U.S. Exports in the Last Decade

U.S. EXPORTS of merchandise reached record levels in the first half of 1964, after a rapid expansion in 1963. At the same time, however, the rate of increase in industrial activity leveled off in Europe and Japan, and partly as a result of this, U.S. exports showed no further growth after March.

The expansion in exports from early 1963 until early this year represented a commensurate gain in the physical volume of shipments. Average valuations per unit exported showed little change. This experience contrasts with the sharp increase in average export prices that occurred during and following the previous rapid export expansion in 1959-60.

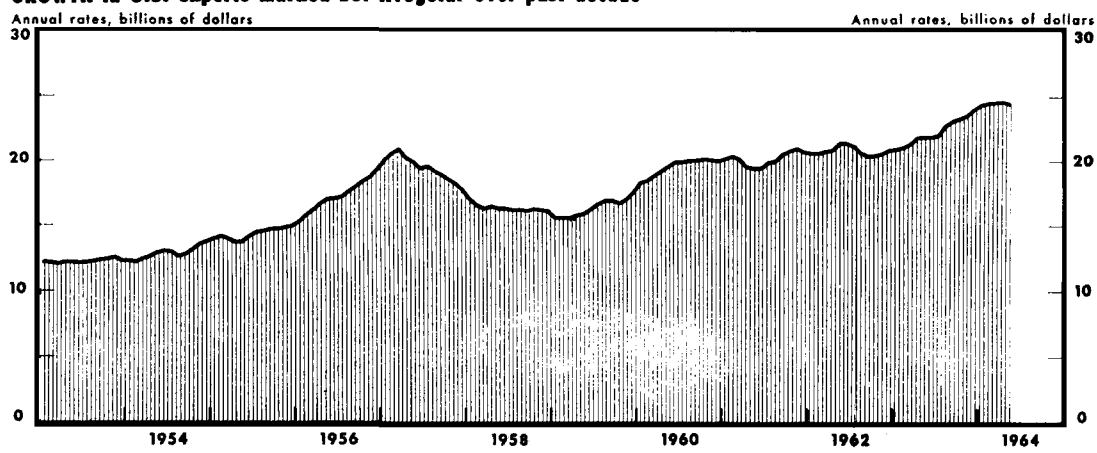
Virtually all of the recent export gain reflected higher commercial sales abroad. Exports financed by U.S. Government nonmilitary grants and credits, though still accounting for over 10 per cent of the total, rose only slightly.

Over the past decade U.S. exports nearly doubled in value, but the pattern and pace of this growth varied with cyclical and other developments here and abroad. Chief among the foreign developments were the reemergence of Europe and Japan as vigorous competitors in world markets and the maintenance of strong growth in total world demand—to which the prosperity of Europe and Japan contributed greatly.

Changes also occurred in production costs and export prices, in product design and availability, and in service and credit facilities both for U.S. products and for competing products from abroad.

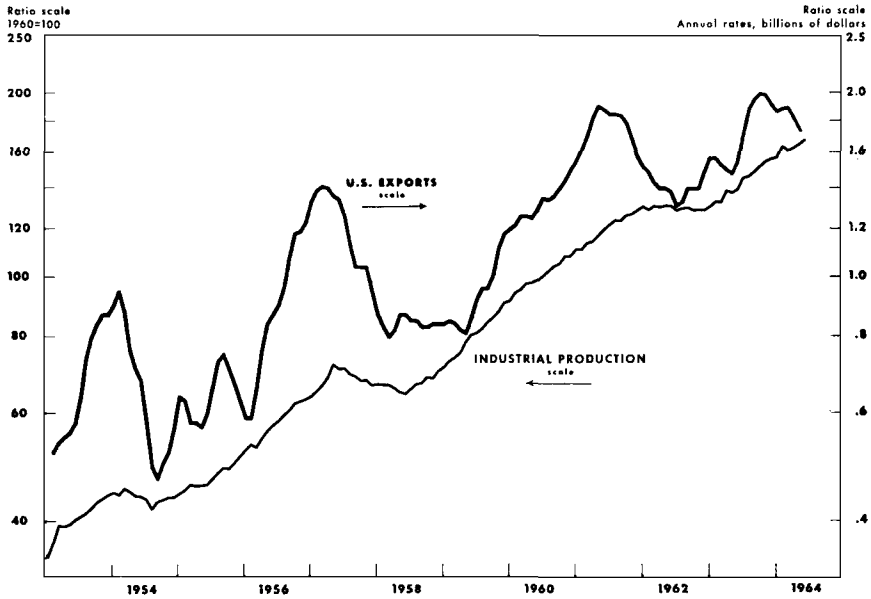
The adaptation of U.S. exports to these changing circumstances has an important bearing on the competitive position of U.S.

