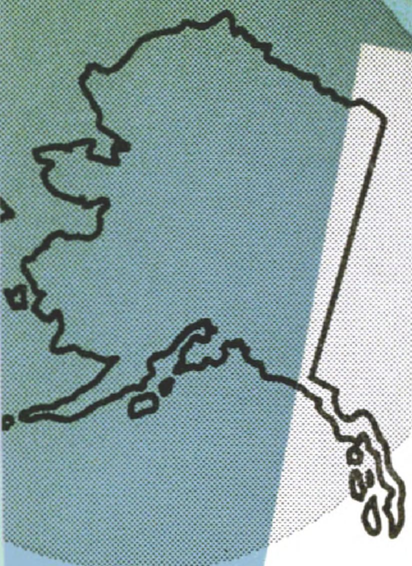
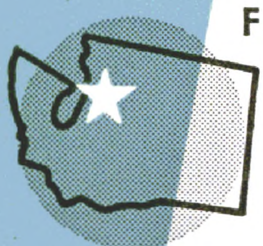
# Monthly Review

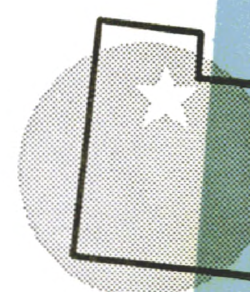




FEDERAL RESERVE BANK OF SAN FRANCISCO
TWELFTH FEDERAL RESERVE DISTRICT

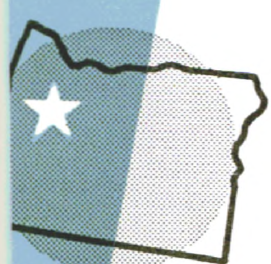


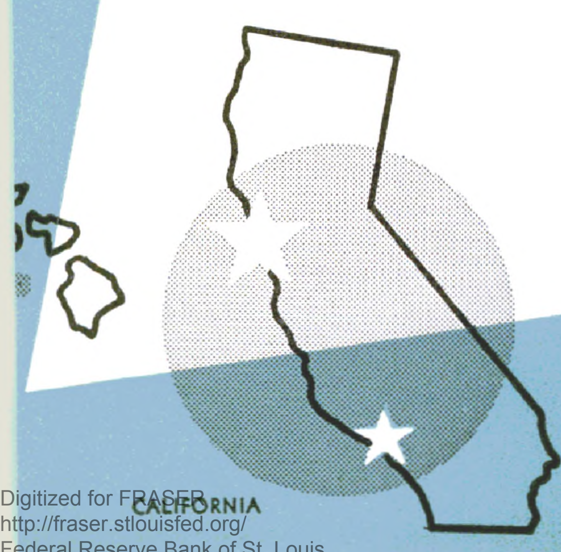

October 1962

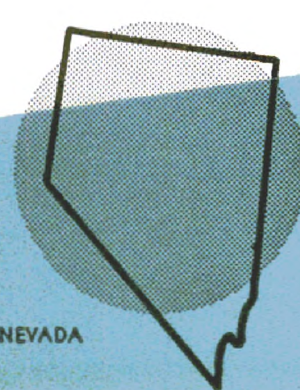



## In This Issue






# Review of Business Conditions

The general leveling off in the nation's business activity that occurred during the summer also continued in September. While the actual volume of activity rose, the changes were generally about in line with those that typically begin to occur in the autumn. Few of the major business indicators, therefore, registered an increase on a seasonally adjusted basis.

The index of industrial production remained unchanged in September, holding at 119 percent of the 1957 average for the third month in succession. Automobile production increased more than seasonally, while output of other types of consumer goods held steady at August rates. Production of business equipment rose to a new record level, but the rate of increase was somewhat smaller than in earlier months this year. Iron and steel output rose for the second consecutive month, but there was a decline in the production of construction materials.

Nonagricultural employment rose by about half a million workers in September. Since this gain was about normal for the month, there was no change in the seasonally adjusted level of employment. This represented some improvement over the performance for the prior month, for there had been a slight decline from July to August on a seasonally adjusted basis. The rising output of 1963 models brought increased employment at automobile plants in September, but small declines occurred in most other lines of manufacturing. Among nonmanufacturing industries, state and local governments increased employment, probably largely in school staffs, while the number of construction and retail trade workers declined. The rate of unemployment was unchanged from the relatively high level of 5.8 percent that developed in August.

The value of outlays for new construction remained virtually unchanged from August to September. However, preliminary figures indicate a decline of 0.2 percent from September to October. Privately financed outlays declined 2 percent in October, largely due to a drop in residential construction. Public construction outlays, on the other hand, rose, reflecting increased spending on military facilities, highways, and conservation projects. Advance indicators of construction activity generally had downward movements in September. Privately financed housing starts fell 15 percent below their August level to a seasonally adjusted annual rate of about 1.3 million units. However, a substantial decline from August to September in the number of working days in the month may have been responsible for a part of the fall in housing starts. Construction contract awards dropped 10 percent below their August level in September and also declined on a seasonally adjusted basis. Although all major categories of contract awards showed gains from September 1961, that month showed relatively poor performance as compared with prior years.

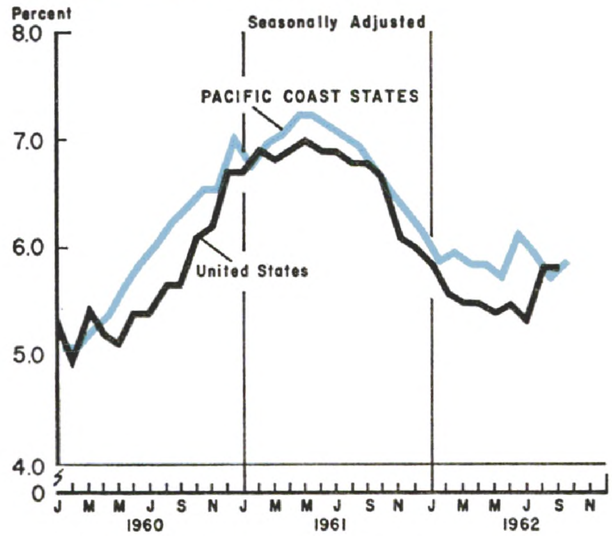
Personal income in September, at a seasonally adjusted annual rate of $443 billion, was unchanged from August. Despite a gain in the average weekly earnings of production workers, manufacturing wage and salary payments fell somewhat below their August level to reach their lowest point since March. Incomes from nonmanufacturing activity remained constant with the exception of the government sector. Increased payments to state and local government employees (with the opening of the school year) offset declines in wages and salaries paid by the Federal Government, ascribed to demobilization of reservists called to active military duty earlier this year. Gains in dividend and interest payments failed to do more than offset declines in other types of income.

Retail sales in September were 0.5 percent above the August level, with automobile sales cited as an important factor in the seasonally adjusted increase. Dealers sold more than 726,000 new domestic cars in October, the highest for any month in the industry's history. A principal factor in the increase was the introduction of 1963 model cars by all major domestic producers between September 26 and October 5, whereas introduction dates in the past have been spread over a longer period. Greater availability of cars for delivery to customers was also cited as contributing to a high sales rate this year.

A rise in the consumer price index from 105.5 percent of the 1957-59 average in August to 106.1 percent in September placed it at a record level and also represented the largest monthly increase in more than four years. Higher retail meat prices, occurring during the period of farmers' withholding operations, were reported to have accounted for much of the increase, along with a greater than normal gain in clothing prices. Prices of some basic materials, such as wood pulp, aluminum sheets, and some types of steel were reduced in the period from mid-September to mid-October. Announced prices on 1963 model automobiles were about the same as those on last year's models, and prices of both industrial materials and finished products have generally remained stable at earlier levels. Livestock prices fell back in October to August levels after their temporary rise at the time of the withholding actions in early September, but they still remain well above last year's levels for a comparable period.

Activity in money and capital markets during September and through mid-October was generally quiet. The Cuban crisis unsettled the markets initially, but a firmer tone reappeared by the end of the first week. Total commercial bank credit, seasonally adjusted, rose in September for the second consecutive month, with a rise in loans more than offsetting a decline in holdings of United States Government securities.

## District rate of unemployment at same level as national rate in September




Note: Data represents unemployment as a percent of the civilian labor force.
Source: United States Department of Labor and State departments of employment.

## Pacific Coast employment gained in September, but seasonally adjusted unemployment rose

Total civilian employment on the Pacific Coast registered its third consecutive month-to-month increase in September as both farm and nonfarm employment rose by 0.3 percent after seasonal adjustment. However, the number of jobless persons also increased, raising the rate of unemployment from 5.7 percent in August to 5.8 percent in September. While actual unemployment decreased in all three Pacific Coast states between August and September, the decline was less than normal in California, which produced the increase in the seasonally adjusted rate of unemployment.

Nonfarm wage and salary employment on the Pacific Coast also increased in September, led by manufacturing, service activities, and government, each of which increased by 0.6 percent over the month. Employment in contract construction, mining, and finance scored smaller gains, while transportation and trade decreased fractionally after seasonal adjustment. Within manufacturing, nondurable goods employment increased by 1.2 percent in September as canning and preserving activities, principally in California, increased by 6.2 percent. Employment in durable goods industries increased fractionally, with a 1 percent gain in transportation equipment manufacturing more than offsetting a 1.3 percent decline in primary metals employment. Since September 1961, total manufacturing employment has increased by 4.6 percent, with nondurables up 2.5 percent and durables up 6.0 percent. Employment in primary metals, which was 1 percent below its year-ago level, was the only major category not showing an increase over the year.

