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Entrepot Trade in German Products

Gordon B. Grimwood

6 pages

Current Trends in U.S. Imports and Exports

Edward Marcus

11 pages

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June 10, 1952

ENTREPOT TRADE IN GERMAN PRODUCTS

Gordon B. Grimwood

During the past few months German authorities have expressed increasing concern over the loss of dollar exchange caused by the transshipment of German export products through other Western European countries. These authorities feel that the transshipments have been artificially stimulated by the use of various multiple currency practices, and have instituted a scheme of retention quotas in order to minimize dollar exchange lost to Germany through transshipments. Estimates of dollar exchange lost in this way range from a figure of approximately \$4 million per month reported by the Bank deutscher Laender ^{1/} to \$10 million per month reported in the press. ^{2/} On the basis of the limited statistical material available, an attempt will be made in this paper to examine the volume of such transactions and the countries involved, and to determine whether the German estimates of the dollar exchange losses are reasonable.

The foreign trade of the Federal Republic of Germany developed favorably during 1951 in comparison with 1950. A global deficit of approximately \$720 million for 1950 was reduced during 1951 to \$35 million, while Germany's deficit vis-a-vis the European Payments Union, which had led to a payments crisis in the winter of 1950/51, was transformed into a surplus of approximately \$415 million. On the basis of statistics for the first quarter of 1952, a global deficit of approximately \$250 million is indicated; the re-emergence of an export surplus in April, however, might well point toward a more favorable position.

Trade with the "free dollar area", i.e., those dollar countries with which Germany has not entered into payments agreements, has not been so favorable. Germany's trade deficit with this area amounted to \$355 million in 1950, \$496 million in 1951, and during the first three months of 1952 the deficit developed at an annual rate of approximately \$732 million. "Commercial" trade (excluding aid-financed imports) with the dollar area during the first quarter of 1952 resulted in a deficit of \$157 million as compared with a surplus of \$45 million during the same period of 1951. Extraordinary dollar receipts, including exchanges of U. S. agencies and troops in Germany and payments to Germany resulting from that country's EPU surplus, have not been sufficient to prevent a decline of \$60 million in Germany's gold and dollar reserves during the first quarter of 1952.

Germany's increasing dollar deficit is similar to that which is plaguing many Western European countries at this time -- an inability to expand exports to the dollar area sufficiently to cover necessary imports as the volume of aid-financed imports drops. A special factor in the case of Germany during 1951 and early 1952 has been the necessity to import large amounts of coking coal from the

^{1/} Monthly Report of the Bank deutscher Laender, April 1952, p. 41 (English edition).

^{2/} Wall Street Journal, May 5, 1952, p. 1.

United States in order to maintain steel production. It is expected, however, that German coal production during the remainder of this year will be sufficiently high to permit sharp cuts in planned imports of coal.

The German allegations

The German position, stated simply, is that other Western European countries are using such devices as exchange retention quotas, tax remissions, and other schemes designed to promote dollar exports. Re-exporters in these countries purchase potential German dollar exports at prices higher than the German exporter could obtain by selling to the dollar area at the official rate of exchange and then sell the goods to the dollar area for their own account. It is reported that in some cases the German exporter is given a participation in the dollar proceeds; since the goods were not invoiced to a dollar country, he can then avoid surrendering the dollar proceeds to the exchange authorities as required by the German exchange regulations. In any case, such transactions would result in a direct loss of exchange to the German central bank. Countries which have been mentioned in newspaper accounts as engaging in transshipment of German products are the Netherlands, France, Sweden, and Belgium.

Three of the countries mentioned have exchange retention schemes which are intended to encourage exports to the dollar area; Belgium encourages dollar exports indirectly by discriminating against non-dollar exports. France, with the most elaborate retention scheme, permits exporters to retain 15 per cent of dollar receipts; 80 per cent of the retained receipts are to be used for dollar export promotion purposes, the remaining 20 per cent (amounting to 3 per cent of the total proceeds) may be transferred, reportedly at premiums as high as 100 per cent or more.

Under a procedure established in 1949, the Dutch exporter to the dollar area may retain 10 per cent of the exchange proceeds (unconfirmed reports in German newspapers ^{1/} indicate that Dutch exporters are permitted to retain 90 per cent of re-exports to the dollar area); technically, this exchange is not transferable but may be used by the exporter for imports without the necessity of acquiring an import license. It is reported, however, that these "bonus dollars" are openly quoted at a 50 per cent premium over the official exchange rate.

Sweden has no official exchange retention scheme, but there is reportedly a "gray dollar" market in which proceeds from re-exports to the dollar area are sold to importers at a premium of about 20 per cent. The premiums involved in all of these schemes are deemed

^{1/} Frankfurter Rundschau, April 28, 1952; Sueddeutsche Zeitung, April 29, 1952.

sufficient to supply an incentive for the transshipments which the Germans maintain are taking place.

