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ECONOMIC INTELLIGENCE WEEKLY

19 March 1975

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Overview

Rapid Wage Increases and Income Maintenance Programs have been cushioning the recession in the major developed countries. Real disposable income in these countries fell less than 0.5% in 1974, compared with a 0.9% drop in GNP. The United States experienced the largest decline, with real income falling 2.6%; a lesser decline was recorded in the United Kingdom. Despite surging inflation and rising unemployment, real income rose in all other countries, led by a 4.6% increase in Canada.

Money wage hikes that outstripped inflation were the major factor holding up income. Wage rates were up about 20%, on average, an increase of more than 4 percentage points above the jump in consumer prices. West German workers had the largest increase in real wages; their wage rates climbed 16%, compared with a 7% price rise. In the United Kingdom, real wage rates were unchanged from 1973. In the United States, real wages fell about 2.5%.

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As the year progressed, income maintenance programs increased in importance as a prop to real income. In Japan, the lifetime employment practice kept many workers on the payroll at 90% of normal salary. In West Germany, government unemployment payments rose 150%, income supplements to workers on short time 800%.

Real disposable income is unlikely to change much in 1975. Real wage rates will move up only slightly as recession in the industrial world polices wage demands. At the same time, unemployment -- already up substantially (see the new appendix chart, "Unemployment") -- could average 50% above 1974 levels. Expanded unemployment benefits will cushion much of the fall in wages, at the cost of increased government deficits and increased assessments on business firms and still-employed workers.

Buffer Stock Schemes are being promoted by primary commodity producers to bolster prices and improve foreign exchange earnings. Malaysia, Indonesia, and Thailand, which account for 80% of natural rubber production, are moving toward an agreement to set up buffer stocks to stabilize prices. Chile, Peru, Zaire, and Zambia, members of the Intergovernmental Council of Copper Exporting Countries, also favor creation of a buffer stock; participation by consuming countries, crucial to obtaining financing, will be difficult to secure.

Soybean Prices, off 40% since October, have declined even more sharply than those for grain and remain under downward pressure. In prospect are a large Brazilian soybean harvest, good anchovy fishing off Peru, and a 6% increase in US soybean acreage. Although the US soybean harvest dropped 20% in 1974, the crop plus stocks is more than sufficient to meet depressed domestic and foreign demand.

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Articles

DEVELOPED COUNTRIES: IMPACT OF INCOME MAINTENANCE PROGRAMS

Mounting unemployment benefits are serving as an important prop to real disposable income in the recession-hit developed countries. At the same time, income maintenance programs are enlarging government deficits and squeezing business profits.

Scope of Programs

Income maintenance programs cover most industrial and commercial workers in all the major developed countries and agricultural laborers in a few. Unemployment payments for workers with families range from about 15% of gross wages in Italy to 100% of take-home pay in France. Benefits can continue for up to one year in Canada, France, West Germany, the United Kingdom, and the United States and six months in Italy and Japan.

Workers on short time also receive substantial income supplements in France, Italy, West Germany, and Japan. In France, workers on short time receive benefits that raise take-home pay to at least 80% of normal, compared with the 100% received by the unemployed.

Union-negotiated benefits play a large role in supplementing formal unemployment compensation programs in the United States and Canada. These take the form principally of payments from company funds under the labor contract. In several industries, including the US auto industry, these benefits push the income of laid-off workers up to 85% of normal take-home pay. Contracts generally do not cushion income losses of workers on short time. In a few cases, unions provide limited supplemental payments out of their own funds.

The governmental income maintenance programs usually are financed by fixed-share contributions from workers' earnings and employers' payrolls plus a government contribution. The funds are collected and disbursed by a public agency. In times of heavy layoffs, these funds almost always are depleted, and their replenishment from the public treasury or by increases in employer/worker contributions becomes a political issue.

In the case of income supplements for workers on short time, firms may bear a disproportionate share of the burden. In France, for example, a firm makes

Developed Countries: Unemployment Benefit Schemes

	Provisions for Workers on Short Hours (A)	Provisions for Unemployed Workers (B)	Financing Arrangements for Benefits
Canada	None, except for union benefits	Two-thirds of normal pay for up to one year plus union benefits	(B) Employer: 1.4% of payroll Worker: 1% of wages Government: covers deficit when unemployment exceeds 4%
France	At least 80% of normal wage	Ninety percent of gross income (100% of net income) for up to one year	(A) Employer: 50% Government: 50% (B) Employer: 0.64% of payroll Worker: 0.16% of wages Government: covers deficit
Italy	[illegible]ty-six and two-thirds percent of lost wages (80% of lost wages in "crisis" industries)	$1.25 per day plus dependency allowances for six months	(A) Employer: 0.2% of payroll (B) Employer: 2.3% of payroll Government: administrative costs
Japan	Individual arrangements with employer for "temporary home rest" at up to 90% of normal salary	Sixty percent of normal pay plus dependent allowances for up to six months	(A) Employer: all (B) Employer: 0.65% of payroll Worker: 0.65% of wages Government: 25% of total benefit cost plus 1/3 of deficit
United Kingdom	None	Flat $22.00 per week with $2.50-$5.00 per dependent plus graduated supplement of up to $70 per week (for a total of up to 85% of normal wages)	(B) Employer: flat $2.30 per worker per week plus 4.75% of payroll Worker: flat $1.90 per week plus 4.75% of wages
United States	None	About 50% of earnings plus dependent supplements. Union contracts often provide for some pay by employer for laid-off workers	(B) Employer: about 2.5% of payroll Worker: none except in three states
West Germany	Sixty-eight percent to 80% of earnings, depending on family size, for up to one year		(A+B) Employer: 0.85% of payroll Government: covers deficit Worker: 0.85% of earnings

Principal Source: HEW, Social Security Administration, Office of Research and Statistics, Research Report No. 4, *Social Security Programs Throughout the World*, 1973. Data have been updated.

50% of the short-time supplementary payments directly to the worker. In spite of the high cost, French employers are opting for short-timing their work forces, in order to maintain their labor supply. This preference has recently caused unrest among union members, since fully laid-off workers now obtain greater remuneration than those on short time.

The burden of income maintenance programs on the firm is greatest in Japan, which favors a lifetime employment concept. The unique Japanese system softens the impact of declining demand for labor by having firms maintain workers at 90% of their salaries even if they are not needed.

Income and Cost Effects

Unemployment and short-time compensation helped hold the drop in real disposable income in the major developed countries to less than 0.5% in 1974 in spite of rapid inflation and an 18% rise in unemployment. The supportive effect of income maintenance programs was strongest in West Germany, where unemployment and short-time benefits rose 150% and 800%, respectively, and in Japan, where the lifetime employment practice kept large numbers of unneeded workers on near-full salaries.

So far, increases in unemployment compensation payments have had few wrenching effects on government finances and business profits. The role of government in these programs is one aspect of countercyclical fiscal policy. Only in Japan, where retention of redundant workers on 90% salary contributed substantially to the 25% drop in business profits last year, have compensation programs hurt business.

Income maintenance programs will come under growing strain in 1975. A 40%-50% jump in the number of unemployed in the seven countries will increase the payments of burden while eroding the base of contributions.

- In West Germany, the federal government will have a $2.5 billion deficit in the national unemployment fund to cover this year, compared with a $900 million deficit last year and a $600 million *surplus* in 1973.

- In France, business, government, and the still employed have to increase their contributions to pay for the recent expansion in unemployment coverage and benefits.

- In Italy, business costs will rise considerably if proposed legislation whereby employers pay the difference between full salaries and unemployment compensation is adopted. [redacted] 25X1

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SOY PRICES WEAKEN

Prices of soybeans and soybean oil and meal have declined sharply during the past four months.

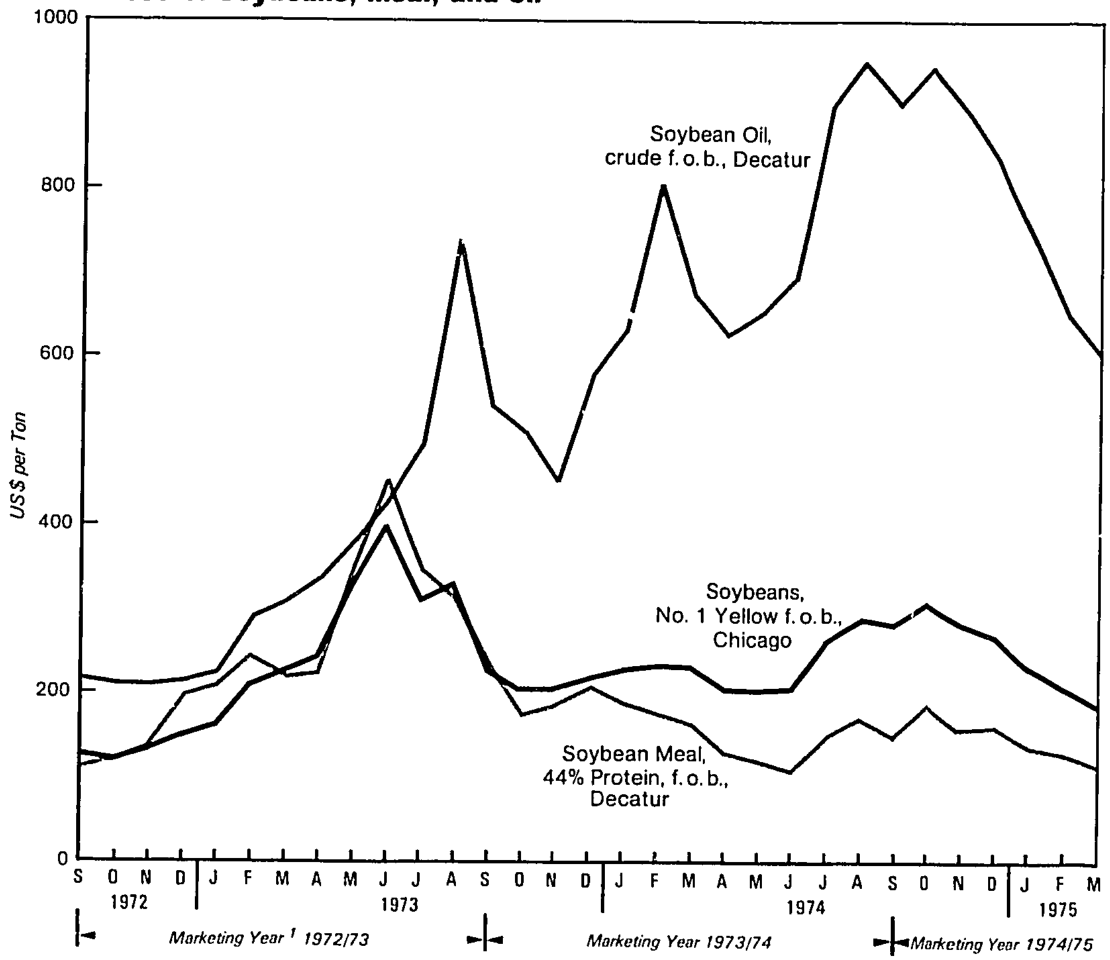
The price of US soybeans – pace setter for world oilseed export prices – has declined about 40% since October 1974 to a level somewhat below a year ago. Meal prices, on a downward trend for the past 18 months, are near the low points of the last two years. Oil prices, although down, are still relatively high. The steady decline in soy prices since the October 1974 peak reflects

- the effect of the worldwide economic recession on demand, for example, on the demand for livestock feed;
- the fading away of the threat of US export controls;
- the pressure from unexpectedly large supplies of Brazilian soybeans and of competing products, particularly palm oil;
- the drawdown of oil and meal inventories; and
- the sudden retreat from doomsday speculation in agricultural commodity markets.

