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U.S. International Investments

Capital Outflows Sustained at High Level
Private Holdings Abroad Near $60 Billion
Earnings Show Substantial Gains

PRIVATE capital continued to flow from the United States to foreign countries at very high rates in 1962 and in the first half of 1963. The outflow in 1962 at $3.3 billion was lower than the 1961 amount (as shown in the first chart) with short-term flows tending to diminish. That rate was about equal to the 1956–61 average, but about three times the 1950–55 annual average.

Data for the first half of 1963 indicate a record 6-month net outflow of some $2½ billion. This amount resulted in part from a bunching of foreign borrowing here so that the rate of flow was well above the longer run trend, but even allowing for this temporary bulge a continued high rate of flow was indicated. The implication of these developments for the overall balance of payments was the background for the Administration decision in July to allow an upward movement of the discount rate and to propose a tax on purchases of various classes of foreign securities and long-term obligations—aimed at raising the cost to foreigners of obtaining long-term capital in the U.S. market and reducing incentives for U.S. residents to invest abroad.

Not only have the flows been large, but there has also been a tendency for a larger share of the total to go to the relatively well-developed countries that are capable of accumulating reserves.

These outflows are relatively erratic in the short run, so that data for the first quarter, in the following table, or estimates for the first half of 1963 are not reliable indicators of the outcome for the full year. The "other investments" group includes short- and long-term bank loans and commercial financing, and also net purchases of foreign securities.

Capital Outflow

[Millions of dollars]

	Developed countries [1]	Less developed countries	Total
Total all types			
1961	3,114	1,026	4,140
1962	2,721	552	3,273
1963 (1st quarter)	1,029	−2	1,018
Direct investments			
1961	1,145	454	1,599
1962	1,205	292	1,497
1963 (1st quarter)	526	80	606
Other investments			
1961	1,967	495	2,462
1962	1,420	290	1,710
1963 (1st quarter)	404	−23	382

[1] Europe, Canada, Japan, Australia, New Zealand, South Africa, and International Bank.

Purchases of Foreign Securities

In the earlier postwar years U.S. investors had little interest in foreign securities (other than Canadian and International Bank issues) and purchased them at a rate of less than $100 million per year (after deducting redemptions). Beginning about 1956, however, the flow became much larger, and in the 1956–62 period averaged $750 million.

Part of the increase in outflows shows up in purchases of outstanding foreign equity securities, particularly European issues in 1958–61, probably reflecting both the relatively greater growth in the European economies than in the U.S. and the special investor interest in the newly-created Common Market. This type of flow dropped sharply in 1962 because of market disruptions here and abroad, and apparently has not resumed on any significant scale so far in 1963.

Most of the purchases of foreign securities have been of issues (mainly debt issues) newly-offered in the U.S. market, shown in table 6. Total offerings of these new securities in U.S. markets showed an abrupt expansion in 1962 and a further spurt in the first 6 months of 1963. Canadian issues were responsible for much of the rise, and the tabulation shows that nearly all of the recent Canadian offerings have been placed privately, whereas in the earlier period of large Canadian borrowings in 1957–59 more than half of the total was issued for public sale. Only a small portion of the Canadian issues is taken by investors in other foreign countries, and the shift to private placements tends to limit this possibility.

New European issues have also expanded since 1961, but these are mainly public offerings, and foreign investors have taken up at time of issue about half of the amounts sold in the past five years. Nevertheless, the direct outflow from the United States also rose by considerable amounts. Offerings of other developed countries, notably Japan, have also been on the increase.

The advantages of borrowing in the U.S. market are well known; it is both easier and generally less costly to borrow here than in other markets. New issues of entities in the developed countries other than Canada had yields ranging between 5.3 percent and 7.5 percent in the past 18 months, with an overall average of about 5.75 percent. These yields are somewhat lower than those in most foreign markets, but are well above yields on new domestic corporate bonds of the highest rating, which ranged between 4 and 4.5 percent.

Short-term outflows

Additions to foreign short-term assets as reported by banks and others amounted to about $½ billion in 1962, down by $1 billion from the record 1961

amount. The drop reflected primarily a slowdown in lending to Japan, which accounted for much of the 1960–61 outflow, and a reduced flow into Canadian deposits. Data for the first half of 1963 show a rate of outflow somewhat larger than in the like period of 1962. While changes in this component of the balance of payments are often large since they are the net result of much larger gross flows, over the years outflows of considerable size have shown up consistently.

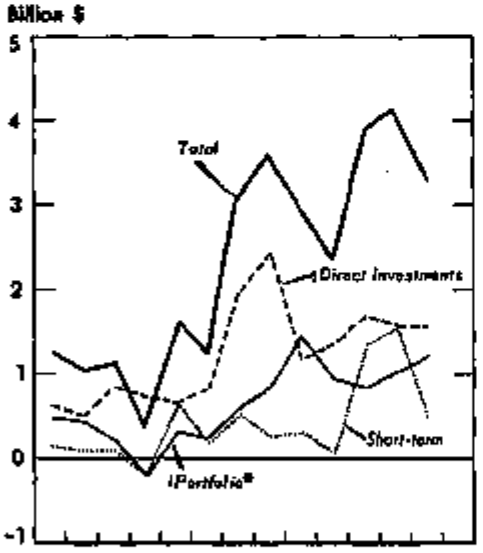
Direct Investments Abroad

United States firms invested a further $2.8 billion in their foreign affiliates in 1962, raising the aggregate book value to over $37 billion at the end of the year. Most of the increase came from capital outflows of a little over $1½ billion, about the same as in 1961, carrying forward the upsurge in these investments that began in 1956. A further $1.2 billion was added to the investments out of retained foreign earnings, somewhat more than in 1961 but about equal to the 1956–61 average.

Data for early 1963 indicate that the pace of investment, especially in Europe, has not diminished. Preliminary tabulations of projected foreign plant and equipment expenditures support this expectation, and it may well be that a larger proportion of the financing required for European operations is being obtained in the United States than was the case in earlier years, when it was customary to cover working capital needs by local borrowing whenever possible.

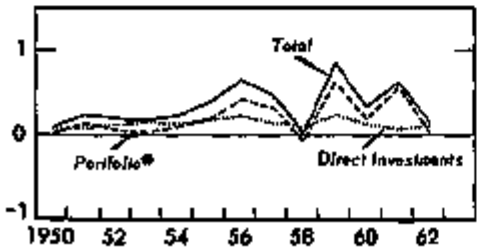
U.S. PRIVATE CAPITAL FLOW

- Portfolio Investment Continued Up in 1962
- Direct Investment at High Level
- Short-Term Outflow Dropped in 1962



FOREIGN PRIVATE CAPITAL

- Flow to U.S. Diminishes



*Net Purchases of Securities, (Other than direct investments) and Loans with a Maturity of more than one year.

U.S. Department of Commerce, Office of Business Economics 63-8-4

European investment stands out

New investments of $1.1 billion in 1962, slightly over the 1961 increment, raised the total of direct investments in Europe to more than $8.3 billion. Half of these 1962 investments were made in manufacturing facilities, including about $100 million spent to acquire existing enterprises from foreign owners. New investments in Europe in 1963 appear to be headed for another very large amount.

