

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

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Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1980) : World trade and commodity markets, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 15, Iss. 4, pp. 211-212,
<https://doi.org/10.1007/BF02930856>

This Version is available at:

<https://hdl.handle.net/10419/139694>

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World Trade and Commodity Markets

The expansion of world trade proceeded apace, in nominal terms, in the early months of this year. In 1979 the western countries' international trade had on an annual average risen by nearly 26 %, in dollar terms. In the first quarter of 1980 it was an estimated 35 % higher than in the corresponding period of the preceding year. The high growth rate reflected in the main the big price increases in the international trade. In real terms the world trade was in the first quarter probably only 4 – 5 % up on the previous year (average increase in 1979: 6 %). The trade expansion since last autumn corresponded to about the same annual rate. An attempt to quantify the trend of international trade meets however special difficulties at present because the goods traded internationally have become so much dearer that a separation of price and volume elements is increasingly problematic – in the developing countries more particularly.

Wide Swings in the Terms of Trade

The world exports were in the first quarter of 1980 on average about 30 % higher than a year earlier but half of the increase was due to crude oil alone; its price has more than doubled. Other raw material prices advanced much less – by 26 % as measured by the HWWA index. The prices of industrial products showed again the smallest increases; on a dollar basis they may, as in the two preceding years, have risen by about 15 %.

Table 1
World Trade Prices and Terms of Trade¹

	1978	1979				1980
	Average ²	First quarter	Second quarter	Third quarter	Fourth quarter ³	First quarter ³
Year on Year Change in %						
World trade prices						
World exports: total ⁴	10	13	17	23	25	30
Industrial products ⁴	15	15	13	15	14	15
Mineral oil	0	7	32	56	84	108
Other raw materials ⁵	0	12	19	26	20	25
Terms of Trade⁶						
1975 = 100						
Industrialized countries	101	102	100	97	94	91
Oil exporting countries ⁷	95	93	112	125	143	166
Other developing countries ⁸	109	106	108	103	(101)	(95)

¹On a dollar basis; – ²annual average; – ³partly estimated; – ⁴average figures; – ⁵HWWA index excl. fuels; – ⁶ratio of average export prices to average import prices; – ⁷ratio of oil export prices to average export prices of the industrialized countries; – ⁸last two quarters estimated.

Sources: IMF, UN, HWWA.

Table 2
Balances of Trade¹ of Important Countries and Groups of Countries
(in US \$ bn)

	1978	1979	1979 First quarter	1980 First quarter
Industrialized ² countries: total	– 29.3	– 85.0	– 14.0	– 40.5
of which:				
USA	– 39.5	– 37.1	– 7.2	– 12.2
Japan	+ 18.5	– 7.5	– 0.1	– 5.9
Austria	– 3.8	– 4.8	– 1.1	– 1.9
Belgium	– 3.7	– 4.1	– 0.9	– 2.3
Denmark	– 2.9	– 3.8	– 0.8	– 1.2
Finland	+ 0.7	– 0.2	+ 0.2	– 0.2
France	– 2.4	– 6.3	– 1.2	– 5.6
FR Germany	+ 20.7	+ 12.1	+ 4.2	+ 1.6
Great Britain	– 6.9	– 11.9	– 3.5	– 3.6
Italy	– 0.4	– 5.7	– 0.9	– 4.4
Netherlands	– 3.7	– 4.5	– 0.5	– 0.7
Norway	– 0.6	– 0.3	+ 0.0	+ 0.2
Sweden	+ 1.2	– 1.0	+ 0.1	– 0.5
Switzerland	– 0.2	– 2.8	– 0.5	– 1.9
Oil exporting countries	+ 44.2	+ 110.8	+ 16.9	+ 45 ^e
Non-oil developing countries	– 55.7	– 64.5	– 13.6	– 20 ^e

¹Exports fob, imports cif; – ²Western Europe (excl. Greece, Portugal, Turkey and Yugoslavia), USA, Japan, Canada, Australia and New Zealand; – ^eestimated.

Source: IMF, International Financial Statistics, supplemented by own estimates.

The terms of trade of the major groups of countries have undergone considerable changes since the beginning of 1979 because of the disparate price movements of the categories of goods exported by them. Only the oil exporting countries have bettered their position; the non-oil developing countries and the industrialized countries alike have had to reconcile themselves to much less satisfactory terms of trade.