## District employment rose in August after seasonal adjustment; insured unemployment declined in August and September

Complete September data are not yet available for the District, but in August total payroll employment in the District (excluding Alaska and Hawaii) rose 0.5 percent. Contract construction again scored the most impressive month-to-month gain, increasing by 2.8 percent between July and August. This increase reflects in part the termination of the Washington and Nevada construction strikes late in July, concluding a series of labor disputes which plagued District construction activities since early May. Manufacturing wage and salary employment in the District also scored a significant gain, increasing by 0.7 percent between July and August. Other major employment categories also increased fractionally.

During August, District insured unemployment (including Alaska and Hawaii) averaged 303,800, after seasonal adjustment, down 2.2 percent from the 310,700 weekly average recorded during July. This decline reduced the rate of insured unemployment from 5.5 percent in July to 5.3 percent in August. September data indicate further declines, as the number of unemployed fell to 297,000 and the rate of unemployment to 5.2 percent. Average weekly initial claims also declined in August to a seasonally adjusted level of 49,600 from 51,900 in July,[1] but they increased in September to 50,000, a gain of nearly 1 percent.

The average factory workweek for District manufacturing production workers, not adjusted for seasonal variation, increased to 40.2 hours in August, up 0.1 hours from July and equal to the average for August 1961. However, the longer workweek was more than offset by a decrease in average hourly earnings, causing average weekly earnings to decline fractionally. The decline in average hourly earnings can be accounted for by relatively greater gains in employment in nondurable goods industries (such as canning and preserving), whose workers are paid somewhat less on the average than in durable goods industries. Average weekly earnings in the construction industry rose from $155.91 in July to $158.76 in August as both average weekly hours and average hourly earnings increased over the month.

## Unemployment declined in labor surplus areas in August

The rate of unemployment decreased in August in all three major District labor markets (San Diego, Fresno, and Stockton) still classified as areas of substantial unemployment, although the improvement was not great enough to qualify for reclassification by the Bureau of Employment Security. Nonagricultural wage and salary employment in San Diego rose above July for the first month-to-month gain since December 1961, and the rate of unemployment in August declined to 7.9 percent from 8.4 percent in July. The rate of unemployment in Fresno declined

[1] The unemployment claims figure for July shown in our September *Monthly Review* was erroneously reported as 44,500; the seasonally adjusted weekly average for July should have been 51,900, down 5.8 percent from June, and 9.8 percent below the recent high in May of 57,000.

from 7.4 percent in July to 6.9 percent in August, while fall harvest activities in Stockton temporarily reduced the rate of unemployment in this area below 6 percent during the same period.

### Construction contracts gained in August; heavy engineering awards fell in September

The value of construction contract awards in District states (excluding Alaska and Hawaii) as reported by F. W. Dodge Corporation, rose 4.3 percent from July to reach $766 million for the month of August. Residential building contracts rose 10 percent from July to August in terms of value and also gained in the number of units represented. Nonresidential building also rose, showing nearly a 5 percent increase over the prior month; gains in contracts for office and factory buildings contributed principally to offsetting a substantial decline in public buildings. Contracts for construction of public works and utilities fell 11 percent below their July levels, mainly due to a decline in street and highway building. After seasonal adjustment, total construction contracts for August rose nearly 5 percent above July levels.

September awards for heavy engineering construction in the District, as reported by *Engineering News Record,* fell off substantially from their August level. However, when allowance is made for a somewhat shorter month, plus the influence of a single large earthwork contract in August, the decline, though still evident, is much smaller. All categories of public works construction indicated declines in the value of contracts awarded in September; in the private sector, only commercial building contracts gained but not sufficiently to offset reductions in industrial building and in mass housing contracts.

Applications to FHA District insuring offices for mortgage insurance on new homes declined 2 percent below the July figure, and were over 22 percent below the number in August 1961. Following the pattern of most recent months, however, applications for loans on existing homes rose by 2.5 percent in August and were 24 percent above their year-ago level. District housing starts under FHA inspection rose somewhat more than 9 percent in August but were nearly 6 percent below those of the corresponding month of 1961.

### Savings and loan associations gain funds in September

Savings accounts at reporting savings and loan associations in District states rose about 2 percent during September, for the largest monthly gain since June. Their mortgage loans outstanding also increased, but reported commitments to lend declined somewhat during September. Savings accounts and real estate lending gained at about the same pace during the first nine months of this year, rising 16 and 17 percent, respectively. Despite the fact that gains are registered from an increasing initial level, the rates of increase in savings accounts and lending were slightly above those in the corresponding period of 1961.

### September orders for Douglas fir declined substantially; pine orders improved but were below a year ago

Complete data for September indicate that new orders for Douglas fir declined almost 18 percent from August but were only fractionally below their year-ago level. Production and shipments showed substantial month-to-month declines and were slightly below the levels of September 1961. September production outpaced orders; unfilled orders declined but surpassed their year-ago volume by 5 percent and were equal to almost 50 percent of stocks on hand compared with 42 percent a year ago. New orders received declined substantially in the week ending October 6.

August production and shipments of pine exceeded their July levels substantially, and were well above orders received which advanced only slightly above their July volume. Production, orders, and shipments were all below their year-ago levels. During the three-week period ended September 29, pine production, orders, and shipments showed large increases. Orders and shipments were running ahead of production but were below their levels in the comparable weeks of 1961.

August production, shipments, and new orders of California redwood each showed more than 20 percent improvement over July. Production was markedly below its level a year ago, but new orders, unfilled orders, and shipments registered 30, 13, and 11 percent increases, respectively, over the levels they recorded in August 1961.

Following declines recorded in August and the first two weeks of September, *Crow's* average price per thousand board feet of lumber fell $.25, or 3/10 of 1 percent, in the two weeks ended September 27. This average price was 3.7 percent above its level a year ago, however. Prices of green fir, dry fir, and pine species all declined fractionally but were above last year's levels.

## October copper orders estimated to exceed September levels; output of refined copper affected by mine cutbacks

Copper producers estimate that orders in October will be somewhat above their September levels, but will probably fall short of those a year ago. Brass mills, which are important copper consumers, report sluggish sales activity in their industry. Refined copper production in September declined 12 percent below August levels, probably affected strongly by cutbacks of production at domestic and foreign mines, and total world production fell by 8 percent. Shipments to copper fabricators from United States refiners rose nearly 4 percent from August to September, and stocks of refined copper declined 7 percent. However, there was a substantial increase during the same period in deliveries to domestic fabricators from foreign sources. Recent weakness in demand for copper products has prompted speculation that there may be a reduction in the price of refined copper. The smelter price of Number 2 copper wire scrap fell ½ cent per pound during the two weeks ending October 6, to 24¼ cents per pound. However, reductions in mine and refinery output may bring production more into line with the currently depressed state of demand.

Aluminum, another nonferrous metal of which the Twelfth District is a large producer, has experienced some recent price reductions. Major producers cut the price of most sheet items by as much as 6 cents a pound in late September. The cuts came at a time when shipments and production for the year were expected to exceed 1961 levels and were reportedly aimed at making published prices more realistic in relation to actual discounted prices to distributors, who have been strongly affected by rising imports of aluminum products. The price of aluminum ingots, however, has remained at 24 cents a pound since September 1961.

## Western steel production declined in October

Western and national steel production advanced 4.4 and 5.6 percent, respectively, from the week ended September 1 to the week ended September 29 but then recorded declines of 11.6 and 1.2 percent, respectively, in the two-week period ending October 13. The decline in the Western index probably reflected consumer hesitation in placing orders until the price structure became definitely settled after the steel price reductions announced October 2 by a major West Coast producer. The output decline may also have reflected the onset of seasonal declines in demand for construction steel and can-making tinplate.

The decline in the national production index in the week ended October 6 (which brought the unofficial operating rate to 58.0 percent of capacity) and its stability in the following week occurred despite the fact that most major companies report improvement in October orders. This may be explained by the fact that several companies have been producing ahead of orders and are now reducing output to bring the two into balance. Improvement in November demand nationally will depend on whether automobile producers increase their orders sufficiently to offset depressing seasonal factors. Although further inventory liquidation may occur, *Iron Age* estimates that at the end of October inventories will be back to the level of 13.9 million tons which existed when stockpiling began at the end of October 1961.

## Further gain in petroleum activity in September

Although the movement of crude petroleum to District stills usually declines from August to September, the rate of movement was about the same in the two months, 1.3 million barrels per day. Nevertheless, retail prices remained firm and stocks of refined products were largely unchanged during the month. The production of crude petroleum in the District during recent months has been somewhat higher than a year earlier.

## District farm returns at record level in August

Returns from marketings poured almost half a billion dollars into the pockets of District farmers in August, a record high for the month. However, receipts for the first eight months of the year still lagged slightly behind the record-setting pace of 1960. Since the peak months of farm returns are during the last quarter of the year, receipts during this period will heavily influence the level of total returns for the year.

The production prospects for crops harvested during the last quarter of the year have been favorable until recently. Flooding in Arizona damaged about 30,000 acres of the cotton crop which is important in that state's agriculture. On the Pacific Coast, recent unseasonal heavy rains will undoubtedly reduce the output of crops, although it is still too early to predict the total impact of the rains.

