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CAPITAL OUTLAYS AND SECURITY OFFERINGS

Capital outlays by business concerns and by State and local governments have been in record volume during the past two years. Maintenance of a large volume of such outlays in 1954 is indicated by information recently becoming available. Output represented by these capital expenditures is about one-tenth of the gross national product.

A large part of business investment expenditures this year will be financed, as usual, through internal funds. Some industries, however—particularly public utilities and communications—many companies in other industries, and State and local governments finance most of their capital outlays through borrowing. With current levels of interest rates and ready availability of investment funds, the securities market is favorable for financing the 1954 capital expansion programs.

Business expenditures on new plant and equipment totaled 28.4 billion dollars in 1953. The amount of such expenditures that business has planned for 1954 is somewhat below actual expenditures last year, but above 1952. Most of the funds for financing corporate capital outlays have come from retained earnings and depreciation allowances. These were exceptionally large in 1953 and have remained large in early 1954. Corporate security issues for new capital in 1953, excluding offerings of consumer finance companies, were about one-eighth below the record 1952

level. In the first quarter of this year these flotations appear to have been slightly smaller than last year.

New construction activity of State and local governments has grown at a rapid rate since the war, exceeding 7 billion dollars in 1953. Some further growth is expected in 1954. A major share of the financing of State and local government construction is accomplished through the security markets. Thus the growth in past and planned expenditures for toll highways, schools, and other local projects has expanded borrowing. New security offerings of these governmental units reached a record total of 5.5 billion dollars in 1953 and are continuing at an advanced rate in 1954.

BUSINESS PLANT AND EQUIPMENT

In 1953 total business expenditures on new plant and equipment reached a new peak for the third successive year. Toward the end of last year they began to decline.

A survey conducted jointly by the Department of Commerce and the Securities and Exchange Commission in February and early March of this year indicated that expenditures in 1954 might be below 1953 levels by 4 per cent for all business, and by 7 per cent for manufacturing industries.

Among nonmanufacturing industries, only small changes from 1953 levels of plant and equipment expenditures were expected in

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1954. A notable exception is a 28 per cent decline indicated for railroads. Increases of 3 per cent were planned by mining companies and by the broad group which includes trade, service, finance, construction, and communications. Public utilities looked for a 3 per cent decline in expenditures in 1954. If realized, this decline would follow a continuous rise since 1945. Planned outlays for electrical works continued large, but those of gas utilities were smaller.

Some reduction in plant and equipment outlays was anticipated in most manufacturing industries, as shown in the table. The

BUSINESS EXPENDITURES FOR NEW PLANT AND EQUIPMENT
[In billions of dollars]

Industry	1951	1952	1953	1954 ¹
All industries.....	25.6	26.5	28.4	27.2
Manufacturing—total.....	10.9	11.6	12.3	11.4
Primary iron and steel.....	1.2	1.5	1.3	1.0
Primary nonferrous.....	0.3	0.5	0.5	0.3
Electrical machinery.....	0.4	0.4	0.5	0.5
Motor vehicles and other transportation equipment.....	1.1	1.1	1.2	1.4
Foods and beverages.....	0.9	0.8	0.8	0.8
Textile mill products.....	0.5	0.4	0.4	0.3
Chemical.....	1.2	1.4	1.6	1.3
Petroleum.....	2.1	2.5	2.8	2.9
Other.....	3.2	3.0	3.3	3.0
Mining.....	0.9	1.0	1.0	1.0
Railroads.....	1.5	1.4	1.3	0.9
Transportation other than rail.....	1.5	1.5	1.5	1.4
Electric and gas utilities.....	3.7	3.9	4.5	4.4
Commercial and other ²	7.2	7.1	7.8	8.0

¹Anticipated by business.

²Includes communication, trade, service, finance, and construction.

NOTE.—Estimates of Department of Commerce and Securities and Exchange Commission for corporate and noncorporate business. Details may not add to totals, and percentages of change may not check with the text, because of rounding.

greatest curtailment—between 25 and 30 per cent—was projected by iron and steel, nonferrous metal, and textile companies. Expenditures in each of these industries declined somewhat in 1953. A rather large decline this year was also planned by the chemical industry. Manufacturing groups which anticipated slight increases in capital outlays in 1954 include the electrical machinery, petro-

leum, and rubber industries. The motor vehicle and other transportation equipment group planned the only substantial increase—22 per cent.

Smaller manufacturing concerns generally anticipated greater reduction in capital expenditures than large companies. A McGraw-Hill survey, primarily of large companies and released in mid-April, indicated that large manufacturers planned no curtailment of plant and equipment outlays in 1954.