GROWTH in U.S. exports marked but irregular over past decade



NOTE.—Three-month moving average of seasonally adjusted Bureau of the Census data adjusted by Federal Reserve to correct for timing distortions caused by port strikes. Data exclude military grant-aid shipments. Latest figure, April-June average.

VARIATIONS in pace of industrial output in Japan and...



NOTE.—Japanese industrial production index from Ministry of International Trade and Industry, seasonally adjusted by Federal Reserve. Latest figure, June. European industrial production index from Organization for Economic Cooperation and Development. Latest figure, April. U.S. exports are centered

goods in world trade and hence on the U.S. balance of payments.

EXPORTS IN 1964

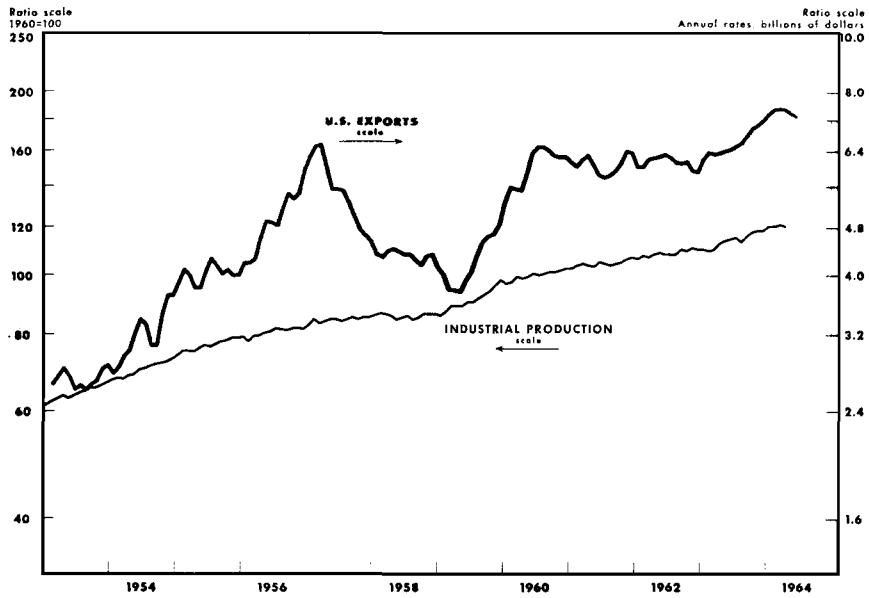
Merchandise exports, excluding military grant-aid shipments, in the first 6 months of 1964 averaged $24.5 billion at a seasonally adjusted annual rate. This was 5 per cent above the already high rate of the second half of last year and one-sixth above the average for 1962 and the first half of 1963. Increased demands by European, Canadian, and Japanese businesses for industrial materials and for capital equipment from the United States have accounted for more than one-third of the total rise in U.S. exports since early 1963.

Exports of foods have also increased substantially since early 1963. The largest increases have been in shipments to countries other than Europe and Japan, but exports to those two areas have also risen, in part because of poor harvests there. The less industrialized countries as a group also increased markedly their purchases of materials and capital goods from the United States.

Expansion of economic activity in Europe and Japan was very rapid through January of this year but has since slackened somewhat. In some countries this leveling off has reflected government anti-inflationary measures aimed at curbing price increases and losses of foreign exchange reserves, and imports into these countries have leveled off or declined.

Mirroring such developments as well as the slowing in the pace of economic expansion in Britain, the seasonally adjusted annual rate of U.S. exports to Western Europe was slightly smaller in the second quarter than at the beginning of the year. U.S. exports to Japan, which late last year had reached a peak one-third higher than their 1962-and-early-1963 average, have since

... in Western Europe are major influences on U.S. exports to these areas



3-month moving averages weighted 1-2-1 of Bureau of the Census data adjusted by Federal Reserve for seasonal variation and for timing distortions caused by U.S. port strikes. Data exclude special-category exports. Latest figures, April-June averages.

fallen off by more than 10 per cent. Declines in exports to Europe and Japan involved mainly industrial materials and foods. Sales of capital goods to these areas have remained strong.

