MONTHLY Review

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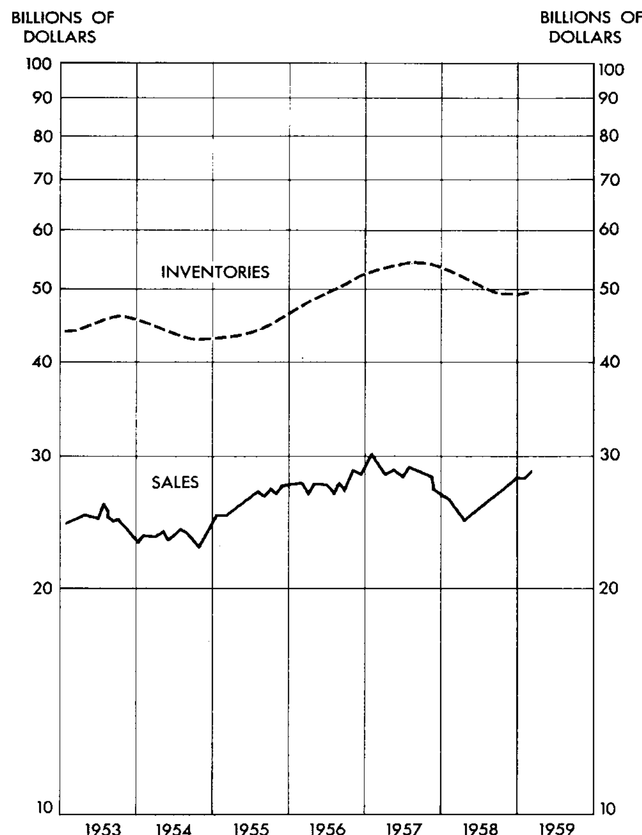
Business Investment Adds Impetus to the Recovery

SIGNS OF A RENEWAL of business investment appeared among the evidence of rising industrial production, construction, employment, and personal income during the first quarter. Consumer spending, government purchases, and homebuilding continued to give strong support, as they have since the recovery began last spring. But it was business spending for inventories and plant and equipment that showed perhaps the greatest relative increase among the major types of use for the gross national product, whether comparisons are made with the fourth quarter of last year or with a year ago when business activity was at its lowest ebb. Rising investment in inventories, which typically fluctuate widely, accounted for most of the gain in business investment. A rush by businesses to restock with steel and other metals in anticipation of possible strikes and to accommodate their own larger production schedules helped to push inventory accumulation to a seasonally adjusted annual rate of possibly $3.5 billion in the first quarter, as compared with inventory liquidation at an $8.2 billion rate a year ago. Although the inventory rebuilding was the major contribution of business investment to the strength of recovery during the January-March quarter, there was also significant evidence of renewed growth of business expenditures for new plant and equipment.

Recession-trimmed inventories are being rebuilt.

Between September 1957 and October 1958, the book value of manufacturing and trade inventories (seasonally adjusted) fell by $6.4 billion, with $4.9 billion of the decline occurring in manufacturers' stocks. Manufacturers' sales reached their lowest level of the recession as long ago as February of last year and by February of this year were up 16 per cent from the low point in the strongest rise since the one that followed the 1953-54 recession (see chart). Although some manufacturers began to add to inventories earlier, total manufacturers' stocks did not begin to grow again until early this year, with a net accumulation of about $600 million in January and February, and probably more in March.

At the retail level, automobile dealers have added considerably to their stocks in recent weeks with the total inventory of new cars reaching about 800,000 units in late March. Production of the 1959 models had been restricted by a series of work stoppages until just recently. Among manufacturers, producers of motor vehicles, machinery, and metals were doing much of the building of inventories through February, and probably in March as well. Manufacturers' stocks of purchased materials rose in January for the first time since the recession began. Part of this rise was undoubtedly intended as a precaution against possible interruptions of deliveries later this year. However, consumer demands for metal products have been holding at high levels, with retail sales of durable goods stores in March about 18 per cent greater than a year earlier. New orders and shipments for most metal fabricating industries have been rising, increasing requirements for materials.



Source: Department of Commerce

Inventories at book value, end of each month. Sales, total for each month.

Semi-logarithmic scale has been used to facilitate comparisons of rates of change. Equal vertical distances represent equal percentage changes.

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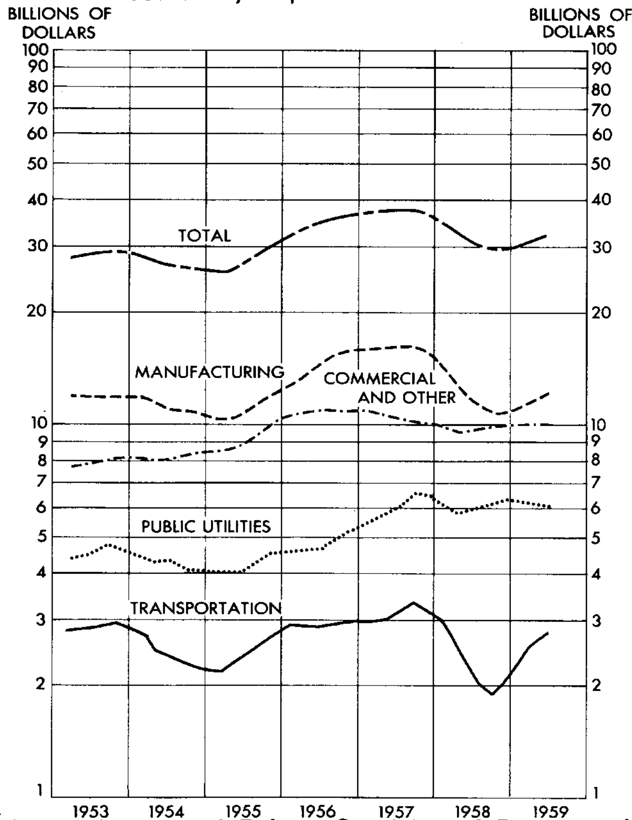
Fixed investment turned around late last year after a sharp but brief decline

The latest estimates of business expenditures for new plant and equipment, made by the Department of Commerce and the Securities and Exchange Commission, confirmed the findings of the preceding quarterly survey that the 1957-58 investment decline reached its lowest point in the third quarter of last year, and that renewed growth of business fixed investment is expected in 1959. From a seasonally adjusted annual rate of $29.61 billion in third quarter 1958, business investment expenditures rose to an estimated $31.16 billion per year in first-quarter 1959. In the April-June quarter of this year a further rise in outlays to an annual rate of about $32 billion has been estimated by the Commerce Department-Securities and Exchange Commission survey of anticipated capital expenditures. If these anticipated outlays are actually made, investment spending in the current quarter will be at a rate 8 per cent higher than the recession low.

