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REVIEW OF DEVELOPMENTS IN INTERNATIONAL TRADE WITH PARTICULAR REFERENCE TO RECENT CHANGES IN COMMODITY PRICES

Note by the Secretariat

1. Earlier reviews submitted to the Committee on Trade and Development have examined trends in relationships between commodity prices and the prices of exports of manufactured goods, and presented estimates of developing countries' trade balance under alternative assumptions regarding the behaviour of primary commodity prices.¹ This review notes the changes in the overall structure of these prices which have occurred within the last few months.
2. With regard to the disequilibrium presently existing in the international economy, there is, perhaps inevitably, more agreement on the nature and dimensions of disequilibrium than there is on the causes of it. The main elements of disequilibrium remain fairly self-evident; a significant change in the relative prices of petroleum and petroleum products; substantial OECD net deficits on current account with oil-exporting countries; inflation and recession in industrial countries; a fall in demand in industrial countries for all imports, including primary commodities; a downward movement in commodity prices; an expanding trade gap of oil-importing developing countries relative to their GNP; and rapid growth in their capital requirements, which are being accentuated by a decline in their terms of trade.
3. Aggregate commodity prices declined consistently during January-June 1975, for the first time since the commodity boom began in late 1972. The United Nations index of export prices (in dollar terms) of primary commodities including fuels fell by 4 per cent between the last quarter of 1974 and the second quarter of 1975 and by 9 per cent if fuels are excluded. During this period, unit values (in dollars) of manufactured goods exported from developed countries rose by 10 per cent. From the fragmentary data available in respect of the third quarter of 1975, there are indications that the decline in commodity prices has slowed down, while unit values of exports of manufactures may be levelling off.

¹COM.TD/W/212, COM.TD/W/215, COM.TD/W/226. A comprehensive review of developments in world trade is contained in International Trade, 1974/75, GATT, Geneva, 1975.

4. The index of agricultural raw material prices continued to fall during the first quarter of 1975, mainly in response to contracting demand in consuming areas, thus asserting the declining trend evident throughout most of 1974. Prices of major textile fibres improved between the first and second quarters, contributing to a slight improvement in the overall agricultural index as at the end of the second quarter 1975. Cotton prices, which declined by one third in 1974, fell by a further 7 per cent in the first quarter of 1975, but rose slightly in the second quarter, a trend which has continued at a faster rate in the third quarter. Wool prices have improved slightly during 1975, after falling by about one third during 1974, partly as a result of price stabilization policies in some producing countries. In 1974, rubber prices, greatly affected by a decline in the output of the world's automobile industries, fell back to nearly one half of their first quarter peak. This decline continued in the first half of 1975, although at a slower rate and appears to have been arrested in the third quarter.
5. Prices of tropical beverages declined overall by 7 per cent in the first half of 1975. This was due almost entirely to a decline in the price of cocoa, as manufacturing demand in industrial countries fell back sharply. Coffee prices remained largely unchanged between the second quarter of 1974 and the second quarter of 1975, but moved upwards steeply in July 1975 following severe frosts and floods in Brazil. Tea prices rose by 5 per cent between the last quarter of 1974 and the first quarter of 1975, remained at about the same level during the second quarter and declined slightly in July and August.
6. The United Nations index of prices of foodstuffs was down by 15 per cent during the first half of 1975 compared with the December 1974 figure, representing the first significant fall for over two years. Cereal prices lost nearly 20 per cent following expectations in most exporting countries and in developing countries of a good harvest in 1975/76, and the cancellation of some large orders. A contraction in the demand for cereals used as animal feed, resulting as much from diminished demand in industrial countries for meat and dairy products as from reactions of livestock producers to higher feed prices, helped to depress cereal prices further. A rise in cereal prices in August 1975 was facilitated by fears of drought in North America (which proved groundless) and by rumours of a much smaller than planned harvest in the USSR. While large scale purchases by the Soviet Union had tended to push up cereal prices, the confirmation of a record 1975/76 United States harvest appears to have moderated this tendency. During the first half of 1975, the price of sugar dropped by more than 50 per cent as compared with its peak price at the end of 1974, the result both of consumer reaction against extremely high prices and of improved supplies. However, the decline has been halted in the third quarter of 1975 after estimates of 1975/76 production in both Western and Eastern Europe were scaled down considerably. Prices of oilseeds fell by one quarter in the first half of 1975, mainly as a result of the decline in demand for animal feed.

