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Foreign Trade and the Summer Lull: A Review of the  
Third Quarter -- Edward Marcus

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Foreign Trade and the Summer Lull: A Review of the Third quarter

Edward Marcus

The summer lull in U. S. industrial activity was reflected in a continuing decline in both the value and volume of our imports. Exports dropped much less, sustained by the upswing in activity abroad, the whole timing of which after Korea was somewhat slower than in this country. As a result, our excess of exports increased markedly, and reached the high levels of the pre-devaluation months of 1949, giving rise to renewed fears of a dollar shortage. However, there are signs that imports may turn up in the fourth quarter, and perhaps continue at a higher level through 1952, so that the export surplus may return to the more manageable rates of the immediate post-Korean period.

Generally speaking, the United States economic scene responded more quickly to Korean developments than did the overseas economies, in part because of the insulating effect of import controls in other countries. Hence, our imports rose almost immediately after June 1950 whereas other areas showed increased imports somewhat later. As a result, initially we had an increase in our imports relative to our exports, but somewhat later, notably after March 1951, our exports rose relative to imports (chart 1).

Similarly, after the turn of the year, the inflationary upswing slowed down in the United States somewhat sooner than abroad, particularly as evidenced by retail sales.<sup>1/</sup> Business activity here, as measured by the Federal Reserve index of production, reached its peak in April, and then declined through July. Industrial production in the ERP countries also reached its peak in April. Wholesale prices began to drop in the United States shortly after price ceilings were set last January, and the decline was most rapid from May to July. The upward movement of wholesale prices in the Western European area ended about three months after the turn in the United States.<sup>2/</sup>

Prices in Foreign Trade

As a result of these changes in market prices, unit values for exports and imports turned down after May and June respectively (chart 2). On the import side many crude materials and semimanufactures <sup>3/</sup> (with the

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<sup>1/</sup> Cf. the UN ECE Bulletin for Europe, First Quarter 1951, pp. 2-3.

<sup>2/</sup> The only significant exception was the United Kingdom, where the wholesale price index has risen steadily through October (latest available month).

<sup>3/</sup> The unit value index for imports of semimanufactures, not shown in Chart 2, has shown movements similar to those of the unit value index for crude materials.

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principal exceptions of copper, lead, zinc and petroleum), had significant declines in unit value. The average for the entire crude material group fell 10 per cent from June to September. Since, however, there was also a decline in export unit values, the terms of trade--i.e. export unit values divided by import unit values--did not show much change.

U. S. Terms of Trade

1950--1st Q.	100.0
June	95.6
1951--March	85.5
June	83.3
Sept.	82.9

While our imports and exports (chart 1) have both been reduced in value by the price declines, the recession in market prices was closely associated with a marked decline in import volumes. Export volume declined much less.

Exports

The decline in total monthly value of exports from April to July amounted to 13 per cent. This drop occurred chiefly in agricultural exports, and after July agricultural exports rose. (See charts 3 and 4.1/)  
The declines were mainly seasonal, as for cotton, wheat and wheat flour, and corn. The seasonal decline of cotton exports in 1951 came earlier than usual because of the short crop and the heavy foreign purchases in the period when prices were rising.

The most striking increases in nonagricultural exports (chart 5) were coal to Europe, to make up the deficit there, and refined petroleum, to replace the Iranian output. Exports of metals and machinery outside of the special categories have declined moderately but steadily since April. Other exports have been remarkably stable in total value.

The main country decreases from March to September 1951 were in exports to Canada, certain ERP countries and Cuba. Shipments to the United Kingdom and Brazil rose markedly, in the latter case continuing an almost uninterrupted rise from the 1949 fourth quarter monthly average of \$19 million to \$74 million in September 1951. The decline in exports to the Far East was mainly to Japan. (See chart 6.2/)

1/ The three solid lines in Chart 3 give a breakdown of total exports excluding reexports. The dashed line shows the shipments under the Mutual Defense Assistance Program that are included in the export statistics. It is believed that virtually all of these shipments to date have been of exports in the "special categories," those exports for which fully detailed statistical data are not furnished because of their military uses.

2/ In Chart 6, special category exports are excluded.

Imports

The decline in imports has been much greater, and has continued longer, than the decline in exports. From March to September 1951 the value of imports declined 35 per cent, although unit values, after rising and then falling, were still 2 per cent higher in September than in March.

The decline in imports from March to September was concentrated mainly among industrial raw materials and agricultural products like food, subject to marked seasonal variations. Crude foodstuffs, particularly coffee and cocoa, dropped almost 50 per cent, from \$234 million in March to \$122 million in September.<sup>1/</sup> Unmanufactured wool dropped from \$85 million to \$34 million, but if we eliminate withdrawals from U. S. customs warehouses and count wool actually landed in the country--then the decline was from \$125 million in March and \$132 million in April to \$16 million in September. Semi-manufactures dropped about one-fourth, while manufactured imports declined less than 20 per cent.

The seriousness of the recent drop in imports can be seen in looking at the area details (chart 7).<sup>2/</sup> The dollar position, never too secure for most countries, worsened considerably in the third quarter, and gave rise to renewed fears of devaluation and increased import restrictions by Western Europe and the Sterling Area. The latter, in particular, was severely affected by the import drop. Wool, cocoa and tin, all important Sterling Area products, registered large declines.