Capital flows to affiliates in Common Market countries rose to $466 million in 1962, an all-time high. At the same time, because of a somewhat higher rate of payout from only slightly higher earnings, the amount reinvested declined to only $81 million from $129 million in 1961. Much of the shift was in Germany, where capital flows for manufacturing were up sharply while reinvested earnings were reduced.

A considerable part of the capital flow into Common Market countries, and to a lesser extent into other areas, is transferred through Swiss affiliates. Data on such transfers of funds are now supplied by the companies in a special annual report, and a preliminary tabulation shows about $100 million transferred in the two years 1961 and 1962. In 1962, such indirect capital flows to Germany amounted to about $20 million, and the amounts for France and Italy were also sizable. In table 3, these capital flows are shown as going to the primary subsidiaries in Switzerland, but the aggregate values in table 2 have been adjusted to include these reallocations.

In the rest of Europe, direct investment activity has also been substantial in recent years with annual additions at a rate of over $½ billion. However, additions for 1962 were considerably less than in 1961, largely reflecting a sharp decline in capital flows to oil companies in the United Kingdom as refinery and other projects were completed. Manufacturing investments in the United Kingdom were stepped up in 1962, though, with increased capital flows from the United States.

Other developed countries

Investments in Canada by U.S. firms were up substantially in 1962, with additions of nearly $700 million about equal to the average increase in the 1950–61 period. Most of the increase as compared with 1961 was for

Table 1.—Factors Affecting the U.S. Private Long-term Investment Position, 1961 and 1962

[Million of dollars]

Type of investment	1961	1962
U.S. private long-term investment abroad		
Direct investments		
Value, beginning of year	31,622	34,064
Add: Capital outflow [1]	1,699	1,557
Reinvested earnings	1,051	1,202
Other adjustments [2]	189	−278
Value, end of year	34,601	37,145
Other long-term private investments abroad		
Value, beginning of year	12,039	14,339
Add: Capital outflow [1]	1,011	1,200
Price changes	654	−138
Other adjustments [3]	42	21
Value, end of year	14,339	15,431
Foreign long-term investments in the United States		
Direct investments		
Value, beginning of year	6,040	7,302
Add: Capital inflow [1]	73	132
Reinvested earnings	239	214
Other adjustments [4]	171	−141
Value, end of year	7,302	7,507
Other long-term investments		
Value, beginning of year	11,506	14,052
Add: Capital inflow [1]	393	139
Price changes	2,151	−1,589
Other adjustments		−78
Value, end of year	14,052	12,604

1. Included in the balance of payments accounts.
2. For details, see note to table 2.
3. Mainly reclassifications in 1961 from direct investments (+$175 million) and losses on foreign exchange ($146 million); in 1962 includes reclassifications (+$41 million) and foreign exchange losses ($85 million).
4. Mainly revaluations of portfolios of foreign-controlled insurance companies.

NOTE: Excludes direct investments in Cuba.

Table 2.—Value of Direct Investments Abroad [1] by
Table 3.—Direct-Investment Capital Flow and Undistributed Subsidiary
Table 4.—Direct-Investment Earnings and Income,[1]

[Millions of dollars]

