INTERNATIONAL ECONOMIC SITUATION AND OUTLOOK[1]

INTRODUCTION AND OVERVIEW

Although earlier forecasts had predicted the beginning of a recovery in the second half of 1982, the international economy remained in a depressed state throughout the year, with the economies of the industrialized countries being in the main characterized by falling output and growing unemployment. While several countries have made progress in combating inflationary pressures, the threat of a resurgence in inflation remains an over-riding constraint on policymakers' willingness to quickly or sharply stimulate increased output and employment by means of fiscal and monetary expansion. Currently there is still little evidence of a significant upturn getting underway, although the OECD is predicting a modest recovery in economic activity in the OECD area through 1983. Real GDP is forecast to grow by around 1.5 per cent compared to an estimated 0.5 per cent decline in 1982 and the 1.2 per cent growth recorded in each of the two previous years. These rates compare with an average annual rate of growth of 3.5 per cent between 1969 and 1979.

While this broad profile of decline and hesitant recovery of economic activity is spread across most of the OECD countries, there are nevertheless some important differences. For instance, the timing of troughs in individual countries varies. The United States is considered to have reached a trough in the first half of 1982, remaining static for the remainder of the year. In Japan, the trough occurred in the last half of 1981, while for Germany and the United Kingdom the trough is expected to have been reached in the second half of 1982.

The strength of the recovery also varies across countries. By the beginning of 1984 the majority of OECD members are expected to be experiencing economic growth at an annual rate of about 2 per cent. Major exceptions are Japan and the United States —both of which are predicted to experience more vigorous growth at annual rates of up to about 4 per cent by the end of the forecast period.

An important consequence of the recent downturn in output has been a further fall in employment. OECD employment fell by 0.8 per cent in the first half of 1982, about twice the decline recorded for the second half of 1981, and is estimated to have fallen by a further 0.5 per cent in the second half of 1982. This lifted the unemployment rate for the OECD area from 7.1 per cent at the end of 1981 to new post-World War II highs of 8.1 per cent of the workforce by mid 1982, and around 9 per cent at the end of the year. Of all the OECD countries, only Japan has been able to maintain employment growth throughout the recession and they should continue to do so throughout 1983. During 1983 significant increases in employment are anticipated for the United States and Canada, but European countries are expected to experience further employment reductions. For the OECD as a whole, positive employment growth is not expected to resume until the second half of 1983, and no respite from high unemployment rates is likely in the next 18 months.

1. This article relates mostly to the latest set of economic forecasts prepared by the OECD. Further detail can be found in *OECD Economic Outlook No. 32*, OECD, Paris, December 1982.

The slowdown in the rate of inflation in some OECD countries over recent months has been significantly faster than previously anticipated. Private consumption deflators (an important inflation measure) increased by an estimated average of 7.5 per cent in 1982 compared with 9.4 per cent in 1981. A further easing to 6.5 per cent is projected for 1983. While the rates for individual countries within the OECD are presently widely disbursed around the average, the divergence is likely to narrow over the forecast period. Several high inflation rate countries instituted direct price and income controls during the year and these steps may have some impact on private consumption deflators in the coming months.

Turning to the balance of payments, the current account deficit for the OECD area as a whole is estimated to have worsened from about US$30 billion in 1981 to close to US$40 billion in 1982. A further deterioration is foreseen in 1983 due to continued weak export volume growth and faster import volume growth more than offsetting favourable terms-of-trade developments.

The large OPEC current account surplus resulting from the second major oil price rise in 1979/80 has been rapidly eroded. From US$110 billion in 1980 the OPEC surplus fell to US$65 billion in 1981, and to around zero in 1982. As various OPEC countries respond to the recent sharp drop in oil revenues by cutting back imports an improvement to a surplus of some US$15 billion is in prospect for 1983. This is in part the counterpart to the anticipated deterioration in the OECD current account deficit in the same year.

