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THE U.S. BALANCE OF PAYMENTS,
FOURTH QUARTER AND YEAR 1968

Based on preliminary reports, the fourth quarter 1968 balance of payments -- measured on the liquidity basis -- was favorable by about \$960 million after seasonal adjustment, the Department of Commerce announced today. This compares with a favorable balance of \$80 million in the July-September period.

The favorable balances in the third and fourth quarters more than offset the deficits in the first half of the year, so that the balance for the full year was favorable by about \$190 million. This contrasts with an unfavorable balance of \$3,570 million in 1967, the Department's Office of Business Economics reported.

The seasonally adjusted balance on the official reserve transactions basis was favorable by about \$260 million in the fourth quarter, slightly less than the third quarter's surplus of \$425 million. For 1968 as a whole, this balance was favorable by \$1,660 million -- a change of more than \$5 billion from the \$3,400 million deficit in 1967.

Both balances reflect changes in U.S. official reserve assets. The liquidity balance also takes into consideration the changes in liquid liabilities to all foreigners, while the official reserve transactions balance takes into consideration both liquid and certain nonliquid liabilities, but only to foreign governments and central banks.

Changes in official reserve assets

Total reserve assets increased \$1,076 million during the fourth quarter and \$880 million for 1968 as a whole. At the end of the year, total U.S. reserves were \$15.7 billion, the largest amount since the third quarter of 1965. About \$137 million of the fourth quarter rise was in gold, \$364 million in the gold tranche position in the International Monetary Fund, and \$575 million in convertible currencies.

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The fourth quarter gain in gold followed a smaller rise in the third quarter and helped to recover some of the large losses in the first quarter of the year. Nevertheless, the loss during the year was \$1,173 million, about the same as in 1967.

With the fourth quarter rise, the U.S. gold tranche position was restored to its full amount of \$1,290 million. This equals the portion -- 25 percent -- of our capital contribution to the Fund that was originally paid in gold. The remaining 75 percent was paid in dollars. When necessary, a member country may almost automatically draw foreign currencies from the IMF up to the level of its gold tranche position.

Changes in liquid and certain other liabilities

In both the fourth quarter and the year as a whole, liquid liabilities to all foreign residents and international organizations continued to rise, but by less than the gain in U.S. official reserve assets. The fourth quarter rise was \$290 million; for the full year, about \$690 million. For the liquidity balance, the full year's rise in liquid liabilities offset much of the \$880 million increase in official reserves, to yield the favorable balance of \$190 million.

The ownership composition of U.S. liquid liabilities changed substantially during the year. Those reported by U.S. banks for foreign private and international organization accounts increased about \$3,830 million, while those attributed to foreign official accounts declined about \$3,140 million. This decline was partly associated with a rise of \$2,360 million in foreign official holdings of nonliquid claims on the United States. These nonliquid claims were mostly certificates of deposits with an original maturity of more than one year, and nonmarketable, medium-term government securities payable before maturity only under special conditions.

The net decline of liquid and nonliquid liabilities to foreign official organizations in 1968 thus came to \$780 million (\$3,140 million, less \$2,360 million). Together with the rise of \$880 million in official reserve assets, it accounts for the favorable balance of \$1,660 million measured on the official reserve transactions basis.

The decline in total liabilities to foreign official accounts and the simultaneous rise in liquid liabilities to foreign private accounts reflect in part the series of financial crises that affected international currency markets during the year. They also reflected the efforts made by U.S. banks to attract foreign deposits through their foreign branches.

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Shift in balance during fourth quarter

The pronounced shift to the unusually large positive balance (liquidity basis) in the fourth quarter apparently occurred close to the end of the period. For most of the quarter the balance was adverse. The extraordinary change probably reflects a coincidence of several developments. A major part of the special financial transactions by official agencies of the United States and other countries, and of cash receipts related to foreign purchases of military goods and services occurred during the last few weeks of the quarter. Probably more important than these transactions was the rise in repatriations of capital by U.S. corporations, although data for these transactions are still not available.

