

Analysis of financial statistics: January – March 1972

The analysis deals mainly with the flow of funds between the various sectors in the first quarter of 1972, the latest period for which a full set of statistics is available. Comment on the second quarter is largely confined to the banking sector, money supply and central government financing. The analysis is based throughout on seasonally adjusted figures. These have been revised following the incorporation of data for 1971 in the calculation of the seasonal factors. Unadjusted flows for the first quarter are given in Table J, and a seasonally adjusted matrix in Table K. Brief notes on sources, definitions and adjustments appear on page 344.

Summary

There was apparently a considerable shift in the pattern of sector surpluses and deficits in the first quarter of 1972 but, because the national income estimates may be less reliable than usual, it is difficult to be sure. Compared with the previous quarter the public sector appeared to be in considerably greater financial deficit as public consumption and social security benefits increased. Companies seem to have had a larger surplus – profits were greater and less was spent on capital formation. Stocks in all sectors were reduced as a result of the coal miners' strike and associated power shortages; these disruptions also affected exports, while imports were larger to compensate for reduced output at home. Partly as a result the overseas sector had a much smaller deficit with the United Kingdom, the counterpart of the smaller surplus on the U.K. current account.

There was only a small currency inflow in the first quarter after the currency realignment in December 1971. In consequence, the central government had much less need to borrow from domestic sectors than in the previous quarter and was able to repay large amounts of debt to the banks. Nevertheless, with a continued rise in bank advances to the private sector, domestic bank deposits still increased by a large amount (although less than in the previous quarter) and the money stock rose by 4½%.

In the second quarter the rises in bank lending and in bank deposits were much larger still and the money stock increased by 7¾% despite a substantial currency outflow. Personal investments in national savings and unit trusts grew more strongly than in the first quarter, but the net amount of funds attracted by the building societies was little changed.

Background

Gross domestic product (expenditure) at constant prices fell sharply in the first quarter of 1972 and in fact was smaller than in each of the previous three quarters. Much of this reduction in economic activity arose from power

shortages in February associated with the coal miners' strike. Their most important effect was probably a sharp fall in stocks – especially those of manufacturers – as production was disrupted. The power cuts were also partly responsible for smaller exports of goods and services and larger imports, continuing the trends of the second half of 1971, although the ending of the U.S. dock strike also contributed to the greater volume of imports. Personal and

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								
1970 1st qtr.	7,167	2,974	-7,464	-2,046	631	- 266	- 97	268
2nd qtr.	7,447	3,139	-7,724	-2,168	694	- 316	- 90	288
3rd qtr.	7,694	3,161	-7,935	-2,215	705	- 335	- 84	286
4th qtr.	7,906	3,209	-8,075	-2,253	787	- 348	- 87	352
1971 1st qtr.	8,041	3,147	-8,115	-2,244	829	- 333	- 61	435
2nd qtr.	8,245	3,330	-8,575	-2,348	652	- 410	- 86	156
3rd qtr.	8,486	3,390	-8,815	-2,369	692	- 391	- 84	217
4th qtr.	8,662	3,571	-8,973	-2,483	777	- 454	- 87	236
1972 1st qtr.	8,763	3,660	-9,092	-2,605	726	- 407	-105	214
Company sector^f								
1970 1st qtr.	1,280	1,042		-1,548	774	-1,103	96	-233
2nd qtr.	1,275	1,042		-1,553	764	-1,271	94	-413
3rd qtr.	1,272	1,088		-1,578	782	-1,216	105	-329
4th qtr.	1,330	1,157		-1,603	884	-1,267	127	-256
1971 1st qtr.	1,352	1,158		-1,479	1,031	-1,184	166	13
2nd qtr.	1,421	1,227		-1,776	872	-1,182	120	-190
3rd qtr.	1,538	1,287		-1,734	1,091	-1,058	115	148
4th qtr.	1,481	1,275		-1,742	1,014	-1,049	81	46
1972 1st qtr.	1,559	1,276		-1,700	1,135	- 964	95	266
Public sector								
1970 1st qtr.	382	4,797	-2,087	-1,821	1,271	- 970	1	302
2nd qtr.	395	4,995	-2,250	-1,857	1,283	-1,016	- 4	263
3rd qtr.	368	5,121	-2,318	-1,869	1,302	-1,038	- 21	243
4th qtr.	352	5,099	-2,352	-1,920	1,179	-1,085	- 40	54
1971 1st qtr.	322	4,963	-2,428	-1,874	983	-1,179	-105	-301
2nd qtr.	409	5,449	-2,556	-2,003	1,299	-1,147	- 34	118
3rd qtr.	435	5,260	-2,633	-2,035	1,027	-1,133	- 31	-137
4th qtr.	414	5,461	-2,681	-2,212	982	-1,177	6	-189
1972 1st qtr.	307	5,558	-2,748	-2,361	756	-1,190	11	-423
Overseas sector^g								
1970 1st qtr.								-218
2nd qtr.								-114
3rd qtr.								- 75
4th qtr.								-204
1971 1st qtr.								-100
2nd qtr.								-283
3rd qtr.								-354
4th qtr.								-242
1972 1st qtr.								- 30

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 sector surpluses and deficits corresponds to the residual error in the national income accounts.

f Including financial institutions.

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

public consumption were little stronger than in the previous quarter, and fixed investment by companies and the public sector fell slightly.

In spite of price rises, the fall in output was such that even at current prices gross domestic product fell in the first quarter (at least when measured by the expenditure figures – see the discussion on the residual error below). However, domestic incomes (as recorded) did not fall, although in various degrees adversely affected by the strike. Compared with the fourth quarter of 1971, income from employment grew less quickly and, not surprisingly, the trading surplus of public bodies was substantially smaller. But company trading profits recovered (although these too were smaller after allowing for stock appreciation) and income from rent and self-employment increased substantially.

