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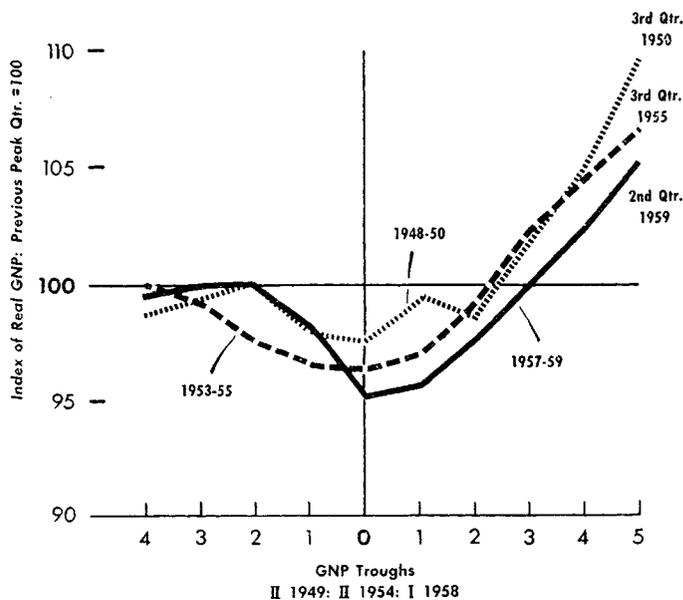
National Income and Product

Expansion Continues

THE VALUE of the Nation's overall output was at an annual rate of \$484½ billion in the spring quarter, up \$14 billion from the first quarter rate. This was the fourth successive quarterly advance of about the same size. The GNP now stands \$53½ billion above last year's first-quarter low, at annual rates, and \$36½ billion or 8 percent beyond the previous peak reached in mid-1957.

While price increases contributed to the rise in the value total, national product is up substantially in real terms as well. The volume of physical output in the second quarter was 10½ percent above the low recorded early last year and 5 percent better than the top quarter of 1957. The accompanying chart shows that the 1957-58 upswing in real GNP has paralleled the cyclical advances of 1949-50 and 1954-55, on a quarter-for-quarter basis, despite the somewhat greater severity of the recession phase this time.

Real Gross National Product: Upswing Parallels Those of 1949-50, 1954-55



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

A survey of the Nation's principal markets as depicted in the GNP tables I-3 and I-5 below shows consumption, investment, and government purchases all moving up in the spring. The backbone of the expansion was provided, as in earlier quarters, by demand from the Nation's families. Consumption expenditures alone accounted for over \$7 billion of the second-quarter advance. Another billion came

in residential construction. At the same time, the partial recovery in business fixed investment was extended with a \$2 billion rise; and government purchases advanced fractionally while the general budgetary situation improved.

With production and turnover rising to meet the growth of final demand, business inventories which were drawn down during the recession have been rapidly built up again toward—though not yet to—the prerecession levels. An acceleration in inventory building in the spring quarter contributed about \$4½ billion to the GNP rise.

The accumulation of stocks during the first half reflected in part provision made to meet supply shortages expected to develop in the second half due to the steel strike.

The national income measure of production shows that recent gains have been broadly based among the Nation's industries and income types.

The industry divisions most sensitive to fluctuations in national demand have rebounded from their lows of early 1958. Manufacturing production, which generates more than one-fourth of the national income, displayed a sharp recovery. Other groups less subject to short-term market fluctuations continued their postwar growth. The only major exception to the general advance was agriculture. After having expanded during the general business contraction of 1957-58, farm income has now dropped back to levels a little above those of 1957.

The decline in earnings from agriculture also accounted for the only major exception to a general pattern of advances among the various types of income. Total compensation of employees rose more rapidly in the second quarter than in the first. Having made good its 1957-58 decline before the end of last summer on an overall basis, employee compensation in the second quarter of 1959 was more than \$20 billion above the prerecession peak. Corporate profits are apparently at a new high annual rate following a series of sharp increases. Other income shares generally showed significant though less marked advances.

Consumer Income and Outlay

Disposable personal income moved up \$8 billion in the spring. This was one of the largest gains scored in any quarter during the 1958-59 business expansion. The second-quarter annual rate of \$335 billion was about \$25 billion or 8 percent above the recession low point reached in the last quarter of 1957.

The advance in disposable income has been closely matched in consumer buying. Personal consumption expenditures in the spring quarter were over \$311 billion at annual rates, \$7½ billion above the first quarter and \$24 billion more than at the low of early 1958. Purchasing is now at record levels for a wide variety of consumer goods and services both in terms of dollars spent and in physical volume.

As in other recent quarters, most of the spring rise in

spending represented an increase in volume, prices having advanced only moderately. Of the 8½ percent increase in personal consumption expenditures since the low of 1958, no more than 1 percent seems to have reflected price advances.

For durables and nondurables alike, the second quarter gains were among the largest since the current upswing began. Expansion continued in the automotive and food categories and was reinforced by substantial increases in spending for household durables and for apparel. Expenditures for consumer services also extended their long uptrend.

Consumer purchases of autos and parts, which have been relatively high and rising throughout the 1959 model year to date, increased nearly \$2 billion at annual rates in the second quarter as new car sales registered a spring upturn for the first time since 1955. The accelerated pace of buying made this the best spring on record in total dollar sales, and one of the highest quarters: The seasonally adjusted rate of \$19 billion has been surpassed only in the third quarter of 1955. It was two-fifths above the low recession rate which had prevailed through most of last year until the final quarter. While price increases have contributed to the advance from 1958, the comparatively favorable experience so far this year also reflects an improvement of close to one-third in unit sales.

In household durables and in clothing the expansion of consumer outlays amounted to about \$1 billion, at annual rates. The course of consumer spending has been much the same for both these commodity groups during the 1957-59 business swing: Each group showed an initial decline of about \$½ billion, which was wiped out by a rapid recovery around the middle of 1958. No significant further change was reported last year, or in the early months of 1959, but the spring upsurge carried purchases into new high ground both in dollars and in real terms.

Investment Demand Rising

Both residential building activity and business demand for plant and equipment are showing strength. Housing construction is proceeding at a record pace whether measured by outlays or by number of starts. Having reversed a two-year decline early in 1958 and expanded rapidly thereafter to pace the general economic advance, homebuilding has moved up more slowly in recent months. The seasonally adjusted rate of private starts has not changed very much since before the turn of the year; further gains reported in value of work in place, however, have contributed to the latest expansion in GNP.

