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Economic Intelligence Weekly

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CIA No. 8038/74
12 June 1974

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ECONOMIC INTELLIGENCE WEEKLY

Articles

FURTHER INCREASES IN FERTILIZER PRICES

Chemical fertilizer, already at record high prices and in short supply, will become even more expensive.

- Morocco increased the price of phosphate rock by 50% in June after tripling prices in January.
- Togo announced that its rock prices would be based on Morocco's and voided existing contracts.
- Prices of phosphate rock exported from the United States more than doubled in January and will increase by an additional 32% in July.

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Before the latest increases, spot prices of nitrogen and phosphate fertilizers were four to six times the level of June 1973. Potash prices increased by 30% to 40% in the same period.

The bill for importing countries could be three times the 1973 outlays. India, for example, may pay $500 million for fertilizer in 1974/75, compared with an estimated $200 million in 1973/74. Western Europe will be hard hit by the increased price of phosphate rock; its import bill in 1974/75 probably will jump to $1.2 billion to $1.4 billion, compared with $300 million in 1973/74.

Fertilizer will remain in short supply over the next year or so, undercutting plans to increase crop yields. In recent years, fertilizer has accounted for about 40% of increased grain yields in the United States, 33% in Taiwan, and 60% in India. (CONFIDENTIAL) ■

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GRAIN OUTLOOK IN COMMUNIST EUROPE

Good weather in May improved grain prospects in Eastern Europe, whereas the outlook for the Soviet crop remains indifferent. Assuming average weather throughout the remainder of the crop season, the grain harvests in both areas will be well below the record 1973 levels. This could result in substantial grain imports in FY 1975.

East European Drought Broken

Although average rainfall and below-average temperatures in May alleviated the drought in Eastern Europe, we project breadgrain output at 34-1/2 million tons, still 7% less than last year. The harvest of coarse grains also is expected to fall short of 1973's near record of 34.8 million tons.

In the southern countries -- Bulgaria, Romania, and Hungary – the May rains brought most of the winter grains out of the long drought in good condition. They also aided germination and early development of spring sown grains, especially corn. Flooding in Bulgaria and Hungary caused crop losses in some areas. However, because on balance soil moisture remains below normal, a hot, dry summer could reduce grain production even more.

In the northern countries -- Czechoslovakia, East Germany, and Poland -- rainfall ranged from 7% to 15% above normal and subsoil moisture at the end of May was only 10% below normal. In Poland, however, grains suffered from both winterkill and drought, and winterkill may also have been higher than average in East Germany.

Poor Weather Threatens to Reduce Yields in the USSR

Above-average winterkill and delays in spring sowing, taken together with average growing conditions in the important June-July period, indicate a Soviet grain output this year of 190 million tons or less. Although far below the planned output of 206 million tons and last year's record 222.5 million tons, a crop of this size could still exceed the pre-1973 high of 187 million tons.

The USSR normally relies on winter grains for about one-third of its grain supply. In the fall of 1973 the Soviets planted the largest area to winter grains since 1968. Temperature extremes and sparse snow cover damaged about one-fourth of these fields, leaving a smaller acreage than the average harvested in 1966-71. Moreover, yields on the remaining area may be no more than average because of spotty germination last fall, temperature variations, and spring frosts.

Spring sowing got off to an early start, but cold, snow, and rain in mid-April stalled the campaign. Unusual cold in late May killed some of the newly seeded grain in the European RSFSR and the Ukraine. More important, when the last of the late grains is planted this week, the total grain area is likely to be 5 million to 10 million hectares less than the planned 130 million. On the basis of growing conditions so far, yields on spring grains would be below the average of the past 10 years. Weather, however, has its greatest effect on spring grains in June and July.

Shortfalls Could Spur Imports

Eastern Europe's import requirements for FY 1975 are likely to be higher than the 8 million tons estimated for FY 1974 and exports lower. Romania -- usually a net exporter of grain -- entered a precautionary request for US grain before rains improved harvest prospects. Grain imports by the northern countries may also increase because of the reduced output of rye and the possibility of a poor potato crop.

