

Analysis of financial statistics: April-June 1970

The analysis deals mainly with flows of funds between the various sectors in the second quarter of 1970, the latest period for which complete statistics are available. There is comment on the third quarter where sufficient information permits, notably in the final sections covering the banks, money supply and domestic credit. The analysis is based on seasonally adjusted figures which, since the last issue of the *Bulletin*, have been amended; payments of corporation tax in respect of capital gains are now seasonally adjusted. Unadjusted figures are given in Table J and notes on sources and methods begin on page 416.

Summary

In the second quarter the large inflow of foreign funds which had been such a feature of the previous six months fell to more modest proportions. The public sector continued to run a very large surplus and industrial and commercial companies, although borrowing considerably more from the banks, were still under financial pressure. They apparently reacted by reducing sharply the amount of credit extended to the personal sector, which was enjoying a very large increase in incomes and could well afford to take less credit.

In the third quarter, bank lending increased more moderately and, although there was a large redemption of government stock, money supply and domestic credit grew much less strongly than in the second quarter. An outflow of foreign exchange in September acted to restrain the money supply.

Background

Between the latter half of 1969 and the first half of 1970 there was little change in the volume of the gross domestic product. Among the components of expenditure, however, there were divergent movements; personal consumption rose by $1\frac{1}{2}\%$ (and imports of goods and services by 4%), whereas exports rose by less than $\frac{1}{2}\%$ and capital formation fell by about $2\frac{1}{2}\%$. Movements from quarter to quarter were more marked; the opening months of the year were relatively slack because the growth of exports evident in 1969 had slowed down and personal consumption was still restrained; but between the first and second quarters demand strengthened.

In terms of current prices, the growth in output was $3\frac{1}{2}\%$ between the half years. The statistics of incomes show an increase of about 4%. The rise in wages and salaries was about as large as the total addition to incomes; incomes from self-employment and rent also grew but companies' gross trading profits fell by nearly 5% between the two half years.

Despite the fall in their earnings, companies paid more in taxes, dividends and interest ("current transfer payments" in Table A). As a result their saving fell by 10% between the second half of 1969 and the first half of 1970, and by nearly 3% between the first halves of 1969 and 1970. Despite their smaller saving, companies spent more on capital formation and, in all, the financial deficit of the

Table A
Income and expenditure

£ millions

Seasonally adjusted

	Income from employment and trading ^{a,b}	Transfer incomes etc. ^b	less Consumption ^c	less Current transfer payments	equals Saving	less Gross domestic capital formation ^d	less Capital transfers (net payments -)	equals Financial surplus/deficit ^e
Personal sector								
1969 1st qtr.	6,604	2,821	-6,938	-1,825	662	-294	-134	234
2nd qtr.	6,693	2,814	-7,105	-1,844	558	-280	-85	193
3rd qtr.	6,824	2,840	-7,224	-1,903	537	-316	-84	137
4th qtr.	7,053	2,922	-7,351	-1,976	648	-317	-84	247
1970 1st qtr.	7,227	2,924	-7,439	-2,053	659	-297	-97	265
2nd qtr.	7,503	3,091	-7,663	-2,203	728	-329	-90	309
Company sector								
1969 1st qtr.	1,197	940	—	-1,352	785	-1,009	118	-106
2nd qtr.	1,208	933	—	-1,412	729	-1,039	112	-198
3rd qtr.	1,278	976	—	-1,421	833	-999	120	-46
4th qtr.	1,265	984	—	-1,446	803	-1,080	182	-95
1970 1st qtr.	1,231	977	—	-1,433	775	-1,051	76	-200
2nd qtr.	1,190	982	—	-1,473	699	-1,161	45	-417
Public sector								
1969 1st qtr.	406	4,196	-1,964	-1,720	918	-906	16	28
2nd qtr.	383	4,377	-1,994	-1,702	1,064	-893	-27	144
3rd qtr.	402	4,553	-2,060	-1,740	1,155	-932	-36	187
4th qtr.	384	4,621	-2,100	-1,803	1,102	-971	-98	33
1970 1st qtr.	394	4,694	-2,114	-1,817	1,157	-946	21	232
2nd qtr.	403	4,901	-2,221	-1,879	1,204	-1,016	45	233
Overseas sector^f								
1969 1st qtr.								-13
2nd qtr.								-76
3rd qtr.								-153
4th qtr.								-174
1970 1st qtr.								-153
2nd qtr.								-53

a Before providing for depreciation and stock appreciation.

b Rent and income from self-employment are included with transfer incomes and not with income from trading.

c Other than depreciation.

d Including stocks.

e The sum of the sector surpluses and deficits corresponds to the residual error in the national income accounts.

f An overseas sector deficit corresponds to a balance of payments surplus on current account.

company sector became much larger than in any half year previously measured.

Since the third quarter of 1969 personal incomes have risen very steeply – by more than 4% between the first two quarters of 1970 alone. At first, this was not reflected in consumption, but simply in more saving; however personal consumption grew strongly in the second quarter. Even then, the growth in incomes was large enough for saving to go on increasing. Not surprisingly the sector's financial surplus has grown too, and provides a marked contrast with the company sector deficit.

In the second quarter of 1970 the public sector's "transfer income" went up more than in any quarter of 1969, largely because of the extra tax flow generated by the rapid growth of income and expenditure. Not all of this increase was reflected in the sector's saving – it was partly offset by increases in public consumption, social welfare benefits and debt interest.

Overseas sector

A financial deficit for the overseas sector corresponds to a surplus on the current account of the U.K. balance of payments. The sector's deficit increased quarter by quarter throughout 1969, but the trend has been reversed this year, mainly because the U.K. visible trade account worsened by rather more than £100 million between the first and second quarters.

