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A world-wide slowdown

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ECONOMIC TRENDS

A World-wide Slowdown

The economic expansion in the Western industrialized countries which early this year was still proceeding at quite a fast pace has lost momentum in recent months. More pronounced trend differences are emerging. The USA was still experiencing a strong upsurge throughout the first half of 1977. Only lately have signs of a cyclical slowdown been perceptible. The USA was also still acting as a pace-maker for the rest of the world but the impulses from this quarter were too weak to maintain the buoyancy in other industrialized countries. The upswing of demand and production has evidently weakened since the spring in wide areas — in Japan where the revival in the early months of the year is seen to have been transient as well as in the West European economies which are now also gripped more strongly by the constraining effects of the restrictive measures in the weak-currency countries.

Production Levelling Off

The levelling-off of the up-trend is shown most clearly by the industrial production. In the OECD countries it was in the first half of 1977 about 5 p.c. up on the corresponding figure of 1976. The seasonally-adjusted index for all of them together went on rising until the middle of the year. In the end however the upward movement was little more than a reflection of the uptrend in the USA where production rose by 3 p.c. between the first and second quarter. In Japan it gained less than 1 p.c., and in Western Europe the trend was mostly downward. This is especially true of Italy, France and Great Britain but in

the other countries industrial production has in general also stopped growing. The indices may partly exaggerate the actual trend since seasonal influences are difficult to assess. That the upswing is getting sluggish is however also suggested by other indicators such as surveys of business opinion.

Number of Workless Rising

The slackening of production — outside the USA — has had the effect that capacity loads were for the most part no longer raised but indeed often reduced, at least in industry. The employment situation is not so very different. In most industrialized countries employment has evidently failed to rise significantly; while the manpower supply has grown, the seasonally-adjusted unemployment figures have been climbing this year. A major exception was the USA where unemployment — albeit at a high level — has fallen thanks to the rapid improvement of job opportunities even though the working population has increased substantially. In the majority of industrialized countries the unemployment rate is at present between 4 and 7 p.c.

Inflation Unbroken

The less favourable cyclical trend makes it more difficult to achieve productivity gains and thus conduces to cost rises. The situation is all the more problematic as in early 1977 the prices in the industrialized countries were already being forced up more strongly over a wide front. A number of factors in combinations varying from country to country were responsible for this — for instance, adverse

weather conditions in the industrialized countries themselves, the shortage of coffee in the world market, higher indirect taxes and officially-controlled prices. The abatement of these special influences has eased the upward pressure but there is less hope now of progressive subsidence of the inflationary expectations. Meanwhile consumer prices were still rising at an average 8.5 p.c. per annum (in June, as compared with the preceding year). There are still very large differences in the pace of inflation from country to country.

Balances of Payments Easing

There has been some easing of the situation in regard to the international exchanges since the external position of the weak-currency countries has improved quite noticeably. This is true of Great Britain in particular where the increasing North Sea oil production holds out a promise of the current account soon being in balance. France, Italy, Denmark and Sweden have also reduced their trade deficits. Increased imbalances were on the other hand recorded by Japan owing to its rising surpluses and the USA where the deficit has risen by leaps and bounds. The crucial factors in the USA are the economic trend differential compared with the rest of the world and, especially, the growing dependence on imports of oil. The prospect of continuing high US import surpluses is setting up latent strains in the monetary policy field as evidenced by the hectic exchange rate movements in July.

Signs of fatigue were already noticed in the economies of the industrialized countries last year but these were superseded by a fairly rapid expansion of production. The distinct slowdown of the expansion as a re-

sult of weakening "turnround" effects of the recovery from the recession at that time was perfectly compatible with the expectation of a gradual strengthening of the endogenous impulses for a further upswing. Assumptions to this effect are however hardly warranted at the present time for the early slackening of the expansion must be attributed to the failure of the hoped-for lasting improvement of the propensity to invest to materialize. There are certainly many different reasons for this, and the conjuncture of political, economic and social factors involved varies from country to country. Whatever weight may have to be given to each in the individual case, a further overall upswing with increasing utilization of capacities can no longer be looked forward to in Western Europe, at any rate not in the absence of fresh stimulatory measures. On the other hand it is not likely that we shall slide into another world-

wide recession in the near future because previous excesses — for instance the stocking-up in 1974 — have this time been avoided and the upswing is continuing in the USA.

Economic Policy Dilemma

As unemployment is expected to rise further, more pressure will be brought to bear on the governments to resort to expansionary measures. Implicit in stimulation of demand, production and employment is however in many cases a danger that inflation will be given a fillip. As long as this danger persists in an acute form, a return to satisfactory employment levels will remain elusive in many countries. This also tends to fuel efforts to protect threatened jobs by pursuing more protectionist trade policies. Greater attempts in this direction however will ultimately merely aggravate the inflation and employment problems facing the industrialized countries.

ing years. The employers' social insurance contributions had however been raised again already earlier. Moreover, advances in productivity are being made more difficult by the downturn of production.

Export Revival Fails to Show Up

Contrary to expectations it proved impossible to reduce the exceptionally large stocks when the world economy recovered, for the volume of exports started declining at the middle of last year already. That the expansion in Western Europe, Sweden's most important market, was only moderate played undoubtedly a major part in this. The upsurge of costs and prices since 1975 probably also caused Sweden's competitive position to deteriorate. The previous devaluations in the framework of the European currency compound made little difference in this respect; in July the external value of the krona vis-à-vis the country's trading partners was overall still a little higher than it had been a year earlier. The import volume has also fallen off since the beginning of the year, not least presumably because of more cautious stock dispositions; the large trade deficit was therefore cut back in a short time. The improved external situation however merely reflects the fact that Sweden has been lagging behind the cyclical development in other countries. The aim of the withdrawal from the currency compound and the subsequent devaluation is to provide room for manoeuvre in the external sphere for a stronger expansion.

Recessionary Tendencies in Sweden

The latest devaluation in Sweden has come at a time when the economic trend in the country is pointing downward. In the first half of 1977 the industrial production was, seasonally adjusted, about 4 p.c. lower than in the second half of 1976. The restraint shown by private domestic demand contributed to the decline as did the slow export business. The continued grant of stock-keeping subsidies to industry had apparently no longer the desired effect. Use of this instrument has enabled Sweden to avoid getting caught in the vortex of the world-wide recession of 1974/75 but the large stocks which were thus accumulated hindered a fresh upswing from the outset. The Government has avoided an in-

crease in unemployment, which remains unchanged at a low level, by making considerable use of measures of labour market policy (retraining courses, extra recruitment for the public services).

Strong Price Rises

Despite the worsening economic trend prices have continued to rise strongly, and a price stop for domestic goods in April and May made little difference; the raising of the value added tax by 3 percentage points in June put an extra burden on the consumer. The rise of wage costs has eased off since much lower wage increases have been agreed for 1977 after the big collective wage hoists in the two preced-

No Cyclical Improvement Yet in Sight

For the time being the economic outlook is still in general lack-lustre. Further material contractive impulses must be expected to issue from the stock dispositions. Since real wages