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SCHEMATIC STRUCTURE AND THE MODULATION OF PROPOSITIONS IN ECONOMICS FORECASTING TEXT

Volume Two: APPENDICES

Makaya ma Kimvwela PINDI.

Doctor of Philosophy

THE UNIVERSITY OF ASTON IN BIRMINGHAM

February 1988

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Appendix 2 Analysed Texts

Text: 1 The Eurodollar Markets (May 1983)

(1) Recent months have seen continued nervousness in the money markets over the likely course of dollar interest rates. (2a) Nevertheless short-term interest rates have been relatively stable, (2b) with the three-month rate trading within a narrow range of 8.7% - 9.75%. (3a) The fall in rates during early May to the bottom end of the range was reversed late in the month (3b) as speculation of an imminent cut in discount rate faded in reaction to stronger than expected figures of economic activity, and money supply growth (3c) as measured by M1. (4a) However, this monetary aggregate continued to concern the markets (4b) more than it does the authorities.

(5) The Federal Reserve is facing conflicting pressures on its policy stance. (6a) The wider monetary aggregates, (6b) having been above target for most of the year, (6c) decelerated in April to leave M3 within and M2 below their respective annual target ranges. (7a) With private sector loan demand likely to remain subdued during the initial stages of the recovery (7b) there seems a good chance (7c) that M2 and M3 will remain below the upper limit of their target ranges over the next few months (7d) despite the large budget deficit. (8a) Together with continuing favourable prospects for inflation (8b) these factors should not present a barrier to a cut in rates. (9a) However, recent figures point to a sustainable economic recovery (9b) despite the high level of real interest rates.

(10a) As recently as a month ago uncertainty (10b) over whether a recovery would occur (10a) led to downward pressure on rates, (10c) but this pressure has now disappeared. (11) However the moderate nature of the recovery could induce lower rates later in the year.

(12) In addition, external factors such as concern within the United States over the effect of the dollar's strength on competitiveness, concern by the Fed over the LDC debt servicing problem and political pressure from Europe, is likely to produce a small fall in rates over the next six months.

(13) Long rates have also been relatively stable in recent months at around 10.5 - 11.0%. (14a) Whilst long rates should follow short rates down somewhat over the forecast period (14b) continued concern over the budget deficit will keep yields high in relation to the rate of inflation.
Text: 2  Belgium  (May, 1983)

(1a) After a strong but temporary rise (1b) due to speculative pressures before the parity realignment of 21 March 1983, (1a) money market rates have fallen to a level last reached in 1979. (2a) In May, the three months' interbank rate stood near 10% (2b) and the long-term government bond rate at 12%. (3a) Thus, short-term rates have tended to fall below long-term rates, (3b) in continuation of a recent trend towards a more normal yield curve.

(4) The new economic policy has succeeded in improving the situation and prospects for the Belgian economy. (5a) The competitiveness of the corporate sector has significantly improved, (5b) income restraint continues (5c) and the current account deficit will be cut by almost half in 1983. (6a) The government has asked Parliament for new special powers until the end of this year, and even until 31 March 1984, (6b) in respect of certain matters relating to next year's budget. (7a) Given the improving situation, (7b) money market rates will follow the downward trend of corresponding DM rates, (7c) but their differential will not rapidly fall below the present level of about 5 points above the German ones.

(8) The reduction in the total public sector deficit as a percentage of GNP from 16.5% in 1981 to 16.1% in 1982 will probably be repeated in 1983, down to say 15%. (9a) This marginal improvement, (9b) together with slightly lower money market rates, a fall in the rate of inflation from 8.7% in 1982 to 7% this year and still abundant financial savings (9a) should make possible a further reduction in bond yields by 0.5 to 1 point during the next few months.

Text: 3  France  (May 1983)

(1a) In the first quarter of 1983, (1b) when the Franc was under very heavy pressure, (1a) short - term interest rates on the domestic market were not raised, (1c) as they were in other countries (1d) in order to defend the currencies. (2a) The monetary authorities decided to fight the battle on the Eurofranc market (2b) where they pushed rates to unprecedented levels (3,000% day-to-day) (2c) to check speculation. (3) In France, the day-to-day rate therefore remained steady at around 12.75%. (4a) The austerity programme (4b) introduced in April to reduce the trade deficit (4a) should gradually lessen the pressure on the exchange rate (4c) and thus allow a further reduction in interest rates. (5a) Until now, however, caution has prevailed (5b) because of the temporary acceleration in inflation (+ 3.9% during the first four months of the year ) (5c) and because of the
need to rebuild exchange reserves. (6a) As it is, (6b) inflows of currencies have already more than offset the sums spent in the months prior to the parity realignment, (6c) on top of which a Ecu 4 billion loan has recently been obtained from the E.E.C. (7a) This being so, (7b) the progressive easing of the external constraint could lead to a further small drop in the day-to-day rate in the course of the next few months.

(8a) The decline in long-term rates, (8b) halted in February by the typical pre-election uncertainties, (8a) was resumed in mid-March under the influence of expectations of the reduction in the day-to-day rate. (9a) Since mid-April however, bond yields have stabilised (around 15% for public sector issues) (9b) and are not likely to come down any further in the near future for three reasons. (10) First, the expected drop in short-term rates proved to be very small. (11) Secondly, the latest inflation figures were rather disappointing. (12a) Finally, the forthcoming subscription to the obligatory three-year loan to the Government and the first payment of the extra one-percent income tax, (12b) two main elements of the austerity programme, (12a) will cause a considerable drain on households' savings. (13a) All in all, the downward trend of bond yields may be checked for a time (13b) while the positive effects of the recent measures on inflation, (13c) and hence on short-term interest rates to make themselves felt, (13b) are awaited.

Text: Germany (May 1983)

(1a) With another lowering of its discount and Lombard rate by a full percentage point to 4% and 5% respectively, (1b) the Bundesbank in mid-March took a further step (1c) to support domestic economic activity. (2) Day-to-day money rates declined correspondingly to around 5%.

(3a) The Central Bank's easing of policy was facilitated by the continuing decline in the German inflation rate (3b) (now about 3%) (3a) and an increasing current account surplus. (4a) Nevertheless, this policy now seems to have reached certain limits (4b) mainly in respect of the strong monetary expansion (4c) which has been well above the fixed target range in recent months. (5) The Bundesbank's declared policy is to bring money growth cautiously back to a rate better consistent with stability. (6a) Additional monetary relaxation and thus a further easing of German money market rates in the next few months is, therefore, improbable (6b) unless US interest rates come down from their present high levels (6c) and the US dollar's strong position against the D.MARK weakens.
(7a) Capital market yields, (7b) after having fallen to 7.4% in March and April, (7a) firmed again slightly to 7.8% at present, (7c) mainly because the expected decrease in US interest rates failed to occur. (8a) Although government efforts to check the high budget deficits exert a positive influence, (8b) the general market climate and private capital demand remains hesitant (8c) due to the slow economic recovery, (8d) suggesting little chance for a renewed downward trend in long-term rates for the time being. (9a) A precondition for a decline would be an easing of US interest rates (9b) as German rates in an international comparison are already relatively low. (10) Until then German long-term rates are likely to fluctuate around their present levels.

Text 5: Italy (May 1983)

(1a) Since the beginning of April, interest rates have shown a fairly pronounced decline (1b) though they remain at a high level (1c) compared with abroad.

(2a) The declining trend can be traced to more abundant liquidity conditions, weakening demand for bank loans and the adoption of a less restrictive stance by the monetary authorities, (2b) on account of the stagnation of business activity in recent months.

(3a) The PSBR target was over-shot last year, (3b) the actual PSBR rising from 13.3% of GDP in 1981 to 15.2% in 1982. (4a) There was apparently no improvement in the early part of this year (4b) when monetary policy was also eased (4c) and the expansion of the monetary base accelerated. (5a) The rate of growth of the monetary indicators also increased - especially M2, (5b) in part because of a marked shift from Treasury bills holdings by businesses and individuals into bank deposits.

(6a) The government has put some pressure on the banking system, (6b) in an effort to obtain a reduction in the cost of money (6c) which is judged necessary to revive the economy from the recession. (7a) The discount rate was cut by a full percentage point in mid-April to 17%, (7b) a move which was soon followed by a further equal reduction in the prime rate to 18.75%. (8) Other lending rates declined too, together with the yields of most money market instruments. (9a) The weakening trend was soon transmitted to the capital market, (9b) where the demand for new issues exceeded supply, (9c) owing to the recent re-introduction of the withholding tax on private issues. (10a) Another factor (10b) explaining the somewhat easier money market conditions (10a) was the sharp improvement in the overall external position of the country (10c) registered in April. (11a) Unexpectedly, a $1 billion surplus was posted, after a $
1.4 billion deficit in the first quarter of the year, (11b) thanks chiefly, to larger-than-normal receipts from tourism.
(12a) The resignation of the Fanfani Government on 5 May, and call for new elections on 26-27 June has created an uncertain political climate and a power vacuum, (12b) which may last through the summer. (13) During this period, fiscal policies are likely to be relaxed further. (14a) Nevertheless, the external position is likely to remain strong during the coming months, (14b) mainly for seasonal reasons.
(15a) A further weakening of all interest rates during the summer is possible, (15b) followed by some hardening in the latter part of the year, (15c) when the new government is in the saddle.

Text: 6 Netherlands (May 1983)

(1a) The gradual decline in Dutch short-term interest rates in the first months of the year was halted abruptly (1b) as a result of the weakening of the guilder after the EMS realignment on 21 March. (2a) The Netherlands Bank was forced to raise its official discount rate by 1% to 4% (2b) in order to support the guilder within the EMS (2c) where it held a lower position together with Deutschemark.
(3a) Money market rates reached a high of over 6%, (3b) after which a slight easing occurred. (4) In the next few months a renewed decline in Dutch money market rates is likely. (5a) Although not as high as originally expected, (5b) the current surplus will be substantial at an estimated Dfl.8 billion. (6) In addition, the position of the guilder within the EMS is expected to strengthen.
(7a) The fact (7b) that the guilder was revalued by less than the Deutschemark in the realignment (7a) contributed to the growing uncertainty in the Dutch capital market. (8) Another factor was an announcement of disappointing figures for the government budget deficit. (9a) These two factors combined meant (9b) that the government's attempt to tap the market in May was more or less a failure. (10) As a result, the rates on long-term government bonds went up from 8% in March to nearly 9% at the end of May.
(11a) External factors, (11b) especially developments in the United States and Germany (11a) will exert downward pressures, (11c) but these will be partly neutralised by the increased PSBR. (12) Therefore a modest decline in long-term rates seems to be the most likely outcome. (13) The difference between Dutch short-term and long-term rates is expected to increase.
(1a) The upward pressure on UK short-term interest rates (1b) which had been evident over the winter months (1a) was finally arrested during March, (1c) when 3 months' money market rates fell back below 11%. (2a) Their subsequent decline to around 10% was accompanied by a similar percentage point reduction in bank base rates, (2b) thus reversing half of the increase (2c) that occurred around the turn of the year.

(3a) The specific reason for the reduction in interest rates has been the sharp recovery in the sterling exchange rate, (3b) which in trade-weighted terms rose by around 8% between the end of March and the end of April. (4a) In turn, the improvement in the exchange rate may be largely attributed to more settled conditions in the oil markets; (4b) and even election uncertainties and a stronger dollar have not undermined sterling's strong performance. (5a) Interest rate prospects are clearly dependent on the outcome of the general election on 9 June, (5b) but, on the assumption of the return of the Conservative Government (5c) currently indicated by the opinion polls, (5d) further modest reductions in money market rates during the summer seem likely. (6a) Not only should external factors continue to be favourable (6b) but, domestically, inflation and money supply pressures should be modest, (6c) even though the retail inflation rate may rise somewhat from its current level of 4%. (7a) At the same time the economic recovery now underway may not be sufficiently vigorous (7b) if real rates of interest persist.

(8) Long rates have moved downwards in recent months in line with the fall in short rates and the strength of sterling. (9a) From their present level of around 11%, some further modest easing in long rates is possible (9b) especially if the election result leads to a further strengthening of the exchange rate.

Text: 8 The Eurodollar markets (September 1983)

(1a) Between May and the end of August dollar interest rates rose by around 1.5% (1b) reflecting continuing concern in the markets over the high government borrowing requirement and the prospects for money supply growth. (2a) These fears persisted (2b) despite the raising of the growth targets for M1 by the Federal Open Market Committee (2c) and a declared intention to continue to put more emphasis on the broader monetary aggregates (2d) which have generally been within target.
However, not until M1 decelerated to within its target range in the last few weeks were market fears allayed that, for the time being at least, a further tightening of policy would be necessary.

For the next few months the Fed is unlikely to change its policy stance and interest rate movements are likely to reflect general economic conditions. So far this year economic growth has generally been higher than expected; but it can now be expected to moderate, suggesting stable short-term interest rates with the possibility of some modest easing before the year end.

Bond prices should receive support from the better outlook for short-term interest rates and a continuing large inflow of foreign capital. Nevertheless, the large federal borrowing requirement continues to overhang the market which must be added a rising, albeit modest, demand from the private sector. On balance, more or less stable long-term yields are to be expected in the coming months.

Text: 9 Belgium (September 1983)

Aided by the relative strength of the Belgian Franc, interest rates continued their slow downward trend during the summer. The reduction in the current account deficit, together with sluggish private sector demand for credit and better confidence, contributed to an increase in liquidity. At the beginning of September, the three month interbank rate stood slightly above 9% while the gross yield on the latest issue of public sector bonds was down to 11.43%.

Early in July, the Government was granted special powers, enabling it to legislate without prior parliamentary approval until the end of 1983. For matters relating to public expenditure and the social security system this was extended until 31 March 1984. Even so a series of difficult decisions will be necessary to reduce the size of the public sector deficit relative to GNP; and with Belgian money market rates at times less than 4% above corresponding German rates, the scope for a reduction in the short-term differential has been practically exhausted.

A stronger Deutschmark in relation to the dollar and even somewhat lower money market rates in Germany will therefore only allow a marginal reduction in short-term rates in Belgium in the next few months.

Given the somewhat slower increase in the public sector borrowing requirement, the weak credit demand of the corporate as well as of the household sector and the better balance of payments situation, the position
of the Treasury as a borrower on the domestic bond market has markedly improved. (9a) The amount of new issues has soared to an historical high level, (9b) making it possible to reduce the dependence on new borrowing abroad. (10a) The Government plans to make incomes derived from interest and dividend payments free of all taxation other than withholding tax of 25% (instead of the present rate of 20%) (10b) and a measure of fiscal amnesty is also an issue. (11) Both measures would tend to increase the demand for public sector bonds. (12a) With the rate of inflation tending to fall below 7.5%, (12b) the next government bond issue (12c) scheduled for the end of the year (12b) could be launched with a gross yield of about 11%.

Text: 10 France (September 1983)

(1a) Despite the distinct improvement in foreign trade performance and the firmness of the franc within the EMS, (1b) no reduction in money market rates has been possible in recent months. (2a) The main reason for this has been the persistent upward pressure on US interest rates, (2b) which was responsible for the recent rise in the West German Lombard rate. (3a) The day-to-day rate has thus remained around 12.5% (3b) but with less Bank of France intervention in the money market it has moved within a somewhat wider band (3c) and now reflects more closely the fluctuations in supply and demand. (4a) It is true (4b) that a certain easing of rates might be expected (4c) now that the Government's more rigorous economic policy is beginning to produce positive results: (4d) inflation in annualised terms will scarcely exceed 7% in the second half of the year, (4e) whilst the average monthly trade deficit has been halved to FF4 bn. (5a) Moreover, the demand for credit is notably slacker (5b) (12% is forecast for 1983, against 18% in 1982). (6a) Nevertheless, the international environment remains uncertain; (6b) a decline in US rates and weakening of the dollar would have an adverse effect on the franc's performance against the Deutschmark. (7) As such, any drop in short-term rates in France during the months to come will only be modest. (8a) Bond yields, (8b) virtually unchanged throughout the second quarter of the year, (8a) dropped about half a point during the summer and (8c) are now in the region of 14%. (9a) This reduction may be explained by the fact (9b) that the Delors' plan is starting to show signs of success, (9c) but it was also due to the expectations of a drop in short-term rates, (9d) as reflected in the structure of term rates on the money market in July. (10a) Moreover, given favourable fiscal treatment, the
high level of real interest rates (nearly 5%) and the recent 1% cut in interest on savings accounts, (10b) investor demand for bonds has remained high. (11a) Consequently, in the first nine months of the year bond issues, (11b) including the FFr25 bn State loan in September, (11a) totalled FFr135 bn, 32% higher than the figure for the corresponding period of 1982. (12a) However, the day-to-day rate would now seem to be a barrier to any further decrease in bond yields (12b) since 12.5% is equivalent to an annualised rate of 13.5%. (13) In view of this, no significant reduction in long-term rates is expected until short rates decline.

Text:11 Germany (September 1983)

(1) German financial markets, and the currency in particular, have been affected by the fluctuations of US interest rates in recent months. (2a) Even though long-term German money rates firm by about half a percentage point, (2b) the higher interest differential in favour of US markets induced additional capital outflows (2c) and thus further weakened the Deutschmark against the dollar. (3a) In order to support the Deutschmark and counter the danger of imported inflation, (3b) the Bundesbank raised its Lombard rate from 5% to 5.5% as of 9 September. (4a) Moreover, this move also reflected relatively strong monetary expansion, (4b) with the 8.5% increase in the first eight months of the current year being well above the Central Bank's 1983 target range of 4% - 7%. (5a) Day-to-day money rates firm correspondingly to around 5.5%, (5b) while longer-term money had already anticipated this development. (6a) The modest Bundesbank step takes into account the still hesitant economic recovery in Germany (6b) and should not be regarded as a general shift back to a more restrictive monetary policy. (7a) German money rates could, therefore, ease somewhat again in the course of the next few months, (7b) unless the recent improved monetary situation in the US proves short-lived.

(8a) Capital market yields, (8b) also influenced by US interest rate developments, (8a) have risen from their spring 1983 low of 7.4% to 8.4% at present. (9a) If US long-term rates ease, (9b) German rates would follow (9c) as domestic factors are not against lower capital market yields. (10a) Private capital demand - (10b) though increasing slightly - (10a) is still relatively low (10b) due to the slow economic recovery, (10c) and the Government's budget consolidation efforts are exerting a positive influence on the general market climate. (11) Nevertheless, these factors are not strong enough to overcome possible contrary US interest rate trends.
Text: 12  Italy (September 1983)

(1a) The new five party coalition Government (1b) - in power since 4 August (1c) and led by Mr. Bettino Craxi, a socialist - (1a) is pledged to press forward with the stabilisation policies of its predecessors - (1d) chiefly through budgetary rehabilitation, a freeze on real wages and stringent monetary policies. (2a) The pursuit of traditional socialist goals of employment and growth, (2b) chiefly through the adoption of cheap credit policies, (2a) has been temporarily shelved (2c) in favour of concentrating on the fight against inflation.

(3a) Even so, the Government is moving at leisurely pace (3b) thanks to a breathing space provided by a combination of favourable (partly seasonal) circumstances. (4) First, the country's external position continues to show remarkable improvement. (5a) The trade gap narrowed considerably, (5b) invisible earnings are rising (5c) and the capital account remains strong. (6a) As a result, the overall payments position has improved, (6b) recording a $2.2 bn surplus in the second quarter of the year. (7) Fragmentary information about the third quarter points to further progress in the same direction.

(8a) A second favourable development has been the pronounced increase in tax revenues during the first half of the year, (8b) enabling the Government to keep the PSBR below expectations (8c) (but still, however, significantly higher than the Government's original targets). (9a) In financing the huge borrowing needs, (9b) the Government is relying heavily on the issue of short and, increasingly, on medium term securities, (9c) which are attractive (9d) because of their liquidity, tax exemption and high yield.

(10a) In competing with the Treasury, (10b) banks are narrowing their interest rate margins (10c) and their deposits are rising briskly. (11a) The sluggish economy and some improvement in corporate cash flows are slowing credit demand, (11b) which is reflected in more abundant bank liquidity and in moderate easing of interest rates.

(12) However, the present calm in the money markets could be shattered by the adverse impact on the balance of payments and prices of a possible surge in import demand, and of the pronounced appreciation of the dollar in the summer. (13a) Though a further slight drop in money market rates cannot be ruled out, (13b) a trend reversal may materialise towards the end of the year. (14) Long-term rates are likely to show greater stability.
Netherlands  (September 1983)

1. For most of June and July Dutch short-term interest rates barely moved. (2) Rates on three month interbank deposits fluctuated around 5.75%. (3a) Despite rising dollar rates (3b) the Dutch Central Bank (DNB) was able to resist upward pressure on interest rates (3c) due to the favourable position of the guilder within the EMS.

(4a) However, by the beginning of August the increase in rates abroad could no longer be ignored (4b) and money market rates rose to 6.25%. (5a) When on 9 September, the Bundesbank raised its Lombard rate to 5.5%, (5b) the DNB increased not only the advance rate (5c) - the equivalent of the Lombard rate - (5b) by half a point to 5.5% (5d) but also its official discount rate, together with the rate on promissory notes by half a point to 5% and 6% respectively. (6) During the second week of September rates on three month interbank deposits were in the region of 6.25%.

(7a) Any easing of American short-term rates together with continuing strong position of the guilder within the EMS, (7b) owing to the favourable development of the current account, (7a) will put downward pressure on Dutch money market rates in the coming months.

(8a) Long-term rates have been more stable. (9a) The yield on the three most recent long-term government bonds moved slightly above 9% in July and the first half of August, (9b) after which yields fell back to 8.8% by mid-September. (10a) One of the factors (10b) influencing the level of long-term rates (10a) is the development of the budget deficit. (11a) For next year a budget deficit of the same size as that for the current year is expected, (11b) which is a relatively comfortable outcome (11c) given the ever increasing budget deficits during the last couple of years. (12a) This development (12b) together with the still decreasing inflation rate (12a) will allow for a further gradual decline in long-term interest rates.

United Kingdom  (September 1983)

(1a) Following the return to office of the Conservative Government on 9 June (1b) money rates fell by around 0.5% (1c) and bank base rates were reduced in line to 9.5%. (2) Since then, however, short-term money rates have traded within a narrow range of 9.75% - 10%. (3a) In contrast longer-term money market rates and capital market yields have been subject to upward pressure, (3b) with yields on government securities moving from below 11% in mid-June to around 11.75% in mid-August. (4) Long yields have since fallen back somewhat, to around
The stability of short-term interest rates can be largely attributed to a wait and see attitude by the UK monetary authorities. (5a) Domestically, although money supply growth moved outside the 7% - 11% target earlier in the year, (5b) there were reasons for supposing (5c) that this would prove temporary. (7) Equally, the strength and durability of the economic recovery remained in doubt. (8) Externally, sterling's overall exchange rate remained steady with the fall against the dollar being offset by rises against the continental currencies. (9a) Recent developments have seen money supply growth and credit demand slacken; (9b) and a faltering in the economic upturn is now widely in evidence. (10) At the very least this would point to continuing stability in short rates with the possibility of some modest reduction by the end of the year. (11a) External factors should not be a barrier to a fall in rates, (11b) especially as some modest fall in sterling's effective rate should not be unacceptable (11c) given the lack lustre export performance so far this year.

(12a) The recent fall in long-term rates could well be extended (12b) reflecting in part the improved outlook for short rates. (13a) The inflation rate, (13b) whilst set to rise to 6% or so during the next 12 months, (13a) also leaves scope for a fall in long yields (13c) especially if, (13d) as seems likely, (13c) government borrowing needs remain subdued. (14a) However, a sharp fall in long yields is almost certainly dependent on a similar movement in dollar rates, (14b) to which UK capital markets have become increasingly linked.

Text: 15 The Eurodollar Markets (January 1984)

(1a) Seasonal pressures and an intensification of market fears (1b) that the Federal Reserve could be in the process of tightening its stance, in response to the very high rate of economic growth, (1c) produced a sharp rise in short-term interest rates during the first half of December. (2) Since then, however, the unwinding of seasonal pressures and the announcement of a much lower than expected rate of economic growth during the final quarter of 1983 have resulted in interest rates falling back to around their early December levels. (3) At the same time money supply growth has been slack.

(4a) Money supply growth is expected to have a broadly neutral effect on policy in the coming months. (4b) Although growth in broad money supply M2 could remain close to the top of its provisional annual target range
of 6.5 – 9.5%, (5b) an M1 target of 4 – 8% looks less restrictive (5c) suggesting, on balance, a relatively comfortable monetary background consistent with only a narrow movement in rates over the coming year. (6a) In particular, private sector credit demand will remain modest (6b) due to the continuing improvement in the corporate sector’s financial position. (7) The short-term outlook for rates will continue to be strongly influenced by wider economic indicators. (8) During the first half of 1984 both the rate of economic growth and inflation are expected to be in the region of 4 to 5%. (9a) This sort of performance is very unlikely to prompt a tightening of monetary policy (9b) and could allow a slight easing. (10a) Overall, short-term interest rates are expected to change very little over the next six months, (10b) but any trend is more likely to be downwards than upwards.

(11) The large budget deficit has kept bond yields high in relation to short-term rates. (12a) Although the November Presidential election creates further uncertainty for the market, (12b) some small downward adjustment of bond yields is possible over the next few months (13c) as inflationary expectations adjust downwards towards the much lower level of the actual inflation rate. (13a) Long rate will, however, remain above short rates (13b) because of market expectations (13c) that a cyclical upturn in inflation and short rates is the most likely development over the next few years, (13d) and because any early action to reduce the federal deficit seems unlikely.

Text: 16 Belgium (January 1984)

(1) Interest rates in Belgium have moved up since last summer. (2a) The Central Bank, (2b) which did not initially follow the rise in the official rates of the Bundesbank and the Nederlandsche Bank in September, (2a) was finally forced to raise its rates on 23 November. (3a) The three-month interbank rate has risen by more than 1.5 points to 10.8% (3b) while the gross yield on the latest issue of government bonds at the end of January reached nearly 12.7, 0.7 points more than the yield on the previous issue two months earlier.
(4a) As in the past, the direction of money market rates will depend very much on the evolution of corresponding rates in the Federal Republic, (4b) associated with a Belgian differential of some 4 to 5 points above German rates. (5a) Although the balance of payments current account surplus is being reduced satisfactorily, (5b) inflation is still at about 1½% (5c) and further reforms are required to reduce the public
sector deficit. (6) Therefore, no significant fall can be envisaged for Belgian short-term interest rates in the near future.

(7a) Given the expiry of fiscal incentives for the new issue of equity capital at the end of 1983, (7b) there should be a greater availability of runas for the bond market. (8a) The increase in economic activity, (8b) due to the revival in the industrial countries, (8a) should favour a reduction of the public sector borrowing requirement. (9a) Bond yields will nevertheless remain close to their present higher level (9b) because of both the high absolute amount of the public sector borrowing requirement (9c) and the slow progress being made in reducing it, as well as the persistence of inflationary expectations, (9d) reflecting in particular the difficulty in bringing the government budget under better control.

Text: 17  France (January 1984)

(1a) The day-to-day money rate in France, (1b) which came down half a point - from 12.8% to 12.3% - in the course of 1983, (1a) is gradually easing towards the 1% mark. (2a) Hopes of a more substantial reduction (2b) that had been aroused by news of the excellent results on the foreign trade front and the recent firmness of the franc within the EMS (2a) have thus been disappointed. (3a) We see here not only the effect of the one-point rise in US rates since last May and the half-point rise in German rates four months later, (3b) but also evidence of the cautious policy adopted in the matter of interest rates.

(4) In 1984 French rates will be subject to two countervailing influences. (5) International factors will no doubt be relatively unavailing. (6a) Even if they ease in the first half of the year (6b) US rates are unlikely to show a downward trend over 1984 as a whole (6c) because of the growing demand for credit in the United States. (7a) In addition, any weakening of the dollar could put pressure on exchange rates within the EMS, (7b) and this too would check efforts to lower rates in France. (8a) Domestic factors, in contrast, appear to be more propitious: (8b) the external deficit could again be narrowed (8c) and the rate of inflation should be reduced by about two points this year. (9) All in all, a drop in short rates or around one point may be expected in 1984.

(10a) On the bond market, public sector yields dropped 1.4 points in 1983 - to 14% - (10b) and will probably fall a little further shortly (10c) in view of the prospects that now exist of an easing in short-term rates and a reduction in inflation. (11a) Moreover, the placement of new offerings, (11b) which totalled Fr 188
billion in 1983, (1a) will be facilitated this year by the fact (1c) that some $150 billion will be received by investors in the form of repayments of principal and interest on outstanding debt. (1za) Yields on the bond market could, therefore, also decrease by one point (1zb) but, even so, real rates would still be over 5%—well above their average level (1.6%) over the past ten years.

Text: 18 Germany (January 1984)

(1a) In recent months the Bundesbank has continued its tighter monetary policy (1b) and succeeded in bringing the money supply growth rate down to just under 7%, (1c) as together with end-of-year market strains caused a slight rise in money rates. (2) After an increase from 5.9% in September to 6.5% in December, the three months' interbank rate currently stands at 6.2%. (3a) Domestic economic aspects alone, (3b) in particular the generally favourable business outlook, moderate price trend (December inflation rate 2.6%), (3e) a decreasing public sector financing requirement and a sustained surplus in the German current account balance (3a) point to a moderate decline in German interest rates. (4a) Nevertheless, a Bundesbank move to reduce interest rates is not to be expected, (4b) mainly because of the persistent D. Mark weakness against the US dollar. (5a) A noticeable decrease of money rates, therefore, is not very likely, (5b) unless the D. Mark recovers against the dollar (5c) or US interest rates fall significantly.

(6) Capital market yields eased slightly from 8.4% in September to 8.2% at present. (6a) Although private capital investment will increase (6b) as a result of the accelerating economic recovery, (6c) this is unlikely to exert strong pressure on the market (6d) since corporate cash flow has strengthened considerably (6e) and private savings remain sufficiently high. (7a) Moreover, public sector borrowing will be reduced, (7b) due to the Government's efforts to consolidate the budget. (8) So in the capital market, also, domestic factors seem to indicate lower interest rates. (9a) But here, just as in the short-term market, for exchange rate reasons a decline in yields is only to be expected (9b) if US interest rates fall (9c) or the D. Mark overcomes its present weakness. (10) Until then German long-term rates are likely to fluctuate around present levels.
(1a) The Finance Bill, (1b) establishing the general guidelines of budgetary policy for the current year, (1a) was approved by Parliament just before its year end deadline. (2a) Shortly thereafter, however, a new shortfall - of an unspecified amount - was discovered, (2b) implying an overshooting of the 90.8 trillion lire PSBR ceiling. (3a) As a result, some taxes have been increased, (3b) including the duty on petrol (3c) and other revenue - raising measures are now contemplated. (4a) The year-on-year rate of increase of the CPI has declined steadily, from 16.1% in December 1982 to 12.8% a year later, (4c) in spite of the marked depreciation of the lire against the dollar. (5a) To keep within this year's limit of 10%, (5b) tripartite negotiations are taking place between labour, employers and Government, (5c) mainly designed to modify the wage indexation mechanism. (6) The Government, for its part is to try to keep the rise in official prices and tariffs also below the 10% target. (7a) The PSBR rose more rapidly than prices last year, (7b) but its impact on money supply was less pronounced, (7c) since it was almost entirely covered by the issue of Treasury bills and bonds. (8a) Monetary policy, however, was steeper than in 1982, (8b) its major factor having been an external payments surplus of $2.4 billion during the year. (9) Liquidity in the hands of the public appears plentiful. (10) Government bonds have easily been placed with banks and the public at gradually lower yields notwithstanding their longer maturity. (11a) The decline in interest rates has probably been less than it should be (11b) because of the Treasury's concern with a possible new acceleration of inflationary pressures. (12a) There are signs (12b) that the economy is finally emerging from its torpor, (12c) but it is doubtful (12a) whether the speed of the recovery will be fast enough to upset the basic balance or payments strength (12e) and require the adoption of more restrictive monetary policies. (13a) Even if some deterioration in the payments occurs, (13b) the Treasury will have no difficulty in the next few months in financing its deficit in the capital market. (14a) In this climate, interest rates in the money market will continue to weaken from their present level of around 10%, but only slightly, (14b) long-term rates will show greater stability.
Since August Dutch money market rates have fluctuated around 6%. The 0.5% increase in Bank Rate on 9 September was a reaction to market trends in the period before and had no influence on market rates. Although domestic factors, especially the snifting from deposits to bank note circulation, kept the money market relatively tight, the strong position of the guilder vis-à-vis the other EMS currencies allowed the Central Bank to hold interest rates steady. As a result, the short-term interest rate differential between the Netherlands and Germany decreased from +0.5 percentage points in August 1983 to almost zero in January 1984.

For 1984 a surplus of some Fl14 billion on current account is forecast while the rate of inflation is expected to be kept around 3%. Moreover, there is growing evidence that the economic upturn has finally reached the Netherlands. Given the export-led nature of this recovery, the guilder will retain its present strong position within the EMS. Under present circumstances, therefore, a slight decrease in Dutch money market rates seems likely, a decrease that will accelerate as soon as interest rates abroad start to come down.

After peaking at 9.5% in June, long-term rates (i.e. the yield on the three most recent long-term government bonds) has been moving around 8.3% to 8.75% since September. Although a continuation of the downward trend should have been possible due to low demand for long-term funds on the part of both the government and the private sector, the relatively high capital market rate in the United States prevented such a development. For the period to come a slight decrease of capital market interest rates is the most likely outcome. Firstly, the recent encouraging news with respect to the budget deficit, which did not rise to the expected 12.4% of national income but only to 11.6% in 1983, will strengthen confidence in the present government policies to reduce the deficit. Secondly, the business sector's demand for funds will remain modest as a result of the sharp increase in corporate cashflow. Thirdly, the trend in international interest rates does not preclude a small decrease in capital market rates.
(1a) Since bank rates were reduced by a further 0.5% to 9% in early October, (1b) money market interest rates have traded in a fairly narrow range: (1c) 3 months interbank rates, for instance, have moved between 9.25% and 9.5%. (2) Within this range upward pressure on rates has generally been associated with weakness in the sterling exchange rate. (3a) However, because sterling's weakness has been associated primarily with the dollar's strength (3b) the authorities have successfully resisted any tendency for interest rates to rise on this count. (4) Domestic influences have remained somewhat inconclusive. (5a) On the one hand, all targeted measures of the money supply are now growing at the top end of the official 7-11% range, (5b) largely as a result of the continuing strength of personal sector loan demand. (6a) At the same time, however, the inflation rate remains around the 5% level with little sign of any significant upturn; (6b) whilst the economy, (6c) although definitely recovering, (6b) is not doing so at a pace (6e) that is making any real inroads into the level of unemployment. (7) For the next few months, at least, these counterbalancing factors are likely to persist suggesting that short-term interest rates are likely to remain relatively stable. (8a) Long-term yields have fallen by around 0.5% since last September, (8b) notwithstanding the pressure on the sterling/dollar exchange rate, (8c) a traditional source of weakness for the long end of the market. (9a) However, with yields on long-term government securities now down to 10.25%, (9b) little further reduction in long yields seems likely, (9c) given (9d) that short rates and the inflation rate are both at or past their cyclical lows. (10a) A significant rise in rates, however, is unlikely, (10b) given the improved medium-term inflationary prospects (10c) and the relatively modest demands of the public sector on the capital markets.

(1a) Money rates have been on an upward trend since early February (1b) and the Federal Reserve's concern over the possible impact of higher than expected first quarter nominal GNP and credit growth on inflation later in the year led to a tightening of policy (1c) with discount rate being raised to 9% on 9 April. (2) Rates continued to move upwards during April on expectations of a further tightening in May. (3a) However, the very
sharp rise in rates on bank paper relative to Treasury bill yields and the sudden steepening of the yield curve, (3b) both of which occurred in the first half of May, (3a) were due mainly to fears about the soundness of US banks. (4a) The current level of rates probably discounts a further slight tightening of monetary policy at the May FOMC meeting (4b) so that, (4c) in the absence of increased fears about bank safety, (4b) the risk of further significant upward shift in rates in the near future is small. (5) Indeed, we expect rates to remain around current levels over the next three months. (6a) The rate of economic growth should slow down (6b) and the current interest rates already discount the cyclical upturn in the inflation rate. (7) The large budget deficit has kept bond yields high in relation to short-term rates. (8a) Nevertheless faster than expected economic growth is narrowing the deficit more than expected this year, (8b) and as the outlook for inflation is likely to be more favourable than the market fears, (8c) there may be some small downward adjustment in bond yields over coming months. (9a) Long rates will, however, remain above short rates (9b) because fears of an upturn in both money rates and inflation remain the most likely development for 1985. (10) Moreover, action to reduce the federal deficit significantly in the near future seems unlikely.

Text: 23 Austria (May 1984)

(1) In 1983, Austria's balance on current account recorded an unexpected, though minor, deficit of around AS 1.3 billion. (2a) This was largely due to developments in the final quarter of last year, (2b) when anticipatory consumer purchases resulted from a prospective increase in VAT (2c) due to take effect from the beginning of 1984. (3a) The currency drain in the last quarter of 1983 continued in the first months of the current year on account of Austrian capital investments abroad (3b) which are not subject to the new tax on interest revenue also introduced from 1 January 1984. (4) As a result, short-term interest rates have risen from 5.9% in December to around 6.5% at present. (5a) In the bond market uncertainties about the future trend in interest rates (5b) given a new legal situation and a significantly higher inflation rate of 5.5% (5a) initially caused investor caution. (6a) This phase came to an end with an increase in the National Bank's discount and Lombard rates as well as with the decision of capital-market participants to introduce a double-tier interest rate: (6b) for the time being, new issues will offer a choice between a component with an
average life of seven years and a nominal rate of 8\% (6c) issued below par and a long-term component with an average life of ten years or more and an interest rate of 8.5\% (6d) issued at par. (7) Therefore both elements, after deduction of interest - revenue tax, should be able to compete with secondary - market yield of bonds issued up to 1983.

(8a) As Austria's current account is expected to record a surplus of AS 17 billion this year, (8b) there will be less upward pressure on domestic short-term rates from abroad, especially from Austria's main trading partner, Germany. (9a) This aspect is also underlined by the seasonal pattern of higher liquidity in Austria (9b) arising from currency earnings of the tourist industry during the summer months. (10a) In the capital market domestic factors do not indicate any significant changes in interest rates from present levels, (10b) since public sector borrowing requirements are in line with budget estimates (10c) and corporate loan demand is rather weak.

TEXT 24: Belgium (May 1984)

(1a) Interest rates continued to edge upwards during the first quarter of the year (1b) because of the weakness of the Belgian Franc, (1c) and the Central Bank raised its rates by 1 point on 16 February. (2a) Although the upward trend eased (2b) following the announcement of a new austerity plan on 15 March, (2c) 3 month-interbank rates have risen by over 1\% since the turn of the year, (2d) reaching 11.9\% in mid-May.