World Production

Observers last fall were hardly predicting a sharp price decline, in view of the reduction in US and world supplies anticipated for the marketing year ending August 1975. They knew the US 1974 soybean harvest – source of nearly half of the world oilseed output – was down substantially, 20% as it turned out. Soviet sunflower seed and Indian and Nigerian peanut crops also had declined. As of now, only a 7% drop in world production of oilseeds and meals – on a meal basis – is projected by USDA, because of the continuing recovery of Peru's anchovy catch and an expected 20%-25% increase in Brazil's soybean harvest. Import demand has apparently fallen more than production, however, depressing oilseed prices.

Prices of Soybeans, Meal, and Oil



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1. Beginning 1 September for soybeans and 1 October for meal and oil.

Foreign Demand for US Soybeans

Demand for US soybeans and meal by the EC and Japan – normally accounting for 60%-70% of US exports – has declined since October, following a rapid buildup in stocks. Last summer these countries – the Netherlands, West Germany, and Japan, in particular – contracted for more than they could use; they expected that the United States might institute export restrictions as in 1973, when supplies also were tight. Because the threat of controls has diminished, orders for 1.9 million tons of beans and 1.3 million tons of meal have been canceled

Estimated World Production of Selected Oilseeds and Fishmeal

	Million Tons (Meal Equivalent)			
	1972/73[1]	1973/74[1]	Estimate 1974/75[1]	Percent Change 1974/75 over 1973/74
Total	56.1	65.7	61.4	-7
Soybeans	32.8	40.7	35.6	-13
United States	25.8	31.5	25.1	-20
Brazil	3.7	5.5	6.8	24
Other	3.3	3.7	3.7	....
Other than soybeans	23.3	25.0	25.8	3
Fishmeal	5.1	5.8	6.8	17
Sunflower seed	3.2	4.0	3.6	-10
All others	15.0	15.2	15.4	1

1. Marketing year beginning 1 September for soybeans and 1 October for meal and oil.

in the past eight weeks. We expect additional cancellations in the coming weeks of at least 3 million tons of beans and 3.5 million tons of meal to bring exports in line with current demand.

We estimate now that depressed world demand for US soybeans may result in exports reaching only about 12.5 million tons in the current marketing year, 16% below last year; soybean meal about 4.5 million tons, 10% below last year.

This projected lower level of exports, together with the 11% reduction in domestic meal consumption predicted by the USDA, would leave US soybean stocks at the end of August 1975 at 4 million tons – down slightly from a year ago but more than double the level in 1973. This comparatively comfortable stock level, combined with an expected 6% boost in US soybean acreage in 1975, could further depress prices of soy products. 25X1

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CIPEC COUNTRIES SEEK BUFFER STOCK AGREEMENT

Chile, Peru, Zaire, and Zambia, members of the Intergovernmental Council of Copper Exporting Countries (CIPEC), are seeking the cooperation of producers and consumers to stabilize world copper prices. CIPEC is unlikely to win the support of importing countries, which do not want to help finance an expensive buffer stock to hold up prices.

Lacking enough control over copper exports to establish an OPEC-like cartel, the CIPEC producers want an organization patterned after the International Tin Council. The Council attempts to maintain agreed floor and ceiling prices through manipulation of buffer stocks. CIPEC nations are considering a new organization that would include major copper exporters and importers and allow participation of private copper companies.

The groups of exporting and importing countries would each control 50% of the vote; each country's vote would reflect the size of its copper exports or imports. The CIPEC countries therefore would control two-thirds of the producers' votes, and Canada, the Philippines, Papua New Guinea, and Australia would have the remainder. The importing countries visualized as members are Japan, West Germany, the United Kingdom, Belgium, France, and Italy.

Members of the organization would establish a buffer stock, buying copper on the London Metal Exchange when the price falls below the floor and selling when it rises above the ceiling. CIPEC has in mind floor and ceiling prices of 68 and 89 cents a pound, compared with the current LME spot price of 59 cents and the record high spot price of $1.52 reached in April 1974. To raise the price to 68 cents, the organization would have to purchase an estimated 500,000 tons in 1975, at a cost of perhaps $750 million. Member countries would share in financing the buffer stock with the aid of loans from the IMF, if necessary.

The CIPEC nations are now interested in an international pricing scheme because their efforts to restrict exports have not raised copper prices enough to increase export earnings. They are warning the importing countries that prolonged low prices will discourage investment and possibly cause shortages and high prices during the economic upturn. Nonetheless, the importers – currently benefiting from low prices – have little interest in raising prices through a costly buffer stock scheme. Most international copper firms prefer further production cuts to the complexities of financing international buffer stocks. 25X1

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CHILE: SINKING TRADE-AND-PAYMENTS POSITION

The drop in world copper prices and a reduction in foreign assistance will saddle Chile with a large balance-of-payments deficit this year. Since extensive commercial financing is precluded by Chile's enormous debt, a large cut in imports and some default on obligations will be required to cope with the payments problems. A slash in imports would reverse the economic recovery under way since the Allende period and could derail the military government's program of economic reform.

Export earnings are likely to drop about 30% in 1975. Foreign aid is contracting to a trickle because of international distaste for the junta's treatment of its political opponents. Moreover, rising prices are increasing the cost of imports by about 10%. If the junta meets the required 1975 service payment on its foreign debt, the emerging payments crunch will force the government to cut imports by as much as $900 million from the present rate, a drop of about 40% in volume from a year earlier. So far, no steps to restrict imports have been taken.

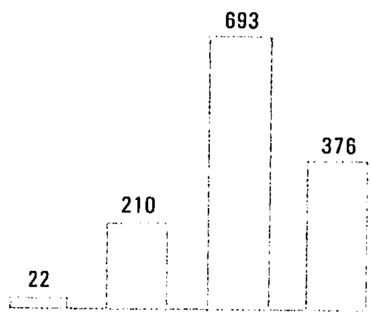
The junta is scheduled to meet late in March with the Paris Club to negotiate Chile's request for relief from the $565 million debt service payments due members in 1975. The prospect of help from this quarter is poor. Under Club rules, only $200 million in the payments are eligible for renegotiation. One-fifth of this amount is in doubt because the United Kingdom and Italy plan to boycott the meeting; moreover, the United Kingdom is attempting to persuade other members to join in refusing to renegotiate. Faced by refusal to roll over these payments, the junta might default on amounts due countries unwilling to discuss renegotiations. The junta would resort to default reluctantly, given its strong desire to improve Chile's credit standing.

Selective defaults and other debt measures would still leave a $700 million payments gap to be closed by reducing imports. A cut of this magnitude would have a harsh impact on the economy. Although the probable imposition of gasoline rationing this year will permit some relatively easy savings in oil imports, deep cuts would have to be made in purchases of industrial materials, intermediate manufactured goods, and capital equipment. Such a reduction would fall most heavily on industry and the urban wage earner.

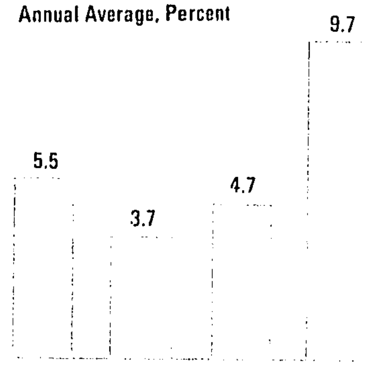
The consequent decline will endanger the regime's promising reform programs and its attack on Chile's triple-digit inflation. Further rises in unemployment and

CHILE: Economic Indicators

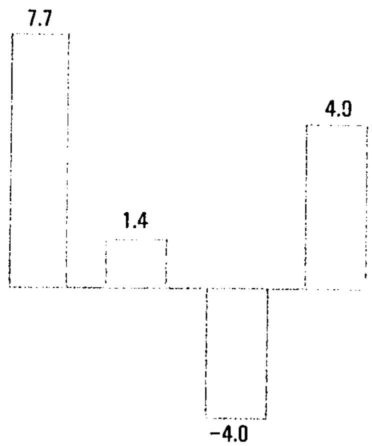
Inflation Rate
Percent, Dec/Dec



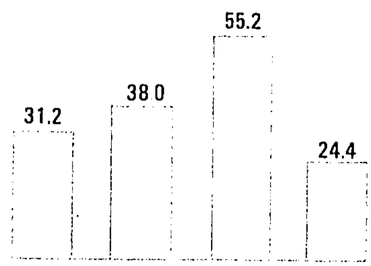
Unemployment Rate
Annual Average, Percent



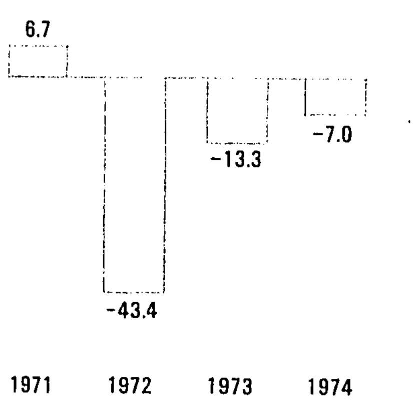
Real GDP Growth
Percent



Public Sector Deficit as a Percent of Expenditures



Real Wage Changes
Percent, Jan/Jan



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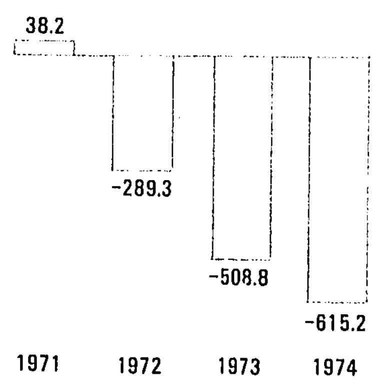
Net Foreign Reserves[1]
Million US$ at Yearend



1. Total reserves minus short-term liabilities.

declines in real wages will (a) heighten public unrest and (b) increase pressure on the government from populist elements within the military to abandon its economic programs. [redacted] X1

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CHINA: FALLOFF IN IMPORTS OF US FARM PRODUCTS

Sino-US agricultural trade is winding down, almost as abruptly as it began.

China first entered the US commodity market in the fall of 1972 because of poor domestic crops and the uncertainty of supplies from traditional markets. By the end of 1974 the PRC had contracted for larger quantities of agricultural commodities than it could absorb financially or logistically. Furthermore, improved crops in 1974 allowed the PRC to reduce its forward purchases. By yearend, all contracts for delivery of US wheat in 1975 -- about 1.1 million tons - had been canceled.

In September 1974, Peking liquidated all contracts for US soybeans - about 600,000 tons. Subsequently, contracts for almost one-half of the US cotton on order were also canceled. Delivery of the balance of the cotton - about 290,000 bales - is to be stretched out.

Peking has paid the trader the difference between the contract price and the world price on the day of liquidation. At the same time, China has claimed damages for unsatisfactory grain and cotton already delivered, so that actual payments by the Chinese have been small.

The People's Republic has long-term agreements with traditional suppliers - Canada, Australia, and Argentina - for up to 4.8 million tons of grain annually through 1976. It thus is unlikely to return to the United States for agricultural commodities unless it suffers a string of poor harvests and alternative sources are unable to provide grain.

China: Imports of Agricultural Commodities

	1971	1972	1973	1974	1975[1]
All commodities (million US $)	345	550	1,300	1,600	1,200
From the United States (million US $)	....	61	578	656	84
Percent	....	11	44	41	7
Total grain (million tons)	3.0	4.8	7.7	7.0	5.4
From the United States (million tons)	....	1.0	4.1	2.8	....
Percent	....	21	53	40	....
Total cotton (thousand bales)[2]	433	787	1,944	1,655	1,000
From the United States (thousand bales)	....	....	583	894	320
Percent	....	....	30	54	32
Total soybeans (million tons)	....	....	198	626	....
From the United States (million tons)	....	....	198	626	....
Percent	....	....	100	100	....
Total soybean oil (thousand tons)	....	10	58.3	7.0	....
From the United States (thousand tons)	....	10	58.3	7.0	....
Percent	....	100	100	100	....

