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Gold 1975

During the past few years, gold has been the subject of many analyses and the object of much conjecture. In this, our annual report on gold, we present world gold production, uses, and prices data for 1975 and our analysis of the gold situation.

Production and Supply

Estimated free-world gold production during 1975 was 30.6 million ounces or 6 percent less than that during 1974.* Such production during each year since 1970 was less than that during the preceding year. (During 1975 free-world gold output was approximately 26 percent less than it was during 1966, when a record 41.3 million ounces were produced.) That gold production decreased during this period when the exchange value of gold for other goods increased substantially appears to be inconsistent with the long-term historical relationship between the volume of gold production and its exchange value in terms of other things. However, in the past, gold production did not increase substantially until the exchange value of gold had increased to a relatively high level. Not until 1973 did the exchange value of gold approach that historically critical level. But the situation then was and currently remains significantly different in that the exchange value of gold (read "price" at this point) was not and is not guaranteed in the absence of any currency being redeemable in gold at a set price. In this situation, investors and mining officials understandably would be less ready to commit funds to new mining ventures than they would be if a high exchange value for gold were guaranteed. If the experience of a number of years reveals that the exchange value of gold most probably would remain at or above the historically critical level, new investments probably would be committed to gold mining and gold production would increase.

An additional complicating aspect of the present situation is the political uncertainty in South Africa, the major free-world gold producing nation. This political uncertainty also will retard increased investment in gold mining at any given exchange value of gold.

Rather than increase production during the past 5 years, when the "price" of gold increased, mine officials in South Africa (the largest gold producing country in the world) and elsewhere have mined the lowest grade ore profitable at the prevailing price of gold in order to prolong the "life" of the mines. According to a report published by Consolidated Gold Fields, Ltd., output capacities at South African mines could not be increased sufficiently to produce an equal amount of gold when the lower grade ore was mined. Therefore, as the price of gold increased, less gold was produced, although more ore was taken out of the mines.

Table 1 shows the estimates of free-world and Soviet gold production during selected years. This table reveals that gold production in Canada and the United States during 1975 was less than half the amount produced in these countries during 1950. Such production in South Africa during the later years, however, was about double that during 1950 and estimates of Soviet gold production during 1975 indicate that it was nearly triple that during 1950. Total world gold production during 1975 was about 50 percent more than that during 1950.

Estimates of gold production in the Soviet Union are highly questionable because the Soviet political leaders do not permit the publication of Soviet gold data. The estimates of Soviet gold production presented in Table 1 were prepared by Consolidated Gold Fields, Ltd. Mr. David Dowie, an economic geologist for that organization, recently published a lengthy report on his method of estimating such production. Because of the methods he

*All references to ounces of gold in this article are to troy ounces. One troy ounce is equal to 1.10 avoirdupois ("regular") ounces.