(3a) Despite the improvement in business conditions, (3b) private sector credit demand remains subdued. (4a) Furthermore, the implementation of the new austerity measures has made it almost certain (4b) that the reduction in the current account and public sector deficits will continue. (5a) Because of this, (5b) the Belgian Franc may see its position strengthen somewhat against the D.Mark, (5c) thus allowing some reduction in the excessively high 5-6 point interest rate differential. (6a) However, there would be little scope for a decline in short-term interest rates (6b) if eurodollar rates were to rise further.

(7a) The yield on newly issued government bonds has risen by less than the rise in money market rates (7b) producing a flatter yield curve. (8a) Inflation has stayed near to 7\% since last autumn; (8b) and the financing needs of the Belgian public sector, (8c) even if no longer on an upward trend, (8b) still remain considerable. (9a) However, the Treasury has successfully arranged a partial lengthening of maturities of its short-term debt (9b) lodged with domestic financial intermediaries, (9c) thus
demonstrating its capacity for improving the structure of the government debt. (10) Bond yields should not change much from current levels of just over 12%.

Text: 25 France (May 1984)

(1a) Interest rates have remained relatively stable since early-1984 (1b) despite the better outlook for inflation resulting from the satisfactory process of wage de-indexation. (2a) Econometric studies suggest (2b) that, in relation to inflation, pressures on the exchange rate and foreign interest rates, the equilibrium interest rate for day-to-day money should have been under 11% from mid-1983. (3a) With the expected reduction in the rate of inflation, a better performance of the franc, and little change in German rates, (3b) the equilibrium rate should be close to 10% by the end of the year.

(4a) In addition to the fears aroused by the rise in US rates and the possibility of tension within the EMS, (4b) the pause in the downtrend in interest rates in France over the past eight months seems to have been dictated largely by considerations of prudence (4c) reflecting the authorities determination to restore fundamental balance to the French economy.

(5a) With the expected fall in inflation (from 9.6 to 7%), (5b) interest rates, (5c) if they are not reduced, (5b) will reach unprecedented levels in real terms (about 6% for short-term money, against an average of 0.5%, over the past fifteen years). (6a) For this reason (6b) even though a drop to the above-mentioned equilibrium rate is improbable, (6a) short-term rates may well be reduced by at least one point in the coming months. (7a) It should be noted that the day-to-day money rate has remained below the level of 12% since the beginning of May, (7b) despite the increase in US rates.

(8) A decrease in short-term interest rates and favourable expectations for inflation would be conducive to an easing in long-term rates. (9a) Moreover this movement would be helped by a smaller volume of new issues (9b) following the record figure of F 82 billion in the first quarter (up 62% on last year).

Text: 26 Germany (May 1984)

(1) In recent months German money market rates have continued to be influenced by US interest and foreign exchange rate developments. (2a) After a decrease from 6.2% in January to 5.8% in April, (2b) which was backed
by the firming of the D.Mark in February/March (2a) the three months' interbank rate returned to 6.2% (2c) mainly in response to rising US interest rates (2e) (differential to German rates now 5.75%) (2f) and the renewed strengthening of the dollar. (3a) Nevertheless a more restrictive Bundesbank policy (3b) to support the German currency (3a) would endanger the economic recovery (3c) and is therefore likely (3d) only in the case of a further significant rise in the dollar. (4a) Contrary to current money market trends domestic factors continue to point to a decline in German interest rates: (4b) the economy shows a good performance (4c) but is far from booming, (4d) price increases continue to be moderate (4e) (April inflation rate 3.2%) (4f) and the current account is in comfortable surplus. (5a) Assuming that current labour disputes in German industry are satisfactorily resolved, (5b) money market rates can be expected to stabilise around present levels (5c) or even ease slightly, (5d) unless precluded by rising US interest rates.

(6a) Capital market yields eased from 8.2% in January to 7.9% in March (6b) and since then firmed again to their current 8.1%. (7a) Although the economic recovery has gained momentum, (7b) credit demand is still relatively weak (7c) because of the growth in company cash flow and a decreasing public sector financing requirement (7d) due to the Government's successful efforts to consolidate the budget. (8) At the same time private saving remains relatively high. (9) In the capital markets, therefore, favourable economic fundamentals seem to indicate lower interest rates. (10a) However, a noticeable decline in yields for exchange rate reasons is only to be expected (10b) if US interest rates decrease (10c) or the D.Mark overcomes its present weakness. (11) Until then, German long-term rates are likely to remain close to present levels. (12) But a further rise cannot be discounted.

Text: 27 Italy (May 1984)

(1a) The wage bill, (1b) one of the cornerstones of Italy's anti-inflation policy, (1a) failed to obtain parliamentary approval before the 16 April deadline (1c) and had to be re-submitted in a slightly revised form. (2a). There has been no let up in the uncompromising opposition of the left-wing to this effort by the Craxi Government (2b) to place a 10% ceiling on wage indexation adjustments for February to July. (3a) It is hoped that trade unions and employers will agree on a formula of their own (3b) to moderate the rise in labour costs.
A recovery is underway after the 1.2% decline in GDP last year. It is reflected in an increase in industrial output and energy consumption, restocking and in rapidly growing imports - especially of raw materials and fuel. This is leading to a deterioration in the balance of payments position: the overall payments deficit amounted to $2.1 billion during the first three months of the year, as against $1.5 billion a year earlier. The inflation rate has slowed considerably, but in April it was still almost two points above the Government's 10% target for the current year. Public sector borrowing continues to exceed its target, partly because of the delay in obtaining parliamentary approval for new tax legislation. As a result, during the first three months of the year, the deficit amounted to 19 trillion lire, compared with 13.4 trillion a year earlier.

The monetary authorities are now placing greater reliance in the anti-inflationary fight on the monetary base than on interest rates and quantitative credit restrictions. The fiscal deficit has been financed by the issue of medium-term government bonds, to a greater extent than a year ago. The increase in the monetary base has been kept within bounds, and the year-on-year growth of M2 slowed to 13.5% in March 1984, as against a figure of 16.5% one year earlier.

Interest rates have recently declined following a one percentage point reduction in the discount rate in February and a further 0.5% cut to 15.5% in May. However, given the danger of a deterioration in the payments position, interest rate trends abroad, and the difficulties encountered in implementing the Government's anti-inflation program, the current decline in interest rates is not likely to continue for long.

Text: 28 Netherlands (May 1984)

So far in 1984 Dutch short-term rates have been relatively stable, fluctuating around 6.0%. At the beginning of May the Dutch currency reached the top position within the EMS, enabling the Central Bank (DNB) to prevent Dutch interest rates from following the rise in US and German money market rates. The strength of the guilder within the EMS is mainly due to the surplus on the Dutch current account which is expected to be FL 12 billion this year. Although the inflation rate has increased somewhat in recent months it will remain at the rather low level of 3.5 to 4%. In addition it is expected that the recent strengthening of the economy will continue in the months to come. As all these factors point to a
continuing strong position of the guilder in the EMS, (6b) it seems certain (6c) that any decline in US rates would result in a fall in Dutch rates as well.

(7a) Since January 1984 the Dutch long-term government rate - (7b) the yield on the most recent long-term government bonds - (7a) has moved between 8.4% and 8.6%. (8a) Because of the strength of the guilder and the low inflation rate (8b) a decline in yields has seemed possible, (8c) but international factors have prevented this. (9a) In the near future a slight decrease looks probable, (9b) certainly if long-term rates in the US and Germany fall. (10a) This expectation is not only based on the arguments mentioned above (10b) but also on the narrowing of the budget deficit of the Dutch government. (11) The recent economic upturn has resulted in an adjustment of the budget figures for this year. (12a) According to the most recent forecasts (12b) the deficit (12c) as a percentage of net national income (12b) will decrease from 11.5% in 1983 to 10.7% in 1984. (13) Moreover, the State has already financed about 65% of its financing needs for this year during the first five months of 1984.

(14a) A decline in borrowing by the State, together with weak private sector demand, is an additional factor (14b) which creates room for a decrease of long-term rates in the near future.

Text: 29 United Kingdom (May 1984)

(1) In recent months short-term interest rates have fluctuated around the 9% level. (2a) During March a well received Budget induced widespread optimism (2b) which resulted in money rates moving below 9% (2c) and bank base rates being cut between 0.25% and 0.50%. (3a) However, during early May this was reversed (3b) as the financial markets became increasingly concerned with money supply prospects and the rise in dollar interest rates. (4a) Long-term rates, (4b) currently at yields approaching 11%, (4a) have broadly moved in line with sentiment in the money markets.

(5a) The markets remain nervous and the immediate problem concerns the low level of government debt sales (5b) which point to temporarily poor money supply figures, at least for the broad measure, sterling M3. (6a) At the same time the fact (6b) that sterling interest rates are now some 2.5% percentage points below comparable dollar rates (6a) is a source of continuing unease. (7a) Against this, the narrow measure of money, M0, is well within target (7b) and it is this aggregate (7c) which the authorities claim has particular relevance for short-term interest rates: (8a) the inflation rate seems set to remain close to an
acceptable 5% throughout 1984 at least; (8b) whilst sterling's trade weighted index remains relatively stable, (8c) and the current Middle East difficulties are an additional supportive factor in the short-term. (9a) Thus, although there are short-term risks, (9b) short-term interest rates are likely to remain relatively stable around current levels.
(10a) Current long yields look attractive against both the current and prospective inflation rate, (10b) whilst the reduction in government borrowing of 2.5% billion pounds (10c) planned for this year (10b) is an additional positive factor. (11a) However, significant progress is unlikely (11b) until US bond yields show signs of peaking (11c) and/or the sterling exchange rate looks stronger. (12) The short-term outlook is for long yields to remain close to current levels.

Text: 30 The Eurodollar Markets (October 1984)

(1a) After trading around 12% for much of the summer, (1b) 3 month eurodollar rates fell sharply during October, to a little below 10%. (2a) The extent of this fall reflects a widespread belief (2b) that the Federal Reserve has eased its stance in response to the slowdown in economic activity and in money supply growth. (3a) At the same time the annual inflation rate, (3b) at 4.2% for consumer prices and just 1.6% for producer prices, (3a) gives little cause for concern.
(4) The course of eurodollar interest rates over the next four months is finely balanced. (4a) There is no short-term risk on account of the inflation outlook; (4b) but economic growth should be stronger in the fourth quarter (4c) as consumer spending picks up, (4e) while total credit demand remains high (4f) and will continue to do so, (4g) given the size of the budget deficit and corporate financing needs. (5a) The deficit is unlikely to be cut significantly in the short term, (5b) and renewed upward pressure on interest rates could re-emerge in the new year. (6) However, the extent of any rise is likely to be modest.
(7a) There has been a sustained decline in long-term bonds yields in recent months, (7b) from approaching 14% in late May to around 11.75% at present in the case of Treasury stock. (8a) Some of the recent fall reflects the easing in short rates (8b) but, (8c) compared with May, (8b) there has been some flattening of the yield curve, (8d) which could be taken to reflect a reduction in uncertainty, especially over the outlook for inflation. (9a) However, long yields will remain sensitive to movements in short-term interest rates (9b) as well as prospects concerning the budget deficit. (10) As such, a renewed - albeit limited - rise in bond yields may materialise over the next few months.
Text: 31  Belgium  (October 1984)

(1a) Due to the strengthening of the Belgian Franc's position and continuing improvement in the underlying economic situation, (1b) 3 month-interbank rates have fallen back from their recent peak of 12.2% in February to 10.8% in October. (2a) Yields on the bond market changed less, (2b) with the reduction being less than half a point. (3) The result was a slight widening of the difference between long and short-term rates. (4) Interest rates on mortgage loans were cut to 12.5% in September, to their level at the beginning of the year.

(5a) The Belgian economy continues to improve (5b) due to rising demand for exports (5c) combined with a further progress in domestic adjustment (5d) (notably continued restraint on the side of personal incomes, persistent efforts to prune the public sector deficit and a rise in investment outlays underpinned by better competiveness and higher corporate sector profits). (6) The expected elimination of the current account deficit of the Belgo-Luxembourg Economic Union by 1985 is strengthening the foreign exchange market position of the Belgian Franc. (7) Liquidity is still quite ample and inflation is declining. (8a) It is therefore possible to forecast a further slight reduction in short-term interest rates, (8b) at least as long as the DMark does not strengthen against the dollar and the other EMS currencies.

(9a) Despite progress in reducing the public sector deficit, (9b) the financing needs of the Government remain excessively high (9c) and constitute a huge demand on finance from the bond market. (10a) Another significant cut in the public sector borrowing requirement will not be possible before the next parliamentary election (10b) to be held in 1985. (11a) On balance, this points to stable (11b) or only slightly declining bond yields in the next few months, (11c) although foreign exchange and market pressures could re-emerge as an adverse influence.

Text: 32  France  (October 1984)

(1a) There has been a marked reduction in short-term interest rates in France since the summer, to 11.4% in September (1b) compared with their level of 12.4% at the beginning of the year. (2a) The recent easing reflected the decline in the inflation rate (2b) and followed a period of relatively stable interest rates necessary to restore the health of the franc, (2b) where significant progress has been made. (3a) In addition, it came at the right moment in the international context, (3b) because
of the slight easing in US rates, and therefore in the strength of the dollar. (4) Several factors suggest the possibility of a further easing in interest rates in the coming months. (5a) Firstly, the fall in the inflation rate is continuing (5b) and foreign trade is improving, with a surplus in the last two months. (6) Secondly, the "psychological" protection of the franc is being pursued on the Eurofranc market. (7a) In addition, it is unlikely (7b) that interest rates abroad will rise significantly. (8a) However, a reduction in French interest rates might be postponed (8b) if a fall in the dollar puts pressure on the EMS.

(9) On the bond market, public sector yields dropped dramatically from 14% at the beginning of the summer to around 12.5% in mid-October. (10a) Although liquidity is satisfactory, (10b) the downward trend of bond yields may be checked for a time (10c) while waiting for a renewed decrease in short term rates.

Text: 33. Germany (October 1984)

(1) The recent decline in US interest rates paved the way for an interest rate reduction in the German financial markets also. (2a) The 3 month-interbank rate, (2b) having remained stable at 6.1% from May to mid-August despite the raising of the discount rate from 4 to 4.5% at the end of June, (2c) eased to 5.8% during September (2e) mainly as a response to falling US interest rates. (3a) The renewed rise to 6.1% in October has presumably been due to the drain on liquidity (3b) caused by the Bundesbank's strong dollar sales in the foreign exchange markets (3c) in order to support the German currency. (4a) Domestic economic factors at present give no reason for a more restrictive Bundesbank policy: (4b) the economy shows a good performance (4c) but is far from booming; (4d) price increases continue to be moderate (4e) (inflation in October amounted to just over 2%); (4f) the current account balance, (4g) seasonally adjusted, (4f) has been in strong surplus since mid-year; (4i) and the Central Bank money stock continues to move in the middle of the Bundesbank's target range. (5a) An easing in money market rates may, therefore, be expected during the next few months, (5b) unless precluded by rising US interest rates or a renewed significant firming of the dollar.

(6a) Capital market yields (6b) which had stabilised at 8.1% in June and July (6a) have fallen steadily since the beginning of August to 7.4% at present. (7a) The progress in consolidating public sector budgets, a marked decrease in demand for longer-term building finance and the modest financing requirement of private
enterprises, (7b) whose earnings have improved further, (7c) are positive influences on the general market climate. (8a) An additional fillip to the market was the government's abolition of the coupon tax, (8b) (the withholding tax on interest income from domestic bonds held by foreigners), (8a) retroactive from 1 August. (9) So in the capital market, also, many factors seem to point towards lower interest rates. (10a) In view of the still significant interest rate differential in the United States, and of the continuing strength of the dollar, (10b) German long-term rates during the next few months are unlikely to ease further (10c) unless there is a further fall in US interest rates or a noticeable rise in the DM exchange rate.

Text: 34 Italy (October 1984)

(1a) The economic upturn is continuing at a moderate pace (1b) (a 2.8% rate of growth is expected for 1984) (1c) and is still underpinned by buoyant export and inventory demand. (2a) The inflation rate is slowly decelerating (2b) and has fallen below 10% in recent months.

(3a) The depreciation of the lira against the dollar, the economic recovery and restocking have caused a deterioration in the trade balance (3b) leading to a trade deficit of $6.4 billion during the first eight months of the year.

(4a) The budgetary programme for next year aims at keeping the PSBR to GDP ratio at 14.3%, (4b) compared with 15.7% in 1984, (4c) by raising additional revenue (4d) and limiting the increase in expenditure to 7%.

(5a) However, a bill submitted to Parliament (5b) to curb tax evasion among self-employed workers (5a) is meeting fierce resistance, (5c) and progress (5d) in curbing cost-push inflation through an agreement between trade unions and employers (5c) is being hindered by this dispute and by other controversial questions.

(6a) In September, fearing overheating and its adverse impact on the balance of payments, (6b) the Bank of Italy reversed the more accommodative stance (6c) it had adopted (6d) and raised the official discount rate by one percentage point to 16.5%. (7) This step was followed by a similar increase in the prime rate charged by banks to 18%. (8a) Notwithstanding the growing needs of the Treasury and the business sector, (8b) some Treasury bill rates nonetheless continued to weaken, (8c) reflecting easier liquidity conditions.

(9a) There are signs (9b) that demand for credit is shifting back from commercial banks to medium-term credit institutions, (9c) thus reversing the trend of the last year or so. (10a) The Government is flooding the capital market with its indexed bonds without
apparent difficulty, (10b) as household savings remain at a high level.

(11a) Liquidity conditions can be expected to remain adequate (11b) and short-term interest rates may continue to ease, (11c) though only slightly, in the coming months. (12a) Subsequently, there could be an upturn (12b) if the balance-of-payments deficits widen. (13) Long-term rates are likely to decline more substantially.

Text: 35 Netherlands (October 1984)

(1a) The official economic forecast for 1985, (1b) which was published last September, (1a) pointed to a continuation of recent favourable trends. (2a) Inflation, (2b) now at 2.8%, (2a) is expected to fall further to average 1.5% in 1985, (2c) the surplus on current account should rise from FL10.4 billion in 1983 to respectively FL15 billion and FL17 billion in 1984 and 1985, (2d) whilst the improvement in the business cycle will continue (2e) although at a rather slow pace. (3a) Given also the Government's projection of a decrease in the budget deficit in 1985 (3b) and the still weak credit demand of the private sector, (3c) then, from a domestic viewpoint, there is every reason to expect downward pressure on interest rates.

(4a) This expectation has already been realised in the capital markets, (4b) where yields have fallen from their peak of 8.7% in July to 7.6% at present. (5a) The sharpness of this decline was strengthened by the fact (5b) that by the end of September the Government had already completely covered its 1984 borrowing requirements, (5c) as a result of which many institutional investors, (5d) who mainly invest in Government bonds, (5c) became over-liquid.

(6a) As the Government will have to come back to the market soon to start its borrowing programme for 1985, (6b) it is not expected (6c) that the reduction in long-term rates will continue in the months ahead, (6d) especially as fears of higher inflation rates, (6e) due to the rise of the dollar, (6d) are growing (6f) and the differential between long and short rates has already fallen by a half between July and October. (7a) In contrast to the capital markets, (7b) money market interest rates have more or less stabilised at around 6% this year. (8a) The major factor has been the strength of the dollar, (8b) which has prevented the Dutch monetary authorities from bringing down short-term interest rates to a level in line with the domestic economic situation. (9a) Therefore, a fall in Dutch money rates can be expected (9b) only if US interest rates fall further, (9c) or the dollar starts its long awaited downtrend.
Text: 36 United Kingdom

(1a) In recent months short-term interest rates have fluctuated sharply (1b) principally as a result of exchange rate pressures. (2a) The July sterling crisis - (2b) which emanated from industrial disputes, uncertainty in the oil markets, as well as concern over domestic monetary trends - (2a) saw a rise of almost 3% in money market rates to over 12%. (3a) More settled conditions in August allowed a partial reversal of this increase, (3b) since when money rates have traded around the 10.5% level. (4a) Long-term yields have moved in similar fashion to short rates; (4b) but after peaking at nearly 12% (4c) they have since fallen to around 10.5%, (4d) back to where they were before the July crisis.

(5a) Domestic economic factors support the case for lower short-term interest rates: (5b) inflation should be held at 5% or less over the coming months; (5c) money supply growth is within the official target range; (5d) and economic activity is showing signs of faltering. (6a) However, the miners' dispute continues to overhang the financial markets, (6b) while oil market uncertainties provide an additional source of nervousness. (7) So far, the authorities have been willing and able to let the exchange rate take the strain. (8a) On balance, (8b) and on the critical assumption that the miners' strike is satisfactorily resolved, (8a) UK short-term interest rates should resume a downward trend over the next few months.

(9a) There is scope for a further reduction in long yields, (9b) given domestic monetary conditions, (9c) notably decidedly modest government funding needs. (10) However, any significant reduction in yields will also be dependent on a favourable outcome to the miners' dispute.

Text: 37 Australia (OECD/84,p.113)

(1a) A strong recovery in output started around mid-1983, (1b) bringing a sharp increase in corporate profits. (2a) The principal proximate causes of the recovery were a marked increase in farm output (2b) as the drought ended (2a) and a moderation in the rundown of non-farm stocks. (3) In addition non-rural output exports were buoyant. (4a) Public sector demand grew rapidly (4b) but private consumption growth was moderate (4c) as the saving ratio rose. (5a) Business investment continued to fall, especially in the resource sector, (5b) but residential investment picked up. (6a)
Inflation declined further to below 8 per cent, (6b) reflecting the successful wage pause earlier in 1983. (7a) By the end of 1983, though, wages began to accelerate (7b) as the indexation awards were paid. (8a) At the same time, employment was rising (8b) and unemployment started to fall. (9a) With an increase in investment income in the trade balance, (9b) the current account deteriorated in the second half of 1983.

(10a) Fiscal policy remains expansionary, (10b) with the Commonwealth Budget deficit expected to be $8.3 billion in 1984, (10c) reflecting widespread expenditure increases. (11a) The 1984/85 Budget has not yet been announced (11b) but the forecast assumes that, (11c) in line with the Government's intentions, (11d) the Budget deficit will be reduced partially (11e) as the result of a lagged increase in tax revenues from companies and the farm sector. (12) These factors generate a lower deficit of about 4 per cent of GDP in 1984/85. (13a) Monetary growth in the second half of 1983 was rapid, (13b) but slower than the increases in nominal demand. (14a) In order to accommodate faster real output growth, (14b) the Government raised its monetary target range by 1 percentage point to 10 to 12 per cent. (15) Long-term interest rates fell only slightly. (16a) Short-term rates fell more, (16b) being dominated by the relatively large amounts of liquidity in the monetary system (16c) following Reserve Bank intervention in the foreign exchange market, especially in the final three months of 1983. (17a) When this intervention jeopardised the attainment of the monetary target, (17b) the exchange rate was allowed to float instead of being set daily. (18a) After being artificially depressed towards the end of 1983, (18b) interest rates increased during the opening months of 1984 (18c) as some excess liquidity was neutralised (18d) and as the economy entered the period of greatest seasonal liquidity tightening.

(19) Output growth is expected to slow during the forecast period. (20) Nevertheless, it is expected to be 6 per cent in 1984 and about 3.5 per cent in 1985. (21) Moreover, during 1984 the recovery should move on to a more sustainable trajectory. (22a) Business investment is expected to stabilize (22b) and then increase, (22c) reflecting major increases in profitability and higher output. (23a) Private consumption may increase more rapidly (23b) as the saving ratio falls to pick up (23c) reflecting, to a certain extent, (23c) declines in real wages during 1983 as well as increased output. (GRAPH) (25a) The unemployment rate is expected to decline only slowly (25b) as labour force growth continues. (26a) Inflation is expected to decline this year to around 6 per cent (consumer price deflator) (26b) as import prices are expected to be stable (26d) even though the growth of wages will, during the year, accelerate to 10
per cent (26c) (reflecting a bunching of payments under the indexation policy). (27a) With a successful incomes policy, (27b) wage growth may slow down in the latter part of 1984, (27c) so that in 1985 wage increases will be lower (27d) but inflation may accelerate somewhat. (28a) The current account deficit is expected to narrow slightly in 1984 (28b) as a result of buoyant agricultural exports offsetting strong import growth, (28c) but it may widen in 1985 to 2.9 per cent of GDP.

Text: 38 Austria (OECD/84, p.114)

(1a) With domestic demand continuing to grow strongly (1b) and export demand picking up sharply, (1c) the recovery gained momentum in the second half of 1983. (2a) Real GDP growth accelerated to 4 per cent (s.a.a.r), (2b) to give a rise of almost 2 per cent for the year as a whole. (3a) Private consumer demand remained buoyant, particularly for durables, (3c) reflecting rising real incomes and advanced purchases before the VAT increase at the beginning of 1984. (4a) Gross fixed capital formation, (4b) which had kept falling in the early phase of the recovery, (4a) started rising too, (4c) and restocking accelerated in the course of 1983. (5a) In spite of strong export growth, (5b) the current external account moved temporarily into deficit in late 1983, (5c) as strong consumer demand and stockbuilding boosted import growth.

(6a) Following substantial losses of official reserves (6b) due to the deteriorating external balance and capital outflows (6c) as a result of a new tax on interest incomes, (6d) the monetary authorities raised the Lombard and discount rate in March by 0.75 and 0.5 percentage points to 5.5 and 4.25 per cent respectively, (6e) about the German levels. (7a) In view of the linking of the Schilling to the Deutschemark, (7b) interest rates are expected to be kept slightly above German rates, (7c) in order to avoid further capital outflows. (GRAPH) (8a) Notwithstanding some new investment incentives, (8b) fiscal policy aims at budget consolidation. (9a) Reflecting the tight stance of fiscal policy, (9b) real domestic demand is expected to grow only slightly in 1984. (10a) Mainly as a result of the budget measures, (10b) consumer prices increased by 2.5 percentage points at the turn of the year to March. (11) The resulting income loss is expected to lead to a fall in real consumer demand in 1984. (12) Recent investments surveys point to a modest rise in real capital spending. (13a) Import growth is projected to slow down (13b) as a result of weak domestic demand, (13c) while export growth is expected to accelerate, (13d) reflecting stronger market growth and improving competitiveness. (14a) The resulting positive swing in the real foreign balance will probably ensure (13b) that
GDP growth this year will be much the same as in 1983. (14) In 1985, GDP growth is expected to stem mainly from a revival of domestic demand. (15) The projected modest expansion may not suffice to stop the rise in unemployment. (16a) Reflecting favourable cost trends, (16b) inflation is expected to fall markedly in the period ahead. (17) The current external account is projected to remain in surplus.

Text: 39 Belgium (OECD/84, p. 114)

(1a) The decline in domestic demand (1b) which began in 1981 (1a) steepened in 1983 (1c) and spread to all components. (2a) Wage income was eroded by the continuing fall in employment and the prolongation to end-1983 of the temporary reduction of wage indexation (2b) which reduced real wages by 4 per cent in two years. (3a) However, the fall in household demand exceeded the fall in real disposable income, (3b) households preferring to rebuild their savings. (4) Budgetary restraint caused a downturn in public consumption and investment. (5a) Business investment also weakened, (5b) in spite of the increase in profit margins. (6a) However, the fall in domestic demand was offset by a strong external contribution, (6b) with the result that GDP growth remained slightly positive (6c) whilst the trade figures were back in balance. (7a) The deterioration in the labour market was checked, particularly in the second half of the year, by work sharing and employment support measures, (7b) and the unemployment rate settled at the very high level of 14 per cent. (8a) In spite of the slower increase in unit labour costs and import prices, (8b) the rise in consumer prices moderated only slowly (8c) and the inflation differential with Belgium's main trading partners, (8d) already positive in 1982, (8e) widened in 1983.

(9a) With business competitiveness restored (9b) and the current external deficit being reduced, (9c) the main thrust of economic policy now is to improve the public finance situation. (10a) A new three-year programme has just been decided (10b) which aims at a net figure of F250 billion (10c) (nearly 6 per cent of 1983 GDP) (10b) by the end of the period (1986) (10d) which would reduce the net Treasury borrowing requirement to 7 per cent of GDP (10e) (compared with 12.50 per cent in 1983). (11a) The main measure provides for the transfer to the Treasury and Social Security account of an amount equivalent to 2 per cent of wages in 1984 and 1985, (11b) an equivalent levy on the income of self-employed (11c) and a parallel reduction in the
indexation of social benefits. (12a) In addition, various savings are to be made on the latter, (12b) particularly in the case of family allowances and unemployment benefit. (13a) This programme will not have its full effect until 1985 (13b) but it should, (13c) according to secretariat forecasts, (13b) enable the general government borrowing requirement to be reduced by one point of GDP in 1984. (14a) The objective of monetary policy, (14b) for its part, (14a) continues to be the defence of the national currency. (15a) To that end, (15b) the discount rate was raised by one point to 11 per cent in February 1984, (15c) bringing it back to its early 1983 level.

(16a) The austerity policy should continue to affect household demand (16b) and both private consumption and residential construction will presumably continue to decline during the forecast period. (17) At the same time, an improvement in profits could bring about some slow recovery in business investment. (18a) As in 1983, however, support for economic activity will come mainly from external sources, (18b) because the recovery markets and a highly favourable competitive situation should make for a strong increase in exports. (19a) The surplus on foreign trade in goods will probably continue to widen (19b), so that the current balance could be in surplus in 1985. (20a) Given the expected trend in reproduction costs, (20b) inflation should continue to slow down (20c) but the movement could be checked by the rebuilding of profit margins. (21a) Growth is in any case likely to be insufficient to prevent further deterioration in the employment situation, (21b) once the work sharing measures have ceased to exert their effect, (21c) and the unemployment rate could well rise to 15 per cent of the labour force in 1985.

Text: 40 Denmark (OECD/84, p. 115)

(1) The economy reacted in 1983 with surprising vigour to stronger world trade, improved confidence and a sharp fall in interest rates. (2) GDP expanded by some 2.5 per cent. (3a) Manufacturing exports in particular were buoyant, (3b) and private investment picked up. (3c) despite a decline in the North Sea sector. (4a) Private consumption grew fast in the second half of the year (4b) as household saving ratio fell. (5a) Imports remained sluggish, (5b) due to declining oil imports, (5c) and the external deficit fell to some 2 per cent of GDP. (6a) Employment picked up gradually in the private sector, (6b) and despite slower increase in wages (6c) following the moderate wage agreement concluded early in the year.

(7a) Fiscal policy was tightened significantly last year, (7b) while monetary conditions eased markedly.
Lower interest rates, cuts in public spending and increased taxation stabilised the general government budget deficit in 1983 at around 8 per cent of GDP. (9a) The 1984 Budget envisages a further reduction in the deficit (to 7 per cent of GDP) (9b) resulting from some discretionary tightening and from the automatic budget reaction. (10a) It is assumed (10b) that the fiscal stance will remain unchanged in 1985. (11a) Monetary policy was eased in 1983, (11b) combining a fall in interest rates and a rapid expansion of the money supply. (12a) The outlook for 1984/85 is based on the assumption (12b) that monetary growth will be brought gradually back in line with nominal income expansion, (12c) and that interest rates will move in line with trends abroad.

(13a) Continuing recovery is expected in 1984, (13b) fuelled by exports and investment. (14a) With no further fall in the saving ratio, (14b) private consumption could rise by 1.5 per cent. (15a) Business investment and residential construction will probably be buoyant, (15b) while a sharp fall is expected for oil and energy investments. (16a) Total domestic demand may expand somewhat faster than in 1983, (16b) offsetting a diminishing contribution from the foreign balance, (16c) and GDP may thereby grow by around 2.75 per cent. (17a) This should allow the unemployment rate to fall slightly without any rekindling of inflation. (17) Continuing good export performance may sustain the momentum of business investments in 1985. (18a) With stock accumulation unchanged, (18b) total domestic demand will probably decelerate a little, (18c) but total production growth may be of the same order of magnitude as this year. (19) This would allow unemployment to fall a bit further. (20a) After deteriorating this year, (20b) the current account may improve somewhat in 1985.

Text: 41 FINLAND (OECD/84, p.116)
deficit widened in local currency terms in 1983, (6b) but remained unchanged relative to GDP (2 per cent).

(7a) The stimulative stance of fiscal policy in 1982 and 1983 has led to a substantial deterioration in government finances, (7b) but the general government deficit remained comparatively small (7c) (1.4 per cent of GDP in 1983). (8a) The 1984 Budget envisaged a slight tightening in fiscal stance, (8b) and further restrictive measures were introduced in May, (8c) so that the government sector as a whole is now estimated to reduce the growth of total output by close to 1 percentage point both in 1984 and 1985. (9a) Monetary policy has become increasingly tight since late last year, (9b) but high interest rates in the call money and unregulated short-term money markets have attracted substantial private capital inflows, (9c) which have helped sustain a rapid rate of credit expansion. (10) In March this year the Markka was allowed to appreciate by 1 per cent.

(11a) Current indicators point to continuing buoyancy of exports and further acceleration of private non-residential investment (GRAPH), (11b) so that GDP is expected to grow by 4.5 per cent this year. (12) Private consumption may show only modest growth and residential investment is expected to decline. (13a) Assuming continued recovery in the OECD area, (13b) prospects for 1985 are also relatively favourable, (13c) although GDP growth may ease somewhat. (14a) The unemployment rate is projected to decline to below 5.5 per cent next year, (14b) and the current deficit is likely to narrow somewhat, (14c) partly because of improving terms of trade. (15a) While the recent wage agreements should moderate inflationary pressures, (15b) international competitiveness is expected to decline. (16a) The projected improvement in economic activity could create pressures in the labour market, (16b) leading to reacceleration of "wage drift", (16c) which in turn would weaken the overall prospects for 1985 and beyond.

Text: 42 Greece (OECD/84, p.117)

(1) Real GDP was broadly unchanged in 1983, for the third successive year. (2) Unemployment continued to edge upward and inflation remained at around 20 per cent. (3a) Inflationary pressures were built-up, (3b) reflecting the substantial effective depreciation of the Drachma in 1983. (4a) This, (4b) coupled with the delayed adjustment in administered prices, (4a) broadly offset the effects of the marked slowdown in the growth of unit labour costs and the profit squeeze. (5) Sluggish domestic demand and falling oil prices resulted in a decline in the value of imports. (6a) With exports
stagnating (6b) the trade deficit was sharply reduced. (7a) This was offset, however, by a sharp decline in tourism, shipping and emigrant receipts (7b) so that, (7c) despite growing EEC transfers, (7b) the current external deficit remained at $1.9 billion. (8a) In relation to GDP the latter rose from 4.75 per cent in 1982 to 5.5 per cent in 1983.

(9) The stance of policies has been eased. (10a) Wage ceilings under the indexation scheme were raised considerably - (10b) a measure expected to lead to an acceleration in the growth of average pay to 21 per cent this year (10c) (compared with 19 per cent in 1983). (11a) The planned fiscal tightening is not expected to materialise, (11b) so that the public sector borrowing requirement is projected to remain at some 12 per cent of GDP. (12a) As a result, but also reflecting the increasing share of credit earmarked for ailing industries and agriculture, (12b) credit expansion to other sectors will moderate. (13a) However, (13b) given poor business confidence (13a) demand for credit may remain weak and the credit squeeze limited. (14) The policy stance is assumed to remain unchanged in 1985. (15a) First, (15b) with some ex ante fiscal tightening expected to be broadly offset by the operation of built-in stabilizers, (15a) the demand impact is predicted to be broadly neutral. (16a) Secondly, a moderate credit squeezer on private business is assumed to be compensated by credit accommodation for the public sector (16b) (including ailing industries). (17) Thirdly, increases in wage ceilings under the pay indexation scheme will probably remain in line with inflation; (18) and finally, (GRAPH) external competitiveness is expected to be maintained through exchange rate adjustments.

(19a) Reflecting price controls and the associated profit squeeze, as well as a smaller real effective depreciation of the Drachma, (19b) inflation is projected to decline gradually to 17 per cent in 1985. (20a) Rising public sector final demand, (20b) notably investment, (20a) is expected to be the main element of strength on the domestic side. (21a) Private consumption may grow slowly (21b) and residential construction may recover somewhat, (21c) but private business investment is projected to continue falling (21d) because of severe profit squeeze and uncertain prospects. (22a) Export volume growth is forecast to increase, (22b) influenced by the strengthening of foreign markets. (23a) With import volumes growing moderately, (23b) the foreign balance may continue to support the growth of GDP over the forecast period. (24a) Unemployment is predicted to continue rising, (24b) notably among the lower age groups. (25a) With the projected improvement in the real foreign balance and higher EEC transfers being approximately offset by a deterioration in the terms of
trade, (25b) the current external deficit may not change much, (25c) hovering around 5.5 per cent of GDP in both 1984 and 1985.

Text: 43  Iceland  (OECD/84, p.117)

(1a) The counter-inflation programme (1b) introduced in 1983 (1a) has had a remarkable effect, (1c) with most measures of inflation falling back from over 100 per cent to the 10 to 20 per cent range by early 1984. (2a) Central to the programme was a reduction in scheduled pay increases, (2b) and a break to the indexation of pay through to mid-1985. (3a) National pay negotiations were completed in March 1984, (3b) providing for cumulative increases in nominal pay rates of about 13 per cent for the year to come, (3c) with somewhat less for civil servants and more for those on minimum incomes. (4) The new agreement allows the prospect of consolidation of progress to date and further reduction of inflationary pressures. (5) In addition to wage moderation, the counter-inflation programme included a 15 per cent depreciation of the krona and restraint on public expenditure. (6a) As a result, household real disposable incomes were cut back sharply (6b) (at the beginning of this year they were 5 to 6 per cent below the 1983 average). (7a) The reduction in inflation and the new pay agreement point to little further change in household real incomes in the course of this year, (7b) while the budget suggests continuing weakness in public consumption. (8a) With fixed investment showing only mixed signs of recovery, (8b) the 7 per cent contraction of real final domestic demand last year may be followed by a further fall of about 5 per cent in 1984.
(9a) While the counter-inflation programme has contributed to the weakness of domestic demand, (9b) it has assisted exports and production. (10a) Economic recovery in the OECD area has helped the power-intensive industries, (10b) which had been in severe difficulties. (10c) Aluminium and ferro-silicon stocks were reduced in 1983, (10d) paving the way for sharper output increases this year. (11a) The profitability of other manufacturing industry has also improved with better competitiveness; (11b) export markets have risen (11c) and domestic and overseas market shares have increased. (12a) The fishing quotas for 1984 suggest (12b) that marine production may stabilise, (12c) though at a level close to 20 per cent down on 1981 — (12d) fish landings have been reduced substantially (12e) in order to conserve stocks. (13a) Assuming an unchanged fish catch, (13b) overall export volumes may increase slightly in 1984. (14a) With imports being reduced further and a resumption of stockbuilding, (14b) real GNP may well
decrease less than final (GRAPH) domestic demand. (14d) (perhaps by some 4 per cent). (15a) Nevertheless, unemployment is predicted to rise to some 2 per cent of the labour force - (15b) high by Icelandic standards. (16a) The terms of trade may also improve somewhat this year, (16b) even if the Króna depreciates by 5 per cent (16c) as allowed for in official plans, (16d) so that the current external deficit is predicted to narrow a little.