Financing transactions in recent quarters are summarised in Table B. These were dominated in the second half of 1969/70 by monetary inflows: confidence in sterling was strong and companies had to meet exceptional tax payments. Some of these inflows occurred through the banks and other institutions and some by means of trade credit and other changes in the timing of commercial payments, many of which were unrecorded and registered only by the balancing item. However, in the second quarter, after the revenue season was over, the net inflow was much reduced. The

Table B

Overseas sector^a

£ millions

Seasonally adjusted

	1968			1969			1970		
	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	
Financial surplus +/deficit —	+ 63	— 13	— 76	— 153	— 174	— 153	— 53		
Financial transactions by overseas sector									
Claims on U.K. increase +/decrease —									
Liabilities to U.K. increase —/decrease +									
Transactions with the U.K. private sector									
Capital issues in the United Kingdom	—	— 4	— 10	+ 22	—	— 4	+ 2	+ 12	
Other transactions in company and overseas securities	— 59	— 16	+ 61	+ 65	+ 19	+ 6	— 4		
Miscellaneous private investment	— 44	+ 23	— 57	— 40	— 59	+ 37	+ 36		
Deposits with U.K. banks less claims of U.K. banks ^b	— 79	— 114	— 47	— 95	+ 120	+ 194	+ 156	+ 91 ^c	
Other	— 79	+ 88	— 4	+ 12	— 18	+ 85	— 73		
Balancing item	+ 53	+ 94	— 26	— 115	+ 326	+ 316	— 27		
	— 208	+ 71	— 83	— 151	+ 388	+ 634	+ 90		
Transactions with the U.K. public sector									
Lending etc. ^d	— 9	—	+ 11	— 29	— 30	— 47	— 62		
External finance of: ^e									
Central government	+ 270	— 83	— 32	— 37	— 535	— 755	— 86	+ 2 ^c	
Local authorities	+ 11	— 7	+ 1	+ 35	—	+ 6	— 19	— 3	
Public corporations	— 1	+ 6	+ 27	+ 29	+ 3	+ 9	+ 24	— 1	
	+ 271	— 84	+ 7	— 2	— 562	— 787	— 143		

a It has not been possible to include in this table the balance of payments estimates for the third quarter of 1970 and revisions to previous quarters which were released in December and appear in the annex, Table 19.

b Other than purchases of securities.

c These items are affected by a change in the method of accounting; see additional notes to Table 5 of the annex.

d Those overseas transactions of the public sector which are not included in D.C.E.

e Those overseas transactions of the public sector which are included in D.C.E.

banks again received large additions to their deposits, but some funds were withdrawn from finance houses and other institutions; and, most striking of all, the emergence of an unfavourable balancing item indicates that unrecorded inflows fell away.

The ability of the central government to repay external debt from the proceeds of exchange accruals was correspondingly diminished and only some £85 million of net financing was received in the second quarter, compared with nearly £1,300 million in the previous six months. The net external indebtedness of the rest of the public sector was little changed. Overseas deposits with local authorities fell, but public corporations obtained more credit for imports of aircraft.

Public sector

The public sector had as large a financial surplus in the second quarter as in the first, and the total for the first half of 1970, £465 million, easily exceeded the total surplus for the whole of 1969. In other recent years there has always been a large deficit averaging about £1,000 million. The

Table C

Public sector

£ millions

Seasonally adjusted

	1968		1969				1970		
	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	
Saving (current surplus)	+932	+918	+1,064	+1,155	+1,102	+1,157	+1,204		
Capital transfers (net)	-28	+16	-27	-36	-98	+21	+45		
Capital expenditure	-955	-906	-893	-932	-971	-946	-1,016		
Financial surplus +/deficit -	-51	+28	+144	+187	+33	+232	+233		
Lending and other transactions (increase +) ^a	+141	+97	+52	+64	+286	+124	+20		
Import deposits (increase -)	-77	-268	-217	+7	+10	+11	+43	+84	
Borrowing requirement (increase -)	-84	+272	+201	+79	-78	+244	-17		
Comprising:									
Central government:									
External finance	-270	+83	+32	+37	+535	+755	+86	-2 ^b	
Notes and coin with the public	-43	-22	-2	-10	-107	-44	-34	-107	
Bank borrowing	+235	+183	+315	+275	-121	-12	+39	-15 ^b	
Other domestic borrowing	+187	+207	-2	-104	-181	-345	+141	+235	
	+109	+451	+343	+198	+126	+354	+232	+111	
Local authorities: ^c									
External finance	-11	+7	-1	-35	-	-6	+19	+3	
Bank borrowing	-54	-134	-88	+103	-196	-163	-89	-62	
Other domestic borrowing	-102	-57	-34	-128	-42	+72	-85		
	-167	-184	-123	-60	-238	-97	-155		
Public corporations:									
External finance	+1	-6	-27	-29	-3	-9	-24	+1	
Domestic borrowing	-27	+11	+8	-30	+37	-4	-70		
	-26	+5	-19	-59	+34	-13	-94		
Identified financial transactions	-20	+101	+36	+150	+218	+379	+46		
Unidentified	-31	-73	+108	+37	-185	-147	+187		

a Consisting principally of lending to the overseas and private sectors (including public corporations' identified trade credit) and changes in bank deposits.

b These items are affected by a change in the method of accounting: see additional notes to Table 5 of the annex.

c Including the Northern Ireland Government.

accumulating effect on industrial and commercial companies of this movement into surplus by the public sector has yet to work through in full; but the scope for cushioning it by adjustments to liquid assets must by now be considerably diminished, and an increasing impact on real activity seems possible. It is a sign of this pressure that, in the second quarter, industrial and commercial companies appear to have extended very much less credit than usual to the personal sector, as described later.

