

UNITED STATES DEPARTMENT OF  
**COMMERCE**  
**NEWS**  
WASHINGTON, D.C. 20230

Social and Economic  
Statistics Administration

BUREAU OF  
ECONOMIC ANALYSIS

FOR RELEASE: FRIDAY, FEB. 14, 1975 10:00 A.M.

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BEA 75-10

U.S. Balance of Payments Developments  
Fourth Quarter 1974

Preliminary data for fourth quarter U.S. international transactions indicate a \$1.8 billion increase in the outflow of U.S. capital through bank-reported transactions, according to the Bureau of Economic Analysis, an agency of the Commerce Department's Social and Economic Statistics Administration. Net outflows through transactions in U.S. and foreign securities increased \$0.8 billion, and there was a \$0.9 billion shift to net outflows associated with U.S. corporate liquid claims. Partly offsetting was a \$1.0 billion decline in net merchandise trade payments.

The inflow of liquid funds from private foreigners (increases in U.S. liabilities) declined \$0.6 billion. U.S. liabilities to foreign official agencies rose \$2.5 billion more than in the third quarter. A major part of that change was accounted for by a shift from net reductions to net increases in liabilities to official agencies in Western European countries. The rise in liabilities to private and official holders in petroleum-exporting countries slowed to about \$2.0 billion from \$4.5 billion.

The decline in inflows from petroleum-exporting countries, and the increased outflow of U.S. funds, partly associated with lower U.S. interest rates, contributed to the weakening of the U.S. dollar against other leading currencies in the fourth quarter.

Highlights for 1974

The outflow of U.S. capital through bank-reported transactions rose \$12.4 billion in 1974, and the merchandise trade deficit rose \$6.2 billion, both dominated by petroleum-related flows. Net transactions in U.S. and foreign securities resulted in an outflow of \$0.9 billion, compared with a \$3.2 billion inflow in 1973. These increased outflows were partly offset by an \$8.7 billion shift, from a net outflow to a net inflow, in transactions for which fourth quarter data are not yet available, including direct investment and related flows, and transactions not covered by the statistical reporting system.

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There was a \$15.0 billion increase in liquid liabilities to private foreigners in 1974, and liabilities to foreign official agencies rose \$9.4 billion. About \$10.2 billion of the total \$24.4 billion increase in liabilities in 1974 was to petroleum-exporting countries; in 1973, about \$0.7 billion of a total \$9.3 billion increase was to those countries.

Net U.S. official reserve assets rose \$1.4 billion, compared with a reduction of \$0.2 billion in 1973. Most of the rise was in the unconditional drawing rights of the United States on the International Monetary Fund and resulted from dollar drawings from the IMF by foreign countries.

The exchange rate of the U.S. dollar against most leading currencies showed some net decline for 1974, after strengthening in mid-year. Rather wide swings in the exchange rate during the year were related to shifts in capital flows, particularly through bank lending, and to changes in short-term interest rates, which declined in the United States since summer. Another factor contributing to fluctuations in the dollar was the changing pace of the inflow of funds into the United States from petroleum-exporting countries; these inflows accelerated during the second and third quarters, but slowed in the fourth.

### Selected International Transactions

#### Merchandise trade

The merchandise trade deficit narrowed to \$1.5 billion in the fourth quarter, as exports increased \$1.5 billion to \$26.1 billion and imports rose \$0.5 billion to \$27.6 billion. For the full year 1974, the trade balance shifted to a \$5.8 billion deficit from a \$0.5 billion surplus in 1973. Exports rose \$26.8 billion to \$97.1 billion and imports increased \$33.0 billion to \$102.8 billion. (These figures are measured on a balance of payments basis, which excludes military trade of U.S. defense agencies and reflects adjustments to Census Bureau trade figures for timing, coverage, and valuation.)

The trade deficit in petroleum and products was \$25.1 billion in 1974, compared with \$7.5 billion in 1973. Excluding petroleum, the overall merchandise balance was in surplus by \$19.3 billion in 1974.

The 1974 gains in both exports and imports were mainly due to higher prices (measured by the Census Bureau's unit value index). Petroleum import prices more than tripled and prices of other imports and of exports rose over one-fourth. In volume terms, imports of both petroleum and of other products declined slightly in 1974. There was some rise in the volume of petroleum imports in the second and third quarters, following the lifting of the Arab embargo in March, but the volume of other imports declined in each quarter of the year. Exports rose 8 percent in volume in 1974; in the second half of the year, however, the volume dropped as foreign economic activity slackened.

