

MONTHLY  
*Business Review*

FEDERAL RESERVE BANK of CLEVELAND

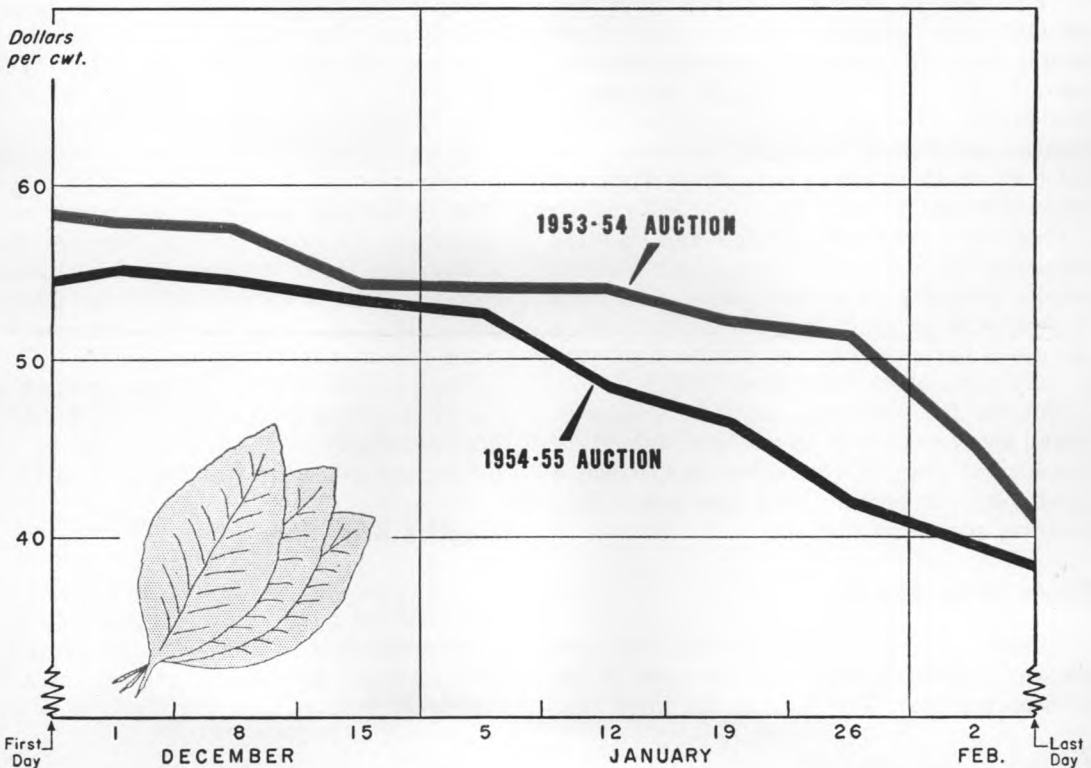
March 1955

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KENTUCKY BURLEY TOBACCO PRICES

Average daily price at midweek at Lexington auction



# Price Problems in Burley Tobacco

**T**HE FINAL CHANT of the tobacco auctioneer has sounded through the warehouses in the burley tobacco growing areas, bringing a close to the 1954-55 selling season. About one-third of the nation's supply of new-crop burley tobacco was grown in the eastern portion of Kentucky (part of Fourth Federal Reserve District) and was auctioned during the relatively short period from last November 30 through early February. About half the farm income of eastern Kentucky and between \$80 and \$100 of each \$1,000 of farm income in the Fourth District have originated during about eight weeks of actual selling during this auction season.

While burley marts are always surrounded by an aura of excitement, this year has brought new tensions. Supplies, which have been a cause of concern for several seasons, have climbed still higher. And in the face of this supply dilemma, the demand for burley tobacco has clearly slackened. Smokers have cut back on their use of cigarettes—the main outlet for burley tobacco.

Producers, processors, lenders and all other segments of the multibillion-dollar tobacco empire probably view with more than casual interest such an unusual event as a setback in the use of burley tobacco—for it has happened in only three other years since 1931.

Despite the ominous situation, producers found gross returns to be well maintained for the current year. With reservations, it was a good year for burley. How this came about requires some explanation.

## Prices Were Lower

Auction prices offered an early hint that some disturbing factors were at work in the tobacco business. Top bids at the huge Lex-

ington auction, for example, averaged about \$3.50 per hundredweight below year-ago levels on the November 30 opening day. These lower price levels persisted throughout the eight weeks of actual selling, with only a brief respite just prior to closing for the holidays. Prices turned decidedly downward with the post-holiday reopening, although well over half the season's sales had probably already occurred by this point. Prices for the entire season at Lexington averaged below those of a year ago by about 6 percent or \$3 per hundredweight.