Some of these repatriations had to be made to bring net capital outflows for direct investments below the 1968 ceilings established under the program announced on January 1 to improve the balance of payments. In fact, the repatriations may have exceeded the program requirements. The excess may reflect a desire by the corporations involved to set up a safety margin, pending the availability of final data for their actual transactions. The large repatriations may also have been stimulated by the tightening in domestic credit markets toward the end of the year.

The repatriations of funds by U.S. corporations were facilitated by the large holdings -- in foreign bank accounts -- of funds that they had borrowed abroad through new bond issues. At the beginning of the fourth quarter, such holdings amounted to about \$1.5 billion. During the quarter, U.S. corporations obtained about \$440 million through new bond issues, and they may also have borrowed funds from foreign banks either directly or through their foreign subsidiaries.

To the extent that the repatriations were required to bring net capital outflows for direct investments below the ceiling set by the program, they should not be viewed as extraordinary for the year as a whole, even though they distorted the fourth quarter balance. However, the program permits corporations to exceed their 1969 ceilings to the extent that they repatriated more than was required last year. That part of the improvement in the fourth quarter balance may therefore be temporary and might be reversed through higher capital outflows in 1969, but the amounts involved are not yet known.

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Special Financial Transactions

Special financial transactions by official agencies of the United States and of foreign countries improved the balance of payments (liquidity basis) by about \$840 million in the fourth quarter. For the year as a whole, such receipts amounted to about \$2.3 billion, roughly \$1.4 billion more than in 1967. Included in this category are official transactions that represent shifts between liquid and near-liquid liabilities or that change the balance only for relatively short periods of time. These transactions affect the balance measured on the liquidity basis and, to a lesser extent, the one on the official reserve transactions basis. They have been separated out in order to help in the evaluation of the more basic trends in the balance of payments. The following tabulation shows the major types of transactions in millions of dollars.

	<u>1967</u>	<u>1968</u>		
	<u>Year</u>	<u>III</u>	<u>IV</u>	<u>Year</u>
(1) Net sales of time deposits or certificates of deposits with an original maturity of 1 year or more.....	1,017	127	233	594
(2) Net sales of nonmarketable Government securities payable prior to maturity only under special conditions:				
to Canada ^{1/}	200	250	200	1,050
to others ^{1/}	-	35	230	460
(3) Net sales of U.S. Government agency bonds to international and regional organizations.....	121	78	118	116
(4) Nonscheduled repayments of U.S. Government credits.....	6	55	170	270
(5) Special deposits in U.S. Treasury accounts ^{2/}	-	49	43	92
(6) Other special financial transactions of Canada.....	59	-	-13	-121
(7) Transactions of the United Kingdom.....	-453	-	^{2/} -137	^{2/} -137
<u>Total</u> ^{1/}	<u>950</u>	<u>594</u>	<u>844</u>	<u>2,324</u>

1. Regular quarterly sales of nonmarketable Government bonds to Germany to offset military expenditures in that country are not included in "special financial transactions."

2. These transactions are reflected in the attached table in line 16 "other transactions."

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Major Transactions

Summary

The transactions for which fourth quarter data are now available increased net receipts by about \$290 million. The balance on merchandise trade declined about \$460 million, but capital transactions currently reported improved the balance by \$750 million. Included in the latter category are \$390 million in special financial transactions. The major part of the large fourth quarter rise in net receipts, however, was in transactions for which data are not yet available.

Merchandise trade

Fourth quarter merchandise trade (excluding Department of Defense exports and imports and after other adjustments to the reported Census data on trade needed in balance of payments compilations) resulted in a \$220 million deficit, after a \$240 million surplus in the preceding quarter. About \$200 million of the \$460 million shift may be attributed to the speedup in exports and imports during September in anticipation of a dockworker strike originally scheduled to start early in October. The strike did not start until December 20. Although the effects of the strike on the trade balance cannot yet be evaluated, it may well be that it contributed to the adverse trade balance in December and in the fourth quarter.