In terms of the sectors' financial positions, companies had a larger surplus, the personal sector's surplus was little changed, and the public sector moved further into deficit (see Table A). Companies increased their saving as their trading profits were larger and their tax payments considerably smaller; at the same time a marked reduction in their capital formation – partly a result of the miners' strike and its effects – brought them a much larger financial surplus. Personal saving was rather less than in the fourth quarter of 1971 but a sharp fall in stocks reduced the effect on the sector's surplus. The public sector's saving (current surplus) was much less than in the previous quarter: although tax revenue and national insurance contributions were greater, these increases were not sufficient to compensate wholly for higher current expenditure, including more payments of social security benefits, and for a smaller trading surplus arising from the miners' strike; at the same time greater spending on fixed investment more than matched the run-down in coal stocks, so that the sector's financial deficit was considerably larger. The overseas sector had its smallest deficit for three years – that is, the U.K. current account had its smallest surplus in that time.

In the first quarter of 1972, the residual error in the national income estimates was small by recent experience (and in contrast with the previous three quarters meant that incomes were slightly overestimated or expenditure underestimated). In spite of this, the interpretation of changes in sector surpluses or deficits is still difficult because the error represented a swing of nearly £180 million compared with the previous quarter. Comparison of the individual sectors' surpluses and deficits with the figures indicated by their identified transactions in financial assets and liabilities throws no light on the problem, for their unidentified items (which together add to the residual error) were large and offsetting in the first quarter. There was a big positive figure for companies and large negative figures for other sectors. It seems likely that the negative balance of payments balancing item – an outflow from the United Kingdom – represented unidentified financial transactions with companies. But it is difficult to interpret the exceptionally large unidentified item for the public sector; it may

have been because of errors in the national income statistics, timing differences between national income and financial statistics or shortcomings in the latter.

Overseas sector

The small deficit for the overseas sector in the first quarter is the counterpart of the considerable reduction in the U.K. balance of payments surplus on current account. The U.K. surplus on invisibles was only slightly less favourable and most of the change was in trade in goods, exports being smaller and imports larger. This was partly the result of the miners' strike which reduced domestic output at home and induced more imports to meet consumption. The growth of imports also reflected the ending of the U.S. dock strike and the delivery to B.O.A.C. of three Boeing 747 aircraft.

Changes were very abrupt on the financing side (see Table B), mainly as a consequence of the currency realignments in December 1971, which diminished the attraction of sterling for volatile funds. The currency inflow was thus of little significance, whereas in the previous quarter it had been well over £900 million. Among other transactions with the public sector, overseas purchases of gilt-edged stocks

Table B

Overseas sector^a

£ millions

Seasonally adjusted

Claims on U.K.: increase +/decrease -

Liabilities to U.K.: increase -/decrease +

	1970				1971				1972	
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Financial deficit —	-218	-114	-75	-204	-100	-283	-354	-242	-30	
Transactions with the U.K. private sector										
Investment flows:										
Transactions in company and overseas securities	—	—	5	-50	-53	-67	-87	+185	+97	-141
Miscellaneous private investment	+57	+30	-26	+42	+49	-6	+37	+10	-39	
Other transactions:										
Deposits with U.K. banks less claims of U.K. banks ^b	+197	+155	+132 ^c	+305	+180	+263	+156	+532	+211	-234
Other identified	+107	-59	+35	+11	+183	+11	+236	-137	+7	
Balancing item	+108	-18	-53	+61	+143	+60	-56	+244	-132	
	+469	+103	+38	+366	+488	+241	+558	+746	-94	
Transactions with the U.K. public sector										
Lending etc. ^d	-33	-57	-47	-99	-75	-92	-105	-71	-62	
External finance: ^e										
Central government	-673	-166	-57 ^c	-446	-605	-510	-809	-951	+60	+919
Local authorities	+12	-18	-10	-23	+9	+49	-4	+27	+41	-16
Public corporations	+7	+24	+1	-2	+83	+29	+6	+7	+25	
	-687	-217	-113	-570	-588	-524	-912	-988	+64	

^a It has not been possible to include in this table the balance of payments estimates for the 2nd quarter of 1972 and revisions to previous quarters, which were released in September and appear in the annex, Table 20.

^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 These overseas transactions of the public sector contribute to its borrowing requirement.

^e These overseas transactions of the public sector are among the items financing its borrowing requirement.

were sizable and more than matched the small currency inflow. There was a £100 million net outflow from the U.K. private sector compared with an inflow of £750 million in the previous quarter. Unlike then, there was now heavy investment in overseas securities by the U.K. private sector and little overseas investment in U.K. securities; there was also a much smaller increase in the banks' net liabilities to overseas as foreign currency lending to overseas residents recovered to a more normal rate. The balance of payments balancing item swung by £375 million and it seems most likely that this represented unidentified overseas transactions with U.K. companies: in the previous quarter pressures on the dollar had affected the timing of trade payments, and part of the change in the balancing item probably represents the counterpart of these timing adjustments.

In the second quarter, the foreign currency outflow was very large as confidence in sterling declined. Reflecting this outflow, overseas deposits with U.K. banks were reduced sharply.

Public sector

The national income estimates imply that the public sector was in considerable financial deficit in the first quarter of 1972, largely as a result of smaller saving (current surplus). But the amount of the deficit unidentified in financial transactions was unusually large; and, although some of the financial statistics for the public sector are uncertain it is thought likely that the national income estimates have overstated the sector's financial deficit.

Local authorities had rather less need to borrow than for some time; and reversing the pattern of 1971 (see Table C) they repaid funds to the banks and sold debt to other domestic sectors. Public corporations did not borrow from outside the central government and were able to repay large sums to the banks: during the miners' strike the Coal Board sold coal out of stocks and it did not have wages to pay; and the corporations apparently extended no further net trade credit to persons, after a large amount in the fourth quarter.

There was also a sharp change in the pattern of the central government's financing in the first quarter. The heavy currency inflow of the second half of 1971 almost ceased after the currency realignment in December; consequently the central government needed to borrow much less from domestic sectors and, even though persons sold gilt-edged stocks, was able to repay large amounts of debt to the banks, mainly Treasury bills and gilt-edged stocks. In fact, financial institutions other than banks were the only net buyers at home of gilt-edged stocks in the first quarter of the year.

