

Effects of strong dollar, economic recovery apparent in first-half import and export prices

Small price rises for imports continued to help dampen domestic inflation during the first half, but exporters encountered some difficulties as the powerful dollar drove up the prices of their goods in world markets and other nations failed to keep pace with the U.S. recovery

MARK JOHNSON and PATRICIA SZAREK

U.S. import prices rose 1.0 percent in the first half of 1984, after falling 2.5 percent during all of 1983. (See table 1.) The increase in import prices was led by prices for food and miscellaneous manufactures, which were partially offset by stable crude oil prices. The vigorous U.S. economic recovery boosted demand for imported products—the Nation imported a record \$160.2 billion of merchandise during the first half¹—while the strong dollar served to moderate price increases. The small rise in import prices was an important factor in the continued slowdown of domestic inflation as measured by the Consumer Price Index and the Producer Price Index.

U.S. export prices rose 2.0 percent in the first half. (See table 2.) This price index was published for the first time with the release of fourth-quarter 1983 data, and has risen 1.5 percent since that period. Higher prices for crude materials and fats and oils led the first-half increase in export prices. For raw materials, price increases were generally larger in the second quarter than in the first, reflecting rising prices for soybeans and fats and oils. Price increases for manufactured articles were smaller in the second quarter than in the first and rose only slightly during the entire first

half, a development that dampened the upward movement in U.S. export prices. The strong dollar and reduced demand for U.S. products by developing nations with heavy international debt loads placed downward pressure on export prices for these articles, which include machinery and transport equipment, chemicals, intermediate manufactures, and miscellaneous manufactures.

The price indexes discussed in this article are not seasonally adjusted and are based on transaction price information provided by a sample of U.S. importers and exporters. They represent 100 percent of the value of all imported and exported products. Indexes are published for detailed and aggregate categories of imports and exports.²

General trends in trade

Because energy prices account for approximately one-third of the weight of the all-import price index, their 0.5-percent rise during the first half was a major factor moderating increases in import prices. When energy products are excluded, U.S. import prices rose 1.3 percent in the first half. (See table 1.) In all of 1983, U.S. import prices excluding energy rose 2.1 percent.

The dollar's appreciation against the currencies of our major trading partners in recent years has had a major impact on U.S. export and import prices. From its low in July 1980

Mark Johnson is an economist formerly with the Division of International Prices, Bureau of Labor Statistics. Patricia Szarek is an economist in the same division.

to June 1984, the dollar's trade-weighted exchange rate rose 36.0 percent.³ (See chart 1.) Over the same 4-year period the dollar rose 748.3 percent against the Mexican peso, 107.5 percent against the French franc, 56.8 percent against the Deutschmark, and 13.1 percent against the Canadian dollar.⁴ Also by mid-1984, the dollar stood at record highs against the British pound. This appreciation made imports less expensive while driving up the price of U.S. exports in foreign markets.

Furthermore, the strong U.S. economic expansion of 1983 broadened and continued in 1984, boosting demand for imports. The recovery, fueled in 1983 by consumer spending, spread to the capital goods markets in 1984, while consumer spending continued to grow. Concurrently, capacity utilization in the Nation's mines, factories, and utilities rose to 82.0 percent in June from 74.9 percent a year earlier.⁵ U.S. auto production also continued to recover from depressed 1982 levels; during the first half of 1984, domestic manufacturers produced 29 percent more autos than in the first half of 1983, and 60 percent more than in the first half of 1982. Moreover, first-half housing starts were up 14 percent from the same period in 1983 and 102 percent from the first half of 1982.⁶

This increased economic activity sharply stimulated demand for a host of related consumer and capital goods, many of them imports. (See chart 2.) For example, expanding auto production spurred demand for such imported items as steel, aluminum, rubber, and engines, while the increase in business investment boosted sales for foreign suppliers of machine tools, building materials, and electrical equipment.

In contrast, activity in many major U.S. export markets

remained at reduced levels in the first half, and merchandise exports totaled only \$108.3 billion.⁷ (Although this represents a 10.5-percent increase over the first half of 1983, it was less than the \$112 billion exported in first-half 1982 and was substantially below the \$122 billion exported in first-half 1981.) Economic growth in Western Europe was much slower than in the United States: Industrial production growth for OECD Europe was less than 4 percent between first-quarter 1983 and first-quarter 1984, compared with increases for North America (Canada and the United States) and Japan of 15 and 11 percent, respectively. (See table 3.)

Many developing nations, including several in Latin America, experienced debt problems that forced them to cut back on imports. (See chart 3.) For example, Mexico, our third largest trading partner, purchased only \$5.7 billion of U.S. goods in the first half. Although this was up from the \$4.4 billion exported in the first half of 1983, it was still well below the \$7.2 billion recorded for the same period in 1982.⁸ Other important U.S. trading partners with debt problems are Argentina, Brazil, and Chile. Several OPEC nations, in particular Nigeria, also curbed imports, as oil revenues fell. The low level of U.S. merchandise exports was a key factor in the record \$51.9 billion merchandise trade deficit for the first half of this year.⁹

Along with the strong dollar, the growth in U.S. demand for imports widened the merchandise trade gap as the Nation led the recovery from the worldwide economic slump of 1980-83. First-half merchandise imports were \$160.2 billion, 31 percent more than in the first 6 months of 1983. Petroleum imports rose to \$28.7 billion from \$23.6 billion in first-half 1983, and nonoil imports rose sharply, by 33.4

Table 1. Change in selected import price indexes in the first half of 1984, and share of total 1980 trade value

Commodity	Share of total 1980 trade value	Percent change in—			Commodity	Share of total 1980 trade value	Percent change in—		
		First half	First quarter	Second quarter			First half	First quarter	Second quarter
All commodities ¹	100.000	1.0	0.7	0.3	Intermediate manufactured products	13.520	1.7	0.2	1.5
All commodities, except fuels and related products ¹	67.223	1.3	0.8	0.5	Iron and steel	3.127	3.6	-0.8	4.4
Fuels and related products	32.776	0.5	0.8	-0.3	Nonferrous metals	3.123	1.6	0.2	1.4
Crude petroleum	25.799	0.0	-0.4	0.4	Silver and metals of the platinum group	1.037	-1.2	1.4	-2.6
Food	6.554	3.1	2.1	1.0	Copper	0.581	-0.1	-3.1	3.1
Fruits and vegetables	0.838	8.6	8.9	-0.2	Zinc	0.135	14.6	6.5	7.6
Vegetables, fresh chilled or frozen	0.183	18.4	20.0	-1.3	Cork and wood manufactures	0.486	-2.7	-3.4	0.7
Fruits and nuts, fresh or dried	0.347	-0.8	2.2	-2.9	Plywood and veneers	0.267	-1.9	-1.1	-0.8
Coffee, tea, and cocoa	2.241	4.7	3.0	1.6	Wood manufactures, not elsewhere specified	0.207	-3.7	-6.0	2.4
Coffee	1.644	3.9	2.9	1.0	Paper and paper products	1.475	2.3	0.7	1.6
Tea	0.054	9.2	9.1	0.1	Machinery and transport equipment	25.442	0.0	0.0	0.1
Fish	1.088	-1.3	-2.4	1.1	Road vehicles and parts	10.887	0.8	-0.5	1.3
Fresh fish	0.477	-0.9	0.0	-0.9	Passenger automobiles	7.201	1.1	-0.9	2.0
Shellfish	0.459	-2.1	-4.8	2.8	Metalworking machinery	0.755	-1.9	-1.5	-0.4
Crude materials	4.275	4.1	4.7	-0.6	Machine tools	0.540	-1.8	-1.1	-0.7
Pulp and waste paper	0.708	18.8	8.3	9.7	Electric machinery and equipment	3.396	-4.9	-1.8	-3.2
Sulphate wood pulp	0.563	19.9	9.0	10.0	Miscellaneous manufactured goods	9.794	1.5	0.6	0.9
Crude natural rubber	0.344	-5.0	3.1	-7.9	Clothing	2.660	3.1	1.3	1.8
Wood	0.865	-3.7	7.1	-10.1	Footwear	1.232	3.5	0.6	2.9
Crude minerals	0.303	-3.8	0.0	-3.8	Photographic apparatus and supplies, optical goods, watches, and clocks	1.162	2.4	-1.1	3.6
					Photographic apparatus and equipment	0.258	3.4	0.3	3.1
					Optical elements, lenses, prisms	0.125	6.4	-1.5	8.1
					Watches, watch movements, and cases	0.310	10.3	0.8	9.4

¹This category includes indexes in addition to those shown here. For all of the indexes available in each category, see *U.S. Import and Export Price Indexes*, USDL-84-336 (Bureau

of Labor Statistics), Aug. 2, 1984.

