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World trade still expanding fast

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The higher oil prices will have only slight effects on the economic trend in the Federal Republic at first, so that the cyclical upswing and thus the expansion of imports may be expected to continue this year. The impulses on the import trade of stock dispositions will however be weaker after the considerable additions to stocks in the winter months, with the result that the pace at which the imports of input materials for industry increase will depend primarily on the expansion of production. The imports of finished products will, as

last year, receive their most potent impulses from the increase of investment activity, the more so as private consumption will bear the burden of additional expenditure on oil products. The total imports may this year rise by about 8-9 % (adjusted for price changes). As imports will rise more strongly than exports and the terms of trade will worsen, the balance of trade and current account surpluses will undergo a marked decline. The latter surplus is likely to be halved compared with last year when it amounted to DM 17½ bn.

unexpected steep rise of the oil prices. The most potent impulses continue to emanate from the West European economies and Japan where the forces making for a cyclical upswing are still strong. The slowdown in the USA makes a marked further increase of imports into that country unlikely.

The uncertainties about the trend of imports in the other world trade regions have grown. The OPEC countries will step up their purchases again after some of them – not Iran alone – had been forced by scarcity of foreign currencies to apply the brake right up to and into the current year. It is difficult to gauge however how quickly this process will gather momentum. The imports of other developing countries are not likely to rise more than moderately (in real terms), mainly because they have to spend so much more on oil imports, though there will be wide variations due to structural causes. The state trading countries are in a similar position, apart from the Soviet Union which benefits as an oil supplier; the external position of most of the others has worsened.

The overall expansion of world trade (in real terms) is likely to be of the order of 5-6 %. The strong price impulses, especially in the international oil markets, and the incomes redistribution in favour of the oil-exporting countries however will almost inevitably weaken the cyclical trend in the industrialized countries, and this will be felt gradually in the world trade later this year. In view of the deteriorating cyclical prospects for the industrialized countries the expansion of world trade may be expected to slow down significantly in 1980 although the faster rise of the import demand of the OPEC states will provide a stabilizing element.

World Trade Still Expanding Fast

Adjusted for seasonal variation world trade continued to expand in the current year; for the first quarter of 1979 the advance on the corresponding period of last year may be estimated at the 6-7 % of the last quarter of 1978 (in real terms; against 4½ % for the whole of 1978). Expressed in US dollars the world trade turnover was about 20 % (1978: 16 %) up on the corresponding period a year earlier. The dollar depreciation still showed up clearly in a comparison with the previous year, being reflected by the exceptionally large "price component" of the world trade expansion; this was about twice as large as the "volume component". "Genuine" price increases are however by now carrying more weight. Not only have the prices for export goods of the industrialized countries gone up but the sharp increase of raw material and especially mineral oil prices has been of increasing importance. The consequent shift of the terms of trade to the disadvantage of the industrialized

countries was probably the decisive reason why their foreign trade has since last autumn again tended to move into overall deficit. The combined balance of trade deficit of these countries had reached its highest point in the winter of 1976/77 and been drastically reduced in the following 1½ years. In the first quarter of 1979 it was once more above the corresponding figure for the previous year.

The big price increases, especially those for mineral oils, will leave clear traces on the future course of world trade. While the nominal inflation of trade flows will take effect immediately, their negative volume effects will show up only with a time-lag. The same is true of the effects of the economic restrictions which must be expected to ensue as a reaction to higher prices and worsening payments balances. Earlier assumptions in regard to the volume trend of world trade in 1979 need therefore no major modifications in spite of the