To visualize the current season's burley prices in proper perspective, however, it should be recalled that last year's auction brought the highest season-average price of record and that the quality of tobacco was decidedly better than this year's crop. Prices last year were quite consistently above support levels. Only about 15 percent of the crop was placed under loan for price support purposes.

In the current season, by contrast, over 30 percent of the larger burley crop was placed under loan. Many individual days at the Lexington auction saw over half the sales seeking government shelter in order to maintain the price at announced support levels.

The national average support price on burley produced in 1954 amounted to \$46.40 per hundredweight—a shade lower than the year before and otherwise the lowest since 1950.

## Supplies Are Large

In looking behind the sinking burley prices, a variety of considerations come into focus. New production in 1954 was among the top few years of record; it advanced at a rate decidedly greater than the increase in "new

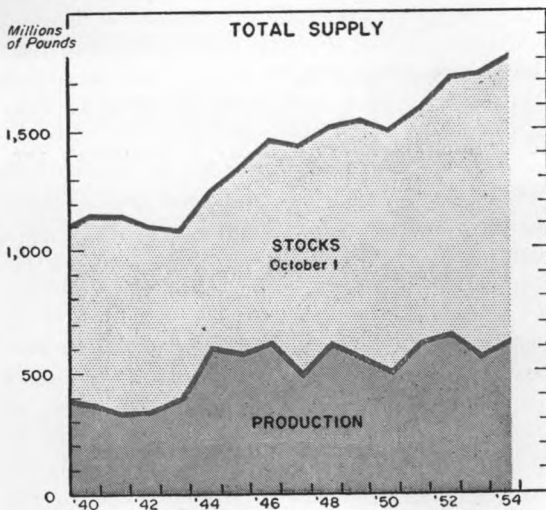
smokers'' in the age group of 15 years and over. In addition, nationwide stocks of old-crop tobacco in process as of October 1 pushed up to the highest level ever, topping the billion-pound mark for the third consecutive year.

The total supply of burley tobacco for 1954-55 (new crop plus aging stocks) is equivalent to  $3\frac{1}{3}$  times the anticipated rate of use for the year—the largest ratio since 1940. The ratio of supplies to disappearance averaged roughly  $2\frac{3}{4}$  from 1941 through 1951. Supplies have increased relative to use in each year since 1947.

Burley tobacco growers have set about to correct the growing supply imbalance. Marketing quotas will be in effect in 1955, as they have been in each year since 1939. Such quotas have been an effective weapon enabling tobacco men, cooperatively, to prevent severe market gluts from developing and to correct lesser supply imbalances when they arise.

Through the marketing quota program, the burley acreage allotment will be cut by about 10 percent in 1955. Such a cut is on top of an 8-percent acreage cut in 1954 and a 10-percent acreage cut in 1953.

**Increased production and record stocks have boosted the nation's burley tobacco supply to new heights.**



Source of data: U. S. Department of Agriculture

Production changes obviously do not respond in proportion to acreage changes, due to the vagaries of weather and to year-to-year changes in use of fertilizer or in other management techniques. That acreage restrictions, as imposed by the quota program, are important, however, is shown by the production trend since the sequence of cutbacks began in 1952. The burley harvest was at an all-time high in 1952. In the next year production was cut by more than 13 percent. But, during the year just past, production was boosted by over 9 percent, despite the additional and quite substantial acreage cutback indicated above. The production boost in this case was due to good weather and other favorable factors responsible for bringing yields per acre up to record proportions.

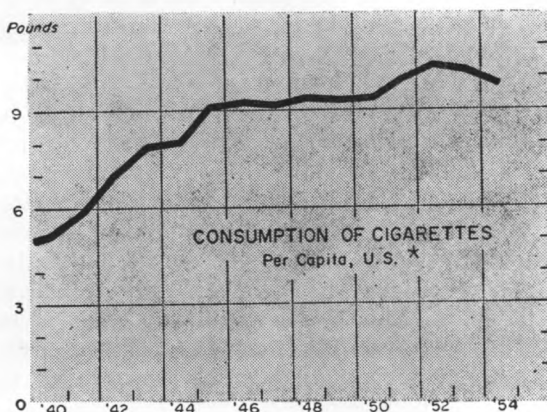
Over-all, since 1952, there has been a net decline in production, accompanying acreage restrictions. Furthermore, if yields per acre in 1955 hold more nearly to the average of recent years, production will probably be down by more than one-fifth from the 1952 high.