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Estimated Soviet domestic requirements and export commitments are at least 6 million tons more than the projected crop. The USSR probably increased grain stocks – mostly wheat – by 15 million to 25 million tons in 1973 following its record harvest. Nevertheless, wheat imports may be necessary to correct imbalances in domestic supplies since the quality of a large share of the wheat stocks may be below milling standards and the share of breadgrains in the 1974 acreage is smaller than usual. If world prices for wheat and feed grains were right, moreover, Moscow might buy to avoid a stock drawdown and to maintain flexibility in meeting requests for grain from Eastern Europe or Third World countries such as India. (CONFIDENTIAL) ■

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STIR IN WORLD GOLD MARKET

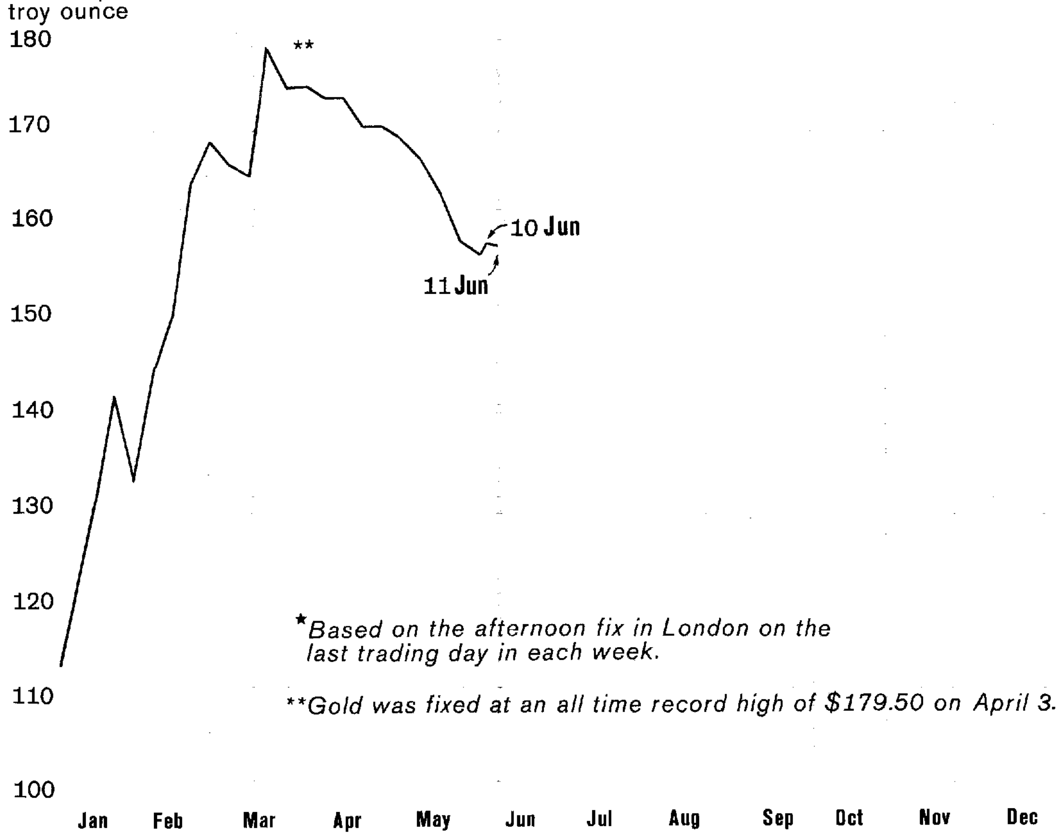
Gold prices have trended downward from a peak of nearly $180 an ounce in early April to $157.25 an ounce in London yesterday. In the last two weeks, major oscillations have mainly reflected the market's reaction to US developments:

- 30 May – up $6.50 when the US Senate passed a bill allowing US citizens to own gold.
- 31 May -- down $5.25 when US Treasury officials emphatically opposed private ownership.
- 5 June – up $7.25 when Secretary Simon suggested the United States may be amenable to a rise in the official price.
- 7 June – down $3.50 when EC finance ministers failed to propose a revaluation in the official price.