Shifts in Trade Balances

The great changes in the terms of trade caused exceptional shifts in the balances of trade. In the first quarter of this year the exports (fob) of the industrialized countries fell about \$ 40 bn short of their imports (cif), i. e. by almost three times as much as in the first quarter of 1979; in the whole of 1979 the shortfall was \$ 85 bn. The deficits widened most in the large economies, namely in the USA, Japan, France and Italy; the trade surplus of the Federal Republic of Germany fell steeply (cf. Table 2). In the non-oil developing countries the adverse trend was not quite so pronounced but their deficits had started to climb in 1978 already. The surpluses of the oil exporting countries continued to expand rapidly; at about \$ 45 bn they were probably in the first quarter of 1980 as large as in the whole of 1978, before the latest oil price hoist came into effect.

Table 3
World Trade Indicators

	1971/75 ^a	1976	1977	1978	1979 ^b	1980 ^c
World trade (in US \$ bn) ¹	x	915	1,047	1,215	1,526	1,950
Year on year change (in %)						
Value	24	14	14	16	26	28
Prices ²	17	2	9	9	19	25
Volume ³	5	12	4	5	6	2-3

^aAnnual average; – ^bpartly estimated; – ^cforecast estimate; – ¹average of exports/imports, excl. trade between state trading countries; – ²average on dollar basis; – ³nominal trade adjusted for price and exchange rate movements.

Sources: Calculations based on UN and IMF data and own estimates.

Outlook: World Trade Expansion Coming to a Halt

The development of world trade in the further course of this year will be determined by the slowdown in the industrialized countries which account for about two-thirds of all imports. Imports into the USA are likely to contract as a result of the recession there. In many West European economies they will not go up any further but decline, at least temporarily, with inventory policies acting as a restraining factor. A similar trend can be observed in Japan where purchases from other countries fell off considerably early this year already under the impact apparently of the ending of state import programmes.

At the same time the non-oil developing countries are likely to slow their imports. They experienced a further deterioration of their terms of trade in recent months as the boom in the world commodity markets ran out of steam; their current account deficits are thus likely to rise faster, making it progressively more difficult to finance them. The state trading countries show trend variations: the economic downturn in the

world puts most of them under increasing pressure to relieve a deteriorating balance of payments by curbing their imports from western countries whereas the Soviet Union is a beneficiary of the oil price explosion thanks to the large contribution of oil and natural gas to its export trade.

The demand from OPEC and other oil exporting countries will rise greatly in the course of this year. This process has obviously started up more slowly than it did in 1974, partly no doubt because there is a smaller import demand backlog – not least for consumer goods – and because imports of investment goods – which have to be planned longer ahead – will presumably play this time a bigger role. However, after a running-in period the steep rise of oil export revenues will probably find its reflection in a rapid expansion of imports. Assuming that oil prices will not rise much more in the near future the current account surpluses of the OPEC countries will then begin to subside although they will still stay at an exceedingly high level.

There is so much uncertainty about the future trends that it is most difficult to present them in numerical terms. The future oil prices are unpredictable; the cyclical trend in the industrialized countries adopted here as a basis rests on certain assumptions; moreover, it is difficult to estimate the response of import demand in such a turning-point situation. Similar reservations apply to the connection between imports and current accounts of non-oil developing countries on the one hand and oil exporting countries on the other. It is assumed here as most likely that the expansion of world trade in real terms will not continue this year but give way to a slight decline. This would – in reflection of the rise to date – result in a real average growth rate of 2 – 3 % for the whole of 1980.

Index Numbers of World Market Prices of Foodstuffs and Industrial Raw Materials

Index and commodity group	1979			1980			
	April	July	October	January	April	May 23	July 18
HWHA-Index* (1952-1956=100) . . .	362.6	406.4	431.9	491.5	508.2	535.0	535.3
Foodstuffs	248.9	291.0	301.2	308.5	316.0	377.0	338.2
Raw materials other than foodstuffs . .	417.3	462.0	494.9	579.7	600.9	611.2	630.3
Fuels	641.5	738.4	824.4	998.3	1062.8	1088.8	1141.3
Raw materials for consumer goods . .	225.4	243.1	237.4	263.0	271.7	267.6	263.9
Raw materials for capital goods	322.2	332.6	338.3	373.6	359.9	364.1	365.1
Reuter's Index (18. 9. 1931 = 100) . . .	1551.0	1569.2	1658.3	1737.3	1704.8	1714.0	1697.8
Moody's Index (31. 12. 1931 = 100) . .	1048.0	1084.2	1151.0	1415.7	1128.9	1106.6	1181.0

*Index compiled by HWHA-Institut für Wirtschaftsforschung-Hamburg. On dollar-basis.