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United States Trade with the Sterling Area
Edward Marcus and Eleanor Ballinger

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During 1951 there was a sharp reversal in the trade balance of the Sterling Area with the United States. Mainly because of raw material purchases from the Outer Sterling Area, United States imports had exceeded exports to the Area as a whole in every month from April 1950 through July 1951. The magnitude of this excess of imports began to decline very early in 1951--the peak of \$83 million was reached in January 1951--as our purchases of rubber, tin, and cocoa dropped off, the former two declining as a result of deliberate purchase restrictions on the part of the U.S. Government. 2/ Meanwhile, our exports, which had started to rise towards the end of 1950, moved up more sharply in 1951; in part this resulted from the rise in incomes and spending throughout the Sterling Area following the Korean outbreak, but in part it was also a response to the beginning of the rearmament program in the United Kingdom. The balance of trade, which had been an excess of U.S. imports of \$188 million in the first quarter of 1951 and \$170 million in the second quarter, became an excess of exports of \$49 million in the third quarter and \$337 million in the fourth quarter.

Currently, some reversal in this trend may be expected. Our exports may stop rising--and, indeed, actually decline--partly as a result of seasonal factors, which boosted our raw cotton and tobacco exports in the last quarter of 1951, and partly as a result of Area-wide restrictive measures taken to curtail imports from the U.S., notably by the United Kingdom, India, South Africa, Australia and New Zealand. Moreover, our imports from the Area may pick up, too, particularly if we should resume an active stockpiling policy, for the evidence seems to indicate that the volume of essential imports, such as tin and wool, has been below what might have been expected, considering the high level of industrial output and consumption within this country. 3/ Hence, the combined result may work to end the trade deficit that the Sterling Area has been running recently with this country.

Imports

Although imports from the Outer Sterling Area--countries other than the United Kingdom, Iceland, and Ireland--rose greatly in value after the outbreak of the Korean conflict, much of this increase was in four commodities which were expected to be in short supply--tin, rubber, wool, and cocoa. From the second quarter of 1950 to the second quarter of 1951, the value of imports of these four rose from \$114 million to \$248 million, or more than double, while the remainder of our imports from the Outer Sterling Area rose only a little more than half, from \$117 million to \$286

1/ Data for U.S. exports on a geographical basis exclude shipments of military goods.

2/ See this Review, January 15, 1952.

3/ See this Review, December 18, 1951, pp. 4-5, and January 15, 1952, p. 7.

million. With the curtailment of U.S. Government stockpiling, particularly of rubber and tin, these four imports dropped back to \$119 million in the fourth quarter, while other imports declined to \$158 million.

Table 1
United States Imports
(In millions of dollars - at annual rates)

Period	Sterling Area <u>1/</u>	Sterling Area Excluding ERP <u>2/</u>	8 Commodities <u>3/</u>	4 Commodities <u>4/</u>
1948	1379	1083	683	472
August 1949	960	764	476	341
June 1950	1588	1252	649	506
1951 - 1st quarter	2342	1878	1113	919
1951 - 4th quarter	1571	1110	678	558

1/ General imports

2/ Excludes the United Kingdom, Iceland, Ireland.

3/ Burlap, cocoa, goatskins, jute, rubber, tea, tin, and unmanufactured wool. Imports for consumption.

4/ Cocoa, rubber, tin, and unmanufactured wool. Imports for consumption.

The leading raw materials produced in the Sterling Area have shown wide price swings over the past two years. An index of spot prices in U.S. markets of eight of the more significant ones 1/ (1948 equals 100) rose from 83.2 in November 1949, shortly after devaluation, to 211.6 in February 1951, dropping back to 142.3 in November 1951. The latest index (February 1952) is 138.2 and, because of a fall in wool and burlap prices, the index will be even lower in March.

The quantity of our imports of these eight commodities has been much more stable than their prices. As buyers held off in anticipation of devaluation and curtailed purchases because of the domestic recession, the quantity index dropped off in the second and third quarters of 1949. In the next two years the quantity index moved within a relatively narrow range but dropped sharply in the third quarter of 1951. The declines in prices and, to a lesser extent, in quantities, thus reduced the value of imports of these eight commodities; because these eight are so large a

1/ Burlap, cocoa, goatskins, jute, rubber, tea, tin, and unmanufactured wool. These eight commodities usually exceed in value all other U.S. imports from the Outer Sterling Area.

proportion of our total imports from the Outer Sterling Area, their decline contributed to the marked reduction in our imports from the Area after the second quarter.