The swing in the public sector accounts is wholly accounted for by the growing surplus of the central government, for the deficits of the local authorities and public corporations have tended to increase, though not by much. In consequence, the central government have been able to repay substantial, if varying, amounts of debt in all recent quarters. In the second half of 1969/70 the funds were used, together with the proceeds of domestic sales of debt, to finance the very large exchange inflow. The situation in the second quarter of 1970 was very different. External transactions required comparatively little sterling finance but, for the first time in over a year, there were net repurchases of gilt-edged stocks from the public. Even so, a small amount was left to repay indebtedness to the banks.

In the second quarter local authorities were, as usual, substantial borrowers from the market. On this occasion their borrowing was spread fairly equally between the banks and the general public (especially other financial institutions, which put substantial funds into temporary money). The public corporations borrowed more heavily than for at least five years, largely from the banks – about £70 million – plus some £25 million of trade credit from abroad to finance imports of aircraft.

Personal sector

The financial surplus of the personal sector grew from about £140 million in the third quarter of 1969 to as much as £300 million in the second quarter of 1970. This substantial increase reflected the very big expansion in personal incomes. Taxation and consumption grew too, but not so strongly; and capital expenditure was little changed over the period as a whole.

Borrowing by persons increased greatly in the second quarter. They obtained a near record amount of £270 million for the purchase of houses, which was nearly 25% more than in the previous quarter, and they borrowed nearly £100 million for other purposes from banks. There was no correspondingly large increase in their identified acquisitions of financial assets, but rather a large reduction in the sector's net unidentified receipts. As this was broadly matched by a large reduction in net unidentified outlays by industrial and commercial companies, it seems likely that companies, under increasing financial pressure themselves, extended much less credit than usual to personal customers and unincorporated businesses.

At the same time, the personal sector partly rearranged its portfolio of assets. Within a total identified increase of about £770 million, it sold £45 million of gilt-edged stocks (after buying £165 million in the previous quarter); deposi-

ted £345 million with building societies (£75 million more than in the previous quarter); and increased its bank deposits and holdings of notes and coin by £310 million (£225 million more).

Table D

Personal sector

£ millions

Seasonally adjusted

	1968		1969			1970	
	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Saving	+588	+662	+558	+537	+648	+659	+728
Capital transfers (net)	-76	-134	-85	-84	-84	-97	-90
Capital expenditure	-347	-294	-280	-316	-317	-297	-329
Financial surplus	+165	+234	+193	+137	+247	+265	+309
Borrowing -							
For house purchase	-195	-223	-205	-220	-190	-220	-272
Bank borrowing ^a	+85	+93	+20	+55	-91	+42	-96
Hire purchase debt	-14	+9	+12	+17	-13	-3	-7
Other	-13	-18	-48	-17	-17	+3	-48
	-137	-139	-221	-165	-311	-178	-423
Acquisition of financial assets +							
Life assurance and pension funds	+384	+380	+411	+361	+383	+400	+420
Government stocks	-180	-160	+32	+97	+114	+167	-46
Company and overseas securities	-98	-182	-74	-149	-190	-274	-225
Unit trust units	+72	+91	+42	+29	+24	+31	+27
Bank deposits, notes and coin	+46	+137	+24	+42	+178	+84	+308
Building society shares and deposits	+241	+199	+250	+200	+246	+270	+344
National savings	-18	+4	-103	-50	-75	-2	-76
Local authority debt	-7	+19	+26	+138	+36	+16	-24
Other	+65	+55	+13	-2	+27	+36	+46
	+505	+543	+621	+666	+743	+728	+774
Identified financial transactions	+368	+404	+400	+501	+432	+550	+351
<i>Unidentified</i>	-203	-170	-207	-364	-185	-285	-42

^a Other than for house purchase.

Meanwhile some important trends continued: net investment in life assurance and pension funds - the largest investment outlet of the personal sector - increased a little further, to £420 million; people continued to run down their direct holdings of equities and debentures; and their purchases of unit trust units remained small, as they have been for more than a year.

Industrial and commercial companies.

In the second quarter of 1970 the deficit of industrial and commercial companies was the largest yet recorded for any quarter. Following the increase in expenditure stemming from bigger wage settlements and from larger payments of taxes and dividends, their saving has fallen. At the same time they have spent more on capital formation. As a result the reduction in their financial deficit over the first three quarters of 1969 has been reversed, and the deficit has more than doubled in each of the last two quarters.

It is usually not possible to account closely for the financing of the company sector's deficit by looking at identified transactions alone. There are generally also large unidentified flows with other sectors - mainly forms of trade credit, as well as errors and omissions in the national

Table E**Industrial and commercial companies**

£ millions

Seasonally adjusted

	1968	1969				1970	
	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Saving	+702	+741	+697	+786	+726	+708	+635
Capital transfers (net)	+110	+123	+120	+131	+197	+115	+111
Capital expenditure	-953	-901	-905	-886	-969	-946	-1,026
Financial surplus +/deficit -	-141	-37	-88	+31	-46	-123	-280
Increase in liabilities -							
Overseas investment in U.K. companies	-94	-155	-67	-82	-92	-185	-146
Identified trade credit with overseas (net)	+48	-61	-18	-17	+34	-43	-51
Capital issues and long-term borrowing abroad	-194	-190	-172	-77	-79	-22	-41
Bank borrowing	-362	-255	-4	-388	+20	-174	-500
Other borrowing	-90	-31	-71	-90	-27	-136	+9
	-692	-692	-332	-654	-144	-560	-729
Acquisition of financial assets +							
Import deposits	+76	+243	+193	-16	-11	-10	-35
Investment abroad	+194	+152	+128	+164	+180	+206	+178
Company securities	+100	+91	+68	+75	+56	+89	+59
Bank deposits, notes and coin	+238	-106	-199	+93	+57	-150	+279
Other liquid assets ^a	-34	+42	-18	-55	-34	-19	-22
Other	-35	-22	-33	+14	-4	+7	-1
	+539	+400	+139	+275	+244	+123	+458
Identified financial transactions	-153	-292	-193	-379	+100	-437	-271
<i>Unidentified</i>	+12	+255	+105	+410	-146	+314	-9