(17a) Pay moderation along the lines (17b) which seem likely this year (17a) could bring further gains in inflation next year. (18a) If additional reductions in the fish catch are not required, (18b) the recent improvement in competitiveness could lead to a relatively strong advance in overall export volumes. (19a) And with some improvement in household real incomes and business fixed investment, (19b) domestic demand may recover somewhat. (20a) With stockbuilding still picking up, (20b) there may be little further improvement in the foreign balance. (21a) Overall, 1985 could see combination of modest real growth and a reduction in the annual inflation rate to the 10 to 15 per cent range, (22a) which would represent another major step in the reduction of long-standing inflationary pressures.

Text: 44 Ireland (OECD/84, p.118)

(1a) Present estimates indicate (1b) that there was little growth in real GDP in 1983, (1c) as substantial export growth was offset by a sharp fall in domestic demand. (2a) This export growth largely reflected increased foreign direct investment in Ireland (2b) as foreign firms rapidly expanded capacity; (2c) accordingly, the trade balance has improved. (3a) With real GDP virtually flat, (3b) the unemployment rate increased to over 16 per cent by early 1984. (4a) Inflation has (GRAPH) been reduced: (4b) the CPI rose by 10 per cent in 1983, (4c) compared with 17 per cent in 1982.

(5a) In marked contrast to the 1983 budget, (5b) the 1984 budget reduced fiscal stimulus only slightly. (6a) The Exchequer borrowing requirement is officially projected to remain broadly unchanged in nominal terms in 1984, (6b) amounting to just under 13 per cent of GNP, down from about 14 per cent in 1983. (7a) After substantial falls in 1982 and 1983, domestic demand may recover a little in 1984 and beyond. (8a) Although continued buoyant export growth is expected (8b) (partly because of the coming-on-stream of large aluminium plant), (8c) a strong rebound in imports is forecast to limit the contribution of the foreign balance to growth. (9a)
Accordingly, GDP is projected to expand by around 2 per cent in 1984 and 1985, (9b) insufficient to prevent a further increase in unemployment to about 18 per cent by 1985. (10a) Further moderation of wages, (10b) combined with only modest increases in import prices, (10c) should ensure a continued deceleration in inflation. (11) The current external deficit is likely to remain broadly unchanged.

Text: 45 Luxembourg (OECD/84, p.118):

(1) Activity turned down considerably in 1983 under the combined effects of the continuing steel crisis and reduced domestic demand. (2a) Household purchasing power was reduced (2b) as a result of less than full indexation of wages and higher taxation. (3) Planned modernisation investment in the steel industry was delayed. (4) Lastly, construction, in particular residential, declined considerably. (5a) The weakness of demand brought about a substantial drop in imports, (5b) so that despite lower exports of steel products (5c) there was a slight positive contribution to growth from the change in the real foreign balance. (6a) According to the OECD standardised accounting system, however, (6b) GDP fell by almost 2.5 per cent in volume. (7a) If exported banking services, (7b) still rapidly expanding, (7a) are included, (7c) it more or less marked time. (8) The rate of deceleration of price increases was reduced by the tax measures introduced in July 1983. (9) Employment declined slightly. (10a) Although unemployment is increasing rapidly, however, (10b) it is still low, (10c) (1.5 per cent of the labour force, and about 3 per cent (10d) if steel workers benefitting under special programmes are included).

(11) Economic policy is expected to remain markedly restrictive in 1984. (12a) A surplus budget was voted for 1984 (12b) in order to partly offset the exceptional 1983 deficit (12c) resulting from the financial restructuring of the steel industry. (13a) In addition, the setting of a ceiling on wage increases through indexation is likely to reduce real wages further (13b) and make for continued gradual deceleration of inflation. (14a) Given this context and the continuing very depressed state of the European steel industry in general, (14b) the outlook for 1984 will probably be more or less in line with the trend recorded in 1983. (15a) Domestic demand is likely to decline further, (15b) but this could be partly offset by a positive external contribution, (15c) provided that the expected recovery in non-steel exports is not cancelled out by too sharp a fall in steel exports.
(1a) Economic conditions remained weak in 1983, (1b) with an estimated 1 per cent increase in GDP. (2a) Exports and private non-residential investment were the strongest demand components, (2b) but there was modest additional support from private and public consumption. (3a) Labour market conditions deteriorated further, (3b) but less precipitously than in the previous year. (4a) The unemployment rate reached 15.25 per cent in March this year (4b) (18 per cent on the national definition). (5a) Wage moderation and continued productivity growth (5b) as employment fell (5a) contributed to lower cost increases (5c) and, even though inflation decelerated sharply, (5d) business profits improved. (6) Consumer prices rose by only 2.5 per cent. (7a) Strong export growth led to an increase in the current balance to around $3.5 billion, (7b) in which a volume increase was partly offset by a terms of trade loss.

(8a) Fiscal policy remains restrictive at the central government level (8b) but there may be some increase in the overall deficit in 1984 (8c) due to a fall in the surplus of the social security funds. (9) The 1984 central government budget included reductions in public sector wages, lower transfers per recipient and cutbacks in some services. (10a) At the same time direct and indirect taxes on households were increased, (10b) although these were partly offset by lower profits taxes and higher investment incentives. (11a) Given the slightly better than expected outcome for 1983, (11b) the central government deficit for 1984 may now be in the range of 10 per cent of NNI. (12) Monetary policy remains accommodating. (13a) Although money supply growth decelerated sharply into the second half of 1983, (13b) interest rates softened somewhat more than in Germany, (13c) partly reflecting upward pressure on the guilder within the snake. (14) Nonetheless, real interest rates remain high.

(15a) Industrial output has strengthened dramatically, (15b) with a 6 per cent rise between September and February. (16) Investment surveys have shown considerable improvements in certain industrial sectors. (17a) Nonetheless, the outlook for 1984 remains broadly unchanged; (17b) GDP growth is expected to rise by 1.5 per cent. (18) This is almost entirely explained by higher export demand and a swing in stockbuilding. (19a) Final domestic demand is not expected to rise, (19b) although non-residential investment growth could improve, (19c) on the basis of current surveys, (19b) by 4 to 5 per cent. (20a) Assuming unchanged policies, (20b) GDP growth may continue at about the same rate in 1985. (21) Exports and private non-residential investment remain the strongest elements of growth.
(22a) Continued restrictive policies will reduce government consumption and investment, (22b) while lower transfer payments to households will contribute to an expected fall in private consumption. (23a) Although employment is expected to start rising again in 1984 and through 1985, (23b) the unemployment rate may rise further, (23c) to reach 15.5% to 16 per cent by the end of 1985. (24a) Given the depressed labour market and current wage agreements, (24b) real wages are projected to fall over the period. (25a) Despite this, (25b) the private consumption deflator may accelerate slightly in 1984, (25c) reflecting the VAT increase, (25d) but fall back to around 1.75 per cent in 1985. (26) Some additional recouping of profits seems likely. (27a) In 1984 the improved real foreign balance will be largely offset by terms of trade movements, (27b) but the surplus could widen to $6 billion in 1985. (GRAPH)

Text: 47 New Zealand (OECD/84, p.120)

(1a) Recovery apparently started in the middle of 1983, (1b) when there was a pick-up in building permits, new car registrations and retail sales. (2) The turnaround in domestic demand has been supported by strong export growth. (3a) This external stimulus has come most importantly from non-farm exports, (3b) being associated with the recovery in Australia, (3c) and has probably been an important catalyst to the resurgence of domestic activity. (4a) Under the combined effects of the wage and price freezes, (4b) which had been extended to the end of February 1984 from their initial June 1983 termination date, (4c) real disposable income had been relatively flat. (5a) But some support to consumption apparently came from a fall in the saving ratio (5b) associated with strong bank lending to the personal sector. (6a) Investment has held up (6b) because of the major (GRAPH) projects; (6c) in contrast, private non-residential investment has been depressed, (6d) although it may now be reviving. (7a) Destocking has been important, (7b) and has been associated with falling import volumes, (7c) but it appears to have come to an end towards the end of 1983. (8a) Given the strong contribution from the foreign balance, (8b) GDP growth in the 1983 fiscal year may have been around 1.5% per cent.

(9a) The price freeze has now been replaced by a price surveillance scheme, (9b) while a general wage award of NZ $8 per head (9c) with no other negotiated increases has been imposed. (10) The latter represents about 3 per cent on average earnings. (11a) On the assumption of a small amount of earnings drift, continued strength in the growth of other incomes and a
small increase in employment, (11b) real disposable income may now begin to recover, (11c) sustaining some renewed consumption growth. (12a) With the ending of the price freeze (12b) it is likely (12c) that inflation will increase a little, (12d) although (12e) given the earnings assumption (12d) this may mean only a marginal increase from around 5 per cent in 1984 to about 6 to 7 per cent in the forecast period. (13a) If the price rise were to prove larger, (13b) the projected real income growth would not occur (13c) and consumption would be correspondingly weaker. (14a) With investment growth likely to fall off (14b) as the major projects come to an end, (14c) and with little growth in government consumption, (14d) any recovery seems likely to be modest and fragile. (15a) The forecasts suggest a growth in GDP of about 1 to 1.5 per cent in each of the next two years, (15b) but there are downward risks to this outcome. (16a) Although there may be a small recovery in employment, (16b) the rate of unemployment seems likely to continue to rise by perhaps a further 1.5 percentage points (16c) (to 7 per cent of the labour force) by the end of 1985. (17a) On present policies the budget deficit will remain high, at around 7 to 8 per cent of GDP. (18a) With continued strength of exports in 1984, (18b) the current balance may initially improve, (18c) but it is likely to remain in large deficit, equivalent to some 4 to 5 per cent of GDP.

Text: 48 Norway (OECD/84, p.120)

(1a) Led by strong exports of traditional goods as well as oil and gas, (1b) the economy recovered from a cyclical trough by mid-1983, (1c) and recorded surprisingly high GDP growth of 3.25 per cent. (2a) Private consumption grew only moderately, (2b) despite real income gains (2c) as the savings rate increased, (2d) and investment, apart from the oil sector, was weak both in industry and residential construction. (3a) With relatively strong productivity performance, (3b) unemployment rose appreciably, (3c) although it remains low by international standards. (4) Inflation decelerated steadily through the year. (5a) Boosted by oil and gas revenues, (5b) the current account posted a record surplus of almost $2 billion (5c) (4 per cent of GDP).
(6a) The stance of demand management policies underlying the projections is for moderately expansionary fiscal policy (6c) combined with essentially neutral monetary policy. (7a) The 1984 Budget envisages a deficit before loan transactions (7b) corresponding to 0.25 per cent of GDP. (8a) Excluding oil taxes, (8b) the deficit/GDP ratio may be 6.25 per...
cent, (8c) marginally down on the 1983 figure. (9a) Monetary growth was somehow slower than expected in 1983 (9b) and is assumed to expand at around the 10 per cent mark over the forecast period. (10) This should allow some reduction of interest rates.

(11a) Spurred by strong investments in the energy sector, (11b) but also in manufacturing capital formation, (11c) final domestic demand may pick up strongly. (12a) Moreover, (12b) with a lower saving ratio (12a) consumption should also be somewhat more buoyant. (13a) The projected rise in total domestic demand - (13b) moderated by a negative contribution from stockbuilding - (13a) may entail some acceleration of imports, (13c) but the current account surplus may be virtually unchanged. (14a) With higher activity in mainland Norway, (14b) employment may well improve (14c) and the unemployment rate may stabilise. (15) Inflation is expected to remain at the level achieved in early 1984. (16a) In 1985, the pull from the traditional export sectors may diminish (16b) due to an unfavourable commodity composition (16c) and perhaps also capacity constraints. (17a) Private consumption may grow moderately, (17b) because no further decline in the saving ratio seems likely. (18a) Gross fixed capital formation may decline, (18b) with falling oil and shipping investments more than offsetting rising business investment. (19) GDP growth in mainland Norway may not be very different from this year. (20a) With a slight deceleration of wages, (20b) inflation could decline a bit further. (21) The current account surplus may be a little lower than in 1984.

Text: 49 Portugal  (OECD/84, p.121)

(1a) The emergency programme (1b) introduced in June 1983 by the new government (1a) caused domestic demand to turn down in the second half of the year, (1c) as a result of falling real wages, considerably tighter monetary conditions and a freeze on budget spending. (2a) The difference in cyclical position between Portugal and its main trading partners resulted in a strong positive contribution from the change in the foreign balance, (2b) so that on average over the year, GDP is estimated to have decreased only slightly. (3a) Unemployment rose to about 9.25 per cent of the labour force, in the second half of 1983, (3b) compared with 7.5 per cent a year before. (4a) Affected by the June devaluation and the reduction of price subsidies, (4b) the consumer price index rose by 33 per cent year-on-year in the six months to March 1984. (5a) While the current account deficit averaged $1.7 billion, (5b) 8 per cent of GDP, for the year as a whole, (5c) it was
virtually in balance in the second half of the year.

(6) Policy is to continue restrictive in 1984. (7a) Fiscal policy aims to reduce the total general government deficit, (7b) on a cash basis, (7a) from 10 per cent of GDP in 1983 to 7.25 per cent in 1984 (7c) by reducing public investment, subsidies to enterprises and real expenditure on goods and services, particularly wages and salaries, (7d) and by increasing indirect taxes. (8a) The authorities have announced growth targets for 1984 (8b) concerning total domestic credit (22.6 per cent, December to December, (8c) 7 points lower than that set for 1983 ), (8b) and credit to the public sector (8g) (23.7 per cent). (9a) With the reduction in inflation expected in 1984, (9b) real interest rates could again play a highly restrictive role. (10a) In the absence of announced policy measures for 1985, (10b) it is assumed (10c) that a slight relaxation of the policy stance may occur during the year (10d) as some of the results already achieved become firmer (10e) and structural measures presently under study are implemented.

(11a) The amount (11b) by which total domestic demand may fall in 1984 (11a) depends to a large extent on the trend of wages and prices. (12a) A fall in real per capita wages of about 4 to 5 per cent in the private sector (12b) and of near 8 per cent for civil servants (12a) is likely. (13a) The rise in consumer prices, (13b) given the big carry-over from end 1983, (13a) may average 27 per cent, (13c) which allows for a 20 per cent increase during the year. (14a) But if there is a further reduction in subsidies, (14b) the inflation forecast would be jeopardised. (15a) With some increases in social transfers and emigrant remittances, (15b) household real disposable income could decline by only 4.5 per cent in 1984, (15c) and remain stable in 1985. (16) Further reduction of the saving ratio is likely. (17a) Fixed investment, particularly in the public sector, will probably again bear the brunt of tighter policy in 1984, (17b) while exporting sectors could show some improvement. (18a) As production prospects and confidence improve, (18b) private investment, (18c) including residential construction, (18b) could pick up in 1985, (18c) which would result in a levelling off of total fixed investment. (19a) With some destocking in 1984, (19b) total domestic demand might again decline by about 5 per cent (19c) and pick up slightly in 1985. (20a) A positive contribution from the change in the real foreign balance could limit the fall in GDP to 2 per cent, (20b) but with imports volumes expected to increase in 1985 (20c) no boost is expected from net exports, (20d) and GDP may rise by 1.75 per cent. (21a) Employment may fall by about 2.5 per cent in 1984, (21b) and in spite of some improvement in 1985, (21c) the unemployment rate could remain near 11.5 per cent, more
than 2 points higher than in 1983. (22a) Largely reflecting improved volume changes and a stabilization of terms of trade in escudo terms, (22b) the current account could improve again in 1984 to around $1 billion, in line with the Portuguese authorities’ target.

Text: 50 Spain (OECD/84, p.123)

(1a) GDP growth accelerated to 2.25 per cent in 1983 and industrial reproduction to 2.75 per cent, (1b) but unemployment increased further. (2a) Rapidly rising net exports were the main element of strength, (2b) influenced by the expansion of foreign markets, large gains in market shares and (GRAPH) weak domestic demand. (3a) General government consumption and investment continued to expand (3b) but private sector investment declined for the second year running (3c) due to poor profitability, uncertain prospects and tight financial conditions. (4a) Inflation fell by 2 percentage points to 12.2 per cent in the year to December, (4b) reflecting a slower rise in prices of industrial goods and energy. (5) The growth of average earnings remained stable at 13.5 per cent for the third year in succession. (6a) The trade deficit was substantially reduced, (6b) more than offsetting lower tourist and emigrant receipts, (6c) so that the current external deficit fell to $2.5 billion, 1.5 per cent of GDP, (6d) compared with 2.25 per cent in 1982.

(7a) The budget deficit was contained at slightly below 6 per cent of GDP in 1983 (7b) and the growth of M3 was reduced to 12.75 per cent (7c) (approximately in line with initial targets). (8a) Total liquid assets in the hands of the public (ALP) grew by 15.5 per cent, (8b) while real rates of interest reached very high levels (6 to 8 per cent). (9) The policy stance is assumed to remain restrictive during the forecast period. (10a) The Government borrowing requirement is, however, projected to exceed its target of 5.5 per cent of GDP in 1984, (10b) mainly because of expenditure overruns. (11a) Monetary conditions will remain tight, (11b) with a target growth for M3 and ALP of 10.5 per cent and 12.5 per cent respectively, (11c) compared with a little over 12 per cent for nominal GDP. (12a) Given the need to finance the large public sector deficit (12b) the private sector will bear the brunt of monetary restraint, (12c) with credit expansion to the private sector officially projected to be limited to 7.5 per cent. (13) Real interest rates are also expected to remain high. (14a) A strict 6.5 per cent wage norm is being enforced in the public sector, (14b) with the hope that there will be favourable demonstration effects on
private wages. (15a) In line with the 1983-1986 Medium-Term programme, fiscal policy is assumed to remain restrictive in 1985, (15b) with the Government's borrowing requirement falling to about 5 per cent of GDP. (16a) A further deceleration in the growth of public sector average pay is forecast, (16b) resulting in a small decline in real wages. (17a) Lower public sector borrowing is projected to create some room for an easier monetary stance and for a reduction in real interest rates in 1985.

(18a) Against the background of decentralized bargaining, a slower rise in public sector wages, tight credit conditions, and higher unemployment, (18b) average earnings in the private sector are predicted to increase by around 9 per cent in 1984. (19a) Wages in the economy as a whole may grow by just over 8 per cent, (19b) resulting in a decline in inflation to around 10 per cent. (20a) Given the fall in real earnings and employment and the higher tax burden, (20b) real household disposable income may decline slightly, (20c) while private investment, notably residential investment, (20d) may fall for the third successive year, influenced by the credit squeeze and uncertain prospects. (21) But government consumption and investment are expected to continue to expand substantially. (22a) With total domestic demand remaining sluggish (22b) and net exports somewhat less buoyant than in 1983, (22c) the growth in GDP is predicted to remain broadly unchanged. (23a) The main factors (23b) which will influence developments this year (23a) will continue to operate in 1985, (23c) so that a further reduction in inflation is forecast. (24) Declining inflation and associated real wealth effects may result in a small rise in private consumption next year. (25a) Following some increase in profits, easier monetary conditions and a better business climate, (25b) private investment may start to pick up. (26a) With stronger GDP growth, reduced real wages and the expected relaxation of the current strict labour market regulations, (26b) the unemployment rate may stabilize at nearly 20 per cent in 1985. (27a) Buoyant export growth and a recovery in invisible receipts are expected to lead to a marked improvement in the current external account, (27b) which may move into surplus before the end of the forecast period.

Text: 51 Sweden (OECD/84, p.123)

(1a) Economic activity strengthened markedly in the course of 1983, (1b) as net foreign demand responded vigorously to the 16 per cent devaluation of the Krona. (2a) Exports of goods and services increased by 11.5 per
cent in volume terms (2b) and, (2c) with import growth limited to 1.5 per cent, (2b) net exports contributed more than 3 percentage points to the rise in GDP. (3a) However, total output expanded less, by 2.25 per cent, (3b) because domestic demand weakened. (4) The deficit on current account was reduced from 3.5 per cent of GDP in 1982 to around 1 per cent last year. (5a) The rate of unemployment continued to edge upwards until the third quarter, (5b) when it reached 3.8 per cent, (5c) but it has since fallen slightly. (6a) Inflation decelerated through the year and in early 1984, (6b) but remained significantly above the OECD average.

(7) Fiscal policy is gradually moving towards a more restrictive stance. (8a) Taxes have been increased, (8b) the growth of public consumption and transfers has been brought down, (8c) and subsidies to ailing industries have been reduced. (9a) The budget deficit could fall this year to around Kr.76 billion, or some 10 per cent of GDP, (9b) and probably change little in 1985. (10a) Following high wage settlements in April, (10b) measures were introduced to reduce inflation and wage drift, (10c) including a general price-freeze and sizeable compulsory deposits of liquidity on low-interest accounts in the Central Bank. (11) Monetary policy has also been tightened. (12a) Lending from banks and finance companies has been limited to 4 per cent this year, (12b) and monetary growth could be brought down to around 5 per cent. (13a) Interest rates were reduced early this year, (13b) and it is assumed (13c) that they will remain relatively stable. (GRAPH)

(14) Prospects for 1984 are for a continued recovery in activity. (15a) Export volumes are expected to continue to expand rapidly, (15b) although slowing down somewhat in relation to last year; (15c) and domestic demand components should respond to this improvement in exports. (16a) The improved profit picture is expected to lead to a revival of business investment, (16b) and a turnaround in inventories is expected to add significantly to demand. (17a) Private consumption may also pick up (17b) in response to real income gains. (18) Imports are projected to expand rather strongly as a result. (19) GDP could grow by some 3.25 per cent in 1984. (20a) Inflation has come down from last year's high rate (20b) but further progress could be mitigated by the recent wage agreements. (21a) Net exports are likely to decelerate somewhat further in 1985, (21b) and with growth of domestic demand weakening - (21c) mainly because of slower inventory accumulation - (21d) GDP may rise by 2.5 per cent. (22) Unemployment could fall during the coming eighteen months, to some 3 per cent in 1985. (23a) A small current account surplus is expected in 1984 (23b) and a further improvement is projected for the next year.
(1a) Activity recovered during 1983, (1b) led by total domestic demand (1c) which increased by 2 percent. (2a) Exports remained weak during most of the year and, (2b) as imports were boosted by airplane purchases, (2c) the foreign balance contribution became negative (2d) and GDP stagnated. (3a) However, unemployment was less than 1 per cent of the labour force, (3b) as short-time working increased (3c) and the number of foreign seasonal workers was reduced. (4) Inflation decelerated to a 3 per cent year-on-year increase of consumer prices in the first quarter of 1984, under the moderating influence of falling import prices and strong Swiss franc. (5a) The current account surplus was slightly reduced to $3 billion, (5b) reflecting the worsening of the trade balance.

(6a) The expansionary impact of fiscal policy will be accentuated in 1984, (6b) with public consumption increasing by 5 per cent in real terms. (7a) In 1985, as these effects wear off, (7b) it is assumed (7d) that the stance of policy will be neutral. (8) The authorities announced a 3 per cent growth target for 1983 and 0.5 point lower that the (GRAPH) actual increase. (9a) This probably does not imply a restrictive stance, (9b) because interest rates are likely to be reduced in line with the deceleration of inflation, (9c) as was the case at the end of 1983. (10a) It is assumed, for the 1985 projection, (10b) that the authorities will set the same target.

(11a) Activity may strengthen this year and next, (11b) the driving forces being investment and exports, (11c) under the influence of improved financing conditions for the productive sector and strong export market growth (11d) (6.5 per cent per year on average). (12a) In spite of continuing strong imports and some loss of market shares (12b) due to structural problems, in particular in the machine industry, (12c) GDP is likely to increase by about 2.5 per cent in each year. (13a) Employment could increase (13b) and the unemployment rate fall back to less than 0.5 per cent of the labour force in 1985. (14) Consumer price growth may come down to near 2.5 per cent in 1985. (15a) With the trade deficit remaining near its 1983 level, (15b) the surplus on the current account is projected to increase only slightly, to about $3.5 billion in 1985, or 3 per cent of GDP.
Although the reduction of inflation and the balance-of-payments current account deficit remained the objectives of economic policy in 1983, (1b) there was nevertheless some slippage, (1c) particularly concerning monetary and incomes policy. (2a) Hence domestic demand accelerated, (2b) but was more than offset by a strong negative contribution from the change in the real foreign balance, (2c) so that GNP growth was some 3 per cent in 1983, (2d) compared with 4.5 per cent in 1982. (3a) Inflation has accelerated markedly since the second half of 1983, (3b) to reach an annual rate of 44 per cent for wholesale prices and 37 per cent for retail prices in the first quarter. (4) The speeding up of inflation was associated with rapid growth of the monetary aggregates and high nominal wage increases. (5) Bad harvests and increased public tariffs also contributed. (6a) Exports continued to increase in 1983, albeit more slowly, (6b) owing to depressed world trade conditions and special factors (6c) that adversely affected agricultural exports. (7a) However Turkish exporters, (7b) faced with a contraction of markets, (7a) posted relatively modest price increases (7c) to maintain their foothold, (7e) so that export earnings in dollar actually stagnated. (8a) With imports continuing to increase (8b) and the surplus on invisibles narrowing (8c) as a result of a sharp fall in workers' remittances, (8d) the current balance deficit widened from $1.2 billion in 1982 to $2.1 billion in 1983. (9a) The Government (9b) returned by the November 1983 elections (9a) has stated its intentions to tighten policies (9b) in order to redress the current account (9c) and bring down inflation. (10a) On the basis of announced policies (10b) GNP growth in 1984 is projected to accelerate to about 4 per cent, with a slowdown of domestic demand and a positive contribution from the change in the real foreign balance. Graph (11a) Inflation is projected to slow down to about 20 per cent in the second half of 1984 for both wholesale and retail prices, (11b) although the yearly average increases are likely to be much higher than in 1983 (11c) owing to strong carry-over at the beginning of the year. (12a) A recovery in export earnings is also forecast (12b) in connection with expanding world trade and an improvement in competitiveness (12c) as a result of exchange rate management. (13a) Hence, in conjunction with a rise in the invisibles surplus, (13b) the current account deficit is projected to narrow to $1.5 billion. (14a) On the assumption of a continuation of present policies (14b) GNP growth in 1985 is currently forecast at 4 per cent, with a further slowing of inflation and a reduction of the current account deficit to $1 billion.
Prospects for silver continue to be clouded by the industrial recession. Silver prices remain heavily influenced by gold, and the economic and political developments that encourage or discourage investment in precious metals. But the fluctuations in silver have been restrained by the fact that it is nowadays primarily an industrial metal and as such is affected by the lack of demand as a result of the recession. At the same time the threat of releases from the US strategic stockpile of silver deemed surplus to requirements has been a depressant, and the shadow of Texas billionaire Nelson Bunker Hunt still hangs over the market.

Because of the low level of demand, supplies of silver are estimated to have continued to exceed consumption in 1982, in spite of a slowdown in the growth of primary production. Output cuts at some silver mines and in base metals mined in association with silver-copper, lead and zinc reduced primary production over the year to run about the 1981 figure. Secondary supplies were down again, though not by the dramatic 40 per cent fall of 1981, to below 150 mn ounces, mainly as a result of recovery of scrap being hard hit by the recession. The low price also reduced the flow of exports from India and the Far East.

However, the continuation of the recession in the main industrialised world brought an even steeper fall in consumption and a net surplus of supplies was registered for the fourth year in succession. This will have been well below the huge surplus of nearly 200 mn oz in 1980, but, nevertheless, still a surplus when a deficit had been expected.

Photography remains the biggest outlet for silver, and the industry remains affected by recession, preventing any significant recovery of the ground lost in 1980 when demand dropped 20 per cent in response to the record prices. US photography demand is estimated at 26 mn oz for the first half of 1982, slightly up on the 23.8 mn oz for first half 1981. The present depressed silver price has removed some of the urgency to search for substitutes but the need for cost savings remains; more manufacturers are turning to disc film which uses less silver, and the development of silver-free films is still investigated, although it is argued that even at 1980 price levels silver was still
economic for any known process.

(14) The use of silver in coinage dropped sharply in 1981, from an estimated 14 to 6 mn troy oz in the West. (15a) Coinage consumption is expected to have improved in 1982. (15b) however; the US Treasury announced plans to mint a $10 silver coin (15c) to commemorate the 1984 Olympic games and a half dollar for George Washington’s 250 birthday, (15d) which together would take up 24 mn troy oz, (15e) of which at least 4 mn would have been used this year.

(16) Speculative purchases of silver have also been discouraged by the depressed market. (17a) Surges in the gold market have helped lift silver prices from below $5 per troy oz in June 1982 - (17b) the lowest level for three and a half years - (17a) to a peak of $10. (18a) But trading activity generally was at a low ebb in line with the sluggish metal markets, (18b) and the average 1982 price is expected to be about $8.50, (18d) well down on the average $10.50 recorded for 1981.

(19a) There is continuing concern about the stocks of silver, (19b) estimated to be 63 mn oz, (19c) held by the Hunt brothers (19d) after their abortive attempt to corner the market in 1979/80, (19e) when the price soared to $50 an ounce. (20a) As part of the $1 bn loan agreement with the US bank consortium, (20b) the Hunts pledged to dispose of their silver holding at an unspecified price. (21a) Every time the price rises (21b) there are rumours (21c) that Hunts are planning to unload. (22a) This situation will continue (22b) until there is sufficient revival in investment demand to bring the Hunts to the market; (23a) when this happens, (23b) prices will obviously be dampened once more.

(24a) The market was also disrupted by proposals (24b) to sell the 139 mn oz of surplus silver (24c) held in the US strategic stockpile. (25a) In the face of considerable opposition from domestic American silver producers, (25b) backed by leading exporters - Canada, Mexico and Peru - (25c) Congress approved the sale of the surplus stockpile silver at the rate of 1.25 mn oz weekly (25d) to dispose of 46.5 mn oz in the 1982 fiscal year, (25e) followed by sales of a further 44.68 mn and 13.9 mn in the next two fiscal years. (26a) However, after four selling tenders had failed to attract bids at suitable prices, (26b) the anti sales lobby in Congress pushed through legislation in December (26c) suspending sales (26d) while a study was conducted on alternative methods of disposal.

(27a) The administration is nevertheless apparently determined to resume the stockpile sales of silver (27b)
since the funds are required to purchase defence raw materials (27c) needed by the stockpile.

(28a) Mexico and Peru failed in an attempt to persuade Canada (28b) to join them in withholding exports (28c) until prices return to more reasonable levels. (29a) The threat was not taken very seriously, (29b) but it is expected (29c) that the uneconomic prices will result in more mine closures and production cutbacks. (30a) This is expected to put silver back into deficit supply situation (30b) once demand starts to recover - probably not until the second half of 1983. (31a) Once this happens (31b) there could well be a price explosion to over $20 per oz (31c) as silver seeks to make up lost ground (31d) and move back towards its traditional ratio with gold (31e) (30:1 in contrast to the current relationship of 48:1). (32a) Meanwhile price improvements are likely to be limited to those following any upwards trend in the gold price, (32b) which on most gold forecasts implies an improvement to around $12 for the 1983 average.

Text: 55 Zinc (WCO/83, p.27)

(1a) Like the other major non-ferrous metals, zinc has continued its slow slide to lower price levels since the end of 1981 - (1b) and while major changes in the structure of the industry to reduce capacity are being considered, (1c) the outlook at best is uncertain. (2a) After recovering from about $800 a ton in late 1980s (2b) the producer's price for sales outside the USA rose to a new high of $1,000 a ton in late 1981 (2c) before falling back again to $800 a ton in July 1982. (3a) Despite recent attempts by some Canadian and Australian producers to raise the price again (3b) because of the high level of exports to the stronger US market (3c) the price is still basically weak (3d) and is being discounted by European producers. (4a) However, when compared with other metals - especially aluminium - (4b) zinc is now expensive - (4c) or other metals are cheap - (4c) and this continued relationship between zinc and other metal prices cannot augur well for the future of zinc. (5) Moreover most zinc mine and metal producers are losing money even at today's prices. (6a) In 1981 the LME quotation for zinc was about half that of copper, (6b) 20 per cent more than lead and only about 20 per cent below the LME quotation for aluminium. (7a) The relationship has not changed since (7b) but it should be recalled (7c) that in the 1970s copper and aluminium prices were several times higher than zinc.

(8a) In the USA the producer prices for zinc have
followed the LME quotations (8b) which have generally been lower than the European producer price. (9a) The European producer price is set in US dollars, (9b) while the LME quotation is in pounds sterling, (9c) and so reflects more immediately falls in the value of sterling. (10) Nevertheless, there is no longer such a close relationship between the US and European price as previously. (11a) The USA is the largest importer of zinc metal (11b) following the closure of several smelters during the last decade. (12a) It now imports nearly 600,000 tons of slab zinc annually - (12b) over half its requirements.

(13) The relatively tight supplies of zinc concentrates in 1980/81 was a major factor in pushing up the price of zinc rather than any shortage in metal supplies. (14a) Even though prices rose to higher levels (14b) concentrate suppliers were able to squeeze returning charges down (14c) and so smelters, and particularly custom smelters, (14e) derived little benefit from the higher prices. (15a) As demand for metal weakened (15b) and concentrate supplies eased earlier this year, (15c) zinc prices fell, (15d) reflecting once more the balance in the supply and demand for metal rather than in supply and demand for concentrates. (16a) However, mine production has not fallen (16b) despite prolonged shut downs in some countries (16c) and could well reach record levels this year with higher output from Tara in Ireland, (16d) which was on strike during much of 1981, (16c) and from new Polaris mine in the Canadian Artic and from Mexico, Australia, Peru, India and the USA. (17a) Returning charges have improved for the smelters (17b) and it is feared (17c) that some, (17d) in an attempt to spread overheads, (17c) will take advantage of easier concentrate supplies by working closer to capacity. (18a) Only in recent months has metal production been lower, (18b) mainly because of the prolonged strike at Noranda in Canada and the lengthy shut downs by Cominco and Hudson Bay in Canada.

(19a) Producers' stocks - (19b) about nine weeks' supply - (19a) rose during the first half of 1982 (19c) but have since fallen slightly (19d) mainly because of the Noranda strike and other reductions in production in Canada, Australia and Japan. (20a) Nevertheless stocks seem likely to begin rising again (20b) unless further steps are taken to cut back production (20c) or in the unlikely event of a substantial recovery in consumption.

(21a) Since 1979 free world zinc consumption has fallen by nearly 400,000 tons, (21b) about 9.2 per cent, (21a) to 4,436,000 tons in 1981. (22a) Consumption has been falling sharply in the USA, (22b) from 1,112,000 tons in 1978 down to 879,000 tons in 1980; (22c) although it
recovered a little in 1981 to 935,000 tons, (22d) the trend in 1982 is still downwards. (23e) In Europe there was also a sharp drop in 1981 of 130,000 tons to 1,591,000 (23b) and in Japan and Brazil there were also sharp falls.

(24a) Zinc metal producers are faced with formidable problems, especially in Europe, (24b) where EEC smelters, (24c) with the apparent approval of the Commission, (24b) are trying to devise a scheme (24d) which would finance the closure of excess capacity. (25a) It is opposed (25b) that individual producers contribute to a central fund on a tonnage basis (25c) related to production in recent years, (25d) and producers (25e) who agree to close for at least five years (25d) would be compensated by payment of a rate of about $220 a ton of current production (25f) with the aim of reducing total EEC smelting capacity by about 200,000 tons - (25g) approximately 10 per cent. (26a) The approval of the EEC cartel division, (26b) which has now reopened its examination into the producers' previous cartel management, (26a) would of course need to approve any new scheme (26c) to be sure (26d) it did not include pricing or market sharing provisions. (27a) However, a new factor (27b) since the scheme was first evolved (27a) has been the purchase by MIM (Mount Isa of Australia) of a half share in Germany's Metallgesellschaft's modern Datteln zinc refinery, (27c) with a capacity of 125,000 tons zinc metal, (27d) with a complementary arrangement to increase its supply of zinc concentrates to Datteln from 60 to 100,000 tons a year from 1985. (28) MIM has also purchased a third of Metallgesellschaft's associated zinc products plant. (29a) Meanwhile attempts to merge the near bankrupt Austurienne plant in France with the Belgian Vieille Montaigne company, (29b) probably the second largest zinc smelter in the world, (29a) have fallen through (29c) and Austurienne is now seeking another partner possibly with the help of the French government. (30a) Whether the EEC smelters can benefit from reduced capacity (30b) without at the same time getting protection from increased imports (30a) is very doubtful.

(31a) Trade with Communist countries has changed little in recent years (31b) but continues to have an undue impact on the market. (32) In 1981 net exports of concentrates to Communist countries are estimated at about 150,000 tons, mostly to the USSR, and 55,000 tons of slab zinc, also mainly to the USSR. (33a) While there is increasing speculation about the growing importance of China (33b) as an importer of concentrates and metal (33c) the tonnages involved are still insignificant.
(34a) Zinc's basic problem, however, is the continued weakness of demand (34b) which shows no signs of picking up (34c) and is now generally forecast to grow at not much more than 1 per cent a year even after a probable sharp recovery (34d) as consumers restock (34e) when the recession ends. (35a) Although much of the blame for the recent decline in zinc demand can be attributed to the world wide recession - (35b) low rates of construction and the decline in production of new automobiles - (35c) technological changes in the uses of zinc and in the requirements of customers have also been important factors.

(36a) Until last year consumption in the less developed countries was expanding strongly (36b) and together they took about 20 per cent of free world consumption. (37a) Now only South East Asia can be seen as a growth area (37b) with demand in most other LDCs, such as Mexico, Brazil and Argentina and the less developed African countries flat (37c) or declining.

(38a) The main uses of Zinc are for coating steel (38b) to protect it against rust, for pressure die casting, (38c) and as a constituent of brass, in Zinc oxide for rubber (38d) and in continental Europe for Zinc sheets for building.

(39a) The Zinc industry's greatest hopes are in coatings, (39b) but it should not be overlooked (39c) that consumption for coatings is linked to the sale and use of steel. (40a) There are new developments in zinc coating techniques (40b) and zinc-aluminium coatings (40c) containing about 55 per cent aluminium (40b) have been gaining ground for coating strip, (40c) with new continuous zinc/aluminium line now in operation in Japan and Europe as well as in North America and Australia - (40d) in total may be over 10 per cent of world production of zinc coated strip. (41a) Although the zinc industry has developed an improved zinc coating -Galfan- (41b) with a 5 per cent aluminium content (41c) it has not made much progress yet, (41d) but is being strongly promoted.

