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THE U.S. BALANCE OF PAYMENTS, THIRD QUARTER 1969

Based on preliminary data, the U.S. balance of payments on the liquidity basis was in deficit by $2,530 million, seasonally adjusted, in the third quarter of 1969, the Department of Commerce announced today. While this was still very large by historical standards, it was a $1.3 billion improvement from the extraordinary $3,850 million deficit in the second quarter. The balance on the official reserve transactions basis, on the other hand, shifted to a deficit of $930 million, seasonally adjusted, in the third quarter from the $1,230 million surplus in the second quarter. The Department's Office of Business Economics, which compiles the balance of payments statistics, observed that a number of unusual factors continued to influence our external position.

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 includes both liquid and certain nonliquid liabilities, but only to foreign governments and central banks.

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The major factors accounting for the $1.3 billion improvement in the seasonally adjusted liquidity balance in the third quarter were (1) a $660 million swing in bank reported claims, from an increase in the second quarter--which brought a number of banks above their ceilings under the credit restraint program--to a decline in the third quarter; (2) a $340 million improvement in the trade balance, as compared with the second quarter when imports had been inflated by shipments of strike-delayed goods and (3) a $710 million improvement in the residual balance on transactions for which data are not now available, which may have been associated with reduced outflows of U.S. funds to the Euro-dollar market. The major adverse shift was a $330 million increase in U.S. purchases of new foreign securities.

In spite of the favorable change in most of these accounts and in the liquidity balance, the balance on official reserve transactions deteriorated by $2.2 billion. In large part this was associated with a reduction of about $3.6 billion in the inflow of private liquid dollars from abroad, as U.S. banks sharply cut back borrowing Euro-dollars through their foreign branches. (For the "official" balance, increases in liquid dollar holdings by private foreigners count as capital inflows and favorably affect that balance. For the liquidity balance, however, such inflows are considered as financing the deficit, along with losses of reserves or increases in liquid dollar holdings of foreign official institutions.) U.S. banks were discouraged from further Euro-dollar borrowing by a tightening of certain Federal Reserve regulations on reserve requirements applicable to such borrowings. At the same time, increased sales of commercial paper by bank holding companies provided an alternative domestic source of funds. These factors tended to reduce Euro-dollar rates from the peaks reached at the end of the second quarter, and may have contributed significantly to the apparent decline in roundabout flows of U.S. funds, to the Euro-dollar market and back through the branches, that enlarged the second quarter liquidity deficit.

Exchange market developments also contributed to the "official" deficit by attracting dollars to official reserves and thus working against a larger buildup of liquid dollar holdings by private foreigners. Expectations that the German mark would be revalued induced large conversions into marks both from dollars and other currencies, particularly in the latter part of the quarter, with a consequent buildup of Bundesbank holdings of dollars. While most of these funds subsequently left Germany, the outflow occurred after the end of the third quarter. Also, the devaluation of the French franc in early August tended to discourage further outflows from France. In addition, as monetary policy in a number of European countries tightened, interest rates abroad rose relative to interest rates in both the United States and the Euro-dollar market, reducing the incentive to switch from foreign currencies to dollars.

Composition of the Balances

U.S. official reserve assets increased $686 million in the third quarter, a favorable factor in calculating both the liquidity balance and the balance on official reserve transactions. The rise consisted of (1) an $11 million increase in official gold holdings; (2) a $442 million increase in U.S. official holdings of convertible foreign currencies, reflecting net drawings by foreigners on mutual swap facilities with the United States; and (3) a $233 million improvement in our gold tranche position at the IMF (essentially, our automatic drawing rights) as foreign countries drew dollars.

Liquid liabilities to all foreigners increased $3,574 million in the third quarter. This increase, less the $686 million rise in reserve assets, equaled the $2,888 million liquidity deficit (all figures before seasonal adjustment). Liquid liabilities to foreign commercial banks increased $1,519 million. Most of this increase was to foreign branches of U.S. banks. Liquid liabilities to foreign official agencies increased $2,238 million. Liquid liabilities to international and regional organizations rose $8 million and those to other foreigners declined $191 million.

The third quarter deficit of $1,040 million (not seasonally adjusted) on official reserve transactions consisted of the above-mentioned $2,238 million increase in liquid liabilities to official foreigners, partly offset by a $512 million decline in certain nonliquid liabilities to official foreigners and by the $686 million increase in U.S. reserve assets.

