

MAJOR DEVELOPMENTS

On the basis of data now available for the first quarter, the Office of Business Economics reported the following major developments in international transactions during this period.

A. Changes in official reserve assets and in liquid liabilities

(1) Official reserves declined about \$900 million. This change consisted of a \$1,360 million drop in official gold holdings, which was partly offset by a \$400 million rise in holdings of convertible currencies and a \$60 million increase in the U.S. gold tranche position in the IMF. The major part of the gold sales was made to meet the demand on principal foreign gold markets in order to help in preserving the officially established price of gold. The large losses of reserves of the United States and other countries participating in the London gold pool operations resulted in an agreement among the financial authorities of these countries on March 17, "that officially-held gold should be used only to effect transfers among monetary authorities", that it no longer be supplied to the London or any other gold market, and that the price of gold used in transfers among monetary authorities and in the valuation of official reserves remain unchanged, but that the price of gold traded by others be free to reflect market conditions.

(2) Liquid liabilities to foreign residents declined \$670 million in first quarter. This decline was the net result of a \$1,360 million drop in liquid dollar assets held in the U.S. by foreign official agencies, and a rise of about \$690 million in those held by foreign banks and other private residents. After adjustment for seasonal variations, and for investments by foreign official agencies in long-term certificates of deposits and medium-term, nonconvertible, nonmarketable government securities and in government agency bonds, dollar liabilities to foreign official agencies declined less than \$400 million. This was less than a third of the dollar amounts required to pay for the foreign gold purchases from the United States.

Liquid liabilities to foreign private residents, seasonally adjusted, continued to rise during the first quarter, but by a considerably smaller amount than either of the two preceding quarters. The very large increases in those quarters had reflected the exchange crisis of the British pound. In the first quarter of this year, large scale but short-lived speculation against the Canadian dollar may also have contributed to a shift of dollar liabilities from foreign official to foreign private accounts.

B. Major changes in other transactions

(1) Non-military merchandise exports, adjusted for seasonal variations, increased about \$460 million from the last quarter of 1967, the first major rise in a year. Seasonally adjusted merchandise imports increased \$680 million. This rise continued the sharp upward movement that was resumed in the previous quarter, following a period of about one year during which imports had declined slightly.

The balance on nonmilitary merchandise trade declined about \$220 million from the previous quarter to only \$100 million in the first quarter. This compares with a quarterly average nonmilitary merchandise balance of about 1 billion in the first three quarters of last year. Strikes affecting New York port operations and the production of copper, and hedging against shortages of steel resulting from an anticipated strike in the steel industry retarded the rise in exports and contributed to the increase in imports. These developments may have reduced the trade balance \$450 million to \$500 million.

(2) Net purchases of foreign securities amounted to about \$400 million, after seasonal adjustment, as compared with about \$315 million in the previous quarter. Purchases of newly-issued foreign securities rose about \$35 million, and net purchases of outstanding securities, about \$45 million. The latter includes \$35 million of U.S. purchases of IBRD bonds sold by a foreign government to strengthen its foreign exchange reserves.

(3) U.S. banks reported net capital inflows of \$360 million (after seasonal adjustment) resulting from a reduction in foreign assets held by themselves and for domestic customers. About half of the reduction was in outstanding long-term bank loans. In the previous quarter, banks reported net capital inflows of \$85 million, and in 1967 as a whole, net capital outflows of about \$470 million. The