Table 2. Change in selected export price indexes in the first half of 1984, and share of total 1980 trade value

Commodity	Share of total 1980 trade value	Percent change in—			Commodity	Share of total 1980 trade value	Percent change in—		
		First half	First quarter	Second quarter			First half	First quarter	Second quarter
All commodities ¹	100.000	2.0	0.6	1.4	Intermediate manufactured products—Continued:				
Grain and grain preparations	8.341	1.7	-2.7	4.6	Nonferrous metals	2.280	-1.0	0.4	-1.4
Wheat	2.943	2.6	-2.1	4.8	Silver and platinum metals	0.772	3.7	1.6	2.1
Yellow corn	3.956	1.9	-3.3	5.4	Copper	0.204	2.3	0.2	2.1
Barley	0.094	2.8	-5.9	9.2	Aluminum	0.919	-4.4	0.0	-4.4
Grain, other	0.522	(²)	(²)	(²)	Machinery and transport equipment	35.261	1.8	1.1	0.6
Yellow sorghum	0.498	1.0	-4.8	6.0	Road vehicles and parts	6.726	1.9	1.1	0.8
Animal feeds, excluding unmilled cereals	1.332	-15.8	-8.9	-7.6	Passenger automobiles	1.861	-0.3	0.2	-0.5
Crude materials	10.948	5.4	0.3	5.2	Parts for motor vehicles	3.499	2.7	1.6	1.2
Raw hides and skins	0.482	14.4	7.7	6.3	Other transport equipment, excluding military and commercial aircraft	2.718	4.7	2.1	2.5
Hides	0.320	15.0	7.8	6.7	General aviation aircraft	0.479	4.1	3.8	0.3
Furskins	0.162	11.7	7.3	4.1	Parts for aircraft and spacecraft	1.641	5.9	2.0	3.8
Oilseeds	3.024	7.7	-3.0	11.1	General industrial machinery, parts not elsewhere specified	4.939	2.1	1.9	0.3
Soybeans	2.716	5.6	-3.8	9.8	Heating and cooling equipment	1.087	0.1	0.7	-0.6
Pulp and waste paper	0.954	15.2	6.1	8.5	Cooling equipment	0.685	-0.7	0.1	-0.7
Sulphate wood pulp	0.497	25.1	7.9	15.9	Heating equipment	0.281	3.1	3.0	0.1
Textile fibers	1.813	2.0	-2.1	4.2	Pumps for liquids and parts	0.478	0.8	0.3	0.5
Cotton	1.341	4.9	-0.3	5.2	Pumps, compressors, blowers, centrifuges, filtering apparatus and parts	0.783	9.2	8.6	0.6
Fats and oils	0.911	34.8	6.4	26.7	Taps, cocks, and valves	0.382	2.5	1.8	0.7
Animal fats and oils	0.356	35.0	12.3	20.2	Ball, roller, and needle roller bearings	0.170	-0.4	-0.6	0.2
Vegetable oils	0.506	36.4	3.0	32.4	Packaging and weighing machinery and parts	0.414	2.4	1.8	0.6
Soybean oil	0.307	32.3	4.4	26.7	Power generating machinery and equipment	3.943	1.6	2.6	-0.9
Chemicals	9.578	1.1	2.8	-1.7	Machinery specialized for particular industries	5.784	1.1	0.8	0.3
Intermediate manufactured products	10.544	1.3	1.0	0.3	Electrical machinery and equipment	4.738	2.6	0.4	2.2
Paper and paperboard products	1.300	6.3	3.2	3.0	Office machines and automatic data processing equipment	3.990	-1.0	-1.1	0.1
Printing and writing paper	0.122	5.6	1.9	3.6					
Kraft paper and paperboard	0.442	15.6	7.6	7.4					

¹This category includes indexes in addition to those shown here. For all of the indexes available in each category, see *U.S. Import and Export Price Indexes*, usdl-84-336 (Bureau of Labor Statistics), Aug. 2, 1984.

²Data are not available.

percent, to \$131.5 billion.¹⁰ Moreover, the U.S. current account, which incorporates the balances on both merchandise trade and services (including payments and receipts of interest and dividends on international investments) set a record deficit of \$44.1 billion in the first half, compared with a deficit of \$12.5 billion for the same period a year earlier.¹¹

In recent years, the nations of the Far East have carried on an increasing volume of trade with the United States. Several of these nations, such as Japan, South Korea, and Taiwan, have posted high economic growth rates, in part attributable to the strength of U.S. demand for imports. In 1983, the nations of the Far East enjoyed greater combined gross trade (merchandise imports and exports in dollars) with the United States than did those of Western Europe.¹² During that year, 28.5 percent of U.S. gross foreign trade was carried on with the nations of the Far East, compared with 20.8 percent in 1976.¹³

Gross trade as a percentage of U.S. final goods production is a measure of the importance of foreign trade to the goods sector of the economy.¹⁴ Since 1970, this measure has increased substantially from 15.9 percent to 28.1 percent by 1983.¹⁵

Import price developments

Fuels and related products. Import prices for fuels and related products rose 0.5 percent in the first half, after falling 11.8 percent during 1983. The first-half price increase was the result of rising prices for petroleum products, unchanged

crude oil prices, and a 2.0-percent decline in natural gas prices. The drop in petroleum prices in recent years reflects sluggish world economic growth, increased substitution of other forms of energy for crude oil, and stepped-up conservation in the major industrialized nations. During the first half, spot prices for many crudes were below the official OPEC prices, as several OPEC members attempted to maintain revenues by discounting prices and making sales in excess of their quotas.

Contrary to expectations, the Iran-Iraq conflict seems to have helped depress world oil prices. It appears that attacks by those two nations on oil-bearing traffic in the Persian Gulf induced other OPEC members to boost their output, which more than compensated for the curtailments in shipments resulting from the attacks.¹⁶ In addition, plentiful oil stockpiles in the United States, Japan, and Western Europe acted as insurance against disruption of supplies and helped to ease speculation.

Even so, the U.S. economic recovery stimulated demand for petroleum products, reversing a 5-year decline. The Nation's consumption of oil products was up about 7 percent from the first half of 1983, while domestic production, spurred by decontrol, had risen 0.4 percent. The resulting shortfall in oil supplies was met by imports, which were up 21 percent over first-half 1983 levels.¹⁷

Early in 1984, heating oil demand and prices rose sharply as a result of the unusually cold weather in the northeastern United States. By June 1984, the U.S. average price for

heating oil was \$1.13 per gallon, compared with \$1.06 in June 1983.¹⁸ Imports of heating oil surged to meet the increased demand, and domestic refiners increased production of distillate fuel. As a result of the latter development, gasoline supplies expanded sharply, because refineries produce gasoline and heating oil simultaneously, regardless of the season. U.S. consumers reaped a windfall from the unexpected increase in gasoline supplies; in June 1984, the average U.S. gasoline price (all types) was \$1.21 per gallon, down slightly from \$1.26 per gallon in June 1983.¹⁹ When the improved fuel efficiency of the Nation's auto fleet is taken into account, gasoline costs per mile driven for U.S. consumers have declined substantially since 1980.

The strong dollar also had a major effect on world crude oil prices in the first half. Specifically, the dollar's appreciation against the currencies of our major trading partners meant that those nations did not reap the full benefit of the cuts in posted dollar prices for oil. In fact, buyers in several nations found that oil prices in their own currencies actually rose in the first half, because of the depreciation of those currencies against the dollar. This phenomenon further depressed world oil demand.