The indications of an upturn in business investment spending are consistent with recent behavior of producers' equipment orders and shipments. Output of the machine tool industry has been recovering since early in the year and was about 10 per cent above the 1958 low in March. Output of most other electrical and nonelectrical equipment advanced also in March. Railroads have been ordering new cars at a sharply increased rate and the airlines are now receiving new jet and turbo-prop aircraft. Contract awards for construction of industrial buildings have shown modest improvement, although actual expenditures for industrial building were still declining in February (See chart below).

The apparent turnaround in fixed investment is an encouraging development in view of the widespread expectations at this time last year that the slump in investment spending would be long and severe. Following the 1953-54 recession, plant and equipment outlays rose from a seasonally adjusted annual rate of $25.65 billion in the first quarter of 1955 to a peak annual rate of $37.75 billion in the third quarter of 1957, an increase of more than 45 per cent. Although some of the spending during this period was for replacement of old plant and equipment, much of it provided new productive capacity. The contraction of outlays during the 1957-58 recession was indeed

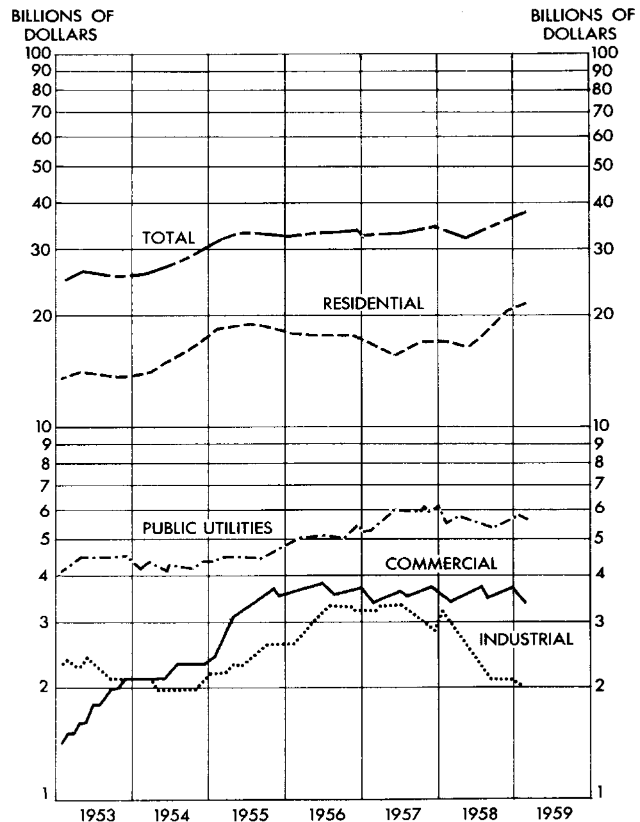
Expenditures for New Plant and Equipment
Seasonally Adjusted Annual Rates



Sources: Securities and Exchange Commission and Department of Commerce

Notes: Estimates for first and second quarters of 1959 are based on anticipated capital expenditures as reported by business between late January and early March, and have been adjusted, when necessary, for systematic tendencies in anticipation data.

Expenditures for Private Construction
Seasonally Adjusted Annual Rates



Sources: Department of Commerce, Department of Labor

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sharp and deep, amounting to nearly 22 per cent in a year's time.

Then why the upturn? Only the businessmen who have made the decisions really have the answers, but there are some considerations which may help to explain the change of direction. First, obviously, is the recovery itself. While the contraction in fixed investment was one of the principal causes of the recession, it is also probable that many decisions to reduce investment spending last year and earlier, as well as to reduce inventories, were of a precautionary sort. With earnings reduced and with a recession of uncertain duration underway it was prudent in many companies to hold back on expenditures which could be eliminated or postponed. Consumers appear to have behaved in a similar way in reducing their spending for durable goods in the recession. Since the trough of the recession, business sales and earnings have increased sharply so that corporations have become much more liquid. Replacement purchases in particular could be expected to increase with improving earnings and sales. This is certainly true of the railroads, which had to curtail replacement and maintenance spending because of reduced earnings last year and are now having to buy or build more cars to meet the rise in freight car loadings.

Changes in technology and markets stimulate investment.

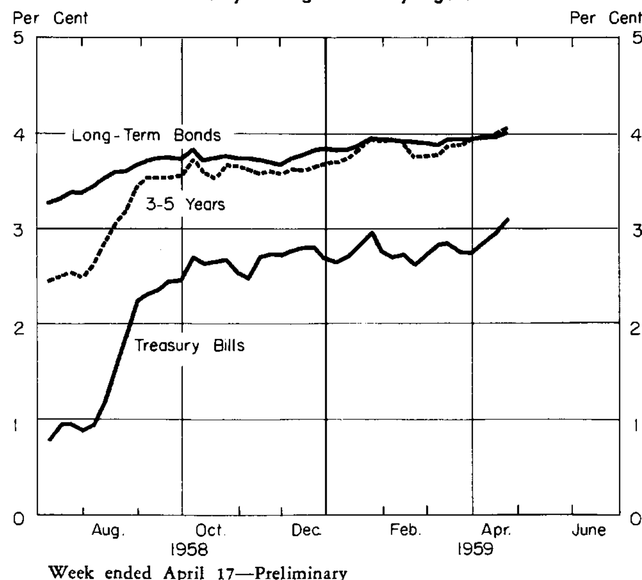
The question still remains as to how much capacity is needed or profitable. The immense growth of industrial plant in the United States and in the rest of the world since World War II could certainly be expected to influence investment planning. The rise of imports of finished manufactured goods discussed elsewhere in this *Review* is one manifestation of worldwide industrial growth. However, it should be remembered that changes in production techniques, locations of markets or resources, defense requirements, and consumer preferences can force revision of judgements regarding capacity.

