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Gold Production and World Currencies

In his annual review of gold production, Dr. M. A. Kriz, writing in the *Engineering and Mining Journal* for February 1962, notes that "interest in gold has revived to an extent not seen for a quarter of a century." For those who would relegate gold to a place among relics of the past, 1961 must indeed have been a year of surprises if not disillusionment. Events and developments of the year demonstrated that gold remains the bulwark of monetary systems and "the stern voice of monetary discipline."*

World production of newly mined gold is estimated to have increased about 3 percent in 1961 to nearly 46 million ounces, compared with about 44½ million ounces in 1960. Thus production continued at a rate that experience has shown to be sufficient to maintain an increasing supply of purchasing media equal to the growing demands of world trade and commerce. Except for the war years, mine production of gold has increased at an annual average rate of about 3 percent for more than a century. Gold production of the U.S.S.R., not reported in recent years, was estimated by the U.S. Bureau of Mines to have been 11 million ounces in 1960. This would be nearly one-fourth of total world production; consequently, in our estimate of world production for 1961 we have assumed that Russian production accounted for a like proportion of the world total. (Russian gold production in recent years has been estimated at amounts ranging from 10 to 17 million ounces annually.)

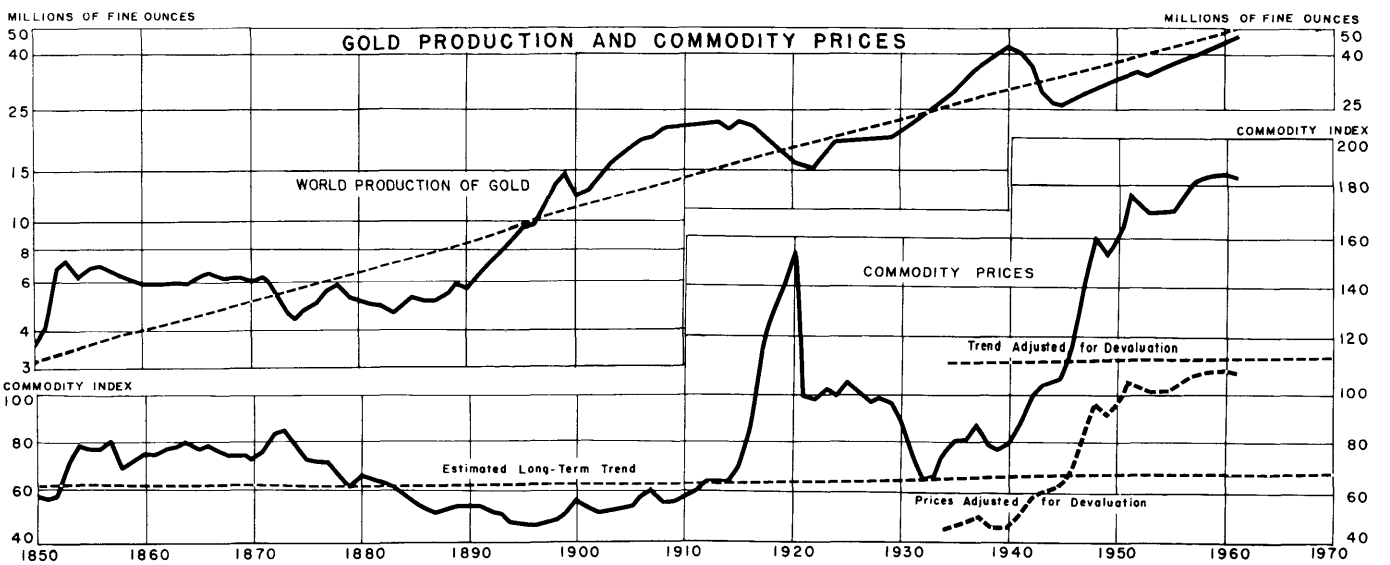
Gold production outside Russia and Mainland China last year was 34.7 million ounces, compared with 33.6 million ounces in 1960. Of this production, two-thirds was produced by South African mines, which accounted for more than the entire increase of 1.1 million ounces in the gold production outside of Russia and Mainland China. (Production in the United States and Canada decreased.) In 1961 South African mine production was 22.9 million ounces or 7 percent more than that in 1960. Last year was the eighth consecutive one when these mines accounted for substantially all the increase in world gold production.

Although increases in production of other noncommunist countries were small last year, gains were reported in the output of Southern Rhodesia and the Philippines. Production in the United States, on the other hand, decreased from 1.7 million ounces in 1960 to 1.5 million ounces in 1961. This was the smallest production of any peacetime year in the last seventy, and reflects the influence of continued domestic inflation on mining costs.

