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ECONOMIC INTELLIGENCE WEEKLY REVIEW

5 January 1978

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Articles

MEXICO: TOUGH CONTROLS ON FOREIGN INVESTMENT CONTINUE

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Mexico continues to toughen its controls on foreign investment, despite the advent of a new "pro-business, pro-US" administration. This reflects both Mexico's improving economic position—the result of its oil bonanza—and the continued slow implementation of a basic investment philosophy evolved many years before. Mexico City believes that direct foreign investment is no longer necessary for economic development in most fields and that any investment allowed should be carefully circumscribed to ensure the greatest possible political and economic benefits. Although investment restrictions will continue to be applied with typical Mexican flexibility, the basic regulations are unlikely to be eased even if it means seriously delaying the resumption of large-scale foreign investment. In the longer run, many foreign companies probably will find that the advantages of investing in Mexico's dynamic economy outweigh the disadvantages of the restrictive investment regulations.

Trends Under the Echeverria Administration

Mexican restrictions on direct foreign investment, long ranked among the most stringent in Latin America, were greatly tightened by the "antibusiness" administration of Luis Echeverria (1970-76). Supplementing the 1938 "Mexicanization" legislation that excluded foreign investors from petroleum, banking, and certain other services, Echeverria adopted new controls on foreign investment. These include:

The Law on the Transfer of Technology (1973) establishing a Registry of all technology transfer contracts, with the government required to refuse registration of contracts containing clauses potentially damaging to Mexico.

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Law To Promote Mexican Investment and To Regulate Foreign Investment (1973) requiring (with certain exceptions) at least 51 percent Mexican

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equity, management control in new firms, further limitations on the economic sectors open to foreign investment, and sharper restrictions on foreign takeovers of domestically owned firms.

Law on Patents and Trademarks (1976) requiring the use of Mexican trademarks along with foreign trademarks for goods produced in Mexico and shortening the life of exclusive trademark and patent rights.

Partly because of these laws, real direct foreign investment inflows have slowed markedly since 1973. Other factors have been the world recession and, in 1976, the collapse of business confidence and the subsequent floating of the peso. As foreign firms sold off assets, the book value of US investment in Mexico—about 75 percent of total foreign investment—dropped by 7 percent last year, to \$3.0 billion. This fall mainly reflected a decline in manufacturing investment from \$2.4 billion to \$2.2 billion, putting Mexico back in seventh place worldwide for US manufacturing investment only one year after it had grabbed sixth place from Australia.

The importance of direct foreign investment to the Mexican economy declined in the 1970s. Mexican balance-of-payments data on net direct foreign investment inflows (excluding reinvested earnings) show the share of foreign investment in total private fixed investment slipping from 5 percent during the 1960s to 4 percent in the early 1970s and to 3 percent in 1976. Since public investment accounts for 30 percent of total fixed investment, the foreign share of total investment is now 2 percent.

The importance of foreign direct investment as a source of foreign exchange has also slipped markedly. These inflows covered one-third of the current account deficit during the 1960s, but only 14 percent in the early 1970s, as Mexico turned to international money markets to finance the rapidly rising deficit. Foreign direct investment equalled 9 percent of the current account deficit in 1976.

Foreign Investment Policy Under Lopez Portillo

After coming to power in December 1976, Lopez Portillo intensified the Echeverria policy of accepting only selected foreign investment. The new President has stressed that foreign investment must contribute directly to Mexican development by creating jobs, bringing advanced technology, and earning foreign exchange. He has backed up his statements by continuing previous controls and adopting new ones. Officials of multinational corporations, although encouraged by the generally favorable attitude of the new government toward the private sector, are disturbed by Lopez Portillo's harsh enforcement of the 1976 Law on Patents and Trademarks and by the enactment of a new law regulating foreign-owned automobile companies.

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The Law on Patents and Trademarks

Foreign companies face a February 1978 deadline for linking foreign trademarks with Mexican-owned and originated trademarks. Although the administration concedes major problems with the regulations implementing the law, it has stated that neither the law nor the regulations will be altered. Instead, the government has opted for settling problems on an individual case basis. In a typically Mexican compromise, the government has offered not to apply the law in cases where companies agree to increase their exports. While compromise agreements have satisfied some soft drink and tire firms, most foreign companies find this approach unsatisfactory. They fear that, because such agreements do not carry the weight of law, they could be rescinded without warning.

The patent section of the law also hurts foreign investors by reducing the owner's control and shortening the life of patent rights. Although this section probably is in violation of Mexico's obligations under the Paris Convention on patents, the government refuses to amend it. The law will undoubtedly deter some direct investment and technology transfers, especially in the chemical and pharmaceutical fields. Full assessment of its impact, which will depend on how it is administered, will require several years.

The Law on the Automotive Industry

The new law regulating the automotive industry, which has the full support of Lopez Portillo, is intended to expand employment and to narrow the present large trade deficit in automotive parts. The decree requires foreign firms (the few small domestic firms are excluded) to increase the domestic content of their output and to boost exports to partly offset imports of components. The latter provision will be enforced through a complex formula determining a foreign currency budget for each company.

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To meet the requirements of the decree, the companies must make large investments to expand parts production in Mexico. The companies are not prepared to make such investments at this time because of (a) damage to their liquidity positions by higher import costs resulting from the 45-percent depreciation of the peso and (b)

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25X1 currently weak Mexican demand for automobiles. Despite the concerns expressed by the companies and by foreign governments, Mexico City is unlikely to change the law.

Outlook

The Lopez Portillo government will likely continue to toughen its policies toward foreign investors over the next several years. The brunt of the restrictions will fall on foreign companies in consumer industries, such as food processing, where the government feels domestic companies have the capability to meet Mexican requirements. On the other hand, foreign firms that bring in advanced technology, create jobs, or expand exports can expect the rules to be bent in their favor.

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The presidential advisers believe that foreign investors can make a major contribution to Mexico's ambitious program to develop the capital goods industry. Mexican industry now provides only about one-half of capital goods requirements. The program is expected to place less emphasis on Mexican content than is generally the case in other industries; it will, however, insist that the goods produced be priced at levels competitive with those in the foreign investors' home markets.

Despite rumors of large, new US industrial investments, we believe that most foreign investors will remain cautious for the next year or so while assessing Mexican financial stability and growth potential. In the near term, investors will probably react favorably to government encouragement of investment in in-bond plants and in the capital goods industry. In the longer run, Mexico's attractiveness to foreign investors should grow as other LDCs multiply controls on foreign investment. In particular, US multinationals are likely to resume large-scale investment in Mexico, given its rapidly growing domestic market, strong energy position, and political stability.

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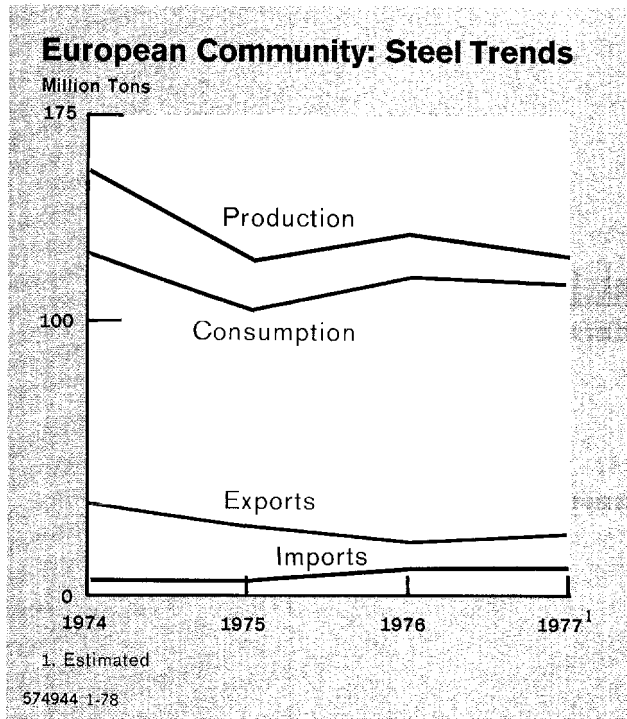
EUROPEAN COMMUNITY: GRAPPLING WITH SHORT-RUN AND LONG-RUN STEEL ISSUES

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The European Community, moving toward comprehensive structural reorganization of its steel market, is considering programs to retire high-cost production facilities and modernize remaining plants. To date, policy efforts have stressed the cyclical problems of control over prices, production, and imports. The new policy direction, to be successful, must supplant national programs with Community-wide policy. Although this will require the subordination of national political interests, members of the Community have a powerful economic incentive to rationalize their combined steel industry.

The Crisis

The slump in the world steel industry since 1974 has hit the European Community particularly hard. EC steel production in 1977 fell an estimated 19



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percent below the 1974 level and 6 percent below the depressed level of 1976. Steelmakers are operating almost 40 percent below capacity; new units started before the slump have continued to come on line. Prospects remain dismal, with new orders from EC purchasers 15 percent lower in third quarter 1977 than in the same period of 1976.

The decline in world demand has brought EC producers increased competition. With Japan, Spain, and Communist countries offering steel

at bargain prices, Community imports jumped two-thirds between 1974 and 1976 to 12.4 million tons. Meanwhile, EC exports dipped by 37 percent. EC producers belatedly slashed prices to defend their market shares, helping raise Community exports 16 percent in 1977, to about 25 million tons, while keeping imports at the 1976 level.

EC steelmakers also face a grave structural problem signified by high production costs and excess capacity for several years to come. Wage rates are high, many plants are obsolete, and governments discourage layoffs. Producers have put 166,000 employees, or 22 percent of their labor force, on short time and, despite government pressure, have released 51,000 workers. Not surprisingly, most EC producers are in financial difficulty.

- Italy's largest steel company, state-owned Italsider, is expected to report an operating loss exceeding \$570 million for 1977, its third straight year of record losses.
- In the first six months of its 1977/78 financial year, the British Steel Corporation lost a record \$348 million.
- The French steel industry lost \$550 million in 1976, and its 1977 losses are estimated to be 10 percent greater.
- The West German industry lost about a million dollars per day in 1977.
- The Belgian industry claims its 1976 losses were equal to about one-fourth of total equity, and 1977 losses were also heavy.

European Community: Crude Steel Production

	Thousand Tons		Percent Change
	1974 ¹	1977 ¹	
Total	143,366	116,722	-18.6
West Germany	49,227	36,002	-26.9
France	24,749	20,623	-16.7
Italy	21,768	21,373	-1.8
United Kingdom	20,649	19,198	-7.0
Belgium	15,093	10,319	-31.6
Luxembourg	5,966	3,969	-33.5
Netherlands	5,313	4,569	-14.0
Denmark	493	628	27.4
Ireland	108	41 ²	-62.0

¹ Data are for the first 11 months.

² Estimate.

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- The Dutch - West German steel combine, Estel, expects to post a \$200 million loss for 1977.
- The Luxembourg-based steel firm, Arbed, recorded a \$60 million loss in first half 1977, about double the previous year's loss for the same period.

Policy Response

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Most member governments have moved to help the faltering steel industry but for the most part have limited their aid to subsidies to cover operating losses. While these subsidies ease the current financial stress, they do not help solve the more basic structural problem. Political constraints have kept governments from facing up to the need to cut costs by closing plants and reducing employment. So far, the EC Commission also has directed most of its effort toward alleviating the immediate situation. The Commission has concentrated on shoring up prices and limiting production and imports.

In *West Germany*, where the free market orientation is strongest, the government has done little for the steel industry. Steel management is optimistic, hoping to solve its problems mainly through rationalization measures. West German producers have been hurt by import restrictions that force them to buy expensive domestic coal. Hence, Bonn is considering selling to the steel companies 3 million tons of coking coal from the national emergency reserve at one-third off the current market price. In addition, the government may help hard-hit Saarland producers to restructure their operations.

Last February, *France* issued a "Plan Acier" for revitalizing and restructuring the steel industry. The plan calls for reducing capacity from 33.7 million tons to 31.5 million by 1981 and cutting the work force by about 10 percent through attrition and early retirements. The plan hits politically sensitive Lorraine particularly hard because many facilities there are old and inefficient. Paris will make available about \$260 million in credits for modernization to be matched by equivalent industry financing. Steel companies will try especially hard to avoid any major job reductions before the March 1978 parliamentary elections.

**European Community:
Tons of Crude Steel Per Production
Worker/Man-Year, 1976**

European Community ¹	225
Italy	297
Luxembourg	267
West Germany	262
Belgium	256
France	225
Netherlands	207
United Kingdom	178

¹ Data that are not strictly comparable put productivity at 459 tons/man-year in Japan and 343 tons/man-year in the United States.

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Government pressure to maintain employment probably is greatest in *Italy*. The government holding company Finsider has stated it will not close any plants, but a subsidiary has announced it will lay off 6,500 employees for three months. Indirect aid has kept the state companies going in the face of heavy losses. Istituto Per La Ricostruzione Industriale (IRI), the umbrella government holding company, has guaranteed bond issues and purchased newly issued capital stock. Despite the slump, state companies are continuing with a sizable investment program aimed at expansion as well as modernization. In particular, plans are going ahead for the 1.3-million-ton-capacity Gioia Tauro complex in economically depressed Calabria, notwithstanding an IRI finding that the project is not economically justifiable.

In *Great Britain*, the government is funding operating losses and investment for the nationalized British Steel Corporation. A parliamentary committee is looking into the company's problems and is likely to recommend some layoffs, plant closings, and scaling down of investment plans. As many as 60,000 workers, or 29 percent of the work force, should be weeded out on economic grounds—a number far beyond what the unions would accept. British workers are nearly 25 percent less productive than their French counterparts and only 60 percent as productive as Italian steel workers. The Treasury has begun pressing for a 24,000-man cut over two years even though the government is committed to keeping plants open in certain depressed regions.

In *Belgium*, the government has helped the steel industry by guaranteeing lines of credit amounting to \$85 million and covering about 85 percent of the interest cost of a \$280 million loan. In return, the major firms allow Brussels to oversee their operation. Last March a conference of government-company-union representatives agreed to a "steel moratorium" that suspends capacity expansion projects, worker layoffs, and reductions in credit lines. The moratorium was to last through 1977 and probably will be extended until June 1978.

The government of *Luxembourg* has done little for the steel industry. One firm, Acieries Reunies de Burbach-Eich Dudelange (Arbed) dominates the economy, accounting for 90 percent of Luxembourg's steel output and 10 percent of its total employment. Arbed has initiated a crisis plan that includes a 19-percent reduction in employment over two years, a cut of about 4,000 workers. The plan also calls for modernization at the maximum affordable rate. In 1977, the modernization effort raised investment to \$100 million, up by 54 percent from the 1970-76 average.

The *Netherlands* is relying on careful management and the development of a Community-wide program to surmount the crisis. Hoogevens, the Dutch arm of Estel, is planning to reduce its 23,000-man work force by 2,500 over the next two years. About 1,500 workers are expected to leave because of retirement and natural turnover;

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the other 1,000 will be dismissed outright. Hoogeovens, which accounts for 90 percent of Dutch steel output, hopes to return to the black by 1980.

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The *EC Commission* expanded its control over the combined steel market in several stages during 1977. Addressing the cyclical problem first, the Commission in January instituted the Simonet Plan. In its original form, the plan merely asked EC steel companies to limit sales within the Community in an attempt to raise prices. Eurofer, the association of EC steel producers, urged its members to comply but lacked the strength to dictate company sales policies. Last May the EC Council lowered sales quotas under the Simonet Plan and approved minimum price guidelines. Later the Commission made the minimum prices for reinforcing bars mandatory because private Italian companies were undercutting the guidelines. Last month, the Commission obtained Community agreement to raise guideline prices by 15 percent during 1978 and impose mandatory minimum prices on merchant bars and coils.

While price guidelines have helped hold prices up, lack of direct control over import prices left a gaping hole in the program. The early 1977 Community agreements with Japan and South Africa to limit exports to the EC had no obvious effect on the downward price pressure from imports. The EC Council plugged the hole at its December meeting by adopting an amended Commission proposal to impose a minimum import price system for first quarter 1978. In this period, the Commission will try to negotiate bilateral minimum price agreements with principal suppliers—that is, Japan, South Africa, South Korea, Spain, and East European countries.

While the Commission preferred only a two-month program, the French, threatening independent protectionist measures, demanded it be extended beyond the date of their parliamentary elections. The Commission will apply countervailing duties to steel products entering the Community below minimum base prices. The prices will be established by estimating the lowest cost of production in a country experiencing “normal competitive conditions,” probably Japan or South Korea.

Structural Problems

With the anticyclical program taking effect, Commission efforts will now be directed toward developing a coordinated EC approach to structural deficiencies. Market pressures seem likely to bring about cooperation among the Nine despite substantial obstacles. Depressed steel demand has persisted for three years, and member governments are beginning to realize that consumption will not regain the 5-percent expansion rate of the 1960s. A large amount of idle plant seems sure to exist well into the 1980s unless total capacity is cut. Even if production were to grow an

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optimistic 3 percent per year through 1985, the EC steel industry would be left with more than 20 percent unused capacity, assuming total capacity remains at the present level. This scenario implies continued heavy financial losses. For the industry to return to profitability, new more efficient facilities must replace less productive plants.

Uncoordinated measures by member countries almost certainly would upset relative competitive positions among the Nine and would lead to intra-EC trade restrictions. These restrictions would have serious economic and political consequences, since one-fifth of Community steel output moves in intra-EC trade.

The Commission will try to get member countries to reduce their steelmaking capacity in a coordinated fashion, through the orderly shutdown of old high-cost plants. At the same time, it will encourage modernization to reduce unit costs, thereby enhancing EC competitiveness in the world market. During the transition period, which would last well into the 1980s, the Commission no doubt would continue efforts to fix prices and assign market shares to both EC and non-EC producers.

Early last year the Commission proposed a plan that called on EC producers to more than match any capacity additions with capacity retirements. While some member governments, particularly the West German, were reluctant to yield more authority to the Commission, continued slack demand is underscoring the need for industry restructuring. Implementation of the proposal would trim the 740,000-man work force in EC steel by an estimated 100,000. Specific actions have yet to be worked out. EC members will have great difficulty agreeing on a formula for allocating cuts because of their diverse political and economic situations.

