

Analysis of financial statistics : April - June 1969

The analysis concentrates on flows of funds between the various sectors in the second quarter of 1969, though it looks back a little to identify trends and also moves on to the third quarter where sufficient information is available. The final section covers changes in domestic credit and the money supply in the third quarter (page 414 and Table H). The analysis uses seasonally adjusted figures throughout, but the adjustments used should be regarded with caution until they have been longer established. Some of the difficulties of seasonal adjustment are described in an explanatory note at the end. Unadjusted figures are given in Table J, and notes on sources and definitions follow on page 422.

Background

The course of demand is discussed in the Commentary in terms of constant prices. In this analysis, it is appropriate to consider developments in money terms, including the effects of changes in prices. Even in these terms, growth in production seems to have been slow in the second quarter. Gross domestic product at factor cost, measured at current prices from income data, was under 1% larger than in the first quarter. This increase was the smallest for two years. Measured from the expenditure series, G.D.P. was over 1% larger, but recorded expenditure in the first quarter had been temporarily depressed after some of private industry's fixed investment had been brought forward into the last quarter of 1968 to qualify for the higher rate of investment grants then paid.

The increase in final expenditure in the second quarter included a marked rise in personal consumption, the largest element; at current market prices it rose by 2½%. To some extent this increase in consumption seems to have been met from a run-down in manufacturers' stocks. Exports of goods and services, the most buoyant element of expenditure, rose by over 4%. Private fixed investment rose too, partly in reaction to the low first quarter total explained above, but public investment fell.

In the third quarter, on very preliminary figures, expenditure appears to have grown a little faster, largely under the stimulus of increased exports, though personal consumption also went up slightly and private fixed investment seems likely to have been still rising.

Public sector

In the second quarter, the public sector moved firmly into financial surplus having been in rough balance in the first quarter. Since the beginning of 1968, there has been a steady, large increase in the central government's current surplus. The growth of expenditure has been restrained, and increases in taxation have augmented the normal growth in revenue which occurs even when tax rates are unchanged. There was a further large rise in current tax receipts in the second quarter. The central government's

net capital transfers to other sectors have also been smaller, mainly because taxes on capital have brought in more.

The current surplus of the rest of the public sector (local authorities and public corporations) has not changed much in recent quarters and there was little change in the second quarter either. In that quarter, local authorities had a larger current surplus, because they received increased grants from the central government and their rate income rose in the new financial year. Public corporations saved less, but only because interest payments to the central government were larger – these tend to move erratically and in any case, like government grants to local authorities, have no direct effect on the current surplus of the public sector as a whole.

Although the sector's current surplus has increased, it has been tending to invest less; and capital expenditure fell further in the June quarter. Public corporations invested less and there was a reduction in the amount of housebuilding by local authorities.

In the second quarter, therefore, the public sector was in a position, unprecedented in recent times, to make substantial net repayments of debt to other sectors.

Table A
Public sector

£ millions

Seasonally adjusted

	1968				1969		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Saving (current surplus)	+579	+699	+798	+936	+873	+1,060	
Capital transfers (net)	- 51	- 51	- 49	- 39	+ 32	- 26	
Capital expenditure	-992	-971	-949	-963	-922	-908	
Financial surplus +/-deficit -	-464	-323	-200	- 66	- 17	+126	
Lending etc. (increase +) ^a	+ 94	- 74	+ 61	+204	+135	- 46	
Import deposits (increase -)				- 77	-268	-217	- 11
External finance (increase in liabilities -):							
Central government	-601	-456	+158	-267	+ 82	+ 28	+ 46
Local authorities	+ 13	+ 61	- 5	- 12	+ 8	+ 2	- 41
Public corporations	—	—	—	—	- 7	- 31	- 27
	<u>-588</u>	<u>-395</u>	<u>+153</u>	<u>-279</u>	<u>+ 83</u>	<u>- 1</u>	<u>- 22</u>
Domestic borrowing (increase in liabilities -):							
Central government:							
From banks	+218	- 3	-240	+250	+213	+287	+286
Other	- 66	+154	- 52	+142	+186	- 2	-129
Local authorities ^b	-154	-199	-136	-157	-192	-123	
Public corporations	+ 96	+ 7	- 34	- 27	+ 14	+ 7	
	<u>+ 94</u>	<u>- 41</u>	<u>-462</u>	<u>+208</u>	<u>+221</u>	<u>+169</u>	
Identified financial transactions	-400	-510	-248	+ 56	+171	- 95	
<i>Unidentified</i>	- 64	+187	+ 48	-122	-188	+221	

^a Consisting principally of public corporations' trade credit, other loans by the public sector, and bank deposits.

^b Including the Northern Ireland Government.

The central government, however, obtained a further £200 million by way of import deposits (treated here as a form of debt) as the scheme was still building up for most of the quarter. Net repayments of the more usual forms of debt were therefore correspondingly larger. The central government's external transactions again required a moderate amount of sterling finance, but domestic repayments were none the less very large. In fact, holders outside the banking sector bought marginally more debt than they sold, for their encashments of national savings were more than offset by – and indeed were partly associated with – their purchases of gilt-edged; so the Government were able to buy back a very large amount of debt – nearly £300 million – from the banks and discount houses.

The local authorities were net borrowers, although on a smaller scale than in recent quarters. Long-term interest rates reached new heights (over 10%) during the quarter, and the local authorities borrowed mostly at short term. Public corporations repaid a small amount of domestic debt, but the Gas Council raised £31 million on the West German capital market.

In the third quarter, the central government obtained virtually no net finance by way of import deposits, the scheme having reached a plateau at the end of May. Their repayments of other forms of debt were, partly for this reason, very much smaller. As external transactions continued to require a moderate amount of sterling finance by the Government the amount available for repayment of debt to domestic holders was, in total, little more than half as large as in the second quarter. However, those outside the banking sector bought a considerable amount of government debt on balance; their purchases of gilts were even larger than in the preceding quarter, and disposals of national savings were smaller. Thus the amount of debt repaid to the banking sector was as large as in the June quarter, that is, nearly another £300 million.