In the second quarter, the central government's borrowing requirement increased, but because of the sterling proceeds of the currency outflow there was no need to borrow at home. Sales of national savings to the public were

Table C

Public sector

£ millions

Seasonally adjusted

	1970				1971				1972	
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Saving (current surplus)	+ 1,271	+ 1,283	+ 1,302	+ 1,179	+ 983	+ 1,299	+ 1,027	+ 982	+ 756	
Capital transfers (net)	+ 1	- 4	- 21	- 40	- 105	- 34	- 31	+ 6	+ 11	
Capital expenditure	- 970	- 1,016	- 1,038	- 1,085	- 1,179	- 1,147	- 1,133	- 1,177	- 1,190	
Financial surplus + / deficit—	+ 302	+ 263	+ 243	+ 54	- 301	+ 118	- 137	- 189	- 423	
Lending and other transactions (increase in assets +) ^a	+ 62	+ 97	+ 108	+ 144	+ 137	+ 121	+ 90	+ 176	- 75	
Import deposits (repayments +)	+ 13	+ 41	+ 80	+ 123	+ 170	+ 110	+ 1			
Unidentified	- 10	+ 162	- 17	+ 57	- 54	+ 69	+ 10	+ 37	- 302	
Borrowing requirement (increase —)	+ 237	- 37	+ 72	- 270	- 554	- 182	- 238	- 402	- 46	
<i>Comprising:</i>										
<i>Central government:</i>										
<i>External transactions</i>										
Notes and coin with the public	+ 673	+ 166	+ 57 ^b	+ 446	+ 605	+ 510	+ 809	+ 951	- 60	- 919
Bank borrowing	- 56	- 38	- 87	- 57	- 117	- 12	- 52	- 39	- 132	- 133
Other domestic borrowing	+ 48	- 63	- 93 ^b	- 279	- 13	- 157	- 264	- 484	+ 315	+ 786
	- 305	+ 159	+ 183	- 76	- 761	- 280	- 617	- 641	- 202	- 138
	+ 360	+ 224	+ 60	+ 34	- 286	+ 61	- 124	- 213	- 79	- 405
<i>Local authorities:</i>										
<i>External finance</i>										
Bank borrowing	- 12	+ 18	+ 10	+ 23	- 9	- 49	+ 4	- 27	- 41	+ 16
Other domestic borrowing	- 102	- 97	- 101	- 183	- 189	- 239	- 152	- 192	+ 101	- 58
	+ 4	- 67	+ 27	- 47	+ 41	+ 49	+ 13	+ 90	- 111	
	- 110	- 146	- 64	- 207	- 157	- 239	- 135	- 129	- 51	
<i>Public corporations:</i>										
<i>External finance</i>										
Domestic borrowing	- 7	- 24	- 1	+ 2	- 83	- 29	- 6	- 7	- 25	
	- 6	- 91	+ 77	- 99	- 28	+ 25	+ 27	- 53	+ 109	
	- 13	- 115	+ 76	- 97	- 111	- 4	+ 21	- 60	+ 84	

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

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

exceptionally large and helped the authorities to repay massive amounts of debt, especially gilt-edged stocks to the banks.

Personal sector

Personal saving fell in the first quarter of 1972 (and the savings ratio was smaller), because disposable incomes did not grow as fast as consumption. However, the power shortages reduced output and contributed to a sharp fall in stocks so that the sector's financial surplus was not very much reduced.

Since the removal of restrictions on lending in the autumn of 1971 the personal sector has been borrowing increasingly

large sums from the banks; and in the first quarter the banks lent persons almost twice as much as in the previous quarter. But the sector does not seem to have borrowed very much more in total than before: for example, it seems that public corporations extended no net credit compared with a big increase in the previous quarter.

Persons acquired record amounts of financial assets – see Table D. They greatly increased their bank deposits but put no more with building societies than in the previous quarter and not very much more with life assurance and pension funds. As for public sector debt, they partly reversed their investment pattern of the second half of 1971. Persons liquidated large quantities of gilt-edged stocks as prices began to fall – although some of these realisations represented stock redeemed – but they ran off less local authority debt than has been customary recently; however, they again found national savings very attractive, particularly savings certificates. Although company share prices had risen strongly in 1971 and continued to do so in the first quarter of 1972, persons still invested much less in unit trust units than they had in 1968 and early 1969, the last period of rapidly rising share prices.

Table D
Personal sector

£ millions

Seasonally adjusted

	1970				1971				1972	
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Saving	+ 631	+ 694	+ 705	+ 787	+ 829	+ 652	+ 692	+ 777	+ 726	
Capital transfers (net)	– 97	– 90	– 84	– 87	– 61	– 86	– 84	– 87	– 105	
Capital expenditure	– 266	– 316	– 335	– 348	– 333	– 410	– 391	– 454	– 407	
Financial surplus	+ 268	+ 288	+ 286	+ 352	+ 435	+ 156	+ 217	+ 236	+ 214	
Borrowing (–)										
For house purchase	– 239	– 290	– 337	– 364	– 338	– 419	– 495	– 522	– 554	
Bank borrowing ^a	+ 13	– 68	– 5	+ 1	– 63	– 68	– 209	– 253	– 460	– 625
Hire purchase debt	– 4	– 19	– 8	– 15	– 2	– 31	– 84	– 78	– 68	
Other	+ 25	– 19	– 26	– 39	– 54	+ 94	+ 47	– 94	+ 89	
	– 205	– 396	– 376	– 417	– 457	– 424	– 741	– 947	– 993	
Acquisition of financial assets (+)										
Life assurance and pension funds	+ 401	+ 437	+ 444	+ 476	+ 428	+ 501	+ 533	+ 504	+ 528	
Government stocks	+ 172	– 58	– 283	– 58	+ 229	– 34	+ 170	+ 99	– 131	
Company and overseas securities	– 222	– 205	– 222	– 193	– 111	– 461	– 303	– 363	– 227	
Unit trust units	+ 27	+ 26	+ 23	+ 13	+ 6	+ 10	+ 8	+ 22	+ 24	+ 60
Bank deposits, notes and coin	+ 77	+ 329	+ 282	+ 254	+ 286	+ 188	+ 314	+ 347	+ 531	+ 480
Building society shares and deposits	+ 299	+ 348	+ 415	+ 422	+ 401	+ 450	+ 527	+ 583	+ 581	
National savings	– 39	– 41	– 10	+ 39	+ 65	+ 83	+ 73	+ 150	+ 127	+ 182
Local authority debt	+ 39	– 24	– 57	– 32	– 28	– 34	– 66	– 104	– 15	
Other	+ 36	+ 30	+ 51	+ 59	+ 64	+ 38	+ 52	+ 117	+ 85	
	+ 790	+ 842	+ 643	+ 980	+ 1,340	+ 741	+ 1,308	+ 1,355	+ 1,503	
Identified financial transactions	+ 585	+ 446	+ 267	+ 563	+ 883	+ 317	+ 567	+ 408	+ 510	
<i>Unidentified</i>	– 317	– 158	+ 19	– 211	– 448	– 161	– 350	– 172	– 296	

a Other than for house purchase.