The German exchange retention scheme

In an effort to stop these "switch" transactions, the German authorities adopted, effective April 1, 1952, a procedure whereby the German exporter to the dollar area might retain 40 per cent of his dollar receipts. This exchange may be transferred up to three times; however, it must be used within three months, and may be used only to purchase specified commodities for which a special license would otherwise be required.

The list of commodities which may be purchased in this way contains about 180 items, all of which, with the exception of machine tools, cotton machines, and calculating and accounting machines, are foodstuffs or industrial raw materials. With prices of these materials declining on world markets, it is doubtful whether any very significant premium will develop on the retained exchange. Newspaper reports ^{1/} concerning the operation of the scheme during its first month indicate that the bonus exchange was being offered at a premium of approximately 20 per cent, but that importers were hesitant to buy at that rate.

It is still too early to determine whether this system will be effective in increasing exports to the dollar area, or to say with certainty how much of a depreciation vis-a-vis the dollar, if any, is implied in the scheme. According to the newspaper stories referred to above, there is already sentiment in "competent banking circles" for raising the retention quota and expanding the list of commodities which can be purchased with the exchange. Either measure would result in an expansion of the multiple rate system inherent in such a scheme.

Analysis of statistics

Recently the Germans have segregated their export statistics according to "country of consumption" and "country of payment". Apparently, the difference between amounts "paid for" and "consumed" represents the volume of transshipments. These figures probably are minima since they are based on customs and tariff documents; it seems likely that some buyers of German exports re-export their purchases without declaring their intentions in the papers submitted to the customs authorities.

The accompanying table shows total figures for major currency areas, with a detailed breakdown for the EPU area. The statistics, which represent an annual rate based on the first quarter of 1952, indicate that the EPU area is purchasing from Germany goods valued at

^{1/} Frankfurter Rundschau, April 28, 1952; Sueddeutsche Zeitung, April 29, 1952.

\$284 million in excess of what that area consumes. In turn, Germany is exporting to the overseas currency areas of EPU members \$210 million more than those areas pay for. The net value of goods "unaccounted for", which are purchased by EPU members but not consumed by them or their affiliated overseas areas, is thus \$74 million.

The last column of the accompanying tables shows that only two members of the EPU, the Netherlands and Switzerland, had significant excesses of "unaccounted for" purchases over consumption of German products. All other countries, after considering their affiliated overseas areas, were very nearly in balance; negative figures would seem to indicate that these countries were net recipients, rather than shippers, of transshipped German products. In the case of the United Kingdom the negative figure should probably be somewhat larger since some countries, which deal almost exclusively in sterling but are not members of the sterling area, are not included as affiliated overseas areas.

Since Switzerland is a member of the EPU, German products transshipped through Switzerland would have the same effect on the German balance of payments as goods transshipped through the Netherlands, even though the Swiss franc is a hard currency. However, because the Swiss franc is a hard currency, Swiss re-exporters could not make exchange profits by transshipping German goods to the dollar area. It is possible that a part of this trade represents transshipments to Eastern Germany, an area which is not included by the Federal Republic in its foreign trade statistics.

The table also indicates that approximately two-thirds of the transshipped goods found their way to the Western Hemisphere, presumably via Holland. This figure cannot be interpreted as indicating the net amount of dollar exchange lost to Germany, however, since it includes some Latin American countries with which Germany has offset-account agreements. Moreover, the dollar loss suffered by Germany from transshipments through EPU members is cut in half since under the EPU agreement Germany now receives 50 per cent of each month's payment surplus within the EPU in gold or dollars.

Conclusions

The conclusions based on this table are necessarily tentative because the statistical breakdown was available for only a short period. The monthly loss of \$4 million in dollar exchange on account of transshipments, as reported by the Bank deutscher Laender, seems to represent a reasonable gross figure; if account is taken of the dollar receipts from EPU the monthly net dollar loss would thus be only \$2 million. Newspaper accounts seem therefore to have exaggerated both the amount and the number of countries involved.

It should be strongly emphasized, moreover, that the Netherlands, and to a lesser extent Switzerland, have been traditionally transshippers of German products. It is not possible to say, on the basis of the statistics available, that an excess of purchases over consumption in the Netherlands of approximately 26 per cent is an abnormal figure; therefore, it is not possible to determine to what extent this transshipment of goods through the Netherlands is a result of the latter country's exchange retention scheme.