Overseas sector

The emergence of a balance of payments surplus on current account since the beginning of this year is reflected in the financial accounts as a movement by the rest of the world (the overseas sector) from surplus into deficit. The overseas sector's balance on current account, together with long-term capital transactions and the resultant changes in monetary assets and liabilities, are shown in summary form in Table B.

There are large flows of long-term capital between the overseas and private sectors. On balance, these movements are usually outward from the United Kingdom, so adding to the overseas sector's net liabilities to the private sector. Monetary flows between these two sectors include changes in deposits with banks and other institutions – often influenced by confidence or interest rate factors – and also changes in trade credit, the direction of which is again usually from the private sector to the overseas sector on balance. Very broadly speaking, the financing of these flows between the private and overseas sectors, as well as the financing of the current balance, is reflected in changes in the public sector's net liabilities to the overseas sector –

Table B
Overseas sector^a

£ millions

Seasonally adjusted

	1968				1969		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Financial surplus +/deficit -^b	+ 91	+101	+ 7	+ 66	- 18	- 75	
Financial transactions by overseas sector							
Claims on U.K. increase + /decrease -							
Liabilities to U.K. increase - /decrease +							
Transactions with the U.K. private sector							
Long term:							
Miscellaneous private investment	- 73	- 5	+ 59	- 69	+ 10	- 38	
Capital issues in the United Kingdom	- 59	- 79	- 51	- 44	- 84	- 63	- 15
Other transactions in company and overseas securities	+ 2	+ 20	+101	- 7	+ 65	+116	
	<u>-130</u>	<u>- 64</u>	<u>+109</u>	<u>-120</u>	<u>- 9</u>	<u>+ 15</u>	
Monetary:							
Deposits with U.K. banks less claims of U.K. banks ^c	-179	- 72	+ 95	- 81	-113	- 71	-134
Other	+ 12	-144	- 42	- 58	+ 79	+ 5	
	<u>-167</u>	<u>-216</u>	<u>+ 53</u>	<u>-139</u>	<u>- 34</u>	<u>- 66</u>	
Balancing item	-194	+ 7	- 1	+ 52	+110	- 34	
	<u>-491</u>	<u>-273</u>	<u>+161</u>	<u>-207</u>	<u>+ 67</u>	<u>- 85</u>	
Transactions with the U.K. public sector							
Lending etc. ^d	- 6	- 21	- 1	- 6	- 2	+ 9	
External finance of: ^e							
Central government	+601	+456	-158	+267	- 82	- 28	- 46
Local authorities	- 13	- 61	+ 5	+ 12	- 8	- 2	+ 41
Public corporations	—	—	—	—	+ 7	+ 31	+ 27
	<u>+582</u>	<u>+374</u>	<u>-154</u>	<u>+273</u>	<u>- 85</u>	<u>+ 10</u>	

^a It has not been possible to incorporate in this table the balance of payments estimates released in December.

^b Allowing for the under-recording of exports.

^c Other than purchases of securities.

^d Those overseas transactions with the U.K. public sector which are not included in D.C.E.

^e Those overseas transactions with the U.K. public sector which are included in D.C.E. (see Table H).

which include on the one side, overseas holdings of U.K. Treasury bills and gilt-edged stocks and on the other, the U.K. reserves.

Private sector

The financial position of the private sector has changed markedly since the middle of 1968. By the second quarter of this year the current surplus of the public sector had become large enough to finance not only capital expenditure, but also some repayment of debt to other sectors. The effect of this development on the private sector has been partly

offset by the improvement in the balance of payments, as a result of which the overseas sector has moved into deficit. Even so, the probability is that the private sector has also moved into deficit recently. If so, this will have been the first time this has happened for many years.

The national income accounts do not show the private sector as having moved into deficit, although they do suggest that its surplus has been very much smaller in recent quarters. However, the "residual error" in these accounts – the difference between the independent estimates of total income and total expenditure – has been unusually large in the first half of 1969. Much of the residual error probably arises in the estimates for the private sector, so that the direct estimate of the private sector's financial surplus or deficit in the national income accounts is probably less reliable than the indirect estimate given by the combined surplus or deficit of the public and overseas sectors.

Table C
Summary of sector positions

£ millions
Seasonally adjusted

	1968				1969	
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Financial surpluses +/deficits -						
Public sector	-464	-323	-200	- 66	- 17	+126
Overseas sector ^a	+ 91	+101	+ 7	+ 66	- 18	- 75
	<u>-373</u>	<u>-222</u>	<u>-193</u>	<u>—</u>	<u>- 35</u>	<u>+ 51</u>
Private sector	+349	+370	+227	- 29	+273	+144
Residual error	+ 24	-148	- 34	+ 29	-238	-195

^a Allowing for the under-recording of exports.

Personal sector

Because of the residual error, assessment of the financial position of each of the component parts of the private sector must remain tentative, but the indications are that, with wages rising faster than prices, the personal sector has been under less severe pressure than companies.

In the national income figures, personal income and current expenditure have on the whole been rising in line with one another over the past year and a half. Personal saving has therefore changed little, taking one quarter with another. Nor has the sector's capital expenditure changed very much on balance – finance for housing has continued to be restricted – so that its financial surplus, although fluctuating from quarter to quarter, does not seem to have been tending either upwards or downwards. This picture is borne out by the financial statistics, which show the sector acquiring financial assets at roughly the same rate throughout the period.

