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SUBJECT: Economic and Financial Review, Second Quarter of 1956

\*Lab-4 CL-2 USIA-10 New-5 Army-4 Navy-3  
Introduction and Summary Air-4 OSD-4

The steady improvement in the Cuban economy which has been under way since late 1954 brought Cuba to new heights of prosperity during the second quarter of 1956 and it now seems very likely that this year will be the best in Cuban economic history. Completion of the 1956 sugar crop found sugar exports running well ahead of last year and, with prices relatively satisfactory, prospects are good for a substantial increase for the year in dollar earnings from this basic source. Trade and production volumes were generally very high during the quarter, the boom in private construction continued, further concrete evidence was provided of a markedly upward trend in private investment from the United States, the government announced the attainment of budgetary equilibrium after four years of deficit operations, and further expansion of bond-financed spending for public works, etc. was presaged by a decree authorizing the allocation during fiscal 1956-1957 of the remaining 150 millions of "Economic and Social Development Plan" funds. Allowing for the usual summer letdown occasioned by the "dead season" in the sugar industry, the short-term outlook for the Cuban economy is very good. Despite political disturbances early in the quarter, and the subsequent suspension for a few weeks of constitutional guarantees, business confidence appears high. The longer term outlook remains somewhat clouded by the uncertainties of the world sugar situation and by the possibility of monetary instability resulting from large-scale public spending.

### General Economic Factors

The largely preliminary data available on banking operations, trade and production volumes, social security receipts, and revenue collections indicate a further improvement in national income during the second quarter of 1956 but there is some evidence that the rate of improvement was beginning to slow. On a seasonally adjusted basis, it may be roughly estimated that at mid-year Cuban national income is running at an annual rate of about 2,100 million pesos and that gross national product is at a level of more than 2,400 million pesos. With allowances made for population growth and for changes in price levels, it seems fairly likely that per capita real income will attain a record high for

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1956 as a whole.

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Price levels at the end of the period under review had increased very little in comparison to the end of the first quarter but the tendency over the second quarter was definitely upward. The National Economic Council's whole-sale price index for major consumption items moved from 91.0 in April to 92.3 in May to 93.0 in June. It had stood at 92.2 in March, 1956 and at 91.6 in June, 1955. The foodstuff component of this index, influenced by rising agricultural prices in the United States, has advanced from 88.5 to 94.9 from January to June, 1956. This factor, which weighs very heavily in the budget of the average Cuban family, indicates that the cost of living, which declined fairly substantially from early 1952 to late 1954 and thereafter levelled off, may now have started to move upward.

With the end of the 1956 sugar harvest, unemployment and underemployment by the closing weeks of the second quarter had returned to levels demonstrating the serious nature of this chronic problem. Published data are not available on this subject but it may be roughly estimated that between 20 to 30 percent of the non-institutional labor force of about 2.1 million workers did not have regular employment by the latter part of the quarter (Appendix 1).

#### Agricultural Products

The sugarcane harvesting and grinding season had been substantially completed by the middle of the second quarter and all mills but one had terminated work before June 30. The government-authorized sugar output of 4.6 million Spanish long tons was 4.5 percent above the 1955 production and represented the first annual increase since the sugar contraction started in 1952. This modest expansion in Cuba's major industry has been a factor of importance in the current improvement in the general economic situation.

The increased sugar production provided for the output in 1956 of 213 million gallons of blackstrap molasses as compared to 198 million gallons last year. Production of hi-test molasses, a factor of significance in supporting the economy during the two previous years, was relatively small this year. The gradual reduction of cane plantings since 1952 and the increased volume of cane ground for sugar in the 1956 crop severely reduced the supply of surplus cane from which hi-test molasses is made. Output this year was only about half of the 231 million gallons of hi-test produced in 1955. Some mills in the western part of the Island were so short of cane this year that they were unable to meet their sugar production quotas, which were re-alloted to mills in Oriente and Camaguey.

Sugar exports to both the United States and the world market continued during the quarter to run well ahead of last year. By June 15, more than 2.4 million Spanish long tons had been shipped this year, an increase of 16 percent over the same period of 1955. About 58 percent of the 1956 shipments went to the United States. On the world market, the Soviet Union was again Cuba's leading customer and sales of some significance were also made to the Communist-bloc countries of Eastern Germany and Hungary. Japan was a close

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second on the world market with purchases more than double those of last year, as were those of the United Kingdom, the next most important customer. Sugar prices on both the United States and the world market were relatively satisfactory and the outlook is good for a substantial increase in sugar export earnings for 1956 as a whole.