Of the eight commodities mentioned, the largest price fluctuations over the past 2 years was in rubber, tin, and unmanufactured wool. The price picture for Sterling Area commodities since Korea 1/ can be summarized briefly.

Table II
U.S. Spot Prices of Selected Sterling Area Commodities
(1948 = 100)

	<u>Rubber</u>	<u>Tin</u>	<u>Wool</u>	<u>8 Selected Commodities</u>
1950 low (pre-Korea)	83.8	75.0	91.8	87.3
June 1950	139.4	78.3	111.9	104.4
High, 1950-51 (post-Korea)	336.4	184.0	230.2	211.6
February 1952	230.2	122.4	97.7	138.2

The price outlook for the immediate future, assuming no change in the international situation, is uncertain for several of the leading commodities. Wool and tin, and perhaps cocoa, may move upwards. Wool prices have shown a downward tendency for many months but the indications are for a strengthening of the market as inventories are worked off. The current negotiations over tin now being carried on by the U.S. Government may result in some increase to producers, for purely political reasons if for no other. Since the cocoa yield has not been as good as hoped for, prices have moved up and will probably remain above last autumn's low. On the other hand, the recent drop in Indian prices, as well as the reduction of the burlap export duty, presage a decline for jute and burlap. 2/ The slowing down of our stockpile activity in rubber, as well as the recent reduction in the price of synthetic rubber 3/ will add to the downward tendencies of natural rubber prices, already under pressure with total rubber production in excess of consumption.

The pattern of the geographical fluctuations in imports paralleled the commodity movements. Except for a jump in July 1951, imports from Malaya dropped at a fairly steady fall in 1951 as our tin and rubber purchases declined. Imports from India declined in the last quarter of 1951 partly because of reduced shipments of jute and black pepper. The decline in wool imports from Australia reduced our total imports from that country in the second half of 1951, while decreased imports of wool and non-ferrous metals curtailed the total from South Africa. Imports from the United Kingdom remained comparatively stable after July 1950, fluctuating between \$30 million and \$45 million.

1/ For earlier periods, see this Review, June 6, 1950, and October 24, 1950.

2/ See the Journal of Commerce, February 19, 1952, page 1, and March 14, 1952, page 1, and the New York Times, March 8, 1952, page 20.

3/ See the Journal of Commerce, March 10, 1952, page 6.

Table III
U.S. Trade with the Sterling Area
(In millions of dollars)

	United Kingdom	Malaya	India	So. Africa	Australia	New Zealand	Hong Kong	All other	Total
Exports 1/ - 1950	I	133.0	64.8	22.6	24.9	5.6	32.0	41.5	328.2
	II	97.8	4.6	37.9	25.7	6.4	22.7	43.4	298.6
	III	125.1	5.3	28.7	21.4	7.1	28.0	41.6	292.9
	IV	155.5	6.1	30.7	28.3	7.4	23.4	49.2	352.4
1951	I	160.8	13.4	42.5	33.8	8.9	3.7	58.4	397.0
	II	193.1	14.1	75.5	33.8	9.2	9.3	70.1	500.8
	III	246.7	16.4	75.0	44.2	20.1	7.9	65.7	577.3
	IV	300.5	13.8	54.3	65.0	20.2	7.8	77.8	730.9
Imports 2/ - 1950	I	56.7	55.5	60.6	38.7	9.1	.6	79.1	327.6
	II	69.6	64.9	61.4	31.6	20.2	.9	81.7	361.3
	III	94.3	78.9	66.6	28.4	18.4	1.3	84.8	409.2
	IV	114.3	110.3	70.9	42.4	16.8	2.6	99.3	502.7
1951	I	112.6	126.8	84.6	63.6	18.4	3.0	130.0	585.3
	II	127.6	104.0	42.3	170.3	13.0	2.4	124.1	672.2
	III	117.8	123.3	21.8	69.2	49.9	1.8	75.8	528.0
	IV	109.1	71.3	54.9	47.0	15.7	2.1	65.5	392.7
Balance 1950	I	76.3	- 51.7	4.2	- 13.8	- 3.5	31.4	- 37.6	.6
	II	28.2	- 60.3	- 1.3	- 5.9	- 13.8	21.8	- 38.3	- 62.7
	III	30.8	- 73.6	- 30.9	- 7.0	- 11.3	26.7	- 43.2	- 116.3
	IV	41.2	- 104.3	- 19.0	- 14.1	- 9.4	17.5	- 50.1	- 153.4
1951	I	48.2	- 113.4	- 9.1	- 29.9	- 9.6	.7	- 71.6	- 188.3
	II	65.5	- 89.8	7.2	- 136.3	- 3.8	6.9	- 54.0	- 169.5
	III	128.9	- 106.9	33.2	- 25.0	- 29.7	6.1	- 10.1	49.4
	IV	191.4	- 57.5	136.6	17.9	4.5	5.7	12.3	336.7