Line	Area and country	Table 2											Table 3					
						1962 p							Net capital outflows					
														1962 p				
		1950	1957	1960	1961 r	Total	Mining and smelting	Petroleum	Manufacturing	Public utilities	Trade	Other	1961 r	Total	Mining and smelting	Petroleum	Manufacturing	Other
1	**All areas, total**	11,788	25,394	32,775	34,864	37,145	3,183	12,661	13,212	2,639	3,416	2,835	1,291	1,557	91	535	690	248
2	**Canada**	3,579	3,769	11,195	11,614	12,131	1,482	2,834	5,349	611	708	1,254	302	312	75	122	23	92
3	**Latin American Republics, total**	4,446	7,434	8,307	8,255	8,472	1,099	3,155	1,893	749	839	737	173	−32	−3	−115	114	−28
4	**Mexico, Central America and West Indies, total**	1,488	2,234	2,645	2,916	1,935	171	245	484	369	344	431	55	5	−11	29	22	−36
5	Costa Rica	40	93	92	93	92	(x)	(x)	(x)	14	5	41	(xx)	−1	(x)	(x)	(x)	−1
6	Dominican Republic	106	88	105	107	108	(x)	(x)	(x)	6	3	99	(xx)	(xx)	(x)	(x)	(x)	(xx)
7	Guatemala	106	106	131	127	127	(x)	28	(x)	30	6	24	−5	−2	(x)	(xx)	(x)	−2
8	Honduras	92	108	100	95	90	(x)	(x)	(x)	23	1	75	−5	3	(x)	(x)	(x)	3
9	Mexico	415	730	796	820	876	127	67	448	215	98	107	45	39	−5	16	23	−4
10	Panama	58	291	406	406	660	18	77	10	25	247	179	12	−21	.....	2	−2	−21
11	Other countries [2]	681	930	1,044	90	900	12	33	14	25	7	18	8	6	1	5	1	−2
12	**South America, total**	2,967	5,200	5,745	6,340	5,530	928	2,914	1,409	622	473	290	117	−37	2	−144	91	8
13	Argentina	386	333	472	610	707	(x)	(x)	404	(x)	33	300	104	94	(x)	(x)	73	21
14	Bolivia	11	16	23	43	32	(x)	(x)	(x)	(x)	(x)	32	1	−2	(x)	(x)	(x)	−2
15	Brazil	944	835	953	1,008	1,050	26	79	611	195	131	41	7	14	8	−15	10	11
16	Chile	540	690	738	745	748	604	(x)	20	(x)	14	221	(xx)	13	4	(x)	−1	10
17	Colombia	192	390	424	425	465	(x)	267	102	27	51	19	−7	21	(x)	26	1	−6
18	Peru	145	363	440	450	451	243	66	44	20	47	20	14	14	6	−7	8	7
19	Uruguay	56	67	47	49	33	(x)	(x)	24	(x)	5	24	(xx)	2	(x)	(x)	(xx)	2
20	Venezuela [3]	403	2,495	2,500	3,042	2,826	(x)	2,292	191	35	170	219	(xx)	−104	(x)	−167	(xx)	−37
21	Other countries	20	48	63	73	65	.....	24	(x)	18	(x)	23	−2	1	.....	(xx)	(x)	1
22	**Other Western Hemisphere**	131	518	884	854	1,090	176	486	47	49	77	232	46	62	−6	46	18	4
23	**Europe, total**	1,733	4,161	6,681	7,713	8,844	49	2,305	4,936	40	1,062	472	735	811	3	369	420	189
24	**Common Market, total**	637	1,680	2,644	3,067	3,671	5	1,083	2,803	31	361	122	277	466	(x)	102	299	65
25	Belgium and Luxembourg	69	102	231	261	283	.....	68	174	1	41	9	16	26	.....	13	3	10
26	France	217	404	741	857	1,000	0	297	582	10	122	29	76	111	(xx)	6	84	21
27	Germany	204	581	1,000	1,177	1,472	(x)	370	955	3	94	43	101	259	(x)	70	174	6
28	Italy	63	352	384	483	640	(x)	228	282	2	47	80	73	34	(x)	−2	23	13
29	Netherlands	84	101	252	310	370	.....	163	170	15	58	14	12	46	.....	15	14	17
30	**Other Europe, total**	1,096	2,471	4,037	4,646	5,172	49	1,282	2,753	18	721	349	448	345	(x)	307	121	117
31	Austria	13	45	48	52	60	(x)	(x)	(x)	(x)	(x)	58	5	4	(x)	(x)	(x)	4
32	Denmark	32	42	67	86	116	1	77	30	(xx)	14	3	27	21	(xx)	21	−2	2
33	Norway	24	51	80	93	107	(x)	60	25	(xx)	10	14	7	11	(x)	9	1	1
34	Portugal	10	25	31	30	37	(x)	(x)	(x)	(x)	(x)	37	2	−1	(x)	(x)	(x)	−1
35	Spain	31	44	50	74	85	(x)	27	36	4	14	4	8	7	(x)	3	2	2
36	Sweden	58	109	110	141	178	(xx)	103	24	(xx)	41	8	31	30	.....	26	(xx)	3
37	Switzerland [4]	75	60	204	399	556	(xx)	35	106	(xx)	228	184	128	117	.....	10	6	92
38	Turkey	10	53	46	48	108	(x)	59	5	(xx)	10	4	32	8	(x)	4	1	3
39	United Kingdom	647	1,074	3,231	3,542	3,805	(xx)	739	2,612	12	348	142	196	135	.....	21	110	4
40	Other countries	34	49	53	105	128	10	46	11	1	30	2	12	3	(x)	2	1	5
41	**Africa, total**	287	564	625	1,058	1,246	307	627	141	7	69	95	125	145	17	116	11	1
42	**North Africa, total**	56	106	106	259	360	4	338	7	6	7	0	88	104	.....	102	1	1
43	Algeria	6	19	21	32	45	(x)	(x)	(x)	(x)	(x)	45	10	12	(x)	(x)	(x)	12
44	Libya	(xx)	24	69	177	263	(x)	(x)	(x)	(x)	(x)	263	73	84	(x)	(x)	(x)	84
45	Other countries	51	72	73	50	58	1	37	7	4	5	4	3	8	.....	7	1	(xx)
46	**East Africa**	12	30	46	66	60	1	54	(xx)	(xx)	5	(xx)	9	8	.....	7	(xx)	1
47	**West Africa, total**	42	147	290	327	339	170	99	4	3	14	60	32	20	19	12	3	−8
48	Liberia	10	72	130	110	178	(x)	(x)	(x)	(x)	(x)	178	20	17	(x)	(x)	(x)	17
49	Other countries	29	75	151	197	161	(x)	(x)	(x)	(x)	(x)	161	12	10	(x)	(x)	(x)	10
50	**Central and South Africa, total**	177	381	394	430	463	133	135	129	1	43	20	−4	6	−2	−5	7	6
51	Federation of Rhodesia and Nyasaland	20	59	82	83	83	71	(x)	(x)	.....	2	10	(xx)	−4	−4	(x)	(x)	(xx)
52	Republic of South Africa	140	301	280	319	353	60	(x)	120	(xx)	39	125	(xx)	6	2	(x)	7	−3
53	Other countries	17	21	30	22	26	2	(x)	(x)	(xx)	2	21	−4	3	(xx)	(x)	(x)	3
54	**Asia, total**	1,003	3,010	2,293	2,477	2,496	29	1,761	348	39	105	160	131	78	(xx)	47	24	7
55	**Middle East**	682	1,138	1,129	1,243	1,206	(xx)	1,148	31	3	9	15	112	−7	.....	−11	1	3
56	**Far East, total**	300	881	1,152	1,234	1,285	29	612	317	36	156	136	19	85	(xx)	58	23	4
57	India	38	119	130	158	106	(x)	(x)	73	2	20	101	14	7	(x)	(x)	12	−5
58	Indonesia	58	109	178	147	100	.....	(x)	14	(xx)	2	144	−21	22	.....	(x)	(xx)	22
59	Japan	10	185	254	303	360	.....	(x)	110	1	39	210	29	52	.....	(x)	8	44
60	Malaya	15	36	40	47	60	(x)	(x)	(x)	(x)	(x)	60	1	11	(x)	(x)	(x)	11
61	Pakistan	8	20	34	41	48	(x)	(x)	(x)	(x)	(x)	48	7	5	(x)	(x)	(x)	5
62	Philippine Republic	140	300	414	490	374	(x)	(x)	80	28	58	195	2	−10	(x)	(x)	1	−17
63	Other countries	10	44	67	68	62	(x)	(x)	8	3	24	47	−3	3	(x)	(x)	1	2
64	**Oceania, total**	250	690	994	1,107	1,261	41	462	638	1	72	67	90	113	5	29	71	8
65	Australia	201	583	850	956	1,031	42	(x)	581	(x)	62	411	82	104	5	(x)	62	37
66	New Zealand	25	49	53	61	82	.....	(x)	32	(x)	10	31	7	10	.....	(x)	8	2
67	Other countries	30	67	85	87	88	−1	(x)	.....	(x)	(xx)	30	(xx)	−1	.....	(x)	.....	−1
68	**International**	356	1,641	1,418	1,486	1,611	.....	943	.....	673	.....	.....	8	68	.....	75	.....	−7

r Revised. p Preliminary. x Combined in "other" industries. xx Less than $500,000.

NOTE: Detail may not add to totals because of rounding.

1. The value of direct investments abroad in 1962 and 1961 was adjusted by $−278 million and $189 million, respectively, due to valuation adjustments on the companies' books, transfer to other investment categories, profits or losses on liquidations, or transfers between areas and industries. Major items for 1962 included: adjustments to book values of $−30 million ($−10 million in petroleum and $−20 million in mining and smelting in Latin America), a subsidiary of a petroleum company in Canada valued at $102 million, was spun off and distributed to stockholders, with the proportions owned by U.S. stockholders added to "other" foreign securities; a sale of a public utility company in the Philippines in exchange for notes resulting in a transfer to "other long-term investments" of $49 million; other valuation adjustments netting out to $−47 million.