A new threat to Cuba's rice industry appeared during the quarter when a relatively unknown disease, believed to be a virus, was discovered to be spreading over practically all the major rice-producing areas. Investigation by American and Cuban scientists indicate that the disease is insect-carried, and control measures are being undertaken, but it is expected that the domestic rice crop will be considerably reduced during the coming season as the result of this new disease.

Rice imports during the queta year ending June 30 amounted to 2.9 million bags, a volume about 12 percent below that of the previous year. This reduced importation is attributed largely to increased domestic production with changes in inventory practices and some decline in consumption also apparently lending effect. A recent Commerce Ministry resolution effective July 1 limited rice imports to U. S. Grades 1, 2, and 3 and specified that no imports of rice containing more than 30 percent of broken grains will be permitted.

Mango exports to the United States, a trade which has developed within the last three years, reached a record high during the April-June season. Volume of shipment was 54. percent above the previous year and three times the 1954 volume. New stimulation to this trade was provided when exporters arranged with the U. S. Department of Agriculture to have mango shipments fumigated prior to shipment from Habana, thus permitting more expeditious shipping and handling of this very perishable fruit as well as opening a wider range of markets in the United States.

#### Trade, Industry, and Transportation

Business in general was excellent during the second quarter of 1956 with trade volume in nearly all lines at very satisfactory levels. The single major exception appears to have been in automobiles, with sales running about 20 percent behind last year. Department stores reported sales to have been about 10 percent higher during the quarter than in the corresponding period of 1955. Sales of construction machinery were equally higher and on the same relative basis electrical appliances and equipment were up 10 to 20 percent and tire sales were 20 percent higher. Sales of trucks for the first half of 1956 were moderately improved over that period of last year but the second quarter was somewhat slower than the preceding period. Agricultural machinery sales improved markedly during the second quarter to a level about the same as that of the corresponding period last year. The rising national income, relatively strong business confidence, and some extra purchasing in anticipation of rising prices all contributed to this generally high level of trade.

The boom in private construction activity continued to provide a major impetus to the forward movement of the economy. The volume of new building

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permits in the Habana area, center of this protracted boom, totalled about 15 million pesos for the quarter, moderately above the satisfactory level of last year. With the exception of structural plates and shapes, steel deliveries were satisfactory during the quarter but there is now concern that the steel strike in the United States may seriously handicap local builders during the next few months. Domestic cement production was in full swing during the quarter but the strong import demand for cement continued. The supply pattern of imported cement shifted notably late in the quarter as Poland became an important supplier, reportedly providing 90 percent of May imports. A major expansion of domestic production was presaged by the announcement by the Cuban Portland Cement Company of plans to construct a new plant with a capacity of a million tons per year. Announcement was also made during the quarter of plans for a factory in Camaguey to produce wallboard from bagasse. A 1.5 million dollar loan from the Export-Import Bank has been arranged in connection with this new enterprise.

New investment was also announced in the rubber products industry during the quarter, providing further evidence of the strong trend of recent months toward expanded United States private investment in Cuba. With the incentive of a recent GATT-negotiated duty increase on tires, Firestone has announced plans for a four-million-dollar investment and Goodyear will enlarge its present plant to permit manufacture of tubeless tires and a larger variety of standard auto and truck tires and tubes.

A major development in the textile industry was the conclusion of definite arrangements for the financing and operation of an acetate yarn factory, a project which had been under consideration for more than a year. Cuba's largest cotton spinning and weaving mill increased production of woven textiles by about 10 percent during the quarter and is expanding substantially its spinning capacity. The rayon plant at Matanzas commenced production of a new spun dyed carpet staple yarn, which is being exported to the United States, and increased its output of textile yarn in response to stronger domestic demand.

Interest in the minerals field was centered during the quarter on the 40-million-dollar nickel project at Moa Bay and on exploration activity in Oriente Province. A major American company made extensive investigation of an old copper property in Oriente, with a view toward making it one of Cuba's major producers. Cuba investors acquired potentially important chromite claims and commenced exploration activity.