Table D
Personal sector
 £ millions
 Seasonally adjusted

	1968				1969		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Saving	+485	+657	+519	+539	+743	+507	
Capital transfers (net)	- 48	-54	- 55	- 73	-141	- 86	
Capital expenditure	-327	-324	-314	-359	-304	-264	
Financial surplus	+110	+279	+150	+107	+298	+157	
Borrowing -							
For house purchase	-279	-248	-245	-190	-224	-200	
Bank borrowing ^a	- 17	- 25	- 73	+ 72	+103	+ 26	+ 53
Hire purchase debt	- 29	+ 17	+ 4	- 14	+ 9	+ 12	
Other	- 22	+ 1	- 6	- 16	- 59	- 16	
	<u>-347</u>	<u>-255</u>	<u>-320</u>	<u>-148</u>	<u>-171</u>	<u>-178</u>	
Acquisition of financial assets +							
Life assurance and pension funds	+433	+380	+384	+406	+395	+435	
Government stocks	- 2	-124	+ 51	-179	-160	+ 25	
Company and overseas securities	-231	-215	-188	-105	-189	- 74	
Unit trust units	+ 51	+ 67	+ 68	+ 72	+ 91	+ 42	+ 29
Bank deposits, notes and coin	+137	+263	+267	+ 62	+133	- 4	- 58
Building society shares and deposits	+151	+207	+167	+240	+204	+256	+206
National savings	- 5	- 51	- 19	- 18	+ 4	-103	- 51
Other	+ 98	+172	+145	+ 61	+ 69	+ 48	
	<u>+632</u>	<u>+699</u>	<u>+875</u>	<u>+539</u>	<u>+547</u>	<u>+625</u>	
Identified financial transactions	+285	+444	+555	+391	+376	+447	
<i>Unidentified</i>	-175	-165	-405	-284	- 78	-290	

^a Other than for house purchase.

In the second quarter, total personal income was in fact little changed, a rise in wages and salaries having been offset by a fall in receipts of dividends. Payments of income tax, however, continued to rise, so that personal disposable income fell by about £80 million. Consumption rose and personal saving (estimated as a residual) was some £240 million smaller, at about £500 million. This is a fairly sharp drop, but in the first quarter saving was exceptionally high.

Although the national income accounts suggest that personal saving was smaller, the financial statistics show persons acquiring more financial assets in the second quarter than in the first. Their borrowing was little changed in total; repayments to the banks were smaller, but so was borrowing from other financial institutions. Persons put more than in the previous two quarters into their two main forms of investment - the life assurance and pension funds and the building societies. They bought gilt-edged (which they rarely do) and sold fewer equities and debentures. On the other hand, a particularly large amount was withdrawn from national savings, purchases of unit trust units were smaller than for several quarters and, most unusually, the sector did not increase its bank deposits.

In the third quarter investment in building societies was lower, and bank deposits were actually drawn down.

Companies

Both the national income and the financial estimates suggest that companies have experienced unusually difficult conditions during the past year or so. Indeed the financial statistics show companies in deficit in nearly every quarter this year and last. However, their position may have improved slightly in the most recent quarters.

Company profits have been virtually unchanged since the beginning of 1968 despite the rise in production. Overseas income, on the other hand, has generally increased, and it remained high in the second quarter of this year. The rise in interest rates has meant that both receipts and payments of interest (particularly by financial companies) have gone steadily upwards; both items rose further in the second quarter. Dividend payments fell back from a peak, but tax payments rose slightly. In total, company saving was virtually unchanged in the second quarter, and was only a little larger than on average in 1968.

Industrial and commercial companies

The bulk of company saving is attributable to industrial and commercial companies. Although their saving rose slightly in the second quarter, it was not markedly different from preceding quarters. Fixed capital formation recovered from its temporary fall in the first quarter (see the Background section on page 404) and was a little above the average for the past year. (The financial institutions, however, have put an increasing proportion of their funds into property, much of which they lease to industrial and commercial companies; as a result, the latter group of companies have needed to invest less in property themselves, so that their recorded gross fixed capital formation has been reduced.) Stockbuilding, which had been very large in the first quarter, was smaller in the second, partly perhaps because of the resumed rise in personal consumption. These companies had a small financial surplus in the second quarter (as measured from the national income figures), an improvement on the previous two quarters.

At a time when companies had little or no surplus to build up financial assets, they were obliged to find a total of about £500 million in import deposits in the course of six months. Even in the second quarter, the last in which the scheme was building up, deposits amounted to £195 million. Overseas suppliers provided part of this finance—perhaps rather more than is implied by the change in the figures of identified overseas trade credit in Table E. But this still left a substantial amount to be found at home, in addition to what was required for fixed capital expenditure.

In the twelve months to June 1969, companies made heavy calls on the capital market. Their new issues, including debentures, were very large despite rising interest rates. Even in the second quarter their net borrowing in the capital market remained high for, though they raised less cash on new issues, they also spent less on existing securities in connection with take-overs and mergers. They borrowed a great deal more, however, directly from other financial institutions.

Table E
Industrial and commercial companies

£ millions

Seasonally adjusted

	1968				1969		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Saving	+794	+768	+779	+703	+761	+794	
Capital transfers (net)	+108	+106	+105	+112	+127	+122	
Fixed investment	-571	-583	-632	-708	-600	-655	
Stocks	- 65	-187	-126	-226	-290	-195	
Financial surplus +/deficit -	+266	+104	+126	-119	- 2	+ 66	
Increase in liabilities -							
Overseas investment in U.K. companies	- 39	- 78	-137	- 78	-140	- 85	
Bank borrowing	-150	-147	+ 70	-371	-255	- 11	-389
Capital issues and long-term borrowing abroad	- 51	-123	-163	-194	-190	-173	- 72
Identified overseas trade credit	- 5	- 11	+ 4	+ 24	- 71	- 42	
Other borrowing	- 40	- 56	- 42	- 70	- 5	-122	
	<u>-285</u>	<u>-415</u>	<u>-286</u>	<u>-689</u>	<u>-661</u>	<u>-433</u>	
Acquisition of financial assets +							
Import deposits				+ 76	+244	+195	
Bank deposits, notes and coin	+ 81	+167	-168	+221	- 96	-132	+112
Other liquid assets ^a	+ 8	- 10	- 34	- 30	+ 40	- 23	
Investment abroad	+124	+175	+ 94	+211	+169	+143	
Company securities	+ 34	+ 81	+ 96	+100	+ 91	+ 68	
Other	- 43	+ 63	—	-114	- 71	+ 66	
	<u>+204</u>	<u>+476</u>	<u>- 12</u>	<u>+464</u>	<u>+377</u>	<u>+317</u>	
Identified financial transactions	- 81	+ 61	-280	-225	-284	-116	
<i>Unidentified</i>	+347	+ 43	+406	+106	+282	+182	