Business fixed investment recovering

Moderate recovery in business fixed investment continued in the second quarter, outlays increasing by nearly \$2 billion at annual rates. The latest advance, which followed a \$1 billion rise in the first quarter, carried total business buying of capital goods and construction to \$44 billion. Three successive quarters of recovery in this area of demand have wiped out about half the \$8½ billion decline which ended last summer. At midyear, outlays for fixed investment by durable and nondurable manufacturing in particular had recovered only a minor part of their previous declines.

Expenditures by the transportation industry have remained low in reflection of the experience of the railroads. Though railroad purchases have moved up since the turn of the year, the improvement so far has canceled only about one-third of the previous very sharp decline. The 1957-59

swing in freight car orders has been especially pronounced. Fixed investment by the air and highway transportation groups is substantially ahead of the rates recorded two years ago. In the case of air transportation the improvement resulted from a continued stepup in deliveries of the new jet airliners in the second quarter. Accompanying the recovery in highway carriers' outlays, sales of trucks and buses have rebounded from the extreme low of early 1958 to reach the highest figure in several years.

Public utility outlays held up relatively well in 1958, as did expenditures in the commercial and other category. These groups, together accounting for around two-fifths of total plant and equipment spending, played an important role in cushioning the decline in overall demand for fixed capital goods during the business recession. Since 1958 reopened, utility expenditures have been down somewhat while commercial outlays have been reported moderately higher. The latter reached a peak in 1956 and dropped sharply in 1957 before leveling off last year.

Rebuilding of business inventories

The pace of business inventory accumulation was stepped up in the second quarter, stocks rising at an annual rate of \$10½ billion. This compared with a \$6 billion rate of buildup in the opening quarter of the year and \$1 billion in the final quarter of 1958, when the postrecession inventory accumulation started. If the \$17½ billion sum of these changes is divided by 4 to translate it from an annual rate into an actual change in the level of holdings, it is seen that since last autumn stocks in manufacturing, trade and other industries have been built up by somewhat over \$4 billion out of current production. The GNP measures of inventory change are adjusted for normal seasonal variation, it should be noted, and for the difference between book and replacement cost of stocks turned over.

As the second half of 1959 began, the volume of business inventories was lower than in mid-1957. Stock-sales ratios were likewise down from the prerecession averages. The buildup in holdings, aimed in general primarily at aligning stocks better with production and sales, seems to have fallen short of matching the sharp gains in these operations over the past year.

The inventory valuation adjustment is not available separately for individual industries but the book value data for these industries reveal clearly enough the general pattern of the recent inventory accumulation.

In outline, this pattern has matched that of the preceding liquidation: The swing in business inventories since 1957 has been concentrated to a disproportionate extent in durable lines, and especially in durable goods manufacturing.

For both durables and nondurables manufacturers, the inventory accumulation has been particularly marked in the purchased materials category. Holdings of goods-in-process and of finished goods have also risen in many lines, although to a lesser extent. This pattern of advance is broadly similar to that recorded in durables manufacturing during the 1955 recovery.

The upswing in trade inventories in the spring, as each of the two preceding quarters, featured the rise in new-car holdings of auto dealers which brought stocks a record high at the time of the model changeover.

Heavy flow of savings

The recovery in private capital formation has been supported by a very substantial flow of savings from corporate and other sources.

By midyear, internal funds were becoming available for corporate investment at a rate greater than before the recession.

period the cyclical rebound has dominated the volatile commodity producing and handling groups, while other lines continued or resumed their growth trends.

As corporate business has moved out of the recovery phase and into the new expansion which is characterizing 1959, the sharp rise of profits in commodity-associated industries has shown signs of tapering. This development accounted for the first quarter slowing in the rise of the all-industry total. Gains in trade, transportation, and a substantial majority of hard-goods manufacturing lines were less following the turn of the year than before. In durables, autos were the outstanding example of this tendency, and primary metals furnished the only clear exception. From preliminary data at

hand the pattern of lessening advance in such cycle-sensitive lines appears to have continued into the second quarter, although it was modified in some instances where anticipation of a steel strike played a major part.

Other income flows

Most other major types of earnings contributed to the rise in national income during the past half year.

Compensation of employees increased to a new high of \$270 billion in the initial quarter of 1959 and rose to \$279 billion in the second quarter. The upward movement of employment and payrolls accelerated last spring, fanning out through private industry and being extended in State and local government. Supplements rose moderately, after a sharp first-quarter advance reflecting the higher scale of OASI contributions.

Net income of nonfarm entrepreneurs—business proprietors and independent professional workers—registered the general business improvement with a \$1 billion increase in the spring quarter. Interest income continued its uptrend.

A major exception to the general pattern of advance was farm income. Earnings of farm proprietors declined by \$1 billion, at annual rates, in each of the past two quarters, as acreage reserve payments under the Soil Bank program were discontinued and farm production expenses mounted. At \$12 billion, the second-quarter rate is down from the peak reached early last year but still \$½ billion above the corresponding period of 1957.