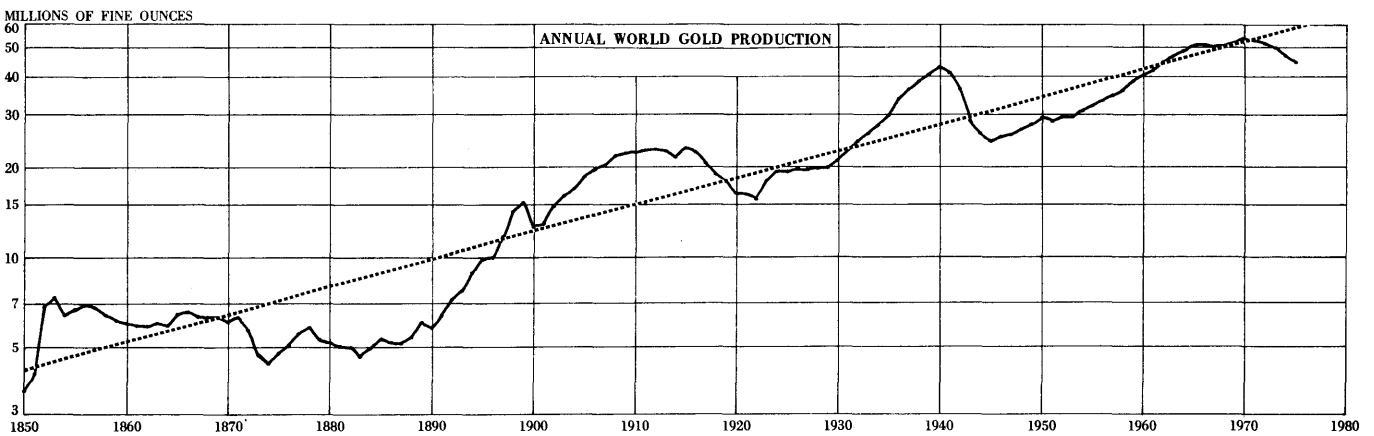

Table 1
World Gold Production
(Millions of ounces)

Country	*1950*	*1960*	*1965*	*1970*	*1974*	*1975p*
South Africa	11.7	21.4	30.6	32.2	24.4	22.6
Canada	4.4	4.6	3.6	2.4	1.7	1.6
United States	2.3	1.7	1.7	1.7	1.1	1.0
Other Free-World	5.9	6.0	5.3	4.6	5.3	5.4
Total Free-World	*24.3*	*33.7*	*41.2*	*40.9*	*32.5*	*30.6*
Soviet Union e	4.5	5.8	8.2	11.1	13.5	13.1
Total World e	*28.7*	*39.5*	*49.3*	*52.1*	*46.0*	*43.7*

p Preliminary. e Estimated.

used, his estimates of Soviet gold production probably are better "guesses" than estimates derived from assuming a constant rate of increase in such production from some volume estimated to have been produced during a year some time ago. According to Mr. Dowie, Soviet gold production during 1975 (13.1 million ounces) was about 3 percent less than that during 1974. This decrease was the first year-to-year decrease in such production since the end of World War II.

The total amount of gold sold in the gold markets during a given year is not limited to the amount produced during that year. Producers sometimes have added newly produced gold to their own inventories and at other times have offered for sale gold that had been produced during earlier years. Also, other holders of gold sometimes have sold gold accumulated during an earlier period. According to Consolidated Gold Fields, Ltd., about 36.2 million troy ounces of gold were sold (and purchased) during 1975. Of this amount, 30.6 million ounces were from free-world new production, 4.8 million ounces were sold by communist countries, and 0.8 million ounces were sold by "official" institutions.

The most publicized sales of gold during 1975 by official institutions were the sales by the U.S. Treasury of about 750,000 ounces in January and about 500,000 ounces in June. U.S. Treasury officials stated that the purpose of those auctions was to help meet an expected increased demand for gold from U.S. citizens, who regained the legal right to own gold on December 31, 1974. At the first Treasury auction, less than half of the 2 million ounces offered were sold at a weighted average price of $165.67 per ounce. Accepted bids ranged from $153 to $185 per ounce. At the June sale, 500,000 ounces were offered in a Dutch-style auction. (At this type of auction, all successful bidders pay the price of the lowest accepted bid.) Bids were received for about 4 million ounces. All successful bidders at the second Treasury gold sale paid $165.05 per ounce.

Table 2
Selected Free-World Uses of Gold
(Millions of ounces)

Use	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*
Jewelry	34.2	34.0	32.0	16.4	7.4	17.1
Electronics	3.0	2.8	3.5	4.1	3.1	2.1
Dentistry	2.0	2.2	2.3	2.3	2.0	2.1
Official Coins	1.5	1.7	2.0	1.7	9.2	7.1
Hoarding, Speculation, and Investment	−11.1	−0.2	−3.3	17.5	16.7	5.7

Source: Consolidated Gold Fields, Ltd.

The United States was not the only country to sell gold from its official reserves during 1975. South Africa, Chile, and Zaire, reportedly sold some gold then also. Purchases of gold reportedly were made by official institutions in Colombia, India, Peru, and some Middle-East and Far-East countries.

Gold Uses and Prices

The major demand for gold during 1975 was for use in jewelry. As is shown in Table 2, that industry purchased about 17.1 million ounces then, compared with 7.4 million ounces purchased during 1974. Note also that the amount used for jewelry during 1974 was less than half that used during 1973, and that amount was only about half the amount used during 1972. Those marked decreases were attributable in large part to the large increases in the price of gold during 1973 and 1974. The increased purchases of gold for jewelry purposes during 1975 probably continued during the first 7 months of 1976, inasmuch as the price of gold decreased during those months to the lowest level since January 1974.

