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FOREIGN SERVICE DESPATCH

837.00/9-11-56

FROM : AMEMBASSY, HABANA

152

DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

September 11, 1956

DATE

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USIA-10 OL-2  
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9-12	Com-12	REP-2 OLI-6 ARA-7 TCA-10 E-3 CIA-6 TR-3 FRB-2 Tar-2 Lab-4

SUBJECT: Economic Summary for August, 1956

Ag-8 IN-7 OSD-4  
ARMY-4-NAVY-3

Business activity in August, usually the seasonal low of the year, declined less than normal and in some lines was unusually good. Principal factors were the prospect of larger permissible sugar production next year, good foreign demand for Cuban products, sustained high level of construction, and large-scale spending for public works. In addition there was continued activity in petroleum and mineral exploration, the summer tourist inflow was well above last year, and strong investment interest was evident in several lines including resort real estate.

As in July, rainfall over much of the sugar area was far below normal and a number of mills reported their cane supplies for 1957 grinding may not be sufficient to fill their quotas, even if based on the 1956 production quota of 4,600,000 Spanish long tons. This news did not appear to have a depressing influence on business; in fact, to a certain extent it engendered a feeling of optimism based on the belief that mills, and business in general, may have greater freedom of operation owing to probable larger quotas, redistribution of quotas, and removal of the threat of overproduction. General opinion was that overall cane supply, in spite of the drought, will permit sugar production of at least 5.0 million Spanish long tons, compared to a restricted crop of 4.6 million this year.

Sales of Cuban sugar on the world market slowed down from the previous month but prospects remained good for a relatively small carry-over at the end of 1956.

Retail demand for practically all products was considerably stronger than normal for August, usually the dullerest month of the year. This reflected the rising wage and salary payments, the improved sugar outlook, new investment, and the accelerated construction of public works activity. Prices were generally stable, and credit, although growing appreciably tighter, apparently had not contracted to the point of cutting sales volume.

Strong demand was particularly evident in rice, both imported and domestic. Purchases from the United States against July-September and

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October-December quotas were reported most satisfactory, and some importers were said to be already scheduling January-March 1957 shipments. Low-grade rough rices from the Cuban crop advanced sharply in price to \$7.50 per cwt, up from \$4.50 early this year.

Inbound cargo arrivals at Habana increased sharply from July and were almost 50 percent greater than in August 1955. This confirmed previous impressions that the small receipts of July interrupted only temporarily the upward import trend.

Construction and issuance of building permits remained steady at the relatively high levels of recent months. Public works activity increased in line with the government's policy of compensatory spending in the off-season months, making construction crews a familiar sight, particularly about Habana. The Habana harbor entrance was temporarily narrowed by intensified work on the cross-bay tunnel, with notices being published that the work is ahead of schedule. The import demand for cement and reinforcing bars generated by numerous construction projects was filled largely by imports from Europe.

The seasonal decline in industrial production appeared to be only moderate. Textile output was unchanged from previous months, in spite of seasonally smaller sales and apprehension over future increased import competition as a result of United States equalization payments. Industries producing agricultural products and minerals for export reported good sales. Shipments of avocados were well ahead of last year, and prospects were fair for the grapefruit movement which began in late August. Announcement was made that Cía. Cubana de Electricidad would sponsor in September an exhibition of Cuban export products at the New Orleans International Trade Mart, with assistance by the Cuban government and with participation of top-ranking officials.

Tourist trade was the best in recent years, with visitors estimated 20 percent more than a year earlier. Hotels at Habana and elsewhere were comfortably filled and there was considerable talk of new hotel construction, including establishments on the Isle of Pines where a real estate boom has been developing.

Petroleum exploration, and speculation in oil leases and stocks, continued active. Interest was stimulated by production of some 520 barrels daily from a well near Habana, about three times as much as Cuba's next highest producer and unusually high for a "seepage" well in Cuba's igneous strata. Oil from this well is of good quality and is being sold directly to a major local refinery.

The Cía. Minera Bahía de Moa, a subsidiary of Freeport Sulphur Co., filed an application for new industry privileges and exemptions for its nickel project in Oriente Province, continuing meanwhile its background development work.

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Significant developments in transportation were projects to buy Cuban flag cargo vessels and to improve further the equipment of Cía. Cubana de Aviación. The official Cuban Foreign Trade Bank agreed to finance for Cuban operators the construction of two 3,200-ton cargo ships in Japan, and one in Norway. The Cía. Cubana de Aviación signed a contract for delivery in 1958 of another Super-G Constellation, of which it now operates two on international routes. The company already has on order four additional Vickers Viscounts. According to current reports, Cubana's direct aircoach flight from Habana to New York has been successful in attracting many passengers, as have the Viscounts on the Habana-Miami run.

Ferrocarriles Occidentales S.A. ended its fiscal year with a small surplus, and at the annual Directors meeting payment of a 3% dividend on the privately-owned stock was approved. According to the annual report the company has materially improved its rolling stock during the past year with the acquisition of 50 diesel locomotives, 250 freight and maintenance cars, and 10 self-propelled passenger coaches.

The proposal of both Ferrocarriles Occidentales and Ferrocarriles Consolidados to inaugurate a new "piggy-back" freight service has been awaiting governmental approval. The strong opposition of the union of highway transport workers has delayed the official decision on the requests of the two companies.

There was every indication in August that budgetary collections were continuing above those of last year, and that financial indices in general were favorable. Administration spokesmen made a principal point of these developments, pointing to them as evidence of successful economic policies. Opposition groups were more inclined to stress the dangers of the financial developments which, in their view, are based on large-scale public spending, increase of public debt, and weakening of the banking structure and of the Cuban peso.

For the Chargé d'Affaires ad interim:



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