Broad Dollar Sector Slump Accompanies Record U.S. Monthly Deficit

WORLD TRADE

The announcement of the largest U.S. merchandise trade deficit ever recorded — $1.67 billion — in January, provoked by an 8 percent fall in exports, was accompanied by a downturn in trade in the dollar sector as a whole — including a drop in West German exports and imports between December and January of 18 and 15.7 percent respectively. The front-page headline in the March 1 issue of the *Journal of Commerce* warned: "Premature Recession in World Trade Feared."

It is widely understood abroad that the U.S. trade balance looks considerably worse if imports are measured on the cost, insurance, and freight basis which most other countries use. On that basis, the U.S. deficit was over $2.5 billion in January, which at a yearly rate would mean a $30 billion trade gap for 1977. The 1976 deficit was $9.6 billion, or, using the c.i.f. metric, $14 billion.

The U.S. Commerce Department has emphasized the effect of rigid January weather on exports, and it is true that shipments of corn and wheat were blocked on the semi-frozen Mississippi River, while plant shutdowns and movement of goods from inland factories to East Coast ports must be taken into account. In addition, imports are accounted for when they reach U.S. ports, exports when they leave the country after having directly suffered from delays.

In an interview, a Commerce Department spokesman commented that "some other reasons may be more important" regarding the deficit. He mentioned "sizeable increases in speculative oil imports after a decline in December." On the export side, there was a sharp decrease not only in aircraft equipment — which is subject to wide short-term fluctuations — but, significantly in terms of world productive activity, in chemical products and heavy equipment.

U.S. imports as a whole rose by only 2 percent. Irving Trust describes a bankers' consensus that the Carter Administration's policies will stimulate imports for some time, "but to talk about investments in capital equipment is another story." Asked about the relation between the trade deficit and the Carter budget, Irving commented, "If the Carter budget was the only problem, we could thank God."

The general absence of sustained recovery in U.S. industry and the corresponding slack in capital investment are reflected in the situation of steel imports, which still have a long way to go to approach the 15-18 million ton annual level of the 1971-1974 period. Charles Stern, president of the American Institute for Imported Steel, recently expressed doubt that such levels could be regained in 1977, citing "the present soft and spotty level of order bookings — a direct result of the less than brisk pace so far of economic recovery in the U.S."

Europe in Limbo

The other "strong men" of the West, Japan and West Germany, fared ill in January, too. The rate of growth of letters of credit in February slacked off significantly; specialists consider this more significant than the 35 percent January drop in export payments, which occurs seasonally.

The West German trade surplus fell from $2 billion in December to $1.36 billion in January. A central bank official discounted the seasonal explanation — "There is no such thing as seasonal phenomena for German exports" — but pointed out that December had a higher accumulation of big-order shipments, and exports orders are still running well ahead of deliveries. Most significant is the weakened demand for capital equipment goods; the production level has been cut back by 20 percent at companies polled. The consumer sector is the only one performing respectably, and this is due chiefly to the extremely vulnerable auto sector, without which the West German export drop-off would have been still more severe.

This is also the case in France, where the seasonally adjusted trade deficit reached 2.38 billion francs in January, after 1.36 billion in December. Both officials and press claim, with good grounds, that January was "exceptional," imports having been inflated by speculative purchases of oil, in anticipation of OPEC price increases and possible government controls, as well as usual purchases of foodstuffs resulting from last summer's drought.

The British £545 million deficit in January was a record; exports rose by only £36 million, as against an import increase of £365 million. Again, there is truth in the British assertion of "distorting effects," reflecting precautionary orders made last fall when sterling was weak, plus speculative oil purchases. However, the underlying trends s British industry is importing to build up its depleted inventories at a time when compensatory exports have not really gotten off the ground. The Callaghan government is trying both to build up the base for industrial recovery and protect sterling with high interest rates; the result of the first policy is the stiff trade deficit, and the result of the second is to make credit formidably expensive for industrial firms and to squeeze real pre-tax incomes, setting up the economy for a new round of both recession and inflation.

