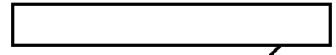


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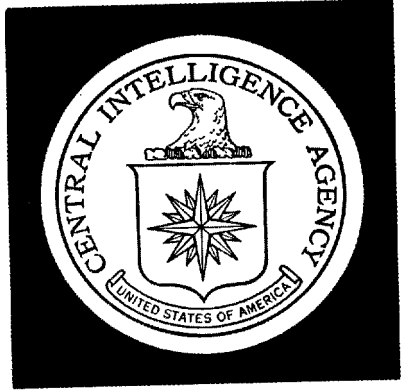
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DIRECTORATE OF
INTELLIGENCE

Intelligence Report

The Economic Situation in South Vietnam (Weekly)

USAID review completed

State Dept. review completed

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

The Economic Situation in South Vietnam

Summary

Despite a decline in paddy production, there currently appears to be no cause for grave concern about the rice situation in South Vietnam this year. The current offensive seems to be having little effect on the rice trade. Deliveries of rice from the delta to Saigon are running at a high level and prices are holding steady. Moreover, because stocks of domestic and imported rice from last year still are large, imports of rice during 1969 will be well below those of the past two years.

Retail prices in Saigon have been remarkably stable for many months. The index for the week ending 24 March was at the same level that prevailed at the end of July 1968. Supplies have been ample and consumer demand has not been as strong as had been anticipated. Free market currency and gold prices again were mixed.

ANNEX: Weekly Retail Prices in Saigon (Table)
Currency and Gold Prices (Graph)

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Rice Situation

1. Despite an estimated six percent decline in paddy production during the 1968/69 crop year,* there currently appears to be no cause for grave concern about the rice situation in South Vietnam during 1969. Deliveries of surplus rice from the delta to Saigon are running at a high level, paddy prices in the delta and retail prices in Saigon are holding steady, and stocks are ample, although too heavily concentrated in Saigon. There have been no reports of disruption to the rice trade as a result of the enemy's current offensive.

2. Although the major portion of the harvest has been completed, the Ministry of Agriculture has not yet issued an official estimate for paddy production in the 1968/69 crop year. Embassy officials, however, report a preliminary estimate of 4.4 million metric tons of paddy, a decline of six percent from the 1967/68 crop of 4.7 million tons. Earlier estimates indicated that the decline in output would range from 10 to 15 percent because of the damage caused by drought in the delta and floods in I Corps. Paddy production in South Vietnam reached an all-time high of 5.3 million tons in 1963, but has failed to reach that level since then.

3. Deliveries of milled rice from the delta to Saigon totaled 66,300 tons during January and February 1969, the largest amount for this two-month period since 1965. Stocks in the delta reportedly are ample, and US officials anticipate that deliveries will continue at a high level. Deliveries from the delta for all of 1969 currently are projected at about 335,000 tons compared with deliveries of 310,000 tons last year.

4. Since the increase in the official price of imported US rice in late November 1968 and the ensuing increase in farm and retail prices for domestic rice, rice prices have been relatively

* Crop year 1 June 1968 - 31 May 1969

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stable. During December-February the price delta farmers received for their paddy averaged 13.4 piasters per kilogram, about eight percent above the prevailing price during the same period a year ago. The retail price of intermediate grade milled riced in Saigon has fluctuated very little since the end of 1968, ranging from 31 to 32.5 piasters per kilogram. Since mid-March, retail rice prices have begun to decline slightly, probably reflecting the high level of delta deliveries during the post-harvest period.

5. Government stocks of rice have declined from the excessively high levels of late 1968, but at the end of February they still amounted to about 250,000 tons--enough to meet the normal demand for imported rice for more than four months. Imports of rice totaled only 5,000 tons in January, and there were no imports during February. Import arrivals are scheduled to resume in May, and, in the meantime, consumption requirements will be met from delta deliveries and drawdowns from stocks. By the end of May stocks are expected to be down to a more manageable level--probably about 165,000 tons. Because of the high level of stocks of both domestic and imported rice, imports of rice during 1969 will be well below those of the past two years. Although total stocks currently are ample, they are not distributed according to need. The supply situation in parts of I and II Corps reportedly is tight. The transfer of at least 120,000 tons of rice from Saigon to I and II Corps began in November, but shipments have been running far behind schedule. Embassy officials expect, however, that the government will be able to move enough rice to prevent any real shortages in the northern rice deficit provinces.