The recent downward trend in price is largely explained by the decline in commercial demand for gold, which has been only partially offset by increased speculative demand. Commercial users have gradually withdrawn from the market because of high prices and the worldwide economic slowdown. [redacted] 25X1 estimate commercial gold purchases are down about one-third from their 1973 peak. At the same time, new gold sales by South Africa and the Soviet Union are almost as high as last year.

Sharp fluctuations in the gold price are likely to continue as uncertainty persists about gold's future role in the international monetary system. International financial officials are holding a series of meetings this week at which the role of gold will be on the agenda. EC finance ministers started discussions last week in Luxembourg. The dialogue will continue at the annual meeting of the Bank for

London Free Market Gold Price* 1974



**Based on the afternoon fix in London on the last trading day in each week.*

***Gold was fixed at an all time record high of $179.50 on April 3.*

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International Settlements in Basle and at the Group of Ten and Committee of Twenty meetings in Washington this week.

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CHILE BOOSTING NITRATE PRODUCTION

High world prices for fertilizer have spurred Chile to expand output of natural nitrates, a substitute for petroleum-based nitrogen fertilizers. Santiago is seeking more than $30 million of foreign credits to purchase the machinery and equipment necessary to raise output 25% to 1 million tons in 1975. It also hopes to obtain concessionary terms to avoid exceeding the short-term credit ceiling imposed in an IMF $95 million standby agreement.

Chile is the world's dominant commercial supplier of natural nitrates, largely sodium nitrate found with little or no overburden in the Atacama Desert. These nitrates are particularly valuable because they contain elements useful for sugar beets and crops delayed by frost and drought. In 1973 the Netherlands and the United States purchased 40% of the 420,000 tons exported. Thus far this year, China has contracted for 70,000 tons of Chilean nitrates. Natural nitrate prices are now about double the 1973 level. Prices of petroleum-based fertilizers meanwhile have tripled, making the prices of natural nitrates -- on a nutrient content basis -- only slightly higher.

Production of natural nitrates has been declining for decades because of the expanded use of cheaper chemical fertilizers. Chilean production in 1965 totaled about 1.2 million tons but dropped to 674,000 tons in 1973 under the Allende government. Rising prices and more efficient management probably will push 1974 production up to 800,000 tons. (UNCLASSIFIED)■

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Notes

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Austria: Enrichment Contract with the USSR

Austria has become the eighth nation to conclude a deal with the USSR for uranium enrichment services. The $56 million contract calls for 1.26 million separative work units with delivery beginning in July 1978. The enriched uranium will be used for Austria's second nuclear powerplant, an American-style light water reactor to be constructed at Enns. Austria was forced to rely on the Soviet Union for enriched uranium for the Enns plant because of inability to meet the USAEC's 30 June 1974 contract deadline for enrichment services to be provided before mid-1982. Vienna, which has not made up its mind on the size of the plant, could not furnish the details required by the USAEC. (UNCLASSIFIED)

US Finances Truck Sale to Yugoslavia

The Ex-Im Bank and a New York commercial bank will finance most of a $3.1 million sale of quarry trucks to Yugoslavia for use in mining iron ore. The banks are extending direct credit for 90% of the purchase at 7% interest. The 19 trucks on order will be built by WABCO of Illinois. (FOR OFFICIAL USE ONLY)

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INTERNAL ECONOMIC INDICATORS

GNP*

Constant Market Prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	1 Year Earlier	Previous Quarter
United States	74 I	-1.6	3.9	0.2	-6.3
Japan	74 I	-5.0	6.2	-2.4	-18.6
West Germany	73 IV	-0.1	3.1	3.4	-0.3
France	73 IV	1.8	5.8	5.7	7.3
United Kingdom	73 IV	-0.4	3.1	3.9	-1.4
Italy	73 I	0.8	3.1	5.2	3.4
Canada	73 IV	2.8	6.1	7.2	11.6