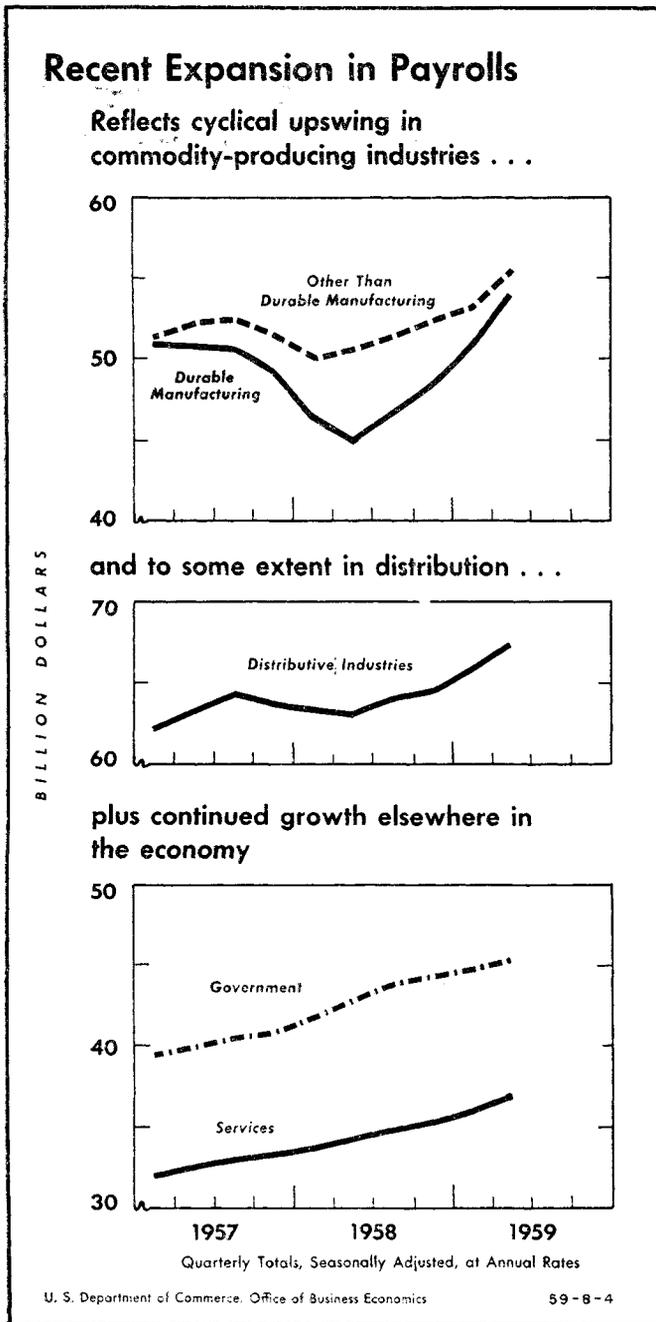
Private wages and salaries continue up

The gain in employee compensation cited above centered in private payrolls. The second quarter rise in these amounted to \$8 billion, at an annual rate. This compared with \$5½ billion in the initial quarter of 1959 and a \$4 billion advance in the preceding quarter.

The acceleration since the turn of the year has been due largely to a sharp upsweep in employment. This was particularly marked during the spring. The number of workers in private nonagricultural establishments, seasonally adjusted, was 800 thousand higher in the second quarter than in the first. In no previous quarter of the recovery period had reported employment gains exceeded 500 thousand. While longer hours of work and larger hourly earnings together continued to account for a considerable part of the growth in private payrolls, more than half the spring gain stemmed from higher employment. This was a somewhat larger fraction than during the earlier stages of the recovery.

As the accompanying chart indicates, wage and salary increases were particularly pronounced in durable goods manufacturing, where the 1957-58 decline had been most severe. Other commodity-producing industries, including contract construction, also reported substantial improvement.

Advances appeared in nearly all the manufacturing industry groups. Among durables, the upsweep was sharp in primary metals and in nonelectrical machinery, where employment increases were especially large and were supplemented by higher average weekly earnings. Apparel and textiles had the largest payroll gains reported for any of the nondurable goods industries.



Regional Markets in 1958

THE DOLLAR flow of consumer incomes reached new highs in nearly all States in 1958 as the personal sector of the economy resisted the pressure of deflationary forces and then moved ahead. Individual incomes were up last year in all but 4 States, and in 3 of these, the overall total fell only a little short of that in the preceding year.

For the country as a whole, personal income totaled \$356 billion in 1958, up \$8½ billion or 2 percent over 1957. When allowance is made for the small rise in consumer prices, more than half the States show gains in real income; in a dozen others, real purchasing power was about the same as in 1957; and, in the remainder, the decline ranged from fractional to as much as 6 to 7 percent.

As shown in the chart below, largest dollar advance on a regional basis was in the Southeast where incomes in 1958 were more than \$2 billion above the 1957 total. In the Far West, Mideast, Plains, and Southwest the current-dollar

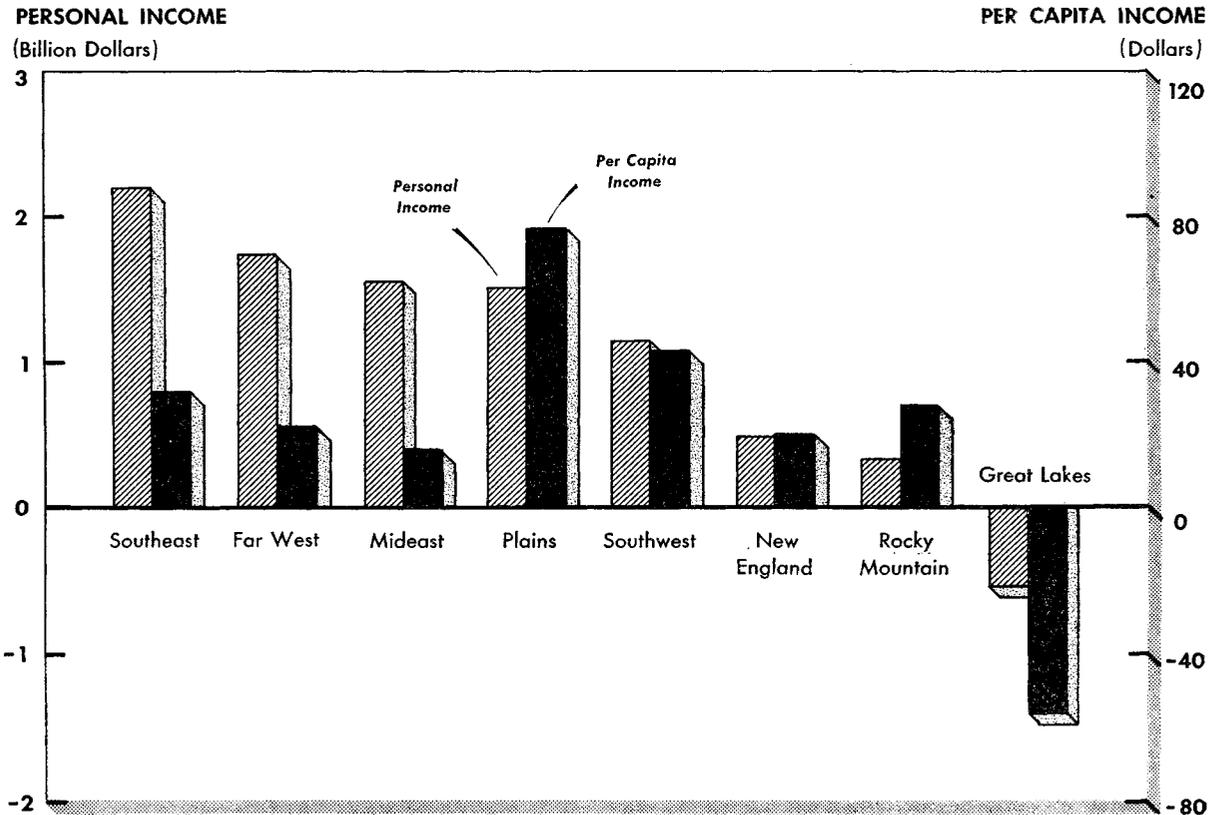
purchasing power of individuals climbed \$1 billion to \$2 billion. Smaller increases of \$500 million and \$300 million were recorded in the New England and Rocky Mountain regions, respectively, while in the Great Lakes, where the 1957-58 recession centered, personal income was off \$550 million.

