Distr.
INTERNAL

LC/IN.70
August 1989

ORIGINAL: ENGLISH

E C L A C

Economic Commission for Latin America and the Caribbean

THE WORLD ECONOMY AND THE INDUSTRIALIZED COUNTRIES: SUMMARY OF ECONOMIC FORECASTS FOR 1989-1990 */

*/ Document not subjected to editorial revision.

89-8-1288

CONTENTS

FOREWORD

The influence of external factors on the performance of the economies of the region has been so decisive that the examination of growth prospects, the analysis of possible future scenarios, and even the design of policies call for an appraisal of the external framework in which they must fit. This is even more so in the present situation of profound uncertainty about the future international economic environment.

Keeping track of the probable evolution of the international economy, and especially that of the industrialized countries, is therefore intrinsically important. This calls not only for the assembly of the relevant information, but also its systematic organization and analysis with a view to its use from a regional standpoint. The prospective studies (with different levels of coverage and aggregation) which are prepared by international agencies as well as by national institutions of the developed countries form the basis for work of this nature.

The Economic Projections Centre has routinely used this type of information in its studies, but only occasionally has it prepared reports in this respect. In view of the outstanding importance of this topic, however, it has been decided to present, for a trial period, regular reports summarizing and discussing this information. It is planned to bring out twice-yearly documents on the short-and medium-term evolution of the world economy and that of the industrialized countries. The aim is to provide systematic background information on the international environment in which the economies of the region must operate identifying probable changes and assessing their possible effects.

This first document in the series, which is of a preliminary nature and is only submitted for internal discussion, concentrates on explicit results and assumptions. It displays in comparative form the various forecasts which are available for one or two years ahead, arranged according to a set of selected

topics. The methods and models used are not discussed on this occasion.

Later on, to the extent that resources permit, future reports will include these aspects, supplementing the presentation and summarizing of results with a critical analysis of the postulates and a discussion of the procedures and methodology used.

INTRODUCTION

Structure of the paper: The following paper has been elaborated on the basis of the forecast reports published by several international and national organizations, listed below in chronological order. The objective is to offer **a comparative description of the projections for the next two years**, stressing the similarities and disparities of views.

In accordance with the sources used, the paper focuses on the economic development of the industrialized area, with only short reference to the Third World.

The main aggregates taken into consideration are output, consumption, investment, prices, employment and unemployment, current account and trade balance; on these aggregates almost all the forecasters formulate their previsions.

The difficulty of the comparison is determined by the fact that neither the basic assumptions are always explicit nor the applied projection model is described, thus it is only possible to compare the final results and the related comments.

Geographical area: it refers to the world economy, but the reports taken into consideration focus on different areas: the EC and OECD reports on the developed countries; the IBRD and UNCTAD reports on all countries, including those of the Third World, while the national forecasts deal, by definition, with their respective country, as seen in the international framework. It is worth noting that the forecasts made by individual countries or by some regional organizations are not always internationally consistent since they use models which cover only their area of interest. Thus, for example, world imports and exports do not compensate.

Forecast period: apart from the forecastings of the IMF, the IBRD and the UNCTAD limited to 1989, the considered forecasts cover both 1989 and 1990.

Main assumptions: they are not always mentioned. Where they are explicit (IMF, EC, OECD), the assumptions regard the exchange

rate, the oil and non-oil commodity (only EC) prices, the national policies.

(a) Exchange rates

As regards exchange rates, the forecasters suppose that they will remain constant in real (IMF and EC) or nominal terms (OECD) at the level they had when the forecast was elaborated, i.e. in August 1988 for the IMF, in the 2nd of November 1988 for the OECD (US$1=Y124.7 and DM1.78), in mid-January 1989 for the EC (US$1=Y126.10 and DM 1.83 in 1989, US$1=Y124.3 and DM1.80 in 1990).

(b) Oil prices

As regards oil prices, the OECD modified its standard assumption of unchanged oil prices in dollar terms to take into account the present inflationary risk and assumed an evolution from US$12 FOB per barrel to US$12.80 in 1990. Their assumption is not comparable with the IMF and EC assumptions that take into consideration the average import price; both forecasts assume growing prices: according to the IMF the oil price will average US$15 in 1989 and remain constant in real terms thereafter, according to the EC already in 1989 the price will jump to US$16.5 and rise in 1990 to US$17, not far from the level forecasted by the World Bank in its Price prospects for major primary commodities (Table 9).

(c) Other commodity prices

Non-oil commodity prices are assumed to increase by nearly 4% in 1989 and by 2% in 1990 in dollar terms, according to the EC forecasters, who mention this assumption.

(d) Macro-economic policies

Monetary and budgetary policies are assumed to maintain the orientation they had when the projections were elaborated, except when changes had already been announced.

Sources:

1. Banco Mundial, Informe sobre el desarrollo mundial 1988, July 1988;

2. UNCTAD, Trade and Development Report 1988 (UNCTAD/TDR/8) September 1988. United Nations Publication, Sales No.: E.88.II.D.8;

3. IMF, World Economic Outlook, October 1988, and a summary on the April Outlook, elaborated by the ECLAC office in Washington;

4. EC Commission:

- "Annual Economic Report 1988-89", in European Economy, No.38, November 1988;
- Economic Forecasts 1989-1990, January 1989;
- "Forward programme for the second quarter of 1989", in Official Journal of the European Communities, No.C 94, 15.4 1989;

5. OECD, Economic Outlook, No.44, December 1988;

6. IRES (Institut de Recherches Economiques de l'Universisté Catholique de Louvain) - Service de conjoncture, Analyse, Louvain, December 1988 and March 1989;

7. Prometeia (Associazione per le previsioni econometriche), Rapporto di previsione, Bologna, December 1988;

8. IBRD, The developing countries and the short-term outlook for the global economy, January 1989;

9. Bank of Japan, Quarterly Economic Outlook, Winter 1989;

10. World Bank, Price prospects for major primary commodities, Report No.814/88 (without date).

11. United Nations - University of Pennsylvania, Project Link-World Outlook, May 1989.

SUMMARY

The main conclusions that can be drawn from the sources taken into consideration can be summarized as follows:

1. 1988 will be the seventh year of economic recovery, recording a growth rate of around three percentage points at the world level (Table 1). Although a slowdown is expected for 1990 (for the industrial countries + 2,7% as against + 3,2% of 1989, according to the OECD forecasters), the period 1983-1990 will be the longest period of expansion since the Second World War, at least for the industrialized countries.

2. The buoyant capital widening investments encouraged by a positive business environment and by a satisfactory profitability, were the driving force of the 1988 growth (+7,2% in the industrial countries - IMF estimate); in 1989-90 they will slow down because of a natural process of readjustment after the 1987-88 boom but they will maintain a rhythm above the average (Table 4). They should therefore permit to avoid the feared insurgence of production bottlenecks, that characterized the previous industrial capacity utilization peaks in the 1970s and that fed inflationary processes.

3. Private consumption (Table 5) will be encouraged by the increase of households' disposable income, determined by the augmented employment and by the cuts in direct taxes, while savings should start again to grow after the pause in 1988. The increase in public consumption (Table 6) will remain cautious because of the generalized budgetary consolidation efforts.

4. The durability of the present economic expansion is thus threatened mainly by the insurgence of inflationary fears in the Group of Seven industrialized economies: the slight price acceleration (Table 7) between 1987 and 1989 has been sufficient to convince the economic authorities to implement tighter monetary policies, reducing the space for growth.

5. The OECD and IMF experts echo the policymakers of the G-3, whose restrictive economic decisions bias the international

scenario, and consider desirable a deceleration of the growth path in the industrialized countries in order to reduce the risk of overheating and of a subsequent inflationary boost; the trade-off is a temporary postponement of overcoming high unemployment rates in the EC countries. The concern about inflation seems to have affected the OECD experts, traditionally more sensitive than their Washington colleagues to the need of stimulating the economy in order to solve problems implying high social costs (unemployment, regional discrepancies).

6. The EC and World Bank forecasters, more concerned about the drawbacks of a recession both in the developed and underdeveloped countries, propose to the industrial countries sound structural policies to sustain private investment and consumption, and interventions in favour of the developing countries to avoid further deterioration of the already precarious conditions of many of them.

7. The resurgence of workers' demands and the subsequent pick-up in wages are considered by some as one important factor for the present acceleration in inflation (see for instance the IMF Outlook), although, at least in Europe, salaries are still falling in real terms given the productivity gains determined by the operation of the new equipment installed in 1988. Only independent forecasters (IRES, Prometeia) show relative optimism on this point, in disagreement with the official criticism to the labour movement and its demands.

