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September 29, 1959

Recent and Prospective Improvements in the
United States Balance of Payments

11 pages

John E. Reynolds and Frederick R. Dahl

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Summary

The large over-all deficit in the United States balance of international payments reached a seasonally adjusted annual rate of about \$4 billion late last year and continued at about that rate through the second quarter of 1959. In the current quarter, the deficit appears to have been diminishing somewhat, to a rate that at present may be estimated from partial figures at roughly \$3-1/2 billion.

Exports, seasonally adjusted, have recovered sharply in recent months, after a long decline ending early this year. Most major groups of U. S. exports already show some effects of the broad expansion now under way in world trade. Imports, which had risen sharply from last autumn through May, rose much less rapidly from May through August.

In view of the vigor of the current expansion of world demand, the comfortable balance-of-payments and reserve positions of industrial countries abroad, the improvement taking place in the balance-of-payments positions of many nonindustrial countries, and certain special factors such as the more realistic export pricing this season of U. S. cotton, United States exports seem likely to continue rising strongly over the year ahead. Meanwhile, some of the factors responsible for the earlier sharp advance in imports are now losing much of their force, so that imports are likely to continue rising only at a moderate pace in the months ahead.

The prospective improvement on merchandise trade account may well be large enough to outweigh any increase in other payments (net) from the United States. Thus, a further diminution of the over-all deficit is in prospect. Nevertheless, the deficit will probably remain considerably above the 1950-58 average annual rate of \$1.5 billion.

Balance-of-payments deficit

The over-all deficit in the United States balance of international payments is conveniently measured by the net transfers of gold and liquid dollar assets from the United States to the rest of the world. The deficit so measured rose to \$3.4 billion in 1958, the highest level for any calendar year since 1950, and reached a seasonally adjusted annual rate of \$4 billion in the final quarter of the year. In the first quarter of 1959, the deficit would have continued at about a \$4 billion annual rate had it not been for the receipt of advance debt repayments from Germany, and in the second quarter, it remained at a \$4 billion rate (excluding the United States subscription to the International Monetary Fund).

For the third quarter of 1959, incomplete figures on gold and dollar transfers indicate some diminution of the deficit, perhaps to an

Increase in Foreign Gold and Liquid Dollar Assets
through Transactions with the United States
(In billions of dollars)

<u>Annually</u>		<u>Quarterly, at seasonally adjusted annual rates</u>	
1950	3.6	1958 - I	2.7
1951	0.3	II	3.4
1952	1.1	III	3.6
1953	2.1	IV	4.0
1954	1.5		
1955	1.1	1959 - I	3.6
1956	1.0	II(p)	3.9 ^{1/}
1957	-0.5	III(e)	(3-1/2) ^{1/}
1958	3.4		
1950-58 average:	1.5		

(p) = preliminary

(e) = tentative estimate

^{1/} Excluding U. S. subscription to the IMF.

annual rate of about \$3-1/2 billion. While still very large, this rate of deficit is smaller than some recent projections have suggested it might be. For example, the forecast made in mid-July by the National Foreign Trade Council's balance-of-payments group implied a deficit at an annual rate of \$5 billion during the second half of 1959. That group met before the June and July trade figures became available, and hence before the clear upturn in exports and the leveling-off of imports became apparent; also, preliminary data then available for the second quarter indicated larger net payments from the U. S. on nontrade transactions than have since been found to have occurred.

