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World trade 1993-1995 and World commodity prices

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PREFACE

The papers put together in this publication are the half-yearly reports of two working groups of the AIECE, in which the CPB actively participates. The reports, presented on behalf of the groups, form the synthesis of views of many institutes and have their value as such. They do not necessarily reflect the opinion of the reporting institute itself.

AIECE is the Association of European Conjuncture Institutes, (in French: Association d'Instituts Européens de Conjoncture Économique), founded in 1957. The AIECE now groups 42 members and observing institutes, representing 20 countries and 5 international organisations (EU, OECD, IMF, ECE and EFTA). The membership is open to independent European institutes involved in surveying economic development and macroeconomic forecasting. Independent is interpreted as not directly being involved in conducting economic policies and not representing some economic interests. The main objective of the association is to intensify the exchanges between its members with a view to improve their insight into international economic developments.

The Central Planning Bureau is a long-standing member of this organisation, which is appreciated as a valuable platform for exchange of views with mostly non-governmental institutes, next to the Bureau's official contacts with in particular OECD and EU. Moreover, it is a useful source of information when making CPB-forecasts.

Twice a year world economic issues are discussed in the plenary meetings of the AIECE. Major points on the agenda are the general report on the European conjuncture, prepared in turn by one of the institutes, and the presentation of selected special studies. Two standing working groups report on respectively the development of world commodity prices, and on world trade. In a special session reports are discussed on longer-term prospects and structural changes. These reports are meant to give a general assessment of developments in the respective fields. As the results may be interesting also for a wider public, the CPB publishes the working group reports in its Working Paper series.

Autumn 1994, the French INSEE-institute has reported on world trade development on behalf of the Working Group on Foreign Trade. The analyses are largely based on the forecasts provided by the member-institutes with respect to their own country. The working group deals mainly with non-European developments, and places the European figures in a world setting. The assumptions made with respect to the international environment (oil prices, dollar exchange rate etc.) are consensus forecasts, and thus may have required a modification of the data supplied by the respective institutes for their own country. (The latest CPB analyses can be found in: Macroeconomic Outlook 1995, September 1994). Summarising trade tables with e.g. market growth, calculated import prices, export prices of competitors give the institutes the opportunity to re-assess their forecasts.

The IRES-institute from Louvain-la-Neuve, Belgium, reported on behalf of the Working Group on Commodity Prices. The group is formed by specialists on raw material prices of the AIECE member institutes. Their half-yearly report evaluates recent development of commodity prices and presents, starting from a set of framework assumptions, detailed price forecasts for a large number of commodity groups for the coming year and a half. One technical assumption made in its report is constant exchange rates, which is the most striking difference with the approach of the trade group. As there is indeed an exchange of information between the working groups, other differences in framework assumptions are usually limited.

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Director

ASSOCIATION D'INSTITUTS EUROPÉENS DE CONJONCTURE ÉCONOMIQUE
- Working Group on Foreign Trade -

WORLD TRADE 1993-1995

Report presented to the AIECE at the autumn meeting
Brussels, 26 - 28 October 1994

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Tables in Annex prepared by the CPB

Member institutes of the group are:

COE	Paris
CPB	The Hague
DULBEA	Brussels
FTRI	Warsaw
HWWA	Hamburg
INSEE	Paris
ISCO	Rome
KOPINT-Datorg	Budapest

CONTENTS

SUMMARY

The economic recovery is stronger than had been expected, with GDP growth rates being revised upwards in most of the OECD countries. The dynamism shown by the developing countries, especially in South-East Asia, is persisting. In these last months of 1994, the economic situation is looking more favourable than it did 6 months ago for the expansion of world trade, which is now expected to rise by nearly 7.5% in 1994 and in 1995. The recovery is still free of inflation, despite the expected rise in oil prices and that of certain commodities, which is already under way. World prices of manufactures are expected to go on tending to rise very moderately (1% in 1994, 0.8% in 1995). Rises in unit labour costs remain restrained in the OECD countries in general.

I. The international environment: recent evolution and future outlook

Whereas 1993 saw a contraction of GDP in continental Europe, in contrast to the growth taking place in the English-speaking countries, 1994 should be a year of unexpectedly strong recovery for most of the developed countries and of reduction in the earlier cyclical leads and lags, a tendency which is likely to be confirmed in 1995. This would take the form of a slowdown in the United States and acceleration in Europe. Japan, for its part, should emerge more gradually from recession, with distinctly lower growth rates.

The dollar exchange rate, which has dropped more sharply than expected since the beginning of the year, could climb back to above 1.65 DEM. The yen is expected to stabilize at around 104 JPY to 1 USD in 1995. But the uncertainties hanging over exchange rate movements within the time-horizon of the forecasts are considerable.

