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THE U.S. BALANCE OF PAYMENTS, SECOND QUARTER 1968

According to preliminary figures for the second quarter of 1968 released today by the Department of Commerce, the balance of payments measured on the liquidity basis, i.e., by changes in U.S. official reserve assets and in liquid liabilities to foreign residents and international organizations, was favorable by about $140 million before seasonal adjustment. After adjustment, the Department's Office of Business Economics noted, the balance was adverse by about $150 million. This compares with a seasonally adjusted adverse balance of about $660 million (revised) in the first quarter of this year, and of nearly $900 million for the quarterly average in 1967.

The second quarter 1968 balance measured on the official reserve transactions basis, i.e., by changes in U.S. official reserve assets and in liquid and nonliquid liabilities to foreign official agencies, resulted in a surplus of more than $1,550 million, and after seasonal adjustment in a surplus of $1,450 million. In the first quarter of this year, the seasonally adjusted balance measured on the same basis was adverse by about $530 million (revised) and in 1967 the quarterly average was adverse by about $850 million.

Changes in reserve assets and in liquid liabilities

Reserve assets increased by $137 million in the second quarter, following a decline of about $900 million in the first. The second quarter change consisted of a $22 million decline in official gold reserves, a $267 million decline in official holdings of convertible foreign currencies, and a $426 million increase in the U.S. gold tranche position in the International Monetary Fund.

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The $22 million decline in official gold reserves was a striking change from the $1,360 million drop in the first quarter of this year, and the decrease of more than $1 billion in the last quarter 1967. The small net sales of gold in the second quarter reflected sales of $156 million and $79 million in April and May, respectively, and purchases of $213 million in June. The reduction in gold sales from the two preceding quarters followed the termination of the previous policy of several major countries, including the United States, of selling gold in the London market to stabilize the price. This change in policy was agreed upon at the Washington Conference on March 17 by the representatives of Central Banks and Governments of the countries concerned. The two-tiered system was then adopted under which there is a distinction between the official monetary price and the commodity price of gold. Gold transactions with foreign official agencies continue without change at the official price. At the end of June, U.S. official gold holdings were about $10,680 million.

The $267 million decline in convertible currency holdings in the second quarter 1968 followed a four-quarter period in which such holdings had increased almost $2-1/2 billion. Increases in such holdings generally reflect temporary transfers of dollars to foreign countries to defend the exchange value of their currencies; reductions reflect foreign repurchases of their currencies with dollars obtained either from other sources, such as the IMF, or through an improvement in their balance of payments. In the second quarter, reductions of over $900 million in June were partly offset by increases in April and May.

The U.S. gold tranche position in the IMF, which reflects virtually automatic rights to exchange U.S. dollars for foreign currencies held by that institution, increased in the second quarter from about $475 million to $900 million. Nearly all of the increase occurred in June as a result of the dollar sales by the IMF to other countries, principally France and the United Kingdom.

Liquid liabilities to foreign residents and international organizations remained virtually unchanged in the second quarter before seasonal adjustment, but increased about $290 million after adjustment. However, liquid liabilities to the accounts of foreign private organizations and persons rose $2.4 billion after seasonal adjustment, while those to foreign official accounts declined by about $2.1 billion.

The large rise in liabilities to foreign private accounts, much of which was in liabilities of U.S. banks to their foreign branches, may be attributed to the uncertainties concerning the future values of other major currencies, and to the desire of U.S. banks to attract foreign deposits of dollars via their foreign branches in order to expand their reserves. Some of the foreign-owned dollars deposited in the foreign branches of U.S. banks may be controlled directly or indirectly by foreign official agencies.

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The decline in liquid liabilities to foreign official organizations reflects in part investments of nearly $800 million in nonmarketable, medium-term Government securities (including the quarterly purchase of $125 million by the Central Bank of Germany to partly offset U.S. military expenditures in that country), and in medium-term time deposits and time deposit certificates.

The major part of the decline, however, reflects shifts to foreign private accounts. These shifts, which usually are reversed within a relatively short period, do not affect the balance measured on the liquidity basis, but improve the balance measured on the official reserve transactions basis. On the other hand, foreign official purchases of nonmarketable medium-term government securities and investments in medium-term time deposits or certificates of deposits do not affect the balance measured on the official reserve transactions basis but improve that measured on the liquidity basis.