The current recession, while precipitated by the oil price rises in 1979/80, has been prolonged by the tightening of fiscal and monetary policies in a number of OECD countries. Such measures have outweighed the earlier positive influences on output emanating from the strong growth in exports to OPEC and non-oil developing countries. These restraint measures have contributed significantly to the drop in the rate of inflation within the countries that have adopted them. Nevertheless, there is a need for some caution in interpreting recent price developments. Commodity prices have been generally weak in the face of stagnant demand conditions, while the two countries most successful in reducing their inflation rates, the United States and the United Kingdom, have also been aided by exchange rate appreciation to levels which may be unsustainable in the long run. These factors may therefore, have only a temporary impact on prices. Over the last few months, there appears to have been some moderation of the tight monetary stance of some countries and average interest rates in the OECD area have been falling, although real rates are still at historically high levels (especially given the current recessionary phase).

OUTPUT AND DEMAND

The present recession has proved to be the most severe and prolonged since the second world war. Previous forecasts indicated a recovery in economic activity in the second half of 1982 but this has failed to materialize. The OECD predicted 1982 real GDP growth of 1.3 per cent in December 1981, reduced this prediction to 0.5 per cent in June 1982, but now estimate that the 1982 growth rate was −0.5 per cent. Forecast growth in 1983 has been similarly scaled back. This weaker performance results from several factors.

In the (non-financial) business sector a much more cautious mood predominates with the emphasis being on improved balance sheet and liquidity positions implying a pruning of stocks, investment and employment requirements. Consumers have also demonstrated more caution — this being evidenced by the rise in savings ratios that has occurred in some countries over the last year. In the capital markets, international bank lending to developing countries has been cut back, contributing to a more severe than anticipated slowdown in non-OECD demand and imports.

The forecast annual OECD growth rate of 1.5 per cent for 1983 is the net result of rather diverse movements among the major economies. The major European economies are forecast to grow by only around 0.5 per cent in 1983 with the major contribution coming from the export sector, aided to some extent by private consumption growth. In the United States all components of private domestic demand are expected to contribute to the 2 per cent GNP growth rate in 1983, with private consumption being the leading factor. In Japan, domestic demand will remain relatively weak but strong export performance should still result in a 3.5 per cent growth rate for 1983.

GROWTH OF REAL GDP
(% Change)

	Average From Previous Year				
	1969–79	*1980*	*1981*	*1982 (estimate)*	*1983 (forecast)*
United States[1]	3.0	−0.2	1.9	−1.8	2.0
Japan[1]	5.4	4.2	3.0	2.5	3.5
Federal Republic of Germany[1]	3.2	1.8	−0.2	−1.3	−0.3
France	4.1	1.2	0.3	1.5	0.5
United Kingdom	2.2	−1.8	−2.2	0.5	0.1
Italy	3.3	4.0	−0.2	0.8	0.3
Canada[1]	4.3	—	2.9	−5.0	1.3
Australia	3.5	2.5	4.1	0.8	0.5
New Zealand	2.5	0.8	3.7	−0.5	0.5
Austria	4.1	3.1	—	0.5	1.0
Belgium	3.6	2.5	−1.7	−0.5	0.8
Denmark	2.5	−0.2	0.1	1.8	—
Finland	3.8	5.0	1.4	0.5	1.3
Greece	5.3	1.7	−0.7	0.5	1.0
Iceland[1]	5.5	2.5	1.5	−3.5	−2.3
Ireland	3.9	1.9	1.1	1.3	1.8
Netherlands	3.5	0.5	−1.2	−1.3	−1.5
Norway	4.5	3.8	0.8	—	0.5
Portugal	5.1	5.5	1.7	2.0	1.5
Spain	4.1	1.5	0.4	1.3	1.5
Sweden	2.4	1.4	−0.8	0.5	1.5
Switzerland	1.4	4.4	1.9	−2.0	0.5
Turkey	5.7	−0.7	3.5	4.0	4.0
Total OECD	3.5	1.2	1.2	−0.5	1.5

