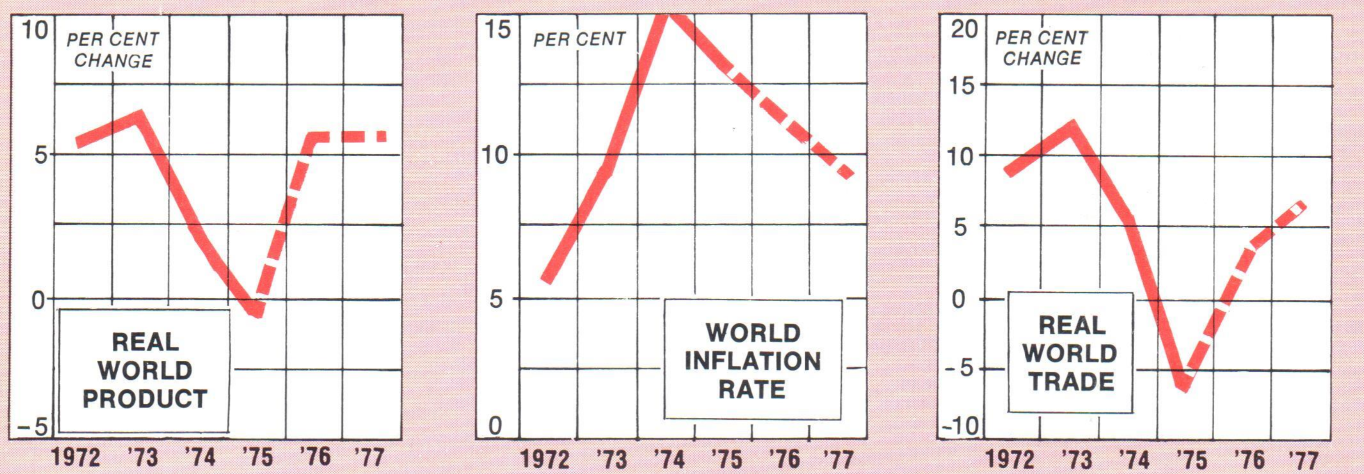
In these and all the charts that follow, 1976 and 1977 figures represent forecasts.



The Newsweek-WEFA Forecast

To keep its readers abreast of international economic trends and their probable consequences, NEWSWEEK INTERNATIONAL *publishes each quarter a survey of the world economy and how it is likely to perform in the months ahead. Prepared in collaboration with the University of Pennsylvania's Wharton Econometric Forecasting Associates (WEFA), each quarterly report begins with an over-all world forecast. Twice a year, this is followed by a detailed rundown on the economies of the major industrial nations. On other occasions, the articles accompanying the global forecast examine other major aspects of the world economy. The first of these special features was a look at the economies of the nations of the Communist world (April 26). The second—an analysis of the economies of the developing world and the latest trends in international commodities markets—appears on the pages that follow.*

This is the time of year in the Northern Hemisphere when harvest yields in agricultural countries can be forecast with more realism and less guesswork than must be employed in spring and midsummer. Last year, the shock of the Soviet harvest failure was a central factor in determining the world outlook for food prices and trade balances (NEWSWEEK, April 26). This year, the harvest outlook is very encouraging—not only in the U.S. and U.S.S.R. but also in Asia. And a bountiful global harvest in 1976 will do much to support the general world recovery that is now in progress.

In our analysis of grain-market conditions later in this survey, we shall see that the strengthening of world reserves will go far toward stabilizing grain prices. Wheat, maize and rice prices are all still on a plateau below their 1973-74 high values and soybean prices have risen only moderately from their 1975 low points. In the U.S., the over-all index of wholesale prices has been held in check by falling agricultural prices during the summer.