Research and development expenditures, which were not reduced during the recession, are continually resulting in new products and processes. For example, electronically controlled machine tools may make machinery in some of the best equipped plants obsolete. Similarly, the airlines have adequate capacity in conventional piston-powered aircraft but the jets offer such compelling advantages in speed and efficiency, as well as in attractiveness to passengers, that many airlines cannot afford to wait for their old equipment to wear out before making the transition.

The automobile industry, even though producing at a much faster rate than in 1958, is currently turning out many fewer cars than could be produced with the currently available plant. Nevertheless, major producers are making considerable outlays for new tools and equipment in order to produce smaller cars.

Interest Rates Unchanged in the First Quarter

INTEREST RATES on marketable securities showed little net change during the first quarter of 1959 at about the levels reached early last October, but they rose in early April. The yield on three-month Treasury bills was 2.87 per cent on March 31, virtually the same as in mid-January and in early last October. By April 15, however, Treasury bills were yielding 3.14 per cent. Over the first quarter of the year, interest rates on municipal and medium-grade corporate issues drifted lower, while those on long-term Government bonds and highest grade corporate issues worked up slightly. In the first fifteen days of April, yields on most marketable securities rose somewhat.



Week ended April 17—Preliminary

Steadiness in interest rates during the first three months of 1959 occurred in face of a number of developments that might have been expected to cause rates to rise. The tempo of business activity steadily quickened, increasing the demand for money. The volume of municipal securities and mortgages offered to investors was large. Discount rates at the Federal

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Reserve Banks were marked up in early March by 1/2 of 1 percentage point to the 3 per cent level. In late March, the Treasury sought about $4 billion of new cash, an unusual development at this season of large tax receipts.

Interest rates were not prevented from rising by a rapid expansion in the money supply. Actually, total credit of weekly reporting banks declined about seasonally in the first quarter of 1959. There was strength in real estate and consumer loans, but bank holdings of securities were reduced. According to preliminary data, the active money supply declined from the end of December to the end of March, but the decline was smaller than normal.

Fears have been expressed that with the sharp rise in the volume of Federal debt outstanding commercial bank credit may rise rapidly. In the first nine months of fiscal 1959 the outstanding Federal debt rose $6 billion. Most of the new issues, both for new cash and refunding, carried relatively short-term maturities which are generally considered to be attractive to commercial banks. Nevertheless, from the end of June last year through March 11, 1959 all commercial banks in the country reduced their holdings of Government securities slightly, and increased total bank credit only 2 per cent, or at a seasonally adjusted annual rate of about 2½ per cent.

Stability of interest rates in face of strong demands for credit was to a great extent brought about by an increasing supply of available funds. These funds came from two main sources, one of which may be inflationary, one non-inflationary. A non-inflationary source of funds was a growth in the volume of saving, and, in the period under review, a larger portion of this saving than usual probably came from business firms as cash inflows temporarily exceeded cash needs. As a result of the improved liquidity positions, nonfinancial concerns had a sizable amount of funds to lend for a short period.

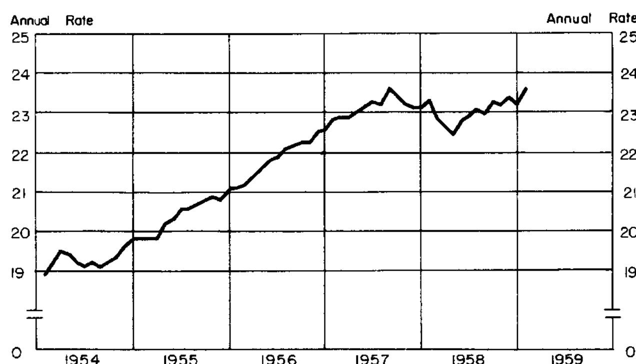
Another factor which may have kept interest rates from rising was a greater use of the existing money supply. By activating previously idle funds or by using money more intensively a given amount of money can finance a greater volume of transactions. Preliminary data indicate that the turnover of demand deposits (outside the big financial centers) was at the seasonally adjusted annual rate of roughly 23½ times in the first quarter of 1959, compared with about 23 times in both the previous quarter and the corresponding three months a year ago.

During the postwar period a larger portion of the rapid rise in spending has been implemented by an increasing velocity of money than by a growth in the money supply. Since the end of 1950, for example, the active money supply has expanded at an average annual rate of 2½ per cent. This was a relatively modest increase compared with an estimated 3 per cent average annual rate of increase in real production for the country.

The existing money supply, however, has been used much faster, according to the rough measures available. Turnover of demand deposits at reporting banks outside the large financial centers jumped from 17 times in 1950 to 20 times in 1955 and to 23 times in 1958. Hence, it is estimated that total spending (i.e. money times turnover) increased at an average rate of approximately 7 per cent per year from 1950 to 1958, a pace substantially greater than the increase in real output of goods and services.

Annual Rates of Turnover of Demand Deposits

Reporting Centers outside the Seven Large Financial Centers
Three-Month Moving Averages of Seasonally Adjusted Data



The rate of use of money is affected by many factors. Savings accounts in commercial banks, savings and loan companies, credit unions, and mutual savings banks, as well as other liquid assets of individuals and businesses have grown more rapidly than income (and perhaps total wealth) in recent years, tending to reduce the need for large cash balances. Despite efforts to lengthen the Federal debt, in recent years the average length has shortened materially, adding to the amount of highly liquid instruments outstanding. But perhaps more important, interest rates on high-grade financial claims are relatively attractive compared with the past twenty-five years, which makes the holding of idle cash balances more costly in terms of interest foregone.