In the second quarter the growth in equity prices faltered, but persons began to buy unit trust units on nearly the same scale as in the previous boom and they continued to find national savings still more attractive. But the amount they put into building societies showed very little increase and they put rather less into bank deposits. Their borrowing from banks was easily a record, stimulated perhaps by the reintroduction in the Budget of income tax relief on interest payments of more than £35 a year.

Industrial and commercial companies

Companies had a considerable financial surplus in the first quarter of 1972; not only was their saving larger but their capital expenditure was smaller. Fixed investment was down and stocks, including fuel stocks, were reduced for the

Table E
Industrial and commercial companies

£ millions

Seasonally adjusted

Assets: increase + / decrease -

Liabilities: increase - / decrease +

	1970				1971				1972	
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Domestic capital formation	+ 956	+ 1,122	+ 1,074	+ 1,109	+ 1,055	+ 1,044	+ 913	+ 898	+ 825	
less Saving	- 708	- 691	- 683	- 787	- 926	- 778	- 984	- 948	- 1,051	
less Capital transfers (net)	- 111	- 111	- 121	- 143	- 183	- 137	- 132	- 99	- 112	
<i>equals</i> Financial surplus - / deficit +	+ 137	+ 320	+ 270	+ 179	- 54	+ 129	- 203	- 149	- 338	
Trade investments, mergers, etc., in the United Kingdom	+ 75	+ 45	+ 45	+ 53	+ 31	+ 53	+ 98	+ 56	+ 83	
Long-term investment abroad	+ 160	+ 146	+ 213	+ 130	+ 212	+ 183	+ 158	+ 127	+ 219	
Import deposits	- 13	- 34	- 70	- 108	- 153	- 99	- 1			
Total requiring financing (+)	+ 359	+ 477	+ 458	+ 254	+ 36	+ 266	+ 52	+ 34	- 36	
Capital issues at home	- 30	- 37	- 38	- 88	- 72	- 75	- 92	- 125	- 114	- 177
Overseas investment in U.K. companies (including long-term borrowing abroad)	- 225	- 170	- 100	- 150	- 262	- 159	- 179	- 153	- 158	
Import credit and advance payments on exports	- 23	- 67	- 31	- 14	- 50	- 35	- 42	- 31	- 89	
Export credit and advance payments on imports	- 4	+ 37	- 3	+ 24	+ 39	+ 32	+ 14	+ 11	+ 20	
Bank borrowing	- 257	- 380	- 263	- 225	- 183	- 25	- 261	- 248	- 763	- 732
Other borrowing	- 69	- 96	- 114	- 93	- 146	- 59	- 29	- 14	+ 41	
Bank deposits, notes and coin	- 34	+ 169	+ 30	+ 157	+ 248	+ 217	+ 149	+ 401	+ 221	+ 809
Other liquid assets ^a	- 39	- 37	- 29	- 21	+ 38	- 15	+ 85	+ 32	+ 21	
Other items ^b	+ 10	- 10	- 2	+ 41	+ 105	- 95	+ 26	+ 62	+ 78	
Other overseas transactions (including the balance of payments balancing item) ^c	- 144	+ 78	+ 86	- 35	- 306	- 15	- 145	- 50	+ 135	
Unidentified domestic transactions ^c	+ 456	+ 36	+ 6	+ 150	+ 553	- 37	+ 422	+ 81	+ 644	
Total financing	- 359	- 477	- 458	- 254	- 36	- 266	- 52	- 34	+ 36	

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

^b Trade credit to public corporations and hire purchase lending.

^c Most of the balancing item in the balance of payments accounts, especially when large, reflects unidentified transactions between companies and overseas. The whole of it is here regarded in this light in order to distinguish roughly between companies' domestic transactions and their overseas ones. It is deducted from the total amount unidentified in the accounts to leave a rough estimate of unidentified domestic transactions.

fourth successive quarter, mainly because industrial output was restricted by power shortages.

Consequently even though companies spent much more on long-term direct investment overseas and rather more on take-overs and trade investments in the United Kingdom, they appear to have had a small surplus of funds with which to acquire financial assets. But, as already mentioned, an interpretation of their transactions in the first quarter is especially difficult, for unidentified transactions at home amounted to as much as £650 million. Companies may have repaid unidentified trade credit to overseas, and they may have granted more to persons; they could have added more to their bank deposits than the figures show (in Table E the first and second quarter figures look as if they might well have been influenced by statistical quirks); and possibly they borrowed less than shown from the banks. Nonetheless their financial surplus as calculated from the income and expenditure accounts may be overstated and the cause of a fair part of the difference.

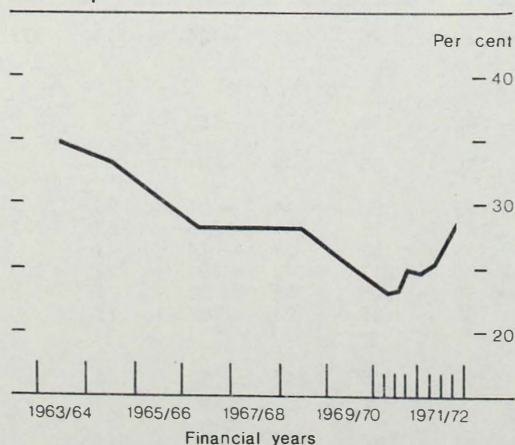
At home, companies raised much the same amount on capital issues as in the previous quarter. They continued to take the opportunity of a strong share market to raise equity capital. The total, at nearly £45 million, was £70 million less than issues in the previous quarter, which had included £90 million for British Petroleum alone. At the same time companies raised much more on fixed interest stocks.

The banking statistics indicate that companies borrowed over £750 million from banks in the first quarter, though they seem to have increased their bank deposits by rather less than in the previous quarter. Looking at bank borrowing, it still seems that manufacturing industry did not account for much of the rise.

