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

Social and Economic
Statistics Administration

BUREAU OF
ECONOMIC ANALYSIS

FOR WIRE TRANSMISSION 10:00 A.M.
THURSDAY, MAY 15, 1975
Evelyn M. Parrish: 523-0620

BEA 75-35

U.S. BALANCE OF PAYMENTS DEVELOPMENTS
FIRST QUARTER 1975

Among major developments in U.S. international transactions in the first quarter, the merchandise trade balance shifted $2.8 billion to a $1.3 billion surplus; U.S. bank-reported capital outflows dropped $0.6 billion to $3.7 billion; and a $1.3 billion shift to a net inflow through foreign purchases of U.S. securities was offset by a rise in net U.S. purchases of foreign securities. These preliminary data were reported today by the Bureau of Economic Analysis, an agency of the Commerce Department's Social and Economic Statistics Administration.

The rise in U.S. liabilities to foreign official agencies slowed $1.3 billion to $3.1 billion in the first quarter, and U.S. liquid liabilities to private foreigners declined $1.1 billion, following a $4.9 billion rise in the fourth quarter. Most of the decline was in transactions with foreign commercial banks, including branches of U.S. banks, particularly in Switzerland, the United Kingdom and France. The rise in liabilities to private and official holders in petroleum-exporting countries slowed to $0.5 billion from $2.0 billion.

Transactions for which first quarter data have not yet been reported, and unrecorded transactions (errors and omissions), shifted $3.8 billion to net inflows of $1.9 billion. This large shift suggests that net corporate capital outflows may have declined in the first quarter.

- more -

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

The U.S. dollar, after weakening in exchange markets during January and February, strengthened in March. On a trade-weighted average basis, the foreign currency price index of the U.S. dollar was 82.6 at the end of March compared with 83.9 at the end of December (May 29, 1970 = 100).

Selected International Transactions

Merchandise trade

The merchandise trade balance shifted to a $1.3 billion surplus from a $1.5 billion deficit in the fourth quarter. (These figures are 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.)

Exports rose $0.6 billion to $26.8 billion, and imports dropped $2.2 billion to $25.5 billion. Prices (measured by the Census Bureau's unit value index) rose over 3 percent for exports and almost 2 percent for imports. In volume terms, exports were virtually unchanged and imports were down 10 percent. The sharp slowdown in imports resulted from a decline in U.S. production and a liquidation of inventories.

Increased agricultural shipments--mainly grain in January--accounted for the entire rise in total exports. Nonagricultural exports, in the aggregate, were unchanged at $20.6 billion; large declines in textiles, steel scrap and products, aircraft, and automotive equipment to Canada were matched by increases in coal, machinery, and gold. The rise in gold exports reflected resales of gold previously imported in anticipation of heavy domestic demand, which did not materialize, and auction sales by the U.S. Treasury to foreign buyers.

Petroleum imports (including imports into the Virgin Islands) dropped $0.9 billion to $6.4 billion. A sharp rise in January, prior to the imposition of a $1.00 per barrel import fee, was followed by steep declines in the following two months. Other imports decreased $1.3 billion to $19.1 billion, largely due to a reduction in demand for nonferrous metals, chemicals, textiles, consumer goods, and Canadian automobiles. Imports of capital goods were unchanged, and imports of gold, steel, and coffee rose.

Security transactions

Net U.S. purchases of foreign securities--mostly bond issues--rose to $2.0 billion, $1.3 billion more than in the fourth quarter and more than the 1974 total. Over half the rise from the fourth quarter was accounted for by new issues of the World Bank and the Inter-American Development Bank. These were the first sizable issues by international organizations floated in the U.S. market since the first quarter of 1972. Purchases of new Canadian issues rose $0.3 billion to $0.8 billion, and purchases of new European issues increased to $0.3 billion from $0.1 billion. The record first quarter placements were due to the relatively low cost of borrowing in the United States, compared with most other leading countries.

Net foreign purchases of U.S. securities were $0.6 billion, in contrast to net foreign sales of $0.7 billion in the fourth quarter. Foreign transactions in U.S. stocks shifted from small net sales to net purchases of $1.0 billion in the first quarter, the highest in 2 years, as U.S. stock prices rose substantially. About one-third of the stock purchases were made directly by petroleum-exporting countries, and most of the remainder by European countries, especially Switzerland and the United Kingdom. Net foreign sales of U.S. bonds--mainly U.S. agency issues sold by international organizations--continued, but were only about half as large as in the fourth quarter.