Inflation is expected to remain under control in the OECD countries, despite the rapidity of the recovery and the rise in commodity prices, seen as having rather little impact on price levels in the developed countries.

United States: growth to peak in 1994, slowing down thereafter

The growth rate of United States GDP is expected to show a further acceleration in 1994, to 3.8% from 3% in 1993, driven mainly by investment, which is estimated to have risen by an average of more than 12% for the year. This acceleration is due in part to the large statistical carryover at the end of Q1 1994, with the slowdown first seen in Q2 expected to last until the middle of next year. This would mean a fall in the growth rate of roughly one point compared with 1994, but still leave it fairly high (2.9%). Despite the rise in commodity prices, inflation is likely to remain under control in 1994 and 1995, thanks notably to the moderation being shown by wage costs.

Japan: low growth, negative external contribution

Economic growth in Japan, which was only 0.1% in 1993, seems to have picked up somewhat in 1994 (1%) and is likely to accelerate to 2.6% in 1995, although this will still be below American and West European rates. The main driving-force is likely to be domestic demand, with the external contribution negative as the result of the rise in the yen over the past years and of the competition from South-East Asia.

Inflation is likely to be lower than in almost all the OECD countries, linked to falling import prices (in 1994) and wage restraint.

Western Europe: growth accompanied by wage restraint

The trough of the cycle was probably reached in Western Europe in the first half of 1993, with GDP for the year as a whole falling by 0.4%. The cyclical lag between the United Kingdom and continental Europe is likely to be replaced by greater convergence between the countries of the region in general, but with a certain lag continuing in the German case and divergences as to the composition of growth. In particular, the external contribution is likely to be greater in Germany or Italy, but small, or even negative, during the period under consideration in France and the United Kingdom.

Conversely, domestic demand is expected to be weaker in Germany than in France, as the result of the impact on consumption of the forthcoming tax measures. But domestic demand should recover in West Germany in 1995, in line with the acceleration of investment and the improvement in the labour position and despite the restraint shown by wages (a rise of 2 to 2.5% for the year).

In these circumstances, inflation should continue to fall between now and the end of next year, helped by the appreciation of the DEM against the USD, which is shielding Germany from the rise in commodity prices.

Italy should see a rise in the growth rate, with exports remaining the driving-force as the result of the high level of competitiveness of Italian industry. Wage restraint will still be the watchword in 1994, so that private consumption is likely to remain moderate. In 1995, however, wage costs could well start to rise again, but still leaving inflation at around 3.5%.

The Netherlands, one of the rare continental European countries to have recorded positive growth in 1993 (0.5%), should move in similar fashion in 1994 and 1995, with an acceleration in growth and a positive external contribution. The other main motor for growth would be investment, with private consumption likely to accelerate only slightly because of the erosion of the purchasing power of incomes and despite the expected fall in the saving ratio.

Belgium, which was particularly hard hit by the recession (a 1.5% fall in GDP in 1993), should record an upturn on a scale somewhere between those of France and Germany. Here too the external contribution seems likely to provide most of the impetus, with investment continuing to decline in the first half of 1994 and consumption remaining moderate as the result of measures in the social field that have tended to reduce household incomes. Wage increases could be larger in 1995 than in the principal competitor countries, the same being true of the increase in industrial prices.

The United Kingdom is likely to continue to grow at rates of 3% in 1994 and 3.5% in 1995, with a strong contribution from domestic demand and a negative one from the external sector. While price rises have so far been kept within acceptable limits, the possibility of revived inflationary pressures cannot be ruled out.

Main assumptions and world trade forecasts (annual percentage changes or levels)

		1993	1994	1995
GDP	volume			
	United States	3	3.8	2.9
	Japan	0.1	1	2.6
	OECD Europe	−0.4	1.9	2.7
	OECD total	1.2	2.6	2.8
Exchange rates (levels)				
	DM per US dollar	1.65	1.62	1.65
	Yen per US dollar	111.20	104.1	103.8
World trade prices ($)				
	Crude oil (level, $/bl)[a]	16.9	16	16.5
	Non-energy commodities[b]	−9.2	19	12
	Manufactured goods	−3.7	1	0.8
World trade volume				
	Total goods	3.7	7.3	7.4
	Manufactures	3.8	8.0	8.1

[a] OECD import price.
[b] Based on HWWA-indices.