Source: OECD
1. GNP

UNITED STATES

In the United States, the return to positive growth in the second quarter of 1982 seemed to indicate a possible end to the recession. Second quarter real GNP grew at an annual rate of 2.1 per cent following falls of about 5 per cent in the last quarter of 1981 and the first quarter of 1982. This improvement was attributed mainly to a slow down in the rate of liquidation of business inventories. Official statistics for the third quarter, however, did not support the earlier optimism, with only a small increase in real GNP recorded (0.7 per cent at a seasonally adjusted annual rate). This growth was again mainly due to inventory accumulation. That this occurred with sales volumes continuing to decline and with the inventory to sales ratio rising, suggested that the further build-up was involuntary and that more cutbacks in orders and production were likely in the last quarter of the year. The falling sales level also suggests that the mid-year personal tax cuts in the US are having little impact on consumer expenditure.

Despite this gloomy overall picture in the US there were some bright spots in the second half of 1982. In particular, interest rates have fallen significantly since mid-year. Indicative of this trend were the movements in the United States prime rate which fell from about 16.5 per cent in June to 11.5 per cent by December. It is hoped that this will help provide the required stimulus to private sector expenditures, especially in areas such as residential construction and interest sensitive parts of consumption demand (e.g. automobile sales). Indeed, there have already been some encouraging signs of recovery in these categories (more particularly in residential investment) in the latter months of 1982.

In the coming year, real increases of around 2.8 per cent and 21.5 per cent are expected for private consumption and residential investment respectively and, together with (voluntary) stockbuilding, are the major contributors to the 2 per cent real GNP growth forecast. These positive factors are partly offset by an expected 4 per cent fall in non-residential investment (although this is anticipated to recover late in 1983 and into 1984) and a fall in export volumes. The latter is the probable result of the strength of the US dollar (despite some weakening late in 1982), the financial difficulties of many non-OECD countries and the weak growth prospects of other OECD countries.

Although uncertainties remain about both the interpretation and effects of fiscal and monetary policy in the US, some apparent easing of aggregate demand management policies is a contributing element underlying this forecast recovery. After a restrictive stance in 1981, the 'cyclically adjusted' budget measure (which abstracts from the effects of the economy on the budget, focussing only on the effect of the budget on the economy) shows an expansionary fiscal stance for 1982 and 1983. With reduced inflation but unchanged monetary targets, and with a more flexible implementation, monetary policy has also become somewhat less restrictive, although the Federal Reserve Board has stressed that it intends to maintain its policy of non-accommodation of inflation in the longer term.

UNITED KINGDOM

In the United Kingdom, the recovery in activity which began in the last half of 1981 tailed off in the second quarter of 1982, although real GDP still grew at an annual rate of 1.3 per cent for the first half of the year as a whole. As real personal disposable incomes fell, private consumption declined at a real annual rate of 0.7 per cent in that period, after a 0.1 per cent decline in the last half of 1981. Public and private fixed investment increased by 4.9 per cent in the first half of 1982 as a whole, but by the second quarter had resumed its downward trend. The slowdown was particularly marked for private non-residential investment. Public sector expenditure (both investment and consumption) was a major contributor to the growth in GDP, other positive factors being the cutback in import volumes and an end to the destocking of earlier periods.

The downward trends evident in the second quarter of 1982 were accentuated in the second half of the year and real GDP is thought to have declined by around 0.5 per cent in that period. Although private consumption increased by around 2.5 per cent, in part in response to the abolition of hire purchase regulations, this seems to have been at least partly reflected in higher import volumes, and in any event was more than offset by a steep decline in private non-residential investment and falling export volumes. In addition, the rate of growth in public expenditure was considerably slower than in the first half of the year.