8. The monetary expansion in progress since 1985 and accelerated in 1988 in response to the US current account deficit and to the financial market crisis, is considered by all the sources taken into account as a secondary inflationary factor;1/ the EC experts advance the interesting hypothesis, that the credibility of the monetary authorities in their engagement to preserve stability has been sufficient to keep under control the inflationary potential of the expansionary measures (see also the 59th annual report of the Bank for International Settlements, 12th June 1989).

9. The current appreciation of the US dollar offsets the beneficial effects on the developed countries' economies of the commodity price reduction, but no reversal in their tendency to fall is expected. The present oil price revival (Table 9) is also considered a temporary phenomenon (see for instance the OECD Economic Outlook of October 1988).

10. Thanks to the slowdown in capital-labour substitution, to the reduction in working time and to the development of the service sector, growth has become more employment-intensive permitting especially in Japan and in the US a remarkable job creation performance (In 1988 1.7% and 2.2% respectively - Table 11).

11. In spite of this, unemployment will further be a critical issue, remaining well above the level considered acceptable in relation to the economic possibilities of the structure and far from the rates of the 1960s-1970s (more than 7% in the 1988-90 period with two-digit peaks in some European countries-Table 13). Further increases in participation rates (OECD), mainly because of the growing number of women willing to work, and the persistence of labour market rigidities (IMF) do not permit to formulate optimistic projections on the labour market development.

12. A matter of concern is the recognition (IMF, OECD) that the NAIRU (non-accelerating inflation rate of unemployment) has risen sharply since the early 1970s and tends to follow the actual unemployment rate.

13. Because of the interpretation discrepancies regarding the unemployment's origins and because of the weight of labour market disequilibria in determining the measure of openess of the industrial countries' markets for the exporters from the developing countries, the labour issue would be worth a more detailed analysis.

14. The current account and trade disequilibria of the G-3 will be a constant feature of 1989-1990 and are not likely to be reabsorbed in a short period (Table 14-16).

15. It seems (Table 17) that in 1989 only the oil exporters will benefit of a terms-of trade improvement, even if only temporarily, given the prevision of stable real prices until the end of the century, and even if it will not compensate for the 1988 decline (-6.7%). The other developing countries will register terms-of-trade deterioration. The OECD projection, more recent than the UNCTAD one, seems more optimistic about the capacity of the developing countries to increase their exports, but still the larger share of the export increase is concentrated between OPEC and the NICs (Table 19). The expected increase of the OECD imports (+7.2% in 1989, + 6.7% in 1990) is likely to accrue to the same OECD members with limited spill-over in favour of the developing countries. The scenario could be even more darker by an upsurge of US protectionism, particularly dangerous for Latin America, and by the consolidation of the European Community internal links.

16. The most recent developments of the world economy seem to confirm that investors are still willing to accumulate dollar-denominated assets and sustain the US disequilibria (see IMF World Economic Outlook, April 1989), but also that the high external trade disequilibria keep interest rates high, overload the indebted developing countries, discourage the North-South flow of resources since capital finds the rate of return on investments in LDCs not attractive enough, and submit the exchange rate of the world's most important reserve currency to a too high uncertainty.

17. The evolution of the world economy in 1988 proves that even a scenario of stability and growing demand in the developed countries the spillover effects for the LDCs are unsatisfactory: in 1988, for instance, the main beneficiaries of the terms-of-trade improvements in favour of commodities were the developed countries, which could expand their sales to the LDCs, stagnating until then because of the external constraint, although the weight of interest payments impeded a more relevant import increase. This supports the hypothesis (IBRD) that the

developing countries are already on a different track of evolution, affected only by negative events in the developed regions. The exception is represented by the Asian NICs and by a few manufacture exporters.

GENERAL ECONOMIC OUTLOOK: GROWTH, INVESTMENT AND CONSUMPTION

All forecasters stress their surprise for the satisfactory economic performance of 1988, which obliged them to revise upwards their estimates. The IMF report of October 1988 values the growth rate in industrial countries at 3.9%, 1.1 percentage point more than in the April report; the OECD report of December 1988 rises the June evaluation from 3% to 4%. 1988 was therefore the sixth year of expansion in the industrialized countries, which after World War II never experienced such a long period of growth and seem in condition to maintain this momentum, since the projections show for the next two years growth rates around 3%. At least for the developed countries come back the hopeful perspective of the Trente Glorieuses in a scenario of price stability, only threatened by a too high unemployment rate.

Everybody agrees that in 1989-1990 growth will slow down since some of the factors that fed the 1988 boom were transitory and some risks are emerging. The IMF experts make a list of the crucial points of divergence between the 1988 and the 1989 scenario:

1. In the second half of 1987 and in 1988 became manifest the improvements in real incomes and competitiveness accumulated in 1985-1986; this is a once-and-for-all effect, apart from the case that the gains in competitiveness are continuous. The OECD does not agree with this view, on the basis of an absolute price advantage: 2/ it is one of the reasons why they expect a less important reduction in the growth pace in 1989-1990.
2. Demand was stimulated by the rising asset prices and the October crash only dampened the wealth effects but did not

neutralize them, contrarily to all previsions. It is suggested (Ires-Louvain and UNCTAD) as an explication the fact that the following re-ascent of stock market prices countervailed the depressive tendencies and that at the moment of the crisis market behaviours and demand had not yet completely absorbed the impulse given by the Stock Exchange buoyancy, so the need of readjustment was not so strong. However by now the positive growth push should be exhausted.

3. The reduction of interest rates and the rapid growth of money supply in the past biennium exerced a positive lagged effect on growth, mainly through an accelerated investment pace. The interventions by the central banks in the major OECD countries to support liquidity and the coordination of policies in the frame of the G-7 organization not only prevented a further deterioration of the equity market conditions, but also alimented business and consumer confidence. Now more tightened monetary conditions are prevailing and policy coordination shows symptoms of crisis, namely the rise of the dollar above DM 1.90 considered to be the dollar's ceiling under the secret terms of the Louvre accord, and the contradictions in the interventions of the main central banks in response to this event. 3/ However, on this last point, the last BIS report (June 1989) observes that the absence of severe strains in the financial and exchange markets seem to testify the good performance of concertation in exchange market management, even enhanced by the common concern about inflation. The cost to keep in check inflation is represented by a deceleration in growth.

An element that is stressed particularly by the EC experts, because of the weight of oil imports in the trade balances of the Community members, is the end of a period of falling oil prices, whose effects permitted to offset the inflationary impact of the ascent of commodity prices, which however are still low by historical standards and do not exceed on average their levels of the mid-1960s.

Unfortunately the growth revival did not benefit the developing countries: they recorded as a group rates of growth slightly above the industrial countries average (Table 1), but the disaggregation by country groups shows an iniquitous distribution of growth at the advantage of the relatively more prosperous manufacture exporters, that includes the successful Asian NICs, hardly classifiable as developing countries stricto sensu. The panorama is even less encouraging if we take into consideration the real per capita GDP growth, that was positive only in the manufacture exporters'group (+2.3% according to the UNCTAD, +5% according to the IMF-Table 2) and in the primary product exporters'group (+0.3%-IMF); this last group, however, is very heterogeneous since its wealth depends on distinct categories of commodities, whose prices varied in different measure during 1988: for instance the tropical beverages' prices did not record any improvement, while industrial inputs like minerals and metals benefited of the renewed investment dynamism. Consequently only the manufacture exporters seem able to reduce the gap toward the developed countries. The IBRD report suggests that the Third World is already on a different track of evolution that the industrialized area and therefore the spill-over of OECD growth to the South of the world is very limited: 4/ in 1988 the main beneficiaries of the terms-of-trade improvements in favour of commodities were the developed countries, which could expand their exports to the LDCs, stagnating until then because of the external constraint, although the debt burden impeded a more relevant trade increase. For 1989 a 4% output growth is forecasted in the LDCs, but no reduction of the country differences is hoped. The no further improvement of commodity prices and the rise in industrial prices make even more likely disparities in growth rates at the expense of the less affluent countries.

The position face to the economy deceleration is not uniform. The OECD forecasters consider desirable a deceleration: if it does not take place in the measure expected and

opportunely, an upsurge of inflation is threatening, especially where pressures on production capacity and labour market disturbances are already evident (United States, Canada, United Kingdom, Italy, Spain); the recent dollar appreciation should have reduced the risk of overheating in the United States and in Canada, but creates for the other countries the risk of imported inflation because of a higher burden of dollar-denominated imports. The Fund staff is also far to consider negatively the growth slowdown: "Such a moderation would help to prolong the expansion since it would reduce the risk of overheating and thus help avoid a significant tightening of policies at a later stage"; they do not seem very concerned about unemployment levels and about the need of a buoyant growth to stimulate job creation, estimating already satisfactory the obtained strengthening of the labour markets and assuming that the measure of cyclical unemployment in Europe is overestimated.