### Demand Has Eased

A factor which is probably even more disturbing to tobacco men than is the supply problem may be found on the demand side of the price equation. Use of burley tobacco in the year ending September 30, 1954 had dropped to the lowest level since 1950. Domestic disappearance during the past year was 5 percent below the previous year and smaller than it was six years ago. On a per capita basis, cigarette consumption has eased for two consecutive years (see chart) and cigarettes are the principal use for burley.

Why has the demand for burley turned downward after more than a decade of virtually uninterrupted growth? Many elements are present in the tobacco demand pattern. Ranking high in importance are the size of population of smoking age and the income of such present or potential smokers. A decline in either or both of these can logically account for a decline in burley consumption.

**Cigarettes represent the principal use of burley tobacco; per capita consumption of cigarettes has declined during the past two years.**



\* Population 15 years of age and over

Source of data: U. S. Department of Agriculture

Such dips in burley use did coincide closely with a falling off in income, for example, in the early 1930's and again, but to a lesser extent, in the late 1930's.

The 1953-54 dip in burley consumption, however, has coincided with a record high level of consumer income (after taxes) as well as with a continued growth in the population group generally considered of a smoking age.<sup>1</sup> Furthermore, the decline has occurred in the face of a boost in exports to the highest level since 1949.

A most perplexing question in the cutback in burley demand has to do with the publicity over the past year and a half relating cigarette smoking with lung cancer. That such publicity has had an adverse effect upon cigarette consumption is established, according to the U. S. Department of Agriculture. The possible extent of this influence has not been indicated.

<sup>1</sup>The population 15 years of age and over increased during 1953 and in 1954 by about one percent each year. Grouped by five-year age intervals, a gain during each of the two years was shown in all instances except the 20-24 and 25-29 year age brackets. From 1953 to 1954 a decline of 370,000 in the 20-29 year age groups was more than offset by a 578,000 gain in the 30-49 year age groups.

The problems posed by the lung cancer scare are obviously very difficult and controversial. How they are resolved will have a decided bearing upon farm income in the Fourth District. If the publicity continues as in the past year or so, the question may then be raised as to whether next year will not bring still lower burley prices and continued heavy support buying. Or, on the other hand, if no new medical announcements of a spectacular nature command the consumer's attention, the consumption trend might be reversed.

U. S. Department of Agriculture forecasters have indicated their belief in the underlying strength of tobacco demand by predicting a 2 to 3 percent boost in burley disappearance for the year ending September 30, 1955.

### Gross Income Maintained

It has been said that farming is one of the few endeavors where one can fight a losing financial battle for a lifetime and end up by owning a thriving business free of all encumbrances. While this may be more legend than truth, it is somewhat suggestive of the tobacco farmers' experience during the 1954 season. Burley producers did not fare nearly so badly in the gross returns for their 1954 crop as the supply and demand conditions might indicate. Supplies grew more burdensome, demand softened, prices slipped, yet the leading burley marts of the Fourth District are reporting the season's gross payments to be at or near a record high.

Although a greater volume of marketings would tend to offset price drops, this in itself cannot explain the relatively favorable outcome for tobacco farmers. The role of price support must be considered. The government, in a sense, substituted for the normal market which had been lost, and in addition, became an "expanded market" to absorb the boosts in production over a year ago. Producers, at present cushioned from a sudden break in income, will probably adjust eventually to real supply-demand conditions through cooperative production control.

# Overseas Trade of Lake Erie Ports

**F**REIGHT TRAFFIC on Lake Erie will begin to move again later this month, as the harbors and shipping lanes become free of ice. With the beginning of another navigation season, attention will be drawn again to the frequent arrivals and departures of the large ore freighters, tankers and car ferries. The size, as well as the number, of these lake freighters will be likely to obscure the smaller foreign-flag ships which sail on the lake, delivering their cargoes from overseas and taking on domestic goods bound for Europe, Africa or Central America.

For the present, not only is the size of the foreign ships dwarfed by the large lake freighters, but the size of the foreign cargoes is no match for the mountains of iron ore, coal and other commodities transported on Lake Erie in a single season. The overseas cargo received and shipped at Lake Erie ports is only a small fraction of the domestic lake commerce, averaging one percent or so, but the traffic is important and interesting, as more and more users have found it economically feasible to ship overseas via the Great Lakes and the St. Lawrence River. On the threshold of the Seaway development, the growing tonnage figures, small as they are, take on added significance.

