

JUNE 1962

survey of

CURRENT
BUSINESS



U.S. DEPARTMENT OF COMMERCE

OFFICE OF BUSINESS ECONOMICS

SURVEY OF CURRENT BUSINESS

JUNE 1962

VOL. 42, NO. 6



U.S. Department of Commerce
Luther H. Hodges
Secretary

Office of Business Economics

M. Joseph Meehan
Director

★ ★ ★
 Louis J. Paradiso
Managing Director

Murray F. Foss
Editor

K. Celeste Stokes Billy Jo Dawk
Statistics Editor *Graphics*

**STAFF CONTRIBUTORS
 TO THIS ISSUE**

Business Review and Features:

Frederick M. Cone
 Irvin Rottenberg
 L. Jay Atkinson
 Cecelia Winstead
 Genevieve B. Wimsatt
 Marie P. Hertzberg
 Eleanor S. Kear

Special Articles:

Walther Lederer
 E. Seymour Kerber
 Etienne H. Miller

★ ★ ★

Subscription prices, including weekly statistical supplements, are \$4 a year for domestic and \$7.50 for foreign mailing. Single issue 30 cents.

Make checks payable to the Superintendent of Documents and send to U.S. Government Printing Office, Washington 25, D.C., or to any U.S. Department of Commerce Field Office.

Contents

BUSINESS REVIEW	PAGE
Summary.....	1
General Business Moves Ahead, but With More Mixed Movements— Stock Prices Decline	
National Income and Corporate Profits.....	2
Steel Inventory Swings in Early 1962.....	3
Residential Construction.....	5
Capital Outlays in Moderate Uptrend.....	7
Inventory Expectations for 1962.....	10
Growth in Business Population Slowed in 1961 and 1962.....	11
 ARTICLES	
THE BALANCE OF INTERNATIONAL PAYMENTS IN THE FIRST QUARTER OF 1962.....	12
Extent of Improvement—New Data on Government Grants and Credits by Program, in Relation to Other Balance-of-Payments Items	
FOREIGN TRAVEL IN 1961 MAINTAINED—RISE IN 1962 UNDERWAY.....	20
 CURRENT BUSINESS STATISTICS	
General.....	S1-S24
Industry.....	S24-S40
Subject Index.....	Inside Back Cover

U.S. DEPARTMENT OF COMMERCE FIELD OFFICES

Albuquerque, N. Mex., U.S. Courthouse. CHapel 7-0311.
Atlanta 3, Ga., Home Savings Bldg., 75 Forsythe St., NW. JACKson 2-4121.
Boston 10, Mass., Room 230, 80 Federal St. CAPitol 3-2312.
Buffalo 3, N.Y., 504 Federal Bldg., 117 Ellicott St. TL 3-4216.
Charleston 4, S.C., Area 2, Sergeant Jasper Bldg., West End Broad St. 722-6551.
Cheyenne, Wyo., 207 Majestic Bldg., 16th St. and Capitol Ave. 634-2731.
Chicago 6, Ill., Room 1302, 226 W. Jackson Blvd. ANdover 3-3600.
Cincinnati 2, Ohio, 809 Fifth Third Bank Bldg., 36 E. Fourth St. DUNbar 1-2200.
Cleveland 1, Ohio, Federal Reserve Bank Bldg., E. 6th St. and Superior Ave. CHerry 1-7900.
Dallas 1, Tex., Room 3-104 Merchandise Mart. RIVERside 8-5611.

Denver 2, Colo., 142 New Custom House. KEYstone 4-4151.
Detroit 26, Mich., 438 Federal Bldg. WOODward 3-9330.
Greensboro, N.C., 407 U.S. Post Office Bldg. BRoadway 3-8234.
Honolulu 13, Hawaii, 202 International Savings Bldg. Phone 58831
Houston 2, Tex., U.S. Courthouse and Federal Office Bldg., 515 Rusk Ave. CAPitol 2-7201.
Jacksonville 2, Fla., 512 Greenleaf Bldg. ELgin 4-7111.
Kansas City 6, Mo., Room 2011, 911 Walnut St. BALtimore 1-7000.
Los Angeles 15, Calif., Room 450, 1031 S. Broadway. Richmond 9-4711.
Memphis 3, Tenn., 212 Falls Bldg. JACKson 6-3426.
Miami 32, Fla., 14 NE. First Avenue. FRanklin 7-2581.
Minneapolis 1, Minn., Room 304, New Federal Bldg. 339-0112

New Orleans 12, La., 333 St. Charles Ave. 529-2411.
New York 1, N.Y., Empire State Bldg. LONGacre 3-3377.
Philadelphia 7, Pa., Jefferson Bldg., 1015 Chestnut St. WALnut 3-2400.
Phoenix 25, Ariz., 230 N. First Ave. Phone 261-3285.
Pittsburgh 22, Pa., 355 Fifth Ave. GRant 1-0800.
Portland 4, Oreg., 217 Old U.S. Courthouse Bldg. CAPITAL 6-3361.
Reno, Nev., 1479 Wells Ave. Phone 2-7133.
Richmond 19, Va., 2105 Federal Bldg. 649-3611.
St. Louis 3, Mo., 2511 Federal Bldg. MAIN 1-8100.
Salt Lake City 1, Utah, 222 SW. Temple St. DAVIS 8-2911.
San Francisco 11, Calif., Room 419 Customhouse. YUCon 6-3111.
Savannah, Ga., 235 U.S. Courthouse and P.O. Bldg. ADams 2-4755.
Seattle 4, Wash., 809 Federal Office Bldg., 909 First Ave. MUTual 2-3300.

The Business Situation



BUSINESS activity continued to rise in May although the major economic indicators were mixed in character. Employment, income, and industrial production moved higher over the month, but the changes were small and retail sales were off a little from the high April results. Homebuilding has been increasing and seasonally adjusted purchases of automobiles last month were close to the heavy April volume.

On the basis of the first 2 months of the second quarter total output continues up with a substantial gain in final sales to a peak rate. Part of this rise has been offset by a slackened pace of inventory accumulation, primarily by steel users.

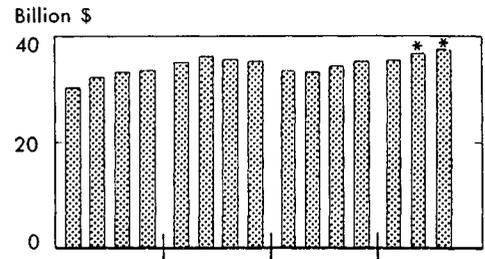
As compared with the first 3 months of 1962 the current quarter finds a sharp rebound in homebuilding, a further pickup in Government expenditures, in business outlays for plant and equipment, and in consumption expenditures, but a sharply reduced rate of inventory accumulation. The business anticipations survey detailed elsewhere in this issue points to some improvement in the rate of business fixed investment in the summer quarter.

Personal income reached \$440 billion rate

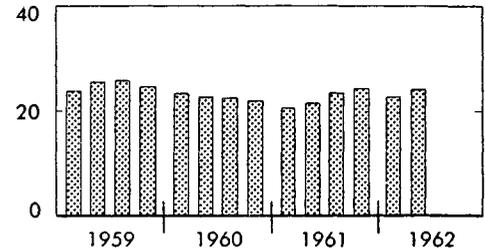
Personal income rose to a seasonally adjusted annual rate of \$440 billion in May, a billion dollar (annual rate) rise over April and \$27 billion over May 1961. The latest advance followed monthly increases of \$2½ to \$3 billion earlier in 1962, though it should be noted that second quarter personal income so far is running about \$6½ billion above the first quarter 1962 rate.