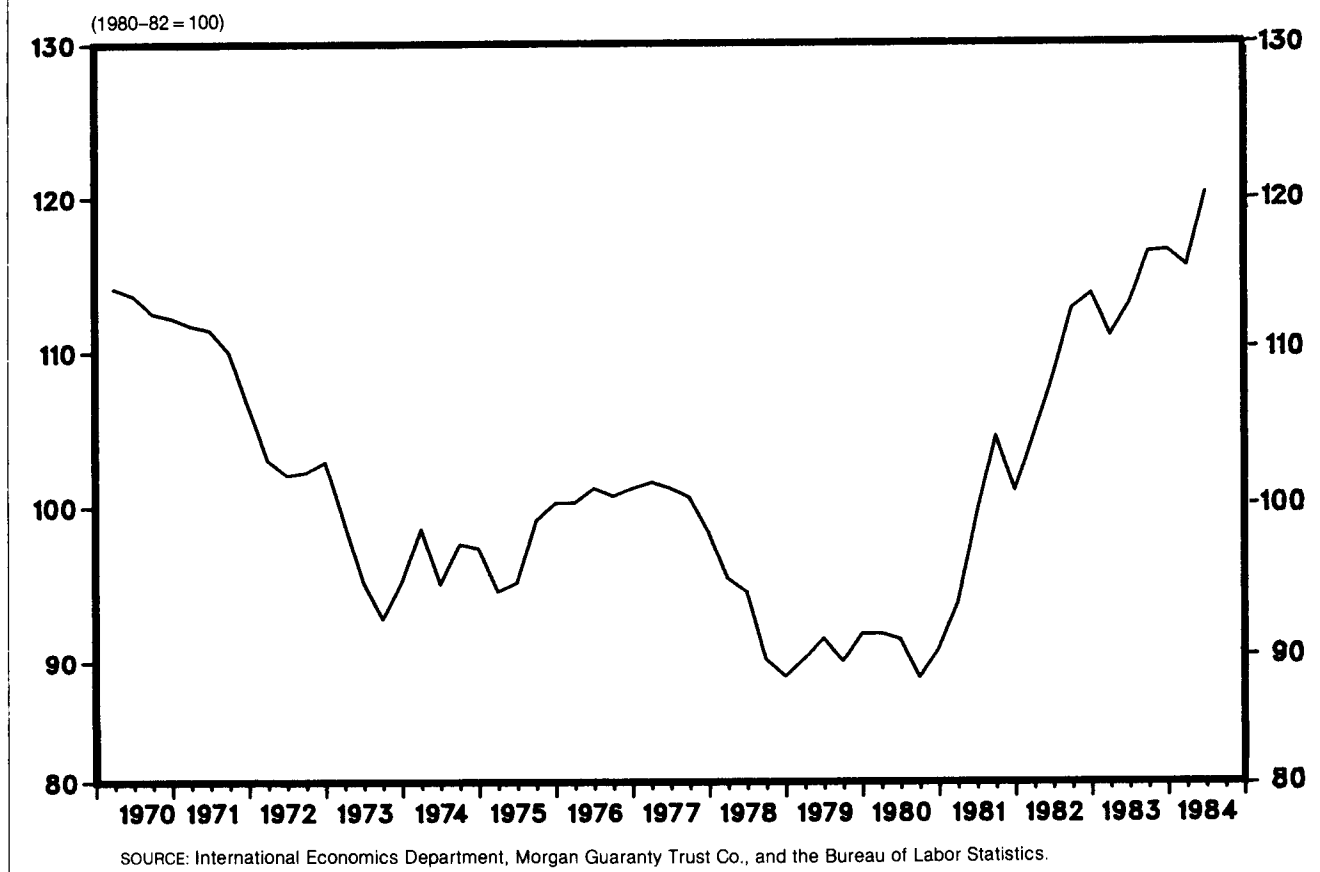
U.S. oil imports continued to be predominately from non-OPEC sources, as more oil was imported from sources in the

Americas, such as Mexico and Canada, and from other non-OPEC suppliers—primarily the United Kingdom, Norway, and Egypt—which have brought increasingly large amounts of crude to world markets in recent years. During the first half, the United States purchased 38 percent of its imported crude oil and petroleum products from OPEC sources, compared with 37 percent in 1983, 42 percent in 1982, and 70 percent in 1977—the year of the greatest volume of oil imports.²⁰ Leading suppliers in first-half 1984 were Mexico, at 730 thousand barrels per day (bpd), Canada (647 thousand bpd), Venezuela (526 thousand bpd), Saudi Arabia (359 thousand bpd), and the United Kingdom (357 thousand bpd).²¹

The decrease in natural gas prices reflects lower prices for imports from Canada, which supplies approximately 90 percent of total U.S. imports of natural gas. Prices for Mexican pipeline gas and liquified natural gas shipments from Algeria were unchanged during the first half.

Food. The food index represents 6.6 percent of the all-import price index. Imported food prices increased 3.1 percent in the first half, with almost 70 percent of the gain occurring in the first quarter. The food index is one of the most volatile components of the all-import price index because of uncertainties in production and climatic conditions,

Chart 1. Trade-weighted exchange rate index for the U.S. dollar, quarterly averages, 1970—second-quarter 1984



and difficulties involved in shipping perishable products. However, the first half of 1984 saw a continuation of an upward trend which began in mid-1982; the food index climbed 13.1 percent from June 1982 through June 1984, with a rise of 1.24 percent during the first 6 months of 1983. An important factor in the strong gain in first-half 1984 was the harshness of the past winter, which reduced domestic supplies and greatly stimulated import demand. Import prices for the fruits and vegetables food group jumped 8.6 percent during the first 6 months of 1984. Rises in import prices for coffee, tea, and cocoa also contributed to the upward movement in the food index, which was only partially dampened by lower prices for fish.

The 8.6-percent increase in prices of fruits and vegetables contributed significantly to the food index's upward movement in the first 6 months of 1984. This jump resulted from a 20-percent rise in fresh vegetable prices in the first quarter, partially attributable to low U.S. supplies during the winter months. Moreover, killing frosts in Florida and Texas in December 1983 and continued cold weather in early 1984 damaged U.S. crops, especially citrus fruits, and resulted in extremely strong import demand. Tight supplies and growing world demand for citrus fruits and juices continued throughout the first half of 1984, while U.S. supplies of tomatoes and green vegetables made a relatively quick comeback from winter damage. Although the vegetable group's price index increased 20 percent in the first quarter, it showed a 1.3-percent decrease in the second quarter. Price declines are typical during the spring months, during which domestic supplies are abundant. World vegetable production was also up in the second quarter. Lime prices fell this spring as normal Mexican export flow resumed, following the lifting of a February 1984 temporary ban by the United States on imports of Veracruz citrus because of citrus canker.²²

Prices for coffee, tea, and cocoa rose 4.7 percent during the first half. Imported coffee prices increased 3.9 percent in the first 6 months of 1984, following a 7.9-percent gain in all of 1983. World coffee prices in the first half of 1984 moved above the established range preferred by members of the International Coffee Organization (ICO). (The ICO is an organization of 73 coffee producing and consuming na-

tions which uses export quotas to stabilize global prices.) World coffee demand was strong in the first 6 months of the year, with the result that imports were about 38.4 million bags for the period from October 1983 through May 1984, compared with 36.5 million bags for the same period in the previous year.²³ Quota increases by the ICO during the first half failed to dampen the price climb until a price peak was reached on June 1, 1984. Conditions that spurred prices despite the larger export quotas included: a fear of frost in Brazil; a West African crop that was less than anticipated; reductions in export shipments from Brazil and Columbia early in the half; and the poor quality of last year's Brazilian and West African crops.²⁴ Additionally, a U.S. crackdown on coffee smugglers which began in 1983 continued into the new year, further shifting demand to legal sources.²⁵

Reduced production and increased speculation continued to boost cocoa prices in 1984. Production of cocoa in West African countries was down substantially during the first half because of a severe, prolonged drought in the first quarter. The size of Brazil's crop was also reduced by dry weather. A new international cocoa agreement aimed at stabilizing prices was discussed by the International Cocoa Council but not concluded during the first half of the year.

The continued upsurge in tea prices was due in large part to tight supplies of raw teas. Prices of tea imported by the United States jumped 9.2 percent in the first 6 months of 1984, for a gain since June 1982 of 63 percent. Shortages of raw tea reflect stagnant production over the last 5 years, even while tea consumption rose steadily, particularly in India, the Soviet Union, and West Asia.²⁶ Another supply-limiting factor during the first half of 1984 was the Indian Government's December 1983 ban on exports of certain types of teas to ensure adequate domestic supplies. In Sri Lanka, favorable weather conditions tempered the effects of a strike by plantation workers and tea output was not affected to any substantial degree.²⁷

Fish prices declined by 1.3 percent, moderating the upward movement of the food index during the first half. A 2.4-percent price decrease occurred in the first quarter, although the index subsequently moved up by 1.1 percent in the second quarter. Abundant supplies of fresh fish resulted in a 0.9-percent decrease in price for that commodity in the second quarter. The 4.8-percent first-quarter drop in shellfish prices reflected increased shrimp supplies from Ecuador and Panama. Rock lobster tails also fell in price early in 1984.

Crude materials. The crude materials index comprises product groups such as wood, crude rubber, and metal scrap that are used extensively as raw materials in manufacturing or construction. The product principally responsible for the 4.1-percent increase in crude materials import prices for the first half of 1984 was sulphate wood pulp, the most commonly used pulp in the world market, for which import prices rose 20 percent in the first 6 months of the year. Sulphate wood pulp is primarily used to produce packaging

Table 3. Quarterly indexes of industrial production for selected groups of OECD member nations, 1983 and 1984

Area	Percent of 1980 total	1983				1984		Percent change, I 1983 to I 1984
		I	II	III	IV	I	II	
OECD total	100.0	96.3	98.0	100.6	102.7	105.0	(¹)	9.0
North America ²	36.0	93.9	97.8	102.7	105.3	108.0	110.1	15.0
OECD Europe	47.0	96.6	96.8	97.4	98.3	100.4	(¹)	3.9
Japan	15.4	101.4	102.9	106.1	109.0	112.6	(¹)	11.0

¹Data not available.