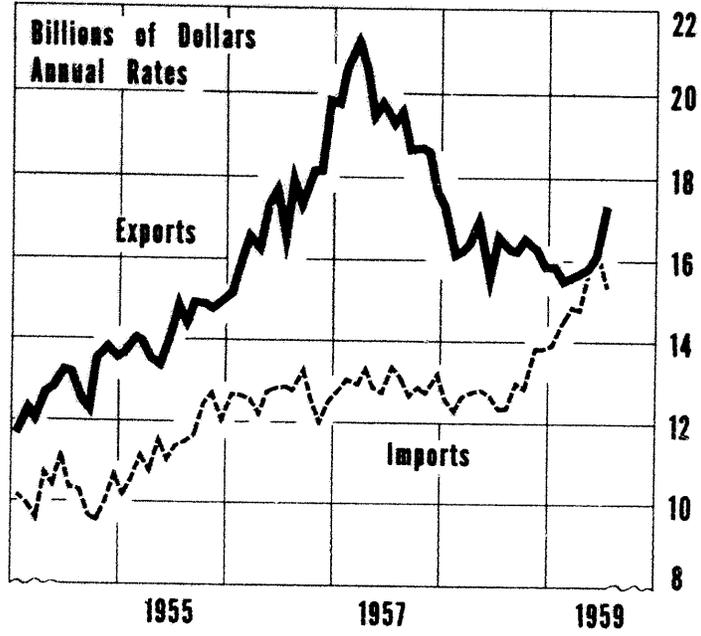
Improvement on merchandise trade account

United States merchandise exports, seasonally adjusted, have picked up sharply in recent months. They rose from a low annual rate of \$15-1/2 billion in February-April to more than \$16 billion in June and more than \$17 billion in July. A preliminary figure for August indicates a drop back to \$16-1/2 billion, but this rate would still be higher than in June and well above that of earlier months.

The chart on the next page shows United States exports and imports through July as seasonally adjusted at the Federal Reserve

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U.S. FOREIGN TRADE



Board. ^{1/} Seasonal adjustment of monthly foreign trade data is a difficult and uncertain operation; the results so far achieved represent an improvement over earlier efforts but can probably be improved upon further. Nevertheless, the recent rise in U. S. exports would be striking on any reasonable seasonal adjustment. From the February-April low to July-August, there was an export expansion of the order of 10 per cent.

Seasonally adjusted imports, on the other hand, began to level off after May. Beginning in the fall of 1958, total imports had risen by about one-fourth to an annual rate of \$16 billion in May-June. Imports dropped back in July largely as a result of lower imports of coffee and petroleum; according to advance indications, coffee arrivals jumped up markedly in August and, judging from the behavior of customs collections, would account for the major part of any increase in total imports for the month. One factor leading to higher coffee imports in August, and possibly other imports as well, may have been an acceleration of shipments in view of a possible dock strike in October.

The rapid expansion of imports that began last fall was composed of a continued advance in imports of manufactures and a marked recovery in imports of industrial materials. As compared with a year earlier, about half of the \$2-3/4 billion rise in the annual rate of total imports through the second quarter resulted from a 40 per cent increase in imports of manufactures; automobiles accounted for about one-third of this increase. Among industrial materials, there were substantial increases for rubber, wool, diamonds, lumber, wood pulp, and newsprint; by the spring of this year, imports of a number of these materials were as high or nearly as high in physical volume as in the spring of 1956. About one-eighth of the total increase in the rate of imports over the year was accounted for by a 160 per cent increase in steel imports, in large part representing precautionary buying against the steel strike.

Recovery in U. S. exports. The rise in U. S. exports, seasonally adjusted, in June and July was the first advance of significant magnitude since the export decline began in the spring of 1957. The continuation of exports in August at the higher level reached in June-July indicates that the pickup was not a random fluctuation. The advance was a mixture of continued expansion in exports of some products and to some countries, upturns for others, and slowing down or cessation of declines for still others. Examination of the detail of U. S. exports for June and July reveals few instances of continuing downward movements.

^{1/} Export and import data were first adjusted to eliminate the effect of port strikes; imports were also adjusted for the varying number of working days per month. Seasonal adjustment factors were derived by means of a program for the Board's IBM 650 computer, a program essentially the same as that used to adjust many types of data on the UNIVAC computer at the Bureau of the Census.

These considerations lend credence to the view that a new export expansion has begun.

