

# MONTHLY *Business Review*

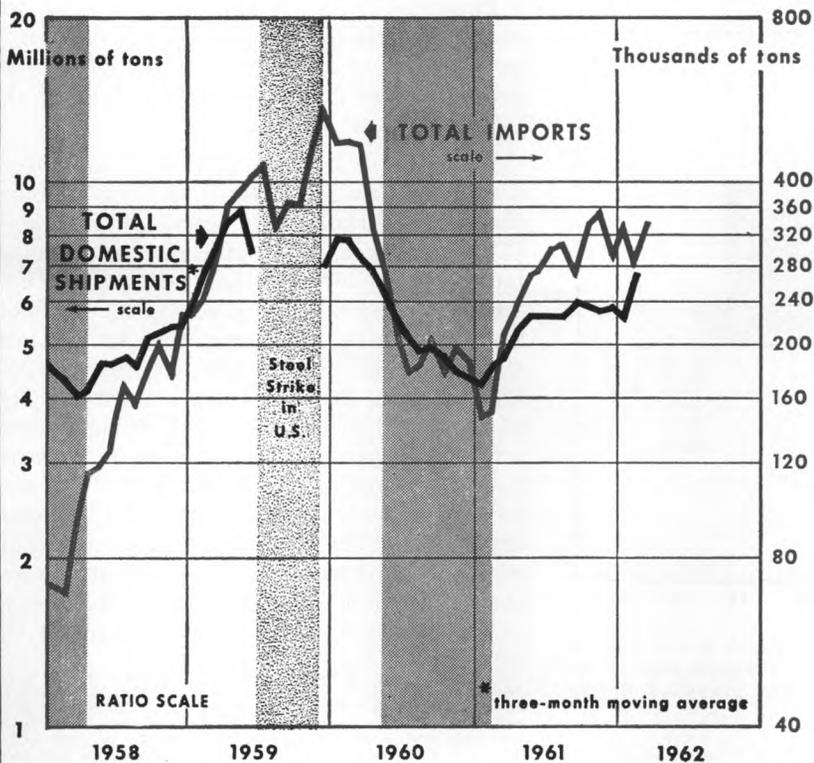
FEDERAL RESERVE BANK of CLEVELAND

*July 1962*

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## U.S. DOMESTIC SHIPMENTS AND IMPORTS OF STEEL PRODUCTS



**Both domestic shipments and imports of steel tend to reflect changes in general business activity in the U.S. During the latest economic recovery, however, imports have represented a larger share of domestic shipments than was the case during the 1958-59 recovery.**

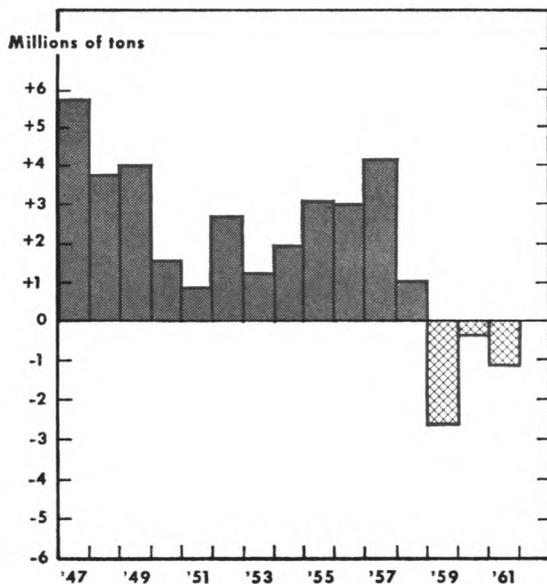
Source of data: American Iron and Steel Institute, National Bureau of Economic Research.

# Trade In U.S. Steel Products: From Plus to Minus

**F**OR FIFTY YEARS prior to 1959, U.S. steel producers exported more steel products than U.S. users imported. However, as shown in an accompanying chart, the traditional favorable balance of trade in steel products ended recently. During the past three years, foreign steel producers shipped more tons of steel to the U.S. than domestic producers sent abroad.<sup>(1)</sup>

(1) In 1961, U.S. steel exports totaled 2.0 million tons while imports amounted to 3.1 million tons. In 1960 the respective figures were 3.0 million tons and 3.3 million tons; and in 1959, they were 1.7 million tons and 4.4 million tons.

**U.S. BALANCE OF TRADE IN STEEL  
1947-1961**



*During the past three years, the U. S. has been a net importer of steel (on a tonnage basis), reversing the situation which had prevailed during previous years.*

Source of data: American Iron and Steel Institute, Annual Statistical Reports.

