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U.S. BALANCE OF PAYMENTS DEVELOPMENTS,
FOURTH QUARTER AND YEAR 1972

Preliminary data indicate that the official reserve transactions balance was in deficit by \$1.4 billion in the fourth quarter, a \$3.2 billion improvement from the \$4.6 billion deficit in the third, the Bureau of Economic Analysis, an agency of the Commerce Department's Social and Economic Statistics Administration, announced today. (All quarterly figures are seasonally adjusted unless otherwise noted.) The fourth quarter improvement was associated with a return to calmer foreign exchange market conditions following the early third quarter turbulence related to the floating of the British pound. For 1972 as a whole, the official reserve transactions deficit totaled \$10.1 billion, compared with the record \$29.8 billion deficit in 1971. (The 1972 deficit was about the same as that for 1970 but was considerably larger than for any preceding year.)

The net liquidity balance was in deficit by an estimated \$4.0 billion in the fourth quarter, as compared with \$4.5 billion in the third. For the full year 1972, the net liquidity deficit was an estimated \$13.8 billion, as compared with the record \$22.0 billion in 1971 and with \$3.9 billion in 1970.

Fourth quarter developments

The \$0.5 billion decrease in the net liquidity deficit in the fourth quarter was mainly attributable to a \$0.9 billion rise in net inflows through transactions in securities and a \$0.3 billion drop in net outflows associated with transactions for which detailed fourth quarter data are not yet available, including direct investments and transactions not covered by the reporting system. Partly offsetting was a \$0.7 billion rise in bank-reported net outflows of nonliquid short-term capital. The balance on goods and services at a deficit of \$0.9 billion was unchanged from the third quarter, as the \$1.6 billion deficit on merchandise trade and an estimated \$0.7 billion surplus on other goods and services showed virtually no change.

The \$3.2 billion decline in the official reserve transactions deficit reflected, in addition to the above developments, a favorable shift of \$2.7 billion in net movements of liquid private capital, in good part due to borrowings by U.S. banks from their foreign branches and by U.S. agencies and branches of foreign banks from their head offices and branches abroad, especially Canadian and Japanese.

Summary for 1972

The estimated \$8.2 billion improvement in the net liquidity deficit in 1972 reflected a \$2.6 billion rise in net receipts related to transactions in U.S. and foreign securities and a \$10.9 billion decline in net payments associated with transactions for which detailed fourth quarter 1972 data are not yet available. The reduction in these outflows included a marked decline from the unprecedented \$11.0 billion net outflow of funds through unrecorded transactions (errors and omissions) in 1971, and a sharp drop from the record \$4.8 billion net outflows resulting from U.S. direct investments abroad in 1971. These favorable developments more than offset the \$4.1 billion deterioration in the merchandise trade deficit and the estimated \$1.1 billion decline in the surplus on other goods and services. Net outflows of bank-reported nonliquid capital were \$2.6 billion, about the same as in 1971.

The \$19.6 billion improvement in the official reserve transactions deficit reflected, in addition to the above factors, a favorable shift of \$11.4 billion in the movement of liquid private capital, from net outflows of \$7.7 billion in 1971 to net inflows of \$3.7 billion in 1972.

Selected International Transactions

Merchandise trade

The merchandise trade deficit was \$1.6 billion in the fourth quarter, roughly equal to that in the third, and about \$0.2 billion below the quarterly average in the first half of the year. For 1972 as a whole the trade deficit was a record \$6.8 billion as compared with \$2.7 billion in 1971. In the three preceding years the average annual trade balance was in surplus by \$1.1 billion. (The trade data are adjusted to a balance of payments basis excluding "military" trade of U.S. defense agencies.)

Both exports and imports rose in the fourth quarter by nearly the same amount--\$1.0 billion--to \$13.3 billion and \$14.9 billion, respectively. For the full year, however, exports rose less than imports. Merchandise exports advanced \$6.1 billion, or 14 percent, to \$48.8 billion, and imports rose \$10.2 billion, or 22 percent, to \$55.7 billion.

