MONTHLY REVIEW

TWELFTH FEDERAL RESERVE DISTRICT

OCTOBER 1953 — FEDERAL RESERVE BANK OF SAN FRANCISCO

REVIEW OF BUSINESS CONDITIONS

THE level of business activity in the third quarter of the year remained high, although some additional weakness appeared in particular segments of the national economy. Employment continued at record high levels and unemployment remained at the historical low (relative to total labor force) established earlier this year. Personal income was higher in the third quarter than in the second, although it declined in August and September, largely reflecting reduced manufacturing payrolls. Consumer spending rose slightly, with declines in outlays for durable and nondurable goods more than offset by a rise in expenditures for services. Consumer credit played a somewhat smaller role in the recent expansion in consumer purchasing as the monthly rate of increase in outstanding short- and intermediate-term debt declined sharply in the past several months. Business expenditures for plant and durable equipment increased slightly from the very high second-quarter rate but a substantial curtailment in the rate of inventory accumulation brought a reduction in total outlays on business investment. Government purchases of goods and services changed little as reduced spending on national security programs was about offset by a rise in other Federal outlays and in state and local government expenditures. The net effect of all these factors on the total output of goods and services was slight as gross national product declined 0.8 percent from the record $372.4 billion in the second quarter. The third-quarter total, however, was still more than 7 percent ahead of the same quarter last year, which was depressed somewhat by the steel strike.

The over-all economic situation in the Twelfth District is remarkably similar to that described for the nation as a whole. General levels of business activity remain very high although market weaknesses have adversely affected individual industries or specific areas within the District. Production activities closely related to the national defense procurement program have attained rates of output that will enable them to fulfill goals set without significant additional expansion. Further reductions in civilian workers at military and naval installations and continued cutbacks in the level of Federally-sponsored construction projects have restrained the growth in employment throughout District states. Further weakness in the markets for certain important District products has tempered normal seasonal employment advances in recent months. The most pronounced weakness has been in the market for Douglas fir, but plywood, pulp, and nonferrous metals have also suffered from some decline in demand.

District employment trends reflect continued weakness in particular markets

Over-all District employment has been running at record levels despite declines in the number employed in certain areas and in certain lines of activity. Total nonagricultural employment in the District in September was still almost 3 percent above September a year ago, largely as the result of significant gains in California, Arizona, and Nevada. Oregon's nonfarm employment, despite declines in manufacturing and mining operations, registered a slight gain over last year's total in September. In each of the other states of the District—Washington, Idaho, and Utah—nonagricultural employment in September fell behind year-ago levels. In California, substantial employment gains over year-ago levels occurred in transportation equipment, electrical machinery, ordnance, and instrument and related products industries. It is important to note, however, that recent month-to-month employment trends in some of these industries have been either in a downward direction, particularly noticeable in auto assembly, or advances have been markedly smaller than previously. Employment in aircraft plants, however, made the sharpest advance from August to September of any other month this year. Nevada's growth over last year is due to significant gains in construction, service, and finance which more than offset a moderate decline in manufacturing employment. Aircraft employment in Arizona has continued the decline in evi-

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dence since early in the year (off 30 percent in September from last year) and has been largely responsible for the net decline in manufacturing activity in the state. Most other nonagricultural activities, except government, show healthy gains over year-ago periods.

Lumber market difficulties with a resultant cutback in employment and payrolls have been the dominant factor in further reduced general levels of activity in the Pacific Northwest. Nationally, new housing starts have continued to slip from the peak for the year reached in February (at seasonally adjusted annual rates). This weakness in the principal market for Douglas fir lumber has been primarily responsible for the slump in its price, which has had an adverse effect upon employment and hours worked. Added to the domestic situation has been a decline in the demand abroad for American and Canadian Douglas fir. Not only has less Douglas fir been sent abroad by District mills, but the sale by Canadian producers of large amounts of lumber along the East Coast of the United States has restricted the market for District producers. Employment in lumbering activities in September was off 5 percent in Oregon and more than 10 percent in Washington from the same month in 1952. In Oregon the loss of jobs has meant a generally higher level of unemployment and a decline in the level of activity in other industries as spending rates declined with losses in payrolls. In Washington, however, the effect has been modified to some extent as additional expansion, particularly in aircraft, offset lumber industry employment and payroll declines.

A further decline in zinc prices and the continuation of a low demand for lead have held activity and employment in Idaho below 1952 levels in the nonferrous metal mines. This, combined with Federal Government employment reductions and a decline in lumbering employment, has led to lower over-all levels of business activity. For Utah the slowdown in construction, particularly on Federal projects, and a sharp cut (11 per cent) in civilian employment at military installations account for the decline in total nonagricultural employment from year-ago levels.

Department store sales continue to lag

In September, District department store sales fell 4 percent below the same month a year ago, although for the year so far total sales are still 2 percent above the first nine months of 1952. On a monthly basis, after adjustment for seasonal factors, September marked the fourth consecutive month in which sales fell below the preceding month, representing an over-all decline of 11 percent from May. This experience reflects to a large extent the employment and income losses occurring in areas outside of California, although California sales have also fallen, but by a considerably smaller amount. In September, sales were off from a year ago by 17 percent in Arizona, 13 percent in Utah and southern Idaho, 5 percent in the Pacific Northwest, but only 3 percent in California.

The largest sales declines in main store departments occurred in major household appliances, furniture, and men's and boys' wearing apparel. Continued heavy sales of television sets in Oregon more than offset large declines in sales of this type of merchandise (including radios and phonographs) in all other areas of the District. There was dispersion of gains and losses among other departments which tended to offset each other so that sales volume for the remaining lines approached the 1952 level.

Inventory holdings of District department stores were up 7 percent over last year at the end of September. As sales have dropped below last year's level, this rise in inventories has resulted in an increase in the ratio of stocks to sales from 3.21 in September 1952 to 3.49 in the same month this year. However, in the past two months inventories have tended to decline (after seasonal adjustment), indicating that stores have attempted to reduce stocks to a level more in line with current sales experience. Current stocks, while somewhat high in relation to sales, are not so uncomfortably large as in some fairly recent past periods.

Bank loans rise less than seasonally in recent months

Total loans and discounts of all member banks in the Twelfth District, after remaining unseasonally high in the first half of the year, increased much less than expected in the third quarter. From June 24 through September 30, loans and discounts expanded $85 million this year compared with a rise of $382 million in the corresponding period in 1952. The maintenance of a high loan volume in the first half was due to marked increases in consumer, real estate, and interbank loans and a smaller than seasonal decline in business loans. Business loans of weekly reporting District member banks have increased only $13 million since mid-year in contrast to an expansion of $190 million in the comparable period in 1952. Similarly, real estate loans over the same period went up only $45 million this year while last year they rose $77 million. Other loans, largely composed of consumer obligations, declined $25 million, a sharp difference from the $79 million rise in the third quarter of 1952. The decline in the consumer loan segment reflects a tightening policy on the part of the weekly reporting member banks toward instalment loans supplemented by price shading at retail, leading to a reduction in the size of individual new credit extensions.

Total deposits of individuals and businesses, reflecting the lowered rate of loan expansion, rose $624 million in the period from June 24 to September 30, $139 million less than the rise in the comparable 1952 period. Time deposits, which have grown so rapidly in the past several years, also grew less in the third quarter of this compared with a year ago, a gain of $91 million compared with a rise of $166 million last year.

COFFEE AND THE TWELFTH DISTRICT ECONOMY

In most households in the United States, a cup of coffee is accepted as a common beverage without any realization of the long and colorful history of its transition to a standard item in the American diet. When the coffee bean was first found to be edible, it was used as food. Later its stimulating effects were utilized in wine and then in medicine. It was not until the 13th century that coffee was used as a beverage.

The coffee plant is a native of Ethiopia where it was discovered many centuries ago. From Africa the plant was introduced into Arabia and the Near East where it became widely cultivated. From this area Arabian traders carried the coffee seeds to India, Ceylon, and the Far East, and in 1696 to the Netherlands East Indies (where the term "java" for coffee originated). It was not until 1720, however, that the coffee plant reached the Western Hemisphere when the French colonized Martinique. Thereafter cultivation of the coffee plant spread to South and Central America and Mexico where the climate and altitude are particularly favorable for coffee production. The Western Hemisphere countries are now the principal producers of coffee.