Companies appear to have been rebuilding their liquid assets during 1971 and 1972 after two years of tight finance when they reduced their liquidity much more than normally. During the years 1969 and 1970 companies were in considerable financial deficit, mirrored by the increasing surplus of the public sector. They were paying more taxes, and their retained earnings, even if investment grants are included, were declining. At the same time, money was tight because the public sector had moved into surplus and ceiling controls made it difficult for companies to borrow from banks. As a result, companies had to run down their holdings of liquid assets in relation to turnover.

The chart compares companies' holdings of liquid assets with total final expenditure (taken as a proxy for turnover).¹ This ratio is only one of several possible measures of liquidity; others might, for instance, include unused facilities for bank borrowing. But it clearly suggests that companies have sharply increased their liquidity since early in 1971, especially after bank finance became considerably easier to obtain with the introduction of the new system of credit control last autumn. Two years ago companies began to reduce costs by laying off labour. They spent less on capital formation, reducing their stocks in particular. They also

Ratio of company liquid assets to total final expenditure



Company liquidity recovered strongly during 1971 and 1972.

¹ Liquid assets comprise bank deposits, Treasury bills, tax reserve certificates, local authority temporary debt and deposits with building societies and finance houses, but exclude notes and coin (for which good statistics are not available). The ratio in the chart is based on quarterly figures.

benefited from cuts in corporation tax and selective employment tax late in 1970 and 1971. Consequently they moved into financial surplus in the middle of 1971 and were able to rebuild their liquid assets substantially. When viewed against the declining long-term trend of liquidity, as measured here, companies were in a more comfortable liquidity position by March 1972. Within their liquid assets, companies have apparently been increasing their deposits with banks, and the non-deposit banks in particular, in this period at the expense of deposits with other financial institutions and of public sector debt. Since the introduction of the new approach to the control of credit, deposits (including certificates of deposit) have been bearing more competitive rates of interest. The massive rise in companies' holdings of bank deposits (including sterling certificates of deposit) in the second quarter of 1972 may have improved their liquidity position still further.

Financial institutions other than banks

In the first quarter the inflow of new funds to the institutions from persons grew at a slightly slower rate than in the previous few quarters, though the institutions again obtained more bank finance as they took advantage of the plentiful

Table F
Financial institutions other than banks

£ millions

Seasonally adjusted

	1970				1971				1972	
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Increase in financial liabilities (—)										
Life assurance and pension funds	— 401	— 437	— 444	— 476	— 428	— 501	— 533	— 504	— 528	
Building society shares and deposits	— 298	— 347	— 415	— 421	— 414	— 465	— 545	— 606	— 599	— 594
Other deposits	— 49	— 32	— 68	— 71	— 47	— 50	— 74	— 108	— 19	
Capital issues	— 21	— 20	— 9	— 5	— 32	— 49	— 55	— 33	— 99	— 230
Unit trust units	— 27	— 26	— 23	— 13	— 6	— 10	— 8	— 22	— 24	— 60
Other (mainly bank) borrowing	— 44	— 12	— 4	— 20	— 20	— 31	— 139	— 213	— 274	
	— 840	— 874	— 963	— 1,006	— 947	— 1,106	— 1,354	— 1,486	— 1,543	
Increase in financial assets (+)										
Short-term assets ^a	— 12	+ 298	+ 102	+ 101	— 115	+ 22	— 23	+ 231	+ 164	
Government stocks	+ 177	— 41	+ 104	+ 80	+ 498	+ 232	+ 343	+ 311	+ 246	
Company and overseas securities:										
Ordinary	+ 171	+ 128	+ 150	+ 179	+ 122	+ 307	+ 267	+ 261	+ 381	
Debentures	+ 29	+ 56	+ 42	+ 54	+ 30	+ 60	+ 78	+ 39	+ 73	
Other	+ 1	+ 5	— 6	— 1	— 5	—	+ 5	— 6	—	
Loans for house purchase	+ 226	+ 274	+ 298	+ 326	+ 310	+ 393	+ 450	+ 460	+ 480	
Long-term lending to local authorities	+ 6	+ 16	+ 17	+ 39	+ 16	+ 15	+ 6	+ 39	+ 67	
Hire purchase claims	— 2	+ 24	+ 9	+ 16	+ 15	+ 16	+ 67	+ 42	+ 47	
Other lending	+ 16	+ 94	+ 38	+ 72	+ 14	— 16	+ 24	+ 63	— 51	
	+ 612	+ 854	+ 754	+ 866	+ 885	+ 1,029	+ 1,217	+ 1,442	+ 1,407	
Net identified financial transactions	— 228	— 20	— 209	— 140	— 62	— 77	— 137	— 44	— 136	

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

supply of funds available. But a withdrawal of overseas funds from the sector reversed much of the inflow at the end of 1971.

The institutions disposed of their funds in broadly the same way as in most recent quarters (see Table F), although they put more into equities and less into gilt-edged stocks than in the two previous quarters. Investment trusts accounted for most of the extra equity purchases, investing £130 million (including nearly £60 million of overseas equities) compared with £40 million in the previous quarter. The institutions' purchases of gilt-edged stocks were still large, at a time when other domestic sectors were selling; but only the National Savings Bank and insurance companies invested more heavily than in the fourth quarter, the latter accounting for half the sector's acquisitions.

Investment trusts raised much more than in the previous quarter from capital issues, mostly ordinary shares, enabling them to increase their investment in equities, as noted above. For the first time for a year the net inflow to building societies did not rise but was much the same as in the previous quarter. The societies' lending for house purchase was also little changed, though still very high, and they had about the same amount of funds to invest in other assets; their liquidity ratio was about the same as at the end of the previous quarter.

In the second quarter, building societies, unusually, sold large amounts of gilt-edged stocks and purchased sterling certificates of deposit.

Banking sector, money and D.C.E.

As has been noted, in the first quarter of 1972 there was only a small currency inflow and the central government was able to repay large sums to the banks. Companies and persons borrowed much more, but in the aggregate the banks lent nearly £400 million less to domestic sectors than in the previous quarter. The excess of the increase in domestic bank lending over the increase in domestic deposits was only £270 million – much smaller than in the fourth quarter, because banks made less use of overseas funds for lending at home (see Table G). The money stock rose by £900 million or 4½%, even though there was little overseas inflow. Domestic credit grew by £1,090 million, considerably more than in the previous quarter as the increase in lending to the private sector was doubled.

