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TREASURY DEPARTMENT  
OFFICE OF THE ASSISTANT SECRETARY  
FOR INTERNATIONAL AFFAIRS

Date <sup>2/19/70</sup>.....

To: The Honorable  
Arthur F. Burns

From: Walther Lederer

*Balance  
of Payments*



Balance-of-Payments Projections  
for 1970 and the First Half of 1971\*

This report is based on the projections prepared by the Balance-of-Payments Information Committee in its quarterly meeting on January 9, but the estimates have been modified to reflect the assumptions for domestic economic developments that are now included in the President's Economic Report, and the data on international trade and banking transactions in December which were not available at the time of the meeting. The major part of the 1969 data on international transactions will not be available until early March, however, so that the figures for 1969 in the tables are still estimates and subject to revisions.

Major Trends

Under the assumptions, indicated in detail later, the merchandise trade balance is expected to improve from an annual rate of about \$1.6 billion in the second half of 1969 to about \$2.5 billion in the first half of 1970, but to decline again thereafter to about \$1.6 billion in the second half of 1970 and perhaps to less than \$1 billion in the first half of 1971 (Table 1). For 1970 as a whole, it is estimated at just over \$2 billion, a \$1.4 billion improvement over 1969.

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\* The review was prepared by Walther Lederer, Chairman, Balance-of-Payments Information Committee. The estimates are/those prepared by the Committee, but the text does not necessarily reflect the views of the Committee members.



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The balance on goods and services follows rather closely the changes in the merchandise trade balance: It is expected to rise from an annual rate of \$2.9 billion in the last half of 1969 to a peak of \$3.9 billion in the first half of this year and then to recede again to \$3.5 billion in the second half and to \$2.9 billion in the first half of next year.

The improvement in the balance on goods and services in 1970 is expected to be largely offset, however, by adverse changes of about \$1.1 billion in private capital transactions (other than changes in liquid liabilities). About half of that change is expected from a rise in the net outflow of U. S. capital and half from a decline in the net inflow of foreign capital (other than liquid funds).

Government grants and credit transactions net of repayments are expected to result in slightly smaller net debits than last year. However, net receipts from advance payments on military sales and from the sale of special bonds to Germany under the military offset agreement are likely to shift from net credits of over \$0.5 billion in 1969 to net debits of nearly \$200 million in 1970.

Omitting special financial transactions of official U. S. and foreign agencies, (which in 1969 had an adverse effect of about \$870 million<sup>1/</sup> on the liquidity balance), and omitting also extraordinary errors and omissions (which in 1969 resulted in net payments of about \$2 billion), the balance

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<sup>1/</sup> Including \$37 million (net) received in the fourth quarter from Germany to compensate for future losses resulting from repayments of DM obligations at appreciated exchange rates.



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measured on the liquidity basis is expected in 1970 to be a deficit of about \$4.2 billion, roughly the same as the \$4.1 billion deficit in 1969 measured on the same basis. If some of the extraordinary outflow through unrecorded transactions in 1969 should be reversed, the recorded liquidity deficit in 1970 would be considerably smaller than the \$4.2 billion estimated here. In the first half of 1971 the deficit, at an annual rate, is estimated to be close to \$5 billion.

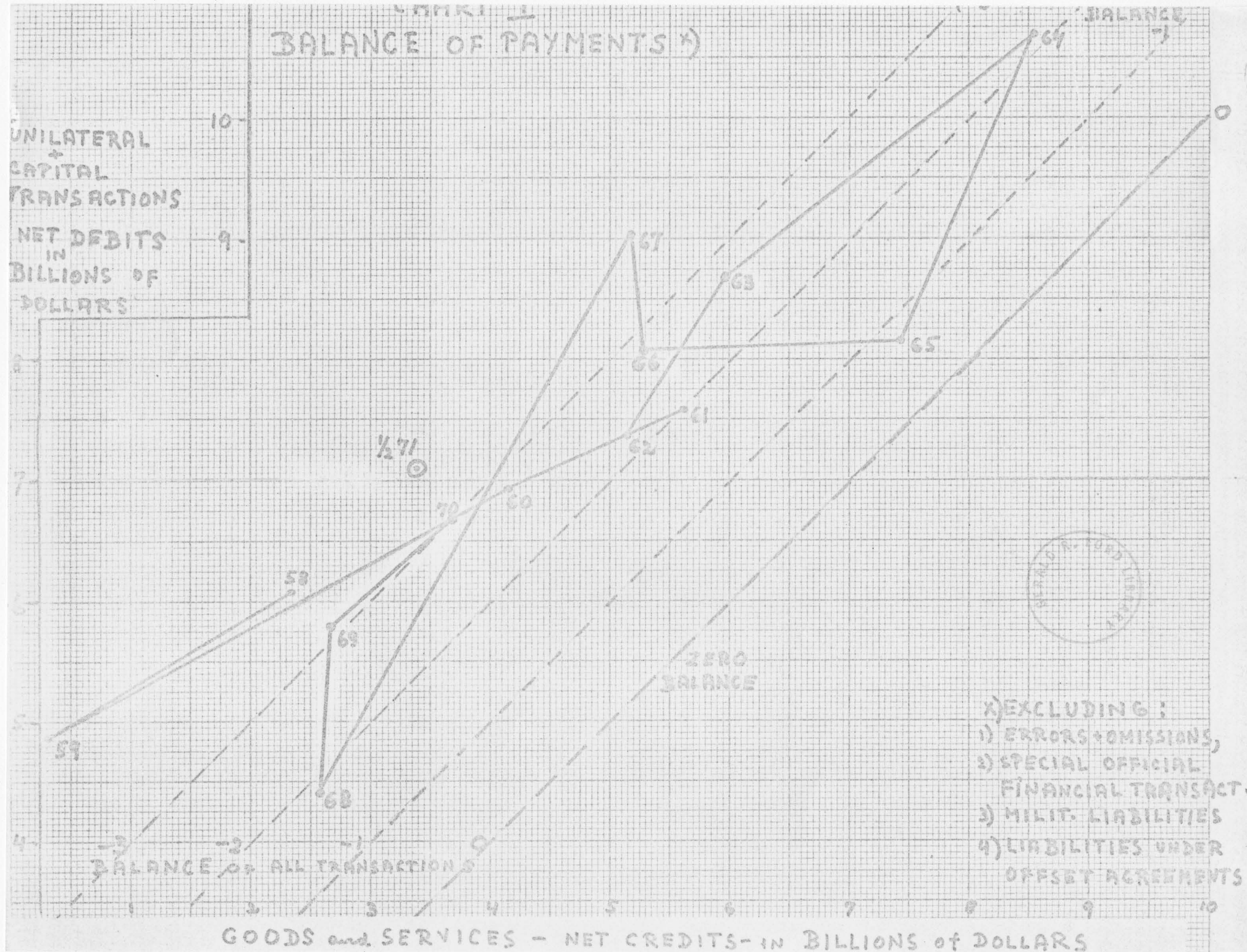
#### Longer Run Perspectives

To bring the projected changes in the balance of payments into a longer run perspective, the relationship between the balance on goods and services and the balance on unilateral transactions and capital flows for the years 1958 to 1970 is shown on Chart I. The figures exclude changes in liquid liabilities, special official financial transactions, liabilities arising from advances on military sales, the sales of special obligations to Germany under the offset agreements, and errors and omissions. The chart shows that in this period, with the exception of 1965 and 1968, the relationship between the balance on goods and services and the balance on unilateral and capital transactions was relatively stable. The present indications for 1969 suggest that this relationship has continued and the estimates for 1970 fall into the same pattern. The estimates for the first half of 1971, however, include a somewhat larger net capital outflow than the amount that would



# CHART 1 BALANCE OF PAYMENTS X)

UNILATERAL  
CAPITAL  
TRANSACTIONS  
NET DEBITS  
IN  
BILLIONS OF  
DOLLARS



- X) EXCLUDING:
- 1) ERRORS + OMISSIONS,
  - 2) SPECIAL OFFICIAL FINANCIAL TRANSACTIONS,
  - 3) MILIT. LIABILITIES
  - 4) LIABILITIES UNDER OFFSET AGREEMENTS

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correspond to the projected net balance on goods and services. It is conceivable that for that period the estimate for capital movements is too large or that the estimate for the surplus on goods and services is too low, provided it is assumed that the basic relationship between these two categories of transactions has not deteriorated. To bring the figures for the first half of 1971 in line with the previous relationships, the balance on goods and services could be raised by about \$400 million, i.e., from \$1,450 to about \$1,850 million (which would be about as high as the average for 1970 and unlikely in view of the assumed changes in business conditions at home and abroad) or the estimate for net capital outflows and unilateral transfers could be lowered by about \$400 million from the present estimate of \$3,540 million. In view of the uncertainties in the estimates on capital flows, the latter seems to be the more likely alternative.

The deviations in the relationship between the balances on the two major categories of transactions in 1965 and 1968 probably reflect the initial effects of the programs to restrain capital outflows through banking and corporate transactions, which were started on a voluntary basis in the first of these years, and greatly strengthened in the second. The chart suggests, however, that following these years adjustments have taken place which restored the pattern in the international transactions that prevailed prior to these





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deviations. However, with the programs continuing, there were no comparable deviations in the other direction.

The stability in these relationships over a rather long period, and the tendency of such relationships to be restored after major or minor disturbances does not necessarily mean, however, that it reflects an equilibrium for an indefinite future. It may merely reflect the tenaciousness of the balance-of-payments problem, and the difficulties of achieving longer lasting improvements.

#### Comparison with Previous Estimates

Table 1 shows the various estimates made by the Balance-of-Payments Information Committee for each of the major categories of transactions and for the liquidity balance (adjusted for special financial transactions and for "abnormal" errors and omissions) since early May of last year. It may be noted that for each of the major categories (except Government grants and credits) and for the balance itself the May estimate for 1969 was closer to the last estimate than any of the estimates made in between. The largest variations were in the estimates for private capital flows for which a dependable relationship to the economic developments specified in the underlying assumptions has not yet been found. The experience also suggests, however, that in periods of financial stresses and disturbances estimates that are based on longer run trends are often more



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reliable than those that are strongly influenced by most recent data, because the latter are more likely to be affected by erratic and temporary developments.

The experience that estimates based on longer run trends (or economic relationships) are relatively more reliable than those which attempt to put more weight on shorter term experiences conforms also with the impression of relatively stable relationships between major categories of international transactions conveyed by Chart I.





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Major Assumptions

## (a) Domestic Economic Developments

The assumptions concerning domestic developments conform with those used in the Economic Report of the President (pp 57 ff). They are shown in Table 2. Generally, the more recent projections show a smaller drop of real GNP in the first half and a slower rise in the second half of 1970, and for the year as a whole a slightly lower figure than had been assumed in September. In money terms, however, the more recent projection indicates a 5.7 percent year-to-year rise in GNP compared with a 5 percent rise projected earlier. The difference reflects the assumption that the rise in prices will not be dampened as quickly as had previously been assumed. The Balance-of-Payments Information Committee was not supplied with specific data on interest rates or monetary quantities that would be compatible with the GNP projections. In order to estimate receipts and payments on investment incomes it is necessary, however, to make some assumptions concerning interest rates. For these estimates it has been assumed that short-term rates charged and paid by banks will drop each quarter approximately 1/2 percent, so that at the end of 1970 the rates will be about 2 percent below the average of those paid and received in the last quarter of 1969. For 1970 as a whole, the average rate will be less than 1 percent below the average rate for 1969, and 1-1/2 percent below the average for the fourth quarter. The decline in long-term

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rates may be somewhat slower.

The assumed decline in short-term rates would be somewhat faster than the 1.2 percent drop in the increment of the GNP deflator - from the 4.7 percent increase at an annual rate in the fourth quarter 1969 to a 3.5 percent increase in the fourth quarter 1970. The assumption that interest rates may drop somewhat faster than the GNP deflator is based on the consideration that prices for goods will drop faster than the deflator and that a cyclical decline in the demand for short-term funds should be reflected in a decline in the real (or price-adjusted) interest rate. These tendencies are expected to be partly offset, however, by a continuation of tight credit throughout the year in major foreign countries where authorities are also trying to dampen price increases. The effects of these policies are more likely to be felt in the Euro-dollar market than in U. S. domestic credit markets, but it is assumed that U. S. banks will continue to be interested in attracting funds through their foreign branches and thus will have to pay the rates prevailing there.