7. Prices of non-ferrous metals were at record levels in the second quarter of 1974, declining rapidly during the remainder of the year. In the first half of 1975 the fall continued, but at a decreasing rate; this decline would appear to have been halted during the third quarter. The decline was particularly pronounced in the case of the copper price which fell by nearly 55 per cent from its peak levels. The price of zinc was down by about 40 per cent. The United Nations index for all non-ferrous metal prices dropped by more than 35 per cent between the second quarter of 1974 and the second quarter of 1975.

Export and import prices for major products traded by oil-importing developing countries

8. In contrast to the downward trends in the export prices of many primary commodities of importance to developing countries, the prices of the most important of their imports continued to rise during the first half of 1975. Table 3 shows ratios between the rise in export prices of selected primary commodities and the rise in the prices of five selected imports - all manufactures, steel, fertilizer, fuels and grains - with 1969-71 figures as base. The ratios are given for two periods: the first quarter of 1974, which, for most commodities, marked the highest prices reached during the commodity boom; and the second quarter of 1975. By the second quarter of 1975, compared with the average of 1969-71, export prices of most commodities shown in the table declined relatively to the world price of manufactured products, including steel and fertilizer, fuels and cereals. Although the extent of relative decline varied significantly from commodity to commodity, Table 3 shows that for two thirds of the commodities included in the table the decline was substantial in relation to prices of manufactured goods exports.

The trade account of oil-importing developing countries

9. After mid-1974, export earnings of oil-importing developing countries were progressively affected by the declining level of economic activity in industrial countries. During the second half of 1974, the increase in the value of exports from the oil-importing developing countries slowed down considerably and preliminary data suggest an actual decline during the first half of 1975.

10. Despite the slower growth in export receipts, imports into oil-importing developing countries continued to increase at a relatively rapid rate until the closing months of 1974. As noted in COM.TD/W/226, the combined trade deficit (f.o.b./c.i.f.) of these countries almost trebled between 1973 and 1974, when it reached about \$35 billion.

11. With the fall in export earnings in 1975, even to maintain their 1974 import volume would imply for oil-importing developing countries a substantial running down in their international reserves and/or a sharp increase in their external indebtedness, the size and terms of which have already been causing growing concern in many countries. Although data are not yet available for all countries, it appears that the volume of imports into oil-importing developing countries contracted substantially during the first half of 1975. For 1975 as a whole, even though the volume of imports can be expected to be considerably lower than in the preceding year, the trade deficit of the oil-importing developing countries might be larger by some \$5-10 billion than it was in 1974.

12. The above notes and previous discussions by the Committee in connexion with the review of trends in world trade suggest that a major preoccupation of the international community remains the need to secure the early resumption of growth in the export earnings of oil-importing developing countries through the maintenance and expansion of existing measures of trade liberalization and the development of arrangements for the stabilization of and improvement in receipts from developing country commodity exports. It also goes without saying that a recovery in economic activity in industrial countries such as would strengthen their demands for imports from developing countries and measures for further trade expansion among developing countries are highly important factors in the future development of developing country exports.

TABLE 1
World^a Export Prices of Primary Products by Product Categories
 (Indexes, 1963 = 100)

		Food (including fats and oils)	Agricul- tural raw materials	Minerals (excl. fuels) and non-ferrous metals	Total primary ^b products (excl. fuels)	Fuels	All primary products ^b	Manufactures ^c
1970	Year	112	97	157	115	108	114	117
1971	Year	117	102	144	117	127	119	124
1972	Year	130	121	146	130	143	132	134
	Q I	122	113	150	124	141	127	132
	Q II	127	120	147	127	143	130	133
	Q III	133	121	144	129	143	131	134
	Q IV	138	131	141	136	144	137	135
1973	Year	192	181	197	190	188	190	156
	Q I	160	155	159	158	153	157	142
	Q II	186	168	184	180	163	177	153
	Q III	213	197	211	208	179	203	163
	Q IV	221	203	234	218	258	225	166
1974	Year	254	202	255	239	553	294	186
	Q I	245	209	262	237	537	290	169
	Q II	244	210	298	243	548	296	188
	Q III	253	200	241	236	561	293	195
	Q IV	272	188	220	239	565	296	204
1975	Q I	247	191	223	227	571	287	220*
	Q II	225	196	225	217	593	283	225*

^aExcluding the Eastern Trading Area

^bIncluding non-ferrous metals

^cUnit values of exports from developed countries, excluding non-ferrous metals

Source: United Nations, Monthly Bulletin of Statistics, September 1975

TABLE 2/TABLAU 2
Development of World Export Prices of Selected Primary Products/Evolution des prix mondiaux à l'exportation de certains produits primaires
(Indices 1965 = 100)