1/ Exports exclude the special categories, i.e., military goods, but include re-exports.
2/ General imports.

Exports

From the fourth quarter of 1950 to the fourth quarter of 1951, exports to both the United Kingdom and the rest of the Sterling Area doubled, but the relative rises for specific members varied (See Table III). India, for example, imported more than three times as much from us in the fourth quarter of 1951 as compared with the corresponding quarter of 1950. Because of the food shortage there, our exports of grains and preparations rose from \$15 million to \$78 million, financed in part by our emergency loan, while our other exports rose from \$37 million to \$114 million. This upward movement may end, however, as a result of the Indian Government's "tight money" policy and anti-inflationary measures. Early in March 1952, in part because of these restraints, wholesale prices slumped sharply in India. 1/

Exports to the Union of South Africa in the fourth quarter of 1951 were 80 per cent greater than a year earlier but had receded a third from the May 1951 high. The generally high level of imports by that country last year caused a drain on its monetary reserves, and 1952 may well see some further curtailment because of increased restrictions on imports, particularly affecting U.S. goods. 2/

Exports to Australia rose slowly until the third quarter of 1951, but by the fourth quarter an accelerated expansion of demand increased U.S. shipments until they were more than double the fourth quarter of 1950, or roughly in proportion to the general increase in Australian imports. Part of this rise probably can be attributable to shipments financed under the \$100 million loan of the International Bank for Reconstruction and Development. Since the over-all trade deficit was causing a serious decline in Australian reserves, the authorities took drastic steps in early March 1952 to check this rising trend by imposing direct restrictions on imports; hence, we may see some drop in 1952 in our shipments to that country. 3/

Although our exports to the British dependencies also rose, the proportionate increase was much less than to the countries mentioned so far. Apart from shipments to Malaya and Hong Kong, the percentage rise was only 50 per cent. Exports to Malaya doubled over the year, although the absolute increase was only from \$6 million in the fourth quarter of 1950 to \$14 million in the fourth quarter of 1951. Hong Kong, however, took much less as a result of tightening of our controls over shipments

1/ See the New York Times, March 8, 1952, p. 20.

2/ See the New York Times, January 3, 1952, p. 76 and March 14, 1952, p. 5.

3/ See the Journal of Commerce, March 11, 1952, p. 32. For other planned cuts affecting U.S. exports, see the Journal of Commerce, March 12, 1952, p. 17 and March 17, 1952, p. 17, and the New York Times, March 15, 1952, pp. 2, 24.