If the turnover of money should continue to rise, it may be found that the volume of money need not expand much for some considerable period of time in order to support a rising level of economic activity. Or to put it another way, a rate of increase in the money supply which might be appropriate over a longer time period might permit rising prices in the short run.

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District Member Bank Earnings in 1958

NET CURRENT EARNINGS of district member banks were lower in 1958 than in the year before, as operating expenses rose faster than current earnings. Net profits after taxes, however, increased to $50 million, or 10 per cent higher than the previous peak reached in 1957. The higher profits were brought about primarily by gains made on security sales.

Net profits of member banks in the rest of the nation were up too. Preliminary figures indicate profits after taxes of all member banks in the country amounted to $1.4 billion, compared with $1.2 billion in 1957.

Current Earnings

Total operating earnings of district member banks rose to $236 million during 1958, or 4 per cent more than in 1957. Over half the increase came from higher earnings on securities. Holdings of both United States Government and other securities rose, and there was a rise in the average rate of return received on investments. Individual banks were able to buy securities on balance during 1958 largely because of an increase in deposit and capital accounts and a decrease in reserve requirements.

Interest received on loans by district member banks rose slightly from 1957 to 1958, reflecting primarily a rise in the average amount of loans outstanding. Average rate of interest received on advances was roughly 6 per cent. Income received from miscellaneous sources, such as trust departments, services charges on deposit balances, and other charges and fees, continued to rise. These revenues accounted for nearly 13 per cent of total income.

Current Expenses

The cost of doing business rose more sharply than either current earnings or banking resources. During 1958 expenses of district member banks were 8 per cent higher than in the previous year, as against a 4 per cent gain in earnings. In 1958 operating costs to Eighth District member banks were $2.34 for every $100.00 of assets. By comparison, total current operating expenses were $2.18 per $100.00 of bank assets in 1957, $2.05 in 1956, $1.93 in 1955, and $1.20 in 1946.

The sharpest increase in a major expense item at district member banks in 1958 was in interest payments on time deposits (16 per cent). This was the sixth straight year of substantial increases in the amount of interest paid on time accounts. The rise in 1958 reflected a growth in time and savings accounts plus an increase in the rate paid on these accounts at some banks.

Salaries and wages, the largest expense item, were 5 per cent higher than in the year before. A few more people were added to the staffs of banks, and average wages continued to rise. Banks also paid more local taxes and had larger depreciation charges, partly as a result of some new buildings and remodeled quarters. Then, too, district member banks spent more to advertise their services, to buy supplies, and to obtain utility services. On the other hand, they paid a smaller amount of interest on borrowed funds since they borrowed less and at lower average rates.

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Net Profits

Although net operating earnings of district member banks during 1958 were less than in 1957, net profits before income taxes amounted to nearly $91 million, an increase of $12 million over 1957, the previous record. The jump in net profits was mainly caused by capital gains totaling $18 million on sales of securities compared with $3 million in the previous year. This increase in profits was partially offset by a rise in the amounts transferred to reserves for losses on loans and investments. Actual losses on bad loans were small.

Net profits (before taxes) were 13.0 per cent of capital accounts, as against 12.4 per cent in 1957. However, net profits at district member banks were still low compared with other businesses. It is estimated that the rate of profit (before taxes) on stockholders' equity of all manufacturing corporations in the nation was about 15 per cent in 1958. In the two previous years, average annual profits to capital accounts at district banks was 12 per cent compared with over 21 per cent for all U. S. manufacturing concerns. After income taxes, average annual rate of profits on capital for district member banks was 8.4 per cent in 1956-58, as against about 10.5 per cent for all manufacturing concerns. The lower return on bank capital may reflect a smaller degree of risk in banking than in manufacturing.

Distribution of Profits

Income taxes took $40 million of the net profits of district member banks in 1958, as against $33 million in 1957. The greater tax payments resulted primarily from higher profits.

Stockholders of these district banks received almost $21 million in dividends, the largest amount of cash dividends in history. Even though capital accounts continued to grow, the ratio of cash dividends to capital was the same, 3.0 per cent. The greater amount of cash dividends continued the steady upward trend in these payments in the postwar period.

Retained earnings have been the principal source of new capital funds of district member banks in recent years. During 1958 these banks kept approximately $29.5 million of their profits to strengthen capital structures, or about $2 million more than in 1957. However, on a percentage basis the amount of profits retained was smaller, 33 per cent versus 35 per cent.

During 1958, largely because of the "plowing back" of earnings, capital accounts of district member banks for the sixth consecutive year increased at a more rapid pace than total assets or totals deposits. During the year capital averaged 8.7 per cent of total resources and 9.7 per cent of deposits, compared with 8.5 per cent and 9.4 per cent, respectively in 1957, and 5.6 per cent and 6.0 per cent in 1946.

EARNINGS AND EXPENSES
EIGHTH DISTRICT MEMBER BANKS
(In millions of dollars)

	1956	1957	1958p
Interest and Discount on Loans	129.2	139.6	141.1
Interest on Government Securities	43.5	47.6	51.6
Interest on Other Securities	11.6	12.7	13.8
Service Charges on Deposits	8.3	9.3	10.3
Other Current Earnings	16.5	18.0	19.6
Total Current Operating Earnings	209.1	227.2	236.4
Salaries and Wages	59.5	63.7	67.1
Interest on Time Deposits	16.9	22.6	26.2
All Other Expenses	46.3	50.7	54.9
Total Current Operating Expenses	122.7	137.0	148.2
Net Current Operating Earnings	86.4	90.2	88.2
Net Losses and Charge-offs	21.7	11.5	– 2.3
Net Profits Before Taxes	64.7	78.7	90.5
Taxes on Net Income	25.7	33.1	40.3
Net Profits After Taxes	39.0	45.6	50.2
Cash Dividends on Common Stock	17.1	18.2	20.7

p Preliminary

SELECTED OPERATING RATIOS
EIGHTH DISTRICT MEMBER BANKS
(In per cent)