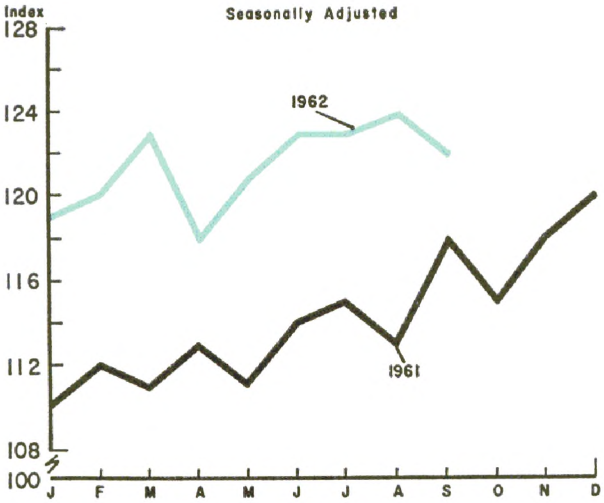
## District retail sales rose in August

Total sales of Group I retail stores in the Twelfth District during August rose nearly 1 percent above the July level. Virtually the entire increase was accounted for by nondurable goods stores, with each type of store showing an increase except gasoline service stations which fell slightly from their seasonal peak in July. Furniture and appliance stores had their best sales month of the year; however, a moderate decline in lumber sales and a sharp drop in automotive sales brought the total durable goods stores' activity below July. Automotive dealers experienced their lowest monthly sales activity since January-February of this year. However, if retail sales are adjusted for differences in trading days, total sales for August on a daily average basis were down 7 percent from July, with both durable and nondurable goods stores sharing in the decline.

## Department store sales gained in August and September

Twelfth District department stores during August had record sales after seasonal adjustment. This was a reflection to some extent of heavy back-to-school sales. However, sales of District stores declined somewhat in September, which contrasts with an increase in the nation. During the first three weeks of October, Twelfth District sales continued at a high level, while nationally they were unchanged from a year ago as the eastern portion of the country showed declines. Largely as a result of the recent storms on the Pacific Coast, San Francisco department store sales fell 10 percent below a year ago for the week ended

## District department store sales declined in September




Source: Federal Reserve Bank of San Francisco.

October 13; Portland department store sales declined even more substantially while Seattle's rose above year-ago levels for the same week.

## Auto registrations fell in August and early September

Auto registrations in the Twelfth District during August were down 6 percent from July, although they continued to run 20 percent above the year-ago month. New-car registrations in California were down 14 percent from July and were only 14 percent above August of 1961. On a daily average basis, registrations in California were 17 percent below July, the lowest level for any month of 1962. They were, however, above August 1961 and the prior monthly low in September 1961. The drop from July is customary, as reduced stocks of current-year models in dealers' hands and the anticipation of the introduction of new models hold down sales activity. The low level of registrations continued during the first week of September and it is expected that there will not be a pickup until the introduction of the new models. For the nation as a whole, the patterns were quite similar, with August activity dropping 10 percent below July on a daily average basis. There was a further decline in September as daily average sales reached 12,267. Early indications are that the reception of the new models has been good to excellent, and October activity was well above the September lows.

## Seasonal factors contribute to District loan increase in September and early October

Weekly reporting member banks in the Twelfth District increased their loan portfolios in September and the first third of October as borrowing connected with quarterly tax payments and seasonal financing needs augmented other demands for bank funds. The increase of $331 million in total loans (adjusted to exclude loans to domestic commercial banks) was substantially above the gain of $265 million in the corresponding period in 1961. This was largely due to the sizable increase in real estate loans compared with 1961 performance. The September gain in real estate loans was above that for August and resulted in a third-quarter increase of $294 million, only slightly below that for the second quarter of 1962.

The increase in borrowing by commercial and industrial firms during this period was of approximately the same magnitude as for last year, with seasonal financing of food and beverage producers responsible for much of the rise. Commodity dealers and other wholesale firms also made seasonal additions to their bank debt. Durable goods manufacturers borrowed around the mid-September tax date, but by early October had reduced their bank indebtedness to about the level prevailing at the end of August. Sales and personal finance companies also sought bank credit around the tax date in September as their outstanding paper matured, but by October 10 had made net repayments in excess of their tax-related borrowing. Other nonbank financial companies, however, increased their bank-held debt. Loans to brokers and dealers

## CHANGES IN SELECTED BALANCE SHEET ITEMS OF WEEKLY REPORTING MEMBER BANKS IN LEADING CITIES

(dollar amounts in millions)

| | Twelfth District | | | | United States | | | |
|---|---|---|---|---|---|---|---|---|
| | From August 29, 1962 to October 10, 1962 | | From October 11, 1961 to October 10, 1962 | | From August 29, 1962 to October 10, 1962 | | From October 11, 1961 to October 10, 1962 | |
| | Dollars | Percent | Dollars | Percent | Dollars | Percent | Dollars | Percent |
| **ASSETS:** | | | | | | | | |
| Total loans and investments | +289 | + 1.07 | +1,715 | + 6.72 | +1,999 | + 1.61 | +7,543 | + 6.36 |
| Loans adjusted and investments[1] | +341 | + 1.28 | +1,766 | + 7.02 | +2,276 | + 1.86 | +7,360 | + 6.29 |
| Loans adjusted[1] | +331 | + 1.91 | +1,936 | +12.29 | +1,733 | + 2.28 | +6,719 | + 9.46 |
| Commercial and industrial loans | +103 | + 1.75 | + 549 | +10.09 | + 654 | + 1.96 | +2,247 | + 7.06 |
| Real estate loans | +114 | + 1.90 | + 700 | +12.96 | + 312 | + 2.12 | +1,812 | +13.73 |
| Agricultural loans | + 32 | + 3.90 | + 101 | +13.43 | + 97 | + 7.89 | + 147 | +12.46 |
| Loans to nonbank financial institutions | + 13 | + 1.43 | + 129 | +16.27 | + 38 | + 0.62 | + 795 | +14.87 |
| Loans for purchasing and carrying securities | + 52 | +21.76 | + 27 | +10.23 | + 629 | +17.45 | + 136 | + 3.32 |
| Loans to foreign banks | + 4 | + 1.53 | + 60 | +29.27 | — 92 | —12.37 | + 117 | +21.87 |
| Other loans | + 16 | + 0.45 | + 400 | +12.60 | + 108 | + 0.60 | +1,632 | + 9.98 |
| Loans to domestic commercial banks | — 52 | —13.65 | — 51 | —13.42 | — 277 | —13.60 | + 183 | +11.60 |
| U. S. Government securities | + 41 | + 0.66 | — 701 | —10.06 | + 438 | + 1.41 | —2,727 | — 7.97 |
| Other securities | — 31 | — 1.04 | + 531 | +21.93 | + 105 | + 0.70 | +3,368 | +28.65 |
| **LIABILITIES:** | | | | | | | | |
| Demand deposits adjusted | +435 | + 3.79 | + 92 | + 0.78 | + 739 | + 1.22 | — 812 | — 1.31 |
| Time deposits | +194 | + 1.31 | +1,754 | +13.29 | + 702 | + 1.47 | +7,173 | +17.39 |
| Savings accounts | +254 | + 2.17 | +1,397 | +13.23 | + 654 | + 1.96 | +4,592 | +15.58 |

[1] Exclusive of loans to domestic commercial banks and after deductions of valuation reserves; individual loan items are shown gross.
Source: Board of Governors of the Federal Reserve System and Federal Reserve Bank of San Francisco.

for carrying United States Government securities fluctuated widely during this period, reaching a peak in mid-September due to substantial borrowing to carry rights for new issues offered in the Treasury's refunding operations. Consumer loans continued to show a relatively small increase, a pattern characteristic of the year to date.

There was very little change from the end of August through October 10 in total holdings of United States Government securities by District weekly reporting member banks. There were, however, substantial shifts in the maturity distribution. Largely as a result of Treasury advance refunding operations in September, banks reduced their notes and bonds in the under-one-year maturity category by $479 million and increased holdings in the one-to-five year and over-five-year ranges by $267 million and $151 million, respectively. In addition, banks added $185 million in Treasury bills to their portfolios. In contrast to the first half of 1962, banks reduced their holdings of securities other than United States Government issues during the month of September, reversing the earlier trend for the second consecutive month.

Demand deposits of individuals, partnerships, and corporations, which were drawn down in mid-September for quarterly tax payments, rose substantially in early October. As a result demand deposits adjusted on October 10 were up $435 million above their late August level. While United States Government deposits were lower, the decline in this category was little more than half the increase in demand deposits adjusted. The substantial increase of $194 million in time deposits was largely attributable to savings accounts, as states and political subdivisions made net withdrawals of time deposits during this period. The large rise in savings reflects in part the crediting of quarterly interest payments. The third quarter increase in savings deposits approximated the high rate of accumulation during the first quarter of 1962, and was nearly twice that of the second quarter.