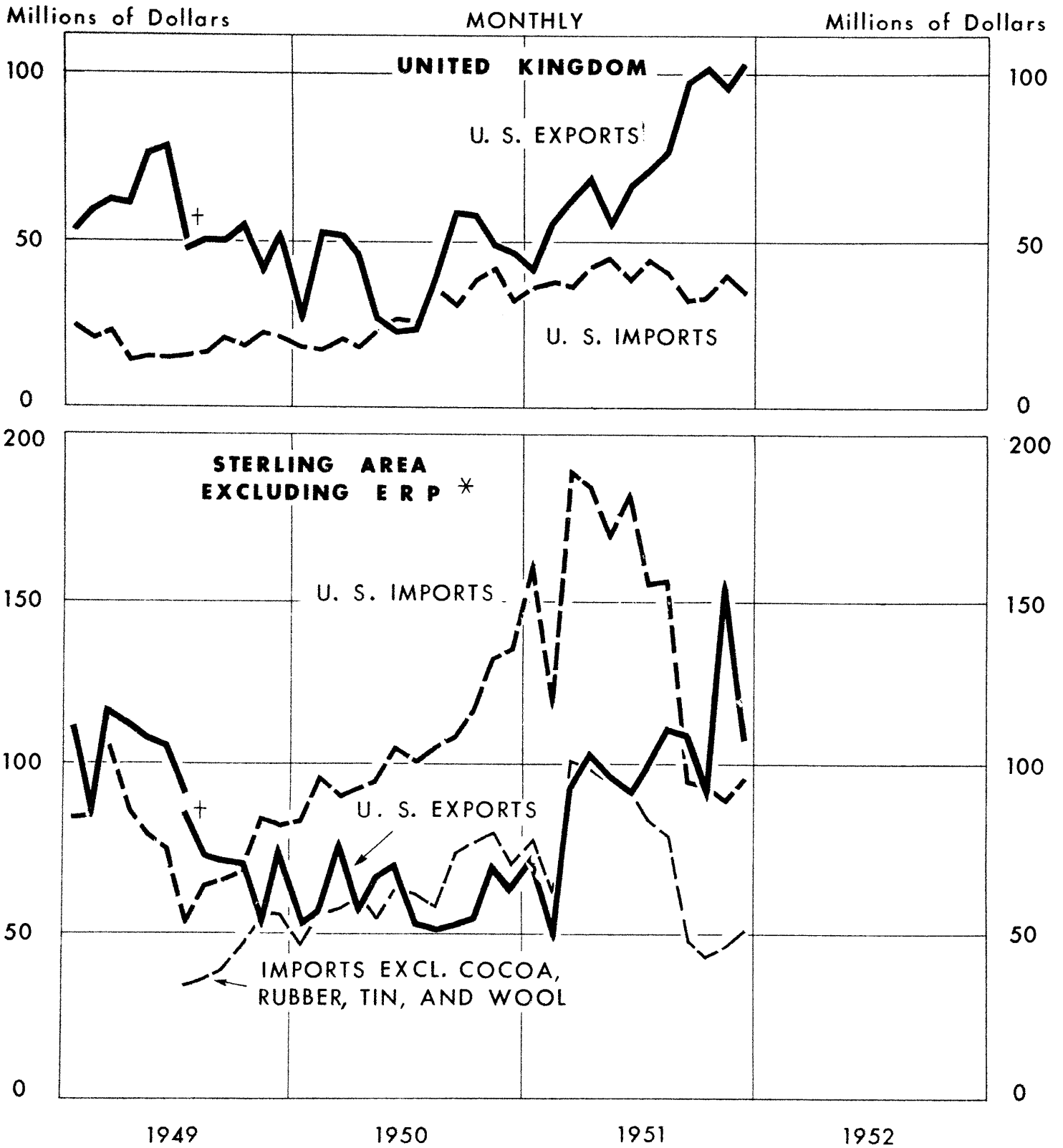
to the Chinese area and from the latter half of 1950 to the latter half of 1951 our exports declined two-thirds in value.

After September 1950, exports to the United Kingdom rose fairly steadily with shipments for the recent months being increased by a normal seasonal upswing in our exports of agricultural products, as well as the general increase in British spending. It is difficult to say whether the sharp increase in our exports of raw cotton and tobacco in the last quarter of 1951 can be attributed to greater domestic demand in the United Kingdom or improved supplies here; certainly, part of the rise in raw cotton can be attributed to last year's drawing down of stocks by the British to supplement the poor crop in this country. 1/

1/ See the U.S. Department of Agriculture Office of Foreign Agricultural Relations, Foreign Crops and Markets, February 25, 1952, p. 147.