²The United States and Canada.

Source: *Main Economic Indicators* (Organization for Economic Cooperation and Development, Department of Economics and Statistics), February, June, and August 1984, p. 11.

materials, which are in great demand as the result of robust growth in the U.S. manufacturing sector. Imports were important in meeting the surging demand for sulphate wood pulp, as U.S. pulp and paper industries approached full capacity utilization toward the end of the first half. Some shortages occurred as sulphate pulp supplies from Canada were reduced because of labor disputes. Furthermore, U.S. supplies were disrupted during the first quarter when severe weather conditions hampered production and transportation. Declining prices for other product groups, including crude rubber, wood, and crude minerals, partially offset the price gain for sulphate wood pulp in the crude materials index.

Intermediate manufactures. Prices for intermediate manufactures rose 1.7 percent in the first half, after rising 3.7 percent during all of 1983. These products include nonferrous metals, wood and cork manufactures, textiles, iron and steel, glassware, paperboard, and many other basic inputs to manufacturing processes. The United States imported \$22.3 billion of these products in the first half, up from \$16.2 billion in first-half 1983, as the U.S. economic recovery spurred demand.²⁸ Rising prices for iron and steel, nonferrous metals, and paper and paperboard were major contributors to the increase in import prices for intermediate manufactures.

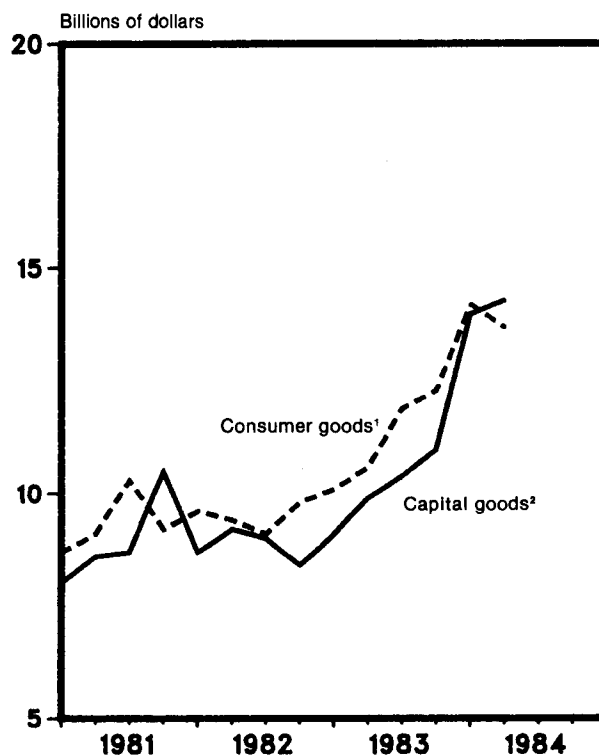
The 3.6-percent hike in imported iron and steel prices led the rise in the intermediate manufactures index. Although the major U.S. integrated steel firms began to recover in the first half from recordbreaking losses during 1982–83, their gains were slowed by an unprecedented surge of imported steel. U.S. demand for sheet steel was buoyed by increased sales of autos and appliances, but production of heavier items such as plate, structural, and bar steels continued at low levels. Fully integrated U.S. steelmakers, who generally have higher production costs than foreign producers, continued to heavily discount posted prices to gain orders.²⁹

While domestic production was up 28 percent from the first half of 1983, import penetration of the U.S. steel market in first-half 1984 was 25 percent, up from 20 percent in the year-earlier period. A significant portion of the increase in steel imports came from Third World nations.³⁰ Many Third World suppliers can deliver steel at prices well below the discounted prices offered by U.S. firms. During the first half, steel supplies from Japan and the European Community (EC) continued to be limited by trade agreements negotiated in 1982.

The debt situation of several nations which are steel producers has been a major factor in the increased shipments of Third World steel in recent years. In particular, Mexico, Argentina, and Brazil—all major steel suppliers—have aggressively sought U.S. sales to obtain foreign exchange for servicing their international debts.

To reduce the volume of imports, the U.S. steel industry petitioned the U.S. International Trade Commission (ITC) for relief during the first half of the year. In June, the ITC

Chart 2. Quarterly imports of capital and consumer goods, 1981—second-quarter 1984



¹ Excluding food and autos.

² Excluding autos.

NOTE: Data for the second quarter of 1984 are preliminary. All data are on a customs value basis.

SOURCE: *Highlights of Export and Import Trade*, FT-990 (Bureau of the Census), table 1-7.

ruled that the domestic industry was being injured by imports in five product groups accounting for approximately 70 percent of the value of all steel imports.³¹ The Commission recommended 5 years of import quotas and additional tariffs to aid the domestic steel industry, conditional on cost-cutting and modernization steps by U.S. producers.³² Some foreign steelmakers stepped up shipments during the first 6 months of the year in anticipation of quotas or tariffs. Others, fearing that they would be charged with selling steel below cost, raised their prices to the United States.

The major U.S. steelmakers are also losing market share to domestic minimills. Using modern equipment, minimills convert steel scrap and semifinished slabs into products such as bars, rods, and light structurals. Their production costs, including labor and materials, are approximately one-third less than those of integrated plants. Minimills now supply about 20 percent of all domestic steel shipments, and their share is rising. Most minimills are located in Southern or Border States.³³

Other factors have curbed demand for steel in this country. Significantly higher spending on foreign-made capital

goods continues to erode domestic steel consumption, while other metals, such as aluminum, have taken over many of steel's traditional markets.

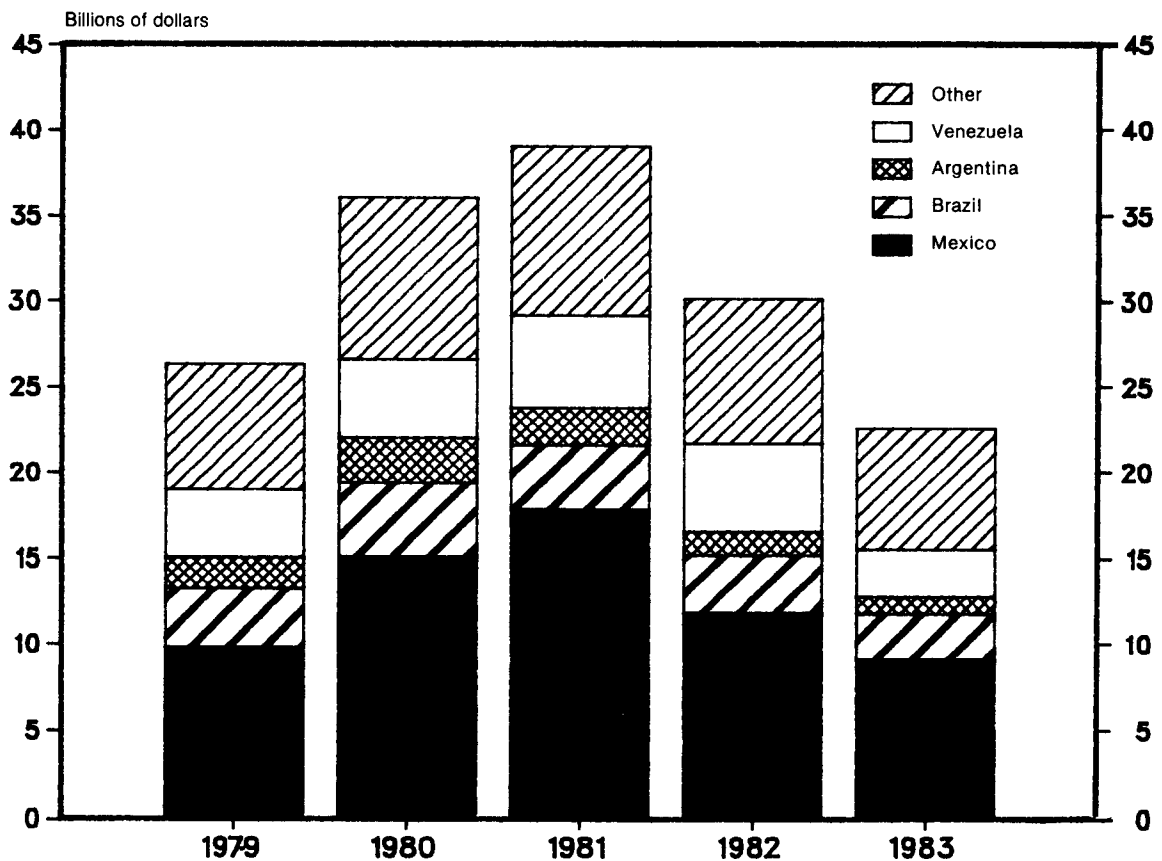
To compete more effectively with imports, the major U.S. steel firms have increasingly sought mergers with domestic partners. In March, the Justice Department gave approval to the proposed merger of Republic Steel and LTV Corporation. The company formed by the merger, LTV Steel Company, will be the Nation's second largest steel producer. It plans to achieve production economies by consolidating the best parts of the two firms and discarding less-efficient divisions. It should be noted, however, that when U.S. Steel and National Steel announced a planned merger in the first half, the Justice Department vetoed this action for antitrust reasons.³⁴