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

income figures. However, as described earlier, the particularly large unidentified inflows from abroad of recent quarters, and apparently also the more usual extension of credit to persons, were each replaced by smaller flows in the second quarter. Some closer accounting can thus be attempted for that period - though other, offsetting, unidentified movements doubtless remain.

Besides the need to finance their deficit of £280 million, industrial and commercial companies required a further £240 million to finance investment abroad and purchases of company securities in respect of takeovers, trade investments and acquisitions of minority interests. Import deposits, which had required heavy financing at the turn of 1968 and 1969, were being repaid but were still only a minor source of funds (£35 million), and companies needed nearly £500 million from other sources.

Of this total, about £150 million was met by overseas investment in the United Kingdom (which was particularly large in both the first and second quarters of 1970) and net identified trade credit from overseas provided a further £50 million. Capital issues and direct borrowing abroad yielded only £40 million and companies ran down "other liquid assets" (principally local authority debt) by £20 million. But the main single source of their funds was the banking sector,

from which they borrowed a further £500 million; at the same time their deposits and holdings of notes and coin, which had been reduced in the previous quarter, rose by some £280 million (these figures are affected by the treatment of transit items – see the note on bank deposits on page 416).

Financial institutions other than banks

The institutions as a whole received as large an inflow of funds in the second quarter of 1970 as in the first, though the experience of the various groups of institutions was not at all even. Those institutions which take overseas deposits, notably finance houses, experienced a withdrawal of overseas funds which nearly offset their receipts from other sectors; and the inflow to investment and unit trusts was once again only modest. Building societies, on the other hand, received much more than in the previous quarter (reflecting the increased financial surplus of the personal sector as well as competitive rates) and life assurance and pension funds continued to grow steadily. In contrast to persons and other companies, the institutions borrowed less from the banks than in the first quarter.

There were more marked changes on the assets side of the institutions' balance sheets. In all, they acquired some £800 million of financial assets. This was about £110 million more than in the previous quarter, itself one in which acquisitions were greater than for a year. They added about £260 million to their holdings of short-term assets – which had been depleted by the exceptionally heavy tax demands of 1969/70; nearly one half of this money went into bank deposits, and most of the remainder into local authority

Table F
Financial institutions other than banks

£ millions
Seasonally adjusted

	1968		1969			1970	
	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Sources of funds (increase –)							
Life assurance and pension funds	– 384	– 380	– 411	– 361	– 383	– 400	– 420
Building society shares and deposits	– 241	– 199	– 250	– 200	– 246	– 270	– 344
Other deposits	– 49	– 113	+ 5	– 9	– 44	– 96	– 29
Capital issues	– 32	– 47	– 22	– 15	– 11	– 21	– 28
Unit trust units	– 72	– 91	– 42	– 29	– 24	– 31	– 27
Other (mainly bank) borrowing	+ 6	+ 24	– 2	– 8	+ 9	– 36	– 9
	– 772	– 806	– 722	– 622	– 699	– 854	– 857
Acquisition of financial assets +							
Short-term assets ^a	+ 149	+ 87	+ 44	+ 72	+ 24	+ 20	+ 262
Government stocks	– 17	– 30	+ 74	+ 96	+ 136	+ 178	– 40
Company and overseas securities:							
Ordinary	+ 150	+ 171	+ 18	+ 38	+ 145	+ 169	+ 139
Debentures	+ 81	+ 134	+ 103	+ 18	+ 36	+ 29	+ 51
Other	– 14	+ 2	– 5	– 12	– 6	+ 2	+ 5
Loans for house purchase	+ 185	+ 228	+ 211	+ 224	+ 202	+ 214	+ 260
Long-term lending to local authorities	+ 29	+ 26	+ 13	+ 4	+ 17	+ 6	+ 23
Hire purchase claims	+ 6	– 5	– 15	– 3	+ 2	+ 1	+ 11
Other lending	+ 34	+ 74	+ 73	+ 41	– 32	+ 69	+ 88
	+ 603	+ 687	+ 516	+ 478	+ 524	+ 688	+ 799

^a Bank deposits, tax reserve certificates, Treasury bills and local authority temporary debt.

temporary debt. A large part of this latter rise was attributable to the building societies, but the investment and unit trusts also contributed, increasing their liquid assets by a record amount.

The institutions invested about £200 million in company and overseas securities – much the same amount as in the previous quarter. This time however they bought more convertible loan stocks, which were a particularly attractive investment as they preserved options in an uncertain situation. With the equity market weak, investment and unit trusts sold ordinary shares and increased their short-term assets as mentioned above; but insurance companies and pension funds, which seem to take a longer view, bought large amounts of company securities. By contrast with their large net purchases of gilt-edged stocks in the two immediately preceding quarters, the institutions sold about £40 million.

Their lending for house purchase rose strongly, to very near the record amounts achieved two years before. Other direct lending (including lending to companies) was not as large as in the first quarter, but still amounted to about £40 million.