In 1983, further private consumption growth (around 1.8 per cent) is expected to be the major factor in the forecast real GDP growth for the UK of about 1 per cent. Real take-home pay may fall a little in the coming year, but real transfers to households should grow rapidly due to increased unemployment, and this combined with a recovery in self-employed income should produce some growth in real personal disposable incomes in 1983 and the first half of 1984. In addition, the saving rate is expected to decline a little further, mainly because of the effect of falling inflation on the real value of financial assets.

Public sector investment and government consumption are expected to remain weak in line with the tight medium-term fiscal policy stance, and private non-residential investment is expected to continue to decline in 1983 in response to low profit rates and substantial amounts of unused capacity, recovering only slowly late in the forecast period. On the other hand, private residential investment should show strength in response to falling mortgage interest rates, the greater availability of finance, and a continuing improvement in the ratio of earnings to house prices. The external sector is likely to exert a significant negative influence on real GDP growth in 1983. Manufactured exports may recover moderately, although still hampered by the deterioration in external competitiveness over the last few years. (As with the US dollar however, there was some weakening of sterling late in 1982.) Exports of oil and services may also benefit from the modest international recovery, but these factors should be more than offset by strong growth in manufacturing imports due to both the recovery in domestic activity and consumption and the turnaround in the stock cycle.

WEST GERMANY

At the end of 1981 the West German economy was showing signs of recovery. Industrial production, capacity utilization, and investment were improving. Demand for exports was particularly buoyant. Growth in real GDP turned positive for the second half of 1981, with an equivalent annual increase of 0.7 per cent. Since then, however, there has been a marked weakening in the economy. Real GDP is thought to have fallen by around 1.3 per cent in 1982. Industrial production expanded at an annual rate of 2 per cent in the first half of 1982 but much of the increase was absorbed by a rapid build-up in stocks. This build-up appears to have been largely involuntary, as evidenced by a reversal of this trend in the second half of the year. A sharp fall-off in external demand, which had underpinned economic activity through 1981, was apparent in the first half of 1982 and the real external balance exerted a negative influence of 1.5 per cent on the annual GNP growth rate compared with a positive 5 per cent contribution in the last half of 1981.

In spite of increased earnings by enterprises, lower interest and unit labour costs, and new Government investment incentives, gross fixed capital formation fell sharply in the first half of 1982 in response to the general downturn in demand conditions. It increased only slightly in the second half of the year due solely to a recovery in residential investment. Private consumption also fell during the first half of the year in response to a 2 per cent fall in real personal disposable incomes and a rising saving ratio, with a further significant consumption decline (2.8 per cent) estimated in the second half of 1982 for similar reasons.

The West German economy is expected to decline by a further 0.3 per cent over 1983 as a whole, with falling consumption and destocking offsetting positive contributions from fixed investment and the external sector. Stronger, but still only moderate, growth is anticipated in the second half of 1983 and into 1984, with all components of domestic demand as well as the external sector contributing. Consumption is predicted to be growing at an annual rate of 0.5 to 1 per cent by that stage as real disposable incomes cease declining and the saving ratio stops rising. A somewhat more marked turnaround is the projected improvement in private non-residential investment which, after an estimated 4.8 per cent decline in 1982, is expected to be growing at an annual rate of 1.5 — 2 per cent over the forecast period as the Government investment support measures take effect and with the benefit of falling interest rates.

JAPAN

After reaching a trough in the second half of 1981 (but with real GNP still growing at an annual rate of 2 per cent), the Japanese economy picked up during 1982. In the first half of 1982, exports declined at an annual rate of 1.4 per cent, but total domestic demand growth of 3.6 per cent (with private consumption growth of 6.3 per cent offsetting a decline in fixed investment), was sufficient to result in real GNP growth of 2.6 per cent. This was a reversal of the situation in the second half of 1981 when export growth was very strong but domestic demand was sluggish. The rapid rise in consumption in the first half of 1982 was attributed to the deceleration in consumer prices and also to some special factors in the second quarter.