In the second quarter there was a very large outflow of foreign currency from the United Kingdom. The sterling counterpart accruing was sufficient not only to cover the central government's considerable borrowing requirement, but also the purchase under the special temporary arrangements announced on 28th June of large amounts of gilt-edged stocks from the banks to ease their shortage of reserve assets. In fact, even though local authorities and public corporations borrowed sizable sums, the public sector as a whole repaid large amounts to the banks. By contrast the personal sector and companies borrowed rather more than in the first quarter, although there was still little demand from manufacturing industry until near the end of the quarter. Companies increased their bank deposits by an

Table G
Banking sector

£ millions

Seasonally adjusted

Lending: increase +/decrease -

Deposits: increase -/decrease +

	1970				1971				1972	
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Lending to:										
Public sector	+ 64	+242	+134 ^a	+556	+226	+362	+400	+731	-510	-576
Company sector ^b	+307	+395	+254	+260	+189	+103	+404	+481	+1,096	+1,142
Personal sector	-8	+73	+25	+9	+73	+83	+234	+293	+515	+695
Total domestic lending	+363	+710	+413	+825	+488	+548	+1,038	+1,505	+1,101	+1,261
Deposits by:										
Public sector	-26	+7	+15	-40	-11	+19	-7	-40	+19	+10
Company sector ^b	+46	-326	-40	-162	-162	-225	-93	-607	-326	-1,119
Personal sector	-49	-310	-238	-225	-227	-182	-287	-328	-465	-414
Total domestic deposits	-29	-629	-263	-427	-400	-388	-387	-975	-772	-1,523
Net lending to overseas sector ^c	-192	-133	-133 ^a	-295	-66	-85	-360	-550	-230	+310
Non-deposit liabilities (net)	-142	+52	-17	-103	-22	-75	-291	+20	-99	-48

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

^b Including other financial institutions.

^c Claims on overseas sector net of overseas deposits.

unprecedented amount; much of the increase was in the form of sterling certificates of deposit which offered particularly attractive rates of interest, especially in June. Companies may have been taking advantage of easy bank borrowing to increase their liquid assets in case bank finance should soon become more difficult to obtain.

The money stock rose very rapidly in the second quarter, by £1,660 million, or 7 $\frac{3}{4}$ %. This was in spite of the large currency outflow: but only U.K. residents' deposits are included in the money stock, and a substantial part of the switching into currencies was by overseas residents and banks. There was another large increase in domestic credit of £2,250 million compared with £1,090 million in the first quarter. The main influence was again bank lending to the private sector, especially companies.

Table H

Domestic credit expansion and increase in the money stock (M₃)^a

£ millions

Changes in period	Public sector borrowing				Bank assets included	
	Total public sector borrowing (= cols. 2 to 5)	Purchases (+) of debt by 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 ^{bc}
	1	2	3	4	5	6
Financial years						
1968/69	+ 456	- 170	+ 69	+ 419	+ 138	+ 640
1969/70	- 540	+ 787	+ 129	-1,240	- 216	+ 662
1970/71	+ 842	+ 566	+ 288	-1,190	+1,178	+1,055
1971/72	+1,023	+1,707	+433	-1,883	+ 766	+2,745
Quarters (unadjusted)						
1970 July—Sept.	+ 275	- 204	+ 72	+ 81 ^e	+ 326 ^e	- 64
Oct.—Dec.	+ 845	+ 172	+168	- 445	+ 950	+ 117
1971 Jan.—Mar.	- 417	+ 636	+ 6	- 693	- 366	+ 471
Apr.—June	+ 274	+ 279	+ 50	- 410	+ 355	+ 167
July—Sept.	+ 562	+ 608	+ 83	- 654	+ 525	+ 314
Oct.—Dec.	+ 957	+ 583	+134	- 912	+1,152	+ 649
1972 Jan.—Mar.	- 770	+ 237	+166	+ 93	-1,266	+1,615
Apr.—June	+109	+ 918	- 574	+1,787
Quarters (seasonally adjusted)^f						
1970 July—Sept.	- 72	- 227	+ 87	- 66 ^e	+ 134 ^e	+ 214
Oct.—Dec.	+ 270	+ 128	+ 57	- 471	+ 556	+ 189
1971 Jan.—Mar.	+ 554	+ 724	+117	- 513	+ 226	+ 227
Apr.—June	+ 182	+ 240	+ 12	- 432	+ 362	+ 66
July—Sept.	+ 238	+ 593	+ 52	- 807	+ 400	+ 588
Oct.—Dec.	+ 402	+ 549	+ 39	- 917	+ 731	+ 724
1972 Jan.—Mar.	+ 46	+ 298	+132	+ 126	- 510	+1,426
Apr.—June	+133	+ 903	- 576	+1,657

Money stock (M₃)^a

Financial years	Total money stock (M ₃) ^a (= cols. 13 + 14)	Currency in circulation with the public	Bank deposits of domestic sectors ^c
	12	13	14
1968/69	+1,077	+ 69	+1,008
1969/70	+ 374	+129	+ 245
1970/71	+2,031	+288	+1,743
1971/72	+2,811	+433	+2,378
Quarters (unadjusted)			
1970 July—Sept.	+ 387	+ 72	+ 315
Oct.—Dec.	+ 896	+168	+ 728
1971 Jan.—Mar.	+ 15	+ 6	+ 9
Apr.—June	+ 471	+ 50	+ 421
July—Sept.	+ 452	+ 83	+ 369
Oct.—Dec.	+1,428	+134	+1,294
1972 Jan.—Mar.	+ 460	+166	+ 294
Apr.—June	+1,698	+109	+1,589
Quarters (seasonally adjusted)^f			
1970 July—Sept.	+ 350	+ 87	+ 263
Oct.—Dec.	+ 484	+ 57	+ 427
1971 Jan.—Mar.	+ 517	+117	+ 400
Apr.—June	+ 400	+ 12	+ 388
July—Sept.	+ 439	+ 52	+ 387
Oct.—Dec.	+1,014	+ 39	+ 975
1972 Jan.—Mar.	+ 904	+132	+ 772
Apr.—June	+1,656	+133	+1,523

.. not available.