The income rise reflected a somewhat varied picture in employment, hours, and earnings as wage and salary dis-

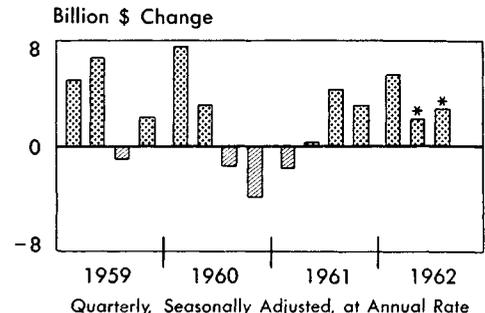
BUSINESS INVESTMENT
PLANT AND EQUIPMENT in Second Half Expected To Show a Modest Rise
No Change in 1962 Total From Programs Reported In February



HOUSING ACTIVITY Shows a Good Pickup This Spring After Poor First Quarter



Accumulation of FACTORY INVENTORIES Expected to Slacken as Steel Stocks Are Liquidated



* Anticipated
 Data: SEC & CBE, Census
 U.S. Department of Commerce, Office of Business Economics 62-6-1

bursements rose by \$0.7 billion from the previous month. Total nonfarm employment (establishment basis) made only a small advance—60,000 after seasonal adjustment. Employment was higher in manufacturing, trade, and Government, with the other industry divisions showing minor variations after seasonal adjustment. Hours of work in manufacturing, however, rose less than the usual seasonal amount and with rates of pay not much changed manufacturing payrolls advanced by only \$0.1 billion. The largest payroll increase was in Government, which registered an advance of \$0.3 billion over the month while service industries rose by \$0.2 billion.

Changes in nonwage income were small. For most of the main components there were minor increases, which totaled \$½ billion higher than April and almost \$6 billion above May 1961.

Retail sales off

Retail sales continued at a high volume during May though they did not quite match the record total for the month of April. The advance report for May indicates that after seasonal adjustment sales were off by about 1 percent, with widespread declines at durable goods stores accounting for the entire dip. The May figure was 8 percent above the year-ago total.

Total sales of new domestically produced automobiles were maintained at a high level in May though after adjustment for trading days and seasonal factors dealers' sales were off a bit from April. Dealers sold 660,000 new units

last month, the best monthly total since the summer of 1955.

Industrial production higher

Industrial production increased again in May with diverse changes from the previous month. Durable goods and mining output leveled off while non-durables moved up slightly and public utilities registered a large advance. The Federal Reserve Index for May was 9

percent above the year-ago figure.

In durable goods the sharp drop in steel production was sufficient to offset the good-sized increase in transportation equipment, especially motor vehicles, and smaller advances in machinery, fabricated metals, instruments, and building materials.

Decrease in stock prices

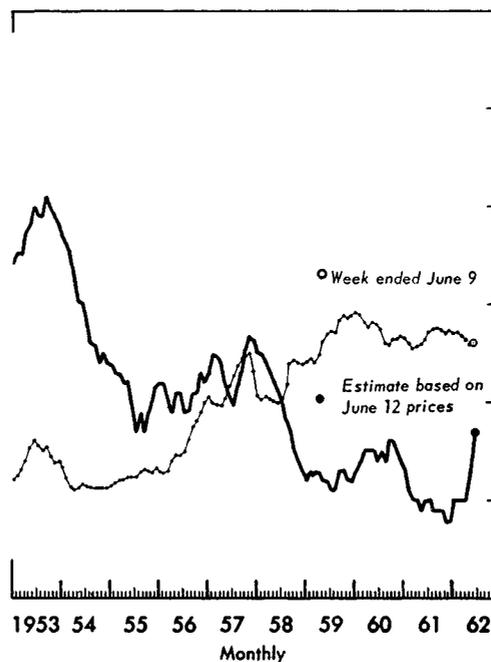
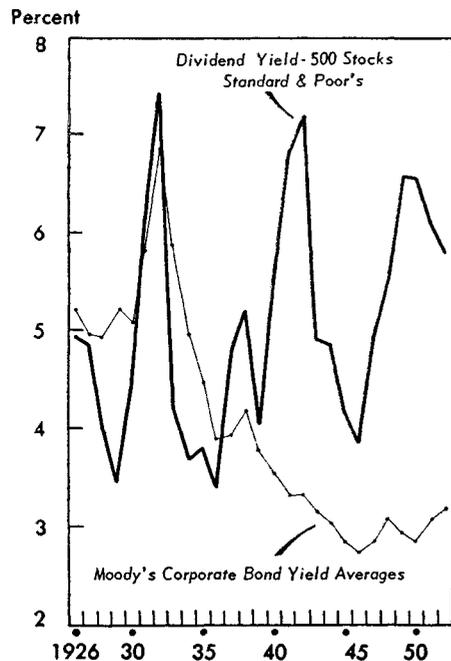
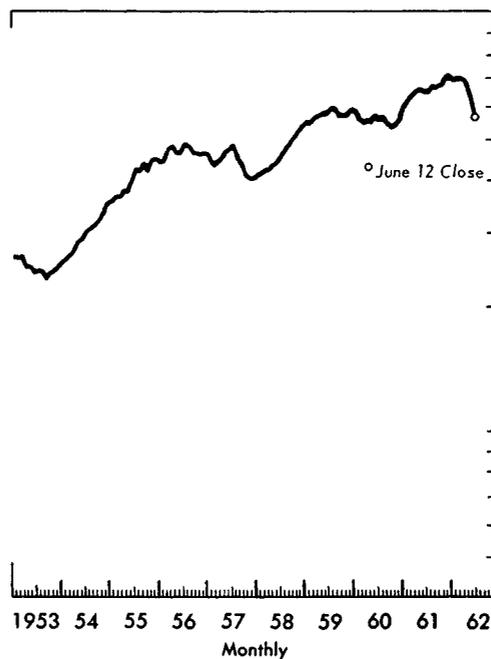
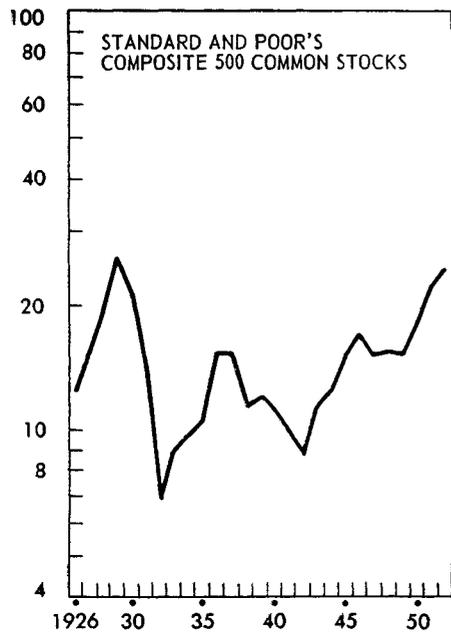
During the month of May stock prices underwent an unusually sharp

decline, which continued into the first 2 weeks of June. The break in price followed a downward tendency from the peak in mid-December of 1961 to mid-May, which saw a decline of 11½ percent in Standard and Poor's Index of common stock prices. A further decline over the following 4 weeks, during which prices fluctuated very markedly and trading was unusually heavy brought about an additional 12½ percent decrease and erased the price gains that had been made since the end of 1960.

Since dividends have been moving up slightly over this period the price decrease has brought about a considerable rise in yields from the low to which they had fallen at the market peak. Yields had been showing a generally downward trend through the 50's as the rise in prices per share considerably outstripped the increase in dividends; by last November they had dropped to 2.84 percent, based on Standard and Poor's data, compared with post-war peaks of over 6 percent in 1949-50. Yields averaged 3½ percent in May and were up to approximately 3.7 percent in mid-June. Dividend yields continue to be lower than average corporate bond yields—a condition that has persisted since late 1958—though the current spread is now the lowest since the third quarter of 1960.