## Quarterly interest rate data reflect slackness in business loan demand

The September quarterly interest rate survey[1] conducted by the Federal Reserve Bank of San Francisco disclosed an average rate of 5.37 percent for both short- and long-term business loans made by District banks, down 3 basis points from the average rate of 5.40 percent in June. Analysis of the survey data provided additional evidence of the somewhat slack business loan demand. The proportion of the total dollar volume of loans made at the prime rate (4½ percent) increased to 26 percent from 24.5 percent in June. Loans made at 5½ percent constituted 18.5 percent of the dollar total, up from 12 percent in June. This was accompanied by a decrease in the proportion of loans made at rates ranging between 4½ and 5½ percent and over 5½ percent as rates shifted downward. Both the number of short-term loans and the dollar amount were below those reported in the June and year-ago September surveys. While the number of long-term loans was also lower, the dollar amount was nearly twice as great as in the preceding survey and accounted for 6 percent of the total dollar loan volume reported. This development, together with a lengthening of the maturity of security portfolios, may signify some increased willingness on the part of banks to commit funds for longer periods of time.

[1] This survey covers all business loans made during the first 15 days of September by 23 leading District banks and includes 32 banking offices in 5 major cities.

## Municipal bond yields declined in October with reduced market activity

State and local governments in the District sought a smaller volume of funds in the municipal bond market during the third quarter than they had during the first and second quarters of the year, and the calendar of new issues scheduled for sale in October and November was also light. The slackening in supply of new issues was also apparent nationally and contributed to a moderate rise in bond prices that began in mid-August and continued through mid-October. *Staat's* index of yields on 19 California bonds declined to 3.08 percent in mid-October from 3.28 percent during the first half of August. The roughly comparable national index, the *Bond Buyer's* 20-bond index, declined to 3.06 percent from 3.33 percent in the same period.

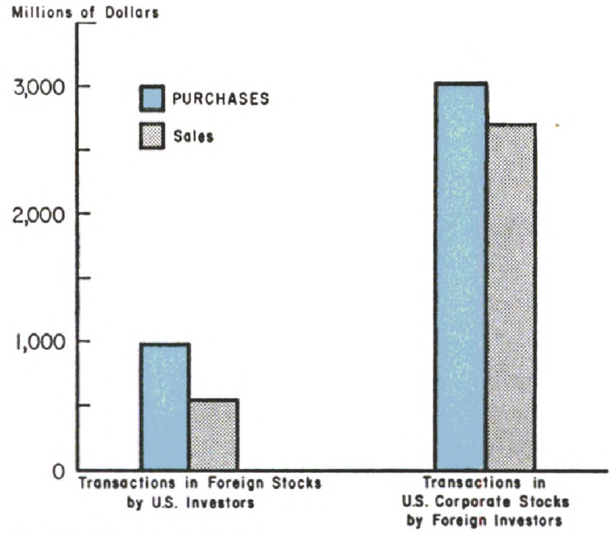
The firming of municipal bond prices reflected a stronger tone in the bond markets generally, which many analysts attribute largely to absence of pressure from business activity on the available supply of investment funds. In this District, the largest borrower—the State of California—sold less than half the volume of bonds in the January-October period than it did in the same ten months last year, and has announced it will not return to the market until 1963. The last large state bond issue was a $100 million Veterans' bond sale in June. This explains part of the drop-off in new bond issues in recent months, but the number of other District borrowers coming to market with large issues also declined in the third quarter and in October in comparison both with recent years and with earlier months of this year. On the demand side, District commercial bank holdings of municipals levelled off in the most recent weeks. For the nation as a whole, bank holdings continued to increase, although at a much slower pace than in the early part of the year.

# The Stock Market—A Dynamic Factor in the International Flow of Capital

Increasing numbers of American investors have been turning their attention recently to foreign corporate stocks such as Royal Dutch/Shell (Britain-Holland), Imperial Chemical Industries (Britain), Volkswagenwerk AG (Germany), Philips' Gloeilampenfabrieken (Holland), Saint-Gobain (France), Montecatini (Italy), Sony (Japan), and Broken Hill Proprietary (Australia). Canadian stocks, of course, have long been known to American investors. While American eyes have been turning toward the attractions of foreign stocks, European investors have shown a growing interest in American stocks.[1]

The result has been that the volume of purchases and sales of American corporate stocks by Canadian, European, and other foreign investors has become increasingly important in recent years; simultaneously American investors have increased their purchases and sales of stocks issued by corporations in Canada, the United Kingdom, the Common Market countries, Japan, and elsewhere abroad. For example, in 1961 foreigners bought \$3,067 million of American corporate stocks and sold \$2,745 million, so that net purchases of American corporate stocks by foreigners amounted to \$323 million[2] (Chart 1). In the same year residents of the United States sold to foreigners \$594 million of foreign stocks but bought \$959 million of foreign stocks[3]; hence residents of the United States made net purchases of foreign stocks in the amount of \$365 million.

Chart 1: **Purchases of foreign equities by U. S. investors in 1961 exceeded foreign purchases of U. S. stocks.**




Source: *Treasury Bulletin.*

We may also cite an example of the importance of international stock transactions to a foreign country. In 1961 residents of West Germany purchased foreign dividend-bearing securities valued at over \$260 million, of which over one-fifth were American corporate stocks and over two-fifths were stocks of enterprises located in other Common Market countries.[1] However, concurrent sales of foreign stocks owned by German residents reduced net purchases of foreign stocks for the year to about \$50 million. Conversely, in 1961 foreign investors bought German stocks with a total value of over \$670 million, of which more than one-fourth represented pur-

[1] The foreign corporate stocks mentioned here were chosen merely to illustrate the variety in geographic origin and type of industry found in the many foreign corporate stocks traded over-the-counter or on stock exchanges in the United States.

[2] Source: *Treasury Bulletin.* As used here, the term "foreigner" covers all institutions and individuals domiciled outside the United States and its territories and possessions, the official institutions of foreign countries, wherever such institutions may be located, and international organizations.

[3] These amounts also include transactions between foreigners conducted through United States reporting institutions.

[1] Source: *Monthly Report of the Deutsche Bundesbank,* April and June 1962. In the cited data on private security transactions with foreign countries, all German and foreign securities were classified as either (a) dividend-bearing securities including investment fund certificates, or (b) fixed-interest-bearing securities, which would thus include bonds and preferred stocks.

TABLE 1

**PURCHASES AND SALES OF AMERICAN STOCKS BY FOREIGNERS—1952-1961**

(in thousands of dollars)

| Calendar year | Purchases | Sales | Net purchases or sales |
|---|---|---|---|
| 1952 | $ 650.2 | $ 649.2 | $ 1.0 |
| 1953 | 589.1 | 533.9 | 55.2 |
| 1954 | 1,115.1 | 980.2 | 135.0 |
| 1955 | 1,561.2 | 1,433.7 | 127.5 |
| 1956 | 1,619.5 | 1,363.5 | 256.0 |
| 1957 | 1,306.4 | 1,163.8 | 142.6 |
| 1958 | 1,397.3 | 1,453.6 | — 56.3 |
| 1959 | 2,224.4 | 1,861.5 | 362.9 |
| 1960 | 1,976.5 | 1,774.8 | 201.7 |
| 1961 | 3,067.3 | 2,744.6 | 322.7 |
| **Grand total** | $15,507.0 | $13,958.8 | $1,548.3 |

Source: *Treasury Bulletin.*

Note: The term "foreigner" covers all institutions and individuals domiciled outside the United States and its territories and possessions, the official institutions of foreign countries, wherever such institutions may be located, and international organizations.

Negative figures indicate net sales of American stocks by foreigners

Figures may not add to totals because of rounding.

TABLE 2

**NET PURCHASES OR SALES OF FOREIGN STOCKS BY UNITED STATES INVESTORS—1952-1961**

(in thousands of dollars)

| Calendar year | Purchases | Sales | Net purchases or sales |
|---|---|---|---|
| 1952 | $ 329.6 | $ 293.9 | $ 35.8 |
| 1953 | 303.4 | 310.1 | — 6.8 |
| 1954 | 644.9 | 393.3 | 251.6 |
| 1955 | 877.9 | 663.6 | 214.3 |
| 1956 | 875.2 | 749.2 | 126.1 |
| 1957 | 621.9 | 592.8 | 29.1 |
| 1958 | 803.7 | 467.2 | 336.4 |
| 1959 | 803.8 | 566.1 | 237.7 |
| 1960 | 591.7 | 509.1 | 82.6 |
| 1961 | 965.6 | 595.7 | 370.0 |
| **Grand total** | $6,817.7 | $5,151.0 | $1,676.8 |

Source: *Treasury Bulletin.*

Note: Purchases of foreign stocks include purchases both by United States residents and by foreigners from foreigners, if the transaction was carried out by a United States reporting institution. Sales similarly include sales by United States or foreign investors to foreigners.

Negative figures indicate net sales of foreign stocks by United States residents.

Figures may not add to totals because of rounding.

chases by American investors and one-sixth represented purchases by investors in other Common Market countries. At the same time, foreigners sold foreign-owned German stocks in an amount which reduced net foreign purchases of German stocks to about $335 million for the year.

The growth of trading in foreign stocks by American investors and of trading in American stocks by foreign investors over the decade 1952-61, on the basis of United States figures, is indicated by the data in Tables 1 and 2. In 1952 net purchases of foreign stocks by residents of the United States were nearly 36 times as great as net purchases of American stocks by foreign investors, whereas in 1961 the dollar volume of American stocks bought (net) by foreigners was only slightly larger than net purchases of foreign stocks made by residents of the United States. Some of the reasons for the greater relative growth of foreign investment in American stocks over the decade and for the impressive total gain in international stock transactions will be discussed later in this article.