Prices

6. The Saigon retail price index rose one percent during the week ending 24 March as prices of both food and nonfood items increased slightly. Despite small fluctuations from week to week, prices have been remarkably stable since the end of July 1968 when the USAID price index was at the

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same level as on 24 March. Although there is no clear explanation, price stability apparently has resulted from a combination of factors affecting both supply and demand. Supplies of most goods have been ample, and there have been few problems in transporting goods to market, even during the current offensive. The price of rice--the most heavily weighted item in the USAID index--has been relatively stable, and the rice trade has been functioning normally. The supply of imported goods also has been ample as the result of the large volume of orders placed during the last half of 1968. The revival of consumer demand, which began in the fall of 1968 following the recession created by the Tet offensive, apparently has not been so strong as had been anticipated. The growth of the money supply has slowed considerably as the burst of government spending on mobilization and reconstruction passed its peak and revenues held steady and then began to increase. From the end of July 1968 to the end of February 1969, the money supply increased only 11 percent compared with an increase of more than 40 percent during January-July 1968.

7. In mid-1968 most observers of South Vietnam's economy were expecting that a revival of demand would result in a sharp increase in inflation. The large increase in the money supply during the first half of the year was presumed to have been withheld in cash hoards, creating a monetary overhang or reserve of purchasing power. As consumers began spending these cash hoards on domestically produced goods, prices were expected to rise. There are several possible reasons why this did not happen. First, it is possible that the size of the monetary overhang was not so large as at first believed because of inaccuracies in price measurement. The USAID price index, for example, does not reflect prices of consumer durables and housing on which part of the consumers' cash holdings might have been spent. Secondly, the supply of goods increased; in particular, import licensing rose sharply during the second half of the year and increased expenditures on imports must have absorbed part of the increase in the money supply. Finally, consumers and businessmen continued to be cautious in their spending

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patterns. The velocity of circulation (the rate at which money changes hands for purchases of goods and services) apparently did not increase from the low level that prevailed following the Tet offensive. (A table of weekly retail prices in Saigon is included in Annex.)

Currency and Gold

8. During the week ending 24 March, the free market price of dollars was unchanged at 194 piasters per dollar, while the rate for MPC (scrip) rose three piasters to 153 piasters per dollar. The official rate for both dollars and scrip is 118 piasters per dollar. The price of a dollar's worth of gold leaf fell six piasters to 281 piasters per dollar. (A graph on monthly and weekly currency and gold prices is included in the Annex.)

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TABLE
Weekly Retail Prices in Saigon^a

	2 Jan 1968	6 Jan 1969	3 Mar 1969	10 Mar 1969	17 Mar 1969	24 Mar 1969
Index for All Items	<u>308</u>	<u>400</u>	<u>403</u>	<u>392</u>	<u>392</u>	<u>397</u>
Index for Food Items	<u>344</u>	<u>443</u>	<u>454</u>	<u>439</u>	<u>440</u>	<u>446</u>
Of Which: (In Piasters)						
Rice-Soc Nau (100 kg.)	2,500	3,100	3,200	3,200	3,100	3,050
Pork Bellies (1 kg.)	220	260	250	230	220	240
Fish-Ca Tre (1 kg.)	230	310	300	310	330	320
Nuoc Mam (jar)	150	220	220	220	220	220
Index for Nonfood Items	<u>241</u>	<u>319</u>	<u>309</u>	<u>306</u>	<u>303</u>	<u>305</u>
Of Which: (In Piasters)						
Firewood (cu. meter)	600	800	770	740	740	760
Cigarettes (pack)	14	22	22	22	22	22
White Calico (meter)	52	82	70	70	68	68
Kerosene (liter)	9	10	11	10	10	10

a. Data are from USAID sources. For indexes 1 Jan 1965 = 100.

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