MOVEMENT OF COMMON STOCK PRICES AND COMPARISON OF STOCK AND BOND YIELDS, 1926-62

1941-43=10 (ratio scale)



NATIONAL INCOME AND CORPORATE PROFITS in the 1962 First Quarter

Corporate profits in the first 3 months of 1962 were at a seasonally adjusted annual rate of \$51½ billion, compared with the record high of \$52 billion reached in the cyclical upsurge in the last quarter of 1961. The advance over the \$40 billion total in the corresponding quarter a year ago was 29 percent. The relative stability of corporate profits reflected the fact that the advance in output (GNP) from the fourth to first quarters was moderate and concentrated mainly in services, where the corporate form of organization is comparatively limited.

Profits, including inventory valuation gains and losses due to price changes in addition to earnings from current production, declined from \$52.4 billion in

the fourth quarter to \$51.3 billion in the first. The larger decrease in this measure of profits reflected a shift from inventory valuation gains to losses.

After-tax income was down $\frac{1}{2}$ billion from the fourth quarter to a \$26 billion rate. Dividends were maintained at the \$15 billion rate of the previous 3-month period, and retained net earnings were off accordingly; with depreciation allowances higher, however, corporate cash flow was virtually unchanged from the fourth quarter.

Profits in most industries were little changed from the fourth to the first quarter, but there were small declines in earnings of durable goods producers and of banks. Bank profits were off mainly because of the higher interest rates paid this year on savings deposits.

The first-quarter decline in profits in durable goods manufacturing reflected reduced purchases of automobiles and accessories from the fourth quarter 1961 high. Sales have improved in the current quarter. The strongest advance in the durables lines was experienced by the primary metals industries where output was high due to the oft-noted inventory buildup; subsequently, production has been lowered as pointed out in the review of the steel industry.

Income in nondurable goods manufacturing industries showed mixed movements, with the total unchanged from the final 1961 quarter. In spite of severe price competition, the petroleum industry improved its profits position in the initial 1962 quarter. In contrast, price weaknesses in the chemicals industry held first quarter income below that of the earlier period. In most other nondurable goods industries, changes from the previous quarter were moderate.

The railroad industry's earnings in this year's opening quarter matched the fourth quarter rate; earnings in the communications and utilities industries continued to expand. Trade profits, though sharply above those of the first quarter of last year, were little changed from the fourth quarter to the first.

Rise in national income

With these profits data now available, first-quarter national income is estimated at an annual rate of \$453 billion, \$5 billion above the fourth quarter.

Apart from the small decline in corporate earnings, there were increases of $\frac{1}{2}$ billion in net interest and \$5 billion in employee compensation. Other components of national income were about the same in the fourth and first quarters.

Changes in national income by industry generally followed shifts in the pattern of output by type of product. As a reflection of the step-up in services, income originating in the trade, and service industries and in government

rose nearly \$4 billion in the first quarter, with each of the three groups sharing in the rise in approximately equal proportions. Increased output in the transportation and public utility industries added another billion dollars to the national income total.

Conversely, the lesser demand for goods and residential construction resulted in limited increases or declines in national income originating in the commodity-producing industries.

Steel Inventory Swings in Early 1962

THE inventory accumulation of \$6.8 billion in the first quarter of 1962 (annual rate), as measured in the income and product accounts, was spurred by the hedging of business firms against the now-terminated threat of a possible strike in the steel industry. The settlement of a wage contract eliminated the need for such hedging, and in the late spring and early summer these stocks are being reduced. This swing had significant effects upon the inventory component of the gross national product raising it in the first and lowering it in the second quarters.

Shipments of finished steel products, which had averaged less than 6 million tons per month in the second half of 1961, moved ahead briskly in the first quarter of 1962 as consumers in a broad range of manufacturing and non-manufacturing industries made preparations for the possibility of a steel strike that would close out their supply sources. New orders booked by steel producers jumped by one-third in December and this was followed by stepped-up shipments in the early months of 1962.

First quarter shipments of finished steel products totaled 21.2 million tons, 3.6 million tons above fourth quarter shipments (see table 1), and these continued high in the early part of the second quarter. The sharp fall in new orders during April presaged the fall in production and shipments under way currently.

The inventory accumulation of finished steel products by steel consuming manufacturers in the first quarter was

2.6 million tons (see table 2), and another 500,000 tons were added in April (see chart).

Stocks of finished steel products held by producers and steel warehouses also increased in the quarter so that the total inventory increase for manufacturers, warehouses, and producers was 3.5 million tons. Using \$180 per ton as a representative average price this tonnage converts to over \$600 million as the value of the increase in finished steel inventories, or an annual rate of about \$2.5 billion. Furthermore data on finished steel shipments by market type and on activity for the first quarter in nonmanufacturing steel-consuming industries suggest inventory accumulation of steel in these sectors also.

Table 1.—New Orders Received by Steel Companies, Production and Shipments of Finished Steel Products

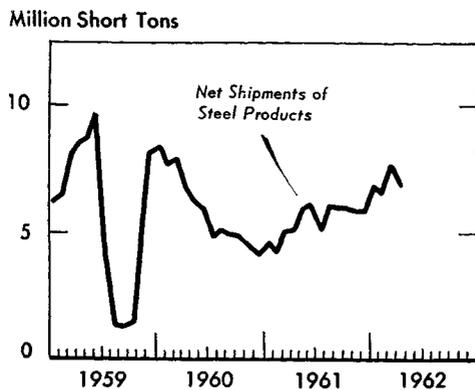
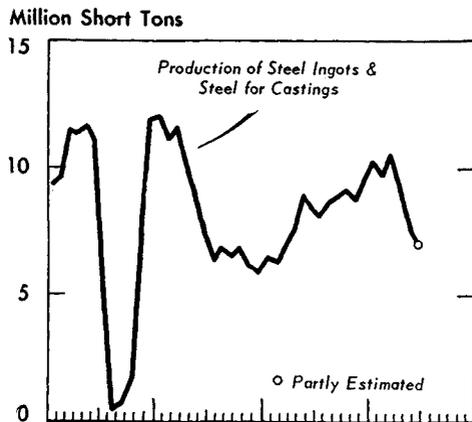
	New orders (billions of dollars seasonally adjusted)	Shipments of finished steel	Production of ingots and steel for castings
			(Million tons)
1961			
July.....	1.47	5.12	8.09
August.....	1.52	6.14	8.66
September.....	1.46	6.06	8.92
October.....	1.45	6.05	9.17
November.....	1.48	5.79	8.75
December.....	1.94	5.79	9.57
1962			
January.....	1.86	6.91	10.35
February.....	1.45	6.63	9.70
March.....	1.34	7.70	10.58
April.....	.79	6.78	9.23
May.....	n.a.	n.a.	7.50

n.a. Not available.

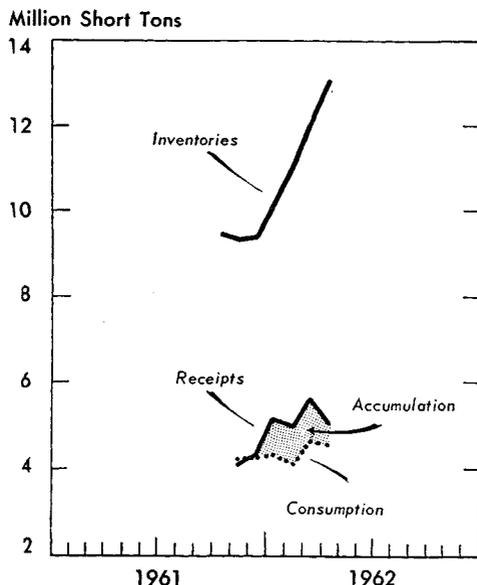
Source: U.S. Department of Commerce, Office of Business Economics and American Iron and Steel Institute.