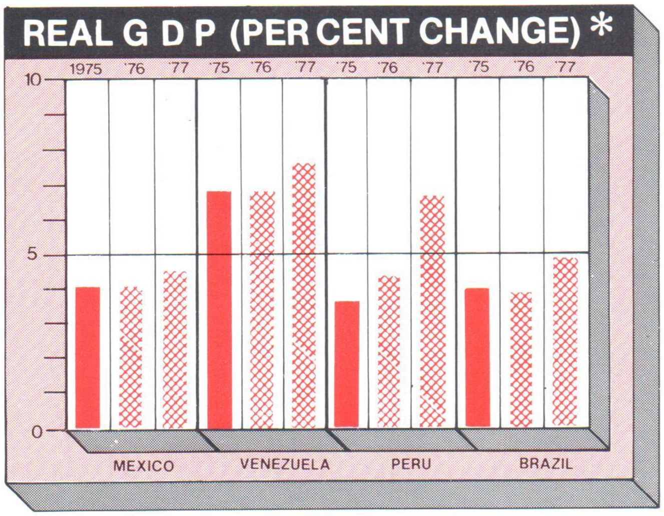
The only real danger point agriculturally lies in the drought that has hit Western Europe, the U.K. and Australia. It does not appear that the losses suffered in any of those areas will strain world reserves. But the drought will certainly have decided effects on seasonal fruit, vegetable and meat prices in Western Europe. In the Communist countries of Europe, world inflation, together with last year's harvest failure, is still exerting a significant upward thrust on food prices.

Devaluation: France has joined Italy and the U.K. as a leading economic trouble spot in the industrialized world—a development that began in late 1975 and has been exacerbated by this year's drought. All three of these countries now have serious trade deficits accompanied by inflation and consequently are experiencing strong downward pressure on their currencies. (In Britain, the terms of settlement of the seamen's strike could badly undercut the government's anti-inflation strategy.) Projections for 1976-77 show a continued deficit position for Europe's troubled three; ergo, more devaluation is in store during the next few months. The Italian lira at 1,000 to the U.S. dollar is a definite possibility by 1977 or 1978. The French franc is already near the 20-cent mark, while sterling hovers at close to $1.70. And we cannot expect any real psychological floors until trade figures improve and inflation abates.

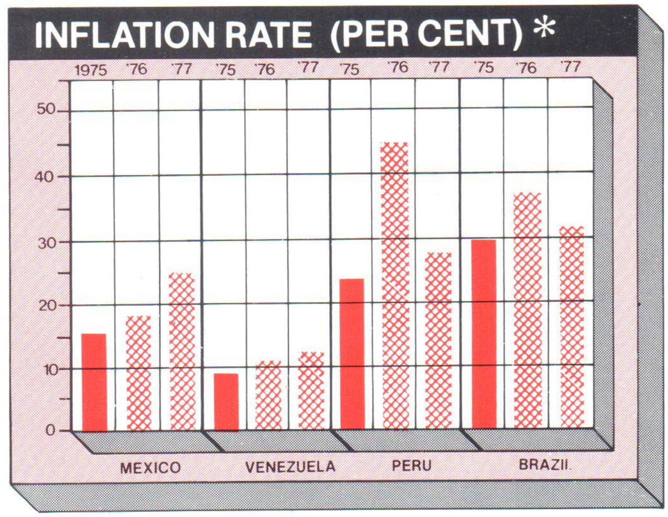
Production, however, is recovering from recession lows in all three of these countries. In fact, the "real" economies of Britain, France and Italy all look better than their "financial" economies. Nonetheless, the amount of real growth experienced so far has not prevented a gradual rise in unemployment. In addition, exchange devaluation generally leads to more domestic inflation and often to austerity programs. And if Britain follows through with its announced austerity budget for 1977 and the Italian Government acquires enough political muscle to introduce more Spartan measures, we shall see only modest growth rates for these countries in 1977—about 2 or 3 per cent. Likewise, France's growth rate should slow down a bit in 1977.

Revival: Recovery in two industrial nations—Japan and West Germany—is proceeding at very healthy rates; in both cases it is sparked by strong export growth and very substantial trade surpluses despite some appreciation in mark and yen exchange rates. Like the U.S. economy, the Japanese and West German economies slipped into a "summer lull" characterized by nearly flat production curves, but there is every reason to expect that autumn will bring a revival of the growth-recovery process. Present estimates of German and Japanese real-growth rates for 1976 are about 6 and 8 per cent, respectively; these rates, however, should slow down a bit in 1977.

The U. S. led the recovery parade of industrial nations in 1975 and has already passed through the phase of high growth rates from a cyclical low point. Hereafter, instead of achieving



*The figure for per cent change in real GDP in Argentina in 1975 was -2.0; in Chile it was even worse: -14.7. Because levels of inflation in both these countries are so high, it is not feasible to forecast GDP figures for 1976 and 1977.