Income rose nearly \$1½ billion in California. Well below this top ranking growth among States, but still large in terms of expanded markets were the increases in New York (\$900 million), Florida (\$600 million), and Texas (\$600 million). In 10 other States, aggregate consumer income picked up between \$250 million and \$400 million.

In interpreting these figures, it should be noted that the recent recession covered parts of both 1957 and 1958. Hence, annual income totals for these years, reflecting a mixture of recession and recovery, fail to show the magnitude of the decline or subsequent recovery. Also, these summary measures of personal income are comparatively broad indices and relate to States and regions as a whole. They cannot reveal developments in local areas, nor can they show the direct

NOTE.—MR. GRAHAM IS A MEMBER OF THE NATIONAL INCOME DIVISION, OFFICE OF BUSINESS ECONOMICS, DEPARTMENT OF COMMERCE.

Regional Changes in Consumer Incomes, 1957-58



impact that unemployment had on the income of specified groups within the labor force. The effects of the recent recession both in specific areas and on certain income classes are fully recognized even though the personal income estimates do not permit them to be singled out for analysis.

Dollar changes in personal income are especially relevant for gaging developments in geographic markets. However, wide variations in size of areas make comparisons expressed in absolute terms difficult. Perspective is afforded through use of relative changes.

With the translation of State and regional income changes into percentage terms (see table I), a geographic pattern of income shift emerges. This pattern, the summary reflection of economic developments in the last 2 years, shows both the relative impact of the recent industrial recession and of the sharp upturn in farm income in 1958.

Regional income changes

In each of the 5 "nonindustrialized" regions—the Plains, Southeast, Southwest, Rocky Mountain, and Far West—income gains from 1957 to 1958 held uniformly to an above-average 4 or 5 percent, as compared with the rise of 2 percent noted for the Nation. Moreover, these gains were quite pervasive within regions. In 30 out of 32 States relative income growth exceeded the nationwide average.

In contrast, income expansion in the northeastern part of the country—New England and the Mideast—was limited to 2 percent, while the Great Lakes States experienced a 1-percent decline. These three regions are the most industrialized in the Nation, particularly with respect to durable goods production, and, at the same time, they place least dependence on agriculture as a source of income.

State changes vary widely

Among individual States, sharpest relative improvements were in the smaller and less industrialized, such as North Dakota (17 percent), New Mexico (11 percent), Kansas (10 percent), Mississippi and Arizona (9 percent each), and Florida (8 percent).

Upsurges in farm income provided the primary impetus for the outstanding advances in total income in North Dakota and Kansas. In the former, income from farming last year was half again as large as in 1957; in the latter it was double.

In New Mexico and Mississippi, strong improvements in farm income pushed aggregate income up, but in both, most other components also moved ahead at rates well above average. Particularly noticeable were the relative pick-ups in contract construction and manufacturing in the two States, and the large expansion in the finance and service sectors in New Mexico.

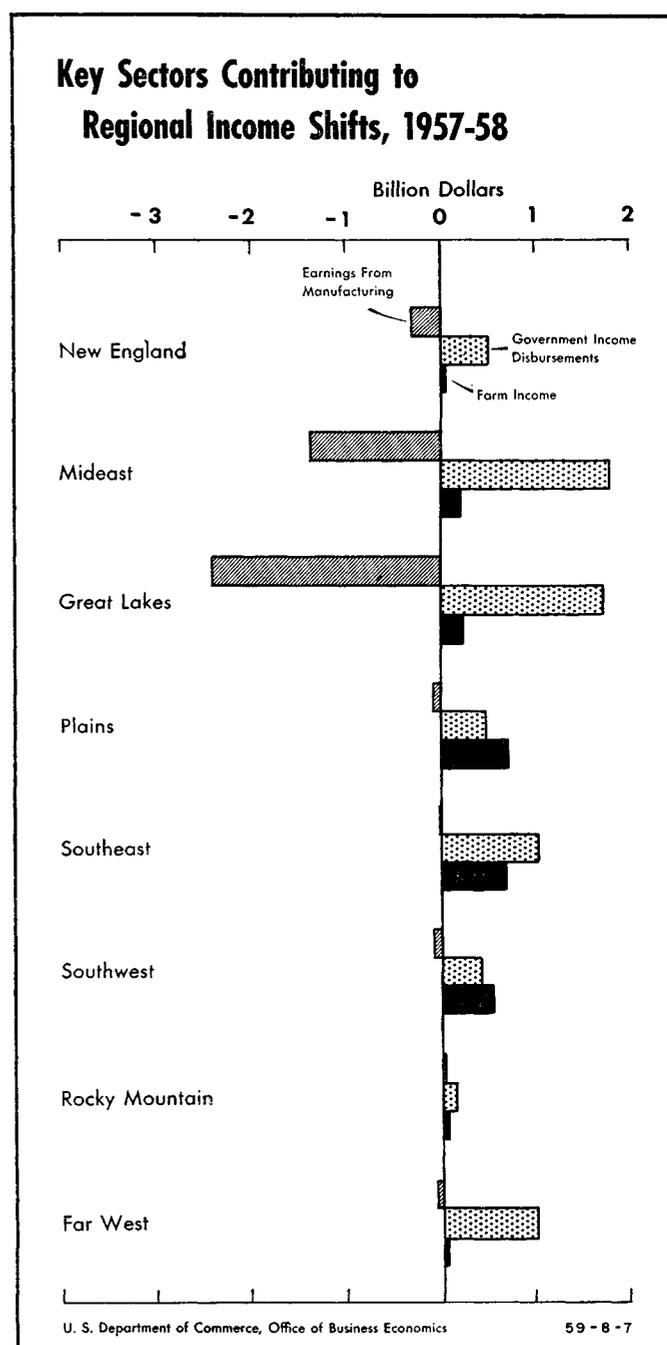
Gains in Arizona and Florida were broadly based and represent extensions of their postwar economic records. Both States have experienced unusually large economic growth since the end of World War II. In relative terms, they have paced the Nation over the postwar decade.