(42a) Of more danger for zinc is the continued decline in zinc die casting, (42b) which until recent years was the most rapidly growing use. (43a) The decline has been mainly attributed to efforts by the automobile manufacturers (43b) to reduce weight by substituting cheaper and lighter aluminium castings and plastics (43c) and it is difficult to see this market being regained (43d) as plastics are more and more used in automobiles and other consumer products. (44a) The demand for zinc oxide, (44b) which is mainly used in rubber for motor tyres, (44c) declined sharply (44d)
with the introduction of the longer lasting radial tyres. (45a) Brass, (45b) whose fortunes are tied to copper, (45a) has lost ground to copper/alloy substitutes, (45c) and zinc sheet for building, (45d) although holding up well in Europe, (45c) is being increasingly used for replacement of old roofs and rainwater goods, (45e) a good market, (45f) while new construction is in the doldrums.

(46a) It is difficult to forecast a bright picture for zinc, (46b) but nevertheless a sharp economic upturn (46c) which stimulated demand (46b) could cause problems in the next decade, (46d) since in the present climate there is little incentive for mining companies and even smelters (46e) to commit themselves to invest in long term expansion projects. (47) Rather, they continue to defer them. (48) The future trend in zinc prices is at best obscure. (49a) Miners want higher prices to cover production costs, (49b) but higher prices do not necessarily help smelters (49c) unless returning charges are improved. (50a) Moreover, it is difficult to envisage zinc consumption being able to grow at higher price levels (50b) so long as competitive materials remain relatively cheaper.

**TEXT: 56 Lead (WCO/31)**

(1a) In the last decade the price of lead has moved over a wider range (1b) than the prices of other non-ferrous metals. (2a) The London Metal Exchange (cash settlement) is currently at a low of just under £300 per ton (2b) and seems unlikely to recover substantially in the near future. (3a) However, many mines and smelters are reporting increasing losses (3b) and so some shut downs could eventually strengthen the market (3c) so long as consumption holds up. (4a) After falling throughout 1980 from a high of over £700 in 1979, (4b) the price of lead plummeted to under £300 in February 1981, (4c) rose to over 500 pounds in August (4d) and has since gradually declined to its current level, (4e) having fallen in recent months as low as 280 pounds a ton on some days. (5) Throughout most of the time the value of the pound has been weakening. (6a) In the USA the producer price, (6b) not following the LME quotation as closely as in previous years, (6a) has been moved frequently (6c) but not over such a wide range.

(7a) Price movements have largely reflected changes in stock levels. (8a) Producers' stocks, (8b) although not high (8c) - about six weeks' supply including metal in transit (8a) - have been gradually rising since 1978,
(8d) but of more significance has been the recent sharp increase in stocks in LME warehouses (8e) - now about 120,000 tons - (8f) their highest yet. (9a) Producers are selling some metal to merchants (9b) and some US metal is going to LME warehouses. (10) LME prices quickly respond to rises and falls in LME stocks.

(11a) Net exports of lead metal and concentrates to Communist countries, (11b) although only small in proportion to free world supply and demand, (11a) also have a disproportionate influence on the market. (12a) In 1981 they were little changed (12b) and net exports are estimated to have amounted to about 90,000 tons of lead in concentrates and 140,000 tons of refined lead.

(13a) Free world supplies of refined lead have declined slightly in recent years (13b) mainly because of a sharp fall in the USA of about 150,000 tons down from 1979 to 1,070,000 tons in 1981. (14) About 130,000 tons of mine and metal production were lost by the prolonged strike in Missouri. (15a) There were also losses from strikes at Mt Isa and Broken Hill in Australia, (15b) but higher production from the new Black Mountain mine in South Africa and from Tara in Ireland (15c) which had been on strike for part of 1980.

(16a) Although some mines seem likely to remain closed until the middle of 1983 (16b) because of low prices, (16c) several new mines are now being developed in Canada, Mexico, the USA and Australia, (16d) and with full production at Missouri (16e) these increases will more than offset the closures, perhaps indefinitely, of the large Cyprus Anvil mine in the Yukon. (17) World mine output in 1982 could in fact well rise to a new record level.

(18a) Supplies of secondary material (18b) from which over 40 per cent of refined production is derived (18a) have become increasingly tight (18c) because the cost of collection and processing is often not profitable at current price levels. (19a) Many secondary smelters have closed during the last year or so, mostly in the USA, (19b) and many others have had to suspend production for prolonged periods. (20a) While the lead market is to some extent self adjusting, (20b) with high prices bringing out scrap as required, (20c) supplies of scrap are presumably building up at various stages in the supply chain (20d) and will need to be liquidated at some time (20e) when they could depress prices even further.

(21a) In contrast to mine and metal production the consumption of refined lead has fallen nearly everywhere since 1979 (21b) and was 500,000 tons, about 12 per cent, lower in 1981 than in 1979. (22a) The outlook for
lead is depressing (22b) since demand has been affected not only by the continuing world wide economic recession but also by changes in consumption patterns; (22c) many of the established markets for lead are shrinking (22f) because of technological changes in consumption and in the requirement of the users themselves.

(23a) Although lead consumption depends largely on one use, the acid battery, (23c) which takes about half of refined lead consumption, (23c) batteries can no longer be seen as a steady growing outlet for lead. (24a) Motor car populations are expanding more slowly (24b) and with most manufacturers taking steps to improve petrol consumption (24c) they demand lighter weight batteries (24a) and batteries which last longer. (25a) Thus even though the production of automobiles will continue to rise,(25b) although more slowly than before, (25c) it does not follow (25d) that there will be an increase in the total consumption of lead for batteries. (26a) Moreover, batteries are no longer disposed of as quickly as before (26b) and are usually better cared for. (27a) A slightly brighter consideration is that (27b) the maintenance free batteries (27c) based on lead-tin-cadmium (27d) which require little or no topping up (27e) and contain just as much lead, (27f) now being increasingly used throughout the world, (27a) do not, (27g) contrary to previous predictions, (27a) appear to last longer. (28a) Battery life perhaps depends more on climatic conditions (28b) and the way they are looked after.

(29a) Batteries for automobiles (29b) - SLI batteries for starting, lighting and ignition - (29a) are estimated to have a life of about three years in the USA, 3,5 years in Europe and between four and five years in Japan. (30a) SLI batteries account for 80 per cent of the total (30b) and traction, stationary and other types for the remainder. (31a) About 40 per cent of the 170 mn SLI batteries made each year are for new vehicles (31b) and the remainder for the replacement market. (32a) Almost inexplicable has been the dramatic decline in lead for batteries in the USA from 80,000 tons in 1978 to 645,000 tons in 1980 (32b) before recovering to 770,000 tons in 1981. (33a) Although partly the result of a drawing down of stocks throughout the battery chain (33b) as money got tighter (33c) it was also a period (33d) which included severe winters (33e) which usually stimulate demand.

(34a) Although the lead industry has expressed great hopes in a breakthrough in the production of electric vehicles (34b) based on lead batteries (34c) there has been little progress in recent years, (34d) and most
automobiles manufacturers are now experimenting with other types of non-lead batteries (34e) with a better power to weight ratio.

(35) The importance of the battery industry as a lead consumer cannot be overstressed. (36a) If the battery market shrinks (36b) this will affect the supply of scrap, (36c) most of which is derived from discarded batteries. (37a) From the 1960s up until the early 1970s the whole of the growth in the refined lead production was based on scrap with little or no change in mine production until 1980 (37b) when the new Aggenies mine in South Africa came on stream.

(38a) Lead continues to be under pressure from environmental groups throughout the world (38b) and tighter regulations have brought the shut down of some obsolete smelters and refineries, (38c) so increasing production costs overall. (39a) Apart from lead additives for gasoline (39b) most other uses have been little affected by the environmental campaigns. (40a) In the USA, (40b) where new automobiles are designed to use lead free gasoline (40c) and the lead content of other gasoline is controlled to low levels, (40a) lead consumption for additives has fallen from 190,000 tons in 1979 to 111,000 tons in 1981. (41a) So far there has been little change in the use of lead additives in Europe and other countries, about 100,000 tons in 1981, (41b) but increasing political pressure in the UK will probably result in new legislation (41c) requiring all cars manufactured after 1985 (41e) to be designed to run on lead free gasoline. (42) No doubt the EEC will quickly follow. (43a) The full effects of such new regulations will not be felt until the late 1980s.

(44a) Other uses of lead have been comparatively stable in the last few years (44b) and have felt the impact of changes in economic activity rather than of price and technological developments. (45a) All the main uses (45b) except batteries and lead additives (45a) have held up well - lead chemicals, solders and other alloys and especially lead sheet for building. (46a) Increased demand will come from the LDCs, (46b) if anywhere.

(47a) In looking ahead (47b) the outlook for consumption is poor (47c) and it seems unlikely (47d) that world growth will exceed 1 per cent a year over the next three to four years. (48a) Consumption in the industrialised countries is likely to remain flat (48b) or decline slightly, (48c) and even in the less developed countries growth will be slow and mainly in South East Asia. (49) The developing countries now take about 14.5 per cent of world lead consumption. (50a) Production will no doubt be well maintained, (50b) but prices are likely to
continue to be depressed (50c) apart from a possible strong, (50d) although maybe shortlived, (50c) upturn, (50e) when the world economy picks up (50f) and consumers begin to rebuild stocks.

Text: 57 Antimony  (WCO/83, p.34)

(1a) Under the Budget Reconciliation Act, 1981, (1b) the US GSA was authorised to dispose of 2,700 tons (1c) from the 37,000 or so tons of antimony metal in the government stockpile (1d) at a rate of 900 tons a year. (2a) The first lot was offered to the market in April, (2b) but the effect of the release was signalled beforehand by a further unsettling of already unstable free market prices.

(3a) The GSA action was probably the final straw for the Bolivian smelter, Enaf, (3b) which had supplied some 2,000 tons of metal to the US market in 1981. (4a) With its profit margins already squeezed by the combined influences of - relatively - high and stable ore prices and low and faltering metal prices, (4b) Enaf resorted to desperate remedies (4c) faced by this new threat (4d) and at end March closed its 5,000 tons per year plant at Vinto.

(5) The cutting of supplies from Vinto left China as the only source of metal for the free market. (6a) This may have been a factor in the brief recovery of prices noted in April - (6b) with the European Regulus price for 99.6 per cent metal rising from $2,250 - $2,325/ton at end March to $2,240 - $2,370 in early August (6c) with no upturn in view in late September.

(7a) The reasons (7b) for the cut in Bolivian supplies to reinforce metal prices more impressively (7a) can be attributed to the adequacy of consumer stocks as well as to the US stockpile sale. (8a) The Chinese also failed to capitalise on the situation - (8b) which they had contributed to by the irregularity of their marketing - (8c) and allowed some hundreds of tons to be sold through Hong Kong at Rotterdam prices (8d) reported in June to range from $2,150 cif, according to the sellers, to $2,050 cif, according to the buyers - (8e) at any rate below prevailing market levels at that time. (9a) (How this material became available at these low prices (9b) appears to have been a mystery to at least one representative of the China National Mineral and Metals Corporation. (10a) Reports of a 30 per cent export tax on contracts with effect from June 1 may have reflected an attempt to bring prices into line with the market - (10b) similar duties were imposed on other commodities).
(11) The low metal prices stimulated purchases of some 2,000 tons from the free market in February and March. (12a) Of this 900 - 1,000 tons was purchased by trioxide producers in Europe and North America (12b) as a substitute for ore or concentrates. (13a) This suggests (13b) that local metal production in those areas could be affected in much the same way (13c) as Chinese metal imports have taken away the local market of Japanese producers, (13d) while trioxide from the same source now threatens producers of that material as well.

(14a) The high level and stability of ore and concentrate prices (14b) in contrast to metal prices at the beginning of the year (14a) was not indicative of real strength. (15a) In fact the tendency of some trioxide producers (15b) to take advantage of the availability of cheap primary metal (15a) was a factor (15c) that contributed to the undermining of ore and concentrate prices. (16a) The availability of Bolivian supplies (16b) following the closure of Vinto also had a depressant effect, (16c) despite brave talk by the Bolivians of their intention of establishing minimum price levels and export quotas. (17) Within the market, the movement away from the traditional lumpy ores to the less expensive concentrates and lower graded concentrated at that - continued.

(18) By mid year the demand for lumpy ore was significant and price nominal. (19a) The concentrates market was more active, (19b) but here also prices were falling. (20) In response to this Consolidated Murchison cut South African output levels by a reported 15-20 per cent in July. (21a) The Bolivian producer, Emusa, also claimed to have cut its output by 20 per cent at the same time - (21b) although its colleagues did not immediately follow suit. (22a) These actions seem to have been no more effective in restoring the ore market (22b) than those of Enaf in restoring the metal market.

(23a) How long the structural change in the market for metal and ores (23b) consequent on the move away from the lead-acid battery to the maintenance-free unit (23a) will continue to distort the demand situation is problematical. (24a) In the USA the decision (24b) to equip all new cars with maintenance-free types (24a) seems to have reduced the level of demand by rather more than half, (24c) but the residual market may continue to decline for some years. (25a) In Japan and Europe the change still has some course to run - (25b) although in the UK, at least, the bulk of the demand for antimonial lead for this purpose is met from secondary metal. (26a) The Socialist economies remain the main consumers of primary metal for this purpose (26b) and there is no indication of any immediate intention to change on their
part.

(27a) Whatever the effect of this factor, (27b) it seems reasonable to assume (27c) that the anticipated upturn in the industrial economies in 1983 - (27d) albeit of modest dimensions - (27c) should boost the markets for flame proofing chemicals and compounds, ceramics, glass, plastics and metal products with an antimonial content (27e) with consequent increases in the demand for antimony metals and ores. (28a) The US figures for 1981 suggest (28b) that already in that year the upward trend in demand from manufacturers of flame-proofing chemicals and compounds - (28c) by far the largest single category of consumers - (28b) was recovering from the 1980 setback.

(29a) Whether any likely upward movement in demand in 1983 could wholly correct the present supply/demand balance (29b) is doubtful. (30a) (In this connection it would be definitely unhelpful (30b) if the announced intention of the Yugoslavian producer at Loznica in Serbia (30c) of making some 1,500 tons of metal and trioxide available to the already overloaded market in 1982 (30b) came to fruition. ) (31a) Only in the unlikely event of concerted action by China, Bolivia and South Africa to control supplies to the market (31b) could stability be quickly restored.

(32a) With China absent (32b) and South Africa taking on observer status, (32c) the meeting of antimony producers, consumers and traders in laZ Paz at the end of October was clearly not the venue for such a strategic decision; (32d) and in the presence of consumer delegates, (32e) producers stressed (32f) that they were not discussing concerted action. (33a) The meeting was left in no doubt, however, (33b) that a 20 per cent cut in world production was needed (33c) to bring the market back to balance. (34a) It seems doubtful (34b) whether the proposed International Antimony Organisation, (34c) which the meeting decided should be set up in October 1983, (34b) will be a sufficient means of bringing output into line with demand, (34d) though its work in collecting information about the market may be an indispensable preliminary to such action (34e) and its promotion of antimony uses will be beneficial.

Text: 58 Iron Ore (WCO/83, p. 43)

(1a) 1982 was supposed to be a year of economic recovery, (1b) and the leading iron ore exporters in the world, in Australia and Brazil, (1b) clearly felt in its
first quarter (1c) that this prospect justified a major increase in prices. (2a) Thus the Brazilian public sector company CVRD made an opening bid for a 30 per cent increase in its negotiations with the West German steel industry - (2b) negotiations which traditionally set the standard for other West European import contracts - (2c) while some Australians sought a 35 per cent increase in the prices (2d) they received from the Japanese steel companies. (3) Needless to say, neither steel industry was prepared to pay up on that scale. (4a) Each, however, has an interest in not pushing the price of iron ore in real terms down so low (4b) that it is impossible for mining companies to raise the capital required for long term expansion of capacity. (5a) The EEC countries, for instance, have a strong interest in the successful development of Brazil's Carajás deposits: (5b) the EEC has agreed to lend €600 mn towards the project's $3.5 bn cost, (5c) in exchange for guaranteed access to 13.7 mn tons a year of its output from 1987 onwards. (6a) Europeans also know, however, (6b) that Carajás will not be producing in 1987 (6c) unless CVRD is allowed to generate significant investment funds from its own resources. (7a) Nor can the Japanese have been wholly deaf to BHP's argument (7b) that higher prices were essential (7c) if investments were to be made in keeping Pilbara mines competitive. (8a) Since European stocks of iron were lower in January 1982 than a year previously (8b) and Japan's do not appear to have been as burdensome as in the case of manganese, (8c) and since the prospects must then have appeared to be for a recovery in steel production, rather than the drastic fall (8d) that has in fact occurred, (8e) both Japanese and European steel companies raised their opening bids (8f) and settled for prices (8g) which gave the producers an increase in real terms. (9a) CVRD got staged increases in the price (9b) West Germany would pay for sinter fines (9c) which gave an average for 1982 15.7 per cent higher than 1981's, (9d) and subsequently secured similar increases from France's Usinor and from Italsider. (10a) Amax and Mount Newman received increases of 17.2 per cent for lumpy ore, from $21.86/long ton fob to $25.63 (10b) and 17.8 per cent for fines, from $18.36/long ton to $21.64. (11a) (These fob increases were less expensive to the consumers (11b) than they sound (11c) because freight rates were lower than in the previous year.)

(12a) While the reaction of European consumers to subsequent developments is less well documented, (12b) the Japanese were fairly soon reacting with vigour to the discovery (12c) that their steel output was going down rather than up, (12d) and that they were receiving more iron ore (12e) than they needed. (13a) V.Companies (13b) expecting a renewal of expiring contracts (13a)
were disappointed; (13c) Mauritania's Snim, for instance, had hoped to be able to sell Japan 400,000 tons in 1982/83, 670,000 tons in 1983/84 and 900,000 tons in 1984/85, (13c) but the Japanese refused to renew its contract (13d) when it expired at the end of March. (14a) Fortunately for Snim, the bulk of its exports go to Europe, (14b) but its development plans have nonetheless received a rude shock. (15a) Ore carriers were asked to reduce speed (15b) so as to slow down the arrival of ore. (16) Australian companies were under pressure to negotiate reductions in contracted tonnages. (17) South Africa's iscor accepted a 20 per cent cut in shipments to Japan for October 1982 - March 1983.

(18a) The problem was, of course, worldwide, (18b) though at its most intense in the case of the incompetent and then unprotected US steel industry. (19a) In the first seven months of 1982, receipts of iron ore at US steelworks were down 46 per cent on the same period of 1981, (19b) consumption down 41 per cent. (20) The comparable figures in Canada were 44 per cent and 25 per cent. (21) Nor was this a problem just for North American ore suppliers. (22a) By September Venezuela, (22b) a supplier of US market, (22a) was reckoning (22b) that a 30 per cent, 3.7 mn ton fall in 1982 exports would clip its production 16 per cent (22c) despite a rise in domestic consumption. (23a) MMTC, (23b) responsible for the bulk of Indian exports, (23b) reported in October (23c) that it expected them to be reduced by over 9 per cent from 25.9 mn tons in 1981/82 to 23.5 mn in 1982/83. (24a) Brazil's exports in the first half of the year, (24b) at 35.6 mn tons against 41.4 mn in the first half of 1981, (24a) were 14 per cent down, (24c) something probably due to the weakness as much of the European as of the Japanese market.

(25) The prospects for 1983 vary somewhat from region to region. (26a) It is argued elsewhere (26b) that there could well be an increase of 7 per cent in steel production in the non-Communist world, (26b) as an end to the destocking of products causes demand for steel to rise, (26c) even if consumption does not. (27) This increase in production will be far from evenly distributed, however. (28a) The lion's share of it will take place in the USA, (28b) as European exporters' share of a recovering market is cut back by international agreement. (29a) This blow to its export prospects means (29b) that the EEC steel industry is unlikely to show much in the way of production growth. (30a) Nor is Japan expecting output to recover in 1983/84 from the level (30b) to which it has been reduced in 1982/83. (31a) This suggests (31b) that the benefit of any increase in iron ore consumption will go preeminentely to North American suppliers, (31c) with
perhaps some relief for Venezuela. (32a) At the other extreme, relations between the Australian miners and the Japanese steel companies seem bound to be tense (32b) as they negotiate 1983/84 tonnages. (33) The Japanese are talking at present in terms of cutting imports from Australia by as much as 20 per cent in 1983/84. (34a) With a bad year behind and an exciting year ahead, (34b) neither the European nor the Japanese industry seems likely to be willing to settle for price increases (34c) of the sort agreed on for 1982 or 1982/83. (35a) Despite efforts to cut back on contracted tonnages, (35b) consumer stocks are likely to be higher at the outset of the new bargaining round than steel companies intended; (35c) and there will be at least one significant increase in capacity: (35d) CVRD's Capanema mine, (35e) with a full year capacity of 10.5 - 11.5 mn, (35d) is expected to produce 7 mn tons in 1983.

(36a) The continuing operation of medium term factors, moreover, should act as a dampner on demand for iron ore, (36b) in that one would expect consumption of iron ore to grow a little more slowly than steel production, (36c) and consumption of scrap a little faster, for several years to come. (37a) It is a process (37b) that will run up against cost constraints eventually, (37c) as the search for adequate supplies of scrap drives their relative price up; (37d) and the medium term hope for iron ore seems to be with direct reduction, (37e) as DRI makes good scrap shortages. (38a) That hope rather depends, however, on the rapid deployment of coal based DRI technology, (38b) since the scope (39c) for extending gas based DRI capacity economically from its current narrow base (38b) is limited. (39a) Significantly, Western Australia, (39b) with abundant natural gas supplies, (39a) is one area (39c) where gas based DRI might prosper, (39d) and a fifth Western Australian iron ore mine is now being considered in that context, (39e) with Italsider as potential participant and customer. (40a) Brazil, however, remains the iron ore producer with the greatest drive for expansion: (40b) apart from the new Capanema mine and the Carajás development, (40c) it has plans to double the capacity of Mineração Brasileira's Reunidas to 30 mn tons a year by 1987 (40d) and has 4 mn tons new orders, from South Korea, Taiwan and Pakistan; (40e) sewn up already. (41) Its lead over Australia as an ore exporter begins to look permanent.
Steel using firms in the USA have been puzzled this year, because the firms that normally buy their prompt steel scrap are instead charging them to take it away for use as landfill. That is a vivid indication of the depths of the recession that has the iron and steel scrap industry in its grip. It is not typical of the industrial world as a whole — steel production has fallen further in the USA than in Japan or Western Europe because an overpriced dollar has permitted imports to increase their share of a shrinking US steel market but something of the sort, whereby scrap prices are forced down to the point where collection is choked off, is typical of a major recession. This is because stock movements in steel products tend to ensure that steel production fall further than the output of steel consuming industries. As a consequence, the generation of prompt scrap falls much less than the steel industry's demand for it. That the process is reversed in an economic upswing is no consolation to the scrap merchants who are not going to be with us when the upswing occurs. At the beginning of November, the Iron Age composite price for No.1 heavy melting scrap, delivered Pittsburgh/Philadelphia/Chicago, was $51.50 per long ton; 32 per cent lower than a year previously and 47 per cent lower than in early November 1980. The price of No.2 bundles was 28 per cent lower over one year, 46 per cent over two. Price reductions in Western Europe have been less extreme. In Italy, the highest grade heavy melting scrap sold in mid-October was down 17 per cent on a year previously and two grades of steel turnings were down 20 per cent and 31 per cent. In Belgium, in early November, mixed turnings were down 14 per cent. (The Italian figures would of course show considerably bigger fall in terms of dollars or lire deflated by the general rate of Italian inflation.) Only in Japan, where the fall in steel production has been relatively modest, and electric arc furnaces have been increasing their share of a reduced total has the fall in scrap prices been kept to 2-3 per cent; though once again the fall is rather bigger in dollar terms.

In the USA, domestic scrap purchases in the first eight months of 1982 amounted to only 20.4 mn tons, 34 per cent less than in the same period of 1981. Nor did the state of the international scrap market permit the industry to make up on exports some of what it was losing domestically.
steel scrap exports edged up, from 4.8 mn to 5.2 mn tons, (16b) but this sufficed only to bring down the drop in combined domestic and export sales to 29 per cent from January - August 1981. (17a) In fact the fall in domestic purchases was less severe (17b) than the fall in US steel production over the same period, (17c) which was 38 per cent down. (18a) This suggests (18b) that the use of scrap per ton of steel produced (18c) has edged up a little further. (19a) Not enough, however, to prevent comparisons of the current situation with the 1930s, (19b) or the expression of fears (19c) that the current slump will impair the ability of the scrap industry (19d) to respond adequately to an eventual upturn in demand.

(20a) The beginnings of such an upturn can be expected in 1983, (20b) with an increase in non-Communist world steel production forecast at 7 per cent. (21a) Scrap consumption is likely to recover at least in line with that and probably by a little more, (21b) since the medium term trend is for electric arc steel production to increase as a proportion of total steel production (21c) and the relative prices of scrap and iron ore should do nothing to interrupt it in 1983. (22a) Scrap prices will have to rise from their present very low levels (22b) in order to make the collection of the extra amounts of prompt scrap worthwhile to the scrap industry; (22c) while the relationship between steel production and steel use (and thus scrap generation) will change back in a way (22d) that will alter the balance of scrap supply and demand in a direction (22e) that favours scrap suppliers. (23a) These trends will probably be particularly marked in the USA, (23b) where a fall in the market share of imported steel will boost steel production and scrap consumption in 1983 (23c) in the same way that its rise depressed them in 1982.

(24a) In the slightly longer term, the prospects for scrap are better than those for either steel or iron ore, (24b) and the medium term worry concerns the availability of sufficient scrap, (24c) certainly scrap of high quality, (24d) to meet the demands of the electric furnace mini-mills (24e) as they increase their share of the steel market. (25a) There is a surprising absence of hard evidence to back up the widely held belief (25b) that the presence of tramp elements in scrap is increasing; (25c) but one would suppose (25d) that it will require investment to prevent its rising, (25e) and the scrap industry's ability to invest has been dealt a hard blow by the current recession. (26a) It will not be for several years (26b) that direct reduced iron is available in sufficient quantities (26c) to alleviate any emergent scrap shortage (26d) (see Iron Ore), (26e) and once steel production sees a sustained
recovery, (26f) scrap prices should begin to achieve price increases in real terms.

Text: 60 Manganese (WCO/83, p.47)

(1a) Of the two prices shown in the statistical box above, (1b) that for manganese ore, (1c) down only 5.5 per cent from a year earlier, (1b) reflects the past, (1d) while that for ferromanganese, (1e) down 27 per cent, (1d) reflects the present. (2a) The most visible influence on 1982 ore prices was the first quarter negotiations between Australian, African and Brazilian producers on the one hand (2b) and the Japanese producers of ferromanganese on the other, (2c) for the latter's requirements in the year ending March 1983. (3) These negotiations were conditioned by three main factors. (4a) The Japanese industry was reported at the time (4b) to have six to seven months' stocks in hand. (5a) On the other hand, it believed, (5b) wrongly in the event, (5c) that steel production was going to rise in 1982. (6a) With higher consumption of manganese pulling in one direction, (6b) and a need to reduce ore stocks pulling in the other, (6c) it was expected (6d) that tonnages under new contracts would be reduced by 20-30 per cent from 1981/82 levels. (7a) The third factor was (7b) that BHP certainly and SamnCOR probably were keen to increase their share of the Japanese market, (7c) even if it meant accepting lower prices to do so. (8) BHP in particular had learnt a painful lesson from the bargaining session a year earlier. (9a) Then it had stood out for a 17 per cent increase in price, (9b) while Brazil, Gabon and South Africa were prepared to accept a mere 2 per cent. (10a) As a result, it lost market share, (10b) while achieving a price increase of only 3 per cent. (11a) In 1981/82, its share of a 1.5 mn to Japanese market was only about 500,000 tons, (11b) and for 1982/83 it was keen to push its share back up to 50 per cent of a market (11c) reduced to 1.2 - 1.3 mn tons. (12a) Other producers did not sit back (12b) and let it happen, (12c) being prepared to match BHP's reduced price offer. (13a) The upshot was (13b) that BHP's market share was raised by less (13c) than it hoped, (13d) while all suppliers received lower cif prices than in 1981/82. (14a) The issue is complicated by the slump in freight rates, (14b) which was sufficient to allow a 4 per cent reduction in cif prices, (14c) but suppliers had to accept a small cut in fob prices as well. (15a) Had the Japanese realised (15b) what lay in store for their steel industry in 1982 - (15c) with output now heading below the 100 mn tons/year level - (15d) the outcome would doubtless have
been less favorable for the manganese producers. (16a) West European manganese consumers were also driving hard bargains at this time (16b) in which more than the freight saving was being lopped off 1981 prices. (17a) The USA is, of course, by now a much less significant force in the ore market, (17b) in view of the erosion of its ferromanganese production, (17c) documented in the statistical box. (18a) An instance of this was Republic Steel's decision to ask for standard ferromanganese quotations (18b) rather than buy ore for conversion by US ferromanganese producers.

(19a) The ferro price quotation is, (19b) much more than ore price, (19a) a reflection of the current tribulations of the steel industry worldwide. (20a) Given the OECD estimate (20b) that its members' steel production will be 16 per cent lower in 1982 than in 1981 - (20c) with non-Communist world production down a few points less (20d) because of the growth of developing countries' steel industries - (20e) manganese consumption will have fallen by roughly the same amount, (20f) if anything marginally more, (20g) since there is no reason to suppose (20h) that the slow decline in manganese use per ton of steel has come to a halt. (21a) Because the ore market is dominated by annual negotiations on price and quantity, (21b) this fall in consumption will have been matched less by a fall in mine output (21c) than by an increase in consumers' stocks of ore or ferromanganese. (22a) This not only accounts for the sharp fall in the (currently nominal) prices for standard ferro (22b) quoted by Metal Bulletin, (22c) but has major implications for the coming round of negotiations for 1983 or 1983/84 supplies of ore.

(23a) It means (23b) that the manganese producers will not benefit fully from the increase in steel production (23c) that may be expected in 1983. (24a) It is suggested on page 41 (24b) that steel output in the non-Communist world may increase by 7 per cent in 1983 (24c) as an end to destocking of finished steel products ensures (24d) that demand for them rises faster than essentially flat consumption. (25a) But in the case of manganese, (25b) while consumption will rise by close to 7 per cent, (25c) demand will rise by less than that. (26a) The Japanese in particular must have failed to reduce their stocks of ore and ferro to normal levels, (26b) having geared their purchases to a level of steel production (26c) that never materialised, (26d) and (26e) if so (26d) are likely to be aiming again for a reduction of stocks in 1983/84. (27) Nor are they in a mood to overestimate their steel production prospects a second year running.

(28) Price negotiations for 1983/84 deliveries are
likely to be difficult. (29a) Having seen fob prices cut for 1982/83 after a very small increase in 1981/82, (29b) producers are almost certain to be pressing for a substantial increase (29c) but, (29d) in the context of a fiercely competitive world steel market, (29c) neither European nor Japanese steel companies or independent ferromanganese converters are likely to be in a mood to concede one. (30a) There is, moreover, a good deal of spare mine capacity about, (30b) so that price ambitions may be tempered, (30c) in the heat of negotiations, by competition for volume sales between Australia, South Africa, Gabon and Brazil. (31) Price increases are therefore likely to be moderate.

Text: 61 Nickel (WCO/83, p. 50)

(1a) Non-Communist world mine production of nickel in the first half of 1982 was approximately 18 per cent lower than in the first half of 1981, (1b) and production of smelter and refinery products was about 14 per cent lower, (1c) the latter amounting to about 225,000 tons. (2) Canadian mine output was 23 per cent down over the same period. (3a) The comparisons between 1981 and 1982 as a whole are going to show an even more severe fall, (3b) since from November 1 onwards, Canada will be producing virtually nothing from its mines. (4a) Falconbridge started by announcing a five week summer closure, (4b) extended it to ten and then 13 weeks, (4c) and finally decided (4d) that its Sudbury, Ontario, operations should remain closed until January 3, 1983. (5a) Inco's Sudbury operations were affected in June by a strike over three year wage negotiations, (5b) but this must have been one of the worst timed strikes ever from the United Steel Workers' point of view, (5c) only ensuring (5e) that its members drew strike pay rather than the higher lay-off benefits, (5f) since Inco Sudbury has never reopened after the acceptance of its offer. (6a) Reopening was announced for the end of August, (6b) then for October 3, (6c) then for January 3, (6d) most recently for April 4. (7a) With the two months' closure of Inco's smaller Thompson, Manitoba, mine and smelter for November and December, (7b) this means (7c) that Canada's two mine producers are mining no nickel at all. (8a) With Inco's Guatemalan investment shut down permanently in late 1981 (8b) and written off in that year's accounts, (8c) its only output globally is from Indonesia, (8d) where its output of nickel matte is running at something over two thirds of capacity (8e) and its Japanese market for matte is being supplied partly from that, partly from heavy stocks. (9a) Falconbridge reopened its Dominican Republic ferronickel operation for the final quarter of the year (9b) at the same time as deciding to keep Sudbury closed for that
period, (9c) but only at 14,000 tons/year rate (9d) compared with capacity of over 28,000 tons/year. (10a) The decision was based on the state of its stocks: (10b) those of ferronickel, at 4 mn lb, were too low, (10c) while those of electrolytic nickel, at 44 mn, were high enough to sustain sales into the new year. (11a) The two Canadian majors are not alone (11b) in having made extensive production cuts in 1982: (11b) on a small scale Marinduque, (11c) the Philippines producer, saved from financial collapse by the conversion of debt into a controlling state equity stake, (11b) produced 6,900 tons in January-August, down 52 per cent on the same period of 1981; (11d) while, more important, SLN was running at just over 50 per cent of capacity in the first half of the year, (11e) dropped to 45 per cent from July (11f) and is contemplating further reductions. (12a) All in all, it looks as though (12b) Western output of smelter/refinery products may be only in the order of 360,000 tons, over 26 per cent less than in 1981. (13a) This would be slightly more than the 25 per cent fall recorded in 1975; (13b) with significant difference (13c) that the 1975 fall was from a cyclical peak, (13d) whereas the 1982 fall is from 1981 production itself 10 per cent down on 1980.

(14a) The reason (14b) why the production cuts should be so heavily concentrated on Inco's and Falconbridge's low cost sulphide production (14a) is that neither company has been prepared to chase the free market price of nickel downwards, (14c) like certain of their competitors, have therefore seen sales reduced (14d) and stocks augmented even more severely (14e) than the global situation warranted. (15a) That the free market price should have plummed to the equivalent of $1.65 - $1.70 at the end of October and the beginning of November (15b) is explained by three things: (15c) the world market was oversupplied even in 1981, (15d) before taking into account net imports from the Communist countries (15e) (which in the case of nickel, unlike most other metals, are defined to include Cuba); (16a) those net imports have risen strongly (16b) as the USSR, (16c) in its desperation for foreign exchange, (16b) has pushed them regardless of price; (16d) and, most important, there has been a further and sharper decline in Western consumption.

(17a) As the table below shows, (17b) Western nickel production exceeded consumption by 21,000 tons, or 4.5 per cent, in 1981, (17c) and to this imbalance there had to be added some 28,000 tons of net imports from the Communist countries. (18a) Thus total new supply exceeded consumption by 10.5 per cent, (18b) and it is highly likely (18c) that all of this amount was added to producers' stocks, (18d) since there was no incentive at all for consumers to add to theirs. (19a) There is no

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doubt (19b) that net Communist exports have been running at a rate significantly higher than 28,000 tons a year in 1982, (19c) though estimates of their amount vary widely. (20a) They have been cutting deeply into the West German and French markets at the Canadians' expense, (20b) have even been causing havoc in the US plating market (20c) once evidence of origin has been removed. (21) The figures of 50,000 tons is a "compromise guess" towards the upper end of the range of possibilities suggested.

(22a) As indicated, (22b) these Communist exports have been sold into falling market. (23a) Western consumption in the first half of 1982 was approximately 208,000 tons, (23b) nearly 19 per cent lower than in the first half of 1981. (24a) The problem has not only been the stainless steel market - (24b) sales to US platers in January - May were over 30 per cent down on the same period of 1981, for instance - (24c) but the root of the problem lies in stainless and heat resisting steels. (25a) The USA, (25b) with a 43 per cent fall in nickel consumption in that area between the January - May periods of 1981 and 1982, (25a) is doubtless untypical, (25c) since its steel industry in general has been suffering from import penetration, (25d) and there has been no lack of complaints on that score from the stainless sector. (26a) The European industry is also badly depressed, however; (26b) and in the absence of up to date statistics (26c) it is worth remembering (26d) that in 1975, (26e) when OECD steel production fell by 15 per cent, (26f) stainless steel output fell by 30 per cent (26g) and Western nickel consumption by 25 per cent. (27a) On the basis of the consumption figures for the first half of the year, (27b) 1982's performance may be less disastrous than that, (27c) principally because the decline in consumption has been continuing since 1980. (28) A fall in consumption of 18 per cent to 383,000 tons would in fact represent a 35 per cent fall from the 1979 peak.

(29a) Such an outcome would result, (29b) if the figure for net imports from Communist countries is accurate, (29c) in an apparent increase in stocks of 34,000 tons. (30a) The increase in producer stocks will have been higher than this, however, (30b) since nickel consumers have probably run their stocks down to the minimum. (31a) Secondly, the figure for the overall stock change between the end of 1981 and the end of 1982 conceals the probability (31b) that stocks rose by more than third in the first half of the year, (31c) and were reduced modestly in the second.

(32a) Perhaps the first thing to say about 1983 is (32b) that it is most unlikely to be another 1976, (32c) when
rapid industrial recovery permitted an increase of 35 per cent in OECD countries' stainless steel ingot production, (32d) nearly making good the 30 per cent fall in 1975 in absolute terms (32e) and helping Western nickel consumption to recover by over 20 per cent. (33a) With GDP growth at only 2 per cent in the OECD countries, (33b) compared with the 4.9 per cent recorded in 1976, (33c) there is likely to be little (33d) if any increase in consumption of stainless steel (33e) and therefore very little rebuilding of stocks of it by consumers. (34a) But an end to the destocking of steel products (34b) which afflicted the steel industry as a whole in 1982 (34a) could still mean a significant increase in stainless steel production in 1983, (34c) even in conditions of stagnant consumption, and a parallel increase in nickel consumption. (35) An increase of 8 per cent in total nickel consumption is forecast.

(36a) What this implies from Western production of nickel depends in part on the volume of imports from Communist countries, (36b) in part on the strategy chosen by the major producing companies. (37a) Production of nickel is rising in both Cuba and the USSR - (37b) over the medium term this presents a very serious threat to Western producers - (37c) and the USSR's pressing need for hard currency is unlikely to be assuaged (37d) until the natural gas starts flowing through the controversial pipeline, (37e) since another poor harvest has just been completed. (38a) It has therefore been assumed (38b) that net Communist bloc nickel exports will remain at their high 1982 level.