The exchange retention scheme of the Federal Republic of Germany seems to follow a pattern already set by other members of the Western European community, and on the surface it appears more liberal than most of them. Considering both the exclusion of luxury items from the list of commodities which can be purchased with the retained exchange, and present conditions of lagging demand for many of the listed industrial raw materials, the spread between the official rate and the rate or rates resulting from the retention scheme may well be less than the spread which has existed in other countries. It is as yet too early, however, to form a final judgment on this matter.

Exports of Federal Republic of Germany
Annual rate based on 1st quarter 1952
(Millions of dollars)

Country	Consumed	Paid for	Balance ^{1/}	Overseas Areas			Unac- counted for 1/
				Consumed	Paid for	Balance	
<u>EPU</u>							
Belg. Lux	264	275	+ 11				+ 1
Belg. Congo				10	0	- 10	
Denmark	156	159	+ 3				+ 3
France (incl. Saar)	329	360	+ 31				- 2
Fr. Africa				31	0	- 31	
Indo-China				2	0	- 2	
Greece	34	33	- 1				- 1
U. K.	238	371	+133				- 1
Ireland				13	11	- 2	
Iceland				1	1	-	
African £				93	45	- 48	
Asian £				141	75	- 66	
American £				3	0	- 3	
Oceania				72	57	- 15	
Italy	202	197	- 5				- 5
Netherlands	317	401	+ 84				+ 60
Indonesia				38	15	- 23	
N. Antilles				1	0	- 1	
Norway	72	77	+ 5				+ 5
Austria	138	131	- 7				- 7
Portugal	22	30	+ 8				- 1
Port. Africa				9	0	- 9	
Sweden	294	289	- 5				- 5
Switzerland	240	268	+ 28				+ 28
Turkey	125	124	- 1				- 1
Totals	2,431	2,715	+284	414	204	-210	+ 74
East. Europe	50	49	- 1				- 1
West. Hemisphere	591	542	- 49				- 49
Other ^{2/}	301	277	- 24				- 24
Grand total	3373	3583	+210	414	204	-210	0

^{1/} + = excess of purchases over consumption; - = excess of consumption over purchases.

^{2/} Mainly Near and Far East

Note: Allowance has been made for "normal" transit trade by subtracting from the excess of purchases over consumption ("plus" figures) of European countries the excess of consumption over purchases ("minus" figures) in overseas areas affiliated with purchasing countries. The remaining differences, both positive and negative, are reported in last column as "unaccounted for".

Source: Der Aussenhandel der Bundesrepublik Deutschland, March 1952.

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Current Trends in U. S. Imports and Exports 1/

Edward Marcus

U. S. imports, which had been declining in the second and third quarters of 1951, turned up after September, and by March and April 1952 the value was the highest since the preceding March-May peak. Most of this recent increase, however, can be attributed to seasonal factors, as well as to the resumption of U. S. Government purchases of crude rubber and the decline in world prices of some non-ferrous metals below U. S. ceiling prices. Hence, it is possible that our imports may decline somewhat from the March-April level, although not necessarily back to the lower level prevailing last summer. (See Chart)

Despite the increase in imports, our trade surplus in the early months of 1952 remained fairly high -- not much below the rate in the fourth quarter of 1951. This is accounted for, of course, by the continued high level of our exports. Since many countries have imposed restrictions on supplies from the United States during the past months to improve their own balance of payments position, it is likely that U. S. exports may decline even more noticeably than imports. Moreover, agricultural exports will be lower during the summer and possibly also during the next crop season.

Temporary rise in imports

During the post-Korean period there was a distinct cycle for imports -- a peak in the first quarter of 1951, a low in the last quarter of that year, and a recovery in the first quarter of this year. Most of the movement since the first quarter of 1951, however, can be accounted for by eight commodity groups -- coffee, unmanufactured wool, cocoa, sugar, tin bars, non-ferrous ores and concentrates, rubber and gas and fuel oil.

1/ Department of Commerce data on U. S. imports are on two bases. Country totals are general imports -- imports for immediate consumption plus entries into bonded Customs warehouses. Commodity data are imports for consumption -- imports for immediate consumption plus withdrawals from warehouses. The difference between these two bases, and variations in the amount of this difference, were of some significance during the past fifteen months, particularly for unmanufactured wool and certain metals; see, for example, this Review, December 18, 1951, page 3.

In the chart, exports exclude shipments of civilian supplies for Army distribution in occupied areas before January 1947.