The charts on the following page illustrate some aspects of the upturn in exports. ^{1/} It will be noted that a major part of the rise was in nonagricultural exports. These exports, after declining rapidly until early 1958, leveled out but then sagged again early this year. Agricultural exports, on the other hand, bulged in mid-1958, and then fell off fairly steadily until early this year, largely as a result of declining cotton shipments. A marked upturn in agricultural exports did not occur until July; the July pickup included sharply higher exports of soybeans and heavy shipments of wheat and other grains; cotton exports remained very low as foreign purchasers awaited the reduction in cotton export prices for the crop year 1959-60 beginning August 1. The July advance owed little, if anything, to higher sales for local currency under P.L. 480. Agricultural exports in July were about one-fifth above the first quarter average.

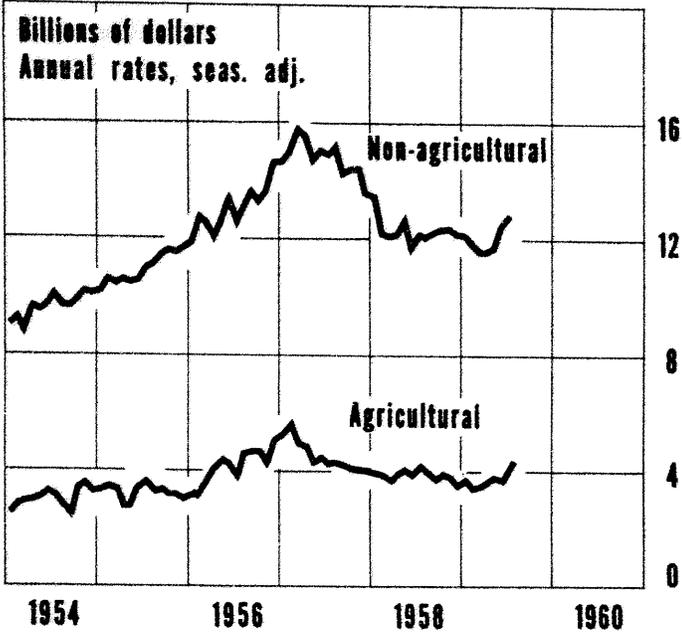
Nonagricultural exports, as a whole, were up about 10 per cent in July from the March-May low. As may be seen from the accompanying charts, the commodity distribution of this advance was widespread. Exports of chemicals began a renewed advance a year ago and after pausing briefly this spring moved up markedly in June and July to a level 10 per cent above a year earlier. Exports of auto parts and trucks have also been rising for at least a year; however, this rise was largely offset by declines in exports of passenger cars; with the cessation of these declines in June and July, exports of the entire automotive group increased very sharply to the highest level since late 1957 and close to earlier peaks.

Upturns also occurred this summer in exports of textiles, metals and metal products, and machinery. The upsurge in textile exports beginning in May is rather extraordinary; the July rate of these exports exceeded the very high rates of early 1957 and, like them, was close to the peak levels of early 1952. The rise in metals exports was mainly in steel to Canada and steel scrap to Japan; the June-July rate of metal exports, through up one-sixth from its spring low, was only back to the 1958 average. The pickup in machinery exports reflected mainly higher shipments of agricultural machinery, tractors, and construction equipment; it would appear even sharper in the chart

^{1/} Data on these charts are adjusted for seasonal variation, as described above. The adjustment of agricultural exports differs considerably from the seasonally adjusted series published by the Department of Agriculture; that series uses fixed seasonal factors which, for recent years at least, seem to introduce seasonally repetitive movements in the adjusted series. The present adjustment, though not final, seems to produce smoother results. Where the data are shown quarterly, dots have been used to indicate July 1959 rates. Export details for August were not available at the time of writing and it should be borne in mind that in most instances the July-August average was probably somewhat below the July figure.

