

Gold Production and Uses During 1965

Production of newly mined gold in the free world during 1965 totaled 41.1 million ounces, equal to \$1.44 billion. This output was about 3 percent more than that of the free world in 1964 and about 10 percent more than that in 1940, when gold production reached a prewar peak after being stimulated by the widespread currency devaluations of the 1930's. Last year's 3-percent increase in the volume of gold production compares with the approximately 2.5-percent average annual rate since 1850. However, gold production still remained below its long-term trend, i.e., the rate of gold production last year was less than it presumably would have been in the absence of worldwide inflation, for reasons we shall describe below.

The rate of gold production in Russia is a closely guarded secret. Prior to 1963 we had based our estimates of Russian gold production on data appearing in the *Minerals Yearbook*. Since 1964, however, we have reported Russian production on the basis of an estimate by the Central Intelligence Agency. The CIA estimate of Russian gold production during 1963 was 5 million ounces. We have made estimates of such production in other recent years, including that for 1965, in proportion to changes in free world gold production. On that basis we estimate that Russia produced 5.5 million ounces of gold in 1965. This amount added to that of the free world indicates that world gold production in 1965 totaled 46.6 million ounces, compared with 45.2 million ounces as the revised amount in 1964.

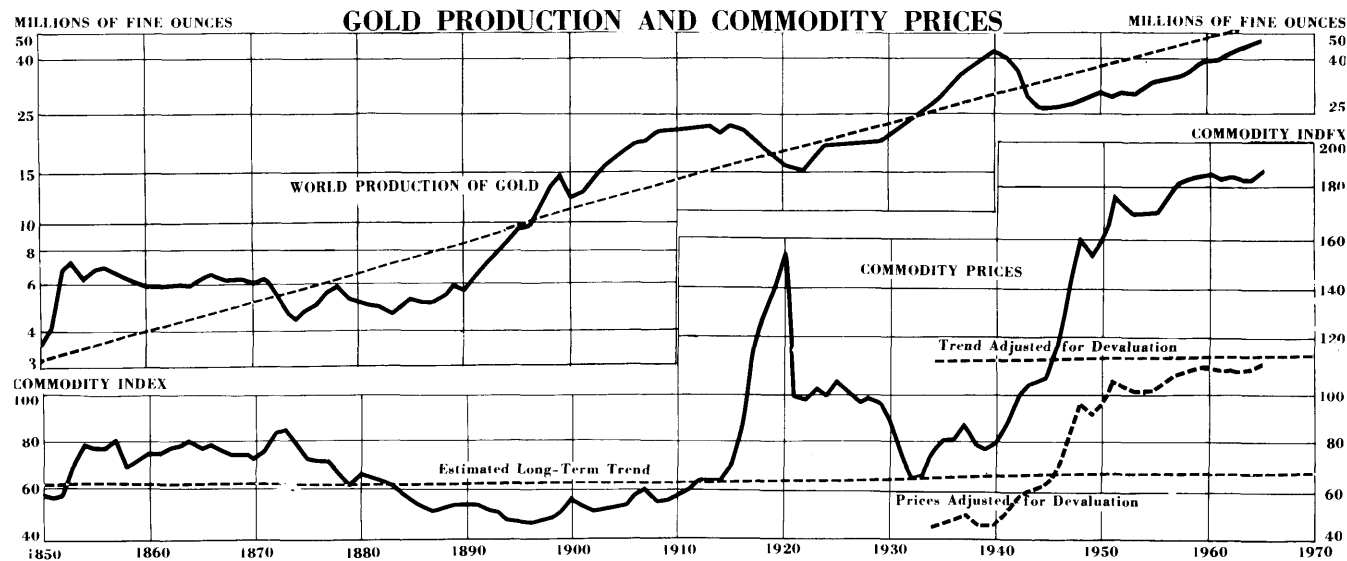
The accompanying chart shows the fluctuations in gold production and commodity prices during the 116 years

from 1850 through 1965. World gold production is plotted on a semi-logarithmic or ratio scale shown on the upper portion of the chart. The straight line drawn through the gold-production curve approximates the trend of gold production during the period shown. The curve representing wholesale commodity prices is plotted on an arithmetic scale shown on the lower portion of the chart. Prior to 1914 an index of prices in England is shown, partly because it is more representative of world prices during that period; thereafter the curve is based on wholesale commodity prices in the United States.*

South Africa continued through 1965 to lead all other countries as a source of newly mined gold. South African gold production has accounted for each annual increase in free world gold output except one since 1953. Last year South Africa produced nearly 76 percent of all gold mined in the free world, compared with 56 percent a decade earlier.