The relatively small decline in imports of finished manufactures, supplied mainly by the Western European countries, was paralleled by the correspondingly small decreases in imports from most of those countries. The ERP countries as a whole supplied \$140 million in September, \$48 million less than in March, but this decrease was almost entirely accounted for by three countries--France (\$15 million), Belgium (\$10 million) and Turkey (\$12 million). Imports from the United Kingdom also decreased, from \$38 million to \$33 million.

The main country decreases outside Europe were among the raw material and food suppliers--such as Chile (source of copper), Brazil (coffee), the Gold Coast (cocoa), and the raw wool growers--Australia, Argentina and Uruguay.

For materials entering into industrial output, such as wool, tin and other non-ferrous metals, our imports were very much reduced during the third quarter by the effects of inventory shifts (including slackened government stockpiling), wide price swings for some commodities, and

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<sup>1/</sup> Excludes net entries into U. S. customs warehouses.

<sup>2/</sup> General imports, including net entries into customs warehouses.

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price ceilings below world prices for others. Our analytical tools do not permit any precision in assessing the role of these influences, but trade talk indicates that all three were present and intertwined. For example, immediately after the Korean outbreak, inventory accumulation spurred on and in turn was spurred on by the sharp rise in prices of commodities produced in the Pacific area. During the recent period, the levelling off of the upward price movement, and indeed, the decline for many specific commodities, has led to downward revisions of purchasing programs, and thus to further pressure on prices. But where world prices have tended to remain above our own price ceilings--most notably the non-ferrous metals, like copper, zinc, lead, and tin--producers have been shipping to other areas, rather than accept our lower bids.<sup>1/</sup> And, as already mentioned, our industrial output has also shown tendencies towards a levelling off, and in certain areas actual declines, thus further cutting the demand for raw materials.

For certain commodities, the analysis can be "pin-pointed". For example, tin bar imports have dropped more than two-thirds, as our government continues to maintain a below-world market price. Only old contract deliveries now produce supplies, and, indeed, arrivals from British Malaya actually ceased in August and September. The seasonally low marketings characteristic of the summer depressed coffee and cocoa import values. Undoubtedly, our credit restrictions on automobile purchases were partly the cause of the drop in imports of vehicles. Rubber imports, which had been small in volume in February-May, presumably because of reduced purchases by the U. S. Government, were among the few that increased in the summer.

Political factors also were influential during the period under study. Thus, the Iranian oil contretemps tended to diminish our imports and boost our exports of petroleum products. The continuing series of blow and counter-blow in the "cold war" cut further into imports of such non-necessaries as Russian furs.

Production and import volumes

Is the past half-year's drop in the volume of imports temporary, or does it represent a return to a more normal rate? It is exceedingly difficult to assess the relationship between domestic activity and imports, although generally it can be said that the two move together.<sup>2/</sup> But if we attempt to quantify the dependence, the cross-currents that arise over any time-period blur and perhaps change the numerical value of the function. Moreover, the analysis is further limited by the magnitude of the task; any one researcher is necessarily restricted to the manipulation of a few aggregative indices.

<sup>1/</sup> Cf. the Bank for International Settlements, "The International Commodity Position: Mid-Summer 1951" (H.S. 265), September 1951, p. 17. (RESTRICTED)

<sup>2/</sup> See Hal B. Lary and Associates, The United States in the World Economy, U. S. Department of Commerce Economic Series No. 23 (Washington 1943), pp. 43-51, and J. J. Polak, "Contribution of the September 1949 Devaluation to the Solution of Europe's Dollar Problem," IMF Staff Papers, September 1951, pp. 8-14.

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Charts 8 and 9 exhibit a comparison of monthly production of manufactures in the United States, unadjusted for seasonal variation, and monthly imports of various broad categories, from 1948 to date. From January 1948 to September 1949, the various indexes moved fairly similarly, although, of course, there were also monthly divergences. Following September 1949, the month of the devaluations, the volume of imports rose more than did industrial production, and remained higher until the end of the second quarter of 1951. Then, with the leveling off of production, imports dropped off sharply.

The group of imports that rose most after devaluation was semimanufactures (chart 8). At its peak in October 1950, import volume of semimanufactures was nearly 80 per cent above the 1948 average. Before Korea, there were sharp advances for most commodities in this group, including lumber, woodpulp, petroleum products and metals. After Korea imports of nonferrous metals tended to decline, but the rise in steel imports was accelerated. The volume of imports of crude materials (also shown in chart 8) showed no significant departure from the trend of manufacturing production, except that these imports were somewhat larger than "normal" in the first six months after devaluation, after having been below "normal" in the early part of 1949. After the end of 1950, crude material imports dropped off sharply, and throughout the second and third quarters were increasingly lower, relative to 1948, than U. S. production. In September, all classes of imports were as low, relative to U. S. production, as they had been at any time since 1948.

These comparisons strongly suggest that a rise in import volumes relative to production should soon be occurring, if indeed it has not already begun. Since all signs indicate that the level of industrial production will rise--or, at least, not decline further--the absolute volume of imports may be expected to rise significantly, perhaps as much as 10 to 20 per cent above the July-August level. And, since wholesale prices have hardened in recent weeks, it is possible that the decline in unit values will also level off, and lead to a new upturn in the total value of imports which might well attain again the level reached in the first quarter of 1951.

