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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 13, 1946

To Chairman Eccles

Subject: The impact of foreign buying

From Walter R. Gardner *WRG*

on U.S. markets

The Commerce Department has submitted a memorandum on the impact of an estimated \$11 billion foreign demand in 1946 on the American economy. They contend that only 37 per cent of that demand (about \$4 billion) will fall on commodities in short supply.

Comments by Mr. Harley on the Commerce memorandum are attached. If you will turn to the final table III you will find a list of the commodities which Commerce believes will be in easy supply in 1946 arranged in order of their importance in the actual export trade of the third quarter of 1945.

I may add that the Commerce classifications with regard to ease or tightness of supply were based on the assumption that there would be no widespread inflationary tendencies leading to abnormal inventories or hoarding in 1946. They were also inclined to disregard supply difficulties covered by strikes.

Attachment

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 12, 1946

To Mr. Gardner

Subject: Commerce Estimate of Impact of
Foreign Demand on Commodities
in Short Supply

From C. R. Harley

The attached three tables show in as great detail as possible the data presented to us by Mr. Bolton-Smith of the Department of Commerce in a memorandum entitled "Estimated Magnitude of United States Exports During 1946 Showing by Major Commodity Groups the Proportion in Tight and Adequate Supply". The study indicates that United States exports in 1946 may reach about 11 billion dollars and that only one-third of these exports will affect commodities in short supply in the United States economy.

For the purposes for which the Commerce study was prepared, the over-all magnitude of the estimates is of secondary importance. In so far, however, as the total forecast of exports might be inflated by abnormally large exports of commodities designated as in easy supply, the percentage in easy supply would be increased. There is no evidence of any distortion of this type; in comparison with my own estimate of 1946 exports totalling 8 billion dollars the Commerce figures show a somewhat larger proportion of total exports in those groups for which "easy availability" is a lower percentage than the average of 63 per cent computed for total exports.

The principal question, therefore, is whether or not the "easy availability" percentage shown for the various groups and for the principal commodities is a realistic estimate of the supply-demand relationship in 1946.

In discussion of specific commodities and groups of commodities, internal contradictions within the memorandum itself may be pointed out. It is apparent that several individuals collaborated in the project. Thus the section on exports to the British Empire (excluding Canada) and that on exports to Canada state:

"Items considered as being in short supply in the United States include the following major groups:

- Fruits, Nuts and Grains
- Fish and Fish Products
- Fats and Oils
- Meats
- Milk and Dairy Products
- Unmanufactured wood (lumber)
- Rubber and Rubber Manufactures
- Textile Fibres and Manufactures."

(Concerning which group a footnote states "Although cotton in general will be in free supply, the United Kingdom's requirements are of types which are scarce and cannot be met entirely from British Empire sources.")

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To compare with this opinion we have the following appraisals of easy supply in 1946:

Fruits	- 100	per cent	easy supply
Cotton, raw	- 100	per cent	easy supply
Milk and dairy products	- 93	per cent	easy supply
Rubber and manufactures	- 72.5	per cent	easy supply
Meats	- 25	per cent	easy supply
Fish and fish products	- 25	per cent	easy supply

The portion of the report itemizing China's requirements lists chemicals as being in tight supply (shown 88 per cent in easy supply in the over-all tables) and lists highway transportation equipment with no suggestion that this will be short although motor trucks and busses are elsewhere shown as only 25 per cent in easy supply and passenger cars as 0 per cent in easy supply.

In Table III there are listed 29 important commodities or groups which the Commerce memorandum expects to be in 100 per cent easy supply in 1946. Comments may be made on a number of these:

Industrial machinery - includes mining, well drilling and pumping machinery, 25 per cent of the total exports of the class in 1936-38. The capital-goods expert attending the conference in Mr. Bolton-Smith's office stated that this type of machinery was scarce and would continue to be scarce. Other components of the class are construction and conveying machinery, machine tools and steam locomotives. While capacity for locomotives is presumably more than adequate for domestic needs it is difficult to believe that certain types of machine tools and construction machinery will not be short for periods of varying duration.

Cotton, unmanufactured - see comment in the British Empire portion of the Commerce memorandum. In general, of course, the ease of supply in raw cotton depends upon the release of stocks now held by the government. Cotton prices have been rising rapidly in recent months without precipitating any effective governmental counter-action.

Auto parts for replacement) - Transfer of facilities to new
Auto parts for assembly) car parts will greatly diminish
the supply of replacement parts while domestic demand
will no doubt increase as one more year's service is
extracted from aging automobile transportation facilities.

