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NCE WEEKLY
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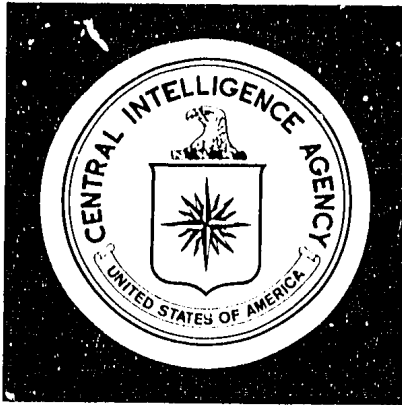
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Economic Intelligence Weekly

Secret

CIA No. 7930/74
14 March 1974

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

Note: Comments and queries regarding this publication are welcomed. They may be directed to Mrs.

SECRET**ECONOMIC INTELLIGENCE WEEKLY****Articles****COAL BEGINS COMEBACK**

Because of the world energy crisis, coal has begun a comeback featured by a strong rise in US production. The comeback should gradually pick up momentum and become more widespread over the next several years.

World output, which rose by 2% in 1973, is expected to increase by 3% this year to 2,240 million tons. This should halt the rapid decline in coal's share of world energy -- from 49% in 1961 to 30% at present. This year's increase is equivalent to 1 million barrels of oil per day.

More than one-half the 1974 increase will occur in the United States, where production is scheduled to rise 8%. This gain will more than offset the declines arising from labor problems in the West German and British industries. Output will grow moderately in Australia and South Africa, as well as in India, which has undertaken a crash program. Among the Communist countries, the USSR and Poland will show small output increases, while China's production will jump by 6%.

World Coal Output¹

	Million Tons		
	1972	1973 Estimate	1974 Forecast
Total	2,128	2,167	2,238
Free World	1,103	1,106	1,140
United States	537	530	570
United Kingdom	120	130	120
West Germany	108	103	98
India	78	79	82
Australia	60	61	65
South Africa	58	62	65
Other	142	141	140
Communist countries	1,025	1,061	1,098
USSR	451	460	470
Poland	151	157	162
China ²	357	378	400
Other	66	66	66

1. Unless otherwise indicated, data are for anthracite and bituminous coal. In energy content, one ton of coal equals approximately 0.67 ton (5 barrels) of crude oil.

2. Including a negligible amount of lignite.

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Last year's sharp oil price hikes and embargoes, coupled with expanding long-run energy needs, offer ample incentive for greatly increased coal output. But short-term growth in production is limited by the long lead times – two to three years – in opening new mines and by a shortage of experienced miners. The outlook for the next several years is for steady expansion of coal output as (a) prices rise; (b) new mines are gradually opened; and (c) employment responds to job opportunities, higher wages, and improved working conditions. This conclusion assumes that higher prices for coal will be sustained by the US and West European governments to reduce dependence on imported oil. [REDACTED]

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**WILSON REAFFIRMS COMMITMENT
TO RENEGOTIATE EC MEMBERSHIP**

In seeking a fundamental change in Britain's terms of participation in the EC, the new Labor government starts with two main objectives.

- It hopes to bring about extensive changes in the EC's common agricultural policy (CAP). Many Britons blame the CAP for high domestic food prices.
- It wants to strike a more equitable balance in financing the Community budget. British contributions of \$390 million far exceed receipts of \$200 million.

Although not cited as a renegotiation point, the impact of EC membership on Britain's mounting trade deficit is perhaps another factor in the government's decision.

In pre-election speeches, new Foreign Secretary Callaghan – the central figure in renegotiations -- indicated that the United Kingdom would suspend further steps toward complete integration. The minority government, however, will have to act cautiously to avoid alienating pro-EC forces in the House of Commons. The British Liberal Party, whose support is necessary for Labor's survival, strongly favors economic integration through the EC.

The first clear indications of how hard a line the Wilson government feels it can take will come later this month. EC agricultural ministers will meet to discuss CAP support prices, and London must decide whether it will raise tariffs on some non-EC food imports as scheduled for 1 April.

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SECRET**GRAY SKIES FOR WEST EUROPEAN AIRCRAFT PRODUCERS**

Commercial airliners built in Western Europe have found hard sledding in international markets long dominated by US manufacturers. Sales of consortium-built aircraft, the Concorde and the A 300 AIRBUS, have been particularly disappointing. More success has been realized in sales of independently produced aircraft, which usually have no direct US counterparts.