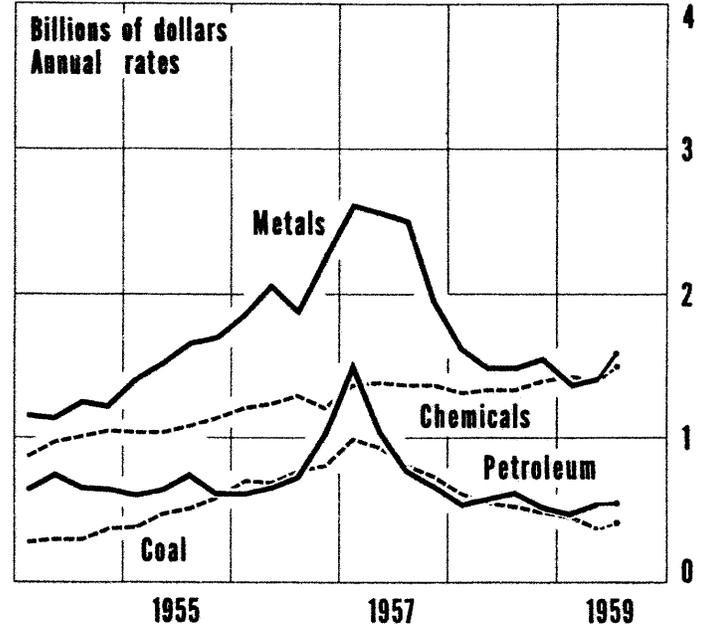
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U. S. EXPORTS



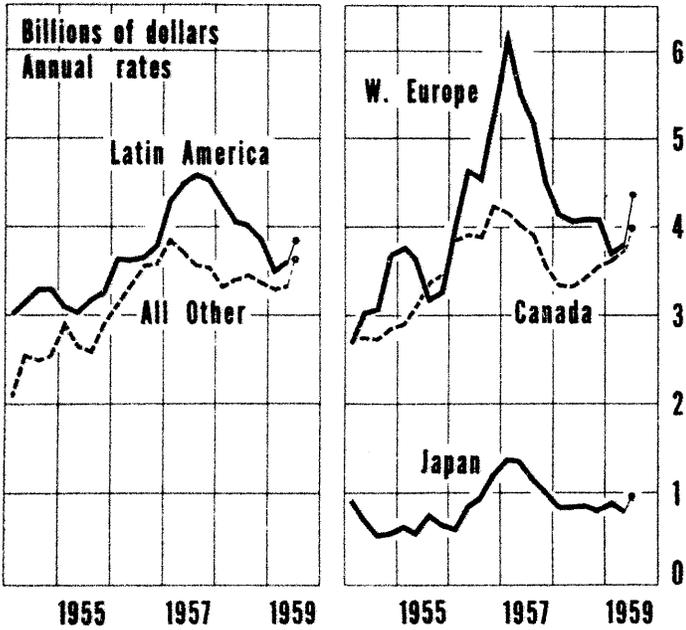
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U. S. EXPORTS



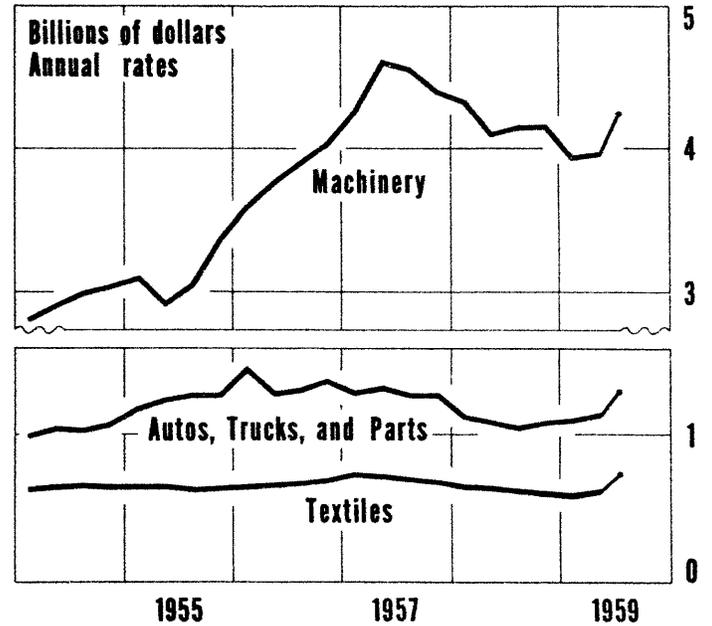
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U. S. EXPORTS



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U. S. EXPORTS



if data for earlier months were adjusted to exclude transfers of ships to foreign registry. The first shipments of commercial jet aircraft under large outstanding contracts apparently took place in July but these shipments will not become large until later this year.