Export volumes, although growing moderately, remained relatively weak in the second half of 1982. This stagnation did not result from a loss of competitiveness — in fact the yen continued to depreciate over most of this period, enhancing the competitiveness of Japanese exports. In addition to generally depressed external demand, much of the weakness in exports was due to the growing protectionist tendencies within the world economy which resulted in a range of import controls (including 'voluntary' export restraints) being imposed by a number of Japan's major trading partners.

Import volumes declined by around 2 per cent in the second half of 1982, so that the external sector nevertheless made a positive contribution to GDP growth in Japan in that period, as opposed to the negative contribution in the first half of the year.

Domestic demand grew at the slower rate of 2 per cent, in the second half of 1982, with a decline in government consumption expenditure and some destocking. Except for private non-residential investment, gross fixed capital formation recovered in the second half of the year, growing by around 3 per cent overall, compared to a 3.2 per cent fall in the previous period.

The improvement in the world economy should allow a steady acceleration in Japanese export growth in 1983, although protectionism may still be a limiting factor. Imports are also expected to recover, but more slowly than exports, so that the external sector should continue to contribute positively to growth over the forecast period. Reflecting growth in real disposable incomes, private consumption is forecast to increase by around 3 per cent, and this is the major contributor to the real GNP growth of 3.5 per cent anticipated for 1983. Private residential investment may be the strongest investment category in 1983, encouraged by income growth, decelerating land and construction material prices, and various Government support measures announced in October 1982. Private non-residential investment is also expected to recover through the forecast period, but public investment is likely to fall sharply after mid – 1983. This mostly results from a cutback in appropriations for public works in the fiscal 1983 year (i.e. the year beginning in April 1983) in line with the tight proposed fiscal policy stance for that year. Public consumption expenditures are projected to increase only marginally over the forecast period.

INFLATION

The tight monetary and fiscal policies introduced by many countries following the second oil shock were mainly responsible for the deceleration in the rate of inflation in 1982. However, as indicated earlier, other developments have also contributed to this outcome. These include a sharp fall in non-oil commodity prices compared with manufactured export prices; weak international energy markets with widespread discounts on official OPEC selling prices; the beneficial effect on prices in the UK and US of the strength of sterling and the dollar; and a steady reduction in the growth of nominal wages in response to both slower price rises and to the record levels of unemployment in many OECD countries. While some of these factors may be primarily of short-term benefit, firm fiscal and monetary policies and moderation in wage growth, if they continue, should be of vital importance over the longer term for sustainable non-inflationary economic growth.

The fall in non-oil US dollar commodity prices during 1982 can be attributed to a higher effective dollar exchange rate, more favourable food supplies resulting in higher producers' stocks, the delay of the recovery in world demand and the influence of high real interest rates on desired consumer stocks. These factors are likely to become less important over the next 18 to 24 months and some recovery in commodity prices is expected. However, with the subdued nature of the projected recovery in OECD activity, little strengthening in oil markets seems likely in the near future, and for the latest set of OECD forecasts, oil prices (in US dollars, the currency in which oil prices are usually denominated) are assumed to remain unchanged through 1983. Because of the recent appreciation of the US dollar, this still results in a 1 to 2 per cent increase in nominal oil prices, measured in local currency terms, faced by OECD countries other than the United States (but a 3 to 5 per cent fall in real terms).

The average growth in hourly earnings and manufacturing unit labour costs in the OECD area slowed in 1982, reflecting reduced general inflationary pressures and a worsening in labour market conditions. The increase in hourly earnings was slightly less than that in negotiated base rates (owing to negative wage drift) and, from a longer-term perspective, was only marginally higher than the 1962–72 average rate of increase. In contrast, the rise in unit labour costs during 1982 was still well above its 1962–72 average, reflecting the sharp slowdown in productivity growth that has occurred over the past decade. Together these factors have produced a reduction in profit shares to below the 1962–72 average. The continuing weakness anticipated in labour markets and the unexpectedly rapid deceleration in consumer price inflation, combined with wage controls of varying scope and severity in a number of countries, imply a continuation of slower wage growth in OECD members in the coming year. Unit labour costs in manufacturing should slow in 1983, with a modest recovery in productivity, but may accelerate slightly for the OECD economy as a whole owing to slower productivity growth in the non-manufacturing sectors.