## International stock transactions affect payments position

Interest in stock market developments in the United States and abroad has also been stimulated by the sharp fluctuations in the United States stock market this year, as well as in a number of equity markets overseas, and by balance of payments considerations. Due to the acceleration of the international flow of private capital during the past few years, the net inflow or outflow of private international funds (both short-term and long-term) has become a significant factor in the balance of payments position of the United States and of other countries.

For example, in 1961 United States exports of goods and services (excluding transfers under military grants) exceeded imports of goods and services by $5,143 million. However, this surplus was substantially offset by an outflow of $2,729 million of net unilateral transfers to foreign countries, which principally represented American economic aid to foreign countries. Moreover, there occurred a net outflow of American capital amounting to $4,879 million, compared to a net inflow of foreign long-term capital of only $606 million, so that on balance there was an outward flow of funds from the United States on capital account in the amount of $4,273 million. The net outflow of United States private capital amounted to $3,953 million, or 80 percent of the total net outflow of American capital, of which $753 million represented foreign stock and bond transactions of residents of the United States. Because the outflow of funds from the United States on capital account and from unilateral transfers to foreign countries exceeded the surplus earned on exports of goods and services over imports, the

## THE TECHNICALITIES OF THE DATA

**The United States Treasury collects, and regularly publishes, data on purchases and sales of stocks and other long-term securities executed in the United States and abroad for the account of foreigners. The data include purchases and sales in connection with the flotation of new issues as well as outstanding issues. The security transactions are classified according to the foreign country or geographic area in which the foreigner is *domiciled*, giving a general idea of the volume and direction of purchases and sales of American and foreign stocks by foreign country.**

**Because only United States institutions such as banks, brokers, and dealers report transactions in foreign and United States securities to the Treasury, the coverage of the series is not complete. Some United States transactions in foreign securities—principally Canadian—are handled directly through Canadian dealers and are therefore excluded from the Treasury data, although estimates of these transactions are incorporated into the balance of payments figures. Care should also be exercised in interpreting the Treasury statistics in view of the fact that the classification of transactions by foreign country is determined by the *residence* of the foreign participant. As a consequence, the data do not necessarily indicate the nationality of the foreign issues traded or the fact that the transactions may merely involve a switch from one foreign owner to another. Furthermore, it is impossible to tell whether a purchase of foreign stock by a foreigner represents a purchase of a security of his own country or of another country. Foreign purchases of United States corporate securities reported by institutions in the United States may also be from another foreigner while sales of American stocks may be to another foreigner.**

**In the interest of greater readability, the various qualifications implicit in the Treasury data are not expressly stated every time in the text of the article. In general, however, probably the greater part of the foreign seurity transactions with various foreign countries are in the securities of that country rather than the securities of third countries, with the possible exception of Switzerland.**

**The Treasury statistics used in this study are also presented in a slightly different manner from the figures as they are published in the *Treasury Bulletin* and the *Federal Reserve Bulletin*. Purchases and sales of United States stocks referred to in this article are the same as purchases and sales as published. Purchases and sales of *foreign* stocks, on the other hand, are discussed from the viewpoint of United States investors rather than from the viewpoint of foreigners so that the terminology used in this article is the reverse of that shown in the *Treasury Bulletin* and *Federal Reserve Bulletin*.**

**Figures on the volume of both gross purchases and sales are given to indicate the general magnitude of Treasury-reported transactions in foreign and United States corporate stocks, but the net figure on purchases and sales is the more meaningful figure, especially for the purpose of analyzing the balance of payments.**

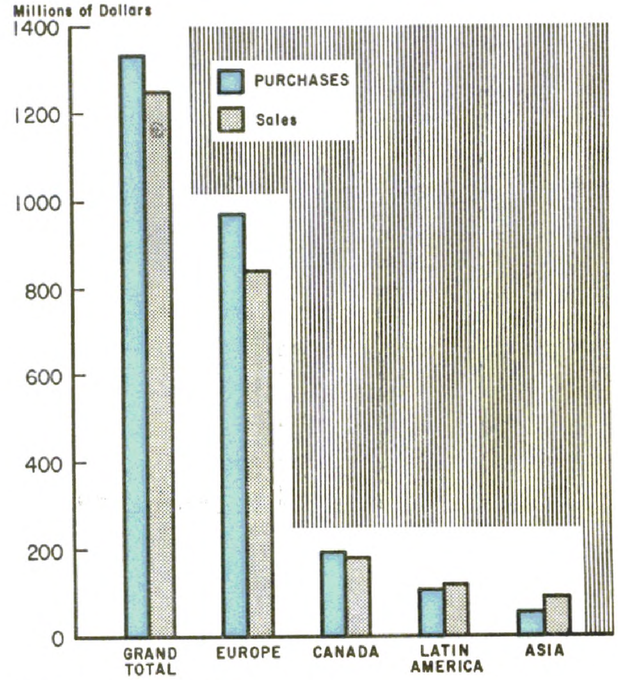
United States experienced a deficit for the year which was met by sale of $742 million of gold and convertible currencies by the monetary authorities and an increase of $1,719 million in liquid dollar assets held by foreigners.

Since 1959-60 the United States monetary authorities have been seriously concerned with the continuing balance of payments deficits accompanied by sizable gold losses as large net capital outflows more than offset our surplus on goods and services. Since a net inflow of funds into the United States from international stock transactions will tend to reduce our deficit and bolster the value of the dollar on the foreign exchanges while a net outflow of funds from international stock transactions will have opposite results, the movement of funds on these accounts are among the balance of payments transactions that are watched by the monetary authorities of this country.

Over time, of course, a net outflow of private investment funds abroad will earn income in the form of interest and dividend payments on foreign short-term investments and long-term portfolio investments and profits on long-term foreign direct investment. For example, in 1961 private investors in the United States received $3.3 billion from funds invested abroad, of which almost $2.7 billion consisted of income from direct investments. However, when a nation is experiencing a deficit in its balance of payments, additional drains from portfolio capital exports tend to weaken its international financial position.

When a citizen of one country buys (or sells) a foreign stock from (to) a resident of another country, the transaction is referred to as an international capital transaction, as opposed to imports and exports of goods, which are called merchandise transactions. The purchase or sale of foreign stocks is considered a long-term capital transaction, regardless of the length of time the stocks are

Chart 2: **Europe and Canada accounted for almost all of foreign purchases of U. S. stocks in the first half of 1962.**



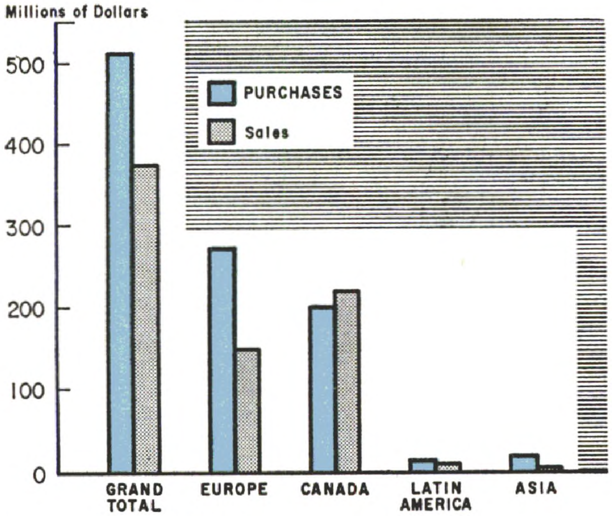

Source: *Treasury Bulletin.*

held. Portfolio investment—or investment in stocks (with which we are concerned here) and bonds—is but one form of private long-term capital transactions; direct investment, including stock holdings which give controlling interest in a company, is the other major type.

## Transactions with Europe and Canada account for major share of international stock purchases and sales

In order to obtain a better understanding of the significance and impact of international stock transactions on the United States and foreign countries, the statistics published for the January-June 1962 period by the United States Treasury will be examined in some detail. International trading in American stocks during the first six months of 1962 was dominated by residents of Europe, followed at some distance by Canada and Latin America. Chart 2 indicates that on a net basis residents of Europe and Canada made net purchases of

**Chart 3: European and Canadian stocks accounted for major share of foreign stock transactions by U. S. investors in the first half of 1962.**




Source: *Treasury Bulletin.*

American stocks, whereas residents of Latin America and Asia sold a greater dollar volume of American stocks than they bought.[1]

The volume and direction of net international stock transactions may fluctuate from month to month, as well as from year to year, in response to general international developments, changes in the payments position of a country, special reports concerning individual companies or countries, or flotation of new issues. For example, Canadians made net purchases of American stocks during four of the six months considered, with net sales in February and June amounting to over $4 million altogether. Residents of Europe were net buyers of American stocks during each of the first five months of 1962 but sold (net) nearly $49 million of American stocks in June, reflecting in part a reaction to the slump in United States stock prices. Latin America and Asia were net buyers of American stocks in two months of the period and net sellers in four months, including the month of June. From the standpoint of analyzing the international flow of investment funds, it should be noted that net sales of American stocks by foreigners—as in the case of residents of Latin America and Asia—denote an outflow of investment funds from the United States unless the proceeds are immediately reinvested in other assets in this country.