(b) Foreign Economic Developments

Industrial production in the major foreign countries, weighted by their share in U. S. exports, is expected to rise in 1970 over the preceding year only by about 6.5 percent, compared with about 10 percent in 1969 from the relatively low output in 1968. The change during 1970, however, is also slower than last year, but the difference is likely to



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be less than in the year-to-year changes. (Table 3)

Some slowdown in production in 1970 is expected in Canada, Germany and France, largely as a result of policies to restrain inflationary tendencies. Increases are likely to occur in the United Kingdom where the economy has been substantially strengthened, and in Italy which in 1969 was adversely affected by major strikes. Production in Japan is now expected to rise approximately at the same pace as in 1969, but if inflationary pressures strengthen, restraining measures may also be taken there.

The restraining measures in the first group of countries will tend to keep up pressures on capital markets, offsetting in part at least, the slight easing of pressures that might be expected in the U. S. It is not expected that the pressures on capital markets emanating from these countries will be relieved by relaxations in the United Kingdom or Italy. It may be expected, however, that the policies to dampen inflationary pressures in Canada, Germany, and France will have attained the desired results by the end of 1970, and that some relaxations will be permitted late in the year or early in 1971.





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Major TransactionsGoods and Services

The balance on goods and services improved from about \$700 million in the first half of 1969 to about \$1,500 million in the second half (Table 4). The change reflects, in part, the effects of the dockworkers' strike in the first half which may have reduced the trade balance in that period by roughly \$400 to \$500 million. There was an improvement, however, even after the strike effects are allowed for, which may be attributed to an acceleration in exports, probably in response to a sharp rise in demand in some of the major European countries and Japan. The improvement in the trade balance was partly offset, however, by a decline in net receipts of investment incomes, as U. S. payments were sharply increased by the rising interest rates paid on foreign holdings of liquid dollar assets.

Merchandise Trade

The improvement in the trade balance is expected to continue in the first half of this year, but this reflects a leveling off of domestic import demands rather than a continuation of the rapid rise in exports. In the second half of the year, with imports accelerating again, but with the increase in exports lessening further, the trade balance is expected to decline again.



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In the first half of 1971, both exports and imports are expected to accelerate again. With foreign business activity still in the early stages of the upswing, while U. S. business activity is already in a more advanced phase of the upswing, exports are not expected to rise as rapidly as imports. A further decline in the trade balance is anticipated therefore.

The estimates do not take into consideration the effects of various developments which could not be evaluated in quantitative terms. Those that could affect the trade balance favorably include the appreciation of the German Mark, and the production of small automobiles in the U. S. Those that may have an adverse effect are potential changes in petroleum import policies, the general increase in the competitive<sup>strength</sup>/of the United Kingdom, and the relaxation of the requirements that foreign aid funds have to be spent in the United States.

The estimate for merchandise exports is composed of separate estimates for agricultural products, commercial aircraft and parts, automotive products shipped to Canada, and all other exports. Only the latter are computed on the basis of assumptions concerning business developments as outlined above.

Although the rise in total exports is expected to accelerate from 8.6 percent in 1969 to about 10 percent in 1970, the increase in that part that is estimated on the





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basis of business developments is projected to slow down from nearly 16 percent in 1969, to about 6.6 percent in 1970. A major part of the export increase is expected to be in commercial aircraft (about \$560 million), and in shipments of automotive products to Canada (about \$350 million). These shipments consist to a large extent of parts for assembly of cars in Canada, some of which are shipped back to the United States. The trade in automotive products between Canada and the United States reflects more the expansion in cross-shipments than changes in either the U. S. or the Canadian markets. However, the estimates represent largely extrapolations of recent trends, rather than substantiated information (Table 5).

The slow-down in imports becomes evident only if the 1968 and 1969 figures are adjusted for the effects of strikes and for shipments of automotive products from Canada. (In 1968 imports were raised by the strikes in the steel and copper-mining industries, and in 1969 they were reduced by the shipping strike.) With domestic GNP in current dollars projected to rise about 5.65 percent in 1970, imports after adjustments are expected to increase about 4.5 percent. The corresponding figures for 1969 were a 7.7 percent rise for GNP and a 10.8 percent rise for imports. (Table 6)





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If the GNP assumptions for 1970 were varied by plus or minus \$5 billion, the import estimate would have to be adjusted by plus or minus \$275 million. An increase in the variation in GNP from the assumptions underlying this projection would be associated with a relatively larger change in imports.

#### Military and Services Transactions

The peak in military expenditures at an annual rate of about \$5 billion is likely to be in the fourth quarter of last year or the first quarter of this year. The decline from this peak is expected to be rather slow, however, assuming that no significant changes are made in the troop strength in Europe. The anticipated rise in costs of maintaining troops there, accentuated by the appreciation of the German currency, would largely offset the expected decline in expenditures in the Far East, as troop strength there is reduced.

Deliveries under sales contracts of the Defense Department are anticipated to decline in 1970. Nevertheless, they are expected to exceed current receipts of advance payments, so that the backlog of still outstanding and paid orders is also expected to be reduced. In the first half of 1971 a reversal of that trend is expected as new funds from Germany are to be received under the recently concluded offset agreement, but - at least under the arrangements so far concluded - the decline in out-

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standing orders is likely to be resumed in subsequent periods. To some extent the decline in orders for military equipment channeled through the Department of Defense may be offset by orders received directly by U. S. manufacturers of such equipment, which would thus result in larger commercial exports.

Travel expenditures abroad are anticipated to rise in 1970 somewhat slower than in previous years as a consequence of the slower growth in domestic incomes. Receipts may be stimulated, however, by the lifting of restrictions on foreign travel expenditures of residents of the United Kingdom, and by the appreciation of the German Mark. The increase in receipts expected from these countries may largely compensate for a slower growth in receipts from residents of Canada, reflecting the slower growth in their incomes.

Net receipts from other services, which include transportation, royalties and fees received from, and paid to, independent as well as affiliated foreign enterprises, insurance, contractors' fees, and U. S. Government services transactions, are expected to continue the upward trend that prevailed in past years. Royalties and fees received from affiliated foreign enterprises are the major factor contributing to that trend.





Investment Incomes

The balance on investment incomes is expected to rise again in 1970 and continue to do so in 1971 after having declined in 1969. This change will to some extent offset the deterioration in the trade balance which is expected to affect the second half of 1970 and the first half of 1971.

The increase in net receipts is expected to result partly from the continued rise - although at a slower rate than in 1969 - in incomes on direct investments, and, more importantly, from a drop in incomes paid on foreign holdings of dollar assets as a consequence of the anticipated decline in interest rates on U. S. banking and other short-term liabilities.

in 1970

Incomes on direct investments/are expected to be adversely affected by the anticipated slowdown in business activity and the associated squeeze on profits in some of the major foreign countries. Also, the large rise in incomes in 1969 was in part due to special developments, including the distribution by some companies of incomes earned in previous periods, and a large rise in incomes from oil investments as new developments became operative. No allowance was made for such special developments in 1970 or the first half of 1971.

Incomes on other U. S. investments abroad are expected to decline somewhat as the drop in earnings on short-term assets is expected to more than offset the continued rise in earnings on longer term assets, mainly securities. The



drop in earnings on short-term assets reflects mostly the expected decline in interest rates on short-term loans.

Income payments on foreign assets in the United States are strongly affected by interest rates paid on short-term liabilities. At the end of 1969 short-term liabilities reported by banks and non-bank corporations (including banking liabilities with a maturity over 1 year) were approximately \$47 billion. Omitting the very temporary reductions at the end of the year, they were about \$1-1/2 billion higher. A therefore, 1 percent change in the interest paid, changes our payments by nearly \$500 million per year.

The interest rates paid on deposits in the Euro-dollar markets are assumed to determine more or less the rates paid by U. S. banks to their foreign branches and to foreign official organizations which are exempt from Regulation Q. These rates reached a peak in the third quarter (except for very short-term funds for which the highest rates were paid at the end of the year) and dropped in the fourth. They are assumed for purposes of this projection - as indicated earlier - to drop about 1/2 percent in each quarter of 1970 and slightly less in the first half of 1971. By the last quarter of 1970 these rates are assumed to be about 2 percentage points lower than in the last quarter of 1969. Nevertheless, the average for 1970 will be less than 1 percent below the average for 1969. The rates on domestic money market investments, primarily Treasury bills and commercial paper, reached a peak at



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the end of last year, and have since then dropped. During the year, these rates are assumed to decline in the same proportion as the Euro-dollar rates.

The decline in average interest rates from 1969 to 1970 is more than offset, however, by the rise in the amount of outstanding short-term liabilities, which may be expected to average in 1970 \$5 to \$6 billion higher than in 1969, and by a rise in long-term foreign investments here which may average about \$3-1/2 to \$4 billion higher. For 1970 as a whole the payments of income on foreign investments in the United States are, therefore, calculated to be somewhat higher than in 1969 although the trend during the year is anticipated to be declining.



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Private Capital Movements (Excluding Liquid Liabilities)

In 1969, capital transactions between private U. S. and private foreign residents (i.e. excluding special financial transactions of U. S. and foreign official agencies) may have resulted in net outflows of about \$900 million. (This figure contains only rough estimates of corporate transactions in the fourth quarter for which reasonably firm data will not be available until the middle of March). The \$900 million net outflow followed a net inflow of roughly the same magnitude in 1968 and thus resulted in an adverse change of \$1.8 billion for the balance of payments. (Table 7)

The \$1.8 billion change in private capital flows in 1969 is accounted for by (in millions of dollars):

A. Adverse changes:		
(1) net outflow of U. S. corporate capital:		-800
(2) net outflow of bank-reported funds (excluding liquid liabilities)		-740
(3) transactions in securities (other than new issues by U. S. corporations)		-710
(4) brokers' funds		-70
Total		-2320
B. Favorable changes:		
(1) foreign direct investments in the U. S.		+500
Total		+500
Net (A + B)		-1820



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For 1970, a further rise of about \$1.1 billion in the net outflow of capital is projected. The increase is expected to result from a \$1 billion increase in net outflows of corporate capital, a \$0.2 billion decline in the inflow of foreign capital for direct investments (from an exceptionally large amount in 1969). These adverse changes are expected to be partly offset by a \$0.1 billion decline in the outflows of bank-reported funds, and a small increase in net inflows through security transactions.

In 1970 the change in<sup>the</sup> balance on private capital transactions reflects to an about equal extent a decline in the inflow of foreign capital and an increase in the outflow of U. S. capital. The latter, which is estimated to have increased only \$250 million in 1969, is projected to rise about \$550 million in 1970. The inflow of foreign capital (which includes the foreign borrowing by U. S. corporations) is estimated to have dropped from nearly \$6 billion in 1968 to perhaps \$4.4 billion last year, and is projected to drop another \$550 million in 1970.

Although the net outflow of capital through private transactions is projected to rise to about \$2 billion in 1970, it would be much smaller than the net capital outflow of \$3.55 billion in 1967, and of \$3 billion in 1966.

The principal difference between the period preceding the end of 1967 and the period starting with 1968 is the growth in foreign investments in the United States. Although such





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investments are not expected to remain as high as they were in the peak year of 1968, they are expected to remain a much more important feature in the U. S. balance of payments than they were prior to 1968. After passing a trough in 1970, they are expected to increase again. The principal reasons for the rise in capital inflows are (1) the rise in savings relative to capital requirements in the more advanced foreign countries as their per capita incomes increased but the growth of their economies slowed down compared with what it had been before 1966 or 1967; (2) the desire of residents of advanced foreign countries to diversify their investments to include more equity shares relative to fixed interest assets; (3) the desire of foreign countries to diversify investments to include U. S. securities in order to spread political and economic risks, and to take advantage of the liquidity of such investments provided by the large security markets in this country; (4) the increasing tendency of foreign enterprises to develop or obtain affiliates in other countries including the United States; and (5) the expansion of foreign capital markets and the participation of U. S. financial firms in these markets, which encouraged U. S. firms to consider them as alternative sources of capital to U. S. markets. Even if capital can be obtained in the United States at slightly lower costs than abroad, some firms may continue to borrow abroad in order to remain in these markets and thus to protect themselves against the risks of capital stringencies in future periods. This may apply to banks as well as other corporations.