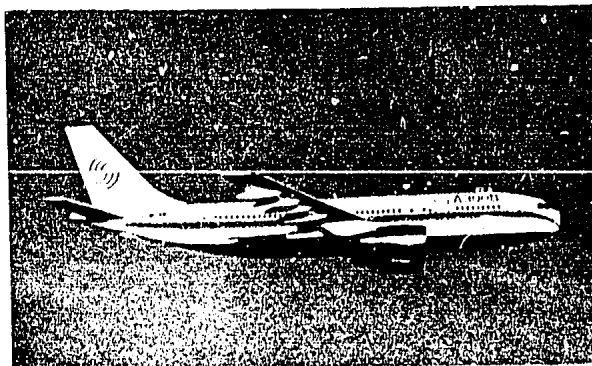
Consortium Aircraft

The Anglo-French Concorde, plagued by huge cost overruns, a spiraling sales price, and environmental constraints, has been further hit by the fuel crisis. Fuel consumption per seat-mile is 50% more than for the Boeing 747. At a time when demand for passenger aircraft has shrunk, the Concorde is thus especially unattractive.

**Anglo-French Concorde**

Since its announcement a decade ago, the \$40 million Concorde has picked up only nine firm purchase orders—five from British Airways and four from Air France. In a desperate effort to shore up the program, the French have surfaced a proposal to increase fuel capacity and range. This might result in some new buyers but hardly enough to make the program an economic success. So far, the British and French governments have each poured more than a billion dollars into the Concorde.

Similarly, Europe's AIRBUS consortium—France, Britain, West Germany, the Netherlands, and Spain—may sustain enormous losses. The breakeven point for production was put at about 250 aircraft. Yet, because of production delays and competition from the McDonnell Douglas DC-10 and the Lockheed L-1011, only 14 firm sales have been concluded.

**A 300 AIRBUS**

SECRET**France**

The worsening consortium situation has been compounded in France by poor sales prospects for independently produced aircraft. An example of the deteriorating French civil aviation scene is the fate of the 110-passenger short-range Dassault Mercure, scheduled to begin service this summer. Despite forecasts of a market potential for 1,800 aircraft, only 10 orders have been confirmed. French officials, as a result, are questioning continued expenditures for aircraft yet to move to production—the Dassault Falcon 30/40 for feeder airlines and the Aerc spatiale Corvette executive jet.

Britain

British aviation, on the other hand, is in a stronger position than at any time in recent years. A key factor has been China's purchases of Hawker-Siddeley Trident aircraft; orders, consisting principally of medium-range 2-Es, began in November 1971 and now total 35 aircraft. This backlog has been augmented by increased sales of the HS-125 executive jet and the continued success of the HS-748, a 50-passenger short-range twin turboprop.

West Germany and the Netherlands

Both West Germany and the Netherlands have limited their participation in major consortium projects and have themselves manufactured aircraft only for special markets. The Netherlands' Fokker Friendship-27, a short-range aircraft with alternative passenger-cargo configurations, achieved instant success. More than 550 were built between 1955 and 1969. Similarly, the larger F-28 Fellowship, introduced in 1969, is off to a strong start—with 76 sold to date. The F-28 is a joint product of Fokker and West Germany's Vereinigte Flugtechnische Werke GmbH (VFW), which merged in 1969. Their newest entry, the short-range VFW-Fokker-614, has had a strong order book, and deliveries are scheduled to begin in early 1975.

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SOUTH AFRICA: PAYING FOR OIL WITH GOLD

A steep rise in international gold prices since mid-January portends a healthy South African balance of payments in 1974, despite a tripling of oil import costs.

Pretoria marketed 824 tons of gold in 1973 — or nearly all of current production — for a record \$2.6 billion. This paid half of South Africa's import bill. Foreign reserves, nevertheless, were drawn down 44% in the

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last half of the year to offset an expanding trade deficit and growing net capital outflows. In January-February 1974, the steep rise in gold prices to as much as \$184 an ounce reversed the foreign exchange drain without an increase in the volume of sales.