CONSUMER PRICES

(% Change, Annual Rates)

	Average				*12 Mths to Sep.*
	1961–70	*1970–80*	*1980*	*1981*	*1982*
United States	2.8	7.0	13.5	8.6	5.0
Japan	5.8	8.6	8.0	4.5	3.2
Federal Republic of Germany	2.7	5.1	5.5	6.0	5.0
France	4.0	9.4	13.6	12.5	10.1
United Kingdom	4.1	13.2	18.0	10.9	7.3
Canada	2.7	7.7	10.1	11.4	11.4
Italy[1]	3.9	14.6	21.2	19.0	17.2
Australia	2.5	10.7	10.2	8.9	12.3
New Zealand	3.8	12.4	17.1	15.5	16.6
Total OECD :	3.3	8.2	12.9	9.4	7.4

Source: OECD
1. Break in series in 1977.

Inflation rates in the leading industrial countries are still widely disbursed around the estimated average of 7.5 per cent for 1982, with Japan's 2.8 per cent the lowest and Italy's 16.5 per cent the highest. Some narrowing is foreseen in 1983 however. With an OECD average of 6.8 per cent, Italy's inflation rate for 1983 should drop slightly due to lower imported inflation, while Japan's is expected to rise to around 3.3 per cent because of the recent weakness of the yen relative to the US dollar. The range of inflation rates in the major industrial countries should continue to narrow gradually in 1984. In West Germany, inflation is expected to fall from its peak of 6 per cent in 1981 to 3.8 per cent by 1983, mostly as a result of a slowdown in the growth of unit labour costs. Some benefit may also come from exchange rate appreciation. In France inflation should slow from 11.5 per cent in 1982 to around 9 per cent in 1983, partly reflecting the impact on hourly wage rates and unit labour costs of the prices and incomes controls instituted in June 1982. The annual rate of inflation in the United Kingdom should fall to 6 per cent in 1983, compared with the 8.5 per cent rate estimated for 1982, dropping further to an annual rate of less than 5 per cent into 1984. The continuing decline results from the general lowering of inflationary expectations and high unemployment (which act to depress growth in average wage payments), together with weak import prices and continuing rapid growth in productivity. These developments more than offset a small rise in profit rates. Finally, in the United States the rate of inflation should fall slightly from around 6 per cent in 1982 to 5.5 per cent in 1983. Continuing low rates of pay increase and a further improvement in productivity growth help to hold down the inflation rate at a time when some of the temporarily advantageous factors described at the beginning of this section may no longer operate.

GLOBAL STRUCTURE OF CURRENT ACCOUNT BALANCE[1]
(Billions of US Dollars)

	1979	*1980*	*1981*	*1982 (estimate)*	*1983 (forecast)*
Industrial Countries	−33	−73	−30	−40	−55
OPEC	62	110	65	0	15
Other Developing[2]	−38	−60	−75	−65	−50
Other non-OECD	−4	−1	−10	0	0
TOTAL[3]	−13	−24	−45	−100	−90

Source: OECD
1. Includes official transfers.
2. Includes Turkey, Greece and Portugal which are OECD members.
3. Reflects statistical errors and asymmetries which give rise to world totals that are significantly different from zero.

INTERNATIONAL TRADE

The decline in OECD trade volumes in the first half of 1982 has been larger than previously anticipated and this trend is thought to have continued into the second half of 1982. A moderate upturn in trade volumes is predicted in 1983 but this will be significantly weaker than anticipated six months ago. The poor output and employment prospects in many OECD countries have given added impetus to trade-restrictive protectionist measures, and these have exacerbated the international trade decline. In addition, many non-OECD countries are expected to cut back imports in order to redress the deterioration in their external financial positions, which has occurred in the face of a substantial tightening in international credit markets. There is still some risk that strains in international financial markets could further affect trade flows, although the earlier concern about financial stability now seems to have receded somewhat as several large debtor countries have reached agreement with the IMF on adjustment programmes and financial assistance.