The volume and source of purchases and sales of foreign stocks during the first half of 1962—whether between one foreigner and another or between a foreigner and a United States resident — are shown by geographic area in Chart 3. More than 90 percent of both purchases and sales were concluded with residents of Europe and Canada. However, there were net purchases by Americans of nearly $135 million of European-owned foreign stocks, in contrast to net sales of over $19 million of foreign stocks to residents of Canada. Indeed, the latter transactions accounted for virtually all the net sales of American-owned foreign stocks during the period and were greater than the net purchases by United States investors of foreign stocks from any geographic area except Europe.[1]

During the first half of 1962, foreign stock transactions (purchases and sales combined) with Latin America were larger in dollar volume than transactions with Asia. Net purchases of foreign stocks from Asia, however, were more than three times as great as those from Latin America, mainly because of sales of Japanese stocks to American investors.

As in the case of trading in American stocks, international transactions in foreign stocks tend to fluctuate widely from month to month in net volume and direction. For example, residents of the United States were net buyers of foreign stocks from Canada during

[1] Transactions of "other countries" and international organizations are relatively small and therefore excluded from this discussion.

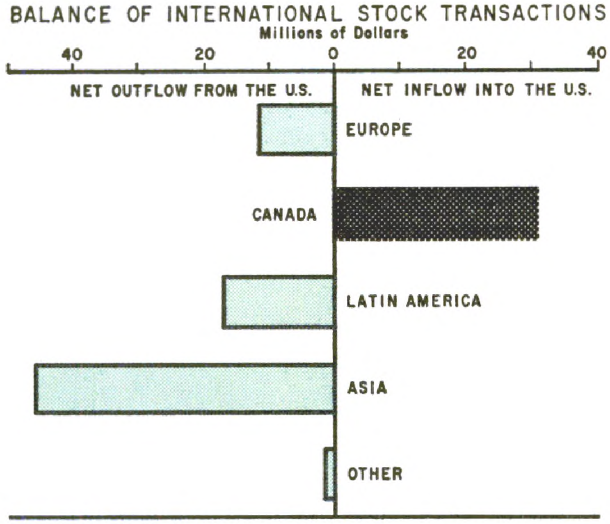
[1] Security transactions between two foreigners as reported to the United States Treasury by United States banks, brokers, and dealers do not result in either *net* purchases or sales because the two transactions cancel each other out. On the other hand, only that side of a security transaction involving a foreigner—in the case of a trade between a foreigner and a United States investor—is reported in the Treasury statistics, resulting therefore in *net* sales or purchases. The *gross* figures on purchases and sales thus include transactions between one foreigner and another and between a foreigner and a United States resident, while the *net* figure indicates whether on balance American investors bought or sold foreign stocks.

each of the first three months of 1962, but were substantial net sellers in each of the next three months, due in part to a weakening of confidence in the Canadian economic outlook and Canada's payments difficulties. The United States was a net buyer of foreign stocks from Europe during each of the first six months of 1962, although net purchases ranged from a low of $3 million in May to a high of $47 million in June.

Some idea of the direction of capital flows stemming from security transactions conducted in the United States can be obtained by looking at the figures collected by the United States Treasury. In the first half of 1962 Europeans made net purchases of $123 million of American stocks, while Americans made net purchases of nearly $135 million of European stocks (Chart 4). Hence international stock transactions during January-June 1962 between the United States and Europe resulted in a net outflow from the United States of almost $12 million. In the same period, net sales of $19 million of foreign stocks by residents of the United States to residents of Canada were combined with a net investment of $12 million by Canadians in American stocks to cause a net inflow of $31 million in private international investment funds into the United States.

Transactions between residents of the United States and Latin America, Asia, "other countries," and international organizations in both American and foreign stocks contributed toward a net outflow of investment funds from the United States in the amount of $63 million during the first six months of 1962. There were net outflows of $17 million to Latin America, $46 million to Asia, and $2 million to "other countries" and a small net inflow of less than $2 million from international organizations. In the case of Latin America and Asia, net disinvestment in American stocks by the two areas was larger than net investment by the United States in Latin American- and Asian-owned stocks.

Chart 4: **The balance of reported international stock transactions indicated net purchases by U. S. investors in all areas except Canada in the first half of 1962.**




Source: *Treasury Bulletin.*

The net result of all purchases and sales of American and foreign stocks during the first six months of 1962 was an outflow from the United States to the rest of the world of $44.5 million of international investment funds. Foreigners made net purchases of American stocks in the amount of $93 million, maintaining the trend of the past decade of increasing net investment by foreigners in American stocks and thus contributing toward an inflow of investment funds into the United States from abroad. However, this was more than offset during the first half of 1962 by net purchases by United States residents of foreign stocks in the amount of $137 million which had the reverse effect of adding to the outflow of investment funds from the United States.

### A relatively small number of countries account for the major share of international stock transactions

International stock transactions by foreigners through banks, brokers, and dealers in the United States during the first six months of 1962 may also be analyzed by individual countries within geographic areas. Let us first consider briefly purchases and sales of American stocks by foreigners.[1] Switzerland and the United Kingdom accounted for nearly three-quarters of the purchases of American stocks made by residents of Europe and for more than three-quarters of like sales. However, transactions with Switzerland resulted in net purchases of nearly $48 million of American stocks over the period considered, as contrasted to almost $4 million in net sales of American stocks by United Kingdom residents. Investors in Italy and Sweden also made net disinvestments in American stocks of $3.2 million and $1.9 million, respectively.

In Latin America, purchases and sales of American stocks during the first six months of 1962 were more widely distributed by country, with residents of each of the countries of Mexico, Netherlands Antilles and Surinam, the Republic of Panama, Uruguay, and Venezuela accounting for 10 percent or more of total purchases and of total sales of American stocks by Latin America. Residents of Uruguay were principally responsible for the net disinvestment in American stocks by South America during the first half of 1962, although all of the above-mentioned countries except Panama also made net sales of American stocks during this period.

Hong Kong dominated transactions in American stocks by Asians during January-June 1962, accounting for more than three-quarters of the purchases of American stocks and nearly nine-tenths of all sales. The British Crown Colony was therefore largely responsible for the substantial net disinvestment in American stocks by Asia during the first half of this year.

A rather similar country concentration is revealed in the data on purchases and sales of foreign stocks carried out through United States intermediaries. More than 90 percent of total reported purchases of foreign stocks from Europe were made in the following countries: France (14 percent), Federal Republic of Germany (10 percent), the Netherlands (41 percent), Switzerland (10 percent), and the United Kingdom (18 percent). These same countries accounted for 95 per cent of total sales of foreign stocks to Europe, distributed as follows: France (19 percent), Federal Republic of Germany (11 percent), the Netherlands (29 percent), Switzerland (11 percent), and the United Kingdom (25 percent). More than one-half of total net purchases of foreign stocks by the United States from Europe during January-June 1962 was made from residents of the Netherlands because of the issuance of additional shares by a leading Dutch company with extensive foreign operations.

Purchases and sales of foreign stocks executed by United States banks, brokers, and dealers with residents of Latin America were widely distributed among countries in the latter area, with the Netherlands Antilles and Surinam and the Republic of Panama accounting for the largest individual shares of both total purchases of foreign stocks and total sales volume. In the case of Asia, on the other hand, Hong Kong accounted for the bulk of purchases of foreign stocks in Asia during the first half of 1962 while Japan executed the bulk of foreign stock sales made by the area. Purchases and sales of foreign stocks executed with "other countries" were chiefly with residents of Australia and South Africa. Transactions with Australia and South Africa resulted in net purchases of foreign stocks by United States investors during the six-month period.

The preceding discussion has demonstrated the great scope for fluctuations in both volume and direction of international stock transactions from month to month which springs from the aggregate result of a multitude of in-

[1] It might be reemphasized here that the country classifications used in the Treasury reports indicate only the country through which the transaction is carried out and not necessarily the residence of the real party in interest.

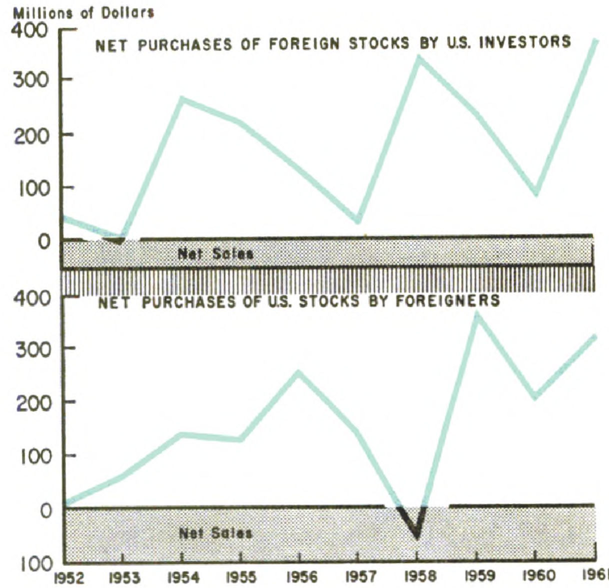
dividual investment decisions made by private persons or institutions. The net volume and direction of the flow of international investment funds resulting from international stock transactions during a given month or period may or may not follow the trends of the previous months or of succeeding months and may or may not follow the long-term trend over a period of years. However, the net result of the international stock transactions executed by residents of a given country continuously affects the international financial and payments position of that country and the value of its currency in the foreign exchange markets.