U.S. FOREIGN TRADE

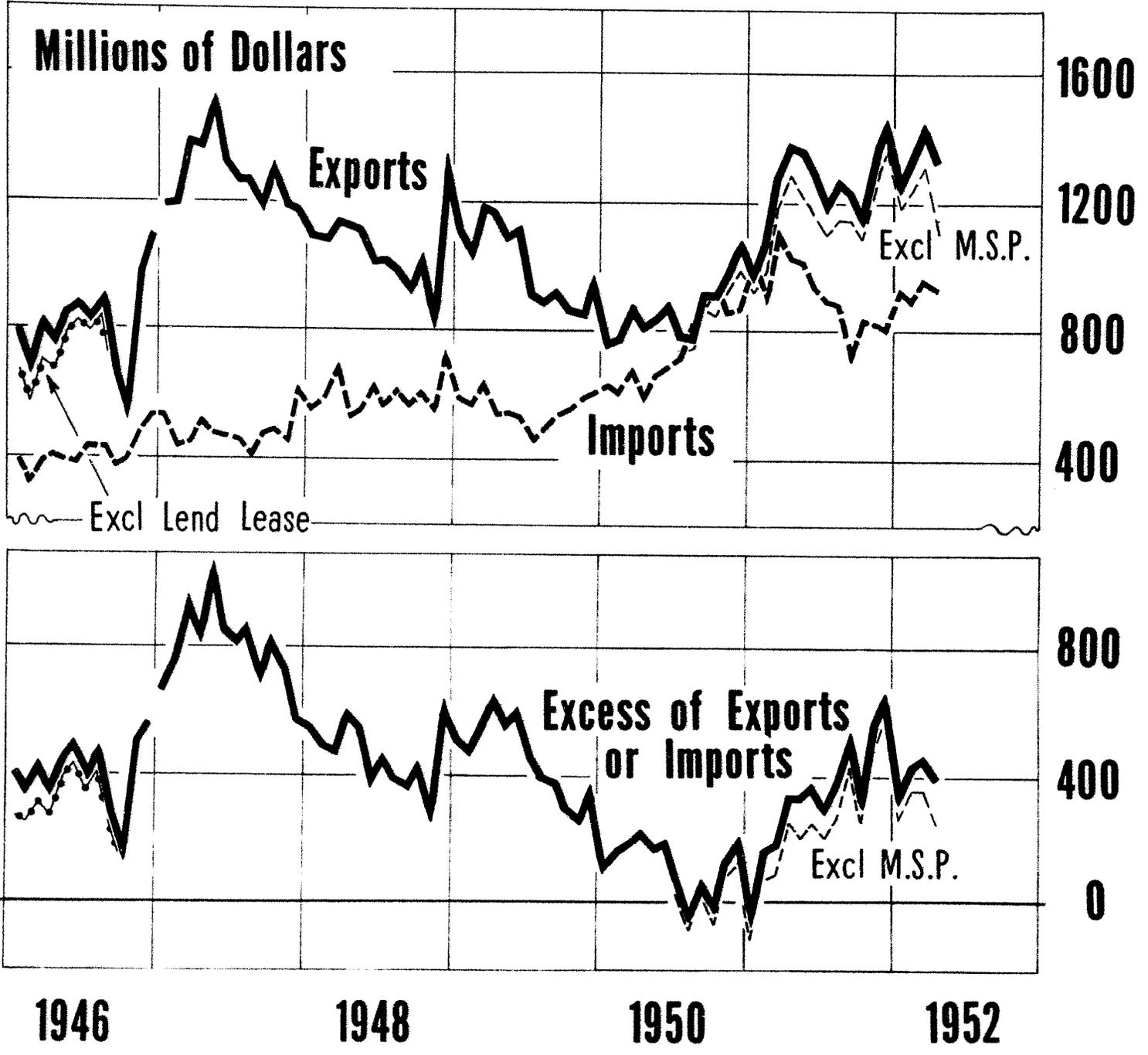


Table 1

Imports for Consumption
(In millions of dollars)

	1951		1952
	<u>1st Quarter</u>	<u>4th Quarter</u>	<u>1st Quarter</u>
7 selected commodity groups	1165	798	1021
Non-ferrous ores and concentrates	59	46	92
Others	1736	1657	1674
Total (discrepancies due to rounding)	2961	2500	2788

Per Cent Change from 1st to 4th Quarter of 1951 1/

	<u>Quantity</u>	<u>Unit Value</u>	<u>Value</u>
7 selected commodity groups	-28.1	- 4.8	-31.5
Non-ferrous ores and concentrates) 2/	- 9.4	+ 4.7	- 5.2
Others			
Total	-16.6	+ 1.4	-15.6

Per Cent Change from 4th Quarter of 1951 to 1st Quarter of 1952 1/

7 selected commodity groups	+29.7	- 1.4	+28.0
Non-ferrous ores and concentrates) 2/	+ 2.4	+ 1.3	+ 3.8
Others			
Total	+11.0	+ 0.3	+11.5

1/ Fisher Ideal Formulae based on Department of Commerce data. See technical appendix.