*The inflation rate in Argentina in 1975 was 375 per cent; in Chile, it reached 183 per cent. Current monthly inflation rates in both nations are running so high that it is impossible to project figures for 1976 and 1977.

in 1975 and the figure for 1976 is expected to be no better. There should be a slight pickup in 1977 and 1978—to about 4.5 per cent. But this is still less than was achieved in the 1960s and that fact will dim economic aspirations for this entire development decade. The African countries at the low end of the growth scale have averaged only 2.8 per cent growth per year in the period 1973-75—barely more than population increases. Thus their prospects are for a stagnant per capita income performance for the rest of the 1970s.

Latin America

Latin America did not escape the global recession. Total real GDP grew by only 2.6 per cent against a 1971-1974 area average of 6.7 per cent. Performance, however, was not uniform. The oil exporters, Venezuela in particular, grew better than in previous years, while countries such as Argentina and Chile, which suffered from hyperinflation and grave political problems, experienced absolute declines.

One of the reasons for the 1975 growth contraction in Latin America was the reduction in external demand for its products, due to the recession in purchasing countries. As a consequence, Latin American export value dropped by 11.2 per cent, as both export volume and prices plummeted.

Imports also fell, but by less than exports, with a consequent deterioration of trade balances. The non-oil-exporting countries' trade deficit increased by 20 per cent from $7.4 billion in 1974 to $8.9 billion in 1975.

One bright spot was a moderate reduction in inflation, a long-standing problem in Latin America. Except for Chile and Argentina, which had three-digit inflation rates in 1975, the average price rise was 21.6 per cent, compared with 27.8 per cent in 1974. One reason for this was a more moderate expansion in import prices—10 per cent in 1975 against 41 per cent in 1974. Another reason: total average internal demand expanded more moderately than in previous years and prices felt less pressure from the demand side.

Prospects for this year and 1977 are better. The world recovery will benefit Latin America through larger export volume and better prices for many of its basic products. As world inflation abates, imported inflation from supplier countries will play a smaller role. Together with tightened import restrictions, these factors should improve trade balances and stimulate internal economic activity.

Although Argentina and Chile should continue to face high inflation during 1976 and 1977, both countries should also improve trade balances because of better prices and demand for their export products. Chile's real GDP ought to grow by 3 per cent in 1976. In Argentina, the improvement in the trade balance could hold the decrease in real GDP to 2 per cent, but high unemployment and falling real wages will continue to worsen an already critical labor situation.

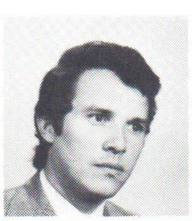
Venezuela, as a major oil exporter, will continue to experience prosperity with real GDP expected to grow at 6.8 per cent in 1976 and 7.4 per cent in 1977. Inflation should be around 12 per cent during 1976 and 1977—low in relation to the Latin American average. Ecuador, the other Latin American OPEC member, should continue to have trade balance deficits in 1976 and 1977.

Growth: As for the four other large countries of Latin America, Colombia has good prospects for a solid improvement in its trade balance with real GDP growth expected to be in the 7 per cent range for the year 1976. In the other three—Brazil, Mexico and Peru—the rates will be between 4 per cent and 5 per cent.

The latter three countries will continue to experience serious trade deficits. Some steps toward devaluation have been taken in Brazil as well as in Peru, where the internal currency was recently devalued by 44 per cent. The Mexican peso was allowed to float in early September, implying a de facto devaluation of about 40 per cent. Inflation will continue to be a common problem for all four countries, although intensity will vary from one to the other, with Brazil facing an inflation of almost 40 per cent this year. A tight credit policy, and other restrictive measures, however, could reduce this inflation—and in the process the growth of real GDP.

The Central American Common Market countries and the Caribbean islands also face trade deficits. In order to minimize the problem, authorities there are implementing restrictive import policies as well as stimulating the increase of non-traditional exports and the ever-important tourist sector.

In Bolivia, Paraguay and Uruguay, increased imports may result in trade deficits despite the current worldwide increase in demand for petroleum and tin. But tight import controls have been put into effect and real GDP growth should continue at an acceptable rate in 1976, particularly for Bolivia and Paraguay, where growth of 7 per cent or higher is expected. Inflation in Paraguay and Uruguay will remain high, while in Bolivia, a relatively moderate 12 per cent inflation is expected for this year.



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