	1956	1957	1958
Net Current Earnings to Capital Accounts	15.2	14.9	13.6
Net profits (after taxes) to Capital Accounts	7.9	8.6	8.8
Cash Dividends to Capital	2.9	3.0	3.0
Total Earnings to Total Assets	3.27	3.37	3.49
Total Expenses to Total Assets	2.05	2.18	2.34
Net Current Earnings to Total Assets	1.22	1.19	1.15
Net Profits to Total Assets	0.65	0.70	0.74
Interest on Government Securities	2.47	2.62	2.67
Interest and Dividends on Other Securities	2.57	2.66	2.82
Earnings on Loans	5.83	6.02	6.08
Capital Accounts to Total Assets	8.4	8.5	8.7
Time to Total Deposits	24.3	25.7	28.2
Interest to Time Deposits	1.37	1.60	1.80
U. S. Government Securities to Total Assets	35.8	36.4	35.6
Other Securities to Total Assets	8.3	8.6	9.5
Loans to Total Assets	32.7	31.9	32.7
Cash Assets to Total Assets	22.4	22.2	21.3

Note: Ratios presented are averages of ratios of individual banks and may differ from ratios computed from aggregate dollar amounts.

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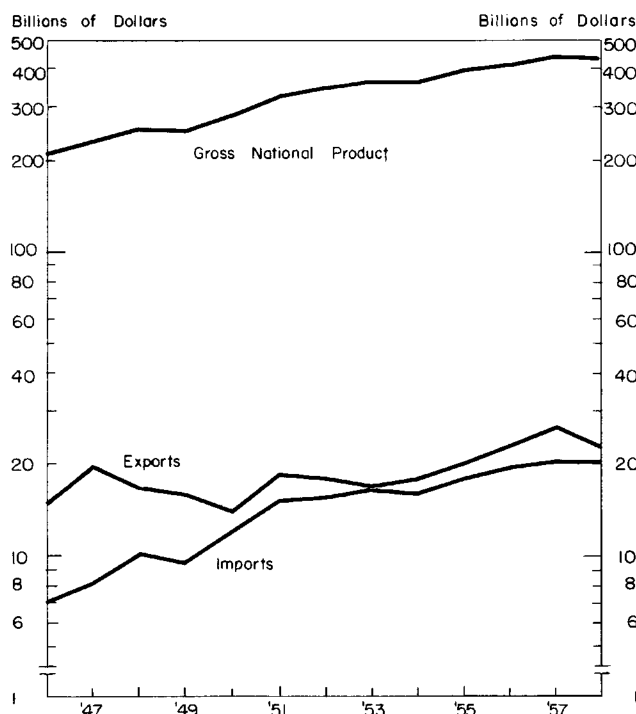
United States Foreign Trade and the Domestic Economy: Patterns and Problems

SINCE THE SECOND WORLD WAR the value of United States foreign trade has shown an almost continuous rise. Purchases of goods and services by foreign countries, excluding military aid shipments, increased from about $14.7 billion in 1946 to about $23 billion in 1958, after having reached a peak of more than $26 billion in 1957. United States imports of goods and services, although increasing at an even more spectacular rate, have continuously trailed exports, rising in value from $7 billion in 1946 to almost $21 billion in 1958.

The value of goods and services produced at current prices (GNP) rose in the United States from about $211 billion in 1946 to almost $438 billion in 1958. Gross national product and the value of United States imports and exports combined grew at virtually identical rates over the period, with GNP increasing by 105 per cent and the value of foreign trade growing by 103 per cent. Chart 1 shows, however, that a more-than-average growth in imports of goods and services offset a less-than-average growth in exports.

Chart 1
GROSS NATIONAL PRODUCT AND FOREIGN TRADE OF THE UNITED STATES



Sources for Charts 1, 4, and 5: Department of Commerce, *Survey of Current Business* and *Balance of Payments Statistical Supplement.*

Note: Exports and imports include both merchandise and services, but do not include shipments of military supplies and services transferred under grants.

Plotted on ratio scale in order to facilitate comparisons of changes in relative magnitudes. Equal vertical distances correspond to equal percentage changes.

The total value of goods and services exported by the United States in 1958, excluding military supplies and services transferred under grants, was about $3.4 billion less than in 1957, while the value of goods and services purchased from other countries in 1958 showed hardly any change from the 1957 level. The consequent reduction in the United States export surplus was mainly the result of reduced sales of United States nonmilitary merchandise abroad. Seasonally adjusted commodity exports started to decline as early as the second quarter of 1957, and reached bottom in the second quarter of 1958. Purchases of foreign commodities by the United States showed only minor fluctuations in 1957 and 1958, and the value of these purchases was virtually identical in both years.

The 1957-1958 reduction in merchandise exports of this country has raised the question whether the United States may be pricing itself out of world markets. Although this article does not attempt to give a categorical answer to this question, it does shed some light upon major postwar developments in the United States merchandise trade with the rest of the world. Special attention is given to changes in the relative importance of particular commodities, and to shifts in the geographical pattern of trade. Space limitations and the complexity of international trade relations are the main reasons for the omission in this article of such factors as changes in "invisible" trade (receipts and expenditures for transportation, travel, insurance, and other services), official grants and loans, private foreign investments, and international gold flows.

Growth in United States Imports and Exports of Merchandise

Postwar trade relations of the United States have been subject to several distinct influences. Before 1950, merchandise exports consisted largely of foodstuffs and industrial equipment for war-damaged Europe, while imports from that area, although increasing, remained small. In 1950, however, European imports of United States products began to decline. The economic recovery of Europe had resulted in a rapid growth of agricultural and industrial production, and so a large number of countries became

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increasingly independent of United States commodities. Moreover, large-scale imports from the United States during the 1946-1950 period had reduced European gold and dollar reserves (an important means of payment for imported products) to such a degree that most European countries placed stringent controls on imports from the dollar area. On the other hand, European exports to the United States continued to rise.

Marked changes in the foreign trade picture were caused by the decision of a large number of countries to devalue their currencies in terms of the United States dollar in the fall of 1949, and by the outbreak of the Korean War in the summer of 1950. The value of United States commodities purchased by foreign customers was 16 per cent lower in 1950 than in 1949, reflecting to a considerable degree the effects of the currency devaluation. United States commodities had become more expensive in terms of foreign currencies, while foreign products had become less expensive for American consumers. The stepped-up defense effort resulted in an increased volume and value of purchases by the United States of strategic raw materials from abroad, causing the total value of United States imports to increase abruptly. The surplus of merchandise exports over imports, which in 1949 had amounted to about $5.3 billion, dropped consequently to only $1 billion in 1950.