## Transactions in both foreign and United States stocks have shown an upward trend

Chart 5 and Tables 1 and 2 indicate the generally upward trend in the annual volume of purchases and sales of American stocks by foreigners and of foreign stocks by United States investors[1] during the decade 1952-61. The general trend of these transactions, on an annual basis, has been one of increasing net investment in American stocks by foreigners and a somewhat less consistent rate of growth in foreign equity investments by Americans. In the ten years from 1952 through 1961, purchases of American stocks by foreigners have been more than twice as great as the volume of purchases of foreign stocks by American and foreign investors while sales of American stocks have been almost three times as great as the cited transactions in foreign stocks. In 1961 transactions volume was even more in favor of American stocks—more than three times as large for purchases and more than 4.5 times for sales. Nevertheless, net investment in foreign stocks by residents of the United States in 1961 exceeded net investment in American stocks by foreigners—but only for the fourth time in the last decade. In 1954 and 1955 United States investors made substantial net purchases of foreign stocks—well in excess of foreign purchases of United States equities — mainly from Canada and Europe. During the rest of the decade, foreigners in general continued to buy more American stocks on balance than Americans bought in the way of foreign stocks. Nonetheless, there is readily discernible a growing interest by Americans in foreign stocks.

[1] See footnote 3 on page 196.

Chart 5: **Equity investment in the U. S. by foreigners and abroad by U. S. investors has shown an upward trend over the past decade.**




Source: *Treasury Bulletin.*

## International currency convertibility has encouraged growth of international stock transactions

The current volume of international trading in corporate stocks reflects the resurgence of the international movement of private long-term investment funds as nations have gradually relaxed the strict controls on capital export which many of them had in effect at the end of World War II. The postwar revival of the international flow of private capital, which began in the early 1950's, has accelerated since December 1958 when major European nations achieved external currency convertibility—which meant that from that date nonresidents who acquired those currencies in payment for current exports of goods and services were in general freely permitted to exchange them for any other foreign currency (including dollars) at rates within the official exchange rate margins.[1]

However, none of the European nations concerned simultaneously granted nonresident convertibility at rates within the official margins for all payments of a capital nature.[2] The continuation of foreign exchange controls governing international investment transactions reflected the fact that these nations did not consider the postwar improvement in their international financial position sufficient to warrant removal of all controls on international capital transactions in addition to freeing all current transactions in exports and imports of goods and services from foreign exchange controls.

Although the United States emerged from World War II with a strong international financial position, many nations in western Europe, and also Japan, had experienced a substantial loss of gold and convertible currency reserves, in combination with destruction of production facilities. In order to insure that the available supply of scarce foreign currencies (particularly dollars) and of gold would be spent on imports essential to the rebuilding of the economy, these nations regulated the international expenditures of their residents, including international capital transactions, by means of foreign exchange control. As these countries — particularly those of western Europe—recovered from the ravages of war, as internal inflationary pressures were checked, and as modern plant and equipment were installed, they were able gradually to relax various restrictions on payments abroad. By the end of 1958, the international reserves of the leading industrial countries of Europe had strengthened to the point where it was feasible to allow nonresidents to convert freely into foreign currencies their earnings from current transactions in goods and services. Nevertheless, many countries continued to maintain controls of various sorts on capital transactions.

## Exchange controls can inhibit international security transactions

Since the United States has no controls on capital transactions, it may be useful to look briefly at the workings of the exchange control system of a major foreign country as it affected stock transactions. For example, at the beginning of 1959 the United Kingdom still retained various restrictions on the use of proceeds from the purchase or sale of British stocks held by foreigners and on the purchase or sale of foreign stocks owned by residents of the United Kingdom. Nonresidents who sold sterling securities in the United Kingdom were required either to credit the proceeds to a Blocked Account (where the funds would not be at the free disposal of the seller) or to reinvest the proceeds in a sterling area security having at least five years to maturity.

An American investor who sold British stocks on the London Stock Exchange but did not wish to reinvest in other British stocks could sell the proceeds, for dollars, to another American or other nonresident for investment in British securities but would be likely to have to accept an exchange rate below the dollar/sterling market rate because only sterling earned from current transactions was eligible for conversion into dollars or other foreign currencies at the current market rate within official limits. The discount on so-

[1] However, while this principle applied generally to outgoing payments, few countries regarded all currencies as acceptable in payment for their exports.

[2] However, on January 21, 1959, the Federal Republic of Germany, freed from remaining restrictions all transactions in domestic and foreign securities (with the exception of German money market paper) between residents and nonresidents. In this connection, it may be noted that Germany's net reserves increased by nearly $1.6 billion during the two years ended December 1958. (Net reserves consisted of central bank or other official holdings, excluding International Monetary Fund and European Payments Union positions and net of any other foreign exchange liabilities shown in the central bank returns or other official sources. Figures were taken from national sources.)

called "security sterling" fluctuated in response to the degree of foreign investor interest in sterling securities. This discount tended to inhibit the foreign owner of British stocks from selling and also tended to discourage potential foreign investors from buying British stocks for fear of being "locked" in a portfolio position when they would otherwise choose to shift out of British stocks and into other stocks at a future date. Dividends, however, could be remitted at official rates.

At the same time, transactions in foreign securities by residents of the United Kingdom were hedged about with various restrictions. United Kingdom residents were permitted to sell outside the sterling area a security expressed in foreign currency and to reinvest the proceeds in other marketable securities expressed in foreign currency, with the added proviso, however, that if the security sold were a United States or Canadian dollar security, the proceeds must be used to purchase other United States or Canadian dollar marketable securities.[1] The restriction cited resulted in the creation of two pools of foreign currency capital receipts available for reinvestment; funds in the so-called "hard" pool that could only be reinvested in American or Canadian securities and funds in the "soft" pool that could be invested in securities issued in any country, including the United States and Canada, that was not in the sterling area. Funds thus could move from the "soft" pool to the "hard" pool but not in the opposite direction, acting therefore as a constraint on British portfolio investment in European stocks, for example. Funds available from both the soft pool and the hard pool tended to carry a premium over the market exchange rate because of their scarcity value. By May 1962, however, the two pools were amalgamated into a single pool of investment funds which could be used to buy non-sterling securities in any part of the world, thus expanding the range of choice for United Kingdom investors.

British foreign exchange regulations governing international stock transactions thus illustrate some of the various restrictions which were retained by many countries after the achievement of external currency convertibility on current account by major European countries in December 1958. Nevertheless, the achievement of external convertibility on current account signified a major improvement in the balance of payments position and in the official reserves of western European nations which had resulted from their remarkable economic recovery since the end of World War II, and thereafter provisions governing outgoing capital payments were increasingly liberalized. The continued liberalization of restrictions on international capital flows was one factor which helped to bring about the more than four-fold increase in total purchases and sales of American corporate stocks by foreigners over the decade 1952-61 from $1.3 billion to $5.8 billion and a more than two-fold rise over the decade in total purchases and sales of foreign stocks by residents of the United States from $0.6 billion to $1.6 billion.

## Summary

In recent years, a noteworthy share of long-term international capital has been devoted to trading in the equity issues of corporations in the United States, Canada, Latin America, western European countries, Japan, and Australia. The increase in the total volume of international stock transactions over the decade 1952-61 has been impressive and reflects greater purchases and sales of American corporate stocks by foreigners and of foreign stocks by residents of the United States.

[1] Transfers of resident capital to countries outside the sterling area required approval, but permission might be obtained to reinvest within six months foreign currency capital receipts in marketable securities expressed in foreign currency. A time limit of six months was also specified for reinvestment of proceeds from the sale of foreign securities by residents of the United Kingdom; otherwise the proceeds had to be sold to an authorized bank.

Against the background of increasing convertibility of currencies, growth and earning prospects of corporations in countries around the world are figuring more and more in the investment decisions of private investors in various countries. A nation's net inflow or outflow of funds from international investment in corporate equities also affects not only its balance of payments and hence the foreign exchange rate for its currency, but also affects the total domestic credit supply since net purchases of outstanding domestic stocks by foreigners release domestic investment funds, while net purchases of foreign stocks by residents absorb domestic investment funds. Net sales have the reverse effect. International stock transactions thus are a dynamic factor in the international flow of capital and may become even more important as international capital transactions are further liberalized. Trading in foreign stocks provides a means of channeling savings into those countries and firms seeking equity capital.