Further Details of Major Transactions

Special financial transactions

Special financial transactions adversely affected the liquidity balance by about $500 million net in the third quarter, about the same as in the second. Without these transactions the liquidity deficit, seasonally adjusted, would have been $2.0 billion in the third quarter and $3.3 billion in the second quarter. Prior to the second quarter these transactions had the statistical effect of improving the liquidity balance, mainly by switching U.S. liabilities from liquid to nonliquid categories. Major special financial transactions in the third quarter included a reduction of $395 million in time deposits with a maturity of one year or more by foreign official agencies; a redemption of $115 million of nonmarketable, medium-term securities by foreign official agencies; and a resale by Italy to the Export-Import Bank of foreign obligations previously purchased from the bank amounting to about $150 million. The adverse effect of these transactions was partly offset

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by some portfolio adjustments by international and regional organizations, including the purchase of U.S. Government agency bonds and time deposits of over one year maturity.

Trade balance

The merchandise trade balance rose to a $340 million surplus, seasonally adjusted, in the third quarter from near zero in the second quarter. Exports totaled $9,570 million, only slightly below the $9,590 million in the second quarter. Imports declined sharply to $9,230 million, from $9,590 million in the second quarter. (These figures are on the balance of payments basis which excludes Department of Defense exports and imports and reflects several other adjustments in the data reported by Census.) While the first quarter dock strike has seriously distorted recent trade figures, preliminary evidence suggests the third quarter trade balance would show a somewhat larger surplus than the second quarter after adjusting for the strike effect.

Second quarter imports had been inflated by shipments of goods delayed by the first quarter dock strike, and it was probably the disappearance of this influence rather than any change in domestic demand that caused the absolute decline in imports in the third quarter. The make-up of exports seems to have been slower than for imports, and some further make-up of exports may have occurred in the third quarter. The overall impact of the dock strike on the merchandise trade balance--from the third quarter of 1968, when anticipations influenced trade, through the third quarter of 1969--is difficult to estimate precisely, but it was probably significantly more adverse than the impact of previous strikes.

After adjustment for effects of the dock strike, the third quarter growth in exports was larger than that in the preceding period and probably larger than the third quarter growth in imports, reflecting the continued rise in foreign economic activity and growing pressure on foreign capacity. The major part of the third quarter export rise was in nonagricultural products--especially automotive products shipped to Canada and machinery. Deliveries of completed civilian aircraft leveled off in the third quarter, as was to be expected in the interval before the next generation of jets is ready for foreign delivery. The third quarter growth of imports, after strike adjustment, was probably slightly larger than in the second quarter as the U.S. economy continued to expand. Part of the rise was associated with accelerated imports of automobiles from Canada.

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Bank reported claims

Bank reported claims, seasonally adjusted, declined $180 million in the third quarter following a $470 million increase in these claims in the second quarter. This swing reflected, to some extent, the influence of the credit restraint program. The unusually large increase in claims in the second quarter--associated partly with foreign borrowings for placement (or repayment of outstanding loans) in the high-yielding Euro-dollar market and to a lesser extent with the surge in exports--brought a number of banks up to, or over, their ceilings. This discouraged further outflows and encouraged the reduction in claims in the third quarter, which was concentrated in a reduction in bank loans.

U.S. purchases of foreign securities

Net purchases of all foreign securities by U.S. residents rose $160 million to $580 million in the third quarter, seasonally adjusted. U.S. participation in new foreign issues increased $330 million above the depressed level of the second quarter to $550 million in the third quarter. This increase was due primarily to renewed borrowing by Canadian provinces and oil companies, which accounted for 70 percent of the total in the third quarter. Similarly, the World Bank, which was virtually absent from the U.S. market in the second quarter, borrowed $50 million in the third. Partly offsetting these increases, however, was a marked swing in trading in outstanding foreign securities (particularly stocks) as net purchases declined from an unusual $270 million in the second quarter to $110 million in the third quarter.

Foreign purchases of U.S. securities

Net foreign purchases of U.S. securities (excluding Treasury issues) moved upward to $380 million in the third quarter from $330 million in the preceding quarter. Net purchases of U.S. stocks increased about $40 million to almost $170 million. Net sales in July were followed by net purchases in August and September, reversing the adverse trend in this account that had prevailed since early in the year. Exchange market uncertainties early in August apparently contributed to the inflow. Easing of rates in the Euro-dollar market (an alternative investment) and expectations that the decline in U.S. stock prices may have bottomed out also could have been influential. Foreign purchases of new U.S. corporate bond issues in foreign markets--Euro-bond issues--also rose, by about $70 million to $220 million in the third quarter. Larger borrowings through German mark issues accounted for most of the increase. Convertible issues were slightly down from the previous quarter. In contrast, foreign transactions in outstanding private bonds (excluding U.S. Government agency bonds) resulted

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in net sales by foreigners of $70 million in the third quarter, a large adverse shift from $100 million of net purchases in the second quarter.