In contrast to the buoyancy of economic conditions in the foregoing areas, personal income declined 1 or 2 percent in Indiana, Michigan, and Ohio and 4 percent in West Virginia last year. In each, primary factors were pronounced drops in manufacturing and mining activities. The effects of these curtailments in basic activities were transmitted to other sectors of their economy, thereby cramping their overall income flow.

Per capita incomes

In the country as a whole, per capita personal income (total income divided by total population) amounted to \$2,057 in 1958, as compared with \$2,043 in the previous year. Price increases more than counterbalanced this fractional boost, however, and real per capita income in 1958 was a little less than in 1957. Among States, average incomes were highest in Connecticut (\$2,817), a reduction of about \$40 from the State's 1957 peak. Others in the top rank included Delaware (\$2,760), District of Columbia (\$2,634), New York, (\$2,585), Nevada (\$2,569), California (\$2,559), and New Jersey (\$2,521). In these six States and the District of Columbia, average incomes ranged from one-fifth to nearly two-fifths above the figure for the Nation.

Sizable changes in per capita income relative to that in the Nation occurred only in the Great Lakes and Plains States last year. The percentage by which average income



by Major Sources, 1954-58¹

[Millions of dollars]

Table with columns for states (New Mexico, Arizona, Rocky Mountain, Montana, Idaho) and years (1954-1958). It contains multiple rows of data representing various sources.

[Millions of dollars]

Table with columns for states (Washington, Oregon, Nevada, California, Territory of Hawaii) and years (1954-1958). It contains multiple rows of data representing various sources.

by Samuel Pizer and Frederick Cutler ☆

Capital Flow to Foreign Countries Slackens

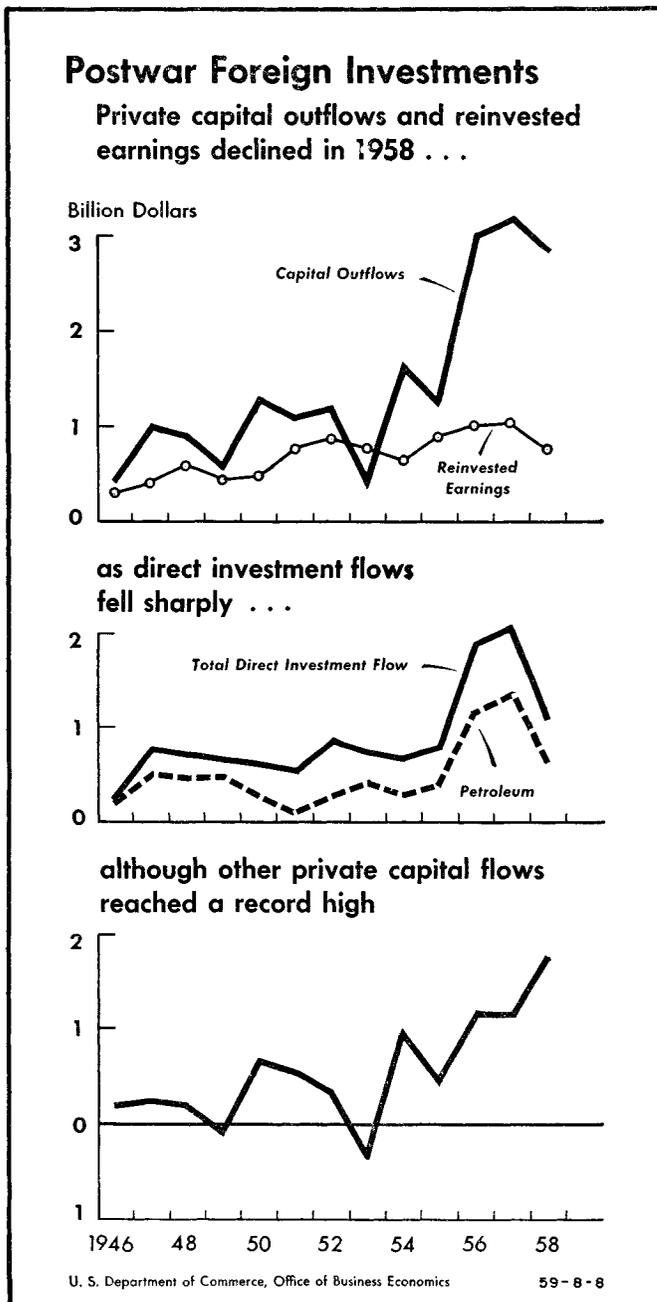
AFTER reaching a peak of \$3.2 billion in 1957, the outflow of U.S. private capital to foreign countries was reduced to \$2.8 billion in 1958 and declined further in the first half of 1959. Nevertheless, as indicated in the first chart, the rate of outflow continues to be much higher than that which prevailed prior to the sudden upswing in 1956.

Investments by U.S. companies in their foreign branches and subsidiaries were cut severely in 1958, especially in the petroleum industry, as economic activity slowed down in many countries and excess capacity appeared both for manufactures and raw materials. Foreign earnings of the companies were also adversely affected, declining from the 1957 amount by 11 percent to about \$3 billion. Of this total, retained earnings of the foreign subsidiaries were about \$750 million, a decline of 25 percent from the prior year. Additions to direct investments through capital flows and retained earnings together amounted to \$1.8 billion in 1958, raising the total book value of direct foreign investments to \$27.1 billion at the end of that year.

While direct investments receded in 1958, net purchases of foreign bonds and corporate stocks by U.S. investors climbed to \$1 1/4 billion, from about \$1 1/2 billion in 1957, and credits extended by banks and commercial concerns were expanded by over \$500 million during the year. Outflows of this magnitude reflected the relative ease in U.S. money markets, particularly in the first half of 1958, coupled with an intensified interest in the equity securities of Canadian and European enterprises. In the course of 1958, however, interest rate differentials shifted as the U.S. economy recovered strongly accompanied by rising interest rates, while in Europe interest rates declined as economic activity lagged. Canadian interest rates rose sharply after the middle of 1958, reflecting economic recovery.