South Africa: Gold Production, Sales, and Stocks

	Tons			
	1970	1971	1972	1973 Preliminary
Production	1,000	976	910	852
Sales	1,398	1,204	712	824
Yearend stocks	592	364	562	590

South Africa: Balance of Payments

	Million US \$			
	1970	1971	1972	1973 Preliminary
Balance before gold sales	-1,641	-1,609	-1,081	-2,800
Gold sales	1,727	1,588	1,434	2,600
Balance after gold sales	86	-21	353	-200

South Africa's oil bill in 1974 will jump from \$300 million to at least \$1 billion. Imports provide all of South Africa's needs, which total about 350,000 b/d, including supplies for re-export. Pretoria's readiness to pay the going international prices for oil has sharply limited the effect of the Arab embargo. Gasoline rationing, which had been scheduled for 1 March 1974, has been postponed indefinitely.

Ballooning oil costs on top of strong demand for non-oil imports will help push the 1974 payments deficit (before gold sales) to more than \$3 billion. Sales of gold from current production - expected to be about 820 tons - will be adequate to finance this deficit, even if the price of gold falls to \$115 an ounce. World demand for gold almost certainly will be bolstered by continued uncertainty in money markets, as the energy crisis and inflation leave their mark.

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SECRET**EXPANSION OF SOVIET AND EAST EUROPEAN
NUCLEAR POWER**

The USSR, which now has only about 10% as much nuclear power capacity as the United States, is finally getting its program off the ground. Soviet nuclear powerplants produced 11.7 billion kilowatt hours of electric power in 1973, an increase of 52% over the previous year. As the result of an ambitious construction program, 8% of Soviet electric power output is planned to be nuclear by 1980, compared with less than 2% today.

	1970	1973	1974 Plan	1975 Plan	1980 Plan
Installed nuclear power capacity (megawatts)	925	2,400	4,864	8,000	30,000
Production of electricity (billion kwh)	3.5	11.7	16.1	25	150
Share of total electricity (percent)	0.5	1.3	1.8	2.4	8

The first 440-megawatt (MW) reactor at the Kola nuclear powerplant on the Murmansk peninsula went into operation in 1973, and another 440-MW reactor began operation at Novovoronezh. These reactors brought total Soviet nuclear capacity to 2,400 MW

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In 1974, reactor capacity should more than double, through the addition of a second 440-MW unit at the Kola plant and the startup of two 1,000-MW units at the Leningrad nuclear powerplant.

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Moscow is locating nuclear powerplants in the European USSR, where 80% of Soviet electricity is consumed. This policy reduces (a) the strain of transporting fuel from Siberia for conventional generation of electricity and (b) the urgency of developing the high-voltage capability to transmit Siberian power to the European USSR. Each 1,000 MW of nuclear capacity built in the European USSR will reduce annual fuel shipments from the east by 2 million tons of coal equivalents.

The USSR is also assisting Eastern Europe in nuclear powerplant construction.

- A 70-MW nuclear plant built with Soviet help has been in operation in East Germany since 1966, and a Soviet 440-MW reactor began operation in the GDR at the end of 1973.

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Production at these plants should rise to more than 2% of total East German electric power production in 1974, compared with 0.6% in 1973.

- Soviet technicians also helped complete a 150-MW powerplant in Czechoslovakia in 1972.
- Nuclear powerplants with Soviet 440-MW reactors are under construction in Bulgaria, Czechoslovakia, Hungary, East Germany, and Finland.
- Poland and Romania are scheduled to have Soviet 440-MW reactors by 1980-82.

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EC MULLING PLAN TO ASSURE RAW MATERIAL SUPPLIES

The EC Commission is considering a plan to secure long-term supplies of several key commodities -- cobalt, uranium, copper, manganese, aluminous ores, and cotton.

**Developed Countries: Share of
Raw Material Imports
from EC-Associated States¹**

	Percent		
	EC	US	Japan
Aluminum	4	11
Bauxite and alumina	20	67
Manganese	27	42	6
Cobalt	85	40	N.A.
Copper	47	22
Uranium	15
Cotton	22	12

1. including potential associates; based on 1971 data.

A Commission working group has proposed asking the 41 developing countries with which it is negotiating reciprocal trade preferences to guarantee specified deliveries of these commodities. In return, the EC would offer to stabilize exporters' earnings by guaranteeing minimum prices. EC success in cornering a major share of supplies from these producers could impair the ability of other large importers -- notably the United States and Japan -- to satisfy some of their raw material requirements.