More concerned about the deceleration of the industrial economies seem to be the EC and World Bank forecasters, suggesting the implementation of sound structural policies in order to sustain private investment and consumption in the industrialized countries and to offer better perspectives to the developing countries.

The driving force of the 1988 economic revival has been demand, especially in the investment component (Table 7) which increased by a 7% in the OECD area (IMF) or even more if we believe in the OECD estimate (11.2% as against 5.1% in 1987): only in 1984 the OECD recorded a two digit investment growth rate which, however, unlike now followed two years of recession. The upturn in investment is explained by several factors:

(a) The strong international demand (around +4% - Table 3): particularly rapid was the demand stimulus in Japan (around 7.5% - Table 3) because of the incentives put in place by the government in 1987-1988 to foster domestic demand and to reduce the external surplus; the effectiveness of these measures was

partially offset by the increase in export of investment goods, typical items of the Japanese production.

(b) The improvement in profitability and in business confidence, encouraging a shift from labour-saving and capital-deepening to capacity-augmenting investments by a rate of utilization of the industrial equipment close to its ceiling, back to the record levels of the 1970s.

(c)The coordinated measures of deregulation and structural intervention, covering the full range of sectors and policies: taxation, financial markets, product markets, 5/ labour markets, economic integration (Europe 1992, US-Canada Free Trade Agreement). 6/

(d) For Europe the forecasters mention as "catalyst" the rising expectations in the business sector in relation to 1992. In the United States industrial investment was aimed at the expansion of the successful tradeable sector, since domestic demand grew less than in the rest of the area; in Japan the domestic oriented industry was the main recipient of fresh investment, that grew globally at a two-digit rate.

Investment in construction was not less dynamic, profiting of favorable interest rates, of the increase in per capita incomes (especially because of employment growth) and of the mild weather conditions in European winter.

For 1989 the forecasters expect a fall in investment dynamism but disagree on its amount (Table 4): the Community and the OECD experts forecast a minor fall in the EC, considering the 1992 perspective a sufficient spur for the European entrepreneurs, thus the EC investment growth will only be below the Japanese one and slightly above the average growth in the dynamic 1960s (5.7% as against 5.6%); the IMF, on the basis of the sustained domestic demand (+2.7%) and of the high rate of capacity utilization, expects the United States investment to maintain its momentum (4.3%), while the forecasters are unanimous as regards the sharp fall in the Japanese investment growth rate,

reduced by half (IMF: from 11.4% to 5.9%; EC: from 13.6% to 6.6% in 1989 and 6.0% in 1990).

The 1988 average GDI/GDP ratio for the sample of 90 LDCs used in the surveys of the World Bank institutions was 25.5%, but once again the average hides big disparities and in some cases the investment ratio is even falling: illuminative is the example of Latin America, which shows in 1988 an investment ratio around 14 percentage points, below the average of the 1970s and first 1980s (23.7% and 18% respectively) and even below the traditionally low ratio of Sub-Saharan Africa. For 1989 no improvement is expected, so that the average global ratio will remain below the 1970s level and further declines will show up in the less favoured areas (in Sub-Saharan Africa, in Asia, excluding the NICs, in general in the small low-income countries), where because of the dynamism in population growth investment per capita is also decreasing (in Sub-Saharan Africa, excluding Nigeria, -3.7% yearly from 1980, when per capita investment was lagging at US$ 83).

The recent rise of interest rates, by increasing the burden of debt servicing, reduces the space for increasing investment, unless international measures are taken to cut net debt service and, on the domestic level, LDCs authorities intervene to give impulse to domestic saving and to promote productive investment.

According to the IMF report private consumption was increasing in 1988 by a 3.3% (Table 5), without any brisk upturn, following the steady trend of the 1983-1987 period. While in 1987 the increased consumption was financed by an unexpected increase in households' disposable income, because of the increased employment and the deceleration in consumer price increase, in 1988 consumers could expand their expenses drawing on their savings, whose rhythm of accumulation decelerated. In 1989 private consumption growth should slow down and be alimented by the increase in disposable income determined by the augmented employment and by the cuts in direct taxes. 7/ The EC forecasters expect that saving ratios will accelerate again only

in 1990, while the IMF forecasters consider already concluded the phase of slowly increasing saving ratios.

In the US private consumption will slow down only marginally (Table 5) thus the restoration of the external imbalance and the compensation of the public spending increase (Table 6) will be more difficult. In Japan not only investment but also private consumption will record lower rates of increase since the impact of the stimulative package of May 1987, which increased public investment outlays and lowered income tax rates and which together with an expansionary monetary policy stimulated demand growth, will be progressively watered down (Table 5).

Public consumption will maintain the cautious growth pace of last year both in 1989 and 1990 (Table 6), because of the budgetary consolidation efforts of many countries. While in Japan public consumption will continue to grow at the same pace but public investment will be restrained consistently (from +7.2% to +0.5% between 1988 and 1989), in the US the new administration does not seem inclined to a restrictive fiscal policy and, according to the EC forecasters, only in 1990 the effects of more sensible budgetary measures will become evident in terms of slower augmentation of public spending (1989: +3%; 1990: 0.4%). The high budgetary imbalances of some member States (Italy, Greece, Ireland, Portugal) worry the EC experts, particularly because the national authorities do not seem able to cut their spending: for instance the Italian and Greek public consumption is growing faster than the EC average (2.9% and 4% respectively as against the EC 1.7% in 1989): in view of 1992 such disequilibria are becoming even more difficult to tolerate given their effects on interest rates.

INFLATION

All forecasters agree that low inflation seems to characterize the late 1980s scenario in the industrialized countries and although a pick-up of prices took place in 1988 and is expected to intensify its magnitude in 1989, still inflation will remain well below the levels of the 1960s-70s.

The IMF experts consider the good price performance as a direct consequence of the prudent labour cost increases in most of the major developed countries, apart from Italy and the United Kingdom: from 1982 unit labour costs in the OECD area increased by no more than two percentage points or even decreased. Consequently they attribute to the resurgent workers' demands, emerged in the course of 1987 and intensified recently, and to the subsequent pick-up in wages the responsibility of the present inflation revival. The OECD forecasters recognize that tensions on the labour markets are becoming evident after having been kept in check for a while by remarkable productivity progresses. In the United States wages and extra-wage labour costs started to increase in response to the further tightening of labour markets (5,5% unemployment rate in 1988) associated with the highest level of vacancies of the last decade 8/ and despite the fact that has increased the weight of low-unionized employment, whose wage claims tend to be more easily frustrated. The OECD forecasters share the view of the IMF colleagues (see below) that the NAIRU has increased, if inflation, pulled by higher labour costs, picked up also in countries with high unemployment (Italy, Spain).

The IRES experts in their March report seem to be more optimistic about the salary push to inflation: salaries are still falling in real terms given the increase in productivity determined by the operating of the new equipment installed in 1988; moreover rewards and bonus, whose application is spreading following the Japanese model, can easily be reduced according to the conjuncture and thus do not threaten price stability. 9/

Further elements are mentioned to explain the new inflationary tendency: first of all the recovery of commodity prices and then the monetary expansion in act since 1985.

The recovery in commodity prices in 1987-88 was stimulated by the activity revival, the initial low level of inventories, the only modest increase in supply: the higher gains were recorded by investment-sensitive metals and minerals, while the tropical beverages and some agricultural raw materials registered falling prices. Despite the fact that primary commodities account only for a relatively small and shrinking share of the final output value, historically their price changes tend to be reflected in a considerable measure in the general price developments; moreover the theoretical assumption that the prices of raw materials (except oil) are more elastic to variations of the dollar quotation than the prices of manufactures and farm products seems not to have been confirmed in this phase, since the appreciation of the dollar was not offset by any compensatory reduction of commodity prices (Prometeia analysis).

For 1989-90 the experts (IMF, OECD, World Bank) foresee commodity price stability or even fall, particularly for industrial raw materials, which registered the highest gains in 1988. The reasons for this return to the declining trend have to be sought in the slowdown of economic activity, in the probable rise of supply and of export efforts by the indebted producers, in the reconstituted level of inventories, in the continuing contraction of demand due to raw material-saving innovations and to the shift of output from manufacturing to services. However the current appreciation of the US dollar risks to offset the price decline and quite significatively the EC forecasters seem to be the more concerned about the risk of importing inflation, after a long time where import price levels helped to keep in check internal inflation.