1. Projected.
2. Year beginning 1 August of previous year.

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EASTERN EUROPE: ECONOMIC SLOWDOWN AHEAD

We expect lower growth rates in Eastern Europe* for the next several years as a result of higher prices for Soviet imports and the Western inflation and recession. The timing and severity of the slowdown will depend mainly on the

* Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania.

extent of concessions from the USSR and credits for imports from the West. Slower growth will mean the end of the era of notable advances in consumer welfare, an era that began in the early 1970s, following the disturbances in Czechoslovakia and Poland.

Purchasing power will shift from Eastern Europe to the USSR. Higher industrial costs will be a major problem now that the USSR has jumped the prices of its oil and other raw materials deliveries. Only Romania, a net exporter of petroleum, and Poland, with ample coal resources, will be relatively untouched by this development. Although the USSR is now charging its East European customers only two-thirds of the world price for oil, the new pricing formula for 1976-80 means that the price almost certainly will rise further. For those years, the East Europeans have agreed to pay the USSR a price based on the average world price in the preceding five-year period. The higher costs to the East Europeans will be only partially offset by price hikes for their exports to the USSR or by Soviet concessions.

The shrinking of export markets in the West will strain Eastern Europe's hard currency payments situation. In 1974, Romania achieved a growth of roughly 10% in export volume and Poland 5%, thanks mainly to their exports of petroleum and coal, respectively. At the same time, the other countries registered little if any increase, and their terms of trade with the West worsened. Eastern Europe's hard currency trade deficit soared to $4.5 billion, compared with $2.3 billion in 1973. Poland accounted for almost half the deficit as it continued to draw heavily on its favorable credit rating in Western banking circles.

Imports from the West will level off unless additional credits are forthcoming. Much of the financing of the expected 1975 trade deficit has already been obtained in the form of syndicated Eurodollar loans and credits guaranteed by West European governments. Beyond 1975 the extent to which Eastern Europe can expand its exports to the West and find new sources of long-term financing will determine its ability to continue to increase imports from the West. Some of the best hard currency earners – such as processed foods and low-sulfur Polish coal – may have to be redirected partly to the Soviet market.

If imports from the West must be reduced, economic growth plans will have to be trimmed. The sectors hit hardest by cutbacks in imports would be agriculture, chemicals, metallurgy, and food processing, which rely heavily on Western technology, equipment, and basic materials. Moreover, investment would have to be diverted to such industries as textiles and other consumer goods to meet Moscow's demands for goods to pay for its higher priced raw materials.

Slower growth will mean the end of substantial gains for the consumer in Eastern Europe. The need to boost exports to both the West and the East will leave fewer goods for domestic consumption. Planners will have to slow down the growth of real income and increase some retail prices to discourage consumption of scarce commodities. Already the Hungarians in January 1975 and the Poles in February 1975 have raised retail prices for certain goods that incorporate high-priced Western materials; other countries are likely to follow. [redacted] 25X1

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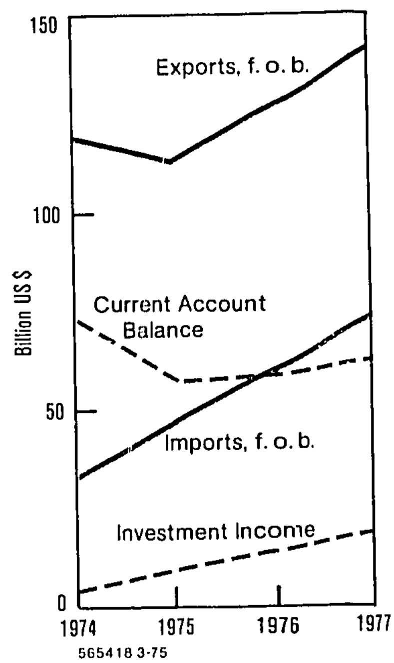
OPEC COUNTRIES: CURRENT ACCOUNT TRENDS THROUGH 1977*

We estimate that OPEC member states will run current account surpluses (in current prices) of about $60 billion annually in 1975-77. As a result, the countries will amass $265 billion in foreign assets by the end of 1977, compared with the $25 billion held at the end of 1973.

OPEC Countries: Projected Current Account Trends



Current Account Projections

Seven of the 12 OPEC states—Saudi Arabia, Iran, Kuwait, Nigeria, the United Arab Emirates, Iraq, and Qatar—should have large current account surpluses throughout the period. Saudi Arabia's surplus is expected to reach $30 billion in 1977, nearly half the OPEC total. Despite a reduced volume of oil exports and rapidly rising imports, the Saudi surplus will continue to rise because of the substantial growth of investment income. By the end of 1977, Saudi earnings from investment will be approaching the projected value of imports.

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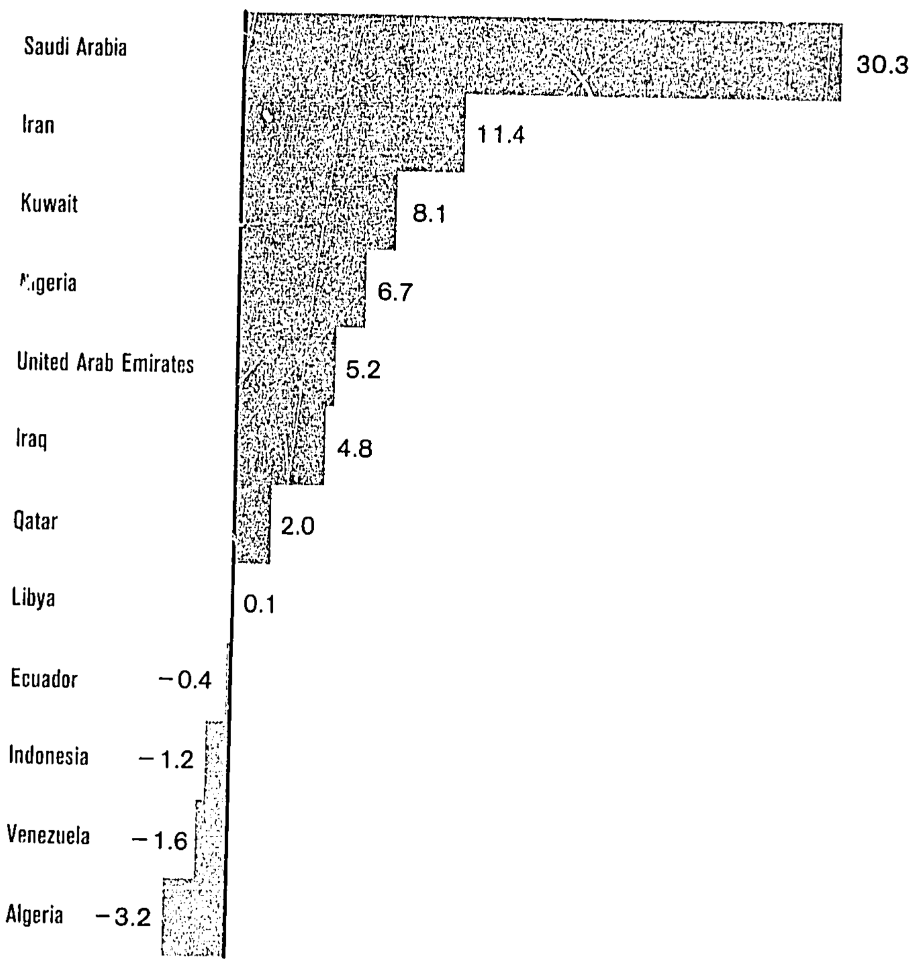
[redacted]

OPEC Countries: Estimated Current Account Balances in 1977

Billion U S $



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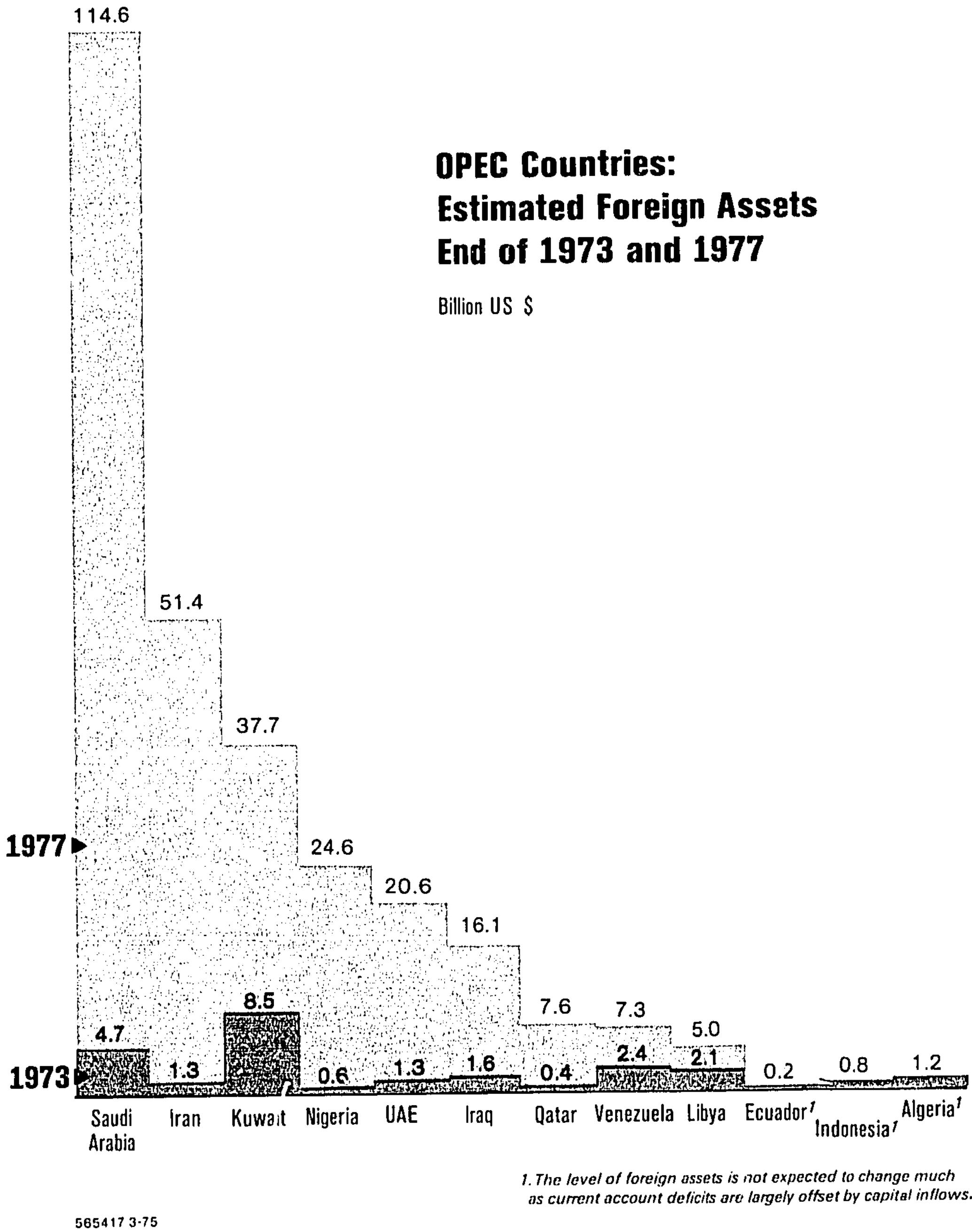
The remaining five countries—Algeria, Libya, Indonesia, Venezuela, and Ecuador—will experience balanced current accounts or small deficits. None are likely to encounter serious balance-of-payments problems. To break even, Libya will be forced to raise oil exports by adopting competitive pricing policies. Venezuela's projected deficit of $1.6 billion in 1977 can readily be financed by capital inflows and a drawdown of reserves—or can be avoided by an easing of conservation efforts. Algeria, Indonesia, and Ecuador probably will be able to cover their deficits with capital inflows; if not, they probably will export more oil than we have projected.