The larger rise in imports than exports in 1972 partly reflected the more rapid increase in business activity in the United States than in most of our major export markets. In addition, import prices rose faster than export prices, partly because of stronger inflationary pressures in many foreign countries and partly because of the initial perverse effects of the 1971 dollar devaluation. The dollar devaluation was followed almost immediately by higher dollar prices of imported goods. Import prices (unit values) rose almost 7.5 percent last year as compared with 5.2 percent in 1971. Export prices increased much less--3.5 percent as compared with 3.2 percent in the preceding year--and to a considerable extent the rise reflected the increase in worldwide demand for agricultural products.

Also contributing to the gain in imports was the removal of the surcharge imposed on foreign goods from August through December 1971. The 1972 expansion in both imports and exports also reflected the recovery that followed the end of the U.S. dock strikes that had depressed trade in late 1971. Exports were further increased by the rising demand for U.S. agricultural products because of poor harvests in the Soviet Union and many other foreign countries.

Of the \$4.1 billion adverse shift in the trade deficit in 1972, \$1.5 billion was with Western Europe and \$1.5 billion with developing countries in Asia and Africa. The deficit with Japan deepened further by about \$0.8 billion to \$4.0 billion and with Canada by about \$0.3 billion to \$2.0 billion.

Other goods and services

The balance on "other goods and services" was in surplus by an estimated \$0.7 billion in the fourth quarter, about the same as in the third quarter and a \$0.3 billion improvement from the average of the first two quarters. For the full year 1972 the estimated surplus of \$2.3 billion for "other goods and services" was about \$1.1 billion less than in 1971. The decline mainly represented reduced transfers under military sales contracts and higher payments on outstanding U.S. liquid liabilities, reflecting both higher interest rates in 1972 and the sharp increase in these liabilities.

Securities transactions

Net U.S. transactions in foreign securities shifted adversely by \$0.3 billion in the fourth quarter to net U.S. purchases of \$0.1 billion as compared with unusually large net U.S. sales of \$0.2 billion in the third quarter. Most of the shift was due to the resumption of large placements of new Canadian security issues in the U.S. market, as U.S. purchases of those issues rose to \$0.3 billion from \$30 million in the third quarter.

Selected Data on Foreign Transactions of the United States in the Fourth Quarter of 1972
Available as of the Middle of February, 1973