Selected Countries and Years, With Major Industries for 1962
Earnings, by Selected Countries, With Major Industries for 1962
by Selected Countries, With Major Industries for 1962

[Millions of Dollars]

Table 3—Continued: Undistributed subsidiary earnings						Table 4: Earnings						Table 4: Income						Line
1961 r	1962 r					1961 r	1962 r					1961 r	1962 r					
	Total	Mining and smelting	Petroleum	Manufacturing	Other		Total	Mining and smelting	Petroleum	Manufacturing	Other		Total	Mining and smelting	Petroleum	Manufacturing	Other	
1,644	1,262	55	146	621	478	3,815	4,245	357	1,786	1,880	552	2,768	3,050	334	1,578	741	417	1
256	368	37	33	240	68	725	833	91	231	460	161	464	475	53	90	219	114	2
285	287	6	45	160	535	984	1,028	147	498	167	224	720	901	141	447	70	163	3
37	128	5	17	16	93	183	219	19	18	42	139	94	97	14	1	28	52	4
1	1	(x)	(x)	(x)	1	1	4	(x)	(x)	(x)	4	1	4	(x)	(x)	(x)	4	5
2	2	(x)	(x)	(x)	2	17	19	(x)	(x)	(x)	19	15	17	(x)	(x)	(x)	17	6
2	2	(x)	(xx)	(x)	2	−3	2	(x)	−3	(xx)	5	−4	(xx)	(x)	−3	(x)	3	7
1	1	(x)	(x)	(x)	1	9	7	(x)	(x)	(x)	7	8	7	(x)	(x)	(x)	7	8
0	24	2	3	13	6	51	86	10	6	35	12	40	44	8	2	24	10	9
80	97	(xx)	11	3	83	95	114	(xx)	11	3	100	20	18		(xx)	1	17	10
2	2		1	(xx)	1	10	10	3	4	1	2	8	7	3	2	1	1	11
158	158	6	26	84	42	781	809	128	472	124	86	637	564	125	445	43	51	12
64	38	(x)	(x)	10	10	100	80	(x)	(x)	32	48	30	45	(x)	(x)	13	32	13
1	(xx)	(x)	(x)	(x)	(xx)	−10	−10	(x)	(x)	(x)	−10	−11	−10	(x)	(x)	(x)	−10	14
39	67	4	1	52	10	72	86	5	3	64	15	26	24	2	1	14	7	15
3	11	1	(x)	3	7	62	72	53	(x)	3	16	58	64	52	(x)	−2	13	16
7	10	(x)	1	6	3	33	21	(x)	8	7	6	27	12	(x)	7	1	4	17
4	1	(xx)	3	(xx)	−2	61	62	30	7	6	20	57	61	33	3	4	11	18
2	2	(x)	(x)	2	(xx)	4	3	(x)	(x)	2	(xx)	2	1	(x)	(x)	1	(xx)	19
37	20	(x)	10	1	16	407	606	(x)	429	12	14	432	177	(x)	420	11	46	20
1	(xx)	−1	(xx)	(x)	1	3	(xx)		(xx)	(x)	(xx)	1	(xx)	(xx)	(xx)	(x)	(xx)	21
23	40	3	20	6	11	115	169	33	62	7	67	84	130	70	43	1	8	22
222	298	−2	5	136	159	237	851	5	72	403	281	485	626	7	66	331	132	23
178	61	(x)	16	44	27	244	308	(x)	52	233	70	593	247	(x)	46	101	41	24
14	−7		−4	−7	4	45	41		−2	34	9	26	35		2	29	4	25
78	38	(xx)	8	15	10	58	69	(xx)	16	28	15	26	22	(xx)	7	11	4	26
67	42	(x)	0	29	4	184	107	(x)	37	145	25	103	137	(x)	17	101	19	27
6	2	(x)	−7	4	5	26	30	(x)	3	18	9	23	20	(x)	10	15	4	28
14	12		4	4	4	20	34		13	8	13	75	23		0	8	9	29
203	218	(x)	−6	94	120	404	401	(x)	16	201	235	202	279	(x)	21	171	87	30
−1	(xx)	(x)	(x)	(x)	(xx)	4	6	(x)	(x)	(x)	0	5	5	(x)	(x)	(x)	5	31
1	−3	(x)	−5	1	1	6	2	(x)	−5	4	3	5	5	(x)	(xx)	4	1	32
3	3	(x)	1	1	1	5	5	(x)	1	2	2	3	4	(x)	1	1	2	33
3	3	(x)	(x)	(x)	3	7	6	(x)	(x)	(x)	0	3	3	(x)	(x)	(x)	3	34
5	4	(x)	(xx)	3	1	8	12	(x)	1	5	6	3	7	(x)	1	1	5	35
−1	−2		−3	2	−1	10	12		−3	3	12	11	13		(xx)	1	12	36
60	80		−3	(xx)	83	84	100		−3	13	90	24	27			23	14	37
2	3	(x)	2	1	(xx)	−6	−1	(x)	−2	1	1	−7	−3	(x)	−4	(xx)	1	38
122	113		−4	62	54	359	310		20	226	73	230	211		24	140	38	39
10	17	(x)	0	1	10	17	24	(x)	4	1	10	6	7	(x)	−1	(xx)	8	40
34	45	7	17	12	10	51	80	34	−6	22	29	−3	36	28	−23	21	10	41
4	2	1	(xx)	1	(xx)	−53	1	1	−1	1	(xx)	−58	−1	(xx)	−2	(xx)	1	42
1	1	(x)	(x)	(x)	1	−2	−2	(x)	(x)	(x)	−2	−3	−2	(x)	(x)	(x)	−2	43
3	1	(x)	(x)	(x)	1	−53	5	(x)	(x)	(x)	4	−56	3	(x)	(x)	(x)	3	44
(xx)	(xx)	(xx)	−1	1	(xx)	2	−2	1	−6	1	2	1	−2	(xx)	−5	(xx)	3	45
1	−4		−4	(xx)	(xx)	1	−1	(xx)	−1	(xx)	(xx)	(xx)	3	(xx)	2		1	46
4	6	−1	1	(xx)	6	11	−2	10	−33	(xx)	11	7	−7	11	−24		6	47
2	1	(x)	(x)	(x)	1	27	17	(x)	(x)	(x)	17	25	15	(x)	(x)	(x)	18	48
2	5	(x)	(x)	(x)	6	−16	−19	(x)	(x)	(x)	−19	−18	−23	(x)	(x)	(x)	−23	49
25	40	7	26	10	3	72	62	23	20	31	8	47	41	16	(xx)	21	4	50
4	1	1	(x)	(x)	(xx)	12	0	8	(x)	(x)	1	8	8	8	(x)	(x)	(xx)	51
21	20	6	(x)	10	25	60	72	15	(x)	31	26	30	33	0	(x)	20	4	52
(xx)	(xx)	(xx)	(x)	(x)	(xx)	(xx)	1		(x)	(x)	1	(xx)	(xx)	(xx)	(x)	(x)	(xx)	53
62	33	2	−5	11	25	982	1,048	2	931	40	80	915	1,015	1	910	31	43	54
−9	3		1	(xx)	2	770	883		845	3	4	780	851		846	2	3	55
71	31	2	−6	11	24	222	196	2	84	47	61	135	164	1	94	29	40	56
10	(xx)	(x)	(x)	−3	3	25	29	(x)	(x)	14	9	8	11	(x)	(x)	12	5	57
7	−9		(x)	1	−10	66	73		(x)	2	71	61	83		(x)	(xx)	83	58
20	14		(x)	8	6	34	33		(x)	12	21	10	25		(x)	4	21	59
(xx)	2	(x)	(x)	(x)	2	7	7	(x)	(x)	(x)	7	7	5	(x)	(x)	(x)	5	60
(xx)	2	(x)	(x)	(x)	2	3	3	(x)	(x)	(x)	3	3	1	(x)	(x)	(x)	1	61
21	16	(x)	(x)	2	14	63	42	(x)	(x)	14	28	33	23	(x)	(x)	9	14	62
4	6	(x)	(x)	1	5	34	15	(x)	(x)	2	13	8	10	(x)	(x)	1	9	63
22	42	−1	10	25	8	82	127	4	4	102	17	63	75	4	−6	67	18	64
15	33	(xx)	(x)	20	13	77	112	5	(x)	94	13	55	69	4	(x)	65	(xx)	65
3	8		(x)	0	3	13	14		(x)	8	6	9	5		(x)	2	3	66
3	1	−1	(x)		2	2	1	−1	(x)		2	(xx)	(xx)	(xx)	(x)	(xx)	(xx)	67
00	87		25		62	58	110		43		67	57	32		23		9	68

Major items for 1961 included: adjustments to book values of $305 million ($408 million in petroleum in Venezuela, $−42 million in public utilities in Latin America, and a total of $−35 million in petroleum in Africa and in mining and smelting in Latin America); transfer to other investment categories of $177 million in public utilities in Canada; increases to book values for investments not previously reported, $54 million.