This inference is supported by market information. The Journal of Commerce reported that import activity during the current (fourth) quarter was "brisk . . . and due for further expansion." <sup>1/</sup> Because of the October-November New York Port strike, the upturn may be delayed somewhat. But by the end of the year, it seems likely that the rate of imports will be well above the summer low.

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<sup>1/</sup> Journal of Commerce Import Bulletin, November 22, 1951, p. 1. Also, see November 29, p. 1.

Chart 1

# U.S. FOREIGN TRADE

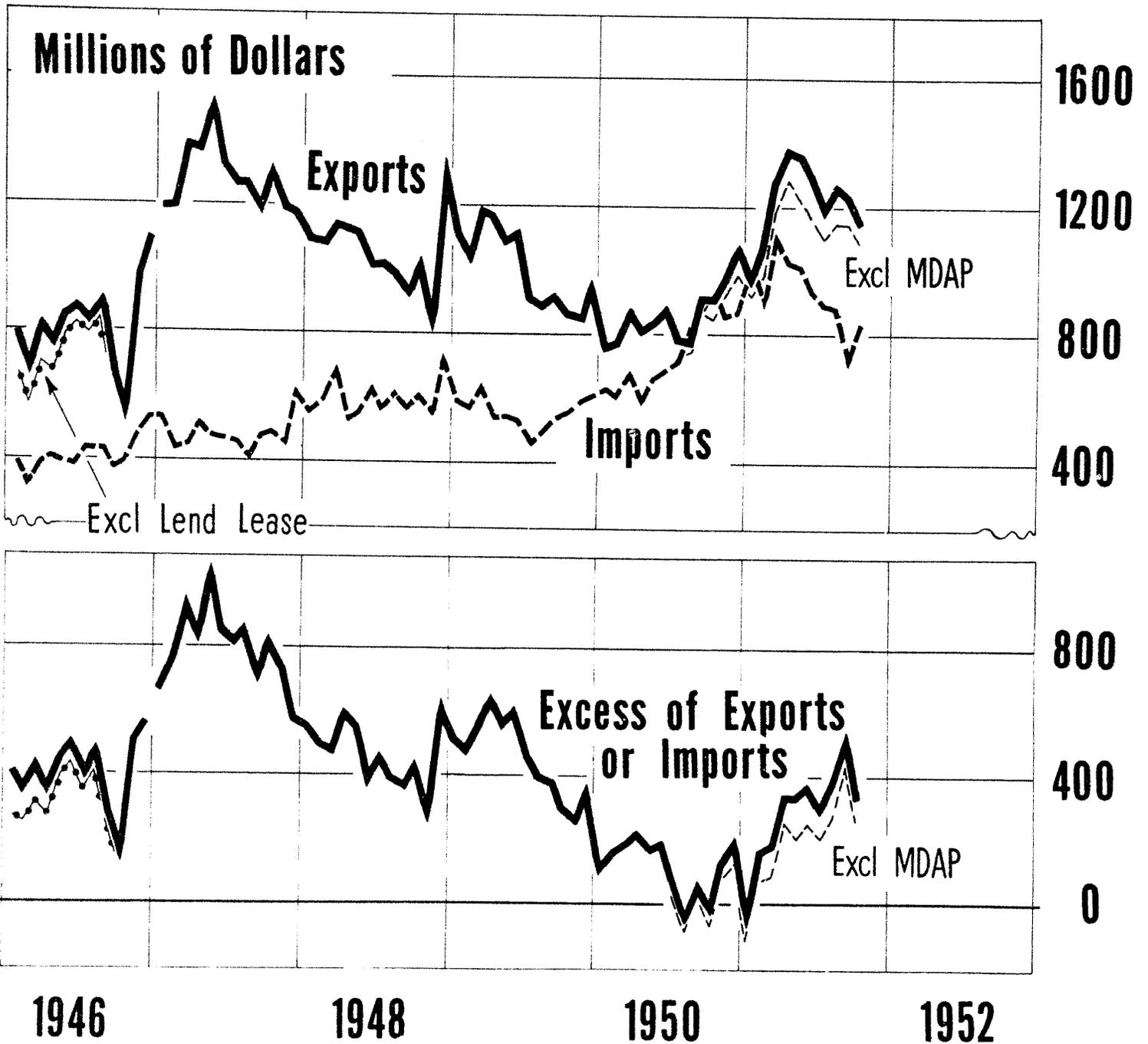


Chart 2

# UNIT VALUE INDEXES

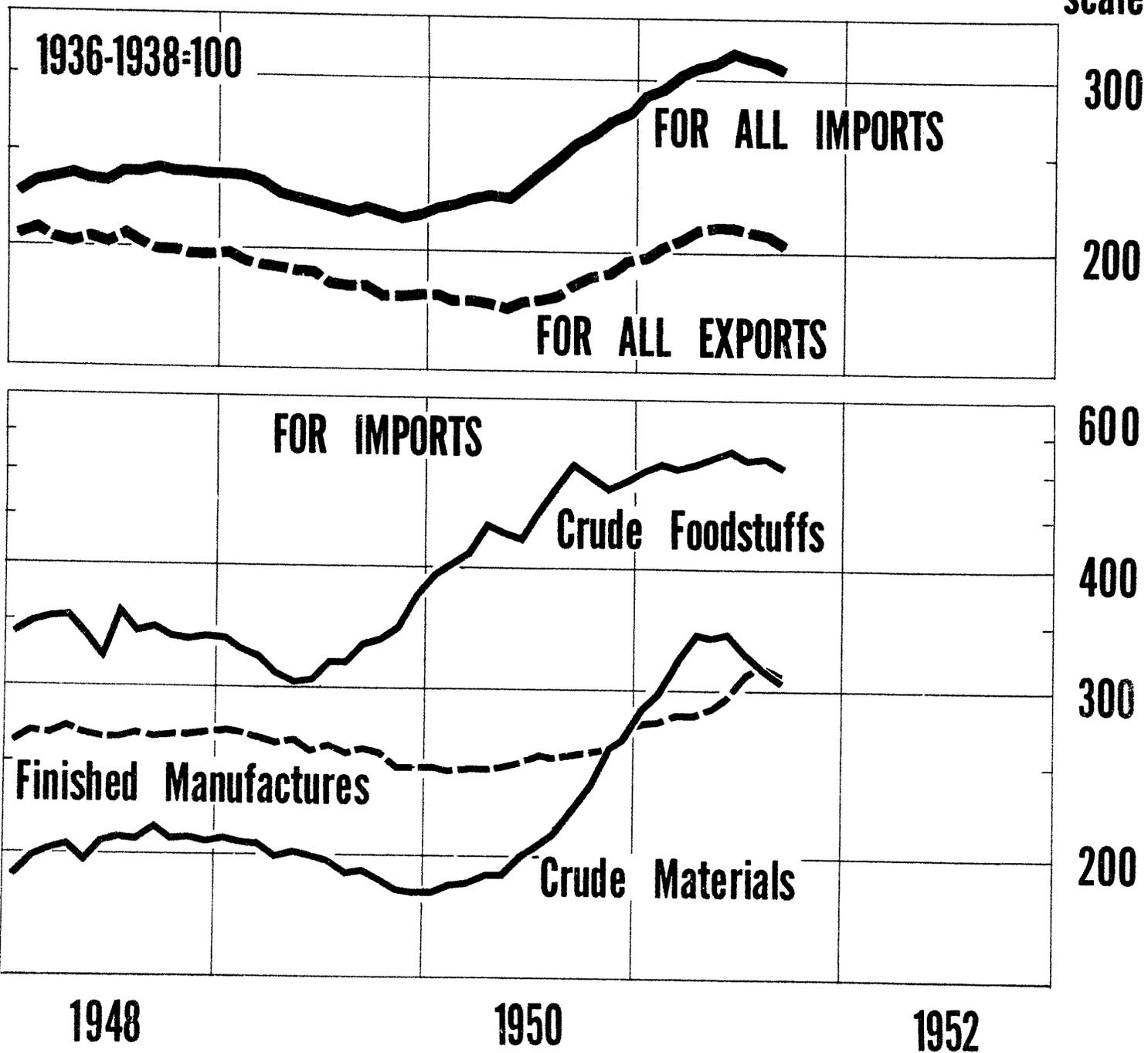


Chart 3

# U. S. EXPORTS

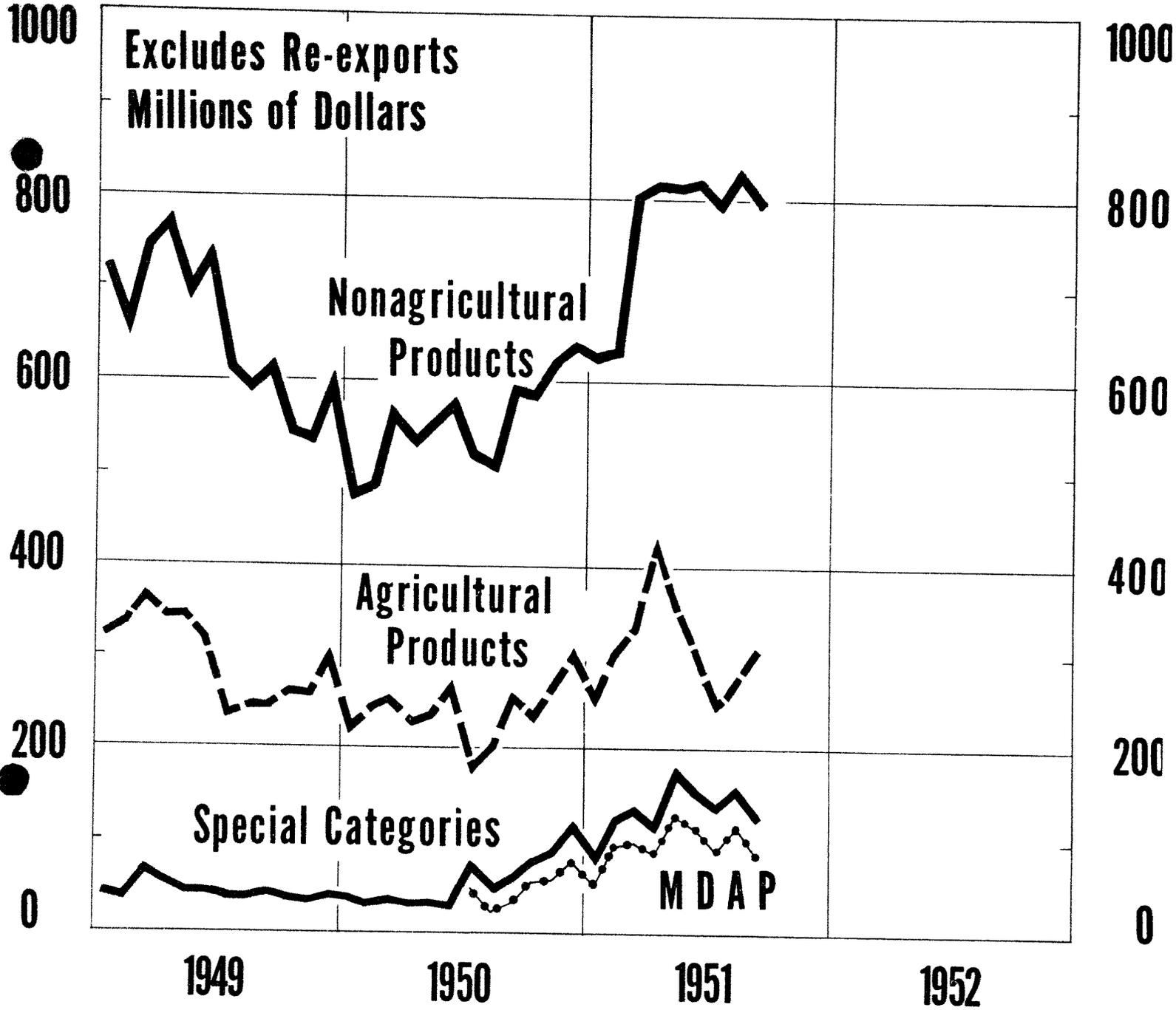


Chart 4