No overseas cargo was carried on the Great Lakes during 1944, as all available ships during wartime were needed elsewhere. Since then, however, each year's total has increased until a new record of 552,000 net tons was handled in 1953. The previous record had been reached in the prewar year of 1936, when 431,000 tons were received and shipped. Preliminary reports for the 1954 shipping season indicate that overseas trade declined somewhat, but the prospects for 1955 include

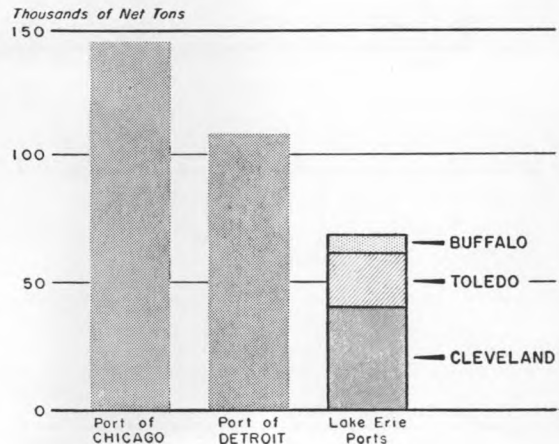
confident estimates of greater tonnages than those of 1953.

## The Great Lakes Ports

Overseas water-borne freight handled by the Lake Erie ports of Buffalo, Toledo, and Cleveland during the 1954 navigation season amounted to 68,118 net tons. In line with postwar experience, the Lake Erie total was slightly less than one-fifth of all the overseas freight traffic carried on the Great Lakes system, while Chicago and Detroit accounted for more than three-fifths of the total. (See accompanying chart.) The remaining tonnage was handled through a number of other lake ports including Milwaukee, Green Bay, Duluth-Superior and Port Huron. (Not shown on chart.)

Overseas commerce through the port of Chicago totaled over 146,000 tons in 1954; in

*Overseas freight traffic at Lake Erie ports during 1954 amounted to about two-thirds of Detroit's overseas tonnage.*



the peak year of 1953, total overseas traffic through the port amounted to 178,000 tons. The port of Chicago has always had the outstanding share of the lakes foreign trade, and if anything, its margin of lead has increased in the last two years.

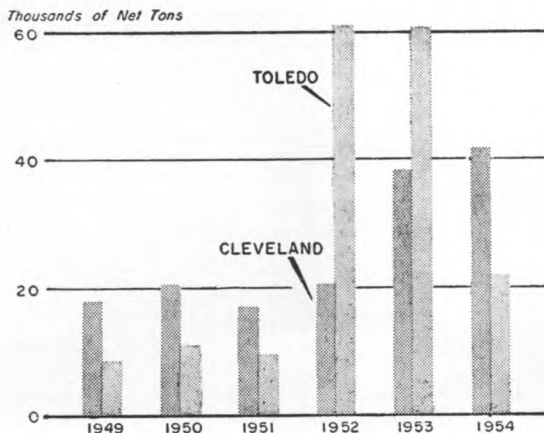
The port of Detroit handled a greater amount of overseas freight than the combined total for Lake Erie ports both in 1953 and in 1954; in most of the postwar years the reverse was true. Detroit's tonnage in 1953 was swelled by sizable imports of European steel, which have not been repeated in such quantity. Increased exports overseas of automobiles and trucks probably account for a large part of Detroit's '54 total.

