Negative Cash Flow Of Non Financial Corporations

(BILLIONS OF DOLLARS-SEASONALLY ADJUSTED ANNUAL RATES)

	1973	1974	1975	1976	I	II	III	IV
1. RETAINED EARNINGS (AFTER TAXES AND DIVIDENDS)	32.5	40.3	30.7	45.8	43.6	45.5	46.5	47.7
2. PLANT AND EQUIPMENT ADDED, NET (A)	35.5	41.4	25.1	31.8	27.8	30.6	35.5	33.4
3. INVENTORY ADDED (B)	31.9	51.8	- 5.0	26.8	22.1	29.8	27.3	27.9
4. FOREIGN NON-CASH INVESTMENT	5.7	9.8	8.3	7.0	6.7	3.3	9.2	8.8
5. INTERNAL FUNDS SHORTFALL 1-(2+3+4)	-40.6	-62.7	2.3	-19.8	-13.0	-18.2	-25.5	-22.4

	1973	1974	1975	1976	I	II	III	IV
(A)								
PLANT AND EQUIPMENT EXPENDITURES	105.4	118.4	109.2	123.0	116.2	120.8	127.5	127.4
LESS DEPRECIATION WRITE-OFF FOR TAXES	68.1	80.0	95.7	106.7	103.1	105.6	107.7	110.4
PLUS CAPITAL CONSUMPTION ADJUSTMENT	- 1.8	3.0	11.6	15.5	14.7	15.4	15.7	16.4
EQUALS PLANT AND EQUIPMENT ADDED, NET	35.5	41.4	25.1	31.8	27.8	30.6	35.5	33.4
(B)								
INVENTORY CHANGE	13.3	12.0	- 16.4	12.2	10.6	15.4	14.7	7.9
PLUS INVENTORY VALUATION ADJUSTMENT	18.6	39.8	11.4	14.6	11.5	14.4	12.6	20.0
EQUALS INVENTORY ADDED	31.9	51.8	- 5.0	26.8	22.1	29.8	27.3	27.9

SOURCE: BASED ON FOURTH QUARTER FLOW OF FUNDS ACCOUNTS OF THE FEDERAL RESERVE BOARD

New York Speculation Aided By War And Drought Rumors

RAW MATERIALS

An atmosphere of "boom" dominated world commodity markets last week. Cocoa futures rebounded from the panic selling that followed the March 9 increase in margin requirements on the London markets. Other prices were pushed up by the prospect of world catastrophes including war in southern Africa and continued drought in California. Markets with basically thin volume are experiencing a professional "bull" operation; Wall Street investors have moved to take over portions of London trading, and New York brokers predict sharp price increases on all sides except wheat and corn.

Apart from the large, purely speculative element, the boom reflects a high level of stockpiling by corporations to hedge against inflation and against future raw materials shortages stemming from natural or political disasters as well as longer-term commodity price hikes involving compulsory international reserves.

Questions remain as to how long and far raw-materials price increases can be sustained without a pronounced upswing in industrial activity. The commodity boom "cannot last very long in a period of modest growth of world industrial production," commented a Brookings Institution analyst this week. "Of course, you will have some spectacular price reactions here and there to certain types of situations ... some specific commodities will go up, but it will be short-run operations ... up to the 1978-79 period." By then, the Brookings Institution, whose planners are largely staffing the Carter Administration's economic departments, expects to institute the kind of U.S.-centered controls on world resource flows that would supersede reliance on commodity speculation to "tax" the industrial sector.

Meanwhile, brokers are worried about the likelihood of a jump in U.S. interest rates which, though never a deterrent to the big speculators, would cramp the commodity markets' other investors.

COCOA: The U.S. and London cocoa markets, always small and, as one New York banker put it, "monopolistic," are presently being determined by a few large speculators, mainly in New York, according to reliable sources. The New York exchange commented that "London is ahead of us, we want more trade," and this week's increase in daily trading limits (from a four-cent to a six-cent rise or decline in prices) is geared to allow New York to absorb more business.

On March 11, both cocoa and coffee futures prices began climbing back to the level that preceded the Bank of England-instigated increase in the amount of cash required to trade in the London exchange. The London Financial Times warned this week that the increase had been "only" 400 percent and, should British authorities choose to make another political squeeze on the speculators, further increases would be possible.

New York margin requirements have also been rising; in their effort to push up prices as a "tax" on consumers for the benefit of Third World debt service earnings, the New York commercial and investment banks "want to make sure anyone in the market can pay" for their contracts, or the bull market could be reversed by a panic. The price of cocoa has quadrupled since July 1975 and cocoa supplies are tight, but demand is ultimately elastic. May contracts now have a $12,000 brokerage margin requirement in New York, up sharply since the beginning of the year.

The French cocoa exchange, which has a minor market share, also raised its margin requirements in political support of the British move. The financial daily Les Echoes praised the Bank of England's efforts to excise speculators, referring to "brutal and persistent foreign intervention" on the exchanges. Anyone who wants to speculate in this bull market is foolish, the March 15 commentary concludes.

COFFEE: Exchange and brokerage margins have speeded upwards for coffee contracts as well. The market was boosted this week by an International Coffee Organization report projecting a drop in world reserves to 7 million 132-pound bags (1.5 months' normal consumption) by October 1977. The Brazilian Coffee Institute estimates that public and private reserves in Brazil alone were over 7 million bags in December, but expects to be "out of stocks soon." While disputes continue over the validity of these figures, New York brokers are quoted in the March 18 Wall Street Journal as discouraging coffee speculation — by anyone who can't afford it.

SOYBEANS: Prices also moved abruptly higher this week for soybean and soybean-meal futures, and, more tentatively, for soybean oil. World shortages are expected if drought-stricken China has to enter the market, according to New York commodity analysts, and demand is also anticipated from the USSR. Growers are reported by the press as extremely grateful for the Carter Administration's "overwhelming assurances" that it will not seek an export embargo on soybeans this year.

SUGAR: A slight pickup in this basically depressed market appeared this week after a West German firm projected a lower volume of world production than expected, owing to declines in Indian and Cuban output which may offset higher USSR production. U.S. beet sugar producers would prefer government aid to the reduction in import quotas proposed by the International Trade Commission, and expect only marginal benefits if the Food and Drug Administration pushes through a saccharine ban. Other substitutes are available including high-fructose, for which many companies built facilities when sugar prices were high.

COPPER: Despite a giant glut of copper, prices have not collapsed. This is largely because of stockpiling in the expectation of a long U.S. strike which might involve a longshore blockade of imports and exports, and the possibility of war in southern Africa. Kennecott and other major producers have been pre-shipping inventories, and would not mind a long strike, if indeed they do not plan to force one. Prices have also been propped up by purely speculative market entries, according to the Wall Street Journal.

CHROME: The new ban on U.S. imports of Rhodesian chrome is widely viewed as an ineffectual token gesture. A State Department chrome expert commented this week that the effect on Rhodesia "will certainly not be very devastating because of the low level of imports, and also, the business cycle is hardly booming."

The U.S. bought 7 percent of its chrome from Rhodesia in 1976. In 1976, South Africa supplied 36 percent of U.S. chrome imports, and the potential increase in export orders to South Africa and Brazil are welcomed by U.S. authorities as improving those countries' cash flows.