Last year our overall reserve loss—gold, convertible currencies, and IMF gold tranche position—was $568 million. The comparable figure in 1965 was $1.2 billion. It is worth noting that even with an official settlements *surplus* our net reserve position showed a *decline*—due mainly to continued heavy conversion of dollars into gold by France during the first 8 months of the year.

On trade account, our surplus declined by somewhat over $1 billion—from $4.8 billion in 1965 to about $3.7 billion last year. Our exports rose by more than 11 percent, but our imports rose by almost 19 percent because of—

A rapid rise in gross national product,

Near-capacity operation in some sectors of the economy, and selected shortages of skilled labor,

A high level of military orders for specialized items, and

Certain special situations such as that arising from the elimination of duties on automobiles produced in Canada under the recent United States-Canadian auto agreement.

With the lessening of selective pressures in the economy and a more moderate pace of advance, growth in imports can be expected to taper off. In fact they showed almost no change between the third and fourth quarters of last year.

On the export side, the U.S. competitive position was maintained. U.S. wholesale prices rose faster than in some advanced countries but slower than in others. Unit value of U.S. exports in the second quarter of last year showed a decline from the comparable quarter in 1965, whereas the movement was upward for most advanced countries.

While we appear to be holding our ground, competitively, we are not making the gains we did up to mid-1965. To insure renewed progress toward a balanced payments position, an early return to cost-price stability is essential.

In the capital sector, incomplete data point to some decline in total private outflow for the year as a whole. We know, for example, that banks reduced their claims on foreigners by about $300 million.

The spectacular change, however, in the capital accounts last year was on the receipts side. Long-term capital receipts included:

Investments of over $400 million by international lending institutions in long-term CD's and in U.S. agency issues, and

Investments of over $700 million by foreign official agencies in long-term CD's.

Some of the latter investment was made out of large dollar accruals to certain countries from our military spending abroad. Some represented shifts out of foreign official liquid dollar holdings in response to the high rates of return on time certificates of deposit and Federal agency securities.

The official reserve transactions balance, but not the liquidity balance, benefited from an unusually large accumulation ($2.8 billion) of *liquid* dollar holdings by private foreigners, mainly banks—and including foreign branches of U.S. banks.

In very broad terms, last year's worsening in the trade and military expenditure accounts was offset by unusually large *receipts* of foreign capital. In 1965 when there was also a worsening in the trade and military expenditure accounts, the major offset was a reduction in the outflow of U.S. private capital.