### Cleveland and Toledo

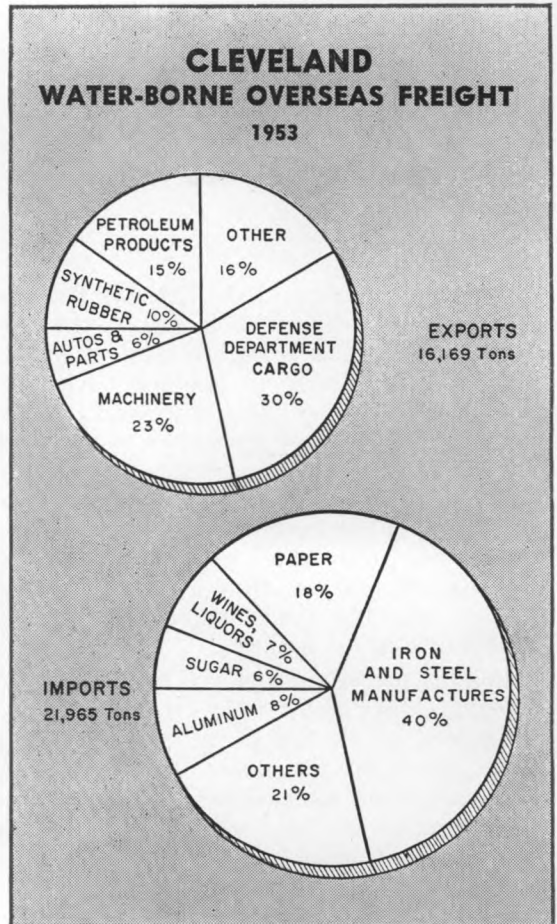
The bulk of the overseas freight handled on Lake Erie has been received or shipped through the ports of Cleveland or Toledo, with a smaller amount handled at Buffalo. Occasional shipments have been made to such Fourth District ports as Sandusky, Ashtabula, or Erie, but none were reported in 1954.

Overseas freight traffic at the port of Cleveland has climbed from an initial postwar shipment of only 431 tons in 1945 to a volume of over 40,000 tons last year. Most of the

**Cleveland's overseas freight traffic has been larger than Toledo's in most years of the postwar period; 1952 and 1953 were notable exceptions.**



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growth has been a steady gain over the previous years. The only noticeable setback occurred in 1951, but overseas traffic on all the Great Lakes declined moderately that year.

Toledo has usually handled a smaller amount of cargo than Cleveland, although in 1952 and 1953 foreign traffic at Toledo expanded to over 60,000 tons and surpassed Cleveland's total by a sizable margin. The great bulk of overseas trade in those two years was composed of shipments of Defense Department cargo which were not repeated in 1954; total overseas traffic at Toledo last year amounted to 21,634 tons.

Buffalo (which is within the Second Federal Reserve District) plays a rather small

role in Lake Erie's foreign trade with overseas ports. Receipts and shipments at Buffalo totaled 6,359 net tons in 1954, which was only slightly below the 1953 figure.

### Commodities Handled

From the shipment of steel rods and bars and of machinery in 1945 to the list of 90 different classes of commodities in 1953, the materials handled at the port of *Cleveland* have reflected the area's industrial character.

Exports of machinery have usually constituted one-fourth or more of the total cargo sent overseas from 1946 to 1953. (Detailed information on the commodities handled by the port in 1954 are not yet available.) Since 1949, petroleum products have formed about 20 to 25 percent of exports, and iron and steel and other metals in a semi-manufactured stage have usually been a major export.

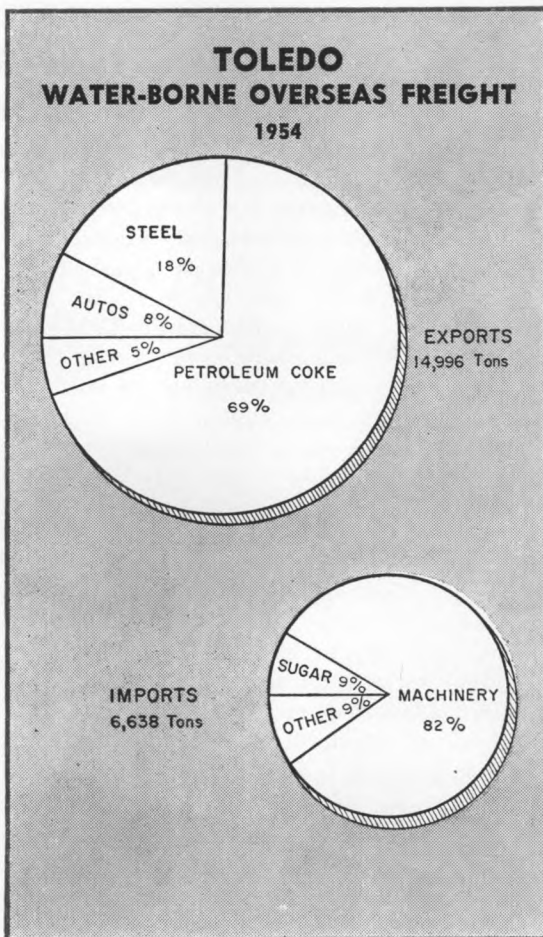
Aluminum imports from 1946 to 1948, and again in 1950, formed well over half of *Cleveland's* imports. Sugar has been imported in quantity in most of the years since 1949, but the import manifests have become more diversified, with the result that no one type of commodity forms quite so large a part of the total as in the earlier years.