The United States is the leading importer and consumer of coffee

Just as the center of cultivation of the coffee plant has shifted—from Arabia and the Near East to the Western Hemisphere, so has the center of coffee consumption shifted—from Europe to the United States. Since World War I the United States has been the principal importer of coffee. In 1952 the United States accounted for two-thirds of total world imports of coffee, a significant increase compared with the 50 percent registered in the immediate prewar period 1935-39. Coffee is also the largest single commodity in United States import trade, totaling $1,375 million in 1952 or 13 percent of import value in that year. Coffee imports into the United States, furthermore, rose 35 percent in physical volume from 1938 to 1952, reaching a total of 2,680 million pounds by shipping weight in 1952.

The United States is also the largest consumer of coffee. Moreover, per capita coffee consumption in the United States has been increasing in recent years, rising from an average of 14.1 pounds per person in 1935-39 to a peak of 18.9 pounds per person in 1946, falling thereafter to 16.9 pounds in 1952 (or approximately 760 cups of coffee per person per year).

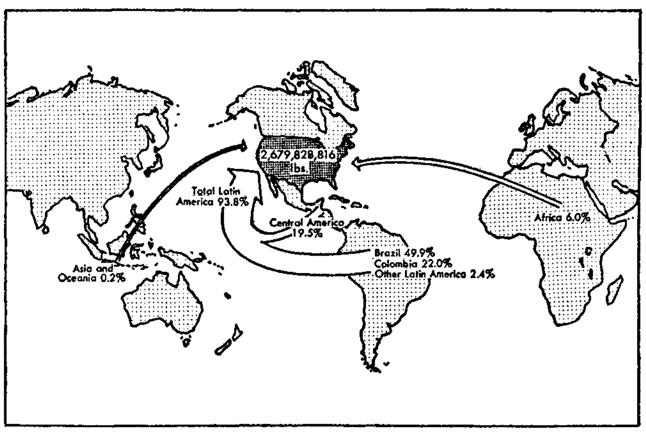
Brazil and Colombia are the leading suppliers of green coffee

The countries of Central and South America are the world's leading suppliers of green coffee. Western Hemisphere nations accounted for more than four-fifths of total world exports of coffee in 1952. Brazil and Colombia alone provide approximately two-thirds of the world's exportable production, with Brazil the world's largest supplier. Brazil's share of the world total, however, dropped from an average of 62 percent in 1935-39 to 46 percent in the last crop year 1952-53. Colombia's share, meanwhile, rose from 12 percent to 19 percent. Other important coffee producing countries are El Salvador, Guatemala, Venezuela, Mexico, British East Africa, and continental French Africa. The entrance of Africa onto the roster of major coffee producing areas has been a fairly recent development. In the period 1935-39 the whole continent of Africa accounted for only 7 percent of world exportable coffee production, while today it accounts for 16 percent of the total. On the other hand, Indonesia, in particular the island of Java, which formerly was an important source of coffee, has relinquished its prewar position as the third largest coffee producer. Production since World War II has declined because of the extensive damage inflicted on the coffee plantations during the war and postwar periods.

The uncontrolled spread of the Ceylon-leaf fungus disease outside the Western Hemisphere is also generally considered to be responsible, at least in part, for the decline of the coffee industry in Java and for the retardation of production in Africa. As a result, the production of high quality *arabica* coffees in Java and Africa, known throughout the world as Javas and Mochas, has been drastically reduced. Planters in these areas have shifted from cultivation of the *arabica* species to the *robusta* and *liberica* species of coffee, which are more resistant to this fungus disease and to pests. But both the *robusta* and *liberica* species are of inferior quality and flavor compared to the *arabica* species now grown predominantly in Latin America. Consequently, *robusta* and *liberica* coffees from Indonesia and Africa are considered less desirable in the American market. If control of the fungus disease is successful, however, coffee production in these two areas from the *arabica* species may expand in the near future and compete with Latin American coffees in the United States.

The United States fills approximately 95 percent of its green coffee requirements from Central and South American sources. In 1952 the United States imported 50 percent of its green coffee from Brazil and 22 percent

UNITED STATES IMPORTS OF GREEN COFFEE BY AREA, 1952



Source: United States Department of Commerce, Bureau of the Census.

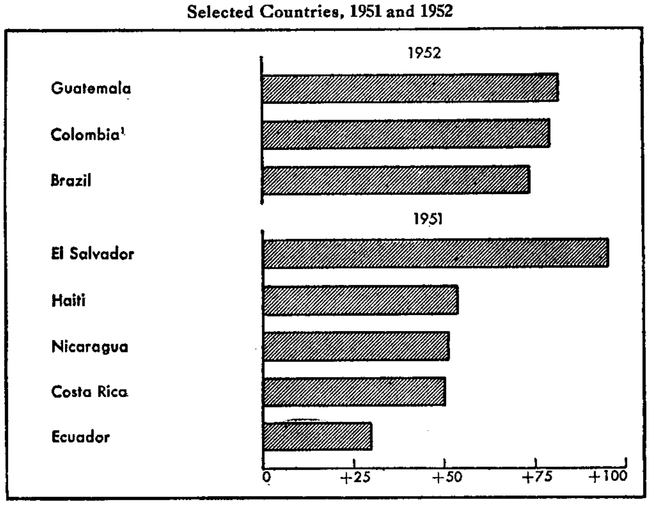
from Colombia. Africa supplied about 6 percent while almost all of the remainder came from other Central and South American countries.

United States coffee imports are an important source of dollar exchange

In addition to the importance of the United States as a market for Central and South American coffee, the dollar exchange obtained from the coffee trade has been an important influence in the postwar balance of payments picture of Latin American nations. For example, in 1952, coffee exports, destined largely for United States markets, accounted for 74 percent of total export receipts for Brazil, 82 percent for Colombia, 88 percent for El Salvador, 51 percent for Nicaragua, 26 percent for Ecuador, and 82 percent for Guatemala. Latest 1951 figures also show that coffee receipts were of major importance for Costa Rica, 36 percent and Haiti, 54 percent. These earnings have assisted the countries south of the border in maintaining not only customary imports but also imports for economic development and industrialization. Combined with the postwar demands for other raw materials from Latin America, coffee exports have been instrumental in restoring an import balance in the United States balance of payments with Latin America.

The upturn in coffee prices since the end of World War II has also contributed to the improvement in the dollar exchange position of Latin America. During and immediately after World War II, the level of coffee prices was maintained by increased United States consumption of coffee, which offset a lower level of demand elsewhere. Increased consumption also served to reduce surplus supplies in some producing countries, notably Brazil, which were exerting a depressing effect on the market. But by 1949 Brazil had succeeded in working down her accumulated inventory. The removal of this surplus from the market and a threatened shortage of coffee because of weather damage to the crop in Brazil in 1949 led to a sharp rise in coffee prices. The average spot price of Santos No. 4 coffee in New York climbed from 26.1 cents per pound in April 1949 to a high of 56.1 cents in September 1950. Since that time the price of coffee has been fairly steady. Reports of frost damage to the current Brazilian coffee crop in July of this year, however, caused coffee prices to move upward rather sharply. Some advance in green coffee prices also occurred in September in anticipation of a New York dock strike at the end of that month.

COFFEE EXPORT EARNINGS AS A PERCENT OF TOTAL EXPORT EARNINGS
Selected Countries, 1951 and 1952



[1] January to June only.
Source: International Monetary Fund, *International Financial Statistics*.

The coffee industry in the United States

Because of the growing importance of coffee consumption in the United States in recent years, the roasting of the green coffee bean and its distribution to American consumers have become increasingly important. Based on the 1952 average retail price for coffee of 86.7 cents per pound, coffee roasted in the United States in 1952 totaled almost $2 billion, about five times as large as the 1938 roast. About one-third of the difference between the cost of green coffee and the retail price is accounted for by value added by the roasting process while the remainder covers marketing and distribution costs. It is interesting to note, however, that employment in the coffee roasting industry itself plus the additional employment derived by others engaged in the importing and distribution channels and in related fields such as canning and tinplate is rather small.