# U.S. EXPORTS — AGRICULTURAL

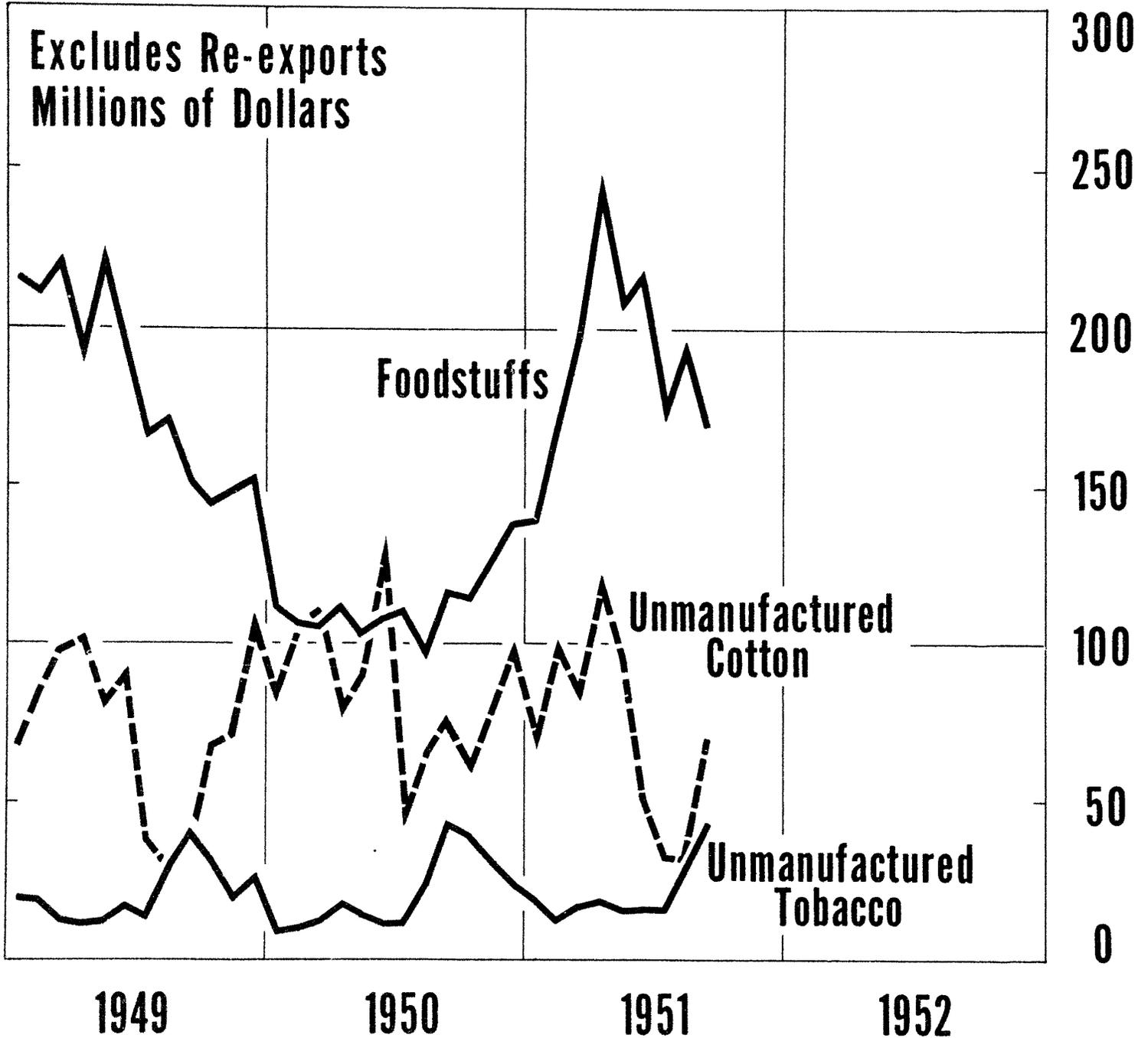


Chart 5

# U.S. EXPORTS — NONAGRICULTURAL

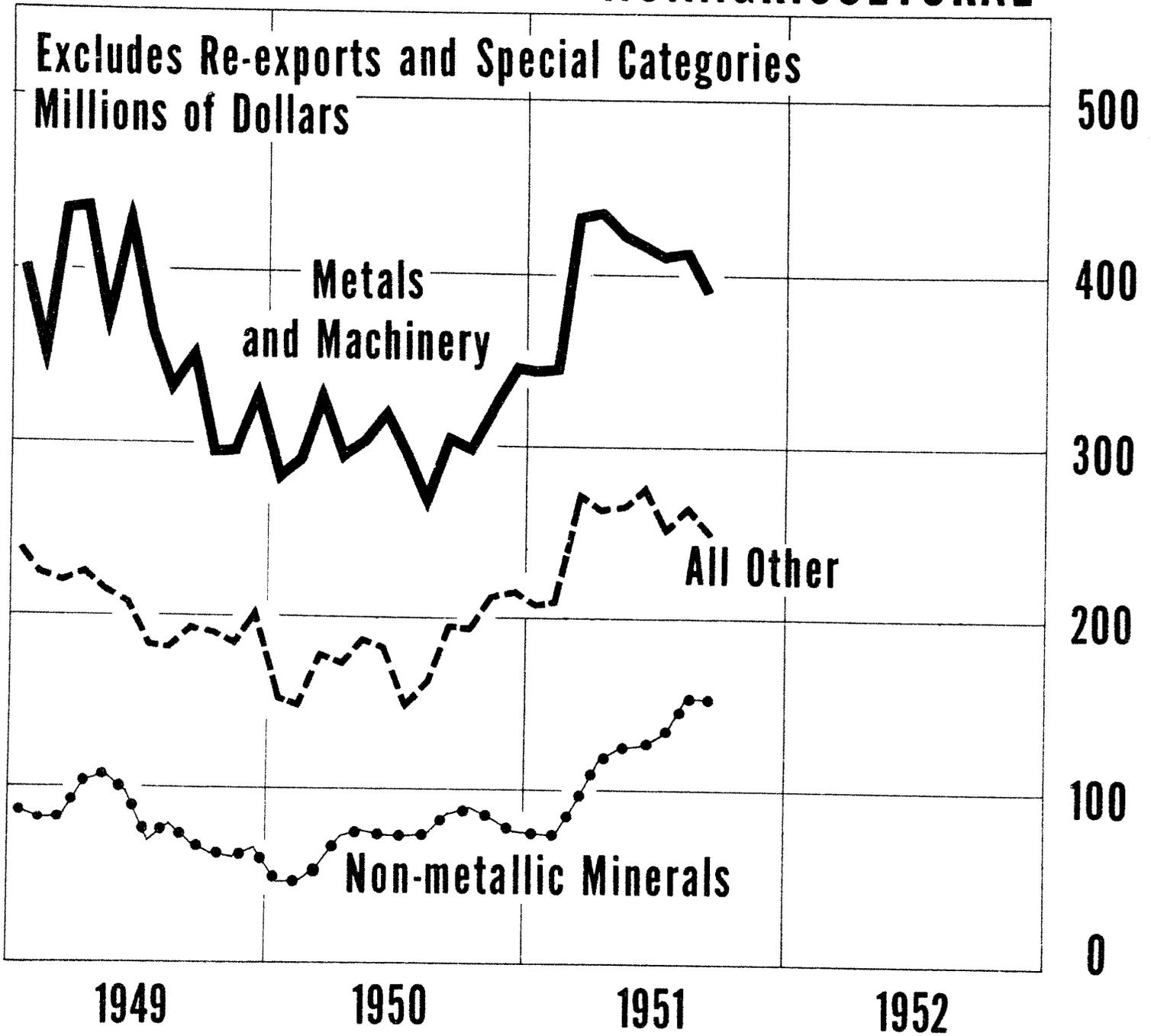


Chart 6

# U.S. EXPORTS

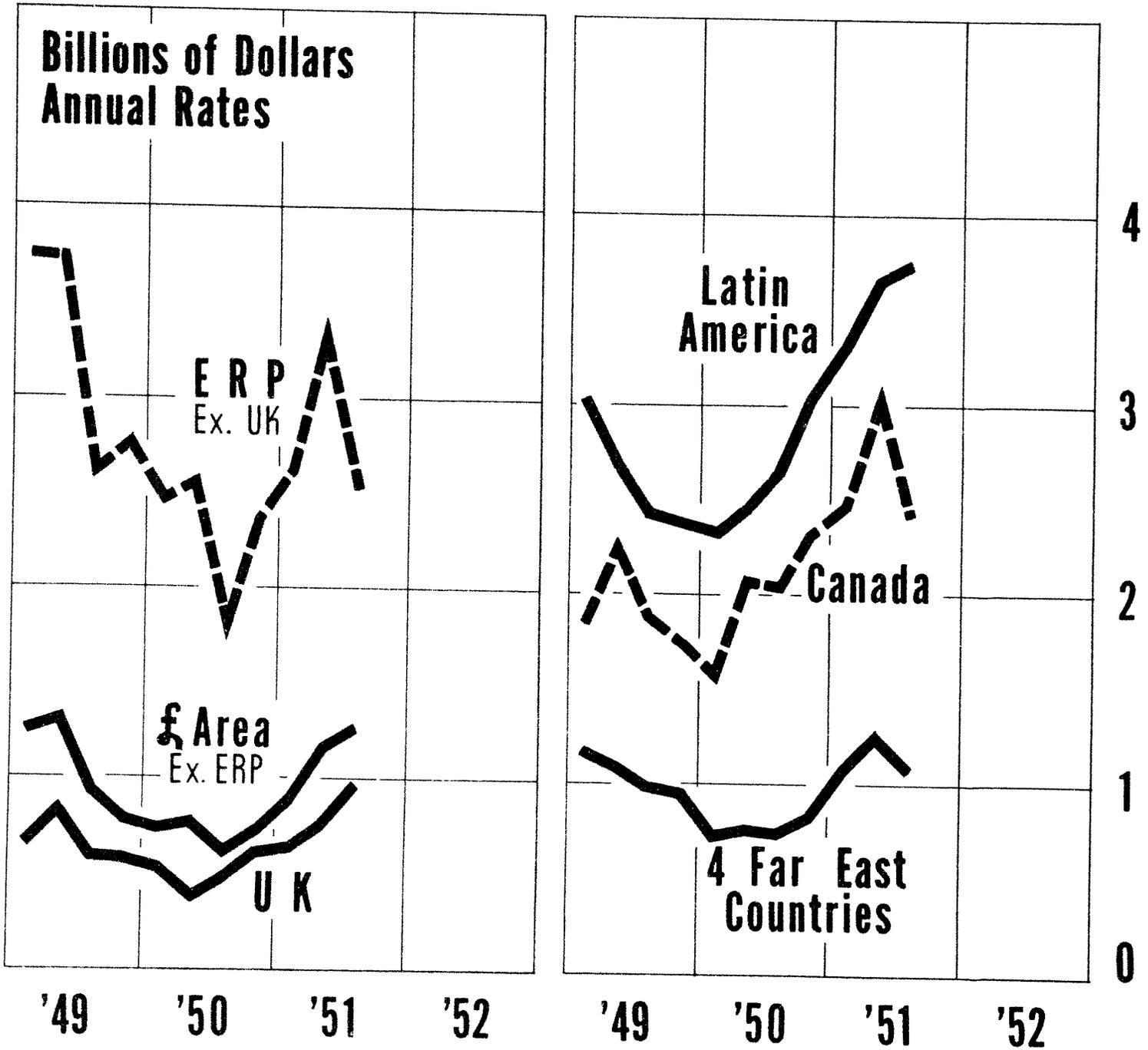