Banking sector

As described in the September *Bulletin*, page 276, the banks' domestic business expanded very quickly in the second quarter of 1970. They lent more to all sectors, but particularly to companies.

This large expansion – which had owed something to statistical distortions – moderated in the third quarter. Total domestic lending by banks increased by £255 million, as against an apparent £735 million in the previous quarter. All the domestic sectors borrowed less than before, but the most marked change was in the amount lent to companies, which borrowed only £150 million, compared with £510 million.

Table G
Banking sector

£ millions

Seasonally adjusted

Lending: increase +/decrease –
Deposits: increase –/decrease +

	1968		1969				1970		
	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	
Lending to:									
Public sector	–159	– 58	–234	–347	+277	+174	+121	+ 41 ^a	
Company sector	+368	+251	+ 14	+406	– 24	+224	+512	+151	
Personal sector	– 75	– 98	– 20	– 50	+ 86	– 37	+101	+ 65	
Total domestic lending	+134	+ 95	–240	+ 9	+339	+361	+734	+257	
Deposits by:									
Public sector	– 10	– 73	+ 50	– 22	– 22	– 72	+ 58	+ 32	
Company sector	–237	+ 23	+170	–147	+ 3	+ 79	–379	+ 99	
Personal sector	– 25	–126	– 23	– 37	–122	– 62	–291	–264	
Total domestic deposits	–272	–176	+197	–206	–141	– 55	–612	–133	
Net lending to overseas ^b	+ 86	+116	+ 63	+ 91	–116	–189	–138	– 92 ^a	
Non-deposit liabilities (net)	+ 52	– 35	– 20	+106	– 82	–117	+ 16	– 32	

^a These items are affected by a change of accounting: see additional notes to Table 5 of the annex.

^b Claims on overseas net of overseas deposits.

Among banking liabilities, domestic deposits increased by £135 million compared with £610 million in the second quarter. Companies reduced their deposits by £100 million, instead of building them up as in the previous quarter. The banks again received funds, on balance, from overseas, but rather less came in than in other recent quarters.

Domestic credit and money supply

Table H shows the relationship between domestic credit and money supply. The expansion of domestic credit in the third quarter was about half as large as in the previous quarter. Money supply grew a little less than domestic credit mainly because of the exchange outflow in September. The slowing down in the growth of domestic credit partly reflects the more moderate growth in bank lending to the private sector. The contractionary influence of the central government's continuing surplus was more than offset by their repurchase of debt from the general public, which largely related to the redemption of the sizable and widely held 3% Savings Bonds 1960/70 on 1st September. These changes are discussed more fully on page 397.

Table H

Domestic credit expansion and increase in the money supply

£ millions

	Public sector borrowing				Bank assets included	
	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
Changes in period	1	2	3	4	5	6
Financial years						
1967/68	+ 1,961	+ 431	+ 106	+ 1,450	- 26	+ 685
1968/69	+ 458	- 142	+ 69	+ 422	+ 109	+ 506
1969/70	- 533	+ 783	+ 129	- 1,239	- 206	+ 591
Quarters (unadjusted)						
1969 Jan.—Mar.	- 1,201	- 261	+ 56	- 208	- 788	+ 309
Apr.—June	- 84	+ 80	- 4	- 58	- 102	+ 50
July—Sept.	+ 234	+ 285	- 50	+ 103	- 104	+ 109
Oct.—Dec.	+ 578	+ 235	+ 144	- 430	+ 629	+ 15
1970 Jan.—Mar.	- 1,261	+ 183	+ 39	- 854	- 629	+ 417
Apr.—June	+ 162	- 7	+ 42	- 141	+ 268	+ 655
July—Sept.	..	..	+ 72	+ 74 ^c	+ 326 ^c	- 81
Quarters (seasonally adjusted)^d						
1969 Jan.—Mar.	- 275	- 155	+ 22	- 84	- 58	+ 118
Apr.—June	- 201	+ 35	+ 2	- 4	- 234	- 21
July—Sept.	- 78	+ 232	+ 10	+ 27	- 347	+ 346
Oct.—Dec.	+ 79	+ 227	+ 107	- 532	+ 277	+ 52
1970 Jan.—Mar.	- 245	+ 277	+ 44	- 740	+ 174	+ 172
Apr.—June	+ 35	- 39	+ 34	- 81	+ 121	+ 583
July—Sept.	..	..	+ 107	- 2 ^c	+ 41 ^c	+ 156
Money supply						
	Total money supply (= Cols. 13 + 14)		Currency in circulation with the public		Bank deposits of domestic sectors	
	12		13		14	
Financial years						
1967/68	+ 1,326		+ 106		+ 1,220	
1968/69	+ 915		+ 69		+ 846	
1969/70	+ 281		+ 129		+ 152	
Quarters (unadjusted)						
1969 Jan.—Mar.	- 387		+ 56		- 443	
Apr.—June	- 18		- 4		- 14	
July—Sept.	+ 244		- 50		+ 294	
Oct.—Dec.	+ 615		+ 144		+ 471	
1970 Jan.—Mar.	- 560		+ 39		- 599	
Apr.—June	+ 855		+ 42		+ 813	
July—Sept.	+ 333		+ 72		+ 261	
Quarters (seasonally adjusted)^d						
1969 Jan.—Mar.	+ 198		+ 22		+ 176	
Apr.—June	- 195		+ 2		- 197	
July—Sept.	+ 216		+ 10		+ 206	
Oct.—Dec.	+ 248		+ 107		+ 141	
1970 Jan.—Mar.	+ 99		+ 44		+ 55	
Apr.—June	+ 646		+ 34		+ 612	
July—Sept.	+ 240		+ 107		+ 133	

.. not available.