Between 1950 and 1957 the United States had export surpluses of merchandise averaging more than $3 billion annually. Almost continuously expanding economic activity abroad, especially in the European countries, kept demand for United States products growing during most of these years.

Merchandise exports "exploded" from $12.3 billion in 1953 to an annual rate of $20.2 billion in the first quarter of 1957. Most rapid increases occurred in the sale of agricultural products, industrial raw materials, and semi-manufactures, as can be seen from Chart 2. United States imports during this period grew less rapidly, namely from $11 billion in 1953 to an annual rate of $12.9 billion in the first quarter of 1957.

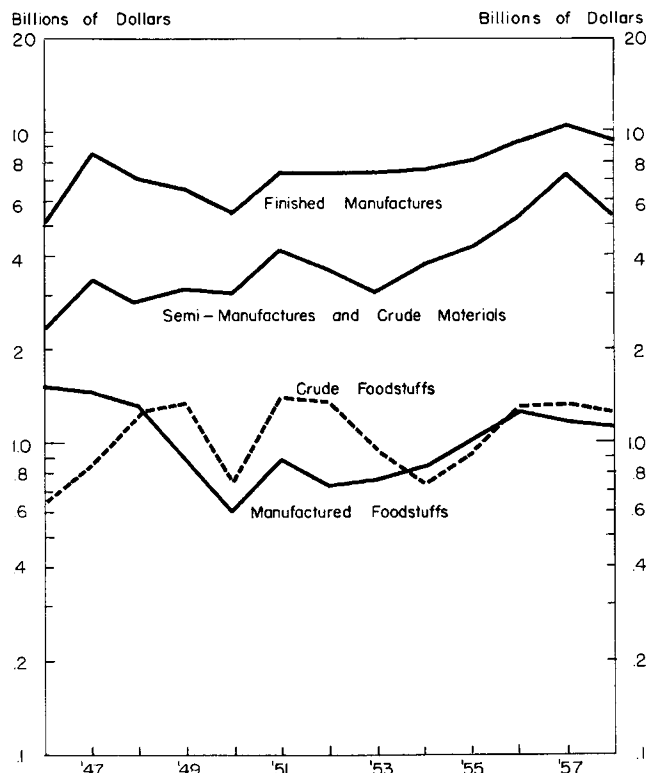
The large expansion of merchandise exports from 1953 to early 1957 resulted mainly from a widespread investment boom abroad, especially in Western Europe, Canada, and Latin America. Increased investment outlays in these areas, particularly in Canada and Latin America, were an important factor in the sharp increase in exports of machinery during the 1955-1957 period. Moreover, fear of a runaway inflation and the threat of war posed by the Suez Canal crisis resulted in speculative stockpiling of raw materials on the part of many industrial countries in the latter half of 1956 and early 1957. During this period United States exports of oil, steel, cotton, oilseeds, and grains to Western Europe increased sharply.

The subsequent decline in merchandise exports reflected primarily changing economic conditions abroad. European producers, with large inventories on hand, curbed their purchases of raw materials and semi-manufactures from the United States because of a slowdown in business activity in several of their countries. Also, corrective policies introduced by European governments to combat inflationary pressures and balance of payments difficulties affected United States exports to Western Europe unfavorably. One of the most significant drops was registered in United States shipments of coal to the highly industralized countries of Western Europe, adding to substantial unemployment in the coal mining regions of West Virginia, Pennsylvania, and eastern Kentucky. The decline in total merchandise shipments from this country to Western Europe amounted to about 21 per cent in 1958.

Latin America, Canada, and Japan, the other leading markets for United States products, also decreased their imports from this country. Major factors be-

Chart 2

UNITED STATES EXPORTS OF NONMILITARY MERCHANDISE, BY ECONOMIC CLASSES



Source: Department of Commerce, Bureau of Foreign Commerce.
Note: The 1958 figure is an estimate based upon January-November 1958 exports.
Plotted on ratio scale.

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hind the 11 per cent drop in United States sales of merchandise to Latin American customers in 1958 were the completion of large investments designed to raise the capacity of raw material production, and the decline in gold and dollar reserves of the Latin American countries, largely the result of a considerable drop in their export earnings. Canada, experiencing a recession which started even before that of the United States, spent 11 per cent less on United States commodities in 1958 than in 1957. Factors accounting for Japan's curtailment of purchases abroad were roughly the same as those of Western Europe, namely a reduction of abnormally large stockpiles of raw and processed materials, a production slowdown in key industries such as textiles, iron, and steel, and a further expected drop in import prices.

The sharp and sudden decline in domestic economic activity did not cause the traditionally expected substantial decline in total commodity imports. On the contrary, United States purchases of finished manufactures abroad increased by about 11 per cent in 1958, and almost offset the 11 per cent drop in imports of raw materials and semi-manufactures. The remarkable behavior of imports in the face of a recession may be explained in part by the fact that disposable income of United States consumers contracted very little. With industrial production curtailed and with inventories being reduced, businesses reduced their purchases of raw materials. But consumers, while maintaining total spending virtually at pre-recession levels, exercised growing preferences for small automobiles and many other consumer goods from abroad.

Changes in the Commodity Structure of United States Imports and Exports.