## Security transactions

Net U.S. purchases of foreign securities were \$0.7 billion in the fourth quarter, compared with \$0.3 billion in the third. Most of the rise was due to a record placement of new foreign security issues as U.S. interest rates dipped. For the full year 1974, net U.S. purchases of foreign securities rose \$1.1 billion, mainly due to a \$0.9 billion rise to \$1.7 billion in purchases of newly issued Canadian securities.

Foreign transactions in U.S. securities other than Treasury issues shifted \$0.4 billion to net sales of \$0.2 billion in the fourth quarter, following declines in net purchases in the first three quarters. For 1974 as a whole, net foreign purchases of U.S. securities fell to \$1.1 billion from \$4.1 billion in 1973. Most of the drop was accounted for by a \$2.5 billion decrease, to \$0.3 billion, in net purchases of U.S. stocks. New bonds issued abroad by U.S. corporations declined \$1.1 billion to \$0.1 billion, due to the high cost of borrowing abroad and to the January 1974 removal of U.S. restrictions on capital outflows for foreign investment. Partly offsetting was a \$0.6 billion increase in net foreign private purchases of U.S. Government agency and other bonds.

## Bank-reported capital outflows

U.S. bank-reported capital outflows (lines 14, 16 and 22 of attached table) rose \$1.8 billion to \$3.7 billion in the fourth quarter, mostly to Western Europe, Canada, and developing countries. Net outflows to Japan, which had accounted for two-fifths of the total in the first three quarters of 1974, dropped by \$1.5 billion to less than \$0.1 billion.

For the full year 1974, bank-reported capital outflows were a record \$18.3 billion, up \$12.4 billion from 1973, in good part representing loans to petroleum consuming countries. Over two-thirds of the outflows occurred in the first half of the year. Following a respite in the third quarter, outflows again increased in the fourth, as U.S. interest rates declined.

## The overall payments balances

The official reserve transactions balance was in deficit by \$4.1 billion in the fourth quarter, compared with a \$0.4 billion deficit in the third. For all of 1974, the balance was in deficit by \$8.0 billion, compared with \$5.3 billion in 1973. Changes in this balance reflect changes in U.S. liabilities to foreign official agencies, net of changes in U.S. official reserve assets. Under fixed exchange rates, the balance was intended to indicate net exchange market pressure on the dollar during the reporting period resulting from international transactions of the United States. Under the current managed floating exchange rate system, changes in liabilities to foreign official agencies are no longer the result of obligatory exchange market intervention to support a fixed rate, although there is limited official exchange market intervention. Thus, changes in liabilities to foreign official agencies now inadequately reflect pressures on the dollar in exchange

Selected Data on Foreign Transactions of the United States in the Fourth Quarter of 1974  
Available as of the Middle of February, 1975

(Millions of dollars, unless otherwise noted)