Chart 7

# U.S. IMPORTS

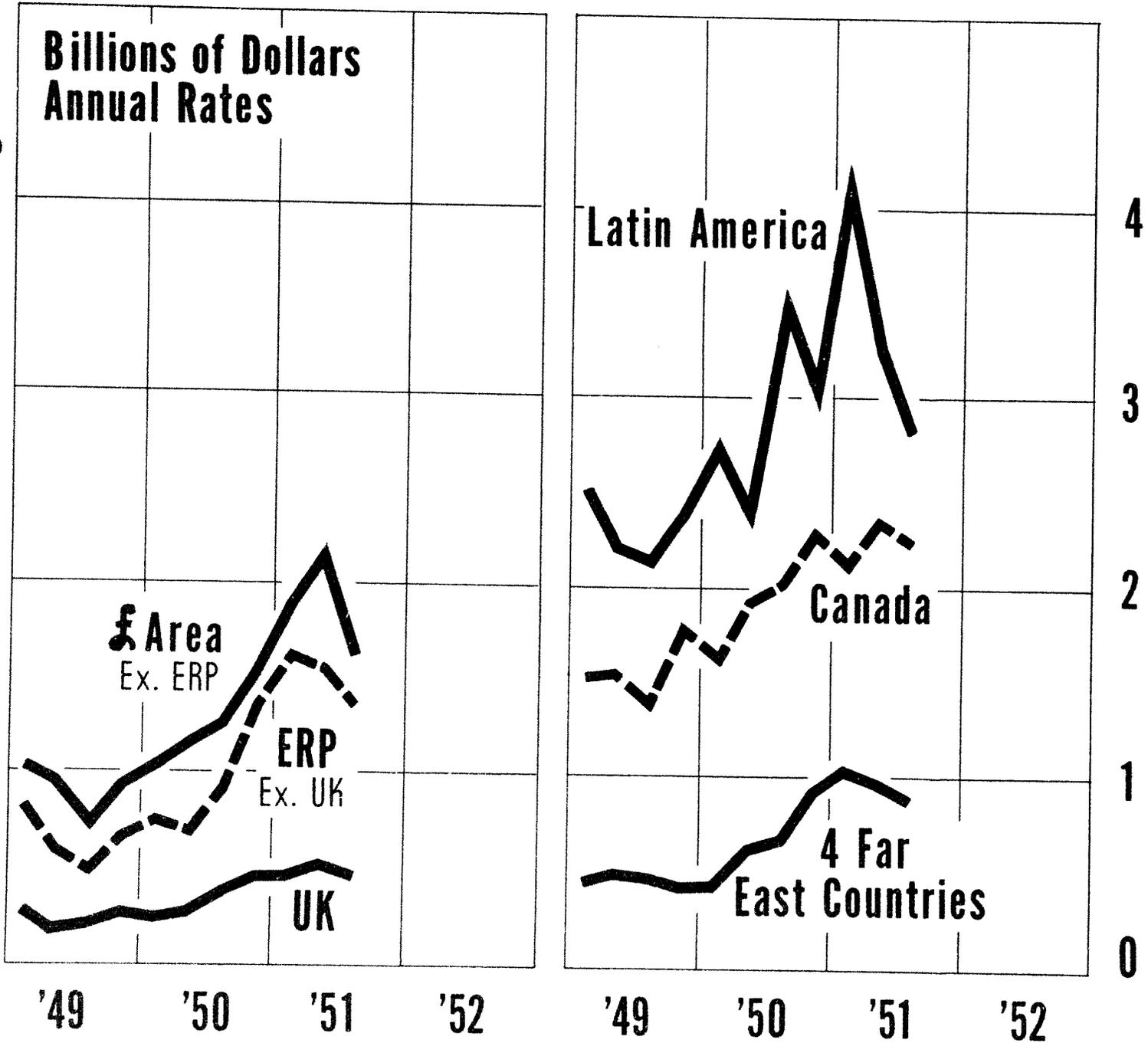


Chart 8

# U.S. PRODUCTION AND IMPORTS

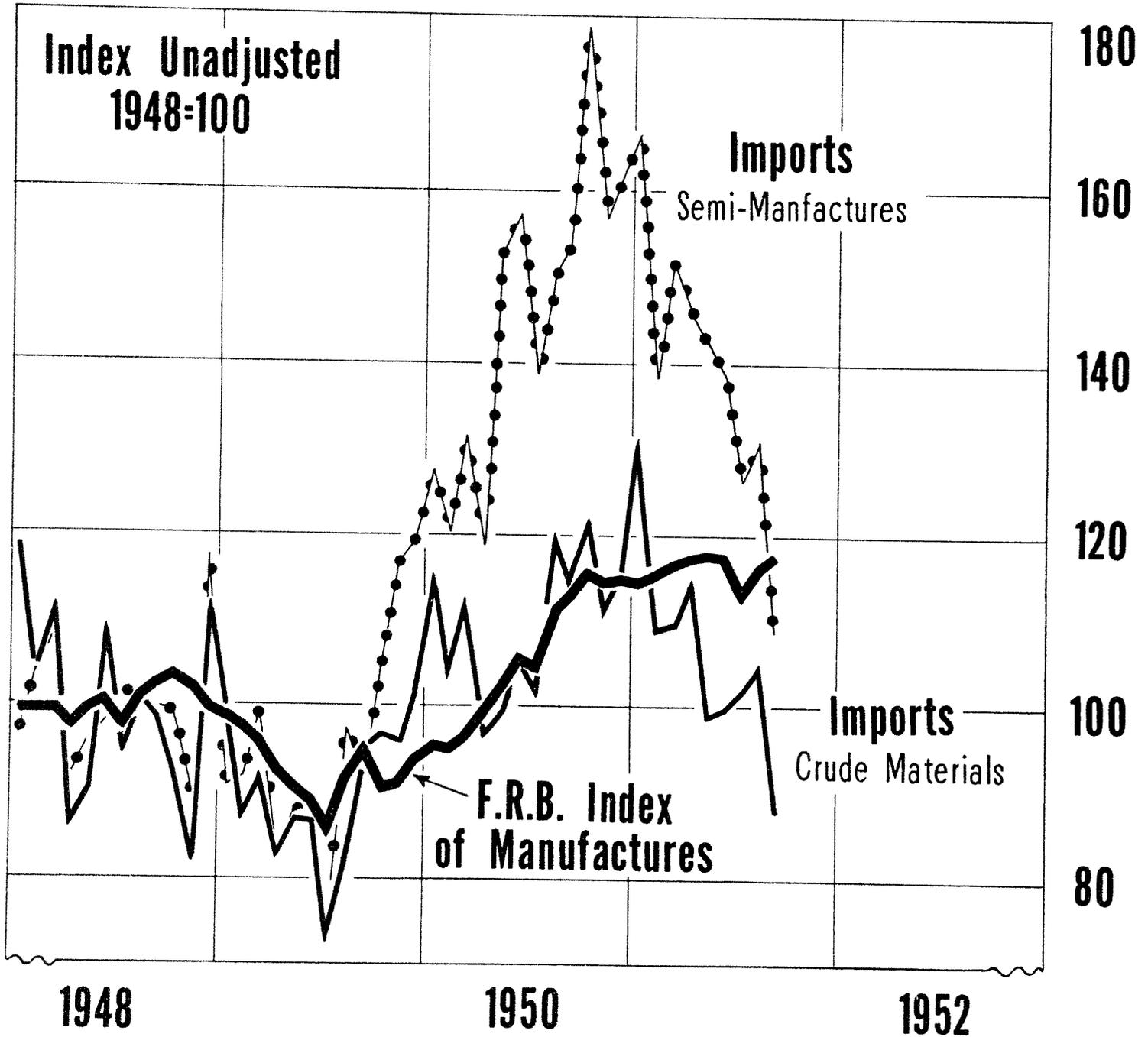


Chart 9

# U.S. PRODUCTION AND IMPORTS

