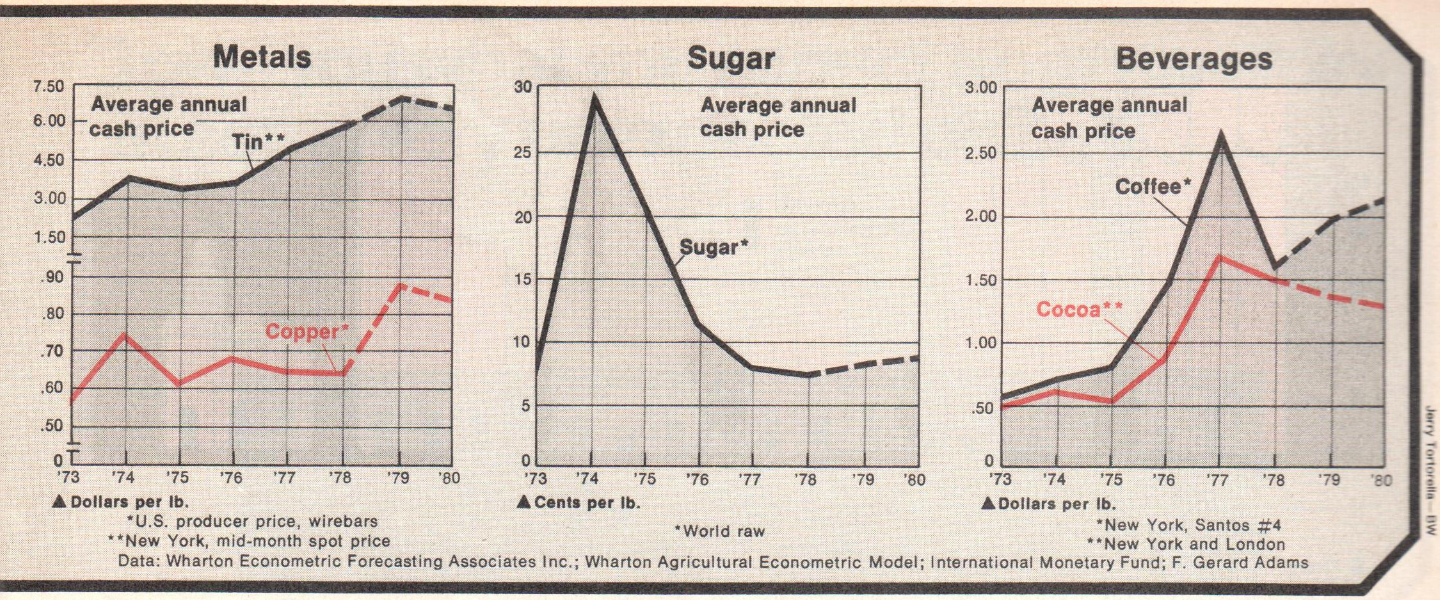


and beef prices soared in the first half of 1979 as the cattle production cycle bottomed and supplies reached their lowest level in several years. Steers at Omaha are currently averaging about 68¢ per lb., some 30% more than last year. No quick reduction is in the cards, but the recession and a dip in beef consumption caused by high prices may prevent any large increases in 1980. Another price damper has been a big increase in chicken and pig production. High feed prices will likely restrain output next year, however, bringing higher pork and poultry prices.

LATIN AMERICA: Only the oil exporters escape wild inflation

Although Latin America's economic growth will slow only slightly, to 4.5% in 1980 from 5% this year, this region-wide performance masks the widening gap that divides oil-exporting countries such as Mexico and Venezuela from oil importers like Brazil. While nations in both groups will experience similar increases in real gross domestic product next year, the oil exporters will make progress against inflation and improve their payment balances. The oil importers, on the other hand, will pay for their growth with higher inflation and further deterioration in trade balances.

Oil-rich Venezuela let inflation get out of hand during its recent boom years. So this year it restricted spending and tightened monetary policy, which slowed real growth to an estimated 3.7%. During 1980 the economy should expand by almost 6% without inflation exceeding the 12% estimated for 1979, even though recently decontrolled prices for some durable and intermediate goods will add upward pressure. Higher oil prices will reverse the recent weakness in the current account and reduce 1980's deficit by half.

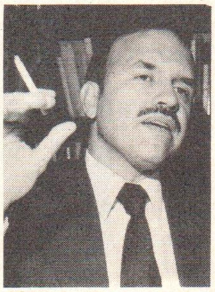
Mexico is finally overcoming the anemic 2.7% growth in real GDP and the 29% inflation that shook the country in 1977. Growth was back up to 7% in 1978, and inflation had moderated to 17%. Somewhat easier monetary and fiscal policy will boost real GDP to a predicted 7.5% rate this year. The economy will dip to 6.5% growth in 1980, while inflation hovers around this year's estimated 20% rate. The ultimate success of Mexico's controlled-growth policy depends on its ability to walk the fine line between an economic expansion that is fast enough to satisfy the population's aspirations and one that is not so fast as to cause inflation to explode. New oil and gas revenues will more than pay for expanding imports in 1980 and will reduce Mexico's $3 billion current-account deficit by about one-third.