Completion of defense-connected projects may account for some declines in anticipated outlays. By the end of 1953, 20 billion dollars of the 29 billion of investment authorized under certificates of necessity had been put in place, with the remainder scheduled for completion over a four-year period. The granting of new certificates slowed appreciably in 1953.

FINANCING CORPORATE OUTLAYS

During 1953, as in most postwar years, funds from operations—retained earnings and depreciation allowances—supplied the major portion of funds required by corporations for plant and equipment, inventory accumulation, and other purposes. Sale of stocks and bonds, including both public offerings and private placements with institutional investors, was also an important source of funds for corporations as a group, and the largest source in some industries. Over 1953 as a whole, borrowing at banks by corporations in the aggregate changed very little.

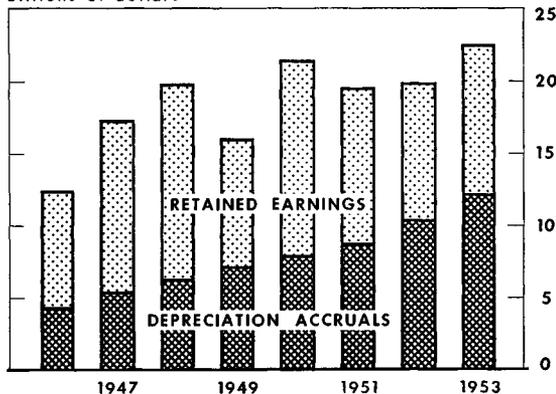
Funds from operations. Corporate profits before taxes were larger in 1953 than in 1952, despite declines in the second half of last year. After deducting income taxes and dividend payments, which were higher in 1953 than 1952, retained earnings were about 8 per cent above 1952. Depreciation allowances increased sharply in 1953, as shown in the

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chart, reflecting the completion of additional productive facilities, especially those on which accelerated amortization is permitted. Together, retained earnings and depreciation allowances were an estimated 22.5 billion dollars in 1953, an all-time record.

CORPORATE FUNDS FROM OPERATIONS

Billions of dollars



NOTE.—Department of Commerce estimates.

Depreciation allowances probably increased further in the first quarter of 1954. Retained earnings may have been somewhat larger than in the final quarter of 1953 but are likely to have been well below a year earlier.

Security issues. In 1953 new capital offerings by all corporations were only about 2 per cent below the 1952 record level. Excluding issues of consumer finance companies, the decrease was considerably larger, about 13 per cent, as may be determined from the chart. New capital issues in the first quarter of 1954 are estimated to have been only 2 per cent below a year earlier, if offerings of consumer finance companies are excluded.

New capital issues by manufacturing companies declined more than 40 per cent from 1952 to 1953 and their share of total offerings fell from about two-fifths in 1951 and 1952 to one-fourth in 1953. Increases in retained earnings and depreciation allowances and the approaching decline in investment outlays of these companies were factors reducing

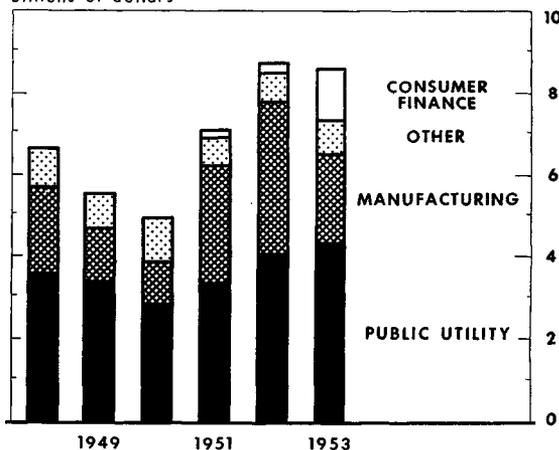
the volume of borrowing. Security issues of manufacturing companies have continued to decline, though only moderately, in 1954.

Total new capital issues by railroad and other transportation companies declined about 30 per cent from 1952 to 1953. Combined offerings of electric power and communications companies, on the other hand, rose moderately to a record level. In these two industries postwar financing needs have far exceeded retained earnings and depreciation allowances, and reliance on security financing has been heavier than in other major industries. New capital issues by electric and gas utilities, for example, have consistently been about two-thirds as large as their total capital outlays. Public utility issues continued large in the first quarter of 1954.

Sales finance and personal loan companies took steps in 1953 to finance high levels of consumer credit demand on a more or less permanent basis. Security flotations by these companies of 1¼ billion dollars were several times as large as in 1952 or any preceding year.