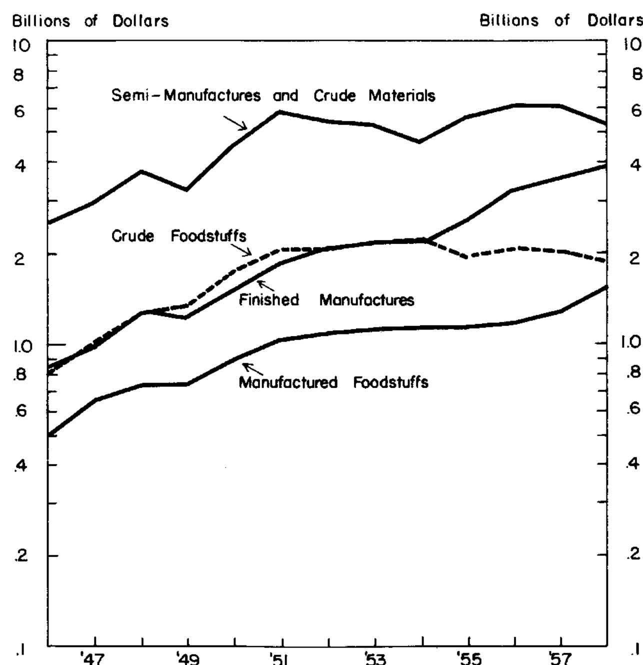
Since World War II the relative importance of major commodity types within the structure of total United States merchandise trade has undergone some interesting changes. These changes have been most significant among imports of nonagricultural commodities, as is shown in Chart 3. Industrial raw materials and semi-manufactures, accounting for 52.5 per cent of the value of total merchandise imports during the 1946-1949 period, declined in importance during the next five years to 50.5 per cent of the total value, and during the 1955-1958 period to 47 per cent. On the other hand, the share of finished manufactures in the value of total imports has steadily increased, rising from 18.2 per cent during the immediate postwar years to 26.6 per cent during the 1955-1958 period.

Among agricultural imports no specific trends have become noticeable. The total value of crude foodstuffs imported each year has remained virtually unchanged since 1951, but the relative share of these products dropped from 20 per cent during 1950-1954 to about 16 per cent during the 1955-1958 period. Imports of manufactured foodstuffs have generally shown the same fluctuations as total imports, except in the last two years, when their share of total merchandise imports suddenly started to increase as a result of a rise in imports of canned meat and, temporarily, of sugar.

Among exports, sales of industrial raw materials and semi-manufactures have become increasingly important since 1953, while those of finished manufactures have shown a relative decline (Chart 2). These developments partly reflect the previously mentioned investment boom abroad, and are not necessarily indicative of a long-term trend. Increased agricultural production abroad combined with high support prices for agricultural products in the United States, has limited the sale of farm products to foreign customers, although with the aid of export subsidies the relative share of these exports has remained virtually unchanged in recent years.

Rapid growth of industrial capacity in Western Europe and Japan has increased the competition for markets throughout the world. American manufacturers consequently supply a smaller part of the world market with finished goods now than they did

Chart 3
UNITED STATES IMPORTS OF NONMILITARY MERCHANDISE, BY ECONOMIC CLASSES



Source: Department of Commerce, Bureau of Foreign Commerce.
Note: The 1958 figure is an estimate based upon January-October 1958 imports.
Plotted on ratio scale.

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in the immediate postwar period, when European and Japanese producers were still digging out from under the rubble left by the war. However, increased industrial activity abroad has stimulated United States exports of raw materials. On the other hand, United States imports of some raw materials have recently been restricted by imposition of regulations of various kinds.

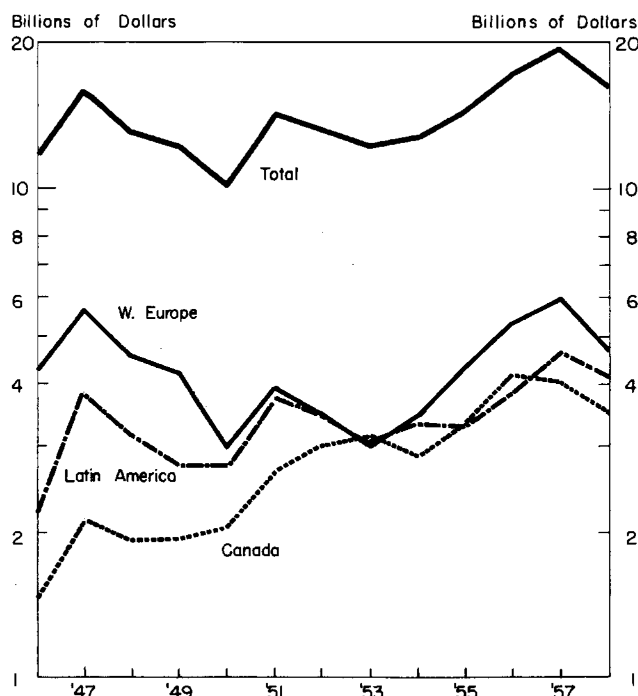
The Shift in United States Foreign Markets

In the immediate postwar years, more than one-third of total United States merchandise exports, largely consisting of finished manufactures, was shipped to Western Europe to aid in the recovery of the European economy (Chart 4). Following the initial recovery period, both industrial and agricultural output and productivity in Europe rose to levels at which many European countries were able to cover an increasing percentage of their material needs with domestically produced goods. Also, trade among European countries expanded rapidly. Many commodities which in the immediate postwar period could only be obtained from the United States could now be purchased within Europe, and paid for in currencies other than the then scarce dollar. Finally, industrial output in Europe reached a point at which European producers could successfully compete with American producers in markets outside Europe, even in the United States itself. One result of these developments has been that the percentage of total United States exports going to Europe has shown a considerable decline from the immediate postwar level. On the other hand, United States imports from Europe have shown a steady increase, rising from 14 per cent of total imports in the 1946-1949 period to 23.2 per cent in the 1955-1958 period.

Trade developments with Latin America show that United States exporters experience increasing competition, especially from European and Japanese producers. Latin American purchases of United States products as a per cent of total purchases by foreigners reached a postwar high of 26 per cent during the 1950-1954 period, and started to decline afterwards when supplies in other parts of the world again became available.