Moreover since mid-1988 the inflationary pressure exerced by non-oil commodity prices is no more counterbalanced by the

decline of oil prices, determined by above-the-quota production in some OPEC countries. For the near future no significant price increases are expected: the price increase recently produced by the agreement reached by the OPEC producers is considered to be only temporary: a downward pressure on prices will be exercised by the fall in demand due to the slowdown of growth and to the drawdown of stocks accumulated in 1986-87 as the prices were at very low levels. Some forecasters 10/ consider even likely stable oil prices (in real terms) until the end of the century; their prevision is based on the hypothesis that the global energy demand will not increase significantly (1,4% per year by a 2.5% annual GDP growth) and that its elasticity with respect to aggregate income will decline from its current level of about 0.60 to an average of 0.55 over the remainder of the century 11/. Oil demand will be even less dynamic because of interfuels competition and because of the achievements in the field of energy saving. In the developing countries a dramatic rise in energy consumption is excluded given the persisting foreign currency shortages, so they will not offset the saving efforts of the developed world.

The OECD forecasters abandon their standard hypothesis of unchanged oil prices in dollar terms and assume that the price FOB per barrel rises from US$12 to US$12.80 in 1990. However, in the light of the more recent events they individuate two opposite elements which should keep oil prices unchanged in real terms: (a) demand for crude oil is expected to increase and OPEC discipline to be enhanced, reducing the space for autonomous production increments; (b) excess capacity in the world oil industry has not been dismantled and some countries (e.g. Iran and Iraq) could decide to augment the exploitation of their oil resources.

Also the World Bank, the IMF and the EC forecast moderately increasing nominal oil prices but what above said induces to exclude any significant price boost. Anyway the economy of the industrialized countries is much more resilient and less

sensitive in respect of a possible oil crisis: the value of OECD oil consumption amounted to 1/1.5% of GNP in 1988, compared with over 3% in 1978 and almost 6% in 1980. Some hazards are pendent on the energy market and trouble the optimistic scenario depicted:

1. Low prices can discourage saving measures and bring again to a situation of excess demand like in the 1970s.
2. The likeliness of further discovers of oil fields is very low, so the supply is shrinking.
3. In 2000 more than half of the world oil resources (four fifths according to the quoted article from The Economist) will be in OPEC hand and more than one third of total energy needs will still be covered by oil, thus the possibility of retaliation and aggressive price policies is not to be excluded.

In the long run the oil importing countries can hope in further reduction of discovery and exploration costs, stimulating research and making profitable once uneconomic fields. Moreover, a stabilizing pressure on prices could be exerced by the interest of the OPEC producers, increasingly investing in oil-processing firms, to secure smooth and moderate price increases of the raw material.

The monetary expansion, which accelerated in 1988 in response to the US current account deficit and to the financial market crisis, is considered as a secondary inflationary factor: the present rise of interest rates on the world financial markets and the tightening of monetary policies after the February G-7 meeting 12/ and because of the delayed effects of the measures already put in place in 1988 13/ are considered sufficient to offset its consequences. The Economist Intelligence Unit14/ considers the recent rise of the interest rate as a temporary measure and foresees a downward trend of this variable in the second half of the year, to permit the necessary fall in the dollar value and the re-adjustment of the United States external balance.

The EC forecasters sustain the view that the inflationary push of the expansionary measures has been kept under control by the credibility of the monetary authorities in their engagement to preserve stability.

In the opinion of the EC experts decisive for the success of the disinflation process has been the increasingly non-monetary financing of budget deficits, but the height of public debt in some community countries (in Greece 12.1% of GDP, in Italy 10%) sets high strains on the cohesion of the EMS (European Monetary System). This factor, together with the pressure coming from the US deficit and with high interest rates, oblige to a policy of dear money, discouraging private investments, which because of the budgetary constraints are not substituted by government investments, and finally undermining the confidence of the public and spreading inflationary expectations. In fact the sensitiveness of Europeans to the inflationary process has increased since the price explosion of the 1970s and therefore the negative impact of inflation on people's confidence and on government credibility is larger than expected, considering that price acceleration is still at an acceptable level. The EC and Prometeia forecasters see the major risks of inflation in the countries where production bottleneck and labour market strains were becoming evident already in 1988 and the events in the first year quarter seem to confirm their projections; the last EC report not only corrects upwards the inflation forecasts (private consumption deflator: from 3.5% to 3.7% for 1988 and from 3.7% to 4.2% for 1989) but also point up that even the countries with lower levels of inflation will not avoid a slight increase in the cost of life, mainly due to the increases in import prices and to upwards adjustments in their indirect tax rates: Germany, for instance doubled its inflation rate from 1987 to 1988 (private consumption deflator: 0.7% - 1.4%) and is expected to redouble it in 1989 (2.7%) after having recorded in 1986 a negative rate of inflation (-0.2%). The countries already on the top of the inflation list will not record any success in their fight against

price rise (1989: Greece 13.3%, Portugal 8.5%, Italy and United Kingdom 5.5%, Spain 4.9% - private consumption deflator).

The IMF analysis covers also the developing countries: the scenario of 1988 was characterized by an acceleration in the price evolution even in the LDCs with lower inflation rates; the reasons are individuated in the commodity price increases, in overheating situations affecting some successful manufacture exporters and especially in lax financial policies. The Fund forecasters assume optimistically than the stabilization efforts will be intensified and that hence inflation will fall back.

The "cautious tightening of monetary policies" already undertaken by the central banks of OECD is considered by the Fund experts as necessary but not sufficient to contain inflationary pressures and to avoid at the same time undesired consequences on exchange rate and output growth. A more efficient use of fiscal instruments is advocated by the Fund staff: in the deficit countries (United States, Canada, France, Italy) to restrain domestic demand and lend credibility to the government's commitments to riequilibrium without affecting external competitiveness, in the surplus countries to maintain their economies on a non inflationary growth path.

Looking closer at the projection data of IMF, OECD, EC, IBRD and Link (Tables 7-8) it is evident that the forecasters are becoming increasingly pessimistic in the course of the year: so while the IMF sets the 1989 US inflation at 4.1%, the EC and the IBRD, which published their reports four months later (January 1989), consider likely rates respectively of 4.7% and 5.0%. However, at least the Link and EC forecasters expect a generalized reduction of the inflation rhythm already in 1990 (Table 8).

The main discrepancy regards the Japanese rate of inflation: the EC forecasters expect a drastic increase (from 0.5% in 1988 to 3.2% in 1989), the others foresee only a marginal rise of it and expect Japan to maintain further its position of price

stability champion, in spite of the buoyant internal demand and the increased liquidity.

LABOUR MARKET TRENDS

All forecasters consider remarkable the job creation performance of 1987-1988 in the United States and Japan (in 1987 2.6% and 1.0% respectively and in 1988 2.2% and 1.7%), that enabled these two countries to reduce and keep under control their unemployment rates, despite a faster growth of their labour force in respect of Europe (Tables 11-12-13).

The forecasts are concordant also about a slowdown in employment creation that in the next two years is expected to be close to one percentage point, thus insufficient to absorb the redundant workers and to permit new entrants to find a post. The measure of the labour market stagnation in the different regions varies slightly: the EC forecasters seem more optimistic than the others in respect to the beneficial effects on EC employment of the 1992 project and of the catching-up mechanisms put in place to reduce the economic disparities in the Community (reinforcement of the structural funds, concentration of their engagements in the least developed member states); they expect a less pronounced deceleration of job creation in their region as well as in Japan. Although the United States will record in 1990 a rate of job creation equal to the half of the 1988 one, they will still perform better than their major partners.

The EC forecasters stress that growth has become more employment-creating: more than 1.5 million new jobs were created in 1988 in the EC by a rate of growth (3%) that in the past would have meant stability in the employment levels. The reasons for this satisfactory performance have to be sought:

(a) in the slowdown in capital-labour substitution, due to the relative rise in the price of capital as compared to labour,

which registered rather prudent increases in price at least until last year (Table 10);

(b) in the increased weight of services in the sectoral composition of the economy, which implies a stronger labour content of the global production;

(c) in the reduction in average working time per person employed by the increase of part-time, so that employment in volume terms is growing much less than in per capita terms.

The contribution of part-time employment, localized mainly in the service sector, was critical also according to the OECD experts, who however forecasted for 1989-1990 an upsurge of full-time and male employment. In a EC survey of 1986 it was highlighted that 75% of all additional employment was part-time and in a country like France its growth counteracted the uninterrupted decline in full-time employment. According to the same survey at that time 13% of the people working part-time would have liked to find a full-time job, attesting that these forms of labour contracts disguise under-employment.

The unemployment data are only partially comparable, but they give some broad indications. The unemployment level will remain also in the next two years well above its frictional level and far from the rates of the 1960s-70s. No major success will be recorded in reducing the divergences among the different areas and countries: Japan and the United States will maintain a stable unemployment rate (2.5% and 5.5% respectively) that seems to be close to the frictional unemployment connatural to the two systems - in fact already now the United States register in some sectors and in some regions labour shortages.