The major exception to this picture of widespread export advances is coal. At best, the June-July data on coal exports would indicate a slowing down in the earlier rate of decline.

The advance in U. S. exports reflects expansion of business activity abroad and a general upturn in world trade. Exports to Canada rose further in June and July, continuing the advance that begun (together with the Canadian business recovery) nearly a year earlier, and were one-fifth above the low levels of the first eight months of 1958. In June and July also, there occurred the first over-all pickup in exports to Western Europe and Japan. Exports to Western Europe as a whole reached bottom early this spring; the bottoming out of the earlier export decline and the subsequent upturn in exports to this area followed by a few months the consolidation of previously diverse movements in business activity and trade among European countries into one of general expansion. The July pickup in Japanese purchases of U. S. exports followed by about six months the upturn of total Japanese imports; these in turn lagged behind the new and rapid expansion of Japanese activity which began in the spring of 1958. Although exports of steel scrap to Japan began to rise early this year, cotton shipments continued to fall off in anticipation of announced lower prices for U. S. cotton.

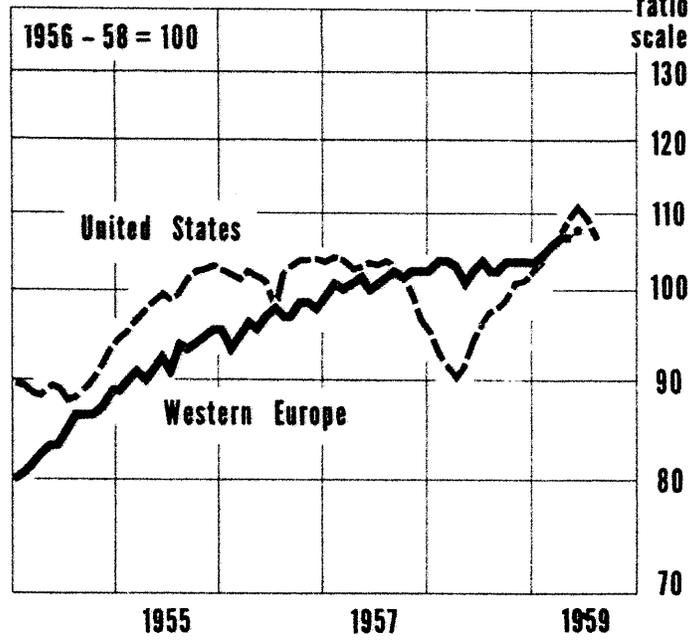
Purchases by nonindustrial countries in June and July were also up over first quarter lows. Exports to Latin America had dropped sharply further in the first quarter, partly as a result of the Cuban revolution, the Argentine stabilization program and Brazil's financial difficulties. The rise since early this year reflects increased shipments to Cuba and Argentina and also to Mexico and Venezuela. The increase in exports to other nonindustrial countries includes higher shipments to a number of countries whose export earnings have improved; among this group are Australia, Malaya, and Indonesia.

Expanding demand abroad

A vigorous expansion of economic activity has been gathering momentum in industrial countries abroad over the past year. From December 1958 to June 1959, seasonally adjusted indexes of industrial production (shown on the following two charts) rose 4 per cent in Western Europe, 5 per cent in Canada, and 13 per cent in Japan. In most of these countries, renewed expansion began in response to growing consumer expenditures, increasing residential construction, and a turn in the inventory cycle, especially in steel and textiles. An upturn in business fixed investment is now beginning to get underway. It therefore seems likely that demand and activity abroad will continue expanding strongly through at least the middle of 1960.