The amounts of gold used in electronics and dentistry were relatively small and did not change significantly during the past 6 years.

Gold used for official coins totaled 7.1 million ounces during 1975. That amount was less than the 9.2 million ounces used for such purposes during 1974 but more than the total amount used during the 4-year period, 1970 through 1973. Most of the increase in the demand for official gold coins presumably reflected attempts by many purchasers of the coins to invest in gold conveniently in order to protect their wealth from depreciating currencies.

Purchases of gold bullion by private parties are included in the category "Hoarding, Speculation, and Investment." During 1973 and 1974, when most prices throughout the world (especially the price of gold) increased rapidly, large amounts of gold bullion were purchased. However, the rate of increase in world prices abated during 1975, and the estimated amount of gold purchased for hoarding, speculation, and investment

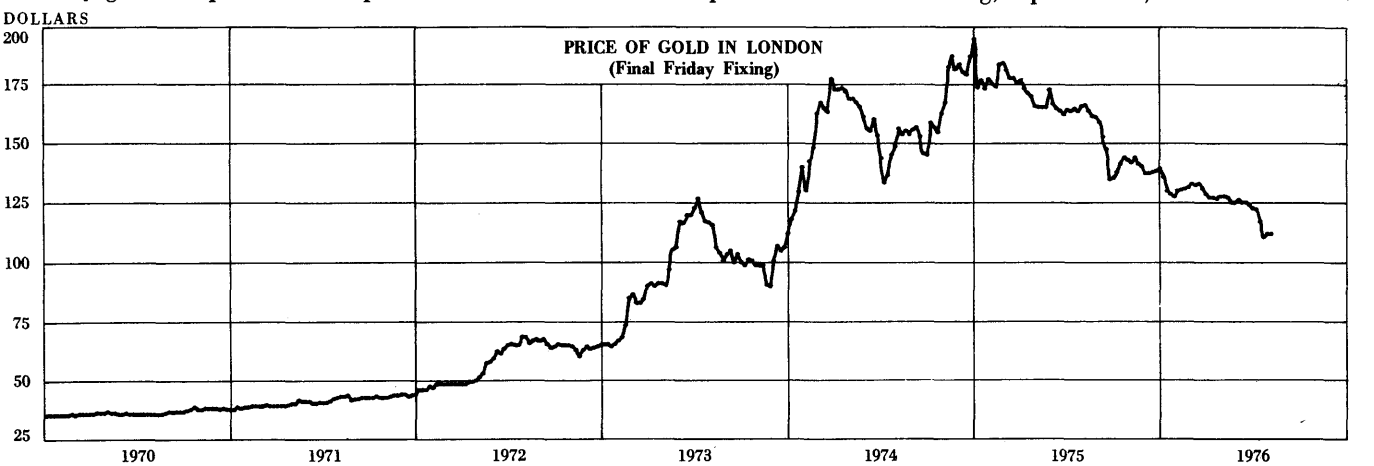

Table 3
Price of Gold in London
(Dollars per ounce)

	1970	*1971*	*1972*	*1973*	*1974*	*1975*
Average of daily closing prices	35.88	40.79	58.16	97.34	159.23	161.03

decreased from 16.7 million ounces during 1974 to 5.7 million ounces during 1975. Purchases of gold for those uses probably continued to decrease during the first 7 months of 1976, inasmuch as the rate of increase in world consumer prices continued to decline then.

As we reported above, U.S. citizens were permitted to own gold beginning on December 31, 1974 for the first time since 1933. Apparently in the expectation of a substantially increased demand for gold by Americans, foreign investors purchased large amounts of gold during the latter months of 1974, and the price of gold rose to a record closing of $195.25 an ounce in London on December 30, 1974. A large demand for gold by Americans did not develop, and the price of gold decreased steadily during the first 8 months of 1975 to a low of $128.75 per ounce in September. It rose during the closing subsequent months of 1975, closing in London on December 31, 1975 at $140.25.

