

May 1967

## The Copper Situation

TOTAL domestic demand for copper, including defense demand, continued strong throughout 1966 and early 1967. Supplies of refined copper available to domestic users, which were very tight relative to demand in the first three quarters of 1966, improved considerably late last year and continued to improve in the early part of 1967.

These developments have been reflected in changes in copper prices; up to mid-1966, copper had shown one of the largest increases of any commodity group in the index of wholesale industrial prices, and this contributed importantly to the rise in industrial prices from mid-1964 to mid-1966. Domestic prices of copper scrap, which are a sensitive barometer of supply-demand conditions, have fallen considerably. Prices of refined copper in foreign markets have also dropped sharply from last year's unusually high levels. However, the price charged by domestic producers for primary copper, which had been held down in 1966 under the administration's wage-price guideposts, increased in early 1967. Prices of copper mill products, which had been rising almost steadily for the past 3 years, have shown signs of softening in recent weeks.

### Consumption at record rate

Domestic consumption of refined copper expanded sharply from 1965 to 1966. The 16 percent increase over the year was the largest annual advance by far in the 1961-66 period. In the final 3 months of 1966, copper consumption was at a new peak. Reduced activity in the automobile and construction industries—which are large users of copper products—tended to dampen the rise in consumption of copper for civilian items in the last half of 1966, but

expanding defense requirements more than offset this drop. In January and February of this year, domestic consumption was running at about the same rate as in the final 3 months of 1966.

### Defense use up, exports lower

The use of copper for defense-rated orders, which began to increase in late 1965, continued upward at an accelerated rate throughout 1966 and through the first half of 1967. In 1966, producers' set-asides for defense-rated orders were established on the basis of producers' 1965 output of refined cop-

per from domestic ores; they ranged from 10 percent in the second quarter to 18 percent in the fourth. The set-aside was increased to 26 percent for the first quarter of 1967 and to 29 percent for the second quarter. However, the rate will be reduced to 26 percent for the July-September period. In terms of tonnage, the set-aside of refined copper for the current quarter is equivalent to somewhat less than 100,000 tons, or about 16 percent of domestic consumption at the quarterly average rate in 1966. In the April-June 1966 period, the equivalent figures were 35,000 tons and 6 percent respectively.

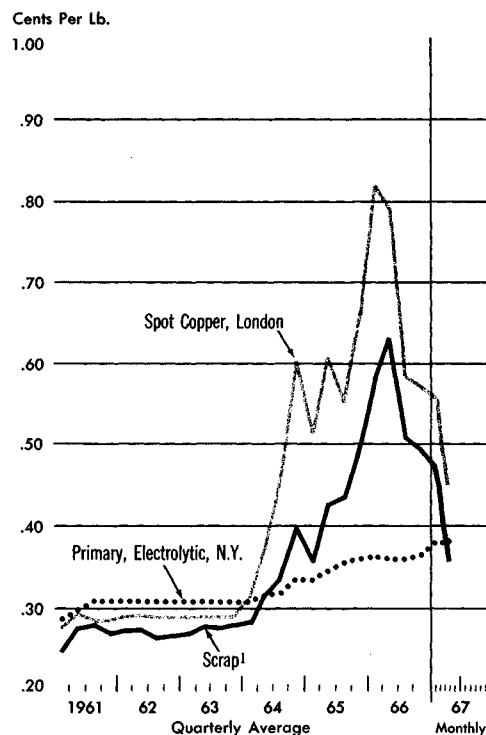
U.S. exports of refined copper, especially to Western Europe, contracted sharply in the fourth quarter of 1966. Exports of refined copper during this period were approximately 40,000 tons, or half the quarterly average in the first three quarters of 1966. In the first 2 months of this year, shipments to foreign markets, although up from the relatively low October-December rate, were below the total a year ago.

### Improved supplies

Copper supplies, as measured by domestic production and imports, were at a record rate of 2.3 million tons in 1966, but the 3 percent rise over 1965 was far below the increase in demand. Despite efforts by industry and government to expand supplies of refined copper, there was very little increase in the first 9 months of 1966 as compared with the first 9 months of 1965. However, in the fourth quarter, supplies increased appreciably, and combined domestic output and imports of copper reached a new high, 7 percent above the fourth quarter of 1965. In the first 2 months of this year, the margin of gain over the first 2 months of 1966 rose to more than 15 percent.