Special financial transactions

A major factor influencing the balance measured on the liquidity basis was the large increase in receipts from special financial transactions. To a large extent, the transactions covered here are included in the $800 million investments by foreign official organizations mentioned above. Most important in the second quarter were purchases of $500 million of special nonmarketable medium-term U.S. Government securities by the Government of Canada under the U.S.-Canadian reserve agreement. In addition, $125 million of special nonmarketable, medium-term securities with restricted convertibility were sold to a group of private German banks under a recently concluded agreement with Germany to offset U.S. military expenditures in that country. (This was a single transaction, in contrast to the quarterly purchases by the Central Bank of Germany of $125 million in special bonds that are not included in this compilation.) Other foreign official and international net investments that improved the liquidity balance amounted to about $155 million. The $780 million total for the second quarter compares with net receipts of $170 million in the first quarter of the year. In the first and second quarters of 1967, comparable receipts were $340 million and $785 million respectively.

Changes in other Transactions

(1) Nonmilitary merchandise trade

The surplus on nonmilitary merchandise trade declined from about $90 million in the first quarter to about $15 million in the second, as exports rose about $400 million, and imports $475 million. However, the second quarter trade data may have included about $150 million in exports and $50 million in imports that had been postponed by the New York dockworkers' strike in March. This postponement reduced the first quarter trade balance and improved the second quarter balance by about $100 million. Thus, the $75 million deterioration in the trade balance from the first to the second quarter would have been $200 million larger if the figures were adjusted for the effects of this strike.

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Agricultural exports declined $125 million in the second quarter, after seasonal adjustment, reflecting both a reduction in aid shipments, which had been exceptionally large in the first quarter, and some drop in deliveries to Western Europe.

Nonagricultural exports, after adjustment for the effects of seasonal factors and the dockworkers' strike, increased about $225 million. About $40 million of the rise was due to extraordinary exports of silver, about $35 million stemmed from the recovery of copper exports following the settlement of the domestic copper strike in March and $70 million was in exports to Canada under the U.S.-Canadian Automotive Trade Agreement. The remainder was in shipments of chemicals, civilian aircraft, machinery, and consumer goods. Except for automotive equipment, non-agricultural exports to Canada dropped, but they rose to other areas, particularly the Far East. Exports to Western Europe -- after adjustment for the dockworkers' strike -- remained relatively stable.

Imports included extraordinary expenditures because of domestic strikes or threats of strikes. Copper imports declined during the quarter, but those of steel increased. These extraordinary imports may have been about $300 million in the second quarter, as compared with about $225 million in the first.

Omitting the changes attributable to the dockworker and other strikes, imports rose from the first to the second quarter about $400 million. About $100 million was in foodstuffs, and reflected efforts to replenish coffee inventories and to take advantage of the removal of quarterly quotas on imports of sugar. Imports of automotive equipment under the U.S.-Canadian special trade agreement rose about $80 million, roughly the same as U.S. exports.

The remaining rise in imports, about $220 million, was almost entirely in manufactured goods, particularly foreign-type automobiles, other consumer goods, and to some extent capital goods.

(2) Banking transactions

Claims on foreigners reported by U.S. banks changed from net liquidations of about $360 million after seasonal adjustment in the first quarter to net liquidations of $210 million in the second. That change, all of which was in claims with an original maturity of one year or more, resulted in a $150 million decline in net receipts.

(3) Transactions in securities

Transactions in securities were a major favorable factor in the second quarter balance of payments.

Net purchases by U.S. residents of foreign securities declined from about $370 million in the first quarter to $30 million in the second. About $125 million of the change was due to a special redemption of previously issued IBRD bonds. New issues of foreign securities declined about $70 million, and trade in outstanding

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foreign securities resulted in net sales of about $55 million as compared with net purchases of $90 million in the previous quarter. (The figure for the first quarter shown in line 5 of the table includes a $35 million purchase of IBRD bonds from the Canadian government which is included above among the special financial transactions.)

Transactions in U.S. securities changed from net sales to foreigners of close to $700 million in the first quarter to $1,060 million in the second.