In *Research Reports*, for September 22, 1975, we conjectured that the decrease in the price of gold through mid-September 1975 probably was attributable primarily to these 3 factors: (1) the sales of gold by the U.S. Treasury in January and June, (2) the announcement by the International Monetary Fund (IMF) on September 2 of plans by that organization to sell 25 million ounces of its gold, and (3) unusually large sales of gold by the Soviet Union in order to pay for grain imports. At this time, the first 2 factors evidently were connected with the fall in the price of gold. Sales of gold during 1975 by the Soviet Union, however, are estimated to have been substantially less than those during previous years. Therefore, they probably were not a significant factor.

The price of gold decreased during the first 7 months of this year to the lowest level since January 1974. On July 20, 1976 the closing price of gold was a recent low of $107.75 per ounce. As of this writing, the price has recovered to about $113.00 per ounce. Many analysts have attributed the decrease in the price of gold thus far during 1976 to the planned and actual sales of gold by the IMF begun in June. On June 2 the IMF sold by auction 780,000 ounces of gold at $126.00 per ounce. At that auction, bids were received for 2.4 million ounces. On July 14, the IMF sold at auction an additional 780,000 ounces at $122.05 per ounce. Bids were received for 2.1 million ounces at that sale. The announced plans of the IMF to offer gold every 6 weeks until 25 million ounces are sold during a 4-year period apparently has been a significant factor in depressing the price of gold during recent months. Furthermore, the immediate need to purchase gold for protection against currency depreciation has been reduced because price increases have abated in the major countries during recent months.

Some Encouraging Aspects

Depressing aspects of the gold situation have received widespread publicity during recent months. Decreases in the price of gold, continued IMF gold sales, threatened U.S. Treasury gold sales, and the supposed removal of gold from the international monetary system seem to portend a bleak future for gold. Dark, indeed, *might* be the future for gold in the short term, but some of these recent developments suggest that the long-term future for gold is bright.

That Americans again can legally own gold probably is the single greatest step in restoring economic freedom in decades. Americans now can purchase gold to protect the purchasing power of their wealth if they so choose; they are not forced to rely on depreciating paper currencies. That few Americans have yet to use this opportunity might reflect the long history of the dollar being as "good as gold" and the recent history of reduced—but still large—price increases. If price increases continue to abate, the demand for gold by Americans probably will not be substantial. If, however, inflating accelerates, increasing numbers of Americans probably will purchase gold. In the meanwhile, those Americans who want to hold some portion of their wealth in the form of gold now have the legal right to do so. In view of the penchant of politicians to inflate, we should expect that price increases will accelerate in the long term.†

Another "bright spot" for gold during recent months has been its use in some agreements between countries and between companies. The governments of Portugal and Italy have used gold as collateral in order to obtain loans from the Bank for International Settlements and Germany, respectively. Nelson Bunker Hunt, chairman of Great Western United announced that he had signed an agreement with Panama to pay for 440,000 tons of raw sugar with gold or silver. These examples suggest that gold again will be used as a means of payment, its supposed "removal" from the international monetary system, notwithstanding.

Presently, there is no official monetary unit that one can confidently expect will retain its purchasing power in the long-run. Dollars, Swiss francs, German Marks, Special Drawing Rights (SDRs), etc., have been and are losing purchasing power. Sometimes the loss has accelerated, and sometimes it has slowed. Nevertheless the loss has been, and probably will be, inexorable. Such monetary units cannot serve well as accounting units in the many long-term contracts that are essential to a progressing, modern industrial economy.

History shows that gold has served best as such a unit. Now that gold has been freed from the fetters of an unrealistic official "price" and of a major legal restriction, we expect more and more persons will begin to recognize its usefulness as a long-term accounting unit and to use it as such. For this reason, we believe that gold will become increasingly important in the years ahead.

STATISTICAL INDICATORS

Among the primary leading indicators of business-cycle changes, the average workweek for a production worker in manufacturing decreased during July. Because the moving average of this series has not exceeded a peak reached during January, we have some doubt that this series has continued to expand cyclically. However, during four of the five preceding postwar recoveries, the first downward trend in this series later proved to be a temporary interruption of the expansion rather than a cyclical contraction. The percentage of primary leading series appraised as expanding cyclically remains at 83.