^a Deposits with other financial institutions, tax reserve certificates, Treasury bills and local authority debt.

Companies also increased their bank borrowing substantially in the first quarter, and ran down their liquid assets. In the second quarter they borrowed almost nothing from the banks but they again ran down their liquid assets very sharply.

In the third quarter, companies would, as a group, have benefited from the further increase in export sales, but they began to pay higher rates of selective employment tax. Since then, increased national insurance contributions have had to be met as well; and companies must be preparing to pay corporation tax on their profits at a higher rate from the beginning of 1970.

Even so, they may well have spent more on fixed capital in the third quarter and, according to the Board of Trade intentions survey, they intend to make further large outlays in 1970. In the past, companies have both borrowed heavily and built up their liquid assets before they began to implement their fixed investment programmes. At the moment they appear to be unwilling to borrow long term at current high rates, and in the third quarter their capital issues were only a fraction of what they had been earlier in the year.

However, they borrowed very heavily from the banks, and increased their bank deposits.

Companies have also built up considerable claims on the Government in the form of import deposits, the total of which was virtually unchanged in the third quarter. Small repayments began towards the end of the year, when the scheme was extended with the rate of deposit lowered from 50% to 40%. However, companies cannot now look forward to substantial repayments in the first quarter of 1970 to help ease the pressure on liquidity caused by tax payments.

Banks and other financial institutions

The financial sector of the economy has had a heightened rôle to play in recent quarters, for the public sector has been moving into substantial financial surplus, and the private sector – particularly industrial and commercial companies – has come under increasing financial strain. The import deposit scheme has accentuated these trends. Flows through the financial intermediaries have therefore been of particular importance.

Financial institutions other than banks

The life assurance and pension funds are in a position to divert the considerable amounts which accrue to them to different sectors of the economy. Directly and indirectly they channelled a little more of their funds to the private sector in the first half of 1969 than they did in 1968, though there were considerable changes from quarter to quarter in the way in which this finance was provided. Up to the first quarter of 1969 they had for some time been large buyers of equities and debentures. In the second quarter, however, their purchases of ordinary shares fell by a third. At the same time unit trusts reduced their equity buying to almost nothing and the investment trusts were net sellers of shares. Both sorts of trust exist largely to invest in equities and up to this year had been keen supporters of the market; part of the reason for the recent change has been a reduction in the inflow of funds to the trusts. With institutional buying thus considerably reduced, equity prices fell by about 15% over the quarter. The institutions' purchases of debentures also fell sharply, and yields on debentures continued to rise even after those on long-dated gilt-edged began to fall.

The insurance companies made good a small part of this lost finance by increasing their non-marketable loans to industrial and commercial companies. They also provided finance indirectly by buying property from industrial and commercial companies and leasing it back to them, or by financing developments that these companies might otherwise have financed themselves.

Building societies' receipts of funds have fluctuated in recent quarters, when large movements in most interest rates have been accompanied by only infrequent changes in societies' own rates. Net receipts rose in the second quarter, following an increase in the societies' share and deposit rates, but were lower again in the third quarter, when other interest rates generally continued to rise and some investors turned to gilts. Building societies' net lending has also fluctuated, but on the whole has been below their net receipts.

Table F
Financial institutions other than banks

£ millions

Seasonally adjusted

	1968				1969		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Sources of funds							
(increase -)							
Life assurance and pension funds	-433	-380	-384	-406	-395	-435	
Building society shares and deposits	-151	-198	-167	-241	-204	-256	-206
Other deposits	- 38	+ 9	- 21	- 54	-115	+ 3	
Capital issues	- 26	- 13	- 61	- 32	- 47	- 22	- 15
Unit trust units	- 51	- 67	- 68	- 72	- 91	- 42	- 29
Other (mainly bank) borrowing	+ 5	- 94	+ 49	+ 3	+ 26	- 2	
	-694	-743	-652	-802	-826	-754	
Increase in financial assets +							
Short-term assets	- 19	+ 18	- 25	+151	+ 55	+ 54	
Government stocks	+ 27	+ 14	+ 21	- 18	- 30	+ 82	
Company and overseas securities :							
Ordinary shares	+172	+216	+185	+147	+175	+ 26	
Debentures	+ 62	+ 68	+ 84	+ 80	+134	+ 97	
Other	- 2	—	- 15	- 14	+ 3	- 5	
Loans for house purchase	+283	+237	+226	+185	+225	+206	
Long-term lending to local authorities	+ 7	+ 32	+ 28	+ 29	+ 25	+ 12	
Hire purchase claims	+ 17	- 17	+ 2	+ 4	- 6	- 13	
Other lending	+ 57	+ 47	+ 46	+ 38	+ 91	+ 89	
	+604	+615	+552	+602	+672	+548	

The societies have, in other words, built up their liquid assets, most of which are employed in some form of public sector debt.

The funds of the savings banks, which take all their deposits from persons and invest almost entirely in public sector securities, grew only very slowly in the second and third quarters. The rates they offered were not very competitive.