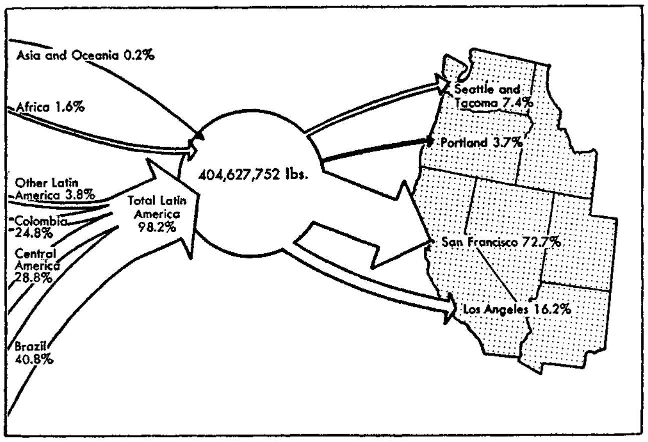
Imports of green coffee are channeled through four principal ports of entry—New York, New Orleans, Houston, and San Francisco, with Los Angeles occupying the secondary role on the Pacific Coast. The main coffee processing centers have grown up at these ports. Additional centers also have been established at Chicago, St. Louis, Cleveland, Cincinnati, Toledo, and Kansas City to serve the needs of consumers in the interior parts of the United States.

Imports of coffee through Pacific Coast ports

On the Pacific Coast, San Francisco is the principal port of entry for imports of green coffee. From 1950 to 1952, San Francisco accounted for almost three-fourths of total Pacific Coast imports by weight, compared with somewhat less than 70 percent in the prewar years. Coffee is the largest single import of the San Francisco customs district. Los Angeles is the second ranking coffee importing port on the Coast, but her share was only 20 percent in 1938 and 16 percent in 1952. Portland, Seattle, and Tacoma import the remaining share.

The concentration of approximately 15 percent of United States coffee imports on the Pacific Coast is partly accounted for by the fact that West Coast markets are more or less geographically isolated from the eastern roasting centers, so that the establishment of a coffee industry in this area was a logical development. The proximity of Pacific Coast ports to Central American markets, moreover, helps to assure an adequate supply of green coffee for Pacific Coast roasters. The Pacific Coast ob-

SOURCES OF TWELFTH DISTRICT IMPORTS OF GREEN COFFEE AND PORT OF DESTINATION, 1952



Source: United States Department of Commerce, Bureau of the Census.

tains a relatively larger share of its coffee imports from Central America than do New York and New Orleans. Although transportation costs from Central America to Pacific Coast ports are oftentimes higher than rates to New York and New Orleans, shorter transit time to the Pacific Coast results in lower carrying charges. In addition, the frequency of transportation service between these two areas has facilitated the growth of the coffee trade in the District.

The importance of San Francisco as the principal port of entry on the Pacific Coast is due primarily to historical factors. San Francisco developed as a major port before any of the others, and the coffee roasting and importing industry gradually gravitated to this area. But as time passed, various roasters established plants in other ports of the District in order to serve more or less localized markets.

Brazil and Colombia also supply the major proportion of West Coast coffee needs

Roasting plants on the Pacific Coast, like those of the United States, obtain a major share of their coffee from Brazil and Colombia. In 1952 Brazil supplied 41 percent of the Pacific Coast's imports of green coffee, while Colombia supplied 25 percent. Other suppliers of importance are El Salvador, Guatemala, and Mexico. Imports of green coffee by country of origin are shown by Pacific Coast customs districts in the accompanying table.

Imports of green coffee have increased sharply since the prewar period

Imports of green coffee through Pacific Coast ports in 1952 were 50 percent larger in physical volume than in 1938. Imports into the San Francisco customs district alone increased by 62 percent, well above the average for the whole Pacific Coast. The actual increase was 84 percent of the total increase for the Pacific Coast. The Los Angeles and Washington customs districts also registered increases in the volume of coffee imported, but Oregon's imports declined from 1938 to 1952 by 5 percent.

The coffee industry on the Pacific Coast

While the coffee industry in the Twelfth Federal Reserve District is not of major importance in comparison to total economic activity in the District, it is nevertheless sizable. The value at retail prices of coffee roasted in the District in 1952 may be estimated at about $300 million,

IMPORTS OF GREEN COFFEE BY COUNTRY OF ORIGIN, PACIFIC COAST AND UNITED STATES, 1950-52

		Shipping weight in millions of pounds						Value in millions of dollars					
Country		Los Angeles	San Francisco	Oregon	Washington	Twelfth District total[1]	United States	Los Angeles	San Francisco	Oregon	Washington	Twelfth District total[1]	United States
Brazil	1950	29.9	79.4	8.8	12.7	130.8	1,259.4	13.2	37.2	3.8	5.5	59.7	566.4
	1951	30.9	119.6	7.9	23.4	181.8	1,454.7	14.7	60.0	4.0	11.3	90.0	719.9
	1952	32.1	103.6	9.8	19.7	165.2	1,337.5	16.0	52.3	4.8	7.8	80.9	670.7
Colombia	1950	11.5	77.5	3.3	3.9	96.2	537.2	5.3	37.2	1.5	1.9	45.9	266.6
	1951	10.9	74.3	1.6	8.3	95.1	559.9	6.0	40.5	0.8	4.4	51.7	310.6
	1952	13.7	77.9	3.2	5.5	100.3	589.1	7.6	43.6	1.8	3.1	56.1	335.5
El Salvador	1950	6.5	43.2	1.1	0.9	51.7	137.2	2.3	16.0	0.4	0.3	19.0	50.3
	1951	3.8	34.5	0.4	0.6	39.3	133.0	1.8	14.7	0.2	0.3	16.9	62.5
	1952	5.3	34.7	0.7	0.8	41.5	124.3	2.4	15.3	0.3	0.4	18.4	59.9
Guatemala	1950	4.8	21.0	1.0	0.7	27.5	109.9	1.9	9.0	0.4	0.3	11.6	43.2
	1951	4.1	23.6	0.2	1.0	28.9	104.3	2.0	11.5	0.1	0.4	14.1	51.2
	1952	4.4	21.0	0.3	1.0	26.7	113.9	2.0	9.8	0.1	0.4	12.3	55.5
Mexico	1950	1.8	14.1	0.7	0.5	17.1	88.8	0.7	6.1	0.3	0.2	7.3	39.4
	1951	2.3	13.5	0.4	0.7	16.9	104.8	1.1	6.5	0.1	0.3	8.0	53.3
	1952	1.1	16.2	0.3	0.6	18.3	103.5	0.6	8.4	0.1	0.3	9.5	52.9
Other Latin America	1950	5.2	35.5	0.9	1.1	42.7	190.2	2.2	14.2	0.4	0.4	17.2	79.3
	1951	4.5	36.5	0.6	1.4	43.0	194.2	2.3	18.7	0.3	0.6	21.8	97.3
	1952	7.5	35.2	0.5	2.3	45.5	244.1	3.5	17.6	0.2	1.0	22.3	122.8
Asia	1950	0.1	0.1	..	*	0.2	5.4	*	*	..	*	0.1	2.4
	1951	0.1	*	..	..	0.1	7.2	*	*	..	..	0.1	3.6
	1952	0.2	0.3	..	0.1	0.6	5.8	0.1	0.1	..	*	0.2	2.9
Africa	1950	1.4	2.5	0.1	0.1	4.1	109.2	0.4	0.8	*	*	1.3	42.5
	1951	0.6	1.1	*	0.4	2.1	128.4	0.3	0.5	*	0.2	0.9	59.2
	1952	1.3	5.2	*	0.1	6.6	161.6	0.6	2.6	*	*	3.3	75.1
Total	1950	61.2	273.3	15.9	19.9	370.3	2,437.2	26.0	120.5	6.9	8.7	162.1	1,090.2
	1951	57.2	303.1	11.1	35.8	407.2	2,686.6	28.2	152.4	5.5	17.5	203.5	1,357.6
	1952	65.6	294.1	14.8	30.1	404.7	2,679.8	32.8	149.7	7.5	13.0	203.0	1,375.3

[1] Totals include imports of coffee through San Diego in 1950 of 2,200 pounds valued at $1,068 and in 1952 of 82,600 pounds valued at $44,550. There were no imports in 1951.
*Less than 50,000 pounds or $50,000.
Note: Figures may not add to totals because of rounding.
Source: United States Department of Commerce, Bureau of the Census.

more than five times larger than in 1938. Roasters in the District account for approximately 15 percent of the total product of the industry in the United States. Imports of green coffee, moreover, are the leading import.

Employment in roasting plants in the District, as in the rest of the nation, is relatively small because of the highly mechanized nature of the roasters' operations. For the 60 roasters in the seven western states, employment is about 1,000 persons at the maximum, including sales and distribution staffs for those roasters that maintain their own distribution facilities. This figure is only slightly above prewar employment figures for the industry, since increasing mechanization has obviated the need for a proportionate increase in the labor force. Employment figures, however, can only be estimated, since many firms that roast coffee also produce a diversified line of food products. In these cases, the amount of labor expended in the roasting of coffee itself is inseparable from other operations of the firm.