Oil imports by OECD members may recover to some extent in the first half of 1983 in response to lower oil prices and a slowdown in the rate of destocking. Throughout the rest of the forecast period, however, the growth in oil imports should slow down again to a rate below the rate of increase in the importation of non-oil commodities.

The differing cyclical and competitive positions of individual OECD economies is apparent from the differences in their current account positions. The most significant feature in this respect is the sharp deterioration in the United States current account, in comparison with the improvements foreseen for most of the other major industrial countries. A rapid rise in import volumes in the US, coupled with the loss in competitive position caused by a high real exchange rate, produced a deterioration in the current account position from a surplus of US$6 billion in the first half of 1982 to an estimated deficit of close to US$24 billion in the second half of the year (both measured in seasonally adjusted annual terms). This results in an estimated deficit of almost US$9 billion for 1982 as a whole, compared to a US$4.5 million surplus in 1981. The expected recovery in the US may cause this deterioration to continue in 1983 (and also into 1984), with a US$31 billion deficit projected for the coming year.

The external sector of the United Kingdom's economy is also likely to deteriorate in 1983, but less sharply than the US. Sluggish export growth combined with more rapid import growth is likely to see the UK current account surplus shrink from about US$4.5 billion in 1982 to around US$0.5 billion in 1983. The improvement in the current account positions of most other OECD countries in 1983, on the other hand, is the result of weaker domestic demand growth and improved competitiveness vis-a-vis the United States. For example, it is anticipated that Japan's current account surplus will increase from an estimated US$6.5 billion in 1982 to US$11 billion in 1983. Germany's current account is expected to be in balance in 1983 after a deficit of US$0.3 billion in 1982 (and one of US$7 billion in 1981).

CURRENT ACCOUNT BALANCES[1]
(Billions of US Dollars)

	1979	*1980*	*1981*	*1982 (estimate)*	*1983 (forecast)*
United States	−0.5	1.5	4.5	−8.8	−31.3
Japan	−8.8	−10.7	4.8	6.5	11.3
Federal Republic of Germany	−5.3	−16.3	−7.3	−0.3	0
France	5.2	−4.2	−4.7	−11.5	−8.3
United Kingdom	−1.8	6.7	12.1	4.5	0.5
Italy	5.5	−9.7	−8.1	−5.5	−4.0
Canada	−4.2	−0.9	−4.5	1.0	0.8
Australia	−2.8	−4.0	−8.5	−10.0	−10.8
New Zealand	−0.7	−0.9	−1.2	−2.0	−2.0

Source: OECD
1. Includes official transfers.

Turning to developments outside the OECD, OPEC imports have continued to expand rapidly in the wake of the extra income generated by the 1979/80 oil price hike. Meanwhile OPEC oil revenues have shrunk substantially as both prices and volumes of oil exports have fallen as a result of the depressed level of demand from the industrialized countries. Together, these factors were responsible for the disappearance of the OPEC current account surplus in 1982. These developments are expected to be reversed to some extent over the forecast period as demand from the industrialized countries revives and as many OPEC countries cut back import demand in order to redress the deterioration in their external positions. An OPEC surplus of around US$15 billion is forecast for 1983.

Non-oil developing countries should experience some slight easing in their current account deficit from an estimated US$65 billion total in 1982 to US$50 billion in 1983. This improvement is anticipated to result from a number of factors which taken together are likely to constrain their ability to import. These factors include the deterioration of their terms of trade, only a slow recovery in their exports (export volumes are not expected to pick up much before late 1983 or early 1984), and the difficulties in some cases of refinancing existing debt.