In sum, the finance provided to the company sector by the whole group of institutions, so far from increasing in response to companies' needs, fell very sharply in the second quarter.

Banks

As was to be expected, the banks have had to facilitate a large part of the flows between the private and public sectors this year.

There have been substantial changes in both private sector bank borrowing and bank deposits in the past year or so. When bank borrowing has been high the private sector has tended to increase its deposits also. As is explained later, there are often large movements in bank borrowing and deposits around the end of a quarter. This makes the figures of bank deposits and lending difficult to interpret from quarter to quarter. Nevertheless net figures of bank lending to the private sector less private sector bank deposits show a definite trend; the private sector has taken more from the banks, mainly to make payments to the central government.

Table G**Banks**

£ millions

Seasonally adjusted

Lending: increase +/decrease -

Deposits: increase -/decrease +

	1968				1969		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Private sector:							
Lending	+161	+299	- 14	+313	+146	- 5	+358
Deposits	-152	-418	-123	-262	- 80	+ 99	-216
Net lending	+ 9	-119	-137	+ 51	+ 66	+ 94	+142
Public sector:							
Lending	-215	+ 22	+352	-171	- 85	-209	-362
Deposits	+ 18	+ 70	- 43	- 19	- 62	+ 52	- 5
Net lending	-197	+ 92	+309	-190	-147	-157	-367
Total domestic lending	- 54	+321	+338	+142	+ 61	-214	- 4
Total domestic deposits	-134	-348	-166	-281	-142	+151	-221
Net lending to overseas ^a	+186	+ 71	- 96	+ 87	+116	+ 87	+130
Non-deposit liabilities (net)	+ 2	- 44	- 76	+ 52	- 35	- 24	+ 95

^a Claims on overseas net of overseas deposits.

On the other hand the public sector, again largely because of the central government's surplus, has been buying back increasing amounts of debt over the past year; public sector bank deposits have fluctuated without showing any marked trend.

Domestic credit and money supply

These developments in the banking sector are, of course, directly relevant to analysis of D.C.E. and the money supply, for domestic bank lending and domestic bank deposits are the major components of these totals. Table H is designed to show how the various concepts are connected, and some of the influences bearing upon them. It includes both the recorded statistics and, for the first time, seasonally adjusted series (see page 416). The analysis that follows is in seasonally adjusted terms.

Changes in domestic credit are greatly influenced by the size of the public sector's borrowing requirement. This is measured after taking into account purchases of financial assets such as company securities and some financial receipts such as import deposits. It therefore differs from the financial surplus discussed above, which does not include any financial transactions. The borrowing requirement has become steadily smaller in recent quarters; indeed, the public sector was in surplus on this basis (*i.e.* the borrowing requirement was negative) in the first two quarters of 1969.

For the third quarter, it is too early yet to know the size either of the borrowing requirement or of that part of it which is not included in domestic credit - namely, borrowing from the private sector other than the banks. To judge from the central government's accounts, the public sector surplus

will have been smaller than in the second quarter, but borrowing from the non-bank private sector is likely to have been larger.

What is already known is that the total of public sector borrowing which is included in domestic credit – from banks, from overseas and by way of notes and coin – fell more in the third quarter than in the second. Within the total, external finance of the public sector and the general public's take-up of notes and coin both increased a little, so that there were even larger repayments of borrowing from the banks.

Bank lending to the private sector increased significantly in the third quarter – and nearly all of this is included in D.C.E. So too is sterling lending to overseas, most of which finances U.K. exports; this was only slightly greater than in the second quarter.

In sum, on the seasonally adjusted figures, domestic credit expanded by about £70 million in the third quarter compared with a contraction of about £190 million in the second.

The expansion in the money supply in the third quarter was somewhat larger than D.C.E., at nearly £240 million. The public sector received a certain amount of external finance, which tends to reduce the growth of the money supply relative to D.C.E.; but there was a larger increase in those bank liabilities included in the money supply than in those bank assets included in D.C.E. One factor was a fall of nearly £130 million in the banks' net non-deposit liabilities which are not included in the money supply but against which the banks acquire assets. However the change in non-deposit liabilities is derived as a residual, and such a large fall throws into doubt other of the third quarter figures. For example, it may be that the rise in bank deposits has been overstated.

This is one reason for treating the money supply figures with caution. Another is that the banking figures at the end of each calendar quarter are especially difficult to interpret, being subject to special end-quarter influences and the effects of the day of the week on which the quarter ends. A comparison of end-quarter figures with those for the nearest mid-month (Wednesday) make-up days generally reveals substantial movements immediately before the end of a quarter which are largely reversed before the next make-up day. In part these movements can be forecast and allowed for, but there remain very large erratic variations in either direction which cannot be foreseen. As the following figures illustrate, the differences are observable in both

£ millions	mid-June	end-June	mid-July	mid-Sept.	end-Sept.	mid-Oct.
Net deposits^a						
Deposit banks: 1968	10,250	10,420	10,420	10,510	10,590	10,590
1969	10,320	10,420	10,350	10,240	10,480	10,340
Accepting houses, overseas and other banks ^b : 1968	..	2,960	..	..	3,090	..
1969	..	3,240	3,310	3,300	3,280	3,330
Advances^a						
Deposit banks: 1968	5,890	6,270	6,040	5,860	5,940	5,790
1969	6,070	6,460	6,290	6,270	6,520	6,270
Accepting houses, overseas and other banks ^b : 1968	..	1,330	..	..	1,320	..
1969	..	1,340	1,350	1,360	1,370	1,370

.. not available.

^a Partly estimated.

^b In sterling only.

advances and, though usually to a lesser extent, in deposits, and so affect the measurement of both D.C.E. and money supply. For the accepting houses, overseas and other banks, mid-month figures are not available before July 1969, but the figures for the period from July onwards suggest that the sterling transactions of these banks are not greatly affected by these end-quarter fluctuations.