2/ Because of the inadequacy of the statistical breakdown, volume and unit value calculations cannot be made separately for the non-ferrous ores and concentrates.

The decrease in value of the eight selected groups (including non-ferrous ores and concentrates, shown separately in the table) from the first to the fourth quarters of 1951 was 31.2 per cent, whereas all other imports decreased only 4.6 per cent, and the subsequent increase from the fourth quarter of 1951 to the first quarter of 1952 for the selected imports was 32.1 per cent, whereas all others rose only 1.0 per cent.

Of the eight, four were heavily affected by normal seasonal changes, and four by other special influences. As Table 2 shows, our imports of

unmanufactured wool, sugar, and cocoa tend to rise in volume from the fourth quarter to the following quarter, the first quarter of this year repeating the movements in direction of the preceding two years. The coffee seasonal pattern, however, is not so clear, partly because there are different seasonals in Central American and Brazilian coffee, and partly because of small shifts from year to year. It is likely that the absence of a rise from the fourth quarter of 1949 to the first quarter of 1950 was the result of heavy buying late in 1949 when coffee supplies began to look short and the sharp upward movement of coffee prices commenced. The first quarter of both 1951 and 1952, however, each showed volume increases over the preceding quarter.

Table 2

Indices ^{1/} of Import Quantities for Four
Selected Items Affected
by Seasonal Influences
(1949 average = 100)

	<u>Coffee</u>	<u>Wool</u>	<u>Sugar</u>	<u>Cocoa</u>
1948 - IV	111	113	68	72
1949 - I	106	104	106	115
II	89	68	124	119
III	94	90	109	79
IV	110	138	61	87
1950 - I	90	204	93	128
II	57	159	105	124
III	107	190	131	83
IV	81	136	66	83
1951 - I	121	180	113	148
II	77	162	108	115
III	68	93	104	68
IV	102	101	65	54
1952 - I	114	122	106	127

Per cent of all imports for
consumption in 12 months
through March 1952

12.7% 5.8% 3.5% 1.7%

1/ These indices are quantity relatives.

With the exception of sugar, we can say that the volume of our imports of these commodities will probably decline in the second and into the third quarter, as the 1951 crops and clips are sold off.

Government policy, particularly in this country, has been very influential on the imports of non-ferrous ores and metals. Imports of both tin ore from Bolivia and tin bars from Malaya have been low as a result of the controversy this government has had with producers abroad over the sales price. The only large-scale purchases by the U. S. Government have been those involved in the recent agreement with the British, providing for the exchange of U. S. steel for tin and aluminum 1/, which probably explains the March jump in tin bar arrivals. As for the other non-ferrous ores, the imposition of price ceilings in this country at levels below that ruling abroad has tended to divert part of the output that would ordinarily have come to this country to other consuming centers, so that our imports have failed to rise, despite the rise in production of goods using these materials. Recently, however, with the subsidence of pressure on supplies, prices abroad have been dropping, and supplies, particularly of lead and zinc ores, are coming to this country in increasing quantities. Imports of smelted and refined non-ferrous metals (not shown in Table 1, except for tin) have also risen, but more moderately than those of the ores. Although our domestic economic situation -- with deflationary fears widespread -- may lessen this tendency to buy abroad, the recent upturn in non-ferrous metal imports will probably continue.2/

The volume of rubber imports in the first quarter of this year was about sixty per cent above the last quarter of 1951. This jump probably reflects increased shipments arising from last January's agreement with the British, under which we agreed to buy 25,000 long tons from the British strategic stockpile.3/ The value of imports, however, may drop since the average cost per pound of imported rubber in the first quarter -- approximately 43 cents -- is about 10 to 15 cents above the current price of spot rubber in London. Since the General Services Administration will no longer be the sole importer and seller after June, we can expect import unit values and U. S. market prices to be in line with world prices.

The influences affecting gas oil and fuel oil imports are somewhat less clear. Since the end of the war, the winter quarter has generally recorded a higher volume of imports, reflecting the higher consumption characteristic of that period. But the 1952 first quarter increase over

1/ See this Review, January 15, 1952, pages 6-7.

2/ See, for example, the mixed reactions following the modifications of the price ceilings on imported copper (Journal of Commerce, May 22, 1952, page 1) and the drop in lead prices (Bank for International Settlements, The International Commodity Position April 1952, Restricted, pages 6-8). Part of the increase in lead imports can also be attributed to fears that the recent decline in lead prices may result in the re-imposition of the import duty suspended last February.