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Fruits and preparations - See comment in the British Empire portion of the Commerce memorandum. See also statements made last week in Atlantic City at the National Food Brokers Association urging cancellation of allocations of dried fruits (prunes and raisins) for export to Canada and Britain in view of the domestic shortage. At Atlantic City also the Chief of the Army Quartermaster Corps Subsistence Branch predicted that some form of allocation of canned fruits and vegetables could be expected if the current shortage of fruits and vegetables remained unrelieved.

Subsistence
←

Vegetables and preparations - At the same conference, Secretary of Agriculture Anderson advocated continuation of government subsidies to stimulate vegetable canning and promised that if subsidies were withdrawn after June 30, canners could expect an increase in ceiling prices adequate to maintain their gross returns.

Copper and manufactures - The government has just reinstated a program of foreign purchases, eliminated last October, in order to stave off a threatened shortage of copper.

Beverages - In the third quarter of 1945 this group was composed of malt liquors (36 per cent) and hard liquors (10 per cent) now certain to be tight because of orders restricting the use of grain in their production, and orange juice (36 per cent) which has been scarce on domestic markets for several years. Fresh orange prices reached exorbitant levels in the past season. Scarcity of sugar will prevent syrups and flavors (11 per cent) from reaching an easy supply position.

Fertilizers and materials - Are still under international allocation and are notoriously scarce in foreign countries.

Brass and bronze - A long strike in New England brass works makes the estimate of 100 per cent easy supply for 1946 unwarranted.

Discussion of any of the commodities listed as less than 100 per cent in easy supply must be based completely upon comparative judgments. Only one further commodity group will be discussed. To call the important class Iron and steel mill products 75 per cent "easy" appears unrealistic in view of the current steel strike which will surely lower steel output in 1946 by at least 10 per cent as compared with earlier estimates. The press reports that the Civilian Production Administration was only dissuaded by the State Department from banning all steel exports during the strike.

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A general comment may be made regarding the Commerce study as a whole. If we were to accept for the moment the easy supply appraisals contained in the study, we could reach certain conclusions which would represent a quite different interpretation of the data from that drawn by the Commerce group. For example, the Commerce study suggests that, on the basis of ease of supply appraisals appropriate for 1946, exports in the third quarter of 1945 would have been 66 per cent in easy supply. Another method of reporting the same data would be: while 45 per cent of foreign purchases were of goods in completely easy supply, 55 per cent of foreign purchases affected commodities more or less in short supply. The average of easy supply for the latter group was no more than 40 per cent. One may well question whether either interpretation is meaningful. In aggregating the data minimum attention is given to the inflationary effects which may occur in connection with specific commodity classes.

Attachments

Table I

EXTENT TO WHICH FOREIGN NEEDS CAN BE MET FROM GOODS IN EASY SUPPLY IN UNITED STATES IN 1946

(Comparison of 1946 estimates with third quarter of 1945)

(Amounts in millions of dollars)

Commodity group	Estimated world requirements 1946			Annual rate of non-military exports from U.S. during third quarter 1945		
	Total	Amount in easy supply		Total	Amount in easy supply, 1946	
		Amount	Percentage		Amount	Percentage
Non-metallic minerals	1,153	1,155	100	895.2	895.2	100.0
Chemicals	498	450	90	373.6	329.6	88.2
Miscellaneous	206	175	85	294.8	248.8	84.4
Vegetable products, inedible	468	350	75	495.6	384.0	77.5
Machinery and vehicles	2,922	1,900	65	1,626.4	1,104.8	67.9
Metals and manufactures	912	595	65	631.6	412.8	65.4
Animal products, edible	2,154	1,290	60	769.2	525.2	62.2
Textile fibres	(b)1,110	445	40	866.0	409.6	47.3
Vegetable food products and beverages	1,017	305	33	812.8	294.0	36.2
Wood and paper	209	55	25	222.8	56.0	25.1
Animal products, inedible	(a)	(a)		91.6	20.4	22.3
Total	10,649	6,720	63	7,079.6	4,680.4	66.1

(a) Almost entirely hides, skins, and leather which are included as "textiles and clothing" under textile fibres and products.

(b) Raw cotton, raw wool, and textiles and clothing (which includes hides, skins, and leather).

