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U.S. BALANCE OF PAYMENTS DEVELOPMENTS,
THIRD QUARTER 1972

Preliminary data indicate that the official reserve transactions balance was in deficit by \$4.7 billion in the third quarter as compared with \$0.9 billion in the second, according to the Bureau of Economic Analysis, an agency of the Commerce Department's Social and Economic Statistics Administration. (All figures are seasonally adjusted unless otherwise noted.) Most of the deficit was accounted for by outflows early in the quarter that were associated with unsettled foreign exchange market conditions following the floating of the pound sterling. There was substantial improvement in the official balance during the latter part of the quarter.

The net liquidity balance was in deficit by \$4.5 billion, double that of the second quarter.

Major payments flows

The \$2.3 billion increase in the net liquidity deficit in the third quarter was mainly attributable to two factors: an unfavorable shift of more than \$2 billion in outflows associated with transactions for which third quarter data are not available, including flows related to direct investment and those not covered by the reporting system; and a \$1.0 billion rise in bank-reported net nonliquid capital flows. Partly offsetting these shifts were a \$275 million narrowing of the merchandise trade deficit, an estimated \$185 million improvement in the balance on other goods and services and a favorable swing of \$300 million in net transactions in U.S. and foreign securities.

The \$3.8 billion increase in the official reserve transactions deficit reflected, in addition to the above factors, a \$1.5 billion adverse shift in net liquid private capital flows, from a \$1.4 billion inflow in the second quarter to a \$140 million outflow in the third, mostly related to developments early in the quarter.

The \$4.7 billion official reserve transactions deficit was financed by an increase in liabilities to foreign official agencies. U.S. official reserve assets showed little net change.

Selected International Transactions

Merchandise Trade

The merchandise trade balance in the third quarter--on a balance of payments basis, excluding "military" trade of the defense agencies--was in deficit by \$1,670 million. The \$275 million improvement as compared with the second quarter reflected a larger rise in exports than in imports. Exports increased by \$825 million to \$12,270 million, and imports by \$550 million to \$13,940 million. Export prices showed little change, while import prices rose more than one percent.

The deficit for the first three quarters of 1972 was \$7.1 billion at an annual rate, as compared with a deficit of \$2.7 billion for the full year 1971. Imports for the first three quarters were at an annual rate of \$54.4 billion, nearly 20 percent ahead of 1971's annual total of \$45.5 billion; the annual rate of exports, at \$47.3 billion, was about 11 percent above last year's total of \$42.8 billion.

The export rise in the third quarter was broadly based, while the import rise was largely in industrial supplies and materials. Agricultural exports, which normally comprise less than one-fifth of total exports, accounted for over one-fourth of the total export rise, reflecting mainly stepped-up shipments of grain to Russia and increased exports of hides and skins. Among nonagricultural goods, gains were evident in industrial supplies and materials, in automotive vehicles and parts (mainly to Canada), and in capital goods, as a sizable drop in civilian aircraft deliveries was more than offset by gains in other (nonautomotive) transportation equipment and in machinery.

The rise in imports of industrial materials was mainly in petroleum, and to a lesser extent in iron and steel, building materials, and textiles. Automotive imports showed little change as a decline in deliveries from Canada was offset by an increase from overseas. Imports of other nonfood consumer goods were unchanged, but there was a rise in foodstuffs, mainly coffee. Imports of capital goods declined.

By area, the U.S. trade deficit with Canada was reduced as exports rose and imports declined, more than offsetting a worsening of the deficit with Japan. There was little change in the balance with Western Europe, where an improvement in net trade with the United Kingdom was about offset by a deterioration with Common Market countries.

Other goods and services

The balance on "other goods and services," on the basis of preliminary and incomplete data, shifted favorably by \$185 million in the third quarter to a net inflow of \$570 million. An estimated increase in receipts from military sales contracts and some improvement in the net travel balance more than offset higher interest payments on government and private liabilities to foreigners.

Securities transactions

Net U.S. transactions in foreign securities shifted favorably by \$585 million to net sales of \$240 million. A sharp decline in new Canadian bond issues in the United States to only \$30 million in the third quarter, compared with \$375 million in the second quarter, accounted for most of the shift. Canadian borrowers have been asked to minimize such borrowings in the United States to help reduce capital inflows to Canada and resultant upward pressures on the Canadian dollar. Other U.S. transactions in outstanding foreign bonds showed a favorable shift of \$175 million to inflows of \$225 million, including a \$75 million World Bank redemption of a maturing issue. Net U.S. transactions in foreign stocks showed little change in the third quarter, as sales of European and Canadian stocks again more than offset U.S. purchases of Japanese equities.