†The restoration of the right of Americans to use gold clauses in contracts would further increase their economic freedom. Senator Jesse Helms, Republican from North Carolina, recently introduced a bill that would rescind the joint resolution of Congress of 1933 that prohibits gold clauses. Senator Helms believes that this bill has a good change of passing.

‡For a further discussion of this subject see our *Economic Education Bulletins*, "Why Gold?," May 1972, and "Restoring Economic Order," December 1974.

Among the primary roughly coincident series, employment in nonagricultural establishments increased to a record number during July. This series and all of the remaining series in this group are appraised as expanding cyclically.

The inverted average duration of unemployment increased during July and continued to expand cyclically then. The percentage of primary laggers appraised as expanding cyclically remains at 83.

General business activity probably will continue to expand during the next few months at least.

BUSINESS

MANUFACTURERS' ORDERS, SALES, AND INVENTORIES

Note: All data are seasonally adjusted.

The increasing trends in new orders received by manufacturers and shipments by them that began during the second quarter of 1975 continued during the 3 months ended this June. The percent changes in the amounts reported for these series for the 3 months ended in June from those reported for the preceding 3-month period and the year-earlier 3-month period were as follows:

	Percent Change From	
	Preceding 3 Month Period	*Year-earlier 3 Month Period*
New Orders		
All manufacturers	+4.9	+20.5
Durable goods mfrs.	+8.6	+26.1
Nondurable goods mfrs.	+1.2	+15.0
Shipments		
All manufacturers	+3.2	+16.2
Durable goods mfrs.	+5.1	+16.2
Nondurable goods mfrs.	+1.3	+15.3

The amount of new orders received by manufacturers during the 3-month period ended in June were larger than shipments during that period; consequently, manufacturers' unfilled orders increased then. Unfilled orders of all manufacturers at the end of June were 2.7 percent more than those at the end of March but 0.8 percent less than those a year earlier. This series apparently has begun to expand cyclically from a trough in February 1976. Unfilled orders of durable goods manufacturers account for about 95 percent of all manufacturers' unfilled orders.

Inventories of all manufacturers at the end of June were 1.8 percent more than those a year earlier and 1.8 percent more than those at the end of March. Inventories of durable goods manufacturers at the end of June were 1.3 percent more than those 3 months earlier but 1.3 percent less than those a year earlier. Inventories of nondurable goods manufacturers increased 2.6 percent during the three months ended in June to an amount 8.2 percent more than that a year earlier.

Ratios of inventories to sales (shipments) for manufacturers of all goods, durable goods, and nondurable goods for June, for 3 months earlier, and for a year earlier were as follows:

	1975	*1976*	
	June	*March*	*Junep*
All goods	1.83	1.59	1.60
Durable goods	2.42	2.02	2.00
Nondurable goods	1.22	1.14	1.18

p Preliminary.

Many analysts believe that the data for manufacturers' inventories have become less reliable during recent periods because of rapid increases in prices. Manufacturers' inventories are reported at cost, or book value. Thus, they reflect prices that prevailed at some time prior to the date for which the inventories are reported. However, shipments (sales) reflect prices that prevailed during the month in which the sales are made. To the extent that reported manufacturers' inventories are understated with respect to their replacement cost, the ratio of inventories to sales would be understated. The amount of these understatements would vary with the rate of price increases and the "age" of inventories.

The high rate of price increases during 1973 and 1974 probably resulted in a large understatement of the ratio of physical inventories to physical shipments then. Inasmuch as price increases have abated during recent months the reported inventory-to-sales ratios for durable goods manufacturers for those months probably understate the physical ratios by smaller amounts.

The continued upward trends of manufacturers' new orders, unfilled orders, and shipments during recent months are encouraging for the continued expansion of industrial production.

PRICES

COMMODITIES PRICES

	1975	*1976*	
Index	*Aug. 4*	*July 26*	*Aug. 2*
Spot-market, 22 commodities*	525	564	555
Commodity-futures	617	702	684
Steel-scrap	$65.17	$84.83	$83.16

*For the preceding Tuesday.

PRICE OF GOLD

	1975	*1976*	
	Aug. 14	*Aug. 5*	*Aug. 12*
Final fixing in London	$161.80	$112.60	$113.20

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