2. Income is the sum of dividends, interest and branch profits; earnings is the sum of the U.S. share in the net earnings of subsidiaries and branch profits.

3. Data for other countries include Cuba for 1959 ($642 million), 1957 ($259 million) and 1950 ($360 million).

4. Data for Switzerland have been adjusted to exclude from book values $32 million in 1962, and $33 million in 1961, because of transfers from Swiss primary holding companies to secondary operating companies located primarily in other European countries.

development of iron ore properties; manufacturing investments in Canada continued to increase at about $250 million annually, but in 1962 the growth was financed very largely by reinvesting most of a sizable gain in earnings. Investments in petroleum facilities were moderately higher, largely because of acquisition from foreign owners of additional interests in Canadian firms.

In other developed countries, U.S. companies invested an additional $270 million in 1962, a considerable rise over 1961. Australia and Japan received most of the added capital flow, with lesser amounts going to New Zealand and South Africa.

Less-developed countries

For Latin America, the sum of capital flows and reinvested earnings for U.S. investments was reduced to about $250 million in 1962 compared with over $400 million in 1961. The 1962 result was greatly influenced by large net cash inflows from petroleum and other investments in Venezuela. If Venezuela is eliminated, U.S. investors added over $400 million to their Latin American investments in 1962, nearly the same amount as in 1961. The 1962 investments were very largely in manufacturing facilities, the investment in which was raised by over $200 million in the year, with about half going to Argentina. There was also an addition of about $60 million to manufacturing investments in Brazil, but only $10 million came from capital flows, with the remainder representing reinvestments of considerably enlarged earnings. These figures are not adjusted for any unrealized foreign exchange losses incurred during the year.

Investments made in other less-developed areas in 1962 rose slightly to about $450 million. Within this total, there was a sharp decline in financing of oil company operations in the Middle East, offset by larger investments to expand oil production facilities in North Africa and refining and distribution capacities in other areas. Manufacturing investments remained minimal in these countries.

Table 5.—Direct Investments in Manufacturing Enterprises Abroad, 1950, 1957, 1961 and 1962, by Commodity

(Millions of dollars; yearend book values)

	1950	1957	1961 [1]	1962 [1]
Manufacturing, total	3,831	8,000	11,364	13,212
Food products	483	723	1,000	1,093
Paper and allied products	378	722	904	989
Chemicals and allied products	512	1,376	2,048	2,262
Rubber products	182	401	647	608
Primary and fabricated metals	885	941	1,226	1,444
Machinery (except electrical)	420	927	1,476	1,534
Electrical machinery	387	731	989	1,072
Transportation equipment	485	1,204	2,312	2,031
Other products	509	963	1,860	1,537

Note: Detail may not add to totals because of rounding; data for major areas are available on request.

1. 1961 and 1962 data exclude Cuba. These investments were estimated at yearend 1960 at $111 million, and included $21 million for food products, $28 million for chemicals and allied products, $38 million for the "other products" group and $24 million for all other manufacturing industries.

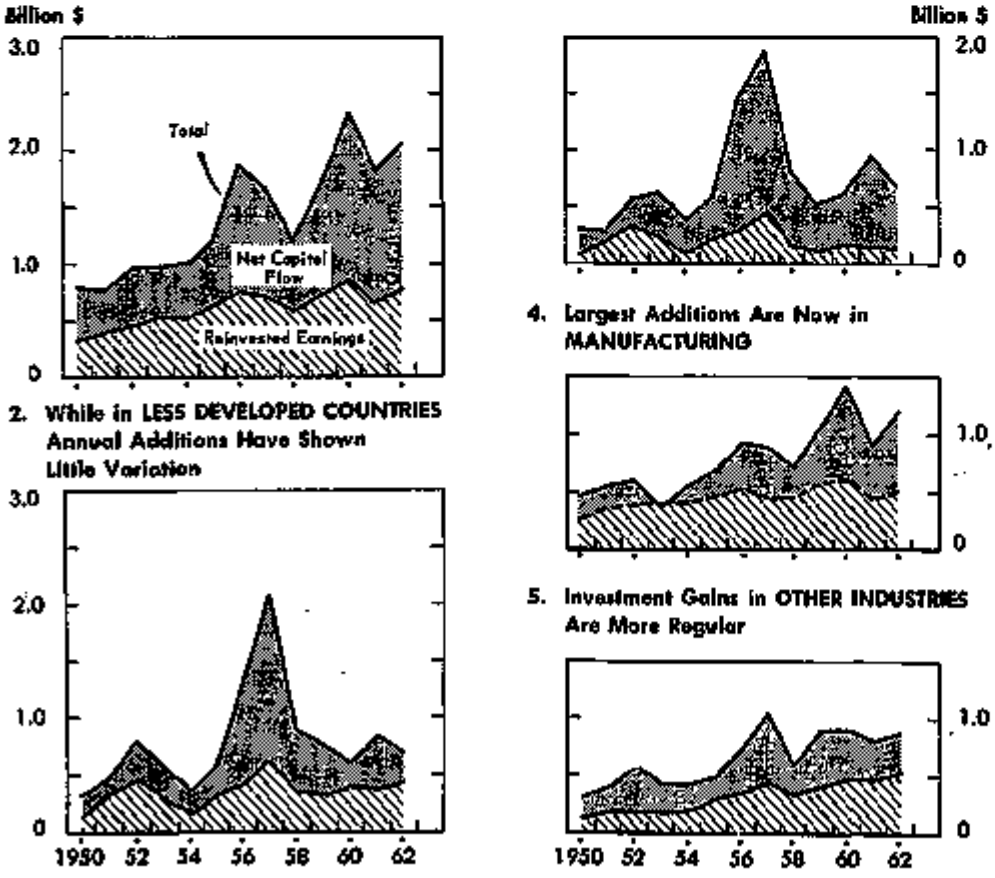
Major industry developments

Direct investments in manufacturing in all countries were at a rate of $1.2 billion in 1962, a sizable jump over the $900 million invested in 1961. About 80 percent of the additional investment in each of these years went to the developed countries, and data now available on investment plans for 1963 indicate a similar outcome.