Net foreign purchases of U.S. securities in the second quarter included about $550 million of bonds issued by U.S. corporations and subsidiaries incorporated in the U.S. to finance their foreign investments. In the first quarter such sales amounted to about $510 million. Most of the bonds sold so far in 1968 were convertible into stocks. The sale of such bonds improves the balance of payments only to the extent that the proceeds replace U.S. funds in financing direct investments abroad. Most of the funds obtained are initially invested abroad in bank deposits or other money market assets.

Net foreign purchases of U.S. stocks amounted to about $520 million, up from about $280 million in the first quarter and a quarterly average of about $200 million in 1967. Second quarter purchases of U.S. stocks were higher than in any previous quarter. The rise in U.S. stock purchases by foreigners started in the middle of last year. During the following 12-month period, net foreign purchases amounted to nearly $1.5 billion and were thus a major credit item in the balance of payments.

Transactions in outstanding U.S. private bonds resulted in net purchases by foreigners of $20 million, compared with net sales of $60 million in the previous quarter. (The figure on line 10 in the table also includes about $40 million in net sales of Government agency bonds by international organizations, which are covered in the special financial transactions mentioned earlier. The amounts remained unchanged from the previous quarter.)

(4) Military receipts

Receipts from foreign governments for purchases of military equipment rose from about $185 million in the first quarter to $220 million in the second.

(5) Residual transactions

The improvement of about $510 million in the above transactions was more than offset by a deterioration in the balance on other transactions for which data are not yet available, from net payments of $1,955 million in the first quarter to $2,575 million in the second. These figures include military expenditures, investment incomes received and paid, other services transactions, private remittances, Government grants and capital transactions, and international capital flows reported by U.S. corporations. They also include those transactions that are usually not reported but are reflected in net "errors and omissions". About one-third of the $620 million deterioration in that balance may be attributed to the exceptional receipts of $210 million in the first quarter from a foreign direct investment in a U.S. corporation.

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Temporary developments

Merchandise trade was affected by various strikes, particularly the dockworkers' strike at the end of March, which increased both export and import shipments in April, the strike in the copper industry, which ended in March but still affected imports in April, and the hedge-buying in anticipation of strikes in the steel and aluminum industries. In addition, exports were increased by exceptionally large shipments of silver, and imports by exceptional purchases of foodstuffs to replenish or build up inventories. These temporary developments may have had an adverse effect of more than $200 million on the second quarter trade balance, as compared with more than $400 million in the first quarter of the year.

On the other hand, known capital transactions that may be attributed to temporary influences were less favorable than in the first quarter. Liquidation of claims on foreigners reported by U.S. banks, which cannot be expected to continue over the long run, were about $210 million, as compared with $360 million in the first quarter of this year. The first quarter transactions were also favorably affected by a single transaction involving a $210 million sale of newly issued stocks of a U.S. company to its foreign parent company. On the other hand, second quarter transactions were favorably affected by $125 million of redemptions of bonds previously issued by the World Bank (IBRD). These transactions improved the second quarter balance by about $335 million, as compared with about $570 million in the first.

The combined effect of the temporary developments in trade and capital transactions may have resulted in an improvement of the second quarter balance of payments by about $100-$150 million, approximately the same as in the first quarter.

Summary

Apart from the special financial transactions by official agencies and various temporary developments, the second quarter balance of payments measured on the liquidity basis on all other transactions was probably not much different from that of the first quarter of 1968, but somewhat improved from that of a year earlier.

Data for selected items now available on a preliminary basis are shown in the attached table. Complete balance of payments tables and analyses of them will be published in the September Survey of Current Business. The Survey is available from Field Offices of the Department of Commerce, or from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, at an annual subscription price of $6.00, including weekly supplements; single copy 45 cents.

