The 1957-58 Recession in World Trade

United States exports dropped sharply from mid-1957 to early 1958. The decline in foreign purchases exceeded $4 billion at an annual rate, and was one of the major factors in the eight-month decline in United States economic activity after August 1957.

Exports ceased falling early this year, but thus far have played no positive role in the economic recovery that began after April in this country. These developments differ strikingly from those of 1953-54, when exports were a sustaining factor in the United States recession and an expansive element in the subsequent recovery.

World Boom and Reaction

A 60 per cent advance in United States exports from the first half of 1954 to the first half of 1957 added appreciably to demands in the United States economy during that period. This rapid growth in exports was concentrated in capital goods and industrial materials including fuels. It reflected strong pressures of demand abroad associated with rapidly increasing outlays to expand productive capacity throughout the world. Demand pressures were further intensified at the end of 1956 by speculative developments following the closing of the Suez Canal.

Sooner or later, monetary and fiscal policies in all industrial countries and in many others were directed toward restraining the force of the boom. The lateness of application of restraints in some countries contributed alike to unsustainable bulges in world trade, including United States exports, and to drains on the foreign exchange reserves of the countries concerned.

In 1956 and 1957 investment expenditures began to level off. Inventories of industrial materials, which earlier had appeared inadequate for current and prospective needs, became excessive in 1957 as consumption of materials stopped rising and supplies increased. These developments were associated with declines in raw material prices on world markets and led, at varying dates in 1957 and early 1958, to cyclical...
downturns in industrial activity here and abroad. Declines in world prices and recessions in industrial countries were interrelated events in the aftermath of the 1954-57 acceleration of investment expansion throughout the world.

Declines in prices reduced the value of the exports of nonindustrial countries. Many of these countries were already importing at rates in excess of their export earnings and capital inflows, and in 1957-58 there were heavy drains on their reserves. By mid-1958 reductions in their imports were slowing the reserve drains.

Most European countries and Japan have by now checked price inflation and regained external balance. Since spring industrial output has been expanding again in the United States and Canada.

U. S. BALANCE OF PAYMENTS

The drop of more than $4 billion in the annual rate of United States exports between mid-1957 and early 1958 occurred while total payments from the United States were declining only moderately. It therefore led to renewed transfers of gold and dollars to foreign countries, as shown in the chart on the preceding page. Such transfers were about $1.5 billion in the first half of 1958. The gains were concentrated in the holdings of West European countries, Japan, and Canada. The year before, when United States exports and payments were both very large, speculative movements of funds had caused drains on foreign reserves through September.

Payments. Total payments from the United States were at a seasonally adjusted annual rate of $26 billion in the first half of 1958, only $1.5 billion less than in the 12 months to mid-1957. These payments include those for imports of goods and services and the net outflow of United States investments, loans, and grants.

An important factor in the maintenance of total payments was the moderate size of the decline in imports. Despite a fairly sharp drop at the end of 1957, imports of goods and services in the first half of 1958 were down only 3 per cent from a year earlier.

Imports of metals and other materials declined no more in the 1957-58 recession than they had in 1953-54. While prices fell more in 1957-58, declines in volume were in most cases smaller. In the first half of 1958 imports of crude and semifinished materials (excluding petroleum) were slightly less than in the first half of 1954; there was little difference in average prices. Petroleum imports have been level since the latter part of 1957, after doubling in value from 1954.

During 1957 and early 1958, the total of imports was buoyed by further advances in imports of manufactures from West Europe and Japan, and by larger imports of meat, mostly from Canada. Imports of manufactures now account for more than one-fifth of total merchandise imports compared with one-seventh of the smaller 1954 total. While imports of manufactured textiles have been level since early 1956, there were continued increases through 1957 in imports of a wide range of other manufactured consumer goods. An impressive advance in imports of automobiles continued into 1958; in the first half of this year they were nine times as large in value as four years earlier.

An increasingly important element in total payments to foreign countries in recent years has been the net outflow of private United States capital. In the first half of 1958 this flow was at an annual rate
of more than $3 billion, greater than at any time before mid-1956.

Direct investments by United States companies formed a smaller proportion of the total outflow of private capital than in earlier years. New investment in overseas petroleum development was appreciably smaller than in the first half of 1957, when large payments were made for petroleum exploration rights in Venezuela. Direct investments in Canada also declined as large projects for resource development were completed. The outflow to West Europe was little changed.

Flotations of foreign securities in this country slackened in the last half of 1957, but rose to a record level in the first half of 1958. After interest rates in the United States eased near the end of 1957, there was a marked increase in security issues of Canadian local authorities, of the World Bank, and of a widening list of foreign governments and corporations.