In addition to the employment in the roasting plants, about 150 persons—again at the maximum—are employed in the brokerage and importing business for green coffee.

Approximately 85 percent of green coffee imports remains in the District

About a dozen of the 60 roasters in the District account for the major share of the industry's product in this area. Some are local plants of national concerns which cater to the demands of the western market, some are District companies which have expanded their operations on a nationwide scale, while others are more or less local industries which serve only the District and immediately adjacent territory.

In addition to civilian demand, the United States Armed Forces are an important factor in the demand for coffee in this District. The United States Armed Forces roast their own coffee. In 1952 about 10 percent of total coffee imports into the District was purchased by the Armed Forces for roasting and distribution to United States military forces stationed here and in the Pacific area. For the United States as a whole, however, Armed Forces demand constitutes only 2.5 percent of total green coffee imports. About 50 percent of the coffee roasted by the Armed Forces is shipped to our military installations abroad.

According to estimates made by the industry, about 85 percent of the green coffee imported into the District through Pacific Coast ports remains in the District. The remainder is shipped by rail from Pacific Coast ports to roasters situated in various other states. Three major roasters—one in Colorado, one in Nebraska, and one in Missouri—account for the majority of green coffee transshipped out of the District, but these shipments constitute only a minor share of their green coffee requirements. Shipments from New Orleans and Houston supply the major proportion of their coffee needs.

At the same time, the District receives some shipments of green coffee from port areas outside the District, but the volume is negligible. According to the 1 percent sample of carload waybills tabulated by the Interstate Commerce Commission, about 2 percent of the total of green coffee imports through the Pacific Coast customs districts in 1952 was shipped into this District from other sections of the country.

About 85 to 90 percent of roasted coffee is consumed in the District

About 85 to 90 percent of the green coffee that is roasted in the District is consumed in the District. This percentage, however, does not hold true for individual roasters. If the individual companies maintain roasting plants in other parts of the United States, almost 100 percent of their roast is consumed here in the seven western states; other plants send about 15 percent of their roast to points outside the District.

The marketing of green coffee in the District

In common with most other commodity markets, sales and purchases of green coffee are made through the spot, shipment, and futures markets. Active spot markets are located at New York and New Orleans where on-the-spot coffee stocks are sold directly to buyers. The market for spot coffee on the Pacific Coast is not used so frequently. There is some tendency to consider spot coffee in this District as less desirable or as "rejects" since most of the coffee imported is imported for specific accounts. Most of the District importers, therefore, do not maintain large stocks. This situation differs somewhat from that encountered in the New York and New Orleans spot markets where the territory served is much larger. Importers in those ports maintain larger stocks to meet the needs of their customers. Spot coffee stocks, however, are kept to a minimum because the high price of coffee deters importers and roasters from holding a sizable inventory

IMPORTS OF GREEN COFFEE, UNITED STATES AND TWELFTH DISTRICT—1938, 1950-52

	Shipping weight in millions of pounds				Value in millions of dollars			
	1938	1950	1951	1952	1938	1950	1951	1952
San Diego	0.5	*	..	0.1	*	*	..	*
Los Angeles	53.1	61.2	57.3	65.6	4.1	26.1	28.2	32.8
San Francisco	181.7	273.2	303.1	294.1	13.9	120.4	152.3	149.7
Oregon	15.6	16.0	11.1	14.8	1.1	6.9	5.5	7.5
Washington	19.7	19.9	35.9	30.0	1.5	8.7	17.5	13.0
Pacific Coast	270.6	370.3	407.4	404.6	20.6	162.1	203.5	203.0
United States	1,987.1	2,437.2	2,686.6	2,679.8	137.8	1,090.2	1,357.6	1,375.3

*Less than 50,000 pounds or $50,000.
Source: United States Department of Commerce, Bureau of the Census.

position and because the costs of financing warehouse stocks are heavy.

Coffee importers in the District purchase their green coffee principally in the shipment market. Purchases in the shipment market take place either in the producing countries where most of the major importers and roasters fulfill their principal needs or "afloat," that is, from vessel cargoes of green coffee not yet consigned to specific purchases. These purchases are ordinarily made ex-dock United States Pacific ports.

The futures market, on the other hand, exists mainly for the purchase and sale of contracts as a hedge against possible losses due to price changes. Coffee futures contracts generally do not result in actual delivery of green coffee, and the use of the futures market has declined in recent years because of steadily increasing coffee prices. In the United States the only futures market is in New York—the New York Coffee and Sugar Exchange.

The green coffee brokers and importers, both in the District and the nation, handle the majority of imports for the roasters. However, the roasters do some importing for their own account. This trade comprises about 15 percent of total green coffee imports on the Pacific Coast. The roasters import coffee for two reasons: (1) to insure adequate sources of supply and the continued availability of certain qualities of coffee and (2) to preserve their position as importers in the event that import allocations are necessary as was the case during World War II.

Coffee financing in the District

Imports of green coffee into the United States are financed principally by two methods. The first is through letters of credit giving the exporter the right to draw on the importer's bank or, in some cases, directly on the importer for payment. Letters of credit and term drafts against shipping documents for 30, 60, or 90 days are generally used in transactions with Brazil, Colombia, Ecuador, Peru, and the Dominican Republic. In the remaining countries of Central America, in Mexico, and in the West Indies, letters of credit and sight drafts are used to finance the green coffee shipments. In the latter case, refinancing is usually arranged by the importer. Methods of financing in this District, however, vary from bank to bank and from individual to individual.

Other and less common forms of financing are also used in the coffee trade. One is the open account method where the importer maintains its own agencies or affiliates in the coffee producing country. Another is pre-crop financing in which some of the large importers advance funds to individual coffee producers to meet current costs of production. Green coffee is also imported "to order" with the bank retaining title to the coffee until it enters the country.

In this District, letters of credit and straight drafts are the two most commonly used forms of financing for green coffee. In general, importers use letters of credit or they may maintain a line of credit with their bank in order to meet their obligations. In fact, one of the outstanding features of coffee financing in the District is the development over the years of a close relationship between the banks and the roasters or importers, as the case may be.

Open account financing is infrequently used, but the relationship between the importer and the exporter is usually close and of long standing when such a system is used. The existence of dollar exchange restrictions in some countries today has also served to minimize use of open account financing. In addition, the larger importers in the District engage in some pre-crop financing. When the producer is "in funds," he reimburses the importer for the funds advanced. Arrangements as to the disposal of the coffee crop of the producer are ordinarily covered by another agreement or contract between the two, separate from the financial arrangement.

Almost all the financing of green coffee imports into the District is handled by the major banks in the District that handle foreign business. Coffee financing is also handled by eastern banks, especially for importers with nationwide facilities. In some cases, sales of green coffee by the importers are not made until the cargo is "afloat" and the final destination of the coffee is determined more or less at the last minute to meet the demands of certain clients. The bank involved, therefore, may be situated in another area from that to which the coffee shipment is diverted. Some of the business obtained by New York banks, nevertheless, has been gained on a competitive basis with local banks.

Prospects for the coffee industry in the District

Imports of green coffee through Pacific Coast ports will probably remain high because of expectations of a continued high level of coffee consumption. Future coffee consumption will be bolstered by the continued population growth in this District and the addition of new users of coffee from the existing population.

In the immediate future, at least, the price of coffee is likely to remain at or around present levels. Producing countries will resist a reduction in prices since the dollar exchange derived from coffee exports forms an important source of foreign exchange. Changes in the supply side will probably be the most decisive factor in the price of coffee. The steep increase in coffee prices in 1949 was associated with the liquidation of large surplus stocks in Brazil. Since that time, prices have fluctuated more or less in line with changes in the supply situation. It has been estimated that frost damage to Brazil's 1954 crop will reduce that crop about 20 percent below previous expectations but only slightly below the current crop. Carryover supplies are considered adequate to fill any gap that may occur next year. However, damage to the trees may affect supplies in the longer run, resulting in pressure on prices.

In any event, however, the market for coffee here and in the nation seems to be favorable and will insure the maintenance of a steady market for the coffee industry in the District.

