRIAL PRODUCTION*

	Average Annual Growth Rate Since				
	Percent Change		1970	1 Year Earlier	3 Months Earlier**
	Latest Month	from Previous Month			
United States	Mar 74	-0.4	4.4	0	-7.9
Japan	Mar 74	-0.7	7.8	5.7	-8.5
West Germany	Jan 74	-0.6	3.2	0.6	-4.3
France	Feb 74	-0.8	6.8	5.0	1.1
United Kingdom	Feb 74	4.6	1.3	-5.4	-24.3
Italy	Mar 74	-2.1	3.9	13.3	-2.8
Canada	Feb 74	1.2	6.7	4.5	8.7

CONSUMER PRICES

	Average Annual Growth Rate Since				
	Percent Change		1970	1 Year Earlier	3 Months Earlier
	Latest Month	from Previous Month			
United States	Mar 74	1.1	5.8	10.3	14.0
Japan	Mar 74	0.7	10.9	24.0	39.4
West Germany	Mar 74	0.3	6.2	7.2	7.7
France	Mar 74	1.2	7.5	12.2	18.0
United Kingdom	Mar 74	0.9	9.6	13.3	19.8
Italy	Mar 74	2.8	9.0	16.0	28.8
Canada	Mar 74	1.0	6.0	10.4	11.7

RETAIL SALES*

Current Prices

	Average Annual Growth Rate Since				
	Percent Change		1970	1 Year Earlier	3 Months Earlier**
	Latest Month	from Previous Month			
United States	Apr 74	1.4	10.6	8.3	10.8
Japan	Nov 73	3.4	14.6	27.4	32.0
West Germany	Dec 73	0.5	7.8	5.8	7.6
France	Jan 74	-2.7	7.0	16.3	29.2
United Kingdom	Jan 74	-1.3	11.5	13.1	16.9
Italy	Oct 73	0.6	16.2	29.1	56.7
Canada	Feb 74	3.4	12.0	14.0	18.8

MONEY SUPPLY*

	Average Annual Growth Rate Since				
	Percent Change		1970	1 Year Earlier	3 Months Earlier**
	Latest Month	from Previous Month			
United States	Mar 74	0.8	6.8	6.5	5.7
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	Mar 74	-0.2	8.8	2.7	0.5
Italy	Oct 73	1.6	20.7	23.0	21.4
Canada	Mar 74	0.7	12.9	11.8	15.4

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	3 May	8.50	6.75	7.88	8.50
Japan	Call money	15 Mar	12.50	5.50	12.00	12.00
West Germany	Interbank loans (3 Months)	29 Mar	11.38	N.A.	13.00	10.38
France	Call money	26 Apr	11.75	7.62	15.00	11.88
United Kingdom	Local authority deposits	26 Apr	13.83	7.28	15.81	16.00
Canada	Finance paper	12 Apr	10.00	5.75	8.88	8.38
Euro-Dollars	Three-month deposits	29 Mar	10.00	8.83	10.13	8.88

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

15 May 1974
Office of Economic Research/CIA

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EXTERNAL ECONOMIC INDICATORS

EXPORTS* f.o.b.

	Latest Month	Cumulative			Percent Change
		Million US \$			
		1974	1973	Change	
United States	Mar 74	7,074	22,394	15,421	45.2
Japan	Mar 74	3,742	11,026	6,082	36.4
West Germany	Mar 74	6,801	20,342	14,022	45.1
France	Mar 74	3,884	10,541	7,891	33.6
United Kingdom	Mar 74	2,878	7,702	8,434	19.7
Italy	Feb 74	2,095	4,001	3,063	32.6
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	Feb 74	3.5	11.0	27.3	38.3
Japan	Nov 73	-0.8	13.2	27.4	11.6
West Germany	Feb 74	7.1	12.5	23.9	5.6
France	Dec 73	-1.7	13.4	27.4	-9.1
United Kingdom	Dec 73	0.1	8.7	17.4	12.0
Italy	Oct 73	2.1	11.6	23.7	29.1
Canada	Jan 74	4.9	11.3	31.5	63.2

IMPORTS* f.o.b.