Products/Produits	1953-55	1960-62	1969-71	1971	1972	1973	1974	1975				1976				1977																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																				
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ALL PRIMARY PRODUCTS /ENSEMBLE DES PRODUITS PRIMAIRES ^b	113	96	115	117	130	120	232	158	180	208	218	227	236	243	251	259	268	277	286	295	304	313	322	331	340	349	358	367	376	385	394	403	412	421	430	439	448	457	466	475	484	493	502	511	520	529	538	547	556	565	574	583	592	601	610	619	628	637	646	655	664	673	682	691	700	709	718	727	736	745	754	763	772	781	790	799	808	817	826	835	844	853	862	871	880	889	898	907	916	925	934	943	952	961	970	979	988	997	1006	1015	1024	1033	1042	1051	1060	1069	1078	1087	1096	1105	1114	1123	1132	1141	1150	1159	1168	1177	1186	1195	1204	1213	1222	1231	1240	1249	1258	1267	1276	1285	1294	1303	1312	1321	1330	1339	1348	1357	1366	1375	1384	1393	1402	1411	1420	1429	1438	1447	1456	1465	1474	1483	1492	1501	1510	1519	1528	1537	1546	1555	1564	1573	1582	1591	1600	1609	1618	1627	1636	1645	1654	1663	1672	1681	1690	1699	1708	1717	1726	1735	1744	1753	1762	1771	1780	1789	1798	1807	1816	1825	1834	1843	1852	1861	1870	1879	1888	1897	1906	1915	1924	1933	1942	1951	1960	1969	1978	1987	1996	2005	2014	2023	2032	2041	2050	2059	2068	2077	2086	2095	2104	2113	2122	2131	2140	2149	2158	2167	2176	2185	2194	2203	2212	2221	2230	2239	2248	2257	2266	2275	2284	2293	2302	2311	2320	2329	2338	2347	2356	2365	2374	2383	2392	2401	2410	2419	2428	2437	2446	2455	2464	2473	2482	2491	2500	2509	2518	2527	2536	2545	2554	2563	2572	2581	2590	2599	2608	2617	2626	2635	2644	2653	2662	2671	2680	2689	2698	2707	2716	2725	2734	2743	2752	2761	2770	2779	2788	2797	2806	2815	2824	2833	2842	2851	2860	2869	2878	2887	2896	2905	2914	2923	2932	2941	2950	2959	2968	2977	2986	2995	3004	3013	3022	3031	3040	3049	3058	3067	3076	3085	3094	3103	3112	3121	3130	3139	3148	3157	3166	3175	3184	3193	3202	3211	3220	3229	3238	3247	3256	3265	3274	3283	3292	3301	3310	3319	3328	3337	3346	3355	3364	3373	3382	3391	3400	3409	3418	3427	3436	3445	3454	3463	3472	3481	3490	3499	3508	3517	3526	3535	3544	3553	3562	3571	3580	3589	3598	3607	3616	3625	3634	3643	3652	3661	3670	3679	3688	3697	3706	3715	3724	3733	3742	3751	3760	3769	3778	3787	3796	3805	3814	3823	3832	3841	3850	3859	3868	3877	3886	3895	3904	3913	3922	3931	3940	3949	3958	3967	3976	3985	3994	4003	4012	4021	4030	4039	4048	4057	4066	4075	4084	4093	4102	4111	4120	4129	4138	4147	4156	4165	4174	4183	4192	4201	4210	4219	4228	4237	4246	4255	4264	4273	4282	4291	4300	4309	4318	4327	4336	4345	4354	4363	4372	4381	4390	4399	4408	4417	4426	4435	4444	4453	4462	4471	4480	4489	4498	4507	4516	4525	4534	4543	4552	4561	4570	4579	4588	4597	4606	4615	4624	4633	4642	4651	4660	4669	4678	4687	4696	4705	4714	4723	4732	4741	4750	4759	4768	4777	4786	4795	4804	4813	4822	4831	4840	4849	4858	4867	4876	4885	4894	4903	4912	4921	4930	4939	4948	4957	4966	4975	4984	4993	5002	5011	5020	5029	5038	5047	5056	5065	5074	5083	5092	5101	5110	5119	5128	5137	5146	5155	5164	5173	5182	5191	5200	5209	5218	5227	5236	5245	5254	5263	5272	5281	5290	5299	5308	5317	5326	5335	5344	5353	5362	5371	5380	5389	5398	5407	5416	5425	5434	5443	5452	5461	5470	5479	5488	5497	5506	5515	5524	5533	5542	5551	5560	5569	5578	5587	5596	5605	5614	5623	5632	5641	5650	5659	5668	5677	5686	5695	5704	5713	5722	5731	5740	5749	5758	5767	5776	5785	5794	5803	5812	5821	5830	5839	5848	5857	5866	5875	5884	5893	5902	5911	5920	5929	5938	5947	5956	5965	5974	5983	5992	6001	6010	6019	6028	6037	6046	6055	6064	6073	6082	6091	6100	6109	6118	6127	6136	6145	6154	