Throughout the postwar period, Canada's share of total United States foreign trade has increased steadily. Sales of United States commodities to Canada increased from 14 per cent of total United States exports during the 1946-1949 period to 21.8 per cent in 1950-1954. Since then, however, the rise has been only moderate, reaching a share of 22.3 per cent for 1955-1958, a period in which European and Japanese demands for United States commodities were extraordinarily heavy. Imports of Canadian goods, repre-

Chart 4
UNITED STATES EXPORTS OF NONMILITARY MERCHANDISE, BY AREAS



Note: The 1958 figure is a preliminary estimate. Plotted on ratio scale.

senting 20.2 per cent of all merchandise imports in 1946-1949, paralleled the trend in exports to Canada since 1950, and amounted to 22 per cent of the total value of imports in the period from 1951 through 1958.

United States trade with areas outside Western Europe, Latin America, and Canada, has declined in relative importance since the end of World War II. Many countries in these areas have strengthened their economic ties with Western Europe and Russia through purchases of finished manufactures and the sale of raw materials. United States purchases from these areas, mainly of raw materials, have steadily declined in importance, dropping from 29.3 per cent of total United States imports during 1946-1949 to 25.1 per cent in 1955-1958.[1]

Differences in rates of economic growth of industrial and non-industrial countries help to explain shifts in relative importance of particular foreign markets and changes in the commodity makeup of imports and exports. Generally speaking, economic activity and trade have grown much faster during the postwar period among industrial countries, such as the United States, the West European countries, and Japan, than in the non-industrial countries. Shortages of capital and of technical and managerial skills have been among the prime factors limiting the economic growth

[1] The major exception in this respect is Japan, whose trade relations with the United States have closely resembled those between Western Europe and the United States.

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of the so-called "underdeveloped" areas. Also, during part of the postwar period raw material exports of a number of non-industrial countries could not be increased because of capacity limitations, a factor which resulted in increases in commodity prices and in demands for United States supplies of raw materials.

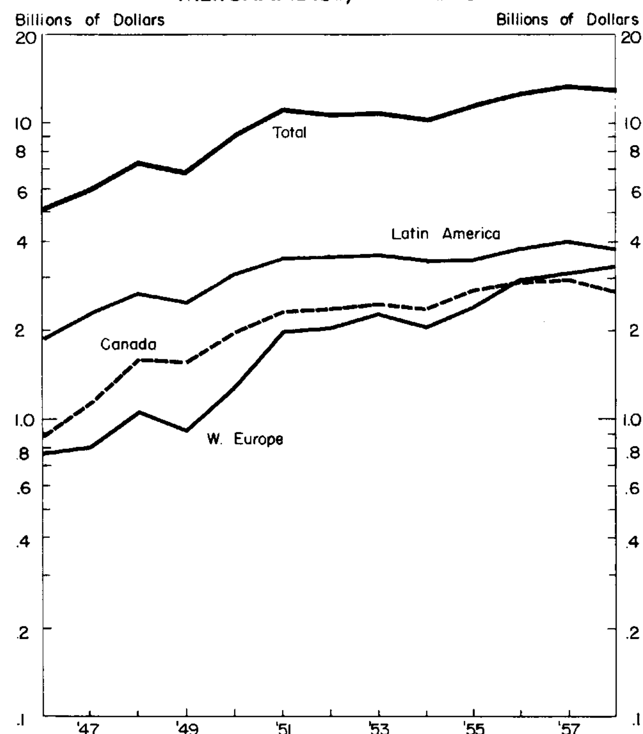
Some Implications for the Domestic Economy

Trade relations between the United States and the rest of the world have an important bearing upon the domestic economy of the United States. Three significant factors can be recognized: the continuous export surplus of merchandise, the change in the commodity structure of imports and exports, and the shift in relative importance of particular areas as markets for United States producers and consumers.

It appears likely that in the near future the United States will continue to sell more goods abroad than it purchases from other countries. In 1958, when exports dropped substantially from their 1957 level without being accompanied by a comparable decline in merchandise imports, the export surplus on commodities nevertheless amounted to the sizable sum of $3.3 billion. In fact, if the extraordinarily high surpluses of 1956 and 1957 are omitted, the 1958 surplus was the largest since 1949, and as a percentage of total merchandise exports the highest since 1951. The decline in the value of exports in 1957 and early 1958 appears therefore mainly a return to a more normal level from the levels reached in 1956 and early 1957, when, under the impact of the Suez Canal crisis and fears of a runaway inflation, Western Europe started to build up abnormally large inventories of fuel and raw materials.

The question whether the United States is pricing itself out of world markets is extremely difficult to answer, and depends not only on wage differentials between United States and foreign labor, but also upon differences in productivity and in prices of commodities used in the production process. Data referring specifically to export industries both at home and abroad are virtually non-existent, and consequently only broad generalizations can be made. Since 1950 hourly earnings in manufacturing appear to have risen at a slower rate in the United States than in the West European countries and Japan. On the other hand, wholesale prices of durable producer goods have risen faster at home than abroad, indicating the possibility that productivity in some manufacturing industries may have increased faster in Europe and Japan than in the United States.[2] Since World War II both Western Europe and Japan have rebuilt their industrial capacity with modern equipment compar-

Chart 5
UNITED STATES IMPORTS OF NONMILITARY MERCHANDISE, BY AREAS



Note: The 1958 figure is a preliminary estimate. Plotted on ratio scale.

able to that used in the United States. Technical and managerial skills have also grown in these countries.

Another fact deserves attention. Increased imports of finished goods do not necessarily indicate a deteriorating price-competitive position of American producers. Until a few years ago, Western Europe and Japan, the leading suppliers, were still experiencing the effects of World War II. Consumer demand was very high, and industrial production, although expanding, was mainly geared to the domestic markets. In the last few years, however, industrial output in these countries has reached levels at which producers could successfully enter foreign markets.

Dynamic changes in the world economy have led, and will continue to lead, to changes in competitive position among individual industries. It has become obvious, for example, that some United States agricultural products cannot compete on world markets at current domestic support price levels without export subsidies from the Federal Government. In manufacturing industries, competitive advantages and disadvantages between producers at home and abroad are changing from year to year. The question whether the United States is pricing itself out of world markets can therefore not be answered categorically, but requires a careful analysis of the competitive position of each individual industry.

[2] This possibility assumes that no material changes took place in non-wage cost differentials such as raw material prices, tax rates, and other price-increasing costs.

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