	Latest Month	Cumulative			Percent Change
		Million US \$			
		1974	1973	Change	
United States	Mar 74	7,845	21,705	13,254	33.5
Japan	Mar 74	4,399	11,958	6,356	88.1
West Germany	Mar 74	4,934	14,297	11,197	27.7
France	Mar 74	3,945	11,221	7,813	47.4
United Kingdom	Mar 74	3,888	10,589	7,313	44.8
Italy	Feb 74	2,847	5,017	3,298	52.1
Canada	Feb 74	2,507	4,730	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	Feb 74	3.5	11.0	27.6	38.3
Japan	Nov 73	3.6	4.8	14.9	34.1
West Germany	Feb 74	3.4	3.6	11.7	29.5
France	Dec 73	2.1	7.3	15.0	22.3
United Kingdom	Dec 73	3.1	9.8	18.8	33.0
Italy	Oct 73	2.4	8.3	20.4	17.0
Canada	Jan 74	3.7	9.6	30.5	56.7

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

	Latest Month	Cumulative (Million US \$)			
		Million US \$			
		1974	1973	Change	
United States	Mar 74	-171	680	-833	1,522
Japan	Mar 74	-657	-832	1,725	-2,657
West Germany	Mar 74	1,867	6,045	2,825	3,220
France	Mar 74	-282	-680	276	-958
United Kingdom	Mar 74	-1,050	-2,887	-878	-2,009
Italy	Feb 74	-752	-957	-235	-722
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	Feb 74	5.4	15.6	40.6	71.4
Japan	Nov 73	3.7	4.8	19.8	31.0
West Germany	Feb 74	3.5	5.9	22.7	75.7
France	Dec 73	9.0	8.0	16.4	37.3
United Kingdom	Dec 73	4.5	16.3	42.6	50.6
Italy	Oct 73	3.4	14.0	38.7	30.8
Canada	Jan 74	2.3	6.8	17.3	25.7

BASIC BALANCE**

Current and Long-Term-Capital Transactions

	Latest Period	Cumulative (Million US \$)			
		Million US \$			
		1973	1972	Change	
United States*	73 IV	200	1,186	-9,838	11,024
Japan	Mar 74	-1,168	-9,702	2,137	-1,839
West Germany	Mar 74	1,178	3,950	4,566	-918
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.	2,883	N.A.
Canada	73 IV	27	378	1,155	-779

EXCHANGE RATES

Spot Rate
As of 10 May 74

	US \$ Per Unit	Percent Change from			
		Dec 66	18 Dec 1971	19 Mar 1973	3 May 1974
Japan (Yen)	0.0036	30.55	10.93	-5.29	0.76
West Germany (Deutsche Mark)	0.4131	64.32	33.13	16.66	1.77
France (Franc)	0.2067	2.38	4.98	-6.22	2.17
United Kingdom (Pound Sterling)	2.4305	-12.90	-6.72	-1.24	0.52
Italy (Lira)	0.0016	0.12	-6.80	-9.44	1.14
Canada (Dollar)	1.0396	12.71	4.19	4.20	0.04

OFFICIAL RESERVES

	Latest Month	Billion US \$			
		Billion US \$			
		End of	Jun 1970	1 Year Earlier	3 Months Earlier
United States	Mar 74	14.6	16.3	14.0	14.4
Japan	Apr 74	12.7	4.1	16.8	11.8
West Germany	Mar 74	32.9	8.8	32.3	33.1
France	Mar 74	8.1	4.4	11.2	8.5
United Kingdom	Apr 74	7.0	2.8	6.1	6.2
Italy	Mar 74	6.7	4.7	6.3	6.4
Canada	Apr 74	6.2	4.3	6.1	5.9

TRADE-WEIGHTED EXCHANGE RATES***

As of 10 May 74

	Percent Change from			
	Dec 66	18 Dec 1971	19 Mar 1973	3 May 1974
United States	-18.78	-9.31	-2.84	-0.73
Japan	18.10	4.29	-7.66	0.41
West Germany	35.63	18.35	13.27	0.40
France	-23.78	-10.15	-12.58	0.85
United Kingdom	-34.32	-20.05	-5.64	-0.52
Italy	-24.13	-22.75	-15.83	-0.32
Canada	8.82	2.23	3.87	-0.20

*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.