The transportation industry (largely automobiles) continued to account for a large part of the manufacturing investment (26 percent) with continued expansions in Europe, Australia, and Latin America. The chemical industry is growing in importance and invested over $200 million in 1962, including investments by oil companies in petrochemical plants. Other important commodity sectors now growing at a relatively rapid rate are food products, rubber products, and primary and fabricated metals (including reduction and fabricating of aluminum), while the machinery and paper industries are increasing at a slower rate (table 5).

The amount added to petroleum investments declined by one-quarter to $685 million in 1962, but company pro-

DIRECT FOREIGN INVESTMENTS—ANNUAL ADDITIONS



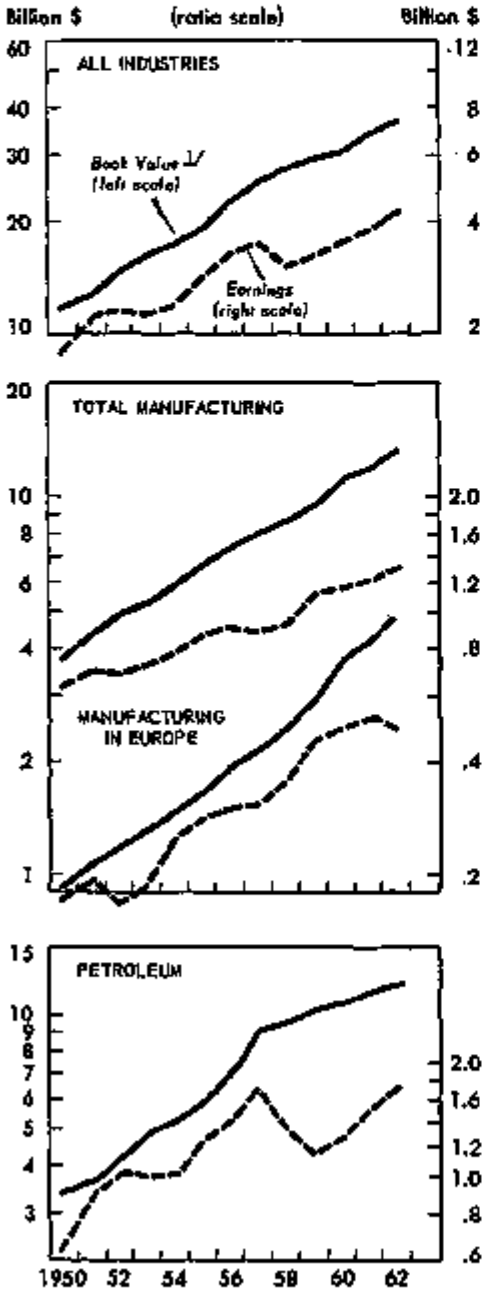
* Includes Canada, Europe, Union of South Africa, Japan, Australia, and New Zealand.

U.S. Department of Commerce, Office of Business Economics

63-8-8

jections indicate that 1963 totals may return to the 1961 level. More than one-half of the new petroleum investments are now being directed to increase refining facilities around the world, particularly in Europe and other developed countries of the Eastern Hemisphere. Investment flows to other industries were maintained close to the substantial levels of recent years—about $0.9 billion.

DIRECT FOREIGN INVESTMENTS
Book Values and Earnings



Earnings and Income

The heavy volume of new direct investments in recent years continued to push earnings to higher levels with the total reaching $4.2 billion in 1962. The increase in earnings in 1962 amounted to $430 million, of which more than half accrued to petroleum companies, and $100 million was accounted for by manufacturing enterprises. These earnings represent the share of U.S. stockholders and parent companies in the earnings of foreign subsidiaries, affiliates and branches. Out of this total substantial amounts are held abroad as undistributed profits. The higher 1962 earnings were reflected in an increase in the amounts retained by foreign subsidiaries, which rose by about 15 percent to $1.2 billion.

Despite the heavy investment flow into manufacturing operations in Europe earnings declined by $37 million in 1962, with the chemical producers particularly affected. However, Canadian earnings recovered strongly and manufacturing returns improved by $100 million to $460 million. In Australia and New Zealand, manufacturing earnings rose by 50 percent, but changes in other areas were limited.

Income receipts from abroad, which include branch profits, dividends and interest, moved up by 10 percent to $3.1 billion. Most of this additional income came from foreign petroleum operations, with only minor amounts applying to manufacturing, mining, or other industries.

In addition to the income listed above derived from foreign operations, parent companies in the United States collected additional revenues from foreign affiliates amounting to more than $0.5 billion (exclusive of foreign film rentals) in the form of royalties and management fees. More than half of this amount was received from foreign manufacturing subsidiaries (table 7). These revenues are now expanding rapidly, with an increase of $100 million in 1962 alone.

There have also been sizable gains in income received from the mounting volume of portfolio and short-term investments abroad. In 1962 interest and dividends received on these investments reached $800 million, compared with $700 million in 1961.

Foreign long-term investments in the United States

Capital coming from abroad for long-term investment in the United States amounted to $270 million in 1962, compared with about $450 million annually in 1960–61. The decline showed up mainly in sharply reduced investments in U.S. equity securities after mid-1962.

Table 6.—New Foreign Issues Placed in the United States, 1957–June 1963

[Millions of dollars; before deducting discounts and commissions]

Areas	Gross amount offered			U.S. portion		
	Total	Publicly offered	Privately offered	Total	Publicly offered	Privately offered
1963 (Jan.–June) P						
Total	1,120	252	834	386	193	193
Canada	639	25	614	620	23	597
Europe 1	275	107	168	212	44	168
Australia, Republic of South Africa, New Zealand, and Japan	160	125	34	125	93	32
Other countries	63	35	18	50	34	16
1962						
Total	1,274	597	697	1,096	424	465
Canada	477	(*)	477	459	(*)	459
Europe	273	214	59	199	141	58
Australia, Republic of South Africa, New Zealand, and Japan	230	200	30	183	133	50
Other countries 2	183	62	121	190	71	119
International Bank	111	111	-----	84	84	-----
1961						
Total	623	290	333	451	226	225
Canada	261	50	211	248	40	208
Europe	54	13	41	58	17	41
Australia, Republic of South Africa, New Zealand, and Japan	138	90	47	106	61	45
Other countries	130	96	34	127	95	32
International Bank	12	12	-----	12	12	-----
1960						
Total	661	440	221	585	344	241
Canada	261	176	85	248	143	105
Europe	68	25	18	20	11	12
Australia, Republic of South Africa, New Zealand, and Japan	65	50	15	42	27	15
Other countries	178	67	109	174	67	106
International Bank	109	100	-----	97	97	-----
1959						
Total	794	546	248	639	424	215
Canada	495	313	182	461	290	171
Europe	103	119	44	79	35	44
Australia, Republic of South Africa, New Zealand, and Japan	55	55	-----	32	32	-----
Other countries	97	67	-----	63	63	-----
International Bank	14	14	-----	14	14	-----
1958						
Total	1,258	1,144	158	881	687	94
Canada	414	318	96	378	290	88
Europe	231	231	10	128	120	8
Australia, Republic of South Africa, New Zealand and Japan	100	100	-----	30	30	-----
Other countries	85	85	-----	67	67	-----
International Bank	420	420	-----	371	371	-----
1957						
Total	713	539	174	612	442	170
Canada	356	182	174	332	162	170
Europe	65	65	-----	26	26	-----
Australia, Republic of South Africa, New Zealand, and Japan	20	20	-----	13	13	-----
Other countries	51	51	-----	51	51	-----
International Bank	221	221	-----	190	190	-----

P Preliminary.