(39a) As for the strategy of the main Western producers, (39b) it seems likely (39c) that they will be concerned to reduce their stocks by considerably more (39d) than has been possible in the second half of 1982. (40a) The table shows an overall stock reduction of only 4,000 tons, (40b) but this figure nets falling producer stocks and rising consumers stocks. (41a) Once a conviction (41b) that nickel prices have bottomed out (41a) combines with an increase in nickel consumption, (41c) consumer stocks will begin to rise. (42a) But if the net stock reduction implies a reduction in producers' stocks acceptable to them, (42b) it can only be achieved in the circumstances of 1983 at the cost of severe production restraint. (43a) The figure of 360,000 tons (43b) shown in the table (43a) takes into account the probability (43c) that cerro Matoso in Colombia will produce 17,000 - 18,000 tons in 1983, (43d) held below full operation of 22,000 tons/year by the poor state of the market. (44a) Other new capacity, in Brazil, Greece and Finland, will add a few thousand tons more, (44b) even if it comes in at less than full operating rates. (45a) There is a chance too (45b) that a recovery in industrial demand for platinum will result in an increase in the
availability of by-product nickel from South Africa. (46a) On the other hand, it is known (46b) that SLN expects its output to be lower in 1983 than in 1982, (46c) 24,000 tons contained in matte and ferronickel (46d) compared with 35,000 tons. (47a) Even so it seems fairly certain (47b) that to achieve an overall decrease in production, (47c) it will be necessary for Inco, Falconbridge and Western Mining to produce even less (47d) than they did in 1982. (48a) That suggests in Inco's case (48b) either that April 4 will not be the last word as a reopening date for Sudbury, (48c) or that it will reopen then at a fairly low operating rate.

(49a) If Western output is contained in 1983 to a level (49b) which permits an overall reduction in stocks, (49c) and if stocks are moving from producers to consumers, (49d) there should be some rise in free market and LME prices from their current very depressed levels. (50a) It is most unlikely, however, (50b) that this movement will be strong enough to close the gap between these prices and the posted price of $3.20/lb for melting grade nickel, (50c) and discounting from this will continue.

Text: 62 Chrome (WCO/83, p.54)

(1a) Although less well documented, (1b) chrome shows the same broad picture as nickel and molybdenum, (1c) with prices plunging in the face of severely reduced demand (1d) despite production cuts. (2a) The European price of charge chrome in Europe in November was $0.36 - $0.39 per 1 lb Cr, (2b) 23 per cent lower than a year previously, (2c) while that of 4 - 6% C high carbon ferrochrome was 21 per cent lower. (3a) Chromite prices too were well down on November 1981: (3b) Transvaal about 31 per cent lower at $60-$70/ton; (3c) Albanian hard lumpy 35 per cent lower at $53-$60; (3d) Turkish lumpy, about 19 per cent lower at $100-$115. (4a) A year previously it had proved broadly possible to keep both ore and ferrochrome prices at around their level twelve months before that, (4b) as declining steel production in the West was matched by cuts in South African chrome production. (5a) In 1982, (5b) when the fall in steel production has been much more severe, (5a) producers have not succeeded in cutting output fast enough to keep prices stable. (6a) A further depressing factor is (6b) that, (6c) in a context of high interest rates and falling production, (6b) consumers of ferrochrome have been keeping their stocks of it at very low levels: (7a) this may offer prospects of a rapid strengthening of demand (7b) once output of stainless steel picks up, (7c) but it has exacerbated the problems of ferrochrome
producers in 1982.

(8a) There is a dearth of information about levels of production of either chromite or ferrochrome in 1982, (8b) but there were reports in October (8c) that the South African ferrochrome industry was working at under 50 per cent capacity. (9) In 1980 the operating rate is believed to have been about 70 per cent. (10) The lower current rate represents an attempt to defend prices. (11a) The South Africans were struggling to defend a fourth quarter price for charge chrome of 39 cents per lb Cr at a time (11b) when it was available from other sources at 36 cents (11c) and the latest trend in prices is still downwards.

(12a) Although South Africa is the producer best placed to shore up prices, (12b) in view of its dominant role in Western markets, (12c) other producers' actions are capable of making its task more difficult. (13a) The fluctuations of Western markets are unlikely to influence the rigidities of Albanian central planning, (13b) and Albania's output, (13c) estimated by the USBM at 1,260,000 tons of chromite in 1981, (13b) appears to be keeping to its planned rise of 29 per cent between 1980 and 1985. (14) (Its marketable ore production is a much lower amount than this, of course.) (15a) Further, while 1982 or 1983 is hardly the time (15b) when anyone would choose to bring new mine capacity into production, (15c) the lead times involved mean (15d) that investment decisions were taken before the depth of the 1980-82 depression could have been envisaged. (16a) It was, for instance, in 1976 (16b) that the exploration work was begun by Inco and French partners (16c) that has outlined the Tiebaghi chromite deposit in New Caledonia. (17a) This was brought into production on schedule in May 1982 (17b) and spot sales of chromite have been made (17c) while long term contracts are sought. (18) Tiebaghi is expected to produce 50,000 tons in 1982 and 85,000 tons in 1983. (19a) Another development, (19b) ultimately on a larger scale, (19a) is that of Hellenic Ferralloys. (20a) Its planned 30,000 tons/year high carbon and charge grade ferrochrome plant is due to come on stream by end of 1982, (20b) and to meet its requirements (20c) mine output at Skoumtsa is to be increased from 55,000 tons/year to 250,000 tons/year of low grade chromite ore. (21a) Significantly Hellenic Ferralloys is joining with the 80 per cent state owned nickel (21b) and steel company Larco SA to finance a feasibility study of 60,000 tons/year stainless steel plant next to the ferrochrome plant. (22a) This is an excellent example of the processing of chromite in the country (22b) which produces it (22c) that ultimately spells disaster for the ferrochrome industries of the USA, Japan and Western Europe. (23a)
(It is not, however, a development that will lack resistance; (23b) witness Montedison's refusal to agree to EEC duty-free quotas for ferrochrome (23c) until European consumers had agreed to buy its own, high energy cost, output: (23d) Japanese steel companies' willingness to source a proportion of their ferrochrome requirements from uncompetitive domestic production; (23e) and the bitter debate in the USA (23f) over the Commerce Department's proposal for a permanent floor for import prices. ) (24a) 1982 also saw a 150,000 tons/year new lumpy chromite plant (24b) brought into production in Madagascar.

(25) Nevertheless these relatively minor recent or prospective increases in Western mine capacity are not at the heart of the chrome industry's difficulties. (26) Those lie firmly with the 1982 slump in ferrochrome consumption. (27a) This is likely to have been in the order of 15 - 20 per cent, (27b) and to the extent that it was still possible to reduce consumer stocks from already reduced levels, (27c) demand will have fallen even more. (28a) It is possible to look for some turnaround in 1983, however; (28b) not because there is likely to be any increase in Western consumption of stainless steel in the context of 2 per cent GDP growth in the OECD countries, (28c) but because stainless steel production should respond to an end to destocking. (29a) This factor, (29b) together with the unqualified production cuts undertaken by the South Africans and by, for instance, the Japanese ferrochrome industry, (29a) suggests (29c) that charge chrome prices, (29d) recently reported as low as 35 cents/lb Cr, (29e) may be near the bottom, (29f) with some recovery likely in the course of 1983.

Text: 63  Jute  
(WCO/83, p.82)

(1a) Estimates of the 1981/82 crop now indicate a level of almost exactly 4 mn tons, (1b) a fall of only 25,000 tons compared with 1980/81. (2a) The outturn in China and Bangladesh was very close to the previous year's levels, (2b) while a modest fall from India was counterbalanced by an increase from Thailand. (3a) Imports of raw jute for 1981/82 have likewise been steady, (3b) although the balance shifted towards the developing countries (3c) which accounted for 315,000 tons out of a total 560,000 tons.

(4a) Earlier forecasts of the 1982/83 crop, (4b), which were based on a massive expansion in planted area (4c) as producers responded to a firming of prices, (4a) were regarded by the trade as wildly optimistic. (5a) In its latest forecasts, the FAO is now predicting (5b) that production will drop from 3.426 mn tons in 1981/82
(5c) (excluding Asian CPEs) (5b) and 3.470 mn tons in 1980/81 around 3.285 mn tons, (5d) some 4 per cent down on the preceding year. (6a) The turnaround is attributable primarily to a sharp fall in the expected Indian crop, from 1.51 mn tons to 1.17 mn tons (6b) (the earlier estimate being 1.56 mn tons).

(7a) Drought in several areas delayed plantings, particularly in South Bengal and Murshidabad, (7b) where by mid year only 60 per cent had been completed, (7c) and subsequent adverse weather conditions have not helped. (8a) Weather conditions in Bangladesh also were causing some concern for the 1982/83 crop, (8b) being unusually hot and humid, (8c) but the situation has improved (8d) and the outlook for the crop now seems favourable. (9a) Indeed, the FAO estimates a crop of 868,000 tons (9b) compared with 782,000 tons last season. (10a) The Thailand crop is also expected to be well up at 280,000 tons, (10b) compared with 200,000 tons last year.

(11a) With all the Indian mills now losing money - (11b) a total of Rs120 mn per month, according to one source - (11c) the government announced a number of measures (11d) designed to relieve the industry's present plight. (12a) The announcement followed a meeting between the commerce minister and a delegation from the Indian Jute Mills Association in August, (12b) at which the latter pointed out (12c) that sales of jute goods were being made at a loss of between Rs400 and Rs2,000 per ton, (12d) a situation arising part from higher production costs (12e) caused by recent wage increases. (13a) The measures included cash assistance for the export of jute products, as well as emergency purchase of 100,000 bales and a requirement (13b) that cement shippers use only new bags. (14a) In the longer term it is intended to create a Jute Board, (14b) a bill for which is to be introduced in the now current parliamentary session, (14c) which will create an export promotion fund financed by a tax on internal sales.

(15a) One bright spot in an otherwise gloomy picture has been (15b) that while raw jute prices have risen during 1982 (15c) its position vis a vis polypropylene, (15d) jute's main synthetic substitute, (15c) has actually improved, (15e) a trend which first became evident in 1982. (16) This has been the result of a progressive reduction in naphtha cracking in the USA and Western Europe. (17a) The oil glut earlier this year sent naphtha prices tumbling (17b) but propylene, and hence polypropylene, prices remained high (17c) because less naphtha was available for ethylene derivatives. (18a) A number of crackers were closed (18b) and polyprolene supplies thus became inadequate to meet demand. (19a) By mid year, prices were up more than a quarter on year
earlier levels, (19c) and in Germany by one third.

(20a) Since ethylene demand is likely to remain weak (20b) because of recessionary conditions, (20c) naphtha cracking is unlikely to be increased in the short term, (20d) and polypropylene prices are therefore likely to remain high. (21a) They may, (21b) according to the FAO, (21a) increase further. (22a) Although in the USA polypropylene maintains the edge over jute in standard weight cloth, (22b) it is less competitive both for carpet backing and light weight cloth.

(23a) The improved price competitiveness of jute and jute goods would in other circumstances provide a stimulus for raw jute demand (23b) but it would be unwise at the present time, (23d) because of recession, (23b) to anticipate this being translated into any substantive increase in demand. (24a) In part, this is because manufacturers will be somewhat hesitant to switch, at a time of economic difficulty, from polypropylene to jute in their manufacturing process, (24b) especially as it is far from certain (24c) that the price position will not be reversed. (25a) It is far from clear (25b) that jute's advantageous situation will be maintained in the future (25c) if only because of the impact of crop failure on prices.

(26a) International discussions (26b) aimed at establishing an international Jute Organisation (26a) have progressed this year. (27a) It now seems certain, however, (27b) that an agreement on jute will have none of the price support mechanisms (27c) which have benefited other commodity producers. (28a) Of course, the producing countries themselves, and especially India, have their own stockholding schemes (28b) but it is not easy for such a piecemeal approach (28c) to buffer stocks to be as effective as an internationally agreed scheme. (29a) (The Jute Corporation of India has this year again accumulated substantial stocks (29b) as a result of its support buying programme (29c) which is designed to cushion producers from the downturn in demand from the mills.)

(30a) A meeting in September resulted in an agreement between purchasers and consumers for a jute accord with a secretariat in Dacca. (31a) Its principal function will be to attempt to assist the industry (31b) by means of promotion and research (31c) into improving jute's competitive position vis a vis synthetics. (32a) This effectively embraces the schemes (32b) outlined at an earlier meeting in May, (32c) held in Bangkok, (32d) where preliminary discussions were held on schemes for supply adjustment, improved competition and joint marketing (32e) to overcome supply and demand imbalances.
(1a) After the price stability enjoyed during 1981, (1b) the past twelve months have shown a general downward trend in prices for sisal fibre from all origins. (2a) As will be seen later, (2b) demand has declined at perhaps a faster rate than sisal production, (2c) but this has only been a contributory factor. (3) Again, artificially created market conditions have been equally relevant.

(4a) Although slowly weakening, (4b) trading levels remained reasonably constant during the first nine months of the year. (5a) After this there was a substantial decline (5b) principally due to a more aggressive selling policy from Brazil, (5c) which tended to pull down levels from other origins.

(6a) Brazilian trading levels at the time of writing are in the region of $410/ton fob basis for Type 3, (6b) compared with $510/ton one year ago. (7a) The continuing stabilisation policy of the CPP (Ministry of Agriculture), (7b) through purchasing from the Brazilian farmers at guaranteed minimum prices, (7c) helped to maintain export for nine months at levels close to last year, (7d) but at considerable cost, both to the government and, ultimately, to the sisal industry in general.

(8a) CFP stocks increased dramatically during the year, (8b) and it is now believed (8c) that the total stock level in warehouses in the interior of Brazil now stands at between 175,000 and 200,000 tons. (9a) Against this background, if Brazil were to re-enter the export market (9b) it could only do so at much reduced prices, (9c) and hence the market decline of something approaching $60 per metric ton during the last three months. (10a) Despite the price reduction, (10b) and largely as a result of doubts in certain quarters over quality, (10c) buying interest for Brazilians sisal has remained limited (10d) although it is anticipated (10e) that Brazil will take a much bigger share of the fibre export market in the coming twelve months.

(11a) At the moment it is difficult to see (11b) from where the buying interest for the CFP stocks will come. (12a) During the past year there have been some sales to local paper and cellulose factories, (12b) and the optimistic view is (12c) that during the next twelve months local industries will consume large quantities from these stocks. (13a) There is one cellulose mill in Bahia (13b) which alone has the theoretical capacity of 100,000 tons of sisal per annum, (13c) but Brazilian sisal production is expected to be maintained during
1983 at levels similar to the past two years (13d) and, therefore, it is difficult to envisage anything other than a surplus of fibre availability in the coming twelve months.

(14a) A great deal depends upon the policy (14b) adopted with regard to CFP price support after the November elections (14c) but it is difficult to foresee (14d) how they can support the sisal industry to a greater degree (14e) than has been the case in recent years and, (14f) despite this support, (14f) prices have declined now quite substantially.

(15a) For much of the year Tanzania and Kenya enjoyed a well sold position (15b) until Brazilian prices were so drastically reduced. (16a) Since then, buying interest has tended to focus upon Brazil (16b) with the net result (16c) that stocks have accumulated on many East African estates, (16d) although certainly not, as yet, beyond manageable levels. (17a) Traditionally, both Tanzania and Kenya enjoy a premium over Brazilian prices, (17b) and this is certainly still the case, (17c) but levels in recent months have started to fall more quickly (17d) and the price today for East African 3L is $610/ton cif Antwerp, (17e) compared to $675/ton twelve months ago.

(18a) Whilst it is still possible to sell East African sisal at these levels to the less competitive markets, (18b) there is no doubt (18c) that to conclude business in larger quantities (18d) it will be necessary for price levels (18e) to decline further over the next year (18f) to compete with Brazilian sisal, (18g) for so long as cheap offers continue to be received from that origin.

(19) This poses a considerable problem to the future of the sisal industry in both Tanzania and Kenya. (20a) With the exception of UHDS from Kenya, (20b) which is essentially a "native" crop, (20c) the industry in both countries consists of several large estates, (20d) each producing amounts (20e) varying from 1,000 to 8,000 tons per annum. (21a) Production costs in recent years have increased dramatically, (21b) particularly labour, oil and other power costs. (22a) Conversley, during this period the return for sisal products has declined considerably (22b) and, should prices continue to fall below current levels, (22c) it will become a marginal situation for many estates (22d) as to whether they should continue with sisal production (22e) or, (22f) where possible, (22e) switch to other crops. (23a) Even should the majority of estates continue to produce, (23b) it is most unlikely (23c) that many will maintain the replanting cycle (23d) whilst the return is so low
(23e) and this will be reflected in much lower production in the coming years.

(24a) Once again, the emphasis in the market has been on sisal from the three principal producers, Brazil, Tanzania and Kenya, (24b) although Madagascar has continued to play an important role in the world sisal market. (24c) Although it may be a more predominant role would be expected from origin producing in the region of 15,000 tons per annum. (25a) The principal reason for this is (25b) that Madagascar suppliers have tended to follow the market (25c) and the quality of the fibre produced is of a consistently high nature. (25) It is, in fact, utilised more in specialised twine production (25) than for the agricultural twine market.

(26a) Mozambique and Angola have continued to supply small quantities to Europe, principally to Portugal, (26b) but unless some drastic action is taken (26d) it is unlikely (26e) that the market could look to either origin (26f) to increase their production to previously attained levels.

(27a) While imports of sisal fibre into the EEC continue to decline (27b) (58,000 tons during 1981 compared to 67,000 tons the previous year), (27c) sales to East European destinations have increased (27d) and it is generally considered (27e) that this will continue to be the case in the foreseeable future (27f) where the use of sisal twines would seem gradually to be increasing to the detriment of traditional wire baling.

(28a) With the exception of Mexico, however, (28b) the production and exports of both fibre and cordage during 1981 show a marked fall, of about 5 per cent for production and 12 per cent for exports. (29) This is partly due to a high carry over level at the end of the previous twine season and an increase in certain areas of alternative methods of fodder conservation. (30a) Also, further small inroads have been made synthetic twines. (30b) but it is anticipated (30c) that synthetic penetration may now have reached its limit in many parts of the EEC, (30d) particularly where polymer prices continue to increase (30e) and sisal prices decrease. (31a) It is unlikely, however, (31b) that sisal would be able to regain any of the market already lost.

(32) The sisal agricultural twine price for the 1981/82 season was again aimed at levels around $19 per bale cif USA/Europe. (33a) While this price continued to hold up reasonably well in North America, (33b) this tended not to be the case in Europe and considerable import business was concluded in the range of $14.50 to $16.50 per bale. (34a) For the 1982/83 season, producing countries seem even more determined to obtain an
increase in levels to something approaching $20 per bale, (34b) and, with the very low carry over situation in most areas, (34c) it would seem (34d) there is a far better possibility (34e) than that has been the case for several years (34d) of achieving this objective. (35a) It cannot be disputed, however, (35b) that there is surplus capacity in the agricultural twine market, (35c) and, even allowing for the low carry over from last season, (35d) if higher prices really could be achieved (35e) it would seem to contradict the supply/demand situation currently existing.

Text: 65 Copper (CSM, 22/2/84, p.3)

(1a) Against a background of weak consumer demand and rising stocks, (1b) LME copper prices have recently proved vulnerable to bursts of speculative selling; (1c) average prices dropped by 12% in the final quarter of 1983. (2) However, the slight recovery in December probably marks the commencement of a steady upswing in copper prices. (3) Overall, we expect the increase in average prices in 1984 to be very similar to that for 1983 (+11%).

(4a) During the first nine months of 1983, western world copper consumption is provisionally estimated to have fallen by 5% (4b) whilst refined production simultaneously rose by 2.7%. (5a) Consequently, despite substantial East European and Chinese purchases, (5b) fresh surpluses of between 200,000 and 400,000 tonnes appear to have been accumulated this year. (6a) These have primarily been reflected in the build up of stock levels on the metal exchanges; (6b) aggregated LME and COMEX stocks increased by 20% to 740,000 tonnes during the course of the third quarter (6c) to reach their highest level since 1978. (7a) The market is clearly disappointed with the effect (7b) which the improved level of economic activity has had on copper demand. (8) Even in the United States, copper consumption over the first nine months of 1983 was only 2% higher than in the corresponding period of 1982. (9a) This weakness of demand was reflected in falling US producer prices; (9b) at the beginning of December they stood at 66 cents per lb, (9c) 21% below the May high of 84 cents per lb.

(10a) However, the expected rise in consumption in 1984 - (10b) associated with a more broadly based recovery in economic activity amongst the leading industrialised countries and a marked improvement in non-residential fixed investment - (10a) should be sufficient to cause a speculatively induced price rise in the first half of 1984 as sentiment changes. (11a) Even so, a number of factors point to speculative interest (11b) proving to be weaker (11c) than one might
normally expect at this stage of the business cycle. (12a) These are relatively modest investment outlook for Europe, (12b) the declining intensity of usage of copper under the twin influences of substitution and technological innovation, and fears of oversupply (13d) (primary production could easily be boosted by 1 million tonnes over the next two years (12e) and the secondary sector is currently working at low utilisation levels). (13a) The latter will be given added weight (13b) in the absence of threats of major disruption to production (13c) (e.g. wage negotiations in the US copper industry are due to take place until 1986). (14a) Even so, copper prices will very likely continue to rise in tandem with US capital investment, (14b) as they have done in the past. (15a) However, given the problem of global oversupply, (15b) the increases, certainly in the second half of 1984 and in 1985, are likely to be fairly modest in 'real' terms.

Text: 66  Aluminium  (CSM 22/2/84, p.3)

(1a) The demand for primary aluminium increased by an estimated 10% in 1983, (1b) largely because of the economic recovery in the United States, (1c) the Western world's largest consumer of aluminium. (2a) Nearly 40% of US aluminium demand is accounted for by the automobile and construction industries, (2b) whose output in 1983 increased by 23% and 13% respectively. (3a) Whilst the rate of expansion is slowing in the United States, (3b) the subsequent recoveries in both the Japanese and European automobile industries should be sufficient to support a continued increase in aluminium demand in 1984.

(4a) Although the recovery in demand has brought about an improvement in primary capacity utilisation from the year-end level of only 72% in 1982, (4b) the delay inevitably caused by the recommissioning of plant has meant (4c) that producers' stocks have been drawn down heavily. (5a) By December 1983, stocks were 3.67 million tonnes, (5b) about 23% below the previous year's level. (6a) Stock levels, (6b) although still falling, (6a) are expected to level out later in 1984 (6c) as the output from North American 'swing' capacity adds to the western world's primary production. (GRAPH 4)

(7) The price of aluminium is closely and inversely related to producers' stock levels (see Graph 4). (8a) Consequently, the improvement in market fundamentals (8b) that brought about the rapid run down in stocks during 1983 (8a) also resulted in a substantial price recovery. (9a) SDR-denominated prices rose by over 50% in the first half of 1983 (9b) and increased by a further 9% in the second half. (10a) Although the rapid
recovery in price has recently faltered, (10b) influenced (10c) it would seem (10b) by the premium (10d) that the metal established over copper in the third quarter, (10e) the underlying trend is still upwards.

(11a) If, (11b) as expected, (11a) copper prices experience some recovery during the first half of 1984, (11c) the price of aluminium is likely to renew its upward movement (11d) since the growth in demand may well continue to outstrip increases in supply, (11e) resulting in a further depletion of producer stocks. (12a) However, with a deceleration in demand growth probable throughout 1984, (12b) combined with a build up in output (12c) following smelter re-commissionings, (12d) stock levels are expected to stabilise in the second half (12e) and curtail the upward price movement. (13) In total, SDR-denominated aluminium prices are likely to rise by around 20% this year.

Text: 67 Lead (CSM 22/2/84, p.3)

(1a) Although lead prices have shown signs of stabilising in recent months (1b) they remain the most depressed of the base metals. (2a) In December 1983, LME lead prices - (2b) denominated in SDR terms - (2a) were 6% per cent lower than in the corresponding period of the previous year (2c) whilst the Barclays Index of all metal prices rose by 12% over the same period.

(3a) Refined lead consumption in the first ten months of 1983 was 2% lower than in the corresponding period of the previous year (3b) but there are tentative signs (3c) that demand may currently be improving. (4a) Batteries account for 60% of total lead consumption (4b) but despite an estimated 13% rise in OECD passenger car production in 1983, (4c) demand for lead failed to respond until later in the year (4d) when battery manufacturers had run-down stocks. (5a) However, these are now at low levels (5b) and demand for lead should begin to reflect more fully the upturn in end-user industries, particularly in the United States (5c) which accounts for approximately 30% of western world consumption. (6a) Passenger car production in the United States is forecast to rise again in 1984 (6b) and, with replacement battery demand stimulated by the harsh winter, (6c) battery manufacturers are expected to work at high utilisation rates throughout the first half of the year at least. (7a) US demand for lead may well rise strongly during 1984 (7b) but this is likely to be tempered by sluggish growth elsewhere, particularly in Europe. (8) In total, western world demand is expected to increase by around 7% in 1984.

(9a) Even so, annual average prices in 1984 are
supplies of primary and recycled lead are likely to rise sufficiently (9c) to meet demand requirements. (10a) Mine production is already responding to the buoyant market for zinc (10b) (lead's co-product) (10c) whilst any rise in prices will stimulate production in the currently depressed secondary sector. (11a) In addition in the medium term, the lead market is likely to be adversely affected by the development of light-weight car batteries and the more extensive environmental regulations (11b) being imposed on lead as a petrol additive.

Text: 68 Tin (CSM 22/2/84, p.4)

(1a) In terms of the fundamentals of supply and demand, (1b) tin is possibly the weakest of all the metals markets. (2) Only substantial market intervention by the International Tin Council (ITC) is maintaining prices at high levels in real terms. (3a) In 1983, western world tin consumption is expected to have stabilised at around 146,000 tonnes (3b) after falling by 18% over the previous three years. (4a) Despite the imposition of export quotas by the ITC, (4b) oversupply continued to characterise the market last year. (5a) Consequently, the ITC buffer stock manager has had to continue to hold substantial stocks of tin (5b) in order to withhold supplies from the market. (6a) Even with these support measures (6b) (which have been partly undermined by smuggling from Thailand), (6c) prices in recent months have fallen to the ITC's floor of 29.15 Malaysian $ per kilo (6d) (equivalent to 8,700 pounds per tonne). (7) Indeed, LME prices have recently fallen below the Malaysian equivalent. (GRAPH 5)

(8a) During 1984 and 1985, world tin demand is expected to increase (8b) as economic activity strengthens in the major consuming countries. (9) Nevertheless, the cyclical upturn is likely to be severely constrained by the continued erosion of canning demand for tinplate by other materials. (10a) With the substitution of tinplate by aluminium (especially in the United States), (10b) and declining thickness of tin-coating for canning, (10c) the volume of tin consumed by the plating sector has fallen by an estimated 35% since 1968. (11a) This has been a major factor in the long-term decline in total tin consumption (see Graph 5) (11b) which shows no signs of abating.

(12a) Under these conditions of substantial overcapacity - (12b) potential supply is estimated at around 50% greater than current demand - (12a) it is clear (12c) that whilst an increase in demand in 1984 may allow some alleviation of the support programme, (12d) it highly unlikely (12e) that conditions will
improve sufficiently to allow more than a moderate
relaxation of those measures. (13a) Prices are likely to
remain firmly within the ITC lower price range (13b)
and, in SDR terms, average tin prices are expected to
increase by only 4% this year.

Text: 69  Zinc  (CSM 22/2/84, p.4)

(1a) With the exception of aluminium, (1b) zinc
prices have been the most buoyant of the metals during
1983; (1c) prices in December (1d) (expressed in SDR
terms) (1c) were 34% higher than a year earlier. (2a)
Although speculation - (2b) encouraged by a squeeze on
immediately available supplies of high grade material -
(2a) was an increasingly important factor in the later
months of 1983, (2c) a steady improvement in market
fundamentals has underpinned the price movement.
(3a) Data from the International Lead and Zinc study
Group indicate (3b) that western world zinc consumption
increased by 5.6% in the first ten months of 1983 (3c)
compared with the same period of the previous year; (3d)
consumption for the year as a whole is expected to have
reached the highest level since 1979. (4a) Demand has
benefited from a sharp upturn in the construction and
automobile sectors (4b) which are both major user
industries of zinc products. (5a) Although production of
refined zinc metal has increased more rapidly than
western world demand over the year (5b) (up by 6.9% in
the first 11 months of 1983 ), (5c) a rise in net
exports to eastern bloc countries has resulted in a
tightening in the western world supply/demand balance
(5b) as indicated by a fall in producer inventories and
the recent decline in stocks on the LME.
(6a) Western world zinc demand is expected to
increase further during this year, (6b) reflecting a
forecast 5% rise in OECD passenger car production, a
broadening of the upturn in construction activity and a
strengthening of the general economic recovery in
Europe. (7a) However, supplies seem capable of
responding to this upturn (7b) as a result of the
reactivation of idled 'marginal' capacity and the
abandonment of measures to rationalise European
capacity. (8) A significant supply/demand balance in
1984 is likely to foster a further rise in prices during
the year. (9a) Current high levels of speculative
interest in the metal do make the sector vulnerable to
profit-taking (9b) and may result in some short term
price volatility. (10) Even so, the average rise in
prices in SDR terms is expected to be in excess of 20%
in 1984.
Nickel

(1a) Western world consumption of nickel increased by an estimated 6% last year, (1b) the first rise since 1979. (2a) This was largely the result of a recovery in world stainless steel production (2b) (see Graph 6) (2c) which was led by an upturn in demand from the consumer durables and automobile industries (2d) combined with an end to producer destocking. (3a) As the recovery gathers momentum (3b) and demand for stainless steel broadens to include the capital goods sector, (3c) nickel consumption is expected to rise by a further 10% this year. (4) Nevertheless, consumption may be 14% below the 1979 peak of 586,000 tonnes. (Graph 6)

(5a) Mine production increased by an estimated 6% last year (5b) and refined metal output by 3%. (6a) Prices, (6b) which fell sharply at the end of 1982, (6a) have been restored to approaching their previous level as much by producer discipline as by the recovery in demand. (7a) Mine capacity utilisation is estimated to have been just 57% in 1983 (7b) whilst supply deficits of refined metal have resulted in a reduction in producers' stock in each of the last two years. (8a) The main uncertainty (8b) concerning the price prospects for nickel (8a) is whether supply will continue to be controlled during a period of demand recovery. (9a) Initial signs are not encouraging (9b) with many major producers - (9c) led by the Canadians - (9b) planning to commence 'normal' working this year. (10a) Certainly, any premature reactivation of 'idled' capacity will dilute the benefits of a demand upturn (10b) and SDR-denominated prices are expected to rise by a fairly modest 12% this year.

Cocoa and Coffee

(1a) Cocoa prices tend to move in the opposite direction to the stock:consumption ratio (1b) (closing stocks as a percentage of grindings). (2a) Having reached a peak of 42% during the 1981/2 season (1 October to 30 September), (2b) when prices reached their lowest levels for over five years (2c) (see Graph 3), (2d) the stock ratio fell in 1982/3 (2e) because severe drought, particularly in West Africa, reduced production. (3a) The price recovery (3b) thus engendered (3a) has continued into the 1983/4 season. (4a) A second year of production deficit, (4b) currently estimated to be around 140,000 tonnes, (4a) has combined with problems of quality to maintain the upward price movement. (GRAPH 3)

(5a) Attempts by the International Cocoa Organisation (5b) to stabilise the cocoa market (5a) have been singularly ineffective. (6a) By contrast, having been supported in its early stages by the frost-affected crop
of 1981, (6b) the current International Coffee Agreement (ICA) has been cited as highly effective commodity agreement. (7) However, during 1984, the ICA has been under pressure. (8a) The 15-day moving average indicator price rose to 150.3 cents per pound on 31 May, (8b) well above the stated price range of 120-140 cents per pound. (9) This resulted in a fourth increase in the total export quota during the current season. (10) Under ICA regulations, this was the last permissible release until the new crop year. (11a) It occurred after an earlier transferral of 1 million bags of the July-September quota to the April-June period (11b) and, if further upward pressure on price occurs, (11c) the continued existence of the system could be in doubt.

(12a) As with cocoa, current tightness in the coffee market arises from a shortage of high quality West African and Brazilian coffee (12b) caused by drought and wet weather respectively. (13a) The market's fears have been exacerbated by doubts (13b) that producers have coffee available to meet the extra quota allowances. (14a) Although stocks are currently at high levels, (14b) considerable difficulties have been encountered in shipping these to market. (15) In addition, there are worries concerning the physical condition of the inventories. (16a) Current events clearly illustrate (16b) how market conditions can overpower regulatory attempts to stabilise world foodstuff markets.

(17a) In the short term, the cocoa stock:consumption ratio is expected to continue to fall, albeit at a slower rate, (17b) and prices are likely to remain firm during the third quarter of 1984. (18a) However, since there are currently signs of a return to 'healthy' production levels in the 1984/85 season, (18b) an erosion of prices will probably begin before the end of the calendar year. (19a) Without further unforeseen climatic or political disruptions, (19b) this pattern of gradually falling prices is likely to continue in 1985 (19c) when a production surplus is expected to re-emerge. (20) The resulting fall in prices is unlikely to stimulate a compensating increase in demand. (21a) Until the period of high frost risk is over in Brazil, usually by the end of August, (21b) it is extremely difficult to predict the trend in coffee prices. (22) Certainly, the market is likely to remain highly nervous and volatile until then. (23a) Assuming no major frost however, (23b) the prospect of a substantial coffee surplus is expected to result in downward pressure on the price during the last quarter of the year. (24a) If the ICA can be successfully re-negotiated in September, (24b) prices may be back within an acceptance range (under 140 cents per pound) during the fourth quarter of 1984 (24c) and may continue to fall well into 1985. (25a) However, the trend may be extremely volatile (25b) if unfavourable weather conditions occur in some of the growing regions during the next month.
Text: 72 Soyabean  (CSF 26/7/84, p.3)

(1a) According to the USDA, (1b) world soyabean production will fall to just under 80 million tonnes during the current season (1c) (ending 30 September 1984) (1b) from a level of nearly 94 million tonnes in 1982/83. (2a) At the beginning of April 1984, stocks in the three major producing nations - the United States, Brazil and Argentina - were estimated to be 25% below the levels of a year earlier (2b) and still falling. (3a) The decline in production has been concentrated in North America (3b) where 1983's PIK programme, (3c) followed by an extended dry period during the summer, (3b) limited acreage sown and yields respectively. (4) Increases in production in South America have not been sufficient to offset this decline. (5) However, relatively good availability of substitutes, such as sunflower and rapeseed and the market's adjustment to the new supply: demand balance, has kept soyabean prices under control since an initial surge in August 1983. (6a) Nevertheless, in terms of SDRs, soyabean prices were 26% higher in June 1984 (6b) than they were a year earlier.

(7a) The soyabean complex is notoriously difficult to analyse (7b) because there are a large number of substitute commodities for its end-use. (8) Very little of the soya crop is consumed as a whole bean. (9a) It is nearly all crushed to produce soyameal, (9b) which accounts for 80% of total consumption, (9c) and is primarily used as an animal feedstuff, (9d) competing with a wide range of seeds and nuts. (10) The price relationship between the three forms of soya is depicted in Graph 4. (11a) In 'normal' years, soyabean prices enjoy a slight margin over those of soyameal, (11b) but soya oil prices are usually considerably higher. (12a) This reflects the 'crushing margin' obtainable by the processing costs (12b) relative to the value of the end-product. (13a) Meal is a low profit margin, high volume product (13b) while oil provides relatively high profit margins but low volume. (GRAPH 4)

(14) The recovery in market prices last year can be attributed to severe drought in most oilseed growing areas and the aforementioned indirect impact of the PIK scheme. (15a) Similarly, the 1973 peak in prices was caused by an earlier manifestation of 'El Nino' (15b) (climatic disruption caused by changing currents in the Pacific Ocean) (15a) as well as the sudden entry of the USSR as a large-scale importer.

(16a) As a result of the expected decline in soyabean production for the current season, (16b) meal and oil output will fall by between 4% and 6%. (17a) Lower carryover stocks will hold prices close to current levels into the early part of the 1984/5 crop year (17b) but there is little evidence of support from demand: (17c) compared with the same periods of a year earlier,
(17d) crushings fell in the first and second quarters of the current season by 13% and 12% respectively. (18a) With world production expected to rise by 18% in the 1984/5 season, (18b) resulting in a supply surplus, (18c) the underlying price trend is expected to be negative during the final quarter of 1984 and into 1985.

Text: 73 Wheat and Maize (CSF 26/7/84, p.4)

(1a) Although wheat is a food grain, (1b) grown mainly for human consumption, (1c) and maize (corn) is a feed grain, (1d) grown primarily as an animal feed, (1e) the distinction between the two can be misleading. (2) Changes in relative abundance can lead to substitution of one for the other. (3a) However, the price premium of wheat over maize is seldom, (3b) if ever, (3a) reversed, (3c) although its size can vary considerably. (4) This is reflected in the way the markets have operated during the current season. (5a) The USDA estimates (5b) that the world coarse grain crop (5c) (of which maize is the major component) (5d) will be over 12% lower in the 1983/4 season (5d) than it was in 1982/3 (5e) and closing stocks will fall by more than 50%. (6a) This reduced availability reflects the impact of the US Government's PIK scheme and the long dry summer in 1983 on the North American maize crop (6b) and explains the steady rise in maize prices throughout the current season. (7) In June 1984, maize prices in SDR terms were 11% higher than a year earlier.

(8a) However, with increased output elsewhere in the world, (8b) PIK and the adverse weather in the United States did not affect overall wheat supply to the same extent. (9a) USDA estimates suggest (9b) that 1983/4 production and end of season stocks will both reach record levels of about 490 million tonnes and 102 million tonnes respectively. (10a) Despite its relative abundance, (10b) wheat prices have also risen slightly (10c) and in the first six months of 1984 they were 4% higher than the corresponding period of the previous year. (11a) Although the price premium between wheat and maize has narrowed, (11b) substitution of wheat for relatively scarce maize has helped to maintain it. (12a) Poor maize availability has raised the demand for low quality wheat for feeding to livestock, (12b) which has offset record production, (12c) minimised the build-up of stocks, (12d) and kept prices buoyant. (GRAPH)

(13a) Nevertheless, while the process is made more complicated by the close relationship between wheat and maize, (13b) free market grain price trends are fundamentally related to the movement of stocks (13c) relative to consumption in any given period. (14a) Graph 5 shows this inverse relationship, (14b) as it has operated for wheat since 1970, (14c) and clearly
indicates (14d) that, in most cases, a turning point in prices is associated with a turning point for the stock:consumption ratio in the opposite direction. (15a) Of course, prices in individual national markets tend to be highly regulated by various support measures (15b) (for example, the Common Agricultural Policy in Europe).

(16a) The prospects for grain prices are far less sanguine (16b) than they were 12 months ago. (17a) USDA forecasts suggest a record wheat crop in the 1984/5 season, (17b) while maize production is expected to recover substantially from the low levels of 1983/4. (18a) The supply of maize will remain tight until the fourth quarter of 1984, (18b) when the first post PIK crop is available (18c) but wheat supplies will be abundant throughout the year. (19a) As the recovery in world economic activity progresses, (19b) demand for both food and feed grains can be expected to increase, (19c) but the inherent tendency of the unconstrained market to excess supply will restrain any significant advance in prices. (20a) Indeed, although there are current rumours of problems with the Soviet crop and late plantings in the United States (20b) which may result in some price fluctuations in the short term, (20c) the expected rise in stock ratios in 1984/5 is likely to result in some erosion of market prices (20d) as the year progresses.