The Commission also has proposed increased financial assistance to help steel firms modernize their operations and to provide new job opportunities for displaced steel workers. The Commission has obtained member agreement to a boost in interest subsidies, from \$17 million in 1977 to \$48 million in 1978, enough to cover about \$600 million in loans. The additional funds will come from duties on non-EC steel. The Commission believes demand for such subsidies will exceed \$100 million and is seeking additional financing from member governments.

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INDUSTRIAL COUNTRIES: YOUTH UNEMPLOYMENT STILL RISING

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More than 7 million persons under 25 years of age are out of work in the 24 member countries of the Organization of Economic Cooperation and Development,* and the situation is worsening. The jobless rate of youths is, on a weighted average basis, double the rate for older workers. Youths account for more than 40 percent of the unemployed although they constitute less than a quarter of the labor force. For the OECD countries as a group, the youth unemployment rate was almost 12 percent by mid-1977, the highest in more than 20 years. This high level of youth unemployment is attributable to a complex of demographic, educational, cultural, and economic forces.

In the next several years, the number of people reaching the age of 18 will continue to rise sharply in most OECD countries. West Germany, the United Kingdom, and Italy in particular will see their labor forces inundated with new entrants. If economic growth in the developed countries remains below historical trends through the mid-1980s as most economic forecasters expect, fewer new jobs will be created than in the 1950s and 1960s. Hence, the policymaker's job of reducing youth unemployment will be extremely difficult.

The Problem

While OECD youth unemployment recently has averaged almost 12 percent, it varies considerably from country to country. Worst off in 1977 were Canada, France, Italy, the United Kingdom, and the United States, with rates of 14 to 16 percent. Moreover, joblessness among the young was still rising in 1977 in all these countries except the United States. At the other end of the spectrum, Japan, West Germany, and several small countries have been experiencing rates of 5 percent or less. The youth share of total unemployment also varies widely across countries, ranging from less than 30 percent in Denmark and West Germany to more than 60 percent in Italy. In addition, evidence suggests that some young people, discouraged by the job outlook, have dropped out of the labor market.

Cyclical Influences

In the recent international recession, as in other cyclical downturns, the demand for young workers fell much more rapidly than demand for older people. The

* By descending order of GNP, the OECD countries are the United States, Japan, West Germany, France, the United Kingdom, Italy, Canada, Spain, the Netherlands, Australia, Sweden, Belgium, Switzerland, Austria, Turkey, Denmark, Norway, Finland, Greece, Portugal, New Zealand, Ireland, Luxembourg, and Iceland.

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Selected OECD Countries: Youth and Total Unemployment Rates ¹

	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Percent											
United States											
Youth.....	8.7	8.7	8.4	11.0	12.7	12.1	10.5	11.8	16.1	14.7	13.8 ²
Total	3.8	3.6	3.5	4.9	5.9	5.6	4.9	5.6	8.5	7.7	7.1 ²
Japan											
Youth.....	1.8	1.8	1.8	1.9	2.1	2.4	2.4	2.5	3.0	3.1	3.7 ²
Total	1.3	1.2	1.1	1.1	1.2	1.4	1.3	1.4	1.9	2.0	2.0 ²
West Germany											
Youth.....	0.9	0.4	0.3	0.4	0.6	0.7	1.0	3.0	5.6	5.1	5.0
Total	1.3	0.7	0.4	0.4	0.6	0.7	0.8	2.1	3.9	3.5	3.7
France											
Youth.....	4.9	6.4	6.1	6.3	6.8	7.0	6.8	8.0	12.9	14.5	15.7
Total	2.1	3.1	3.2	3.2	3.6	3.7	3.4	3.6	5.2	5.9	6.4
United Kingdom											
Youth.....	2.0	2.0	2.2	2.6	4.2	4.9	3.2	3.7	9.4	13.4	15.2
Total	1.8	2.0	1.9	2.1	2.8	3.1	2.2	2.1	3.3	5.0	6.1
Italy											
Youth.....	9.9	10.7	10.8	10.3	10.1	13.1	12.6	11.1	12.8	14.6	15.5 ²
Total	3.5	3.5	3.4	3.2	3.2	3.7	3.5	2.9	3.4	3.7	4.2 ²
Canada											
Youth.....	6.5	7.7	7.5	10.1	11.1	10.9	9.7	9.4	12.1	12.7	14.4 ²
Total	3.8	4.5	4.4	5.7	6.2	6.2	5.6	5.4	6.9	7.1	8.1 ²
Australia											
Youth.....	NA	NA	NA	2.6	3.1	4.4	4.0	4.9	9.0	7.7	11.2 ²
Total	1.6	1.5	1.5	1.4	1.6	2.2	1.9	2.3	4.4	4.4	5.2 ²
Sweden											
Youth.....	3.8	3.9	3.4	2.9	5.1	5.7	5.3	4.4	3.8	3.7	4.4 ²
Total	2.1	2.2	1.9	1.5	2.5	2.7	2.5	2.0	1.6	1.6	1.8 ²
Austria											
Youth.....	1.6	1.7	1.5	1.5	1.4	1.4	1.3	0.9	1.3	1.2	1.2
Total	1.1	1.2	1.1	1.1	1.1	1.1	0.8	0.7	1.2	1.0	0.9
Norway											
Youth.....	NA	NA	NA	NA	NA	5.5	5.6	5.5	8.2	5.9	5.4 ²
Total	0.7	1.1	1.1	0.8	NA	1.7	1.5	1.5	2.3	1.8	1.6 ²
Finland											
Youth.....	5.2	6.9	4.8	3.1	4.1	4.9	4.8	3.5	4.6	8.6	12.7 ²
Total	2.9	4.0	2.8	1.9	2.3	2.5	2.3	1.7	2.2	4.0	5.9 ²

¹ Youth is defined as persons under 25 years old, except for Austria (under 30) and Italy (under 21, plus those seeking their first job). Rates are midyear for Austria, West Germany, and Great Britain; March or April for France; and annual averages for all others.

² Estimated.

inexperience of youthful workers, the high cost of training them, their low job attachment, and their high turnover rate together yield a high cost-to-productivity ratio. Furthermore, youths and other new entrants to the labor force are hard hit when firms react to depressed demand by reducing their work forces through attrition.

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Between yearend 1973 and yearend 1976, the number of unemployed OECD youths increased by about two-thirds. An analysis of data for the United States by the Congressional Budget Office concluded that just over one-third of teenage unemployment in 1975 was attributable to the cyclical downturn. In countries such as France, the United Kingdom, and West Germany—which experienced much sharper increases in youth unemployment in this period—the recession no doubt played a much bigger role than demographic factors.

Labor Costs

In most OECD countries, gains in money wages accelerated beginning about 1973, while productivity growth slowed or turned negative. The resulting surge in unit labor costs held down employment, including youth employment.

Most labor economists agree that minimum wage legislation, through its pressure on the lower end of the wage scale, has increased unemployment disproportionately among youth.* For example, one analysis found that the US youth unemployment rate would have been 3.8 percentage points lower in 1972 if the minimum wage amendments of 1966 had not been implemented. After reviewing this and other recent studies, the OECD Secretariat concluded that a statutory minimum wage has “serious negative effects” on teenage employment by (a) reducing job openings (b) channeling teenagers toward uncovered industries and part-time work, and (c) cutting the labor force participation rate of young people.

Social security taxes have increased substantially in all major industrialized countries in the past decade, further worsening employment prospects for youths. The payroll taxes—levied to cover unemployment insurance, health insurance, disability benefits, and pensions—constitute a large and growing share of employer labor costs. Since payroll taxes have the same impact as cash wages, increases in these taxes encourage the employer to economize on labor. Payroll taxes represent a higher proportion of the total cost of labor at the lower earnings levels, because these taxes usually are linked to earnings only up to a specified maximum—Italy providing a prominent exception. With youths typically in the lower wage brackets, payroll taxes raise the relative cost of hiring the young.

* Statutory minimum wages exist in Canada, France, Japan, Luxembourg, the Netherlands, Portugal, Spain, and the United States. In Italy, rates set by collective agreements are extended to uncovered workers by legislative decree. In West Germany, the rate established for unskilled workers by collective bargaining serves as a general minimum. The United Kingdom has a type of quasi-collective bargaining in Wage Councils for unorganized workers, which set minimum rates for youths.

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Legal Restrictions

Youth work opportunities have been constrained by curbs on employers' rights to hire youths for hazardous occupations or night work and to determine the content and duration of on-the-job training programs. Furthermore, the right to fire has been directly or indirectly limited, increasing employer reluctance to hire untried young people. Among the EC countries, Denmark, which has done the least to restrict dismissals, enjoys the lowest percentage of youths among the unemployed.

Education and Training

Many observers believe that the match between the educational training youths receive and the requirements of most entry-level positions is worsening, contributing to youth unemployment. Furthermore, higher levels of educational attainment have raised expectations, reducing the willingness of youths to accept some available jobs. The recession has exacerbated the educational mismatch by reducing employer incentives to train poorly prepared applicants.

Educational inadequacies pose less of a problem in countries with sizable apprenticeship programs. These programs incorporate a system of lower wage rates for youths, provide job security to young people, and offer a realistic, phased introduction to the world of work. Large apprenticeship programs may also act as a depressant on wage rates for youth generally, thus making young workers more employable.

Demographic Influences

The OECD population aged 15-19 rose by 14 million and that aged 20-24 by 15 million between 1960 and 1975. Youth population changes varied dramatically across

Selected OECD Countries: Change in
Population Aged 15-24

	Percent Change	
	1975 over 1960	1990 over 1975
United States	63.5	-16.0
Japan	-2.0	12.5
West Germany	1.0	-14.0
France	42.0	6.0
United Kingdom	15.5	6.0
Italy	3.0	11.0
Canada	74.0	-19.0
Australia	64.0	1.0
Sweden	8.5	2.5
Austria.....	0	5.5
Finland	20.0	-21.5

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 countries, ranging from a 74-percent increase in Canada and a 64-percent increase in Australia and the United States down to a 2-percent drop in Japan. In general, the countries with the greatest increase in the youth population are also the ones suffering from high rates of youth unemployment.

The extraordinary increase in recent years in the entry of older women into the labor force is another demographic factor. Having limited job experience, these women often compete with youths for less-skilled jobs. Employers prefer them because of their greater maturity.

In most OECD countries, female labor force participation rates seem likely to continue their recent trends, at least until 1985. On the other hand, population movements will show some dramatic shifts.

Selected OECD Countries: Youth Share in Labor Force
 Percent

	1965	1970	1975	1980 ¹	1985 ¹
United States	20.3	22.7	23.4	23.0	20.8
Japan	23.3	23.8	18.8	16.2	16.1
West Germany	21.9	20.1	21.4	23.3	23.6
France	21.2	22.8	21.0	19.7	18.7
United Kingdom	23.2	22.3	19.7	20.7	20.9
Italy	22.6	20.5	18.9	19.0	19.2
Netherlands	29.7	28.9	24.4	21.3	19.0
Sweden	19.2	17.8	14.5	13.5	13.4
Belgium	20.1	22.2	21.5	20.7	19.1
Switzerland	24.9	25.0	23.6	23.2	21.8
Finland	21.8	21.9	17.4	14.3	11.3

¹ Projected.

From 1975 to 1990, the OECD youth population will rise by only about 6 million, one-fifth the increase recorded during 1960-75. During the next few years, however, demographic factors in most OECD countries will tend to increase youth unemployment. In particular the number of people reaching age 18 each year is still rising sharply in most countries, particularly in Western Europe where the peak will not come until 1982 or 1983. West Germany—followed by the United Kingdom and Italy—will face the greatest pressure over the next five years, with Japan faring quite well in this regard and the United States in an intermediate position.

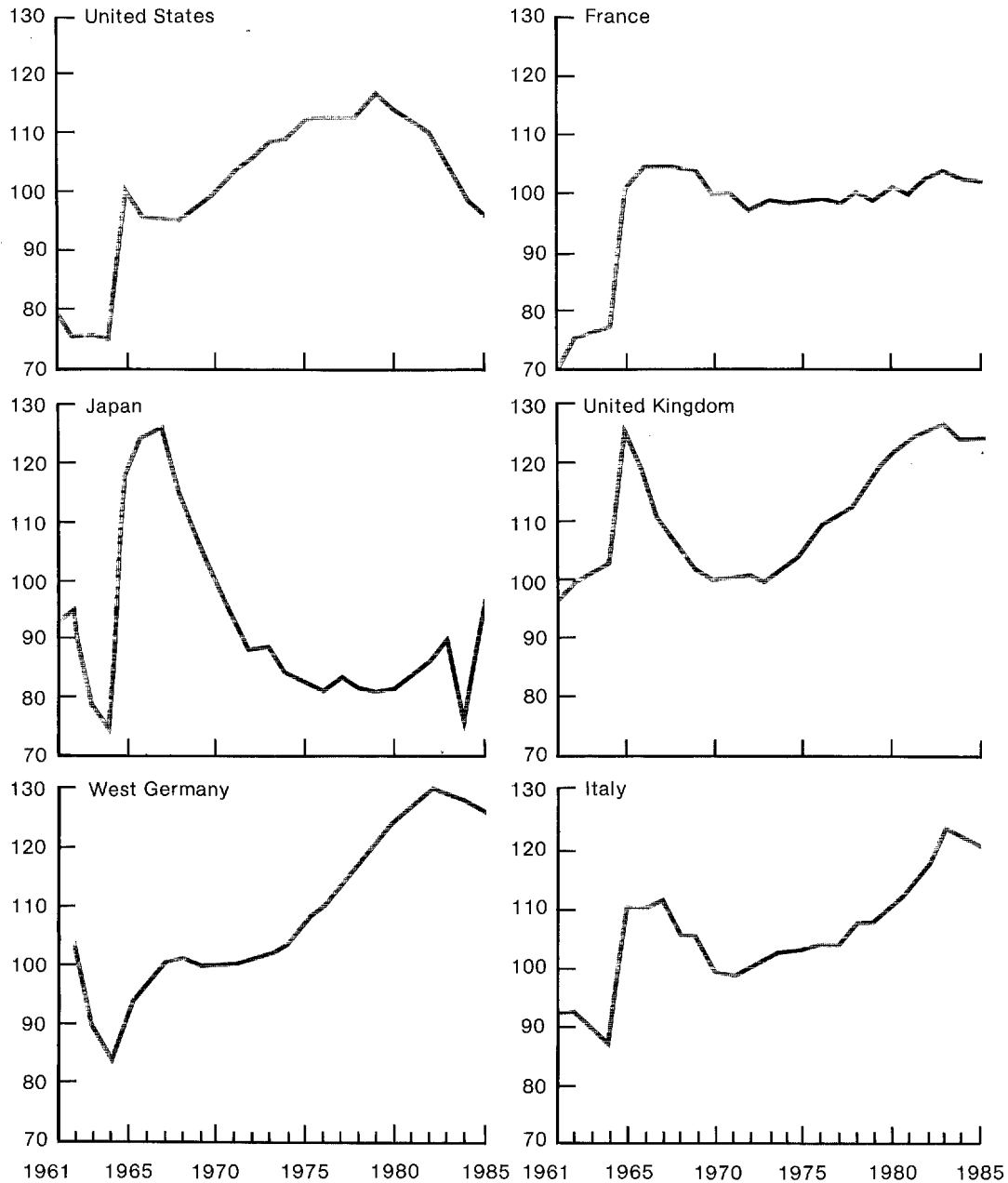
Remedies

A sharp pickup in economic growth, which would increase the demand for labor, does not seem likely in the next several years. Indeed, most economic forecasters

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Selected OECD Countries:
Number of Persons Turning 18 Each Year

Index: 1970=100



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expect GNP in the major foreign developed countries to grow well below historical trend rates through the mid-1980s, partly because of structural adjustments due to the large increases in oil prices that occurred in 1973/74. In addition, private investment—the key to a robust, self-sustaining recovery—continues to be dampened by low profitability and general expectations of weak future demand at home and abroad. Public spending programs in many developed countries are, moreover, being moderated by governments' desires to reduce payments deficits and return inflation to pre-1970 rates.

Obstacles to economic growth probably will lead to greater reliance on micro-policy measures to relieve youth unemployment. For the most part, these efforts would aim at (a) providing public sector jobs for young people, (b) reducing the cost of employing youths in the private sector, and (c) improving the preparation of young people for the jobs available.

A variety of micropolicy measures have been enacted already, usually on a temporary basis:

- Public sector job creation schemes have been implemented in Canada, Denmark, Ireland, Italy, the Netherlands, the United Kingdom, and the United States.
- Employers who hire unemployed youths have been exempted from customary social security taxes in Belgium and France.
- Direct subsidies have been paid to employers hiring unemployed youths in Italy and the Netherlands.
- Young people have been paid by the government to participate in on-the-job training programs in France and the United Kingdom.
- Compulsory education has been extended or young people encouraged to continue their education in Canada, France, and West Germany to reduce the number of job-seekers and better prepare youths for future employment.
- Programs for early retirement of older workers have been implemented in Belgium, France, and the United Kingdom to open up more jobs for younger people.

Similar measures are likely to be enacted in the future, often on a more permanent basis. Various OECD countries have proposed additional steps. These

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include lowering the minimum wage for young workers, easing restrictions on dismissals, enhancing the vocational orientation of schools, expanding apprenticeship systems, and eliminating regulations that bar young people from certain activities.

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CHINA: DISAPPOINTING GRAIN HARVEST, ABOVE-AVERAGE IMPORTS

The Chinese Government has admitted to a second consecutive year of little or no growth in grain production, claiming that "despite natural adversities, grain production reached last year's level." Grain output (including soybeans) in 1976 was unofficially claimed to be 285 million tons; in 1975 the total was 284 million tons.

Bad weather is the fundamental cause for the leveling off of grain production in the last two years. In 1977 the major problem was drought, which ran from October 1976 to April 1977. The drought mostly affected north China, with an estimated 10 percent (4 million to 5 million tons) of the winter wheat crop being lost. An abnormally high amount of waterlogging and cool temperatures after the drought had broken caused additional crop losses in the summer and fall. The 1977 fall harvest nevertheless was much improved over 1976. The pattern in 1976 differed: after a good winter wheat crop, early crops were retarded by cool, damp weather, which in turn delayed planting of the fall-harvested crops; an early winter and excess precipitation then caused harvest losses, late rice being especially hard hit.