The trend of U.S. gold production contrasts sharply with that of South Africa. U.S. output of 1.8 million ounces last year was only about 6 percent of the 30.6

*The chart reflects the inverse relationship that usually has existed between gold production and price trends. That gold production continued to increase during the latter part of the 1930's in spite of rising commodity prices presumably reflects the stimulus to gold production that resulted from the 1934 devaluation of the dollar and other currencies. Gold production also increased following the 1949 devaluation of the British pound although prices generally were increasing. During the past several years both gold production and commodity prices have increased. The increase in gold production during this period was attributable primarily to expanding output from the relatively new South African mines.



ESTIMATED FREE WORLD GOLD PRODUCTION
SELECTED YEARS

Country	1940	1945	1955	1963	1964	1965 ^p
South Africa	14.0	12.2	14.6	27.4	29.1	30.6
Canada	5.3	2.7	4.5	4.0	3.8	3.6
United States	4.9	0.9	1.9	1.5	1.5	1.8
Other Free World	11.5	5.3	4.3	5.7	5.5	5.1
Total	35.7	21.1	25.3	38.6	39.9	41.1

^p Preliminary.

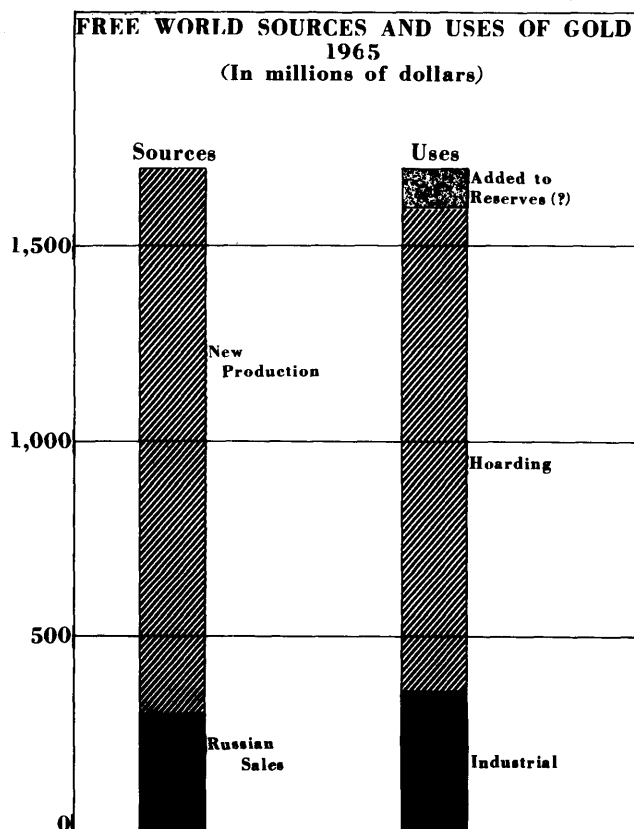
million ounces produced by South Africa. During the past decade U.S. annual gold production has decreased by 5 percent, but that of South Africa has almost doubled. In 1940 U.S. mines produced 4.9 million ounces of gold, more than one-third of production in that year by South African mines.

However, the opening of a new gold mine in Nevada and production of gold associated with the mining of copper resulted in an increase in U.S. gold production last year of about 300 thousand ounces.

The decrease in gold production in the United States during the past two decades was directly attributable to the large-scale inflating during most of that period. As we pointed out in the first article of our series on the Nation's economic problems, in *Research Reports* for September 21, 1964, a triangular relationship exists between gold production, purchasing media, and commodity prices. Inflating of the purchasing medium results in higher prices for labor and commodities other than gold, including equipment used for gold mining. Under such conditions, the production of gold becomes less profitable, the operation of marginal mines is discontinued, and the amount of gold produced decreases. Such has been the experience of the U.S. gold mining industry during the past two decades.

New gold output in the free world, as in previous recent years, was supplemented again last year by Russian gold sales. Official data concerning the magnitude of these sales are not available. According to estimates, however, Russia sold about \$300 million of gold in the West last year, compared with estimates of \$550 million and \$440 million in 1963 and 1964, respectively. Adding Russian sales to new output, the total supply of new gold becoming available to the free world last year thus totaled about \$1.7 billion.

