

**Quarterly  
Economic  
Commentary**

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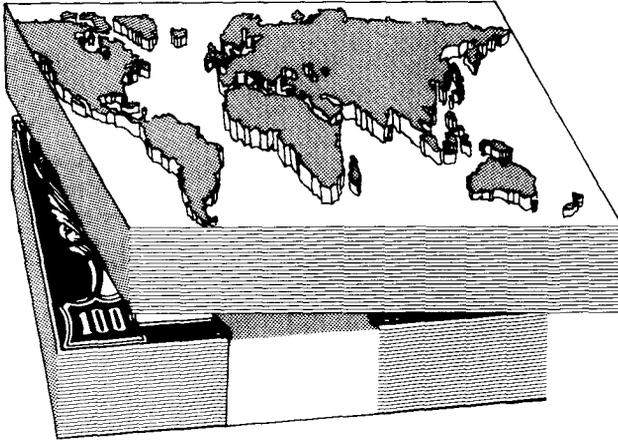
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# The World Economy



In the January issue of the Commentary it was pointed out that the mildly favourable prospects for world economic growth in 1979 were overshadowed by some political uncertainties, notably the prospect of disruptions to the supply of oil and the growth of protectionism. While the volume of world trade, as measured by the utilisation rates of dry cargo shipping, has continued to improve since the trough of June, 1978, there have been further less favourable political developments.

It now seems as if crude oil prices will rise this year by more than the 10% decided at last December's meeting of the OPEC countries. The increase could be as high as 20%, although the exact proportion is bound to be uncertain, depending as it does upon the outcome of the political situation in Iran, as

well as upon other political developments in the Middle East. Should 20% be the eventual outturn, then this may be expected to reduce the rate of growth of real income in the industrialised countries by about 1%, and will take the form of an increase in the rate of inflation by that amount. But growth of industrial production should not be significantly affected, and the latest expectations are that world industrial production should continue to grow by about 4% a year, as it has done for the past two-and-a-half years. It can hardly be denied, however, that the lower rate of growth within the industrialised countries since 1973 has been brought about, at least in part, by the increased uncertainty caused by the unforeseen rise in oil prices. Consequently, uncertainties about oil supplies may continue to exert a depressing effect on private investment.

The 1973 oil price rise also gave rise to a new wave of protectionist pressures within the industrialised countries, aimed at breaching the principles of free multilateral trade embodied in GATT. It is against the background of these pressures that the current round (the so-called Tokyo round) of negotiations has been taking place. While these talks have proved successful in reducing tariff barriers, it is the non-tariff barriers which have become increasingly important as obstacles to more liberalised trade. It is significant that it is on the question of anti-dumping safeguards that negotiations have just broken down. While the EEC and developing countries have failed to agree with each other on rules for implementing such safeguards the true grievance of the EEC concerns the Japanese overall balance of trade surplus, about which GATT can do little.

Amongst the positive influences noted in the last Commentary was the fact that the rate of inflation seemed to be falling throughout the industrialised world. This is no longer true. In the United States, consumer prices rose at an annual rate of 8.4% in the last three months of 1978, compared to an increase of 7.6% in the previous quarter. An acceleration of inflation in the United Kingdom, (see below), has also taken place.

In the United States, the growth rate of real G.D.P. also increased in the last quarter of 1978 to an annual rate of 6.4 per cent, which should be compared to earlier unofficial expectations which ran as low as 4.0%. This has been used as evidence by those, like the Chairman of the Federal Revenue Board, who argue that the long-predicted fall in G.D.P. scheduled for mid-1979 will not now take place. On the other hand, the index of leading indicators declined in January by the biggest amount in four years. The principal causes of the index's decline were the sharp fall in new building permits and the contraction in the growth of the money supply (M1). Despite the further tightening of the Fed's monetary growth targets in mid-March, there seems little prospect that the average rate of inflation in 1979 will be lower than the 9% increase experienced in 1978.

In West Germany, the optimistic climate of business confidence continues. According to the annual survey of investment intentions carried out by the IFO Research Institute of Munich, companies expect a rise of about 7% in the volume of investment in 1979/80, and an average annual increase of 4% over the years 1979 to 1983.

Another forecast, by the Dresdner Bank, estimates the annual average growth rate of real G.N.P. over the same four-year period to be about 3.2%. But this is not thought to be high enough to make any impression on the level of unemployment, now running at about one million, especially in view of the rapid rise in the number of school-leavers coming on to the labour market during this period. However, there is also expected to be a 2% annual decline in the total population over the period, which, if realised, would mean an annual increase of 3.5% in real G.N.P. per head, a prospect described by the Bank as a "quite favourable perspective for living standards".

In Japan, the latest official view of developments in the economy, foresees a real G.N.P. growth rate of 5.6% for 1979. While this is below the official target growth rate of 6.3% it is still well above the 4½% forecast for 1979 reported by the independent Japan Economic Research Centre in our last issue.