STEEL SHIPMENTS, CONSUMPTION, AND STOCKS

Steel Production and Shipments Increased Sharply in the First Quarter but Have Since Declined



With Receipts Well Above Consumption, Fabricators Accumulated Inventories of Steel Products



Data: AISI & Census

Shipments by steel producers to the construction industries, railroad and transit, and oil and gas fields were up from 4.1 million tons in the fourth quarter to 4.7 million in the first quarter. In these periods purchases of finished steel by construction firms were up by 250,000 tons according to the American Iron and Steel Institute, while construction dollar volume was down by 20 percent, a greater-than-seasonal decline.

In summary, the steel inventory accumulation in the first quarter was probably in the range of \$3 billion at an annual rate, while the data in table 2 suggest that there was little increase in the fourth quarter of 1961. The significance of this figure in first-quarter activity may be noted by comparing it with the GNP increase of \$6 billion (annual rate) in the first quarter.

Second quarter developments

Early settlement of wage negotiations by labor and management ended the need for abnormally large steel inventory holdings by consumers. April shipments by the steel industry of 6.8 million tons against orders placed before the wage settlement were still at a high level and exceeded consumption. As a result manufacturers added 500,000 tons to their inventory holdings. However, output and shipments of steel have been declining sharply in May and June.

From a March high of 10.6 million tons of ingot production, there was a decline to an early June rate of 7 million tons. Thus, June production may be off by as much as one-third from March; shipments, being partly supported by the earlier production of steel concerns, may be down by somewhat less—or one-fourth.

The swing of steel product inventory holdings is also discernible by considering the new orders received by iron and steel producers in recent months (see table 1). April orders were down about 40 percent from March and more than 60 percent from the very high rate at the turn of the year. While the first quarter shipments were about 20 percent above the rate of consumption, it appears that this will have been reversed by June, with shipments perhaps 15 or 20 percent below consumption.

It is clear that steel users were adjusting their steel inventory position in the latter part of the second quarter and the process will probably continue into the third quarter. In any case the reduction of steel stocks in the second quarter is a substantial drag on total GNP.

In summary, it appears as though the actions of business firms in protecting themselves against a possible strike had the net effect of shifting production forward to the first quarter of 1962 from the second quarter and probably from the third quarter.

Table 2.—Inventories of Steel Mill Shapes Held by Steel Consumers (Manufacturers), Steel Producers, and Steel Warehouses

[Million short tons]

	Steel consumers			Steel warehouses, month-end inventories ¹	Steel producers, month-end inventories	
	(Manufacturers only)				Steel in process	Finished steel
	Receipts	Consumption	Month-end inventories			
1961						
October.....	n.a.	n.a.	9.4	3.1	n.a.	n.a.
November.....	4.1	4.2	9.3	3.1	7.6	6.6
December.....	4.3	4.2	9.4	3.2	8.3	7.0
1962						
January.....	5.1	4.3	10.2	3.4	8.5	7.3
February.....	4.9	4.1	11.0	3.4	8.5	7.5
March.....	5.6	4.6	12.0	3.6	7.9	7.5
April.....	5.0	4.5	12.5	3.6	7.6	7.5

¹ Derived by Census from dollar figures using \$180 per ton. n.a. Not available.

Source: U.S. Department of Commerce, Bureau of the Census.

Residential Construction

AFTER rising through most of 1961 housing activity fell more than seasonally in the first 2 months of the year, but beginning in March, there was a renewed pickup which continued through May. In the first quarter of 1962 the total value of residential construction put in place was off \$1 billion on a seasonally adjusted annual rate basis from the final quarter of 1961, but an expansion in the second quarter more than offset the earlier decline.

Housing starts were at a low rate during the winter but have shown a more-than-seasonal rise this spring. During the first 5 months of the year seasonally adjusted private nonfarm starts averaged 1.4 million, annual rate.

In the areas requiring permits—these account for roughly 85 percent of total starts—the number of permits issued remained at a high rate through the winter and early spring after seasonal adjustment; they were well above the level of the past 2 years, and nearly as high as in early 1959, just before the building boom of that year. Since last fall, a higher-than-usual proportion of permits issued has not been started, so that a backlog of unused permits accumulated in the intervening months through April.

This may be partly attributable to an increased proportion of multifamily units, where the lag between the issuance of the permit and the beginning of construction is sometimes rather long. Past surveys by the Bureau of the Census have indicated that the proportion of permits which is permitted to lapse is quite small. Thus the sizable backlog of unused permits (100,000 at the end of April) is a favorable aspect of the immediate outlook for residential starts and activity.

FHA-VA applications for new home commitment or appraisal in early 1962 have been at about the 1961 rate, a little higher than in the early part of the year but below the rate in the latter part. Applications for multifamily FHA projects have been lower this spring than a year earlier. A substantial part of the recent rise in housing

activity appears to be in conventionally financed multifamily projects.

Expansion in multifamily units

Multifamily units have been expanding for about 5 years, following a similar period of decline. They had reached a low of around 125,000 in 1956 before advancing to the high of 375,000 last year. In the past few months they have accounted for about one-third of all starts. This is the highest proportion of multifamily units to total starts in the postwar period, but it remains somewhat below the proportion obtained during the building boom of the 1920's. In the earlier period multifamily starts were nearly as high as the recent peak, but 1-family starts were considerably lower.

The forces affecting the rise in apartment building seem to be unusually varied. They include increased use of the more liberal depreciation allowances

in the tax revision of 1954 and in the case of cooperatives the tax advantages associated with ownership. In any case, they have brought a broad array of apartment structures in the larger metropolitan centers. Prominent in the expansion are rather luxurious small apartments—efficiency and 1-bedroom units—and also expensive larger-than-average sized apartments, many of which are cooperatives. Neither of these two types of apartments appears to be a direct reflection of the most prominent feature of the emerging demographic change as the larger wartime birth classes reach marriageable age.

Incipient marriage rise

The number of marriages has begun to rise in the past few years and is expected to show a more substantial advance during the immediate years ahead. For the next few years the increase will be in the age group under 25 years, and would be expected to be a direct influence upon relatively low-priced rental units. The number between 25 and 45—the age group who are most important in house buying—will not show any appreciable rise for a few years.

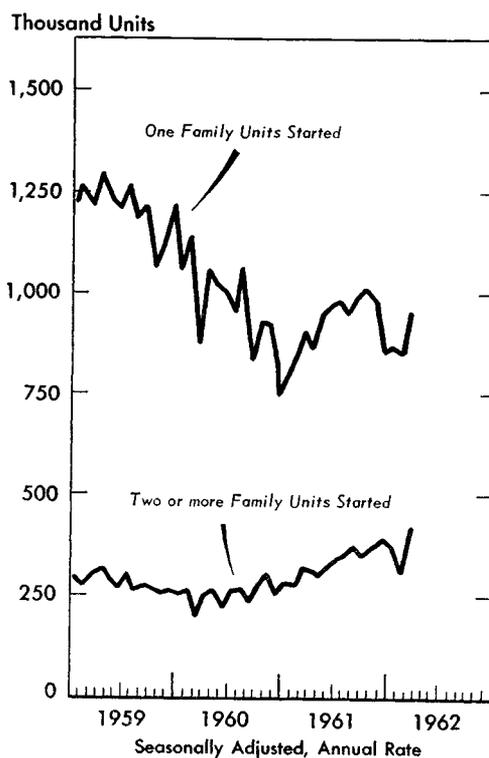
Housing expenses-income ratio higher for VA buyers

One of the favorable influences affecting housing demand is the continued expansion of income. Although time series are not available for the relationship between incomes of consumers and expenditures for the acquisition of all residences, such data are available for FHA-VA home buyers.