Credits (+); debits (-)	Annual			1973	1974				Adjusted for seasonal variations					Change: IIIQ-IVQ	Change: 1973-74
	1972	1973	1974 <sup>p</sup>	IV	I	II	III	IV <sup>p</sup>	1973 IV	1974 I II III IV <sup>p</sup>					
1. Merchandise trade balance <sup>1/</sup> -----	-6,986	471	-5,763	1,354	718	-1,349	-3,950	-1,182	1,210	-67	-1,624	-2,550	-1,522	1,028	-6,234
2. Exports-----	48,768	70,277	97,074	20,584	22,554	25,015	22,860	26,645	20,216	22,280	24,070	24,615	26,109	1,494	26,797
3. Imports-----	-55,754	-69,806	-102,837	-19,230	-21,836	-26,364	-26,810	-27,827	-19,006	-22,347	-25,694	-27,165	-27,631	-466	-33,031
4. Transactions in foreign securities, net; U.S. purchases (-)-----	-654	-807	-1,945	-525	-646	-313	-300	-686	-525	-646	-313	-300	-686	-386	-1,138
5. Foreign securities newly issued in the United States-----	-1,663	-1,391	-2,342	-553	-680	-475	-416	-771	-553	-680	-475	-416	-771	-355	-951
6. Redemptions-----	557	458	405	131	103	114	96	92	131	103	114	96	92	-4	-53
7. Other bonds-----	-7	-86	-257	-99	-59	-77	-65	-56	-99	-59	-77	-65	-56	9	-171
8. Other stocks-----	460	211	250	-4	-10	126	85	49	-4	-10	126	85	49	-36	39
9. Transactions in U.S. securities other than Treasury issues, net; foreign purchases (+)-----	4,507	4,051	1,062	670	687	419	169	-213	670	687	419	169	-213	-382	-2,989
10. Stocks-----	2,433	2,758	308	486	376	12	84	-164	486	376	12	84	-164	-248	-2,450
11. Eurobonds newly issued abroad by U.S. corporations <sup>2/</sup> -----	2,003	1,223	116	368	24	67	13	12	368	24	67	13	12	-1	-1,107
12. Other bonds-----	71	69	639	-184	287	340	73	-61	-184	287	340	73	-61	-134	570
13. Nonliquid capital flows reported by U.S. banks, net-----	-2,615	-4,587	-13,403	-2,026	-2,724	-6,244	-1,266	-3,169	-1,623	-2,818	-6,222	-1,601	-2,762	-1,161	-8,816
14. Long-term claims on foreigners-----	-1,307	-899	-1,199	-497	-172	-909	50	-168	-497	-172	-909	50	-168	-218	-300
15. Long-term liabilities to private foreigners-----	149	252	-11	-7	161	11	-20	-163	-7	161	-20	-20	-163	-143	-263
16. Nonliquid short-term claims on foreigners-----	-1,457	-3,940	-12,193	-1,522	-2,713	-5,346	-1,296	-2,838	-1,119	-2,807	-5,324	-1,631	-2,431	-800	-8,253
17. Allocations of special drawing rights (SDR)-----	710	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18. Errors and omissions and other transactions <sup>3/</sup> -----	-8,818	-6,734	1,940	438	1,742	880	-600	-82	-601	1,769	1,495	-412	-913	-501	8,674
19. NET LIQUIDITY BALANCE <sup>4/</sup> -----	-13,856	-7,606	e-18,109	-89	-223	-6,607	-5,947	e-5,332	-869	-1,075	-6,245	-4,694	e-6,096	-1,402	-10,503
20. Liquid private capital flows, net-----	3,502	2,071	e 10,149	071	1,718	2,502	4,343	e 1,586	3,530	2,095	1,697	4,322	e 2,035	-2,287	7,847
21. Liquid claims-----	-1,247	-1,341	e-4,852	-341	-2,746	-1,190	315	e-1,231	-493	-2,604	-1,141	274	e-1,381	-1,655	-2,908
22. Reported by U.S. banks-----	-742	-1,103	-4,927	-472	-2,232	-1,236	-336	-1,123	-472	-2,232	-1,236	-336	-1,123	-787	-3,824
23. Reported by U.S. nonbanking concerns-----	-505	-841	e 75	131	-514	46	651	e-108	-21	-372	95	610	e-258	-868	916
24. Liquid liabilities-----	4,749	4,246	15,001	3,412	4,464	3,692	4,028	2,817	4,023	4,699	2,838	4,048	3,416	-632	10,755
25. To foreign commercial banks-----	3,716	2,982	11,991	2,616	4,409	2,798	2,928	1,856	3,227	4,644	1,944	2,948	2,455	-493	9,009
26. To international and regional organizations-----	104	377	70	384	-585	292	221	142	384	-585	292	221	142	-79	-307
27. To other foreigners-----	929	887	2,940	412	640	602	879	819	412	640	602	879	819	-60	2,053
28. OFFICIAL RESERVE TRANSACTIONS BALANCE <sup>5/</sup> -----	-10,354	-5,304	-7,960	2,982	1,495	-4,105	-1,604	-3,746	2,661	1,020	-4,548	-372	-4,061	-3,689	-2,656
Financed by changes in:															
29. Liquid liabilities to foreign official agencies-----	9,734	4,452	8,250	-2,468	-1,006	3,840	2,544	2,872	-2,145	-531	4,281	1,313	3,188	1,875	3,798
30. Other readily marketable liabilities to foreign official agencies <sup>4/</sup> -----	399	1,118	493	-354	-277	182	63	525	-354	-277	182	63	525	462	-625
31. Nonliquid liabilities to foreign official reserve agencies reported by U.S. Government-----	189	-475	651	-145	-2	441	-	212	-147	-2	443	-1	211	212	1,126
32. U.S. official reserve assets, net (increase -)-----	32	209	-1,434	-15	-210	-358	-1,003	137	-15	-210	-358	-1,003	137	1,140	-1,643
33. Gold-----	547	-	-	-	-	-	-	-	-	-	-	-	-	-	-
34. SDR-----	-703	9	-172	(*)	-	-29	-123	-20	(*)	-	-29	-123	-20	103	-181
35. Convertible currencies-----	35	233	3	(*)	-1	-85	-152	241	(*)	-1	-85	-152	241	393	-230
36. Gold tranche position in IMF-----	153	-33	-1,265	-15	-209	-244	-728	-84	-15	-209	-244	-728	-84	644	-1,232
Memorandum:															
37. Gross liquidity balance, excluding allocations of SDR (lines 32, 31, 30, 29, 24, 17, with sign reversed)-----	-15,813	-9,550	-22,961	-430	-2,969	-7,797	-5,632	-6,563	-1,362	-3,679	-7,386	-4,420	-7,477	-3,057	-13,411
38. Changes in liquid liabilities of U.S. banks to their foreign branches (part of line 25)-----	182	309	1,301	212	3,379	-982	-442	-654							
39. Index of trade-weighted average foreign currency price of U.S. dollar (May 29, 1970 = 100). <sup>5/</sup> -----	90.6	85.3	83.9	85.3	82.7	83.5	86.2	83.9							