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Notes

Dollar Weakens in Quiet Trading

The dollar continued to weaken in quiet trading last week against all major currencies except the French franc. The yen and Swiss franc appreciated more than 2% while the mark, pound, and lira gained more than 1%. Increases were also recorded in the value of the guilder and Belgian franc. Major factors in the dollar's recent decline have been the anticipation of lower oil prices and a realization that Europe and Japan will be able to finance much of their oil-induced deficits through borrowing rather than drawing on reserves. Gold has remained around \$165 an ounce for the past two weeks. [redacted]

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India Buys Oil Exploration Vessel

India recently commissioned a Houston firm to construct a \$4.6 million ultramodern offshore seismic survey vessel to facilitate oil exploration and development. The contract is a cash deal with incremental payments as construction progresses and final payment on delivery in January 1975. Indian technical personnel, who have long preferred US technology, have been forced by New Delhi officials to make do with French and Soviet technology because of soft credit links. Disappointing results of Soviet- and French-aided seismic surveys presumably led to the US contract. [redacted]

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Economic Cooperation Between Saudi Arabia and Sudan

Closer economic ties between Saudi Arabia and Sudan are signaled by a \$200 million Saudi government guarantee of commercial loans to Sudan and the promotion of a Red Sea economic grouping based on Saudi capital and Sudanese land. Private plans, said to have the backing of Jidda's central planning staff, include cooperative development of land in Sudan for soybean, wheat, sugar, and cattle production. Cotton and livestock from Sudan would be exported to processing plants to be built around Jidda. A proposed refinery-petrochemical-fertilizer complex at Port Sudan would use Saudi Arabian crude. US planning experts and investors probably would play major roles in these projects. [redacted]

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SECRET**Publications of Interest****The Economic Situation in South Vietnam, February 1974**

(CIA ER IR 74-5, February 1974, [redacted])

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[redacted]

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Key developments in February were (1) new government restrictions aimed at curbing imports, (2) a decision to open a second round of bidding for offshore oil concessions, and (3) a continued erosion of money incomes, particularly in urban areas, where declining living standards pose serious problems.

1973 Agricultural Developments in Eastern Europe

(CIA ER IR 74-4, March 1974, [redacted])

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Three good performances in a row have lifted East European agricultural output above a five-year plateau. Growing demand for livestock feed will keep Eastern Europe's grain imports close to 8 million tons in FY 1974 - about the same as in FY 1973. Because of the excellent 1973 Soviet harvest, imports from the USSR are expected to increase by 1.2 million tons while imports from the West will decline by a like amount to 3.8 million tons. US grain deliveries probably will fall at least 700,000 tons, with the cutback affecting mainly wheat.

INTERNAL ECONOMIC INDICATORS

GNP*

Constant Market Prices

	Average Annual Growth Rate Since				
	Percent Change		1970	1 Year Earlier	Previous Quarter
	Latest Quarter	from Previous Quarter			
United States	73 IV	0.4	4.7	4.0	1.5
Japan	73 III	0.5	8.5	10.0	2.0
West Germany	73 IV	-0.1	3.1	3.4	-0.3
France	73 III	0.9	5.6	6.1	3.8
United Kingdom	73 III	1.3	3.9	6.0	5.2
Italy	73 I	0.8	3.1	5.2	3.4
Canada	73 IV	2.8	6.1	7.2	11.6

WHOLESALE PRICES

Industrial

	Average Annual Growth Rate Since				
	Percent Change		1970	1 Year Earlier	3 Months Earlier
	Latest Month	from Previous Month			
United States	Feb 74	1.4	7.4	17.6	29.8
Japan	Jan 74	5.5	10.4	34.0	84.8
West Germany	Dec 73	0.9	5.3	8.8	11.0
France	Jan 74	5.3	10.6	26.6	56.0
United Kingdom	Jan 74	2.8	8.7	12.8	22.0
Italy	Nov 73	1.6	9.0	21.1	17.5
Canada	Dec 73	0.6	8.5	18.3	19.5

INDUSTRIAL PRODUCTION*

	Average Annual Growth Rate Since				
	Percent Change		1970	1 Year Earlier	3 Months Earlier**
	Latest Month	from Previous Month			
United States	Jan 74	-0.8	5.2	3.6	-0.6
Japan	Jan 74	1.3	8.9	10.3	7.5
West Germany	Dec 73	0.9	4.4	6.2	9.0
France	Dec 73	-4.4	5.7	2.1	0
United Kingdom	Dec 73	-4.2	2.2	1.8	-4.7
Italy	Dec 73	-7.5	4.4	12.8	22.3
Canada	Dec 73	-0.1	6.3	4.7	9.9