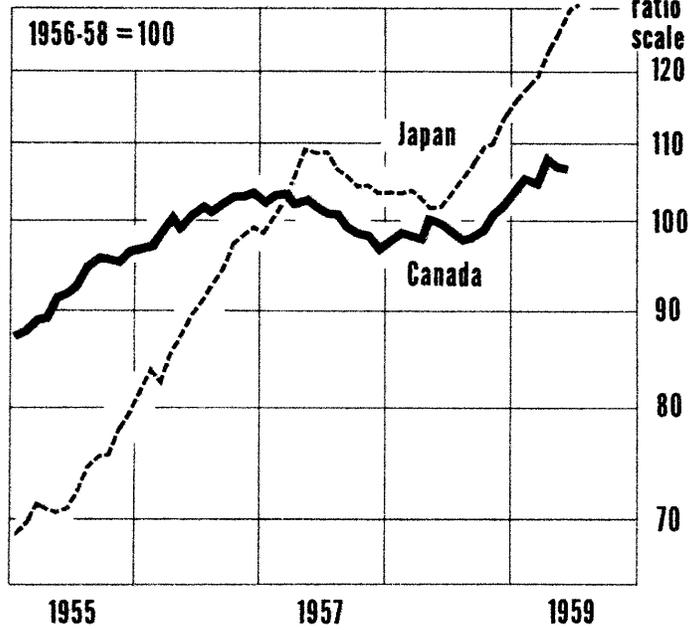
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INDUSTRIAL PRODUCTION



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INDUSTRIAL PRODUCTION



Domestic expansion in industrial countries abroad has been accompanied by renewed growth in their exports and imports, as will be seen from Appendix Table 1. As demand grows further in these countries, as their import restrictions are further relaxed, and as expanding output begins to press against the limits set by the availability of labor and other productive resources, one may expect their imports to tend to rise faster than their exports. Such a tendency in countries where trade is large in proportion to domestic activity would have to be resisted by official policies if it threatened to cause balance-of-payments difficulties and serious reserve losses, as it did for a number of countries during the 1955-57 boom. However, an important feature of the current situation is that most industrial countries abroad have very strong balance-of-payments positions. As shown in Appendix Table 2, most of them have been gaining reserves this year, and virtually all of them now have considerably larger reserves than they had at the end of 1954 when the last boom was getting underway. They can face with equanimity, as many of them could not do in 1955-57, a moderately more rapid rise in imports than in exports (together with some expansion in other net payments), since such movements will tend merely to reduce their present balance-of-payments surpluses rather than to produce deficits.

Growing demand in industrial countries, including the United States, has also begun to increase the export earnings of nonindustrial countries. Meanwhile, many of the nonindustrial countries have cut back imports from unsustainable levels reached in 1957 or 1958. Hence, the rise in their export earnings is now helping to rebuild their reserves and to lay the basis for renewed expansion of their imports, including their imports from the United States. These tendencies for a number of nonindustrial countries can be seen in Appendix Tables 3 and 4.

Short-run prospects for the U. S. balance of payments

With demand rising abroad and foreign availabilities tightening in the months ahead, U. S. exports seem likely to continue advancing. Two special factors will give additional impetus to the advance. Jet aircraft shipments will be large, to fill foreign orders already placed amounting to several hundred million dollars. And cotton exports in the 1959-60 crop year are expected by the Department of Agriculture to be about twice the unusually small amount exported in the year that ended July 31; textile activity has been rising abroad and efforts are likely to be made to replenish low cotton inventories now that the U. S. price reductions announced earlier have come into effect.

Imports, on the other hand, seem likely to expand only moderately. Several large import items are expected to show little change from current levels. These include petroleum, newsprint, coffee, sugar, and cocoa. Declines are expected in imports of steel mill

products, now that expansion abroad has reversed earlier price declines for European and Japanese steel and is beginning to reduce steel export availabilities; of cattle and meat, for which domestic supplies are increasing; and of lumber, as residential construction activity tapers off from the very high levels reached last spring. Continued expansion in imports of finished manufactures, and of a number of materials, may outweigh these declines, but probably only moderately.