Import prices for nonferrous metals increased 1.6 percent in the first half of 1984, led by rising prices for zinc and cobalt. Imports of these metals (in dollar value) were up 16 percent in the first half from the same period in 1983.³⁵ Falling silver and copper prices partially offset these in-

creases. Because nonferrous metals, which also include nickel, lead, and molybdenum, are used extensively as basic inputs in many major manufacturing processes, their prices are heavily affected by the level of general economic activity. The buoyant U.S. economic recovery also had a positive effect on prices of those metals, such as zinc, which are used principally in the production of such consumer products as housing and autos. However, metals for which demand is dependent on the level of capital spending (such as copper) or speculation (silver) did not fare as well. Prices for nonferrous metals also were affected by the strong dollar and user resistance to higher prices. Dollar-denominated metal prices have been eroded by the rise of the dollar, while metal users, instead of passing along higher raw material costs in the form of higher prices, are increasingly reacting to price increases by cutting consumption or switching to substitute materials.

Zinc prices rose 14.6 percent in the first half. In March, prices on world markets reached near-record levels of more than 50 cents per pound before declining slightly.³⁶ As in-

Chart 3. Annual U.S. exports to Latin America, by country of destination, 1979-1983



NOTE: Data are on a free-alongside-ship (FAS) value basis.

SOURCE: *Highlights of Export and Import Trade*, FT-990 (Bureau of the Census), table E-3.

dicated earlier, zinc demand was boosted by increased activity in the auto and housing industries. Import prices for cobalt rose 49 percent in the first half of 1984 due to a new marketing strategy by which Zaire and Zambia joined to restrict supplies of cobalt for export. Together, these two countries supply two-thirds of U.S. cobalt imports. This action, in combination with growing U.S. demand for cobalt, caused the run-up in prices.

The domestic copper industry had a particularly difficult time dealing with a flood of low-cost copper imports from Chile, Zaire, and Zambia. With this industrial metal in abundant supply on world markets, prices remained depressed: U.S. producer prices fell to an average of 65 cents per pound by June, down 15 cents from a year earlier. Production costs for some U.S. producers ranged between 75 and 85 cents per pound, while production costs in Chile, the world's largest copper producer, were around 46 cents per pound.³⁷ Domestic producers also use a lower grade of ore than that available in other major producing nations, yielding one-third or less copper. During the first half, the ITC ruled favorably on the U.S. copper producers' petition for import relief, recommending either the imposition of quotas or higher tariffs on imported unwrought copper.³⁸

A 2.7-percent decline in import prices for cork and wood manufactures moderated the increase in prices for the intermediate manufactures group. The decrease in cork and wood manufactures prices resulted from a 3.7-percent drop in prices for miscellaneous wood manufactures and a 1.9-percent decline in prices for plywood and veneers. Products from Southeast Asia account for most of the weight in the index for plywood and veneers. Formerly, Indonesia had been a major supplier of logs to mills in Korea, Taiwan, and the Phillipines, which in turn exported finished products such as plywood to the United States. However, Indonesia has constructed additional mills in recent years, and now is exporting the finished products. The resulting price competition between Indonesia and the other nations of Southeast Asia boosted supplies and contributed to lower prices in 1984.

Machinery and transport equipment. This index, which accounts for 25.4 percent of the weight of the all-import price index, was unchanged during the first half, after rising 2.4 percent in 1983. Some \$58.5 billion of this merchandise was imported during the first half, up 44 percent from \$40.5 billion in the first half of last year, as the economic recovery fueled demand.³⁹ This substantial increase was a major factor in widening the first-half U.S. merchandise trade deficit.

Approximately half of the dollar value in this index consists of consumer products such as autos, videocassette recorders, and household appliances. As consumer spending grew, purchases of these types of items rose. The index also includes many important components of manufacturing processes, such as electric motors, air pumps, compressors, valves, and roller bearings, for which demand grew with U.S. manufacturing output. However, the continued appre-

ciation of the dollar served to moderate price increases.

Import prices for automobiles rose 1.1 percent in the first half, after rising 4.8 percent for all of 1983. Surging first-half 1984 U.S. auto sales and the Japanese Government's voluntary quotas on auto exports to the United States were factors affecting import prices. Buoyant consumer confidence, higher levels of employment, stable gasoline prices, and the improving economy boosted first-half retail auto sales to 5.5 million from 4.6 million in the 1983 first half.⁴⁰ Import penetration of the U.S. market was 22.5 percent (in units), down from 26.7 percent from the same period a year earlier.⁴¹ Retail sales were restrained by short supplies of both imported and domestic autos: Supplies of imported Japanese cars were held down by the quotas, while dealer inventories of domestic autos stood at 48 days of sales on June 15, the lowest level in 10 years.⁴² Sales of larger cars were especially brisk and shortages developed for many domestic car models.

In April, the quotas on Japanese auto shipments to the United States were raised to 1.85 million units per year from 1.68 million. The quotas, scheduled to expire in April 1985, have been a source of upward pressure on prices of Japanese cars. In the first half, Japanese autos accounted for 17 percent of all U.S. new car sales, down from 22 percent in first-half 1983.⁴³ Because of the quotas, Japanese automakers were unable to maintain or increase their market share and fully exploit a cost advantage estimated at \$1,500 to \$2,000 per car. Instead of competing on price, Japan's car-makers concentrated on selling higher-valued, option-laden cars in the United States—in effect providing a pricing floor for the domestic industry.⁴⁴ As a result of this change in the mix of imported automobiles, the unit value index for automobiles increased at a much sharper rate than did the price index. (See chart 4.) The price index adjusts for quality changes and maintains a constant mix of goods; price is the only fluctuating variable. The unit value index reflects the shift to higher valued top-of-the-line models, as well as 'pure' price changes. With supply restricted by the quotas, inventories of Japanese cars dropped to 16 days of sales on June 30, 1984, compared with 27 days of sales on the same date in 1981, the first year of the quotas.⁴⁵

After 4 years of cost cutting which lowered their break-even point substantially, U.S. automakers posted record combined profits in the first half of 1984. U.S. firms also benefitted from an increase in demand for midsize and large cars. Sales of subcompact models were down slightly from first-half 1983 levels, due to shortages of Japanese models and consumer preference for larger cars.⁴⁶ Several European carmakers, selling higher-valued models, set sales records during the first half.

The trend toward internationalization of automobile production persists. In particular, some Japanese auto firms further developed production facilities in North America to ensure continued access to the prosperous U.S. auto market. U.S. firms also continued to make plans for joint production of subcompact cars with Japanese and South Korean part-

ners.⁴⁷ Most notably, General Motors and Toyota received permission from the Federal Trade Commission to proceed with their joint venture to produce small cars in California. Ford and Mazda also announced their intention to build an assembly plant in Mexico to manufacture cars for the U.S. market.

The price index for metalworking machinery was heavily affected by large supplies of imports, falling 1.9 percent in the first half. The bulk of the value in this index consists of machine tools—power-driven devices used to cut, shape, or form metal in the production of durable goods.

The 1983 U.S. trade deficit in machine tools was \$540 million. While this compared favorably with the \$638 million deficit in 1982, it was quite large in historical terms and occurred despite sluggish domestic demand.⁴⁸ In recent years, U.S. machine tool makers have had an increasingly difficult time matching the prices offered by competitors in Japan, West Germany, Taiwan, the United Kingdom, and Switzerland. During the first half, U.S. producers began to recover from the worst downturn many had endured since the 1930's. Because of recession and foreign competition, shipments of U.S.-made machine tools dropped almost two-thirds between 1981 and 1983.⁴⁹

Japanese imports accounted for nearly half of the 36-percent share of the U.S. market taken by imports last year, up from 28 percent in 1982, and their penetration in advanced machine tools is much greater. For example, during the first half of 1983, some 78 percent of the machining centers sold in the United States were Japanese-made.⁵⁰

The intense foreign competition continued to force major changes in the structure of the U.S. machine tool industry throughout the first half of 1984, as firms withdrew, merged, entered joint ventures with foreign producers, or moved operations offshore to cut costs. Domestic firms continued to seek relief from lower-priced imports, and as the first half ended, the National Machine Tool Builders' Association petition for import relief on the basis of national security under Section 232 of the 1972 Trade Expansion Act was still pending.