		(Millions of dollars)														
		Annual					1972					Adjusted for seasonal variations				
Credits (+); debits (-)		1970	1971	1972 ^p	1971	I	II	III	IV ^p	1971	I	II	III	IV ^p	Shift	Shift
					IV					IV				IIIQ-IVQ	1971-72	
1.	Merchandise trade balance ^{1/} -----	2,164	-2,689	-6,821	-1,309	-1,578	-1,748	-2,074	-1,421	-1,494	-1,689	-1,930	-1,585	-1,617	-32	-4,132
2.	Exports-----	41,963	42,770	48,838	9,957	11,782	11,936	11,508	13,612	9,564	11,792	11,460	12,311	13,275	964	6,068
3.	Imports-----	-39,799	-45,459	-55,659	-11,266	-13,360	-13,684	-13,582	-15,033	-11,058	-13,481	-13,390	-13,896	-14,892	-996	-10,200
4.	Other goods and services, net-----	1,398	3,417	2,279	1,605	775	291	-158	* 1,371	957	506	355	700	* 717	17	-1,138
5.	BALANCE ON GOODS AND SERVICES-----	3,563	727	-4,542	296	-803	-1,457	-2,232	* -50	-537	-1,183	-1,575	-885	* -900	-15	-5,269
6.	Transactions in foreign securities, net; U.S. purchases (-)-----	-942	-909	-599	73	-393	-354	227	-79	73	-393	-354	227	-79	-306	310
7.	Foreign securities newly issued in the United States-----	-1,456	-1,506	-1,595	-225	-557	-500	-80	-458	-225	-557	-500	-80	-458	-378	-89
8.	Redemptions-----	434	480	517	115	142	105	160	110	115	142	105	160	110	-50	37
9.	Other bonds-----	3	123	-6	22	-33	-46	40	33	22	-33	-46	40	33	-7	-129
10.	Other stocks-----	77	-6	485	160	55	87	107	236	160	55	87	107	236	129	491
11.	Transactions in U.S. securities other than Treasury issues, net; foreign purchases (+)-----	2,190	2,282	4,561	921	1,067	956	676	1,862	921	1,067	956	676	1,862	1,186	2,279
12.	Stocks-----	697	849	2,374	544	695	165	379	1,135	544	695	165	379	1,135	756	1,525
13.	Eurobonds newly issued abroad by U.S. corporations ^{2/} -----	822	1,161	1,957	356	296	766	372	523	356	296	766	372	523	151	796
14.	Other bonds-----	671	272	230	20	76	25	-75	204	20	76	25	-75	204	279	-42
15.	Nonliquid capital flows reported by U.S. banks, net-----	-825	-2,621	-2,632	-1,225	-309	-94	-360	-1,869	-850	-565	198	-778	-1,487	-709	-11
16.	Long-term claims on foreigners-----	175	-565	-1,250	-200	-178	-352	-335	-385	-200	-178	-352	-335	-385	-50	-685
17.	Long-term liabilities to private foreigners-----	23	-249	148	35	200	83	-73	-62	35	200	83	-73	-62	11	397
18.	Nonliquid short-term claims on foreigners-----	-1,023	-1,807	-1,530	-1,060	-331	175	48	-1,422	-685	-587	467	-370	-1,040	-670	277
19.	Allocations of special drawing rights (SDR)-----	867	717	710	-	710	-	-	-	179	178	178	177	177	-	-7
20.	Errors and omissions and other transactions ^{3/} -----	-8,704	-22,198	-11,277	-3,531	-2,641	-2,084	-3,562	-2,990	-4,115	-2,231	-1,622	-3,872	-3,552	320	10,921
21.	NET LIQUIDITY BALANCE-----	-3,851	-22,002	-13,779	-3,466	-2,369	-3,033	-5,251	* -3,126	-4,329	-3,127	-2,219	-4,455	* -3,979	476	8,223
22.	Liquid private capital flows, net-----	-5,988	-7,763	3,667	-2,416	-137	2,292	-272	* 1,784	-1,619	-119	1,376	-173	* 2,583	2,756	11,430
23.	Liquid claims-----	252	-1,072	-1,149	-276	-729	103	-537	* 14	-340	-673	187	-613	* -50	563	-77
24.	Reported by U.S. banks-----	-99	-566	13	-245	-439	300	-414	-180	-112	-533	312	-469	-43	426	-167
25.	Reported by U.S. nonbanking concerns-----	351	-506	116	-31	-290	-197	-123	* 194	-228	-140	-125	-144	* -7	137	90
26.	Liquid liabilities-----	-6,240	-6,691	4,816	-2,140	592	2,189	265	1,770	-1,279	554	1,189	440	2,633	2,193	11,507
27.	To foreign commercial banks-----	-6,508	-6,908	3,905	-2,174	514	1,980	141	1,270	-1,313	476	980	316	2,133	1,817	10,813
28.	To international and regional organizations-----	181	682	102	55	25	-72	-31	180	55	25	-72	-31	180	211	-580
29.	To other foreigners-----	87	-465	809	-21	53	281	155	320	-21	53	281	155	320	165	1,274
30.	OFFICIAL RESERVE TRANSACTIONS BALANCE-----	-9,839	-29,765	-10,112	-5,882	-2,506	-741	-5,523	-1,342	-5,948	-3,246	-843	-4,628	-1,396	3,232	19,653
Financed by changes in:																
31.	Liquid liabilities to foreign official agencies-----	7,637	27,615		5,545					5,774						
32.	Other readily marketable liabilities to foreign official agencies ^{4/} -----	-810	-539	9,891	-5	2,329	798	5,323	1,441		2,537	1,076	4,605	1,674	-2,931	-17,185
33.	Nonliquid liabilities to foreign official reserve agencies reported by U.S. Government-----	535	341	189	350	280	-4	78	-165	366	280	-2	78	-167	-245	-152
34.	U.S. official reserve assets, net-----	2,477	2,348	32	-8	-103	-53	122	66	-187	429	-231	-55	-111	-56	-2,316
35.	Gold-----	787	866	547	1	544	---	3	---	1	544	---	3	---	-3	-319
36.	SDR-----	-851	-249	-703	-3	-710	7	---	---	-182	-178	-171	-177	---	---	-454
37.	Convertible currencies-----	2,152	381	35	2	64	-245	134	82	2	64	-245	134	82	-52	-346
38.	Gold tranche position in IMF-----	389	1,350	153	-8	-1	185	-15	-16	-8	-1	185	-15	-16	-1	-1,197
Memorandum:																
39.	Gross liquidity balance, excluding allocations of SDR (lines 34, 33, 32, 31, 26, 19, with sign reversed)-----	-4,466	-23,791	-15,638	-3,742	-3,808	-2,930	-5,788	-3,112	-4,848	-3,978	-2,210	-5,245	-4,206	1,039	8,153
40.	Changes in liquid liabilities of U.S. banks to their foreign branches (part of line 27)-----	-6,343	-4,942	1,194	-1,453	-200	396	34	964							