^a Other than in foreign currency for investment abroad.^b D.C.E. also equals columns 1-2+6+7.^c These items are affected by a change in the method of accounting; see additional notes to Table 5 of the statistical annex.^d The adjustments are those used for the flow of funds matrix and are therefore based on calendar years. Because the seasonal pattern may change from year to year, the adjusted figures cannot be expected to add to the unadjusted totals over financial years, even apart from minor differences due to day-of-the-week effects (see note on page 418).

in D.C.E.		Other bank assets			Changes in period
Bank lending in sterling to overseas	Total D.C.E. ^b (= Col. 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 (= Col. 5 to 7, 9 and 10)	
7	8	9	10	11	
+ 61	+ 2,276	+ 1,492	+ 80	+ 2,292	Financial years
+ 71	+ 1,177	+ 3,161	+ 160	+ 4,007	1967/68
+ 119	- 606	+ 3,807	+ 50	+ 4,361	1968/69
					1969/70
- 9	- 640	+ 1,096	+ 35	+ 643	Quarters
+ 43	- 71	+ 2,330	+ 15	+ 2,336	(unadjusted)
+ 60	+ 118	+ 995	+ 10	+ 1,070	1969 Jan.—Mar.
+ 56	+ 414	+ 306	+ 10	+ 1,016	Apr.—June
- 40	- 1,067	+ 176	+ 15	- 61	July—Sept.
+ 10	+ 834	+ 1,289	+ 30	+ 2,252	Oct.—Dec.
+ 45	+ 436	+ 217	+ 60	+ 567 ^c	1970 Jan.—Mar.
					Apr.—June
					July—Sept.
- 9	- 11	+ 1,156	+ 35	+ 1,242	Quarters
+ 43	- 214	+ 2,303	+ 15	+ 2,106	(seasonally adjusted) ^d
+ 60	+ 96	+ 974	+ 10	+ 1,043	1969 Jan.—Mar.
+ 56	- 40	+ 294	+ 10	+ 689	Apr.—June
- 40	- 390	+ 248	+ 15	+ 569	July—Sept.
+ 10	+ 667	+ 1,258	+ 30	+ 2,002	Oct.—Dec.
+ 45	+ 347	+ 196	+ 60	+ 498 ^c	1970 Jan.—Mar.
					Apr.—June
					July—Sept.

Bank liabilities

Bank deposits of overseas	Non-deposit liabilities (net)	Total bank liabilities = assets (= Col. 14 to 16)	Changes in period
15	16	17	
+ 1,121	- 49	+ 2,292	Financial years
+ 3,059	+ 102	+ 4,007	1967/68
+ 4,089	+ 120	+ 4,361	1968/69
			1969/70
+ 1,061	+ 25	+ 643	Quarters
+ 2,325	+ 25	+ 2,336	(unadjusted)
+ 912	- 136	+ 1,070	1969 Jan.—Mar.
+ 425	+ 120	+ 1,016	Apr.—June
+ 427	+ 111	- 61	July—Sept.
+ 1,457	- 18	+ 2,252	Oct.—Dec.
+ 302 ^c	+ 4	+ 567 ^c	1970 Jan.—Mar.
			Apr.—June
			July—Sept.
+ 1,031	+ 35	+ 1,242	Quarters
+ 2,283	+ 20	+ 2,106	(seasonally adjusted) ^d
+ 943	- 106	+ 1,043	1969 Jan.—Mar.
+ 466	+ 82	+ 689	Apr.—June
+ 397	+ 117	+ 569	July—Sept.
+ 1,406	- 16	+ 2,002	Oct.—Dec.
+ 333 ^c	+ 32	+ 498 ^c	1970 Jan.—Mar.
			Apr.—June
			July—Sept.

Table J

Flow of funds: quarterly figures

£ millions

Not seasonally adjusted

Line	Public sector			Overseas sector ^a		
	1970			1970		
	1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.
Financial surplus +/deficit —						
Saving	1	+2,052	+1,012			
Taxes on capital and capital transfers	2	+ 182	+ 1			
<i>less:</i>						
Gross fixed capital formation at home	3	-1,017	- 926			
Increase in value of stocks and work in progress	4	+ 15	- 25			
Financial surplus +/deficit —	5	+1,232	+ 62	-144	- 84	
Changes in financial assets and liabilities						
Assets: increase +/decrease —						
Liabilities: increase —/decrease +						
Net indebtedness of Government to Bank of England, Banking Department	6	+ 142	- 70	-128 ^b		
Life assurance and pension funds	7					
Government loans	8	+ 63	+ 37	- 48	- 35	
Official reserves	9	- 95	+ 34	+ 95	- 34	+ 52
Government transactions with I.M.F.	10	+ 104	+ 8	+ 7	-104	- 8
Miscellaneous investment overseas (net)	11	+ 147	+ 9	-103	- 10	
Notes and coin	12	+ 78	- 76	- 49		
Bank deposits	13	+ 48	- 22	- 43	+427	+1,457
Deposits with other financial institutions	14				+ 84	- 31
National savings	15.1	- 19	+ 63	+ 31		
Tax reserve certificates	15.2	+ 135	- 34	- 38		
Import deposits	15.3	+ 11	+ 43	+ 84	- 1	- 8
Bank lending	16	+ 1	- 71	+ 36	-131	-1,281
Hire purchase debt	17		- 1			-263
Loans for house purchase	18	+ 1	+ 7			
Other loans and accruals	19	- 8	- 133			
Marketable government debt:						
Treasury bills	20	+1,267	- 123	-296 ^b	-753	- 107
Stocks	21	- 308	+ 283	+272	+ 28	+ 21
Local authority debt	22	- 205	- 152		+ 22	- 13
U.K. company and overseas securities:						
Capital issues	23				- 4	+ 2
Other transactions	24	- 2	+ 9		+ 6	- 4
Unit trust units	25					+ 12
Identified financial transactions	26	+1,360	- 189		-482	- 51
<i>Unidentified</i>	27	- 128	+ 251		+338	- 33
Total = financial surplus +/deficit —	28	+1,232	+ 62		-144	- 84

— nil or less than £½ million.