Import prices for electric machinery and equipment fell 4.9 percent, despite brisk demand for new appliances for residential housing and electronic components for military equipment. In 1980, the United States posted a trade surplus of \$2.2 billion for electric machinery and equipment, but in 1983, it registered an \$892.4 million trade deficit.⁵¹ The decline in this index was keyed by falling prices for electronic components and electric circuit switching equipment. The price decrease in electric circuit switching equipment imported from Europe is partially attributable to the dollar's appreciation against such currencies as the franc, the Deutschemark, and the pound sterling. At the same time, Japan, Taiwan, and Korea have increased production of electronic components such as integrated circuits, transistors, and diodes. This increased production resulted in economies of scale and production efficiencies which tended to lower prices. Finally, component prices were further depressed because

technological advances have made metal oxide transistors competitive with bipolar transistors. Although prices of metal oxide transistors have fallen, they still remain approximately 40 percent above the cost of bipolar transistors. However, the higher quality of metal oxide transistors and their new, lower prices make them increasingly attractive to engineering designers.

Miscellaneous manufactured goods. The import price index for miscellaneous manufactured products increased 1.5 percent in the first half of 1984. This category comprises almost 10 percent of the all-import price index, and includes a wide variety of consumer goods such as clothing, footwear, clocks, watches, and photographic equipment. Higher prices for these products were the main force behind the upward movement in the index for miscellaneous manufactures. U.S. demand for these products was strong as high consumer spending levels during 1983 continued into the first half of 1984. This demand was increasingly met by imports, which surged from \$15.6 billion during the first 6 months of 1983 to \$21 billion in the same period this year.⁵² This represented a 34.6-percent increase, compared to a first-half 1982-83 gain of only 11.4 percent.

During the first 6 months of 1984, imported clothing and footwear prices experienced similar increases of 3.1 percent and 3.5 percent, respectively. Clothing and shoes experienced high retail sales growth in the United States throughout 1983 and into 1984. During the first half of this year, consumer outlays for clothing and shoes averaged over \$139 billion (seasonally adjusted annual rate), compared with \$127.0 billion for all of 1983 and \$118.8 billion in 1982.⁵³

Limited supplies of some apparel items contributed to higher price levels, in part because of Federal tightening of import controls and quotas and a crackdown on illegal and counterfeit imports of apparel.⁵⁴ (For footwear, the possibility of additional controls was lessened when the International Trade Commission determined in June 1984 that imports of nonrubber footwear were not causing serious injury to the domestic industry.⁵⁵) Higher raw material costs experienced by foreign clothing and shoe manufacturers also were reflected in increasing prices during the half. These included steep hikes in the price of leathers over the past year, and moderate gains in the prices of cotton and man-made fabrics.

The index for photographic apparatus and supplies, optical goods, and watches and clocks moved up by 2.4 percent in the first half. Prices for photographic apparatus and equipment advanced 3.4 percent as strong consumer demand reversed a downward trend that began early in 1982 in response to product innovations. Optical lenses and watches also contributed to the increase in the index, with gains of 6.4 percent and 10.3 percent, respectively. Prices of these products had declined during 1981, 1982, and 1983 because of steep competition among suppliers and reduced production costs. The higher quality watch market showed particular strength this year.

Export trends

Grain. Export prices for grain rose 1.7 percent in the first 6 months of 1984 after a 16.8-percent advance in 1983. The price movement for the first half resulted when substantial price increases for wheat and feed grains in the second quarter dominated the more moderate price declines registered in the first quarter. Increases in market prices in May and June reflected unfavorable weather conditions in the United States and the Soviet Union. U.S. grain exports represent over 7 percent of the value of all U.S. merchandise exports, and consist primarily of wheat, corn, and sorghum. Grain exports totaled \$7.8 billion in the first 6 months of 1984, compared with \$7.4 billion for the same period in 1983.⁵⁶

Prices for exported wheat edged upward by 2.6 percent in the first half of 1984. Severe flooding in the Midwest this spring resulted in erosion, planting, and transportation difficulties, and placed upward pressure on wheat prices despite huge U.S. stockpiles. Additionally, speculation in the grain market centered around a possible reduction in Soviet grain production as the result of a spate of bad weather in that country. Demand for U.S. wheat increased during the first half, in part because of severe drought in West African countries, but export price rises were moderated by increased production in other countries such as Canada, European Community countries, Australia, and India. Trade agreements concluded with the Soviet Union and the People's Republic of China in 1983 helped stabilize U.S. exports to these countries in 1984.⁵⁷

The U.S. Payment-in-Kind (PIK) program, initiated in January 1983 to reduce surplus grain supplies and stabilize U.S. commodity prices, affected 1983 and 1984 soybean and corn prices much more than those for wheat. Huge wheat stockpiles were not greatly reduced by the program, partially because increases in yields per acre in 1983 kept output levels high. PIK benefits were reduced in 1984 and fewer farmers elected to enroll, with the result that 60 percent of grain acreage was included in surplus reduction programs, compared with 86 percent in 1983.⁵⁸ In a separate effort to draw down large wheat supplies, the U.S. Department of Agriculture announced a new program that provides wheat stocks on a competitive basis to private exporters for resale to drought-stricken African nations.

Corn prices moved up 1.9 percent during the first half of 1984, following a substantial 34.5-percent price gain in 1983. Surpluses of corn were reduced by the PIK program and the 1983 drought, and this year's spring floods in the Midwest disrupted the planting of new crops. Growing demand for high fructose corn syrup contributed to the upward trend in corn prices, as the U.S. beverage industry increasingly chose this corn product as a substitute for sugar.

Prices for other feed grains, including sorghum and barley, and for soybeans, also rose during the first 6 months of 1984. These commodities are substitutes for corn, and usually demonstrate similar price movements. Sorghum was

up slightly by 1 percent, barley prices rose 2.8 percent, and prices for exported soybeans (soybeans are included in the crude materials index) advanced 5.6 percent. The substantial gain in soybean prices in the first half reflected tight domestic supplies following the summer drought of 1983, and dry weather in Brazil in 1984. Even though soybean prices had risen more than 35 percent in 1983, strong demand for soybean oil in response to shortages of other vegetable oils pushed up prices even further during the first 6 months of this year.

Demand for soybean meal decreased over the same period, following a substantial price jump in the fall of 1983. The decline in prices of animal feeds, which are included in the food index, tended to moderate the first-half advance in that index.

Crude materials. The 5.4-percent price rise for crude materials contributed significantly to the increase in the all-export price index this half, as such materials represent almost 11 percent of the all-export index. Demand for these products, which are used in the early stages of production, increased sharply as worldwide industrial production began to pick up in the first half of 1984. U.S. exports of crude materials during that period were \$11 billion, an 18.2-percent increase over the \$9.3 billion exported during the same period in 1983.⁵⁹ A 14.4-percent jump in prices of raw hides and skins, a 15.2-percent surge for pulp and waste paper, and a 7.7-percent gain in oilseeds led the first-half increase in the crude materials index.

U.S. export prices for raw hides and skins have soared 52 percent since the beginning of 1983, following declines in 1981 and 1982. Droughts in 1982 and 1983 led to smaller herds and lower slaughter rates in New Zealand, Australia, and Argentina, which in turn created a strong world demand for U.S. hides during 1983 and the first half of 1984. In recent years, trends away from beef consumption in the industrial nations have also reduced available world supplies of cattlehides. It is estimated that worldwide cattleherds declined 2.5 percent in 1983, and will shrink by another 1 percent in 1984.⁶⁰

Demand for U.S. hides by the major buyers in the Far East grew significantly as those countries' sales of finished leather goods to this country flourished with the economic upturn. Total U.S. exports of hides and furskins in the first 6 months of 1984 were 59 percent above those for the same period in 1983.⁶¹ U.S. furskin sellers took advantage of a demand resurgence in Europe by raising prices on some grades. Exported furskin prices edged upward by 5.5 percent in the second half of 1983, and then jumped 11.7 percent during the first half of 1984 after dropping more than 30 percent from December 1980 to June 1983.