CONSUMER PRICES

	Average Annual Growth Rate Since				
	Percent Change		1970	1 Year Earlier	3 Months Earlier
	Latest Month	from Previous Month			
United States	Jan 74	0.9	5.3	9.5	9.7
Japan	Jan 74	4.3	10.2	23.1	41.9
West Germany	Jan 74	0.7	6.2	7.4	11.8
France	Jan 74	1.7	7.1	10.3	13.6
United Kingdom	Jan 74	1.9	9.3	12.0	14.5
Italy	Dec 73	1.4	7.7	12.5	14.5
Canada	Jan 74	0.8	5.7	9.1	8.8

RETAIL SALES*

Current Prices

	Average Annual Growth Rate Since				
	Percent Change		1970	1 Year Earlier	3 Months Earlier**
	Latest Month	from Previous Month			
United States	Feb 74	-0.7	9.8	6.0	-3.4
Japan	Nov 73	3.4	14.6	27.4	32.0
West Germany	Dec 73	0.5	7.8	5.8	7.6
France	Nov 73	-2.4	5.6	15.2	20.1
United Kingdom	Nov 73	0.7	12.1	14.8	21.9
Italy	Aug 73	6.7	12.4	19.0	5.0
Canada	Dec 73	-0.9	10.6	13.7	9.3

MONEY SUPPLY*

	Average Annual Growth Rate Since				
	Percent Change		1970	1 Year Earlier	3 Months Earlier**
	Latest Month	from Previous Month			
United States	Feb 74	1.2	7.4	6.1	9.2
Japan	Dec 73	0.1	17.5	16.7	14.7
West Germany	Dec 73	3.3	9.7	6.1	9.8
France	Dec 73	5.0	13.2	9.7	14.2
United Kingdom	Dec 73	-0.2	9.6	3.8	-8.9
Italy	Sep 73	1.4	20.7	23.3	24.7
Canada	Jan 74	2.2	13.3	11.6	3.9

MONEY-MARKET RATES

	Representative Rates	Percent Rate of Interest			
		Latest Date	1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Prime finance paper	8 Mar 7.50	6.25	8.25	8.13
Japan	Call money	1 Mar 12.00	5.50	9.75	12.00
West Germany	Interbank loans (3 Months)	8 Mar 10.50	8.44	13.00	11.00
France	Call money	8 Mar 12.38	7.13	11.50	12.63
United Kingdom	Local authority deposits	1 Mar 14.94	7.38	15.38	15.25
Canada	Finance paper	8 Mar 8.38	5.13	9.25	8.63
Euro-Dollars	Three-month deposits	8 Mar 8.89	8.25	10.44	8.44

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

14 March 1974
Office of Economic Research/CIA

EXTERNAL ECONOMIC INDICATORS

EXPORTS*

	Latest Month	Cumulative			
		Million US \$			
		1973	1972	Percent Change	
United States	Jan 74	7,110	70,790	49,221	43.8
Japan	Jan 74	3,051	35,989	27,916	28.9
West Germany	Dec 73	5,420	67,043	46,725	44.8
France	Jan 74	3,461	30,674	26,378	39.0
United Kingdom	Jan 74	2,280	28,393	22,869	24.2
Italy	Nov 73	1,987	19,733	16,568	19.1
Canada	Jan 74	2,444	25,197	20,206	24.3

IMPORTS*

	Latest Month	Cumulative			
		Million US \$			
		1973	1972	Percent Change	
United States	Jan 74	6,470	69,076	55,553	24.3
Japan	Jan 74	3,428	32,314	19,063	69.5
West Germany	Dec 73	4,511	51,044	37,990	35.9
France	Jan 74	3,560	35,272	25,250	39.7
United Kingdom	Jan 74	3,132	33,873	24,819	37.6
Italy	Nov 73	1,963	21,861	15,314	42.8
Canada	Jan 74	2,228	23,304	18,851	23.6

TRADE BALANCE*

	Latest Month	Cumulative (Million US \$)			
		Million US \$			
		1973	1972	Change	
United States	Jan 74	640	1,714	-6,332	8,046
Japan	Jan 74	223	3,875	8,854	-5,178
West Germany	Dec 73	914	15,999	8,735	7,264
France	Jan 74	-99	1,402	1,129	273
United Kingdom	Jan 74	-852	-5,480	-1,749	-3,731
Italy	Nov 73	23	-2,128	1,254	-3,382
Canada	Jan 74	218	1,892	1,414	478