Merchandise exports dropped nearly \$600 million from the third quarter. However, the shift from October to September may have raised third quarter and lowered fourth quarter exports by about \$350 million, for a swing of \$700 million. Omitting the effect of this factor, exports rose about \$100 million from the previous quarter, and might have risen still more in the absence of the strike that started in late December.

Merchandise imports also declined in the fourth quarter, but only by about \$130 million. The speedup of imports in September may have shifted about \$250 million from the fourth to the third quarter. Omitting this effect gives a fourth quarter rise in imports of about \$370 million.

For 1968 as a whole, the surplus on merchandise trade, adjusted for balance of payments compilations, was slightly under \$100 million. This compares with a surplus of nearly \$3.5 billion in 1967. The decline reflected a \$6.3 billion increase in imports and a \$2.9 billion rise in exports. Although the export rise was among the largest in recent years, the import rise was substantially larger than any experienced earlier. About \$700 million of the 1968 import rise may be attributed to actual or anticipated strikes; the remainder reflects the influence of the sharp rise in domestic incomes and the increasing capability of foreign producers to meet the demands of U.S. business and consumers.

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Transactions in securities

Net U.S. purchases of foreign securities in the fourth quarter amounted to \$500 million after seasonal adjustment, about \$200 million more than in the third. Approximately \$150 million of the increase was in purchases of newly issued bonds. Increased purchases of newly issued international and regional agency bonds -- from \$64 million in the third quarter to about \$240 million in the fourth -- accounted for slightly more than the rise in purchases of all new issues. A large part of the funds obtained by these agencies was temporarily invested in medium-term certificates of deposit or U.S. Government agency bonds. (These temporary investments are included among the special financial transactions.) U.S. purchases of outstanding foreign securities also increased. For 1968 as a whole, net purchases of foreign securities were about \$1,280 million, about the same as in 1967.

Purchases of U.S. securities by foreign residents, which were a major favorable factor in the balance of payments in the first three quarters of 1968, rose further in the fourth. U.S. corporations sold about \$440 million of new bond issues in foreign markets, less than the \$500 million sold in the third quarter, or the \$585 million in the second. In all of 1968, U.S. corporations sold about \$2,070 million of newly issued bonds in foreign markets, as compared with not quite \$450 million in 1967.

These bond issues by themselves do not improve the balance of payments unless the funds obtained are either repatriated to the United States or replace U.S. funds in the financing of direct investments abroad. Prior to the fourth quarter, only a relatively small part of the funds obtained through bond issues was used in these ways, but in the fourth quarter such uses probably exceeded the new funds obtained. Data on the uses of these funds are not yet available, however.

Net foreign purchases of outstanding U.S. private securities, mostly stocks, were about \$670 million in the final quarter, approximately \$200 million more than in the third. Such purchases increased steadily during the quarter, from about \$200 million in October to \$260 million in December. For the year as a whole, net purchases by foreigners amounted to about \$1,860 million as compared with net foreign purchases of about \$900 million in 1967 and \$170 million in 1966.

In addition, international and regional organizations purchased nearly \$120 million of U.S. Government agency bonds, about \$40 million more than in the preceding quarter. These purchases, which represent temporary investments, are included among the special financial transactions listed above.

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Banking transactions

Foreign claims reported by banks for themselves and for domestic customers increased during the fourth quarter after seasonal adjustment. The rise of about \$45 million was less than the increase of about \$200 million in the July-September period. For the year as a whole, such claims declined \$250 million, after a net increase of \$460 million in 1967. The \$710 million swing was one of the major factors contributing to the improvement of the 1968 balance of payments.

Transactions not yet reported

Transactions for which specific data are still lacking account for about \$590 million of the improvement in the fourth quarter liquidity balance. These transactions include travel, transportation, investment incomes, other service transactions, private remittances, Government grants and credits, and all corporate capital transactions except the sales of newly issued bonds in foreign markets. Also unaccounted for are those transactions for which data usually do not become available and which are reflected in "Errors and Omissions."