Both France and Britain aim at improving their export positions through long-term oil-for-technology and commodities-for-technology agreements with the Arab sector and the Comecon economies. But this current bind — sales on the advanced-sector markets being unable to develop at a sufficient pace to finance the increase in imports required to supply the national sectors — is taking a toll on both the corporate level and the national payments level. This accounts for the manifest interest in new modes of trade financing. The European Economic Community (EEC) is now discussing unified guidelines on export credit to the Comecon and the Third World, after France agreed that trans-national measures in this area are possible. More broadly, the ongoing discussion of an EEC gold-based system for payments among members, and of transfer ruble credit mechanisms and of "joint ventures" with Arab and Comecon investors, reflects an attempt to remove the present ceilings on expanded trade.

Major Trade Agreements Feb. 1—March 4

The last month has seen a continuation of the pattern of state-to-state deals and related large-scale agreements by which Europe and the Third World are seeking to break out of the cycle of collapsing world trade. Below is a listing of the major deals since Feb. 1, compiled from international press reports.

DATE — *DEAL*

Feb. 2: VFW-Fokker of West Germany signs $1 billion deal to build an assembly plant in Rumania for production of 100 VFW-624 Transport planes over 10 years.

W. German Economics Minister signs agreement with Saudi Arabia on steel, petrochemicals and desalination plants.

W. Germany signs $625 mil. deal with Turkey and Indonesia for sale of submarines, missiles, and tanks. First government credit guarantee to non-NATO member for arms.

Sudan signs export agreement with South Korea to swap cotton and other raw goods for textiles and synthetic fibers, electronics. Canada agrees to make $100 million 50-year interest-free loan to finance agriculture projects.

Saudi Arabia signs $70 million contract with Italian Siderexport trading company to supply wide-diameter steel piping to Saudis' Petromin.

Feb. 6: European Economic Community science and Technology delegation signs protocol on collaboration for development of "new energy sources."

Feb. 10: KWU of West Germany and Nuclear Fuels Development Corp. of Japan have signed an agreement for development of a new boiling water reactor.

Italy signs industrial cooperation deal with Morocco for $2 billion involving IRI and Fiat.

West German Salzgitter steel will build a polyvinylchloride plant in Libya for $500 million.

Feb. 16: Italian engineering group, SIR, signs deal with Libya to build 5 refrigeration plants for 20 million lira.

DATE — *DEAL*

India announces participation in Vietnam reconstruction program with aid in agricultural technology.

Iran NIOC purchases 25 percent share of Krupp foundaries of W. Germany with 4.5 million tons of oil to be marketed through Belgian Petrofina.

Saudi Arabia signs $800 million contract with Dow Chemical Co. (U.S.) to build first stage of Saudi chemical complex.

Feb. 20: India signs multimillion dollar deal to build steel plants in Libya, Algeria and Kuwait.

Feb. 24: Indian Atomic Energy Commission signs energy cooperation pact with Iran to involve exchange of nuclear energy information and joint development of peaceful nuclear energy.

Saudi Arabia signs deal with Pakistan for $50 million electrification and power plants.

Italian gas consortium headed by Gerghini signs $300 million contract to supply utilities installation for technological university at Riyadh.

Iran signs $425 million barter deal with Italy for sale of 50 "chinook" helicopters from Agusta-Efim in exchange for 5 million tons Iranian crude during 1977-78.

Feb. 25: Saudi Arabia signs $60 million contract to build 50 megawatt gas turbine plant and high tension transmission lines with Saudi indications of more in the works as part of Saudi $142 billion development plan.

Feb. 27: Iran signs L 100 million barter deal with GEC of Britain of oil for first stage of railway project in Iran.

March 1: French DFP and Abu Dhabi sign 50-50 deal to develop oil fields in Abu Dhabi.

Cuba and Britain sign agreements for zinc and copper mining.

March 4: Turkish Motor Co., Tumosan, signs contract with Swedish Volvo Co. for plant near Anatolia with 8,000 diesel engine per year capacity.