Key Assumptions

These projections reflect the following key assumptions:

- Demand for OPEC oil will decline 8% from 1974 to 1975 because of slackening economic activity and large oil inventories. The restoration of economic growth will result in increases in demand for OPEC oil of 2% in 1976 and 7% in 1977.

- The average nominal price of oil in 1975 will equal the price on 1 January 1975. The price will rise by 8% in 1976 and 5% in 1977—slightly less than our projected rate of inflation for OECD countries.

- Growth in the value of OPEC imports will slacken from the torrid 1974 pace of 65% to 27% in 1976 and 23% in 1977, because of physical and human constraints in absorbing foreign goods. Prices of OPEC imports will rise by 9% in 1976 and 6% in 1977, compared with 30% in 1974.

- OPEC countries will earn 8% on the value of their foreign assets.

Sensitivity to Alternate Assumptions

Given the uncertainties concerning the recovery in world economic growth and possible variations in our other key assumptions, numerous alternate projections can be devised. The more plausible variations do not change our basic conclusion that OPEC can withstand any likely financial strains. We see no damaging stress on the cartel through 1977 so long as Saudi Arabia is willing to absorb the bulk of any necessary cuts in oil production and supports OPEC pricing policy—circumstances that seem likely.

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[redacted]

OPEC COUNTRIES: TANKER FLEET EXPANSION*

OPEC states, long interested in increasing their role in downstream operations of the petroleum industry, are expanding their tanker fleets through cooperative arrangements, national programs, and joint ventures with foreign maritime powers. The countries plan to invest $4-$6 billion to expand their combined fleet from 2.3 million deadweight tons in 1975 to 30.5 million DWT by 1980. A fleet this size will be able to carry about 22% of OPEC's estimated exports in 1980.

Implementation of these ambitious plans is proceeding slowly. About 7.6 million DWT are on order at Japanese and West European yards for delivery by 1979, leaving OPEC 20.6 million DWT short of its 1980 goal. Among the reasons for this cautious approach are

- uncertainty in the world tanker market and a growing tanker surplus,
- the likelihood that prices for used tankers will continue their sharp decline,
- the shortage of trained personnel, and
- the prospect that the reopening of the Suez Canal and the likely construction of the SUMED pipeline will change tanker size requirements and the composition of the world tanker fleet.

[redacted] 25X1

National Programs

Each OPEC nation, except Qatar, has national tanker fleet development plans. Arab countries – particularly Iraq, Saudi Arabia, and Kuwait – will account for more than 26 million DWT of the planned 1980 fleet, while Iran and Venezuela are expected to lead the non-Arab producers.

Cooperative Arrangements

In addition, Arab oil producers, under the leadership of Kuwait and Saudi Arabia, have formed the Arab Maritime Petroleum Transport Company. A 10 million-DWT fleet costing more than $2 billion is planned by 1980-82. The company has ordered six VLCCs* in the range of 300,000 to 400,000 DWT from West Germany and France at a cost of almost $400 million. These vessels are believed to be in addition to ships ordered by individual Arab countries and will be registered under Saudi, Kuwaiti, Libyan, Iraqi, and Algerian flags.

Joint Ventures

Because of a lack of experience, management expertise, and crews in producer countries, many OPEC nations are forming joint ventures with foreign firms. At least 10 joint ventures have been arranged or are being negotiated. These include deals between Saudi Arabia and American, Japanese, and Spanish firms. Many OPEC members are being bombarded with offers for fleet development aid from international oil companies, independent tanker owners, management firms, and consumer governments.

Training

Although currently lacking required crews and management talent, OPEC countries are starting to train local manpower. The Arab Maritime Transport Academy, sponsored by the UN Intergovernmental Maritime Consultative Organization (IMCO)**, is being upgraded with a $2.6 million loan. This school, which will become fully operational by 1977, will train Arabs in the administrative, financial, and support areas of international shipping. Furthermore, many OPEC nations, particularly Kuwait and Saudi Arabia, are sending trainees abroad.

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* Very Large Crude Carriers – tankers of more than 175,000 DWT.

** The Academy was established to train personnel from Bahrain, Egypt, Iraq, Jordan, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Sudan, Syria, and Yemen.

Cargo Preference Legislation

To ensure greater use of their merchant fleets, many OPEC nations have enacted cargo preference legislation requiring that a stated portion of their seaborne trade be carried in their ships. In January, Saudi Arabia enacted legislation requiring that 5% of its oil exports be shipped in Saudi ships, with 25%-50% expected by 1980. Algeria reserves 50% of its oil and LNG exports, and Venezuela's graduated cargo preference law will eventually reserve 50% of exported oil for Venezuelan ships. AMPTC, Kuwait, and Libya have indicated that their tankers would receive preferential treatment.

OPEC Tanker Fleets

	As of 1 January 1975			
		On Order		
	Current Fleet (Thousand DWT)	Thousand DWT	Cost (Million US $)	1980 Goal (Thousand DWT)
Total OPEC members	**2,305**	**7,577**	**1,494**	**30,455**
Arab producers	1,520	6,170	1,294	26,024
Kuwait	793	1,344	250	2,657
Iraq	269	1,781	400	4,350
Libya	263	754	184	1,467
Algeria	149	....	....	949
Saudi Arabia	27	80	16	4,132
United Arab Emirates	19	....	....	1,019
Abu Dhabi[1]	....	269	54	1,300
Arab Maritime Petroleum Transport Company	....	1,942	390	10,000[2]
United Arab Maritime Company	....	....	....	150
Other producers	785	1,407	200	4,431
Venezuela	420	335	67	1,000
Iran	183	860	100	2,331
Ecuador	100	72	5	250
Indonesia	82	140	28	350
Nigeria	....	....	....	500

1. Although part of the United Arab Emirates, Abu Dhabi plans a fleet of its own in addition to the UAE fleet.
2. By 1980-82.

Producer Options and the World Tanker Market

The OPEC tanker fleet will represent less than 10% of the world tanker fleet and will be able to carry about 22% of its estimated exports by 1980. However, the methods by which OPEC obtains its tankers will have an impact on the world tanker market. If OPEC countries continue to order new tankers, the existing tanker glut will intensify and push tanker rates lower. As charter rates are currently at or below break-even costs, such a situation could force many tankers into layup and several hard-pressed tanker owners into bankruptcy.

OPEC could shift purchases to used tankers or to the acquisition of rights to tankers under construction. OPEC appears to be waiting for further declines in tanker prices before moving in this direction. OPEC members seem to be least interested in chartering tonnage from foreign owners, except as a short-term expedient. In fact, OPEC nations probably will choose to charter their tankers to foreign operators. Arab producers must also decide whether to continue to purchase VLCCs or switch to smaller crude oil and products tankers that can transit the Suez Canal when it is reopened. [redacted] 25X1

* * * * 25X1

[redacted]

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[redacted]

* * * *

Notes

India: Another Step Backward in Wheat Marketing

Marketing controls recently announced will reduce farmers' profits from the approaching spring wheat harvest and limit wheat production next year. To promote government grain procurement, New Delhi has extended the requirement that private traders in the five northern wheat-surplus states sell the government (at controlled prices) half of their purchases from farmers and has banned private interstate wheat shipments. The measures will severely curb profits on wheat, thereby causing farmers to shift to production of lower yielding coarse grains. [redacted]

Soviets Negotiate for US Color Television Technology

The USSR appears ready to sign contracts with two US firms for color TV picture tube technology. Valued at about $130 million, the contracts provide a complete technology package that will support an annual output of 1.5 million picture tubes. Soviet problems with volume production of good quality color picture tubes span many years. Most of the 500,000 tubes now produced each year in the USSR are based on an unhappy marriage of Soviet and US technology. The USSR purchased a complete line to make one component part (shadow mask) from the United States in 1969 after efforts to produce the French-designed "chromatron" tube failed. [redacted] 25X1

25X1

[redacted]

25X1

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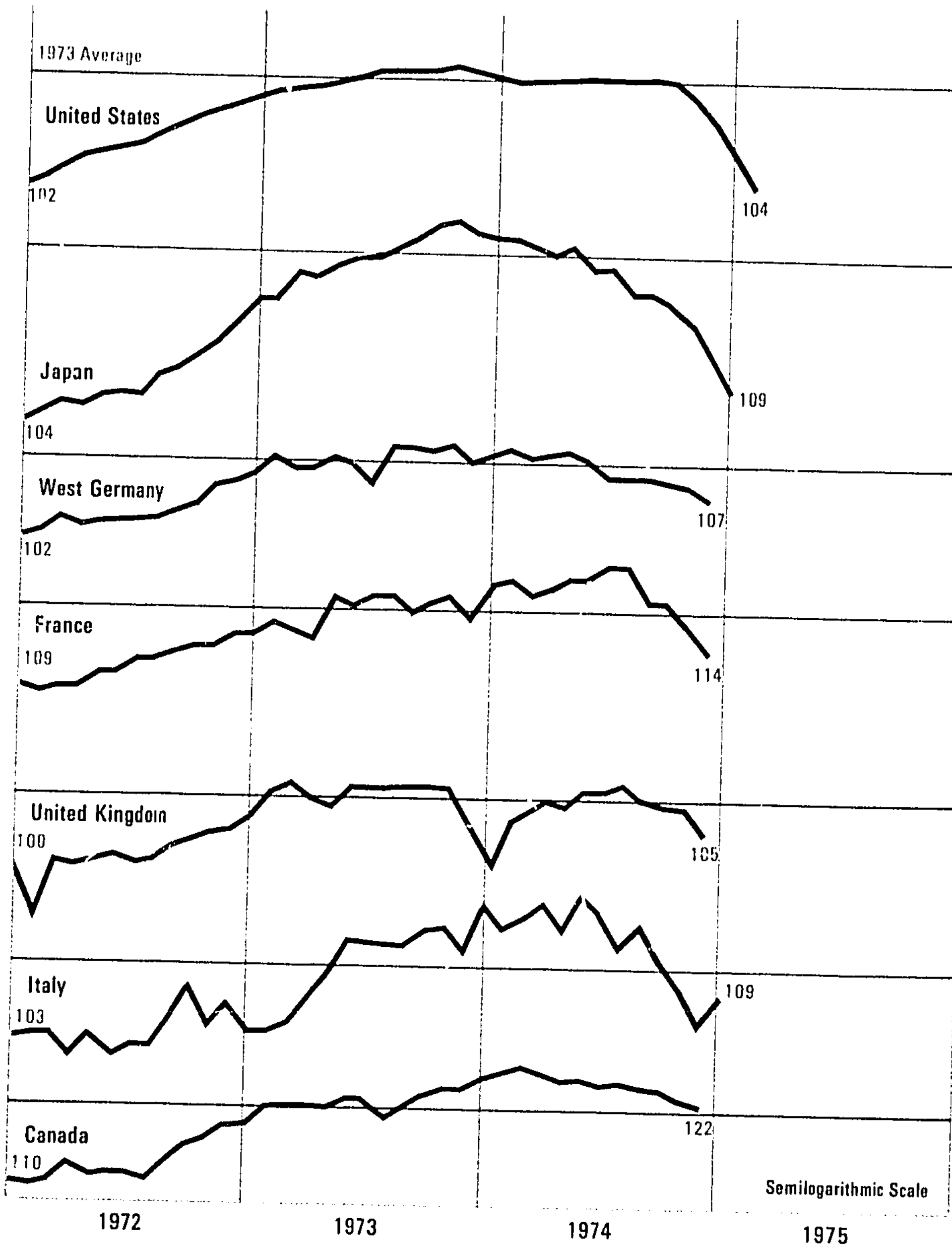
INDUSTRIAL PRODUCTION[1]