CORPORATE NEW CAPITAL ISSUES

Billions of dollars



NOTE.—Estimates of Securities and Exchange Commission. New capital includes net proceeds from public offerings and private placements of all issues except those for retirement of securities. Public utility comprises electric and gas, railroad and other transportation, and communication. Consumer finance figures, compiled by Federal Reserve, include sales finance and personal loan companies; prior to 1951, these are included in other.

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Debt obligations accounted for four-fifths of total corporate security offerings in 1953, as in most other recent years. Within the remaining fifth—comprising preferred and common stocks—preferred stocks have declined in importance. Common stocks accounted for nearly 75 per cent of all stock offerings in 1953 as compared with about 55 per cent in the period 1946-51 and less than 40 per cent in 1938-41.

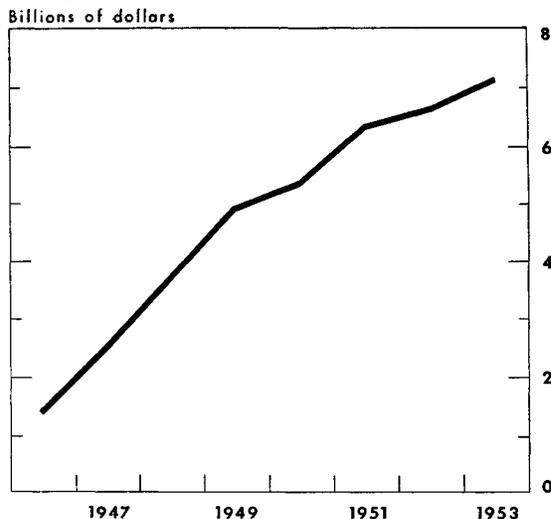
For the first time since 1947, the volume of debt issues placed privately with life insurance companies and other financial institutions was smaller than that of publicly offered issues. This decline in the relative importance of private placements reflected the reduced offerings by manufacturing companies which generally account for the bulk of such placements.

STATE AND LOCAL CONSTRUCTION

The value of new construction by State and local governments was a record 7.1 billion dollars in 1953, and probably will be even higher in 1954. Construction activity was reduced to very low levels during World War II, when resources were not available for local projects, but rose rapidly after 1946 to a level of nearly 5.0 billion dollars in 1949, over three times that of 1946. As indicated by the chart, the increase since 1949 has been rather steady but not so large.

State and local construction is directed to a wide variety of purposes, but highways and educational buildings account for the greater part. Highway construction alone was more than two-fifths of the total in 1952 and 1953. Construction of toll roads is of major importance and accounted for nearly all of the increase from 1952 to 1953 in highway construction. Expansion in toll facilities is likely to continue as plans have been laid for sizable new projects in several States.

STATE AND LOCAL CONSTRUCTION



NOTE.—Estimates by Departments of Commerce and Labor of the value of work put in place by State and local governments.

Educational building represented about one-fourth of all State and local construction in 1953, as in other recent years. Among other categories of local governmental construction, sewer and water works is the most important, amounting to about one-tenth of the total. This segment increased in 1953, whereas residential construction by State and local governments declined as did hospital and institutional construction. Public service enterprise structures, such as municipal electric utilities, are small items and have been rather constant in magnitude.

Financing of construction activities by State and local governmental units is much more heavily dependent upon long-term borrowing than in the case of corporations. Except for the financing of a sizable proportion of highways from gasoline excises and other taxes, the bulk of major new construction projects is financed through security issues. It is also true that most State and local bond issues are for construction purposes, the only important exception being offerings to raise funds for veterans' aid.

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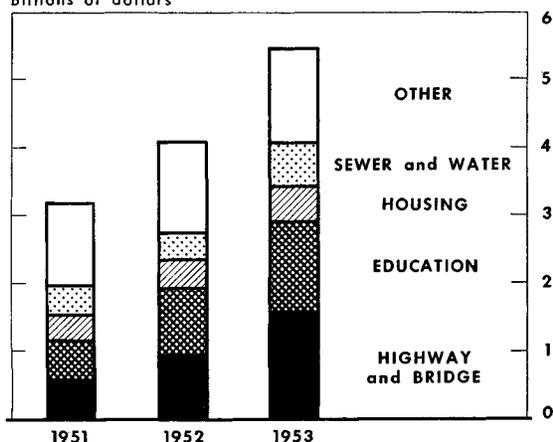
The timing of financing in relation to construction activity varies considerably among projects. Most undertakings are financed by issues sold before construction is undertaken, though by varying intervals. In the case of Public Housing projects and certain others, however, long-term financing is delayed until after completion of projects.