CONCLUSIONS AND IMPLICATIONS FOR NEW ZEALAND

Following the second oil price shock in 1979/80, the OECD countries — particularly the larger ones — adopted significantly tighter fiscal and monetary policies in an attempt to reduce inflation and provide a basis for sustainable economic growth. The combined effect of these two events has been a severe downturn in economic activity over the last three years. OECD growth averaged only about 0.6 per cent over this period compared with a 1969-79 average of 3.5 per cent. The prolonged downturn has led to very high unemployment rates and has in addition seen the intensification of protectionist sentiment, as evidenced by increasing recourse to trade-restrictive measures as individual countries attempt to mitigate the effects of the world recession on their domestic activity and employment. Strains have also increased in the international financial system because of the continuing recession which, along with high interest rates, falling inflation and lower commodity prices has added to the debt servicing difficulties of developing countries in general (and several large ones in particular). The necessary internal adjustments in many non-OECD countries therefore constitutes another constraint on the current and future expansion of overall demand. On the positive side, a reduction in inflation has occurred. Inflation decelerated more rapidly in 1982 than was predicted. Inflationary expectations also seem to have moderated and nominal interest rates have been falling recently. Although the lower inflation expectations are clearly desirable, there is an accompanying risk that low output expectations could also become entrenched and that these, through their depressive effect on investment, could become self-fulfilling.

As a more general point, the forecasts outlined in this article are subject to perhaps more than the usual degree of uncertainty. As well as developments in the expectations and general confidence of businesses and households, this uncertainty relates to a number of factors in the forecast period, including the stance and effects of fiscal and monetary policies, the extent to which further protectionist policies are implemented, exchange rate trends, oil and other commodity market developments, and international financial market developments. Certainly not all of the above factors would necessarily operate to revise the current growth projections downward. However, as noted earlier in this article, there have been several previous forecasts of an international economic recovery which in the event has failed to materialise. While the current set of projections appear plausible on the basis of the movements in, and inter-relationships between economic aggregates, there is as yet little evidence of a broadly-based recovery actually getting underway. With this proviso then, growth in OECD output is forecast to pick up slowly in 1983, led mainly by a recovery in the United States. This growth will be weak in comparison to growth in previous recovery periods, and in particular will not be sufficient to stem the rise in the rate of unemployment, which will continue to climb over the forecast period. Some further gains in reducing inflation rates should continue to be made in the major OECD economies.

New Zealand experiences the effects of developments in the international economy through the external balance position, largely via prices for commodity exports and the volume of manufactured exports. The current international downturn has played a significant role in precipitating the marked deterioration in New Zealand's current account position over the last year, and has correspondingly played a part in the domestic recession in the current financial year.

The gradual recovery in the economies of most of New Zealand's trading partners (Australia is likely to be an exception) may permit some modest improvement in our export prices and volumes, and some running down of stocks accumulated during the recent past. However, this is likely to occur mostly later in 1983 and into 1984. The OECD predicts 4 per cent volume growth in New Zealand's exports in the 1983 calendar year, while the NZIER predicts 8 per cent volume growth in the year to March 1984. Import volumes, underpinned mainly by the major project requirements, are likely to increase in the 1983/84 financial year at a rate similar to that in 1982/83 (the NZIER estimates 3 per cent and 4 per cent respectively for those years), but this is considerably slower than the increase of around 10 per cent in 1981/82. Together with a possible small terms of trade improvement in 1983/84, these relative volume movements should result in some improvement in the trade balance in that year, but the growth expected in some non-trade remittances may still result in further deterioration in the current account balance.

Overall the external sector cannot be expected to provide strong stimulus to New Zealand's domestic economy in the foreseeable future, unless the international economic recovery is considerably stronger than currently expected. Indeed it is difficult to see real GDP growth of more than around 1 per cent in 1983/84. (The OECD predicts 0.5 per cent growth in 1983, but the NZIER predicts zero growth for 1983/84.) Any more rapid domestic demand growth could soon become unsustainable in the face of the balance of payments constraint, as was the case with the domestic recovery of 1981/82.