INDEX: 1970 Monthly Average=100



	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier 2
United States	Feb 75	-3.0	0.7	-11.5	-28.7
Japan	Jan 75	-4.2	1.9	-17.9	-26.7
West Germany	Dec 74	-1.7	1.5	-5.1	-7.4
France	Dec 74	-3.4	3.0	-4.2	-23.1
United Kingdom	Dec 74	-3.7	1.0	-2.6	-11.7
Italy	Jan 75	3.9	1.9	-12.4	-25.9
Canada	Dec 74	-0.6	4.6	-2.5	-6.0

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	74 IV	-2.3	2.5	-5.0	-9.1
Japan	74 III	-0.2	5.3	-3.9	-0.8
West Germany	74 IV	-1.6	2.4	-1.5	-6.3
France	74 III	0.8	5.4	4.3	3.1
United Kingdom	74 IV	-1.0	2.3	0.1	-3.9
Italy	74 II	0.2	3.8	4.6	[illegible].7
Canada	74 IV	-1.3	4.7	0.1	-5.1

RETAIL SALES[1]

Constant Prices

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier 2
United States	Jan 75	0.3	1.3	-6.2	-21.7
Japan	Sep 74	4.7	2.0	-7.9	2.4
West Germany	Nov 74	-3.6	1.8	-0.9	6.3
France	Nov 74	-15.0	-2.1	-8.1	-2.6
United Kingdom	Jan 75	2.0	2.9	3.5	1.4
Italy	Sep 74	-8.2	4.2	-6.2	3.3
Canada	Nov 74	-3.5	3.1	-3.3	-15.4

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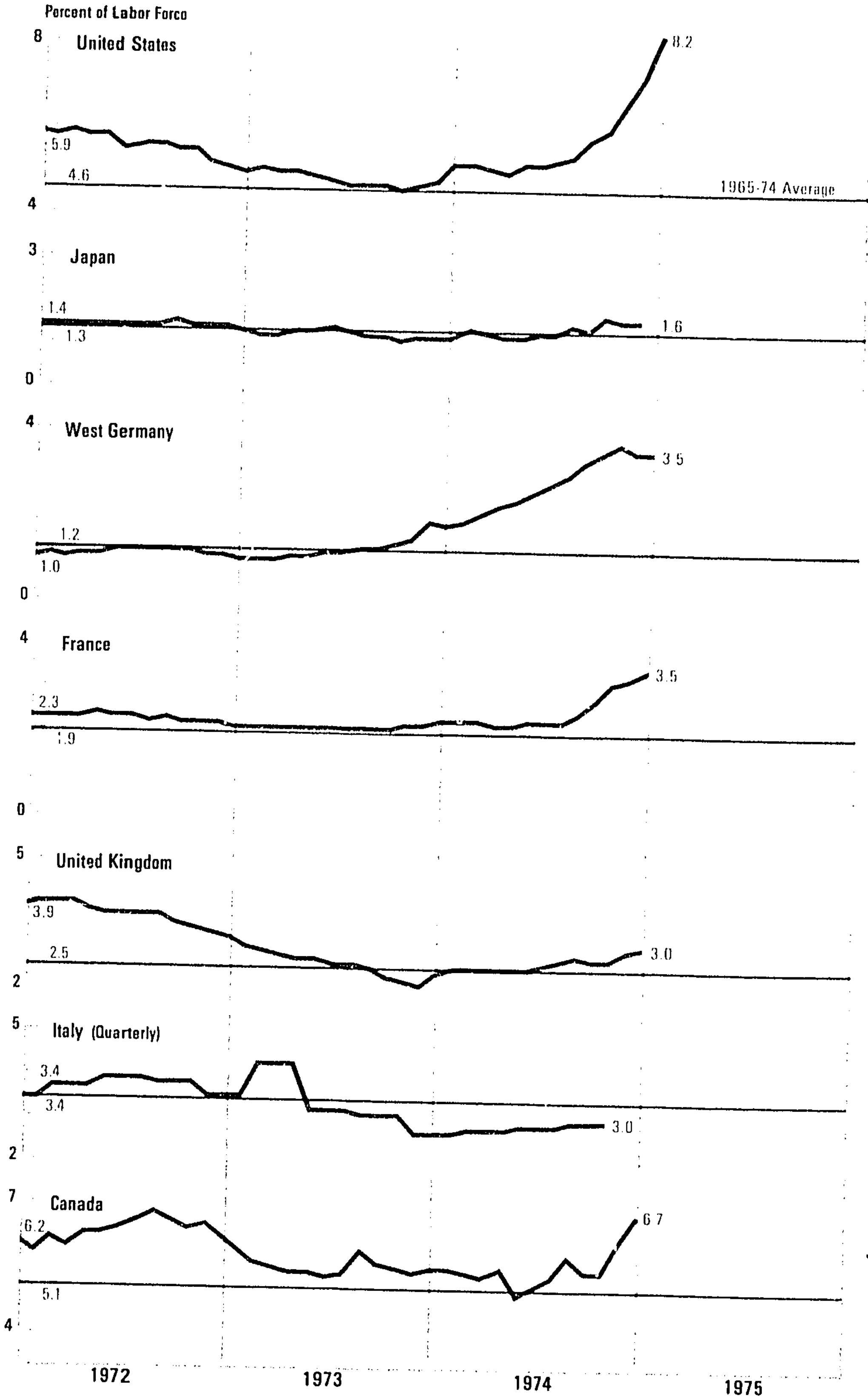
Office of Economic Research/CIA
19 MARCH 1975

Note: US data provided by US government agencies

Footnotes appear on page A-4.

UNEMPLOYMENT



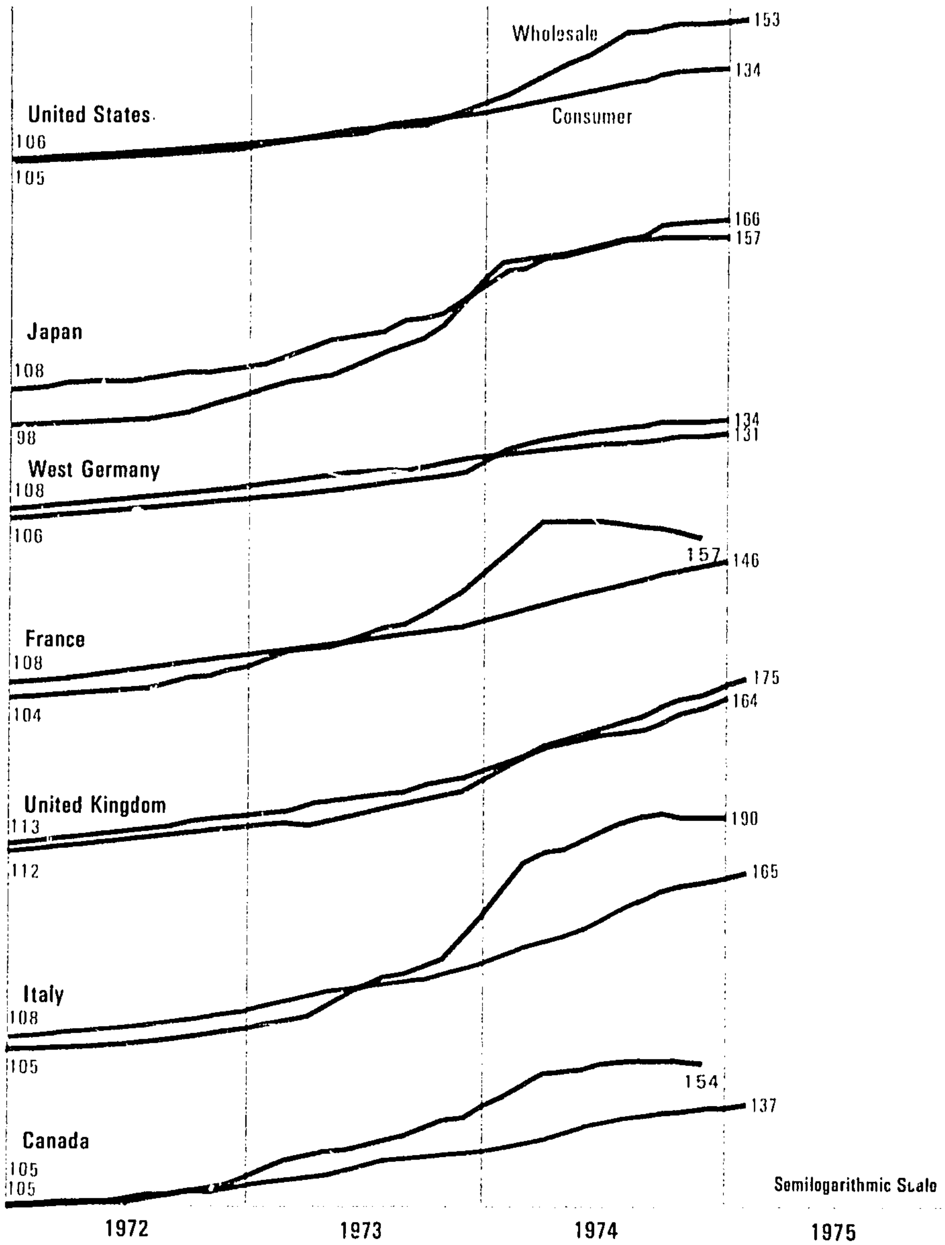
	Number of Persons Unemployed (Thousands)		
Latest Period		1 Year Earlier	3 Months Earlier
Jan 75	7,529	4,732	5,513
Dec 74	830	612	714
Jan 75	786	415	805
Jan 75	699	437	557
Jan 75	709	561	637
74 IV	611	592	582
Jan 75	660	520	522

19 MARCH 1975

NOTE: Data are seasonally adjusted. Unemployment rates for France are estimated. The rates shown for Japan, Italy, and Canada are roughly comparable to US rates. The rates for France and the United Kingdom should be increased by about 67% and 15%, respectively, and those for West Germany decreased by 17% to be roughly comparable with U S rates.