Exports to Canada, on the other hand, have continued the rapid expansion that began early in 1963. Throughout this period demands for capital equipment in Canada have been vigorous.

Shipments to Latin America turned up late in 1963, after a prolonged decline, and they continued to rise in the first 6 months of 1964. Exports to other countries, however, have shown little further increase, partly as the result of the completion of grain sales to the Soviet Union by March.

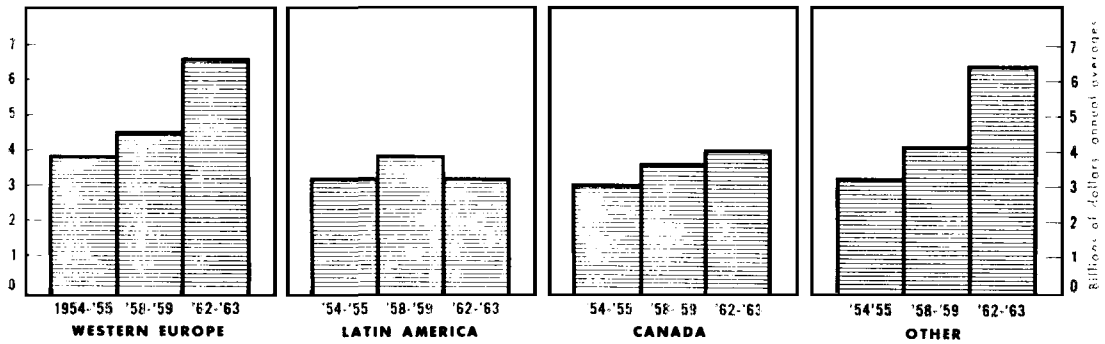
BUSINESS CYCLES ABROAD AND U.S. EXPORTS

While growth in the U.S. exports over the past decade has been marked, it has not been steady. Periods of vigorous expansion have alternated with intervals of little or no growth. Fluctuations in foreign business activity, especially in the industrial areas of Western Europe and in Canada and Japan, have been important elements in these swings in exports.

Business cycles in industrial countries abroad may have a substantial impact on U.S. exports because industrial materials and equipment account for such a large part —almost 70 per cent—of total U.S. exports. Variations in foreign demand for these goods tend to be relatively larger than changes in total industrial activity abroad, not only because of shifts in inventory policies and capital investment plans but also because of inverse shifts in the availability of substitute domestic equipment and supplies.

The chart on the preceding page illustrates how sensitive U.S. exports may be

GROWTH in U.S. exports has varied widely by destination and . . .



NOTE.—Bureau of the Census data on destination of exports exclude special-category shipments. Dept. of Commerce data by selected end-use categories ex-

to changes—even moderate ones—in foreign industrial activity. On the three past occasions since 1953 when the pace of Japanese industrial activity slackened, U.S. exports to Japan fell precipitously; in 1954 and in 1957-58 by almost half, in response to declines of only 5 to 10 per cent in Japanese industrial production; and in 1961-62 by almost one-third, when Japanese production merely failed to continue its previous rapid rate of expansion.

The connection between U.S. exports and European industrial activity has been similar, though less pronounced, as the chart on page 939 shows. U.S. exports to Europe were raised sharply in 1956-57 by the combined effects of a European investment boom and of the distortion in Europe's trade patterns occasioned by the temporary closing of the Suez Canal. A subsequent leveling off in general business activity was accompanied by a contraction in European imports, including those from the United States. Later, when European production expanded anew, there was a sharp recovery in U.S. exports to Europe.