6163	6172	6181	6190	6199	6208	6217	6226	6235	6244	6253	6262	6271	6280	6289	6298	6307	6316	6325	6334	6343	6352	6361	6370	6379	6388	6397	6406	6415	6424	6433	6442	6451	6460	6469	6478	6487	6496	6505	6514	6523	6532	6541	6550	6559	6568	6577	6586	6595	6604	6613	6622	6631	6640	6649	6658	6667	6676	6685	6694	6703	6712	6721	6730	6739	6748	6757	6766	6775	6784	6793	6802	6811	6820	6829	6838	6847	6856	6865	6874	6883	6892	6901	6910	6919	6928	6937	6946	6955	6964	6973	6982	6991	7000	7009	7018	7027	7036	7045	7054	7063	7072	7081	7090	7099	7108	7117	7126	7135	7144	7153	7162	7171	7180	7189	7198	7207	7216	7225	7234	7243	7252	7261	7270	7279	7288	7297	7306	7315	7324	7333	7342	7351	7360	7369	7378	7387	7396	7405	7414	7423	7432	7441	7450	7459	7468	7477	7486	7495	7504	7513	7522	7531	7540	7549	7558	7567	7576	7585	7594	7603	7612	7621	7630	7639	7648	7657	7666	7675	7684	7693	7702	7711	7720	7729	7738	7747	7756	7765	7774	7783	7792	7801	7810	7819	7828	7837	7846	7855	7864	7873	7882	7891	7900	7909	7918	7927	7936	7945	7954	7963	7972	7981	7990	7999	8008	8017	8026	8035	8044	8053	8062	8071	8080	8089	8098	8107	8116	8125	8134	8143	8152	8161	8170	8179	8188	8197	8206	8215	8224	8233	8242	8251	8260	8269	8278	8287	8296	8305	8314	8323	8332	8341	8350	8359	8368	8377	8386	8395	8404	8413	8422	8431	8440	8449	8458	8467	8476	8485	8494	8503	8512	8521	8530	8539	8548	8557	8566	8575	8584	8593	8602	8611	8620	8629	8638	8647	8656	8665	8674	8683	8692	8701	8710	8719	8728	8737	8746	8755	8764	8773	8782	8791	8800	8809	8818	8827	8836	8845	8854	8863	8872	8881	8890	8899	8908	8917	8926	8935	8944	8953	8962	8971	8980	8989	8998	9007	9016	9025	9034	9043	9052	9061	9070	9079	9088	9097	9106	9115	9124	9133	9142	9151	9160	9169	9178	9187	9196	9205	9214	9223	9232	9241	9250	9259	9268	9277	9286	9295	9304	9313	9322	9331	9340	9349	9358	9367	9376	9385	9394	9403	9412	9421	9430	9439	9448	9457	9466	9475	9484	9493	9502	9511	9520	9529	9538	9547	9556	9565	9574	9583	9592	9601	9610	9619	9628	9637	9646	9655	9664	9673	9682	9691	9700	9709	9718	9727	9736	9745	9754	9763	9772	9781	9790	9799	9808	9817	9826	9835	9844	9853	9862	9871	9880	9889	9898	9907	9916	9925	9934	9943	9952	9961	9970	9979	9988	9997	10000	10009	10018	10027	10036	10045	10054	10063	10072	10081	10090	10099	10108	10117	10126	10135	10144	10153	10162	10171	10180	10189	10198	10207	10216	10225	10234	10243	10252	10261	10270	10279	10288	10297	10306	10315	10324	10333	10342	10351	10360	10369	10378	10387	10396	10405	10414	10423	10432	10441	10450	10459	10468	10477	10486	10495	10504	10513	10522	10531	10540	10549	10558	10567	10576	10585	10594	10603	10612	10621	10630	10639	10648	10657	10666	10675	10684	10693	10702	10711	10720	10729	10738	10747	10756	10765	10774	10783	10792	10801	10810	10819	10828	10837	10846	10855	10864	10873	10882	10891	10900	10909	10918	10927	10936	10945	10954	10963	10972	10981	10990	10999	11008	11017	11026	11035	11044	11053	11062	11071	11080	11089	11098	11107	11116	11125	11134	11143	11152	11161	11170	11179	11188	11197	11206	11215	11224	11233	11242	11251	11260	11269	11278	11287	11296	11305	11314	11323	11332	11341	11350	11359	11368	11377	11386	11395	11404	11413	11422	11431	11440	11449	11458	11467	11476	11485	11494	11503	11512	11521	11530	11539	11548	11557	11566	11575	11584	11593	11602	11611	11620	11629	11638	11647	11656	11665	11674	11683	11692	11701	11710	11719	11728	11737	11746	11755	11764	11773	11782	11791	11800	11809	11818	11827	11836	11845	11854	11863	11872	11881	11890	11899	11908	11917	11926	11935	11944	11953	11962	11971	11980	11989	11998	12007	12016	12025	12034	12043	12052	12061	12070	12079	12088	