It happens that the difference between mid and end-month figures was particularly large at the end of the September quarter this year. The estimates of D.C.E. and money supply based on the end-quarter figures therefore differ from those based on the mid-monthly series. The use of end-quarter figures may exaggerate the apparent increases in the September quarter, particularly for the money supply; and the mid-monthly series imply a smoother trend in both D.C.E. and money supply over the first half of the financial year.

Explanatory note

The seasonal adjustments used

Work on estimating seasonal adjustments for financial statistics has been in progress in the Bank for a number of years. Financial series are peculiarly difficult to adjust satisfactorily, for two main reasons: firstly, there tend to be large erratic movements between a sector's holdings of one asset and of another, which obscure the trends; and secondly, the 'seasonal' patterns can so easily be changed by administrative action (for example tax changes). This contrasts with other economic series, whose seasonal variation is more a function of weather and social custom. Moreover, for the United Kingdom, only six years' figures are available for the majority of the items in the sector financing accounts, though estimates of the net financial surpluses of certain sectors are available for a much longer run of years.

Preliminary adjustments have been obtained independently for each item which displays seasonality. Consistent seasonal adjustments have then been estimated simultaneously for all the entries in the accounts by a system of balancing which provides that:

- a* the sum of the adjustments for each item over the four quarters of each calendar year is zero;
- b* in any quarter, the sum of the adjustments of all sectors for a particular asset/liability is zero; and
- c* in any quarter, the sum of the adjustments for the identified assets/liabilities of a particular sector is related, where possible, to the adjustment for the sector's financial surplus.

In addition certain series (for example notes and coin) are markedly affected by the days of the week on which a quarter begins and ends, and – at end-March – by the closeness of Easter. Adjustments have been made to allow for these distortions also, but, of course, they will not usually cancel out over the year, because this must end on a different day of the week from the preceding year.

The tables in the text of the financial analysis contain adjusted figures from the first quarter of 1968 for some of the items in the accounts, and consistent seasonally adjusted

estimates of domestic credit expansion and changes in the money supply are given for the first time in the section beginning on page 414. The adjustments for the money supply therefore differ from those hitherto published in *Financial Statistics*, because the latter are based on a fixed seasonal pattern estimated from money supply in isolation.

The seasonally adjusted figures in this analysis should nevertheless be regarded with caution in view of the relatively short series available and the changes in seasonal patterns known to have occurred. It is intended to publish a full set of adjusted quarterly figures going back to 1963, together with an explanatory article, in a future issue of the *Bulletin*.

Table H

Domestic credit expansion and increase in the money supply

£ millions

	Public sector borrowing				Bank assets	
	Total public sector borrowing (= Cols 2 to 5)	Sales + of debt to private sector (other than banks)	Currency in circulation with the public	External finance of public sector	Bank lending to public sector	Bank lending to private sector ^a
	1	2	3	4	5	6
Changes in period						
Financial years						
1966/67	1,188	624	125	28	411	- 98
1967/68	1,957	-431	106	1,446	- 26	675
1968/69	453	-141	69	417	108	512
Quarters (unadjusted)						
1968 Jan.-Mar.	- 340	- 39	39	485	-825	331
Apr.-June	552	51	61	345	95	337
July-Sept.	579	146	-104	- 69	606	-349
Oct.-Dec.	524	- 77	56	348	197	205
1969 Jan.-Mar.	-1,202	-261	56	-207	-790	319
Apr.-June	- 79	83	- 4	- 57	-101	50
July-Sept.	..	..	- 45	99	-111	92
Quarters (seasonally adjusted)						
1968 Jan.-Mar.	504	59	72	588	-215	131
Apr.-June	438	2	19	395	22	277
July-Sept.	310	100	11	-153	352	- 49
Oct.-Dec.	71	- 80	43	279	-171	245
1969 Jan.-Mar.	- 306	-160	22	- 83	- 85	111
Apr.-June	- 168	38	2	1	-209	- 20
July-Sept.	..	..	16	22	-362	343
Money supply						
	Total money supply (= Cols. 13 + 14)		Currency in circulation with the public		Bank deposits of domestic sectors	
	12		13		14	
Financial years						
1966/67	390		125		265	
1967/68	1,239		106		1,133	
1968/69	919		69		850	
Quarters (unadjusted)						
1968 Jan.-Mar.	-314		39		-353	
Apr.-June	519		61		458	
July-Sept.	100		-104		204	
Oct.-Dec.	682		56		626	
1969 Jan.-Mar.	-382		56		-438	
Apr.-June	4		- 4		8	
July-Sept.	262		- 45		307	
Quarters (seasonally adjusted)						
1968 Jan.-Mar.	206		72		134	
Apr.-June	367		19		348	
July-Sept.	177		11		166	
Oct.-Dec.	324		43		281	
1969 Jan.-Mar.	164		22		142	
Apr.-June	-149		2		-151	
July-Sept.	237		16		221	

.. not available.

^a Other than in foreign currency for investment abroad.^b D.C.E. also equals columns 1 - 2 + 6 + 7.

included in D.C.E.

Other bank assets

Bank lending in sterling to overseas	Total D.C.E. ^b (= Cols. 3 to 7)	Bank lending in foreign currency to overseas	Bank lending in foreign currency to private sector for investment overseas	Total bank assets = liabilities (= Cols. 5 to 7, 9 and 10)
7	8	9	10	11
36	502	817	15	1,181
66	2,267	1,510	75	2,300
74	1,180	3,147	160	4,001
60	90	673	30	269
77	915	1,030	22	1,561
-13	71	365	35	644
16	822	666	68	1,152
- 6	-628	1,086	35	644
40	- 72	2,333	15	2,337
50	85	993	15	1,039
60	636	728	30	734
77	790	1,005	22	1,403
-13	148	345	35	670
16	412	656	68	814
- 6	- 41	1,147	35	1,202
40	-186	2,307	15	2,133
50	69	971	15	1,017

Financial years

1966/67
1967/68
1968/69

Quarters

(unadjusted)
1968 Jan.-Mar.
Apr.-June
July-Sept.
Oct.-Dec.
1969 Jan.-Mar.
Apr.-June
July-Sept.