Corporate Transactions

Capital outflows for direct investments are expected to reach roughly \$3.6 billion in 1969 without allowing for the \$175 million sale of a major mining investment in Latin America for notes issued by the country in which the investment is located. The \$3.6 billion estimate for capital outflows includes the transfers to foreign affiliates of funds that had been borrowed abroad through the issue of bonds or through loans from banks or other financial organizations. The estimate for 1969 represents an increase of nearly \$600 million from 1968. For 1970 another increase of about \$700 million is anticipated.

This anticipation is based on the surveys on plant and equipment expenditures of foreign affiliates of U. S. corporations conducted by the Balance of Payments Division of OBE. The first survey for 1970, conducted last June, indicated a rise of about 18 percent over 1969 compared with a 12 percent rise in 1969. The next survey conducted in December confirmed these results.

There is no firm link between plant and equipment expenditures and capital transfers by the parent companies. Plant and equipment expenditures can be financed not only with parent company funds, but also with undistributed earnings of the foreign affiliates, with funds retained by them in depreciation reserves, with funds obtained from foreign sources, and even from non-affiliated U. S. sources. On the other hand, funds transferred by U. S. parent companies can be used to finance



# CHART II

CAPITAL OUTFLOWS  
FOR DIRECT INVEST-  
MENTS

BILL. \$

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1

BILL. \$ 4

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11

12

PLANT AND EQUIPMENT EXPENDITURES OF FOR. AFFILIATES

% of P+E  
50 EXP.

40

30

20

10

0

-10

-20

-30

-40

-50

-60

-70

-80

-90

-100

-110

-120

-130

-140

-150

-160

-170

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the increase in other capital assets (or to pay off liabilities) of the foreign affiliates, or to acquire from foreign owners equity interests in formerly independent enterprises or in foreign companies with which the U. S. firm was already affiliated.

Nevertheless, there appear to have been relatively stable relationships between plant and equipment expenditures and capital outflows, perhaps because of indirect connections. Acquisitions of foreign enterprises, for instance, may be motivated by the same considerations as expansions of existing affiliates. These relationships are shown for the years 1958 through 1968 in Chart II. It also shows the estimates for 1969 and 1970, permitting a comparison of these estimates with the experiences in the earlier years. In the 1959 to 1964 period, capital transfers were just under 40 percent of plant and equipment expenditures. In 1965 and 1966 they averaged about 44 percent but dropped to an average of about 34 percent in 1967 and 1968. The estimates for 1969 imply a 35 percent ratio, and the same ratio has been assumed for 1970. The drop in the ratio since 1967 may indicate a greater reliance by the affiliated foreign enterprises on foreign sources for their capital requirements. The change may have been stimulated by the restrictions on capital outflows from the U. S., but it was also facilitated by the development of foreign capital markets, and in this connection particularly the rising activities of foreign branches of U. S. banks.



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The projected rise in capital transfers to foreign affiliates is compatible with the restrictions on net capital outflows for direct investments under the OFDI regulations. Table 8 shows a rough reconciliation of the estimates based on the data derived from OBE questionnaires which are used in balance-of-payments presentations with those obtained by OFDI for the transactions subject to OFDI regulations. The OFDI data for 1969 and 1970 are based on sample questionnaires returned in January this year.

The reconciliation between the estimates for funds obtained abroad by U. S. corporations (shown in Table 7) and the use of such funds to finance direct investments abroad (shown in Table 8) is indicated in Table 9.

For 1970 it is assumed that U. S. corporations will use about \$0.4 billion of the funds obtained from bond issues in previous years. Together with about \$1.2 billion obtained through new issues, and with net borrowings of \$0.5 billion from foreign financial organizations, the total of foreign source funds used will be about \$2.1 billion. However, \$0.3 billion are expected to be repatriated to the U. S. leaving about \$1.8 billion to finance foreign direct investments. This would be about \$200 million more than in 1969. Since funds obtained abroad by the parent companies and their domestic finance affiliates are included in the transfers of parent company funds to foreign affiliates, the increase in





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transfers of funds from United States sources would equal the gross increase of \$700 million less the \$200 million rise in the use of foreign funds, or \$500 million.

#### Transactions in Securities

New issues of foreign securities (excluding special financial transactions) which amounted to \$1,620 million in 1969, are expected to be about \$1,550 million in 1970. The slight decline may be attributed to the incentive to postpone some of the issues in order to take advantage of the decline in interest rates, which is expected to occur during the year.

Purchases of outstanding foreign securities increased in 1969 to about \$190 million from \$100 million in 1968. A considerable part of that increase appears to have been due to a temporary spurt in September in purchases of Japanese stocks, amounting to over \$90 million. For 1970 and the first half of 1971 it has been assumed, however, that the basic conditions, including the reduction in the IET would favor a rise in such purchases. Consequently, an amount of \$150 million was included in the projections for 1970, and of \$100 million for the first half of 1971.

Foreign purchases of outstanding U. S. private securities (mostly stocks) dropped from about \$2.1 billion in 1968 to about \$1.6 billion in 1969. (These figures exclude government agency bonds purchased by international organizations.) About half of the 1969 purchases occurred in the first quarter of the year, however. In the second and third quarters foreign



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purchases dropped to \$230 and \$103 million, respectively. Large foreign purchases were resumed in October, but they declined again during the remainder of the fourth quarter. Nevertheless the fourth quarter purchases amounted to about \$500 million. In 1970 the decline in domestic interest rates in combination with the prospect of an acceleration of domestic business activity at least after the middle of the year should contribute to a rise in prices of U. S. securities which may stimulate foreign purchases. This tendency may be reinforced by the simultaneous decline in yields on Euro-dollar deposits, which in 1969 were high enough to attract foreign capital that otherwise might have been invested in U. S. stocks.

Although an increase in foreign purchases of U. S. securities is anticipated for 1970, such purchases are not expected to return to the high level attained in 1968. Measures taken by Germany to restrain domestic demand pressures, and measures taken by most of the European countries to control the activities of investment funds are assumed to have an adverse effect on capital outflows from Europe. Furthermore, the recent proposals for tax reform in Canada, would tend to discourage Canadian purchases of U. S. stocks and may even result in net liquidations of Canadian investments. On the basis of these considerations, it is assumed that net foreign purchases of outstanding U. S. stocks would amount to about \$600 million in



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the first half of 1970, that they would rise to about \$900 million in the second half, and remain at that rate in the first half of 1961. In addition, foreign residents may purchase about \$50 million of outstanding bonds in each of the half year periods.

#### Banking Transactions

Claims reported by U. S. banks for themselves and their domestic customers rose about \$530 million in 1969, including \$326 million (after seasonal adjustment) in the fourth quarter alone. Some reflow of these funds may have occurred early this year or may still be expected.

The more than \$500 million net outflow of capital reported by banks for 1969 did not consist of transactions which are subject to the voluntary credit controls of the Federal Reserve System. Some of the outflow was to Canada, some on loans guaranteed or participated in by the Export-Import Bank and some was reported by the banks for their domestic customers. These outflows can be expected to continue in 1970 and 1971. Furthermore, with the separation of export credits under the revised restraint program, an increase in the net outflow of banking funds may be expected. In the first half of the year, this tendency will in part be offset, however, by the reflow of some of the funds that moved out at the end of 1969. Without any firm basis for evaluating these tendencies, and the effects of the assumed





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easing on capital markets which may affect domestic markets earlier than those abroad, it has been assumed that bank-reported funds may show net outflows of \$150 million in the first half of 1970 and \$250 million in the second. With conditions in foreign capital markets becoming slightly easier, the net outflow in the first half of 1971 may decline slightly to, say, \$200 million. However, these estimates may be on the lower end of the possible range; the upper end may be several hundred million higher.



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Government Grants and Credits

The estimates incorporated in this projection are essentially the same as those used in the preceding projection prepared last September (Table 10). The gross outflow figures for 1969 (including a rough estimate for the fourth quarter based only on partial data) consisted of approximately \$1.7 billion in grants and of about \$3.4 billion in credits. Debt repayments (other than advance debt repayments which are treated as special official financial transactions) were approximately \$1.35 billion. This adds to net disbursements of about \$3.7 billion.

In 1970, net disbursements are expected to be slightly less than last year, or about \$3.5 billion. Grants are expected to decline to about \$1.6 billion. Credit disbursements are anticipated to rise, however, to perhaps \$3.5 billion, so that gross disbursements would remain about the same as last year. Disbursements under PL-480 and under the Foreign Assistance Act are projected to decline somewhat, but Export-Import Bank disbursements may increase.

The decline in net disbursements is expected to result from larger scheduled debt repayments, and from transactions with Germany involving the sale of \$87.5 million Export-Import Bank loans and advance debt repayment of \$44 million. These transactions were arranged under the recent agreement to



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offset military expenditures. These as well as other transactions that are linked to our military expenditures are not included among the special financial transactions.

Government Liabilities (other than special financial transactions and liquid liabilities)

Government liabilities (other than arising from special financial transactions, and liquid liabilities) consist mainly of obligations resulting from advance payments by foreign countries for military equipment, and of restricted securities purchased by Germany under military offset agreements. In addition, they include obligations to Canada under the Columbia River development project, non-interest bearing securities issued to international lending organizations, and various other deposits in special Treasury accounts.

In 1969, such liabilities increased about \$520 million. Included in this total is a net increase in outstanding obligations (receipts less deliveries) of about \$200 million on military sales contracts, and receipts of \$325 million from sales of restricted securities to Germany.

In the first half of 1969, liabilities on military contracts were reduced by \$20 million, but receipts from the sale of securities amounted to \$250 million. In the second half of the year liabilities on military contracts increased about \$225 million largely as a result of a large increase in cash receipts from Germany in the last quarter. Sales of





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special securities to Germany declined, however, to \$75 million.

In 1970 it is expected that receipts of advance payments by foreign governments on military contracts will be smaller than deliveries for which advance payments had been received in prior years, so that liabilities will drop by about \$210 million. Sales of restricted securities to Germany will be \$75 million. Other types of Government liabilities are assumed to decline about \$50 million. Thus, the total of these Government liabilities may decline by just under \$200 million.

In the first half of 1971 another large installment of advances on military contracts and additional sales of special securities are expected under the provisions of the most recent offset agreement with Germany, resulting a net increase in liabilities of about \$160 million.

Deposits in a special Treasury account by the German Government under the recent offset agreement to pay for expenditures for exports of civilian goods, and for direct investments by German firms in the United States are assumed to be used in the same half-year period in which the deposits are received so that liabilities will not accumulate. The estimates for merchandise exports and foreign direct investments are high enough to allow for such transactions.



Table 1  
Summary of Balance of Payments\*  
Estimates  
 (Billions of Dollars)

	1969 Annual	1970	1969 First Half	1969 Second Half	1970 First Half	1970 Second Half	1971 First Half
Balance on:							
Merchandise trade							
Estimates of May 69	0.6	--	0.3	0.3	--	--	--
July 69	0.5	--	0.1	0.4	1.0	--	--
Sept. 69	0.2	1.5	-0.1	0.4	0.9	0.6	--
Jan. 70	0.7	2.1	-0.1	0.8	1.3	0.8	0.4
Goods and services							
May 69	2.2	--	1.1	1.1	--	--	--
July 69	2.0	--	0.8	1.2	--	--	--
Sept. 69	1.5	3.0	0.6	0.9	1.6	1.4	--
Jan. 70	2.1	3.7	0.7	1.5	2.0	1.7	1.4
Unilateral transfers other than Gov't. grants							
May 69	-1.2	--	-0.6	-0.6	--	--	--
July 69	-1.2	--	-0.6	-0.6	-0.6	--	--
Sept. 69	-1.1	-1.2	-0.6	-0.6	-0.6	-0.6	--
Jan. 70	-1.2	-1.2	-0.6	-0.6	-0.6	-0.6	-0.6
Government grants and credits (net of sched- uled repayments)							
May 69	-4.1		-2.1	-2.0			
July 69	-3.6	--	-1.7	-1.9	-1.6	--	--
Sept. 69	-3.8	-3.5	-1.9	-1.9	-1.8	-1.7	--
Jan. 70	-3.7	-3.5	-2.0	-1.7	-1.7	-1.8	-1.7
Net movements of U.S. and foreign private capital (excl. liquid liabilities)							
May 69	-0.5	--	-0.6	0.1	--	--	--
July 69	-1.6	--	-1.1	-0.5	-1.2	--	--
Sept. 69	-1.7	-2.7	-1.3	-0.4	-1.5	-1.2	--
Jan. 70	-0.9	-2.0	-1.2	0.3	-1.1	-0.9	-1.2



Table 1 (Continued)