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Selected data on foreign transactions of the United States in the second quarter of 1968
available as of the middle of August 1968

(Millions of dollars)

Credits +; Debits -	1966	1967					1968		Adjusted for seasonal variations 1967				Adjusted for seasonal variations 1968	
		Year	I	II	III	IV	I r	II p	I	II	III	IV	I r	II p
Merchandise, excluding military:														
1. Exports	29,176	30,468	7,589	7,911	7,146	7,822	7,892	8,525	7,661	7,703	7,626	7,478	7,924	8,323
2. Imports	-25,541	-26,991	-6,646	-6,622	-6,430	-7,293	-7,748	-8,296	-6,686	-6,605	-6,541	-7,159	-7,836	-8,310
3. Foreign securities newly issued in the United States	-1,210	-1,619	-349	-407	-473	-390	-381	-349	-349	-368	-540	-362	-381	-311
4. Redemptions	406	469	100	130	137	102	100	225	100	130	137	102	100	225
5. Other transactions in foreign securities, net purchases (-)	323	-116	-10	39	-73	-72	-125	56	-10	39	-73	-72	-125	56
Claims reported by U.S. banks, net increase (-):														
6. Long-term	337	285	153	188	-72	16	202	50	153	188	-72	16	202	50
7. Short-term	-84	-744	-18	-390	-77	-259	214	155	-74	-386	-363	79	158	159
8. U.S. Government cash receipts associated with military sales contracts	927	1,023	347	397	112	167	185	220	347	397	112	167	185	220
9. Nonscheduled repayments on U.S. Government credits	429	5	---	(*)	5	(*)	42	(*)	---	(*)	5	(*)	42	(*)
10. Transactions in U.S. securities other than Treasury issues, net sales (+)	909	1,016	133	329	520	34	695	1,056	133	329	520	34	695	1,056
11. Long-term liabilities reported by U.S. banks, net increase (+)	981	989	371	607	-158	169	54	178	371	607	-158	169	54	178
12. Transactions in nonmarketable, nonconvertible, medium-term, U.S. Government securities not associated with specific transactions, net sales (+)	-49	470	(*)	(*)	335	135	273	773	(*)	(*)	335	135	273	773
13. Liquid liabilities to foreign accounts other than official agencies, and to international organizations other than the IMF, 1/ net increase (+)	2,384	1,457	-709	95	1,306	765	708	2,203	-935	289	1,160	943	482	2,397
14. Liquid liabilities (including nonmarketable, convertible, medium-term U.S. Treasury securities) to foreign official agencies, 1/ net increase (+)	-1,595	2,062	-80	544	281	1,317	-1,361	-2,208)						
								)	1,440	233	-358	799	181	-2,241
15. Decrease (+) or increase (-) in U.S. official reserve assets	568	52	1,027	-419	-375	-181	904	-137)						
a. IMF gold tranche position	537	-94	-31	-10	-5	-48	-57	-426						
b. Convertible currencies	-540	-1,024	1,007	-424	-462	-1,145	-401	267						
c. Gold	571	1,170	51	15	92	1,012	1,362	22						
16. Other transactions (derived as residual)	-7,961	-8,826	-1,908	-2,402	-2,184	-2,332	-1,654	-2,451	-2,151	-2,556	-1,790	-2,329	-1,954	-2,575
Memorandum items														
A. Balance on liquidity basis: Increase in U.S. official reserve assets and decrease in liquid liabilities to all foreigners (lines 13, 14 and 15 with sign reversed)	-1,357	-3,571	-238	-220	-1,212	-1,901	-251	142	-505	-522	-802	-1,742	-663	- 156
B. Balance on basis of official reserve transactions: Increase in U.S. official reserve assets and decrease in liquid and certain nonliquid liabilities to foreign official agencies (lines 14 and 15, and parts of lines 11 and 12, and certain other nonliquid liabilities to foreign central banks and official agencies with sign reversed)	266	-3,405	-1,279	-705	-25	-1,396	100	1,553	-1,764	-806	247	-1,082	-530	1,456

r. Revised. p. Preliminary. *Less than $500,000.

1. Liquid liabilities include foreign deposits in U.S. banks, private marketable debt obligations such as certificates of deposits and bankers acceptances, with an original maturity of less than one year, and marketable or convertible U.S. Government obligations. Government liabilities to foreign official organizations also include gold liabilities to the IMF. The distinction between liquid liabilities to foreign private and those to foreign official accounts is based on records of banks located in the United States. Liabilities to foreign private accounts include deposits of foreign branches of U.S. banks and of foreign commercial banks, associated with their U.S. -dollar denominated liabilities to foreign offical agencies.

Source: U.S. Department of Commerce, Office of Business Economics.

Hull + Hirt added:

Undistributed Corporate profits

\+ Capital consumption allowances

= Corporate cash flow

(but they had to dig out the info from other tables!)