Although the proportions fluctuate from year to year, an average of about half of the world's annual gold production ordinarily is added to official monetary reserves. Last year, however, notwithstanding a record production of newly mined gold, little or no gold was added to the monetary stocks of the free world. The latest official estimate of gold reserves of the central banks and governments of the free world are for the end of September 1965. At \$43,020 million, such reserves were \$40 million less than those at the end of 1964. The First National City Bank's *Monthly Economic Letter* for January 1966 observed that "judging from data available at the time of writing, some gold was added to [these] reserves in October and November; but there is little doubt that for 1965 as a whole, the performance was disappointing." Mr. John A. Reed, writing in the February 1966 issue of the *Engineering and Mining Journal*, estimated the year's net addition to official gold reserves of the free world to have been only \$200 million. Even that amount would have been less than one-eighth of the newly available gold, compared with about one-



half as the long-term average of that ratio.

Thus, gold valued at \$1.5 billion or more was acquired for private use in the free world last year. Although data concerning uses of this gold are incomplete, they clearly indicate that by far the greater part of it was acquired for hoarding, including speculative additions to inventories of industrial and professional users of gold. According to data reported by the Treasury, gold used in the United States last year for jewelry, dentistry, electronics, and other industrial uses was equal to about \$120 million, which was about 20 percent more than that used for those purposes 2 years earlier. If such uses by the rest of the free world accounted for twice this amount, the total so used by all the free world was less than \$400 million. On the basis of these calculations, two-thirds to three-fourths of all gold becoming available to the free world was acquired for hoarding. The dollar equivalent of that gold apparently totaled \$1.1 billion to \$1.3 billion. Free world sources and uses of gold last year are shown in the accompanying chart.

Although much of this gold appears to have been hoarded in Western Europe, according to *Pick's World Currency Report*, about \$300 million of it apparently was hoarded in Asia and Africa. That source estimated that world gold hoardings at the end of October 1965 totaled \$17.7 billion, an amount equal to about two-fifths of the official gold holdings of the free world and greater than the \$13.7 billion gold stock of the United States at the end of 1965.

Hoarding of gold tends to increase as political and economic uncertainties increase, as they did in 1965. Those events included the sterling crisis of late 1964 and early 1965, the French Government's presentation of some claims for U.S. gold, the Indian-Pakistani hostilities over Kashmir, and the escalation of the Viet-

nam conflict. Although the balance-of-payments position of the United States improved, temporarily at least, and the threatened devaluation of the British pound was averted, the propensity of governments to inflate, which has resulted in the increased hoarding of gold in recent years, has continued unabated. Thus, the record volume of gold hoarding last year was not a surprising development.

Not unrelated to increased hoarding was the tendency among continental European nations, led by France, Spain, and Italy, to increase the proportion of gold held in their monetary reserves. For free world nations other than the United States the proportion of monetary reserves in the form of gold increased last year 1 percent to 55 percent. That increase was accomplished largely by the conversion of dollar claims into gold. Those conversions, together with the payment of \$259 million in gold to the International Monetary Fund as part of an increased subscription, largely account for the decrease of \$1.7 billion last year in the Nation's monetary gold stock.

The most significant development of 1965 concerning gold was the extremely large volume of hoarding, which resulted in little or no addition to monetary reserves. As long as major nations continue to choose inflating as a panacea for economic problems, that undesirable trend probably will continue.

What the Indicators Say

Among the leading indicators, floor area represented by commercial and industrial building contracts increased in December but is estimated to have decreased in January.