Because the gold stock of the United States has decreased during the past decade, all additions during that

*In an effort to "protect" the gold stock of the United States, President Eisenhower, a few days before leaving office, amended an earlier Executive order so that holding of gold anywhere in the world by persons subject to U.S. jurisdiction was prohibited. In order to remove any threat to the dollar that might arise from suspicions that the incoming Administration might devalue the dollar or restrict its free convertibility into gold abroad, President Kennedy pledged his administration to the preservation of the dollar at its current gold content.

Developments affecting the positions of gold and the dollar have been commented on frequently in these bulletins during the past year. See especially "An Interlude in the Developing Gold Crisis," *Research Reports*, June 5, 1961, and "The Dollar Problem in Review," *Research Reports*, January 1, 1962.



period to the monetary gold stocks of the world have accrued to countries other than the United States. Gold stocks of all countries other than Russia and Communist China totaled about $40 billion at the end of 1961, at which time the United States gold stock accounted for less than 45 percent of the total, compared with more than 65 percent a decade earlier.

A decade ago the U.S. gold stock *after* deducting net short-term foreign claims on it was nearly equal to the present gold stock, all of which is currently subject to net short-term claims of foreigners. The amount of the gold stock of Russia is not known to the Western World, but guesses range from $4 billion to $9 billion.

According to the gold import statistics of the United Kingdom, Russia exported 5½ million ounces of gold during the first 11 months of 1961, and during the 4 preceding years such exports averaged about 6 million ounces annually. According to recent reports appearing in the press, Communist China, threatened by starvation for millions of its citizens, has been offering gold on the western markets in exchange for wheat. Thus gold not only is a bulwark of monetary systems and a medium of exchange among politically allied nations but also is a medium of exchange among politically opposed nations.

Although purchase of gold abroad by Americans is now prohibited and the ratio of dollar claims to gold has returned to a level near $35 an ounce, the meager data available on industrial (nonmonetary) uses of gold in the United States indicate that industrial users may have been accumulating speculative inventories of gold. Until about 1957, industrial uses of gold were increasing at a rate comparable with that of other metals generally. Since then such demand for gold has been increasing rapidly; it doubled between 1957 and 1960, the latest year for which such data are available. In that year domestic demand for newly mined gold increased 19 percent to 3 million ounces. Gold is being used currently in space vehicles; consequently it may become a critical material in the space age. However, such use does not seem to have been an important factor in the increased industrial uses reported to date.

Speculative accumulations of gold by industrial users are a natural result of inflation that weakens the foreign position of a currency in the way that inflation has weakened that of the dollar. Although the amount of gold thus held does not appear to be relatively large, such holdings reflect doubts as to the future of the Nation's paper claims on dollars. In larger proportions, such speculation might divert enough gold away from the Nation's monetary stock to weaken further the position of the dollar abroad.

Events of the past year reveal that, despite the Keynesian notions and the development of communist industrial systems, gold retains its status as the money of last resort, with its universal acceptability among nations and its influence favoring fiscal responsibility within nations. Recent improvisations to avoid the discipline of the gold standard can do no more than delay the adjustments that years of continued inflation have made inevitable.

Consumer Buying Intentions

Recent newspaper articles commented on the optimistic implications of consumer intentions to buy new automobiles as ascertained by the Federal Reserve Board's quarterly survey last January. The 6-percent increase in the number of families planning to buy new cars, in comparison with those planning similar purchases a year earlier, was widely heralded as a favorable omen for the automobile industry.

In the first 6 months of 1961, only 2,749,500 new cars were sold. If sales in the first 6 months of 1962 increased 6 percent, they would total 2,920,000. However, sales in January and February totaled 930,000 cars; consequently, only about 2,000,000 would be sold in March through June if the January plans of consumers are carried out. This would approximately equal sales in the same months of 1961. Obviously, if sales for the first half of 1962 are to exceed those of the corresponding period of 1961 by only 6 percent, the gain already has occurred and the outlook for sales during the next few months is poor.