	1969	1970	1969	1969	1970	1970	1971
	Annual		First Half	Second Half	First Half	Second Half	First Half
Changes in Gov't. liabilities (mainly associated with military transactions)							
May 69	0.5	--	0.1	0.4	--	--	--
July 69	0.2	--	0.2	--	-0.1	--	--
Sept. 69	0.2	-0.2	0.2	--	-0.1	-0.1	--
Jan. 70	0.5	-0.2	0.2	0.3	-0.1	-0.1	-0.2
Balance on recorded transactions (excl. special financial transactions) on liquidity basis:							
May 69	-3.1		-2.1	-1.0	--	--	--
July 69	-4.2		-2.4	-1.8	-1.3	--	--
Sept. 69	-4.9	-4.6	-3.0	-2.1	-2.3	-2.3	--
Jan. 70	-3.1	-3.2	-2.9	-0.2	-1.5	-1.7	-1.9
Errors and Omissions (excl. "abnormal" in 1969)							
May 69	-1.0		-0.6	-0.4	--	--	--
July 69	-1.0		-0.5	-0.5	-0.5	--	--
Sept. 69	-1.3	-1.0	-1.1	-0.2	-0.5		
Jan. 70	-1.0	-1.0	-0.8	-0.2	-0.6	-0.4	-0.5
Balance on liquidity basis (excl. special financial transactions and "abnormal" errors and omissions in 1969)							
May 69	-4.1		-2.7	-1.4	--	--	--
July 69	-5.2		-2.9	-2.3	-1.8	--	--
Sept. 69	-6.2	-5.6	-4.0	-2.2	-2.8	-2.8	
Jan. 70	-4.1	-4.2	-3.7	-0.4	-2.1	-2.1	-2.4
Special financial transactions	-0.9	--	-0.4	-0.5	--	--	--
"Abnormal" errors and omissions	-2.0	--	-1.5	-0.5	--	--	--
Balance on liquidity basis as published	-7.0	--	-5.5	-1.4	--	--	--

x) Excluding special financial transactions of U. S. and foreign (and international) official agencies, and excluding "abnormal" errors and omissions.





Table 2

Assumptions for Economic Developments in the United States  
Billions of Dollars, Seasonally Adjusted

	<u>1969</u>	<u>1970</u>	<u>1969</u>	<u>1970</u>				<u>1971</u>	<u>Percentage Changes <sup>1/</sup></u>		
	<u>Annual</u>		<u>IV</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>I</u>	<u>II</u>	<u>70/69</u>	<u>IV 70/IV 69</u>
Projection used in: May 1969											
GNP, current \$	926.8	-	946.7	-	-	-	-	-	-	-	-
1958 \$	730.9	-	735.6	-	-	-	-	-	-	-	-
Deflator	126.8	-	128.7	-	-	-	-	-	-	-	-
<hr/>											
July 1969											
GNP, current \$	926.2	982.4	947.3	959.8	971.9	988.9	1008.9	-	-	6.07	6.50
1958 \$	729.7	747.3	735.1	738.2	741.7	749.5	759.8	-	-	2.41	3.36
Deflator	126.9	131.5	128.9	130.0	131.0	131.9	132.8	-	-	3.62	3.03
<hr/>											
Sept. 1969											
GNP, current \$ <sup>2/</sup>	932.2	978.6	952.1	957.6	966.8	986.0	1004.0	-	-	4.98	5.45
1958 \$	728.1	737.4	731.3	729.2	731.3	739.7	749.3	-	-	1.28	2.46
Deflator <sup>2/</sup>	128.1	132.7	130.2	131.3	132.2	133.3	134.0	-	-	3.59	2.92
<hr/>											
Jan. 1970											
GNP, current \$	932.1	985.0	952.2	963.2	976.2	992.2	1008.4	1028.8	1047.4	5.65	5.90
1958 \$	727.5	736.0	729.8	730.2	732.6	737.8	743.4	750.8	758.6	1.15	1.86
Deflator	128.1	133.8	130.5	131.9	133.2	134.5	135.6	137.0	138.1	4.45	3.91

<sup>1/</sup> The corresponding changes for 69/68 and IV 69/IV 68 were: GNP, current \$ 7.69 6.69  
1958 \$ 2.84 1.57  
Deflator 4.74 5.07

<sup>2/</sup> The figures starting with the September projections reflect revisions of the historic data, not previously available.

Table 3Assumptions for Economic Developments AbroadIndustrial Production in Major Foreign Industrial  
Countries Weighed by Their Share in U. S. Exports

1963 = 100

Projection used in:	<u>1969</u>	<u>1970</u>	<u>1969</u>	<u>1970</u>				<u>1971</u>		<u>Percentage Changes <sup>1/</sup></u>	
	<u>Annual</u>		<u>IV</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>I</u>	<u>II</u>	<u>70/69</u>	<u>IV 70/IV 69</u>
May 1969	152	-	156	-	-	-	-	-	-	-	-
July 1969	153	-	156	158	161	-	-	-	-	-	-
Sept. 1969	153	162	157	159	161	163	166	-	-	5.9	5.7
Jan. 1970	153	163	156	159	162	164	166	169	172	6.5	6.0

<sup>1/</sup> The corresponding changes for 69/68 and IV 69/IV 68 were: 10.1 6.2





Table 4

Transactions in Goods and Services  
By Years and Half-Year Periods, Seasonally Adjusted  
Millions of Dollars

	1968	1969 Annual	1970	1969 First	1969 Second	1970 First	1970 Second	1971 First
Exports of goods and services, excluding transfers under military grants	50663	55510	60600	26175	29335	30100	30500	31500
Merchandise, adjusted	33598	36485	40200	17077	19408	20000	20200	21000
Transfers under military sales contracts	1427	1503	1300	752	751	670	630	500
Travel	1770	2118	2450	1018	1100	1200	1250	1320
Other services	6101	6456	7040	3057	3399	3460	3580	3670
Income on U. S. invest- ments abroad								
Direct	4985	5759	6300	2743	3016	3100	3200	3400
Other private	1949	2256	2290	1061	1195	1170	1120	1070
Government	8301/	933	1020	467	466	500	520	540
Imports of goods and services	-48078	-53365	-56900	-25506	-27860	-28150	-28750	-30050
Merchandise, adjusted	-32972	-35810	-38150	-17180	-18630	-18750	-19400	-20600
Military expenditures	-4530	-4860	-4920	-2412	-2448	-2490	-2430	-2400
Travel	-3022	-3405	-3700	-1654	-1751	-1800	-1900	-2000
Other services	-4622	-4794	-5180	-2282	-2513	-2560	-2620	-2750
Income on foreign invest- ments in the United States	-2933	-4496	-4950	-1978	-2518	-2550	-2400	-2300
Balances: Goods and services, total	2581	2145	3700	669	1475	1950	1750	1450
Merchandise trade	626	675	2050	-103	778	1250	800	400
Military sales and purchases	-3103	-3357	-3620	-1660	-1697	-1820	-1800	-1900
Travel	-1252	-1287	-1250	-636	-651	-600	-650	-680
Other services	1479	1662	1860	775	886	900	960	920
Investment income	4831	4452	4660	2293	2159	2220	2440	2710

/ Includes deferred interest on U. K. loan



Table 5

Merchandise Exports  
By Years and Half-Year Periods, Seasonally Adjusted  
Millions of Dollars

	<u>1968</u>	<u>1969</u> <u>Annual</u>	<u>1970</u>	<u>1969</u>		<u>1970</u>		<u>1971</u> <u>First</u>	<u>Changes in</u> <u>Percents</u> <u>69/ 70/</u> <u>68 69</u>	
				<u>First</u>	<u>Second</u>	<u>First</u>	<u>Second</u>			
Total exports, actual or estimated	33598	36485	40200	17077	19408	20000	20200	21000	8.6	10.2
less: Effects of strikes (increase +)	+45	-900	-	-900	-	-	-	-		
Adjusted for strike- effects	33553	37385	40200	17977	19408	20000	20200	21000	11.4	7.5
Agricultural	6301	6193	6300	2920	3273	3200	3100	3100		
Commercial aircraft	1405	1237	1800	701	536	1000	800	1000		
Automotive shipments to Canada	2374	2752	3100	1351	1401	1400	1700	1700		
Other exports, actual or estimated on basis of assumptions	23473	27203	29000	13005	14198	14400	14600	15200	15.9	6.6



Table 6

Merchandise Imports  
By Years and Half-Year Periods, Seasonally Adjusted  
Millions of Dollars

	<u>1968</u>	<u>1969</u> <u>Annual</u>	<u>1970</u>	<u>1969</u>		<u>1970</u>		<u>1971</u>	Changes in Percents	
				<u>First</u>	<u>Second</u>	<u>First</u>	<u>Second</u>	<u>First</u>	<u>69/</u> <u>68</u>	<u>70/</u> <u>69</u>
Total imports, actual or estimated	32972	35810	38150	17180	18630	18750	19400	20600	8.6	6.5
less: Effects of strikes and other special developments (increase +)	840	-400		-400						
Adjusted for strike effects	32132	36210	38150	17580	18630	18750	19400	20600	12.7	5.4
Automotive shipments from Canada	2302	3163	3600	1420	1743	1700	1900	2000		
Other imports, actual or estimated on basis of assumptions	29830	33047	34550	16160	16887	17050	17500	18600	10.8	4.5



Table 7

Movements of United States and Foreign Private Capital (Excluding Liquid Liabilities)  
By Years and Half Year Periods, Seasonally Adjusted  
 Millions of Dollars

Inflows +, Outflows -	1968	1969	1970	1969		1970		1971
	Annual	Annual	Annual	First	Second <sup>1/</sup>	First	Second	First
U. S. assets abroad, total	-5036	-5291	-5840	-3384	-1907	-2870	-2970	-3330
U. S. direct investments abroad	-3025	-3600 <sup>2/</sup>	-4300	-1982	-1618 <sup>2/</sup>	-2200	-2100	-2300
U. S. purchases of foreign securities	-1145	-1364	-1290	-736	-628	-620	-670	-730
Claims reported by U. S. banks	269	-528	-400	-419	-109	-150	-250	-200
Claims (other than direct investments) reported by non-bank corporations	-924	-10 <sup>2/</sup>	150	-354	344 <sup>2/</sup>	100	50	-100
Claims reported by U. S. brokers	-210	211	-	107	104	-	-	-
Foreign assets in the United States, total	5977	4402	3850	2159	2243	1750	2100	2100
Foreign direct investments	319	821	650	406	415	300	350	350
Foreign purchases of U. S. securities:								
New issues by U. S. corporations	2129	1017	1200	551	466	550	650	650
Other stocks	2084	1471	1500	878	593	600	900	900
Other bonds	29	152	100	140	12	50	50	50
Long-term liabilities of U. S. banks to private foreign residents	-7	-47	-	4	43	-	-	-
Other liabilities by U. S. corporations	1098	1063	400	250	813	250	150	150
Liabilities reported by U. S. brokers	325	-169	-	-70	-99	-	-	-





Table 7 (Continued)

Inflows +, Outflows -	<u>1968</u>	<u>1969</u> Annual	<u>1970</u>	<u>1969</u>		<u>1970</u>		<u>1971</u>
				<u>First</u>	<u>Second</u> <sup>1/</sup>	<u>First</u>	<u>Second</u>	<u>First</u>
Net movements of U. S. and foreign private capital (excluding liquid liabilities)	941	-889	-1990	-1225	336	-1120	-870	-1230
Changes in assets and liabilities of U. S. corporations	-722	-1530	-2550	-1535	5	-1300	-1250	-1600
Foreign direct investments in the U. S.	319	821	650	406	415	300	350	350
Transactions in securities (other than new foreign issues of U. S. corporations)	968	259	310	282	-23	30	280	220
Claims and liabilities reported by:								
U. S. banks	262	-481	-400	-415	-66	-150	-250	-200
U. S. brokers	115	42	-	37	5	-	-	-

<sup>1/</sup> Partially estimated.

<sup>2/</sup> The figure does not reflect the \$175 million sale of an investment in Latin America for long-term notes.