Quarters

(seasonally adjusted)
1968 Jan.-Mar.
Apr.-June
July-Sept.
Oct.-Dec.
1969 Jan.-Mar.
Apr.-June
July-Sept.

Bank liabilities

Bank deposits of overseas	Non-deposit liabilities (net)	Total bank liabilities = assets (= Cols. 14 to 16)
15	16	17
774	142	1,181
1,118	49	2,300
3,054	97	4,001
628	- 6	269
1,057	46	1,561
397	43	644
544	- 18	1,152
1,056	26	644
2,304	25	2,337
859	-127	1,039
602	- 2	734
1,011	44	1,403
428	76	670
585	- 52	814
1,025	35	1,202
2,260	24	2,133
891	- 95	1,017

Financial years

1966/67
1967/68
1968/69

Quarters

(unadjusted)
1968 Jan.-Mar.
Apr.-June
July-Sept.
Oct.-Dec.
1969 Jan.-Mar.
Apr.-June
July-Sept.

Quarters

(seasonally adjusted)
1968 Jan.-Mar.
Apr.-June
July-Sept.
Oct.-Dec.
1969 Jan.-Mar.
Apr.-June
July-Sept.

Table J

Sector financing: quarterly figures

£ millions

Not seasonally adjusted

Line	Public sector			Overseas sector ^a		
	1969			1969		
	1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.
Financial surplus +/deficit -						
Saving	1	+1,795	+791			
Taxes on capital and capital transfers	2	+ 32	- 26			
<i>less:</i>						
Gross fixed capital formation at home	3	-1,010	-839			
Increase in value of stocks and work in progress	4	+ 42	- 23			
Financial surplus +/deficit -	5	+ 859	- 97	+ 16	- 146	
Changes in financial assets and liabilities						
assets increase +/decrease -						
liabilities increase -/decrease +						
Net indebtedness of Government to Bank of England, Banking Department	6	+ 86	+ 43	+ 38		
Life assurance and pension funds	7					
Government loans	8	+ 10	+ 13	- 6	- 9	
Gold and foreign exchange reserves	9	+ 20	- 11	- 4		
Government transactions with I.M.F.	10	+ 127	-134	+ 11	- 20	+ 11
Miscellaneous investment overseas (net)	11	+ 61	- 86		+ 127	+ 134
					+ 6	+ 73
Notes and coin	12	+ 98	- 39	+ 7		
Bank deposits	13	+ 48	- 12	+ 6	+1,056	+2,304
Deposits with other financial institutions	14				+ 25	- 16
National savings	15.1	- 25	+ 90	+ 67		+ 859
Tax reserve certificates	15.2	+ 114	- 33	- 18		
Import deposits	15.3	- 268	-217	- 11	+ 24	+ 22
Bank lending	16	+ 11	+ 6	- 30	-1,077	-2,357
Hire purchase debt	17	-	+ 1			-1,047
Loans for house purchase	18	- 1	- 6			
Other loans	19	+ 126	-140			
Marketable government debt:						
Treasury bills	20	+ 487	+493	+ 61	- 32	- 372
Stocks	21	+ 505	- 95	-166	-	+ 56
Local authority debt	22	- 278	-127		+ 6	+ 3
U.K. company and overseas securities:						
Capital issues	23				- 84	- 63
Other transactions	24	+ 6	- 30		+ 65	+ 147
Unit trust units	25					- 15
Identified financial transactions	26	+1,127	-284		- 164	- 67
<i>Unidentified</i>	27	- 268	+187		+ 180	- 79
Total = Financial surplus +/deficit -	28	+ 859	- 97		+ 16	- 146

^a It has not been possible to incorporate in this table the balance of payments estimates released in December.

Private sector

Persons			Industrial and commercial companies			Banks			Other financial institutions			Line
1969			1969			1969			1969			
1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.	
+887	+438		+162	+1,044		-141	+146					1
-141	- 86		+128	+ 122		- 19	- 10					2
-241	-237		-580	- 648		-109	-128					3
- 71	- 37		-297	- 206		—	—					4
+434	+ 78		-587	+ 312		-269	+ 8					5
						1969			1969			
						1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.	
+395	+435		- 4	- 4		- 86	- 43	- 38	-395	-435		6
—	- 1								—	+ 1		7
												8
			- 71	- 3					+ 4	+ 16		9
												10
+ 18	- 2	- 12	+ 38	- 2	- 33	- 154	+ 43	+ 38				11
- 18	+ 69	+ 11	-462	- 134	+250	- 618	-2,312	-1,166	- 6	+ 85	+40	12
+268	+251		+ 8	+ 16					-301	-251		13
+ 25	- 90	- 67										14
- 33	+ 5	+ 2	- 84	+ 26	+ 11	+ 3	+ 4	+ 5	—	- 2	—	15.1
			+244	+ 195								15.2
												15.3
+ 83	- 6	+ 86	-412	- 43	-184	+1,400	+2,409	+1,170	- 5	- 9	+ 5	16
+ 44	+ 7		- 36	- 18					- 8	+ 10		17
-211	-203					—	—	+ 5	+212	+209		18
-108	+ 6		- 90	+ 48		- 10	+ 2	- 2	+ 82	+ 84		19
			- 2	- 11		- 443	- 108	- 14	- 10	- 2		20
-160	+ 25					- 315	- 68	- 63	- 30	+ 82		21
+ 21	+ 23		- 19	- 5		+ 226	+ 75	- 67	+ 44	+ 31		22
			-194	- 162	- 66	- 5	- 3	- 1	- 47	- 22	-15	23
-189	- 74		+114	+ 87		+ 12	+ 13	+ 13	+322	+107		24
+ 91	+ 42	+ 29							- 91	- 42	-29	25
+226	+487		-970	- 10		+ 10	+ 12	- 120	-229	-138		26
+208	-409		+383	+ 322								27
+434	+ 78		-587	+ 312					- 50	+134		28
									-269	+ 8		

Notes on sources and definitions¹

Sources

The main statistical series used in compiling Table J appear in the statistical annex to this *Bulletin* and in *Financial Statistics* or *Economic Trends*, both issued by the Central Statistical Office.

