World Economic Outlook

Introduction

The previous forecast of a modest recovery in growth in the industrial area has now been revised downward, with the onset of another recession in the U.S. and weaker prospects for several other countries. Reviewing the results of existing policies, the adjustment is seen to have been slower and more painful than necessary because of weaknesses in the implementation of these policies, with a more restrictive fiscal stance needed in many industrial countries.

Short Term Outlook

The major industrial countries are still in recession, although the trough is now believed to have been reached, as the demand depressing effects of the 1979-80 oil price rise now seem largely to have worked themselves through. The main forces acting on demand in the industrial countries continue to be the positive influences of underlying real income growth and a reduction in the aggregate current account deficit of industrial countries and, on the other hand, the influence of tight monetary policy and a restrictive swing in fiscal policy in most countries.

Under the key assumption of unchanged nominal oil prices from 1982 to 1983, real GNP in the industrial countries is forecast to increase by only 3/4 per cent in 1982 (compared to 1¼ per cent for 1981 as a whole), with activity picking up to around 2½ per cent for 1983. In the U.S. despite some forecast pick-up in activity in the second half of 1982 output for the year as a whole is expected to decline by 1 per cent, with growth in 1983 slightly less than 2 per cent. A moderate upturn for Europe is seen, to roughly 1½ per cent, in 1982 (as compared to negative growth of roughly ¼ per cent in 1981) and 2½ per cent in 1983. Japanese growth is forecast to accelerate steadily to 3½ per cent in 1982 and 4 per cent in 1983. In Canada a decline of ½ per cent is forecast in 1982 followed by growth of approximately 1½ per cent in 1983. Prospects are for increasing unemployment in the OECD area from already excessively high levels, with growing pressures on national policy makers for restrictions on trade constituting a particularly serious threat.

Recent price developments indicate a somewhat better immediate inflation outlook than had earlier seemed likely. Prices, as measured by GDP deflators, recorded a rise of roughly 8½ per cent in 1981 (as compared to almost 9 per cent in 1980) and are forecast to fall progressively to approximately 8 and 7 per cent in 1982 and 1983 respectively. Part of the recent improvement is due to the softening of international energy prices (reflecting both an unexpectedly strong decline in OECD oil demand and a draw-down of stocks), weakness in raw materials markets, and ample world food supplies. Further, the growth of nominal wages and unit labour costs in manufacturing has decelerated in many countries. An important feature is the emergence of price trends in the U.S. which are several percentage points below the average rate of other countries, and a narrowing of the gap vis-à-vis the