Table 8

Direct Investment Transactions

	Balance of Payments Data			OFDI Data		
	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1968</u>	<u>1969</u>	
Capital transfers for direct investments	3025	3600	4300	2671		
Less: Canada	594	500	600	410		
In scheduled areas	2431	3100 <sup>1/</sup>	3700 <sup>1/</sup>	2261	4000	
Less: net use of funds obtained through:						
security issues	785	900	1300			
other foreign sources	673	700	500	2177 <sup>2/</sup>	3000 <sup>2/</sup>	
Equals: net capital outflow to scheduled areas	973 <sup>1/</sup>	1500 <sup>1/</sup>	1900 <sup>1/</sup>	84	1000	
Reinvested earnings in scheduled areas	<u>1380<sup>1/</sup></u>	<u>1600<sup>1/</sup></u>	<u>1800<sup>1/</sup></u>	<u>1123<sup>3/</sup></u>	<u>1700<sup>3/</sup></u>	
Total subject to regulations	2353 <sup>1/</sup>	3100 <sup>1/</sup>	3700 <sup>1/</sup>	1207	2700	4100
Ceiling				2700	3350	3600

<sup>1/</sup> Includes banks and other financial organizations not subject to OFDI regulations

<sup>2/</sup> Includes funds that had previously been repatriated to the U. S.

<sup>3/</sup> The figures shown include some company reports for the year ended February 1969, as permitted under the program. The corresponding figure adjusted for the calendar year is \$1312 million.



Table 9

Sources and Uses of Funds Borrowed Abroad by U. S. Corporations  
(Millions of Dollars)

	<u>1968</u>	<u>1969</u>	<u>1970</u>
New issues of securities	2129	1017	1200
Uses:			
Transfers to foreign bank accounts	973	-165	-400
Repayments of foreign debts	2	15	-
Transfers to U. S. parents	369	267	300
Transfers to foreign affiliates	785	900	1300
 Increase in corporate liabilities	 1098	 1063	 400
Uses:			
Commercial purposes, etc.	425	463	-100
Transfers to foreign affiliates <sup>1/</sup>	673	700	500

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<sup>1/</sup> Assumed to equal changes in long-term liabilities to Western Europe





## FOR OFFICIAL USE ONLY

Table 10

Major Government Grant and Credit Transactions  
By Years and Half-Year Periods, Seasonally Adjusted  
 Millions of Dollars

<u>Debits (-)</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1969</u>		<u>1970</u>		<u>1971</u>
		<u>Annual</u>		<u>First</u>	<u>Second</u>	<u>First</u>	<u>Second</u>	<u>First</u>
Disbursements:								
Grants	-1706	-1692	-1630	--837	-855	-830	-800	-770
Credits and other assets	-3641	-3380	-3500	-1796	-1584	-1700	-1800	-1800
Total	-5347	-5072	-5130	-2633	-2439	-2530	-2600	-2570
By program				not seasonally adjusted				
PL 480	-1260	-1150	-1100					
Foreign Assistance Act	-2145	-2120	-2000	-1142	-978			
Export-Import Bank	-1517	-1280	-1400	-703	-577	} not estimated		
Capital subscrip- tions to inter- national agen- cies	-127	-180	-280	-77	-103			
Other programs and assets	-298	-342	-350	-159	-183			
Credits (+)								
Foreign repay- ments of credits (excl. advance repay- ments)	1195	1372	1500	651	721	720	780	825
German trans- actions under offset agree- ment:								
Advance debt repayment			44			44	-	31
Purchases of X-M Bank Assets			87			87	-	34
Total	1195	1372	1630	651	721	850	780	890



Table 10 (Continued)

<u>Debits (-)</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1969</u>		<u>1970</u>		<u>1971</u>
		<u>Annual</u>		<u>First</u>	<u>Second</u>	<u>First</u>	<u>Second</u>	<u>First</u>
Balance on grants and credit trans- actions	-4152	-3700	-3500	-1982	-1718	-1680	-1820	-1680



Table 11

Changes in Government Liabilities (Excluding  
Special Transactions and Liquid Liabilities)  
 Millions of Dollars

<u>Debits (-)</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1969</u>		<u>1970</u>		<u>1971</u>
		Annual		First	Second	First	Second	First
Liabilities asso- ciated with military sales	-137	206	-210	-20	226	-100	-110	75
Obligations asso- ciated with German offset agreement	500	325	75	250	75	75	-	100
Other liabili- ties	-50	-13	-55	6	-19	-30	-25	-15
Total	313	518	-190	236	282	-55	-135	160





TREASURY DEPARTMENT  
OFFICE OF THE ASSISTANT SECRETARY  
FOR INTERNATIONAL AFFAIRS

Date. 4-16-70

To: The Honorable  
Arthur F. Burns

From: Walther Lederer



Balance of Payments Projections  
for 1970 and the First Half of 1971  
Revised April 1970 x/



At its April meeting, the Balance of Payments Information Committee revised its January estimates of the international transactions with the result that the deficit measured on the liquidity basis (before special financial transactions of U. S. and foreign official agencies, before extraordinary errors and omissions and excluding SDR allocations) for 1970 was increased from \$4.2 billion to nearly \$4.8 billion. For the first half of 1971 the deficit was raised from about \$2.4 billion to about \$2.7 billion.

Comparison of 1970 Estimates with Long-Run Relationships

The \$4.8 billion adjusted liquidity deficit for 1970 represents a deterioration from the comparable measure for 1969 of \$4.2 billion. The change is more than accounted for by government capital transactions (excluding special financial transactions) which added about \$900 million to net capital outflows. xx/ Of the other major categories of transactions, the balance on goods and services is expected to improve in 1970 over 1969 by about \$1.6 billion, but the balance on capital flows through private U. S. and foreign transactions is ex-

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x/ This review was prepared by Walther Lederer, Chairman, Balance of Payments Information Committee. The estimates are those prepared by the Committee, but the text does not necessarily reflect the views of the Committee members.

xx/ This \$900 million adverse shift largely represents a shift from advance payments on military orders in excess of deliveries during 1969 to the reverse situation in 1970. The \$540 million liquidation of non-marketable Treasury securities by Germany in January is treated here as a special transaction - that is, it is not included in the \$900 million.

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pected to deteriorate by \$1.3 billion. Nearly all of the latter change is in net outflows of U. S. corporate capital.

The revised 1970 estimates include slightly larger net capital outflows (private and government) relative to the balance on goods and services than might be expected on the basis of the 1958 to 1969 relationships between the balances on these categories of transactions. In the January estimate the net capital outflows were slightly smaller. The differences between the January and April estimates and those that may be derived from the longer run relationships are well within a normal margin of errors. The estimates presented here, therefore, appear to be reasonably consistent with the longer run experiences, and an adjusted liquidity deficit for 1970 of about \$4.5 billion  $\pm$  \$200 to \$300 million seems to be a reasonably plausible estimate.

#### Balance by Half-Year Periods

The division of that balance between the first and second half depends on seasonal adjustments. The adjustments used for 1969 are being revised to make allowance for the large capital inflows in the last quarter of the year, and for other changes in the seasonal pattern of the transactions. The revisions are expected to improve the balance in the first half of the year, and lower it in the second half, compared with





the data presented in the attached tables which are still based on last year's seasonal adjustment factors. Likewise, the balance for the first half of 1971 will be more favorable than shown in the present estimates after the seasonal adjustment has been revised.

Changes in Assumptions:

A. Domestic Developments

The assumptions with respect to domestic business developments allow for the more than expected drop in output during the first quarter, and incorporate the retroactive pay raises for government employees, as well as various other recent budget modifications. Compared with the January estimates GNP in current prices in 1970 is assumed to be lower by less than \$1 billion. Most of that difference is in the first quarter; from the second to the fourth quarter of 1970 the quarter-to-quarter increase is now assumed to be slightly more than had been anticipated earlier, but in the first half of 1971 the increases have been revised downward.

Interest rates on domestic and Euro-dollar markets for short-term funds have dropped faster in the latter part of the first quarter than was assumed in January. This decline will mostly affect the assumptions for the second quarter.



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Further declines are anticipated for the remainder of 1970, but at a much slower rate. At the end of the year the average rate paid to foreign holders of short-term dollar funds are expected to level off at close to 8 percent in the Euro-dollar market and at about 6 percent in the United States, which is close to what had been assumed in January.

#### B. Foreign Developments

Foreign production is still expected to rise less in 1970 than it did in 1969, but the decline in the rate of expansion is now expected to be only from 10.1 percent to 7.6 percent, compared with a decline to 6.5 percent assumed in January.

#### Principal Changes in Estimates

(1) Merchandise exports for 1970 were raised from \$40.2 to \$40.8 billion, and imports were increased from \$38.2 to \$38.5 billion. These changes increased the trade balance from \$2.0 billion to \$2.3 billion. For the first half of 1971 the trade balance was revised from \$0.4 billion to \$0.8 billion. The upward revisions reflect the higher than previously expected export and import data for January and February, a slight upward revision of the rate of expansion in foreign business activity, and a change in the estimating methods for exports to allow for relative price changes. On the other hand, the



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previous estimate for exports of commercial airplanes was lowered.

(2) The upward revision of the trade balance was offset, however, by a roughly equal downward revision of the surplus balance on other goods and services transactions. The estimate for military and other government expenditures abroad was raised to reflect the recent pay raise. Incomes on direct investments are now expected to be somewhat lower than seemed likely in January, largely because the figures for the last quarter of 1969 were less than had been anticipated. On the other hand, a faster decline in short-term interest rates in the U. S. and in the Euro-dollar market made it advisable to lower the estimate for interest payments to foreigners.

(3) The surplus on goods and services for 1970 remained unchanged at about \$3.7 billion, but it was raised (from \$1,450 million to \$1,630 million) for the first half of 1971. The distribution of the 1970 surplus between the first and second half of the year was changed, however. The peak which earlier was expected to occur in the first half of the year, is now expected to be in the second half. In the first half of 1971 the balance is expected to be lower again.





(4) Net capital outflows through private U. S. and foreign transactions were slightly revised up. Net outflows of capital reported by banks, including export credits, may be larger than had been estimated earlier, and for foreign direct investments in the U. S. which did not rise as much in 1969 as had been expected, the estimates were revised downward. Net outflows of capital through transactions by U. S. corporations are expected to rise from about \$1,450 million in 1969 to about \$2.6 billion in 1970, about the same as had previously been estimated. The downward revision from \$4.3 billion to \$3.8 billion in the transfers of capital by U. S. parent companies for direct investments was matched by a downward revision in new foreign borrowing and the utilization of funds that had been borrowed in previous periods and temporarily invested abroad.

(5) The major revision that led to the increase in the deficit on the adjusted liquidity balance in 1970 was in government capital transactions.

Compared with the January estimates (which were essentially carried forward from those made last September), loans under the Farm Products Disposal Program were raised by nearly \$200 million, and credits under the Export-Import Bank Act for non-



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military exports also by about \$200 million. These increases were offset by a \$100 million reduction in disbursements under the Foreign Assistance Act. Military credits were reduced from the previous estimate by \$300 million. This change, however, had no effect on the overall balance of payments. Such credits initially finance the advance payments on military contracts, and thus, pending the delivery of the goods contracted for, increase military liabilities. The downward revision in new military credits thus is reflected in a downward revision in new military liabilities, and thus in a faster reduction of net military liabilities from \$0.2 billion in the previous estimate to \$0.5 billion in this estimate. For the period through the middle of 1971 the downward revision for military credits did not require a downward revision in military exports.