3/ See the New York Times, January 29, 1952, page 29.

the preceding two quarters may also have been magnified in consequence of a greater-than-seasonal decline from last May through the third quarter, as a result of the adjustments in foreign petroleum distribution and production necessary to make up the gap in supplies to foreign countries arising from the Iranian difficulties. An additional strengthening factor has been the rising trend in our domestic consumption since the end of the war, giving an upward tilt to the seasonal movements.

The country distribution of the movements of the selected imports can be illustrated by the quarter-to-quarter changes in our imports from the main sources. Table 3 compares changes in the selected imports for consumption with the total of all general imports from the main country sources. With very few exceptions, the direction and order of magnitude of the changes are similar. Among these exceptions are: (1) the changes in cocoa imports and in total imports from the Gold Coast and Nigeria from the third to the fourth quarters of 1951, when cocoa imports from Brazil and the

Table 3

Selected U. S. Imports for Consumption and Total (General) Imports from
Leading Suppliers 1/
(Quarterly changes in millions of dollars)

	<u>1951-I to</u> <u>1951-II</u>	<u>1951-II to</u> <u>1951-III</u>	<u>1951-III to</u> <u>1951-IV</u>	<u>1951-IV to</u> <u>1952-I</u>
Netherlands Antilles (77%) ^{2/}	- 10	- 12	+ 20	+ 11
Gas and Fuel Oil	- 13	- 16	+ 21	+ 11
Malaya and Indonesia ^{3/}	- 45	+ 37	- 69	+ 90
Tin Bars and Rubber	- 76	+ 36	- 74	+102
Cuba (77%)	- 7	+ 6	- 34	+ 25
Cane Sugar	- 6	- 1	- 45	+ 38
Australia (40%)	+107	-101	- 22	- 10
Unmanufactured Wool	+ 55	-120	- 32	- 3
Gold Coast and Nigeria (55%)	- 2	- 33	0	+ 18
Cocoa	- 11	- 26	- 12	+ 33
Brazil (53%)	- 73	- 15	+ 75	- 33
Coffee	-148	- 32	+128	+ 44

1/ Figures in parentheses indicate the proportion of the selected imports coming from the selected sources over the entire year 1951. Based on the value of imports for consumption.

2/ Proportion of two fuel oil items (5062000 and 5063000, which made up 97% of the gas and fuel oil group in 1951) coming from the Netherlands Antilles.

3/

	<u>Rubber</u>	<u>Tin</u>
Indonesia	24%	21%
British Malaya	47	14

(In the case of tin bars, Belgium and Netherlands are also important suppliers.)

Dominican Republic dropped off, despite the steadiness of our imports from the two leading suppliers; (2) in coffee imports and total imports from Brazil from the fourth quarter of 1951 to the first quarter of 1952, when higher coffee imports from Mexico and the Central American Republics more than offset the drop in Brazilian coffee shipments; and (3) in sugar imports and total imports from Cuba from the second to the third quarter of 1951, when the drop in sugar imports from the Philippine Republic offset the rise in Cuban sugar shipments.

The only other large change in imports from any one country in the first quarter of 1952 (see Table 5) was in imports from Egypt, due to unmanufactured cotton arriving for the new quota period.^{1/}

Prospective decline in exports

Exports in the first quarter of 1952, as in the preceding quarter, were close to the high level of the second quarter of 1951. In the summer quarter of 1951 they had been lower.

Because of the greater heterogeneity of our exports, it is more difficult to single out a few commodities that would account for a large part of these movements. However, the five ^{2/} discussed below, accounting for more than a fifth of total exports, did show a more pronounced movement during the nine months April-December 1951.^{3/} In the first quarter of this year, however, these selected exports declined, while the others rose.

^{1/} See this Review, July 20, 1950, "United States Export Surplus for January-April 1950", page 6, and the Department of Commerce, International Reference Service, vol. VII, No. 21, May 1950, "Economic Review of Egypt, 1949", page 5.

^{2/} Unmanufactured cotton, unmanufactured tobacco, wheat, corn, and coal. This section omits re-exports, which accounted for only one per cent of all exports.

^{3/} The greater variation in the selected commodities is brought out more clearly if we examine the monthly figures. For the twelve months April 1951-March 1952 these five showed a mean deviation equal to 16-1/4 per cent of their monthly average for the period, whereas all other exports (excluding MSP shipments) showed a deviation of but 5 per cent. If we exclude October 1951, as being erratically low -- in part because of the New York maritime strike -- the mean variation for the selected group drops to 15-1/2 per cent, while that for the remainder (excluding MSP) drops to 3-1/4 per cent. In other words, the five varied almost three to five times as much as the other non-military exports.