The outflow of short-term capital including bank loans also increased in the first half of 1958 after diminishing during most of 1957. In recent years growth in

### UNITED STATES BALANCE OF INTERNATIONAL PAYMENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>1953</th>
<th>1954</th>
<th>1957</th>
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<td>Payments from United States:</td>
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<td>Merchandise imports</td>
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<td>.020</td>
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<td>Subtotal</td>
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<td>Subtotal</td>
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<td>.061</td>
<td>.220</td>
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<td>Foreign purchases of U. S. goods and services:</td>
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<td></td>
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<td></td>
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<td>Short-term assets in U. S. and long-term U. S. Government securities</td>
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<td>.081</td>
<td>.291</td>
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<tr>
<td>Total</td>
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<td>1.141</td>
<td>.791</td>
<td>-.071</td>
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<td>Unidentified transactions (net U. S. receipts)</td>
<td>.181</td>
<td>.121</td>
<td>.171</td>
<td>.621</td>
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  a Preliminary.
  b Including military expenditures abroad totaling $1.18, $1.36, $1.31, $1.73, $1.40, $1.70 billion in the periods given.

NOTE.—Department of Commerce data, not adjusted for seasonal variation. Details may not add to totals because of rounding.
foreign lending by United States banks, including participations in World Bank and Export-Import Bank loans, has added significantly to the resources available for financing world trade.

The outflow of Government loans and nonmilitary grants, mainly to nonindustrial countries, has continued at a rate of about $2.5 billion a year.

Exports. The decline in merchandise exports, from a record $20 billion annual rate in the first half of 1957 to a $16 billion rate early this year, was concentrated in exports to industrial countries, as the chart shows. Exports to Canada, West Europe, and Japan were 30 per cent lower in the first half of 1958 than a year earlier. Exports to West Europe had been swollen at the beginning of 1957 by emergency oil shipments, which ended in the second quarter; from mid-1957 to early 1958 exports to West Europe fell more than one-fifth.

Total shipments to nonindustrial countries did not begin to decline until the end of 1957. In the second quarter of 1958 they were 12 per cent lower than a year earlier. Well over half the decline in total exports affected industrial materials. Exports of steel, steel scrap, and other metals in the spring of 1958 were 40 per cent lower in value than a year earlier, partly because of price declines. Declines in exports of raw cotton and coal were also large.

Exports of machinery and transportation equipment, exclusive of passenger automobiles, did not decline substantially before the end of 1957. Shipments of capital goods to industrial countries turned down moderately at various dates, beginning with exports to Canada, but until late last year these declines were offset by rising shipments to nonindustrial areas.

During the spring and early summer of 1958 there was an increase in export shipments of agricultural products. United States nonagricultural exports, seasonally adjusted, were virtually level from April through August.

INDUSTRIAL ACTIVITY ABROAD
Economic activity leveled off during 1957 or early 1958 in all industrial countries. The extent of subsequent declines varied widely, reflecting differences among countries in the strength of total demand.

Consumer demand continued to expand in most countries. Business fixed investment outlays remained large, though in some countries they fell off considerably, as they did in Canada and the United States. But everywhere a slowing down of inventory accumulation in 1957 and a later shift to inventory liquidation contributed to marked curtailments of steel and textile output, and to sharp declines in related imports.
For most industrial countries, declines in export demand were smaller than for the United States. Exports of West European countries to each other and to the United States leveled off early in 1957. Their exports to nonindustrial countries rose into the second half of 1957 and then declined, as did those of the United States.

Industrial production reached its peak earlier than elsewhere in Canada, Belgium, the Netherlands, and Denmark. Belgian production, heavily concentrated in steel and textiles, declined for more than a year, and this summer was about 13 per cent below its peak. In Canada and the Netherlands declines from the first quarter of 1957 were about 7 per cent, and upturns began this year sooner than in the United States. Similarly, moderate declines in industrial production in Japan and Norway from peaks in the second quarter of 1957 ended early this year.

British industrial production reached its peak in the second quarter of 1957. During the spring and summer of 1957 continuing expectations of persistent slow inflation dried up the market for fixed-interest securities including British Government bonds, and there was widespread speculation on the possibility of devaluation of sterling and revaluation of the German mark. In September, to stop a speculative run on reserves and bring inflation to a halt decisively, the Bank of England raised its discount rate from 5 to 7 per cent, and the Government drastically tightened fiscal and credit restraints.

Business expenditures for buildings, plant, and equipment in the United Kingdom, including those of the nationalized utilities and railroads, continued to rise into 1958. Industrial production declined about 5 per cent from mid-1957 through the summer of 1958, mainly owing to cutbacks in steel and textiles.

Expansion persisted into the first quarter of 1958 in Germany, France, and Italy, carrying the index of aggregate West European industrial production to new highs, as shown in the chart. After January, however,
over-all activity leveled off in Germany and dipped briefly in Italy, reflecting weakness in steel markets and a spreading of inventory liquidation in the apparel and textile field. In France, where excessive demand had caused inflation and serious losses of foreign exchange, industrial production turned down after February 1958.

As economic downturns developed, and as imports fell with the abatement of inflationary pressures, credit and fiscal restraints began to be relaxed. In Canada, a new Government enacted a number of expansionary fiscal measures during the fall of 1957. Changes in credit policy in European countries and in Japan were gradual and cautious. In Germany increased availability of long-term funds at reduced interest rates stimulated residential construction.