Net foreign purchases of U.S. securities decreased by \$285 million but remained high at \$655 million. Net foreign buying of U.S. stocks rose \$210 million to \$375 million but net purchases of new Eurobond issues of U.S. corporations declined \$395 million from the exceptionally high \$745 million in the second quarter to \$350 million in the third. Convertible issues accounted for the bulk of new Eurobond issues in both quarters.

Bank reported transactions

Net nonliquid capital flows reported by U.S. banks shifted adversely by \$975 million in the third quarter, to an outflow of \$780 million. A rise of \$410 million in nonliquid short-term claims, an unfavorable shift of \$875 million, was the major factor. In this category, increases in loans to foreigners and in items in the process of collection in the third quarter were partly offset by a reduction in acceptance financing with Japan, where dollars continued to be made available to banks by Japanese monetary authorities. However, the reduction was much smaller than in the previous quarter. Net long-term bank-reported flows showed a \$100 million adverse shift.

Data for the balance of payments items now available on a preliminary basis are shown in the attached table. Additional data and the balance on current account and long-term capital will be published in a press release on December 13. Complete balance of payments data for the third quarter and further analysis will be published in the December issue of the Survey of Current Business, the monthly journal of the Bureau of Economic Analysis. 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

TABLE FOLLOWS:

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Selected Data on Foreign Transactions of the United States in the Third Quarter of 1972
Available as of the Middle of November, 1972

(Millions of

	Credits (+); debits (-)	1970	1971			
			Year	I	II	III
1.	Merchandise trade balance ^{1/} -----	2,164	-2,689	475	-778	-1,077
2.	Exports-----	41,963	42,770	10,905	11,169	10,739
3.	Imports-----	-39,799	-45,459	-10,430	-11,947	-11,816
4.	Other goods and services, net-----	1,398	3,417	1,034	1,029	-253
5.	BALANCE ON GOODS AND SERVICES-----	3,563	727	1,509	251	-1,330
6.	Transactions in foreign securities, net; U.S. purchases (-)-----	-942	-909	-361	-372	-249
7.	Foreign securities newly issued in the United States-----	-1,456	-1,506	-460	-444	-377
8.	Redemptions-----	434	480	122	127	116
9.	Other bonds-----	3	123	51	47	3
10.	Other stocks-----	77	-6	-74	-102	10
11.	Transactions in U.S. securities other than Treasury issues, net; foreign purchases (+)-----	2,190	2,282	559	196	606
12.	Stocks-----	697	849	78	-3	230
13.	Eurobonds newly issued abroad by U.S. corporations ^{2/} -----	822	1,161	317	263	225
14.	Other bonds-----	671	272	164	-63	151
15.	Nonliquid capital flows reported by U.S. banks, net-----	-825	-2,621	-16	-591	-789
16.	Long-term claims on foreigners-----	175	-565	25	-153	-237
17.	Long-term liabilities to private foreigners-----	23	-249	-152	-61	-71
18.	Nonliquid short-term claims on foreigners-----	-1,023	-1,807	111	-377	-481
19.	Allocations of special drawing rights (SDR)-----	867	717	717	-	-
20.	Errors and omissions and other transactions ^{3/} -----	-8,704	-22,198	-4,266	-6,096	-8,304
21.	NET LIQUIDITY BALANCE-----	-3,851	-22,002	-1,858	-6,612	-10,066
22.	Liquid private capital flows, net-----	-5,988	-7,763	-2,860	150	-2,637
23.	Liquid claims-----	252	-1,072	-326	14	-484
24.	Reported by U.S. banks-----	-99	-566	-2	22	-341
25.	Reported by U.S. nonbanking concerns-----	351	-506	-324	-8	-143
26.	Liquid liabilities-----	-6,240	-6,691	-2,534	136	-2,153
27.	To foreign commercial banks-----	-6,508	-6,908	-2,886	84	-1,932
28.	To international and regional organizations-----	181	682	280	198	149
29.	To other foreigners-----	87	-465	72	-146	-370
30.	OFFICIAL RESERVE TRANSACTIONS BALANCE-----	-9,839	-29,765	-4,718	-6,462	-12,703
	<u>Financed by changes in:</u>					
31.	Nonliquid liabilities to foreign official reserve agencies reported by U.S. Government-----	535	341	-2	-4	-3
32.	Nonliquid liabilities to foreign official agencies reported by others ^{4/} -----	-810	-539	-201	-160	-173
33.	Liquid liabilities to foreign official agencies-----	7,637	27,615	4,776	5,788	11,506
34.	U.S. official reserve assets, net-----	2,477	2,348	145	838	1,373
35.	Gold-----	787	866	109	456	300
36.	SDR-----	-851	-249	-592	196	150
37.	Convertible currencies-----	2,152	381	373	-66	72
38.	Gold tranche position in IMF-----	389	1,350	255	252	851
	<u>Memorandum:</u>					
39.	Liquidity Balance, excluding allocations of SDR (lines 34, 33, 26, 19, with sign reversed)-----	-4,741	-23,989	-3,104	-6,762	-10,726
40.	Changes in liquid liabilities of U.S. banks to their foreign branches (part of line 27)-----	-6,343	-4,942	-1,905	46	-1,630

* Estimates. p Preliminary.