Export prices for pulp and waste paper advanced more than 15 percent this half, driven by a 25-percent leap in prices for sulphate wood pulp and moderated by declines in waste paper prices. The combination of strong domestic demand and additional purchases in the first half by China,

Japan, and some European nations caused the rapid price increases for sulphate wood pulp. The strong demand stemmed from increased manufacturing activity, because the primary use for sulphate pulp is for packaging items. U.S. exports of paper base stocks, including wood pulp, were 14 percent higher in the first 6 months of 1984 than in the same period in 1983.⁶²

A 5-percent gain in cotton prices was the reason for the 2.0-percent rise in the textile fibers index, which continued an upward trend begun in early 1983. (U.S. export prices for cotton had already risen more than 30 percent from December 1982 through December 1983.) The advance in cotton prices reflects rapidly rising world consumption levels in the 1983-84 marketing year (season beginning in August) in the face of world production levels that have been declining since the 1981-82 marketing year. Consumption is up as the result of increased use of cotton in apparel, and because of sharp rises in the use of cotton products in China, India, Turkey, and Egypt.

Although cotton production had declined in the United States, surplus stocks were used in 1984 in order to help meet the strong world demand. U.S. exports were up 38 percent in the 1983-84 marketing year over those for the

same (August through April) period in the previous year.⁶³ The major buyers of U.S. cotton in the first half were Japan and the Republic of Korea. While almost all countries importing cotton from the United States increased their purchases in 1983 and 1984, some Asian nations, such as Hong Kong and Taiwan, did so at higher rates as their manufacture and export of clothing increased sharply in response to the economic upturn in this country and some European nations. Cotton price hikes were moderated by sharp production increases in Mainland China, and by smaller rises in Soviet and Mexican cotton output.

Fats and oils. Although the fats and oils export price index represents just under 1 percent of total U.S. exports, its 34.8-percent surge during the first half was responsible for 15 percent of the 2-percent rise in the all-export price index. The prices of soybean oil and animal fats and oils showed substantial gains in the second quarter of 1984. Prices were driven up when unfavorable weather conditions in the Midwest this spring caused shortages of U.S. soybean oil. Additionally, tight supplies of palm, coconut, and sunflower seed oil in the Far East and Malaysia placed upward pressure on prices, because soybean and animal oils are close substitutes for these other vegetable oils. Prices for animal oils were further pushed up by growing demand for soaps and cosmetics, two products in which these oils are used.

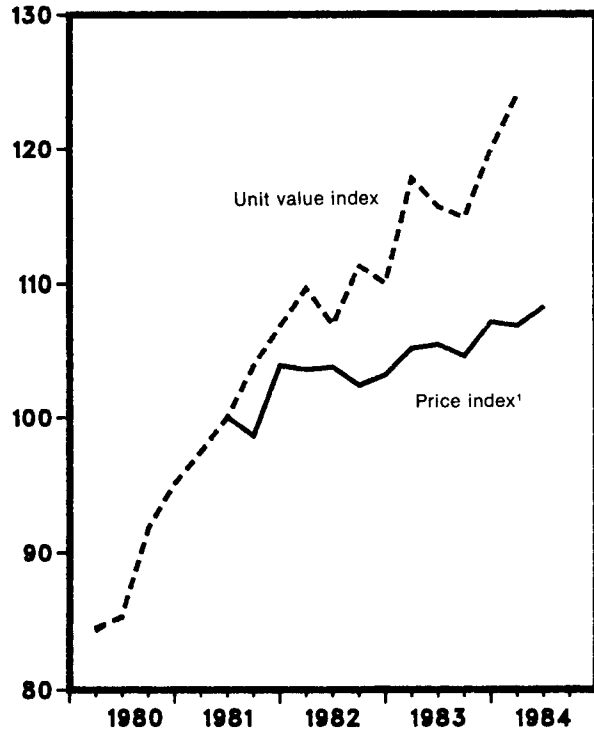
Chemicals. Export prices for chemicals rose 1.1 percent during the first 6 months of the year, reflecting higher prices for agricultural chemicals and medicinal and pharmaceutical products. U.S. exports of chemicals in the first half were above year-earlier levels, and the major U.S. chemical firms recorded much-improved profits for the same period, with several posting record second-quarter profits.

In domestic and overseas markets, first-half sales of agricultural chemicals such as fertilizers and pesticides were up sharply from year-earlier levels. Such factors as the continuing farm recovery in the United States, the curtailment of last year's PIK program that reduced acreage plantings, and good weather in major agricultural areas around the world were responsible for increased sales of pesticides. Exports to Europe were improved, as were sales in Pacific Rim nations such as China, New Zealand, and Indonesia. In recent years, U.S. firms have made significant advances in pesticides which have resulted in more effective, less toxic, and easier-to-apply products.⁶⁴

The Nation has historically posted large surpluses in international trade of chemicals. In recent years, however, the surpluses have begun to shrink, falling from \$10.4 billion in 1982 to \$9.0 billion in 1983 and to \$4.2 billion in the first half of 1984.⁶⁵ This trend is attributable to the strong dollar and to increasing world chemical production capacity. Several Third World nations, especially those that are major oil exporters, have invested heavily in plants and equipment for chemical production. Oil producing nations have a comparative advantage in the production of petrochemicals, re-

Chart 4. Quarterly unit value and price indexes for U.S. automotive imports, 1980—second quarter 1984

(June 1981 = 100)



¹ First published for second-quarter 1981.

SOURCE: Bureau of Labor Statistics and Bureau of the Census.

sulting from the ready availability of low-cost petroleum feedstocks. In addition, many developing countries are exporting chemicals to the United States on a duty-free basis under the Generalized System of Preferences of the U.S. Trade Act of 1974. Such duty-free imports accounted for more than half of the Nation's total 1983 imports in the benzenoid intermediate category (in tons) and for 96 percent of imports of phthalic anhydride.⁶⁶

Intermediate manufactures. Export prices for intermediate manufactured products rose 1.3 percent in the first half, after rising 1.8 percent in 1983. The first-half increase was paced by a 6.3-percent rise in export prices for paper and paperboard products, which was partially offset by a 1.0-percent decline in prices for nonferrous metals. In recent years, U.S. exports of intermediate manufactured goods have declined steadily. In 1983, the nation exported \$14.9 billion of these goods, down from \$16.7 billion in 1982 and \$22.3 billion in 1980.⁶⁷ The drop in export value is largely due to declining exports of iron, steel, and nonferrous metals.

The export price index for paper and paperboard products often displays volatile movements, because demand for these products is closely tied to conditions in the packaging industry. As increased demand for packaging materials drove the capacity utilization rate in the U.S. packaging industry to 97 percent in the first half, prices for paper and paperboard products quickly rose.

The advance in export prices for paperboard and paperboard products was led by a 15.6-percent increase in the index for kraft paper and paperboard. World demand for these products was strong, and several U.S. producers posted record sales. Kraft is a heavy-duty paper which, in unbleached form, is used for shopping bags and many other applications. Price increases were recorded for all bleached and unbleached types during the first half.

Kraft paper and paperboard products are made from kraft pulp. During the first half, foreign demand for this type of pulp increased sharply. This, combined with a strike in the major producing region of Canada which reduced output and tightened supplies, served to drive up world prices. Because production of both kraft pulp and paper is highly capital intensive and is only efficient on a large scale, additional capacity cannot be brought on-line easily over a short period. Higher prices for kraft pulp raised input costs for U.S. producers of kraft products such as linerboard, packaging cartons, and shipping sacks.

Prices for printing and writing paper advanced 5.6 percent in the first half. Price rises were recorded for both coated and uncoated papers. Demand for printing papers was buoyed by advertising expenditures, particularly increases in magazine advertising, while the growing use of office and home automation products in the major industrialized nations boosted demand for both printing and writing papers.

The 1.0-percent drop in nonferrous metals prices in the

first half followed a 1.0-percent rise in this index for all of 1983. In recent years, exports of many of these metals have fallen in response to the availability of lower-cost foreign supplies, substitution of alternative materials, and decreased demand from basic industries. The decline in the index was led by a 4.4-percent drop in the aluminum index, which was partially offset by a 3.7-percent rise in silver export prices and a 2.3-percent increase in copper prices.

Aluminum prices fell as a result of a worldwide glut of ingots. Much of the world's aluminum supply is marketed in the form of basic ingots. At the start of 1984, the major U.S. producers were operating at near full capacity, but by midyear three of these firms cut production because of lower prices.⁶⁸ In recent years, aluminum has increasingly been used as an instrument of speculation. In Europe, aluminum is traded on the London Metals Exchange (LME), and beginning in December 1983, the Commodities Exchange in New York began to trade aluminum. Prices for the lightweight metal fell to 53 cents per pound by mid-1984, down from a September 1983 high of 73 cents. On the U.S. spot market, prices slipped to 61 cents per pound, down 11 cents from levels reached earlier in the year.⁶⁹ Growing world aluminum inventories fueled the ingot price decline, although prices for more expensive aluminum products fabricated from ingots remained firm. In May, U.S. producer inventories were 11 percent higher than in December 1983. U.S. aluminum exports, including mill products, ingots, and scrap, in the first 6 months of 1984 were 8.4 percent (measured in tonnage) below those recorded for the same period in 1983, while imports were up 41.4 percent.⁷⁰ The strong dollar was an important factor in both the drop in exports and the rise in imports.