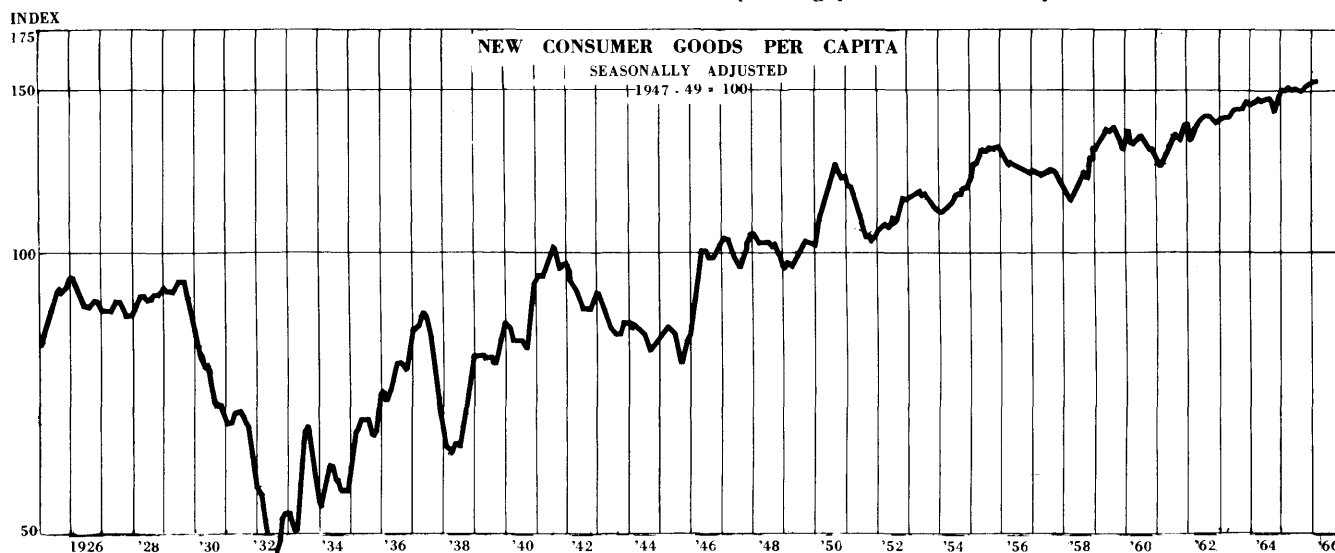
Among the lagging indicators, labor costs per unit of output increased in January.

The leading indicators are signaling further expansion of business activity.

SUPPLY

New Consumer Goods Per Capita

Our seasonally adjusted index of new consumer goods per capita for January was practically unchanged from that for December but was 1.4 percent more than that for January 1965. As revised, the index has increased only slightly in 4 of the past 5 months, but it currently is at a record level.



Before adjustment for the increase in population, seasonally adjusted consumer goods production in January increased slightly from that in December and was about 3 percent more than that in January 1965. Production of manufactured consumer goods was practically unchanged from December to January at a volume about 4 percent more than that in January 1965. Residential construction, expressed in 1957-59 constant dollars, increased slightly from December to January but was nearly 5 percent less than that in January 1965.

Among the major market groupings of manufactured consumer goods, output of automotive products was about two-thirds of 1 percent less in January than that in December but was about 2 percent more than that of a year earlier. Production of automobiles decreased more than 1 percent in January but still was only about 1 percent less than the record January level of a year earlier; production of parts and allied products increased slightly in January and was about 8 percent more than that in January 1965. Production of home goods and apparel decreased slightly in January but still was 6 percent more than that in the same month last year. Output of television and home radio sets increased by more than 6 percent in January and was nearly 18 percent more than that in January 1965. Consumer staples production increased slightly from December to January and was 3.3 percent more than that in January last year.

The Federal Reserve Board's index of consumer durable goods production, including automotive and home goods, increased 0.2 percent from December to January and was about 6 percent more than that of a year earlier. The index of consumer nondurable goods, including staples and apparel, was practically unchanged in January at a level 3.4 percent more than that in January 1965.

Consumer goods production has been increasing at a rate little more than that of population growth in recent months. Diversion of much material and processing effort to the production of defense equipment probably has contributed to this trend, which presumably will continue during the coming months.

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	1961	1965	1966
<i>Steel</i>						
Ingots—million tons						
1 week: February 26	1.23	0.40	2.50	1.58	2.72	2.63
4 weeks: February 26	4.79	1.60	9.99	6.17	10.83	10.16
<i>Automobiles</i>						
Vehicles—thousands						
1 week: February 26	98	25	138	101	162	194 _p
4 weeks: February 26	372	100	578	377	771	762 _p
<i>Electric Power</i>						
Kilowatt-hours—billions						
1 week: February 26	1.7	1.5	11.9	14.2	20.1	21.7
4 weeks: February 26	6.9	6.2	48.2	58.4	80.7	87.9
<i>Lumber</i>						
New York Times Index						
1 week: February 19	126	40	121	105	120	133
4 weeks: February 19	126	39	118	109	124	136

p Preliminary.

DEMAND Department-Store Sales

Sales of department stores reporting to the Bureau of the Census compare with those of corresponding periods a year earlier as follows:

Period	Percent Change
Week ended February 26	+15
Four weeks ended February 26	+9

PRICES Commodity Prices

Index	1965		1966	
	Feb. 28	Feb. 21	Feb. 28	
Spot-market, 22 commodities	273	305	305	
Commodity-futures	281	292	289	
Steel-scrap	\$36.50	\$35.50	\$35.17	

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.