DOMESTIC PRICES[3]

INDEX: 1970 Monthly Average=100



Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
Feb 75	0.5	9.6	21.9	6.4
Jan 75	0.5	6.7	11.7	8.4
Jan 75	-0.4	10.4	10.4	0.3
Jan 75	0.5	11.7	17.4	6.5
Jan 75	0.8	6.7	9.8	3.7
Jan 75	0.9	6.2	6.1	8.0
Dec 74	-1.7	10.6	14.8	-9.9
Jan 75	1.1	8.7	14.5	12.1
Feb 75	1.4	12.8	26.2	26.9
Jan 75	2.6	11.5	19.9	25.9
Jan 75	-0.1	15.1	27.6	-4.9
Feb 75	1.1	11.5	24.4	13.3
Dec 74	-0.9	10.2	15.7	-2.7
Feb 75	0.8	7.1	11.8	9.3

MONEY SUPPLY[1]

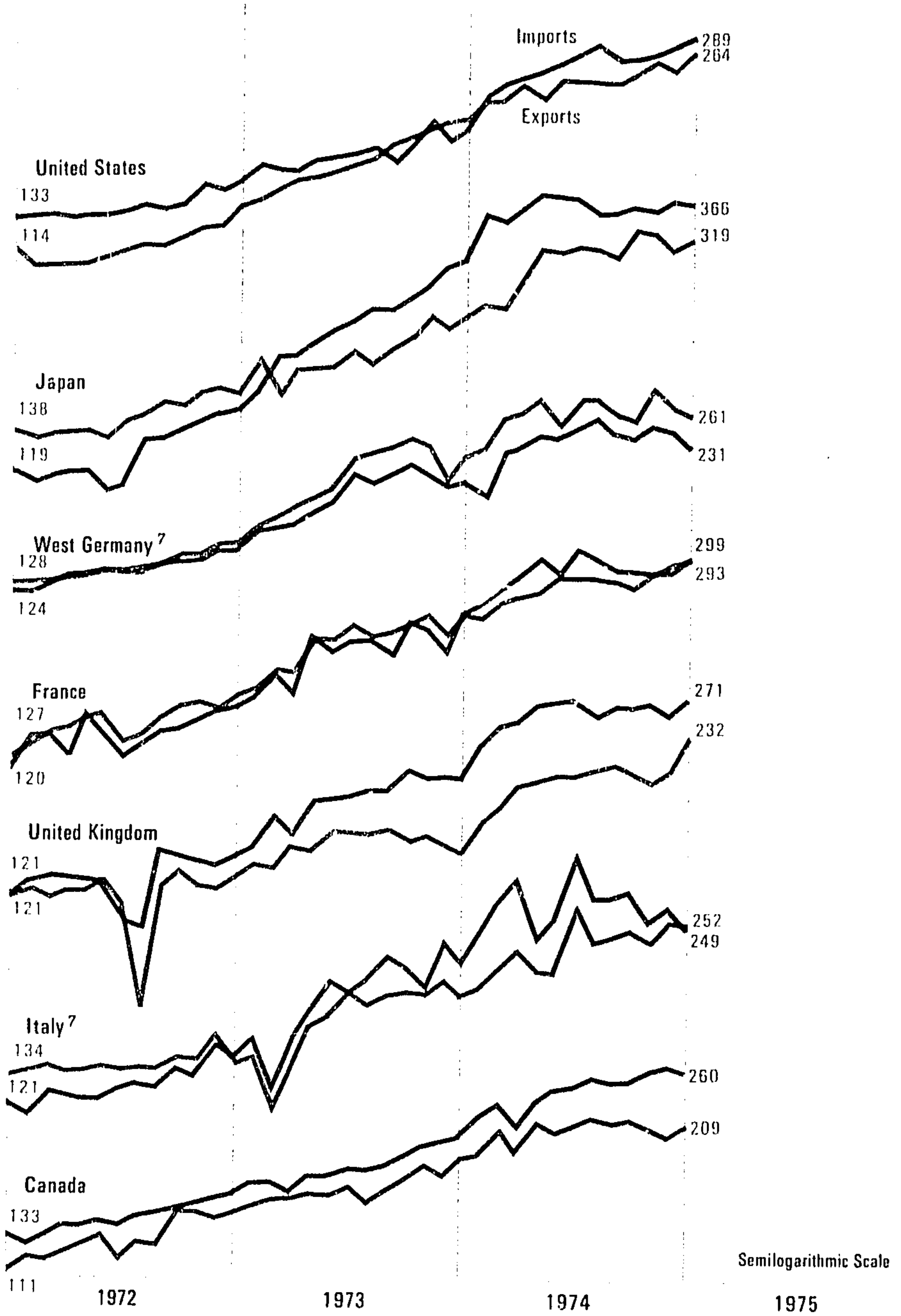
	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier[2]
United States	Feb 75	0.4	6.1	4.0	1.9
Japan	Oct 74	0.6	16.4	10.0	0.4
West Germany	Dec 74	1.5	9.8	12.1	14.3
France	Dec 74	2.4	13.3	14.0	33.4
United Kingdom	Jan 75	3.4	9.3	9.3	15.5
Italy	Aug 74	1.1	20.7	19.2	16.7
Canada	Dec 74	-0.7	11.1	5.0	-1.8

WAGES IN MANUFACTURING[1,4]

	Latest Month	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier[2]
United States	Dec 74	0.5	7.2	10.3	11.3
Japan	Sep 74	-2.1	21.7	33.7	34.5
West Germany	74 III	2.0	10.9	10.8	8.2
France	74 IV	3.7	13.9	20.4	15.6
United Kingdom	Oct 74	0.6	14.1	17.9	41.0
Italy	Nov 74	4.5	18.0	20.5	17.2
Canada	Oct 74	2.2	10.7	16.5	24.1

FOREIGN TRADE[1]

INDEX: 1970 Monthly Average=100 (f.o.b./f.o.b.)



	Latest Month	Cumulative (Million US $)		
	Million US $	1975	1974	Change
United States Jan 75	9,412 9,622	9,412 9,622	7,150 6,497	31.6% 48.1%
Balance	-210	-210	653	-864
Japan Jan 75	5,045 4,581	5,045 4,581	3,565 3,637	41.5% 25.9%
Balance	465	465	-72	537
West Germany Jan 75	7,432 5,482	7,432 5,482	6,312 4,676	17.8% 17.2%
Balance	1,950	1,950	1,636	314
France Jan 75	4,403 4,470	4,403 4,470	3,460 3,562	27.3% 25.5%
Balance	-66	-66	-102	35
United Kingdom Jan 75	3,657 4,274	3,657 4,274	2,251 3,105	62.5% 37.6%
Balance	-617	-617	-854	237
Italy Jan 75	2,783 2,889	2,783 2,889	2,053 2,484	35.5% 16.3%
Balance	-106	-106	-431	324
Canada Jan 75	2,796 2,886	2,796 2,886	2,444 2,243	14.4% 28.6%
Balance	-90	-90	201	-290

BASIC BALANCE[5]

Current and Long-Term-Capital Transactions

	Latest Period		Cumulative (Million US $)		
		Million US $	1974	1973	Change
United States[1]	74 III	-3,581	-4,265	-287	-3,978
Japan	Jan 75	-1,310	-8,642	-9,374	732
West Germany	Jan 75	398	7,702	9,102	-1,400
France	74 IV	-1,011	-4,281	-1,842	-2,439
United Kingdom	74 III	-1,248	-4,052	-1,485	-2,567
Italy	74 III	-1,945	-3,874	609	-4,483
Canada	74 III	-237	-702	271	-974

OFFICIAL RESERVES

	Latest Month		Billion US $		
	End of	Billion US $	Jun 1970	1 Year Earlier	3 Months Earlier
United States	Jan 75	15.9	14.5	14.6	15.9
Japan	Jan 75	13.5	4.1	11.6	13.5
West Germany	Jan 75	33.1	8.8	32.2	32.0
France	Jan 75	9.0	4.4	8.3	8.9
United Kingdom	Feb 75	7.1	2.8	6.0	7.9
Italy	[illegible]	[illegible]	4.7	6.0	6.9
Canada	Feb 75	5.9	4.3	6.2	5.8

MONEY–MARKET RATES

				Percent Rate of Interest		
	Representative Rates	Latest Date		1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Dealer-placed finance paper	Mar 5	6.25	8.15	9.00	6.60
Japan	Call money	Feb 21	13.00	12.00	13.00	12.75
West Germany	Interbank loans (3 months)	Mar 5	6.16	10.48	8.62	7.28
France	Call money	Feb 21	9.75	12.00	12.00	10.75
United Kingdom	Sterling interbank loans(3 months)	Mar 5	10.81	15.35	12.75	11.65
Canada	Finance paper	Mar 5	6.68	8.53	10.60	7.00
Eurodollars	Three-month deposits	Mar 5	7.35	8.66	10.21	7.25

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 75	2.0	13.6	24.6	27.4
Japan	Dec 74	–0.9	9.8	25.3	–8.0
West Germany	Dec 74	1.0	6.0	17.7	6.1
France	Sep 74	–3.5	10.5	25.4	2.7
United Kingdom	Nov 74	1.9	13.6	29.4	8.4
Italy	Oct 74	1.6	16.9	50.7	43.2
Canada	Oct 74	1.8	12.9	35.9	21.3

IMPORT PRICES

National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Jan 75	3.1	20.0	40.7	30.8
Japan	Dec 74	–0.5	16.9	57.8	4.1
West Germany	Dec 74	–1.1	5.9	13.9	–8.8
France	Sep 74	–7.6	14.3	45.8	1.0
United Kingdom	Nov 74	1.0	20.9	43.1	25.6
Italy	Oct 74	Negl	25.1	67.8	29.8
Canada	Oct 74	2.6	12.5	37.5	28.3

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 75	2.0	13.6	24.6	27.4
Japan	Dec 74	–1.0	14.4	16.8	–5.8
West Germany	Dec 74	3.1	15.8	27.3	45.0
France	Sep 74	–3.9	14.4	11.3	11.8
United Kingdom	Nov 74	1.7	12.8	26.0	5.1
Italy	Oct 74	0.8	15.2	27.9	24.6
Canada	Oct 74	2.5	14.3	37.0	17.9

EXCHANGE RATES

Spot Rate

As of 14 Mar 75

	US $ Per Unit	Percent Change from Dec 66	18 Dec 71	19 Mar 73	7 Mar 75
Japan (yen)	0.0035	25.55	6.68	–8.91	–1.03
West Germany (Deutsche mark)	0.4312	71.52	38.96	21.77	0.14
France (franc)	0.2378	17.78	20.77	7.89	0
United Kingdom (pound sterling)	2.4173	–13.39	–7.24	–1.79	0.75
Italy (lira)	0.0016	–1.19	–8.02	–10.62	0.06
Canada (dollar)	1.0001	8.42	0.23	0.24	–0.19

TRADE-WEIGHTED EXCHANGE RATES[6]

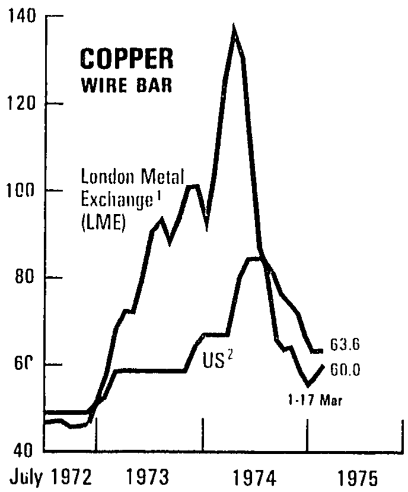
As of 14 Mar 75

	Percent Change from Dec 66	18 Dec 71	19 Mar 73	7 Mar 75
United States	–18.37	–8.90	–2.23	0.18
Japan	14.06	0.44	–11.42	–1.06
West Germany	34.11	16.85	11.71	0.11
France	–13.23	0.11	–2.36	–0.03
United Kingdom	–38.73	–24.20	–9.59	0.70
Italy	–31.78	–30.33	–23.27	0.02
Canada	4.61	–1.93	–0.27	–0.20

FOOTNOTES FOR WEEKLY INDICATORS

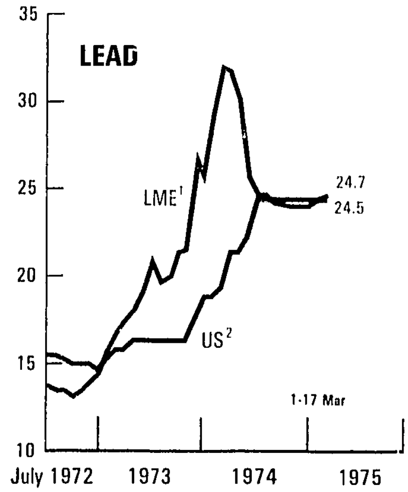
1. Seasonally adjusted.
2. Average for latest 3 months compared with average for previous 3 months.
3. Wholesale price indexes cover industrial goods.
4. Hourly earnings for the United States, Japan, and Canada; hourly wage rates for others. West German and French data are for the beginning of the quarter.
5. Converted to US dollars at the current market rates of exchange.
6. 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.
7. F.o.b./c.i.f. factors have been revised.