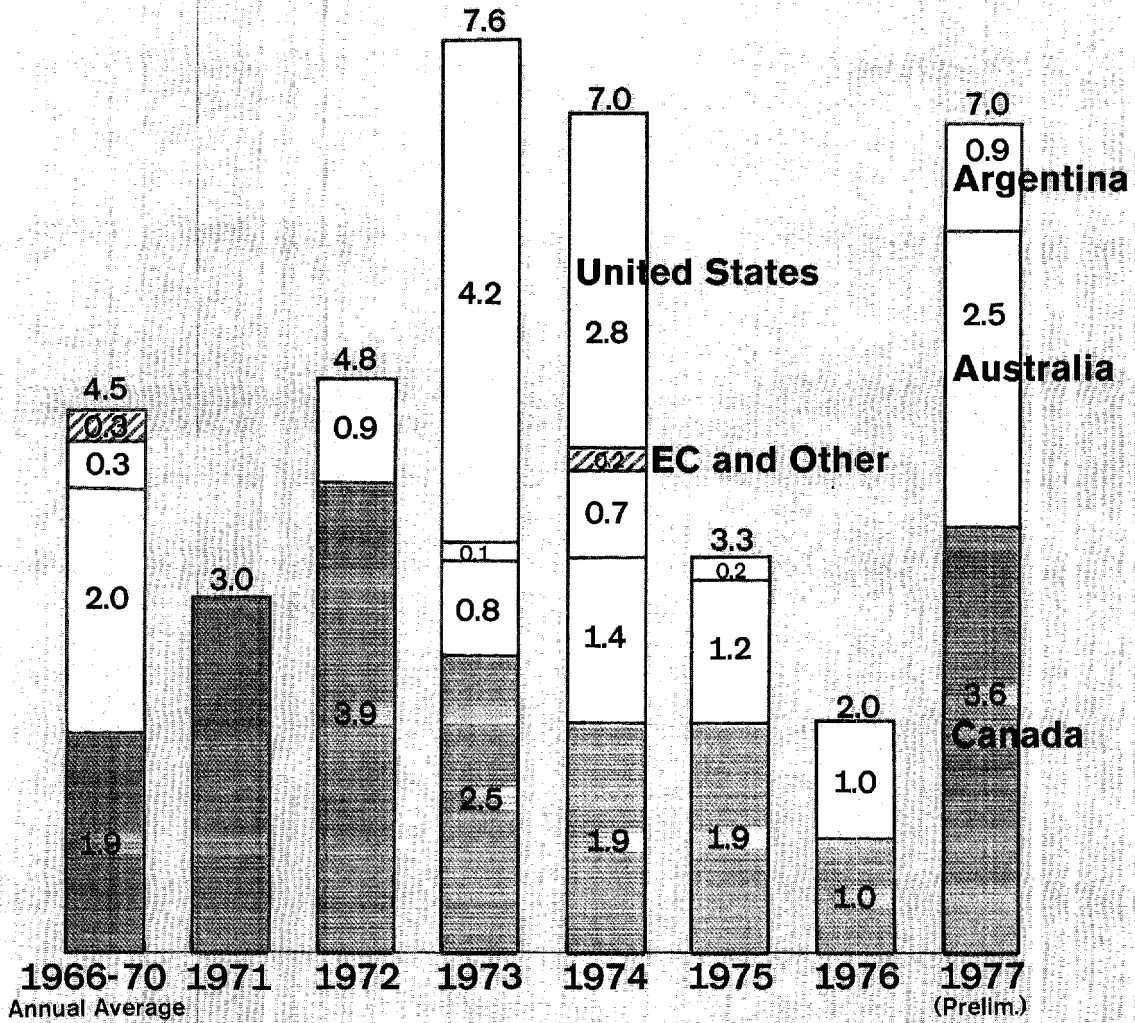
Until late 1976, the PRC had drawn down grain reserves to avoid spending scarce foreign exchange on new grain purchases. Purchases of wheat subsequently accelerated as Peking began to realize the extent of damage to the fall harvest from cold and damage to the spring harvest from drought. Between November 1976 and June 1977, 11.7 million tons of wheat were purchased for delivery through July 1978.

The total amount of grain imported in 1977 was about 7 million tons, which is above the yearly average since 1970 of 5 million tons. During first half 1978, 4.5 million tons of grain are scheduled to be delivered. Total 1978 grain imports will again be about 7 million tons if the half-year average of 2.5 million tons is purchased for delivery during second half 1978. We doubt that more grain will be purchased for delivery during first half 1978. The Chinese need time to evaluate prospects for the

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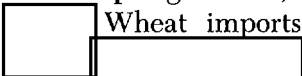
China: Imports of Grain, by Source

Million Tons



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spring harvest, and the amount of grain already coming in is well above the average. Wheat imports mostly supplement the grain supply of China's northern cities.



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AEROFLOT: SOVIETS PARTIALLY SUCCEED IN UPGRADING OPERATIONS*

The USSR has had only limited success in its efforts to enhance the image of Aeroflot, the wide-ranging Soviet domestic and international airline. Moscow has focused on modernizing the aircraft fleet, upgrading passenger services, and improving the poor safety record.



The Soviets have made some progress in their modernization program. Although a large gap remains compared with equipment and passenger amenities on most Western airlines, a continuing flow of new jet aircraft has allowed increases in flight frequency, greater passenger comfort, and an expansion of international routes, especially to Sub-Saharan Africa. The USSR has been less successful in promoting aviation safety; the severity of the problem remains obscured by the continued failure to report many fatal accidents on domestic routes.

About 95 percent of Aeroflot activity probably will continue to be confined to the USSR and Eastern Europe. The Soviet carrier does not offer the flight frequencies, route alternatives, passenger amenities, and safety image needed to garner a sizable share of the highly competitive international air travel market.

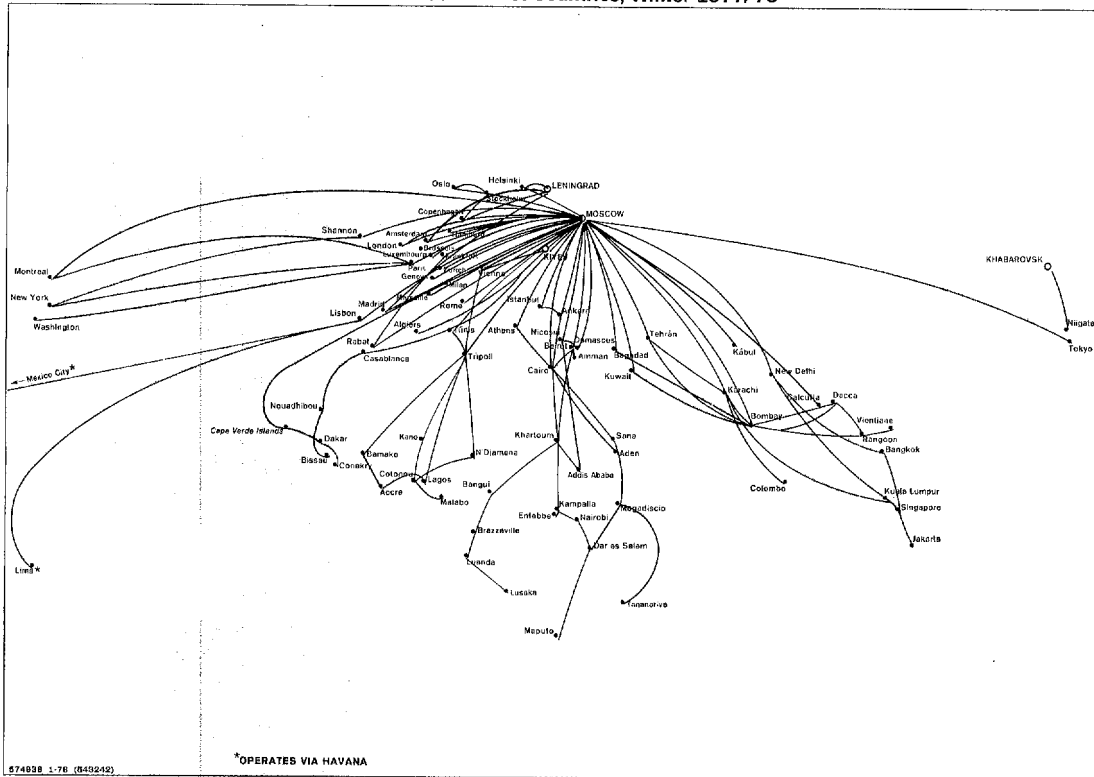
The Airline

Aeroflot—the world's largest single airline in terms of aircraft fleet and passengers carried—currently links 4,000 locations in the USSR and serves 73 foreign countries over a 845,000 kilometer network. In 1976 the airline carried 104 million passengers, about 18 percent of the world total. Operations are geared primarily to domestic routes, which account for more than 90 percent of the passengers carried. The international routes, operated over an expansive but for the most part thinly served network, reaches from the Western Hemisphere to the Far East.

* This article is a joint effort of the Office of Economic Research and the Office of Strategic Research and includes a contribution from the Office of Central Reference.

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Aeroflot: International Route Network to Non-Communist Countries, Winter 1977/78



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Airline operations began over 50 years ago on a small scale in European Russia. Aeroflot itself was launched in 1932 as an amalgamation of many small regional carriers, which connected the USSR's main urban centers. At the outbreak of World War II, Aeroflot's network had expanded to 160,000 kilometers, almost all domestic.

In the post - World War II period, the restoration of domestic routes was followed by the extension of Aeroflot service to the new satellite countries of Eastern Europe. The next stage was expansion of service to Western Europe. Throughout the 1960s, Aeroflot continued its outward thrust to new areas—to the Middle East, South and Southeast Asia, and across the Atlantic to Canada and the United States. By the early 1970s the network covered much of the globe except for Oceania, most of Latin America, and portions of Sub-Saharan Africa. With the expansion of Aeroflot service to more and more Western capitals, observers began to criticize the airline's antiquated equipment, lack of passenger amenities, and poor safety record. Since 1970 under the leadership of Boris Bugayev, Minister of Civil Aviation, the Soviet government has moved on several fronts to respond to these criticisms.

As Minister of Civil Aviation, a post he has held since May 1970, Boris Bugayev is the chief administrator of Aeroflot. In this post, much of his time is spent promoting Aeroflot at home and abroad while seeking bilateral civil air agreements with foreign countries. Highly respected professionally, the 54-year-old Bugayev is a somber man, direct and to the point in conversation. His working style is deliberate. Bugayev holds the military rank of chief marshal of aviation and is a voting member of the Central Committee of the Communist Party of the Soviet Union (CPSU).



Fleet Modernization and Service Improvements

The pace of fleet modernization since 1970 has been impressive; deliveries of new jets have averaged 135 aircraft annually. At yearend 1977, the Aeroflot jet inventory reached an estimated 1,369 aircraft—more than three times the 1970 inventory. Although the small 28-passenger YAK-40 accounts for half the jet inventory, Aeroflot

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continues to acquire substantial numbers of larger aircraft, including the medium-range TU-134, the medium- to long-range TU-154, and the long-range IL-62, the flagship of the Soviet fleet.

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Aeroflot Inventory of High-Performance Aircraft ¹
Yearend

Type and Model	NATO Designation	1960	1965	1970	1973	1975	1976	1977 ²
Total		365	782	1,668	2,147	2,556	2,706	2,936
Jet		191	227	430	784	1,079	1,194	1,369
TU-104 (A and B)	Camel	190	150	155	141	138	138	136
TU-124	Cookpot	1	77	77	72	68	67	66
TU-134 (Standard and A)	Crusty			50	125	173	194	232
TU-154	Careless				37	64	87	128
IL-62/M	Classic			28	47	67	78	89
YAK-40 (Standard and B)	Codling			120	360	565	624	710
IL-76	Candid				2	4	6	8
Turboprop		174	555	1,238	1,363	1,477	1,512	1,567
AN-10	Cat	68	84	86	81	76	75	74
AN-12	Cub	3	52	150	161	163	163	163
AN-24	Coke		91	591	690	771	796	820
IL-18	Coot	93	300	380	357	352	346	343
TU-114	Cleat	10	28	31	24	24	24	24
AN-26	Clank				50	91	108	143

¹ In addition to the high-performance aircraft in Aeroflot's current inventory, the fleet includes from 850 to 950 multiengine piston aircraft. For the most part, propeller-driven aircraft are used in training operations and during peak traffic periods during summer schedules.

² Estimated.

New Designs

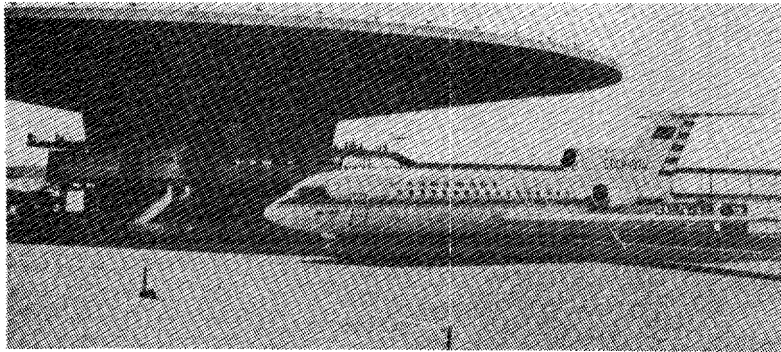
Along with the delivery of transports already in production, the Soviets are in the process of introducing new designs to the Aeroflot fleet. The most important are:

The YAK-42. Basically an enlarged version of the YAK-40, the 110-passenger YAK-42 is slated to replace the smaller aircraft on routes where passenger growth has been rapid. The new aircraft first flew in March 1975 and continues an extensive flight-testing program. We expect it to enter limited passenger service by late 1978.

The IL-86 Airbus. This belated Soviet answer to wide-bodied aircraft, first flew in December 1976. The aircraft, which carries 350 passengers, is currently in flight testing. The Soviets are pushing hard to have several IL-86s in scheduled passenger service for the 1980 Olympics.

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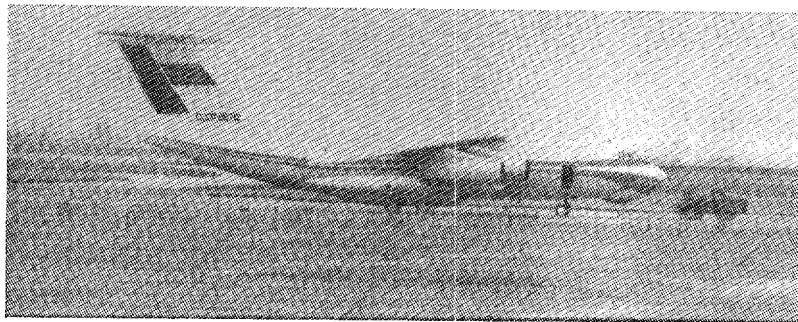
The IL-76. The Soviets first claimed that this longer range cargo transport was built primarily for civil application. Of perhaps 60 IL-76s in service, however, about 50 have been assigned to military units. Aeroflot operates at least six, but not more than 10 in civil cargo operations, mostly in the Siberian Arctic.



YAK-42



IL-86



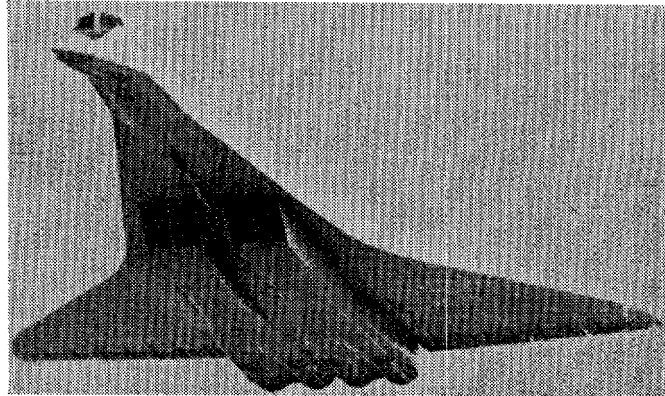
IL-76

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The Supersonic TU-144

The clouded history of the TU-144 has not enhanced Soviet prestige in civil aviation. The program has been plagued by delays stemming from operational problems and the need for engines with greater thrust. The widely publicized inauguration of scheduled passenger service in early November 1977—between Moscow and Alma-Ata—was followed by cancellations of several flights. Judging by the current test program, we believe that the aircraft needs another year of trial flights before it is ready for daily scheduled passenger operations.



TU-144

Impact of Modernization on Operations

Fleet modernization has allowed Aeroflot to increase the frequency of flights, improve adherence to schedules, and increase comfort on some routes. All international routes and one-third of domestic routes now are served by jet aircraft.

Domestic routes normally are the last to receive new equipment. Because of the growing fleet of modern jets, however, Aeroflot has been able to place new aircraft in domestic operations, increase flight frequencies on high-density routes in European Russia, and add new domestic routes. An average of 75 city-pair links are being added annually. On medium- and long-range flights, TU-134s, TU-154s, and IL-62s are replacing the older turboprop IL-18s, while the YAK-40 is being used for shorter routes and services in rural areas.

Improvements on International Routes

The newer jets have allowed Aeroflot to upgrade its international routes and operate more frequent flights. All but a few of the 280 weekly international flights are now serviced by TU-134s, TU-154s, and IL-62s. Most increases in frequency have been on routes to Western Europe. Most of these routes are operated on a multiweekly basis, with daily flights to London.

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Along with the new aircraft, the Soviets have tried to improve other aspects of travel. For example, an "Air Service Agency," established under the Ministry of Civil Aviation in 1973, was made responsible for improving (a) passenger facilities at airports, (b) ticketing, (c) procedures in transferring flights, and (d) baggage handling. Efforts have focused on international services and key domestic routes; little improvement has filtered down to the vast majority of routes within the USSR.

New International Routes

While fostering modernization, the Soviets have continued to add international routes, with emphasis on new routes to Sub-Saharan Africa. The USSR has also been setting the stage for future expansion of services to Latin America.

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As for Latin America, only three countries are currently served in this region: Cuba, with longstanding service; Peru, with a weekly flight; and Mexico City, with service starting in July 1977. Latin American governments have been slow to respond to Aeroflot overtures. The Soviets, however, continue to press them. Intermittent discussions have been held with Argentina, Brazil, Colombia, Panama, Venezuela, and others.