* Less than $500,000.

1. Includes $115 million of bonds of Shell Funding Corporation.

2. Includes $75 million offering of Inter-American Development Bank bonds.

NOTE: The amounts shown for U.S. purchases exceed the figures used in the balance of payments because the latter exclude discounts and commissions.

Direct investments by foreign firms in the United States were moderately higher in 1962, but the capital inflow of $132 million included over $80 million of increased liabilities of trading companies, rather than more permanent investments here. In addition to the capital inflow, about $200 million was added to these investments out of retained profits.

Table 7.—Direct Investment Receipts of Royalties and Fees,[1] by Areas and Major Industries, 1961 and 1962

[Millions of dollars]

Area and industry	1961 r	1962 p
All areas, total	448	546
Petroleum	65	67
Manufacturing	240	303
Trade	47	56
Other industries	97	92

r Revised. p Preliminary.

NOTE: Detail may not add to totals because of rounding; data for major areas are available on request.
1. Excludes foreign film rentals.

Table 8.—Foreign Direct Investments in the United States-Capital Flows, Reinvested Subsidiary Earnings, Earnings and Income Payments, 1961–62, with Major Industries for 1962.

[Millions of dollars: Capital Outflows (−)]

	1961	1962 Total	1962 Manufacturing	1962 Finance and insurance	1962 Other
All areas, total					
Capital inflow	73	132	41	67	44
Reinvested earnings	238	214	88	−2	128
Total (additional investment)	311	346	129	65	172
Earnings	435	432	146	140	145
Income paid abroad[1]	233	268	78	147	35
Canada					
Capital inflow	−3	43	−5	20	28
Reinvested earnings	40	56	45	−1	12
Total (additional investment)	37	99	40	19	40
Earnings	196	147	33	76	10
Income paid abroad[1]	95	105	11	70	15
United Kingdom					
Capital inflow	40	10	7	5	7
Reinvested earnings	73	44	7	−1	38
Total (additional investment)	110	65	14	4	45
Earnings	130	105	35	27	42
Income paid abroad[1]	59	65	30	20	0
Other Europe					
Capital inflow	32	43	35	19	−11
Reinvested earnings	120	114	42	(*)	73
Total (additional investment)	152	165	75	19	62
Earnings	189	172	65	29	79
Income paid abroad[1]	72	75	32	33	10
Other areas					
Capital inflow	−3	27	4	3	20
Reinvested earnings	5	1	−4	(*)	5
Total (additional investment)	3	28	(*)	3	25
Earnings	10	10	−4	8	4
Income paid abroad[1]	8	13	3	9	1

1. Includes interest as well as dividends and branch profits; after withholding tax.
* Less than $500,000.

Most proposed direct investments in the United States call for only relatively minor amounts of financing from abroad—U.S. sources generally supply most of the funds required.

Changes in investment position

The overall international investment position reflects the activities of private investors here and abroad, the changes in short-term liabilities and monetary assets largely depending in one way or another on the outcome of the other sectors of the international transactions of the United States, and the extension of credits of various kinds by the U.S. Government. The aggregate outstanding amounts of these assets and liabilities are given in table 9.

Changes (including both capital flows and valuation changes) in the key types of assets and liabilities from 1950, when our balance of payments position changed decisively through 1962, appear below:

(Billions of dollars; increase in U.S. assets (+))	
U.S. private long-term investments abroad	+24
U.S. private short-term investments abroad	+6
Foreign long-term investments and non-liquid assets in the United States	−13
Net increase in private and nonliquid investments	+23
U.S. monetary reserves (gold, IMF gold tranche position, convertible currencies)	−7
Foreign-owned liquid assets in U.S. banks and U.S. Government obligations	−10
Net decrease in liquid assets	−23
U.S. Government credits and claims (inconvertible foreign currency claims +8)	+8

(Continued on page 28)

Table 9.—International Investment Position of the United States, Total 1950, by Area, 1961–62

[Millions of dollars]

Type of investment	Total 1950	Total 1961 r[1]	Total 1962 p	Western Europe 1961 r	Western Europe 1962 p	Canada 1961 r	Canada 1962 p	Latin American Republics 1961 r	Latin American Republics 1962 p	Other foreign countries 1961 r	Other foreign countries 1962 p	International institutions and unallocated 1961 r	International institutions and unallocated 1962 p
U.S. assets and investments abroad, total	31,459	76,014	86,126	21,283	22,268	10,007	10,763	14,333	15,305	16,181	17,803	5,128	4,869
Private investments	19,094	56,613	66,316	12,715	14,480	10,022	10,748	11,437	12,190	9,613	10,609	2,608	2,812
Long-term	17,488	40,063	52,570	11,396	12,882	17,026	18,329	9,803	10,261	7,237	8,098	2,157	2,811
Direct	11,788	[2] 34,004	37,145	7,713	8,843	11,614	12,121	[3] 8,255	8,472	5,700	6,068	[4] 1,480	[4] 1,641
Foreign dollar bonds	1,002	5,405	5,373	496	654	3,809	3,250	245	345	237	1,133	1,018	1,063
Other foreign securities[5]	2,041	5,602	5,420	2,845	2,174	3,202	2,605	90	97	237	238	55	55
Other	1,357	3,332	3,620	1,285	1,321	301	337	1,290	1,337	497	534	.....	.....
Short-term assets and claims	1,516	6,510	7,234	1,316	1,598	1,106	1,217	1,772	1,939	2,250	2,509	1	2
Denominated in dollars	1,174	5,667	6,322	929	1,119	841	933	1,729	1,890	2,108	2,370	1	2
Denominated in foreign currencies	342	843	912	387	449	325	284	43	49	38	139	.....	(x)
U.S. Government credits and claims	12,535	19,601	[6] 20,316	8,570	7,578	5	7	2,696	3,116	5,608	7,259	3,502	2,057
Long-term	10,798	14,740	16,040	7,818	7,207	.....	.....	2,321	2,923	3,460	4,941	861	970
Foreign currencies and short-term claims	322	2,948	3,113	630	375	5	4	175	193	2,100	2,318	21	23
IMF position and monetary authorities holdings of convertible currencies	1,415	1,896	1,163	110	00	.....	3	.....	.....	.....	.....	1,800	1,064
Foreign assets and investments in the United States, total[7]	18,407	46,878	47,388	27,412	21,192	6,801	7,229	4,019	4,146	5,152	5,616	2,458	2,675
Long-term	7,007	21,444	20,201	18,274	14,357	3,697	3,517	1,362	1,219	1,120	1,049	52	52
Direct	3,391	7,392	7,587	5,129	5,233	1,090	2,001	130	137	144	166	.....	.....
Corporate stocks	2,024	11,696	10,286	8,700	7,697	1,404	1,242	927	785	683	503	51	40
Corporate, state, and municipal bonds	181	628	667	430	430	1	(x)	76	70	131	129	1	12
Other	1,400	1,696	1,041	1,000	988	195	214	220	221	191	188	.....	.....
Short-term assets and U.S. Government obligations	10,410	25,434	27,107	12,108	12,335	3,104	3,712	2,067	2,027	3,923	4,470	2,406	2,617
Private obligations	6,477	13,363	13,340	6,600	4,318	2,007	1,890	2,316	2,413	3,404	3,107	388	523
U.S. Government obligations	3,933	12,071	13,827	5,508	7,017	1,097	1,813	432	494	529	1,363	2,243	2,294
Long-term marketable issues	1,470	2,788	2,001	800	674	340	271	333	254	79	73	1,231	780
Non-marketable, medium-term non-convertible securities	.....	.....	251	.....	251	.....	.....	.....	.....	.....	.....	.....	.....
Short-term[8]	2,463	9,282	11,615	5,703	6,092	757	1,542	110	240	745	1,290	1,017	1,505