It is beyond the scope of this paper to examine in detail other prospective movements in U. S. balance-of-payments items. Broadly speaking, U. S. military expenditures abroad plus U. S. grants and credits seem unlikely to change much from current levels. An increase in U. S. payments for services is likely to be more than offset by an increase in U. S. receipts for services, including investment income. Economic expansion abroad will tend to attract an increasing flow of U. S. private capital, but this tendency may to some extent be offset by the pressure of domestic U. S. demand for loanable funds and higher U. S. interest rates. Even a very substantial increase in the net outflow of U. S. private capital would be unlikely to offset all the prospective improvement in the merchandise trade balance over the months ahead.

Thus, the over-all deficit in the United States balance of international payments seems likely to diminish further in coming months. However, on present indications it will probably still remain large, well above the 1950-58 average of \$1.5 billion a year.

Appendix Table 1

Foreign Trade of Industrial Countries Abroad

<u>Country</u>	<u>Second quarter 1959</u> <u>(\$b., annual rates)</u>		<u>Percentage changes,</u> <u>1958-II to 1959-II</u>	
	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>
United Kingdom	9.83	11.07	+ 8	+ 8
Germany	9.58	8.18	+ 12	+ 19
Canada	5.94	7.07	+ 3	+ 14
France	5.69	5.23	+ 17	- 14
Netherlands	3.51	3.96	+ 15	+ 10
Japan	3.25	3.78	+ 19	+ 22
Belgium-Luxemburg	3.24	3.30	+ 12	+ 9
Italy	2.59	3.36	+ 2	+ 4
Sweden	2.27	2.38	+ 8	+ 6
Switzerland	1.61	1.94	+ 10	+ 12
Denmark	1.29	1.56	+ 4	+ 28
Austria	.96	1.12	+ 5	+ 7
Norway	.81	1.30	+ 15	- 4

Note: Exports are f.o.b.; imports are c.i.f. Data are not adjusted for seasonal variation.

Source: IMF, International Financial Statistics.

Appendix Table 2

Official Gold and Foreign Exchange Reserves
of Industrial Countries Abroad
(In millions of U. S. dollars)

<u>Country</u>	<u>Reserves at end of:</u>				<u>Change,</u> <u>Dec. 1958 to</u> <u>July 1959</u>
	<u>1954</u>	<u>1957</u>	<u>1958</u>	<u>July</u> <u>1959</u>	
United Kingdom	2,798	2,374	3,105	3,250 (e)	+ 110 (e) <u>1/</u>
Germany	2,636	5,644	6,322	5,514	- 808 <u>2/</u>
Canada	1,954	1,836	1,948	1,926	- 22 <u>3/</u>
France	1,261	645	1,050	1,773	+ 723
Netherlands	1,276	1,056	1,493	1,390	- 103 <u>4/</u>
Japan	738	524	861	1,201	+ 340
Belgium	1,032	1,132	1,484	1,435	- 49
Italy	1,041	1,532	2,321	2,950 (e)	+ 629 (e)
Sweden	478	456	473	500	+ 27
Switzerland	1,837	1,898	2,063	2,030 (e)	- 33 (e)
Denmark	143	172	230	269	+ 39 <u>5/</u>
Austria	412	510	665	735	+ 70
Norway	138	185	243	232	- 11 <u>6/</u>

(e) partly estimated

1/ After paying the IMF \$200 million in March and \$163 million in May.

2/ Roughly equal to advance military and debt payments plus increase in commercial bank foreign exchange holdings.

3/ Official Canadian reserves are maintained approximately unchanged while the exchange rate fluctuates. Private dollar holdings have increased.

4/ Claims arising from the liquidation of EPU and amounting to \$106 million in January 1959 have been excluded from reported official reserves since that date.

5/ After paying the IMF \$17 million in February.

6/ After paying the IMF \$13 million in July.

Source: IMF, International Financial Statistics, and national sources for Italy.