^a See Table 12 of the annex.^b Other than in foreign currency for investment abroad.^c Bank lending to the private sector includes an adjustment equal to 40% of transit items, and bank deposits of domestic sectors include one equal to 60% (see additional notes to Table 11).^d D.C.E. also equals columns 1-2+6+7.^e These items are affected by a change in the method of accounting; see additional notes to Table 5 of the annex.^f 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-week effects (see note on page 344).

in D.C.E.

Bank lending in sterling to overseas

Total D.C.E.^d (= cols. 3 to 7)

Other bank assets

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
+ 71	+1,337	+3,161	+ 159	+4,169
-117	- 548	+3,807	+ 50	+4,420
+ 72	+1,403	+2,670	+212	+5,187
+206	+2,267	+2,476	+405	+6,598
+ 63	+ 478	+ 208	+ 65	+ 598 ^e
—	+ 790	+ 923	+ 80	+2,070
+ 7	- 575	+ 240	+ 35	+ 387
+100	+ 262	+ 965	+120	+1,707
+ 38	+ 306	+ 696	+ 50	+1,623
+151	+1,174	+ 101	+ 50	+2,103
- 83	+ 525	+ 714	+185	+1,165
+129	+2,369	+2,282	+180	+3,804
+ 63	+ 432	+ 163	+ 65	+ 639 ^e
—	+ 331	+ 930	+ 80	+1,755
+ 7	+ 64	+ 295	+ 35	+ 790
+100	+ 108	+ 942	+120	+1,590
+ 38	+ 271	+ 655	+ 50	+1,731
+151	+ 728	+ 110	+ 50	+1,766
- 83	+1,091	..	+185	..
+129	+2,246	..	+180	..

Changes in period

Financial years

1968/69
1969/70
1970/71
1971/72

Quarters

(unadjusted)

1970 July—Sept.
Oct.—Dec.
1971 Jan.—Mar.
Apr.—June
July—Sept.
Oct.—Dec.
1972 Jan.—Mar.
Apr.—June

Quarters

(seasonally adjusted)^f

1970 July—Sept.
Oct.—Dec.
1971 Jan.—Mar.
Apr.—June
July—Sept.
Oct.—Dec.
1972 Jan.—Mar.
Apr.—June

Bank liabilities

Bank deposits of overseas

Non-deposit liabilities (net)

Total bank liabilities = assets (= cols. 14 to 16)

15	16	17
+3,068	+ 93	+4,169
+4,086	+ 89	+4,420
+3,360	+ 84	+5,187
+3,773	+447	+6,598
+ 303 ^e	- 20	+ 598 ^e
+1,202	+140	+2,070
+ 394	- 16	+ 387
+1,174	+112	+1,707
+1,001	+253	+1,623
+ 790	+ 19	+2,103
+ 808	+ 63	+1,165
+2,131	+ 84	+3,804
+ 359 ^e	+ 17	+ 639 ^e
+1,225	+103	+1,755
+ 368	+ 22	+ 790
+1,127	+ 75	+1,590
+1,053	+291	+1,731
+ 811	- 20	+1,766
..	+ 99	..
..	+ 48	..

Financial years

1968/69
1969/70
1970/71
1971/72

Quarters

(unadjusted)

1970 July—Sept.
Oct.—Dec.
1971 Jan.—Mar.
Apr.—June
July—Sept.
Oct.—Dec.
1972 Jan.—Mar.
Apr.—June

Quarters

(seasonally adjusted)^f

1970 July—Sept.
Oct.—Dec.
1971 Jan.—Mar.
Apr.—June
July—Sept.
Oct.—Dec.
1972 Jan.—Mar.
Apr.—June

Table J

Flow of funds: first quarter 1972

£ millions

Not seasonally adjusted

Line	Public sector	Overseas sector	Personal sector	Industrial and commercial companies	Banking sector	Other financial institutions
Financial surplus + /deficit —						
Saving	1	+ 1,572	+ 1,079	+ 461		— 206
Taxes on capital and capital transfers	2	+ 63	— 112	+ 108		— 59
less:						
Gross fixed capital formation at home	3	— 1,292	— 378	— 792		— 145
Increase in value of stocks and work in progress	4	+ 81	— 14	— 32		
Financial surplus + /deficit —	5	+ 424	+ 50	+ 575		— 410
Changes in financial assets and liabilities						
Assets: increase + /decrease —						
Liabilities: increase — /decrease +						
Net indebtedness of Government to Bank of England, Banking Department	6	— 18			+ 18	
Life assurance and pension funds	7		+ 532			— 532
Loans by the U.K. Government	8	+ 2	— 24	+ 21		+ 1
Total external currency flow	9.1	+ 57	— 57			
Other central government external transactions	9.2	— 76	+ 76			
Banks' net external transactions	10		+ 158		— 158	
Miscellaneous investment overseas (net)	11	+ 33	— 19	— 21		+ 7
Notes and coin	12	+ 42	+ 83	+ 83	— 208	
Bank deposits of domestic sectors	13	+ 13	+ 352	— 140	— 294	+ 69
Deposits with other financial institutions	14		+ 650	— 20		— 585
National savings	15.1	— 189	+ 189			
Tax reserve certificates	15.2	+ 118	— 32	— 64	— 17	— 5
Bank lending to domestic sectors	16	+ 107	— 417	— 979	+ 1,580	— 291
Hire purchase debt	17	+ 9	— 33	— 24		+ 48
Loans for house purchase	18	+ 19	— 539		+ 55	+ 465
Other loans and accruals	19	+ 4	+ 36	— 47	+ 119	— 112
Marketable government debt held by domestic sectors:						
Treasury bills	20	+ 829		— 16	— 815	+ 2
Stocks	21	+ 40	— 131		— 155	+ 246
Local authority debt	22	— 124	+ 49	— 26	+ 24	+ 55
U.K. company and overseas securities:						
Capital issues	23		— 1	— 114	— 15	— 99
Other transactions	24	— 2	— 140	+ 227	+ 38	+ 454
Unit trust units	25		+ 28			— 28
Identified financial transactions	26	+ 864	— 3	+ 465	— 1,193	+ 172
Unidentified	27	— 440	+ 53	+ 110	+ 938	— 277
Total = Financial surplus + /deficit —	28	+ 424	+ 50	+ 575	— 255	— 410

— nil or less than £½ million.