† These balances have been used to measure exchange market pressures on the dollar. Under current conditions these pressures are inadequately reflected in them. For changes in dollar exchange rates, see line 39.

p Preliminary. e Estimates. \* Less than \$500,000 (±).

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 fourthquarter data are not available.

4/ Includes changes in nonliquid liabilities reported by U.S. banks and in investments by foreign official agencies in debt securities of U.S. Government corporations and agencies, private corporations, and State and local governments.

5/ Based on U.S. Department of Treasury calculations of trade-weighted average exchange rate changes of OECD currencies vis-a-vis the U.S. dollar. Calculated as of end of period.

markets. To a large extent, the changes in dollar holdings by foreign official agencies reflect investment decisions by the authorities of petroleum-producing countries to place surplus exchange revenues in, or withdraw revenues from, U.S. money markets.

The net liquidity balance was in deficit by \$6.1 billion in the fourth quarter, compared with \$4.7 billion in the third. For the full year 1974 the deficit was \$18.1 billion, compared with \$7.6 billion in 1973. This balance was intended, under fixed exchange rates, to indicate potential pressure on the dollar resulting from changes in the U.S. liquidity position. Under a system of managed floating exchange rates, the usefulness of the net liquidity balance is limited. In addition, the balance is subject to a number of deficiencies--as it was under fixed rates--related to difficulties in distinguishing liquid from nonliquid liabilities and claims, which has recently become more blurred.

A review of the balance of payments presentation designed to make it more useful for the analysis of U.S. international transactions and exchange rate developments under current conditions is being conducted by an interagency group under the direction of the Office of Management and Budget (OMB). A private advisory committee, selected by OMB, is participating in the review.

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 19. Complete balance of payments data for the fourth quarter 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 District 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 \$48.30, including weekly supplements; single copy, \$3.00.

TABLE FOLLOWS:

# HOW'S BUSINESS?

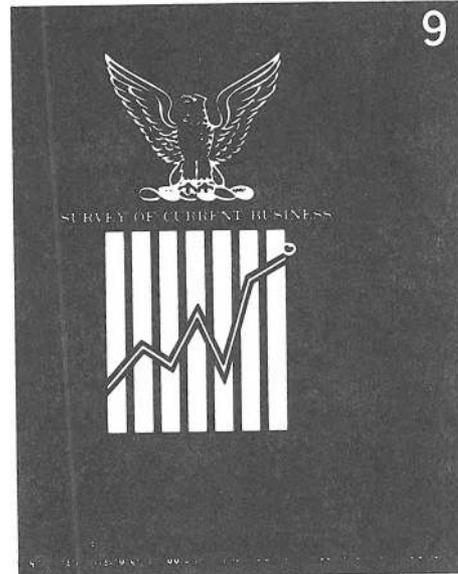
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