

Aftermath of the Brazilian Frost—1954

U. S. Consumption Declined, But Imports Didn't —World Coffee Production Did Not Taper Off; Brazil's Foreign Exchange Position Suffered

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THE year 1954 may well mark a turning point for the coffee industry in the U. S. Not only have substantial adjustments occurred in prices, production and consumption, establishing a new economic climate, but widespread publicity has cast the commodity into a completely new political and social environment. It is well to examine these changes in order to weigh their impact on the coffee market today and in future years.

Long remembered will be the "great price break" of 1954. It was the first price break associated with a frost since 1919 and only the sixth in the past 100 years. Spot coffee prices hovered close to 88 cents most of the summer—having soared from 66 cents on January 4. Then, triggered by a new Brazilian exchange regulation, prices plummeted to 65 cents on August 31 before steadying.

Four Major Developments

Four major developments underlie this recent reaction:

(1) World coffee production did not decline as expected. Output in 1954-55 will increase sufficiently in 15 countries to offset declines elsewhere. Furthermore the expected reduction in the frost-reduced bumper Brazilian crop will probably be less than 1.3 million bags, much smaller than was believed earlier. As a result, world output in 1954-55 may be about the same or even slightly better than last year's 33.5 million bags.

(2) Consumption in the U. S. slumped. The climb in retail prices from about 92 cents per pound at the turn of the year to \$1.23 in July, caused consumers to rebel and curtail their coffee purchases. It has been reported that 13 percent less coffee was roasted in the first nine months of the year than in the same period of a year ago. Therefore, trade inventories began to rise.

(3) U. S. imports failed to dip along with consumption. Total receipts dropped only 1.7 percent in the first half of the year compared with the first half of 1953. It became apparent that demand for coffee at

retail levels was sharply lower and importers in turn, began cutting back on their purchases. In July and August, U. S. imports were 30 percent below the same two months' average of the past three years. September receipts were also curtailed.

Brazil's Foreign Exchange

(4) Brazil's foreign exchange position deteriorated when coffee exports slowed. In July and August Brazil exported 50 percent less than the average of the same months of the prior three years; in contrast, Colombia's exports remained the same. To cope with the exchange loss, Brazilian coffee exporters were permitted in mid-August to convert 20 percent of their dollar earnings at the free rate for the cruzeiro. This step enabled exporters to receive the Cr. 20.32 per pound minimum as long as prices in U. S. currency dropped to no less than about 66 cents. As a result, Brazil's exports rebounded in September but were still below levels of past years.

A combination of the first three forces mentioned above inevitably would have caused a price reaction but it was the Brazilian move which speeded up the adjustment. Unlike the usual price reduction instituted by one-crop economies to make their product competitive in world markets, this development occurred not because of the pressure of mounting stocks, but because of dwindling exchange earnings.

Although the break in coffee prices has been severe, the long-term effect of the sudden price decline on world markets will probably be small. The period of peak prices and sharp tapering off has been too short to alter age-old supply and disappearance patterns. In future years the "great price decline" is likely to be remembered only as a dramatic phenomenon of the year 1954.

What may perhaps turn out to be the most far reaching development of 1954 was the evidence of Brazil's failure to maintain its dominance in the world coffee market, especially the U. S. market. It has long been recognized that Brazil's share of the U. S. market has been declining. Prior to 1929 Brazil supplied 67 per-

cent of U. S. requirements. Now the figure is closer to 40 percent. The Brazilian share of world output has fallen at about the same rate.

Heretofore Brazil has been in the enviable position of having the U. S. come to her door for most of its supplies while other exporting countries were, in effect, residual suppliers. This year, however, the situation was suddenly reversed. It is true that a unique set of forces brought about the shift. But the significance of Brazil's being placed in the position of a residual supplier, if only for a short time, should not be underestimated in the long-term coffee outlook.

Coffee Public Property

Another development of 1954 which will greatly effect the U. S. coffee industry is its new political and social environment. Historically, the coffee industry has been more or less taken for granted by the vast body of consumers and by the Federal Government and allowed to carry on its business in relative seclusion. Today, however, it has become what can be termed "public property".

The ending of an era may be said to have begun in 1949 with a Congressional investigation of rising coffee prices and in 1953-54 with several similar inquiries following the post-frost price rise. The choice of becoming a famous commodity was not given to the industry. It was the social aftermath of a turn of economic events.

Other Commodities

The history of other stable commodities in the American diet, such as bread, milk and meat, shows little, if any, evidence that Federal regulations and administration, once imposed, diminish in degree with the passing years. Experience shows too that marketing practices and trade customs tend to fall into the public domain, so to speak, once the commodity has become a controversial consumer item.

The major problem to be solved in the coming months is to hit upon a retail price level which will bring

(Continued on page 126)