Table 4

Exports of U. S. Merchandise (excludes re-exports)
(In millions of dollars)

	<u>1951-2nd Q.</u>	<u>1951-3rd Q.</u>	<u>1951-4th Q.</u>	<u>1952-1st Q.</u>
5 selected commodities	807	655	1051	912
Others	<u>3168</u>	<u>3002</u>	<u>2898</u>	<u>3048</u>
Total (Discrepancies due to rounding)	3976	3657	3949	3960
(MSP-financed) <u>1/</u>	(328)	(282)	(203)	(238)

1/ Shipments of military equipment and supplies financed under the Mutual Security Program (MSP) are included in the preceding figures. Because of inadequate statistical disclosure, the MSP figures may include re-exports, which have been excluded from the other three lines.

Of the five, four -- cotton, tobacco, wheat, and corn -- moved primarily because of the seasonal factor, the harvest boosting autumn and early winter shipments. Moreover, our exports, particularly of cotton, were stimulated as countries abroad rebuilt inventories which had been drawn down previously as a result of the poor U. S. crop in 1950. With this accomplished, and with the foreign textile industry at present in a depression, exports of cotton have fallen off and we no doubt can expect a slackening in foreign demand during the summer and perhaps beyond. As for grains, the harvest prospects abroad for 1952 (and early 1953 in the southern hemisphere) appear to be better than was experienced this past year, so that overseas demand may be switched to sources other than the United States.

Coal exports, which had risen fairly steadily for the first three quarters of 1951, levelled off in the fourth quarter, and then declined, a mild European winter curtailing the need for marginal supplies from the U. S.

Our exports of many products may decline because of added restrictions on imports imposed abroad during the past six months, mainly because of balance of payments difficulties. The Sterling Area, in particular, is attempting to reduce imports from this country, 1/ while payments problems in Brazil and Argentina may curtail sales to those countries. Recent reports indicate that the cuts in imports announced earlier this year may finally result in decreases greater than planned because of subsequent additional reductions. 2/ The drop in our exports

1/ For a more complete discussion, see this Review, March 11, 1952, pages 5-6.

2/ See, for example, the Journal of Commerce, May 22, 1952, page 37 and May 29, 1952, page 21 (for Brazil) and the Wall Street Journal, May 26, 1952, page 6 (for the Sterling Area).

to the United Kingdom in the first quarter, due almost entirely to cotton and tobacco, may be the beginning of a more general decline.

The two tables that follow give data for U. S. exports and imports by leading countries and areas, for September 1951, the fourth quarter of 1951, the first quarter of 1952, and March 1952 -- the most recent month for which data are available. The significant changes are those already discussed.

Table 5

U. S. General Imports
(In millions of dollars)

	<u>March 1952-1/</u>	<u>1952-1st Q.</u>	<u>1951-4th Q.</u>	<u>Sept. 1951-1/</u>
Latin American Republics:	<u>878</u>	<u>874</u>	<u>775</u>	<u>623</u>
Guatemala	23	27	17	6
El Salvador	28	29	3	2
Cuba	126	105	80	103
Mexico	119	117	86	63
Colombia	85	104	106	69
Venezuela	93	95	83	67
Brazil	224	225	258	188
Other	182	172	142	126
Sterling Area:	<u>582</u>	<u>518</u>	<u>393</u>	<u>387</u>
United Kingdom	<u>120</u>	<u>110</u>	<u>109</u>	<u>100</u>
Malaya	196	143	71	96
India	61	69	55	48
Other Sterling Area <u>2/</u>	205	197	157	144
Continental ERP	332	335	304	316
Canada	587	560	608	514
Egypt	40	49	3	1
Indonesia	66	75	57	58
Japan	56	51	45	37
Philippine Rep.	64	53	49	54
All Other	284	261	219	165
Total	2888	2776	2452	2153

Discrepancies due to rounding.

1/ Quarterly rate.

2/ Iceland and Ireland are included in "Other Sterling" Area.

Table 6

U. S. Exports 1/
 (including re-exports)
 (In millions of dollars)

	<u>March 1952-2/</u>	<u>1952-1st Q.</u>	<u>1951-4th Q.</u>	<u>Sept. 19522/</u>
Continental ERP	781	784	791	639
France	<u>128</u>	<u>113</u>	<u>122</u>	<u>103</u>
Italy	141	129	103	62
Germany	122	151	147	148
Other ^r	390	391	419	326
Latin American Republics	1030	939	921	894
Brazil	<u>224</u>	<u>208</u>	<u>204</u>	<u>223</u>
Other	806	731	717	671
Sterling Area	728	683	731	628
United Kingdom	<u>261</u>	<u>241</u>	<u>301</u>	<u>292</u>
India	186	199	192	102
Other <u>3/</u>	281	243	239	234
Canada	683	624	603	601
Japan	151	147	154	119
Other	428	426	412	447
Total excluding special categories	3800	3601	3612	3327
Special categories	448	395	364	368
Total	4248	3996	3976	3695

Discrepancies due to rounding.