A few U. S. steel producers have felt the impact of the increased steel imports rather sharply. For example, during 1961, imports of wire nails represented approximately three-fourths of domestic shipments of that product, and imports of wire rods represented approximately one-half of comparable domestic shipments.

However, most U.S. manufacturers of steel products have not had to reckon with imports to such an extent. On the average, steel imports into the U.S. represented somewhat more than 5 percent of the total volume of domestic shipments from 1959 through 1961.

Parenthetically, it may be noted that the reversal in the position of the U. S. from a net exporter to a net importer of steel products is related to the larger problem of the U.S. balance of payments.

In 1960 and 1961, U.S. trade in mill products showed a net surplus in dollars, although the excess shrank on a year-to-year basis.<sup>(2)</sup> (The seeming paradox of a surplus in dollar terms is explained by the fact that the U.S. tends to export higher-priced steel products than it imports.) Moreover, that surplus was eliminated in the first two months of 1962. Steel exports bring payments from the rest of the world to the U.S., and imports represent payments by the U.S. An improvement in the net balance of trade in steel products, which could come either from increased exports or from decreased imports, or some combination thereof, would contribute toward shrinking the deficit in the over-all balance of payments. However, efforts to improve the

(2) In 1961 the deficit in the U.S. balance of payments amounted to \$2,454 million. During that year, steel exports amounted to \$423 million while steel imports totaled \$380 million, leaving a net surplus of \$43 million. That figure compares with a net surplus of \$156 million in 1960 and a deficit of \$154 million in 1959 (which stemmed in part from the steel strike of that year).

net balance of trade in steel products must reckon with factors of strength in foreign steel production.

### Growth of Foreign Steel Production

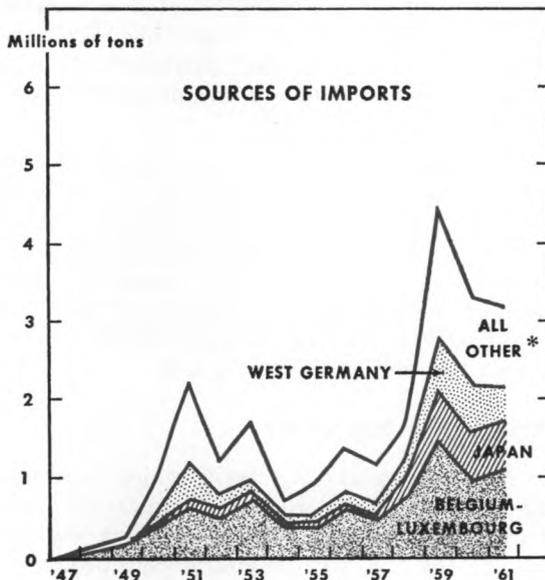
There are several other countries in the world besides the U.S. which have the facilities to produce sufficient steel to supply their own needs, with enough to spare so that they can export steel and actively cultivate world markets. Like the U.S., these are all highly industrialized nations in which there exists the combination of economic factors necessary to steel making, i.e., a plentiful, low-cost supply of raw materials (iron ore, coal, limestone, and water), access to large final markets, and resources to meet large-scale capital requirements. As shown in the accompanying chart, most of the countries which export steel to the U.S. are situated in Europe, with Japan being the major non-European nation in the group.

Although the U.S. still turns out more steel than any other single nation, capacity in the five other leading steel-producing countries has expanded so greatly that together they now surpass U.S. production.<sup>(9)</sup> The history of that tremendous expansion may be told briefly.

In the postwar reconstruction period, from the end of World War II to 1952, steel capacity in Europe and Japan was built up with the aid of the Marshall Plan and other programs, utilizing a large volume of U.S. steel products and other resources. The objective at the time was to rebuild war-damaged industrial equipment and buildings. Subsequently, after the period of reconstruction was completed in 1952, a steadily increasing demand came into play in Europe and Japan for consumer and producers' durable goods, thus providing continued incentive for the expansion of steel-making facilities in those areas. Still more recently, in the