INDUSTRIAL MATERIALS PRICES Monthly Average Cash Price



¢ Per Pound

	LME	US
17 Mar	59.8	63.6
10 Mar	59.6	63.6
Feb 75	57.3	63.6
Mar 74	124.4	68.0

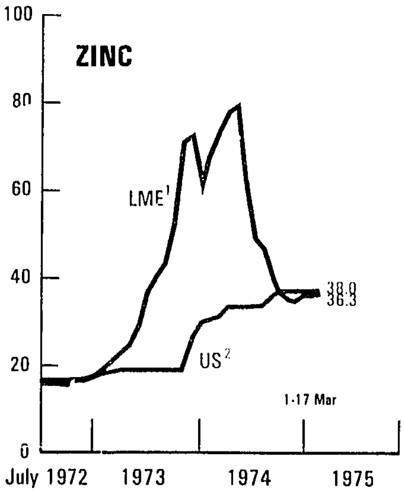


¢ Per Pound

	LME	US
17 Mar	24.4	24.5
10 Mar	24.6	24.5
Feb 75	24.5	24.5
Mar 74	32.1	19.5

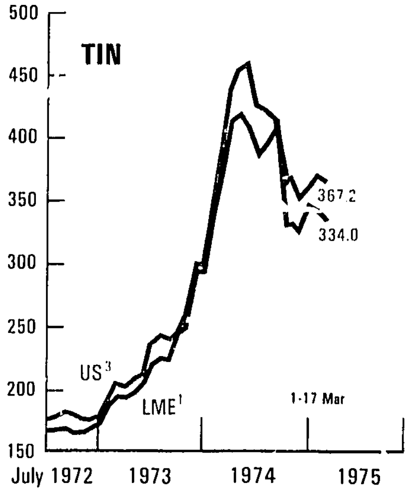
SELECTED MATER

- Aluminum Major US Prod., ¢/L
- Steel Composite, $/LT
- Iron Ore Non-Bessemer Old Ra
- Chrome Ore Russian, $/MT
- Chrome Ore S. Africa, $/LT
- Ferrochrome US Charge, ¢/Lb
- Nickel Major US Prod. Cathode,
- Manganese Ore 48% Mn, $/
- Tungsten Ore 65% WO_3, $/S
- Mercury NY, $/76Lb Flask
- Silver LME cash, ¢/Troy Oz



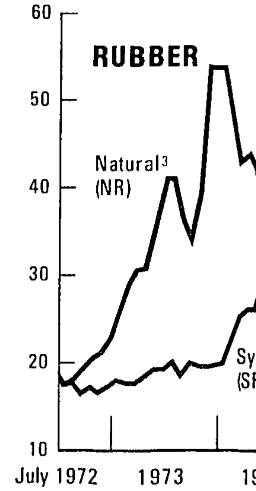
¢ Per Pound

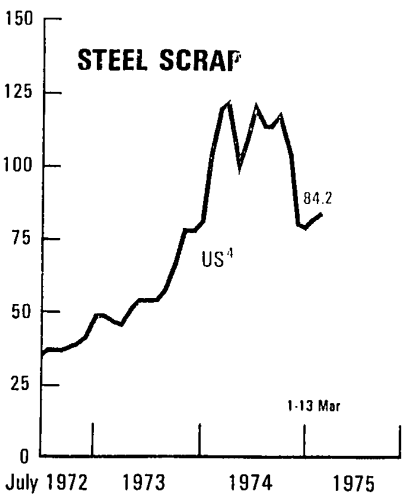
	LME	US
17 Mar	36.0	38.0
10 Mar	36.1	38.0
Feb 75	35.9	38.0
Mar 74	73.8	32.6



¢ Per Pound

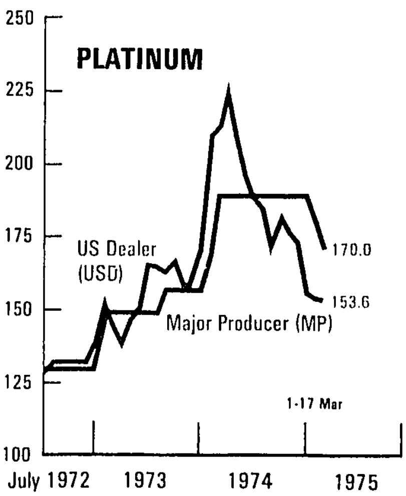
	LME	US
17 Mar	330.2	363.5
10 Mar	332.3	367.8
Feb 75	340.8	372.1
Mar 74	374.6	389.4





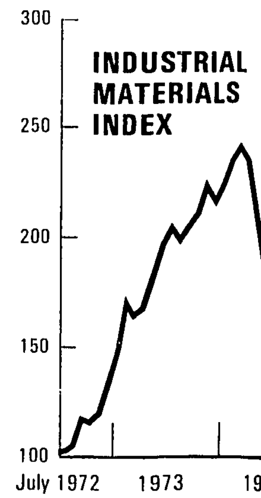
$ Per Long Ton

	US
13 Mar	84.17
10 Mar	84.17
Feb 75	81.60
Mar 74	120.84



$ Per Troy Ounce

	MP	USD
17 Mar	170.0	153.0
10 Mar	170.0	154.5
Feb 75	179.0	152.3
Mar 74	190.0	215.1

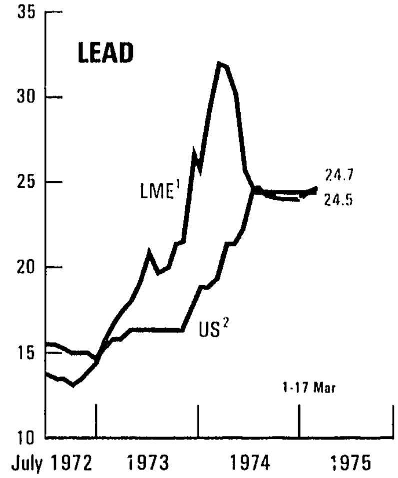


[1] Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.
[2] Producers' price, covers most primary metals sold in the United States.
[3] Quoted on New York market. [4] Composite price for Chicago, Philadelphia, and Pittsburgh.
[5] S-type styrene, US f.a.s. export pri

PRICES Monthly Average Cash Price

¢ Per Pound

	LME	US
17 Mar	59.8	63.6
10 Mar	59.6	63.6
Feb 75	57.3	63.6
Mar 74	124.4	68.0



¢ Per Pound

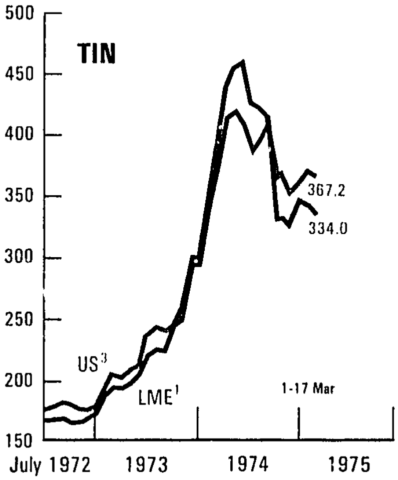
	LME	US
17 Mar	24.4	24.5
10 Mar	24.6	24.5
Feb 75	24.5	24.5
Mar 74	32.1	19.5

SELECTED MATERIALS

	Current	Oct 74	Jan 74	Jan 73
Aluminum Major US Prod., ¢/Lb	39.00	39.00	29.00	25.00
Steel Composite, $/LT	289.63	278.43	212.13	209.66
Iron Ore Non-Bessemer Old Range, $/LT	17.53	16.00	12.16	11.96
Chrome Ore Russian, $/MT	135.00	55.50	38.00	45.75
Chrome Ore S. Africa, $/LT	57.50	49.50	33.50	25.50
Ferrochrome US Charge, ¢/Lb	53.50	38.52	22.50	20.00
Nickel Major US Prod. Cathode, $/Lb	2.01	1.85	1.62	1.53
Manganese Ore 48% Mn., $/LT	67.20	54.72	52.80	31.40
Tungsten Ore 65% WO_3, $/ST	6,087.90	6,704.10	2,872.40	2,241.20
Mercury NY, $/76Lb Flask	190.00	265.36	275.54	282.50
Silver LME cash, ¢/Troy Oz	443.34	480.20	360.29	200.15

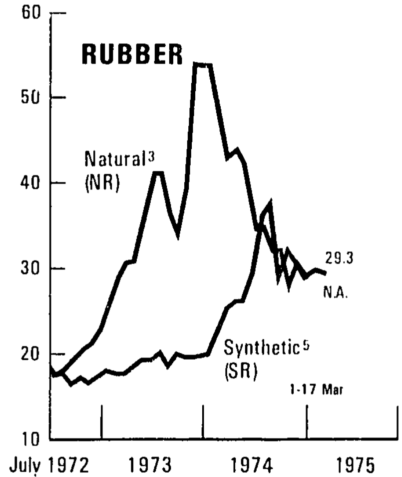
¢ Per Pound

	LME	US
17 Mar	36.0	38.0
10 Mar	36.1	38.0
Feb 75	35.9	38.0
Mar 74	73.8	32.6



¢ Per Pound

	LME	US
17 Mar	330.2	363.5
10 Mar	332.3	367.8
Feb 75	340.8	372.1
Mar 74	374.6	389.4

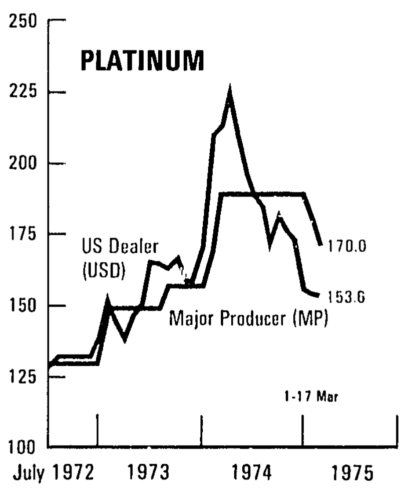


¢ Per Pound

	NR	SR
17 Mar	29.0	N.A.
10 Mar	29.0	N.A.
Feb 75	29.9	N.A.
Mar 74	48.8	23.1

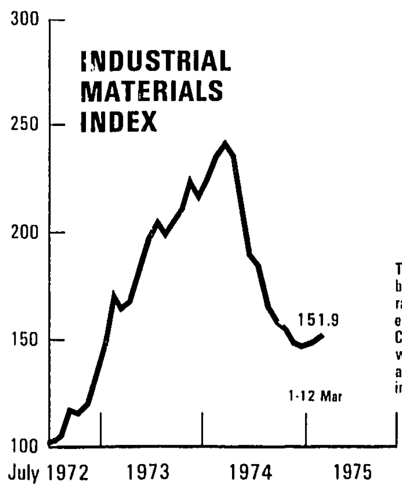
$ Per Long Ton

	US
13 Mar	84.17
10 Mar	84.17
Feb 75	81.60
Mar 74	120.84



$ Per Troy Ounce

	MP	USD
17 Mar	170.0	153.0
10 Mar	170.0	154.5
Feb 75	179.0	152.3
Mar 74	190.0	215.1