The situation of the Community will remain farther critical, although unemployment will fall slightly: from 10.5% to 10.2% according to the OECD and from 11.2% to 10.4% according to the EC from 1988 to 1989 (see note a) to table 13).

The new data elaborated in the Link Project are even less encouraging since the current EC unemployment is estimated at 11% and is expected to fall at 10.4% only in 1992.

Inside the Community persist alarming situations that will not adjust sufficiently in the coming years and the Link forecasters expect even a revival in unemployment growth at the begin of the 1990s. 15/ It is likely however that in some cases, because of the methods of recording of jobless workers, unemployment is overestimated or underestimated. 16/ In Germany for instance all the persons registered at the public employment offices (and even the part-time workers that wish to find a full-time job) are considered unemployed, even if they have not take any active step to find work; moreover the unemployment rate's denominator excludes self-employed and unpaid family workers, thus the unemployment rate is calculated as a percentage of the employed and unemployed persons and not as a percentage of the labour force at it is customary. Also in Italy, because of the fringe benefits that the registration in a public employment office confers and because of the magnitude of the informal sector, the registered unemployed should outnumber the jobless persons actively seeking a post. On the other side in the United Kingdom school leavers are not taken into account as unemployed; moreover the economically active population is decreasing (-0.2% in 1988, according to the Economic forecasts 1989-1990 of January 1989) despite the uninterrupted growth of the working age population and while in the other Community countries an opposite trend is recorded: the main reason for this situation has been individuated in the introduction of tighter eligibility rules for claiming unemployment benefits that has diminished the incentive to registration in the unemployment lists and encouraged withdrawals.

Relatively to unemployment major factors of concern, stressed both by the EC and OECD forecasters, are the increase in female unemployment and the high youth unemployment.

Female unemployment grew because of the increase in female participation rates and despite the increase in female employment, especially in the service sector and in part-time jobs; for the EC the situation could be farther deteriorated if

its relatively low average female participation rate (50%) would rise to the levels recorded in the Scandinavian countries (in 1986 around 75%, in Denmark 78.2%), in the United States (in 1986 64.9%) or in Japan (in 1986 57.4%).

Youth unemployment is still high but the special employment measures adopted in some European countries and the changing demographic trend have partially alleviated the problem, that however remains a dangerous element of brisance. The unemployment rate for Europeans under 25 years in 1987 (EC data) was 21.7%, more than twice as much than the total rate (10.6%); in some countries the percentage of unemployed seeking their first job is appalling: 62% in Italy, 44% in Greece, 41% in Spain (data 1986- these percentages have been falling since then). The EC staff shows also its concern for the increase in the Community area in long-term (one year or more) and very long-term (two years or more) unemployment: 52.7% out of the total in 1986, as against 46.3% in 1983. The rising proportion of chronic unemployment proves that an increasing part of the redundant workers, especially the elder ones or living in economically declining areas, is marginated from the normal labour market turnover; the enforcement in 1988 of an "Action programme to assist the long-term unemployment" at the Community level shows that this problem still persists.

In the OECD Economic Outlook of June 1988, the organism devoted a chapter to the labour force evolution and its effects on the unemployment level, since the effects on the labour force of declining population growth may be offset by increases in participation rates, estimated at a higher level than by the ILO.17/

The OECD mentions three major reasons for this phenomenon:

1. Even if total employment will grow only modestly, some "discouraged workers "could be drawn back into the labour force, that they left during the crisis of the early 1980s; in particular young people could be affected, since in the 1970s and

early 1980s they prolonged their education in response to worsening job opportunities.

2. The female participation rate, as already mentioned, is supposed to grow: the recognition of legal equality, the improvement of social services and the higher offer of part-time jobs are encouraging this trend.

3. In response to the rapid ageing of the population of the industrial countries, later retirement and more part-time work for elderly people will be encouraged, while early retirement schemes, quite frequent in the early 1980s, will disappear. 18/

The IMF experts are focusing on the persistence of labour market rigidities, considered the main culprit for the labour market disequilibria, especially in Europe:

(a) wage rigidities that prevent wages to reflect through appropriate adjustments the labour supply situation, 19/ for instance wage indexation arrangements;

(b) too high extra-wage costs (social security contributions, payroll taxes, etc.);

(c) too restrictive government regulations in matters such as recruitment, dismissal, entrance wage, minimum wage, working hours, although in this respect changement to increase flexibility are under way;

(d) geographical and occupational barriers to mobility that determine the coexistence of unemployment and labour shortages on different geographical areas and productive sectors inside one country.

The last issue of the OECD Economic Outlook is less pessimistic, since the analysis of the labour market through different indicators (Beveridge curve on the unemployment-vacancy relationship; sectoral, regional and occupational imbalance indicators) does not give sufficient evidence of a further rise in labour market mismatches, as it was supposed, although the existing ones have not been eliminated.

A matter of concern for the IMF experts, echoed by their OECD colleagues, is the assessment that the NAIRU (non-

accelerating inflation rate of unemployment) has risen sharply in Europe since the early 1970s and tends to follow the actual unemployment rate, so that the main constraint on growth in Europe arises not from labour shortages, but from the rigidities in labour markets that have led to increases in the NAIRU. Empirically they observe that since the mid-1970s, the peaks in the utilization of capital in each business upturn, followed by inflationary phenomena, have been associated with successively higher rates of unemployment and establish a direct relationship between wage increases, not moderated by an even considerable percentage of unemployed, and the inflationary boost.

The rounds of negotiations taking place between 1988 and 1989 in several countries, associated with a revival of labour conflicts, point out to a rise of salaries, encouraging capital-labour substitution (Table 10); in the same direction are pushing also the reductions of subsidies given to firms to alleviate the social burden of labour: in a EC survey of 1986 the extra-wage cost of labour was indicated, beside low competitiveness and insufficient demand, as a major obstacle to job creation.

EXTERNAL BALANCES

All forecasters emphasize the remarkable 1988 trade expansion, that according to the last OECD report (December 1988) was around nine percentage points in the industrial countries and at even higher levels in the non-OPEC developing countries. The phenomenon was overlooked during the year: the UNCTAD report elaborated in May 1988 outlined the buoyancy of trade, but considered that in the course of the year the expected sluggish output growth would have depressed the pace of the exchanges. The protagonists of the 1988 export boom were the United States, since they doubled the already two-digit export growth rate of 1987 and are expected to regain by 1989 most of the losses of market shares suffered between 1981 and 1985 (Table 19). In

spite of the export success the US trade deficit will be a constant feature of the next two years and because of the negative contribution of the invisible section the current account will show an even higher imbalance, although decreasing both in absolute value and as a share of GNP. Here the evaluation of the experts is dissimilar: the OECD applauds the fall of the current account deficit weight in percentage of GNP between 1987 and 1990 (from -3.4% to -1.9% of GNP) while the IMF considers the adjustments not large and fast enough, neither in the United States nor in the surplus countries; the persistence of high external disequilibria impedes the fall of real interest rates, overloads the indebted developing countries, discourages the North-South flow of resources since capitals find the rate of return on investments in LDCs not attractive enough, submits the exchange rate of the world's most important reserve currency to a too high uncertainty. The Fund experts admit that their vision could be too pessimistic given the apparent unbroken willingness of foreign asset holders to accumulate dollar-denominated claims on the United States, but their view happens to be very topical at the present time given the persisting dollar appreciation, that reduces US export competitiveness and eases imports to satisfy the internal excess demand. Again the OECD experts show a more optimistic point of view: they consider the 1988 US trade success, as well as the market conquest by the Asian NICs, as durable on the basis of the absolute price advantage argument: if a country reaches and retains an absolute advantage in cost saving, then it will enjoy persistent growth in market shares as new capacity becomes operative. Thus as the depreciation impact fades away, exports slow less and imports grow more modestly than historical experience would suggest.

An analogous hypothesis, although in the opposite direction, has been incorporated in the OECD projections on Japan (Table 16) and therefore unusually rapid import expansion and a moderate export growth are expected: apparently the trade surplus increases in 1989-1990, but the non-factor service balance shows

an increasing deficit and thus the current account disequilibrium is shrinking slowly but constantly. The IMF forecasters again are contradicting the OECD and EC hypothesis and expect an expanding Japanese current account surplus, while the German disequilibrium is expected to fall contrarily to what supposed by the European-based forecasters. The OECD and EC experts seem to be optimistic about the effects of the Japanese expansionary policies and about the dynamization produced in the leader country by the European 1992 project and by the buoyant world demand for investment goods and technology, typical items of the German production, for which price competitiveness is less relevant than for other types of goods.