Text: 74 Sugar (CSF, 26/7/84 p.4)

(1) Graph 6 shows the development of sugar prices since the beginning of 1975. (2a) Even over this limited timescale, the historical pattern of sugar prices is clear: (2b) long periods of relative price stability (2c) broken by short periods of dramatic increases and decreases (2d) (e.g. in early 1975 and 1980). (3a) Stock levels are generally high in the sugar market (3b) and, in 'normal' times, these maintain prices in a fairly narrow band around 150 pounds per tonne. (4a) However, when bad weather has severely reduced crops in certain key growing areas, (4b) the stock:consumption ratio has fallen significantly (4c) and SDR-denominated prices have more than trebled during a season (4d) (e.g. in 1979/80). (GRAPH)

(5a) At the end of the current season (5b) (1 September 1983 to 31 August 1984) (5a) the stock:consumption ratio is expected to fall slightly to 40% from last year's level of 41%. (6) World economic recovery is likely to result in an increase in demand of about 1%. (7a) Production, (7b) reduced by wet weather in Europe, drought in Africa and lower than expected output in the United States (7c) (which will more than offset increases by South American producers), (7a) is likely to fall by about 5%. (8a) However, none of these
movements are abnormally large (8b) and the small seasonal deficit will have little impact on reducing the substantial stock overhang. (9) Consequently, prices will remain depressed.

(10a) In many sugar markets, the world price is no more than a residual element (10b) since most 'household' purchases and prices are regulated by measures such as the Common Agricultural Policy in the EEC. (11a) Recent negotiations to reform the previously ineffective International Sugar Agreement will have no impact on the sugar markets (11b) since an agreement capable of controlling supply has not emerged. (12a) Political or climatic disturbances can always radically transform any forecast (12b) but the underlying market fundamentals suggest (12c) that prices will remain low well into 1985.

Text: 75  Cotton  (CS 26/11/84, p.3)

(1) World cotton production is expected to rise by 19.6% to a record level of about 17.7 million tonnes during the current (1984/5) season. (2a) Production gains have occurred virtually throughout the world (2b) but the main contribution has been in the United States (2c) where, (2d) in the first season after the abandonment of the PIK acreage reduction scheme, (2c) the area under cotton has risen by more than 40%. (3a) A 15% improvement in average yields is also expected, (3b) leading to an increase of around 70% in US cotton production. (4a) At the same time, the recovery in world textile activity is broadening (4b) and demand for cotton is also forecast to reach a new peak during the current season. (5a) However, consumption is still likely to fall well short of production (5b) and a sharp increase in world cotton stocks is inevitable (5c) (see Table 3).

(6a) There is a strong inverse relationship between changes in stock levels and changes in real cotton prices (6b) (see Graph 3). (7a) Consequently, after showing some strength in the latter part of 1983 and the first half of 1984, (7b) SDR cotton prices began to weaken in June (7c) when early harvest projections indicated a supply surplus. (8a) Upward revisions to those forecasts kept prices on a downward trend until September (8b) and they declined by more than 14% during the period. (9a) Recently, adverse weather in some parts of the US cotton belt have led to a modest recovery in prices (9b) but the medium term outlook remains poor.

(GRAPH)

(10a) Stocks at the end of the season are likely to be about 40% higher than at the end of the 1982/3 season, (10b) when the US authorities were first
prompted to implement PIK. (11) However, US plans for acreage reduction in the 1985/6 season do not point to a significant fall in plantings. (12) Nor could the United States expect to achieve effective results from another series of cutbacks on the scale of PIK. (13a) Unlike the position two seasons ago, (13b) a large part of the world cotton stock lies outside the United States, (13c) around one-third of it being held in the People's Republic of China. (14a) This is due to a rapid expansion in Chinese cotton production in recent years (14b) and represents a potentially destabilising factor (14c) because it is uncertain (14d) how, (14e) or even if, (14d) China will dispose of its stocks. (15a) However, the small quantities of Chinese cotton (15b) brought to world markets so far (15a) have been offered at very competitive prices (15c) and the Chinese have indicated (15d) that they are to expand man-made fibre requirements. (16a) Consequently, it must be assumed (16b) that they are to increase their participation in the cotton export trade (16c) and this suggests a very competitive market and a further decline in prices in 1985.

Text: 76  Wool  (CS 26/11/84, p.3)

(1) World wool production has shown unexpected resilience to the impact of drought in Australia and South Africa. (2a) In the twelve months to July, production amounted to 2.91 million tonnes (greasy), (2b) the highest level for fifteen years. (3a) With producers' stocks already large, (3b) available supplies reached record levels. (4a) Demand also showed signs of recovery, (4b) reflecting the increase in US textile activity, (4c) but total consumption once again fell short of production. (5a) Consequently, producers' stocks increased (5b) as major marketing operations - particularly the Australian Wool Corporation (AWC) - intervened in world markets with purchasing policies (5c) designed to support prices. (GRAPH 4)

6a) Despite the rise in supply, (6b) average SDR prices increased by over 9.6% during the 1983/4 season. (7a) This was partly due to the expectation of lower production, (7b) which prevailed throughout the season, (7a) and the recognition (7c) that supply and demand were moving closer to equilibrium (7d) (stocks rose by only 8% in 1983/4 (7e) compared with a 25% increase in 1982/3). (8a) In addition, the strength of prices reflected exchange rate movements (8b) (see Graph 4). (9a) In March 1983, the Australian dollar was devalued by 10% (9b) and the AWC responded by increasing its support price by 7.5%. (10) However, the Australian dollar appreciated by more than 12% in SDR terms between
April 1983 and March 1984. (11) The result was that the AWC intervention price rose by over 8% in SDR terms. (12a) More recently, the Australian dollar was devalued by 10% (12b) and the AWC responded by increasing its support price by 7.5%. (13) However, the Australian dollar appreciated by more than 12% in SDR terms between April 1983 and March 1984. (14a) The result was (14b) that the AWC intervention price rose by over 8% in SDR terms. (15a) More recently, the Australian dollar has weakened (15b) and the New Zealand currency has also been devalued by 20%; (15c) these factors contributed to a decline in wool prices of 6.7% in SDR terms between April and September 1984. (16a) Nevertheless, prices remain significantly above their low point of March 1983, (16b) reflecting the more positive view (16c) now being taken of demand prospects.

(17a) Exchange rate factors are expected to be broadly neutral in 1985 (17b) and prices are likely to reflect supply and demand considerations more closely. (18a) It seems probable (18b) that production and consumption will both rise this season (18b) but, as the effects of drought continue to recede, (18c) the increase in production may well be the larger. (19) Consequently, little improvement in prices is expected over the next twelve months.

Text: 77 Jute (CS 26/11/84, p.3)

(1a) Bangladesh, (1b) which accounts for around four-fifths of world jute exports, (1a) has sustained severe damage to this season's crop (1c) after a period of drought followed by heavy flooding. (2a) A recent government crop estimate of 4.5 million bales could prove rather optimistic, (2b) but even such a level of production would be insufficient to meet normal export commitments. (3a) Furthermore, India, (3b) the world's largest jute producer, (3a) has apparently been unable to satisfy the raw material needs of its domestic industry (3c) and has featured as a significant buyer on world markets for the first time. (4a) As a result, supplies are very tight and the little jute (4b) which has been traded recently (4c) has been priced at over US$900 per tonne - (4d) almost three times the level at the beginning of the year. (5a) Consequently, jute consumers elsewhere face extremely supply difficulties (5b) which may persuade many to switch permanently to man-made fibre alternatives.
(1a) The oilseed sector consists of more than 40 individual commodities, (1b) but seven vegetable oils account for a substantial majority of both production and trade. (2) These are soya oil, palm oil, groundnut oil, coconut oil, cottonseed oil, sunflower-seed oil, and rapeseed oil. (3a) Each has its own unique characteristics and uses, (3b) but all are substitutable to some extent (3c) and changes in the availability and price of one of them can significantly affect the other markets. (4) The close association between the prices of individual commodities in the oilseed sector is highlighted in Graph 5. (5a) This is partly because the dominance of soya, and to a lesser extent palm, (5b) in terms of both production and trade, (5a) provides a foundation for, and overriding influence upon, the whole sector. (GRAPH 5)

(6a) During the 1983/4 season, climatic disruption and government policies produced shortages of soya, palm and several other major oilseeds, (6b) resulting in a strongly positive price trend from the second quarter of 1983 (6c) until the second quarter of 1984. (7a) However, since May, prices have declined (7b) as a result of increased US plantings of soyabees and a strong recovery in Malaysian palm output (7c) (up about 13% in 1984). (8) In addition, large rapeseed and sunflower-seed crops in the EEC and Spain respectively have weakened European demand for other oils. (9a) Although early frosts in the United States and typhoons in the Phillipines have tempered expectations about harvests, (9b) production of all the leading oilseeds is expected to rise in the current season. (10a) Estimates of the increase in output vary widely, (10b) ranging from 2% for groundnuts to more than 20% for coconut oil, (10c) giving an average increase in output for the whole sector of about 5%, (10d) this implies a significant rise in stocks and a weakening of market prices.

(11) A return to production surplus for all the leading oilseeds during 1984/5 will reverse much of the decline in stocks experienced last season. (12a) Groundnut and coconut oils will continue to enjoy a price premium over the others, (12b) particularly sunflower and cotton seed (12c) but, as usual, the overall development of the markets will be determined primarily by the availability of soya and palm oils. (13a) Supplies of palm oil should increase considerably in the current season (13b) as a result of better weather conditions in key producing areas in the Far East (13c) while production of soyabean is likely to rise by around 16%. (14a) The increase in soyabean output indicates a potential improvement in soya oil supplies, (14b) although the degree (14c) to which this occurs (14b) also depends on demand for soya meal. (15)
This is because, to some extent soya oil is a 'by product' of soyameal production. (16a) While soyameal output is expected to increase in 1984/5, (16b) the rise may be only moderate, (16c) given continuing sluggishness in demand for cattle feed. (17a) This may well constrain the extent to which soya oil supplies expand, (17b) but nevertheless, some easing in supply should ensure (17c) that the overall trend in soya oil and other oilseed prices will be negative in 1985.

Text: 79 Natural Rubber (CS 26/11/84)

(1a) Natural rubber consumption increased by over 8% in 1983, (1b) the result of a substantial recovery in the production of tyres - (1c) which account for 70% of total usage - (1d) and gains in market share at the expense of synthetic rubber. (2a) With world vehicle production continuing to increase (by about 5% in 1984) (2b) the demand for natural rubber has remained buoyant this year. (3a) However, the rate of growth has slowed, (3b) because of weak Japanese demand, (3c) following a period of re-stocking in 1983, (3b) and the lack of substantial Western European orders. (4a) Demand from centrally planned economies has also been sporadic in 1984, (4b) explained partly, at least, by the rehabilitation of the Vietnamese rubber industry.

(5a) Production, (5b) which is concentrated in South East Asia, (5a) increased by over 7% in 1983 (5c) and year-end stocks reached unprecedented levels. (6a) These have been kept at a high level in the first half of 1984 (6b) as a result of an unusually mild wintering period, (6c) allowing output to be maintained (6d) when normally tapping is curtailed. (7a) Furthermore, the ability of producers to reduce output in line with demand is increasingly circumscribed by the large proportion of rubber (7b) now produced by smallholders, (7c) where there is a tendency to increase output at a time of falling prices in an attempt to maintain income levels.

(GRAPH)

(8a) Rubber prices fell by over 35% in SDR terms between January and October 1984 (8b) as the market reacted to the stock accumulation. (9) Indeed, the price has now fallen to near the International Rubber Organisation's (INRO) 'may buy' intervention level. (10a) INRO's price stabilisation scheme came into operation towards the end of 1980 (10b) and has been relatively successful in maintaining prices within the support levels (10c) (see Graph 6). (11a) However, the Organisation's intervention in the market during 1982 resulted in a 270,000 tonne buffer stock accumulation, (11b) which continues to overhang world markets. (12a) Stock disposals did not take place during the 1983 price
recovery (12b) and INRO's influence may be weakened by the general realisation (12c) that the present buffer stock is only 30,000 tonnes short of its authorised limit.

(13a) Current low prices have begun to stimulate some consumer purchasing and restocking, (13b) while prospect of a more normal wintering period in early 1985, (13c) restraining output, (13b) could provide some support to the market price. (14a) If required, (14b) INRO intervention will establish a lower limit for prices in the short term. (15a) While demand is expected to increase next year - (15b) reflecting continuing high levels of vehicle production, a strong replacement tyre market, a further rise in industrial activity and some purchases for the US stockpile - (15c) natural rubber supplies seem capable of meeting demand requirements fully. (16a) Market fundamentals of supply and demand therefore support only a limited price rise (16b) and following the sharp declines in price during this year, (16c) the annual average price in 1985 seems unlikely to match that of 1984.

Text: 80 Demand and Output (IES,30/11/83)

(1a) The recovery in economic activity so far has relied principally upon a swing in the stocks cycle and a rise in consumer spending, particularly in the United States and Japan (1b) where the increase in spending has been on a scale (1c) approaching (1d) that experienced in the 1975/76 upturn. (2a) A gradual recovery in 'real' incomes and a sharp fall in the rate of inflation have had a favourable impact on consumer confidence (2b) and have contributed to a rundown in the rate of saving in most industrialised countries, (2c) providing a further boost to consumer spending, particularly in the United States, (2d) where the saving ratio fell to only 4% in the second quarter, (2e) the lowest level since 1950. (3a) Although the scope for further falls in the saving ratio now appears limited, (3b) particularly as the inflation rate has now bottomed out, (3c) consumer spending should continue to increase in line with income growth over the next year. (4a) Apart from fixed investment, (4b) the contribution from other elements of demand is likely to remain negligible. (5a) Recent fiscal changes, (5b) discussed above, (5a) will ensure (5c) that the contribution from government spending is modest, (5d) and little support to output growth from the net foreign balance is expected, (5e) despite some improvement in West Germany and France.

(6a) Fears (6b) that the world economic recovery may still fail to be sustained (6c) are based partly on reservations about the outlook for fixed investment. (7a) In particular, the depth, and length of the
recession has produced a record low level of capacity utilisation, (7b) implying (7c) that it could take longer than usual (7d) before capacity constraints are reached (7e) and investment stimulated. (8a) In addition, many major industries (8b) which were significant investors in previous cycles (8a) will not invest heavily during this upturn. (9) The poor trading conditions of the past few years for industries such as textiles, steel and mechanical engineering in the major industrialised countries have left them in a poor position to finance new investment in the near future. (Graph 3)

(10a) The behaviour of plant and equipment investment in the United States is of crucial importance, (10b) both in maintaining the momentum of the US recovery (10c) and - (10d) given (10e) that the United States is leading the cycle - (10c) in providing an indication of likely investment behaviour in other key economies (10f) as the economic cycle progresses. (11) Capacity utilisation in the United States fell to a record low level at the end of 1982, at 68.8%. (12) This figure, however, undoubtedly overstates the amount of usable spare capacity. (13a) Normal difficulties (13b) in estimating capacity (13a) can only be aggravated by an extended recession: (13c) even where capacity is still nominally in place, (13d) the capital stock is ageing (13e) and becoming outdated. (14) Therefore, the capacity utilisation figures will tend to understate the need to replace capacity. (15a) This tendency will have been accentuated during the last few years by the accelerating pace of technological change, (15b) which has rendered an increasing proportion of the capital stock obsolescent. (16a) Thus capacity constraints in manufacturing industry are likely to be reached at a relatively low level of measured capacity utilisation: (16b) a more accurate indicator of supply pressures is therefore the rate of change of utilisation.

(17a) As Graph 3 shows, (17b) capital spending on plant and equipment in the United States has in past cyclical upturns moved simultaneously with, (17c) or has lagged by a quarter, (17b) the pick-up in capacity utilisation. (18a) Performance during the current cycle has been fairly normal, (18b) with both the change in capital spending and capacity utilisation (18c) reaching low points in the last quarter of 1982 (18d) and rising strongly in the second and third quarters of this year. (19a) The fact (19b) that the increase in investment spending has so far been concentrated in the trade and services sector, and by type of product in the area of 'off the shelf' items such as motor vehicles, furniture and electronics equipment, (19a) is also a normal cyclical development.

(20a) Thus for the United States, plant and equipment expenditure appears to be responding in a reasonably
normal cyclical manner, (20b) and there is no evidence (20c) that a lack of follow - through in investment spending will cause the recovery to falter. (21) As a result the US economy should continue to provide a strong lead to world economic recovery. (22a) In addition, the indication provided by US behaviour (22b) that normal cyclical relationships seem to be sustained (22a) should serve to temper pessimism about investment prospects elsewhere in the world. (23) Nevertheless, the investment upturn is unlikely to be as strong outside the United States. (24) In Europe especially, the gradual recovery in the other components of final demand will result in a more restrained boost to demand for new investment expenditure. (25a) Furthermore, US corporate cash flow has benefited substantially from a strong recovery in profits and from tax changes (25b) which have significantly increased US depreciation allowances, (25c) and there are few examples of any major initiatives in other industrialised countries (25d) which are likely to stimulate investment spending on a similar scale.

Text: 81 Inflation (IES, 30/11/83 p.3)

(1) Most major industrialised economies are either at, or just beyond, the cyclical low point in inflation. (2a) The main exceptions include Canada, (2b) where the inflation rate will almost certainly reach a low point in the fourth quarter of this year, (2c) and France and Italy where a downward trend is likely next year. (3) The inflationary upturn, however, is unlikely to be pronounced. (4a) Although rapid monetary growth and the strong rise in economic activity in North America point to some resurgence of inflationary pressures, (4b) they will take some time to come through to final prices.

(5a) The slight rise in the annual rate of inflation in the main industrialised countries over the last few months is largely due to the low rate of price increases in late 1982 and a recovery in seasonal food prices, (5b) and most factors do not point to any significant acceleration in underlying inflationary pressures over the coming six months. (6a) The growth in unit labour costs has fallen sharply this year, (6b) and in many countries the change in the year to the second quarter was almost zero. (7a) With wage settlements likely to remain low, (7b) and a continuation of the cyclical rise in productivity already evident in the USA, West Germany, Japan and United Kingdom, (7c) the contribution to inflation from unit labour costs should be limited. (8a) During the second half of 1984, however, inflationary pressures are likely to accelerate, particularly in the United States (8b) as larger wage
rises and a lower rate of productivity growth combine to raise the rate of increase in unit labour costs.

(9a) Oil prices are currently almost 15% below the level of late 1982 (9b) and no change in the dollar price is expected over the next year. (10a) Indeed, in the absence of any major supply disruption in the Middle East, (10b) the balance of risk has probably swung towards lower oil prices (10c) if demand weakens (10d) following a mild winter (10e) and over-production within OPEC continues. (11) Non-oil commodity prices, however, are likely to be a more important influence on inflationary pressures over the coming year. (12a) Non-oil commodity prices have been buoyant this year, (12b) and in dollar terms increased by 21.5% in the year to the third quarter, (12c) partly as the result of a temporary rise in food prices (12d) following crop reduction programmes and droughts in the USA, South Africa and Australia. (13a) Much of this increase has still to come through into final prices, (13b) although next year the rise in commodity prices should be modest. (14a) Assuming more normal weather conditions, (14b) the prospect of increases in supply in 1984 will limit the rise in foodstuff prices to around 7%. (15a) Whilst demand for industrial materials will increase - (15b) reflecting the upturn in the capital goods sector - (15c) oversupply will still characterise some key markets (15d) and constrain the rise in industrial material prices to around 13%.

Text: 82 Current Accounts (IES, 30/11/83 p.4)

(1) During 1983 there have been large swings in most current account positions. (2a) The direction of movement has, in general, been in line with the forecasts in our last Survey, (2b) with the United States and United Kingdom showing deteriorating trends, (2c) while Japan, and to a lesser extent European countries, have improved. (3a) For the United Kingdom and Italy the size of the movement has been reasonably close to expectations, (3b) but for a number of countries the magnitude of the swing has been greater than expected. (4a) In particular, the US deficit has widened, (4b) the French deficit narrowed (4c) and the Japanese surplus expanded at a faster than expected rates. (5a) In contrast the Canadian and, more importantly, the German current account performances have been disappointing, (5b) with the expected substantial improvement having failed to materialise. (Table 1)

(6a) The very rapid deterioration in the US current account reflects much stronger than expected domestic demand, (6b) which is now estimated to have grown at
over three times the rate of growth in US export markets in 1983 (see Table 1). (7a) Together with the very poor competitive position of the United States, (7b) this has resulted in a sharp fall in export volume and steep rise in import volume. (8a) Relative market growth rates will remain adverse in 1984, (8b) while the beneficial effect on competitiveness of any fall in the dollar’s value will have little effect on trade volumes until late in the year. (9a) As a result the outlook is for a further substantial widening of the trade deficit, (9b) but the current account as a whole is forecast to deteriorate further.

(10a) Japanese export volume growth has been bolstered by strong growth in its main export markets — (10b) the United States and Asian developing countries — (10c) whereas import volume growth is likely to be close to zero for 1983, (10d) despite a 2% – 3% increase in domestic demand. (11a) The lack of import growth has been the result, very largely, of a sharp fall in oil imports, (11b) which account for a relatively high proportion (around 49%) of Japanese imports. (12a) The current account is expected to rise a little further in 1984, (12b) partly because the initial effect of the yen’s expected appreciation against the dollar will be an improvement in the terms of trade. (13a) However, a rise in import demand (13b) following the recent relaxation of import restrictions will limit the increase in the trade surplus.

(14a) The rapid improvement in the French external position has been based on the sharp fall in domestic demand, (14b) combined with a continued improvement in France’s competitive position, (14c) and these factors are expected to remain favourable over the next twelve months. (15a) Domestic demand growth is expected to be close to zero in 1984, (15b) following the announcement (15c) that the tight fiscal stance will be maintained in 1984, (15d) and France’s level of competitiveness is unlikely to deteriorate significantly, (15e) especially if there were to be a further downward adjustment of the franc’s central parity against the D.Mark. (16a) As a result the French current account will continue to improve (16b) and could show a small surplus next year. (17) The main disappointment in 1983 has been the German current account. (18a) This has been due in part to higher than expected domestic demand growth in Germany, (18b) which has caused a rise in import volume, (18c) and to the weak demand growth in France and Italy and other major export markets. (19a) Conditions are expected to improve in 1984 (19b) when export market growth should exceed domestic demand growth by a small amount, (19c) and the terms of trade should be helped by an appreciation of the D.Mark against the dollar. (20) The resulting improvement in the current account is, however, expected to be only modest.
The trough in the present inflation cycle for the seven largest OECD economies occurred in the summer of 1983 at around the 4% level (1b) and the overall figure has since started to edge upwards. (2) However, considerable differences in performance remain between individual economies. (3a) The inflation rate in the United Kingdom bottomed out first in the second quarter of last year at just below 4% (3b) and was followed by the United States, Canada and Japan. (4a) Elsewhere, however, the situation is more favourable (4b) and in Germany the rate has stabilised (4c) while in France and Italy the rate of inflation has continued to decline. (5a) The sharpest rebound in inflation has occurred in the United States, (5b) where the year-on-year increase in consumer prices has almost doubled from the low point of 2.4% in July 1983 to 4.7% in March 1984. (6) To some extent, this upturn has been exaggerated by various erratic elements, notably fluctuations in food and fuel prices. (7a) Nevertheless, consideration of a wide range of different price and labour cost series does confirm (7b) that there has been a significant rebound in underlying inflation rate from last year's low point. (8a) Some cyclical rebound is, of course, to be expected (8b) given the strength of the recovery in demand and output. (9a) However, there has recently been a marked increase in concern (9b) that the rise in inflation may be in danger of accelerating out of control. (10a) A key focus of this concern has been the rise in capacity utilisation discussed above, (10b) which has been taken as a lead indicator of the development of inflationary pressures. (GRAPH 3)

Graph 3 shows the quarterly level of capacity utilisation with year-on-year changes in the GNP deflator. (11) On careful examination, the graph may be taken to be suggestive of a leading relationship between variations in capacity utilisation and in the inflation rate. (12) However, it is an imperfect relationship, at best. (13) Time lags appear to be variable and variations in utilisation give little indication of the likely magnitude of response in the inflation rate. (15a) Furthermore, there is little evidence to support the view sometimes advanced (15b) that particular levels of utilisation are critical to the emergence of inflationary pressures. (16a) In particular, the limited inflation rate response to the long rise in capacity utilisation in the 1960s - (16b) to a post war peak of 91.6% in 1966 - indicates the limits of the suggested relationship. (17a) This is not to suggest (17b) that there is no evidence of a cyclical increase in inflationary pressures. (18a) However, it may serve to
restore a perspective (18b) in which the cyclical upturn is viewed in the context of a secular downward trend in inflation. (19a) A key feature of the belief (19b) that the secular trend is downwards (19a) concerns the outlook for oil and non-oil commodity prices. (20a) Although some recovery in world demand for oil, (20b) as the economic recovery gathers pace, (20a) has now reduced the risk of a further fall in prices, (20c) the large margin of unused capacity renders price increases equally unlikely this year (20d) and possibly for another year or two after that.

(21a) Increases in non-oil commodity prices rose sharply in 1983 (14.3% in SDR terms and 10.4% in dollar terms ), (21b) the rate of increase is likely to slacken this year and next. (22a) The major swing in industrial material prices is typically associated with the period of most rapid recovery in OECD industrial production, (22b) which is likely to be completed during 1984. (23a) Furthermore, the rise in foodstuffs prices was inflated in 1983 by the effects of the US Payment in Kind scheme, (23b) which will diminish this year. (24a) More fundamentally, the growth in production capacity in both industrial materials and in foodstuffs (24b) stimulated by commodity price rises in the 1970s, together with a trend towards reduced intensity of usage for many industrial materials, (24a) has led to a general position of excess supply. (25) Against this background, the medium-term outlook is for a weak trend in most commodity prices.

(26) Thus, the background provided by commodity price rises is more akin to that of the 1960s than the 1970s. (27a) This will not prevent a continuation of the cyclical upturn in world, and more particularly US, inflation, (27b) which has already begun over the last six months or so. (28a) However, it does provide grounds for optimism (28b) that the rise in inflation will fall well short of the more pessimistic views currently being canvassed. (29a) Our forecast for US inflation this year, (29b) at 5% (29a) implies only a gradual rise from current levels; (29c) if anything, (29d) we would place the balance of risk on the lower side rather than the upper side of this forecast. (30) In the United Kingdom the rate of inflation has risen from 3.7% in May and June 1983 to 5.2% by March 1984. (31a) The rate is likely to fall back below 5% in the second quarter (31b) but after this forecasts differ. (32a) Official forecasts are predicting a rate of 4.5% by the end of the year (32b) but most private forecasters are expecting a somewhat higher figure. (33a) The difference can largely be attributed to different assumptions about the behaviour of earnings (33b) which have been running at a steady underlying rate of 7.75% since the end of 1983 (33c) and have shown no signs of declining. (34a) Assuming earnings growth
does not slow down, (34b) the key factors in the outlook for inflation are therefore the behaviour of productivity and the exchange rate.

(35) In Japan, the appreciation of the exchange rate and rapid growth and productivity should keep the rise in inflation in check. (36a) These factors should also be important in mitigating inflation in Germany (36b) provided costs are not raised by a move to a shorter working week. (37a) The inflation rate should also benefit in the summer (37b) when the 1% rise in VAT (37c) introduced in July 1983 (37b) falls out of the year-on-year comparison. (38a) Inflation in France is expected to continue to decline throughout this year, (38b) as the growth of earnings continues to decelerate. (39a) The depth of the recession in Italy has also resulted in a decline in inflation (39b) and a further fall should take place this year (39c) as productivity benefits from the upturn in output.

Text : 84 Current Accounts (IES,11/5/84 p.4)

(1a) Since the last Survey, developments have been sufficiently in line with expectations (1b) not to cause us to alter our forecasts significantly. (2) The main feature of current account imbalances remains the contrast between the US deficit and the Japanese surplus in the final quarter of last year. (3) The forecast involves, in the main, the continuation of this pattern throughout 1984 and 1985. (4a) The exception to this is Germany (4b) where the current account is expected to improve significantly during the current year. (5a) There was a deterioration last year (5b) as domestic demand began to recover, (5c) with import intensive spending on inventories rising particularly sharply, ahead of demand in export markets. (6a) However, export volume began to rise relative to import volume towards the end of the year, (6b) although during the second half of 1983 this favourable development was offset by a fall in the terms of trade (6c) resulting from the strength of the dollar. (7a) Recent monthly trade figures suggest (7b) that the improvement forecast for 1984, (7c) in response to a slowdown in domestic demand growth and some pick up in export markets (7b) is now getting underway.

(8a) The improvement (8b) expected for the French current account between 1983 and 1984 (8c) is equally as large as (8c) that forecast for Germany, (8d) but in the French case much of the improvement has already occurred over the past year. (9a) There was a sharp rise in the volume of exports relative to imports last year (9b) and as a result the current account improved from a deficit of $4.5bn in the first quarter of the year to a small
surplus in the final quarter. (10a) Figures announced for the first quarter of 1984 are much worse (10b) than expected, (10c) but we continue to forecast a further improvement during the rest of this year and in 1985, (10d) as domestic demand growth is forecast to remain depressed relative to the growth in French export markets. (11a) Our forecasts assume (11b) that the French Franc will be realigned downwards within the EMS later this year (11c) in order to protect the competitive position of French industry.

(12) The bulk of the deterioration in the United States and improvement in the Japanese current accounts appears to have occurred already. (13a) The US deficit has almost certainly widened further between the final quarter of 1983 and first quarter of 1984, (13b) but is now expected to stabilise at an annualised rate of around $80bn (13c) as growth rates in the domestic and export markets converge. (14a) Similarly the Japanese current account improved further in the first quarter of 1984, (14b) but the combination of the loss of competitiveness suffered during 1983 (14c) and the adverse trend in the growth of domestic demand relative to export markets is expected to reduce the surplus slightly in 1985.

Text: 85 Inflation (IES,31/5/83 p.3)

(1a) Consumer price inflation in the seven largest OECD economies fell to a year-on-year rate of 4.9% in March, (1b) before most of the impact of lower oil prices had time to take effect. (2a) The 15% fall in oil prices (2b) which occurred in the first quarter of the year (2c) is likely to reduce consumer price inflation by a further 1% to 2% (2d) and should ensure (2d) that the inflation rate continues to decline for some months. (3a) With no substantial further fall in official prices now expected, (3b) even though downward pressures may temporarily re-emerge, (3c) the three most important influences on the rate of inflation over the next year will be the behaviour of exchange rates, non-oil commodity prices and wage costs.

(4) The importance of exchange rate movements is illustrated by the disparities in relative gains from the fall in oil prices. (5) Adverse exchange rate movements, in the form of a renewed strengthening of the dollar, have halved the advantage for many countries, particularly France and Italy and, to a lesser extent, Germany and other European countries. (6a) Only the United States and Japan have derived the full direct benefit of the fall in oil costs (6b) (Canada gained an indirect benefit in that world prices have moved down towards Canadian levels (6c) thus removing the need for Canadian prices to move up ). (7a) Prospective exchange
rate movements, (7b) with a general weakening of the
dollar against the European currencies and the yen, (7a)
should be broadly beneficial. (8a) This will produce an
asymmetrical effect in that US inflation will be less
affected by a fall in the dollar, (8b) as oil and many
other commodities are priced in dollars, (8c) while
Europe and Japan should gain, (8d) resulting in a fall
in the overall weighted average for inflation.

(9a) Wage increases still appear to be decelerating
in most countries - (9b) the year-on-year rise in the
United States is down to about 5%, (9c) Japan is
slightly lower, with the annual 'Shunto' being settled
at about 4.5% for large companies, (9b) while in Germany
the figure is a little over 3%. (10a) Furthermore, the
upturn in wage costs usually lags the upturn in
economic activity, (10b) and the response is likely to
be particularly subdued this time (10c) owing to the
high levels of unemployment.

(11a) The recovery in non-oil commodity prices (11b)
which began in the third quarter of 1982 (11a)
altered early this year. (12a) Barclays' total
commodity price index (12b) (expressed in SDR terms)
(12a) rose by 10.6% between December and April, (12c)
led mainly by metals and other industrial materials.
(13a) The rise is expected to continue, although at a
more moderate pace (13b) as OECD industrial production
accelerates (13c) and manufacturers' stocks are rebuilt,
(13d) and the average increases for the total index this
year is likely to be around 10% in SDR terms. (14a) The
increase in commodity prices in 1984 is expected to be
of a similar magnitude to 1983, (15b) but the impact for
many countries will be softened by exchange rate
movements.

(15a) Thus, in the United States, inflation is likely
to bottom out at about 2.5% in the third quarter (15b)
compared with 4.0% in April. (16) In the United Kingdom,
the annual rate of inflation probably has a little
further to fall from the 15-year low of 4% in April.
(17) The recovery in the exchange rate during April and
May from its low point at the end of March should reduce
the impact on prices of the earlier depreciation. (18)
In Japan, inflation is likely to fall back below 2% for
most of the rest of the year after 2.3% in March. (19a)
Wholesale prices are currently about 2% below their
year-earlier level (19b) and seem likely to fall further
(19c) as the yen appreciates. (20a) The annual rate of
inflation in Germany is expected to fall below 3% in the
early summer (20b) before a 1% rise in VAT in July
pushes the rate up temporarily, (20c) but thereafter
inflationary pressure should continue to moderate (20d)
as the exchange rate appreciates. (21a) The trend in
Italian wholesale prices suggest (21b) the inflation
should decline (21c) following the recent increase (21d)
due to higher taxes.
(22a) The short-term effect of the March economic package in France will be to push annual price increases back into double figures, (22b) as it raised taxes on alcohol and tobacco (22c) and increased public sector charges. (23a) Consequently, the Government appears to have little chance of meeting its 8% target for the inflation rate in 1983, (23b) and by the end of the year the annual rate is unlikely to be back below 10%. (24a) Furthermore, the outlook for wages is not encouraging; (24b) in the first quarter of this year the increase in hourly wages continued to exceed the rate of inflation.

(25a) However, with four of the main industrialised economies likely to have average inflation rates at or below 5%, (25b) the weighted average for the seven largest OECD economies is expected to be about 4.3% this year, (25c) less than half the average for the 1976/82 period. (26) The developing upturn in economic activity is likely to be reflected in some acceleration in inflation through 1984. (27a) However, (27b) unless commodity prices rise much more sharply than we have suggested above, (27a) static oil prices and generally subdued labour market conditions should ensure (27c) that the upturn in inflation is relatively modest until well into 1984.

Text: 86 Demand & Output (IES, 6/9/84 p.3)

(1a) The expected convergence in international growth rates has so far failed to materialise to any meaningful extent, (1b) as European growth has continued to disappoint (1c) and US growth to exceed expectations. (2a) In part, the disappointing European performance is attributable to the effect of strikes (2b) which have resulted in downward revisions to this year's growth estimates for the UK and Germany by 0.7 and 0.5 of a percentage point respectively. (3a) Growth is now expected to pick up a little in 1985 in both countries, (3b) reversing the downward distortion to this year's figure, (3c) but to remain generally modest at around 3%. (4a) Growth in France remains even weaker (4b) and no significant recovery is expected (4c) until policy becomes stimulative early in 1986. (5a) This should then reduce the extent (5b) to which France is a drag on the European recovery. (GRAPH 5)

(6) In marked contrast, forecasts of US and Japanese growth have been revised upwards. (7) The US economy continued to dazzle during the first half of the year with a growth rate far in excess of expectations. (8a) Some slowdown, (8b) to a rate of perhaps 5%, (8a) still seems likely over the second half of the year - (8b) a view supported by the rise in US interest rates and slowdown in US real money supply growth - (8d) but, for the year as a whole, growth is now likely to top 7%,
making 1983/84 the strongest first eight quarters of recovery since 1949/1951. (9a) The Japanese growth rate for 1984 has also been revised, up by 0.7 of a percentage point, (9b) due in roughly equal part to stronger US import demand and stronger domestic demand growth. (Table 1)

(10) The differences in the composition of growth across countries have been as marked as the differences in overall growth rates. (11) Table 1 shows the contributions to GNP growth by the main sectors of demand for the major economies over the period 1983 Q1 - 1984 Q1. (12a) The US recovery again stands out as being unique in its breadth across final private sector demand (12b) and in particular because of the very large contribution to growth from the fixed investment boom. (13a) Two other countries have had significant rise in fixed investment spending - (13b) in the UK and Germany investment spending in the first quarter of 1984 was up by 9.9% and 7% respectively (13c) compared with levels in the first quarter of 1983 - (13d) but this pales in significance (13e) compared with the 22.2% rise in the USA over the same period. (14a) Moreover, the pick-up in German investment spending actually occurred in the middle two quarters of last year; (14b) since then, growth has subsided. (15a) Elsewhere, only Japan shows signs of a significant rise in investment (15b) and this is expected to gather strength over the next twelve months.

(16) Divergences in growth patterns have been particularly marked in the contributions to GNP of changes in both stock-building and the foreign balance. (17a) Stockbuilding, (17b) very strong in the USA, Canada and also in Germany, (17c) where it has been the dominant reason for the upturn in output, (17a) has for some time been a depressant influence on growth in France and also in the UK in the first quarter of 1984 (17b) after being fluctuated from a positive to negative factor during 1983. (18a) (In the United States, the stock-building figure was inflated by the transfer of agricultural stocks to farmers under the Payment in Kind scheme, (18b) the counterpart to which was a reduction in government expenditure). (19) Changes to this pattern are expected over the next twelve months. (20a) A roughly zero contribution to growth from stockbuilding is forecast for the USA and Canada next year (20b) and it may well become a negative influence on German growth.

(21a) France and Japan have been the major beneficiaries from improvements in trading volumes (21b) whereas the USA has been the major loser. (22a) The scale of this negative impact on US growth is expected to decline substantially over the next twelve months (22b) as growth in US domestic demand slows down, (22c) whereas Germany is expected to benefit from a more
general pick-up in European demand. (23a) By contrast, trading volumes are expected to become a negative influence on Japan in 1985 (23b) because of the stronger rate of domestic demand growth forecast for next year. (24a) France, however, will probably remain a net beneficiary from changes in external trade volumes (24b) since its rate of domestic demand growth, (24c) although improving, (24b) is likely to remain below average.