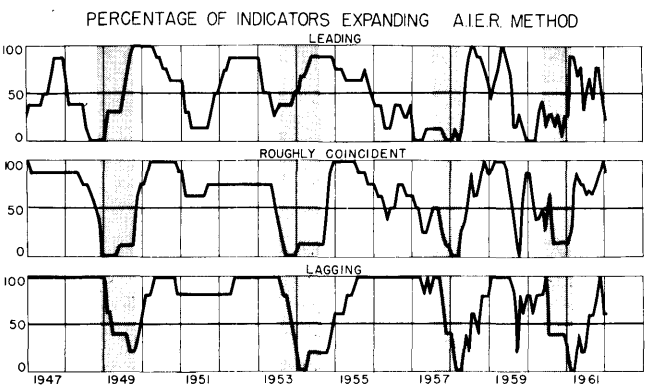
As it happens, the percentage of families planning to buy new cars in January 1960 was the same as that in January 1961. Nevertheless, the number of cars sold in the first 6 months of 1961 was about 15 percent less than the number sold in the corresponding period of 1960. These developments suggest that the margin of error in the reported plans of consumers may be much more than the 6-percent gain in buying plans reported for January 1962. If that is the situation, one is not justified in drawing any conclusions from the latest data reported other than that they obviously provide no basis for expecting sales in the next few months to exceed those of last year.

What the Indicators Say

Percentages of the three groups of indicators expanding are plotted on the accompanying chart, with periods of cyclical contractions as determined by the National Bureau of Economic Research indicated by shaded areas.†

The monthly leading indicators were appraised most recently as 22 percent expanding, unchanged from the level reported in our last monthly bulletin. At this level, the leaders appear to foreshadow a period of business uncertainty, and possibly an early contraction. Only one of the nine leaders (new orders for durable goods) has maintained an uninterrupted upward trend since the cyclical trough in February 1961; the other of two still appraised as trending upward (common stock prices) may have reversed that trend. However, only two series appear to be trending definitely downward (the number of houses started and the employment accession rate), while the trends of the other five not expanding were in-

†The expansion of each indicator is determined by visual inspection and by appraisals of related series. The indicators are grouped as "leading," "roughly coincident," or "lagging," according to their past relationships to peaks and troughs of business cycles.



determinate. We shall not have a clearly defined signal from the leading indicators until the cyclical trends of these five can be ascertained. One of them, commercial and industrial building, may be trending upward.

The coincident indicators reflect continued business expansion through December and, less assuredly, through January. Some weaknesses have begun to appear among these series, notably in wholesale prices of other than farm and food products, employment in nonagricultural establishments, and retail sales; but the latter two decreased only by small amounts in December and January from exceptionally high levels.

The indicators recently may be warning that a cyclical business contraction has begun or soon will begin, but the warning is not as yet clearly defined.

SUPPLY

Industrial Production

Production of steel, automobiles, electric power, and lumber (1) in the 1- and 4-week periods ended on the indicated dates in the current year and (2) in the corresponding periods of earlier years was as follows:

	1929	*1932*	*1957*	*1960*	*1961*	*1962*
Steel						
Ingots—million tons						
1 week: March 3	1.24	0.41	2.46	2.65	1.58	2.36
4 weeks: March 3	4.86	1.60	9.97	10.73	6.26	9.66
Automobiles						
Vehicles—thousands*						
1 week: March 3	121	35	173	175	120	172*p*
4 weeks: March 3	479	135	701	762	474	675*p*
Electric Power						
Kilowatt-hours—billions						
1 week: March 3	1.7	1.5	11.8	14.3	14.2	16.5
4 weeks: March 3	6.9	6.2	48.7	56.6	57.5	65.4
Lumber						
New York Times Index						
1 week: February 24	126	37	121	126	101	116
4 weeks: February 24	126	38	118	130	106	119

* Cars and trucks in the United States and Canada.
p Preliminary.

