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World Trade Subdued

The halt in the decline of production in the industrialised countries during the months around the turn of the year was reflected also in the development of world trade; it would even seem that its volume, seasonally adjusted, increased slightly during the first quarter of 1981. This is certainly suggested by – as yet incomplete – data on the foreign trade of the industrialised countries. Admittedly, world trade during that period, in real terms, was approximately 3 % less than a year before, following an increase of 1 to 2 % for the whole of 1980. Nominally world trade, in terms of US dollars, during the first quarter was only about 2 % higher than a year previously, having increased by 22 % in 1980.

The growth of world trade has slowed down so markedly mainly because of the appreciable revaluation of the US dollar vis-à-vis the currencies of most industrialised countries. Their export prices, usually expressed in domestic currency, have therefore considerably declined in dollar terms since last autumn. World market prices of industrial manufactures were therefore probably only 2 to 3 % up, on an average,

during the first quarter of 1981 compared with the figures of a year previously (1980 as a whole: 11 %). But the world market prices of foodstuffs and industrial raw materials have also clearly dropped since last autumn; according to the HWWA index they were already down in the first quarter by about 6 % compared with the previous year, again in terms of US dollars, and the gap has further widened since then. Only oil prices continued to go up until the beginning of this year. Average figures for exports from the OPEC countries during the first quarter were therefore still up on the previous year by over 20 %.

Industrialised Countries' Deficits Reduced

In view of this trend in foreign trade prices the terms of trade of the industrialised countries have generally slightly worsened once again during the early months of this year. However, they were scarcely lower than a year previously. Since at the same time, due to the recession, real imports declined by far more than real exports the aggregate balance of trade deficit of the industrialised countries, which had reached its peak at the beginning of 1980, declined quite considerably. This trend, however, was largely confined to the USA, Japan and Britain, while in most Western European countries the deterioration of the terms of trade due to devaluation prevented any marked improvement. More unfavourable still, in view of the depression of the world markets for raw materials, was the development of price relations in foreign trade for the oil-importing developing countries; their import surpluses have increased

Balances of Trade¹ of Important Country Groups (in billion US \$)

Country	1979	1980	1980 1 Q	1981 1 Q
Industrialised countries ² , total	-85.9	-125.3	-41.2	-26.0
of which:				
USA	-37.1	-32.3	-12.2	-8.3
Japan	-7.5	-10.9	-5.9	-1.2
Austria	-4.4	-7.0	-1.8	-1.5 ^e
Belgium	-4.2	-7.1	-2.2	..
Fed. Rep. of Germany	+12.2	+5.0	+1.5	-0.1
Denmark	-3.7	-2.6	-1.1	-0.4 ^e
Finland	-0.2	-1.5	-0.2	+0.2 ^e
France	-6.3	-18.9	-5.6	-4.5
Britain	-11.9	-4.8	-3.6	-0.0 ^e
Italy	-5.7	-2.2	-4.6	-4.9
Netherlands	-4.5	-4.2	-0.8	-0.2 ^e
Sweden	-1.1	-2.5	-0.6	+0.0
Switzerland	-2.8	-6.7	-2.0	-1.0
Oil-exporting countries	+106.9	+161.1	+43.0	+40.0 ^e
Other developing countries	-60.6	-89.0	-18.3	-25.0 ^e

1) Exports fob, imports cif. - 2) Western Europe (excl. Greece, Portugal, Turkey, Yugoslavia), USA, Japan, Canada, Australia, New Zealand. - e) Estimate

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

World Trade Indicators

	1972-76 ^a	1977	1978	1979	1980	1981 ^b
World trade in US \$ bn ¹	..	1045	1211	1531	1871	1900
Year-on-Year change (in %)						
Value	23	14	16	26	22	2
Prices ²	16	9	10	19	21	3
Volume ³	6	4	5	6	1	-1

a) Annual average - b) Forecast - 1) Average exports/imports, excluding trade between state trading countries - 2) Average on dollar basis - 3) Value adjusted for price and exchange rate variations.

Source: Calculations on the basis of UN and IMF data, own estimates.

considerably. The export surpluses of the OPEC countries have presumably diminished somewhat as a result of greatly increased imports at a time of appreciably reduced oil exports.

Prospects

After an obvious slight revival of world trade in the first few months of this year it seems that it has subsequently, for the time being, again come under the effect of downward forces in the industrialised countries. However, no appreciable recession is to be expected. For one thing it seems likely that contractive impulses upon overall demand, and hence the imports of the industrialised countries, will keep within relatively narrow bounds, if only because adjustment of stocks to deteriorating economic prospects is fairly well advanced. For another, imports of the OPEC countries now seem to be increasing quite vigorously.

Total imports of the oil-importing developing countries are likely to increase only slightly. Yet even this fact is remarkable considering that the balance of

payments of these countries, had, until quite recently, markedly deteriorated as a result of the oil price explosion. However, they seem on the whole to have managed so far without major difficulties to finance their current account deficits by increased borrowing; anyhow the international reserves of this group of countries have not so far declined. The most recent deterioration of the terms of trade as a result of the fall of raw material prices will of course continue to increase the current account deficits of the oil-importing developing countries even at a time of slightly easing oil prices, so that a cautious import policy seems probable.

Recovery in the Latter Part of the Year?

Imports by the oil-exporting countries will certainly continue to expand steadily. Whether or when a marked revival of world trade will come about, on the other hand, depends largely on developments in the industrialised countries which continue to account for more than two-thirds of world trade. The prospect of an improvement in the overall economic situation in North America and Western Europe justifies the expectation that the latter part of the year will – supported by impulses due to the changes of stocks – see the beginnings of an expansion of the foreign trade of the industrialised countries and hence of world trade. Admittedly this forecast is affected by considerable uncertainties which at present greatly complicate any prediction of business trends in the most important economies.

Even if an economic recovery is anticipated for the industrialised countries towards the end of the year it is difficult to quantify the connection between aggregate demand and foreign trade flows at the present time in view of the generally low utilisation of productive potential and an evidently increased structural adjustment. With these reservations, however, at least a more favourable development may be expected in world trade in the course of 1981 than in 1980. Even so, the annual average world trade figures for 1981 will be somewhat lower in real terms than those for the preceding year, after a slight rise was still observed in 1980; the main factor in both cases is the backlog – negative in one instance and positive in the other – at the beginning of the year. In any case a change of trends in the development of world trade is more important than the annual figure, especially as experience shows that during an upswing, just as previously during the downswing, a process of reciprocal strengthening of expansive impulses through foreign trade is triggered off. This would appreciably improve the prospects of an economic recovery in the industrialised countries in 1982.

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