Table 1

Summary of Balance of Payments<sup>1/</sup>  
Estimates  
 (Billions of Dollars)

	1969 Annual	1970	1969 First Half	1969 Second Half	1970 First Half	1970 Second Half	1971 First Half
Balance on:							
Merchandise trade							
Estimates of May 69	0.6	--	0.3	0.3	--	--	--
July 69	0.5	--	0.1	0.4	1.0	--	--
Sept. 69	0.2	1.5	-0.1	0.4	0.9	0.6	--
Jan. 70	0.7	2.1	-0.1	0.8	1.3	0.8	0.4
April 70	0.7	2.3	-0.1	0.8	1.2	1.1	0.8
Goods and services							
May 69	2.2	--	1.1	1.1	--	--	--
July 69	2.0	--	0.8	1.2	--	--	--
Sept. 69	1.5	3.0	0.6	0.9	1.6	1.4	--
Jan. 70	2.1	3.7	0.7	1.5	2.0	1.7	1.4
April 70	2.1	3.7	0.6	1.4	1.7	2.0	1.6
Unilateral transfers other than Gov't. grants							
May 69	-1.2	--	-0.6	-0.6	--	--	--
July 69	-1.2	--	-0.6	-0.6	-0.6	--	--
Sept. 69	-1.1	-1.2	-0.6	-0.6	-0.6	-0.6	--
Jan. 70	-1.2	-1.2	-0.6	-0.6	-0.6	-0.6	-0.6
April 70	-1.2	-1.2	-0.6	-0.6	-0.6	-0.6	-0.6
Government grants and credits (net of sched- uled repayments)							
May 69	-4.1	--	-2.1	-2.0	--	--	--
July 69	-3.6	--	-1.7	-1.9	-1.6	--	--
Sept. 69	-3.8	-3.5	-1.9	-1.9	-1.8	-1.7	--
Jan. 70	-3.7	-3.5	-2.0	-1.7	-1.7	-1.8	-1.7
April 70	-3.7	-3.6	-2.0	-1.7	-1.9	-1.7	-1.6
Net movements of U. S. and foreign private capital (excl. liquid liabilities)							
May 69	-0.5	--	-0.6	0.1	--	--	--
July 69	-1.6	--	-1.1	-0.5	-1.2	--	--
Sept. 69	-1.7	-2.7	-1.3	-0.4	-1.5	-1.2	--
Jan. 70	-0.9	-2.0	-1.2	0.3	-1.1	-0.9	-1.2
April 70	-0.9	-2.2	-1.2	0.4	-1.3	-0.9	-1.5





Table 1 (Continued)

	1969 Annual	1970	1969 First Half	1969 Second Half	1970 First Half	1970 Second Half	1971 First Half
Changes in Gov't. liabilities (mainly associated with military transactions) <sup>2/</sup>							
May 69	0.5	--	0.1	0.4	--	--	--
July 69	0.2	--	0.2	--	-0.1	--	--
Sept. 69	0.2	-0.2	0.2	--	-0.1	-0.1	--
Jan. 70	0.5	-0.2	0.2	0.3	-0.1	-0.1	0.2
April 70	0.5	-0.5	0.2	0.3	-0.3	-0.2	-0.0
Balance on recorded transactions (excl. special financial transactions) on liquidity basis:							
May 69	-3.1		-2.1	-1.0	--	--	--
July 69	-4.2		-2.4	-1.8	-1.3	--	--
Sept. 69	-4.9	-4.6	-3.0	-2.1	-2.3	-2.3	--
Jan. 70	-3.1	-3.2	-2.9	-0.2	-1.5	-1.7	-1.9
April 70	-3.2	-3.8	-2.9	-0.3	-2.4	-1.4	-2.2
Errors and Omissions (excl. "abnormal" in 1969)							
May 69	-1.0		-0.6	-0.4	--	--	--
July 69	-1.0		-0.5	-0.5	-0.5	--	--
Sept. 69	-1.3	-1.0	-1.1	-0.2	-0.5		
Jan. 70	-1.0	-1.0	-0.8	-0.2	-0.6	-0.4	-0.5
April 70	-1.0	-1.0	-0.8	-0.2	-0.6	-0.4	-0.5
Balance on liquidity basis (excl. special financial transactions and "abnormal" errors and omissions in 1969)							
May 69	-4.1		-2.7	-1.4	--	--	--
July 69	-5.2		-2.9	-2.3	-1.8	--	--
Sept. 69	-6.2	-5.6	-4.0	-2.2	-2.8	-2.8	
Jan. 70	-4.1	-4.2	-3.7	-0.4	-2.1	-2.1	-2.4
April 70	-4.2	-4.8	-3.7	-0.5	-3.0	-1.8	-2.7
Special financial transactions	-0.9	--	-0.4	-0.5	not estimated		
"Abnormal" errors and omissions	-2.0	--	-1.5	-0.5	not estimated		
Balance on liquidity basis as published	-7.1	--	-5.6	-1.5	not estimated		

1/ Excluding SDR allocations.

2/ The liquidations in the first quarter 1970 by Germany of non-marketable medium-term bonds sold under the military offset agreement, prior to their maturity, are treated here as special financial transactions.

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Table 2

Assumptions for Economic Developments in the United States  
Billions of Dollars, Seasonally Adjusted

Projection used in:	1969	1970	1969	1970				1971		Percentage Changes		1/
	Annual		IV	I	II	III	IV	I	II	70/69	IV 70/IV 69	
Sept. 1969												
GNP, current \$	932.2	978.6	952.1	957.6	966.8	986.0	1004.0	-	-	4.98	5.45	
1958 \$	728.1	737.4	731.3	729.2	731.3	739.7	749.3	-	-	1.28	2.46	
Deflator	128.0	132.7	130.2	131.3	132.2	133.3	134.0	-	-	3.59	2.92	
Jan. 1970												
GNP, current \$	932.1	985.0	952.0	963.2	976.2	992.2	1008.4	1028.8	1047.4	5.65	5.90	
1958 \$	727.5	736.0	729.8	730.2	732.6	737.8	743.4	750.8	758.6	1.15	1.86	
Deflator	128.1	133.8	130.5	131.9	133.2	134.5	135.6	137.0	138.1	4.45	3.91	
April 1970												
GNP, current \$	932.1	984.1	952.1	958.3	975.3	992.4	1010.5	1027.4	1041.9	5.58	6.13	
1958 \$	727.5	734.7	729.7	726.6	730.7	737.0	744.5	751.4	756.7	1.11	2.02	
Deflator	128.1	133.9	130.5	131.9	133.5	134.7	135.7	136.7	137.7	4.54	3.98	

1/ The corresponding changes for 69/68 and IV 69/IV 68 were:

GNP, current \$	7.69	6.69
1958 \$	2.84	1.57
Deflator	4.74	5.07



Table 3Assumptions for Economic Developments AbroadIndustrial Production in Major Foreign Industrial  
Countries Weighed by Their Share in U. S. Exports

1963 = 100

Projection used in:	<u>1969</u>	<u>1970</u>	<u>1969</u>	<u>1970</u>				<u>1971</u>		<u>Percentage Changes <sup>1/</sup></u>	
	<u>Annual</u>		<u>IV</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>I</u>	<u>II</u>	<u>70/69</u>	<u>IV 70/IV 69</u>
May 1969	152	-	156	-	-	-	-	-	-	-	-
July 1969	153	-	156	158	161	-	-	-	-	-	-
Sept. 1969	153	162	157	159	161	163	166	-	-	5.9	5.7
Jan. 1970	153	163	156	159	162	164	166	169	172	6.5	6.0
April 1970	153	164	156	161	163	165	168	170	173	7.6	7.7

1/ The corresponding changes for 69/68 and IV 69/IV 68 were:

10.1

6.2





Table 4

Transactions in Goods and Services  
By Years and Half-Year Periods, Seasonally Adjusted  
Millions of Dollars

	1968	1969 Annual	1970	1969 First	1969 Second	1970 First	1970 Second	1971 First
Exports of goods and services, excluding transfers under military grants	50660	55387	60920	26173	29214	30220	30700	31770
Merchandise, adjusted	33598	36487	40800	17077	19410	20300	20500	21300
Transfers under military sales contracts	1427	1504	1300	745	758	670	630	500
Travel	1770	2052	2400	1020	1032	1170	1230	1320
Other services	6101	6448	7070	3066	3382	3480	3590	3680
Income on U. S. invest- ments abroad								
Direct	4985	5707	6100	2741	2966	2950	3150	3300
Other private	1949	2258	2290	1061	1197	1170	1120	1170
Government	830 <sup>1/</sup>	931	960	463	469	480	480	500
Imports of goods and services	-48078	-53314	-57250	-25535	-27779	-28530	-28720	-30140
Merchandise, adjusted	-32972	-35797	-38500	-17178	-18619	-19100	-19400	-20500
Military expenditures	-4530	-4882	-5020	-2412	-2469	-2540	-2480	-2450
Travel	-3022	-3372	-3700	-1676	-1696	-1800	-1900	-2000
Other services	-4622	-4832	-5290	-2289	-2544	-2610	-2680	-2790
Income on foreign invest- ments in the United States	-2933	-4431	-4740	-1980	-2451	-2480	-2260	-2400
Balances: Goods and services, total	2581	2073	3670	638	1435	1690	1980	1630
Merchandise trade	626	690	2300	-101	791	1200	1100	800
Military sales and purchases	-3103	-3378	-3720	-1667	-1711	-1870	-1850	-1950
Travel	-1252	-1320	-1300	-656	-664	-630	-670	-680
Other services	1479	1616	1780	777	838	870	910	890
Investment income	4831	4465	4610	2285	2181	2120	2490	2570

<sup>1/</sup> Includes deferred interest on U. K. loan

Table 5

Merchandise Exports  
By Years and Half-Year Periods, Seasonally Adjusted  
Millions of Dollars

	<u>1968</u>	<u>1969</u> <u>Annual</u>	<u>1970</u>	<u>1969</u>		<u>1970</u>		<u>1971</u> <u>First</u>	<u>Changes in</u> <u>Percents</u>	
				<u>First</u>	<u>Second</u>	<u>First</u>	<u>Second</u>		<u>69/</u> <u>68</u>	<u>70/</u> <u>69</u>
Total exports, actual or estimated	33598	36485	40800	17077	19408	20300	20500	21300	8.6	11.8
less: Effects of strikes (increase +)	+45	-900	-	-900	-	-	-	-		
equals: Exports adjusted for strike effects	33553	37385	40800	17977	19408	20300	20500	21300	11.4	9.1
less: Agricultural goods	6301	6190	6300	2920	3270	3175	3125	3200		
Commercial aircraft	1405	1240	1500	700	540	900	600	700		
Automotive shipments to Canada	2374	2750	2800	1350	1400	1275	1525	1600		
equals: Other exports, actual or estimated on basis of assumptions	23473	27205	30200	13007	14198	14950	15250	15800	15.9	11.0



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Table 6

Merchandise Imports  
By Years and Half-Year Periods, Seasonally Adjusted  
Millions of Dollars

	<u>1968</u>	<u>1969</u> <u>Annual</u>	<u>1970</u>	<u>1969</u>		<u>1970</u>		<u>1971</u> <u>First</u>	<u>Changes in</u> <u>Percents</u>	
				<u>First</u>	<u>Second</u>	<u>First</u>	<u>Second</u>		<u>69/</u> <u>68</u>	<u>70/</u> <u>69</u>
Total imports, actual or estimated	32972	35797	38500	17178	18619	19100	19400	20500	8.6	7.5
less: Effects of strikes and other special developments (increase +)	840	-350	100	-400	50	100	-	-		
equals: Imports adjusted for strike effects	32132	36147	38400	17578	18569	19000	19400	20500	12.7	6.2
less: Automotive shipments from Canada	2302	3159	3300	1421	1738	1500	1800	1900		
equals: Other imports, actual or estimated on basis of assumptions	29830	32988	35100	16157	16831	17500	17600	18600	10.8	6.4

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Table 7

Movements of United States and Foreign Private Capital (Excluding Liquid Liabilities)  
By Years and Half-Year Periods, Seasonally Adjusted  
 Millions of Dollars

Inflows +, Outflows -	1968	1969 Annual	1970	1969 First	1969 Second <sup>1/</sup>	1970 First	1970 Second	1971 First
U. S. assets abroad, total	-5036	-4994	-5550	-3394	-1603	-2700	-2850	-3400
U. S. direct investments abroad	-3025	-3060 <sup>2/</sup>	-3800	-1985	-1076 <sup>2/</sup>	-2200	-1600	-2300
U. S. purchases of foreign securities	-1145	-1365	-1300	-736	-631	-600	-700	-700
Claims reported by U. S. banks	269	-528	-500	-419	-109	+100	-600	-300
Claims (other than direct investments) reported by non-bank corporations	-924	-279 <sup>2/</sup>	50	-374	95 <sup>2/</sup>	0	50	-100
Claims reported by U. S. brokers	-210	238	-	120	118	-	-	-
Foreign assets in the United States, total	5977	4135	3400	2159	1973	1400	2000	1900
Foreign direct investments	319	749	550	406	342	250	300	300
Foreign purchases of U. S. securities:								
New issues by U. S. corporations	2129	1026	900	551	475	300	600	500
Other stocks	2084	1515	1500	878	637	600	900	900
Other bonds	29	156	200	140	16	150	50	50
Long-term liabilities of U. S. banks to private foreign residents	-7	+48	-	4	42	-	-	-
Other liabilities by U. S. corporations	1098	859	250	266	593	100	150	150
Liabilities reported by U. S. brokers	325	-218	-	-86	-132	-	-	-





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Table 7 (Continued)

Inflows +, Outflows -	1968	1969	1970	1969		1970		1971
	Annual	Annual	Annual	First	Second <sup>1/</sup>	First	Second	First
Net movements of U. S. and foreign private capital (excluding liquid liabilities)	941	-859	-2150	-1235	370	-1300	-850	-1500
Changes in assets and liabilities of U. S. corporations	-720	-1454	-2600	-1542	87	-1800	-800	-1750
Foreign direct investments in the U. S.	319	749	550	406	342	250	300	300
Transactions in securities (other than new foreign issues of U. S. corporations)	968	306	400	282	22	150	250	250
Claims and liabilities reported by:								
U. S. banks	262	-480	-500	-415	-67	100	-600	-300
U. S. brokers	115	20	-	34	-14	-	-	-

<sup>1/</sup> Partially estimated.