Aeroflot has selectively filled gaps in service to Western Europe and other locations during the last three years, complementing the rapid growth in service to Sub-Saharan Africa. In Western Europe, Aeroflot added Luxembourg, Ireland, Spain, and Portugal in 1977. Other new services include weekly flights to Kuwait.

Aviation Safety

Aeroflot has traditionally had a poor safety record. Until the late 1960s, almost all accidents within the USSR were concealed and went officially unreported. In recent years, the increased number of foreign travelers and the presence of Western press representatives have led to better coverage of crashes on major domestic routes. The Soviets still fail to report accidents in rural areas.

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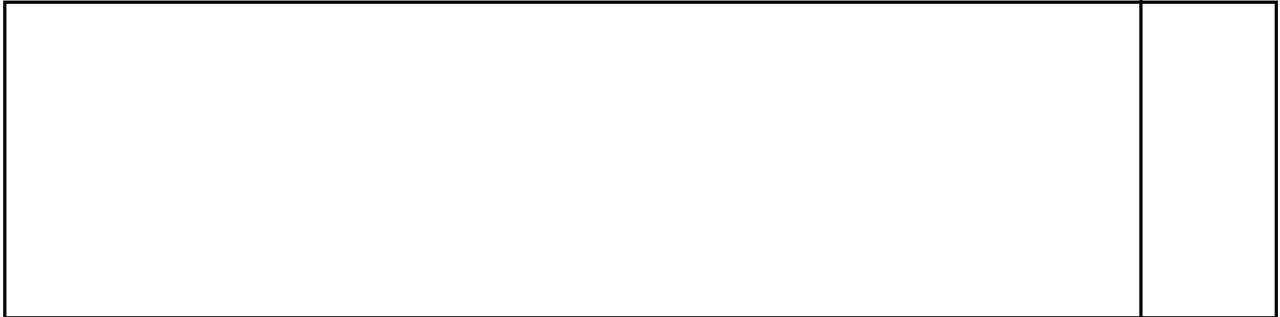
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[redacted] at least five accidents in rural areas in the past three years that included fatalities; none of these was reported by the Soviets. We estimate that deaths per 100 million passenger-kilometers on Aeroflot are substantially higher than in the West—perhaps by 25 percent on the average.

Moscow has taken belated steps to improve safety on Aeroflot. In 1973, for the first time, an Aviation Safety Committee was established within the Ministry of Civil Aviation. This action followed a disastrous series of aircraft accidents within a 12-month period, when at least 10 crashes killed about 550 persons. The role of the committee is to investigate safety procedures and probable causes of accidents. Its enforcement powers have been expanded, but investigative procedures lag far behind Western standards.

At the time the safety committee was formed, the Soviets upgraded operational testing of new civil aircraft and began assessing Western air traffic control equipment and procedures. The latter action led to the purchase of air traffic control equipment from Stansaab in Sweden. The equipment, scheduled to be operational in 1979, will handle high-density traffic operating into and out of Moscow.

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On the Horizon

Aeroflot's current fleet modernization program will continue over the next three to five years, highlighted by the introduction of new jet aircraft. On the international front, the focus of expansion will be on routes to Latin America. The modern fleet will provide for improvements in service, and the application of Western air traffic control equipment should allow for growth and improved safety on high-density routes.

Despite these advances, Aeroflot will lag behind Western standards for the foreseeable future and thus should not pose a serious commercial threat to major Western carriers [redacted]

* * * * *

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Note

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USSR May Be Seeking Additional Grain

[Redacted]

The USSR may soon be in the market for additional grain for delivery in the current marketing year, [Redacted]

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[Redacted]

We believe that the Soviets contracted for 23.5 million tons of grain in 1977; an estimated 22.5 million of this will be delivered in the October 1977-September 1978 marketing year. The bulk of the deliveries will be evenly divided between wheat and corn; also involved are small amounts of barley, rye, and oats.

We estimate that the Soviets are already committed to buying 10 million tons of corn and 5 million tons of wheat from the United States. Supplies of non-US grain are short. If the Soviets are to make substantial additional purchases, they will probably have to make a formal request to Washington to raise the 15-million-ton purchase limit established by the long-term US-USSR grain agreement [Redacted]

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[Redacted]

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[Redacted]

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Copies of this publication may be ordered by calling [Redacted]

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Center**

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Economic Indicators Weekly Review

5 January 1978

*ER EI 78-001
5 January 1978*

Approved For Release 2005/05/16 : CIA-RDP79T01316A000900010001-0

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FOREWORD

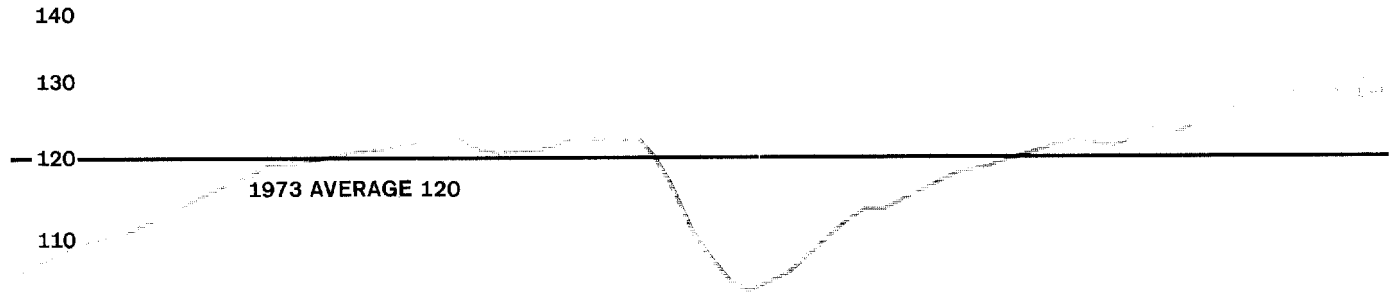
1. The **Economic Indicators Weekly Review** provides up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the **Economic Indicators Weekly Review** is updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks—or sometimes months—before receipt of official statistical publications. US data are provided by US government agencies.

2. Source notes for the **Economic Indicators Weekly Review** are revised every few months. The most recent date of publication of source notes is 20 October 1977. Comments and queries regarding the **Economic Indicators Weekly Review** are welcomed.

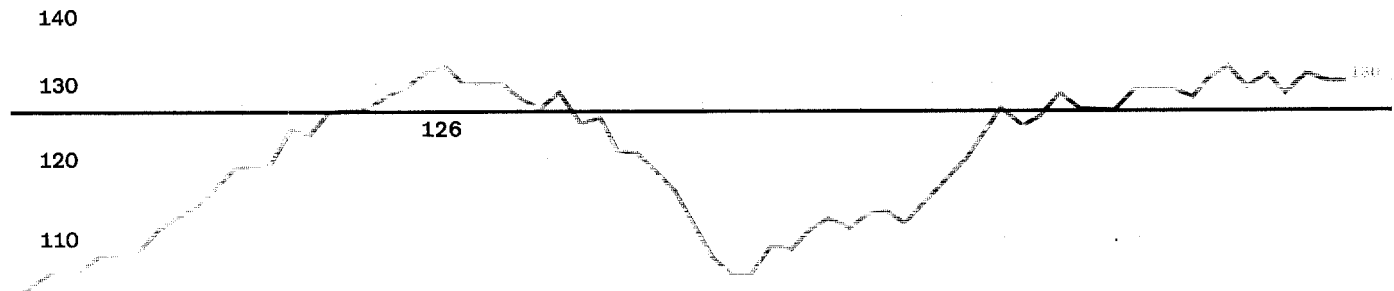
INDUSTRIAL PRODUCTION INDEX: 1970=100, seasonally adjusted

United States

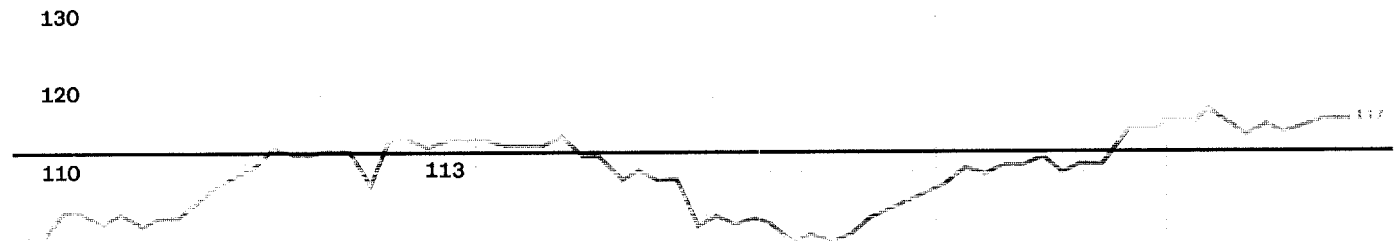
Semilogarithmic Scale



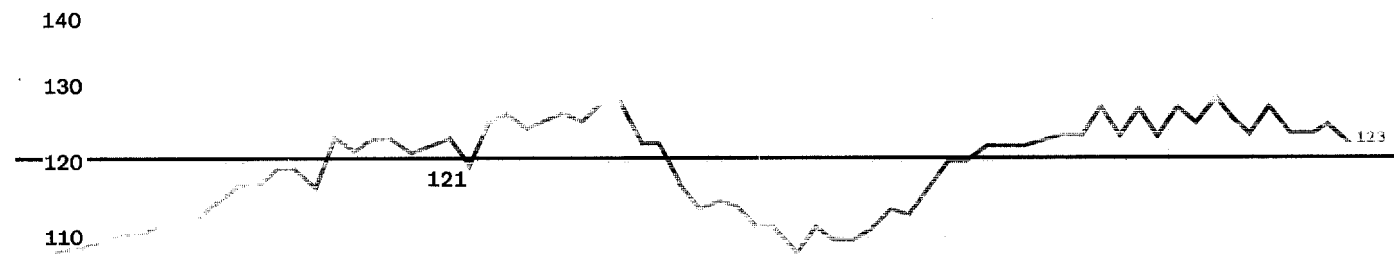
Japan



West Germany



France

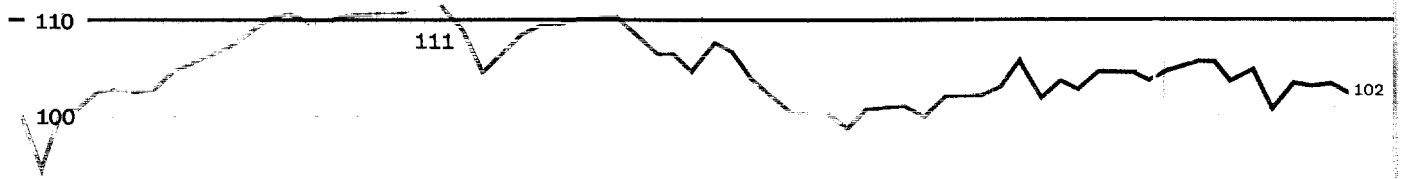


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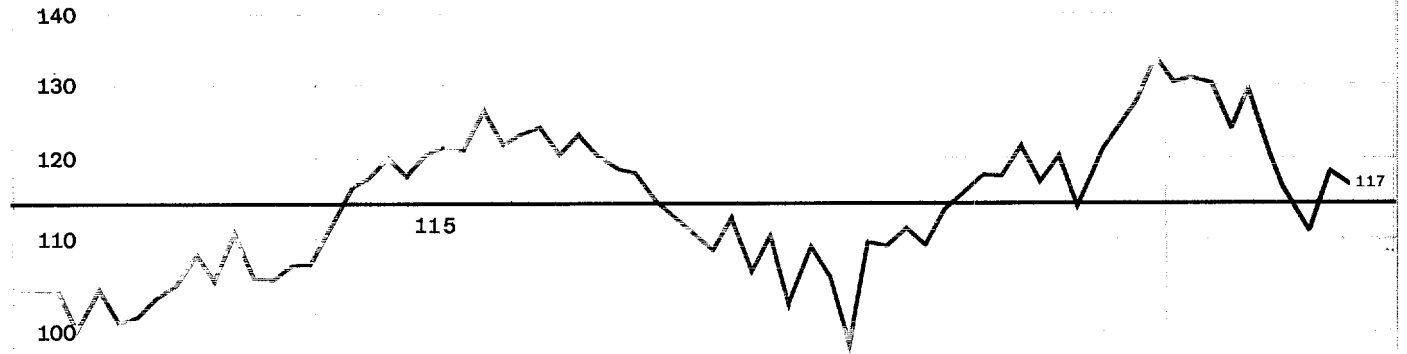
1972 1973 1974 1975 1976 1977

United Kingdom

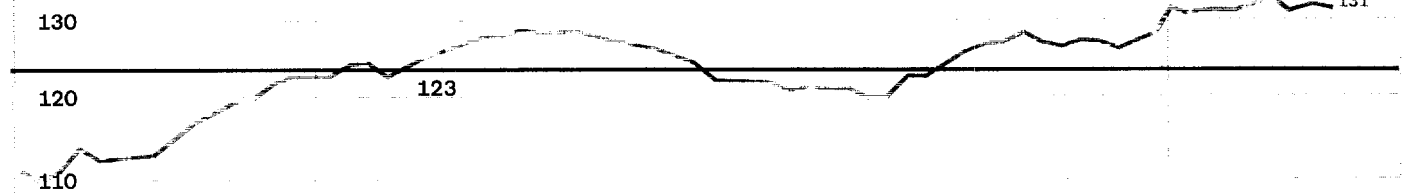
Semilogarithmic Scale



Italy



Canada



JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT
1972 1973 1974 1975 1976 1977

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE			LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE			
			1970	1 Year Earlier	3 Months Earlier ¹			1970	1 Year Earlier	3 Months Earlier ¹	
United States	NOV 77	0.5	3.6	6.1	2.6	United Kingdom	OCT 77	1.2	1.3	2.3	0.1
Japan	OCT 77	0.4	3.7	3.3	1.9	Italy	OCT 77	1.3	2.2	-5.7	-20.0
West Germany	OCT 77	0	2.2	1.7	4.7	Canada	SEP 77	-0.2	3.9	3.2	-1.3
France	OCT 77	1.6	2.9	0	4.2						

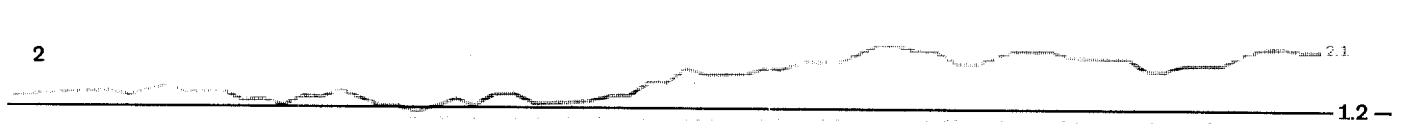
¹Average for latest 3 months compared with average for previous 3 months

UNEMPLOYMENT PERCENT OF LABOR FORCE

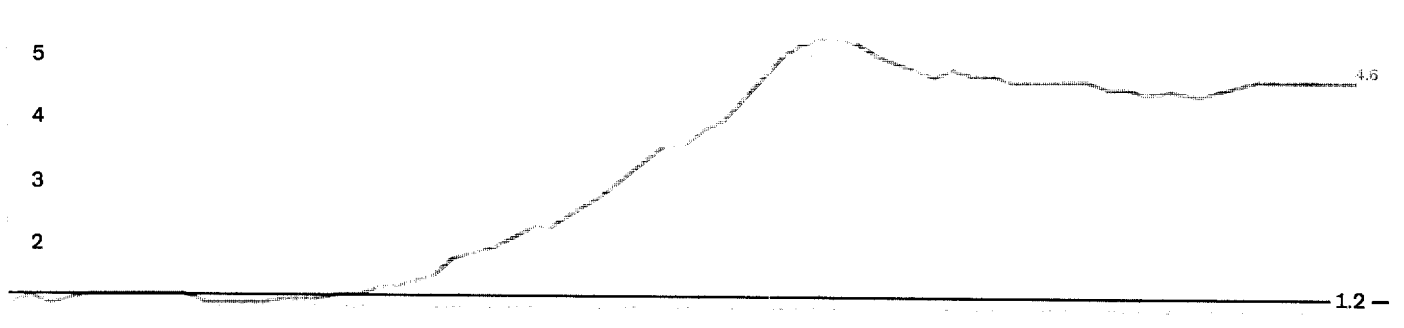
United States



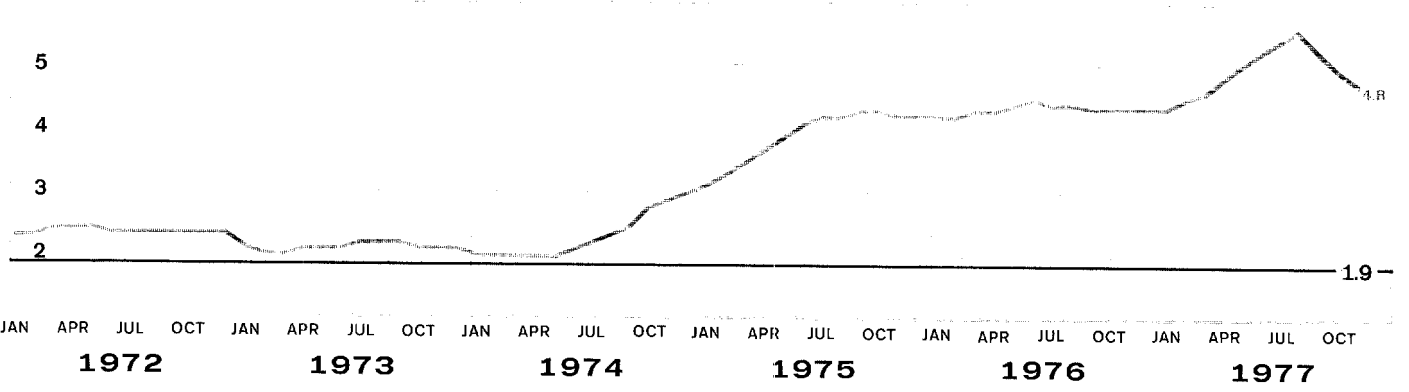
Japan



West Germany

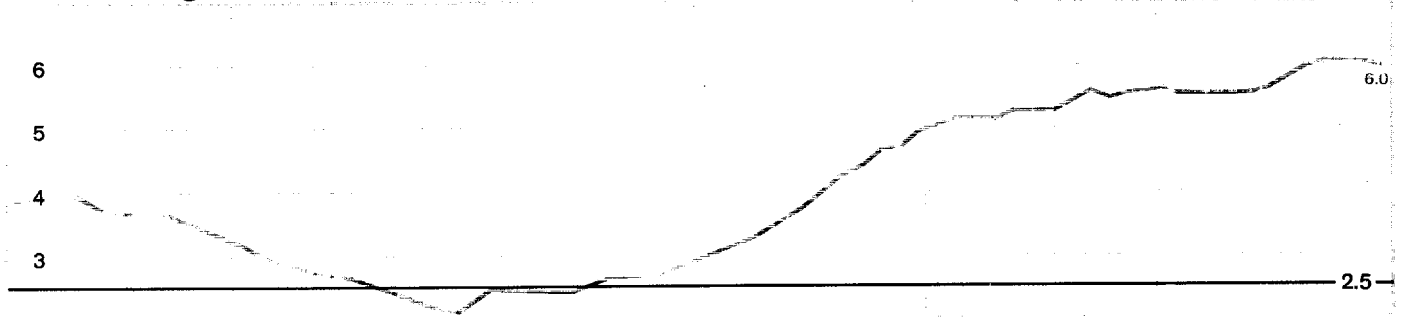


France



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1972 1973 1974 1975 1976 1977

United Kingdom



Italy (quarterly)



A labor force survey based on new definitions of economic activity sharply raised the official estimate of Italian unemployment in first quarter 1977. Data for earlier periods thus are not comparable. Italian data are not seasonally adjusted.