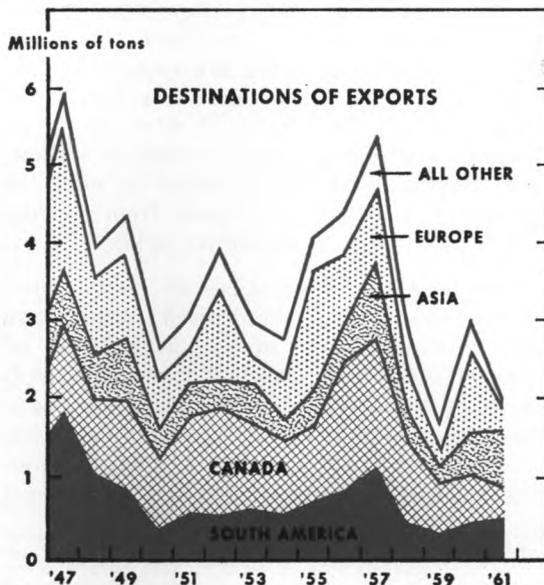
<sup>(9)</sup> In 1939, the total steel ingot output for the four principal steel-producing countries of Europe and for Japan totaled 62.4 million short tons. In 1952, steel output for those five countries surpassed the pre-war high, with output amounting to 67.5 million tons; in 1961, output amounted to 124.3 million tons. By way of comparison, U.S. production during those years was 52.8, 93.2, and 98.0 million tons.

### LEADING COUNTRIES IN U.S. STEEL TRADE 1947-1961



\* Principally France, Canada and United Kingdom.

*In the past three years, steel imports (above) have increased sharply, while steel exports (below) have declined.*



Source of data: American Iron and Steel Institute, Annual Statistical Reports.

past four years, the European and Japanese steel producers have developed additional markets outside their own borders and, in their exporting activities, they have been so successful that they are competing in a very direct way with U.S. steel producers, even to the point of shipping significant quantities of steel into the U.S. itself.

Germane to this story of rapid growth abroad is the question of how it has been possible for European and Japanese steel producers to overtake the U.S. in world markets and, in particular, how it has been possible for them to expand their export markets within the U.S., which is the principal steel-producing nation in the world.

### Prices Are Important

After payment of a tariff which averages approximately 6 percent (*ad valorem*), foreign steel products compete without restriction in the U.S. with domestic steel products. Unlike many finished consumer or producer goods, which vary according to style or engineering design, once steel products are classified according to size and quality there are often only small differences between items produced in the flats of Cleveland, in the valleys of Pittsburgh, or along the Ruhr River. (Of course, there are numerous speciality items, but those products bulk relatively small when compared with the large volume of staples.) Thus, in such a market, steel buyers would be expected to make at least some of their purchases from sources which offer the most attractive price.

Comparatively low prices of many types of steel imports in the United States have been a major factor in the marked rise of steel imports during the past four years, as is shown in the accompanying chart. For example, throughout 1958 the prices of eight imported product groups from Western Continental Europe declined sharply from a level

(4) The measure of imported steel prices used here serves only as an approximation of the average price level of imported steel products in U.S. markets. The products represent eight of the more important steel imports, as determined by tonnage. Moreover, the products are used by both industrial and construction consumers.

approximately equal to that of U.S. prices to levels below U.S. prices.<sup>(4)</sup> The gap between U.S. and European prices of these eight products widened further when U.S. prices increased moderately in August 1958. Concurrently, from the first half of 1958 to the second half, the volume of the eight imports nearly doubled. (Total steel imports also rose sharply in that period.)

The competitive strength of foreign steel was revealed clearly during 1959 and 1960. While U.S. production was cut off almost entirely during the strike in the last half of 1959, foreign producers took advantage of their fortunate position and raised prices sharply while shipping a record volume of steel to the U.S. But before the strike, when U.S. production was in full swing, and after the strike, when demand began to fall off, the price of foreign steel was held below the price of U.S. steel.

Throughout most of 1961, the gap between many domestic and foreign steel prices remained large, increasing further during the final two months of 1961 when foreign producers cut the prices of many of their products. (There were further reductions in foreign prices during the first half of 1962.) Reflecting the price advantage of foreign products, the volume of imports of the eight product groups (as well as total steel imports) increased moderately from the first to the second half of 1961.<sup>(5)</sup>