Drilling activity in Cuba's infant petroleum industry increased substantially during the first half of 1956 over the corresponding period of last year. However, local optimism over petroleum prospects had begun to lag noticeably toward the end of the quarter when a new psychological boost was provided by a new well at record depths near Jatibonico, Camaguey, which may prove to be Cuba's largest producer to date. Domestic oil production is still only about four percent of Cuba's consumption of 60,000 barrels per day, but existing commitments for exploration work totaling about 25 million dollars give promise that at least a serious effort will be made for the development of this potentially important source of national wealth. Good progress was made during the quarter

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on the refinery construction projects of three major oil companies which will cost a total of 75 million dollars and increase domestic refining capacity eight-fold to more than meet internal needs for refinery products.

The first substantial increase in several years in the Cuban merchant marine was made during June when the Cuban steamship company, Naviera Garcia, acquired the American-owned Ward Line. The new entity, Ward-Garcia S.A., will continue established service between Cuban ports and New York and Baltimore. The establishment of truck-trailer ferry service between Habana and Florida ports by an American company remained under active consideration. Reportedly, the final decision as to the establishment of such service will be made by President Batista.

Substantial improvements in their rolling stock were made by both of the large public service railroads during the quarter, highlighted by new air-conditioned passenger cars and additional diesel locomotives. At the end of the quarter, Consolidated Railways announced the purchase of ten special flat cars for piggy-back transport of freight trailers; this new service is scheduled to go into operation in the near future.

Cia. Cubana de Aviación expanded its horizons during May with the inauguration of non-stop service between Habana and New York. It also took delivery on three Viscount turboprops for the Habana-Miami run and contracted for four Viscount 810-D's to be delivered in 1958.

#### Labor

In the labor field, the major event of the quarter under review was the holding of the Ninth National Congress of the Cuban Labor Confederation (C.T.C.). Although it had appeared likely that the Congress would be a stormy affair, by the time of meeting all the important leaders of the national labor federations had come to an agreement on policy and candidates. The Congress turned out to be an impressive demonstration of fundamental CTC unity and of the strength of the incumbent leadership. The measure of dissent registered in the voting on resolutions and offices was only about one percent in a body of more than 2,000 delegates. The incumbent officers were virtually all reelected. Resolutions were adopted emphasizing the need for new investment, more industrialization, and greater diversification of the agricultural economy but continuing pre-occupation with "saving the job" was also manifested. It was demonstrated during the Congress that a stable cooperative relationship has been worked out between the CTC and the Batista Administration.

#### Finance

The National Bank's balance statement for June 30 showed Cuba's official international reserves, unadjusted for that part of the reserves being utilized to secure short-term dollar credits (Appendix, 2) at a level of 574 million dollars, up almost 10 percent for the quarter and 10 percent above the June 30, 1955 level. To a major degree, this relative improvement represents increased sugar export earnings during recent months.

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As was the case last year, the total money supply increased moderately during the second quarter as the volume of bank deposits increased faster than the volume of peso notes in circulation contracted. Provisional data show deposits moving upward over March-June period from 790 to 844 millions while note circulation decreased over the quarter from 437 to 427 millions, resulting in a net increase of nearly three percent in the money supply. As compared to June, 1955, the money supply has expanded by about seven percent, approximately in proportion to the increase in national income. The volume of bank clearings in the quarter just ended was 1,299 millions, the highest quarterly figure ever recorded in Cuba and a volume about 10 percent above the corresponding period last year.

Private bank loans outstanding in mid-June were reported as 421 millions, about the same level as that prevailing at the end of the first quarter. As compared to a year ago, loan volume is down about six percent, reflecting reduced sugar inventory financing. Credit in general is now fairly easy and should remain so at least until the closing months of the year. Rediscounts and other advances by the National Bank stood at 31 millions on June 30, only half the volume outstanding on March 31. The improvement noted in draft collections during the latter part of the first quarter has continued and collections are generally considered to be quite satisfactory.

Public debt expansion continued during the quarter, although at a relatively slow rate because of the decreased tempo of public works activities and the improved public revenue situation. The commercial banks expanded their holdings of public bonds by about seven percent over the quarter. The National Bank increased its portfolio holdings from 32 to 37 millions during the period while its investment in public debt instruments for account of the State moved upward strongly from 29 to 48 millions, largely representing discounted short-term debt certificates.

The Finance Minister announced in June that the 1955-1956 national budgetary operation was in balance, that "... budgetary receipts will absolutely cover all obligations". The attainment of budgetary equilibrium in the fiscal year just ended marks the end of the deficit budget policy which had been employed by the Administration as a counter-deflationary measure since the Cuban economic cycle turned downward in early 1952 with the collapse of the Korean War sugar boom. It was also officially announced at the end of June that all pending budgetary accounts from the post-1952 period had been liquidated.