II. Prices in world trade

In 1993, the prices of manufactured goods fell appreciably in dollars (by 3.7%), as a consequence of the weak demand emanating from the developed countries. However, despite its rapidity, the upturn is not expected to be accompanied by any substantial rise in world prices of manufactures. Helped by the wage restraint in the OECD countries, and more especially by the slowness of the rise in unit wage costs expected in Europe as the result of productivity improvements, world prices of manufactures are likely to grow only slowly: by 1% in 1994, 0.8% in 1995.

The price of oil seems to have reached a low during 1994 in dollar terms, at $15.8/barrel and this has appreciably reduced the energy bill for the OECD oil-importing countries. In most cases, the impact in domestic currency was heightened by the depreciation of the dollar. The upturn in the world economy in 1994 and 1995 is likely to reverse this tendency, with prices rising to around $16.5/barrel. But movements in oil prices are still at the mercy of unforeseeable factors such as the political situation in the producing countries (former Soviet Union, Nigeria, Yemen) and above all of any decision by the United Nations to allow Iraq to return to the market. In that event, it would seem to be in the OPEC countries' interest to allow Iraq to rejoin the exporter group in gradual stages from mid-1995 on, thus ensuring a steadier adjustment of supply to demand.

Prices of non-energy commodities fell substantially in 1993, by 9.2%, according to the HWWA index. While the foreign trade group had already been expecting prices to increase in 1994 and 1995, at their spring meeting they made a sharp upward revision in the extent of the rise. With certain commodities such as coffee and copper recording very large price increases in recent months, the index is now expected to show a rise of 12.4% for 1994 as a whole, before slowing down in 1995, although only to 8.7%.

The final conclusions of the working group's analysis are that world inflation should remain moderate. Seen in this light, the rise in bond yields seen in 1994 seems just as much overdone as the fall in 1993. However, it is not impossible that part of this rise was due to factors other than inflationary expectations (soaring public deficits, growing uncertainties concerning exchange rates).

III. The volume of world trade in 1994 and 1995

The recession in continental Europe and Japan meant that world trade slowed down considerably in 1993, showing growth of only 3.2% for merchandise in general and 3.1% for manufactures. In contrast, 1994 and especially 1995 should see world trade flows revive substantially, more especially for trade in manufactures than in total merchandise (see Table 1).

United States

In 1993, the growth of domestic demand, especially investment, drove United States imports up (by 11.5%). In 1994, despite an acceleration in GDP, the rise is likely to be practically identical (12%). A substantial slowdown is then expected in 1995, as the result of the slower economic growth. Moreover, the depreciation of the dollar against the yen up to now could be fully reflected in the volume of United States imports in 1995. On the export side, the depreciation of the dollar in 1994 should mean competitiveness gains that would stabilize United States market share.[1]

As a result, the United States trade deficit for 1994 will probably show a further widening, before improving again in 1995. But these forecasts depend to a large extent on the outcome of the US-Japan trade negotiations, which is still uncertain.

Japan

The appreciation of the yen against the dollar meant an improvement in the terms of trade in 1993, but this tendency seems to have slowed down considerably in 1994, to be replaced by some deterioration in 1995.

[1] Change in exports minus change in world demand.

Import volumes are expected to rise appreciably in both 1994 and 1995, with Japanese exports likely to remain handicapped by the rise in the yen. As a consequence, Japan will probably continue to lose market share. Measured in dollars, the Japanese trade surplus is expected to stabilize at a high level in 1994, before starting to ease back the following year; measured in yen, the decline should be visible already this year.

Western Europe

The recession in continental Europe in 1993 led to an appreciable fall in these countries' foreign trade, most of which takes place within the EU.[2] Imports are reported to have fallen by 2.6%, with exports, propped up mainly by demand from the United States, South Asia and Central and Eastern Europe, rising slowly (1.8%).

The impact of cyclical leads and lags was compounded by the parity adjustments within the EMS: the devaluations of the pound sterling, the lira and the peseta produced substantial competitiveness gains for the countries concerned, with growth in export volumes producing market share gains (especially for Italy and Spain). Conversely, France and Germany saw an erosion of their export volumes and market share losses. The revised economic forecasts for 1994 as a whole and for 1995, especially regarding economic growth, have led to upward revisions in the projected trade flows. The devaluing countries are likely to take even greater advantage of their competitiveness gains to improve their export performance (especially Italy and Spain), with a slowdown occurring in 1995.

France, too, should record a favourable tendency in exports, although with relatively small market share gains. As domestic demand growth is relatively higher in France than in its main trading partners, the external contribution to growth is likely to be zero or even slightly negative, with the trade balance narrowing, although still remaining positive. Germany might also gain market share and increase its trade surplus. With German GDP growth remaining below that of its EU partners, a cyclical lag would emerge that would benefit the surplus.

