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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

THE WORLD COFFEE POSITION AS OF JULY, 1951

July 16, 1951

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1. Review of 1950/51 Crop Year

A balance between supply and demand with relatively low stocks has been a characteristic of the world coffee market over the crop year 1950/51 just ended. Coffee prices have maintained themselves at the previous exceedingly high levels achieved at the close of 1949. This situation has emerged largely as a result of two factors: the virtual cessation of new tree plantings prior to 1945 due in turn to abnormally low prices in the previous decade, and two poor Brazilian crops in 1949/50 and 1950/51.

On the demand side the United States net import declined from 21.9 million bags in 1949 to 18.3 million in 1950 or by 16 percent. However, in 1950 a reduction in stocks took place whereas in 1949 the reverse was the case. When the crude import data are adjusted for this stock change and allowance is made for army purchases the apparent civilian consumption in 1950 declined by only 8 percent or from 20.5 million bags in 1949 to 18.8 million in 1950.

European consumption was not visibly affected in 1950 as compared with 1949, according to the crude export data attainable. Information is not available to refine the European import statistics in a similar manner to that done above for the United States.

2. The 1951/52 Crop Year Outlook

The outlook for the new crop year 1951/52 commencing July 1st reflects some easing of the supply position, following better growing conditions in Brazil. High prices have also had the effect of reducing consumption in producing areas, thus adding to the exportable supply. A tentative forecast of exportable supply in 1951/52 out of the current harvest is shown
below, compared with exportable production of the previous period. World supplies are expected to advance by 4 million bags in 1951/52 as compared with 1950/51; i.e. from 29 to 33 million bags.

Exportable Production by Areas
(million bags of 60 kilos)

<table>
<thead>
<tr>
<th>Country and Area</th>
<th>1950/51</th>
<th>1951/52</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>14.4</td>
<td>17.0</td>
</tr>
<tr>
<td>Other Latin America</td>
<td>9.6</td>
<td>10.5</td>
</tr>
<tr>
<td>Africa and Asia</td>
<td>5.0</td>
<td>5.5</td>
</tr>
<tr>
<td>World Total</td>
<td>29.0</td>
<td>33.0</td>
</tr>
</tbody>
</table>

A tentative estimate of world import requirements for 1951/52 is given below in comparison to imports in 1949 and 1950. Calendar years have to be used as a basis of comparison because the import data are not available on a crop year basis. As compared with 1950 the only important change which has been made in the 1951/52 forecast is an increase of 1.6 million bags for the United States. This is explained by some recovery in civilian consumption (including a normal increase in population) and an increase in U.S. Army purchases. It is assumed that no stock change will occur.

World Imports and Import Requirements
(million bags of 60 kilos)

<table>
<thead>
<tr>
<th>Country and Area</th>
<th>1949</th>
<th>1950</th>
<th>1951/52</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>21.9</td>
<td>18.3</td>
<td>20.0</td>
</tr>
<tr>
<td>Europe</td>
<td>8.3</td>
<td>8.1</td>
<td>8.0</td>
</tr>
<tr>
<td>All Other</td>
<td>3.0</td>
<td>2.8</td>
<td>3.0</td>
</tr>
<tr>
<td>World Total</td>
<td>33.2</td>
<td>29.2</td>
<td>31.0</td>
</tr>
</tbody>
</table>

If from the forecasted exportable output of 33 million bags the estimated import requirements of 31 million are deducted, a surplus
emerges of 2 million bags for addition to stocks. The tentative nature of these forecasts and of the resulting surplus should be emphasized.

3. Present Market Problems Facing the Coffee Trade

The New York coffee trade is now in the process of analyzing the effects of a slightly improved supply position against the background of U.S. ceiling prices of 55.5 cents per pound for Santos 4's. The general expectation is that in an unregulated market some price weakening would ensue. Such a possibility must have influenced the Brazilian Government which recently announced its intention to support the Brazilian market by purchasing Santos at 51.5 cents per pound. If this policy is adhered to it would mean the virtual pegging of coffee prices at approximately U.S. ceiling prices, as the difference between this price and the Brazilian minimum price consists largely of marketing charges.

Although the immediate effect of such measures would be to reduce considerably any short-term fluctuation in prices, many traders fear that the establishment of a Government-held stockpile would eventually have depressive effects on the market. One possibility is that the Brazilian Government might decide to unload accumulated stocks at any favorable opportunity. The burden of financing a stockpile at present high prices is seen as a factor in this regard. However, most of these fears pertain to some indefinite period in the future as no sizeable Government purchases have as yet been instituted and the surplus over the present 1951/52 crop year will be small. Nevertheless, until the present situation is clarified, the trade is inclined to proceed with caution on a hand-to-mouth basis.

4. Longer-Term Supply Factors

Since the price rise more attention has been given to the question of the availability of new coffee land. General opinion is now
more hopeful than it has been in the past that adequate suitable land exists both in Latin America and Africa. The main problem is now seen as the application of labor and capital to the land together with the improvement of transport facilities in the new areas which are, at present, accessible only with difficulty. In Brazil in particular it is believed there exists suitable land for the planting of another billion trees (the present Brazilian tree population is estimated at about 2.3 billion trees). This belief is based largely on reports issued by the U.S. Consular Service in Brazil.

Again with regard to Brazil, it has been ascertained that new planting has been progressing in the State of Parana over the past five years and that the rate of planting has been stepped up in the last two years. The present exportable production in Parana is 3 million bags and it is estimated that in the next three or four years this figure could be increased to 5 million bags.

The generally accepted view among the trade as to the future world production trend is that a change in the upward direction is in evidence, though it may be obscured in any one year by variations from normal weather conditions. Such opinions are usually expressed in qualitative and speculative terms and are based largely on the view that present prices are so high that a significant increase in plantings is almost bound to occur in the next few years.

5. Comment

Over the present crop year 1951/52 the stock increase forecast above is not of any great significance statistically. It can be looked upon as a welcome addition to present relatively low world stocks, and as some insurance against possible bad weather and consequent declines in production
in the next year or two which could easily wipe out any surplus in prospect this year.

The effect of weather conditions on the size of the Brazilian crop still remains the most important single factor governing the year to year outlook. The present crop forecast of 17 million bags exportable may be considered a normal crop just as the 14.5 million bags of a year ago may be considered subnormal. Moreover, a crop of 20 or even 21 million bags in any one or two of the next three years is a prospect purely on the basis of favorable weather conditions.

Over the longer-run the evidence now leans toward a reversal of the production trend in an upward direction, which was to be expected in view of high prices. It is still too early to determine the expected rate of increase in production, therefore it is not possible yet to predict the exact production level over the next few years.

With regard to demand the future situation is also clouded. In the United States there are some signs that the market may be recovering from the reaction to high prices which was evident in her low 1950 civilian consumption (see Section 2 above). More information on 1951 consumption must be obtained before a firm statement can be made. It is also a question whether European consumption will recover to its prewar level of 12 million bags, as compared to 8 in 1950, now that her trade position is improving. An increase in European imports of even a fraction of this gap of 4 million bags could, in any one year, make a considerable difference in the overall world position.

If one foresees a strengthening of United States civilian consumption plus a revival in European imports over the next few years, then a maintenance of relatively high world coffee prices (in the 40 to 50 cents per pound range) may be expected. On the other hand should high coffee prices,
bolstered by the present price policy of the Brazilian Government, continue to restrict world consumption while at the same time providing a distinct stimulus to overplanting, the basis may be laid for a significant increase in supply and a decline in coffee prices in the future.

M.F. Perkins,
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