Canada



JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT
 1972 1973 1974 1975 1976 1977

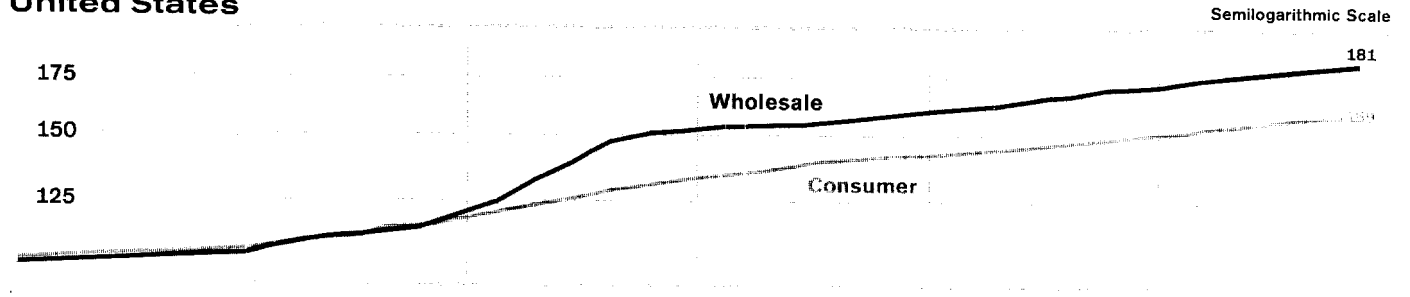
THOUSANDS OF PERSONS UNEMPLOYED

	LATEST MONTH	1 Year Earlier	3 Months Earlier		LATEST MONTH	1 Year Earlier	3 Months Earlier		
United States	NOV 77	6,818	7,651	6,926	United Kingdom	DEC 77	1,428	1,326	1,446
Japan	SEP 77	1,130	1,080	1,190	Italy	77 IV	1,598	777	1,692
West Germany	NOV 77	1,041	1,016	1,047	Canada	NOV 77	900	754	838
France	NOV 77	1,055	931	1,216					

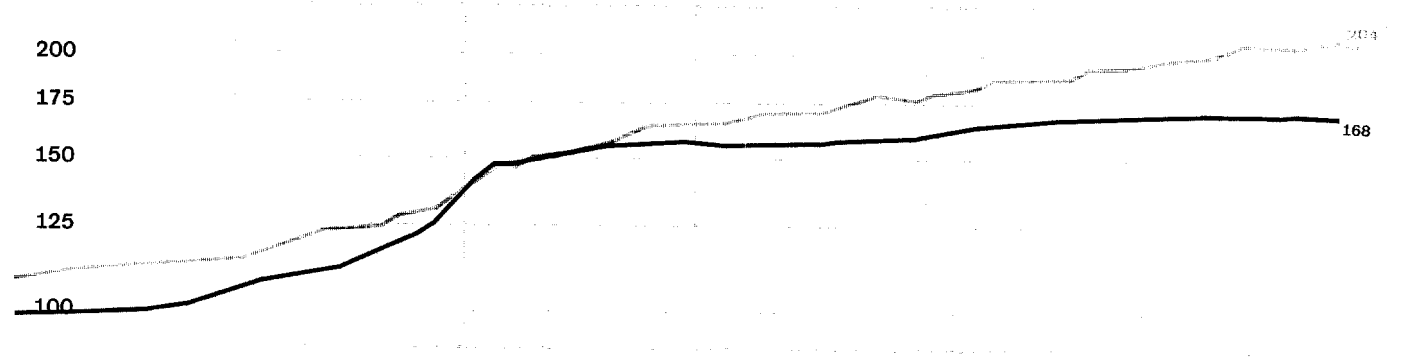
NOTE: Data are seasonally adjusted. Unemployment rates for France are estimated. The rates shown for Japan and Canada are roughly comparable to US rates. For 1975-77, the rates for France and the United Kingdom should be increased by 5 percent and 15 percent respectively, and those for West Germany decreased by 20 percent to be roughly comparable with US rates.

DOMESTIC PRICES¹ INDEX: 1970=100

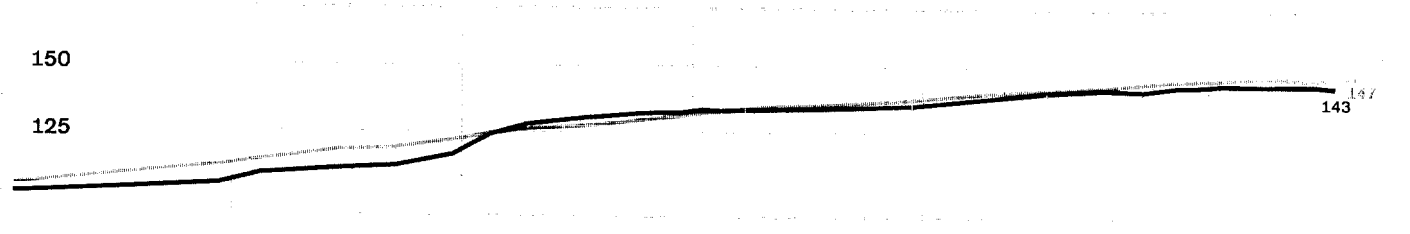
United States



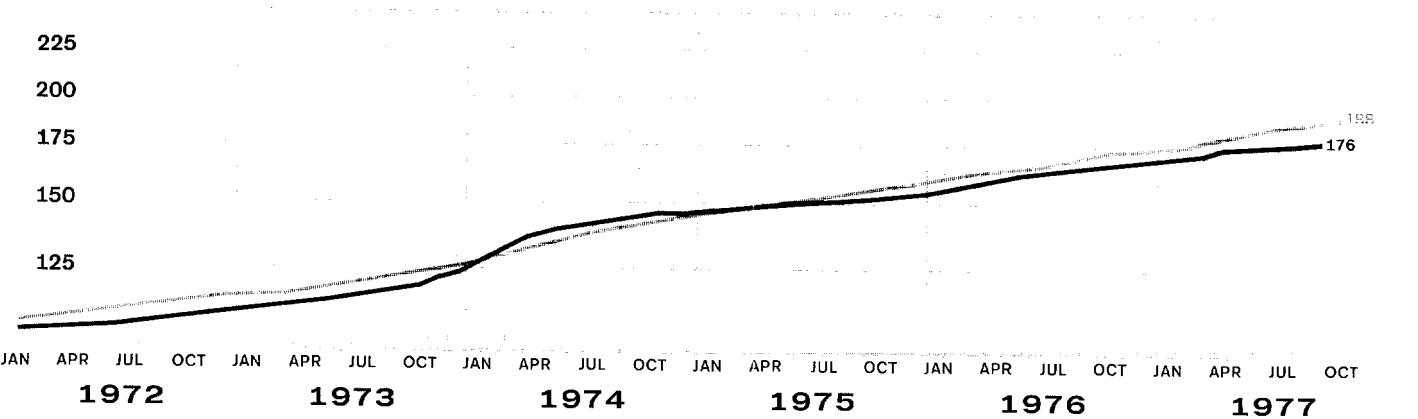
Japan



West Germany



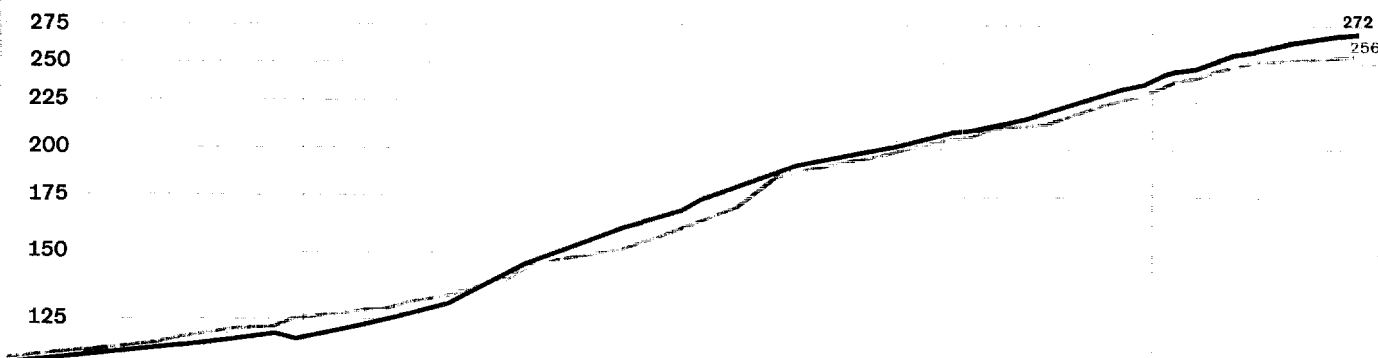
France



¹Wholesale price indexes cover industrial goods.

United Kingdom

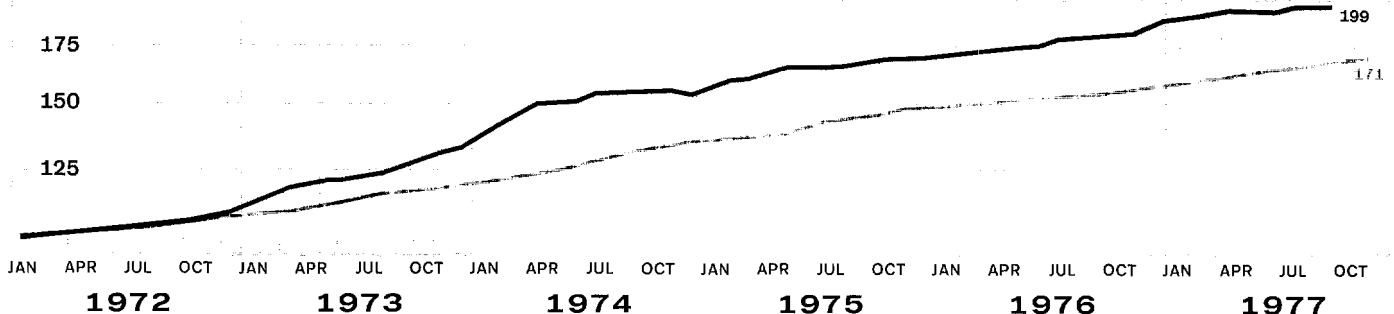
Semilogarithmic Scale



Italy



Canada



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE			LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE			
			1970	1 Year Earlier	3 Months Earlier			1970	1 Year Earlier	3 Months Earlier	
United States	NOV 77	0.1	8.4	6.5	4.8	United Kingdom	NOV 77	0.3	14.5	15.9	5.9
	OCT 77	0.3	6.5	6.5	4.2		NOV 77	0.5	13.6	13.0	6.0
Japan	OCT 77	-0.3	7.4	0.1	0	Italy	SEP 77	1.0	15.5	14.0	7.4
	NOV 77	-1.2	10.2	6.2	4.5		NOV 77	1.5	13.2	15.8	15.5
West Germany	OCT 77	-0.1	5.1	1.6	-0.8	Canada	SEP 77	0.1	10.0	9.5	9.3
	NOV 77	0.1	5.4	3.7	0.5		NOV 77	0.7	7.5	9.1	9.2
France	SEP 77	0.6	8.2	6.1	5.4						
	OCT 77	0.8	9.1	9.5	9.2						

GNP ¹

Constant Market Prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since		
			Percent Change		
			1970	1 Year Earlier	Previous Quarter
United States	77 III	0.9	3.2	4.6	3.8
Japan	77 III	0.5	5.4	5.1	1.8
West Germany	77 II	-0.2	6.3	2.4	-0.8
France	77 II	-0.6	3.8	2.5	-2.2
United Kingdom	77 II	0.7	1.6	1.9	2.9
Italy	77 II	-1.9	2.8	2.8	-7.3
Canada	77 III	1.3	4.9	2.5	5.3

¹ Seasonally adjusted.

RETAIL SALES ¹

Constant Prices

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			Percent Change		
			1970	1 Year Earlier	3 Months Earlier ²
United States	Oct 77	1.7	3.2	5.3	2.0
Japan	Jun 77	-0.1	9.8	2.6	1.4
West Germany	Sep 77	-0.8	2.3	1.7	9.5
France	Jun 77	7.7	-0.3	1.0	-8.1
United Kingdom	Nov 77	-0.4	0.8	-3.8	-1.7
Italy	Jul 77	-5.8	2.9	8.4	17.8
Canada	Sep 77	0.1	4.4	1.5	5.6

¹ Seasonally adjusted.

² Average for latest 3 months compared with average for previous 3 months.

FIXED INVESTMENT ¹

Non-residential; constant prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since		
			Percent Change		
			1970	1 Year Earlier	Previous Quarter
United States	77 III	1.0	2.1	7.8	4.2
Japan	77 II	0.5	1.1	4.5	2.0
West Germany	77 II	-1.6	0.4	3.4	-6.4
France	75 IV	8.8	4.2	2.9	40.1
United Kingdom	77 II	11.2	1.7	8.0	53.2
Italy	77 II	-7.8	2.5	10.3	-27.6
Canada	77 III	-1.1	5.8	3.2	-4.2

¹ Seasonally adjusted.

WAGES IN MANUFACTURING ¹

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
			Percent Change		
			1970	1 Year Earlier	3 Months Earlier ²
United States	Sep 77	0.4	7.5	6.6	6.5
Japan	Aug 77	2.2	17.0	9.8	8.7
West Germany	77 III	1.2	9.3	7.4	5.0
France	77 I	2.3	14.1	0	9.5
United Kingdom	Aug 77	0	15.3	3.0	3.5
Italy	Sep 77	0	20.8	23.8	22.3
Canada	Sep 77	1.6	11.4	11.2	9.6

¹ Hourly earnings (seasonally adjusted) for the United States, Japan, and Canada; hourly wage rates for others. West German and French data refer to the beginning of the quarter.

² Average for latest 3 months compared with that for previous 3 months.

MONEY MARKET RATES

	Representative rates	Latest Date	Percent Rate of Interest			
			1 Year Earlier	3 Months Earlier	1 Month Earlier	
United States	Commerical paper	Dec 14	6.60	4.65	6.00	6.56
Japan	Call money	Dec 16	5.00	7.00	4.88	4.50
West Germany	Interbank loans (3 months)	Dec 14	4.15	4.84	3.95	4.06
France	Call money	Dec 16	9.38	10.31	8.50	9.13
United Kingdom	Sterling interbank loans (3 months)	Dec 16	6.71	14.24	5.88	4.76
Canada	Finance paper	Dec 16	7.31	8.55	7.25	7.39
Eurodollars	Three-month deposits	Dec 16	7.11	4.95	6.59	7.09

Approved For Release 2005/05/16 : CIA-RDP79T01316A000900010001-0

EXPORT PRICES
US \$

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier
			Percent Change		
United States	Oct 77	-0.8	9.2	1.9	-1.3
Japan	Jul 77	-1.8	10.4	10.4	-4.4
West Germany	Sep 77	-1.5	11.0	6.2	3.6
France	Sep 77	-1.4	11.2	8.3	12.1
United Kingdom	Nov 77	3.2	11.5	24.8	27.3
Italy	Aug 77	1.4	11.4	13.2	21.1
Canada	Sep 77	-5.0	8.9	-2.4	-1.3

EXPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier
			Percent Change		
United States	Oct 77	-0.8	9.2	1.9	-1.3
Japan	Jul 77	-1.0	6.3	3.1	-5.3
West Germany	Sep 77	-1.2	4.2	-1.2	-2.3
France	Sep 77	-0.9	9.4	8.5	10.1
United Kingdom	Nov 77	0.4	15.8	12.4	6.8
Italy	Aug 77	1.4	16.9	19.2	19.2
Canada	Sep 77	-3.2	9.5	9.1	11.4

IMPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier
			Percent Change		
United States	Oct 77	-0.3	13.0	7.6	3.3
Japan	Jul 77	-1.5	10.5	-2.3	7.0
West Germany	Sep 77	-2.3	4.0	-1.3	-5.5
France	Sep 77	-1.0	10.1	7.4	0.6
United Kingdom	Nov 77	-1.3	18.3	3.7	-8.7
Italy	Aug 77	2.7	20.9	12.4	19.0
Canada	Sep 77	-3.6	8.7	15.9	9.7

OFFICIAL RESERVES

	Latest Month	Billion US \$			
		End of	Jun 1970	1 Year Earlier	3 Months Earlier
		Billion US \$			
United States	Oct 77	19.0	14.5	19.0	18.9
Japan	Nov 77	22.1	4.1	16.7	17.8
West Germany	Oct 77	35.7	8.8	35.8	35.1
France	Oct 77	10.1	4.4	9.6	9.9
United Kingdom	Oct 77	20.4	2.8	4.8	13.6
Italy	Oct 77	11.1	4.7	5.4	10.5
Canada	Nov 77	4.2	4.3	5.1	4.8

CURRENT ACCOUNT BALANCE¹

	Latest Period	Million US \$	Cumulative (Million US \$)		
			1977	1976	Change
			Percent Change		
United States ²	77 II	-4,605	-8,763	1,070	-9,833
Japan	Oct 77	1,356	7,834	2,452	5,382
West Germany	Nov 77	625	2,236	2,250	-14
France	77 III	-786	-2,809	-4,483	1,674
United Kingdom	77 II	-474	-1,490	-1,277	-213
Italy	77 II	161	-768	-2,859	2,091
Canada	77 II	-1,407	-2,956	-3,088	132

¹ Converted to US dollars at the current market rates of exchange.