Silver prices, normally very volatile, were relatively stable during the first half. Prices were heavily affected by the strong dollar and rising interest rates, which tended to shift speculative activity from silver to dollar-denominated investments. The other determinant of silver pricing, industrial usage, failed to increase appreciably during the first half. U.S. exports of the white metal during the first 5 months of 1984 were far below the 1983 pace, while imports continued to exceed exports by large amounts.

Lead prices and output continued at reduced levels during the first half. Lead exports for the period were less than half of first-half 1983 levels, while domestic production had fallen slightly. In recent years, world demand for lead has been curbed by the substitution of plastics, while use of the metal in storage batteries, solders, and gasoline has decreased significantly.

Machinery and transport equipment. Machinery and transportation equipment accounts for 35.3 percent of the value of all U.S. exports. Export prices for these products advanced 1.8 percent in the first 6 months of 1984, after rising 2.2 percent for all of 1983. Most major product groups within the machinery and transportation equipment index

showed moderate price gains and sales increases for the first half. The value of U.S. exports of machinery and transportation equipment was 6.6 percent greater than in the same period in 1983.⁷¹ Some product groups, such as computers, electronic components, and telecommunications equipment, require a high degree of technical sophistication, and U.S. firms have a comparative advantage in their manufacture. However, in other product groups, such as metalworking, textile, and leather machinery, export sales and prices continued to be depressed by the strength of the dollar.

The export price index for road vehicles and parts is the largest component of the machinery and transportation equipment index. A 2.7-percent rise in prices for parts for motor vehicles was largely responsible for the index's 1.9-percent advance this half. A slight 0.3-percent decrease in the price of passenger motor vehicles partially offset this gain. The value of U.S. exports of road vehicles and parts surged from \$7.29 billion in the first 6 months of 1983 to \$9.15 billion for the same period in 1984.⁷²

High levels of Canadian demand for vehicles and vehicle parts, combined with strong domestic demand, resulted in high capacity utilization in the U.S. automobile industry, thus influencing the price movement for the half. To stay competitive in the world market, the industry implemented various cost controls which moderated the price advance. Export demand for automobile parts was strengthened by the recent trend toward internationalization of automobile production, as additional parts were shipped to U.S. subsidiaries in Mexico and Canada during 1983 and 1984.

The "other transport" index, which excludes military and commercial aircraft, moved forward by 4.7 percent in the first half. The general aviation aircraft component rose 4.1 percent and prices of parts for aircraft and spacecraft were up 5.9 percent. The price increases in spacecraft parts reflect the highly sophisticated nature of these products, which limits the number of firms capable of supplying an expanding world market. The United States maintains technological superiority in the production of high quality aviation parts, and U.S. manufacturers, even while operating at near-capacity, were unable to fully meet the growing first-half export demand.

Price hikes in this index, in both the domestic and export markets, average 1 to 2 percent per quarter. U.S. parts manufacturers are able to pass on production cost increases because of the inelasticity of demand for aircraft and aerospace replacement parts. World demand continued to be depressed for general aviation aircraft, but a pick-up in domestic demand in 1984 and vitality in the export demand for turbojet aircraft led to higher prices.

General industrial machinery accounts for 14 percent of the machinery and transport equipment index. Prices for this product group increased 2.1 percent in the first half of 1984 after advancing 1.7 percent in 1983. The items primarily responsible for the upward movement included pumps and

compressors, for which prices jumped 9.2 percent, and packaging and weighing equipment, up 2.4 percent. Mild price declines occurred in cooling equipment, centrifuges, powered industrial trucks, and ball and roller bearings. Total exports of general industrial machinery were basically stable for the year, with first-half sales of nearly \$4.1 billion, compared with slightly more than \$4.05 billion for the same period in 1983.⁷³

The economic upturn reached some areas of the capital goods sector in Canada, Europe, and the Far East, boosting demand for general industrial products. Expanded residential and commercial construction, especially in Japan and South Korea, increased demand for U.S.-made air compressors, pumps for liquids, valves and cocks, and heating and cooling equipment. All of these products had some price hikes during the half except for cooling equipment, for which a 0.7-percent decrease was recorded because of intense competition from Japan, West Germany, and Italy. Expansion of food processing facilities in Singapore, Malaysia, Thailand, and Indonesia stimulated demand for U.S. packaging and weighing equipment.

Nonetheless, U.S. manufacturers of general industrial machinery and parts continued to face strong competition from Japan and the Far East, and were adversely affected by the continued strength of the dollar. For example, export prices for ball and roller bearings edged downward by 0.4 percent in the half. Debt problems of purchasers Mexico and Brazil also acted to depress demand and prices for U.S. general industrial machinery. Moreover, slack demand for general industrial equipment in the European chemical and steel industries exerted downward pressure on U.S. export prices this half.

First-half price increases in other major product groups included a 1.6-percent gain in power generating machinery and equipment; a 1.1-percent rise for machinery specialized for particular industries; and a 2.6-percent advance for electrical machinery and equipment.

Office machines and data processing equipment were the only major product group in the machinery and transport equipment index to experience a price decline in the first half of 1984. Export prices fell 1.0 percent in the half, continuing a slide that began in mid-1981. Steadily declining prices for these products are due in part to the rapid technological advancement and resulting lower production costs for such items as typewriters, calculators, and computer terminals. Price cuts also reflect the fierce competition among domestic and foreign suppliers (particularly Japan) in these expanding markets. The introduction of new products placed further downward pressure on the prices of some competing older models.

While prices of office machinery and computers were declining, export sales boomed during the first half, rising 24 percent above the level recorded in the first 6 months of 1983.⁷⁴ □

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¹ Amount indicated is on Balance of Payments basis. See *U.S. Department of Commerce News*, BEA 84-41 (Bureau of Economic Analysis), Aug. 6, 1984.

² Import price indexes are weighted by 1980 import values and are published on an f.o.b. (free-on-board) foreign port or c.i.f. (cost, insurance, and freight) U.S. port basis. Export price indexes are weighted by 1980 U.S. merchandise trade values and are published on an f.o.b. factory or f.a.s. (free-alongside-ship) U.S. port basis. See "International Price Program" (Bureau of Labor Statistics).

³ *World Financial Markets* (New York, Morgan Guaranty Trust Company, International Economics Department), January 1984, pp. 12-13, and July 1984, p. 12.

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⁷ *U.S. Department of Commerce News*, BEA 84-41 (Bureau of Economic Analysis), Aug. 6, 1984.

⁸ *Highlights of U.S. Export and Import Trade*, FT-990 (U.S. Department of Commerce, Bureau of the Census), June 1984 and June 1983, table E-3.

⁹ For information on imports, exports, and trade deficits, see *U.S. Department of Commerce News*, BEA 84-41 (Bureau of Economic Analysis), Aug. 6, 1984.

¹⁰ *Ibid.*

¹¹ *Summary of U.S. International Transactions* (U.S. Department of Commerce, Bureau of Economic Analysis), September 1984.

¹² *Highlights of U.S. Export and Import Trade*, FT-990 (U.S. Department of Commerce, Bureau of the Census), various issues, tables E-3 and I-6. The countries included as Far Eastern nations are: Japan, China (Mainland), Burma, Thailand, Laos, Kampuchea, Malaysia, Singapore, Indonesia, Brunei, Philippines, Macao, Southern Asia (n.e.c.), Republic of Korea, Hong Kong, and China (Taiwan).

¹³ *Ibid.*

¹⁴ The share of final good production that is accounted for by gross trade (merchandise imports plus merchandise exports) is calculated as:

$$\frac{\text{Merchandise imports} + \text{Merchandise exports}}{\text{Sales of final goods} + \text{Merchandise imports}} \times 100$$

It is computed using data from *Survey of Current Business*, various issues.

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Rents that mean eviction

At a neighborhood housing counseling center in Paris, walk-in clients include a bedraggled fellow wearing dark glasses, an elderly woman clad in a well-worn black dress, and a foreign woman with two children in tow. As they talk softly, often nervously, with their volunteer lawyers, their faces register anger mixed with resignation and fear. Their landlords have raised their rents, and they are here to learn about their rights. For them and for many of the others in the large meeting room, the question is whether they can afford to stay in their apartments—and if they cannot, then where they can afford to move. Around the room placards proclaim, "You fight for your salaries, fight for your housing too." "Easier said than done," sniffs a young man whose lease is up for renewal. "You must take what you can find."

—SANDY SOLOMON

"Urban Renovation:
Rebuilding the Cities for Whom?"
Transatlantic Perspectives,
January 1981, p. 34.