<sup>2/</sup> The figure reflects the \$175 million sale of an investment in Latin America for long-term notes.



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Table 8Direct Investment Transactions

	<u>Balance of Payments Data</u>			<u>OFDI Data</u>		
	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Capital transfers for direct investments	3025	3060	3800	2671		
Less: Canada	594	624	700	410		
In scheduled areas	2431 <sup>1/</sup>	2436 <sup>1/</sup>	3100 <sup>1/</sup>	2261	2950	
Less: net use of funds obtained through:						
security issues	785	611	1000			
other foreign sources	673	561	350	2177 <sup>2/</sup>	2400	2400 <sup>4/</sup>
Equals: net capital outflow to scheduled areas	973 <sup>1/</sup>	1264 <sup>1/</sup>	1750 <sup>1/</sup>	84	550	
Reinvested earnings in scheduled areas	1380 <sup>1/</sup>			1123 <sup>3/</sup>	1620 <sup>3/</sup>	
Total subject to regulations	2353 <sup>1/</sup>			1207	2170	
Ceiling				2700	3350	3600

<sup>1/</sup> Includes banks and other financial organizations not subject to OFDI regulations; the 1969 figure is after a \$175 million liquidation of a mining investment in Latin America

<sup>2/</sup> Includes some funds that had previously been repatriated to the U. S.

<sup>3/</sup> The figures shown include some company reports for the year ended February 1969, as permitted under the program. The corresponding figure adjusted for the calendar year is \$1312 million.

<sup>4/</sup> Includes about \$1000 of funds available from prior years' borrowings.



## FOR OFFICIAL USE ONLY

Table 9Sources and Uses of Funds Borrowed Abroad by U. S. Corporations  
(Millions of Dollars)

	<u>1968</u>	<u>1969</u>	<u>1970</u>
New issues of securities	2129	1026	900
Uses:			
Transfers to foreign bank accounts	973	118	-300
Repayments of foreign debts	2	15	-
Transfers to U. S. parents	369	282	200
Transfers to foreign affiliates	785	611	1000
Increase in corporate liabilities	1102	859	250
Uses:			
Commercial purposes, etc.	429	298	-100
Transfers to foreign affiliates <sup>1/</sup>	673	561	350

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<sup>1/</sup> Assumed to equal changes in long-term liabilities to Western Europe.



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Table 10

Major Government Grant and Credit Transactions  
By Years and Half-Year Periods, Seasonally Adjusted  
 Millions of Dollars

<u>Debits (-)</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1969</u>		<u>1970</u>		<u>1971</u>
	<u>Annual</u>			<u>First</u>	<u>Second</u>	<u>First</u>	<u>Second</u>	<u>First</u>
Disbursements:								
Grants	-1706	-1649	-1600	-837	-813	-800	-800	-750
Credits and other assets	-3641	-3421	-3520	-1796	-1625	-1840	-1680	-1650
Total	-5347	-5070	-5120	-2633	-2438	-2640	-2480	-2400
				not seasonally adjusted				
By program								
PL 480	-1260	-1155	-1285	-704	-459	-755	-530	
Foreign Assistance Act	-2145	-2152	-1920	-1142	-1010	-995	-925	
Export-Import Bank	-1517	-1258	-1280	-703	-556	-680	-600	not
military credits	(-554)	(-535)	(-180)	(-322)	(-214)	(-90)	(-90)	estimate
other credits	(-963)	(-723)	(-1100)					
Capital subscrip- tions to inter- national agencies	-127	-184	-300	-77	-107	-145	-155	
Other programs and assets	-298	-321	-335	-159	-161	-185	-150	
Credits (+)								
Foreign repayments of credits (excl. advance repayments)	1195	1336	1420	651	686	660	760	700



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Table 10 (Continued)

<u>Debits (-)</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1969</u>		<u>1970</u>		<u>1971</u>
		<u>Annual</u>		<u>First</u>	<u>Second</u>	<u>First</u>	<u>Second</u>	<u>First</u>
German trans-								
actions under								
offset agree-								
ment:								
Advance debt								
repayment			44			44		
Purchases of								
X-M Bank								
assets			86			86		70
Total	1195	1336	1550	651	686	790	760	770
Balance on								
grants and								
credit trans-								
actions	-4152	-3734	-3570	-1982	-1752	-1850	-1720	-1630



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Table 11

Changes in Government Liabilities (Excluding  
Special Transactions and Liquid Liabilities)  
 Millions of Dollars

<u>Debits (-)</u>	<u>1968</u>	<u>1969</u> <u>Annual</u>	<u>1970</u>	<u>1969</u>		<u>1970</u>		<u>1971</u> <u>First</u>
				<u>First</u>	<u>Second</u>	<u>First</u>	<u>Second</u>	
Liabilities asso- ciated with military sales	-137	178	-520	-13	191	-310	-210	-120
Obligations asso- ciated with German offset agreement	500	325	75	250	75		75	100
Other liabili- ties	-50	-8	-55	5	-14	-30	-25	-20
Total	313	495	-500	242	252	-340	-160	-40

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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date December 30, 1970.

To Chairman Burns

Subject: Balance of Payments

From Robert Solomon

Programs.

CONFIDENTIAL (FR)

I understand that the President has not yet definitely decided to approve Secretary Kennedy's recommendation for a relaxation of the balance of payments programs. The President, of course, knows of your position and this may explain why he has not yet accepted the Kennedy proposal.

If you think it appropriate, therefore, you would have a chance to get a word in with the President on Monday.

An additional argument that can be used is that the trade figures for November, just announced, show a deficit (\$1/2 billion, annual rate). Thus a relaxation is even less opportune than it seemed earlier.

RS



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date January 4, 1971.

To Chairman Burns

Subject: Trade and Current Account

From Bernard Norwood *BN*

Data. *[Signature]*

In response to your request, I attach documents showing:

- (1) 1970 monthly data on U.S. trade -- see especially Table 1 of Attachment 1, and (2) 1970 quarterly data on U.S. current account.

Attachments





BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date December 30, 1970

To Mr. Robert Solomon

Subject: U.S. Merchandise Trade -

From Irene W. Kost

November 1970

The trade balance in November registered a deficit of \$0.5 billion at a seasonally adjusted annual rate (balance of payments basis), down from the small surplus of \$0.9 billion recorded in October. The balance has worsened steadily since mid-year, when the surplus was at an annual rate of over \$3 billion, as exports have tended to decline while imports reached record rates. For the January-November period the trade surplus was at a \$2.3 billion rate.

Exports in November were \$40.9 billion (SAAR), balance of payments basis, nearly 5 per cent below that of October and the lowest rate since April. Exports fell substantially from the October rate over a broad range of commodities, including a sizeable decline in the export of transport equipment associated with the GM strike. Other large monthly declines occurred in exports of non-electrical and electrical machinery, foods, mineral fuels, chemicals, and crude materials; there were smaller declines in oils and fats, and semi-finished industrial products.

Imports in November were \$41.4 billion (SAAR) balance of payments basis. While down by nearly 2 per cent from the record high of \$42.2 billion in October, November imports were nevertheless the second highest recorded total despite reduced imports of automobiles from Canada. Compared with third-quarter rates there was some import reduction in November in electric machinery, foodstuffs, crude materials, and miscellaneous manufactured goods (mainly consumer items) but imports were higher for other major commodity groups, particularly transport equipment, mineral fuels, and semi-finished industrial products.

U.S. Merchandise Trade, Balance of Payments Basis  
(billions of dollars, seasonally adjusted annual rates)

	1969			1970				
	Year	3Q	4Q	1Q	2Q	3Q	Oct.	Nov.
Exports	36.5	38.3	39.3	41.0	42.8	42.7	43.1	40.9
Imports	35.8	37.1	37.6	38.9	39.5	39.8	42.2 <sup>r</sup>	41.4
Balance	+0.7	+1.2	+1.7	+2.1	+3.3	+2.9	+0.9	-0.5

r/ Revised.



Table 1

U.S. Merchandise Trade  
(billions of dollars, seasonally adjusted annual rates)

		<u>Census Basis</u>			<u>Balance of Payments Basis*</u>		
		<u>Exports</u>	<u>Imports</u>	<u>Balance</u>	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1963		22.5	17.2	5.3	22.3	17.0	5.2
1964		25.8	18.7	7.1	25.5	18.6	6.8
1965		26.8	21.4	5.3	26.4	21.5	5.0
1966		29.5	25.6	3.9	29.4	25.5	3.9
1967		31.0	26.9	4.1	30.7	26.8	3.9
1968		34.1	33.2	0.9	33.6	33.0	0.6
1969		37.3	36.1	1.3	36.5	35.8	0.6
1967	I	31.1	26.9	4.2	30.8	26.6	4.1
	II	31.1	26.1	5.0	30.9	25.9	5.0
	III	31.1	26.4	4.7	30.7	26.2	4.5
	IV	31.1	28.7	2.5	30.4	38.6	1.8
1968	I	32.1	31.5	0.6	31.8	31.3	0.5
	II	33.9	32.6	1.3	33.5	32.5	1.0
	III	36.1	34.2	1.9	35.5	34.3	1.2
	IV	34.3	34.1	0.2	33.5	33.8	-0.3
1969	I	30.4	30.6	-0.2	29.9	30.3	-0.4
	II	39.4	38.5	0.9	38.3	38.4	-0.1
	III	39.5	37.2	2.3	38.3	37.1	1.2 <sup>r</sup>
	IV	39.9	37.8	2.1	39.3	37.6	1.7 <sup>r</sup>
1970	I	41.3	38.9	2.4	41.0	38.9	2.1
	II	43.7	39.7	4.0	42.8	39.5	3.3
	III	43.3	39.8	3.5	42.7	39.8	2.9
1969	November	40.4	38.6	1.8	39.4	38.1	1.3
	December	38.9	36.1	2.8	38.5	35.9	2.6
1970	January	39.7	39.0	0.7	39.5	39.7	-0.2
	February	43.5	39.1	4.5	43.0	38.3	4.7
	March	40.6	38.6	2.0	40.3	38.7	1.6
	April	41.4	39.0	2.4	41.0	38.8	2.2
	May	44.3	40.3	4.0	43.0	40.2	2.8
	June	45.3	39.7	5.6	44.5	39.5	5.0
	July	44.2	38.9	5.3	43.6	38.5	5.1
	August	43.2	40.4	2.8	42.7	40.3	2.4
	September	42.4	40.8	1.6	41.9	40.6	1.3
	October	44.5	42.3	2.2	43.1	42.2 <sup>r</sup>	0.9
	November	41.6	41.5	0.1	40.9	41.4	-0.5

\* The monthly balance of payments figures are only rough estimates and are subject to considerable revision.

<sup>r</sup>/ Revised.