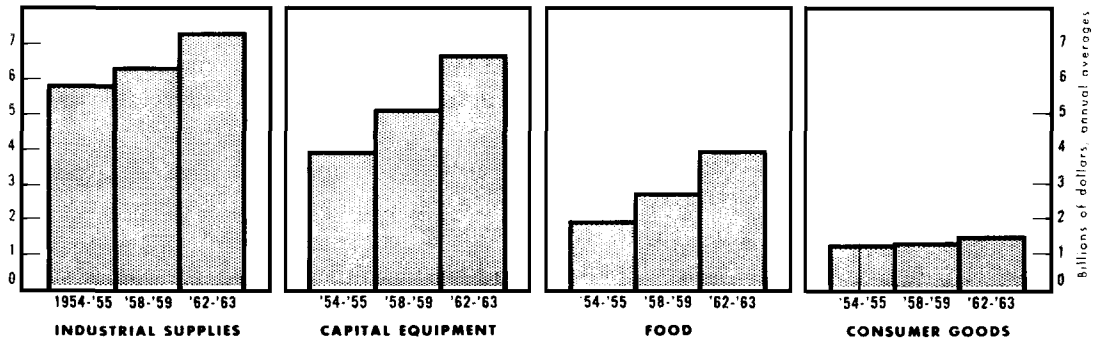
From mid-1960 through 1962 European industrial output increased less rapidly than before, and total U.S. exports to Europe showed little change over this period. The formation of the European Economic Community and the consequent reduction in barriers to intra-European trade were important factors tending to limit growth in European purchases from the United States in this period. But with acceleration in European consumption and investment in 1963, European imports from the United States showed a substantial rise.

TRENDS IN COMMODITIES

Beneath the cyclical swings in exports over the past decade, there have been differences in the rates of growth of different types of U.S. exports.

Exports of foods have been among the fastest growing items. This year these exports have been running at a seasonally adjusted annual rate of $4 billion, more than double their average rate of the early 1950's. Rising world demand for foods generally, and especially for such items as wheat, corn, and feedgrains—which the United States produces in large quantities—have contributed to this result. Moreover, the growth in exports has been more rapid for raw foods than for processed items. Most of the increase in total exports of foods has represented increased commercial sales, but ship-

... by commodity groups since mid-1950's



clude U.S. Govt. military grant-aid shipments and commercial sales of military equipment. "Consumer goods" exclude foods.

ments financed under various Government programs have also increased.

Exports of machinery have grown in value about in line with total exports over the decade, and at an annual rate of about 8 per cent since 1958. Growth over the past 10 years has been fastest in exports of the newer types of machinery, notably computers and some types of multipurpose industrial machinery. Exports of metalworking, textile, and farm machinery, as well as of electrical machinery and apparatus, have failed to grow as fast as the total, and exports of machine tools are down sharply. Exports of commercial transportation equipment have shown no growth despite slight gains in exports of civilian aircraft.

Industrial materials, the most cyclically volatile group of exports, grew less rapidly than total exports over the decade as a whole. Within this group, however, there were wide and significant differences.

Exports of iron and steel rose only about one-third, but exports of other metals increased almost fivefold. And exports of chemical products more than doubled. On the other hand, sales of coal in 1963 were almost exactly the same as they were 10 years earlier, while exports of raw cotton were one-fourth less in value than in 1954.

U.S. sales abroad of passenger cars have declined steadily over most of the decade. Foreign preferences for smaller vehicles, advances in productivity in European manufacturing, and discriminatory tariff and tax treatment of the larger U.S. automobiles have contributed to this result. Also, the establishment in many countries outside Europe of local automobile assembly plants has reduced their imports of cars built in the United States. In many cases domestic production of some components formerly imported from the United States has also been encouraged.

Growth in exports of other consumer goods has also lagged well behind total exports. Foreign markets for these types of goods are often served in major part by production facilities of U.S. manufacturers located abroad. A marked expansion in these facilities has occurred in recent years, especially in Europe.

Differences in the rates of growth of U.S. exports among commodities and markets over the past decade have reflected not only variations in foreign demand for imported goods in general but also changes in the competitive ability of U.S. industry to satisfy these demands. Changes in the commodity and market structure of U.S. exports thus

reflect in part adjustments to economic and market conditions at home and abroad.

CHANGING EXPORT STRUCTURE

Over the past decade, nine-tenths of total U.S. exports have consisted of capital equipment, industrial supplies, and foods. And three-fifths of the total has gone regularly to Western Europe, Canada, and Japan. Nevertheless, there have been significant shifts in the commodity and area composition of exports.

As a basis from which to survey these changes, three pairs of years have been selected—1954-55, 1958-59, and 1962-63. In each instance the earlier year was one of relative stability in total exports, and the second was one of rapid expansion. The use of pairs of years reduces, to some extent, the influence of special factors that often distort the picture for any given year.

Changes in the area distribution of exports have been even greater than the shifts in commodity composition. In 1954-55, almost half of total U.S. exports went to Canada and Latin America, historically areas whose total imports have come chiefly from this country. By 1962-63 this proportion had fallen to just over one-third. Most of the reduction reflected the relative decline of Latin America as a market for U.S. exports.