BASIC BALANCE**

Current and Long-Term-Capital Transactions

	Latest Period	Cumulative (Million US \$)			
		Million US \$			
		1973	1972	Change	
United States*	73 III	2,539	986	-8,282	9,268
Japan	Jan 74	-1,963	-9,702	2,137	-11,839
West Germany	Dec 73	193	3,950	4,566	-616
France	73 III	-1,482	-2,039	-202	-1,830
United Kingdom	73 III	-521	-1,840	-1,252	-587
Italy	72 III	800	N.A.	2,983	N.A.
Canada	73 III	238	267	574	-308

OFFICIAL RESERVES

	Latest Month	Billion US \$			
		Billion US \$			
		Jun 1970	1 Year Earlier	3 Months Earlier	
United States	Jan 74	14.6	16.3	13.1	14.4
Japan	Feb 74	11.9	4.1	19.1	13.2
West Germany	Jan 74	32.2	8.8	23.7	35.0
France	Jan 74	8.3	4.4	10.0	10.1
United Kingdom	Feb 74	6.0	2.8	5.9	6.6
Italy	Jan 74	6.0	4.7	5.8	6.2
Canada	Feb 74	6.2	4.3	6.2	5.7

*Seasonally adjusted.

**Converted into US dollars at current market rates of exchange.

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EXPORT PRICES

	Latest Month	Percent Change			
		Average Annual Growth Rate Since			
		from Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Dec 73	4.1	10.3	20.7	44.7
Japan	Nov 73	-0.8	13.0	27.4	11.6
West Germany	Dec 73	-6.8	12.4	25.7	-18.3
France	Oct 73	2.9	15.9	31.9	15.7
United Kingdom	Dec 73	0.1	8.7	17.3	12.4
Italy	Sep 73	3.4	11.2	22.3	51.7
Canada	Nov 73	4.9	9.5	22.5	42.9

EXPORT PRICES

	Latest Month	Percent Change			
		Average Annual Growth Rate Since			
		from Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Dec 73	4.1	10.3	26.7	44.7
Japan	Nov 73	3.0	4.8	14.9	34.1
West Germany	Dec 73	2.1	2.4	4.3	17.6
France	Oct 73	1.8	6.6	10.7	34.9
United Kingdom	Dec 73	3.1	9.8	18.8	33.4
Italy	Sep 73	0.8	7.7	18.7	21.4
Canada	Nov 73	4.6	8.0	24.5	40.1

IMPORT PRICES

	Latest Month	Percent Change			
		Average Annual Growth Rate Since			
		from Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Dec 73	4.7	13.5	32.5	65.3
Japan	Nov 73	3.7	4.6	19.8	31.0
West Germany	Dec 73	4.7	3.3	13.8	54.2
France	Oct 73	-1.5	5.3	14.3	35.2
United Kingdom	Dec 73	5.2	16.4	43.1	53.1
Italy	Sep 73	0	13.2	34.2	44.1
Canada	Nov 73	0.3	5.5	13.6	8.1

EXCHANGE RATES

Spot Rate

	As of 8 March 74	Percent Change from			
		US \$			
		Per Unit	18 Dec 1971	19 Mar 1973	1 March 1974
Japan (Yen)	0.00350	28.93	7.85	-7.91	2.04
West Germany (Deutsche Mark)	0.37820	50.44	21.88	6.81	1.31
France (Franc)	0.29980	2.43	5.03	-6.17	-0.46
United Kingdom (Pound Sterling)	2.32200	-16.79	-10.88	-5.65	1.57
Italy (Lira)	0.00156	-2.87	-9.59	-12.15	1.77
Canada (Dollar)	1.02960	11.62	3.19	3.20	-0.24

TRADE-WEIGHTED EXCHANGE RATES**

	Latest Month	Percent Change from			
		As of 8 March 74			
		Dec 66	18 Dec 1971	19 Mar 1973	1 March 1974
United States	Jan 74	-15.65	-6.30	0.38	-0.66
Japan	Feb 74	16.66	2.91	-8.99	1.82
West Germany	Jan 74	30.68	13.74	8.73	0.75
France	Jan 74	-17.35	-4.00	-6.45	-1.51
United Kingdom	Feb 74	-34.64	-20.46	-6.10	1.14
Italy	Jan 74	-22.08	-20.81	-13.94	1.15
Canada	Feb 74	8.96	2.35	3.98	-0.53

***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.