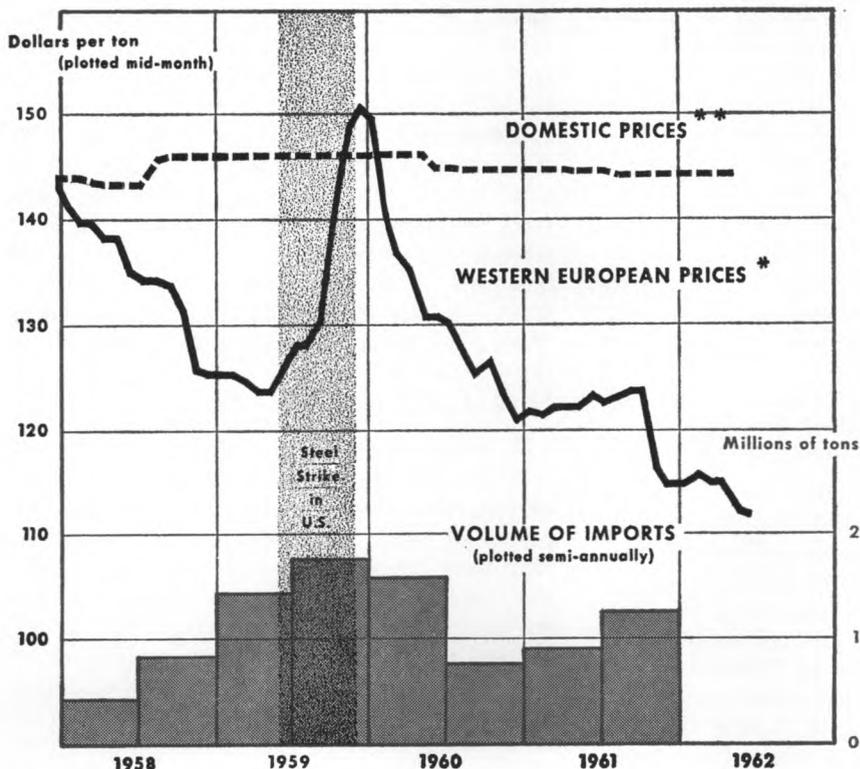
Thus, the relatively low prices of many steel imports prevailing since the end of 1957, appeared to be a "trigger" which was primarily responsible for the *over-all* increase in the use of foreign steel products by U.S. customers in recent years.

### Business Conditions and Steel Imports

In addition to price considerations, changes in business conditions in the U. S. have been an important factor in the level of steel imports during the past four years, particularly on a *month-to-month* basis.

(5) Other data corroborate the conclusions regarding prices outlined here. See International Monetary Fund, *Staff Papers*, Vol. IX, No. 1, pps. 91-94.

## PRICES OF SELECTED STEEL PRODUCTS AND VOLUME OF RELATED IMPORTS



*Prices of imported steel products appear to have been a major factor in the marked rise of steel imports over the years 1958-61. Currently, the spread between the prices of eight important steel imports and those of comparable domestic products is larger than it was during the 1958-61 period.*

\* Average price of 8 imported steel products.

\*\* Domestic prices represent average of 8 comparable items.

**NOTE:** A composite index for prices of steel products imported into the U.S. is not available. The prices shown on the chart are those of eight selected steel products which are imported into the U.S. and comparable products which are turned out by U.S. steel mills.

Prices on imports are quoted for steel products landed at North Atlantic ports from Continental European producers, with duty, shipping and insurance charges paid. Domestic prices are derived from the wholesale price index published by the Bureau of Labor Statistics. The 8 imported and

domestic products include reinforcing bars, structural shapes, barbed wire, wire nails, hot rolled bars (merchant bars in the case of imports), plates, wire rods, and hot rolled strips (hot rolled bands in the case of imports).

The total shown for the volume of imports includes all of these items, with the exception of "bands". Here, the product group "sheets and strip" has been used. The 8 product groups accounted for more than 70 percent of the total volume of imports during the years 1959-61.

Sources of data: BLS, Wholesale Price Index; STEEL magazine; American Iron and Steel Institute, Annual Statistical Reports.

The accompanying chart shows that over short-run periods, the volume of steel imports has fluctuated up and down along with domestic shipments (i.e. total U.S. shipments less exports). These short-run changes have reflected, throughout the past four years, varied demands for steel products which in turn stemmed from the changing tides of U.S. business conditions. For example, when business conditions turned up from the cyclical troughs which occurred in April 1958 and February 1961 (as measured by the National Bureau of Economic Research) imports as well as shipments of domestic steel products had been rising for one month. In contrast, as U.S. business conditions turned sluggish in May 1960, most steel users had already cut back their orders for steel, and imports as well as domestic shipments were declining.