In Britain, Bank rate was cut back last spring to the pre-September 1957 level. In July, the direct control of bank loans introduced in 1955 was removed. In September, instalment credit regulations were relaxed.

WEST EUROPEAN IMPORTS

Purchases by West European countries from outside Europe declined quite sharply in value after mid-1957. Imports from the United States fell most, and imports from Canada also dropped. Imports from Japan, on the other hand, continued to rise, and imports of petroleum from the Middle East recovered after early 1957.

West European imports from other producers of primary products, which had been at an annual rate of about $16 billion in the first half of 1957, were about $1.5 billion lower in the first six months of 1958. This decline was greater, even in relative terms, than the decline in United States imports from the same broad group of countries. In both cases price changes were an important element in the decline.

The reduction in value of imports contributed greatly to the balance-of-payments gains of European countries after September 1957, and to striking increases in their gold and foreign exchange reserves.

TRADE OF NONINDUSTRIAL COUNTRIES

While at mid-1958 gross reserves of gold and foreign exchange of West European countries were nearly $3 billion greater than at the end of 1956, and gold holdings of the United States were $650 million less, gross reserves of nonindustrial countries other than petroleum exporters were down nearly $2 billion from a year and a half earlier. Somewhat under half of this decline for nonindustrial countries was in their holdings of sterling and most of the remainder was in dollars and gold. During the same period the nonindustrial countries made net drawings of $450 million from the International Monetary Fund.

Reduced earnings from sales of primary products have been an important cause of drains on reserves, but the most critical reserve situations have been confined to countries that allowed their own payments to become and remain excessive. Import purchases by nonindustrial countries other than petroleum producers began to exceed the sum of their export earnings and net inflows of capital in 1956. The imbalance became greater in 1957 as their imports rose further for a time and as export earnings declined.

Exports in the boom. Over the course of the 1954-57 boom, export earnings of non-industrial countries in the aggregate increased one-sixth, as shown in the chart. These gains were due largely to volume expansion, which was especially rapid from 1954 to early 1956. Thereafter increases in
THE 1957-58 RECESSION IN WORLD TRADE

TRADE OF NONINDUSTRIAL COUNTRIES


volume were markedly slower, except for petroleum.

Fluctuations in prices for raw materials and foodstuffs varied widely from commodity to commodity. While prices for some agricultural commodities were never as high after 1954 as before, market prices of many commodities rose sharply to peaks at various dates in 1955, 1956, or 1957. Nevertheless, the broad average of prices actually realized by nonindustrial countries, unrepresentative though this may be of the experience of individual countries, did not change widely from 1954 to early 1957.

Exports in 1957-58. When demand for primary commodities in industrial countries slackened in 1957, price declines began to predominate over increases. Short crops explain the few exceptions to the generally downward movement of prices of primary commodities after the spring of 1957. Physical volume of exports of commodities other than petroleum decreased a little.

Average prices entering into total export earnings of nonindustrial countries other than petroleum producers were about 10 per cent lower this spring than in 1954. Price levels in industrial countries, on the other hand, are generally higher than they were in 1954.

Some shift in price relationships would probably have occurred on account of long-term changes in demand and supply, even if sharp fluctuations in industrial countries' demand in the 1954-58 period had been avoided. Lowered costs of production of synthetic materials, relative growth of world demand for manufactured products in general, and the overcoming of postwar supply shortages for some primary products would all have worked in the same direction. But the concentration of price adjustments within the latter part of this period has greatly intensified the difficulties of nonindustrial countries.

Imports in 1957-58. Decreases in earnings of nonindustrial countries have been followed, with a lag, by reductions in their imports. The decline in imports continued in the second quarter of 1958, if allowance is made for the usual seasonal variation.

To protect dwindling foreign exchange reserves, some countries, such as South Africa and Rhodesia, tightened their monetary and fiscal policies this year. Others, notably India, the Philippines, and New Zealand, adopted severe measures of exchange control which cut their import purchases sharply. Others, however, continued to import heavily; Brazil and Argentina virtually exhausted their foreign exchange reserves.

Among countries with large reserves,
Australia maintained its imports and Mexico increased its purchases further. Venezuela reduced its imports of capital goods as petroleum investment expenditures declined.

THE IMF AND THE WORLD BANK
In adjusting to changes in their balances of payments in the later stages of the world boom and in the subsequent trade recession, many countries made use of temporary assistance from the International Monetary Fund. This institution has exerted an influence toward stability and order in world trade not only through its financial assistance but also through advice on appropriate financial policies.

Looking ahead to problems of the next decade, the President of the United States has proposed enlargement of the resources of the Fund, which have not been changed since it was set up just after World War II. He has also proposed increasing the resources of the International Bank for Reconstruction and Development, which operates in the field of long-term investment. Both proposals were favorably received at the annual meeting this month of the Governors of the Fund and the Bank. The Executive Directors of the institutions were instructed to work out detailed plans. These plans will be submitted to the Congress of the United States and to the appropriate bodies in other member countries.