The countries that seem to bear the cost of the US trade readjustment are the already deficitary European countries and some non-OECD countries. In Europe the external balance deterioration affects especially the countries not participating in the EMS (European Monetary System), i.e. United Kingdom, Spain and Portugal. The Spanish and the Portuguese imbalances, however, are considered sustainable in the medium term being matched domestically by an upturn in productive investment financed by private capital flows: this phenomenon is natural and even desirable in an economic association with uneven levels of development where the more advanced members can invest their surplus in the poorer areas fostering the catching-up process.

The Asian NICs are, among the non-OECD countries, the group that will be burdened by the readjustments cost, what however will only reduce but not reverse their trade balance: their imports will increase faster because of tariff reductions and relaxation of import restrictions and because of the upwards shift in consumption patterns.

According to the IMF experts there is a common interest to put in place appropriate policies to absorb external disequilibria: the US should take appropriate measures to increase national saving, i.e. adopt restrictive fiscal measures, since exchange rate maneuvers alone are not sufficient to bring

about the necessary upturn of the external balance and they risk to bring the economy on an inflationary path. 20/ On the other side surplus countries should encourage the growth of their internal demand, monitoring the emergence of inflationary pressures.

If such measures are delayed, free trade will be endangered by restrictions, lowering welfare and distorting free movement of goods. The increasing use of discriminatory trade measures, the preference for bilateral/sectoral approaches to trade negotiations, the disregard for the basic GATT principle of the generalized most favoured-nation treatment and for the standstill and roll-back provisions set in the Punta del Este declaration, the continuing move towards regional trade agreements are, according to the IMF and IBRD experts, reiterative warning signals that menace especially the Third World, which does not dispose of sufficient negotiation power to impose liberalization.

In the medium run threats to LDC exports come from the consolidation of the European Community internal links: the impact for Latin America will be limited given its already low penetration on the EC market but the IBRD forecasters consider the region as the main victim of the more than likely upsurge of US protectionism. The trade and current account balances of the developing countries are expected to worsen in 1989-1990; only the UNCTAD forecasters expect a rising current account surplus due to the increasing surplus of the manufacture exporters (Table 14). The oil exporters should manage to increase their trade surplus thanks to considerable export efforts, to a favorable evolution of their main product and, last but not least, to drastic cuts of imports; again the UNCTAD forecasters expect smoother changements and a more marked current account improvement not only for the oil exporters but also for the group "Baker 15", probably on the basis of the expected improvement in their terms of trade and by an interest rate not above the level of the first semester 1988.

Now in the light of the more recent developments on the international financial market and of the recrudescence of US protectionism the dark perspectives depicted by the IMF, the OECD and the EC seem to become true, while the events of 1988 demonstrate that even in a scenario of stability and growing demand in the developed countries the spillover effects for the LDCs via trade are unsatisfactory.

Notes

1/ See namely the IMF Outlook: "If the rapid expansion of the money supply during this period primarily reflected permanent shifts in the demand for money related to the progressive deregulation of financial markets, ...(inflationary) risks would be relatively slight".

2/ See below in the paragraph on the external balance.

3/ See "The Economist", 13 May 1989, pp. 14-15.

4/ See for Latin America: ECLAC, America Latina y el Caribe: Escenarios del crecimiento económico 1986-1995, (LC/R.558), December 1986.

5/ These interventions consist in broad domestic measures, like the dismantling of price controls (France, Netherlands), in trade liberalization (Greece, Portugal, Spain, Turkey, Australia, New Zealand), in R & D incentives, in liberalization of transport and telecommunications, in sectoral interventions.

6/ See OECD, Economic Outlook, No.43, June 1988, pp 68-74

7/ These cuts are part of an overall process of tax reforms, which is taking place in almost all OECD countries in order to reduce leakages from the tax base produced mainly by high marginal tax rates and from dispersions of effective rates of direct and indirect taxation. So far reforms have been introduced in the US, Japan, West Germany, UK, Italy, Canada, New Zealand. Plans of reform have been announced (December 1988) in Austria, Belgium, Portugal, Finland, Sweden and the Netherlands. In most cases the loss of revenue produced by the reduction of marginal rates of direct taxes and by the correction of the fiscal drag has been at least partly compensated by the broadening of the tax base or by increases in indirect taxes. Moreover, the EC members are now negotiating (with scarce results) to harmonize their tax structures before 1992 in order to avoid distortions by the completion of the internal market project.

8/ In the absence of any nationwide vacancy data, the amount of newspaper space devoted to help-wanted advertisement is used as an indicator, which however is not fully reliable since newspaper advertisement is likely to be used only for some kinds of job offers.

9/ See also endnote 19

10/ See "The Economist", 4 February 1989, pp. 19-21.

11/ See UN, Development and international economic co-operation: long-term trends in social and economic development-Overall socio-economic perspective of the world economy to the year 2000 (A/43/554), 20 September 1988, pp. 60-61.

12/ See "Financial Times", 6 February 1989

13/ See "Kieler Kurzberichte", 4/1989

14/ See "The Economist", 21 January 1989, p.15.

15/ For the LINK data I do not dispose at present of any indication in respect to the methods of calculation, so the comparison with the other projections can only be partial.

16/ See Uwe Vollmer, "Reasons for Japan's low unemployment rate", in Intereconomics, November-December 1988.

17/ The OECD participation rate in 1990 was forecasted to be 68.7% by the ILO (Economically active population 1950-2025, vol. V, 1986) and 70.3% by the OECD (Economic Outlook, June 1988)

18/ Recently Italy increased retirement age for women (from 55 to 60 years) and men (from 60 to 65 years) and other countries are likely to follow this move, for instance Japan, whose Diet has proposed to rise the eligibility age for public pensions from 60 to 65 years starting from October 1989.

19/ This argument seems to be confirmed by a recently published analysis, aimed at explaining the low Japanese unemployment rate: "The special remuneration practices of Japanese companies prevent a strong deviation of real wages from market clearing levels and seem to be capable of stabilizing employment in the presence of external shocks... Contracted wages cover only a part of the workers' total remuneration... Bonus payments (around one quarter of the worker's annual income)...represent an instrument suitable for stabilizing unexpected shocks ex-post during the terms of the contract: a sudden decline in productivity increases manufacaturing costs but cuts real bonus payments, and can be handled without a rise in unit labour costs and unemployment" in Uwe Vollmer, "Reasons for Japan's low unemployment rate", in Intereconomics, November/December 1988.

20/ See "The Economist", 13 May 1989, pp.14-15

Tables

Table 1

REAL GDP/GNP
(Annual percentage change)

	1988					1989					1990	
	UNCTAD	IMF	OECD	IBRD	EC	UNCTAD	IMF	OECD	IBRD	EC	OECD	EC
World	3.1	3.8	...	...	...	2.9	3.1	...	...	...	...	...
Industrial countries	2.7	3.9	4.0	...	...	2.4	2.8	3.2	...	...	2.7	...
European Community	...	...	3.7	...	3.7	...	...	3.0	...	3.0	2.5	3.0
United States	...	4.0	3.7	4.0	3.8	...	2.8	3.0	2.5	2.8	2.5	2.0
Japan	4.2	5.8	5.7	5.8	5.6	3.8	4.2	4.5	3.8	4.1	3.7	3.5
Federal Republic of Germany	...	2.9	3.7	3.5	3.4	...	1.9	2.5	2.0	2.5	2.7	3.0
Developing countries	3.1	3.6	...	...	...	3.3	4.0	...	...	...	...	...
of which:												
Oil exporters	1.0	1.1	...	2.2	1.2	1.4	2.1	...	2.6	2.0	...	3.0
Manufacture exporters	4.1	...	...	7.3	...	4.1	...	...	6.8	...	...	...
Fifteen heavily indebted countries	2.3	1.5	...	2.0	...	2.6	3.4	...	3.3	...	...	...

Sources: UNCTAD, Trade and development report 1988, September 1988; IMF, World Economic Outlook, October 1988; OECD, Economic Outlook, No. 44, December 1988; IBRD, The developing countries and the short-term outlook for the global economy, January 1989; EC Commission, Supplement A-European Economy, No. 2, February 1989.

a/ The OECD forecasters consider the aggregate "OECD countries", which is larger than the aggregate "Total industrial countries" used by the IMF, since it includes also Greece, Portugal and Turkey.

Table 2

REAL PER CAPITA GDP

(Annual percentage change)

	1988		1989	
	UNCTAD	FMI	UNCTAD	FMI
World	1.5	...	1.3	...
Developed market economies	2.1	...	1.8	...
Developing countries	0.8	1.6	1.1	1.9
.by major export category:				
- Primary product exporters	...	0.3	...	1.5
- Oil exporters	-1.6	-2.0	-1.1	-1.0
- Manufacture exporters	2.3	5.0	2.3	4.3
. Fifteen heavily indebted countries	-0.1	-0.6	0.2	0.9

Sources: UNCTAD, Trade and development report 1988, September 1988; IMF, World Economic outlook, October 1988.