TABLE 2

U.S. Exports of Domestic Merchandise  
Schedule B Sections  
Including Department of Defense Shipments  
(seasonally adjusted; annual rates)  
billions of dollars



	1969	1 9 7 0				
	<u>4Q</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>Oct.</u>	<u>Nov.</u>
Food and live animals	4.16	3.98	3.92	4.59	5.19	4.76
Beverages and tobacco	0.80	0.67	0.77	0.61	0.73	0.83
Crude materials	3.89	4.27	4.82	4.93	4.59	4.24
Mineral fuels	1.25	1.44	1.57	1.52	1.80	1.60
Oils and fats <u>1/</u>	0.39	0.43	0.51	0.51	0.48	0.39
Chemicals	3.63	4.06	3.94	3.64	3.91	3.60
Manufactured goods						
classified by material	5.16	5.33	5.29	5.01	4.70	4.67
Machinery	10.55	10.80	11.04	11.90	12.59	11.62
Nonelectrical machinery	(7.81)	(7.93)	(8.04)	(8.86)	(9.39)	(8.51)
Electrical machinery	(2.74)	(2.88)	(3.00)	(3.04)	(3.20)	(3.11)
Transport equipment	6.49	6.48	7.35	6.19	7.39	5.78
Miscellaneous manufactured						
articles	2.48	2.62	2.49	2.61	2.67	2.66
Other <u>1/</u>	1.53	1.42	1.56	1.49	1.41	1.39
<b>Total</b>	<b>40.33</b>	<b>41.50</b>	<b>43.26</b>	<b>43.00</b>	<b>45.46</b>	<b>41.54</b>

U.S. General Imports  
Schedule A Sections  
(seasonally adjusted; annual rates)  
billions of dollars

	1969	1 9 7 0				
	<u>4Q</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>Oct.</u>	<u>Nov.</u>
Food and live animals	4.79	5.44	5.49	5.38	5.14	5.20
Beverages and tobacco	0.77	0.77	0.87	0.92	0.87	0.96
Crude materials	3.60	3.39	3.25	3.41	3.29	3.34
Mineral fuels	2.94	3.17	2.99	2.97	3.14	3.25
Oils and fats <u>1/</u>	0.17	0.11	0.18	0.15	0.19	0.14
Chemicals	1.32	1.39	1.44	1.46	1.69	1.50
Manufactured goods						
classified by material	7.76	8.07	8.16	8.44	9.27	9.18
Machinery	4.65	5.02	5.30	5.45	5.72	5.36
Nonelectrical machinery	(2.66)	(2.82)	(2.94)	(3.13)	(3.42)	(3.14)
Electrical machinery	(1.99)	(2.20)	(2.36)	(2.32)	(2.30)	(2.22)
Transport equipment	5.76	5.33	6.10	6.06	6.30	6.59
Miscellaneous manufactured						
articles	4.20	4.71	4.93	4.86	5.17	4.74
Other <u>1/</u>	1.47	1.14	1.26	1.35	1.45	1.30
<b>Total</b>	<b>37.43</b>	<b>38.54</b>	<b>39.97</b>	<b>40.45</b>	<b>42.23</b>	<b>41.56</b>

1/ Not seasonally adjusted.

Note: Totals will not correspond to the Census basis totals in Table 1 because:  
(1) the commodity sections were independently adjusted for seasonal variations,  
(2) Department of Defense Military Grant-Aid shipments are included in Table 2.



Table 3

Imports as Per Cent of GNP  
(billions of current dollars)



<u>Annual</u>	<u>GNP</u>	<u>Imports</u> <sup>1/</sup>	<u>Per Cent</u>
1960	503.7	14.74	2.93
1961	520.1	14.52	2.79
1962	560.3	16.22	2.89
1963	590.5	17.01	2.88
1964	632.4	18.65	2.95
1965	684.9	21.50	3.14
1966	749.9	25.46	3.40
1967	793.9	26.82	3.38
1968	865.0	32.96	3.81
1969	931.4	35.84	3.85

Half Years at Annual Rates, Seasonally Adjusted

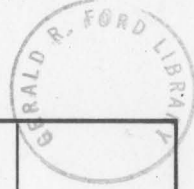
1967			
1H	779.5	26.25	3.37
2H	808.4	27.40	3.39
1968			
1H	846.5	31.90	3.77
2H	883.6	34.05	3.85
1969			
1H	915.7	34.36	3.75
2H	947.2	37.30	3.94
1970			
1H	965.3	39.20	4.06

Quarterly at Annual Rates, Seasonally Adjusted

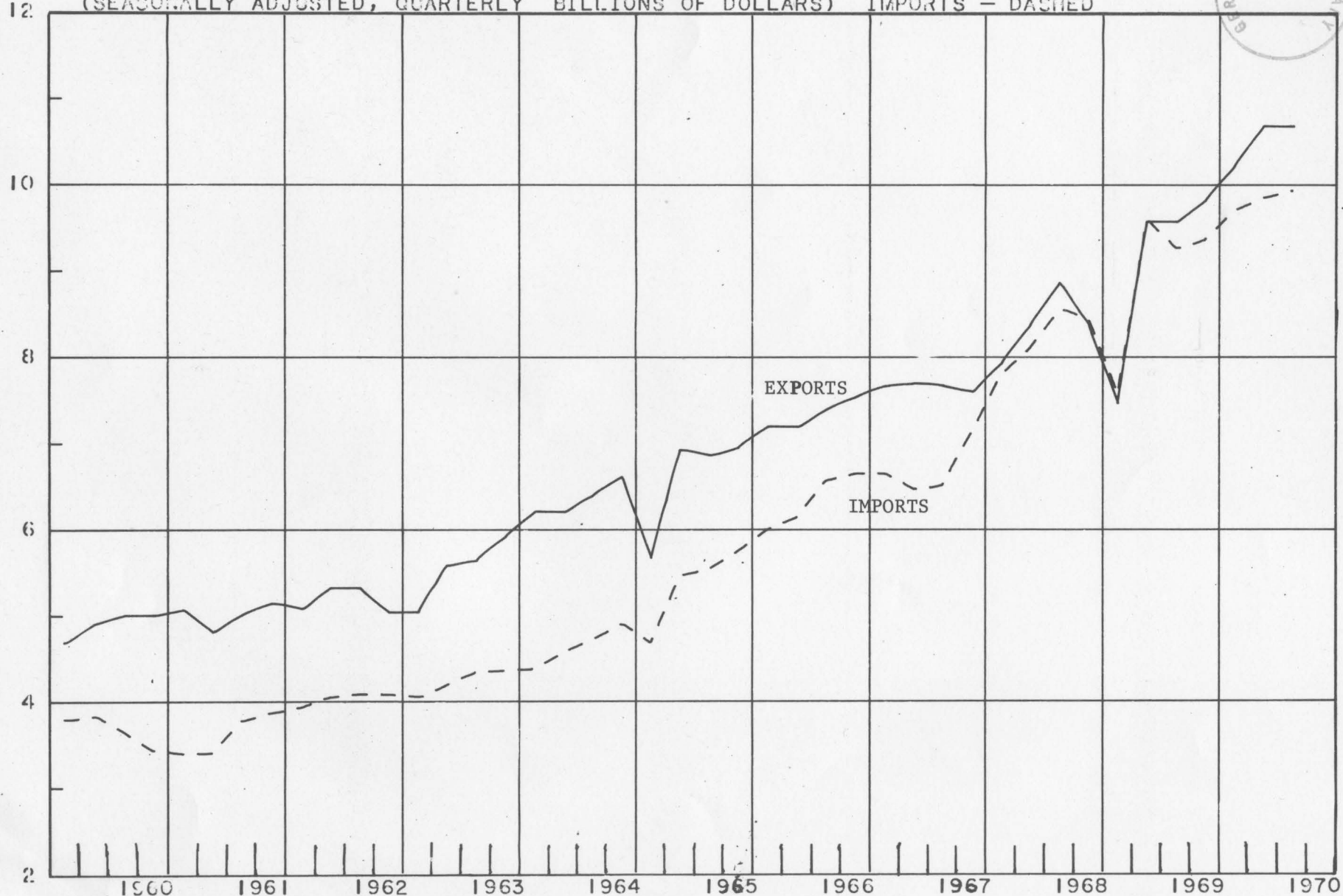
1967			
I	774.4	26.64	3.44
II	784.5	25.86	3.30
III	800.9	26.17	3.27
IV	815.9	28.62	3.51
1968			
I	834.9	31.28	3.75
II	858.1	32.53	3.79
III	875.8	34.28	3.91
IV	891.4	33.77	3.79
1969			
I	907.6	30.30	3.34
II	923.7	38.42	4.16
III	942.6	37.05	3.93
IV	951.7	37.56	3.95
1970			
I	959.5	38.89	4.05
II	971.1	39.50	4.07
III	985.5	39.82	4.04

<sup>1/</sup> Balance of payments basis.





U.S. FOREIGN TRADE — BALANCE OF PAYMENTS BASIS  
(SEASONALLY ADJUSTED, QUARTERLY BILLIONS OF DOLLARS) EXPORTS — SOLID  
IMPORTS — DASHED

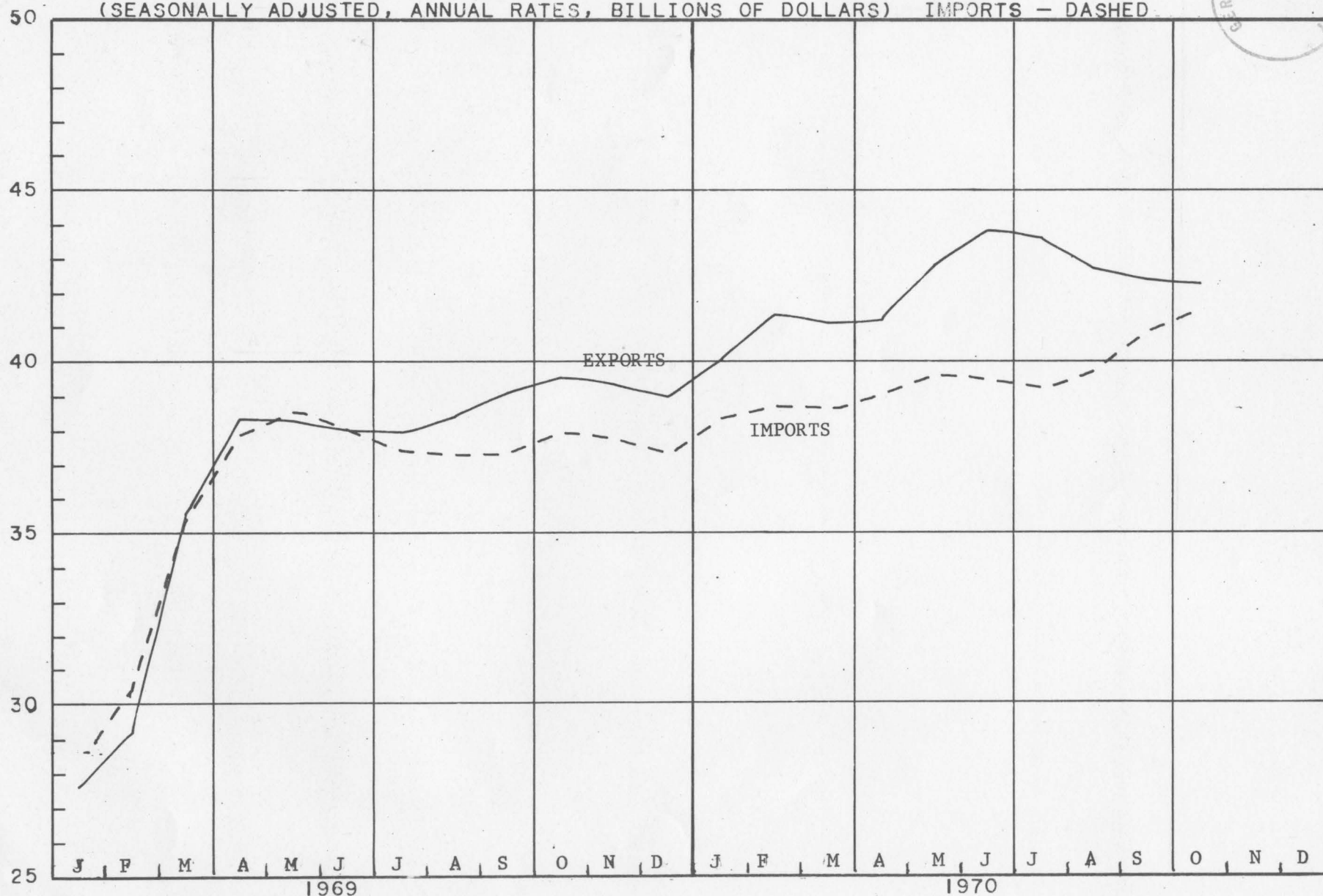




MERCHANDISE TRADE 1-2-1 MOVING AVERAGES B.O.P. BASIS  
(SEASONALLY ADJUSTED, ANNUAL RATES, BILLIONS OF DOLLARS)

EXPORTS - SOLID

IMPORTS - DASHED



Attachment 2

Current Account  
(millions of dollars, S.A.)

<u>Quarter</u>	<u>Current Account Balance</u>	<u>Goods</u>	<u>Services</u>	<u>Remittances &amp; Pensions</u>
1970 - 1	504	505	327	-328
2	744	829	275	-360
3	661	720	301	-360

Source: Green Book, December 9, 1970.