DEMAND

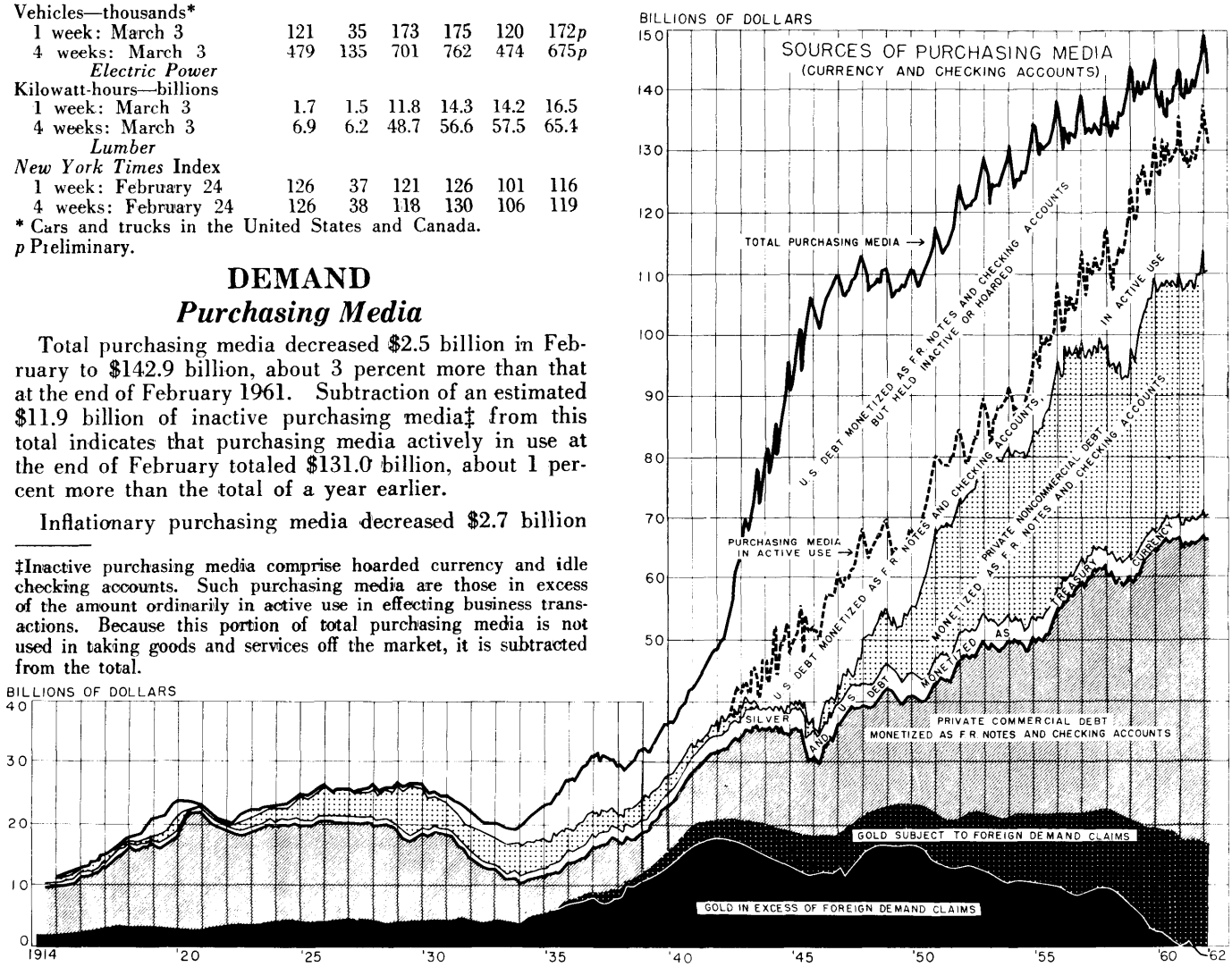
Purchasing Media

Total purchasing media decreased $2.5 billion in February to $142.9 billion, about 3 percent more than that at the end of February 1961. Subtraction of an estimated $11.9 billion of inactive purchasing media‡ from this total indicates that purchasing media actively in use at the end of February totaled $131.0 billion, about 1 percent more than the total of a year earlier.

Inflationary purchasing media decreased $2.7 billion in February to $76.1 billion, 3 percent more than the total at the end of February 1961. The greatest part of inflationary purchasing media (derived chiefly from real estate, security, and consumer loans granted by the commercial banks, and from the banks' investments in obligations of corporations and State and local governments) remained unchanged during the month at $39.8 billion, about 2 percent more than that at the end of February last year. The next largest component of inflationary purchasing media, that derived from monetization of the Federal debt by the commercial banking system, decreased $2.7 billion in February to $32.5 billion but was 3 percent more than that of a year earlier. The remaining relatively small and stable amount of inflationary purchasing media, derived from silver and from the general credit of the U.S. Government and circulating as Treasury currency, was practically unchanged in February at $3.8 billion but was about 5 percent more than that at the end of February last year.

Noninflationary purchasing media, derived from gold and from commercial, industrial, and agricultural loans, increased $0.2 billion in February to $66.8 billion, 3 percent more than the total at the end of February 1961. The amount derived from commercial, industrial, and agricultural loans increased $0.3 billion during the month to $50.0 billion, 5 percent more than that at the end of February last year.

‡Inactive purchasing media comprise hoarded currency and idle checking accounts. Such purchasing media are those in excess of the amount ordinarily in active use in effecting business transactions. Because this portion of total purchasing media is not used in taking goods and services off the market, it is subtracted from the total.



The gold stock of the United States was $16,790 million at the end of February, compared with $16,815 million at the end of January and with $17,373 million at the end of February 1961. Gross foreign short-term claims against the U.S. gold stock were last reported at $22,558 million at the end of December, partly offset at that time by short-term claims against foreigners totaling $4,711 million. If these totals were unchanged in January and February, net foreign short-term claims would exceed the U.S. gold stock by $1,057 million. This compares with a net domestic gold stock of $290 million not subject to foreign demand claims at the end of February 1961.