FHA buyers have on the average in recent years spent a relatively stable portion of their income for housing—about one-fifth of effective income before taxes. On the other hand VA purchasers have spent a rising proportion of income for housing expenses. In the past 5 years the average income of those veterans who have bought VA housing has shown only a small rise, but this has been accompanied by a larger advance in the average price of house purchased (+10 percent) and in the average housing expense (+25 percent). The average expenditure on housing in relation to income after taxes

TREND OF PRIVATE NONFARM HOUSING

Recovery in 1-Family Starts After Winter Drop
Activity Remains High in Apartment Construction



and social security deductions (essentially a "take-home" pay concept) for VA buyers rose from 22½ percent in 1956 to 29 percent in 1961.

Mortgage money plentiful

When broad demand factors are generally favorable, one of the short-term influences which appears to be especially important in affecting residential building is the availability of mortgage money. In past economic recoveries—and especially in 1959–60—the generally favorable effect of rising incomes has been offset by a tightening in the supply of mortgage money and a general stiffening in lending terms.

During the current period of business expansion, the supply of money available for mortgage lending has remained large. From the standpoint of the residential construction industry, mortgage funds have been available on gradually easing terms for conventional loans and with smaller discounts for FHA-VA commitments. For the Government-assisted loans—and especially VA—the principal change has been that mortgages are more generally available rather than any considerable reduction in the discount.

On the supply side, a series of influences have affected the lender's attitude toward mortgage lending. One is a large rise in new savings in thrift institutions in the wake of the increase in interest rates paid on savings around the beginning of the year. Although much of the rise is a switch from checking to savings accounts, a shift of this character affects the volume of funds available for long-term loans. Furthermore, business demand for long-term financing, especially for bonds, which are more directly competitive with mortgage loans, has been rather weak in the past several months.

As shown in the accompanying chart, the yield on recently issued AA corporate bonds has shown an appreciable decline since last summer. With a more limited decline in yield on FHA mortgages sold in the secondary market, the yield-spread in favor of FHA mortgages has risen during this period, increasing the relative attractiveness of these mortgages as compared to bonds.

Indeed, this is one of the striking aspects of the current period of cyclical expansion in economic activity. In earlier recoveries, a rise in business borrowing and in interest rates has tended to restrict the flow of funds into mortgages; the demand for residential credit has appeared to be more sensitive to increases in interest rates than other types of borrowing. Current statistics show a considerable increase in mortgage loan commitments by saving and loan associations and life insurance companies. It may be noted that the decline in bond yields was interrupted during May and early June coincident with a sharp fall in prices in the stock market. The increases in bond yields during these weeks were rather small, however, as compared to the preceding months' declines.

Longer term shifts

Among the longer term factors affecting the financing of residential home purchases are the combined trend toward lower downpayments and longer periods of amortization for each of the principal types of loans, as well as some shift from FHA-VA loans to conventional borrowing. For new homes, terms for VA loans have been the most liberal, and those loans made in recent periods have been on somewhat more relaxed terms than formerly. Thus, in 1961, over three-fourths of such loans on new houses were no-downpayment loans, a moderately higher proportion than in the 2 preceding years, and substantially higher than earlier. The average downpayment was \$330 for all VA houses last year, less than half of what it had been 3 years earlier (\$725). Practically all (96 percent) were for over 25-year amortization periods.

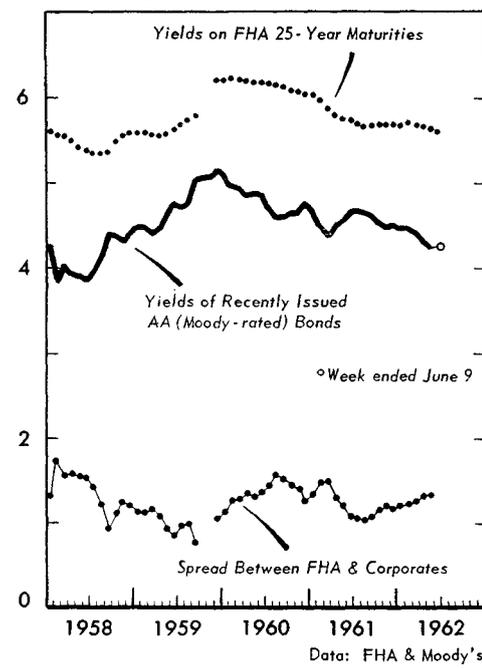
On the other hand, the number of VA home loans reached a postwar low in 1961 with a total of 133,000, down about 10 percent from 1960 and 1958. Of these, 78,000 were for new homes; this was less than half the volume of such homes in each year of the past decade until 1958. In summary, the current VA buyers have terms a bit more liberal than in earlier years, but a considerably smaller number are using these liberal terms—only 1 out of each 20 new home buyers.

FHA new house loans were also at a relatively low rate last year but not quite so low as in some other years when money was tight. Since lending terms are only moderately less liberal than VA, it is appropriate to consider them together. The two Government-assisted types of loans made for new houses totaled 210,000 last year, a little less than the previous low in 1958, and substantially less than the postwar peak of 530,000 in 1955. They accounted for about one out of six of the new houses purchased via mortgage financing last year.

COMPARATIVE YIELDS ON FHA MORTGAGES AND CORPORATE BONDS

**Yields on Bonds Have Declined More Than on FHA Mortgages
Spread Now About the Same as in the Spring Of 1960**

Percent Per Annum



U.S. Department of Commerce, Office of Business Economics 62-6-5

As the number of FHA-VA mortgages has declined, conventional mortgage loans have become more important for new house financing; they may have accounted for five out of six new houses purchased via mortgage financing. Downpayments on loans of savings and loan associations averaged 30 percent in 1961, a gradual decline from a 40 percent average a decade earlier. This rather moderate decline in the downpayment ratio has occurred during a period in which lending rules have been relaxed for savings and loan companies.

Beginning in 1958, federally chartered

savings and loan companies were granted authority to make loans of between 80 and 90 percent, and recently the permitted volume for such loans has

been increased. These loans more than doubled last year from the preceding year, reaching \$250 million. Although the comparatively liberal loans were

made throughout most areas of the United States, they nevertheless accounted for only about 4 percent of the \$6 billion savings and loan home loans.

Capital Outlays in Moderate Uptrend

Programmed Rise for Year 1962 Holds at 8 Percent

BUSINESS firms are budgeting modest increases in expenditures for new plant and equipment throughout 1962, extending the recovery initiated in mid-1961. If present plans are realized, spending late this year would be back to the record rate set in the third quarter of 1957, according to businessmen's anticipations reported in May in the latest quarterly plant and equipment expenditure survey conducted by the Department of Commerce and the Securities and Exchange Commission.

Expenditures for the full year 1962 are expected to total \$37.2 billion, or 8 percent higher than actual investment in 1961. In aggregate these planned expenditures are unchanged from those indicated by the previous survey 3 months ago.

Revisions among the various industry groups were offsetting. Reductions of 1 percent and 2 percent, respectively, in 1962 scheduled outlays were indicated by the public utilities and manu-

facturers, where the largest downward adjustment was in the steel industry. Capital budgets are now 2 percent to 6 percent higher for mining, railroads, nonrail transportation, communications, and commercial firms.