NOTE: U.S. gold-stock, end of 1961, $16,947 million; end of 1962, $16,057 million.
r Revised. (x) Negligible.
p Preliminary.
1. Data for Cuba omitted effective 1961; see notes to table 1 for other adjustments.
2. Represents the estimated investment in shipping companies registered in Panama and Liberia.
3. Consists primarily of securities payable in foreign currencies, but includes some dollar obligations, including participation in loan made by the International Bank for Reconstruction and Development.
4. Outstanding amount of U.S. Government long-term credits is raised by $400 million in 1962 on account of the settlement of postwar aid to Japan, and reduced by $50 million for other miscellaneous adjustments.
5. Total includes estimated foreign holdings of U.S. currency as of end of 1950, $772 million; 1959, $006 million; not distributed by area.

ocean freight rates on cargos outbound from the United States are generally higher than inbound rates for the same commodity and the same trade route. Freight rates on cargo liner service operating on major freight routes are established by conference agreements. The steamship conference, by setting freight rates on a particular trade route, acts as a price leader; other liner companies that are not parties to the conference agreement offer similar services at rates about 10 to 15 percent less than the established conference rates.

The underlying concept in the organization of a steamship conference has been the desire to regulate competition between the regular lines of different nations by establishing uniform freight rates for each commodity and uniform trade practices. Most major U.S. international freight routes are dominated by liner conferences in which American steamship companies are participating with companies of other nations. It seems that the practice of conferences has been to consider inbound freight into the United States as "back-haul" cargo, thus setting cheaper rates for commodities on United States bound ships that would otherwise be returning in ballast to pick up new cargo. The entire charge for overhead costs is assigned to the outbound journey for the United States; therefore, the "back-haul" rate can be kept lower because only direct cost must be met and any returns in excess of these is considered profit. This being the case, many commodities on several routes have higher rates outbound than the same goods inbound for U.S. ports.

Freight rates on U.S. exports tend to be greater than inbound rates on U.S. imports for the same commodities in our foreign trade with industrial countries. In addition, some rates from the United States to less industrialized areas are higher than freight rates from Western Europe and Japan for the same commodities over comparable freight routes. Provided that the composition of trade and the participation of U.S. flag are not affected, higher freight rates on U.S. exports increase our foreign exchange earnings in the transportation account, but would affect adversely our merchandise exports, the largest receipt item in the balance of payments.

GNP—(*Cont. from p. 5*)

Because the gains in durable goods output have been relatively greater than those in other areas of the economy, durable goods have accounted for 45 percent of the rise in GNP in the current expansion. (See text table.) This ratio compares with percentages of less than 30 percent in the previous two recoveries, and reflects a resurgence in the share of hard goods output in total GNP.

Distribution of Increase in Real GNP by Major Type

	II 1954–III 1956	I 1958–II 1960	I 1961–II 1963
	As a percent of total rise in real GNP, from trough to nine quarters after		
Gross National Product	100.0	100.0	100.0
Durable goods output	20.9	28.0	44.4
Nondurable goods output	30.5	27.3	19.8
Construction	8.1	8.4	6.8
Services	31.4	36.4	32.5

At the bottom of the 1960–61 recession, durables output made up less than 17 percent of the total—the smallest share of the entire postwar period. By the second quarter of this year, the ratio was back up to 20 percent. While this share compares favorably with the peak quarterly rate reached in the economic advance of 1959–60, the relative share of durables production in total output is still below the 22-percent level that was common in prosperous quarters in the early and mid-1950's.

As the table and chart indicate, the rise in total production has been held down by a slower than average advance in the demand for nondurable goods. Relative to total consumer income and buying, purchases of nondurables have been declining very slowly during most of the postwar period.

Nine quarters after the trough, the cyclical expansion in output of both services and construction has been about the same as in the two previous expansions. While the growth in services of all types has continued about in line with the postwar uptrend, there have been divergent tendencies exhibited by two of the major components of service expenditures. The rate of gain in personal buying of services has slowed somewhat in the last few years. On the other hand, Federal compensation of employees—by far the largest item of Government purchases of services—has risen by one-eighth since the most recent cyclical low, or much more than the last two times. State and local government payrolls—the third major component of service outlays in the National Accounts—have continued to expand on their postwar growth trend during recent years.

Total construction mainly tracing changes in spending for business and housing structures, has typically shown a somewhat erratic cyclical behavior. In the recent expansion, there has been an especially strong and long lasting gain in residential building which has carried total construction higher in most quarters. A small decline in State and local government construction outlays—which make up one-tenth of the total—has held back the overall gain.

As the chart shows, during the 1958–60 upswing in business activity, construction reached a peak early and fell irregularly for a year by this stage of the cycle; this reflected mainly developments in the housing market. Nonetheless, in all three recoveries, total construction expenditures were roughly 7 percent higher in the ninth quarter of advance than at the cyclical low.

U.S. Investments—(*Cont. from p. 22*)

Though the net increase in U.S. private investments is of the same order of magnitude as the reduction in net liquid assets this does not, of course, imply a direct link. Many items or combinations of items in the balance of payments accounts would add up to similar or larger amounts over the years. As the U.S. debtor-creditor position has evolved, however, a few major relationships should be noted.

Certainly no country has had private foreign investments as large as those now held by U.S. nationals in other countries, or returning as much income ($3.9 billion in 1962 not including $1.2 billion of reinvested earnings). In this sense these investments are an element of considerable strength in the United States international position. On the other hand the fact that these foreign investments, especially direct and other investments going to industrialized countries, have grown so fast suggests that investment opportunities in the United States relative to those in comparable areas have not been attractive enough to absorb the funds available for investment.

The United States has maintained a steady and rising flow of capital to other countries over a long period during which its reserve position has been under pressure. A considerable volume of these outflows is to be expected, given the relatively abundant supply of capital here compared to domestic demand and the great variety of capital needs throughout the world. Nevertheless such flows are one of the factors which at least in the short run must be reckoned with as contributing to the balance of payments deficits.