Chart 1

UNITED STATES TRADE WITH THE STERLING AREA

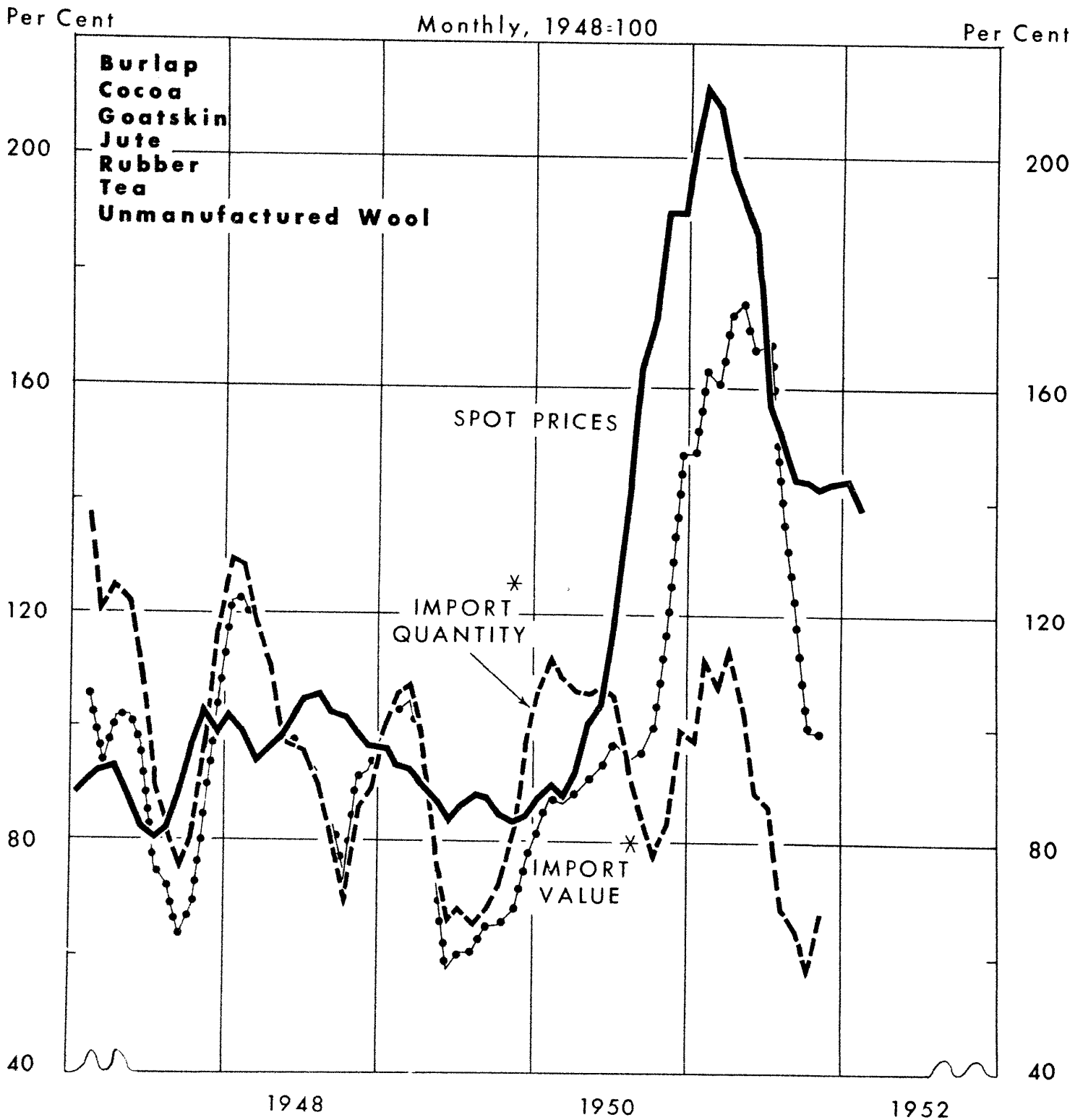


* Excludes U.K., Iceland, and Ireland.

† Excludes special categories.

Chart 2

EIGHT COMMODITIES EXPORTED BY THE STERLING AREA UNITED STATES SPOT PRICES AND QUANTITY AND VALUE OF U.S. IMPORTS



* Three-months moving average centered in middle month.