TRENDS IN THE UNITED STATES BALANCE OF INTERNATIONAL PAYMENTS

Widely disseminated interpretations of the present magnitude of the so-called dollar gap vary all the way from nil to an annual rate of several billion dollars. Whether there is or is not a dollar gap is an important question because the desirability of continuing our programs of foreign aid and the future course of our foreign trade policy depend in large part upon its answer. Both in and out of Congress, opposition to the continuation of foreign aid as well as to further reductions in our tariffs has been based in part upon the alleged nonexistence of the dollar gap. On the other hand, the assumption of a continuing dollar gap has been used as a major argument to support a continuation of foreign aid and to support the need for further reductions in our tariffs. The dollar amount of foreign aid expenditures made to alleviate the problems arising from the postwar imbalanced flow of international trade has been large. Gross foreign economic and military aid voted by Congress has amounted to $45.5 billion during the eight years ending June 20, 1953. This is a large amount, and it is natural that the American taxpayer should seek some relief from this burden. Despite the growing area of possible disagreement, shortly before adjournment in July, Congress appropriated an additional $4.5 billion, including over $3 billion for military aid, in new funds to continue our foreign aid programs for at least the current fiscal year. Our future foreign aid and trade policies are to be the subject of intensive study by the recently appointed President's Foreign Economic Policy Commission.

What is the dollar gap?

The purpose of the following discussion is to inquire into the basis for these divergent views concerning the present size of the dollar gap by examining them in relation to developments in the United States balance of payments position. When the term "dollar gap" was coined in the earlier years of the postwar period, it referred simply to the fact that other countries consistently purchased more goods from the United States than they sold to us. In other words, it referred to our export balance of merchandise trade. More recently, statements have been made to the effect that the dollar gap has been eliminated because foreign countries are accumulating gold and dollar balances. These statements are not concerned simply with the balance of merchandise trade. Instead, reference is made also to the means of financing the dollar gap, that is, to the offsetting accounts in our balance of payments. Chart 1 shows in summary form the United States balance of international payments for each postwar year beginning with 1947. The balance of payments is, in a sense, the balance sheet of our nation's transactions with the rest of the world. As in the case of any other balance sheet it must balance, and export balances in the merchandise trade account must be offset by opposite balances in the other accounts. It would appear that the magnitude of the dollar gap could be expressed either in terms of the balance of merchandise trade or in terms of the manner in which this balance is financed. An accumulation of reserve balances abroad indicates that the means of financing available has been more than sufficient to cover our surplus of merchandise exports.

United States Balance of Payments
Twelve Months Ending June 30, 1953
(in millions of dollars)

	1952 Third Quarter	1952 Fourth Quarter	1953 First Quarter	1953 Second Quarter[p]	Total
Goods and services:					
Exports (less military aid grants)	3,991	4,406	4,143	4,355	16,895
Imports	3,942	4,068	4,037	4,305	16,352
Balance on goods and services	49	338	106	50	543
Unilateral transfers [net, to foreign countries (—)]:					
Private	—106	—127	—120	—122	—475
Government (less military aid grants)	—576	—392	—506	—511	—1,985
Total	—682	—519	—626	—633	—2,460
United States capital [net, outflow (—)]:					
Private:					
Direct investments	— 62	—240	—194	—199	—695
Other long term and short term	101	—107	— 25	285	254
Total	39	—347	—219	86	—441
Government (long and short term)	—199	72	10	— 58	—175
Total	—160	—275	—209	28	—616
Increase in foreign gold and dollar assets	776	426	758	454	2,414
Errors and omissions	17	30	— 29	101	119
Balance on goods and services and unilateral transfers	—633	—181	—520	—583	—1,917
equals					
Balance on United States and foreign capital and gold, errors and omissions	633	181	520	583	1,917

p Preliminary.
Source: United States Department of Commerce, Bureau of the Census.

The balance of trade in goods and services

Actually it is an oversimplification to consider either the balance of merchandise trade alone or the change in gold and dollar reserves as a measure of the dollar problem. That problem exists because the current need for dollars by the rest of the world has exceeded the current earnings of dollars by the rest of the world. Changes in dollar reserves and in the balance of merchandise trade are merely the outward manifestation of an underlying imbalance of world trade. Not only have other countries currently needed dollars to purchase our merchandise exports but up until 1950 they also needed, on net balance, dollars to pay for transportation, travel, and other miscellaneous services. Beginning in 1950, however, they became net earners of dollars from these services, primarily because of the re-establishment of their merchant marine, increased tourist expenditures by United States citizens abroad, and an increase in miscellaneous services provided for our Government abroad, including expenditures by our military personnel serving overseas. Additional dollars, however, were required to make payments for another type of service, namely, the transfer of income earned by United States investments abroad. Such payments have accounted for between $1 billion and $1.5 billion in each postwar year and have more than offset net earnings from the sale of other services to the United States. In speaking of the dollar gap it would be more realistic, therefore, to refer not only to trade in merchandise but also to include these various service items. The net effect of including these items, however, is to increase the deficit of the rest of the world with the United States, although to a decreasing extent as the years have gone by. This is due to the fact that the deficit on service account has decreased from $1,630 million in 1947 to $552 million in 1952. For the twelve months ending June 30, 1953, the total sales of services by the United States amounted to $4.9 billion while the offsetting expenditures for services totaled $4.5 billion.

Military aid shipments

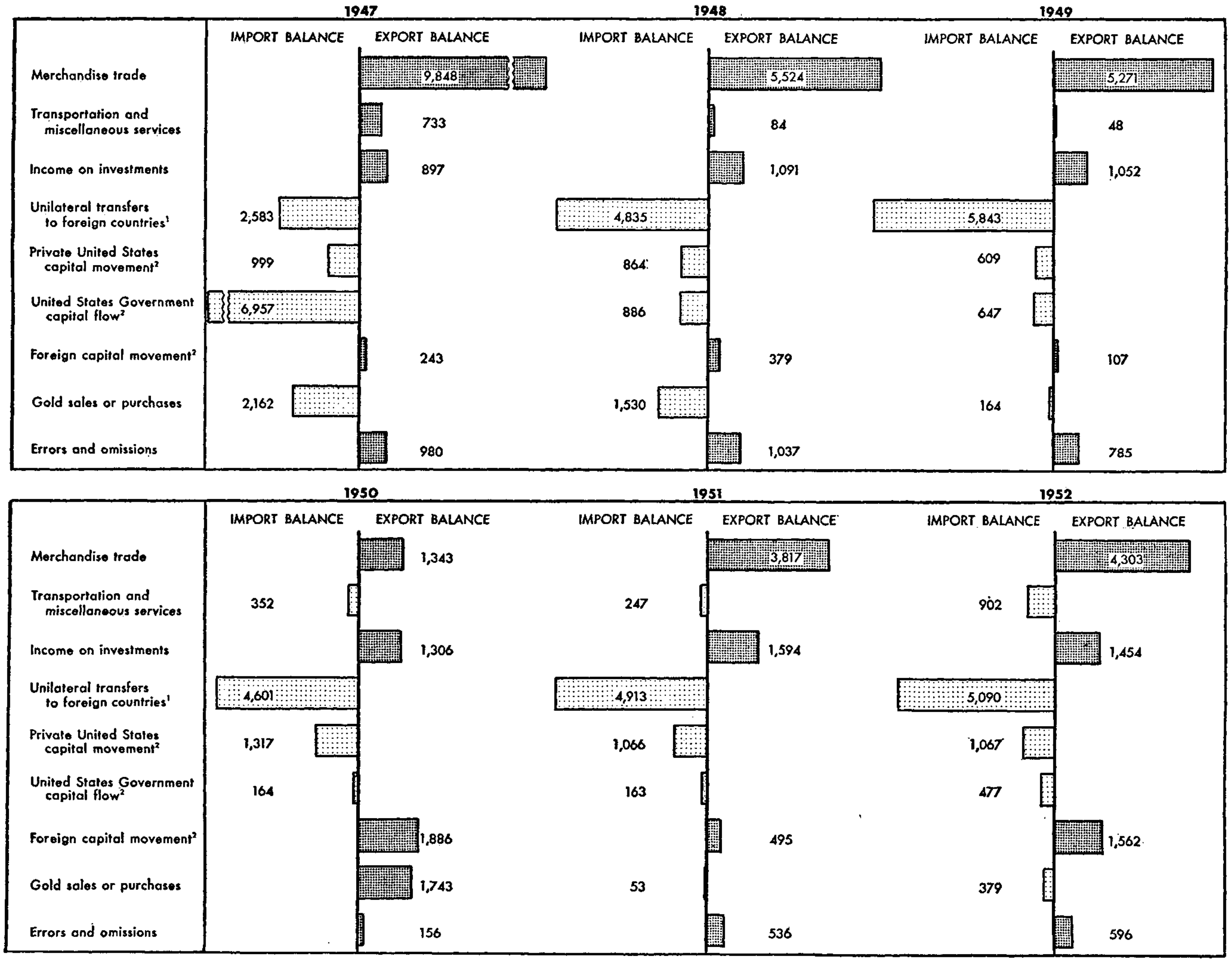
One additional factor should be considered in arriving at a measure of the current transactions giving rise to the world demand for dollars. Included in the value of total United States exports is a substantial volume of military goods furnished under our military aid programs. Such military material shipments do not represent a world demand for United States goods. On the contrary, they are a part of our global defense efforts, and as such they are direct shipments furnished under defense grants. In other words, these military shipments do not constitute trade which normally would be expected to be covered by the dollar earnings of the recipient countries. Consequently, they should not be considered in measuring the ability of these nations to pay their own way in commercial trade.