In the fourth quarter, the foregoing transactions taken together resulted in lower net debits -- \$860 million as compared with quarterly averages of about \$2 billion in 1966, 1967 and the first three quarters of 1968. The largest contribution to this decline in net debits is likely to have come from corporate transactions or "errors and omissions." As indicated earlier, there are strong reasons to believe that corporate transactions resulted in major capital inflows late in the fourth quarter, offsetting the usual net payments on other transactions.

Data for the items now available on a preliminary basis are shown in the attached table. Complete balance of payments tables and a further analysis of the data will be published in the March Survey of Current Business, monthly publication of the Office of Business Economics. 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 \$9.00, including weekly supplements; single copy, \$1.00.

Selected data on foreign transactions of the United States in the fourth quarter of 1968
available as of the middle of February, 1969

(Millions of dollars)

	Credits +;	Debits -	1966	1967	1968				Adjusted for seasonal variations				
					Year	I	II	III	IV _p	I	II	III	IV _p
Merchandise, excluding military:													
1.	Exports		29,176	30,468	33,370	7,884	8,585	8,240	8,661	7,914	8,381	8,832	8,243
2.	Imports		-25,541	-26,991	-33,280	-7,748	-8,281	-8,514	-8,737	-7,881	-8,338	-8,594	-8,467
3.	U.S. Government cash receipts associated with military sales contracts		927	1,023	1,012	185	282	145	400	185	282	145	400
4.	Foreign securities newly issued in the United States		-1,210	-1,619	-1,571	-372	-353	-299	-547	-372	-315	-366	-518
5.	Redemptions		406	469	491	100	220	91	80	100	220	91	80
6.	Other transactions in foreign securities, net purchases (-)		323	-116	-204	-113	12	-38	-65	-113	12	-38	-65
Claims reported by U.S. banks, net increase (-):													
7.	Long-term		337	285	354	140	49	165	(*)	140	49	165	(*)
8.	Short-term		-84	-744	-100	219	143	-79	-383	163	147	-365	-45
9.	Nonscheduled repayments on U.S. Government credits and sales of foreign obligations to foreign residents ..		429	6	270	42	3	55	170	42	3	55	170
10.	Transactions in U.S. securities other than Treasury issues, net sales (+)		909	1,016	4,041	700	1,056	1,051	1,234	700	1,056	1,051	1,234
11.	Long-term liabilities reported by U.S. banks, net increase (+)		981	989	600	66	168	138	228	66	168	138	228
12.	Transactions in nonmarketable, medium-term, U.S. Government securities not associated with specific transactions, payable prior to maturity only under special conditions, net sales (+)		-49	469	2,009	273	772	409	555	273	772	409	555
13.	Liquid liabilities to foreign accounts other than official agencies, and to international organizations other than the IMF, $\frac{1}{2}$ net increase (+)		2,384	1,457	3,829	718	2,263	1,042	-194	492	2,457	896	-16
14.	Liquid liabilities (including nonmarketable, convertible, medium-term U.S. Treasury securities) to foreign official agencies, $\frac{1}{2}$ net increase (+)		-1,595	2,062	-3,136	-1,363	-2,198	-60	485	195	-2,293	-976	-942
15.	Decrease (+) or increase (-) in U.S. official reserve assets		568	52	-880	904	-137	-571	-1,076				
	a. IMF gold tranche position		537	-94	-870	-57	-426	-23	-364				
	b. Convertible currencies		-540	-1,024	-1,183	-401	267	-474	-575				
	c. Gold		571	1,170	1,173	1,362	22	-74	-137				
16.	Other transactions (derived as residual)		-7,961	-8,826	-6,805	-1,635	-2,584	-1,775	-811	-1,904	-2,601	-1,443	-857
<u>Memorandum items</u>													
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	187	-259	72	-411	785	-687	-164	80	958
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	1,659	90	1,563	72	-66	-556	1,528	425	262

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 official agencies.

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