In 1953, exports of construction machinery to ports in Scandinavia and western Europe accounted for 16 percent of the total export tonnage from *Cleveland's* docks. Petroleum products, also to western Europe, formed 15 percent of exports. Synthetic rubber was 10 percent of *Cleveland's* total; other items which accounted for smaller amounts of cargo ranged alphabetically from "automobiles and parts," 6 percent, to "vegetables or vegetable preparations," 2 percent.

*Cleveland's* imports of foreign goods during 1953 arrived mainly from ports in western Europe, Scandinavia, or the British Isles. The principal components of the cargo consisted of rolled steel and other steel mill products, which formed 40 percent of the cargo by weight, and newsprint paper from Scandinavian ports, 17 percent of the total. Wood pulp amounted to 4 percent of the year's total, while liquors and wines, princi-

pally from Europe and the British Isles, made up 7 percent of the import total. Caribbean sugar unladen in *Cleveland* was 6 percent of the import volume, and along with smaller shipments, such as building stone from the Mediterranean, olives and fruits from Spain, and kitchen utensils from Holland and Germany, helped to add the flavor of an ocean seaport to *Cleveland's* docks.

Overseas exports from *Toledo* have always contained a major proportion of petroleum coke from the city's refineries; 10,360 tons of coke were shipped to Norway in 1954. Automobiles and parts have usually formed a major part of the cargo in the postwar years. During the 1954 season, coke was 69 percent



of the export volume, steel 18 percent, and automobiles 8 percent. Smaller shipments of glassware, flour, clover seed, and machinery were sent to ports scattered from the Caribbean to the Baltic, the regular ports of call of the small ocean ships which navigate the St. Lawrence and the Great Lakes.

A sharp increase in Toledo's exports during 1952 and 1953 was caused primarily by shipments of Department of Defense cargo, for which commodity details and destination are not made public.

Overseas traffic at *Buffalo* has been smaller in volume than the traffic handled at Cleveland or Toledo, as previously mentioned. Ex-

ports in 1953 consisted of nonmetallic minerals manufactures, 61 percent of the year's total, lubricating oils and petroleum products, 16 percent, and flour, 7 percent. In the early years after the war, flour was a principal export. In 1951, petroleum coke and automobiles accounted for over 90 percent of the cargo exported. Imports at Buffalo were small, relative to exports, until 1953 and 1954, when steel mill products and newsprint paper became factors in imports.

*Sources:* Data for the years 1945 to 1953 were obtained from reports of the Corps of Engineers, U. S. Army. Preliminary reports for 1954 were furnished by the Cleveland Chamber of Commerce, Toledo-Lucas County Port Commission, Collector of Customs in Buffalo, and the Corps of Engineers, U. S. Army.

## Note on Trade Statistics During The Easter Season

Year-to-year percentage changes in department store sales during the weeks surrounding Easter Sunday are distorted considerably by the shifting date of Easter each year. This year, Easter Sunday falls on April 10, approximately one week earlier than in 1954. As a result, department store sales during this year's Easter season are most apt to reach a peak during the week ended April 9. Last year, on the other hand, sales reached a peak during the week ended April 17, the week immediately preceding Easter in that year.

The distortion of year-to-year percentage changes in dollar sales during the weeks affected by the Easter shopping season requires that special adjustments be made in order to evaluate year-to-year changes posted for the individual weeks. Such adjustments are shown for Fourth District department store sales in the accompanying table.

The table below indicates year-to-year percentage changes which would be required of Fourth District department store sales each week of the 1955 Easter season in order to equal the seasonally adjusted sales level of the corresponding year-ago week. For exam-

ple, during the week ended April 9, a 2 percent year-to-year gain in dollar sales would result in a seasonally adjusted sales index for the week just equal to that of the year-ago week. A more favorable percentage change would yield a year-to-year sales *gain* after seasonal adjustment. Conversely, if a year-to-year percentage change of less than +2 percent were posted for the week, the result would be a year-to-year *loss* for the week after seasonal adjustment.

### YEAR-TO-YEAR PERCENTAGE CHANGES IN SALES

#### Fourth District Department Stores

1955 Week Ending	Required to Equal Last Year's Adjusted Sales Each Week
March 19	—0—
March 26	+ 5
April 2	+ 6
April 9	+ 2
April 16	—17
April 23	+ 7
April 30	+ 4