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

^b These items are affected by a change in the method of accounting: see additional notes to Table 5 of the annex.

Personal sector			Industrial and commercial companies			Banking sector			Other financial institutions			Line
1970			1970			1970			1970			
1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.	
+971	+630		+ 4	+856		-193	+155					1
-103	- 93		+ 107	+114		-186	- 22					2
-268	-285		- 665	-763		-108	-130					3
- 47	- 50		- 256	-294		-	-					4
+553	+202		- 810	- 87		-487	+ 3					5
						1970			1970			
						1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.	
+400	+420		- 13	- 3		-142	+ 70	+128 ^b	-400	-420		6
-	-								- 2	+ 1		7
												8
												9
			- 32	- 29					- 12	+ 30		10
												11
+ 22	+ 21	+ 33	+ 17	+ 21	+39	-117	+ 34	- 23				12
- 80	+327	+235	- 469	+307	+ 5	+172	-2,270	-563 ^b	- 98	+201	+64	13
+315	+368		- 48	+ 35					-351	-372		14
+ 19	- 63	- 31										15-1
- 36	+ 8	+ 8	- 65	+ 18	+18	- 37	+ 5	+ 11	+ 3	+ 3	+ 1	15-2
			- 10	- 35								15-3
+ 36	-121	- 20	- 390	-543	+53	+541	+2,030	+204	- 57	- 14	-10	16
+ 30	- 11		- 29	- 21					- 1	+ 33		17
-208	-275					+ 5	+ 5	+ 15	+202	+263		18
- 48	- 6		- 197	+195		+112	- 113	+124	+141	+ 57		19
												20
+167	- 46		- 2	- 3		-509	+ 226	+244	- 3	+ 7		21
+ 19	- 32		- 35	- 34		- 65	- 218	- 94	+178	- 40		22
						+247	+ 76	+ 93	- 48	+155		23
												24
-274	-225		- 30	- 25	-15	- 11	- 15	-	- 21	- 28	-32	25
+ 31	+ 27		+ 99	+ 63		+ 29	+ 38	+ 1	+208	+185		26
									- 31	- 27		27
+393	+392		-1,204	- 54		+225	- 132	+140	-292	+ 34		28
+160	-190		+ 394	- 33								29
									-420	+101		30
+553	+202		- 810	- 87		-487	+ 3					31

Notes on sources, definitions and seasonal adjustments

Sources

The main statistical series used in compiling Table J appear in the statistical annex to this *Bulletin* or in the following publications prepared by the Central Statistical Office: *Financial Statistics* and *Economic Trends*.

Definitions (line numbers refer to Table J)

Public sector

- (i) Central government, including the National Insurance Funds, the Exchange Equalisation Account, the National Savings Bank Fund and the Issue Department (but not the Banking Department) of the Bank of England.
- (ii) Local authorities including such local bodies as water boards, harbour boards and passenger transport authorities.
- (iii) Nationalised industries and other public corporations.

Overseas sector Non-residents as defined for the balance of payments estimates (see *United Kingdom Balance of Payments 1970*, H.M.S.O., September 1970).

Persons (or personal sector) Individuals, unincorporated businesses, charities and private trusts, private non-profit-making bodies serving persons, and private trusts.

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

Banking Sector As in Table 8 of the annex.

Other financial institutions Insurance companies, pension funds, building societies, investment trusts, finance houses, National Savings Bank (investment account only), special investment departments of trustee savings banks, authorised unit trusts, property unit trusts, special finance agencies (e.g. the Agricultural Mortgage Corporation) 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 The financial surplus (deficit) of a domestic sector measures the excess (shortfall) of its saving and net receipts of capital transfers over its capital expenditure at home on fixed assets and on stocks and work in progress. For the overseas sector a financial surplus is the counterpart of a deficit on current account in the U.K. balance of payments, and equals net overseas investment in the United Kingdom. An overseas sector deficit represents a U.K. current account surplus and hence net U.K. investment abroad. For all sectors combined, financial surpluses/deficits should add to nil, but in practice they do not, because of the

discrepancy between estimates of total saving and total investment (the residual error in the national income accounts).

Line 6 Net indebtedness of Government to Bank of England, Banking Department The Banking Department's holdings of government debt and of notes and coin – regarded here as government liabilities – less the deposits of the National Loans Fund and the Paymaster General with the Bank.

Line 7 Life assurance and pension funds The increase in persons' net claims in respect of these funds. Figures are included for public sector pension schemes where separate pension funds are not maintained.

Line 8 Government loans Lending (net of repayments) to building societies, industrial companies, etc.; and intergovernment loans (net). Loans to housing associations are in line 18.

Line 9 Official reserves Changes in the sterling equivalent of gold, convertible and non-convertible currencies and Special Drawing Rights held by the Exchange Equalisation Account. The initial allocation of Special Drawing Rights is excluded.

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

Line 11 Miscellaneous investment overseas (net) Balance of payments items not elsewhere included.

