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Impetus for world trade

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Impetus for World Trade

Seasonally adjusted real world trade increased again slightly during the course of last year. Its average volume for 1981 is, however, probably somewhat lower than that of 1980 due to the negative "overhang" (cf. Table 2). Foreign trade in oil declined markedly. International trade in finished and semi-finished industrial goods in 1981, on the other hand, topped the result of the previous year by c. 2 %. This difference reflects the processes of adjustment triggered off by the oil price explosion of 1979/80: on the one hand the world-wide reduction in the use of oil as a result of efforts to save it or substitute for it – a reduction which went far beyond that caused by the slackening-off of economic activity in general, and on the other hand the extremely rapid expansion of the demand for industrial products in the oil-exporting countries. The impetus caused by this has more than compensated for the contractive influence on world trade which was exerted by the industrialised countries throughout most of last year.

Analogous to the trend in the world economy, the slackening-off of world trade in the course of the downward turn which began two years ago was not as marked as that following the first oil price explosion; in 1975 world trade fell by 5 %. However, for the first time in more than twenty years nominal world trade, measured in US dollars, declined in 1981, since the

average values measured on the basis of that currency apparently were somewhat lower for 1981 as a whole than for the previous year. This development is remarkable in view of the only slightly subdued inflation in the industrialised countries; it is mainly a reflection of the appreciation in value of the dollar. Its external value was on average in 1981 10 % higher than in the previous year. This occurred above all at the cost of the European currencies, which on average depreciated by almost 20 % in relation to the US dollar. Although the average figures for exports from Western Europe in local currency certainly increased at the same speed as prices in general, they therefore declined on a dollar basis in 1981 by an estimated 10 %.

The considerable shifts in the exchange rate pattern, which were only reversed to an insignificant degree following the change of trend in late summer 1981, also influenced decisively the development of relative prices in foreign trade. Thus, the terms of trade in Western Europe worsened markedly again in 1981, whereas in the USA and Japan – whose currency even showed a gain over the US dollar on the yearly average figures – they improved once more. The influence of this on the balances of trade was, however, usually overcompensated for by trends in real foreign trade. Thus, the USA's deficit increased, whereas the trade balance tended to improve in most of the Western European economies. The trend reversal was even

Compiled by the Department of World Business Trends of the HWWA-Institut für Wirtschaftsforschung-Hamburg.

Table 1
Prices and Price Relationships in World Trade¹

	1979	1980	1981 ²	1980		1981			
				Q3	Q4	Q1	Q2	Q3 ²	Q4 ²
Change over previous year in %									
World trade prices									
Total world exports ³	20	23	0	22	16	7	1	-4	-3
Industrial products ³	14	10	-6	12	7	0	-6	-12	-6
Oil ⁴	44	68	13	59	42	23	15	10	4
Other raw materials ⁵	22	14	-14	11	8	-6	-12	-18	-20
1975 = 100									
Terms of Trade ⁶									
Industrialised countries	98	90	89	90	90	89	88	89	90
Oil-exporting countries ⁷	118	176	205	177	185	201	208	211	198
Other developing countries ²	107	101	98	101	103	101	98	97	95

¹ On a dollar basis; annual and quarterly averages. ² Partially estimated. ³ Average values. ⁴ Export prices of the OPEC-countries. ⁵ HWWA-Index, total excluding energy raw materials. ⁶ Average values of exports compared to average values of imports. ⁷ Export prices of the OPEC-countries compared to the average value of exports from the industrialised countries.

Sources: IMF, International Financial Statistics; UN, Monthly Bulletin; HWWA.

Table 2
The Development of World Trade

	1974-78 ^a	1979	1980	1981 ^b	1982 ^c
World trade in US\$ billion ¹	x	1,544	1,895	1,850	2,000
Growth over previous year, in %					
Value	22	26	23	-2	8
Unit value index ²	16	19	20	-1	5
Volume ³	6	7	2	-1	2
of which:					
Industrial products	7	6	5	2	4

^a Annual average. ^b Partially estimated. ^c Estimated.

¹ Average exports/imports, excl. trade between state-trading countries.

² Average values on a dollar basis. ³ Value adjusted for changes in prices and exchange rates.

Sources: Calculated from UN and IMF data; own estimates.

more marked in Japan, where the development of both volume and prices operated in the same direction. The total trade deficit of the industrialised countries decreased in 1981 by about US \$ 45 billion, mainly at the cost of the OPEC-countries. The deficits of the remaining developing countries also increased markedly once again, however.

According to the already available, still very incomplete, data the slight upward trend in world trade at the end of last year has again come to a standstill. It is possible that a slowing-down of the growth of imports in the oil-exporting countries has already contributed to this. An increasing number of them are, namely, again confronted with balance of payments problems since not only has the importing countries' demand for oil declined considerably – more so than was expected – but oil prices have also come under increasing pressure. Thus, the export revenue of the OPEC-

countries in the last quarter of 1981 was already an estimated 12 % lower than a year previously. If Saudi Arabia is left out of account, the decline was markedly greater. Even though this trend, whose starting-point was a situation of surplus, has only had a delayed effect on imports in the oil-exporting countries – due to their currency reserves and their possibilities of obtaining credit – the impetus for world trade from this direction will now become markedly weaker.

Since a slackening-off of imports due to the strained balance of payments situation is also to be expected in the remaining developing countries and even more so in the state-trading countries, world trade will again be more strongly affected by business trends in the industrialised countries. Above all the recession in the USA acts as a check here, whereas in Western Europe growth remains around zero. The prospect of a gradual improvement in the economic situation, however, leads us to expect a certain revival of demand and production in the second half of the year, all the more so since the decline in oil prices tends to correct the international distribution of income in favour of the industrialised countries again. Marked impulses for world trade will, later on in the year, result above all from the change in trend in stockbuilding. Nevertheless, the volume of world trade for the year as a whole will probably, as a result of the low initial position at the beginning of the year – the "overhang" was probably not worth mentioning –, be only about 2 % higher in 1982 than in 1981. On the other hand, this masks over a wide variety of tendencies. Thus, finished and semi-finished products will probably increase by about twice as much, whereas trade in oil will at first continue to decline. And finally, Western European producers will, as a result of their – particularly vis-à-vis American competitors – greatly improved competitiveness, profit more than proportionally from the revival of demand in the industrialised countries.

HWHA Index of World Market Prices of Raw Materials¹ (1975 = 100)

Raw Materials and Groups of Materials	1981				1982			
	AA ²	February	November	December	January	February	March 5	March 19
Total index	240.7	244.1	242.3	242.1	238.9	234.3	232.3	232.0
Total, excl. energy raw materials . .	135.6	148.0	126.9	125.9	126.3	126.0	123.2	122.2
Food, tropical beverages	126.1	144.9	115.5	114.1	115.6	116.6	113.8	110.9
Industrial raw materials	142.7	150.3	135.6	134.8	134.4	133.2	130.3	130.8
Agricultural raw materials	146.4	158.2	135.4	134.2	135.2	133.8	132.9	134.8
Non-ferrous metals	156.3	159.2	150.4	151.8	149.0	147.6	141.8	141.2
Energy raw materials	302.1	315.3	309.6	309.9	304.7	297.5	296.0	296.0

¹ On dollar basis. ² Annual Average. For the method of computation of the HWHA Index cf. INTERECONOMICS No. 5, 1980, p. 261 ff.