The inclusion of these military shipments made under our mutual defense program beginning in 1949 tends to overstate the dollar gap. Moreover, since they have increased steadily, they have tended to conceal the progress that has been made in closing the dollar gap arising from

CHART 1

UNITED STATES BALANCE OF PAYMENTS, 1947-1952

(in millions of dollars)



¹ Including United States Government foreign aid grants and private remittances.
² Import balance indicates an import of claims against foreigners or a reduction in claims against the United States. An export balance indicates an export of claims against the United States or a reduction in claims against foreigners.
Source: United States Department of Commerce.

nonmilitary trade during the past several years. If military aid supplies and services are excluded, our excess of exports of goods and services over such imports is reduced from $2.3 billion to $1.7 billion in 1950, from $5.2 billion to $3.7 billion in 1951, and from $4.9 billion to $2.3 billion in 1952.

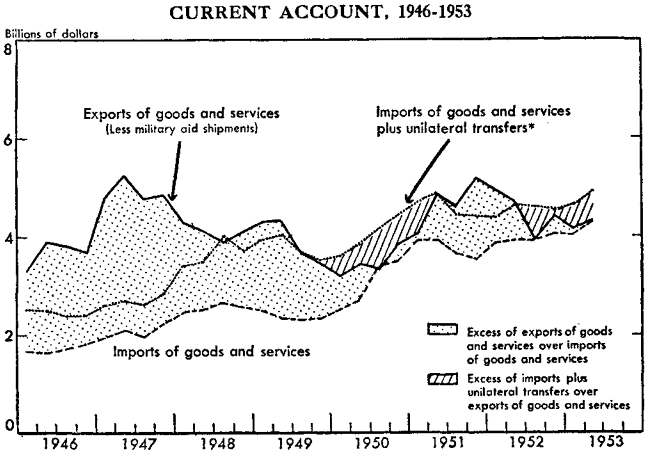
The means of financing our surplus

The deduction of military aid shipments from our export surplus of goods and services, as is shown in Chart 2, provides a more realistic measure of the current deficit of the rest of the world with the United States. This deficit is probably the most accurate measure of the dollar gap. The objective of deficit countries is to increase their current earnings through the sale of goods and services so as to minimize this deficit. In the interim, however, these deficits must be covered and the alternative sources of dollars are indicated by the remaining balance of payments accounts shown in Chart 1. The alternatives are: unilateral transfers of funds to deficit countries, including Government grants and private donations; capital transfers which include borrowing either from the United States Government or private sources or by investment of United States funds in their country; the sale of foreign-held investments in the United States or the drawing down of other foreign dollar holdings in the United States; and, finally the sale of gold.

During the postwar period, particularly since 1948, the major part of the world's dollar deficit has been covered by United States Government unilateral transfers—grants under our foreign aid programs. In fact, as is shown in Chart 2, the amounts of grants exceeded our export balance of goods and services during two periods—between the third quarter of 1949 and the second quarter of 1951 and between the third quarter of 1952 and the second quarter of 1953, the last quarter for which data are available. During these two periods it was possible, therefore, to use part of the dollar aid receipts to build up reserves of dollars and gold.

CHART 2

UNITED STATES BALANCE OF PAYMENTS ON CURRENT ACCOUNT, 1946-1953



*Excluding military aid but including private remittances.
Source: United States Department of Commerce, Bureau of the Census.

For the most recent twelve-month period for which information is available, that is, the period ending June 30, 1953, a new condition has developed. During this period the increase of $2.4 billion in foreign holdings of dollars and gold has exceeded the amount of our *economic* grants by approximately $400 million. Considerable attention has been focused upon this development. Since foreign countries have been able to salt away in their reserves an amount greater than all of our *economic* grants made during this period, it has been stated that the dollar gap no longer exists and that consequently there is no further need for economic aid.

The assumption that the dollar gap has been eliminated should be examined closely. For the year ending June 30, 1953, our total exports of goods and services, excluding military aid, exceeded our imports of goods and services by $543 million. Thus the dollar gap, in the true sense, was still in evidence although much reduced. In view of the fact that other countries were able to build up reserves in the face of a continuing deficit in their trade in goods and services with the United States, it would appear to be desirable to inquire further into the sources of their dollar receipts. Since the increase in their dollar and gold holdings exceeded the amount of our *economic* grants by some $400 million, this sum plus their deficit of $543 million in goods and services (excluding military aid) must have beeen financed by dollar receipts recorded elsewhere in our balance of payments.

Running down through the various accounts we find that during this period other countries received $475 million in private unilateral transfers, that is, gifts from private organizations and individuals in the United States. Net recorded transfers of United States private capital abroad amounted to $441 million. Direct investment of United States private capital abroad totaled $695 million for the twelve months ending June 30, 1953. This was partially offset, however, by the repayment of some $254 million in other private investments, leaving a net transfer of our capital abroad of $441 million. Private United States investment abroad during this most recent twelve-month period, however, was considerably below earlier postwar years when such investments averaged close to $1 billion a year. Government loans, including those of the Export-Import Bank, accounted for another $175 million during the year ending June 30, 1953.

Thus, dollar receipts of foreign countries from private remittances and private and Government loans for the year ending June 30, 1953 totaled approximately $1 billion. This amount was sufficient to cover both their trade and service deficit of $543 million and the amount by which their increase in reserves exceeded total *economic* aid, $400 million.

Foreign gold and dollar reserves

Having considered the major sources from which foreign countries receive dollars, we return to the basic question raised by our present balance of payments situation and its relationship to our foreign aid programs. While the dollar gap still persists, it is obvious from our balance of payments that our export surplus could have been financed without dollar grants during the year ending June 30, 1953. It should not be assumed, however, that the foreign demand for and supply of dollars could be balanced through normal commercial transactions. There is still a suppressed dollar demand which is held in check by widespread restrictions abroad in the form of exchange controls, quotas, and tariffs. It should also be noted that while military aid shipments from this country have been excluded from our considerations, foreign countries nevertheless have received relatively large amounts of dollars from foreign expenditures by our Armed Forces abroad and our "off-shore procurement" purchases of military equipment for the use of our allies abroad. Since the outbreak of the war in Korea, dollar receipts from these expenditures have largely offset the decline in our other nonmilitary aid program. One qualification should be added, however—such dollar earnings require the use of resources in foreign countries which might otherwise be available to produce other goods and services for export from those countries.

It might also be well to note that the receipt of dollars through loans and investments, both private and government, presents a very different situation from the outright grant of dollars under our economic aid programs. While such receipts of dollars do enable foreign countries to finance a deficit in their trade with the United States, it should be remembered that in the longer run they must obtain increased dollar earnings in order to service these loans, remit profits, and repay principal amounts. Consequently, such transactions will intensify the dollar problem in the future unless they prove to be productive investments in the dollar earning sense. It has also been a primary objective of our programs of foreign grants to enable recipient countries to increase their dollar earnings through an expansion of production and, in general, to enable them to pay their own way in world trade. This assistance, however, does not entail any future demand on the balance of payments of recipient countries.

The fact remains, however, that since March 1952 foreign countries have been able to build up their reserves of dollars and gold at a relatively rapid rate. They have been able to do so primarily because we have continued economic grants. This development poses an important question: Is this a desirable development and, if so, can further dollar grants by our Government be justified?