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

Table K

Flow of funds: first quarter 1972

£ millions

Seasonally adjusted

	Line	Public sector	Overseas sector	Personal sector	Industrial and commercial companies	Banking sector	Other financial institutions
Financial surplus + /deficit —							
Saving	1	+ 756		+726	+1,051		+ 84
Taxes on capital and capital transfers	2	+ 11		-105	+ 112		- 17
less:							
Gross fixed capital formation at home	3						
Increase in value of stocks and work in progress	4						
Financial surplus + /deficit —	5	- 423	- 30	+ 214	+ 338		- 72
Changes in financial assets and liabilities							
Assets: increase + /decrease —							
Liabilities: increase — /decrease +							
Net indebtedness of Government to Bank of England, Banking Department	6	- 129				+ 129	
Life assurance and pension funds	7			+528			-528
Loans by the U.K. Government	8	- 18	- 4	—	+ 21		+ 1
Total central government external transactions	9	- 60	+ 60				
Banks' net external transactions	10		+211			- 211	
Miscellaneous investment overseas (net)	11	+ 33	- 10		- 30		+ 7
Notes and coin	12	- 93		+ 66	+ 66	- 39	
Bank deposits of domestic sectors	13	- 19		+465	+ 155	- 772	+171
Deposits with other financial institutions	14		- 55	+667	+ 6		-618
National savings	15-1	- 127		+127			
Tax reserve certificates	15-2	+ 18		- 1	+ 5	- 17	- 5
Bank lending to domestic sectors	16	+ 94		-460	- 763	+1,404	-275
Hire purchase debt	17	+ 9		- 68	+ 12		+ 47
Loans for house purchase	18	+ 19		-554		+ 55	+480
Other loans and accruals	19	- 123		+ 89	+ 88	+ 4	- 58
Marketable government debt held by domestic sectors:							
Treasury bills	20	+ 251			- 16	- 237	+ 2
Stocks	21	+ 40		-131		- 155	+246
Local authority debt	22	- 14	+ 41	- 15	+ 26	- 101	+ 63
U.K. company and overseas securities:							
Capital issues	23		- 1		- 114	- 15	- 99
Other transactions	24	- 2	-140	-227	+ 106	+ 38	+454
Unit trust units	25			+ 24			- 24
Identified financial transactions	26	- 121	+102	+510	- 438	+ 83	-136
Unidentified	27	- 302	-132	-296	+ 776		- 19
Total = Financial surplus + /deficit —	28	- 423	- 30	+ 214	+ 338		- 72

— nil or less than £½ million.

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

Notes on sources, definitions and seasonal adjustments¹

Sources

The main statistical series used in compiling Table J appear in the statistical annex to this *Bulletin* or in the Central Statistical Office's *Financial Statistics* or *Economic Trends*. The seasonally adjusted figures are not published elsewhere.

Definitions (line numbers refer to Tables J and K)

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

Overseas sector Non-residents 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 As in Table 11 of the annex.

Other financial institutions Insurance companies, pension funds, building societies, investment trusts, finance houses, savings banks investment accounts, authorised unit trusts, property unit trusts, special finance agencies and Crown Agents for Oversea Governments and Administrations.

Lines 1-4 As defined in the national income and expenditure accounts.

Line 5 The sum of the financial surpluses/deficits for all sectors equals the residual error in the national income accounts. For the overseas sector, the entry is the counterpart of the U.K. balance of payments on current account.

Line 6 See footnote (d) to Table 1 of the annex.

Line 7 The increase in persons' net claims on these funds.

Lines 9.1 and 9.2 See additional notes to Table 1 of the annex.

Line 10 Broadly, changes in overseas deposits with the banking sector less lending to overseas by the banking sector.

Line 11 Those parts of the balance of payments items classified as investment and other capital flows which are not elsewhere included. That part of export credit extended by U.K. banks which is refinanced by the Issue Department of the Bank of England is included here.

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

Line 13 Changes in gross current and deposit accounts of U.K. residents, after the entries for the banking sector and industrial and commer-

cial companies have been adjusted for 60% of transit items (see additional notes to Table 11 of the annex). Changes in domestic holdings of sterling certificates of deposits are included here.

Line 14 Includes building society shares. Deposits by banks with finance houses are in line 16.

Lines 15.1 and 15.2 As in Table 3 (2) of the annex.

Line 16 Advances and overdrafts, money at call and short notice, and transactions in commercial bills; excluding loans for house purchase (included in line 18); lending to local authorities (line 22); and lending to the Northern Ireland Government (line 19). Recorded advances to industrial and commercial companies are adjusted for 40% of the change in transit items (see also line 13).

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

Line 19 Loans between domestic sectors not entered elsewhere, including trade credit given or received by public corporations; and differences between accruals of local authority rates, purchase tax and interest charges (the basis of entries in the national accounts) and the corresponding cash payments.

Lines 20 and 21 As defined in additional notes to Table 3 (1) of the annex. For Treasury bills (stocks), the entries for persons (industrial and commercial companies) are residuals and include unidentified transactions by industrial and commercial companies (persons) and overseas.

Line 22 Total identified borrowing by local authorities from outside the public sector.

Line 23 Net issues on the U.K. market as in Tables 15 (2) and (3) of the annex.

Line 24 All other transactions. The entries for persons are residuals from the estimates in lines 23 and 24 for all other sectors.

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

Line 27 The net total for all sectors corresponds to the residual error in the national income accounts.

Seasonal adjustments

After preliminary adjustments have been obtained for each item which displays seasonality, consistent adjustments have been estimated by a system of balancing under which the sum of the adjustments for each item over the four quarters in each calendar year is zero and the sum of the adjustments of all sectors for a particular line entry in any quarter is zero. Also, for certain series (such as notes and coin) an adjustment is made to allow for the days of the week on which a quarter begins and ends; but these will not usually cancel out over the year. The adjustments have been recalculated to take account of the data for 1971.

¹ Fuller notes were given in the June *Bulletin*, pages 202-4. A detailed description is given in *An introduction to flow of funds accounting: 1952-70* (Bank of England, August 1972).