WHOLESALE PRICES

Industrial

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Apr 74	2.4	8.6	20.8	30.2
Japan	Apr 74	0.7	11.2	35.6	22.9
West Germany	Mar 74	1.6	6.8	13.1	30.3
France	Apr 74	2.4	12.8	34.0	45.3
United Kingdom	Apr 74	3.3	10.7	23.9	45.2
Italy	Jan 74	7.1	11.8	33.9	68.3
Canada	Mar 74	2.8	10.4	20.7	39.1

INDUSTRIAL PRODUCTION*

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier**
United States	Apr 74	0.4	4.6	0.7	-6.2
Japan	Apr 74	-1.7	6.9	2.7	-9.9
West Germany	Mar 74	-1.7	3.2	1.1	-2.2
France	Mar 74	-0.8	6.4	5.0	5.4
United Kingdom	Mar 74	2.0	1.7	-4.0	-21.1
Italy	Mar 74	-2.4	3.9	11.0	-5.3
Canada	Feb 74	0.9	6.7	4.5	7.0

CONSUMER PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Apr 74	0.6	5.8	10.3	12.9
Japan	Apr 74	2.7	11.4	24.9	30.8
West Germany	Apr 74	0.6	6.3	7.1	7.3
France	Apr 74	1.6	7.7	13.2	17.7
United Kingdom	Apr 74	3.4	10.3	15.2	27.0
Italy	Apr 74	1.2	9.2	16.3	26.6
Canada	Apr 74	0.7	6.0	9.9	11.4

RETAIL SALES*

Current Prices

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier**
United States	May 74	1.0	10.3	6.8	13.9
Japan	Nov 73	3.4	14.6	27.4	32.0
West Germany	Feb 74	0.9	8.7	0.9	11.4
France	Feb 74	0.8	7.0	12.9	29.0
United Kingdom	Jan 74	-1.3	11.5	13.1	16.9
Italy	Oct 73	0.6	16.2	29.1	56.7
Canada	Mar 74	-1.0	11.4	11.8	23.1

MONEY SUPPLY*

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier**
United States	May 74	1.6	7.0	7.0	10.0
Japan	Feb 74	1.2	17.6	15.8	8.7
West Germany	Feb 74	0.5	8.8	1.1	8.6
France	Feb 74	-0.3	11.9	9.0	14.9
United Kingdom	Apr 74	2.7	9.3	3.0	1.0
Italy	Dec 73	2.6	21.2	17.9	22.1
Canada	Apr 74	4.2	13.8	14.4	18.5

MONEY-MARKET RATES

	Representative Rates	Latest Date	Percent Rate of Interest	1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Prime finance paper	6 Jun	9.25	7.25	7.25	9.00
Japan	Call money	3 Jun	12.50	6.63	12.00	12.00
West Germany	Interbank loans (3 Months)	31 May	9.38	14.00	10.50	9.50
France	Call money	28 May	13.00	7.63	12.75	11.75
United Kingdom	Local authority deposits	30 May	13.13	7.52	14.63	13.75
Canada	Finance paper	31 May	12.00	6.50	8.50	10.85
Euro-Dollars	Three-month deposits	31 May	11.88	8.69	8.88	11.50

*Seasonally adjusted.
**Average for latest 3 months compared with average for previous 3 months.

12 June 1974
Office of Economic Research/CIA

EXTERNAL ECONOMIC INDICATORS

EXPORTS*
f.o.b.

	Latest Month	Million US $	Cumulative Million US $ 1974	Cumulative Million US $ 1973	Cumulative Percent Change
United States	Apr 74	8,230	30,624	20,908	46.5
Japan	Apr 74	4,267	15,293	10,941	39.8
West Germany	Apr 74	7,734	28,076	19,070	47.2
France	Apr 74	3,764	14,305	10,624	34.6
United Kingdom	Apr 74	3,048	10,749	8,801	22.1
Italy	Apr 74	2,502	8,827	5,768	53.0
Canada	Apr 74	2,429	10,020	7,978	25.6

EXPORT PRICES
US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Apr 74	0.6	11.5	30.3	23.5
Japan	Dec 73	2.6	13.7	32.6	14.9
West Germany	Mar 74	5.9	13.9	21.9	37.5
France	Jan 74	−5.9	11.1	18.9	−35.2
United Kingdom	Dec 73	0.1	8.7	17.4	12.0
Italy	Oct 73	2.1	11.6	23.7	29.1
Canada	Feb 74	4.1	12.4	34.3	65.6

IMPORTS*
f.o.b.