Table 3

FINAL DOMESTIC DEMAND

(Real annual percentage change)

	1988			1989			1990	
	IMF	OECD	EC	IMF	OECD	EC	OECD	EC
All industrial countries a/	4.1	4.0	...	3.1	3.2	...	2.7	...
European Community	...	4.2	4.7	...	3.2	3.3	2.7	3.2
United States	3.0	3.0	2.9	2.7	2.5	2.6	2.2	1.8
Japan	7.4	7.5	7.9	4.9	5.0	4.6	4.2	3.7
Federal Republic of Germany	3.2	4.0	3.7	2.0	2.0	2.2	2.7	3.1

Sources: IMF, World Economic outlook, October 1988; OECD, Economic Outlook, No.44, December 1988; EC Commission, European Economy-Supplement A, No.2, February 1989.
a/ The OECD forecasters consider the aggregate "OECD countries", which is larger than the agreggate "Total industrial countries" used by the IMF, since it includes also Greece, Portugal and Turkey.

Table 4

INVESTMENT

	1988		1989		1990
	IMFa/	EC b/	IMFa/	EC b/	ECb/
All industrial countries	7.2	...	4.2	...	...
European Community	...	7.3	...	5.7	4.9
United States	6.4	6.3	4.3	4.2	1.8
Japan	11.4	13.6	5.9	6.6	6.0
Federal Republic of Germany	4.9	5.4	1.4	4.1	4.7

Sources: IMF, World Economic Outlook, October 1988; EC Commission, European Economy-Supplement A, No.2, February 1989.
a/ Gross fixed investment.
b/ Total investment

Table 5

PRIVATE CONSUMPTION

(Annual percentage change)

	1988		1989		1990
	IMF a/	EC b/	IMF a/	EC b/	EC b/
All industrial countries	3.3	...	2.8	...	...
European Community	...	3.7	...	2.7	3.0
United States	2.5	2.7	2.4	2.6	2.2
Japan	5.1	5.3	4.0	4.1	3.0
Federal Republic of Germany	3.3	2.7	2.3	1.8	3.0

Sources: IMF, World Economic Outlook, October 1988; EC Commission, European Economy-Supplement A, No.2, February 1989
a/ Real annual percentage change
b/ Annual percentage change in volume

Table 6

PUBLIC CONSUMPTION

(Annual percentage change)

	1988		1989		1990
	IMFa/	ECb/	IMFa/	ECb/	ECb/
All industrial countries	1.7	...	2.3	...	...
European Community	...	1.9	...	1.7	1.8
United States	1.2	-0.0	3.1	3.0	0.4
Japan	2.4	2.3	2.6	2.0	2.3
Federal Republic of Germany	1.5	1.8	1.6	1.2	2.0

Sources: IMF, World Economic Outlook, October 1988; EC Commission, European Economy-Supplement A, No.2, February 1989.
a/ Real annual percentage.
b/ Annual percentage change in volume

Table 7

GNP/GDP DEFLATOR
(Annual percentage change)

	1988				1989				1990	
	IMF b/	OECD	EC c/	IBRD	IMF b/	OECD	EC c/	IBRD	OECD	EC c/
All industrial countries a/	2.9	3.5	...	...	3.3	4.0	...	...	4.0	...
European Community	...	3.7	4.1	...	...	3.7	4.2	...	3.5	4.2
United States	3.2	3.2	3.4	3.3	4.1	4.5	4.7	5.0	4.7	4.6
Japan	0.9	0.2	0.5	0.2	1.4	1.0	3.2	0.9	1.5	3.1
Federal Republic of Germany	1.8	1.7	1.8	1.7	2.2	2.0	2.3	2.2	1.7	2.3

Sources: IMF, World Economic Outlook, October 1988; OECD, Economic Outlook, No.44, December 1988; EC Commission, Economic forecasts 1989-1990, January 1989; IBRD, The developing countries and the short-term outlook for the global economy, January 1989.

a/ The OECD forecasters consider the aggregate "OECD countries", which is larger than the aggregate "Total industrial countries" used by the IMF, since it includes also Greece, Portugal and Turkey.

b/ GNP deflator.

c/ GNP deflator for US and Japan

Table 8

PRIVATE CONSUMPTION DEFLATOR

(Annual percentage change)

	1988				1989				1990		
	IMF	OECD	EC	LINK	IMF	OECD	EC	LINK	OECD	EC	LINK
All industrial countries a/	3.3	3.7	...	2.8	3.5	4.0	...	4.1	4.0	...	3.4
European Community	...	3.2	3.7	4.2	...	3.5	4.2	5.8	3.2	3.9	4.7
United States	4.1	4.2	4.2	4.1	4.5	4.5	5.2	5.9	4.7	5.0	4.8
Japan	1.1	0.0	0.3	0.4	1.6	1.0	3.3	2.7	1.2	2.8	1.9
Federal Republic of Germany	1.2	1.2	1.4	1.4	2.4	2.2	2.7	2.9	2.0	2.3	2.7

Sources: IMF, World Economic Outlook, October 1988, OECD, Economic Outlook No.44, December 1988; EC Commission, Economic forecasts 1989-1990, January 1989; Project Link (United Nations-University of Pennsylvania), World Outlook, May 1989.

a/ The OECD forecasters consider the aggregate "OECD countries", which is larger than the aggregate "Total Industrial countries" used by the IMF, since it includes also Greece, Portugal and Turkey.

Table 9

PETROLEUM AVERAGE PRICES

(In US dollars)

	1960	1970	1974	1980	1985	1986	1987	1988	1989	1990	2000
Current	1.5	1.3	11.2	30.5	26.7	13.6	17.2	14.0	15.5	16.6	22.0
1985 constant dollars	5.0	3.6	19.0	29.2	26.7	11.5	13.3	9.9	10.4	10.9	12.2

Source: World Bank, Price Prospects for Major Primary Commodities, Report No. 814/88, November 1988.

Table 10

UNIT LABOUR COSTS a/

(Annual percentage change)

	IMF 1988	IMF 1989	1988 OECD	1988 EC	1989 OECD	1989 EC	1990 OECD	1990 EC
	Only in manufacturing							
All industrial countries b/	0.3	1.6	3.2	...	3.7	...	4.0	...
European Community	....	...	...	2.9	...	3.3	...	3.4
United States	0.4	1.1	4.2	...	4.5	...	5.2	...
Japan	-3.3	1.0	-0.7	...	0.5	...	1.0	...
Federal Republic of Germany	1.9	1.9	0.2	...	1.2	...	1.0	...

Sources: IMF, World Economic Outlook, October 1988; OECD, Economic Outlook, December 1988; EC Commission, Economic forecasts 1989-1990, January 1989.

a/ Compensation of employees per head, divided by labour productivity per head, defined as GDP in volume divided by total employment.

b/ The OECD forecasters consider the aggregate "OECD countries", which is larger than the aggregate "Total industrial countries" used by the IMF, since it includes also Greece, Portugal and Turkey.

Table 11

TOTAL EMPLOYMENT

(Percentage change on preceding year)

	1988			1989			1990	
	IMF	OECD	EC	IMF	OECD	EC	OECD	EC
All industrial countries a/	1.7	1.7	...	.1	1.2	...	1.0	...
European Community	...	1.2	1.2	...	0.7	1.0	0.5	0.9
United States	2.2	2.2	2.3	1.6	1.7	1.6	1.2	1.1
Japan	1.7	1.7	1.7	1.0	1.0	1.2	0.7	0.9
Federal Republic of Germany	0.5	0.5	0.6	0.1	0.5	0.8	0.5	1.0

Sources: IMF, World Economic Outlook, October 1988; OECD, Economic Outlook, December 1988; EC Commission, Economic forecasts 1989-1990, January 1989.
a/ The OECD forecasters consider the aggregate "OECD countries", which is larger than the aggregate "Total industrial countries" used by the IMF, since it includes also Greece, Portugal and Turkey.

Table 12

TOTAL LABOUR FORCE

(Annual percentage change)

	1988		1989		1990	
	OECD	EC	OECD	EC	OECD	EC
OECD	1.7	...	1.2	...	1.0	...
European Community	0.5	0.6	0.7	0.5	0.5	0.7
United States a/	1.5	...	1.7	...	1.5	...
Japan a/	1.5	...	1.0	...	0.7	...
Federal Republic of Germany	0.5	0.6	0.3	0.3	0.5	0.8

Source: OECD, Economic Outlook, December 1988; EC Commission, Economic forecasts, 1989-1990, January 1989.
a/ For the United States and Japan the EC services use the OECD forecasts and in their last report they published the OECD projections of June 1988, now out-of-date.