The "price" of gold in European markets, expressed in terms of U.S. currency, has recently been fluctuating around $35.08½ an ounce. This approximates the rate at which the U.S. Treasury will exchange gold for claims on dollars presented to it by foreign central banks and governments. The disappearance of a substantial premium on gold in the free markets seems to be due primarily to the foreign exchange operations recently undertaken by the Federal Reserve banks, but detailed information has not been made available. Such operations with the details concealed may temporarily alter the warning signals provided by the gold-price barometer but of course will not alter the adverse "weather" that the dollar has encountered. More fundamental remedies than tinkering with the barometer will be required in the longer run.

Although for the time being the gold situation seems to have stabilized, the maladjustments that caused a loss of $6 billion of U.S. gold holdings during the past 4 years are still present, namely, the expectation of further inflationary spending by the Federal Government and the large and continuing adverse balance of U.S. international payments. The latter is due largely to high prices of U.S. products, large Government disbursements for foreign aid, and domestic interest rates so low compared with those abroad that they repel rather than attract short-term investment funds.

If the recent increased rate of saving continues, the addition of this influence to that of the seasonal surplus of Treasury receipts over expenditures may substantially decrease the amount of inflationary purchasing media in use during the next several months.

Department-Store Sales

Sales of department stores reporting to the Federal Reserve banks compare with those of corresponding periods a year earlier as follows:

Period	*Percent Change*
Week ended March 3	−3
Four weeks ended March 3	+1
Year to date	+4

PRICES

Commodity Prices

	1961	*1962*	
Index	*Mar. 5*	*Feb. 26*	*Mar. 5*
Spot-market, 22 commodities	264	256	258
Commodity-futures	303	307	308
Steel-scrap	$35.83	$33.17	$32.50

Note: The indexes are respectively those of the U.S. Bureau of Labor Statistics, Dow-Jones, and *Iron Age*. The spot-market and futures indexes are converted so that their August 1939 daily averages equal 100. The steel-scrap index is a composite price for No. 1 heavy melting scrap.

BUSINESS

Manufacturers' Orders, Sales, and Inventories

Note: Data for new orders, sales, and inventories are seasonally adjusted; data for unfilled orders are not so adjusted.

New orders received by manufacturers during January were nearly one-half of 1 percent more than those received during December and 16 percent more than those for January 1961. New orders for durable goods, a leading indicator of business-cycle changes, were nearly 2 percent more than those of a month earlier and nearly 29 percent more than those of the corresponding month last year. New orders for nondurable goods were 1.3 percent less than those of a month earlier but nearly 5 percent more than those received during January 1961. Sales (shipments) of manufacturers in January were 1.8 percent less than those of a month earlier but 11 percent more than those in January 1961. Sales of durable goods were 1.3 percent less than those in December but 17 percent more than those in the corresponding month last year. Sales of nondurable goods were 2 percent less than those in December but nearly 6 percent more than those in January 1961.

Inventories of manufacturers at the end of January were 1 percent more than those of a month earlier and nearly 4 percent more than those of a year earlier. Inventories of durable goods manufacturers increased 1.2 percent during the month and were 3.5 percent more than those of a year earlier. Inventories of manufacturers of nondurable goods increased nearly one-half of 1 percent during January to an amount nearly 4 percent more than that of a year earlier.

The ratios of inventories to sales for manufacturers of all goods, durable goods, and nondurable goods for January compare with those for a month and a year earlier as follows:

	1961		*1962*
	Jan.	*Dec.*	*Jan. p*
All goods	1.87	1.70	1.75
Durable goods	2.34	2.01	2.06
Nondurable goods	1.48	1.42*r*	1.45

p Preliminary. *r* Revised.

Unfilled orders of manufacturers at the end of January were 2 percent more than those of a month earlier and were about 9 percent more than those at the end of January 1961. Unfilled orders for durable goods were 2.3 percent more than those of a month earlier and were 8.3 percent more than those of a year earlier. Unfilled orders for nondurable goods, about 6 percent of the total, were unchanged from those of a month earlier and 15 percent more than those at the end of January 1961. Although the January increase in unfilled orders was the largest of any month since the recovery began in March last year, the gain was partly attributable to a decrease in manufacturers' shipments.

Most major industries reported increased new orders in January. Orders for steel were sustained at the December level, a reflection of advance buying as a hedge against a possible strike.

The significance of the increase in new orders for durable goods during January is not clear because advance ordering of steel and steel products was a factor of unknown proportions.

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