In line with these developments, offerings of new foreign bonds in the United States diminished in the last half of 1958 and have remained relatively moderate in the first half of 1959. Credit extension by banks also slowed down in the latter part of 1958 and there were net repayments in the first half of 1959. On the other hand, United States purchases of foreign equity securities continued at a record pace, and have been a significant factor in the rise of share prices in foreign markets.

Reflecting both increased capital outflows and gains in market values, U.S. holdings of foreign securities rose from an estimated \$5.9 billion at the end of 1957 to \$7.6 billion at the end of 1958.



Direct Investments

The extraordinary growth of direct foreign investments in 1956 and 1957, reaching \$3 billion annually, reflected primarily accelerated outlays in the petroleum industry, and to a much lesser extent an expansion of manufacturing investment. Similarly the decline to an increment of \$1.8 billion in 1958 resulted mainly from a drastic falling off in petroleum investments, together with small declines in most other industries. Petroleum investments accounted for some 40 percent of all direct investments between 1950 and

NOTE.—MR. PIZER AND MR. CUTLER ARE MEMBERS OF THE BALANCE OF PAYMENTS DIVISION, OFFICE OF BUSINESS ECONOMICS.

planned expansions in petroleum and other industries, should sustain a vigorous growth.

Other eastern hemisphere

U.S. companies accelerated their investments in the African continent in 1958, notably in newly developing areas in West Africa and north of the Sahara. In the latter area petroleum development was most important, although the data given here do not provide a full measure of these investments since they do not include large exploration and development expenditures charged against income. In West Africa, mining investments were being rapidly expanded with continued sizable outlays in prospect. Investment in manufacturing facilities in the Union of South Africa expanded moderately.

In the Middle East, investments in the petroleum industry grew at a somewhat greater rate in 1958 than in other recent years, reflecting continued efforts to improve facilities in the area and expand proved reserves. A marked increase in manufacturing investments in Australia was the leading feature of developments in the Far East, and sizable additions were made to investments in various industries in the Philippine Republic.

Investments in shipping companies registered in Panama and Liberia have now been segregated in an "International" category, since they cannot be regarded as part of the economies of those countries. Such investments continued to expand in 1958.

Major industries decline

The downturn in direct investments in 1958 was most pronounced in the petroleum industry, but was evident to a lesser degree in all other industries except trade and distribution. A preliminary review of the data on capital expenditures and inventory accumulations by the enterprises abroad, now being tabulated for publication in October, indicates that such outlays were reduced, but with substantial differences from the data on capital outflows and reinvested earnings covered in this report.

Although the growth in petroleum investments was much less in 1958 than in the 2 preceding years, it exceeded the average for the 1951-55 period. Most of the decline from the 1956-57 peak occurred in Latin America, where many countries experienced considerable reductions although the bulk of the change was in Venezuela. However, there were also sizable cutbacks in Canada, the United Kingdom, Germany and a few Far Eastern countries. Capital flows were generally lower and depressed earnings in most countries also reduced the amount available for reinvestment.

In view of the work being done or already programmed to develop larger proved reserves and enlarge refining and transportation facilities in many countries, based on expectations of a steady increase in world demand for petroleum products, this industry is probably entering another period of rising outlays abroad.

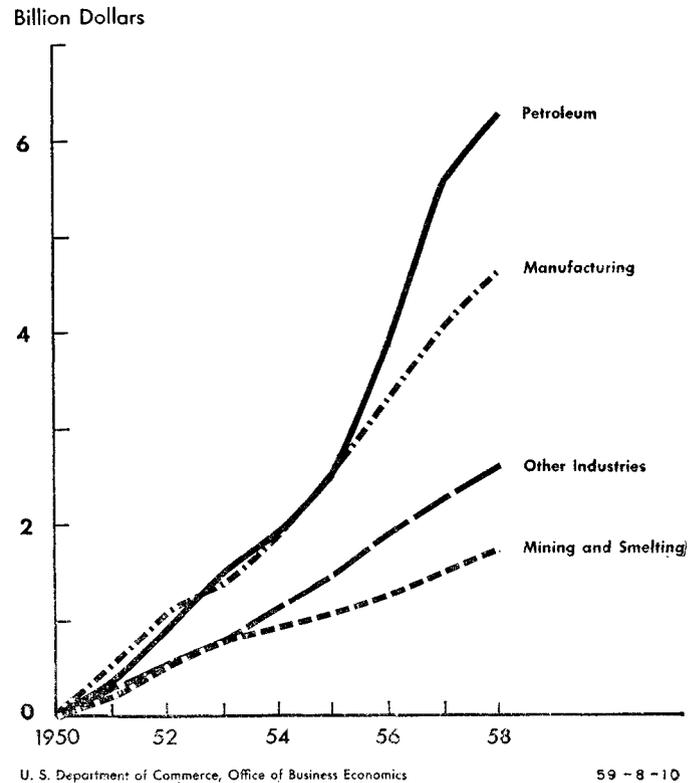
Manufacturing investments abroad by U.S. companies were increased by nearly \$600 million in 1958, a rate about equal to the annual average since 1950 but substantially lower than the rate in 1956 or 1957. The cutback resulted from a 50-percent drop in capital outflows, while foreign earnings of the industry and the amount reinvested remained strong. For Canada, capital flows in manufacturing fell by almost \$100 million between 1957 and 1958, notably in connection with aluminum production facilities.

There was also a marked reduction in Latin America, although the drop was largely confined to Mexico and Cuba. A striking increase occurred in the British West Indies, largely related to a single enterprise.

U.S. companies continued to add to their manufacturing investments in Europe in 1958 at an annual rate of over \$200 million, with some falling off in the United Kingdom offset by moderate upturns in several continental countries. Elsewhere the growth of manufacturing was proceeding at a rate of 80 to 90 million dollars annually, but with most of the investment still directed to a few relatively developed countries, especially Australia.

Mining investments declined only slightly in 1958, despite a substantial reduction in earnings which limited reinvestment in the year. In several areas investments by this industry were on the increase, including Canada and West Africa, where iron ore projects were significant, and in some of the Caribbean countries, where reserves of nonferrous

Cumulative Increase in U.S. Direct Foreign Investments, 1950-58, by Industry



ores were being developed. These gains were offset by reduced activity in some South American countries.

Investments in public utilities abroad, largely in Latin America, expanded at a steady rate in 1958, sustained by the reinvestment of a large portion of earnings as well as additional capital funds. Substantial investments in public utilities were going forward in a number of countries, notably Venezuela and Cuba. For the second successive year U.S. investors liquidated their interests in sugar properties, largely in Cuba and the Dominican Republic, while investing a small amount, on balance, in other agricultural enterprises.