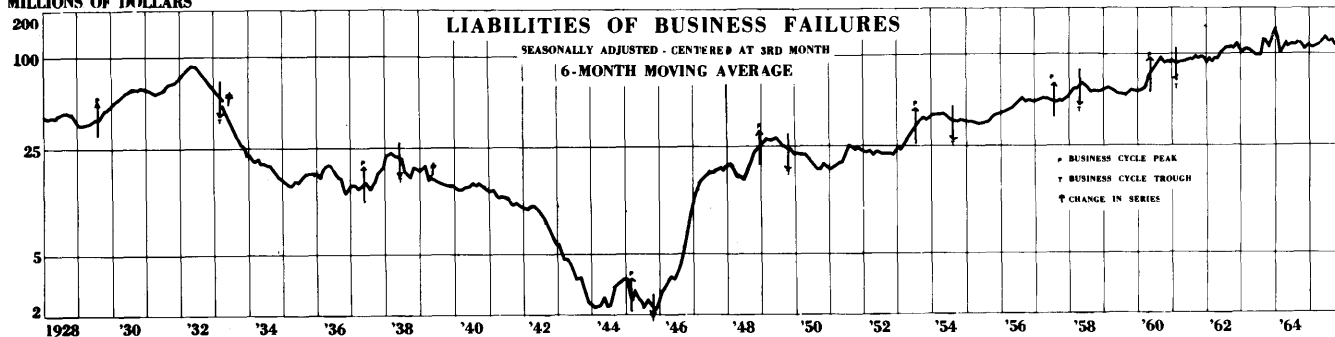
BUSINESS Business Failures

Liabilities of business failures in January totaled \$103,175,000 or about 16 percent more than that in January 1965. Our 6-month moving average of seasonally adjusted failure liabilities, centered at the end of October, was \$104,930,000, or 1 percent less than that centered in September but the same as that centered in October 1964.

The proportions of failure liabilities in the various divisions of trade and industry, expressed as percentages of the monthly totals, changed from December to January as follows: mining and manufacturing, down from 29 to 22; retail trade, up from 22 to 41; construction, down from 27 to 13; and commercial services, up from 6 to 8. The proportion in wholesale trade was unchanged at 16.

Failure liabilities in these categories changed from amounts in January 1965 by the following percentages: wholesale trade, down 5; retail trade, up 142; construc-

MILLIONS OF DOLLARS



tion, down 53; and commercial services, up 78. The amount in mining and manufacturing was unchanged.

The number of failures totaled 1,084 in January, 5 percent less than that in January last year. Liabilities per failure averaged \$95,180 in January, compared with \$89,518 in December and with \$78,515 in January 1965.

The number of failures in the 4 weeks ended February 24 was 958, about 16 percent less than that in the corresponding period last year. Dun's Failure Index, seasonally adjusted and expressed as an annual rate per 10,000 active enterprises, was 50.7 in January, compared with 54.2 in December and with 52.8 in January 1965.

Random irregularities among business-failure liabilities are minimized by our 6-month moving average of seasonally adjusted monthly totals, and the long-term trend and cyclical fluctuations of such liabilities thus are clarified. This average has decreased steadily from its last peak in May to its lowest level since January 1964, reflecting recent business conditions conducive to the avoidance of bankruptcies.

The number of "large" business failures with liabilities of \$100,000 or more, which account for much of the variability in the liabilities series, decreased from 48 in December to 37 in January but was slightly more than the 35 in January 1965.

The recent favorable trend of business-failure liabilities suggests that business activity will increase further in the near future.

BUSINESS FAILURES: NUMBER AND LIABILITIES
BY TYPE OF BUSINESS
January 1965 and 1966

Business	Number			Liabilities*		
	January 1965	1966	Change	January 1965	1966	Change
Mining & mfg.	187	160	-14	26.2	23.0	-12
Wholesale trade	114	105	-8	14.1	16.1	14
Retail trade	525	515	-2	19.8	42.2	114
Construction	206	203	-1	24.3	13.9	-43
Com. service	105	101	-4	4.9	8.0	64
All businesses	1,137	1,084	-5	89.3	103.2	16

*In millions of dollars.

INDUSTRIAL PRODUCTION
FEDERAL RESERVE BOARD INDEXES
(Seasonally adjusted: 1957-59=100)

Industry	1965		1966
	Jan.	Dec.	Jan. <i>p</i>
INDUSTRIAL PRODUCTION—Total	139	149	150
Manufactures—Total	140	151	152
Durable	142	155	157
Nondurable	138	145	146
Mining	112	117	118
Utilities	155	165	165

p Preliminary.