Actual expenditures in the first quarter of this year were at a seasonally adjusted annual rate of \$35.7 billion, or 1 percent higher than in the fourth quarter of 1961.

First quarter outlays were a little lower than anticipated but projected investment in the second quarter is now set higher than it was 3 months ago. The rates of spending now expected in the second and third quarters total \$37 billion and \$37.7 billion, respectively, while the annual figure implies a slightly higher fourth quarter.

As in the survey completed 3 months ago most industries plan rising expenditures during 1962. Mining, railroads, and nonrail transportation companies still indicate no rise in the rate of spending in the second half.

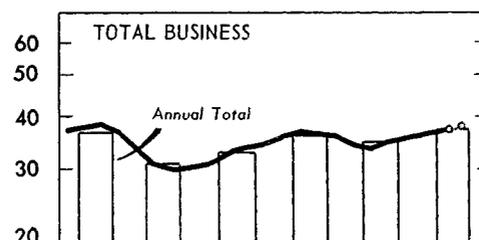
Capital spending recovery modest

With the current survey results, some characteristics of the investment recovery become clearer. First, capital spending turned up more quickly than in the three previous postwar expansions. The trough in the second quarter of 1961 came just one quarter after the low in gross national product as against earlier lags of two and three quarters.

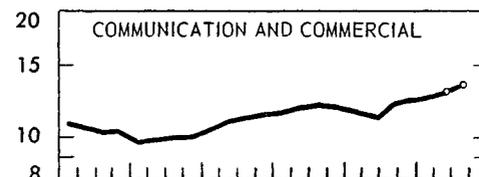
Expansion in capital goods buying from the 1961 trough has proceeded at about the same pace as in 1958-59, but much less rapidly than in 1955-56 or 1948-49. Planned expenditures for

PLANT AND EQUIPMENT EXPENDITURE PROGRAMS Hold at \$37.2 Billion in 1962—8 Percent Above 1961

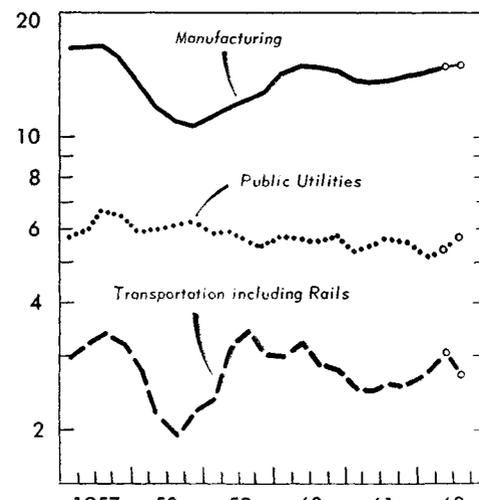
Billion \$ (ratio scale)



Communication and Commercial Companies Show Strong Rise



Spending Anticipated by Other Industries Below Previous Peaks Recent Shifts Add Up to Little Change From February Survey



Quarterly, Seasonally Adjusted, at Annual Rates
 O Anticipated
 Data: SFC & OBE

U.S. Department of Commerce, Office of Business Economics 62-6-6

Table 1.—Percent Changes in Plant and Equipment Expenditures

	1959-60	1960-61	1961-62
Manufacturing.....	20	-6	8
Durable goods industries.....	24	-13	12
Nondurable goods industries.....	16	1	4
Mining.....	0	-1	9
Railroads.....	11	-35	25
Transportation, other than rail.....	-4	-4	2
Public utilities.....	0	-3	0
Commercial and other ¹	6	1	12
Total.....	10	-4	8

¹ Includes trade, service, finance, communication, and construction.

Sources: U.S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.

Table 2.—Changes in Plant and Equipment Expenditures in Postwar Recoveries

Quarter of trough expenditures	Percentage increase in expenditures by 5th quarter after trough		
	All non-farm business	Manufacturing	Nonmanufacturing
1961 second quarter...	13	10	14
1958 third quarter....	13	19	10
1955 first quarter.....	34	44	28
1949 fourth quarter...	33	50	24

¹ Based on anticipated outlays for the third quarter of 1962.

Sources: U.S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.

the third quarter of this year are 13 percent above the low point five quarters earlier. Capital outlays had risen a similar amount by the fifth quarter following the trough in 1958 but had expanded by more than a third in the corresponding five-quarter period in each of the two earlier recoveries, i.e., 1955-56 and 1948-49. (See table 2.) From the table it can also be seen that the lag in rate of expansion centers in manufacturing.

Manufacturing investment

Manufacturers are now planning to spend \$14¼ billion this year on expanding and improving productive facilities. Estimated outlays for the current year would equal the 1960 high but would be \$1¼ billion under the 1957 record—a deficiency concentrated mostly in the durable goods industries.

The increase projected by durable

goods producers is especially noteworthy; they plan to spend \$7 billion this year—12 percent more than in 1961.

Machinery manufacturers—the major producers of capital equipment—expect to spend a record \$2 billion on modernizing and expanding facilities. For nonelectrical machinery companies, 1962 spending has been raised by more than 10 percent over the previous year, but is still a little short of the previous high. Producers of electrical machinery are holding planned expenditures at the record 1961 rate. Companies engaged in the output of various types of building materials are scheduling substantial increases in this year's expenditures for new plant and equipment.

Transportation equipment producers expect to invest 7 percent more this year than last, but the 1962 program is well under the 1956 record. Both motor vehicle and other transportation equipment manufacturers now contemplate a rather steady rate of spending during 1962.

Iron and steel and other primary metal producers also report moderate advances in capital outlays for this year. Current budgets are about \$½ billion lower than outlays in 1957 or 1960.

In the nondurable goods sector of manufacturing, sights were raised on capital spending between the February and May surveys. Higher budgets were reported by most of the con-

sumer-oriented industries such as food beverage, textile, and apparel.

Investment for the group as a whole is now projected at \$7.7 billion—for a 4 percent increase from last year and just under previous highs. Investment plans of all soft goods industries except chemicals and petroleum call for increased spending throughout 1962. Chemical and petroleum firms' expenditures are scheduled to decline by the third quarter to near their 1961 lows

Commercial investment strong

The plant and equipment programs of companies in trade, services and related activities continue to be the strongest area of fixed investment. Spurred by an expanding and mobile population with rising personal incomes these firms are seeking to improve their market positions by expansion and by greater internal operating efficiencies. More than \$13 billion is scheduled to be spent on new facilities in 1962 by commercial, construction, finance, and communications industries. The aggregate would be 12 percent greater than the 1961 total and the projected third quarter total would represent a new high.

Pacing the group are retail trade firms, whose current capital budgets have been revised upward since the previous survey. Retail sales during the first 5 months of this year are at a new high. These programs have been reflected in an upward trend in store construction, and in sharply rising orders placed with producers of store and office machinery.

Service, construction and finance firms have also projected rates of investment which, if achieved, will approximate previous highs—although the programmed expansions are relatively more moderate than in retail trade. Investment by communications firms was at a new record in the first quarter, after seasonal adjustment.