Table 13

UNEMPLOYMENT RATES

(As a percentage of labour force a/)

	1988				1989				1990		
	IMF	OECD	EC	LINK	IMF	OECD	EC	LINK	OECD	EC	LINK
All industrial countries b/	7.1	7.2	...	7.0	7.0	7.2	...	7.0	7.5	...	7.1
European community	...	10.5	11.2	11.0	...	11.2	10.7	10.8	10.2	10.4	10.7
United States	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.6	5.5	5.5	5.8
Japan	2.6	2.5	2.5	2.4	2.5	2.5	2.6	2.3	2.5	2.7	2.4
Federal Republic of Germany	7.9	7.7	8.1	9.0	8.1	7.7	7.6	8.3	7.7	7.5	7.5
France	...	10.2	10.6	2.6	...	10.5	10.5	2.5	10.7	10.3	2.6
United Kingdom	...	8.5	8.8	7.2	...	7.7	7.4	7.8	8.0	7.1	7.5
Italy	...	11.2	15.0	12.0	...	11.2	14.5	12.0	11.5	14.1	12.0
Spain	...	19.5	19.7	19.9	...	18.7	19.2	19.2	18.0	18.6	19.2

Sources: IMF, World Economic Outlook, October 1988; OECD, Economic Outlook, December 1988; EC Commission, Economic forecasts 1989-1990, January 1989, Project Link (UNited Nations-University of Pennsylvania), World Outlook, May 1989.

a/ The EC services calculate Member States' employment as a percentage of civilian labour force, as well as do the United States and Germany, thus the data of the EC and of these two countries in the OECD table are not directly comparable with the others.

b/ The OECD and LINK forecasters consider the aggregate "OECD countries", which is larger than the aggregate "All industrial countries" used by the IMF, since it includes also Greece, Portugal and Turkey.

c/ The LINK forecasters use different country models, thus the country data are not comparable between them.

Table 14

CURRENT ACCOUNT BALANCE

(In billions US dollars)

Part A

	1988			1989			1990	
	IMF	OECD	EC	IMF	OECD	EC	OECD	EC
All industrial countries a/	-45.2	-61	-44.3	-51.4	-50	-57.8	-51	-61.6
European Community	....	14	21.2	...	13	13.1	11	14.5
United States	-128.9	-132	-132.7	-128.7	-116	-135.0	-108	-139.1
Japan	78.0	79	84.5	80.9	77	83.7	72	83.4
Federal Republic of Germany	44.9	45	..	41.5	51	..	52	...
Asian NICs b/	...	22	32.6	...	17	29.2	14	26.9

Sources: IMF, World Economic Outlook, October 1988, OECD, Economic Outlook, No.44, December 1988; EC Commission, European Economy- supplement A, No.2, February 1989.
a/ The OECD and the EC consider the aggregate "OECD total", which includes Greece, Portugal and Turkey, and not the IMF aggregate "All industrial countries".
b/ For Hong Kong the OECD estimates do not include investment income and transfers.

Part B

	1988		1989	
	IMF	UNCTAD	IMF	UNCTAD
Developing countries	-17.6	3.1	-26.1	13.5
of which:				
Exporters of manufacturers a/	22.4	37.8	15.4	40.9
Oil exporters b/	-18.6	-7.9	-15.5	-1.0
Fifteen heavily indebted countries c/	-10.1	-5.8	-12.0	-2.8

Sources: IMF, World Economic Outlook, October 1988, UNCTAD, Trade and Development Report 1988, September 1988.

a/ Countries whose exports of manufactures accounted for over 50% of their total exports in 1980.

b/ Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, Venezuela.

c/ So called Baker 15: Argentina, Bolivia, Brazil, Chile, Colombia, Ivory Coast, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia.

Table 15

CURRENT ACCOUNT BALANCE

(As percentage of GDP/GNP)

	1988			1989			1990	
	IMFa/	OECDb/	ECc/	IMFa/	OECDb/	ECc/	OECDb/	ECc/
All industrial countries d/	-0.3	-0.4	...	-0.4	-0.3	...	-0.3	...
European Community	...	0.3	0.5	...	0.3	0.2	0.2	0.2
United States	-2.6	-2.7	-2.7	-2.5	-2.2	-2.6	-1.9	-2.5
Japan	2.8	2.8	3.0	2.7	2.5	2.7	2.2	2.5
Federal Republic of Germany	3.8	3.7	4.1	3.5	4.1	4.3	4.0	4.3

Sources: IMF, World Economic Outlook, October 1988; OECD, Economic Outlook, No. 44, December 1988; EC Commission, Economic forecasts 1989-1990, January 1989.
a/ As percentage of GNP.
b/ As percentage of GNP for US, Japan and the FRG.
c/ As percentage of GNP for US and Japan.
d/ The OECD forecasters consider the aggregate "OECD countries", which is larger than the aggregate "Total industrial countries" used by the IMF, since it includes also Greece, Portugal and Turkey.

Table 16

TRADE BALANCE

(FOB-FOB in billions US dollars) a/

	1988			1989			1990	
	IMF	OECD	EC	IMF	OECD	EC	OECD	EC
All industrial countriesb/	-4.2	-6	-2.0	-6.6	17	-4.1	28	2.2
European Community	...	15	23.4	...	11	15.5	7	18.9
United States	...	-121	-124.2	...	-102	-120.6	-89	-118.8
Japan	...	93	99.4	...	99	102.8	100	105.4
Federal Republic of Germany	...	75	...	...	81	..	85	...
Developing countries	37.1	42	48.4	32.5	32	49.6	29	46.2
of which: OPEC	25.8	24	26.8	30.4	24	36.5	30	39.7
Asian NICs	...	14	22.1	...	8	16.2	4	12.9

Sources: IMF, World Economic Outlook, October 1988; OECD, Economic outlook, No. 44, December 1988; EC Commission, European Economy-Supplement A, No. 2, February 1989.

a/ The OECD considers weighted averages of imports and exports and not the FOB value.

b/ The OECD and EC forecasters consider the aggregate "OECD countries", which is larger than the aggregate. "All industrial countries" used by the IMF, since it includes also Greece, Portugal and Turkey.

Table 17

TRADE BALANCES

(Annual percentage change)

	1988	1989
Developed market economies		
- Export volume	5.4	4.5
- Import volume	5.8	4.6
- Terms of trade	0.7	-0.0
Developing countries		
- Export volume	5.3	4.5
- Import volume	4.7	5.1
- Terms of trade	-1.2	0.4
of which:		
Manufacture exporters		
- Export volume	7.0	6.3
- Import volume	8.0	8.2
- Terms of trade	1.0	-0.3
Oil exporters		
- Export volume	3.7	2.7
- Import volume	0.8	1.1
- Terms of trade	-6.7	0.9
Others		
- Export volume	5.0	4.4
- Import volume	3.8	4.1
- Terms of trade	0.3	-0.1

Source: UNCTAD, Trade and development report 1988, September 1988.

Table 18

TRADE BALANCE

(FOB-FOB, as percentage of GDP) a/

	1988	1989	1990
European Community	0.5	0.3	0.4
United States	-2.8	-2.5	-2.3
Japan	3.7	3.5	3.3
Federal Republic of Germany	6.3	6.6	6.6

a/ GNP for US and Japan
Source: EC Commission, Economic forecasts 1989-1990, January 1989.

Table 19

WORLD TRADE - IMPORTS AND EXPORTS OF GOODS

Part A

(Annual percentage change in volume)

	IMPORTS			EXPORTS		
	1988	1989	1990	1988	1989	1990
Total OECD	8.7	7.2	6.7	9.5	8.0	7.5
European Community	7.5	6.7	6.2	6.0	6.0	5.7
United States	7.2	8.5	8.0	24.7	15.0	12.0
Japan	16.2	7.0	6.7	3.5	6.5	6.0
Federal Republic of Germany	4.5	6.0	6.7	5.5	6.2	6.2
OPEC	-1	-4	0	8	5	4
Non-OPEC developing countries	12	11	10	10	9	8
of which: Asian NICs	23	17	13	15	12	11

Source: OECD, Economic Outlook, No. 44, December 1988.

Part B

(Annual percentage change at constant prices)

	IMPORTS			EXPORTS		
	1988	1989	1990	1988	1989	1990
European Community	9.1	6.7	6.3	6.1	6.0	5.8
United States	6.7	6.4	4.9	22.2	10.5	7.8
Japan	16.6	7.5	6.5	4.4	5.6	4.0
Federal Republic of Germany	7.5	5.7	7.8	5.9	6.6	6.8

Source: EC Commission, Economic forecasts 1989-1990, January 1989.