The flow of investment to expand trade and distribution facilities abroad rose moderately in 1958. A need for

improved access to expanding foreign markets was probably a factor in the growth of this type of investment by U.S. companies in many countries. In Canada, however, business conditions in 1958 did not encourage further investment in this industry.

Other Private Investments

In the postwar years the net outflow of U.S. private capital, other than direct investments, has fluctuated widely from year to year, as shown in the first chart, but has tended upward since 1955 and reached a peak in 1958. The extension of short- and long-term credit to foreign borrowers by banks and commercial concerns has been declining since 1956, although the net outflow from this source in 1958 still exceeded \$500 million. However, a major expansion in purchases of foreign securities began in 1956 and reached record highs last year.

Purchases by U.S. investors of new foreign dollar bonds began tentatively after the war and reached highs of \$400–500 million in 1947, 1951 and 1956 when the relatively steady flow of Canadian issues was supplemented by large International Bank bond issues. In 1957 these borrowers again accounted for most of the increase to a total of \$600 million for new bond issues, but other borrowers began to enter the market to a significant degree. This trend continued in 1958, when new bond issues totaled nearly \$900 million, of which Canada and the International Bank each accounted for over \$350 million, Israel for some \$50 million, and over \$100 million was accounted for by 11 other countries. Purchases of new dollar bonds in the first half of 1959 were down to about \$300 million, compared with over \$600 million in the same period of 1958, but the amount offered by comparatively new borrowers continued to rise. Foreign purchasers continued to take a large portion of new dollar bonds offered in the U.S. market.

Along with the rise in dollar bond issues, sales of foreign

corporate stocks and other securities to U.S. investors also pushed upward in 1958. Sales of European corporate stocks in the U.S. market were \$240 million, after having been liquidated on balance during 1957; sales of Canadian equities remained steady at about \$60 million; sales by the Union of South Africa increased sharply, mainly representing shares of an investment fund. U.S. investors also purchased sizable amounts of Canadian bonds, in addition to those payable in U.S. dollars, especially in the closing months of the year when interest rates in that country were rising sharply.

In the first half of 1959 sales of foreign stocks in the U.S. market have continued at an undiminished rate, and market prices of stocks both here and abroad have moved sharply upward. Foreign investors have also made substantial purchases of U.S. corporate stocks this year. It now appears that with the relaxation of exchange controls in Europe at the end of 1958 and the emergence in several countries of a better balance between savings and local demands for investment funds, the international movement of private capital for portfolio investment is likely to expand significantly.

Changes in relative interest rates among countries assume an added importance under these circumstances. U.S. banks reacted to rising interest rates here when they reduced their outflow of short-term funds from \$340 million in the first 9 months of 1958, to almost nothing in the final quarter and a net liquidation in the first half of this year. The outflow of longer term bank financing also slowed down but continued at a moderate pace through 1958 and the first half of this year. In recent months U.S. banks have agreed to participate in several loan programs for foreign countries.

Foreign Assets in the United States

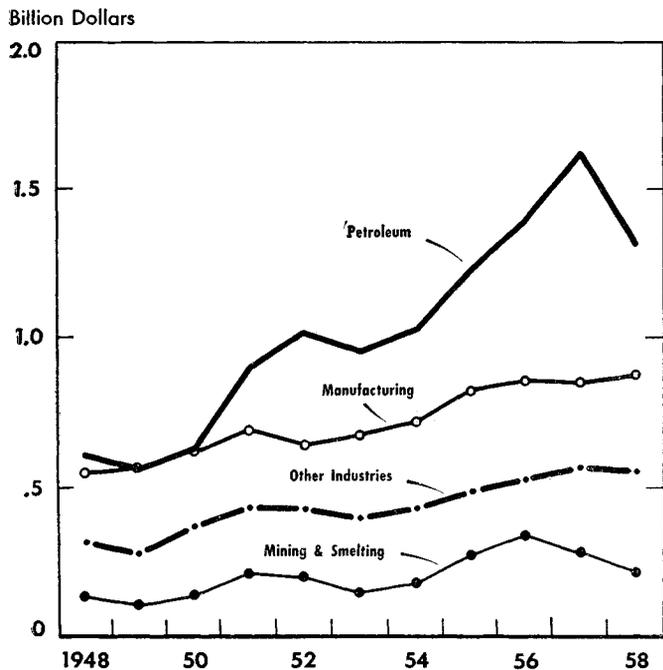
Holdings of dollar funds in the United States by foreign governments, banks, and individuals are also strongly influenced by relative interest rates here and abroad. In the first half of 1958, when short-term interest rates in the United States were declining relatively rapidly, foreign governments added very little to their dollar accounts but purchased nearly \$1.5 billion of gold in the United States. In the final half of 1958, as interest rates here moved sharply upward while those in many foreign countries continued to decline, foreign governments bought a further \$0.8 billion of gold but also increased their dollar holdings by \$0.7 billion. Short-term dollar assets of foreign banks and individuals increased by a little over \$200 million in 1958.

Through the middle of this year domestic interest rates rose more rapidly than those in most foreign countries, tending to maintain an inducement for foreign governments and others to hold dollar assets. Consequently, while foreign governments have continued to gain reserves they have tended to hold a large portion of the gain in the form of interest paying dollar assets. Foreign banks sharply increased their holdings of dollar assets in the first half of 1959, adding over \$600 million. Part of this increase represented a tendency for some foreign governments to allow private banks greater freedom in international financing.

Increases in foreign holdings of liquid dollar assets in 1958 went very largely into deposits, as shown in table 1, primarily reflecting the comparatively high interest rate then being paid on time deposits. In the first half of 1959 a large part of foreign holdings was shifted to Treasury obligations as the pattern of interest rates changed.

Foreign investors have also been purchasing U.S. corporate bonds and stocks in moderate amounts since the middle of 1958. However, while these purchases were comparatively minor a very large increase in the market value of foreign holdings of U.S. corporate stocks resulted from the

Earnings of U.S. Direct Foreign Investments, by Industry



higher profits. The latter industry ranked third in earnings among the various industries in 1958, after petroleum and manufacturing, with total earnings abroad of \$240 million.