Bank-reported capital outflows

U.S. bank-reported capital outflows (lines 14, 16, and 22 in the table) dropped to $3.7 billion from $4.3 billion in the fourth quarter. Shifts to net inflows through net repayments of short-term claims on Japan and reduced outflows to Western Europe and Canada were partly offset by a sharp rise in outflows to the Bahamas. The latter may have been re-invested in the Eurodollar market.

The overall payments balances

The official reserve transactions balance was in deficit by $2.8 billion in the first quarter, compared with a $4.5 billion deficit in the fourth. Changes in this balance reflect changes in U.S. liabilities to 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 markets. To a large extent, the changes in dollar holdings by foreign official agencies reflect investment decisions by the authorities of petroleum-producing countries, who may place surplus exchange revenues in U.S. money markets, or reduce their U.S. money market holdings in order to make other investments in the United States or elsewhere.

The net liquidity balance was in surplus by $2.7 billion in the first quarter, compared with a $7.4 billion deficit in the fourth. 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. U.S. bank claims on their foreign branches, for example, are classified as liquid; thus, the increased utilization of Bahama branches as intermediaries in lending abroad results in loans to those branches being classified as liquid, although in many instances the subsequent lending or investment by the branch would be classified as nonliquid.

Selected Data on Foreign Transactions of the United States in the First Quarter of 1975
Available as of the Middle of May, 1975

(Millions of dollars, unless otherwise noted)