STATE AND LOCAL SECURITY ISSUES

In 1953 bond issues of State and local governments for new capital amounted to 5.5 billion dollars, one-third larger than in 1952, as appears from the chart. These offerings increased rapidly in the early postwar period, remained relatively stable at a high level from 1948 through 1951, and then increased markedly in 1952 and 1953. Flotations in the first quarter of 1954 were about one-sixth larger than in the first quarter of 1953.

STATE AND LOCAL NEW CAPITAL ISSUES

Billions of dollars



NOTE.—Compiled by Federal Reserve from Bond Buyer data. New capital represents principal from sales of long-term securities offered for purposes other than refunding by States, territories and insular possessions of the United States, and their subdivisions. Issues under \$500,000 are included in other purposes.

The record volume of security issues in 1953 and early 1954 reflects a number of factors. Expansion in planned construction outlays has been necessary to meet the needs of a growing and mobile population. The im-

portance of projects such as toll highways, which are dependent on prior financing through security markets, has increased greatly. Finally, since mid-1953 increasingly favorable credit conditions have facilitated the sale of State and local government securities.

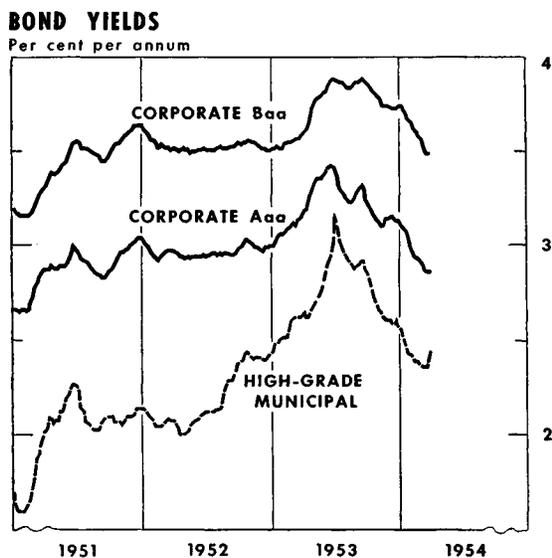
Issues for financing highways and bridges rose nearly 70 per cent from 1952 to 1953, reflecting in large part a marked increase in the construction of large toll highways. Such issues accounted for 29 per cent of all State and local issues in 1953. Issues for educational facilities, the second largest category, accounted for one-fourth of total volume in both 1952 and 1953.

Increasing in importance in recent years have been revenue bonds, that is, bonds secured by nontax revenues of the facility financed. These increased from about 15 per cent of total offerings in the early postwar period to 30 per cent in 1952. In 1953 the share declined somewhat. The decline was more than offset, however, by increased use of general obligation-revenue bonds, which are bonds expected to be serviced from revenues, but which are also general obligations of the State.

BOND YIELDS

Interest rates on long-term securities fluctuated considerably in 1953 and early 1954 in response to changing economic conditions. A record volume of security issues in early 1953, other heavy demands for credit by businesses and consumers, and Federal Reserve restraint on bank credit and monetary expansion were forces operating to raise money rates during the first half of 1953. Since then, bond yields have generally declined, as the chart on the following page shows. Factors in this decline have been a continuing large supply of loanable funds,

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NOTE.—Corporate Aaa and Baa yields are from Moody's Investors Service; high-grade municipals, from Standard and Poor's Corporation. Latest figures are for week ending April 3.

a slackening in some credit demands, particularly for short-term consumer and business credit, and actions by the Federal Reserve to foster readier availability of funds. Borrowers other than the U. S. Government, in the aggregate, utilized security markets at record rates in the last half of 1953 and early 1954.

Early in April 1954 yields were at or below the lows of 1953 prevailing in January of that year. Yields on the highest grade corporate issues were 2.85 per cent as compared with

3.02 per cent in January 1953. Yields on medium-grade corporate bonds (Moody's Baa series) declined less than high-grade issues and at 3.47 per cent in early April were only slightly below the 1953 low. The market for State and local government securities weakened somewhat after mid-March 1954, reflecting a heavy schedule of offerings, but yields on high-grade municipals in early April, at 2.44 per cent, were slightly below the level of January 1953.

Recent yields on high-grade corporate bonds, although below the high levels of 1953, were still slightly higher than three years earlier, in March 1951. For medium-grade corporate bonds, the increase in yields over the period was about $\frac{1}{4}$ of one per cent. Yields on the tax-exempt State and local government bonds had declined to an exceptionally low level in early 1951, following an increase in income tax rates. Subsequently, these yields increased more than other bond yields, reflecting the marked increase in security offerings of State and local governments relative to the volume of available funds attracted by the tax-exempt feature of these issues. Recently, yields were about $\frac{1}{2}$ of one per cent above those of March 1951.