## BANKING AND CREDIT STATISTICS AND BUSINESS INDEXES—TWELFTH DISTRICT[1]

(Indexes: 1957-1959=100. Dollar amounts in millions of dollars)

| Year and Month | Condition items of all member banks[2, 7] | | | | Bank debits index 31 cities[4, 5] | Bank rates on short-term business loans[6, 7] | Total nonagricultural employment | Total mf'g employment | Car-loadings (number)[5] | Dep't store sales (value)[5] | Retail food prices[7, 8] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Loans and discounts | U.S. Gov't securities | Demand deposits adjusted[3] | Total time deposits | | | | | | | |
| 1929 | 2,239 | 495 | 1,234 | 1,790 | 19 | .... | ... | ... | 110r | 18 | 53 |
| 1933 | 1,486 | 720 | 951 | 1,609 | 8 | .... | ... | ... | 56r | 11 | 34 |
| 1939 | 1,967 | 1,450 | 1,983 | 2,267 | 14 | .... | ... | ... | 83r | 19 | 38 |
| 1952 | 8,839 | 6,619 | 10,520 | 7,502 | 65 | 3.95 | 84 | 82 | 108 | 73 | 95 |
| 1953 | 9,220 | 6,639 | 10,515 | 7,997 | 69 | 4.14 | 86 | 86 | 108 | 74 | 93 |
| 1954 | 9,418 | 7,942 | 11,196 | 8,699 | 71 | 4.09 | 85 | 84 | 103 | 74 | 93 |
| 1955 | 11,124 | 7,239 | 11,864 | 9,120 | 80 | 4.10 | 90 | 90 | 112 | 82 | 92 |
| 1956 | 12,613 | 6,452 | 12,169 | 9,424 | 88 | 4.50 | 95 | 96 | 112 | 91 | 94 |
| 1957 | 13,178 | 6,619 | 11,870 | 10,679 | 94 | 4.97 | 98 | 101 | 103 | 93 | 97 |
| 1958 | 13,812 | 8,003 | 12,729 | 12,077 | 96 | 4.88 | 98 | 96 | 96 | 98 | 101 |
| 1959 | 16,537 | 6,673 | 13,375 | 12,452 | 109 | 5.36 | 104 | 103 | 101 | 109 | 101 |
| 1960 | 17,139 | 6,964 | 13,060 | 13,034 | 117 | 5.62 | 106 | 103 | 95 | 110 | 103 |
| 1961 | 18,499 | 8,278 | 14,163 | 15,116 | 125 | 5.46 | 108 | 102 | 94 | 115 | 104 |
| 1961 | | | | | | | | | | | |
| September | 18,028 | 7,955 | 13,317 | 14,786 | 128 | 5.45 | 108 | 103 | 95 | 118 | 104 |
| October | 17,901 | 8,190 | 13,901 | 14,867 | 134 | .... | 109 | 104 | 100 | 115 | 104 |
| November | 18,212 | 8,182 | 13,944 | 14,874 | 122 | .... | 109 | 105 | 102 | 118 | 104 |
| December | 18,499 | 8,278 | 14,163 | 15,116 | 135 | 5.42 | 109 | 105 | 104 | 120 | 104 |
| 1962 | | | | | | | | | | | |
| January | 18,646 | 8,082 | 13,671 | 15,448 | 136 | .... | 110 | 106 | 107 | 119 | 105 |
| February | 18,622 | 7,820 | 13,163 | 15,647 | 133 | .... | 110 | 106 | 106 | 120 | 105 |
| March | 18,906 | 7,776 | 13,235 | 15,939 | 138 | 5.50 | 111 | 106 | 104 | 123 | 105 |
| April | 19,070 | 7,811 | 13,706 | 16,091 | 143 | .... | 111 | 107 | 104 | 118 | 105 |
| May | 19,328 | 7,582 | 13,945 | 16,352 | 140 | .... | 111 | 106 | 99 | 121 | 106 |
| June | 19,625 | 7,689 | 13,101 | 16,511 | 145 | 5.52 | 111 | 106 | 100 | 123 | 106 |
| July | 19,669 | 7,532 | 13,535 | 16,587 | 145 | .... | 112 | 107 | 106 | 123 | 105 |
| August | 20,017 | 7,309 | 13,255 | 16,655 | 138 | .... | 112 | 108 | ... | 124 | 105 |
| September | 20,165 | 7,471 | 13,446 | 16,772 | 143 | 5.49 | 113p | 109p | ... | 122 | 106 |

| Year and month | Industrial production (physical volume)[5] | | | | | | | Waterborne Foreign Trade Index[7, 9, 10] | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Petroleum[7] | | | | | | Exports | | | Imports | | |
| | Lumber | Crude | Refined | Cement | Steel[7] | Copper[7] | Electric power | Total | Dry Cargo | Tanker | Total | Dry Cargo | Tanker |
| 1929 | 87 | 91 | 61 | 34 | ... | 89 | 13 | 96 | 61 | 193 | 20 | 55 | * |
| 1933 | 36 | 54 | 39 | 17 | ... | 15 | 11 | 55 | ... | ... | 12 | ... | ... |
| 1939 | 65 | 70 | 49 | 35 | 16 | 70 | 17 | 82 | 43 | 190 | 16 | 42 | 1 |
| 1951 | 102 | 111 | 87 | 80 | 97 | 101 | 58 | 94 | 78 | 137 | 27 | 60 | 7 |
| 1952 | 105 | 112 | 90 | 77 | 92 | 100 | 61 | 86 | 81 | 102 | 33 | 60 | 18 |
| 1953 | 106 | 114 | 95 | 82 | 105 | 98 | 69 | 71 | 56 | 113 | 51 | 70 | 41 |
| 1954 | 105 | 111 | 92 | 83 | 85 | 90 | 73 | 67 | 57 | 96 | 44 | 71 | 28 |
| 1955 | 111 | 111 | 96 | 90 | 102 | 104 | 82 | 84 | 72 | 116 | 51 | 80 | 35 |
| 1956 | 109 | 109 | 100 | 97 | 108 | 114 | 89 | 101 | 105 | 91 | 75 | 86 | 69 |
| 1957 | 96 | 106 | 103 | 93 | 114 | 113 | 95 | 116 | 124 | 96 | 95 | 93 | 97 |
| 1958 | 98 | 98 | 96 | 99 | 94 | 101 | 97 | 89 | 86 | 96 | 92 | 95 | 91 |
| 1959 | 106 | 96 | 101 | 108 | 92 | 86 | 107 | 95 | 90 | 108 | 112 | 113 | 112 |
| 1960 | 100 | 95 | 104 | 101 | 102 | 112 | 115 | 122 | 123 | 116 | 132 | 115 | 136 |
| 1961 | 99 | 96 | 108 | 105 | 111 | 119 | 124 | ... | ... | ... | ... | ... | ... |
| 1961 | | | | | | | | | | | | | |
| August | 101 | 95 | 109 | 100 | 119 | 93 | 128 | 125 | 130 | 109 | 132 | 119 | 140 |
| September | 101 | 96 | 110 | 102 | 113 | 120 | 125 | 109 | 128 | 59 | 138 | 119 | 149 |
| October | 100 | 96 | 111 | 107 | 117 | 129 | 132 | 105 | 125 | 52 | 143 | 132 | 150 |
| November | 103 | 96 | 112 | 114 | 107 | 128 | 130 | 129 | 134 | 115 | 124 | 113 | 130 |
| December | 97 | 96 | 110 | 95 | 107 | 126 | 125 | 138 | 150 | 105 | 119 | 117 | 120 |
| 1962 | | | | | | | | | | | | | |
| January | 97 | 94 | 108 | 103 | 119 | 124 | 132 | 124 | 131 | 102 | 125 | 111 | 132 |
| February | 103 | 94 | 110 | 95 | 120 | 138 | 126 | 137 | 143 | 123 | 94 | 107 | 86 |
| March | 104 | 95 | 106 | 109 | 112 | 130 | 130 | 133 | 124 | 130 | 120 | 128 | 116 |
| April | 102 | 95 | 105 | 120 | 98 | 140 | ... | 107 | 121 | 67 | 140 | 117 | 154 |
| May | 104 | 96 | 108 | 113 | 104p | 136 | ... | 134 | 145 | 103 | 137 | 138 | 137 |
| June | 99 | 96 | 112 | 100 | 97p | 130 | ... | ... | ... | ... | ... | ... | ... |
| July | 101 | 96 | 115 | 110 | 83p | 112 | ... | ... | ... | ... | ... | ... | ... |
| August | ... | 97 | 114 | 114 | 88p | 120p | ... | ... | ... | ... | ... | ... | ... |

[1] Adjusted for seasonal variation, except where indicated. Except for banking and credit and department store statistics, all indexes are based upon data from outside sources, as follows: lumber, National Lumber Manufacturers' Association, West Coast Lumberman's Association, and Western Pine Association; petroleum, cement, and copper, U.S. Bureau of Mines; steel, U.S. Department of Commerce and American Iron and Steel Institute; electric power, Federal Power Commission; nonagricultural and manufacturing employment, U.S. Bureau of Labor Statistics and cooperating state agencies; retail food prices, U.S. Bureau of Labor Statistics; carloadings, various railroads and railroad associations; and foreign trade, U.S. Department of Commerce. [2] Annual figures are as of end of year, monthly figures as of last Wednesday in month. [3] Demand deposits, excluding interbank and U.S. Government deposits, less cash items in process of collection. Monthly data partly estimated. [4] Debits to total deposits except interbank prior to 1942. Debits to demand deposits except U.S. Government and interbank deposits from 1942. [5] Daily average. [6] Average rates on loans made in five major cities, weighted by loan size category. [7] Not adjusted for seasonal variation. [8] A new index now combining not only Los Angeles, San Francisco, and Seattle food indexes but also Portland. Reweighted by 1960 Census figures on population of standard metropolitan areas. [9] Commercial cargo only, in physical volume, for the Pacific Coast customs districts plus Alaska and Hawaii; starting with July 1950, "special category" exports are excluded because of security reasons. [10] Alaska and Hawaii are included in indexes beginning in 1950. p—Preliminary. r—Revised. * Less than 0.5 percent.