^aExcluding the Eastern Trading Area/A l'exclusion des pays de l'Est.

^bIncluding non-ferrous base metals, excluding fuels/y compris les métaux communs non ferreux, combustibles et carburants exclus.

^cExcluding non-ferrous base metals, excluding fuels/y compris les métaux communs non ferreux, combustibles et carburants exclus.

Source: UN, Price Statistics in International Trade 1950-1970, statistical papers, Series M, No. 29, Rev.1/Add.1, New York 1971; and compilations by the United Nations Statistical Office for publication in the UN Monthly Bulletin of Statistics/Nations Unies, Mouvements des prix de produits de base dans le commerce international: 1950-1970. Studies statistiques, Rev. 29, Rev.1/Add.1, New York 1971; compilations du Bureau de statistique des Nations Unies destinées à être publiées sous forme résumée, par catégories de produits, dans le Bulletin mensuel de statistique des Nations Unies.

TABLE 3

Export/Import Price Ratios for Major Products
Traded by Oil Importing Developing Countries

Indices, 1969-71=100

Commodity	Ratio ^a									
	Manufactured goods		Steel		Fertilizer		Fuels		Grains	
	1974Q1	1975Q2	1974Q1	1975Q2	1974Q1	1975Q2	1974Q1	1975Q2	1974Q1	1975Q2
Copper	122	50	91	47	86	27	38	18	61	41
Coconut oil	215	63	161	58	151	34	66	22	107	51
Rubber	159	65	119	59	111	35	49	24	79	53
Copra	261	65	195	60	185	36	81	24	130	53
Palm-kernel oil	221	69	165	63	155	37	68	26	110	57
Hides and skins	126	70 ^b	94	60 ^b	89	33 ^b	39	26 ^b	63	51 ^b
Coffee	103	71	77	65	73	28	32	27	51	57
Palm oil	156	72	117	66	109	39	48	27	78	58
Tea	72	76	54	70	50	41	22	28	36	62
Jute	65	77	48	71	46	42	20	29	32	62
Tobacco	84	82 ^b	63	70 ^b	59	39 ^b	26	31 ^b	42	59 ^b
Lead	132	84	99	77	93	45	41	31	66	67
Groundnut oil	149	86	111	79	104	47	46	32	74	70
Iron ore	93	88	69	80	65	46	29	33	46	71
Cotton	178	89	133	83	125	49	55	33	89	73
Bananas	79	91	59	83	55	49	24	34	39	73
Cocoa	130	97	97	89	91	53	40	36	65	79
Oilseed cake	141	98 ^b	105	84 ^b	99	47 ^b	43	37 ^b	70	71 ^b
Tin	143	103	107	95	100	56	44	38	71	83
Rice	192	113	143	104	135	62	59	42	95	92
Lumber	141	119	106	109	99	65	44	44	70	97
Sugar	209	168	156	155	146	91	65	62	104	136
Sisal	314	193	234	178	220	105	97	72	156	156
Zinc	260	197	194	180	182	106	80	73	129	159

^a Ratio of the price index of the commodity given in the first column to the price or unit value index for the goods given in the column heading.

^b First quarter 1975.

Source: The indices are based on price indices for primary commodities compiled by the UN Statistical Office and unit value indices for manufactured goods exported by developed countries also calculated by that office; for steel and fertilizer export price indices the Federal Republic of Germany's Statistisches Bundesamt, Preise und Preisindizes für Ausserhandelsgrüter.