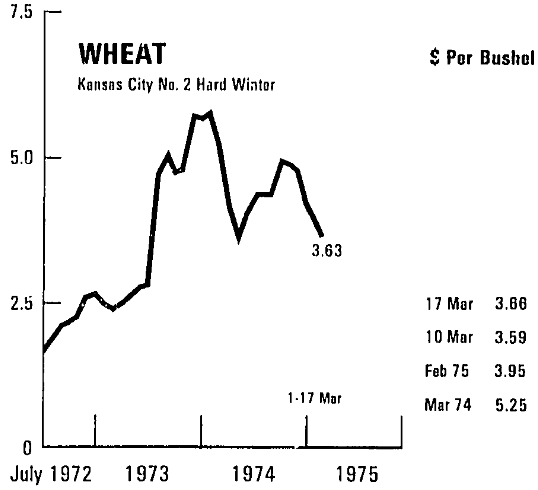
1970 = 100

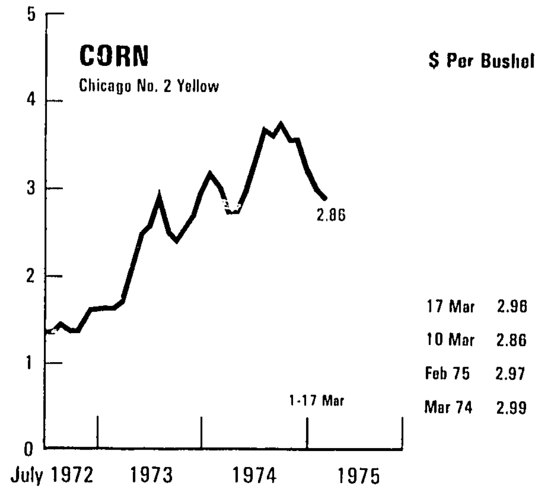
This is a compiled index by the Economist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

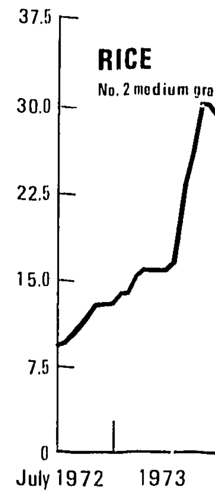
world producers and traders.
traded on the LME.
ited States.
go, Philadelphia, and Pittsburgh.

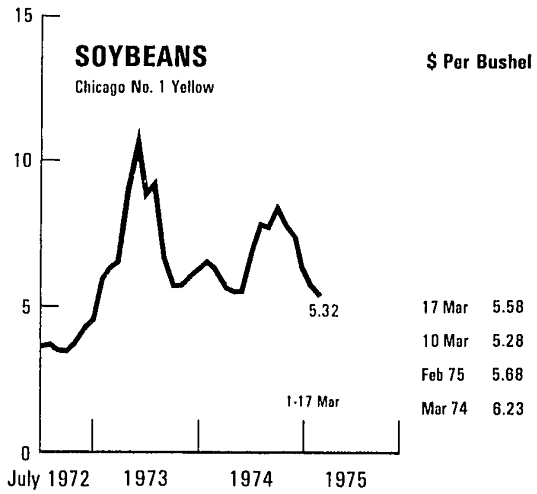
565416 3-75

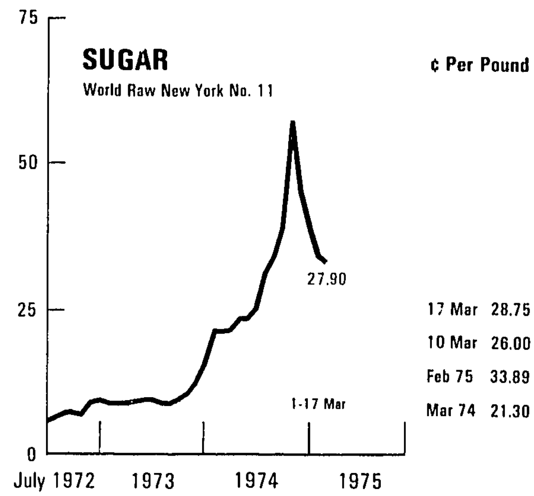
AGRICULTURAL PRICES Monthly Average Cash Price

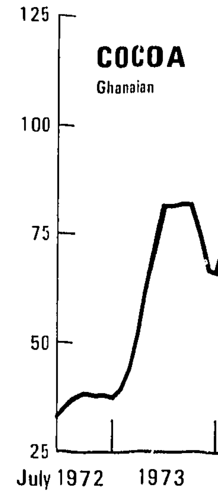


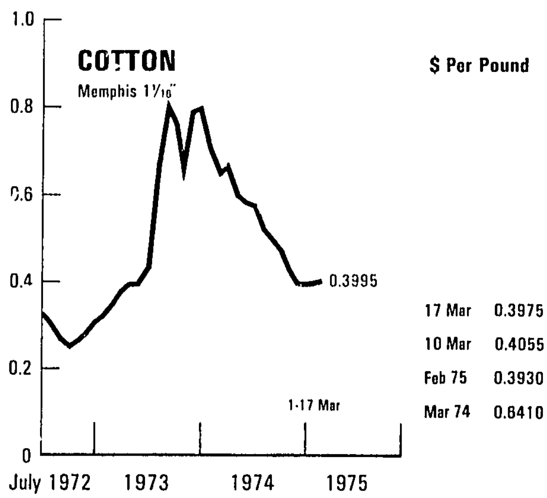


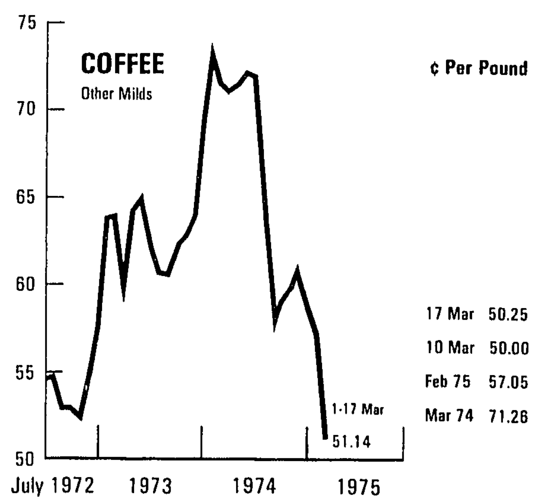


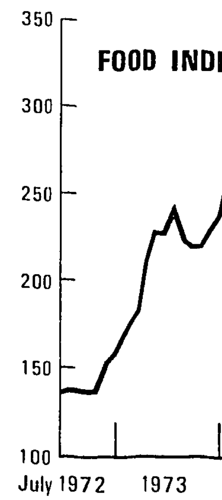










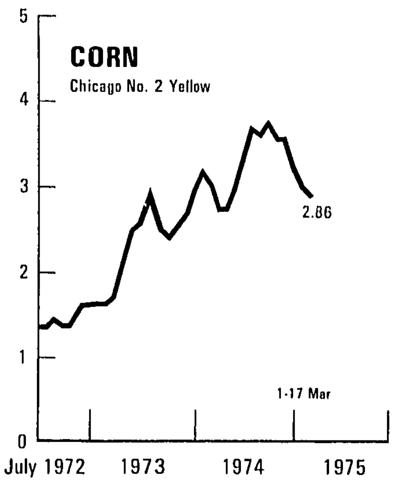


565415 3-75

Monthly Average Cash Price

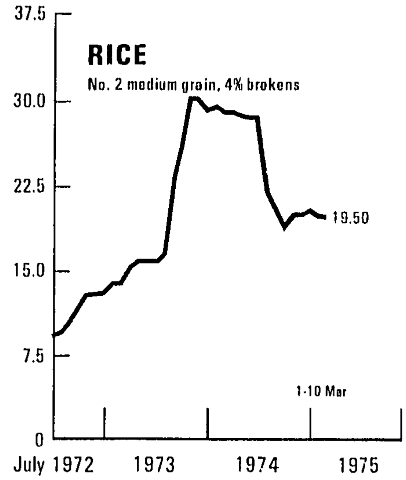
$ Per Bushel

17 Mar	3.66
10 Mar	3.59
Feb 75	3.95
Mar 74	5.25



$ Per Bushel

17 Mar	2.96
10 Mar	2.86
Feb 75	2.97
Mar 74	2.99

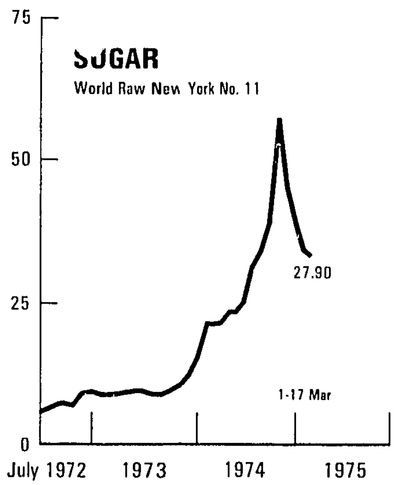


$ Per cwt.
f.o.b. mills, Houston, Tex.

10 Mar	19.50
3 Mar	19.50
Feb 75	19.75
Mar 74	29.00

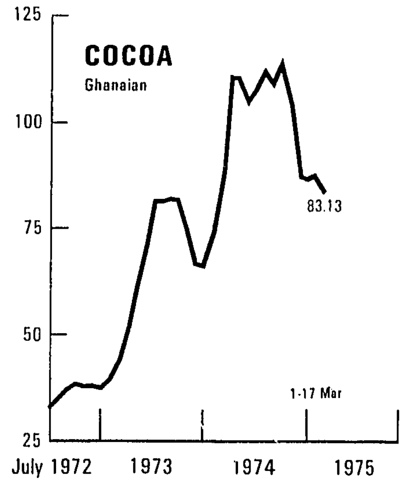
$ Per Bushel

17 Mar	5.58
10 Mar	5.28
Feb 75	5.68
Mar 74	6.23



¢ Per Pound

17 Mar	28.75
10 Mar	26.00
Feb 75	33.89
Mar 74	21.30

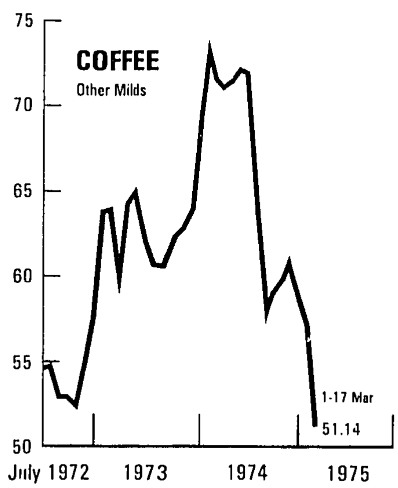


¢ Per Pound
New York price

17 Mar	81.00
10 Mar	82.25
Feb 75	87.24
Mar 74	87.70

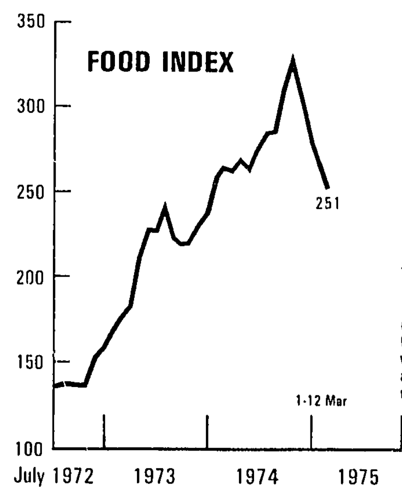
$ Per Pound

17 Mar	0.3975
10 Mar	0.4055
Feb 75	0.3930
Mar 74	0.6410



¢ Per Pound

17 Mar	50.25
10 Mar	50.00
Feb 75	57.05
Mar 74	71.26



1970 = 100

This is a compiled index 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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