	Latest Month	Million US $	Cumulative Million US $ 1974	Cumulative Million US $ 1973	Cumulative Percent Change
United States	Apr 74	8,138	29,843	21,545	38.5
Japan	Apr 74	4,676	16,634	8,785	89.3
West Germany	Apr 74	5,423	19,720	14,994	31.5
France	Apr 74	4,141	15,362	10,092	52.2
United Kingdom	Apr 74	3,981	14,570	9,796	48.7
Italy	Apr 74	3,368	11,580	6,406	80.8
Canada	Apr 74	2,306	9,605	7,290	31.7

EXPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Apr 74	0.6	11.5	30.3	23.5
Japan	Dec 73	3.4	5.7	20.6	42.6
West Germany	Mar 74	2.3	4.1	13.0	30.6
France	Jan 74	3.2	8.0	17.6	31.3
United Kingdom	Dec 73	3.1	9.8	18.8	33.0
Italy	Oct 73	2.4	8.3	20.4	17.0
Canada	Feb 74	2.7	10.3	31.8	51.5

TRADE BALANCE*
f.o.b./f.o.b.

	Latest Month	Million US $	Cumulative (Million US $) 1974	Cumulative (Million US $) 1973	Cumulative (Million US $) Change
United States	Apr 74	92	781	−637	1,418
Japan	Apr 74	−409	−1,342	2,156	−3,498
West Germany	Apr 74	2,310	8,355	4,075	4,280
France	Apr 74	−377	−1,057	532	−1,589
United Kingdom	Apr 74	−934	−3,821	−995	−2,826
Italy	Apr 74	−866	−2,753	−638	−2,115
Canada	Apr 74	123	415	688	−272

IMPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Apr 74	6.3	19.0	48.6	98.2
Japan	Dec 73	9.3	7.2	29.0	81.5
West Germany	Mar 74	1.6	6.2	25.7	56.1
France	Jan 74	14.9	11.3	33.0	127.4
United Kingdom	Dec 73	4.5	16.3	42.6	50.6
Italy	Oct 73	3.4	14.0	38.7	30.8
Canada	Feb 74	3.6	7.9	21.3	42.4

BASIC BALANCE**
Current and Long-Term-Capital Transactions

	Latest Period	Million US $	Cumulative (Million US $) 1973	Cumulative (Million US $) 1972	Cumulative (Million US $) Change
United States*	73 IV	214	1,209	−9,838	11,047
Japan	Apr 74	−1,005	−9,702	2,137	−11,839
West Germany	Mar 74	1,176	3,950	4,566	−616
France	73 IV	−352	−2,391	−369	−2,022
United Kingdom	73 IV	−1,394	−3,164	−1,989	−1,175
Italy	72 IV	800	N.A.	2,983	N.A.
Canada	73 IV	27	376	1,155	−779

EXCHANGE RATES Spot Rate
As of 7 Jun 74

	US $ Per Unit	Percent Change from Dec 66	18 Dec 1971	19 Mar 1973	31 May 1974
Japan (Yen)	0.0035	28.31	9.02	−6.92	−0.20
West Germany (Deutsche Mark)	0.4026	60.14	29.75	13.70	1.26
France (Franc)	0.2047	1.39	3.96	−7.12	0.10
United Kingdom (Pound Sterling)	2.4035	−13.87	−7.76	−2.34	0.29
Italy (Lira)	0.0016	−2.87	−9.59	−12.15	0.32
Canada (Dollar)	1.0382	12.55	4.05	4.06	−0.19