Note:- This table has been compiled from data given in a memorandum entitled "Estimated Magnitude of United States Exports During 1946 Showing by Major Commodity Groups the Proportion in Tight and Adequate Supply" from the office of Mr. Bolton-Smith of the Department of Commerce.

Table II

ANNUAL RATE OF EXPORTS IN THIRD QUARTER, 1945
Commodity Groups in Order of Ease of Supply on 1946 Basis
 (Amounts in millions of dollars)

Commodities	Total	In easy supply	Percentage
Non-metallic minerals	895.2	895.2	100.0
Petroleum and products	505.6	505.6	100.0
Coal	236.8	236.8	100.0
Other non-metallic minerals	105.2	105.2	100.0
Hydraulic cement	18.0	18.0	100.0
Sulphur, crude	18.0	18.0	100.0
Abrasives	11.6	11.6	100.0
Chemicals	373.6	329.6	88.2
Medicinal and pharmaceutical preps.	117.2	117.2	100.0
Chemical specialties	75.6	75.6	100.0
Fertilizers and materials	16.8	16.8	100.0
Coal tar products	27.6	18.4	88.2
Industrial chemicals	70.0	52.4	74.8
Soaps and toilet preparations	34.8	26.0	74.7
Pigments, paints, varnishes	31.2	23.2	74.4
Miscellaneous	294.8	248.8	84.4
Commodities for relief and charity	76.4	76.4	100.0
Scientific and professional instruments	41.2	41.2	100.0
Other	154.0	116.0	75.3
Photographic and projection goods	23.2	15.2	65.5
Vegetable products, inedible	495.6	384.0	77.5
Tobacco, unmanufactured	221.6	221.6	100.0
Cigarettes	13.2	13.2	100.0
Corn starch and flour	8.0	8.0	100.0
Seeds	5.2	5.2	100.0
Rubber and manufactures	182.0	132.0	72.5
Other	8.0	4.0	50.0
Vegetable oils and fats, inedible	42.8	-	0
Naval stores, gums and resins	14.8	-	0
Machinery and vehicles	1,626.4	1,104.8	67.9
Industrial machinery	467.2	467.2	100.0
Auto parts for replacement	155.6	155.6	100.0
Auto parts for assembly	54.4	54.4	100.0
Merchant vessels	54.0	54.0	100.0
Railroad freight cars	26.0	26.0	100.0
Marine engines	4.0	4.0	100.0
Agricultural machinery and implements	181.6	145.6	80.2
Other	79.6	47.2	59.3
Motor trucks, busses	374.0	93.6	25.0
Electrical machinery and apparatus	229.2	57.2	25.0
Passenger cars	.8	-	0

ANNUAL RATE OF EXPORTS IN THIRD QUARTER, 1945 (Continued)
Commodity Groups in Order of Ease of Supply on 1946 Basis
 (Amounts in millions of dollars)

Commodities	Total	In easy supply	Percentage
Metals and manufactures	631.6	412.8	65.4
Copper and manufactures	40.0	40.0	100.0
Brass and bronze	7.2	7.2	100.0
Aluminum and manufactures	6.8	6.8	100.0
Iron and steel mill products	425.6	319.2	75.0
Other metals and manufactures	18.4	6.0	32.6
Iron and steel advanced manufactures	133.6	33.6	25.1
Animal products, edible	769.2	525.2	62.2
Eggs	206.8	206.8	100.0
Dairy products	289.6	268.8	92.8
Other animal products, edible	6.8	4.0	58.8
Fish	30.4	7.6	25.0
Meat products	152.4	38.0	24.9
Lard	64.4	-	0
Oleomargarine	19.2	-	0
Textile fibres and manufactures	866.0	409.6	47.3
Cotton, unmanufactured	347.2	347.2	100.0
Rayon fibre and manufactures	64.0	32.0	50.0
Other textile products	122.4	30.4	24.8
Cotton, manufactures	240.4	-	0
Wool and wool manufactures	92.4	-	0
Vegetable food products and beverages	812.8	294.0	36.2
Vegetables and preparations	150.0	150.0	100.0
Fruits and preparations	98.4	98.4	100.0
Beverages	29.6	29.6	100.0
Other vegetable food products	18.4	16.0	87.0
Grains and preparations	468.4	-	0
Sugar	34.4	-	0
Vegetable oils and fats	13.2	-	0
Wood and paper	222.8	56.0	25.1
Animal products, inedible	91.6	20.4	22.3
Other animal products	40.8	20.4	50.0
Leather manufactures	38.4	-	0
Leather	12.4	-	0
Total	7,079.6	4,680.4	66.1

Note:- This table has been compiled from data given in a memorandum entitled "Estimated Magnitude of United States Exports During 1946 Showing by Major Commodity Groups the Proportion in Tight and Adequate Supply" from the office of Mr. Bolton-Smith of the Department of Commerce.