Transportation outlays show some recovery

The railroads and other transportation firms are projecting a common pattern of capital investment within 1962. Actual outlays in the first quarter continued the uptrend of last year. Plans for the second quarter contem-

Table 3.—Manufacturing Plant and Equipment Expenditures: Previous Peak, Previous Trough, and Third Quarter 1962 Anticipations

[Billions of dollars, seasonally adjusted at annual rates]

	Peak quarter 1956-57		Low quarter 1960-61		3d quarter 1962 anticipation
	Dollars	Date	Dollars	Date	
Manufacturing, total	16.37	3-57	13.50	2-61	14.80
Durable goods	8.31	2-57	6.10	3-61	7.10
Primary iron and steel.....	1.90	3-57	1.05	2-61	1.25
Primary nonferrous.....	.89	3-57	.25	2/3/4-61	.30
Electrical machinery.....	.65	3/4-56	.60	1-60	.70
Machinery, except electrical.....	1.33	4-57	1.05	{ 3/4-60 } 3-61	1.20
Motor vehicle and parts.....	1.78	2-56	.70	1/3-61	.75
Transportation equipment, excluding motor vehicles.....	.59	2-57	.35	3-61	.45
Nondurable goods	8.14	3-57	6.95	1-60	7.70
Food and beverages.....	.87	4-57	.90	{ 1/2/4-60 } 2-61	1.05
Textile.....	.48	3-56	.45	2-61	.60
Paper.....	.88	4-56	.65	3-61	.70
Chemicals.....	1.83	3-57	1.45	1-60	1.60
Petroleum.....	3.56	1-57	2.50	3-60	2.75

Sources: U.S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.

Manufacturers' Expectations in 1962

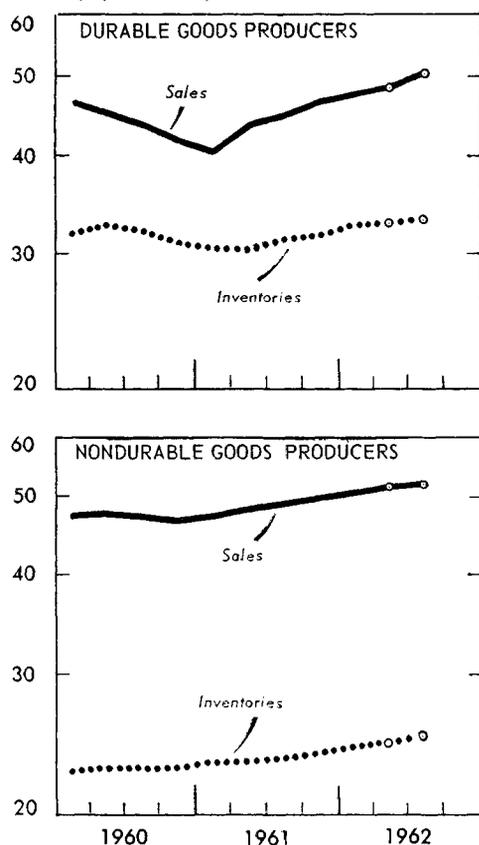
Sales Gains to Continue, but Inventory Accumulation Set at Slower Pace

MANUFACTURERS expect rising sales and a slackening rate of inventory increase during the spring and summer quarters, according to the latest anticipations survey conducted during May. The conservative inventory policy anticipated 3 months ago for the second quarter has now been extended through September. Actual sales and inventories for the first quarter came close to those anticipated by manufacturers 3 months ago. The sales outlook for the remainder of the year has been adjusted upward: sales anticipations for the current quarter are about 1½ percent higher than those indicated in

MANUFACTURERS EXPECT

Sales Rise to Continue at Steady Rate Through Third Quarter
Inventory Accumulation in Durables to Slacken From First Quarter Pace

Billion \$ (ratio scale)



○ Anticipated

Note: Inventories, end of quarter; Sales, total for quarter.

U.S. Department of Commerce, Office of Business Economics 62-6-7

the previous survey, while the expectation for the full year is also about 1½ percent higher than the 7 percent expectation reported in the annual plant and equipment survey in March.

Manufacturers expect 2 percent quarterly sales gains in the second and third quarters, after seasonal adjustment, a continuation of the first quarter rate of advance, but a slackening from the increases of 2½ percent per quarter in the second half of last year. Sales will exceed \$100 billion in the second and third quarters, successive records about one-tenth above the 1960 cyclical peak. By the third quarter sales are expected to be one-sixth above the 1961 cyclical low, an increase similar to that achieved in the two previous cycles in the first six quarters of recovery.

Inventory anticipations

Manufacturers expect to add \$½ billion to their inventories during the second quarter and \$700 million in the third quarter, after seasonal adjustment. These amounts are about one-half the inventory accumulations of the final two quarters of 1961 and the opening quarter of 1962.

The book value of producers' inventories is expected to reach \$57¼ billion, after seasonal adjustment, by September 30, compared to \$53.3 at the March 1961 cyclical low. Close to \$4½ billion will be added to stocks since the upturn began, if the inventory projections eventuate. This accumulation has been outpaced by the advance in sales, so that the expected stock-sales ratio of 1.7 in the third quarter compares with a ratio of 1.8 in early 1961.

Durable and nondurable trends

The threatened steel strike and its early settlement has been a major factor shaping sales and inventory plans of metal producers and metal users, which account for about four-fifths of activity in the durable goods sector. The inventory buildup of both

steel producers and metal fabricators in the first quarter is more fully discussed in this issue. The second and third quarters are expected to be periods of inventory correction, so that the accumulations in durable goods stocks are anticipated to amount to only \$125 million in the second quarter and about \$250 million in the third.

Durable goods sales, which had been rising about 3 percent per quarter since mid-1961, are expected to increase 2 percent in the second quarter—with a substantially lower rate of steel shipments a restraining influence—and return to the 3 percent rate in the third quarter. The stock-sales ratio which has been above 2 throughout most of the current recovery, is expected to fall slightly below this figure by Sep-

Table 1.—Manufacturers' Inventories and Sales: Actual and Anticipated

	[Billions of dollars]					
	Inventories, end of quarter			Sales, total for quarter		
	Total	Durables	Nondurables	Total	Durables	Nondurables
Unadjusted						
1960—I	54.7	32.1	22.6	92.5	45.9	46.6
II	54.9	32.2	22.7	93.2	46.0	47.2
III	54.3	31.6	22.7	89.7	41.7	48.0
IV	53.9	30.8	23.1	89.5	42.6	46.9
1961—I	53.8	30.8	23.0	86.4	39.7	46.6
II	53.6	30.5	23.1	93.1	44.9	48.2
III	53.8	30.6	23.1	92.5	42.9	49.5
IV	55.2	31.2	24.0	96.8	47.0	49.8
1962—I	56.9	32.7	24.2	96.6	47.0	49.6
II	57.3	32.8	24.4	101.6	50.3	51.4
III	57.4	32.6	24.8	100.6	48.2	52.4
Seasonally adjusted						
1960—I	54.3	31.8	22.6	93.5	46.3	47.2
II	55.1	32.2	22.9	92.8	45.0	47.8
III	54.7	31.8	22.9	90.7	43.6	47.1
IV	53.7	30.9	22.9	88.0	41.5	46.5
1961—I	53.3	30.3	23.0	87.2	40.2	47.1
II	53.4	30.2	23.2	91.7	43.4	48.3
III	54.4	31.1	23.3	93.8	44.8	49.1
IV	55.2	31.5	23.7	96.3	46.5	49.8
1962—I	56.6	32.4	24.2	98.1	47.8	50.3
II	57.1	32.5	24.5	100.1	48.7	51.3
III	57.8	32.8	25.0	102.1	50.3	51.8

1. Anticipations reported by manufacturers in May. Inventories have been corrected for systematic tendencies in anticipatory data. Anticipated inventories as reported before adjustment for either seasonal variations or for systematic tendencies at the end of June are (in billions of dollars): total \$56.0; durables \$32.2; nondurables \$23.9. The comparable anticipations for September 30, 1962 are \$55.5, \$31.6, and \$23.9, respectively.

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

tember—a relatively low position.

Nondurable goods producers expect inventory additions of about \$400 million in the second quarter and a similar rise in the third, a rate about equal to the accumulations of the fourth quarter of 1961 and the first quarter of 1962. They anticipate sales gains of 2 percent and 1 percent, respectively, in the second and third quarters—little changed from the rate that has prevailed throughout the current recovery.