TEXT:  87 Current Account  (IES, 6/9/84, p.4)

(1a) The major change to our current account forecast since the last survey is an upward revision of the expected US current account deficit for this year and 1985, (1b) reflecting both an upward revision of the trade deficit and a small downward revision of the invisibles surplus. (2a) The latter primarily reflects reduced net investment income (2b) as a result of the deterioration of the US net foreign asset position. (3) The expected further deterioration in the trade account from an annualised rate of around US$100 billion during the first half of the year reflects the impact on competitiveness of the recent strength of the dollar and the expected continuing divergence between US domestic demand growth and growth in US export markets. (4a) The impact of the deterioration in the US trade balance on other countries can be traced (4b) using OECD statistics on bilateral trade balances (4c) which are available up to the first quarter of this year. (5a) Of the US$70 billion deterioration in the US deficit between the first quarter of 1983 and the first quarter of 1984 (from US$32 billion to US$103 billion at an annual rate), the rest of the OECD area benefited by almost US$40 billion (5b) and the non-OECD area by just over US$30 billion, (5c) roughly in line with the 60/40 geographical split in US imports.

(6a) Within the OECD area, Japan has benefited by almost US$11 billion (6b) and this has been reflected in the improvement in Japan's overall trade balance. (7) For the EEC, however, an improvement of US $15 billion in the bilateral trade balance with the United States was reduced to an overall trade balance improvement of only US $6 billion by a deterioration in balances with the rest of the world - in particular with Comecon.

(8a) The magnitudes will no doubt be subject to revision (8b) as more detailed trade figures become available. (9a) However, the figures so far probably provide a reasonably good guide to the general pattern of changes in trading patterns this year - (9b) namely that Europe is failing to benefit fully from the increasing US deficit (9c) and that the bulk of the benefit is accruing to Japan and developing countries. (10a) The net result is a forecast (10b) that the OECD's
trade balance with the rest of the world will deteriorate by about US $ 35 billion this year.
(11a) This is slightly larger than the improvement of about US $ 25-US $ 30 billion (11b) forecast for the non-OECD area, (11c) based on expectations for the major developing countries, (11d) and implies a slight widening in the world trade balance residual. (12a) Because of difficulties in recording payments flows, (12b) variations in the residual are by no means uncommon - (12c) on OECD figures, (12d) the trade balance residual has fluctuated between US $ 10 billion and US $ 37 billion during the last five years. (13a) However, if the residual were to be kept to last year's level, (13b) the main risk to our forecasts is probably (13c) that European balances would improve more than we have forecast.

Text: 88 Employment Conditions  (UK-ES,29/6/84, p.3)

(1a) Labour market conditions so far this year have been disappointing, (1b) with adult unemployment having risen in five out of the last six months (1c) to stand in May at 3,028,600 or 12.7% of the labour force. (2a) The average increase over this period of 15,000 a month compares with an underlying rise of under 5,000 a month in the previous six months, (2b) and follows an estimated increase in employment of some 200,000 in the last three quarters of 1983.
(3a) An optimistic interpretation of developments so far this year would be that the renewed rise is temporary, (3b) especially as the peak rise occurred in the first quarter of the year, (3c) when output growth also appears to have been temporarily depressed. (4a) The number of hours worked in the first quarter of 1983, (4b) and the number of hours lost (4c) due to short-time working increased by over 30% in the same period.
(5) The position for more recent months appears somewhat better. (6a) The three months to May saw the underlying rise in unemployment slow to an average of 8,000 a month, (6b) whilst the level of vacancies notified to Job Centres recovered in May, (6c) following a sharp fall between December and February. (7a) However, the fundamental problem remains the prospective rise in the labour force, (7b) estimated by the Department of Employment to increase by 500,000 over the next four years, (7c) so that the unemployment total is unlikely to fall by much.

Text: 89 Inflation  (UK-ES 29/6/84, p.3)

(1a) Since the autumn of last year the retail inflation rate has hovered around the 5% mark, (1b) the increase in the latest 12 months to May being 5.1%. (2a) The Treasury's Budget forecasts envisaged inflation dropping to 4.5% by the fourth quarter of this year (2b)
and then falling to 4% in the first half of 1985. (Table 3)

(3a) As Table 3 makes clear, (3b) the Treasury's forecast envisaged a drop in food price inflation to just 3% by the end of the year, (3c) partially offset by an acceleration in the rate of increase of nationalised industry prices (3d) (although still being kept below the overall inflation rate) (3c) and housing costs (3e) (reflecting the combined impact of changes in rent, rates and mortgage costs). (4a) These factors apart, (4b) the 'underlying' rate of inflation, principally the price of traded goods in the private sector, was seen by the Treasury (4c) as falling from 5% at the end of 1983 to 4.5% by the fourth quarter of this year.

(5a) So far this year it has been the behaviour of food prices (5b) which has kept the annual increase in the index above 5%. (6a) These increased by almost 8% in the year to May, (6b) which in turn was due to seasonal food prices - (6c) higher by almost 30% of the year. (7a) Excluding seasonal foods, (7b) all other items in the retail price index have been rising at around 4.5%. (8a) There are already signs that the pressure on seasonal food prices is easing, (8b) and given a normal harvest (8c) a rapid deceleration in the annual rate will be evident in the second half of this year. (9a) Even if the Treasury's view on food prices proves a little optimistic, (9b) if this factor alone were the cause of a small overshoot in their inflation target, (9c) it would hardly be a cause of particular concern for the broad anti-inflation strategy.

(10) Of more fundamental significance will be the behaviour of manufacturers' costs and unit labour costs in particular. (11a) The underlying increase in average earnings has remained just below 8% for some months now, (11b) but the impact on labour costs has been substantially offset by strong productivity growth. (12) In manufacturing industry in particular, the underlying increase in earnings of 9.5% compares with a rise in wages and salaries per unit of output of just 2.5% in the year to the first quarter. (13a) The extent of further productivity improvements will be a key factor (13b) determining the inflation profile over the coming year, (13c) as there are few signs (13d) that earning growth will abate significantly. (14a) Indeed, average wage settlements in the private sector may be drifting upwards slightly, (14b) with fewer settlements being reported below 5%. (15a) Although productivity gains should continue through this year (15b) they are unlikely to be repeated on the scale of last year, (15c) when productivity in manufacturing industry rose by 6.5%. (16a) Manufacturing employment is now falling less sharply, by 2.0% in the year to April (16b) compared with over twice that rate in the previous year, (16c) and a more marked recovery in output will provide only a partial offset. (17a) However, this source of pressure
should be seen as a 'normal' cyclical one, (17b) and the important point is (17c) that by past standards,
(17d) even those of the sixties, (17c) the acceleration
in labour costs will be decidedly modest. (GRAPH 3)

Moreover, this should be countered in part at
least by an easing of other cost pressures. (19a) The
weakness of the world economic upturn is already
pointing to a similarly weak commodity price cycle,
(19b) which may already have passed its peak. (20a) And
although the weakness of the exchange rate is at present
a source of concern, (20b) the fall in sterling's
tradeweighted index has been more constrained than its
slide against the dollar. (21a) Inflation this year
should move close to the Treasury's own forecast of 4.5%
(21b) and even if the prospect is, on balance, for some
modest pick up next year, (21c) an inflation rate not
much more than 5% would still represent a real
achievement at this stage of the cycle (21d) and be
consistent with a declining trend. (22) Moreover, a
lower outturn would come as no real surprise in current
conditions. (23a) The last two CBI surveys in May and
June could already be regarded as something of a
surprise, (23b) for the balance of firms (23c)
forecasting higher prices (23b) was reported to be the
lowest since 1983. (24a) As the CBI commented (24b)
"the decline in the proportion of firms (24c) expecting
to raise prices (24b) is widespread across the different
sectors of industry, (24d) suggesting (24e) that rises
in manufacturers' selling prices could return to the
historically very low levels of earlier last year".

(25a) On the external front the last few weeks have
seen a marked weakening in oil prices, (25b)
notwithstanding developments in the Gulf. (26) At the
very least the supply/demand balance in the oil markets
points to no rise in oil prices right through the
current world economic cycle.

Text: 90 Balance of Payments (UK-ES 29/6/84, p.4)

(1a) A clear improvement in UK export performance has
been apparent since the fourth quarter of last year,
(1b) based on strong growth in world trade and an
improved competitive position. (2a) However, although
visible trade was broadly in balance in the fourth
quarter of 1983 (2b) and recorded a deficit of only 59
million pounds in the first quarter of this year, (2c)
this owed much to a strong rise in the oil surplus (2d)
which amounted to 4.4bn pounds over this period. (3a)
Faster growth in exports in recent months has limited,
(3b) but not prevented, (3a) a further rise in the non-
oil trade deficit, (3c) which stands at 4.4bn pounds
over the first five months of this year. (4a) Moreover,
recent figures have served to highlight the continuing
crucial importance of oil, (4b) in supporting the
current account. (5a) The switch to oil burning by the precautionary stockbuilding (5b) induced by the escalation of the Gulf War, (5a) led to a sharp fall in the oil surplus in April and May. (6a) The impact was particularly marked in April (6b) when it coincided with a strong rise in non-oil imports, (6b) resulting in a record 838 million pounds visible trade deficit.

(7a) The expected rise in the oil surplus this year (7b) as oil production peaks (7a) may, therefore, be severely limited. (8a) Although any estimates are tentative, (8b) a rough-and-ready (TABLE 4) (8b) guide would be (8c) that the increase in oil consumption (8d) caused by the miners’ strike (8c) is likely to reduce the oil surplus by 100–150 million pounds per month.

(9) Nevertheless, the deterioration in visible trade should be limited during the rest of this year. (10a) Non-oil exports should remain buoyant (10b) as world trade expands, (10c) and given the expected subdued response of commodity prices to world economic recovery (10d) any deterioration in the terms of trade should not prove serious. (11a) Although import growth is likely to remain strong, with a possible shift away from consumer goods towards industrial imports, (11b) any widening of the non-oil trade deficit is likely to be modest. (12a) The current account should also benefit from an improvement in invisible trade, (12b) resulting in part from increased returns on the heavy outflow of portfolio capital and the recent decline in the pound against the US dollar.

(13a) Next year non-oil trade is likely to deteriorate further (13b) as domestic demand growth remains relatively buoyant. (14) However, some rebound in the oil surplus and a further improvement in the performance of invisibles should keep the overall current account in small surplus.

Text: 91 Employment (UK-ES, 8/10/84, p.3)

(1) The blight on the economic scene continues to be the trend of unemployment. (2a) Adult unemployment has risen by approaching 150,000 over the past 12 months, (2b) with the rate accelerating recently. (3a) However, this may be explained, in part at least, by the substantial rise (3b) taking place in the working population -(3c) higher by perhaps 250,000 both this year and next. (4a) Employment has risen significantly, notably in the service sector, (4b) where in the year to March 1984, employment is estimated to have risen by 335,000, (4d) whereas manufacturing employment declined by 103,000. (5a) Although there was some stabilisation in manufacturing employment in the second quarter, (5b) the growth in the number of jobs will probably be
concentrated in the service sector. (6a) In any event, with economic growth continuing at no higher a rate than over the past year, (6b) unemployment seems set to continue to rise over the coming year. (7a) With the working population growing by 1% (7b) it would require an increase in GDP of some 4% to prevent it. (GRAPH 5)

Text: 92  Inflation  (UK-ES, 8/10/84 p.2)

(1a) The rise in the annual inflation rate to 5% in August from 4.5% in July has brought the rate back to the level (1b) which has prevailed for most of the past 12 months. (2a) Although the Treasury's Budget forecast of 4.5% in the year to November is now unlikely to be achieved, (2b) the small overshoot will be more than accounted for by the recent rise in mortgage interest charges, (2c) which added 0.9% to the index.

(3a) Recent evidence supports the view (3b) that inflationary pressures will remain subdued, (3c) with the underlying rate remaining much lower (3d) than forecasts made by most commentators at the time of the Budget. (4a) Increases in seasonal food prices have already fallen to an annual rate of 11% in August from a peak of almost 39% in the spring, (4b) and seem certain to decline further in coming months. (5a) In addition, the abolition of the remaining 1% National Insurance Surcharge in October is likely to restrain output price increases, (5b) particularly as manufacturers and retailers of consumer goods may, at this stage, be more concerned with maintaining sales volume (5c) than raising profit margins. (6a) Apart from these short-term influences, (6b) the key to the inflation profile over the coming year will be the impact of the recent weakening in the exchange rate and the behaviour of unit labour costs.

(7) The recent fall in sterling has renewed concern about the impact of import prices on the inflation rate. (8a) However, the decline in the exchange rate so far this year has been around 7%, (8b) not so alarming (8c) if compared with previous periods of sterling weakness. (9a) In the October 1982-March 1983 period, for instance, the effective rate fell by some 15%, (9b) a movement which did not prevent the inflation rate from falling further (9c) and reaching a low point of 3.7% in May and June 1983, (9d) and the subsequent impact on retail prices during the rest of 1983 remained minimal. (10) Furthermore, the recent decline in sterling has coincided with a significant easing in world inflationary pressures. (11a) Commodity prices, (11b) expressed in sterling terms, (11a) have actually fallen over the last few months, (11c) and the fundamental supply imbalance in the oil market precludes, at the
least, a rise in oil prices. (12) The prospect of subdued commodity prices, therefore, should limit the impact of external pressures on the inflation rate. (GRAPH 6)

(13a) Pay settlements in manufacturing industry continue to be concentrated in the 5% - 6% range, (13b) but underlying earnings growth has fallen from 9.75% at the end of 1983 to 9% in July. (14) This reflects the ending of the rise in overtime. (15a) With little prospect of a decline in wage settlements in the new pay round, (15b) (data on Pay settlements during the current year suggests some upward drift in the average level of settlements towards the end of the round), (15c) the containment of manufacturers' costs will again depend on further substantial productivity improvements. (16a) In the year to the first half of 1984, (16b) output per person employed rose by 4.4%, (16c) but output per person hour increased by only 3.3%, (16d) reflecting an increase in the number of hours worked per operative of about 1.5%. (17) This compares with a productivity gain of some 7% in 1983.

(18) The recorded slowdown in productivity growth is reflected in a pick up in the growth of unit wage costs in manufacturing industry, from an annual rate of 1.5% in the second half of 1983 to 5.5% in the three months to July. (19a) However, we have suggested above (19b) that the preliminary output figures may well have understated the rise in activity. (20a) Recent CBI surveys do not point to any acceleration in cost pressures: (20b) indeed, the reverse is the case, (20c) as the balance of firms (20d) expecting price rises (20c) has declined in recent months.

(21a) With further output growth in prospect, (21b) and little, (21c) if any, (21b) pick up in manufacturing employment, (21d) the increase in unit wage costs is unlikely to be much, (21e) if at all, (21d) above 4% next year (21f) and a prospective inflation rate of slightly above 5% over the winter may prove to be a peak. (22a) Given a likely decline in mortgage rates, (22b) retail price inflation should fall below 5% once again before the end of 1985.

Text: 93 Balance of Payments (UK-ES 8/10/84, p.4)

(1a) The visible trade account has been distorted by the effects of industrial disputes, (1b) but underlying trade performance has been somewhat disappointing. (2a) The surplus on current account has fallen sharply from 2 billion pounds last year, (2b) with most of the deterioration due to the performance of visible trade. (Table 2)

(3) In the second quarter the deficit rose to 1.2
billion pounds from only 59 million pounds in the first quarter. (4a) This largely reflects a fall of almost £800 million in the oil surplus, (4b) which was adversely affected by increased oil consumption (4c) because of the miners' dispute and some precautionary stockbuilding (4d) as a result of uncertainties in the Middle East. (5) The total deficit on non-oil visible trade should be limited. (6a) The weakness of commodity prices has offset the recent fall in the exchange rate, (6b) so that any deterioration in the terms of trade should not prove serious. (7a) Demand conditions in European markets, (7b) which account for over 50% of exports, (7a) should improve; (7c) although the apparent lack of any major improvement in competitiveness (7d) since the beginning of the year is likely to restrain the strength of export growth. (8a) The miners' strike will, of course, continue to limit severely the rise in the oil surplus (8b) as oil production reaches a peak. (9a) the increase in oil-burning by the CEBG will erode net oil earnings by between £100 - 150 million per month, (9b) and if the strike lasts until the end of the year, (9c) the total oil surplus this year will have been depressed by about 1.75 billion pounds. (10a) However, there will be a rebound in earnings (10b) after the dispute ends, (10c) and the recent fall in the pound against the US dollar will also increase the surplus. (11) Every 5 cents fall in the exchange rate boosts net oil export receipt by some 250 pounds million in a full year.

(12) Higher invisible earnings are also likely over the coming year. (13a) The fall in sterling against the dollar will raise the value of tourist receipts (13b) and increase the returns on the heavy outflow of portfolio capital. (14a) In addition, the invisibles account will also benefit from the agreement to reduce Britain's EEC budget contributions, (14b) this year's 457 pounds million rebate, (14c) when received, (14d) will limit the deterioration in the current account, (14e) keeping it close to balance for 1984 as a whole.

(15a) Next year the rebound in oil earnings will offset any further widening in the non-oil trade deficit (15b) resulting from a rise in consumers' spending (15c) when the miners' dispute ends, (15d) and a further improvement in the balance on invisibles should ensure a small surplus on current account.

Text: 94 Motor vehicles (IS, 20/12/83, p.2)

(TABLE)

(1) The UK car market will achieve a record level of sales this year. (2) New registrations of cars and commercial vehicles (CVs) in the first nine months of 1983 were over 17% higher than during the comparable
period of 1982. (3a) However, while UK car manufacturers increased their market share in each of the first three quarters of 1983 (3b) compared with the same period of 1982, (3c) import penetration in the CV market rose significantly. (GRAPH 2)

(4) In the first eight months of 1982, the pattern of production was similar for cars and CVs (see Graph 2).
(5a) Thereafter, CV producers built up production in anticipation of increased industrial activity and new legislation (5b) permitting 38 tonne trucks on UK roads. (6a) These expectations were not realised (6b) and this partly explains the fall in activity rates in 1983. (7a) The car manufacturers increased activity from February 1983 onwards (7b) (April was depressed by strikes) (7c) but their analysis of future demand has proved more accurate (7d) and the upturn has been maintained.

(8a) A recovery in demand for the heavier CVs becomes more likely (8b) the longer replacement purchasing is delayed. (9a) The replacement cycle is expected to turn upwards during 1984 (9b) and will be reinforced by the increase in manufacturing investment (9c) forecast for next year. (10a) Production will rise, therefore, from the low levels experienced for much of 1983 (10b) but competition from European producers will maintain current pressure on prices. (11a) The significant improvement in profitability (11b) usually associated with an increase in demand for the heavier CVs (11c) may be relatively muted (11d) as price discounting is intensified.

(12a) The UK market is believed to retain growth potential (12b) because, in terms of persons per car (12d) (3.6 in 1982), the United Kingdom has a lower population of cars than any comparable country in Western Europe. (13) However, the United Kingdom has more cars per square mile than France or Italy. (14) Furthermore, income growth and employment prospects, particularly amongst the non-car owning public, are not expected to improve for the foreseeable future. (15a) In 1984 it is unlikely (15b) that this year's record sales will be exceeded. (16a) UK manufacturers will probably maintain their market share at around 45% (16b) as the broad range of new models (16c) introduced in 1982/3 (16b) consolidate their positions in the market. (17) However, much depends on the policy of the multinationals with respect to 'tied' imports. (18) Competitive pressures will not ease (18b) and individual manufacturers will continue to face a potentially uncertain future.
(TABLE)

(1a) The divergent trend between consumer's expenditure on clothing and footwear and apparent demand (1b) (UK manufacturers' output minus exports plus imports), (1c) which began in 1982, (1a) continued in the first nine months of 1983 (1d) (see table). (2a) The margin between the two is now so large (2b) that it cannot be explained solely by retail destocking. (3) It now seems likely (3b) that flaws in official statistics have contributed to this discrepancy. (4) One possible source of error is the Retail Price Index. (5a) The actual rate of increase in clothing prices may have been higher (5b) than official statistics suggest (5c) (which is virtually no increase in the last three years). (6a) If this is the case, (6b) the volume rise in retail sales of clothing in the last two years will have been overstated.

(7a) A second possibility is (7b) that the output of around 5000 UK clothing and footwear manufacturers, (7c) who each employ fewer than 25 people (7d) and who are not questioned in the compilation of the quarterly index of production, (7b) may have been underestimated. (8a) Such enterprises, (8b) which account for around a fifth of the industry's output, (8a) might be expected to respond more flexibly to an upturn in demand. (9a) Anecdotal evidence certainly implies (9b) that activity has been higher in many areas of production this year.

(10) Extreme weather conditions have lent impetus to consumer demand for footwear in 1983. (11) In the eight months to August, the volume of retail sales was nearly 10% higher than in the same period of 1982. (12a) Apparent demand has grown more slowly (12b) with a rise of around 2% in total supplies to the UK market being accounted for by a 3% rise in imports. (13a) Although UK manufacturers' deliveries have been virtually unchanged this year, (13b) their average industry's workforce has increased from the low point of last winter (13c) and the number of workers on overtime has doubled. (14a) Against this background, we believe (14b) that the number of shoes actually manufactured in 1983 will rise by around 5% (15a) Demand is expected to grow by around 2% next year, (15b) leading to a further increase in manufacturers' output of around 1%. (16a) However, the United Kingdom is one of the few unprotected footwear markets worldwide (16b) and in the absence of restrictions, (16c) competition from cheap imports is virtually certain to ensure (16d) that the UK footwear industry's longer term outlook is one of decline.

(17a) Clothing employment has also risen slightly this year (17b) and overtime working in the sector has increased. (18) A positive balance of over 20% of respondents reported increased production in each of the
last three quarterly CBI Industrial Trends Surveys. (19a) Moreover, several retail chains (19b) noted for their 'Buy British' policies (19a) have reported substantial increases in sales. (20a) Nevertheless, official statistics show only a marginal increase in output in the first half, (20b) with the index weakening to its lowest level to date in the third quarter. (21a) Deliveries by domestic manufacturers have fallen again this year (21b) and order books have shown little sign of recovery. (22a) Industry sources suggest (22b) that activity may have been higher (22c) than government statistics imply. (23a) However, the gulf between the measures of demand and production is so great (23b) that even after allowing for a degree of understatement of production, (23c) UK clothing manufacturers must have failed to take full advantage of the upturn in demand. (24a) Consumers' expenditure on clothing may grow by about 3% in 1984, (24b) continuing to exceed the rate of growth in overall consumer demand. (25a) Although imports may secure a higher proportion of this increase than domestic manufacturers, (25b) the latter, (25c) who have already benefited financially from the severe rationalisation of recent years, (25b) should continue to make progress with an increase in output of about 1%.

Text: 96 Retailing (IS, 20/12/83 p.3)

(TABLE)

(1a) Despite static 'real' incomes, (1b) consumers' expenditure rose by approximately 4% in the first three quarters of this year (1c) compared with the same period of 1982. (2) This buoyancy in spending has been financed by increased consumer borrowing and a sharp reduction in savings. (3a) Total new credit increased by 18.6% in the first half of this year, (3b) and in the second quarter the savings ratio fell to an historic low of 8%.

(4a) As a result of the buoyancy of consumer spending, (4b) total retail sales volume rose by 5.3% in the first nine months of this year. (5a) As can be seen from Graph 3, (5b) the household goods sector has benefited most from these favourable trading conditions, (5c) although in recent months its rate of sales growth has been levelling off (5d) as the strength of consumer demand has spread to other sectors. (6a) In particular, clothing and footwear sales recorded strong growth in June (6b) and although the August figures were disappointing, (6c) the upward trend was resumed in September (6d) when sales reached record levels. (7a) Although this level is expected to fall back, (7b) sales should remain buoyant during 1984. (GRAPH 3)

(8a) In contrast, those sectors (8b) which have benefited least the 'boom' in retail sales (8a) have been food and 'other non-food' retailers (8c) (for
example chemists, confectioners, tobacconists and newsagents, and jewelers). (9a) Their growth is expected to remain below average in 1984 (9b) whereas electricals and recreational goods are likely to remain long-term high margin, growth sectors.

(10a) Despite the overall buoyant level of sales volume, (10b) restocking has not yet begun at the retail level. (11) The ratio of retail stocks to sales fell to an historically low level in the third quarter. (12a) However, it is expected (12b) that this ratio will rise in 1984 (12c) as the rate of growth of retail sales volume slows (12d) and restocking begins.

(13a) Competition remains intense in many sectors of the trade (13b) and this is reflected in the increase in company liquidations: (13c) between the first and second quarters of this year they rose by almost 33%. (14a) The rise was particularly marked in the food retailing sector (14b) where competition is particularly strong (14c) given the underlying static trend in demand.

(15a) The majority of retailers are optimistic (15b) that consumer demand will be strong over the Christmas period (15c) and it is expected (15d) that sales volume will show an increase of around 5.5% for 1983 as a whole. (16a) However, this rate of growth is expected to slow down next year (16b) as consumers cannot continue to reduce their savings ratio indefinitely.

Text : 97 Textiles (IS, 11/6/84 p.3)

(TABLE)

(1) Buoyant consumer demand for clothing, lower interest rates and an active housing market combined to produce stronger demand for textile products in the UK in 1983. (2a) Textile production increased by 1.9% last year (2b) as a substantial recovery in carpet production and more modest gains in wool and cotton yarn output outweighed further declines in other subsectors. (3a) The recovery gathered in momentum (3b) as the year progressed (3c) and, (3d) assisted by modest restocking, (3c) was particularly vigorous in the final quarter.

(4a) However, the rise in UK textile output was weaker than that of overall demand (4b) because UK manufacturers faced increased import penetration. (5a) The value of UK textile imports increased by 20% in 1983 to more than 2.3 billion pounds (5b) and the trade deficit widened to over 1 billion pounds. (6a) Although the main thrust of increased imports came in areas such as cotton fabrics (6b) where UK capacity had already been cut back, (6c) imports made deeper inroads in many other areas. (7) However, a particularly encouraging development in 1983 was the 8.5% increase in wool
textile exports. (8) Another positive sign was the reversal of the UK textile trade balance with the United States from a deficit of 35.8 million pounds in 1982 to a surplus of 12.9 million pounds in 1983. (9a). Elsewhere, however, the picture was not so bright, (9b) with imports from other OECD countries rising by around 20%, (9c) thus maintaining their share of total UK textile imports at over 80%. (9a) This illustrates (9b) that it is not just an inability to compete with LDC-based textile manufacturers (9c) that has forced retrenchment on the UK textile industry. (GRAPH 5)

(10a) Raw material cost pressures intensified in 1983 (10b) as the price of imported cotton rose (10c) in response to a tightening supply position. (11) Wool prices also exhibited a much stronger rise towards the end of the year. (12a) However, the recovery in final demand was probably the overriding influence on trading margins during the past year (12b) because it brought to an end the heavy price discounting (12c) which had been a feature of parts of the UK market for some time. (13a) Correspondingly, recent financial results in the textile sector confirm (13b) that the recovery in profits, (13c) which began in response to rationalisation in 1982, (13b) continued in 1983 with the upturn in trading conditions. (14a) Consumer demand for clothing is forecast to increase by around 5% in real terms in 1984 (14b) and, with the housing market remaining fairly buoyant, (14c) UK demand for textile products should continue to be strong. (15a) Although imports are likely to capture the lion's share of this increase, (15b) UK textile output is forecast to grow by around 2% in 1984. (16a) With raw material cost pressures expected to ease (16b) as the year progresses, (16c) this increase in output should translate into a further rise in corporate profits.

Text: 98 Motor vehicles (IS, 12/11/84 p.2)

(TABLE)

(1a) The recovery in UK vehicle production (1b) which was evident throughout 1983 and the first quarter of this year, (1a) was concentrated entirely in the passenger car sector. (2a) However, although UK car output last year was significantly higher than in each of the previous three years, (2b) it was still 20% lower than the average for the 1970s. (3) Furthermore, production of both cars and commercial vehicles (CVs) has declined during 1984. (4) In the first nine months of this year, UK output of cars and CVs was 8% and 4% respectively below the corresponding period of 1983. (5a) To some extent, this was caused by strikes at home and in West Germany, (5b) but, despite the relative recovery of recent years, (5b) the UK motor
manufacturing industry is still under extreme threat. (GRAPH 1)

(6) An unfavourable short-term outlook for UK vehicle production is also suggested by the underlying demand trends. (7a) As Graph 1 indicates, (7b) the recovery in new car registrations, (7c) which was stimulated by the relaxation of hire purchase controls in 1982 (7d) and the introduction of the 'A' registration prefix in 1983 is showing signs of faltering.

(8) In the first nine months of 1984, new registrations of 'trucks and artics' were 9.3% higher than during the first three quarters of 1983. (9a) However, (9b) although companies may wish to bring forward their CV purchases (9c) to take advantage of the favourable capital allowances (9d) operating during the current fiscal year (9e) and, therefore, demand may remain buoyant up to March 1985, (9a) this effect will be temporary. (10) Moreover, the benefits may well be offset by falling sales in Other CV sectors.

(11a) Where growth in the UK vehicle market has occurred, (11b) a disproportionate amount of the benefit has gone to overseas manufacturers: (11c) import penetration of the 'trucks and artics' sector during the first half of 1984 reached 33% (11d) compared with 31% a year earlier. (12) The equivalent percentages for cars and total CVs were 56% and 35% respectively. (13a) Whilst the growth of import penetration has been halted in the car market - (13b) having been 58% in 1982 (13c) imported cars now take around 56% of the market - (13d) foreign CV producers are securing a rising proportion of the UK market. (14) From less than 20% prior to 1978, the market share of overseas CV manufacturers has risen steadily across the whole range of car-derived vans, medium and light trucks, articulated lorries, buses and coaches. (15a) The erosion of UK car manufacturers' share of their home market was halted by new product development (15b) and the introduction of new CV models may achieve the same effect, (15c) but competitive pressure from overseas producers will remain strong.

Text: 99 Clothing and Footwear (IS, 12/11/84,p.2)

(TABLE)

(1a) Recent events in the UK clothing and footwear market have demonstrated (1b) that, whilst retailers are prepared to utilise the newly achieved flexibility of UK manufacturers (1c) in order to maintain low inventory levels, (1d) their propensity to import continues to increase.

(2) Retail sales of clothing and footwear increased by an exceptional 9.4% in real terms in 1983. (3) Particularly buoyant conditions during the final quarter and the prospect of further expansion during 1984
encouraged retailers to place a high volume of orders with overseas suppliers. (4a) However, whilst imports surged in the first quarter, (4b) UK demand fell short of expectations (4c) and it was the domestic clothing and footwear industry (4d) which suffered a decline in business. (5) As a result, UK output fell by 4.4% (see Graph 2). (GRAPH 2)

(6a) Retail sales recovered strongly in the second quarter, (6b) rising by 8.5% in real terms. (7a) This led to an increase of 2.4% in UK manufacturers' deliveries, (7b) but its speed also encouraged retailers to maintain orders with overseas suppliers. (8a) However, imports probably also benefited from the Government's decision (8b) to bring forward VAT payments on imports, (8c) companies exploiting this potential cash flow advantage before the November deadline.

(9) Import penetration has been most severe in the footwear sector. (10a) Consumer demand remained strong during the first half of 1984, (10b) with retail sales 7.2% higher in real terms than in the same period of 1983. (11a) However, imports increased sharply to claim an unprecedented 51% market share in value terms (11b) and a modest recovery in UK footwear production was reversed. (12a) Furthermore, if trade rumours (12b) that the Government is planning to introduce VAT on children's shoes (12a) prove correct, (12c) then this sector could well experience a sharp increase in price competition, (12d) with the probable result (12e) that domestic manufacturers would lose market share.

(13a) The clothing sector has been less severely affected by import competition recently, (13b) output having recovered by 3.2% in the second quarter (13c) following a 3.8% decline in the preceding three months. (14a) Although it has been suggested (14b) that recent US legislation curbing imports (14c) originating from certain developing countries (14b) could lead to an intensification of import price competition in the UK market, (14d) this is likely to be a temporary factor, with only a limited effect. (15a) However, a more permanent switch in orders could occur (15b) because of the new VAT regulations (15c) and this should contribute to an increase in UK clothing production of around 1% this year. (16a) In 1985, a gradual reduction in interest rate should lead to more stable consumer demand growth (16b) than has been experienced in 1984. (17) As a result UK manufacturers are expected to increase their output by 2% next year.

Text: 100 Retailing (IS, 12/11/84 p.3)

(TABLE)

(1a) The retail trade enjoyed particularly buoyant trading conditions in 1983, (1b) sales volume rising by 5.3%. (2a) As real incomes rose by only 1.9%, (2b) most of this growth was financed by increased consumer
borrowing (2c) following the abolition of hire purchase controls in 1982 and a progressive reduction in interest rates. (3) As a result, new credit advanced by retailers, finance houses and other specialist consumer credit grantors rose by 15.5% in 1983.

(4a) Consumer spending continued to be financed primarily by borrowing in the first half of 1984 as well: (4b) new credit advanced reached a record level of 1.03 billion pounds in May (4c) and this contributed to retail sales volume being 4% higher in the second quarter of this year than in the corresponding period of 1983. (5a) However, with a subsequent increase in mortgage rates reducing discretionary income amongst home buyers (5b) and other interest rates increasing sharply, (5c) a slowdown in consumer borrowing occurred during the summer. (6) In August, new credit advanced was 4.6% lower than in July and almost 10% below the peak May level. (7a) Consequently, the rate of growth in retail sales volume has slowed down: (7b) in the third quarter of 1984 retail sales increased by 0.5% (7c) compared with a 2.9% rise in the previous quarter.

(GRAPH 4)

(8) The deceleration in the rate of growth of sales during 1984 has varied between individual retail sectors. (9a) The slowdown has been particularly marked in the household goods sector, (9b) where sales grew by only 3.8% in the first eight months of 1984 (9c) compared with a rate of growth of 10.5% for 1983 as a whole, (9d) the sector having led the 'boom' in retail sales in that year (10a) Currently, the clothing and footwear sector is recording the strongest gains in sales volume (10b) as the 'boom' in consumer durables has faded. (11a) As can be seen in Graph 4, (11b) even though clothing and footwear sales in August, (11c) they were still 11.1% higher than in August 1983. (12a) Despite this high rate of growth, (12b) competition has remained intense, (12c) especially in the women's wear sector (12d) where current interest is focused on the 25 and over age group. (13a) Conversely, it has been the flat trend in demand (13b) which has promoted very strong competition in the food retailing sector.

(14a) It is expected (14b) that retail sales volume growth in 1984 as a whole will be about 3%. (15a) During 1985, retail sales are expected to grow broadly in line with the rise in real incomes (15b) as consumers seek to reduce the rate of growth of their debt service payments. (16a) Therefore, with real incomes likely to increase by about 2.5% next year, (16b) retail sales volume will probably grow at about that rate (16c) (i.e. in line with consumers' expenditure as a whole).
Appendix 3: Some acronyms found in the corpus

AWC : Australian Wool Corporation
ALP : (In Italian: Total liquid assets in the hands of the public)
BIS : Bank for International Settlements
CBI : Confederation of British Industries
CSO : Central Statistical Office
CEGB : Central Electricity Generating Board
CFP : (Brazilian Ministry of Agriculture)
Cif : Cost, Insurance, Freight
Comex : Council of metal exchange
CVs : Commercial Vehicles
DNB : (Dutch Central Bank)
EEC : European Economic Community
EMS : European Monetary System
EIU : The Economist Intelligence Unit
Enaf : (a Bolivian Smelter Company)
FY : Financial Year
FAO : Food and Agriculture Organisation
Fed : Federal Reserve Bank (US Central Bank)
FCA : Financial Corporation of America
GDP : Gross Domestic Product
GNP : Gross National Product
GSA : United States General Services Administration
IISI : International Iron and Steel Institute
IPAI : International Primary Aluminium Institute
IRSG : International Rubber Study Group
IMF : International Monetary Fund
IEA : International Energy Agency
INSEEB : Institut National de la Statistique et des Etudes Economiques
ICAC : International Cotton Advisory Committee
ITA : International Tin Association
INRO : International Rubber Organisation
IBF : International Banking Facilities
IWSG : International Wool Study Group
Iscor : (a South African Mining Company)
ITC : (defunct) International Tin Council
ICA : International Coffee Agreement
INRO : International Rubber Organisation
LDC : Least Developed Countries
LME : London Metal Exchange
MB : Metal Bulletin
Mo,M1,M2,M3 : measures of money supply
MIM : Mount Isa Mines in Australia
MLR : Minimum Lending Rate
Mn : million
MTFS : Medium-Term Financial Strategy
NICs : Newly Industrialised Countries
NODs : Non-oil Developing Countries
NNI : Netherlands National Income
<table>
<thead>
<tr>
<th>Abbr.</th>
<th>Description</th>
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<tbody>
<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
</tr>
<tr>
<td>OPEC</td>
<td>Organisation of Petroleum Exporting Countries</td>
</tr>
<tr>
<td>PSBR</td>
<td>Public Sector Borrowing Requirement</td>
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<tr>
<td>PIK</td>
<td>Payment in Kind</td>
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<tr>
<td>SBR</td>
<td>Styrene Butadiene Rubber</td>
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<tr>
<td>SDR</td>
<td>Special Drawing Rights</td>
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<tr>
<td>SLI</td>
<td>Starting, lighting and ignition</td>
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<tr>
<td>Saar</td>
<td>Seasonally - adjusted annual revenue</td>
</tr>
<tr>
<td>TDD</td>
<td>Total Domestic Demand</td>
</tr>
<tr>
<td>USDA</td>
<td>United States Department of Agriculture</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<tr>
<td>USBM</td>
<td>United States Bureau of Mines</td>
</tr>
<tr>
<td>USSR</td>
<td>Union of Soviet Socialist Republics</td>
</tr>
<tr>
<td>US</td>
<td>United States of America</td>
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<tr>
<td>UK</td>
<td>United Kingdom</td>
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<tr>
<td>USGSA</td>
<td>United States General Services Administration</td>
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<tr>
<td>VAT</td>
<td>Value-Added Tax</td>
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<tr>
<td>WBMS</td>
<td>World Bureau of Metal Statistics</td>
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Edited broad transcription of an interview conducted by
the Researcher (R) with Miss Cathy George (C.G.), editor
of the Abecor Country Reports and Mr Robert Miller
(R.M), Economist Assistant with the Group Economics
Department, Barclays Bank

Venue: Barclays Bank International, Group Economics
Department, Fenchurch Street, London

Date: Thursday, 7 June 1984 (2.00 - 3.00 pm )

R: Could you please tell me what your role is in the
Publication section?

C.G: Yes... I read everything that we publish. Obviously
there is a lot of material we write for the bank:
in-bank reports for the board of General
Management. I don't see everything that the
Department writes but anything that is published
and sent to people on the mailing list, I read...We
have just one person in some ways who is doing it
so that we've got an overall departmental style.
It's not something which is not necessarily right
or wrong. We try and have a straightforward
workman-like sort of English. There's a slight
emphasis on English in the Country reports rather
than perhaps the more heavily economic financial
ones, because it's a wide readership. Our
readership would be anybody who cares to ask
really. It's not only for the students or
anything but it's for other financial
institutions and anybody who...quite a lot of
teaching departments. It's really in order to get
an overall Barclays style. And this is also more
important in some ways, you've probably noticed on
the Abecor Country Reports that we only write in
Barclays half of these and the other half is
written by other banks which belong with Barclays
to the Abecor, which is the Association of European
Banks Association. These are written mostly by our
'dresner' but also by Belgian Banks and French
ones. Everybody writes about their own country and
the English in those they come in once upon has
been translated from probably what the Economist
has written in his own language. This may be
particularly of interest to you in this context but
once it's been through our Translations Department
as well even though the Economist probably in
Brussels for example has read it through and altered their meanings where interested the English is not really anything we would want to publish. This is a service we do for the other banks and I turn those into as much a general style. So I don't know whether you detect on reading them that some of them are written by other banks. But on the whole, we try and make them look as if it's an Abecor product.