It is important to note, however, that there has been a gradual shift in the relationship between imports and domestic shipments during the past four years which reflects the increasing significance of imports in the U.S. During the latest upturn in business activity, which began after the low of February 1961, imports represented a larger share of domestic shipments than they had during the previous upturn, which began after April 1958. Throughout the year following April 1958, imports ranged between 2½ percent and more than 4 percent of domestic shipments. However, during the year following February 1961, imports ranged between 4 percent and more than 6 percent of domestic shipments.

### U. S. Steel Exports Decline

With regard to the other side of foreign trade in steel, it appears that the United States has not held its share of steel exports in comparison with other steel exporting countries. Total world exports in steel products nearly doubled between the 1951-53 period and the 1958-60 period. However, during the intervening years, U.S. steel exports declined by one-fourth.<sup>(6)</sup>

(6) Three-year averages, centered on 1952 and 1959, are used in order to reduce year-to-year fluctuations in steel exports. 1960 is the most current year that data are available for total world steel trade. See American Iron and Steel Institute, *Steel's Competitive Challenge*, December 1961, p. 33.

The divergence between total world trade in steel and U.S. steel exports has become even more pronounced in recent years. In 1957, U.S. producers supplied 16 percent of total world trade in steel. That share shrank to 9 percent in 1958, and then to 5 percent in 1959, as total U. S. output dropped because of the strike in the latter year. In 1960, U.S. steel exports increased to 7 percent of total world trade, thereby recovering only part of the setback suffered during the 1959 steel strike, even though U.S. exports in 1960 benefited from back orders which stemmed from the 1959 strike. Thus, in the four years from 1957 through 1960, steel exports from the U.S. shrank from 16 percent to 7 percent of total world trade in steel.

A major factor bringing about the lower level of U.S. steel exports, as compared with earlier postwar years, was the fact that U.S. prices of steel were relatively higher than European prices. In this connection, a comparison of domestic prices with those of other major steel-producing countries during the 1958-61 period serves as a useful yardstick.<sup>(7)</sup> The following prices represent only a sample of all steel prices in U.S. and European countries, but the prices quoted are for products which are important items in world steel trade.

During December 1960, the price of carbon plates at mills in the United Kingdom was \$103 per short ton, while U.S. producers charged \$127 per ton for the same product. Similarly, hot rolled sheets produced in the United Kingdom sold for \$119, while the same product was priced at \$127 in U.S. mills. Prices of hot rolled bars, wire rods, plates, and structural shapes in each of the four major European steel-producing countries were also significantly lower than domestic prices of similar U.S. products.<sup>(8)</sup>

In contrast, during the years 1955-57, U.S. steel products had been "competitive [in regard to price] with European and Japanese

(7) Export prices of steel products have varied somewhat from domestic prices, in response to each steel-producing country's local and foreign demand, and, in some cases, according to government rebates or bounties.

products," according to trade sources.<sup>(9)</sup> The change from 1957 to 1958, as noted earlier, was due primarily to sharp reductions in prices of European and Japanese steel.

Of course, shipping costs, duties, special taxes in some countries, and insurance charges increased further the prices of all U.S. steel in European markets, while such charges did not apply to European mills to such an extent. (There are only a very few quota restrictions on U.S. steel exports to the countries of the European Coal and Steel Community, and no restrictions on U.S. steel exports to the United Kingdom.)

### Fluctuations in European Demand

Due to the premium prices of many U.S. steel products in European markets during the past four years, European users have purchased U.S. steel products sparingly. Nevertheless, when the pace of business activity in Europe has pushed close to the capacity of the steel industry, subsequent shortages of steel have created bottlenecks in the operations of many steel users. During such periods of stress, U.S. steel exports to Europe have risen sharply.

For example, in 1960, when the pace of industrial output in the European countries was pushing close to capacity, European steel users bought more than one million tons of U.S. steel products. However, during 1961, the pace of industrial activity in many European countries slackened somewhat, and European steel users found that they could be supplied in good measure from local mills. As a result, during 1961, U.S. steel exports to European countries were slightly less than

(8) Organization for European Economic Cooperation, *The Iron and Steel Industry in Europe*, Paris, 1960. All prices are quoted f.o.b. mill. Prices quoted during December 1960 were only slightly lower than prices quoted during July 1958 and April 1959. During February 1961, prices reported by the British Iron and Steel Board indicated little change in the pattern of European and U.S. prices shown for December 1960.

Steel prices in major continental steel producing countries are quoted for Bessemer products, while prices in the U.S. and the United Kingdom are quoted for open-hearth products. Although the open-hearth process of making steel produces a somewhat higher quality product, in a large number of cases there are only small differences in price between similar products made by the two processes.