² Seasonally adjusted.

BASIC BALANCE¹

Current and Long-Term-Capital Transactions

	Latest Period	Million US \$	Cumulative (Million US \$)		
			1977	1976	Change
			Percent Change		
United States			No longer published ²		
Japan	Oct 77	739	5,161	1,895	3,266
West Germany	Sep 77	-1,341	-4,642	1,655	-6,297
France	77 III	-1,123	-2,908	-6,121	3,214
United Kingdom	77 II	1,409	2,075	-1,119	3,195
Italy	77 II	97	-395	-2,963	2,568
Canada	77 II	-217	-791	1,701	-2,493

¹ Converted to US dollars at the current market rates of exchange.

² As recommended by the Advisory Committee on the Presentation of Balance of Payments Statistics, the Department of Commerce no longer publishes a basic balance.

EXCHANGE RATES

Spot Rate

As of 30 Dec 77

US \$	Per Unit	Percent Change from			
		19 Mar 73	1 Year Earlier	3 Months Earlier	23 Dec 77
		Percent Change from			
Japan (yen)	0.0042	9.65	22.18	7.78	0.72
West Germany (Deutsche mark)	0.4750	34.14	12.08	8.76	2.08
France (franc)	0.2124	-3.62	5.42	3.41	1.59
United Kingdom (pound sterling)	1.9160	-22.15	12.64	8.94	2.98
Italy (lira)	0.0011	-35.14	0.44	1.15	0.70
Canada (dollar)	0.9142	-8.37	-7.81	-0.54	0.15

TRADE-WEIGHTED EXCHANGE RATES¹

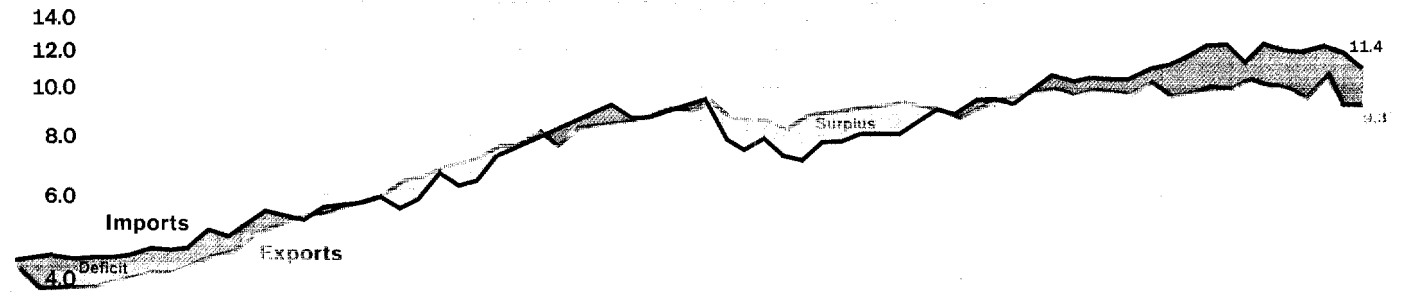
As of 30 Dec 77

	19 Mar 73	Percent Change from		
		1 Year Earlier	3 Months Earlier	23 Dec 77
		Percent Change from		
United States	1.65	-3.67	-3.89	-0.97
Japan	13.92	20.25	5.80	0.20
West Germany	31.32	6.38	3.23	0.55
France	-10.20	-1.57	-2.98	-0.06
United Kingdom	-25.97	8.64	4.07	1.65
Italy	-41.72	-6.30	-4.60	-0.93
Canada	-7.91	-9.86	-1.97	-0.21

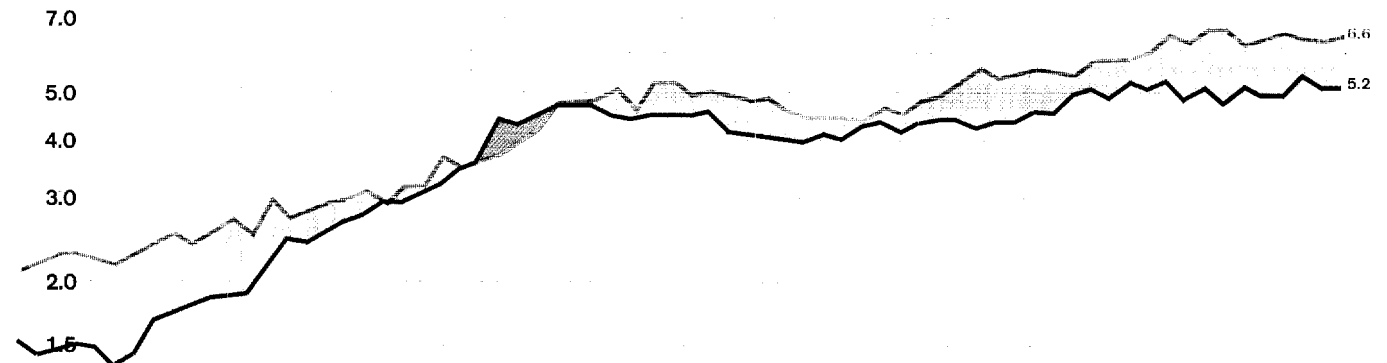
¹ Weighting is based on each listed country's trade with 16 other industrialized countries to reflect the competitive impact of exchange rate variations among the major currencies.

FOREIGN TRADE BILLION US \$, f.o.b., seasonally adjusted

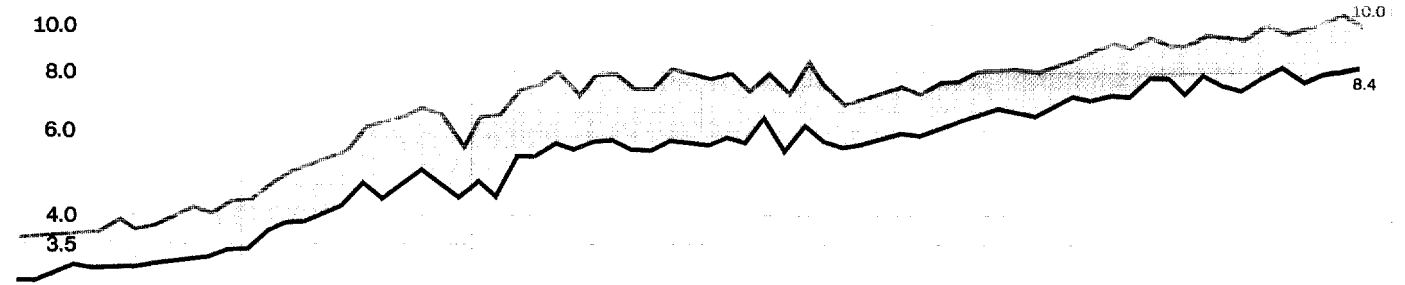
United States



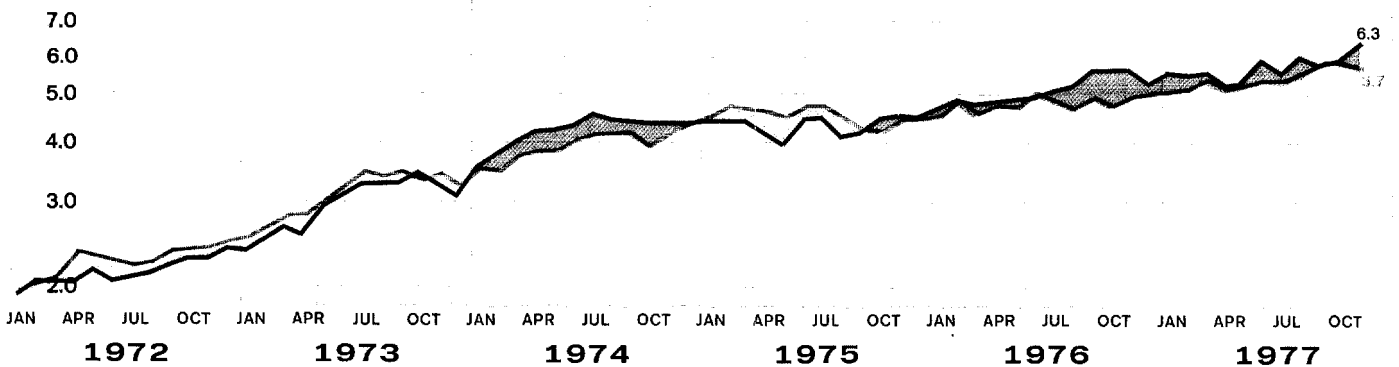
Japan



West Germany

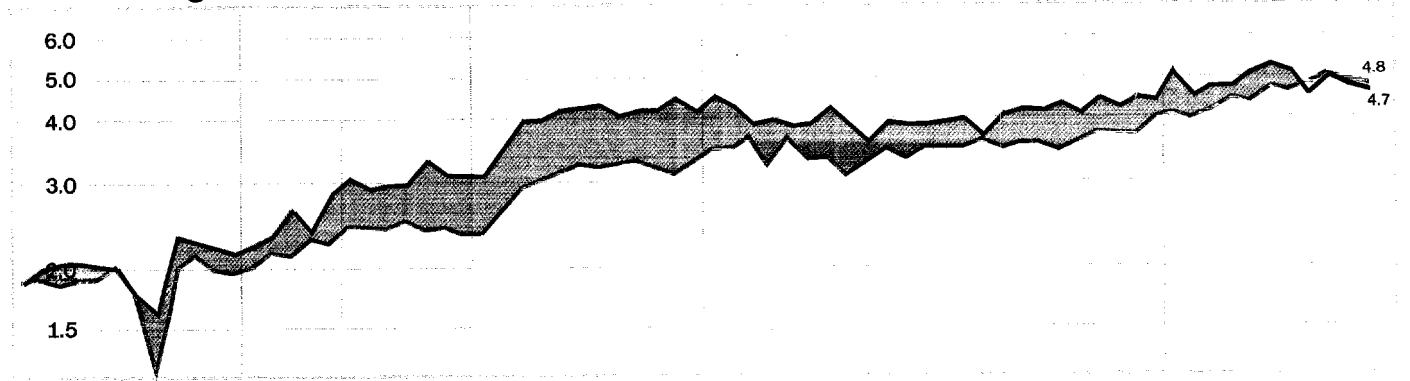


France

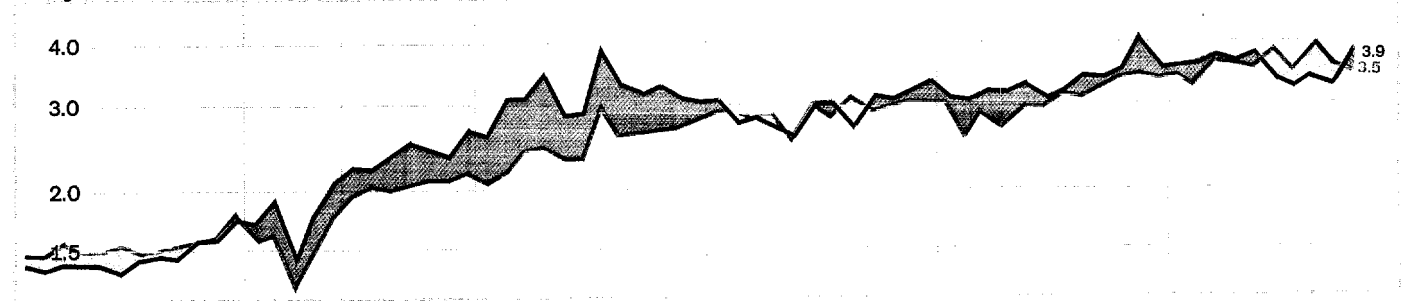


United Kingdom

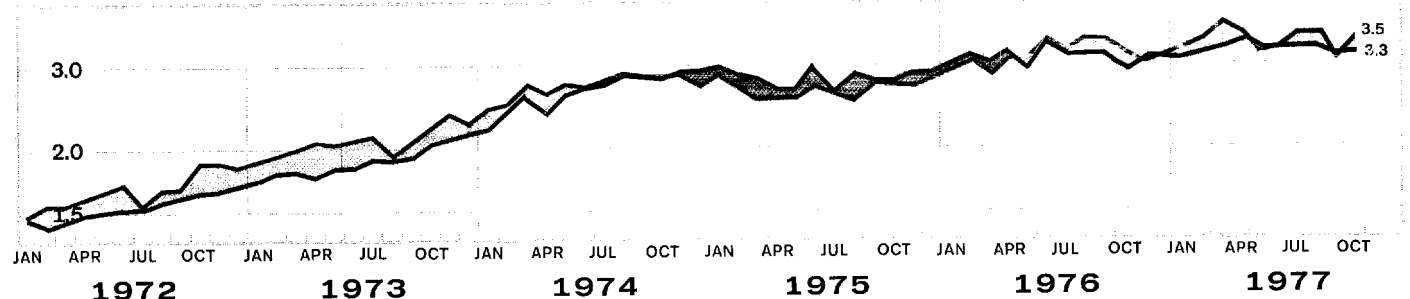
Semilogarithmic Scale



Italy



Canada

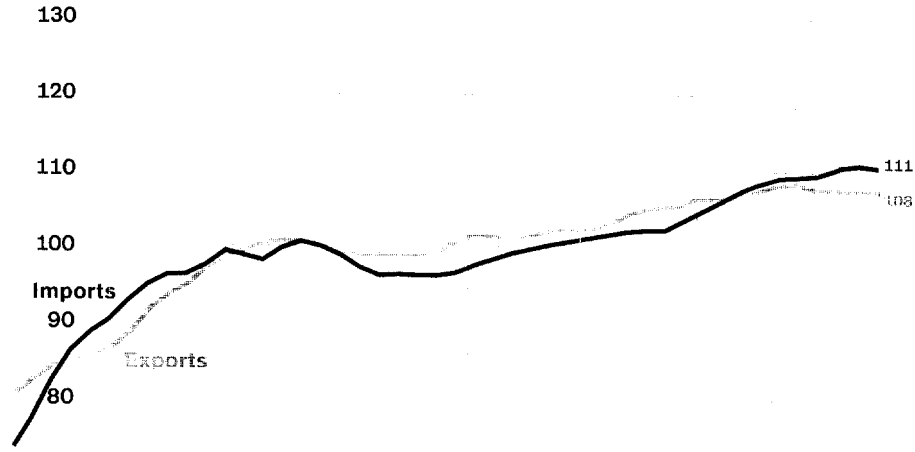


	LATEST MONTH	MILLION US \$	CUMULATIVE (MILLION US \$)			LATEST MONTH	MILLION US \$	CUMULATIVE (MILLION US \$)			
			1977	1976	CHANGE			1977	1976	CHANGE	
United States	OCT 77	9,304	109,078	104,463	4.4%	United Kingdom	OCT 77	4,830	50,923	40,228	26.6%
	Balance	<u>11,386</u>	<u>133,556</u>	<u>109,475</u>	<u>22.0%</u>		Balance	<u>4,697</u>	<u>53,687</u>	<u>46,355</u>	<u>15.8%</u>
Japan	OCT 77	6,580	65,066	54,025	20.4%	Italy	OCT 77	3,509	36,344	29,949	21.4%
	Balance	<u>5,168</u>	<u>51,065</u>	<u>45,731</u>	<u>11.7%</u>		Balance	<u>3,887</u>	<u>36,315</u>	<u>32,598</u>	<u>11.4%</u>
West Germany	OCT 77	10,046	106,794	92,096	16.0%	Canada	OCT 77	3,539	34,719	32,095	8.2%
	Balance	<u>8,357</u>	<u>87,339</u>	<u>75,375</u>	<u>15.9%</u>		Balance	<u>3,272</u>	<u>33,195</u>	<u>31,532</u>	<u>5.3%</u>
France	OCT 77	5,710	59,184	51,885	14.1%						
	Balance	<u>6,259</u>	<u>61,832</u>	<u>55,826</u>	<u>10.8%</u>						
	Balance	26	-2,098	-3,176	1,078						