Definitions (line numbers refer to Table J)

Public sector The central government, local authorities and public corporations.

Overseas sector As defined for the balance of payments estimates.

Persons Individuals, unincorporated businesses and private non-profit-making bodies.

Industrial and commercial companies All corporate bodies other than public corporations, banks and other financial institutions.

Banks The banking sector as in Table 8 of the annex (including the National Giro).

Other financial institutions Insurance companies, pension funds, building societies, investment trusts, hire purchase finance companies, National Savings Bank (investment accounts only), special investment departments of trustee savings banks, unit trusts, property unit trusts, special finance agencies and certain other institutions which accept deposits but which are not included in the banking sector.

Line 1 Saving The surplus of current income over current expenditure before providing for depreciation and stock appreciation. It includes additions to tax, dividend and interest reserves.

Line 5 Financial surplus/deficit For domestic sectors, the excess/shortfall of saving and net receipts of capital transfers, compared with capital expenditure at home on physical assets. A surplus/deficit of the overseas sector is the counterpart of a deficit/surplus on current account in the U.K. balance of payments. For all sectors together, financial surpluses/deficits should add to nil, but they do not because of the residual error in the national income accounts (£ millions: 1969, 1st qtr. —453; 2nd qtr. —155).

Line 6 Net indebtedness of Government to Bank of England, Banking Department See footnote *f* to Table 1 of the annex.

Line 7 Life assurance and pension funds Includes public sector pension schemes where separate pension funds are not maintained.

Line 8 Government loans Loans to building societies, industrial companies, etc. and inter-government loans (net).

Line 9 Gold and foreign exchange reserves Changes in the sterling equivalent of gold and convertible and non-convertible currencies held by the Exchange Equalisation Account.

Line 10 Government transactions with I.M.F. The United Kingdom's subscription to the I.M.F., less changes in the Fund's holding of interest free notes issued by the U.K. Government.

Line 11 Miscellaneous investment overseas (net) Domestic sectors' net investment overseas not elsewhere included. Bills drawn on overseas residents which have been refinanced with the Issue Department of the Bank of England are included here.

Line 12 Notes and coin Changes in Bank of England notes — treated here as liabilities of the public sector — in banks' liabilities on account of issues of Scottish and Northern Irish notes, and in coin.

Line 13 Bank deposits Changes in gross current and deposit accounts, except that entries for the banking sector are changes in net deposits (see Table 8 of the annex) and those for industrial and commercial companies are the changes in gross current and deposit accounts less the total net change in transit items. Changes in negotiable dollar certificates of deposit held outside the banking sector are attributed to overseas residents, and changes in negotiable sterling certificates — in the absence of other information, and assuming that holdings by other financial institutions are small — to industrial and commercial companies. Changes in overseas deposits also include unallocated items, thought to relate mainly to overseas funds placed through other U.K. banks acting as agents; because of this, the figures in this table will be different from changes derived from Table 8 (2) of the annex.

Line 14 Deposits with other financial institutions Includes building society shares.

Line 15.1 National savings Includes accrued interest. Excludes deposits in National Savings Bank investment accounts and with special investment departments of trustee savings banks (included in line 14).

Line 15.3 Import deposits The figures for the overseas sector are for direct payments only.

Line 16 Bank lending The banks' advances and overdrafts, money at call and short notice (excluding tax reserve certificates), and transactions in commercial bills; excluding estimates of loans for house purchase (included in line 18) and all lending to local authorities (included in line 22).

Line 17 Hire purchase debt Entries relate to capital sums only; unearned finance charges are excluded.

Line 18 Loans for house purchase New loans, less repayments, including lending by banks, and lending by the public sector to housing associations.

¹ More detailed notes were given in the June 1969 *Bulletin* page 167.

Line 19 Other loans Includes trade credit given or received by public corporations, and lending by other financial institutions not elsewhere included.

Lines 20 and 21 Marketable government debt See Table 3 (1) of the annex. The residual entries for industrial and commercial companies in line 20 include any changes in personal and unidentified overseas holdings. The residual entries for persons in line 21 include any transactions by industrial and commercial companies and unidentified overseas transactions.

Line 22 Local authority debt Total identified borrowing by local authorities from outside the public sector, including bank advances and overdrafts.

Lines 23 and 24 U.K. company and overseas securities:

Capital issues Issues on the U.K. market.

Other transactions Includes acquisitions of share and loan capital in overseas companies, subscriptions to new capital issues, and estimated purchases by industrial and commercial companies of trade investments and in connection with take-over deals; capital issues by U.K. companies and public corporations in overseas centres are also included here. Commission and other costs paid by other financial institutions are deducted from their transactions. The entries for persons are residuals.

Line 25 Unit trust units Purchases less sales of units of authorised unit trusts. It is assumed that all transactions are between unit trust managers and persons. Purchases of property units by charities are included in line 19.

Line 27 Unidentified The net totals for all sectors together represent the residual error in the national income accounts referred to in the note on line 5. Figures for individual sectors also reflect the balancing item in the balance of payments accounts and deficiencies in the sector division of the national income accounts as well as in the estimates of financial transactions.