Complete data on budgetary receipts during the quarter under review have not yet been made public but partial data provided in press statements from the Treasury show a continuation of the trend toward improved revenue collections (Appendix, 3). Budgetary expenditures during the quarter were relatively high, because of the June 30 public debt servicing and amortization load, but the surplus carried over from the previous quarter was apparently sufficient to permit a balanced operation for the fiscal year as a whole.

The budget law for fiscal 1956-1957, enacted by the Congress in June, calls for another balanced operation at a level of 330 million pesos. This figure represents an apparent increase of some significance from the 313-million-

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peso budget originally enacted for fiscal 1955-1956, but about half of that increase represents the incorporation in the basic budget of expenditures which during recent years have been regularly authorized by supplementary appropriations. Most of the really new funds provided for in the 1956-1957 budget go to education, public works, public health and welfare, and national defense, with many of the other department and branches of the government receiving token increases. If supplementary appropriations can be held to a minimum level, prospects are reasonably good for attainment of another balanced budget in 1956-1957, particularly in view of the improvement in national income.

Spending by the government for public works, etc. under the Economic and Social Development Plan was at a relatively low level during the quarter just ended but, with the end of the sugar production season, preparations were made for a revival of activity to support the economy during the traditional "dead season" of the summer and early fall months. By a recent decree, the President authorized the allocation during fiscal 1956-1957 of the remaining increment of 150 million pesos of Development Plan funds (Appendix, 4); 100 millions had been allocated in both 1954-1955 and 1955-1956. Recent official statements indicate that there may be a shift of emphasis in public investment under the Development Plan from public works to the promotion of production, but no concrete steps have been taken as yet in this direction.

#### Outlook

Allowing for the usual summer slump occasioned by the "dead season" in the sugar industry, the short-term outlook for the Cuban economy is very good. It is expected that trade and production volumes in most lines will remain at relatively high levels over the upcoming dull season and a further advance of the economy is expected during the closing months of the year. Overall, it now appears very likely that 1956 will be the best year in Cuban economic history.

The outlook for the longer term continues doubtful, shadowed by a rapidly rising public debt and the possibility of the development of monetary instability as well as by the inherent uncertainties of the world sugar situation. There are, however, important compensatory factors which must be regarded, particularly the strong upward trend of private investment from the United States, promising developments in the minerals and petroleum areas, and the progress being made toward a more diversified agricultural economy.

For the Ambassador:

*Leonard H. Price*  
Leonard H. Price  
Commercial Attaché

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Appendix

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Appendix

(1) Unemployment sampling by the Census Bureau, supervised by a Point 4 technician, was started during the second quarter of 1956. Data have not yet been released but it may be reported in confidence that calculations made from sample data gathered in mid-May indicated unemployment at about 600,000. Sampling in rural areas, which in some instances showed unemployment at as much as 50 percent of the local labor force, is currently under reexamination in the belief that a broader sampling pattern may show a less extreme unemployment situation.

(2) According to information provided in confidence by a Director of the National Bank, the total volume of these short-term credits stood at 126 million dollars on June 30 as compared to 135 millions at the beginning of this year and about 130 millions at the end of the first quarter. This small reduction has been permitted by an improved internal market for the public bonds involved, largely through purchase by the commercial banks, and by increased dollar earnings as well as by the reduced tempo of public works spending during the sugar harvest season.

(3) Data provided in confidence by an official of the Finance Ministry show second quarter budgetary receipts at 76 million pesos, a volume more than four percent above the corresponding period last year. Internal revenues have increased in substantially more than this proportion but customs house collections show relatively small gain despite the evident increase in imports, indicating increased contraband and a marked retrogression from the improved customs enforcement noted during 1954 and early 1955.

(4) As the Development Plan has always been described officially as a four-year (1954-1958) program, it had been expected that the authorization for 1956-1957 would be another 100 millions, leaving 50 millions for 1957-1958. Asked for an explanation of the decree authorizing the total remainder of 150 millions for 1956-1957, a well-informed source said that it related directly to the Government's plan to hold partial elections in 1957 - public works largesse during a pre-election period is a well-established tradition in Cuba. Authorization to allocate the remaining 150 millions during the next year does not of course mean that the program will run out of funds a year hence. Actual expenditures lag considerably behind allocations and funds should carry over to the end of 1957 or into 1958. As of June 30, 1956, Development Plan allocations totalled 200 millions but, according to confidential advise, only 120 millions had been expended.