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CAPITAL OUTFLOWS FOR U. S. DIRECT INVESTMENT
ABROAD DECLINED IN THE THIRD QUARTER OF 1970

The flow of U. S. capital into foreign business enterprises in which U.S. residents have significant control dropped in the third quarter to \$759 million, seasonally adjusted, compared with \$1,434 million in the second quarter, according to data that will appear in the December issue of the Survey of Current Business. Taking account of all corporate flows, many of which are related to direct investment, particularly corporate borrowing abroad, the improvement was only \$358 million since a \$262 million decline in corporate borrowing offset part of the favorable impact of reduced direct investment outflows. There was also an increased outflow of \$55 million due to changes in corporate claims other than direct investment.

The Survey of Current Business is the monthly magazine published by the Office of Business Economics of the U.S. Department of Commerce.

Despite the third-quarter reduction in direct investment capital outflows, U.S. corporations may still have to increase borrowing abroad before yearend to comply with foreign direct investment regulations. Such borrowing, including short-term when there is a renewal provision, may be used to offset direct investment outflows under the foreign direct investment program. Alternatively, corporations may arrange large temporary yearend inflows, perhaps through intercompany transactions on the direct investment account.

Although widespread geographically, over half of the direct investment decline in the third quarter was concentrated in "other countries of Asia and Africa," reflecting mainly the activities of petroleum companies in the oil producing countries, particularly Libya. Also, there was a negotiated liquidation of a major direct investment in Latin America, contributing \$80 million to the decline. Therefore, probably half of the third-quarter reduction

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in direct investment outflows reflected special factors. Even after allowing for such factors, however, the outflow in the third quarter was smaller than in the first two quarters.

Corporate borrowing abroad in the third quarter declined \$262 million. New issues of securities decreased \$97 million and other long-term borrowing dropped \$227 million; corporations continued to increase reliance on short-term borrowing, which increased \$62 million. The shift in new issues occurred despite an easing of conditions in the Eurobond market. Most of the decline in other long-term corporate borrowing occurred in the European Economic Community where credit conditions were particularly tight.

Developments in 1970

Capital outflows for direct investment abroad were \$810 million higher in the first 9 months of 1970 than in the comparable 1969 period, even though the 1969 outflows were swollen by capital transfers to Germany in anticipation of the D-mark revaluation. The 1970 increase is partly associated with rising plant and equipment spending by foreign affiliates -- the latest survey, taken in mid-1970, indicated a 16 percent increase over 1969. In addition, relatively tight credit conditions abroad may have increased the affiliates' demands on U.S. parents for capital.

The net change in foreign assets and liabilities of U.S. corporations in the first three quarters of 1970 resulted in a net outflow of \$2,071 million, an adverse shift of \$641 million from the same period of 1969. This largely reflected the increase in direct investment outflows. On the other hand, corporations were able to borrow \$346 million more abroad in spite of tight capital markets. There was a distinct shift to shorter term borrowing as companies sought to avoid long-term commitments at high rates. New issues of securities sold abroad by U.S. corporations declined \$179 million. Other long-term corporate borrowing increased \$172 million -- but this was concentrated at 3-5 year maturities -- and short-term borrowing increased by \$353 million. Partly offsetting the increase in borrowing, corporate claims other than direct investments rose \$177 million more than in the corresponding period in 1969.

Additional detail will be included in the December issue of the Survey of Current Business. The Survey is available from Field Offices of the Department of Commerce, or from the Superintendent of Documents, U.S. Government Printing Office, Washington, D. C. 20402, at an annual subscription price of \$9, including weekly supplements; single copy, \$1.

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Net Change in Foreign Assets and Liabilities of U.S. Corporations¹

(Millions of dollars, seasonally adjusted)

credits (+); debits (-)	1969	1970			Change: II - III 1970	Jan-Sept. 1969 1970		Change Jan-Sept. 1969 - 1970
		I	IIr	IIIp		1969	1970	
Total-----	-1,430	-999	-715	-357	358	-1430	-2071	-641
Direct investment-----	-3,070	-1411	-1434	-759	675	-2794	-3604	-810
Other corporate claims:								
Long-term-----	-424	-89 ^{4/}	-12	-148	-136	-175	-249	-74
Short-term ^{2/} -----	66	28	-84	-3	81	44	-59	-103
Corporate liabilities other than new issues of securities:								
Long-term ² -----	691	235	312	85	-227	460	632	172
Short-term-----	278	83	236	298	62	264	617	353
New issues of securities sold abroad by U.S. corporations ³ -----	1,029	155	267	170	-97	771	592	-179

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1. Excludes banking and brokerage claims and liabilities.

2. Excludes brokerage transactions.

3. Excludes funds obtained abroad by U.S. corporations through bank loans and other credits and also excludes securities issued by subsidiaries incorporated abroad. However, securities issued by finance subsidiaries incorporated in the Netherlands Antilles are treated as if they had been issued by U.S. corporations if the proceeds of such issues are transferred to U.S. parent companies.

4. Excludes an increase in U.S. corporate long-term claims of \$286 million that was associated with increased foreign direct investment in the United States.

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