Although direct-investment earnings abroad were weak in some industries in 1958, on the whole they were stronger than domestic corporate profits. While manufacturing earnings abroad gained slightly, leading manufacturing corporations in the United States (excluding petroleum production and refining) reported a reduction of some 17 percent. Although the drop in petroleum earnings was about 20 percent in both domestic and foreign operations, the latter were severely affected by rising taxes. Mining earnings were down by over 20 percent both here and abroad, but trade and distribution earnings abroad increased substantially while they declined in the United States.

Undistributed earnings decline

Although earnings of foreign subsidiary companies declined from \$1.9 billion in 1957 to \$1.7 billion in 1958, their dividend payments increased from a little over \$800 million to about \$900 million. Consequently, undistributed profits declined considerably, from about 54 percent of subsidiary earnings in 1957 to about 44 percent in 1958. Dividends increased primarily for petroleum and trading companies but were reduced for mining and agricultural enterprises.

Petroleum companies accounted for most of the shift in dividend policy, for despite a decline of \$200 million in the earnings of foreign subsidiaries they increased their dividend payments to parent companies by about \$70 million. The tendency to pay out increased dividends extended to companies in a great number of countries, partly reflecting reductions in investment activity. A sizable part of the drop in undistributed profits was accounted for by the shipping subsidiaries, which paid out very little in the form of dividends in either 1957 or 1958, but suffered a sharp drop in earnings in 1958.

Foreign subsidiaries of manufacturing companies retained about half of their earnings abroad in both 1957 and 1958, but in the latter year relatively more funds from earnings were available in Europe while earnings and reinvestments were lower in Canada and Latin America. In the case of agricultural and mining enterprises, reduced reinvestments in 1958 were the result of decreased earnings rather than higher dividends.

Dividends and interest received from U.S. portfolio investments abroad have increased consistently since the war and totaled over \$400 million in 1958. Of the \$54 million increase in 1958, more than half was accounted for by interest on foreign dollar bonds, and there was also a sizable increase in interest on short-term loans.

Table 5.—Earnings on International Investments, by Type, 1950–58

[Millions of dollars]							
	1950	1952	1954	1955	1956	1957 ^r	1958 ^p
Earnings on U.S. investments abroad, total	2,068	2,704	2,871	3,343	3,611	3,898	3,677
Direct investments, total	1,769	2,295	2,369	2,811	3,120	3,330	2,954
Dividends, interest, and branch profits	1,294	1,419	1,724	1,912	2,120	2,313	2,198
Undistributed profits of subsidiaries	475	876	644	898	1,000	1,017	755
Portfolio and short-term investments	190	205	230	258	297	363	417
Interest on U.S. Government credits	109	204	272	274	194	205	307
Earnings on foreign investments in the United States, total	478	472	544	631	699	770	786
Direct investments, total	281	234	300	320	309	319	328
Dividends, interest, and branch profits	148	152	175	191	190	202	218
Undistributed profits of subsidiaries	133	82	125	129	119	117	110
Portfolio investments	166	174	185	217	236	250	319
Interest on U.S. Government obligations	31	64	59	94	154	201	139

1. Includes interest on time deposits not available for prior years.
^r Revised. ^p Preliminary.

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

Regional Markets in 1958

(Continued from page 15)

in counter-movement to industrial unemployment. In Wyoming, the decline in Government income disbursements reflected a reduction of military forces stationed in the State.

Reductions in Mining and Transportation

Earnings of individuals in both the mining and transportation industries declined from 1957 to 1958 in every region and in most States. This development is considered separately from the regional reviews above because of its industrial rather than geographic origin. That is, the declines stemmed largely from a contraction in demand by the manufacturing industry for mineral products (for use as fuel and raw materials) and for services of the transportation industry (in moving both raw materials and finished goods).

For example, the bituminous mines of Pennsylvania, Maryland, West Virginia, Virginia, and Kentucky supply more than half the coal used in the factories of New England, the Mideast, and Great Lakes regions. Accordingly, the reduction in manufacturing in these regions had a direct effect on mining that extended beyond their regional boundaries. Similarly the recession reduced the demand for and the production of silver, lead, coal, and iron ore in Montana; of coal and iron ore in Alabama; and of zinc and lead in Nevada.

Because a substantial portion of transportation facilities are engaged in moving raw materials from point of origin to point of manufacture and in distributing manufactured products throughout the Nation, the cyclical reduction in factory activity, though concentrated geographically, had direct effects on the transportation industry on a broad geographic basis.

Unless otherwise stated, statistics through 1956 and descriptive notes are shown in the 1957 edition of BUSINESS STATISTICS

Table header for years 1958 and 1959, listing months from June to July for both years.

GENERAL BUSINESS INDICATORS—Continued

Main data table containing 'MANUFACTURERS' SALES, INVENTORIES, AND ORDERS' with sub-sections for 'Sales, value (unadjusted, total)', 'Inventories, end of month', and 'Book value (unadjusted, total)'.

* Revised. q Includes data not shown separately. †Data beginning January 1953 appear on p. 20 of the September 1957 SURVEY.

Table with columns for years 1958 and 1959, and rows for purchasing power of the dollar (wholesale, consumer prices) and descriptive notes.

CONSTRUCTION AND REAL ESTATE

Main table with columns for months (June to July) and rows for Construction Activity, Contract Awards, and New Dwelling Units.

Revised, Preliminary, Revisions for January-May 1958 (mil. dol.): 266; 251; 235; 220; 204. Indexes based on 1935-39=100 are as follows: Measured by—wholesale prices, 43.8 (July); consumer prices, 48.0 (June). Revisions for May 1958 for new dwelling units authorized (thous.) total, 92.9; privately financed—total, 85.7; 1 family structures, 67.4; 2 family structures, 3.5; publicly financed, 7.2.

Unless otherwise stated, statistics through 1956 and descriptive notes are shown in the 1957 edition of BUSINESS STATISTICS

Table with 14 columns for years (June to July) and two main sections for 1958 and 1959.

TRANSPORTATION AND COMMUNICATIONS—Continued

Main data table for Transportation and Communications, including sub-sections for Travel, Communications, and Telephone carriers.

CHEMICALS AND ALLIED PRODUCTS

Main data table for Chemicals and Allied Products, listing various chemical products and their production/stock levels.

Revised, Preliminary, Deficit. Includes data not shown separately. Revisions to be published later are as follows: Inorganic chemicals, 1956 and January-July 1957 (also 1955 for phosphoric and sulfuric acid); glycerin, January-April 1957 for consumption and January-September 1957 for stocks.