OFFICIAL RESERVES

	Latest Month End of	Billion US $	Billion US $ Jun 1970	1 Year Earlier	3 Months Earlier
United States	Apr 74	14.7	16.3	14.0	14.6
Japan	Apr 74	12.7	4.1	16.8	11.6
West Germany	Mar 74	32.9	8.8	32.3	33.1
France	Apr 74	8.1	4.4	11.5	8.3
United Kingdom	May 74	6.9	2.8	6.7	6.0
Italy	Mar 74	6.7	4.7	6.3	6.4
Canada	May 74	6.2	4.3	6.1	6.2

TRADE-WEIGHTED EXCHANGE RATES***
As of 7 Jun 74

	Percent Change from Dec 66	18 Dec 1971	19 Mar 1973	31 May 1974
United States	−17.57	−8.16	−1.52	−0.16
Japan	16.72	2.96	−8.96	−0.34
West Germany	34.34	17.15	12.09	0.76
France	−22.90	−9.31	−11.75	−0.69
United Kingdom	−34.09	−19.87	−5.48	−0.02
Italy	−25.74	−24.35	−17.42	−0.32
Canada	9.07	2.47	4.11	−0.27

*Seasonally adjusted.
**Converted into US dollars at current market rates of exchange.

***Weighting is based [illegible] 16 other industrialized countries to reflect the competitive impact of exchange-rate variations among the major currencies.

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DCI/DDCI Routing Slip

TO:

		ACTION	INFO.			ACTION	INFO.
1	DCI			11	LC		
2	DDCI			12	IG		
3	S/MC			13	Compt		
4	DDS&T			14	Asst/DCI		
5	DDI	✓		15	AO/DCI		
6	DDM&S			16	Ex/Sec		
7	DDO			17			
8	D/DCI/IC			18			
9	D/DCI/NIO			19			
10	GC			20			

SUSPENSE ______________
Date

Remarks:

(1) OK on indicators

(2) Suspense the EIW idea for about 1 Sept for another look

DCI/~~DDCI~~

6/26/74

OFFICE OF THE DD/I

Executive Registry
74-3927/1

24 June 1974

Noted by DCI 6/26/74

NOTE FOR: The Director

FROM : Ed Proctor

SUBJECT : Economic Indicators

DDI-1970-

You recently raised a question about reviving the idea of giving OER's economic indicators to those committees in the Congress concerned with economic affairs. Now that Senator Stennis has probably forgotten what he said about economic intelligence, I think this is as good a time as any to proceed with the project.

You also raised the question of providing the Joint Economic Committee with the Economic Intelligence Weekly providing they have the facilities to protect it. This proposal bothers me somewhat:

a. At times the security classification of this project is higher than Secret which would present very special control problems;

b. We have to remember that the primary purpose of the EIW is to serve our customers in the Executive Branch. Given the political heat that surrounds many of the more contentious

Debatable

CURRENT INFORMATION

economic issues today. I feel that we would run the risk of having provided to the Legislative Branch, quite innocently, ammunition they could use in their debates with the Executive Branch on given economic policy debates. We really don't want to be the ham in that kind of a sandwich.

c. The dialogue between the OER analysts and the JEC staffers is going along so well that I believe we can fully meet their legitimate needs by informal discussions or briefings and, occasionally, by the preparation of papers on very specific topics.

Encourage it

In sum, I recommend that you approve the initiation of a program to disseminate the economic indicators but not to provide the Economic Intelligence Weekly to any part of the Legislative Branch.

TO:

		ACTION	INFO.			ACTION	INFO.
1	DCI			11	LC		✓
2	DDCI			12	IG		
3	S/MC			13	Compt		
4	DDS&T			14	Asst/DCI		
5	DDI	✓		15	AO/DCI		
6	DDM&S			16	Ex/Sec		
7	DDO			17			
8	D/DCI/IC			18			
9	D/DCI/NIO			19			
10	GC			20			

SUSPENSE ______________
Date

Remarks: Isn't the atmosphere calm enough now to revive your idea of giving the indicators to the Joint Economic Committee?

& maybe adding the idea of providing the Econ Intel Weekly to the JEC on a classified basis, if they can protect it? —

a

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DCI/~~DDCI~~

6/13/74

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