International and regional organizations increased their holdings of U.S. Government agency bonds by $60 million in the third quarter, after sales of $40 million in the second quarter, as discussed above under special financial transactions.

Data for the items now available on a preliminary basis are shown in the attached table. Complete balance of payments data for the third quarter and further analysis will be published in the December Survey of Current Business, the 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.

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Selected data on foreign transactions of t[redacted]ted States in the third quarter of 1969
available as of the middle of November 1969

(Millions of dollars)

Credits +; Debits -	1967	1968 Year	1968 I	1968 II	1968 III	1968 IV	1969 Ir	1969 IIr	1969 IIIp	Adjusted for seasonal variations 1968 I	1968 II	1968 III	1968 IV	1969 Ir	1969 IIr	1969 IIIp	Shift IIQ-IIIQ
Merchandise trade, excluding military:	3,860	626	263	444	-166	85	110	154	-186	124	264	313	-75	-103	-2	336	338
1. Exports	30,681	33,598	7,942	8,643	8,293	8,720	7,445	9,885	8,959	7,941	8,395	8,879	8,383	7,469	9,588	9,567	-21
2. Imports	-26,821	-32,972	-7,679	-8,199	-8,459	-8,635	-7,335	-9,731	-9,145	-7,817	-8,131	-8,566	-8,458	-7,572	-9,590	-9,231	359
3. U.S. Government cash receipts associated with military sales contracts	1,023	974	185	282	142	365	242	318	250	185	282	142	365	242	318	250	-68
U.S. transactions in foreign securities:	-1,266	-1,267	-347	-133	-276	-511	-360	-394	-524	-311	-164	-337	-455	-323	-426	-583	-157
4. Foreign securities newly issued in the United States	-1,619	-1,659	-392	-373	-324	-570	-564	-242	-497	-392	-350	-380	-537	-564	-220	-551	-331
5. Redemptions	469	495	100	224	91	80	130	65	80	100	224	91	80	130	65	80	15
6. Other transactions in foreign securities, net purchases (-)	-116	-103	-55	16	-43	-21	74	-217	-107	-19	-38	-48	2	111	-271	-112	159
Claims reported by U.S. banks, net increase (-):	-475	269	359	192	86	-368	206	-529	361	236	243	-90	-120	78	-473	185	658
7. Long-term	255	358	140	49	165	4	133	31	132	140	49	165	4	133	31	132	101
8. Short-term	-730	-89	219	143	-79	-372	73	-560	229	96	194	-255	-124	-55	-504	53	557
9. Nonscheduled repayments on U.S. Government credits and sales of foreign obligations to foreign residents	6	269	42	3	55	169	44	34	-150	42	3	55	169	44	34	-150	-184
10. Transactions in U.S. securities other than Treasury issues, net sales (+)	1,016	4,360	839	1,116	1,115	1,290	1,373	329	378	839	1,116	1,115	1,290	1,373	329	378	49
11. Long-term liabilities reported by U.S. banks, net increase (+)	1,052	590	56	175	119	240	-50	-173	-258	56	175	119	240	-50	-173	-258	-85
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 (+)	469	2,010	273	772	409	556	95	-171	-115	273	772	409	556	95	-171	-115	56
13. Liquid liabilities to foreign accounts other than official agencies, and to international organizations other than the IMF,[1] net increase (+)	1,472	3,811	721	2,222	1,017	-149	3,028	4,630	1,336	540	2,314	765	192	2,848	4,716	1,080	-3,636
14. Liquid liabilities (including nonmarketable, convertible, medium-term U.S. Treasury securities) to foreign official agencies,[1] net increase (+)	2,020	-3,099	-1,358	-2,190	-38	487	-1,707	-545	2,238)								
15. Decrease (+) or increase (-) in U.S. official reserve assets	52	-880	904	-137	-571	-1,076	-48	-299	-686)	24	-2,323	-626	-1,054	-1,180	-866	1,453	2,319
a. IMF gold tranche position	-94	-870	-57	-426	-23	-364	-31	-228	-233								
b. Convertible currencies	-1,024	-1,183	-401	267	-474	-575	-73	246	-442								
c. Gold	1,170	1,173	1,362	22	-74	-137	56	-317	-11								
16. Other transactions (derived as residual)	-9,229	-7,663	-1,937	-2,746	-1,892	-1,088	-2,935	-3,354	-2,644	-2,008	-2,682	-1,865	-1,108	-3,024	-3,286	-2,576	710
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)	-3,544	168	-267	105	-408	738	-1,273	-3,786	-2,838	-564	9	-139	862	-1,668	-3,850	-2,533	1,317
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)	-3,418	1,638	91	1,550	72	-75	1,710	1,205	-1,040	-379	1,553	97	367	1,143	1,234	-933	-2,167

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.