- (i) From investment and other capital flows: U.K. official long-term capital (other than intergovernment loans); private investment (inward/outward) other than portfolio investment (but including all overseas borrowing by nationalised industries) and excluding the share and loan element of direct and oil investment (entered in lines 23 and 24); part of other short-term flows; the overseas transactions of some institutions which contribute to the statistics of external sterling liabilities and claims but which are not included in the financial sectors; and part of identified import and export credit (export credit refinanced by the Issue Department of the Bank of England and transactions in commercial bills between non-residents and companies).
- (ii) From official financing: changes in official liabilities in foreign currencies arising from drawings on central bank facilities.

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. Changes in holdings outside the banking sector have been arbitrarily divided between persons and industrial and commercial companies, but some allowance has been made for movements brought about by the different days of the week on which the periods end.

Line 13 Bank deposits Changes in gross current and deposit accounts, except for the banking sector and industrial and commercial companies. The entries for the banking sector are changes in net deposits *i.e.* current and deposit accounts after allowing for transit items (see the additional notes to Table 8 of the annex). The proper allocation of transit items is not known, but it is assumed that most of the changes in the figures arise from transactions between companies. The entries for industrial and commercial companies are the changes in their gross current and deposit accounts less the total change in transit items. Changes in negotiable dollar certificates of deposit held outside the banking sector are attributed to non-residents, and changes in negotiable sterling certificates to residents. Changes in overseas deposits also include unallocated items, thought to relate mainly to overseas funds placed through other U.K. banks as agents; because of this, the figures in this table will differ from changes derived from Table 8 (2) of the annex.

Line 14 Deposits with other financial institutions Shares and deposits with building societies, deposits in National Savings Bank investment account, deposits with special investment departments of trustee savings banks, with hire purchase finance houses (other than those by banks, which are included in line 16) and with some other institutions.

Line 15.1 National savings All forms of national savings (including accrued interest) other than deposits in National Savings Bank investment account and with special investment departments of trustee savings banks (included in line 14).

Line 15.3 Import deposits Entries for the overseas sector relate to deposits made directly to H.M. Customs by overseas residents on behalf of U.K. companies.

Line 16 Bank lending The banks' advances and overdrafts, money at call and short notice other than to U.K. banks (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). The distribution of advances between debtor sectors is taken from comprehensive statistics for the banking sector (see Table 8 of the annex). The overseas sector figures for call money and commercial bills are taken from returns made by the banks; the figures for commercial bills for other financial institutions from returns made by the institutions. The residual commercial bill figures are attributed to industrial and commercial companies; the division of the residual call money figures between persons and industrial and commercial companies has been roughly estimated.

Line 17 Hire purchase debt Changes in hire purchase and other instalment credit extended by finance houses, household goods shops (including nationalised gas and electricity undertakings in the public sector as well as companies) and other retailers. Entries relate to capital sums only; unearned finance charges are excluded.

Line 18 Loans for house purchase New loans, less repayments, by building societies, insurance companies, pension funds and local authorities; estimated changes in bank lending; and loans to housing associations by the Government and by public corporations.

Line 19 Other loans and accruals Loans between domestic sectors not elsewhere included. The most important of these are by other financial institutions to persons and industrial and commercial companies. The entries also include net trade credit given or received by public corporations, borrowing by the Northern Ireland Government and the difference between accruals of local authority rates, purchase tax and interest charges (the basis on which these items are entered in the national income accounts) and the corresponding cash payments.

Lines 20 and 21 Marketable government debt As defined in the additional notes to Table 3 (1) of the annex. The entries for Treasury bills under industrial and commercial companies are residuals and include any changes in personal and unidentified overseas holdings. The changes in overseas holdings of Treasury bills include the sterling counterpart of inter-central bank swap transactions. The entries for stocks under public sector consist of net sales by the central government less purchases by public corporations and local authorities. The entries for stocks under persons are residuals and 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 and excluding lending by public corporations. Figures for changes in the banks' and other financial institutions' holdings are taken from their statistical returns; changes in overseas holdings are as in the balance of payments statistics; and changes in company holdings are taken from local authority returns. The entries for persons are residuals.

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

Capital issues Excludes international issues (see Table 15 of the annex) and issues abroad.

Other transactions For the overseas sector the entries comprise transactions by overseas residents in U.K. company securities and by U.K. residents in overseas securities; they are taken from the balance of payments estimates for private investment. The entries for the banking sector are the change in the banks' securities other than government stocks and local authority securities. The figures for other financial institutions are taken from their statistical returns; beginning with 1968, commissions and other costs paid by the institutions have been deducted from their transactions. The estimates for industrial and commercial companies relate to their cash payments for the acquisition of subsidiaries and of unincorporated businesses; to their purchases of trade investments; to their acquisition of share and loan capital in overseas companies

(part of direct investment abroad); and to their capital issues in overseas centres. The entries for persons are obtained as residuals from the estimates in lines 23 and 24 for all other sectors.

Line 25 Unit trust units Net sales of units to persons by authorised unit trusts.

Line 27 Unidentified The net total for all sectors together corresponds to the residual error in the national income accounts referred to in the note on line 5. The entry for the overseas sector is the counterpart of the balancing item in the balance of payments accounts. Figures for individual sectors reflect deficiencies in the sector division both of the national income accounts and of the estimates of financial transactions.

Seasonal adjustments

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 most items in the United Kingdom flow of funds accounts figures are available from 1963 onwards, 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:

- (i) the sum of the adjustments for each item over the four quarters of each calendar year is zero;
- (ii) in any quarter, the sum of the adjustments of all sectors for a particular asset/liability is zero; and
- (iii) 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.