In contrast, the share of U.S. exports going to Western Europe and Japan rose considerably between these two periods, and there was also a substantial rise in the proportion of U.S. exports to nonindustrial areas other than Latin America. Most of these changes occurred after 1958-59.

Among the changes in the commodity distribution of exports—in terms of the major "end-use" categories—exports of foods rose from 14 per cent of total exports in 1954-55 to 18 per cent in 1962-63. Exports of capital goods also gained in importance.

On the other hand, exports of industrial supplies dropped from 42 to 33 per cent of the total, mainly as a result of lower sales of cotton and declines in the relative importance of steel. Total exports of consumer goods slipped in relative importance too, and within this total there was a striking decline in the importance of automobiles. Most of these changes in commodity composition appear to have taken place more or less steadily over the decade.

SPECIAL INFLUENCES ON U.S. EXPORTS

During the postwar period there have been a number of special factors at work at various times to alter the volume and the composition of merchandise shipments to foreigners. Among the most important of these have been foreign aid and flows of long-term private investment.

Foreign aid. Merchandise valued at $3.6 billion was exported in 1963 under various U.S. Government foreign aid programs. Of this amount, $0.9 billion represented Department of Defense shipments under military assistance programs.

The remainder—about one-eighth of total U.S. exports in 1963—is estimated to have been financed by U.S. Government nonmilitary grants and aid. Both the value of such shipments and the proportion of total exports so financed appear to have risen substantially since the mid-1950's. Three broad types of transactions related to aid-financed exports can be distinguished: sales for credit, and also donations, of surplus agricultural commodities; purchases of U.S. goods financed by the Agency for International Development; and financing of exports by the Export-Import Bank.

Shipments of surplus agricultural products under the Agricultural Assistance Act of 1954 (known more familiarly as "Public Law 480") now form the largest of these three components of aid-financed exports. Such shipments, which were begun in 1955, totaled over $1.4 billion in 1963. Efforts are made to ensure that foreign purchases of such surpluses are not made at the expense of regular commercial sales of either U.S. or competing suppliers. In some instances, sales of surpluses under these programs have served to develop markets for subsequent commercial sales.

Purchases of U.S. goods financed by the Agency for International Development in 1963 amounted to almost $1 billion. These purchases were divided fairly evenly between industrial supplies and capital equipment. In 1962 and in 1963 the value of exports identified as having been financed in this way increased substantially above the level of the immediately preceding years. This increase was associated with the policy of tying foreign aid more closely to U.S. exports.

The other major source of Government financing of exports is the Export-Import Bank. To some extent, however, its lending is less clearly "aid" than "export promotion" since part of the funds disbursed are similar to the types of commercial credit that are commonly used to finance nonaided exports.

There is no doubt that over the past decade exports have been larger than they would have been had it not been for the foreign aid program. Beyond this, however, little can be said either about how much of the export volume has been directly or indirectly attributable to foreign aid, or even when the aided exports were made. In some cases aid financed past purchases of U.S. goods, while in other cases the granting of the credits preceded the actual shipment of goods.

Moreover, it is impossible to know whether a particular export transaction would or would not have been made in the absence of the disbursement of the foreign aid; a credit that frees part of the recipient country's over-all resources for purchases of other goods may or may not result in increased purchases of U.S. goods. The complexities of the relationship of foreign aid to exports are compounded by the possibility that aid to one country may be used directly or indirectly to expand that country's purchases from some third country, which in turn may increase its purchases from the United States.

Private investment. Another factor that has influenced the course of U.S. sales to foreigners during the past decade has been the heavy flow of long-term private capital from this country into direct investments abroad. When this capital has been used to establish or expand subsidiaries of U.S. firms overseas, it has often swelled the demand for equipment and supplies produced here. Subsequently, however, the products of some subsidiaries have directly competed with U.S. produced goods, and hence may well have retarded the growth of U.S. exports.

Two major investment booms during the past decade have been particularly important to U.S. exports. One was in 1956-58, when investments in American subsidiaries in Canada—and related exports of U.S. machinery and supplies—were sharply above their longer-term trend. The other has been associated with the move since 1959 by U.S. companies to establish subsidiaries within the borders of the European Economic Community. This has helped, on balance, to raise the flow of U.S. exports to Europe both directly, in response to the need for machinery for the new plants, and indirectly, through the effects of the increased rate of investment on the level of European income.