(9) See *Staff Papers*, *op. cit.*

one-quarter of the volume that they had been in 1960.

### U. S. Steel Exports to Other Areas of the World

Inasmuch as European steel producers, in many cases, have currently an advantage in price over U.S. steel producers in the European market, some observers of the international steel scene have looked to other areas of the world as possible markets for an increased volume of U.S. steel exports. Nevertheless, as the accompanying chart shows, during the past four years (1958-61) the volume of steel exports to the non-industrialized countries and Canada was considerably below the volume of the preceding three years (1955-57). The record shown by the chart, together with other pertinent developments, raises a question whether the non-industrialized countries and Canada will represent expanding markets for U.S. steel products in the near future.

One factor in the recent decline of U.S. steel exports was the reduction in foreign investment by U.S. petroleum companies. During the years 1955-57, large-scale foreign investments by the U.S. petroleum industry contributed to a rise in U.S. steel exports, principally to many of the non-industrialized countries in South America and Asia, as well as to Canada. Those investments were completed in 1958, and investment during 1959-61 was not nearly as large as during 1955-57.

A second factor, which had a bearing on the level of American steel exports to the non-industrialized countries and to Canada, was the high price of U.S. steel during the past four years. The fact that European steel producers could undersell U.S. producers in their own market, as was noted previously, serves as an indication that European steel producers were able to do the same in many of the non-industrialized countries (at least with some products).

A further insight into the competitiveness of U.S. steel exports is provided by a look at the way non-industrialized countries have

spent U.S. economic aid. The record of purchases made by countries which received funds from one agency of the U.S. government, the International Cooperation Agency (ICA), sheds some light on that matter.<sup>(10)</sup>

Recently, countries which received economic aid from ICA bought non-U.S. steel products in preference to U.S. products. During the fiscal year 1961 (July 1, 1960, to June 30, 1961), ICA aid was used for the purchase of iron and steel products which totaled \$93 million, a dollar amount equivalent to more than two months' total U.S. steel exports in 1961. But only 14 percent of that expenditure was used for iron and steel products of U.S. mills, while the remaining 86 percent went to other countries, principally the European countries and Japan.<sup>(11)</sup>

Measures have been taken recently by the Federal government to encourage the spending of an increased share of economic aid funds in the United States. On December 5, 1960, the Secretary of State ordered that such funds should not be used for the purchase of iron and steel products (as well as certain other commodities) in 19 countries, including the major steel producing countries of Western Europe and Japan. Since firm commitments which had been made prior to the Secretary of State's order were not affected, the effect of that order on U.S. steel exports possibly will be felt by U.S. steel producers for the first time during the current year.

But regardless of these new requirements, the depressed conditions of many interna-

tional commodity prices clouds the outlook for U.S. steel exports (as well as other exports) to the non-industrialized countries. In this connection, the U.S. and other major industrialized countries of the world have a common problem as contrasted with the price competition among themselves. In short, the non-industrialized nations as a group are facing increasing difficulties in paying for steel as well as other imports.

The non-industrialized countries mainly produce primary commodities, i.e., industrial raw materials and raw foodstuffs, for sale in world markets. With the notable exception of tin, most industrial raw materials, such as crude rubber, copper and nickel, as well as many foodstuffs, have declined in price (some markedly) in the past three years. Currently, prices of many important primary commodities which are traded in international markets are at their lowest levels in many years.<sup>(12)</sup>

Although consumption of most industrial raw materials, as well as many foodstuffs, has increased during the past three years, decreased prices of those goods have had the effect of reducing the export earnings of many non-industrialized countries. Thus, in the past three years, many non-industrialized countries have been faced with their own balance of payments problems which have been met by withdrawals of foreign reserves, all types of loans, and private investments from industrialized countries.

Without outside financial aid, the non-industrialized countries of the world do not appear at present to have the means of generating the financial resources which are needed to buy an expanded volume of steel, along with related products, from the U.S., Western Europe, or Japan.

(10) The ICA (and earlier related organizations) have distributed funds to countries in nearly every area of the free world for the development of local industry and agriculture, throughout most of the postwar years. During the past six years, however, non-industrialized countries have received the bulk of the aid. On September 4, 1961, the ICA and the Development Loan Fund were reorganized and combined into the Agency for International Development.

(11) International Cooperation Administration, *Operations Report*, June 30, 1961, Washington, 1961.

(12) See *Business Conditions*, Federal Reserve Bank of Chicago, February 1962.