In order to consider this question it is important first to take a look at the trend of foreign holdings of dollars and gold during the postwar period. At the end of 1945 such reserves totaled approximately $20.5 billion. Foreign reserves declined sharply during the earlier postwar years as a result of the large deficits most countries continually ran with the United States, only parts of which were covered by our Government's grants. A low point was reached in September 1949 with reserves at $14.6 billion, a decrease of nearly $6 billion. It will be remembered that this was the month in which the pound sterling was devalued and which in turn set off a world-wide series of devaluations of other currencies. After September 1949 the trend in foreign reserve holdings was reversed, and finally in June 1951 they reached the $20 billion mark, largely as a result of the stimulus of the Korean war. Between June 1951 and March 1952, however, foreign-held reserves declined by over $1 billion, following a sharp drop in our imports while our exports were maintained at a high level. It should be noted that these fluctuations in reserve balances would have been much greater on the down-side if stringent exchange and import controls had not been imposed by foreign countries to protect their reserves. Since March 1952, however, the trade gap has narrowed rapidly and, as indicated earlier, foreign dollar and gold reserves have reflected this change, amounting to $21.6 billion on June 30, 1953, a postwar peak. As Chart 2 shows, this recent decline in our export surplus has resulted almost entirely from a decrease in our exports. This decrease in our exports reflected a decline in the foreign demand for United States goods—in particular, agricultural products. During 1952 another important factor in this decline in exports was the imposition or reimposition of restrictions in other countries against dollar imports, although in recent months there has been some relaxation of these restrictions in a few countries.

Foreign reserves and convertibility

The building up of foreign reserves is essential to an enduring solution of the problem of the dollar gap. These reserves might have been quickly exhausted under the existing conditions of trade imbalance were it not for the fact that exchange and other trade controls have been imposed to protect them. Yet a real solution to the problems of trade imbalance cannot be realized until such restrictions are relaxed and the convertibility of world currencies is restored. The recent growth in foreign-held reserves is one factor which indicates that the trading world may be able to break out of this dilemma. A note of caution should be added, however. As we have seen, foreign reserves of dollars and gold have fluctuated widely during the postwar period, and as recently as 1951 a rapid and serious depletion took place. The most recent period of accumulation has not been of sufficient duration to justify the assumption that a sudden serious drain could not again take place. Adequate reserves are an important prerequisite to convertibility. A country without sufficient reserves to take care of periods of adverse trade fluctuations cannot hope to underwrite the convertibility of its currency.

Earlier in the postwar period one of the major problems of world trade was inadequate production, particularly in those countries where the disruptions of the war were greatest. Today, production in most areas of the world is well above the prewar level, to a major extent because of aid extended by the United States. An imbalance in the world's trade, however, continues to exist. In the case of certain commodities and certain countries, production has exceeded the amounts that can be currently disposed of in world markets at prevailing prices. One factor responsible for this situation is the inconvertibility of currencies and the consequent restriction of the growth of multilateral trade. At the same time, production of exportable products in some nondollar countries is still inadequate to supply the foreign exchange required to meet the potential import demand of those countries.

Nonconvertibility of currencies disrupts the flow of trade which otherwise would result from economic advantage. If a particular country cannot use a surplus with one country to cover its deficit with another country, the resulting trade must of necessity be balanced bilaterally between pairs of countries, and the total level of international trade will necessarily be much lower than it might otherwise be. Under convertible currencies it would be normal for countries to have export surpluses with one set of countries and import surpluses with another. Under conditions of nonconvertibility, however, some countries tend to accumulate unwanted currencies while their own currencies are accumulated in countries where they are also unwanted. Most countries have dealt with this situation during the postwar period by imposing strict exchange and trade controls, usually followed by retaliatory restrictions in the countries whose currencies are discriminated against. It should also be noted that under these conditions the only avenue of correction open to a country is to curtail imports, and thus the net effect is a shrinkage of trade and a perpetuation of the underlying imbalance.

The accumulation of reserves of dollars and gold by foreign countries is highly desirable, therefore, if it makes the convertibility of their currencies more feasible. Unfortunately, however, all countries have not shared equally in the accumulation of reserves which began in the spring of 1952, and there are certain countries in which particularly acute problems have continued. It is nevertheless encouraging that the countries of the Sterling Area have benefited in particular from the growth of reserves. For example, during the first quarter of the current year almost half of the increase in foreign holdings of dollars and gold accrued to the Sterling Area. This strengthening of monetary reserves plus a general improvement in the balance of payments situation of the United Kingdom and a continuation of its efforts towards stable domestic monetary conditions indicates that convertibility for the pound sterling may become a practical possibility. Approximately half of the world's trade is conducted in sterling. Convertibility for sterling would mean an important expansion of that part of the world's trade conducted in convertible currency and consequently would enlarge the area in which multilateral trade could expand.

The adequacy of foreign reserves

To the extent that a growth in foreign dollar and gold reserves contributes to the establishment of convertibility of world currencies, it would appear that the use of dollar grants within reasonable limits could serve a useful purpose. There are two questions, however, which might very well be asked. How large do foreign reserves have to be in order to underwrite convertibility? How much longer can the United States taxpayer be expected to pay the bill for our export surplus or, as in the present situation, contribute to the growth of foreign-held gold and dollar reserves?

Unfortunately, definite answers cannot be given to either of these questions. With regard to the adequacy of foreign reserves, the answer would depend, in the main, upon the type of contingencies which these reserves would be expected to meet. No amount of reserves would be adequate to maintain a continuing balance of payments deficit. The function of such reserves should be to meet short-run problems due to temporary interruptions in the flow of, or temporary imbalances in, a country's trade. Today a few countries still maintain unrealistic exchange rates by means of exchange controls, while a few others have been unsuccessful in their efforts to control internal inflation. Such basic causes of trade disequilibrium must be corrected before there is any hope of establishing convertibility. Also, as indicated earlier, all countries have not shared equally in the increase in foreign-held dollar and gold balances. Furthermore, the total level of reserves which might be considered adequate will vary from country to country depending upon the characteristics of their trade with the rest of the world. The establishment of convertibility, therefore, will probably be a gradual, step by step process. It is not possible to set any particular level of total foreign reserves which must be reached in order to carry out this process.

The question of whether or not to continue our programs of dollar grants beyond the present fiscal year and, assuming the present balance of payments trend is continued, to permit their use as a source of foreign reserves is a policy decision which must be made by our Government. The question of continuing *economic* grants, however, is only one aspect of our over-all foreign economic policy and must be considered along with such directly related problems as tariff policy, technical assistance to underdeveloped areas, foreign investment policy, and *military* assistance—particularly the overseas procurement of military supplies which has added substantially to the dollar earnings of our allies in recent months. Congress has approved the appointment of the President's Foreign Economic Policy Commission to study these problems and to make recommendations for an over-all economic policy. When the report of this Commission is made available, we should have a clearer indication of the future of our foreign aid programs and trade policy.

Conclusion

Regardless of how the dollar gap is computed, there has been real improvement in the world trade situation with definite progress being made toward a more balanced condition. Even the fact that the adjustment has involved a decline in the total volume of trade should not be considered as being too unfavorable in this instance. The contraction has taken place from the peaks of trade which followed the outbreak of war in Korea and which reflected, to an important degree, unusual military and stockpiling demands, scare buying, and inflated prices. Trade is now on a basis which can more reasonably be expected to be maintained, barring any major shifts in the international political and economic climate. For the first eight months of the current year our recorded merchandise imports were slightly above the same period a year ago, increasing from $7.1 billion to $7.4 billion. Our recorded nonmilitary merchandise exports, on the other hand, decreased from $9.1 billion in the first eight months of 1952 to $8.0 billion this year. As a result of this year's drop in exports and the accompanying increase in imports, our surplus of nonmilitary merchandise exports amounted to less than one-third of that during the first eight months of 1952, or $615 million compared with $2 billion. If the present trend is continued for the remainder of the current calendar year, our nonmilitary merchandise export surplus should amount to considerably less than $1 billion compared with $2.5 billion in 1952.