	Credits (+); debits (-)	1973	1974 Year[r]	1974 I	1974 II	1974 III	1974 IV[r]	1975 I[p]	Adjusted for seasonal variations 1974 I	1974 II	1974 III	1974 IV[r]	1975 I[p]	Change IVQ-IQ
1.	Merchandise trade balance 1/	471	-5,791	622	-1,390	-3,906	-1,117	1,870	-189	-1,655	-2,475	-1,472	1,340	2,812
2.	Exports	70,277	97,081	22,519	25,004	22,853	26,705	26,963	22,212	23,921	24,731	26,217	26,822	605
3.	Imports	-69,806	-102,872	-21,897	-26,394	-26,759	-27,822	-25,093	-22,401	-25,576	-27,206	-27,689	-25,482	2,207
4.	Transactions in foreign securities, net; U.S. purchases (-)	-807	-1,951	-646	-313	-306	-686	-2,036	-646	-313	-306	-686	-2,036	-1,350
5.	Foreign securities newly issued in the United States	-1,391	-2,341	-680	-475	-416	-770	-2,142	-680	-475	-416	-770	-2,142	-1,372
6.	Redemptions	458	418	103	114	106	95	144	103	114	106	95	144	49
7.	Other bonds	-86	-278	-59	-77	-83	-59	-15	-59	-77	-83	-59	-15	44
8.	Other stocks	211	251	-10	126	87	48	-23	-10	126	87	48	-23	-71
9.	Transactions in U.S. securities other than Treasury issues, net; foreign purchases (+)	4,051	605	687	419	168	-669	632	687	419	168	-669	632	1,301
10.	Stocks	2,758	447	376	12	82	-23	959	376	12	82	-23	959	982
11.	Eurobonds newly issued abroad by U.S. corporations 2/	1,223	116	24	67	13	12	-	24	67	13	12	-	-12
12.	Other bonds	69	42	287	340	73	-658	-327	287	340	73	-658	-327	331
13.	Nonliquid capital flows reported by U.S. banks, net	-4,587	-13,313	-2,744	-6,235	-1,250	-3,084	996	-2,838	-6,213	-1,585	-2,677	902	3,579
14.	Long-term claims on foreigners	-899	-1,170	-182	-913	88	-163	-400	-182	-913	88	-163	-400	-237
15.	Long-term liabilities to private foreigners	252	39	161	11	-20	-113	-79	161	11	-20	-113	-79	34
16.	Nonliquid short-term claims on foreigners	-3,940	-12,182	-2,723	-5,333	-1,318	-2,808	1,475	-2,817	-5,311	-1,653	-2,401	1,381	3,782
17.	Allocations of special drawing rights (SDR)	-	-	-	-	-	-	-	-	-	-	-	-	-
18.	Errors and omissions and other transactions 3/	-6,734	1,217	1,937	735	-479	-976	2,243	2,016	1,366	-265	-1,903	1,852	3,755
19.	NET LIQUIDITY BALANCE‡	-7,606	-19,233	-144	-6,784	-5,773	-6,532	e 3,705	-970	-6,396	-4,463	-7,407	e 2,690	10,097
20.	Liquid private capital flows, net	2,302	10,909	1,639	2,679	4,164	2,427	e -5,872	2,016	1,874	4,143	2,876	e -5,495	-8,371
21.	Liquid claims	-1,944	-5,819	-2,874	-1,246	174	-1,873	e -4,555	-2,732	-1,197	133	-2,023	e -4,413	-2,390
22.	Reported by U.S. banks	-1,103	-5,800	-2,368	-1,261	-431	-1,740	-4,668	-2,368	-1,261	-431	-1,740	-4,668	-2,928
23.	Reported by U.S. nonbanking concerns	-841	-19	-506	15	605	-133	e 113	-364	64	564	-283	e 255	538
24.	Liquid liabilities	4,246	16,728	4,513	3,925	3,990	4,300	-1,317	4,748	3,071	4,010	4,899	-1,082	-5,981
25.	To foreign commercial banks	2,982	12,588	4,428	3,0[illegible]	2,876	2,269	-2,395	4,663	2,161	2,896	2,868	-2,160	-5,028
26.	To international and regional organizations	377	1,288	-530	[illegible]	221	1,300	848	-530	297	221	1,300	848	-452
27.	To other foreigners	887	2,852	615	613	893	731	230	615	613	893	731	230	-501
28.	OFFICIAL RESERVE TRANSACTIONS BALANCE‡	-5,304	-8,324	1,495	-4,105	-1,609	-4,105	-2,167	1,046	-4,522	-320	-4,531	-2,805	1,726
	Financed by changes in:													
29.	Liquid liabilities to foreign official agencies	4,452	8,507	-1,006	3,840	2,551	3,122	1,697	-557	4,255	1,263	3,549	2,335	-1,214
30.	Other readily marketable liabilities to foreign official agencies 4/	1,118	596	-277	182	61	630	801	-277	182	61	630	801	171
31.	Nonliquid liabilities to foreign official reserve agencies reported by U.S. Government	-475	655	-2	441	-	216	-5	-2	443	-1	215	-5	-220
32.	U.S. official reserve assets, net (increase-)	209	-1,434	-210	-358	-1,003	137	-326	-210	-358	-1,003	137	-326	-463
33.	Gold	-	-	-	-	-	-	-	-	-	-	-	-	-
34.	SDR	9	-172	-	-29	-123	-20	-5	-	-29	-123	-20	-5	15
35.	Convertible currencies	233	3	-1	-85	-152	241	-14	-1	-85	-152	241	-14	-255
36.	Gold tranche position in IMF	-33	-1,265	-209	-244	-728	-84	-307	-209	-244	-728	-84	-307	-223
	Memorandum:													
37.	Gross liquidity balance, excluding allocations of SDR (lines 32, 31, 30, 29, 24, 17, with sign reversed)	-9,550	-25,052	-3,018	-8,030	-5,599	-8,405	-850	-3,702	-7,593	-4,330	-9,430	-1,723	7,707
38.	Changes in liquid liabilities of U.S. banks to their foreign branches (part of line 25)	309	2,349	3,397	-762	-503	217	-1,000						
39.	Index of trade-weighted average foreign currency price of U.S. dollar (May 29, 1970 = 100) 5/	85.3	83.9	82.7	83.5	86.2	83.9	82.6						

‡ 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. r Revised

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 first quarter 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.

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

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 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.

Preliminary data for the balance of payments items now available are shown in the attached table. Revisions in these data (including revised seasonal adjustments), additional data, and the balance on current account and long-term capital will be published in a press release on June 18. Complete balance of payments data for the first quarter will be published in the June 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 $48.20, including weekly supplements; single copy, $3.00.