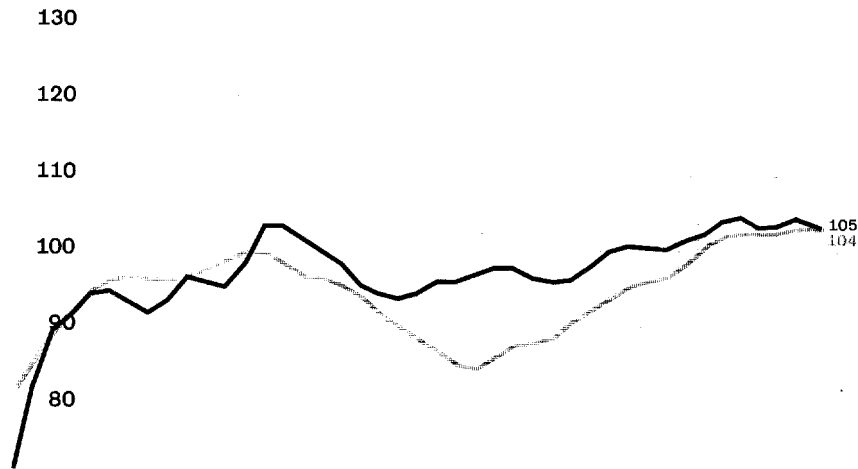
FOREIGN TRADE PRICES IN US \$¹

United States

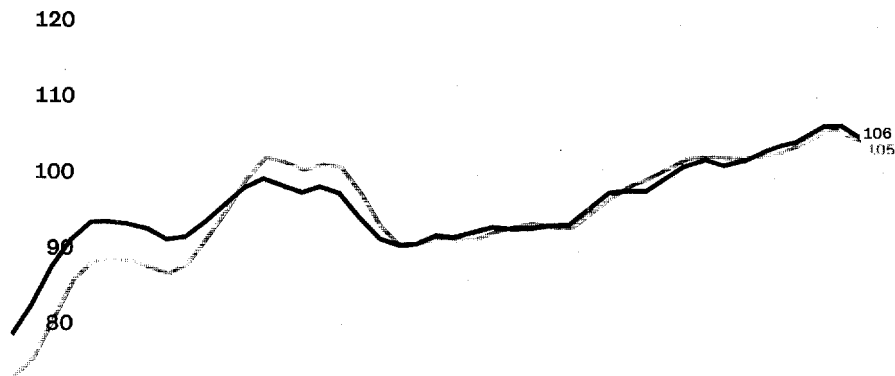
INDEX: JAN 1975 = 100



Japan



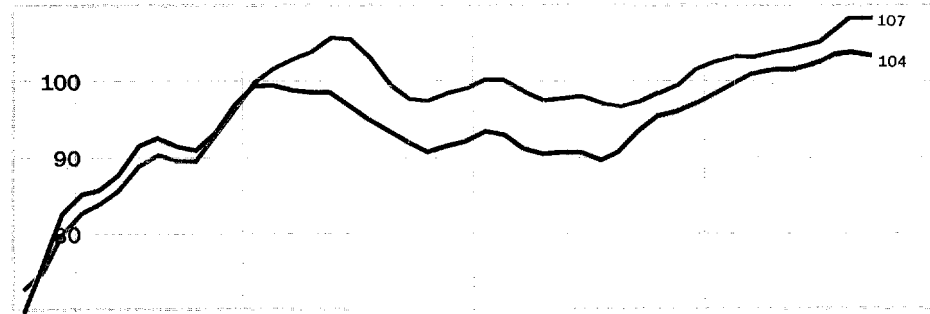
West Germany



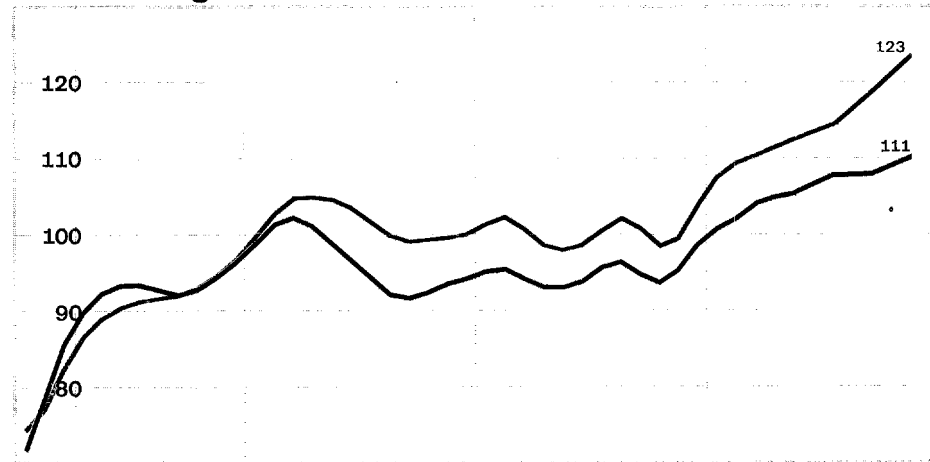
JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT

¹Export and import plots are based on five month weighted moving averages.

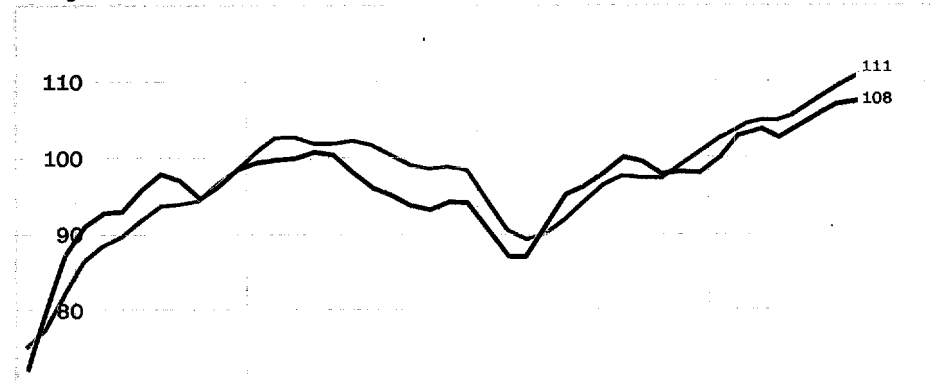
France



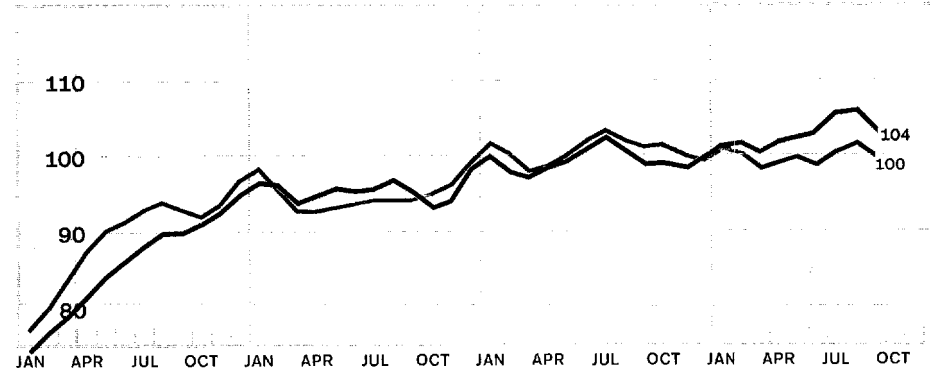
United Kingdom



Italy



Canada



Approved For Release 2005/05/16 : CIA-RDP79T01316A000900010001-0
SELECTED DEVELOPING COUNTRIES

INDUSTRIAL PRODUCTION ¹

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
			Percent Change		
			1970	1 Year Earlier	3 Months Earlier ²
Brazil	76 II	0.1	11.0	10.7	0.4
India	Jul 77	-4.7	4.3	2.0	-7.2
South Korea	Aug 77	4.7	22.7	13.6	49.3
Mexico	Jul 77	1.0	6.0	4.7	21.6
Nigeria	76 IV	0.2	11.3	9.0	0.7
Taiwan	Sep 77	7.2	15.0	12.3	-2.0

¹ Seasonally adjusted.

² Average for latest 3 months compared with average for previous 3 months.

MONEY SUPPLY ¹

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since	
			Percent Change	
			1970	1 Year Earlier
Brazil	Aug 77	0	36.7	46.2
India	Jun 77	0.3	12.0	16.9
Iran	Aug 77	1.6	28.3	15.6
South Korea	Sep 77	9.5	32.6	56.3
Mexico	Aug 77	0.7	18.7	30.1
Nigeria	Apr 77	-2.3	36.9	47.5
Taiwan	Jul 77	1.4	24.4	27.1
Thailand	Jun 77	-1.8	13.1	12.0

¹ Seasonally adjusted.

CONSUMER PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since	
			Percent Change	
			1970	1 Year Earlier
Brazil	Oct 77	2.7	27.2	42.1
India	Sep 77	1.2	8.5	9.6
Iran	Sep 77	0.7	12.3	30.2
South Korea	Sep 77	0.3	14.5	9.2
Mexico	Sep 77	1.8	15.0	32.2
Nigeria	Jun 77	4.0	16.2	23.7
Taiwan	Sep 77	-1.9	10.9	10.4
Thailand	Aug 77	1.1	8.7	9.9

WHOLESALE PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since	
			Percent Change	
			1970	1 Year Earlier
Brazil	Sep 77	1.6	27.1	34.4
India	Sep 77	0	9.2	4.8
Iran	Oct 77	0.5	10.1	13.1
South Korea	Sep 77	0.7	16.3	9.4
Mexico	Sep 77	0.5	16.5	44.6
Taiwan	Sep 77	-0.5	8.9	3.8
Thailand	Jul 77	1.0	10.1	7.1

EXPORT PRICES

US \$

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since	
			Percent Change	
			1970	1 Year Earlier
Brazil	Jul 77	-12.4	16.3	28.4
India	Feb 77	8.0	10.4	8.9
Iran	Aug 77	0	35.0	18.7
South Korea	77 II	1.4	8.7	8.5
Nigeria	May 76	-0.1	27.3	12.3
Taiwan	Aug 77	-0.3	11.8	5.3
Thailand	Dec 76	2.0	13.3	13.1

OFFICIAL RESERVES

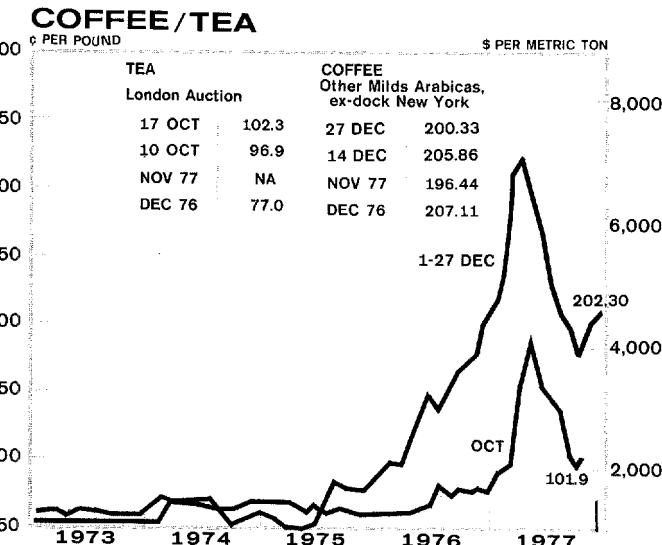
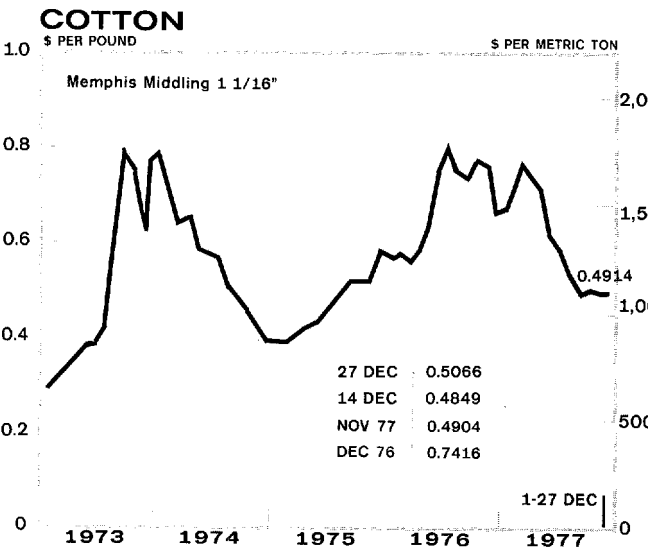
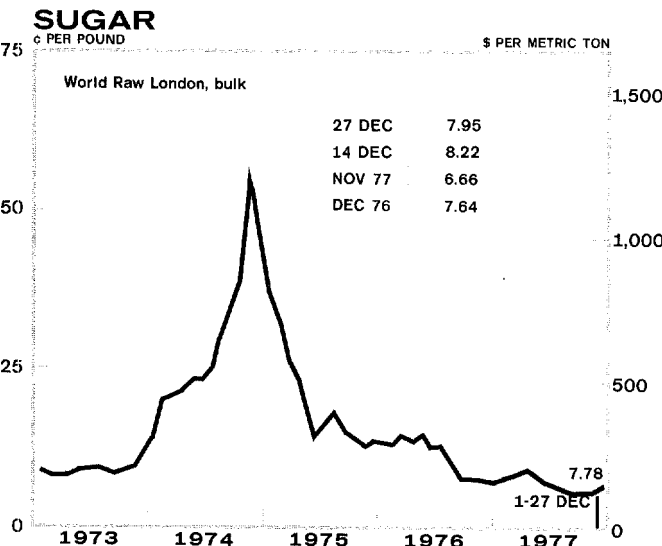
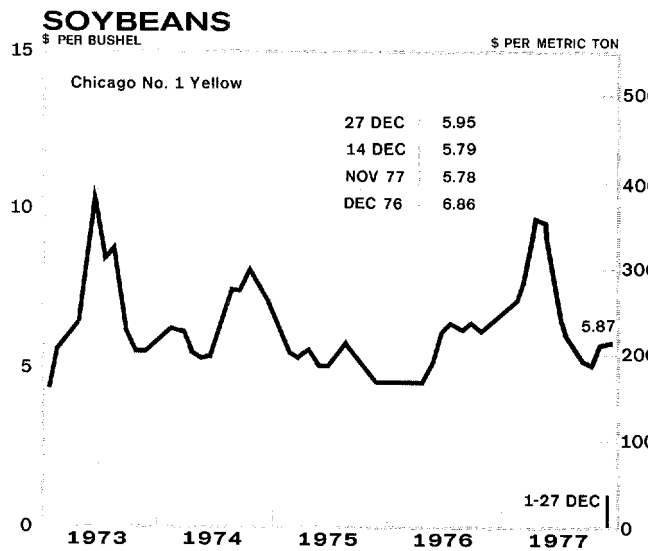
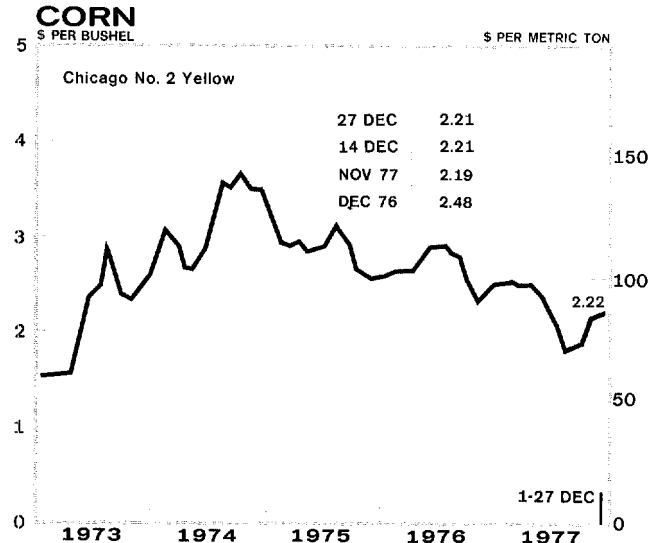
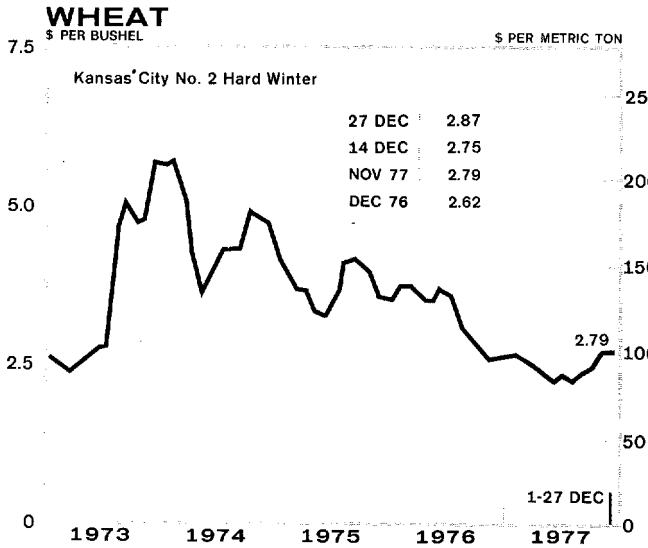
	Million US \$				
	Latest Month		Annual Growth Rate Since		
	End of	Million US \$	1 Year Earlier	3 Months Earlier	Jun 1970
Brazil	Jun 77	5,707	1,013	3,716	5,863
India	Oct 77	4,886	1,006	2,778	4,395
Iran	Oct 77	11,547	208	8,542	11,592
South Korea	Sep 77	4,040	602	2,374	3,502
Mexico	Mar 76	1,501	695	1,479	1,533
Nigeria	Oct 77	4,551	148	5,635	4,495
Taiwan	Aug 77	1,416	531	1,586	1,331
Thailand	Oct 77	1,906	978	1,937	2,017