BUSINESS INDEXES—TWELFTH DISTRICT[1]

(1947-49 average = 100)

Year and month	Industrial production (physical volume)[2]: Lumber	Petroleum[3]: Crude	Petroleum[3]: Refined	Cement	Lead[3]	Copper[3]	Wheat flour[3]	Electric power	Total nonagricultural employment	Total mf'g employment[4]	Carloadings (number)[2]	Dep't store sales (value)[2]	Retail food prices[3, 5]	Waterborne foreign trade[3, 6]: Exports	Imports
1929	97	87	78	54	165	105	90	29	....	....	102	30	64	190	124
1931	51	57	55	36	100	49	86	29	....	....	68	25	50	138	80
1933	41	52	50	27	72	17	75	26	....	....	52	18	42	110	72
1935	54	62	56	33	86	37	87	30	....	47	66	24	48	135	109
1936	70	64	61	58	96	64	81	34	....	54	77	28	48	131	116
1937	74	71	65	56	114	88	84	38	....	60	81	30	50	170	119
1938	58	75	64	45	92	58	81	36	....	51	72	28	48	164	87
1939	72	67	63	56	93	80	91	40	....	55	77	31	47	163	95
1940	79	67	63	61	108	94	87	43	....	63	82	33	47	132	101
1941	93	69	68	81	109	107	87	49	....	83	95	40	52	....	....
1942	93	74	71	96	114	123	88	60	....	121	102	49	63	....	....
1943	90	85	83	79	100	125	98	76	100	164	99	59	69	....	....
1944	90	93	93	63	90	112	101	82	101	158	105	65	68	....	....
1945	72	97	98	65	78	90	112	78	96	122	100	72	70	....	....
1946	85	94	91	81	70	71	108	78	95	97	101	91	80	89	57
1947	97	100	98	96	94	106	113	90	99	100	106	99	96	129	81
1948	104	101	100	104	105	101	98	101	102	102	100	104	103	86	98
1949	99	99	103	100	101	93	88	108	99	97	94	98	100	85	121
1950	112	98	103	112	109	115	86	119	103	105	97	105	100	91	137
1951	114	106	112	128	89	115	95	136	112	122	100	109	113	186	157
1952	107	107	116	124	86	112	96	144	116	130	101	114	115	171	200
1952															
August	106	107	122	131	81	105	103	153	118	131	101	116a	114	153	293
September	109	107	122	131	78	112	99	145	119	131	108	114a	114	142	253
October	116	107	117	142	80	115	96	146	119	134	98	118a	113	145	319
November	105	107	118	133	85	116	97	141	118	134	102	117a	114	135	194
December	99	108	114	126	78	111	96	138	118	135	100	117a	115	148	232
1953															
January	116	107	115	105	77	109	99	141	118	136	94	116a	114	151	195
February	117	108	117	131	85	113	92	154	119	135	102	116a	112	158	187
March	120	109	123	126	85	116	96	142	119	136	102	119a	113	179	336
April	120	108	122	132	83	114	96	165	119	136	104	116a	113	164	336
May	112	109	127	142	75	115	91	167	119	137	102	124a	113	118	384
June	120	110	121	134	78	105	99	179	120	137	111	120a	113	114	372
July	111	110	125	140	66	106r	96	172	119	138	95	117a	113	....	....
August	107	109	124	134	68p	110p	92	168	122p	139p	98	113a	113	....	....

BANKING AND CREDIT STATISTICS—TWELFTH DISTRICT

(amounts in millions of dollars)

Year and month	Condition items of all member banks[7]: Loans and discounts	U.S. Gov't securities	Demand deposits adjusted[8]	Total time deposits	Bank rates on short-term business loans[9]	Member bank reserves and related items[10]: Reserve bank credit[11]	Commercial operations[11]	Treasury operations[12]	Coin and currency in circulation[11]	Reserves	Bank debits Index 31 cities[3, 13] (1947-49=100)[2]
1929	2,239	495	1,234	1,790	......	− 34	0	+ 23	− 6	175	42
1931	1,898	547	984	1,727	......	+ 21	− 154	+ 154	+ 48	147	28
1933	1,486	720	951	1,609	......	− 2	− 110	+ 150	− 18	185	18
1935	1,537	1,275	1,389	2,064	......	+ 2	− 163	+ 219	+ 14	287	25
1936	1,682	1,334	1,791	2,101	......	+ 6	− 227	+ 454	+ 38	479	30
1937	1,871	1,270	1,740	2,187	......	− 1	− 90	+ 157	− 3	549	32
1938	1,869	1,323	1,781	2,221	......	− 3	− 240	+ 276	+ 20	565	29
1939	1,967	1,450	1,983	2,267	......	+ 2	− 192	+ 245	+ 31	584	30
1940	2,130	1,482	2,390	2,360	......	+ 2	− 148	+ 420	+ 96	754	32
1941	2,451	1,738	2,893	2,425	......	+ 4	− 596	+1,000	+ 227	930	39
1942	2,170	3,630	4,356	2,609	......	+ 107	−1,980	+2,826	+ 643	1,232	48
1943	2,106	6,235	5,998	3,226	......	+ 214	−3,751	+4,486	+ 708	1,462	60
1944	2,254	8,263	6,950	4,144	......	+ 98	−3,534	+4,483	+ 789	1,706	66
1945	2,663	10,450	8,203	5,211	......	− 76	−3,743	+4,682	+ 545	2,033	72
1946	4,068	8,426	8,821	5,797	......	+ 9	−1,607	+1,329	− 326	2,094	86
1947	5,358	7,247	8,922	6,006	......	− 302	− 510	+ 698	− 206	2,202	95
1948	6,032	6,366	8,655	6,087	......	+ 17	+ 472	− 482	− 209	2,420	103
1949	5,925	7,016	8,536	6,255	3.20	+ 13	− 930	+ 378	− 65	1,924	102
1950	7,093	6,415	9,254	6,302	3.35	+ 39	−1,141	+1,198	− 14	2,026	115
1951	7,866	6,463	9,937	6,777	3.66	− 21	−1,582	+1,983	+ 189	2,269	132
1952	8,839	6,619	10,520	7,502	3.95	+ 7	−1,912	+2,265	+ 132	2,514	140
1952											
September	8,444	6,473	9,908	7,249	3.96	− 230	− 176	+ 237	+ 4	2,363	144
October	8,605	6,765	10,125	7,336	......	+ 236	− 295r	+ 268r	+ 32	2,527	146
November	8,805	6,808	10,281	7,331	......	+ 72	− 29	+ 79	+ 34	2,616	141
December	8,844	6,627	10,504	7,498	3.95	− 299	− 240	+ 422	− 12	2,514	157
1953											
January	8,816	6,633	10,390	7,490	......	+ 138	− 263	+ 136	− 77	2,565	146
February	8,838	6,474	9,911	7,551	......	+ 83	− 119	− 13	+ 22	2,491	150
March	8,983	6,299	9,937	7,560	4.01	− 220	− 147	+ 240	− 18	2,394	164
April	9,054	6,173	10,011	7,597	......	+ 16	− 277	+ 239	+ 11	2,378	153
May	9,092	6,020	9,843	7,627	......	− 12	− 174	+ 293r	+ 22	2,463	150
June	9,156	5,997	9,899	7,703	4.18	− 39	− 531	+ 435	+ 39	2,274r	155
July	9,167	6,675	10,005	7,729	......	+ 75	− 184	+ 275r	+ 3	2,452r	148
August	9,229	6,589	9,950	7,749	......	− 100	− 98r	+ 176r	+ 36	2,397	142
September	9,241	6,481	10,018	7,794	4.17	+ 113	− 308	+ 217	− 4	2,425	149

[1] Adjusted for seasonal variation, except where indicated. Except for department store statistics, all indexes are based upon data from outside sources, as follows: lumber, various lumber trade associations; petroleum, cement, copper, and lead, U.S. Bureau of Mines; wheat flour, U.S. Bureau of the Census; electric power, Federal Power Commission; nonagricultural and manufacturing employment, U.S. Bureau of Labor Statistics and cooperating state agencies; retail food prices, U.S. Bureau of Labor Statistics; carloadings, various railroads and railroad associations; and foreign trade, U.S. Bureau of the Census. [2] Daily average. [3] Not adjusted for seasonal variation. [4] Excludes fish, fruit, and vegetable canning. [5] Los Angeles, San Francisco, and Seattle indexes combined. [6] Commercial cargo only, in physical volume, for Los Angeles, San Francisco, San Diego, Oregon, and Washington customs districts; starting with July 1950, "special category" exports are excluded because of security reasons. [7] Annual figures are as of end of year, monthly figures as of last Wednesday in month or, where applicable, as of call report date. [8] Demand deposits, excluding interbank and U.S. Gov't deposits, less cash items in process of collection. Monthly data partly estimated. [9] Average rates on loans made in five major cities during the first 15 days of the month. [10] End of year and end of month figures. [11] Changes from end of previous month or year. [12] Minus sign indicates flow of funds out of the District in the case of commercial operations, and excess of receipts over disbursements in the case of Treasury operations. [13] Debits to total deposit accounts prior to 1942, debits to demand deposit accounts from 1942 on, excluding interbank deposits. a—New revised series. p—Preliminary. r—Revised.