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ECONOMIC TRENDS

World Trade in Economic Upcurrent

With the cyclical expansion in the industrialised countries world trade has been rapidly expanding for over a year now. The fact that in real terms the annual average increase during 1983 did not exceed 2 % was due to the negative "overhang" from the previous year. According to available data the pronounced growth in world trade has continued during the early months of 1984; the figure for the first quarter of this year will, in real terms, probably be more than 10 % up on the previous year's level. Demand came primarily from the industrialised countries. The latter group's volume of imports was about 15 % higher than a year ago, that of the USA alone expanding by well over a third. On the export side, the USA participated only slightly in the expansion of world trade, while Japan and the Western European economies improved their position all the more.

In the course of the rapid increase in the volume of world trade there was also a renewed increase in world trade values in dollar terms. During recent years these values had dropped continuously due, in particular, to the constant upvaluation of the US-dollar. However, since the middle of last year the tendency towards dollar appreciation has, apart from temporary jumps, been less pronounced. The "real" price movements in world trade were also more limited. This particularly applies to manufactures and semi-manufactures; their average values in international trade, calculated in terms of special drawing rights, have at any rate not changed significantly since the spring of 1983. Following their

reduction during the first few months of last year, the prices for crude oil have also remained stable. The prices of other raw materials, which had risen sharply at the start of the economic recovery in the industrialised countries, have, taken as a whole, only moved up slightly since autumn last year. This trend towards a general steadying of prices has meant that there has been no noticeable shift in the terms of trade for the most important country groups.

The course of economic activity in the industrialised countries remains the most important determinant for the further development of world trade. Although a continuation of the upswing can be expected its pace will be slower; above all, the rapid increase in demand and production in the USA will begin to fall off. The stimulating effects of the overall economic development on world trade are likely to become noticeably weaker, not least as a result of the dying down of stock-cyclical stimuli, which are particularly important to foreign trade. At the same time, imports by developing countries as a whole, including oil-exporting countries, can be expected to increase slightly. In the highly indebted countries the adjustment of imports has meanwhile reached an advanced stage, and due to the cyclical recovery of exports other countries have once more greater scope for increasing imports.

Even though, on the whole, a clear levelling-off of the expansion of world trade is likely during the course of the year, the annual average growth rate will probably be significantly higher than so far expected, figuring at

The Development of World Trade

	1975-79 ^a	1980	1981	1982	1983	1984 ^b
World trade in US \$ billion ¹	x	1904	1882	1752	1694	1850
Growth over previous year, in %						
Value	15	23	-1	-7	-3	9
Unit value index ²	10	21	-1	-4	-5	1
Volume ³	5	2	0	-2	2	8
of which industrial products ^{4,5}	7	5	3	-2	3	9
Imports by country groups ³						
Industrialised countries	5	-2	-2	-1	4	9
Oil-exporting countries ⁶	14	12	21	7	-12	0
Other developing countries	5	7	3	-8	-1	5

^aAnnual average. ^bEstimate. ¹Average exports/imports, excl. trade between state-trading countries. ²Average values on a dollar basis. ³Value adjusted for changes in prices and exchange rates. ⁴Only exports of major industrialised countries. ⁵Readjustment to 1980 basis and revision. ⁶OPEC.

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

about 8 % in real terms. The decisive factor for this is the marked "overhang" already recorded during the first months of 1984; however, the difficulties involved in "breaking down" the foreign trade turnovers into volume and price (exchange-rate) components are just one reason why quantification in this field is still marked by

considerable uncertainty. Of even greater importance, however, are the risks facing the development of world trade well beyond the current year. These include above all the still increasing protectionist practices and the debt crisis in many developing countries which is being aggravated by these very practices.

USA: Slower Expansion in 1984

The pronounced economic upswing in the USA is continuing. During the winter six months GNP in real terms increased at an annual rate approaching almost 7 %; the figure for the first quarter of 1984 was nearly 8 % up on the figure for the previous year. Industrial production for its part expanded by twice this figure within a year. Since the start of the upswing at the turn of 1982/83 the number of employed persons has risen by 6 %; measured as a percentage share of the economically active civilian population, unemployment fell during the same period by over three percentage points to 7.5 %.

Production during the first few months of this year has been particularly stimulated by the building up by businesses of their stocks. Investments in industrial fixed assets have also continued to increase. During the first quarter of 1984 they were up on the previous year's level by 16 % in real terms. Whereas in 1983 only plant and equipment investment experienced a marked recovery, the past few months have also witnessed a clear expansion of investments in the construction of industrial and commercial buildings. Investment in residential building also recovered following a short slackening off. There was growing demand in this field even though mortgage interest rates have not fallen since autumn last year and, indeed, have even risen somewhat recently. Probably the most decisive factor here was the favourable development of incomes due to the improved employment situation; during the winter six months disposable incomes grew (extrapolated on an annual basis) in real terms by approx. 9 %. In spite of a marked improvement in the propensity to save, private consumption was thus able to increase at an annual rate of about 6 %.