Brazil's growth push. Brazil is seeking rapid growth in the face of huge oil imports. Its rising oil bill and the 6% growth predicted for 1979 are expected to boost inflation to nearly 60% this year from 38% in 1978. In 1980, barring more large oil-price increases, inflation should ease to 55% even though the growth rate will rise to 6.5%. Higher payments for oil imports and interest on foreign debt should expand Brazil's current-account deficit from $6 billion in 1978 to $10 billion in 1980. This deficit will expand even more if Brazil fails to increase its exports of soybeans, coffee, and other crops.

To prevent the deficit and high inflation from derailing Brazil's growth plan, the pace of minidevaluations of the cruzeiro will have to be accelerated and the country will have to borrow about $8 billion in 1980.

Argentina, which produces 95% of its own oil, will still be rocked by triple-digit inflation through 1980 even though the rate should decline to 110% from 140% this year. Nevertheless, the Argentine economy is expected to rebound sharply to a projected growth of 7.5% this year and 4% in 1980, compared with a 4.2% decline in 1978. Argentina's balance of payments, while still kept in surplus by high prices for exports of beef, wheat, and soybeans, will deteriorate from $2.2 billion in 1978 to less than $1.5 billion in 1980.

Expanding oil and copper exports are expected to provide Peru with a trade surplus of $1 billion in 1979 and again in 1980. But problems persist internally, where 60% inflation has forced policymakers to restrict spending and monetary policy, even in the face of sluggish economic activity and dangerously high unemployment. Ecuador will also benefit from higher oil prices and Bolivia from



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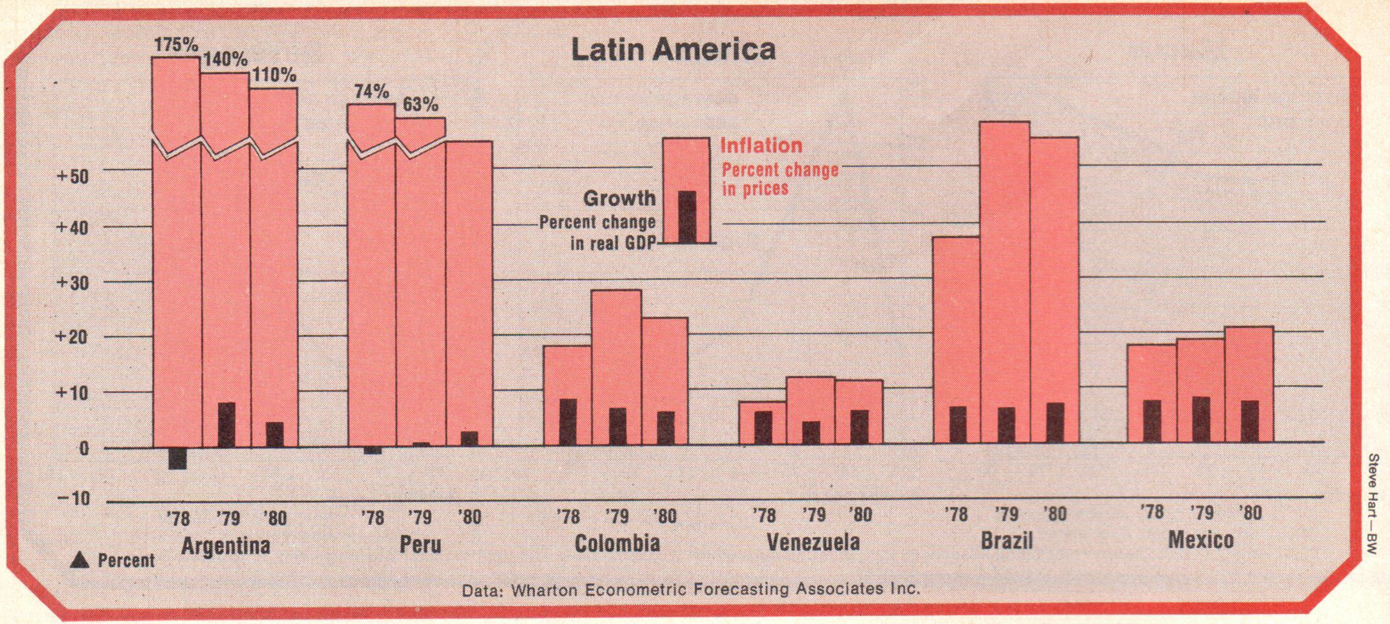

higher tin prices. But unsettled political conditions will limit growth and will fuel inflation in both countries.

Even though Colombia imports only 8% of its oil, it has been diversifying into gas, coal, and hydroelectricity. This successful diversification will help the Colombian economy grow an expected 6.3% this year, with only slight moderation expected next year. Higher coffee prices have helped generate a trade surplus and ample foreign currency reserves. Yet an expanding money supply and rising wages are raising inflation to a rate of nearly 30% this year, and only a slight decline is expected in 1980.

Chile's economy is growing about 7% this year and will continue at about the same rate in 1980. But inflation will reach around 35% this year and accelerate to about 40% in 1980. Chile's fortunes hang on copper, but they may drown in oil; recent copper-price increases will only partly offset higher oil prices. And since Chile imports 75% of its energy requirements, current-account deficits will continue to outpace the $785 million deficit recorded in 1978. Higher oil prices will also continue to hurt oil-importing Paraguay and Uruguay, intensifying their inflation and deepening their trade deficits.