* Estimates. p Preliminary.

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

^{2/} Excludes securities issued by U.S. subsidiaries incorporated abroad; however, if proceeds of such issues are transferred to U.S. parent companies they are treated as if they had been issued by U.S. corporations.

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

^{4/} Includes nonliquid liabilities reported by U.S. banks, and net purchases of securities of U.S. Government corporations and agencies, private corporations, and State and local governments, insofar as they are reported for the account of foreign official agencies. At this time, data are incomplete and cannot be shown separately for reasons of confidentiality.

For the full year 1972, net U.S. purchases of foreign securities decreased by \$0.3 billion to \$0.6 billion. The improvement reflected a favorable shift of \$0.5 billion to net U.S. sales of foreign stocks from small net U.S. purchases in 1971. Partly offsetting were increases in U.S. purchases of new foreign issues, which rose about \$0.1 billion to \$1.6 billion (purchases from Canada were up \$0.1 billion to \$0.9 billion), and a \$0.1 billion unfavorable shift in U.S. net transactions in outstanding foreign bonds.

Net foreign purchases of U.S. securities rose to \$1.9 billion in the fourth quarter from \$0.7 billion in the third. For the year as a whole they increased by \$2.3 billion to \$4.6 billion, surpassing the previous high of \$4.4 billion in 1968. Two-thirds of the rise in both the fourth quarter and the year 1972 reflected increased purchases of U.S. stocks by foreigners. These purchases rose from \$0.4 billion in the third quarter to \$1.1 billion in the fourth. For the year as a whole, the increase was \$1.5 billion, to a record \$2.4 billion.

Foreign purchases of new bonds issued abroad by U.S. corporations rose by \$0.2 billion to \$0.5 billion in the fourth quarter. For the full year 1972, such purchases rose \$0.8 billion to \$2.0 billion, approaching the 1968 record of \$2.1 billion. Convertible issues accounted for most of the rise. Transactions in outstanding U.S. bonds shifted favorably to net foreign purchases of \$0.2 billion in the fourth quarter from small net foreign sales in the third. For the full year 1972, however, foreign purchases of outstanding U.S. bonds at \$0.2 billion were slightly less than in 1971.

Bank reported transactions

Net outflows of nonliquid capital reported by U.S. banks increased by \$0.7 billion in the fourth quarter to a record \$1.5 billion. Most of the increase was in short-term nonliquid claims, especially on Japan.

For the full year 1972, net outflows of nonliquid capital reported by U.S. banks were \$2.6 billion, the same as in 1971. However, there were offsetting shifts between long- and short-term flows: Net outflows associated with short-term claims dropped by \$0.3 billion to \$1.5 billion in 1972, despite the fourth quarter upsurge, while net long-term outflows rose by \$0.3 billion to \$1.1 billion.

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 March 21. Complete balance of payments data for the fourth quarter and the year 1972 and further analysis will be published in the March 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 \$20.00 including weekly supplements; single copy, \$2.25.