Appendix Table 3

Foreign Trade of Nonindustrial Countries

<u>Country</u>	<u>Second quarter 1959</u> <u>(\$b., annual rates)</u>		<u>Percentage changes,</u> <u>1958-II to 1959-II</u>	
	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>
<u>Sterling area</u>				
Australia	1.98	2.13	+ 28	+ 4
South Africa	1.22	1.54	+ 6	- 15
Singapore	1.20	1.28	+ 7	+ 1
India	1.03	1.88	+ 7	+ 20
New Zealand	.90	.62	+ 15	- 25
Hong Kong	.57	.86	+ 14	+ 10
Malaya	.72	.54	+ 27	+ 2
Rhodesia-				
Nyasaland	.58	.50	+ 28	- 3
Ireland	.33	.61	- 12	+ 4
Pakistan	.27	.26	+ 29	- 41
Ceylon	.36	.37	+ 42	+ 33
Burma	.21	.20	- 13	+ 25
Trinidad	.23	.26	- 10	+ 9
<u>Continental Europe</u>				
Finland	.84	.82	+ 14	+ 12
Yugoslavia	.49	.77	+ 11	+ 2
Portugal	.27	.51	- 6	+ 5
Greece	.14	.63	- 3	+ 10
Turkey	.33	.41	+ 61	+ 2
<u>Latin America</u>				
Argentina	1.06	.89	+ 4	- 28
Mexico	.75	1.03	+ 13	- 18
Colombia	.47	.48	+ 31	+ 20
Peru	.29	.29	+ 14	- 17
<u>Other areas</u>				
Algeria	.36	1.13	- 29	+ 7
Philippines	.61	.61	+ 21	- 1
Egypt	.55	.66	+ 3	- 12
Morocco	.37	.31	+ 6	- 17
Israel	.16	.44	+ 35	- 3
Sudan	.23	.14	+ 8	- 48

Note: Table includes all nonindustrial countries with exports or imports of over \$200 million a year for which data are available through June 1959. Exports are f.o.b.; imports are c.i.f. Data are not adjusted for seasonal variation.

Source: IMF, International Financial Statistics.

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Appendix Table 4

Official Gold and Foreign Exchange Reserves
of Nonindustrial Countries
(In millions of U.S. dollars)

<u>Country</u>	<u>Reserves at end of:</u>				<u>Change during</u> <u>1st half 1959</u>
	<u>1954</u>	<u>1957</u>	<u>1958</u>	<u>June</u> <u>1959</u>	
<u>Sterling area</u>					
Australia	1,133	1,321	1,120	1,157	+ 37 <u>1/</u>
South Africa	416	288	317	343	+ 26 <u>2/</u>
India	1,867	942	722	741	+ 19
New Zealand	239	138	187	249	+ 62
<u>Rhodesia-</u>					
Nyasaland	150	213	215
Ireland	260	252	262	245	- 17 <u>3/</u>
Burma	124	93	119	142	+ 23
Ceylon	169	183	172	161	- 11
<u>Continental Europe</u>					
Finland	211	171	250	276	+ 26
Portugal	655	687	708	723	+ 15
Greece	199	196	176	189	+ 13
Turkey	205	315	297	312	+ 15
<u>Latin America</u>					
Argentina	524	287	132	165	+ 33 <u>4/</u>
Mexico	209	453	372	..	- 6 <u>5/</u>
Colombia	257	145	160	193	+ 33 <u>6/</u>
Peru	56	34	31	30	- 1 <u>7/</u>
El Salvador	44	40	38	44	+ 6
<u>Other areas</u>					
Philippines	207	71	92	69	- 23 <u>8/</u>
Egypt	732	465	429	388	- 41
Israel	69	81	128	171	+ 43

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- 1/ After payment to the IMF of \$40 million in June.
 2/ After payment to the IMF of \$11 million in May.
 3/ After payment to the IMF of \$4 million in June.
 4/ Includes \$25 million drawn from IMF.
 5/ Change in dollar assets of Mexican Government and banks as reported by U.S. banks; after drawing \$22 million from the IMF in March.
 6/ After payment to the IMF of \$5 million in May.
 7/ After drawing \$4 million from the IMF.
 8/ After net payments to the IMF of \$5 million.

Source: IMF, International Financial Statistics.