CHAPTER 3

### COPPER PRICES



\*Scrap price represents No. 1 wire

Data: BLS & E&M

U.S. Department of Commerce, Office of Business Economics

67-5-3

Both increased domestic production and larger imports of refined metal accounted for the year-to-year gain in supplies evident since last fall. The expansion in imports of refined copper has to a large extent reflected the slow-down in economic activity in some foreign areas—particularly in Western Europe—which has made more copper available to U.S. markets. Thus, the flow of refined copper from abroad, which held relatively steady at about 30,000 tons per quarter in the January–September period, rose to 70,000 tons in the fourth quarter. Of this total, Western Europe, which is normally a negligible exporter of copper, supplied 26,000 tons, or about two-thirds of the increase. Imports in early 1967 continued high.

#### ***Demand exceeds supply***

In 1966, for the fourth year in a row, domestic consumption plus exports exceeded domestic production plus imports. The difference was especially pronounced early last year but has since narrowed. The excess of demand over supply in 1966 was met primarily by releases of 400,000 tons from the national stockpile; this was more than three times the tonnage released in 1965. About 150,000 tons of refined metal from the stockpile are being made available for sale in varying monthly allotments from January through September of this year.

#### ***Copper prices***

From June 1964 to June 1966, prices of nonferrous metals as a group showed one of the largest increases—18 percent—of any group in the industrial component of the BLS wholesale price index. During this same period, whole-

sale prices for all industrial commodities advanced 4.0 percent.

Much of the rise in the nonferrous metals group has been due to higher quotations for primary refined copper, copper scrap materials, and fabricated mill products. The sharp rise in prices reflected expanding world demand at a time when production was being held down by strikes and political difficulties abroad. However, since mid-1966, prices of nonferrous metals as a whole have tended to stabilize and have even edged down a little, reflecting in large part the substantial improvement in the supply-demand position of copper.

In periods when copper is in short supply and demand is strong, fabricators obtain more of their requirements in the secondary market and thus put pressure on scrap prices. As chart 3 shows, the price of copper scrap (no. 1 wire) peaked in the first half of 1966, when the imbalance between supply and demand was greatest. As the deficit in supplies narrowed, scrap prices fell sharply but irregularly after the spring of 1966. In April of this year, the average price of copper scrap was 36 cents per pound, the lowest in more than 2 years and far below the high of 66 cents per pound in April 1966. The current scrap price is close to the price of primary copper; normally, copper scrap sells somewhat below the price of the refined metal.

It may also be noted that prices in foreign markets have reflected the shifting balance between supply and demand. For example, the price of spot copper in London, the principal trading market outside the United States, rose sharply to a very high level in early

1966 as the production of refined copper continued to be adversely affected by strikes and political disturbances in some of the main producing countries. With a return to more normal operations and with demand pressures abroad tending to ease, spot copper prices fell moderately in the late spring months and dropped more sharply in the third quarter before leveling off in the October–December period. The downward trend continued through the early months of 1967. In April of this year, the price of spot copper, at 45 cents a pound, was one-fifth below the 1966 fourth quarter average and more than two-fifths under the early 1966 high.

The domestic producers' price of primary refined copper, after holding steady at about 36 cents per pound throughout 1966, increased to 38 cents per pound in January of this year and has since remained at this level. Industry attempts to raise prices in 1966 were met by Government intervention under the wage-price guideposts. The present price of copper, the highest since October 1956, represents an increase of nearly one-fourth from the February 1964 price of 31 cents per pound.

Copper mill products—which are fabricated from both refined copper and scrap—have shown a much larger average price rise than the primary metal. The BLS index of wholesale prices of these products has generally been moving upward since 1963, and in the early months of this year, most of the items in this group were at, or close to, peak levels. However, more recently major fabricators announced price cuts for copper tubing and for a wide range of brass mill products.