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MERCHANDISE TRADE IN THE FOURTH QUARTER 1974  
--Balance of Payments Basis--

Preliminary estimates indicate that the merchandise trade deficit--the excess of imports over exports--narrowed in the fourth quarter of 1974 to \$1.5 billion, seasonally adjusted, from the record deficit of \$2.6 billion registered in the third quarter. The improvement in the trade balance occurred as exports rose \$1.5 billion, or 6 percent, to a total of \$26.1 billion, and imports increased \$0.5 billion, or less than 2 percent, to \$27.6 billion. These figures, reported today by the Bureau of Economic Analysis, an agency of the Commerce Department's Social and Economic Statistics Administration, are on a balance of payments basis, which reflects adjustments to Census Bureau trade figures for timing, coverage, and valuation, and excludes military exports and imports of the defense agencies.

A much faster rise in the price of exports than of imports--influenced by a sharp jump in farm export prices--was mainly responsible for the larger export gain in the fourth quarter, in value terms. (Prices are measured by the Census Bureau's unit value index, with incomplete fourth quarter data.) In volume terms, both exports and imports edged slightly downward, with imports dipping somewhat more than exports. A surge of petroleum arrivals into the Virgin Islands in December kept fourth quarter petroleum imports at about the third quarter level; all other imports appear to have declined about 1 percent in volume. Exports of nonagricultural (nonmilitary) goods, comprising more than three-fourths of all exports, showed little change in volume from the preceding quarter, but farm product shipments declined about 2 percent.

Fourth quarter exports

Higher prices raised the value of both agricultural and nonagricultural exports in the fourth quarter. In the latter category, capital goods--led by a near-50 percent increase in the value of civilian aircraft deliveries--showed the largest gain; machinery exports rose only 4 percent following a 15 percent gain in the third quarter. There was a 10 percent increase in automotive exports, mainly parts to Canada, following an 18 percent rise a quarter earlier. In contrast, exports of industrial supplies and materials declined for the first time since the second quarter of 1972. Coal exports were a major exception, rising in both value and volume despite sharply curtailed shipments in December due to the coal strike.

Fourth quarter imports

A large increase in petroleum imports into the Virgin Islands in December (not recorded in Census trade statistics) was the major factor contributing to the continued high volume of total U.S. petroleum imports, but lower prices reduced their value about

2 percent. (Prices appeared to be rising again towards year-end.) All other imports increased an estimated 3 percent in value in the fourth quarter, but the rise was concentrated in imports of steel and steel making materials, and to a lesser degree in the value of sugar arrivals. Most other import product groups declined, especially auto imports from overseas.

#### Year-to-year developments

For the calendar year 1974 as a whole, the trade balance was in deficit by \$5.8 billion (preliminary), compared with a surplus of \$0.5 billion in 1973. Imports rose \$33.0 billion, or 47 percent, to a total of \$102.8 billion; exports increased \$26.8 billion, or 38 percent to \$97.1 billion. Intense inflationary pressures in the United States and abroad boosted the value of both U.S. exports and imports in 1974. Price advances were especially steep for imports, reflecting the strong impact of a tripling in the cost of foreign petroleum. (Petroleum prices rose fourfold from the first quarter of 1973 to the second quarter of 1974 and then flattened out.) The resulting huge rise in the value of oil imports was the primary reason for the sharp adverse swing in the trade balance in 1974. In volume terms, after adjustment for price changes, imports declined 1 percent from 1973, and exports increased 8 percent.

The 1974 trade deficit in petroleum and products amounted to \$25.1 billion compared to a \$7.5 billion deficit in 1973. Excluding petroleum, the overall merchandise balance was in surplus by almost \$19.5 billion. The volume of petroleum imports declined almost 3 percent as high prices led to some reduction in petroleum demand and the Arab embargo curtailed arrivals early in the year. Imports of all other goods slipped about 1 percent in volume, but higher prices boosted their value by one-fourth. Higher prices were also a major factor in the rise of exports. The value of agricultural exports increased one-fourth, after having nearly doubled in 1973. In volume terms, farm exports declined 10 percent in 1974, partly due to reduced U.S. supplies. Exports of nonfarm (nonmilitary) products rose in both value and volume last year. More than three-fourth of the value rise was due to higher prices. Volume was up 12 percent, compared to a 22 percent rise in 1973. The reduced growth in foreign demand for U.S. nonfarm products was mainly related to the slowdown in economic activity abroad.

TABLE FOLLOWS:

Merchandise Trade--Balance of Payments Basis  
(Millions of dollars, seasonally adjusted)

	Annual		Change	Quarterly 1974				Change: III-IV
	1973	1974		I	II	III	IV	
<u>EXPORTS</u>								
Merchandise exports, Census basis, including reexports, excluding military grant shipments-----	70,823	97,907	27,084	22,358	24,212	24,958	26,455	1,497
Additions to Census exports:								
Inland freight (to Canada) valuation adjustment-----	404	558	154	127	138	145	148	3
Deductions from Census exports:								
Exports transferred under U.S. military agency sales contracts identified in Census documents-----	1,277	1,824	547	350	468	445	561	116
Other adjustments to Census exports-----	327	433	106	145	188	-43	67	110
Equals: Merchandise exports, adjusted to balance of payments basis, excluding "military"-----	70,277	97,074	26,797	22,280	24,070	24,615	26,109	1,494
<u>IMPORTS</u>								
Merchandise imports, Census basis (general imports)-----	69,476	100,972	31,496	21,713	25,161	27,060	27,144	84
Additions to Census imports-----	1,000	2,314	1,314	498	533	643	640	-3
Virgin Islands imports from foreign countries-----	641	1,919	1,278	378	443	557	541	-16
Gold imports, nonmonetary-----	359	395	36	120	90	86	99	13
Deductions from Census imports-----	971	1,044	73	225	247	303	269	-34
Automotive valuation adjustment-----	661	699	38	160	142	208	189	-19
Imports of U.S. military agencies identified in Census documents-----	310	345	35	65	105	95	80	-15
Other adjustments to Census imports-----	301	595	294	361	247	-235	116	351
Equals: Merchandise imports, adjusted to balance of payments basis, excluding "military"-----	69,806	102,837	33,031	22,347	25,694	27,165	27,631	466
<u>BALANCE</u>								
(export surplus +, export deficit -)								
Merchandise trade, Census basis-----	1,347	-3,065	-4,412	645	-949	-2,102	-689	1,413
Merchandise trade, adjusted to balance of payments basis, excluding "military"-----	471	-5,763	-6,234	-67	-1,624	-2,550	-1,522	1,028

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, Balance of Payments Division.