For the Netherlands and Belgium, the volume of exports is expected to rise at a slower rate than relevant world demand for these countries' products.

[2] The measurement of intra-European flows in 1993 was badly disturbed by the introduction of the Intrastat system, with the result that comparisons between 1993 and 1994 will still be upset.

All in all, exports from Western Europe are expected to rise at annual average rates of 7.3% in 1994 and 6.6% in 1995.

Central and Eastern Europe

Imports by the Central and Eastern European countries (CEEC) have been rising strongly for several years. What we are in fact seeing is a major shift in geographic distribution, with imports from the rest of the zone declining and those from the developed countries rising sharply. On the export side, only three countries are really in a position to make substantial progress: Hungary, Poland and the Czech Republic, the countries which have gone furthest with reform. It should be noted that trade between the EU and the CEEC is concentrated on just three countries, Poland and the Czech and Slovak republics, which account for around two-thirds of the flows.

OPEC

The economic situation in 1993 was particularly unfavourable to the OPEC countries, with demand from the developed countries reduced by the recession. OPEC is likely to continue losing market share, despite the economic recovery in the OECD countries: the volume of exports from the OPEC countries is expected to rise by 3.5% in 1994, before accelerating to 5% in 1995, compared with expected increases in overall demand of 8.1% and 7.6%, respectively. However, higher oil prices should mean an improvement in the terms of trade in 1995, following the strong movement to the OPEC countries' detriment in 1993 and 1994.

Other developing countries

Despite the recession in the OECD countries, the total trade flows of the developing countries continued to rise strongly in 1993: by 10% in volume for both exports and imports. This performance is the result of the dynamism shown by Latin America, China and other South-East Asian countries. Export volumes are likely to rise again by more than 10% in both 1994 and 1995, implying substantial market share gains. Import growth is expected to weaken slightly in 1994 (9%) before picking up again in 1995 (10%).

Merchandise trade volumes, export market growth and effective appreciation against competitors (annual percentage changes)

IV. The measurement and statistical monitoring of national competitiveness: the Hungarian case

An additional subject was dealt with in the AIECE group, taking as its starting-point a document published by the French Centre d'Observation Économique.[3] This document proposes a method of measuring the competitiveness of an "economy in transition" such as Hungary and then goes on to make comparisons with a developed country, namely Austria, and with Portugal, an economy in transition within the EU.

Since the beginning of 1990, Hungary, like most of the other CEEC, has greatly opened up its foreign trade to the West. Today, roughly two-thirds of Hungarian imports and exports are with the OECD countries. In these circumstances, how best to evaluate the competitiveness of the Hungarian economy takes on added interest.

However, the notion of competitiveness needs to be clearly defined. Relative price indicators are most widely used for this purpose, especially in order to identify the short-term changes in a country's competitive position linked to exchange rate adjustments or to differentiated economic policies, regarding wage increases, for example. But these indicators fail to capture certain aspects of a more structural nature that operate over a longer period – for example, through R&D expenditure, investment flows or the level of development achieved in other aspects of competitiveness.

Assessment of the competitiveness of economies in transition such as Hungary is difficult for two reasons: first, because of the difficulties encountered in obtaining statistics that are comparable with those available from Western statistical offices, and second, because of the structural changes now taking place, which can produce fast-acting changes in these countries' relative positions. But the same transformation process also increases the interest of the analysis of CEEC competitiveness, both in terms of grasping the

[3] `Définition et suivi statistique de la compétitivité nationale: application à l'analyse de la position de la Hongrie par rapport à l'Autriche et au Portugal', A. Henriot, COE, Paris, May 1994.

reality of the present situation and of being able to suggest promising avenues. In this respect, the Hungarian economy is in a somewhat original situation, being both a low-wage-cost country and one that possesses a fairly large human and technological potential, especially in R&D terms, a potential which simply needs to be exploited and developed. This is no doubt the main reason for Hungary's attraction for foreign investors. This being so, there are two possible routes the Hungarian economy could take. Like Portugal, it could base its development on its comparative advantage in terms of wage costs to expand labour-intensive industries, such as textiles. Alternatively, using the technological potential mentioned earlier, it could launch an international specialization based on goods with high value added, which in time would bring it into a position more similar to Austria's.

Statistical Annex

Tables compiled by the Central Planning Bureau

Meanings of codes used:

OPC	:	OPEC
OLD	:	Other developing countries
EEU	:	Eastern Europe including ex-USSR (excluding intra-CIS trade)
IND	:	OECD countries
EUR	:	Western Europe