Commodity exports, which had dropped substantially for more than two years, now appear to have increased slightly in real terms. This development is mainly due to the general economic recovery in the other industrialised countries. However, the weak price competitiveness of American suppliers caused by the exchange-rate situation is still a retardant factor. On the other hand, the pronounced increase in imports has

continued due to the rapid expansion of domestic demand and the strong competitive position of foreign suppliers. During the first quarter of 1984 imports in real terms were 35 % up on the corresponding figure for the previous year, which was still marked by the preceding recession. This import boom has led to an accelerated deterioration of the balance of trade; the seasonally adjusted deficit figure was US \$ 37 billion (fas values) for the first four months of 1984 alone, compared with US \$ 57 billion for the whole of 1983.

At consumer level, prices increased during the first third of this year at a current annual rate of about 5 % and in April were 4.5 % higher than a year ago. The upward movement of costs is still being checked by import price stability and wage restraint. During the first quarter of 1984 average gross hourly earnings of workers were only 3½ % higher than a year ago; in real terms the level dropped somewhat. Overall unit labour costs thus also increased only slightly, although the rise in productivity remained relatively moderate despite the marked increase in production and capacity utilisation.

The unexpectedly fast pace of economic growth on the one hand, and the liquidity problems of one of the big banks on the other, resulted in uncertainty on financial markets as to the likely reaction of the central bank. The money supply M1, which has again been expanding more strongly since the beginning of the year, is still moving within the given target funnel of 4 to 8 %. However, the central bank's target for the increase in the overall lending volume has been increasingly overstepped since autumn. This is due both to the strong increase in demand for credit by private households and businesses as well as to the government's persistently high borrowing requirements. This accounts for a renewed increase in interest rates on financial markets. Finally, the central bank also stepped up its discount rate by half a percentage point in April, the rate now figuring at 9 %.

Despite the extremely vigorous upswing the federal budgetary deficit has not as yet been reduced to any noticeable degree; in fact, a renewed increase is

expected during the coming fiscal years. In the meantime, the Senate and the House of Representatives have passed differing budget drafts, which would cut back the accumulated deficit over the next three years by US \$ 142 or 182 billion respectively, approximately one third via tax increases. There are considerable differences of opinion with regard to the cutting back of defence spending on the one hand, and social spending on the other. The emerging compromise is unlikely to lead to any appreciable decrease in the federal budget deficit, which can be expected to increase again by 1986 at the latest. The dynamics of social spending embedded in existing laws play an important part in this respect.

The fact that election year 1984 sees the USA going through an unexpectedly powerful economic upswing period does not, however, mean that the supply-orientated growth strategy announced by President Reagan at the beginning of his period in office has been successfully effected. Although relief has been provided for households and businesses alike in the form of tax reductions, public spending was not cut as planned, but in fact increased in relation to national product. In the face of strong government borrowing the cyclically based growth in entrepreneurial capital requirements this year has led to an increase in interest rates. Apparently, the lack of convincing consolidation efforts also prevents any reduction in risk mark-ups on interest rates, a major reason being the continuing uncertainty as to the future course of the American central bank. The latter, therefore, is likely to be all the more anxious to keep the expansion of the money supply within the target range.

The stimuli caused by tax cutbacks and a temporarily – up until mid-1983 – expansionary monetary policy are now likely to lose momentum. The strong cyclical stimuli to production from stock-building during recent months will soon decrease under the influence of high interest

rates and increasingly cautious sales expectations. In view of the increased financing costs residential building can also be expected to slow down soon. There are also likely to be retardant effects on the propensity of businesses to invest, particularly since a stronger upward movement of wages will probably coincide with declining productivity increases and the monetary opportunities of passing these cost increases on to the consumer will be relatively limited. The expansion of private consumption will decrease only gradually now that the savings ratio has again "returned to normal". Public demand is likely to continue to stagnate in real terms. This development can be expected to be accompanied by an only slight increase in exports, since the economic recovery in Western Europe will remain restrained and many developing countries will at least not yet be able to step up their imports. What is more, a depreciation in the value of the dollar strong enough to enable a rapid and noticeable improvement in the competitive strength of American goods is unlikely. Even if imports do not continue to increase as markedly as they have done up to now, a doubling of the deficit on current account to an annual average of around US \$ 80 billion would no longer come as a surprise.

All in all, the pace of overall economic expansion will slow down appreciably during the course of 1984. However, following the powerful upswing up until the spring the average increase will figure at roughly 6 % for 1984 as a whole, markedly higher than during the previous year (1983: 3.3 %). The number of employed will also increase more slowly. In view of the stability-orientated monetary policy course, the rise in prices is likely to accelerate only relatively slowly; consumer prices will probably rise on an annual average in 1984 by a good 5 %, as against 3.2 % in 1983.

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

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

Raw Materials and Groups of Materials	1983	1984						
	AA ²	February	March	April	May	June	July 7	July 20
Total index	209.3	206.3	207.6	207.6	207.4	206.1	204.9	204.8
Total, excl. energy raw materials . . .	122.8	128.8	131.9	131.2	130.9	127.6	124.8	124.4
Food, tropical beverages	116.8	126.1	129.5	129.2	132.8	125.6	120.8	120.8
Industrial raw materials	127.4	130.9	133.8	132.8	129.5	129.2	127.9	127.2
Agricultural raw materials	125.5	131.0	132.7	131.6	129.9	134.2	133.8	131.9
Non-ferrous metals	145.0	142.0	146.1	146.8	140.4	135.7	132.6	133.6
Energy raw materials	259.8	251.5	251.8	252.2	252.0	251.9	251.7	251.7

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