R: So in other words, you edit them.

C.G: Fairly heavily. We don't alter the facts or the view point on the country or anything like that though obviously it would be acceptable to each of the banks... the view point of the economist that one is trying to survey an economy as fairly as possible from international statistics, that sort of thing. That is what I do and what the aim of my reading and editing it is purely. I won't bring you one here along but it's very strange English. The Germans write their sentences backwards and that sort of thing. So, it's very heavily edited at this stage. It's a work I've been doing for five or six years and I don't think they ever objected to anything we've done to it. It's a question of translation really.

R: That's right. I have a fair idea about the publications but so far I couldn't see much difference between economic reports, country reports, surveys and reviews.

C.G: No ... The most standardised ones I should think are the Country Reports for the reasons that we've got to have an overall view, really. The economic reports which are supposed to be written entirely by this department, you mean the surveys?

R: The surveys, yes.

C.G: Those the writer has... it's more in-depth really because we're writing about our own country and we're writing about financial markets and it's monitoring... it's Barclays view, if you like... In some ways It's Barclays' economists' view. Therefore they've got to go into more depth and they would explain why they reason and that sort of thing because it's more on the line of perhaps Stock Brokers' reports. I don't know whether you've seen any of those...

R: No.
C.G: But the economists...the economic ones, are more the product of this Department.

R: Yes.

C.G: And therefore they're longer and they are left more up-to-date because of monetary markets. They're useless and they totally supersede each other one by one at the end of the year. I think probably we put the emphasis on the first, on the economic reports. Because you know one's prestige would stand by those if we are predicting that interest rates are going up or down or something, we'll be very careful about what we say there and we want to keep them up-to-date; as soon as we've written them we put the emphasis on getting them posted off to people before anything else happens, you know.

R: So I understand you have forecasts not only in the economic reports or country reports but you also have them in surveys?

C.G: I think up to a point they are, yes, cautiously anyway, I mean they wouldn't really be of any use to anybody if they weren't presenting a view of what was going to happen a bit.

R: Yes.

C.G: The Interest Rates ones which is the sort of the elaborate one on that which is the Abecor one, it comes out two or three times a year I think. The representative of each of the banks goes to Brussels and people sit round the table and thrash out what they're going to say in that report and bring it home, we print it as soon as we can but it's really partly an exercise where the economist in each of the banks discusses their point of view of what or how they see the dollar behaving over the next few months for example. That one is the only consensus one really but it's a little bit complicated sometimes to get an agreed view. I think they wouldn't probably put it out if people couldn't see things going much the same way.

R: What do you think is Barclays Bank's motivation for issuing forecasts?

C.G: Yes, I think you're putting more emphasis on forecasts than... perhaps I am than it's fair to say. It's really a reasoned argument about how we see our point of view of the economy. It wouldn't in any way be a forecast that people were
necessarily supposed to be acting on or anything. It's just the way we would see it. And some of them... Yes, that one is difficult. I would like to defer that. I'd like an economist to answer and I might ask my colleague to come in and we'll come back to that one of late.

R: Okay, fine yes.

C.G: It's a little dangerous issuing forecasts as such people would act on. So we haven't got a particular motivation I think. It's just you can't put out a report without any conclusions. And it would arise after the reasoned argument in the report, I think.

R: Yes, I understand that in Abecor Reports or in the Surveys the conclusions would be in the form of forecasts?

C.G: Yes, yes.

R: And you don't have any particular readers or any particular readership in mind?

C.G: No, just anybody intelligent who wants, who's interested in receiving them.

R: And also perhaps you don't expect, you don't have any expectations on the part of the readers?

C.G: No, no.

R: Not at all?

C.G: No.

R: Oh, I see.

C.G: It's a two-way thing. Occasionally we do get letters saying what we could have included in the reports. I think certainly from the Abecor reports in other banks' readership, it's trade-oriented probably, it's companies wishing to trade in a particular country who want to know how a bank which they take for granted I think has a detached point of view, that hasn't got any axe to grind or anything like that... it's you know... it's a straightforward assessment of the economies as they could receive. They would probably want to just see a viewpoint on the economy but it's... trade comes into a lot I think.

R: Yes.
C.G.: It wouldn't have a practical purpose.

R: So those practical purposes might include things like 'investment' I think.

C.G.: Yes, yes indeed yes. The reports really... they can only be a sort of launching pad. You read that the, you read up to the extension at the bottom... you have it if you wish to discuss with an economist or write to the bank if you want more details or if you really were going to act on it you will probably want to know a lot more.

R: Or perhaps it might also be a warning saying that well don't invest in that country otherwise you'll lose all your money!

C.G.: Well we wouldn't say that but you would gather I think from some of the descriptions that if you put your money in you can't get it out... yes... that's a warning yes...

R: And what kind of functions do economists who write your forecasts have in the bank?

C.G.: This is the lay-out of the people in our department and partly what they do. Some of it is librarian back-up staff and this is all trade section. The economists, probably their prime function, is to advise within the bank, if it's debts, lending and this sort of thing, if you want, as much background information and scenarios as we can. We've got to keep up like anybody else, really with all the literature that is going as a bank. So really all the publications are by-products of the original research work done in the Department and with the econometrics side of it has only well it's been going for four or five years now. That obviously, it's growing all the time. It's a sort of original research.

R: That's interesting, that's very interesting.

C.G.: Of course people specialise in a particular area.

R: Yes, because I thought you might find somebody who's perhaps an accountant and in his spare time then he would write an article for Barclays Review or things like that but I see here that...

C.G.: Not very often. The Review is written generally in the Department but we have had occasional articles of... or articles that would set up future markets but normally it's really the other way round. This
department writes the Review and the Country reports and as a by-product really of the work they do for the bank, there's a lot of interplay obviously between ourselves and treasurers and accountants and the international debts side and the International Finance Division and the continuous meetings and interflow of work and information between ourselves and them, but we exist as part of the Bank first rather than functioning on our own, just to put out the publications, because really there only a small part of the Department's work.

R: And what responsibility does Barclays assume for the reports?

C.G: For the reports? Obviously, it's checked as to the utmost degree of accuracy as far as we can possibly manage. I think there's a disclaimer on the Abecor Reports saying you know we can't actually accept responsibility if we put something like this and something goes ahead like this when it's put down like this. Because much of our materials have got to come from international institutions like the IMF and then we weigh one source of information up against another and try to arrive at a detached assessment. But I think in the end I don't think that the Bank would say it. It couldn't turn around and say Barclays says this therefore it's all right. So in the ultimate degree we aren't, we wouldn't say we are responsible really, it's a forum for discussion.

R: Yes, I understand. And are the writers or the economists aware of differences or perhaps... do you edit the surveys as well because you told me...

C.G: I don't see those necessarily all the time, no. From the English point of view, yes if I can. The overall responsibility for their contents is obviously the Head of Department. Well the overall responsibility for the contents of any of our publications goes in chain up to the Head of Department and after that to Barclays Group Economic Adviser who's Professor Rose.

R: Yes

C.G: Those are very carefully looked at rather more so perhaps than the Abecor Reports which is more of an information exercise I think and of course we would put out what we thought but we wouldn't for
the 'dresner', the dresner arrives at a particular point of view then we publish that because it's prepared by the dresner and if somebody took a different point of view then we could argue it.

R: Now, speaking of the Abecor Country Reports which you say you are looking after the style and things ... are there any stylistic rules really that you follow when editing the reports?

C.G: Ah, yes. It's very difficult. This is where it's interesting to know what you would be aiming for yourself, for economists who write English. I think probably we would aim to... it's English rather than American English, which...we would keep it as simple within the... obviously if they're technical terms then they have to be used, because there is only the one word for particular things. And therefore you have to let them use the word. But not jargon if we can help it. It's a wide readership and it's very easy to slip into jargon even when there isn't any need.

R: Yes

C.G: And I think we would try to make it as plain and workman-like really... there's not very much scope I suppose for an individual's own particular style though that always shows through now. I can tell in the Department who has written the report. But it does vary so really it's a straightforward account. That would be the stylistic one but you wouldn't in the reports...there would be links between subjects if we can do it... and you wouldn't put down a conclusion without saying how you arrived at it... and the reports are written to be read in their entirety. They aren't assuming that the reader has read the previous report, so you use a instead of the if you are talking about a particular project unless you mentioned it before in the report. That's the sort of thing we try to (laughter by R.) which we try to do. Is it something familiar to you? (laughter by both R. and C.G.)

R: Very familiar, yes.

C.G: I hope on the whole that this is what you would find in those... you could pick it up and read it.

R: Yes, and perhaps while writing as for example, you don't assume that the writer, I mean the reader, has read the previous report... Perhaps in your reports at times you try to...say...retrieve
some of the old information perhaps in a way or so?

C.G: If it's relevant, yes. You can't... it depends on your economy.

C.G: It's certainly for some of the developing countries where you... perhaps the statistics are rather older and we only revise them in two years because we are also constrained by the fact that we can't really write more than a hundred a year and therefore we do the more developed...the OECD ones every year and others on a sort of system of priorities which we try to follow the readers'preferences and all that. It's a very difficult problem that we keep looking at in a coverage of those country reports. Whether you cover the ones, the OECD ones very frequently because they are going to get more out of date but within the constraints of labour and time and the other things that everybody else has to do whether it is better to go for reports like Albania and Mongolia of which nobody is ever printing anything. This is the view very much of the other banks anyway. Their readers want reports on Albania and Mongolia because they can't get information from anywhere else. And there's plenty of source of materials on the OECD countries and in any case they're going to get out of date very quickly.

R: I have another stylistic sort of question. I've noticed... because...basically, say in the conclusions in the reports which have the form of forecasts

C.G: yes

R: the language is quite hedged to some extent.

C.G: Yes, it would be.

R: and you have expressions like, you know, "long rates should follow more or less... more or less stable long - term yields are expected to... are to be expected", or perhaps you would say "... a small downward trend adjustment is possible"... or "no significant fall can be envisaged" or something like "bond yields will nevertheless and things and may, and could or are likely to... seems to be the most likely to... so I don't know really... do you have any...

C.G: Yes,(laughter by C.G) this is how the economist handle 'on the one hand' or 'on the other hand' and on the third hand this sort of thing. You can never
pin them down. I think we wouldn't want to make an absolutely definite statement. Because I don't think you can really on those sort of issues, that is probably the stylistic nature of English and of English people. When we get reports from the Germans for instance they say they will do this and they will do that (laughter by C.G.and R.)... we soften all that.

R: You gave a nice account about the articles for example when to use a and the and things like that. Perhaps I thought that your choices of likely or most likely are also constrained...

C.G: That's right you pick up the other things in the reports... they will be in all of them I think even in our financial reports... to actually write it down you won't be going to make this again, this is probably the nature of forecasting you won't make a definite statement. Because, partly I think it's probably impossible to forecast. I think you throw in all the variables and...

R: But at times, it seems to me that will for example is a bit strong, isn't it?

C.G: Yes, that's right.

R: And as you rightly said, say for example, for the reports you get from your German economists who always say will perhaps at places where you would prefer to say likely or something like that and... do you make any decisions to say for example this will can stay or that will can be replaced by can or may, here it's likely... so I would like to know perhaps you might have some criteria, you know, in order to take that decision.

C.G: I think... unless it's a definite fact, I think we probably would hedge it with perhaps and may and especially there again if it's looking into the future those... it's difficult because those are OUTLOOK paragraphs. I'm afraid we probably wind up in some ways and say nothing because it's so hedged but there again you have to leave the reader perhaps to read between the lines. You put forward the warnings if the reader can see it but we don't want to go upsetting the Bulgarian Embassy for example (laughter by C.G. and R.).

R: And I've noticed that in Abecor Country Reports for example that they have a particular layout for example you can even count the number of words, you see. They are fairly standard, you know... that sort of layout is consistent you know from an issue
to another and so forth and also I looked properly at the language and everything and at what we call the structure of ideas and generally on the surface you would see that the predictions are italicised ... highlighted... I've got a copy here..

C.G: I'm interested in that because I thought we only do that in 'Interest Rates'.

R: In Interest Rates.

C.G: They do that there...

R: Interest Rates, yes, the Abecor

C.G: That's the only one I can remember they're italicised.

R: Yes.

C.G: Yes, that's it, that's true, that shows perhaps that's the only thing they're looking for.

R: Ah, so... do you vouch perhaps that's the main message in fact?

C.G: That's right yes. Each of the writer banks says which they want italicised and we follow their instructions to the letter here.

R: And I've also noticed that there's a general pattern mostly in these reports which may be said to start with a description of previous trends or recent trends, followed by a determination of reasons for the recent trends, then assumptions are made for underlying trends and evaluated perhaps before actual predictions are put forward. To what extent is this observation acceptable to you?

C.G: This was the agreed pattern. We're talking only about this one?

R: About this one, yes.

C.G: Yes, this was the agreed pattern I think so it's a very short... think about it... they've only got two hundred or two hundred and fifty words each. They do fit the exact pattern in order that this is all that that's trying to cover and I think we're agreed yes, I think it is... it is an acceptable pattern because this is what everybody agreed that they're trying to cover in this particular paper.
R: Yes, but can you generalise this pattern to other reports such as the surveys we have here? Can you generalise that pattern?

C.G: No, that's specifically for this one.

R: For that one?

C.G: Yes, there they are freer because I think they are talking about what is important to the time and it picks up the particular issues that perhaps are in the mind of everybody then. That's the point of bringing that one out. And we wouldn't do a particular one, perhaps we would do another one...if there was another... something else more important.

R: But language-wise, perhaps we could also find some similarities. In fact you would find perhaps the same sort of hedgings and... perhaps at times also they try to give reasons and why perhaps... and they try to make predictions although the layout of course is not quite like...

C.G: Yes.

R: And I don't know whether this question is really appropriate... why do writers or why do you think your economists have necessarily to describe previous trends before making their predictions about future trends as far as the Abecor Country Reports are concerned?

C.G: I think it's probably the foundation of why they go on then to predict what they do predict.

R: Ah, yes it's a foundation. Yes, that I think is a very useful answer, yes. I wonder if I could also ask you some more questions?

C.G: Yes, yes.

R: There are a few abbreviations that keep recurring here...in the Interest Rates as well as in the surveys perhaps and these abbreviations some of them of course... fortunately you have slotted one OECD and I asked for an explanation and there are some others such as...

C.G: Yes, I was going to say when we abbreviate in the first place we should, ... may be we don't always pick them up... spell it out, before assuming that everybody knows... like LDCs...I think that over the years as people got very used to the
phrase LDC they wouldn't be reading the reports if you didn't know they were 'Less Developed Countries'.

R: ... Countries, yes.

C.G: I think we probably stopped spelling that out but International Monetary Fund once...the IMF... there again we mightn't always pick it up because it is assumed that people would know.

R: Of course what you are saying is noticeable for example here 'Payment in Kind' (PIK), so henceforth you would use PIK instead of... yes all these abbreviations such as M1, M2, M3 etc.

C.G: There again these are the more specialised ones. This and the financial surveys... it wouldn't be regarded as necessarily as... you haven't got room there to define the various wider definitions.

R: Does it mean anything really? the M...? Does it stand for anything?

C.G: That's the... it's a definition of the Money Supply. It's whether it's a broader or a narrower definition.

R: So, this is really very economics like.

C.G: Yes. You wouldn't really read that unless you are an economist, yes, yes.

R: And also, LDC means 'Less Developed Countries', and Fed?

C.G: That's the Federal Reserve Bank... that's the American equivalent of the Bank of England.

R: And in the Netherlands, you have the EMS.

C.G: That's the European Monetary... Snake

R: Is it System perhaps?

C.G: Yes, it's System. It's the alignment of the European currencies where they agreed to stay within a certain band against each other. The Pound isn't in it but quite a lot of them are therefore it's a... if you need some of these definitions I think probably I've got a...

R: A list?
C.G: A little booklet somewhere. I don't know whether I can put my hand on it now, but I'll probably send it to you later on if that can help.

R: I wonder if you could perhaps briefly describe the scenario of Interest Rates. Say, in other words are there any factors usually taken into account when forecasting about Interest Rates?

C.G: Yes, but I wouldn't like to tell you myself but I shall ask a colleague to come and tell you if we get on to Economics I wouldn't like to commit myself... because I don't know I read all this but I'm amazed at myself that I read all this continuously. (laughter)

R: And perhaps this is a sort of general question. How reputable are these forecasts, reports and things?

C.G: I think they're good as anybody's... certainly people... many people whose opinions you would respect would... very good people doing it, enjoy it, also we're talking about the surveys, it's based on a sort of consensus with the Bank of England to start with and other banks and Stock Brokers and General City opinion. Everybody keeps in touch with the dealers and I should think it's reputable as anybody's. Obviously, they could go awry because there are so many factors the entire time... because everything is so hedged that in the end... I think they haven't given a straight answer. Anybody who is, a scientist of any sort or an academic... you've got to weigh all these factors you would be purely ignorant and Daily Mirror... (laughter by C.G. and R.) and you know if you didn't weigh it all in and it's got to be a fair assessment... you can't possibly come up with a straight answer... I do respect that we've got to bear always these factors in mind.

C.G: This is out of date. (handing a Glossary to the Researcher). But it's something that we worked on just for our own internal information... that will probably help quite a bit...

R: Definitely, yes... Thank you very much.

C.G: Otherwise I don't know on the stylistic stuff it's basic... it's really what you like yourself I think. I don't like eg's for example and people putting etc. because they don't want to spell out and they shouldn't be lazy and that sort of thing. It's really to try and get it read properly and I
think that would be down to whatever sort of style you would like to ask people to aim for.

C.G: There's a question on Interest Rates I got stuck on. There's one you had earlier.

R: Yes, there was a question... I wanted to know why you issue forecasts.

R.M: Yeah, it's an old situation with forecasts really, because obviously the function of the Department within the bank itself is to act as a guide towards development of the future bank policy, towards lending to companies, lending overseas. Now in order to act as a guide obviously you have to go... to prevent... if you like to put forward to Senior Management... a sort of... You have to put forward a sort of scenario of what you think is going to be happening over the near term or over the next year or the next few years and also the much more difficult propositions for the next five years or, the next ten years and in doing that obviously you then release your forecast and whatever to Senior Management through various publications and also to various interested parties... Now things such as the financial survey are written specifically for the City of London.

R.M: ... and obviously people like to follow very closely the course of items in the markets and thinking together and if there is any discrepancy of course between say someone's Inflation Forecast for the next couple of years and their Interest Rates forecasts and whatever... they want to know about it. So, really the releasing of forecasts is as much the sort of act as a comparison with other units within the City of London itself like Stock Brokers, you have the London Business School, you have various other banks, National Westminster do so, Lloyds Bank do so... essentially in terms of... compare ourselves with these other units who are involved in forecasting... so we can say well this is our scenario for Inflation, Unemployment, and various factors of Demand over the next years, two years, five years... Have I answered your question?

R: Yes, I understand. Also I understand perhaps that it's a sort of traditional exercise for you, isn't it?

R.M: In many ways, yes. Many people spew up these forecasts all the time because they change like the weather changes... you could have some
developments in money supply for example which will certainly stop people running to look at their Interest Rates forecasts and their Inflation forecasts. Especially having a government which places so much emphasis upon money supply, monetary theory... you've heard of Professor Friedman and his various theories and things (laughter by C.G. and R.) about Money Supply, Inflation. Especially the government we have which places so much emphasis upon following money supply development as a guide to Interest Rates policy and Inflation Policy as well...they are bound you know... people are bound to want a survey...like pre-empt any moves by the government or so by saying " look, Money Supply has increased by so much this month, it's bound to have some sort of impact we've got to change our forecast". So, forecasts change very quickly indeed, people are proud despite the fact... they do quite er...

R: Yes, are there any basic factors that you take into consideration when predicting basically, say about Interest Rates?

R.M: Again, it's mainly things such as the Money Supply that is by far and above the most important thing. A Few years ago, people would say the exchange rate but that as the Government's policy stands at present is important only in so far as it doesn't matter. The government has made it quite clear that they have no exchange rate policy and so although it has to be said towards the end of 1982 and again just recently, Banks have in fact acted to increase their own interest rates in the short-term as a direct result of movements in the exchanges rates...it's always made quite clear as I said by the government that they have no exchange rate policy. So, primarily people look towards the Money Supply as a guide towards Interest rates.

R: Do I understand that Money Supply is in fact the same thing as Inflation, isn't it? The way you're talking...

R.M: It is equated. What is said... this is a great debate. There is much controversy over how various people want to interpret it but at its simplest it is said that we use an equation called Equation of Exchange which was put forward several ... at least a hundred years ago, so it has been around for so long. Essentially grading in it was brought towards the mid 1960s by Professor Friedman of Chicago. If you approach anyone in your Economics Faculty they will certainly guide you through it perhaps better.
than I can do in the very short time we have. It essentially says that any rapid rate of growth in the Money Supply will eventually over a period of...is supposed to be long and variable by up to 2 years. You will then see a reflection in the rate of growth and that of prices. So essentially if you have, say, Money Supply growing very very quickly say two years ago then you would expect to see round about now prices rising. So people... that's the sort of main link that strict monitors would follow.

R: Yes. Speaking of Interest Rates especially, do I understand that when the rates rise or when there is a rise in Interest rates is that good or bad news for the public?

R.M: It depends on which way you're looking at it. Obviously Interest Rates are also the cost of funds to Industry. So, in itself any rise in Bank Base Rates for example, which in a sense is the key one, is obviously likely to increase the cost of money to Industry. Which means that the Investment may be reduced if producers do not think that the return from any investments they are going to make is likely to exceed the cost of the rate of interest then they obviously won't invest. So, a rise in interest Rates is in itself not a good thing, no.

R: Oh, I see

R.M: And of course if you are investing purely in money and obviously if Interest Rates go up then you know you're quite happy to see it happens.

R: And also, reading in the papers I have noticed that you have Short-term Interest Rates and Long-term Interest Rates and what are what you call Bond-yields? Are they a sort of long-term Interest Rates as well?

R.M: Well, again that varies. Essentially short-term rates as you find them here are anything from overnight money to up to about a year. Essentially all that happens in the intermediate rate such as the 3 month interbank rate or the 3 month line board, which is a very important key rate for example lending to say developing countries. All that means when you say 3 month rate is that you are depositing money with another institution for a period of 3 months over which you will receive a certain rate of interest either this institution pay you say 5 pounds per 100 pounds, 5% rate of interest. So, for the right to use that money for a
period of 3 months. Similarly with overnight money where you simply say imagine for example a treasurer of a really big accountant of say the B.P. he suddenly finds that at the end of a day he has to save up to say 2 or 3 million pounds. Obviously he wants to make that money work so he will approach a bank or another company and say to them you know right I have so much money what is the rate of interest you will give me and he will then say give that money to that company. Just for one night in the span of about 12 or 24 hours and he will earn say 10% or something like that you know a very small amount must come back and that's where the rate is important. Whereas Long-term Interest Rates span over twenty years for example.

R.M: ...Various governments issue if you like 'bonds', now...Here what you have essentially is that the Government will sell say something like "Treasury twelve and three quarters guildage stock to nineteen hundred and ninety-five pounds". They are actually called 'gilts' because you know they won't fail and you know the Government will always honour them. And say, a million pounds worth of this particular piece of paper which will give you a rate of Interest of twelve and three quarters percent over a period from now to 1995, now to Two Thousand and one, now to, you know, to the year dot century. It's essentially a way of committing money for a great length of time. That's the distinction between say short rates which simply span up to a year and long rates which are over a year. It can be a year to 30 years.

R: From a year on.

R.M: So, Long rates are normally higher than Short rates of course because you're committing your money longer so you need a higher rate of return. Because you have to commit your money for a lot longer then you obviously want the price to be higher in order to make you do that. That's the difference between Short and Long-term rates essentially.

R: If the Money Supply is say one of your basic indicators for forecasting about Interest Rates, do you have such an equivalent for the metal markets?

R.M: Commodities and things I know nothing about. (It's a pity we couldn't get David Watson.) But commodities are very fundamental to Economics. You know, you think of commodities like Tin or Cotton and all that. These fundamental elements within the Economy, obviously they're bound to be
affected not only by speculation but also on what
is your view of say the future course of world
production. If you're expecting world production to
rise then obviously demand will not be a more
fundamental element in the production process like
commodities...is bound to go up. But offsetting
that you've also got to understand the degree to
which there is excess supply or the possibility of,
if you like, a shortage of supply. As we have seen
for example over the last two years when the world
recession and the commodities prices fell to such
an extent that people actually moved out of
producing commodities and started doing something
else. So, if you feel you have conditions of excess
supply then obviously you are likely to feel that
commodity prices are not going to rise as quickly
as if you felt that supply was a lot closer to
possible demand. So that's the way we look at
commodities and things.

R: Do you know where else I could get forecasts from?

R.M: All the big institutions like the London Business
School, the University of Liverpool with Professor
Mountford, again your Economics Faculty staff
should also be able to guide, through, say your
departmental tutor. People such as the CBI which
is the Employers' organisation in the United
Kingdom, the OECD which is the Organisation for
Economic Cooperation and Development, which is the
big world organisation. That does specific country
reports, very very in-depth reviews of
countries' economies. It would be very interesting,
I think, to compare with our short, briefs that we
do here. Those provide very very extensive...

R: They are very detailed.

R.M: very detailed forecasts, yes... The Chancellor's
budget statement which in the name of the
government is produced in March. That carries the
Government's own official forecast. But bear in
mind you have to pay a lot of money for that if you
have to do this as an individual. You could
approach the London Business School, I suspect even
Liverpool University or the OECD, you have to spend
a lot of money. I think it's best if you asked your
library.

R.M: Another group is such as the National Institute of
Economic and Social Research that produces a
quarterly Review, a big thick book, which again
you can get from your library, your University
library.
R: Also, the Economist Intelligence Unit perhaps.

R.M: They're very expensive, but again very good. So, again most of these things I think if you refer the list to your librarian, they should be able to assist you. And if your library is as good as the one of the University I went to they should be able to direct you very quickly to people like the Chancellor's budget statement and the London Business School, and these various other bodies again your Economics Faculty should be able to provide guidance on this.

R: Or perhaps they even have them but I don't know.

C.G: They're all working documents that nobody can do without them in this field I think.

R.M: Yes, because you use for example a Chancellor's statement you can use it...it is interpreted most minutely... to find some way of interpreting government policies, so the government should be in the sense... what is the government going to do if such and such thing happens. From that, you know you'll be able to find out that forecasting eventually changes accordingly. For example, does the government follow one definition of Money Supply more than another - which of course it does - and you know is it going to then use that to focus on that one sort of guide on Interest Rates policy and Inflation of view. Of course if people start to feel that the government is concentrating on one particular series more than any other, of course their forecasts are bound to change a lot quicker because everyone is focusing on this one specific element all the time and they are trying to, if you like, guess what is going to happen. The government or rather the Bank of England acting for the governments have considerable ability to change Interest Rates or they can act to force them up, they can act to keep them down, which is what we have seen over the last two weeks or something like that. Let's say you reckon on this fact that should be okay.

R: Is there any sort of basic methodology that you follow?

R.M: Again, forecasting all goes back to basic econometric theory, statistical theories that have to do with...what you do is you propose a model of economics...We say right that aggregate demand in an economy is determined by so many different variables and you then take past data, you can go
as long or as short as you like. People like to take a long time for various technical reasons and you then try to estimate say, this model, they parameters of this model by using past data and by then establishing the various parameters of their model and then forecast into the future. So, what's happening actually is that they base their model on what's happening in the past and use it to...

R: extrapolate

R.M: essentially into the future. They often... they don't take those numbers of themselves. They actually use a great deal of judgement. The better forecasting bodies use a lot of judgement and say "well, we don't think this number is going to be quite right, we'll increase that or decrease it by so much and we'll obviously make certain that we'll reduce that by so much over a year ". You know, they're very very cautious. The better people are very very cautious (laughter by C.G. and R.)

C.G: This comes back to... we had a Country Report so that it's analysed in-depth so why is it that we always say may happen and would etc.

R.M: There's no way predictions could be accurate. It's of course a source of some pride for people to get things right. So for example the London Business School I think have been one of the better organisations over the last few years to get things more or less right. When you say right there is obviously a difference. You know, slight percentage difference between what they said inflation would be just recently and what has actually occurred but as long as it's within reasonable limits, you know nobody would really mind. So, the London Business School you know they have been quite accurate over the last few years. They have been very, very good indeed. They have been spot on...

R.M: They have been spot on...that allowing for, you know, a certain amount of error. If they manage to catch up that will be very, very well indeed which is surprising to a number of people.

R: Well, I think I'm really lucky to have had (laughter by C.G and R.M.) to have had a very nice working session really and that's very precious to me and I thank you very much indeed.
APPENDIX 5: Questionnaire to and answers from Specialist and other Informants

Please read the report on Interest rates in France printed below and answer the subsequent questions.

France
The day-to-day money rate in France, which came down half a point—from 12.8% to 12.3%—in the course of 1983, is gradually easing towards the 12% mark. Hopes of a more substantial reduction that had been aroused by news of the excellent results on the foreign trade front and the recent firmness of the franc within the EMS have thus been disappointed. We see here not only the effect of the one-point rise in US rates since last May and the half-point rise in German rates four months later, but also evidence of the cautious policy adopted in the matter of interest rates.

In 1984 French rates will be subject to two countervailing influences. International factors will no doubt be relatively unfavourable. Even if they ease in the first half of the year US rates are unlikely to show a downward trend over 1984 as a whole because of the growing demand for credit in the United States. In addition, any weakening of the dollar could put pressure on exchange rates within the EMS, and this too would check efforts to lower rates in France. Domestic factors, in contrast, appear to be more propitious: the external deficit could again be halved and the rate of inflation should be reduced by about two points this year. All in all, a drop in short rates of around one point may be expected in 1984.

On the bond market, public sector yields dropped 1.4 points in 1983—to 14½—and will probably fall a little further shortly in view of the prospects that now exist of an easing in short-term rates and a reduction in inflation. Moreover, the placement of new offerings, which totalled F 188 billion in 1983, will be facilitated this year by the fact some F 158 billion will be received by investors in the form of repayments of principal and interest on outstanding debt. Yields on the bond market could, therefore also decrease by one point but, even so, real rates would still be over 5%—well above their average level (1.8%) over the past ten years.

(From: INTEREST RATES: Development and Prospects – January 1984; published by Barclays Bank on behalf of Abecor member banks)
I. Referring to the value of underlined items in the text above please simultaneously assess the writer's point of view as to

a) what the chances of fulfilment of the forecasts are which you might like to rank on to a scale of 1 to expressing (1) possibility, (2) likelihood, (3) certainty.

b) how strongly committed the writer seems to be to his forecasts, in terms of (1) weakly, (2) moderately, (3) strongly.

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<thead>
<tr>
<th>FORECAST</th>
<th>Chances of &quot;</th>
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<td>Fulfilment &quot;</td>
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| 1. In 1984 French rates will be subject to two countervailing influences. |
|---|---|---|---|
| 1 | 2 | 3 | 1 | 2 | 3 |

| 2. International factors will no doubt be relatively unfavourable. |
|---|---|---|---|
|   |   |   |   |

| 3. In the first half of the year US rates are unlikely to show a downward trend over 1984 as a whole. |
|---|---|---|---|
| 5 | 19 | 1 | 3 | 18 | 4 |

| 4. Any weakening of the dollar could put pressure on exchange rates within the European Monetary System. |
|---|---|---|---|
| 2 | 3 | 4 | 18 | 11 |

| 5. Any weakening of the dollar too would check efforts to lower rates in France. |
|---|---|---|---|
| 5 | 8 | 12 | 8 | 17 |

| 6. The external deficit could again be halved. |
|---|---|---|---|
| 20 | 5 | 10 | 14 | 2 |

| 7. All in all, a drop in short rates of around one point may be expected in 1984. |
|---|---|---|---|
| 10 | 14 | 1 | 7 | 11 | 7 |

| 8. On the bond market, public sector yields will probably fall a little further. |
|---|---|---|---|
| 2 | 21 | 2 | 4 | 17 | 4 |

| 9. The placement of new offerings will be facilitated this year by the fact that some $158 billion will be received by investors in the |
|---|---|---|---|
| 4 | 21 | 11 | 1 | 23 |
II. Suppose the writer had couched the central forecast "All in all, a drop in short rates of around one point may be expected in 1984" in one of the following ways:

how would you assess the writer's point of view as to

a) the chances of fulfillment of the forecasts in terms of (1) possibility, (2) likelihood, (3) certainty.

b) the extent of Author commitment to the forecasts in terms of (1) weak, (2) moderate, (3) strong.

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<th>FORECAST</th>
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<td>Fulfillment</td>
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| 1. All in all, a drop in short rates of around one point is a **strong** possibility. | 9 | 12 | 3 | 11 | 13 |
|-----|----------------|----------------|
| 2. All in all, a drop in short rates of around one point will *presumably* occur in 1984. | 5 | 16 | 7 | 10 | 8 |
| 3. All in all, a drop in short rates of around one point will *very likely* occur in 1984. | 1 | 9 | 4 | 15 | 11 |
| 4. All in all, there seems to be every prospect that a drop in short rates of around one point will occur in 1984. | 2 | 12 | 11 | 8 | 9 | 11 |
| 5. All in all, there could well be a | 16 | 9 | 12 | 4 |
In this group of forecasts, please evaluate the extent of Author commitment in terms of (1) weak, (2) moderate, (3) strong.

1. The recent economic upturn has resulted in an adjustment of the budget figures for this year. According to the most recent forecasts the deficit as a percentage of net national income will decrease from 11.3% in 1983 to 10.7% in 1984. (ABECOR, I.R. Netherlands, May 1984.)

2. A number of predictions have been made recently and one of the most notable is that produced by the International Rubber Group. This organisation has predicted that demand growth...
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<th>FORECAST</th>
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<td>of 6 per cent for 1983 will occur.</td>
<td>(The Economist Intelligence Unit, WCO/83 p.93)</td>
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<tr>
<td>3. At the time of writing, US prime rates are down</td>
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<td>to 11.5 per cent and will no lower still if the Federal Reserve Board ignores its monetary targets a while longer and cuts its discount rate again.</td>
<td>(The Economist Intelligence Unit, WCO/83, p.2)</td>
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<td>4. Text : CANADIAN DOLLAR</td>
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<tr>
<td>(a) The recent slight weakening against the US dollar is unlikely to unwind before the end of the first quarter of 1984, given the seasonal deterioration in the balance of payments expected over the next few months.</td>
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<tr>
<td>(b) Thereafter there is scope for considerable appreciation of the currency especially if sentiment turns away from the US dollar.</td>
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<tr>
<td>(c) However, our central forecast is for only a mild appreciation against the US dollar.</td>
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<tr>
<td>(d) the current account surplus is forecast to remain small</td>
<td>5</td>
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<tr>
<td>(e) and the Bank of Canada is expected to prefer to see interest rates lower than the currency appreciating strongly in order to avoid any further loss of international competitiveness.</td>
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<td>(Barclays Bank ; IFS, 6/12/83, p.3)</td>
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</table>
IV. What would you say could be some of the reasons governing the use, in Economic Forecasting, of the items we have pointed out above such as will, likely to, would, should, etc.

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<tr>
<th></th>
<th>YES</th>
<th>NO</th>
<th>DON'T</th>
<th>KNOW</th>
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<tbody>
<tr>
<td>a. Their use depends on whether or not the forecaster is totally sure about the future</td>
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<td>2</td>
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<td>b. Because English people like to express their opinions in a cautious or tentative way whether or not they feel strongly</td>
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<td>9</td>
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<td>c. In order to achieve stylistic variation, i.e to avoid the repetition of the same language form such as will over and over again throughout the text</td>
<td>17</td>
<td>6</td>
<td>2</td>
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<tr>
<td>d. Because forecasters need to make their view of the future more acceptable to their intended audience</td>
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<td>7</td>
<td>7</td>
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<tr>
<td>e. Other (please specify)</td>
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1. Economics is an imprecise science, hence the tentative undertone to most economic forecasts. There are few immutable laws, many dynamic constraints.
2. In order to bias their argument in favour of whichever side they are taking in the discussion.
3. In Economic Forecasting, it is very rare for a forecaster to be totally sure of what will happen, and no-one wants to lose his credibility or make fool of himself if he predicts wrongly.
4. Due to the extremely uncertain nature of the economy in general (which is the result of many different factors that affect it), I would say that the language of economic forecasting can only be of the non-committal type.
5. By using likely to, the forecaster is suggesting the possibility of something going to happen, if it doesn't happen e.g. drop in the dollar, then he can't be blamed for a bad forecast due to using likely to rather than will.
6. English people do not like to be proved wrong.
V. From your knowledge of the peculiarities of English usage, would the way in which language forms such as \textit{will}, \textit{should}, \textit{would}, \textit{likely to}, \textit{unlikely to}, \textit{will probably} etc. are used in Economic Forecasting be different from that in

| (a) Everyday English | YES 15 | NO 9 | DON'T KNOW 1 |
| (b) Scientific English | YES 12 | NO 9 | DON'T KNOW 4 |
| (c) Instructional English | YES 17 | NO 3 | DON'T KNOW 5 |
| (d) Legal English | YES 14 | NO 5 | DON'T KNOW 6 |
| (e) Horoscopes, shipping | YES 7 | NO 15 | DON'T KNOW 3 |

and weather forecasts

VI. Please make any additional comments you might have about the language of forecasting in general.

1. More formal than other everyday English. Lot more use of these words, as noted above \textit{would}, \textit{unlikely to}, \textit{could} etc.
2. In Economics, most of the language items you are interested in are surely qualified more often and more extensively than in other usage. This demonstrates only that the writer is hedging his bets. I do not think that this constitutes different usage; it reflects a style or a genre.
3. No difference with Horoscope, Shipping and weather forecasts safe the latter are much more shorter-term.
4. I think that selection and use of these forms reflects personal types as well as national or subject ones.
5. Non-native speakers/authors or translators may be unaware of the range of items available/nuances of meaning.
6. GOING TO is used in weather forecasts. e.g. Temperatures are going to remain below freezing in all parts of England and Wales. This sounds more conversational than saying "Temperatures will remain".

Thank you very much indeed for sparing your valuable time.
Appendix 6: Details of realisation patterns of the schematic structure in the analysed texts

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<th>Text No.:</th>
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Note: * Pattern applies to this text
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Note: * Pattern applies to this text
From World Commodity Outlook; December 1982

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