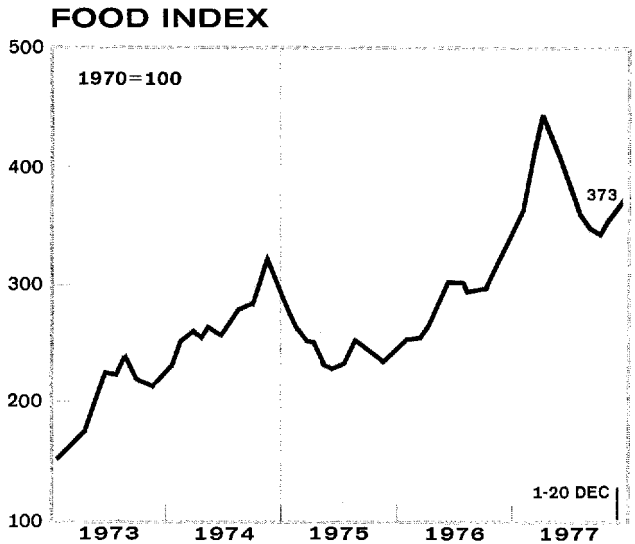
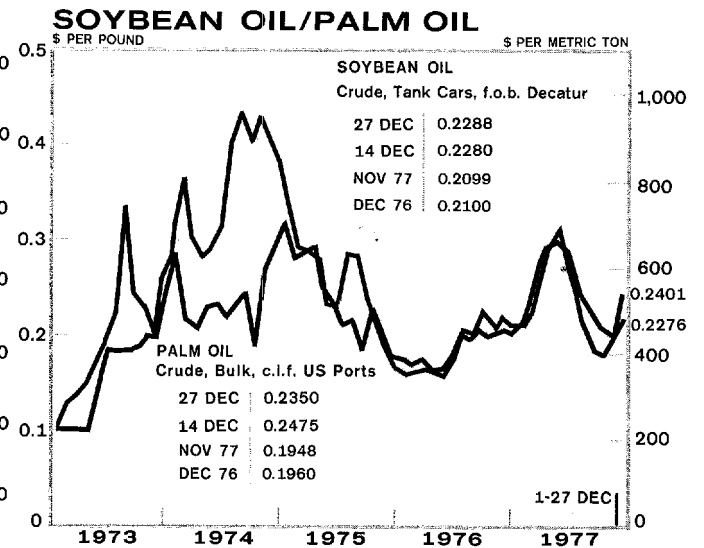
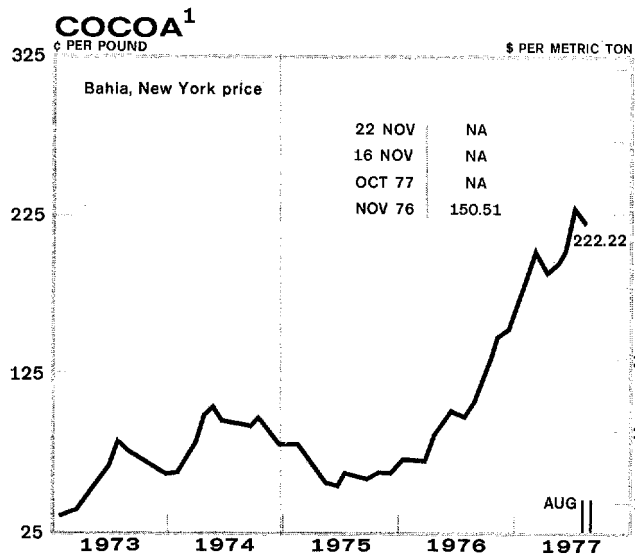
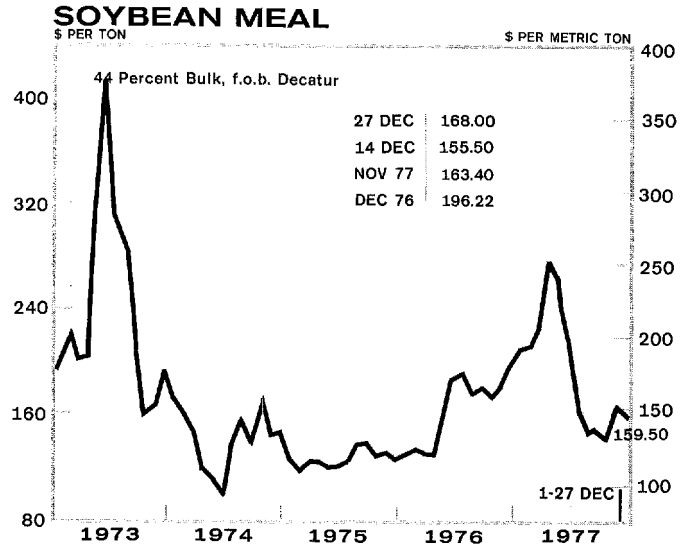
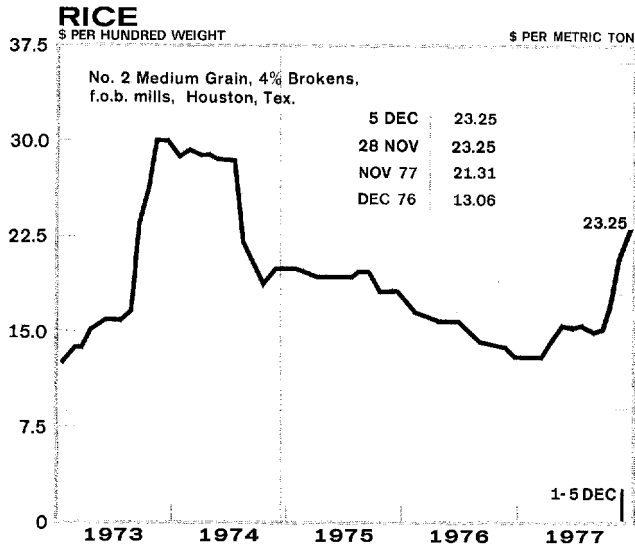
FOREIGN TRADE, f.o.b.

			Latest 3 Months		Cumulative (Million US \$)		
			Percent Change from				
Latest Period			3 Months	1 Year	Earlier 1977	1976	Change
			Earlier ¹				
Brazil	Oct 77	Exports	-47.7	5.0	10,171	8,119	25.3%
	Oct 77	Imports	11.4	-4.4	9,989	10,250	-2.5%
	Oct 77	Balance			182	-2,131	2,313
India	Jul 77	Exports	-42.6	1.8	3,165	2,923	8.3%
	Jul 77	Imports	10.6	2.7	2,529	2,480	2.0%
	Jul 77	Balance			636	443	193
Iran	Sep 77	Exports	0.2	-0.3	17,793	16,865	5.5%
	Sep 77	Imports	2.8	3.5	9,479	9,301	1.9%
	Sep 77	Balance			8,313	7,564	749
South Korea	Aug 77	Exports	43.9	20.3	6,217	4,838	28.5%
	Aug 77	Imports	16.4	18.8	6,265	5,121	22.3%
	Aug 77	Balance			-47	-283	235
Mexico	Aug 77	Exports	-46.9	30.5	2,743	2,125	29.1%
	Aug 77	Imports	101.8	-16.5	3,260	4,070	-19.9%
	Aug 77	Balance			-517	-1,945	1,428
Nigeria	Sep 77	Exports	-18.9	14.6	3,638	2,940	23.7%
	Dec 76	Imports	86.7	8.4	2,531	1,990	27.2%
	Dec 76	Balance			1,502	1,102	399
Taiwan	Sep 77	Exports	28.7	9.0	6,637	5,902	12.5%
	Sep 77	Imports	-13.9	6.1	5,722	5,111	11.9%
	Sep 77	Balance			915	790	125
Thailand	Aug 77	Exports	-18.7	26.3	2,392	1,911	25.2%
	Aug 77	Imports	28.4	40.2	2,716	2,101	29.3%
	Aug 77	Balance			-324	-190	-134

¹ At annual rates.

AGRICULTURAL PRICES MONTHLY AVERAGE CASH PRICE

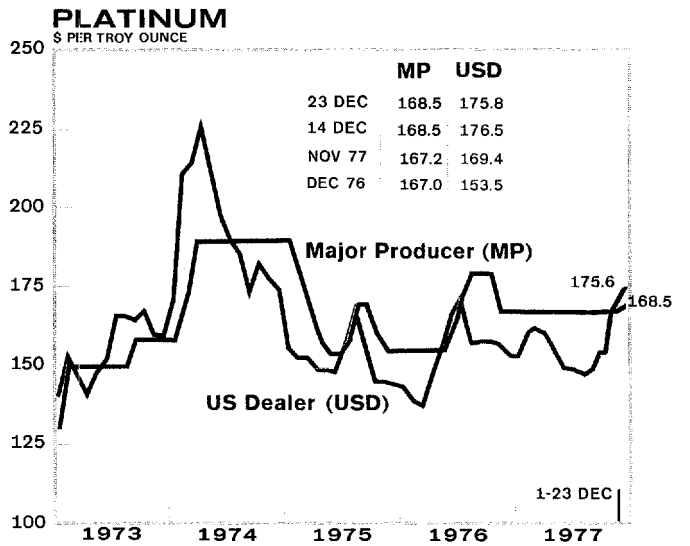
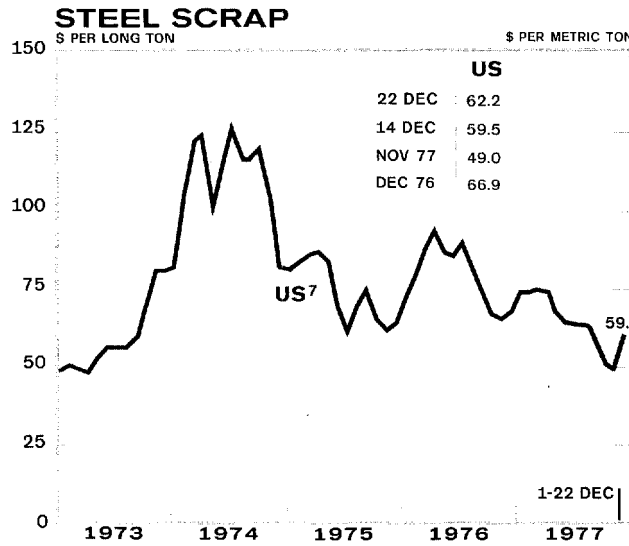
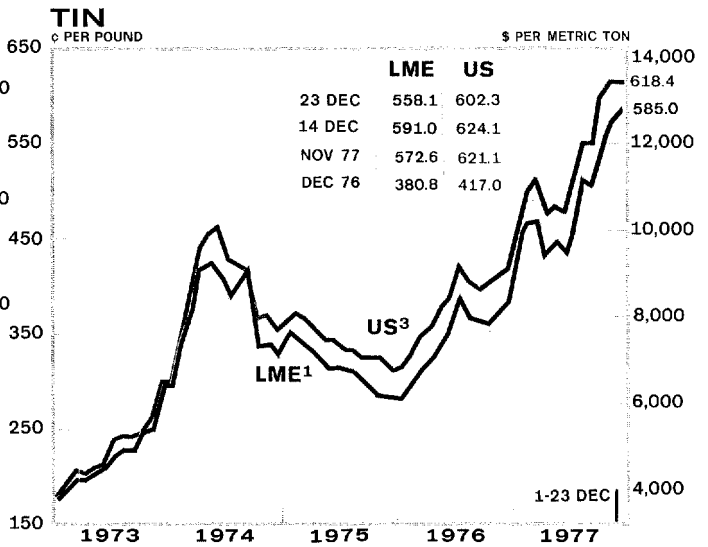
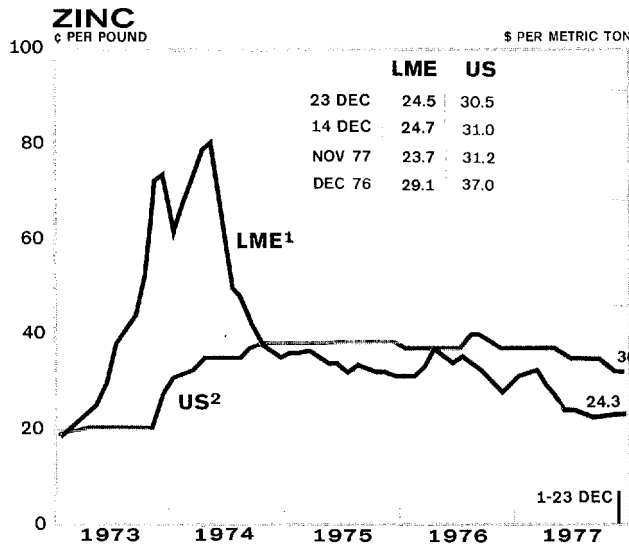
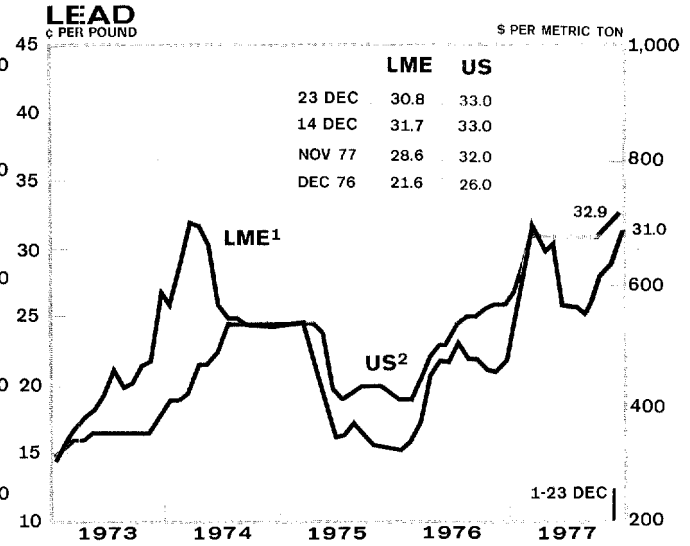
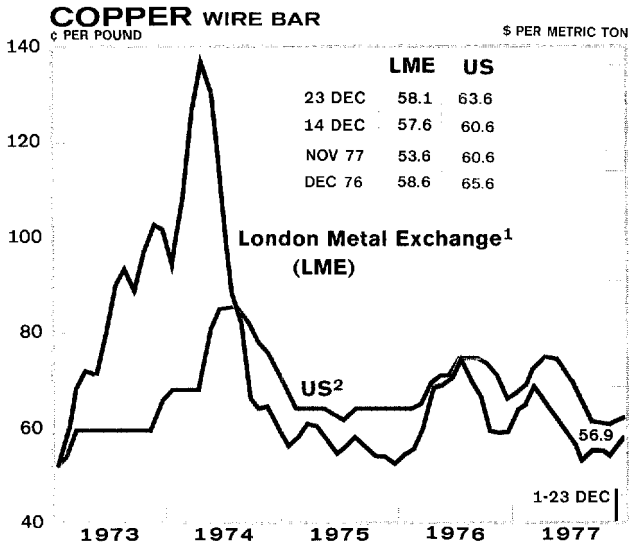




¹The chart on Cocoa prices will be deleted because the data are not available.

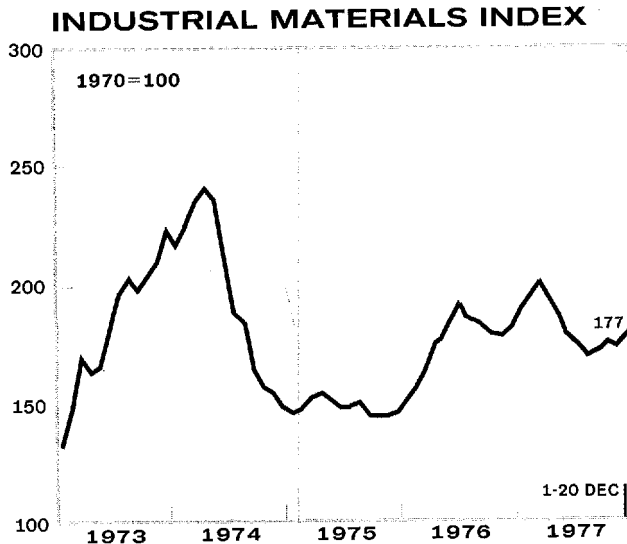
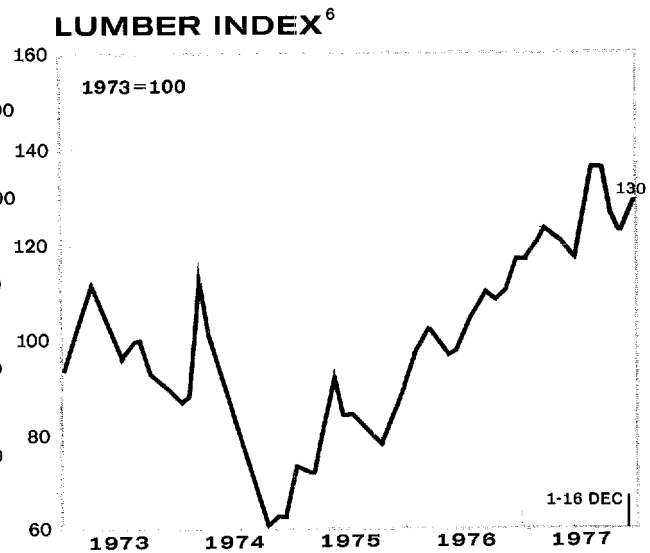
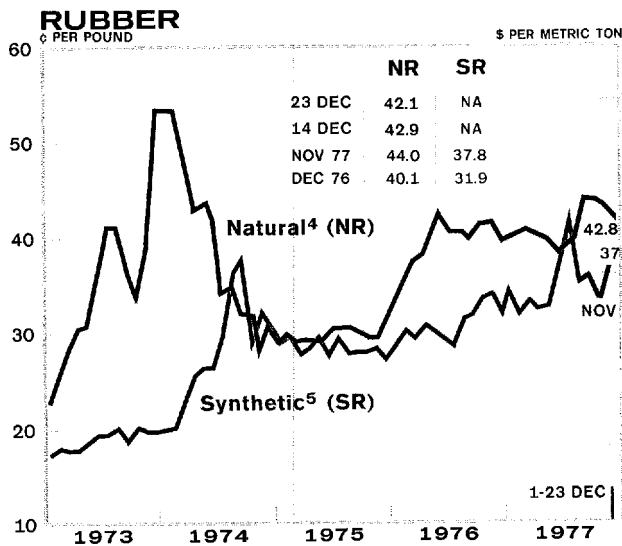
NOTE: The food index is compiled by the *Economist* for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

INDUSTRIAL MATERIALS PRICES MONTHLY AVERAGE CASH PRICE



SELECTED MATERIALS

			CURRENT	JUN 77	DEC 76	DEC 75
ALUMINUM	Major US Producer	£ per pound	53.00	44.00	48.00	41.00
US STEEL	Composite	\$ per long ton	359.36	316.36	333.78	306.72
IRON ORE	Non-Bessemer Old Range	\$ per long ton	21.43	19.50	20.51	18.75
CHROME ORE	Russian, Metallurgical Grade	\$ per metric ton	150.00	150.00	150.00	150.00
CHROME ORE	S. Africa, Chemical Grade	\$ per long ton	58.50	39.00	42.00	44.50
FERROCHROME	US Producer, 66-70 Percent	£ per pound	41.00	45.00	43.00	52.00
NICKEL	Composite US Producer	\$ per pound	2.07	2.20	2.41	2.20
MANGANESE ORE	48 Percent Mn	\$ per long ton	72.24	72.00	72.00	67.20
TUNGSTEN ORE	Contained Metal	\$ per metric ton	21,564.00	13,954.00	18,352.00	10,960.00
MERCURY	NY	\$ per 76 pound flask	123.00	110.00	134.50	120.00
SILVER	LME Cash	£ per troy ounce	467.96	478.82	434.62	408.93
GOLD	London Afternoon Fixing Price	\$ per troy ounce	159.82	125.71	133.79	139.30



¹Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.

²Producers' price, covers most primary metals sold in the U.S.

³As of 1 Dec 75, US tin price quoted is "Tin NY lb composite."

⁴Quoted on New York market.

⁵S-type styrene, US export price.

⁶This index is compiled by using the average of 13 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.

⁷Composite price for Chicago, Philadelphia, and Pittsburgh h.

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

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