Table III

ANNUAL RATE OF EXPORTS IN THIRD QUARTER, 1945
Principal Commodities in Order of Ease of Supply on 1946 Basis
 (Amounts in millions of dollars)

Commodities	Total	In easy supply	Percentage
Total	7,079.6	4,680.4	66.1
Petroleum and products	505.6	505.6	100.0
Industrial machinery	467.2	467.2	100.0
Cotton, unmanufactured	347.2	347.2	100.0
Coal	236.8	236.8	100.0
Tobacco, unmanufactured	221.6	221.6	100.0 ^e
Eggs	206.8	206.8	100.0
Auto parts for replacement	155.6	155.6	100.0
Vegetables and preparations	150.0	150.0	100.0
Medicinal and pharmaceutical preparations	117.2	117.2	100.0
Other non-metallic minerals	105.2	105.2	100.0
Fruits and preparations	98.4	98.4	100.0
Commodities for relief and charity	76.4	76.4	100.0
Chemical specialties	75.6	75.6	100.0
Auto parts for assembly	54.4	54.4	100.0
Merchant vessels	54.0	54.0	100.0
Scientific and professional instruments	41.2	41.2	100.0
Copper and manufactures	40.0	40.0	100.0
Beverages	29.6	29.6	100.0
Railroad freight cars	26.0	26.0	100.0
Hydraulic cement	18.0	18.0	100.0
Sulphur, crude	18.0	18.0	100.0
Fertilizers and materials	16.8	16.8	100.0
Cigarettes	13.2	13.2	100.0
Abrasives	11.6	11.6	100.0
Corn starch and flour	8.0	8.0	100.0
Brass and bronze	7.2	7.2	100.0
Aluminum and manufactures	6.8	6.8	100.0
Seeds	5.2	5.2	100.0
Marine engines	4.0	4.0	100.0
Dairy products	289.6	268.8	92.8
Coal tar products	27.6	18.4	88.2
Other vegetable food products	18.4	16.0	87.0
Agricultural machinery and implements	181.6	145.6	80.2
Other miscellaneous	154.0	116.0	75.3
Iron and steel mill products	425.6	319.2	75.0
Industrial chemicals	70.0	52.4	74.8
Soaps and toilet preparations	34.8	26.0	74.7
Pigments, paints, varnishes	31.2	23.2	74.4
Rubber and manufactures	182.0	132.0	72.5
Photographic and projection goods	23.2	15.2	65.5

ANNUAL RATE OF EXPORTS IN THIRD QUARTER, 1945 (Continued)
Principal Commodities in Order of Ease of Supply on 1946 Basis
(Amounts in millions of dollars)

Commodities	Total	In easy supply	Percentage
Other machinery and vehicles	79.6	47.2	59.3
Other animal products, edible	6.8	4.0	58.8
Rayon fibre and manufactures	64.0	32.0	50.0
Other animal products	40.8	20.4	50.0
Other vegetable products, inedible	8.0	4.0	50.0
Other metals and manufactures	18.4	6.0	32.6
Wood and paper	222.8	56.0	25.1
Iron and steel advanced manufactures	133.6	33.6	25.1
Motor trucks, busses	374.0	93.6	25.0
Electrical machinery and apparatus	229.2	57.2	25.0
Fish	30.4	7.6	25.0
Meat products	152.4	38.0	24.9
Other textile products	122.4	30.4	24.8
Grains and preparations	468.4	-	0
Cotton, manufactures	240.4	-	0
Wool and wool manufactures	92.4	-	0
Lard	64.4	-	0
Vegetable oils and fats, inedible	42.8	-	0
Leather manufactures	38.4	-	0
Sugar	34.4	-	0
Oleomargarine	19.2	-	0
Naval stores, gums and resins	14.8	-	0
Vegetable oils and fats, edible	13.2	-	0
Leather	12.4	-	0
Passenger cars	.8	-	0

Note:- This table has been compiled from data given in a memorandum entitled "Estimated Magnitude of United States Exports During 1946 Showing by Major Commodity Groups the Proportion in Tight and Adequate Supply" from the office of Mr. Bolton-Smith of the Department of Commerce.