^{1/} Adjusted for timing, valuation and coverage to balance of payments basis; excludes exports under U.S. military agency sales

^{2/} Excludes securities issued by U.S. subsidiaries incorporated abroad; however, if proceeds of such issues are transferred to

^{3/} These include direct investments and other transactions for which third quarter data are not available.

^{4/} Includes U.S. federally-sponsored agency issues, corporate and other bonds.

Source: U.S. Department of Commerce, SESA, Bureau of Economic Analysis.

(dollars)

Adjusted for seasonal variations												Shift IIQ-IIIQ
1972				1971				1972				
IV	I	II	III ^P	I	II	III	IV	I	II	III ^P		
-1,309	-1,566	-1,749	-2,125	289	-1,012	-472	-1,494	-1,687	-1,943	-1,668	275	
9,957	11,793	11,935	11,482	11,017	10,710	11,479	9,564	11,791	11,445	12,272	827	
-11,266	-13,359	-13,684	-13,607	-10,728	-11,722	-11,951	-11,058	-13,478	-13,388	-13,940	-552	
1,605	775	327 *	-315	847	1,048	563	957	499	382 *	568	186	
296	-791	-1,422 *	-2,440	1,136	36	91	-537	-1,188	-1,561 *	-1,100	461	
73	-393	-344	242	-361	-372	-249	73	-393	-344	242	586	
-225	-557	-479	-80	-460	-444	-377	-225	-557	-479	-80	399	
115	142	105	160	122	127	116	115	142	105	160	55	
22	-33	-57	63	51	47	3	22	-33	-57	63	120	
160	55	87	99	-74	-102	10	160	55	87	99	12	
921	1,067	940	655	559	196	606	921	1,067	940	655	-285	
544	695	164	374	78	-3	230	544	695	164	374	210	
356	296	747	352	317	263	225	356	296	747	352	-395	
20	76	29	-71	164	-63	151	20	76	29	-71	-100	
-1,225	-305	-97	-360	-266	-305	-1,200	-850	-561	195	-778	-973	
-200	-177	-353	-297	25	-153	-237	-200	-177	-353	-297	56	
35	203	81	-73	-152	-61	-71	35	203	81	-73	-154	
-1,060	-331	175	10	-139	-91	-892	-685	-587	467	-408	-875	
-	710	-	-	180	179	179	179	178	178	177	-1	
-3,531	-2,640	-2,139	-3,434	-3,825	-5,455	-8,807	-4,115	-2,218	-1,655	-3,727	-2,072	
-3,4	-2,352	-3,062 *	-5,337	-2,577	-5,721	-9,380	-4,329	-3,115	-2,247 *	-4,531	-2,284	
-2,416	-159	2,313 *	-237	-2,848	-745	-2,551	-1,619	-141	1,397 *	-138	-1,535	
-276	-748	135	-472	-272	95	-555	-340	-692	219 *	-548	-767	
-245	-439	300	-394	-94	32	-392	-112	-533	312	-449	-761	
-31	-309	-165 *	-78	-178	63	-163	-228	-159	-93 *	-99	-6	
-2,140	589	2,178	235	-2,576	-840	-1,996	-1,279	551	1,178	410	-768	
-2,174	514	1,968	119	-2,928	-892	-1,775	-1,313	476	968	294	-674	
55	22	-70	-34	280	198	149	55	22	-70	-34	36	
-21	53	280	150	72	-146	-370	-21	53	280	150	-130	
-5,882	-2,511	-749	-5,574	-5,425	-6,466	-11,931	-5,948	-3,256	-850	-4,669	-3,819	
350	280	-4	79	-8	-8	-9	366	280	-2	79	81	
-5	221	27	13	-201	-160	-173	-5	221	27	13	-14	
5,545	2,113	779	5,360	4,952	5,975	10,919	5,774	2,326	1,056	4,632	3,576	
-8	-103	-53	122	682	659	1,194	-187	429	-231	-55	176	
1	544	-	3	109	456	300	1	544	-	3	3	
-3	-710	7	-	-55	17	-29	-182	-178	-171	-177	-6	
2	64	-245	134	373	-66	72	2	64	-245	134	379	
-8	-1	185	-15	255	252	851	-8	-1	185	-15	-200	
-3,397	-3,309	-2,904	-5,717	-3,238	-5,973	-10,296	-4,487	-3,484	-2,181	-5,164	-2,983	
-1,453	-200	396	35									

contracts and imports of U.S. military agencies.
 U.S. parent companies they are treated as if they had been issued by U.S. corporations.