1/ Country data exclude the special categories - mainly military goods.

2/ Quarterly rate.

3/ Iceland and Ireland are included in Other Sterling Area.

Technical Appendix

The Department of Commerce unit value and quantity indices are calculated by the Fisher "ideal" formula,^{1/}:

$$P = \left[\frac{\sum p_n q_o}{\sum p_o q_o} \times \frac{\sum p_n q_n}{\sum p_o q_n} \right]^{1/2} \quad Q = \left[\frac{\sum p_n p_o}{\sum q_o p_o} \times \frac{\sum q_n p_n}{\sum q_o p_n} \right]^{1/2}$$

Hence, our estimates of changes in unit value and quantity for the selected imports and others (Table 1) were based on approximations to this method.

For the selected commodities the quantities and values used were those published in the Department of Commerce monthly release FT 930, "Exports and Imports by Economic Classes and Leading Commodities". Many of these commodities, however, are actually a combination of numerous individual items. Thus, "unmanufactured wool", as recorded for this release, is the sum of several wools, both for carpet and apparel use. Hence, to the extent that there is a change in the relative "mix" of the FT 930 item, to that extent our calculation is in error.

For each selected commodity, a unit value (the "p" in the formula) was arrived at by dividing the value by the quantity for each period. Having obtained the "p_o", "p_n", "q_o", and "q_n" for each commodity, we then calculated the four combinations -- p_oq_o, p_nq_n, p_nq_o, and p_oq_n. Summing the seven individual combinations of each gave us the members of the Ideal Formula, and thus the P and Q for the selected commodities as a group.

The indices for the "others", however, were not calculated directly. Instead, an inferred approximation was employed. To arrive at the import ^{2/} changes from the first to the fourth quarters of 1951, (the first quarter represented by the subscript "o" and the fourth by "n"), we start with the values of total imports for the two quarters. The value, of course, is the sum of all the items' price times quantity. Hence, $\sum p_o q_o$, the value for the first quarter, equals \$2,961 million and $\sum p_n q_n$, the value for the fourth quarter, equals \$2,500 million. The quantity indices for the two quarters were 163 and 136 respectively, and the price indices 295 and 299 respectively (1936-38=100). By proportions, we can deduce approximate values for $\sum p_o q_n$ and $\sum p_n q_o$, the remaining two combinations needed for our formula.

^{1/} The subscript "o" is the price (p) or quantity (q) in the base or earlier period, and the subscript "n" is the later period. Thus, to estimate the change from the first to the fourth quarters of 1951, "o" would be the first quarter data and "n" the fourth quarter data. The "Σ" is used as the summation sign.

^{2/} Data for the import indices are based on imports for consumption. In the text, the figures actually employed have been rounded to facilitate the exposition.

The preceding paragraph has given us the four combinations for total imports, while the calculations for the seven selected commodities gave us their four Spq combinations. By subtracting these latter four from those for all imports, we obtain inferred Spq's for the residual "other" imports. We can then calculate P and Q for the residual by the Fisher Formula.

It can be shown that the Sp_oq_n and Sp_nq_o calculated for total imports as described above differ from the unknown actuals ^{1/} by a fraction equal to the square root of the ratio of the Paasche to the Laspeyre indices:

$$\text{inferred} = \text{actual} \times \left[\frac{Sp_nq_n \cdot Sp_oq_o}{Sp_oq_n \cdot Sp_nq_o} \right]^{1/2}$$

Since we subtract the actual Sp_oq_n and Sp_nq_o for the selected commodities from the inferred combinations, each residual has the same absolute error, if any, as the corresponding original total, thus increasing the relative importance of the errors. If as is ordinarily the case because of differences in price and quantity behavior, the Sp_oq_n and Sp_nq_o for the residual group are not proportional to those for the total, these relative errors in the numerator and denominator of the Fisher Formula for the residual will be unequal, giving rise to a net error in the final result. This is more serious the smaller is the proportion of the residual to the total. However, for any large aggregate in which the selected items make up less than half the total, it is doubtful if this net error would be more than 1/4-1/2 per cent.

It might be noted that an additional but very small error enters in the use of the Commerce indices for our inferred estimates. The index numbers are rounded, so that there may be a small error in either the total P or total Q. This introduces further errors into the Sp_oq_n and Sp_nq_o but in the final computation of indexes for the residual by the Fisher Formula these errors, one in the numerator and the other in the denominator, largely cancel out, leaving only a very small net error.

^{1/} The actual values (or approximations thereof) were of course used in the calculation by the Department of Commerce of the P and Q indexes but are not published.