Sales in the third quarter are projected at more than a tenth above their cyclical trough, a recovery rate comparable to that in 1955 but lower than the 15 percent upturn in 1959. The stock-sales ratio has stabilized at

slightly over 1.4 since 1959 and is expected to continue at this figure in the next two quarters.

Reappraisals of inventory condition

Manufacturers were asked to evaluate their March 31 inventory condition relative to sales and unfilled orders. Shifts as compared with the year-end view were marked—particularly among the durables.

Manufacturers holding 21 percent of total durable goods inventories evaluated their stocks as “high”—a proportion substantially up from the 13 percent reported for September and December 1961, which was the lowest point recorded since the inception of the survey in 1957. The “about right” category fell from 85 to 78 percent.

Reflecting the sudden termination of the steel wage negotiations, the major shifts occurred among metal producers and fabricators. (See chart.) Primary metal producers became overstocked and the proportion of inventories evaluated as “high” rose from 9 percent at the end of June and September 1961 to 16 percent in December and 22 percent in March.

Among the metal-consuming industries the proportion of “high” inventories had been falling steadily from about 45 percent in June 1960 to 8

percent in December 1961. The sharp March rise to 20 percent returned the ratio to mid-1961 levels.

Table 2.—Manufacturers' Evaluation of the Condition of Their Inventories as of:¹

[Percent distribution]

	1960			1961				1962
	Mar. 31	June 30	Sept. 30	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31
Total manufacturing.....	100	100	100	100	100	100	100	100
High.....	31	35	29	28	18	12	12	16
About right.....	67	63	70	71	77	81	86	82
Low.....	2	2	1	1	1	2	2	2
Durable goods.....	100	100	100	100	100	100	100	100
High.....	39	42	36	32	24	19	13	21
About right.....	60	57	63	67	75	80	85	78
Low.....	1	1	1	1	1	2	2	1
Nondurable goods.....	100	100	100	100	100	100	100	100
High.....	20	26	20	22	19	16	10	9
About right.....	77	71	78	77	80	82	87	89
Low.....	3	3	2	1	2	3	3	2

1. Condition of actual inventories relative to sales and unfilled orders position as viewed by reporting companies. Percent distribution of inventory book values according to company's classification of overall inventory condition.

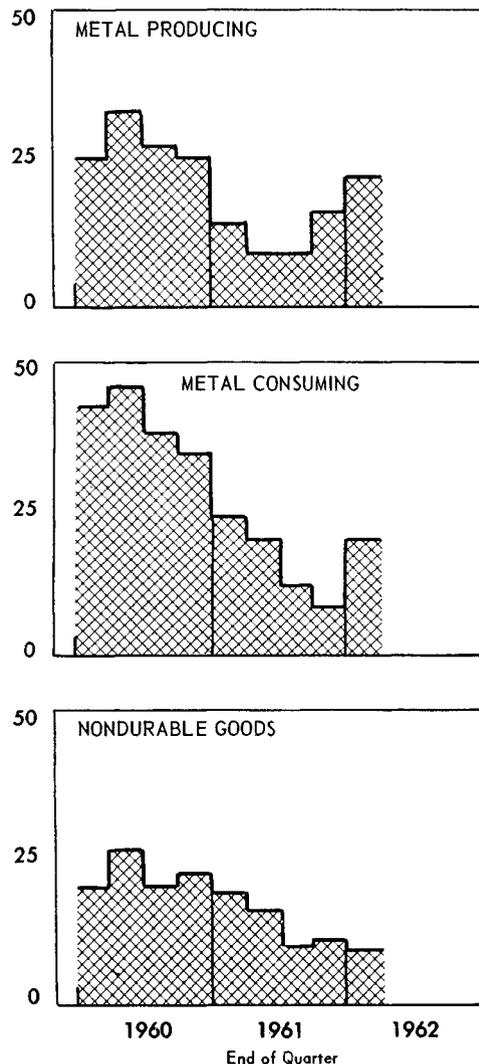
Source: U.S. Department of Commerce, Office of Business Economics.

In line with the general stability in the stock-sales ratio and steady rate of sales gain, nondurable goods producers made little change in their inventory evaluation. The percent “high” which had been about 10 in the second half of 1961 fell to 9; the “about right” category rose from 86 to 89. As is typical in these surveys, only a negligible proportion of stocks are considered “low.”

BUSINESS VIEW OF INVENTORY CONDITION

Aggregate Value of Stocks Regarded as "High" Expands in Metal Producing and Consuming Industries

Percent of Total Inventories Considered "High"



Growth in Business Population Slowed in 1961 and 1962

THE number of operating concerns at the beginning of 1962 reached 4¼ million, increasing about 40,000 firms, or somewhat less than 1 percent, during 1961. This rise was slightly smaller than that for 1960, with both years affected by lessened business activity during parts of the year. On a quarterly basis, after seasonal allowances, the business population has shown uninterrupted expansion through the past decade.

An estimated 437,000 firms were newly established during 1961, virtually the same number as in the preceding year as changes among the industries were generally small. Nearly 400,000 companies discontinued operations in 1961, about 3.5 percent more than in

1960. Among the major industry groups, increases in the number of discontinued businesses from 1960 ranged from 2 to 3 thousand.

The commodity-producing industries—contract construction and manufacturing—showed small decreases in the number of firms in operation during 1961. This is, in part, a reflection of the 1960-61 business recession, and is a repetition of the 1957-58 experience. In contrast, operating firms in the distribution and service industries continued to increase during both cyclical contractions.

In the past decade the total business population has risen steadily at a rate

(Continued on page 24)

The Balance of Payments in the First Quarter of 1962

THE overall balance in our foreign transactions—measured by changes in gold and foreign currency holdings of our monetary authorities and in our liquid liabilities to foreign countries and international institutions—improved substantially during the first quarter from the exceptionally adverse experience in the last quarter of 1961.

The adverse balance in the first quarter of this year was \$465 million; in the fourth quarter of 1961 it was about \$1.3 billion. Net sales of monetary assets—gold and convertible foreign currencies—held by our monetary authorities declined to \$190 million in the first 3 months of this year from \$456 million in the fourth quarter of last year, and the rise in liquid liabilities declined to \$275 million from \$877 million. The improvement was due to other than seasonal developments.

Several major developments may be noticed. The balance on goods and services transactions was slightly less favorable than in the previous quarter. Exports—seasonally adjusted, both excluding and including shipments financed by Government grants and capital—were somewhat lower than in the previous quarter, and imports slightly higher.

The lowering of the trade balances was nearly compensated for by a considerable improvement in net receipts on investment incomes. Military expenditures increased for the second quarter reflecting the expansion of military forces abroad after the Berlin crisis, but were still less than in the first quarter of 1961.

The decline in Government grants and capital outflows reflected the absence of major capital contributions to intra-regional and worldwide international organizations which in the fourth quarter of 1961 amounted to \$172 million.

A major factor in the rise of the adverse balance during the fourth quarter had been the large net outflow of private capital. In the first quarter this outflow declined somewhat, but remained—

after allowance for seasonal factors—well over \$1 billion. The change was not in direct investments for which only limited information is as yet available for the first quarter. Lower capital outflows were recorded for bank loans over 1 year, and for net purchases of outstanding foreign securities. New issues of foreign securities which included a large issue by the International Bank were slightly higher, however, than in the previous quarter. Short-term capital outflows were lower, but the difference appears to have been largely seasonal.

Short-term capital outflows included rather large loans to Japan, some of which were made with U.S. Govern-

ment guarantee. The total net outflows were reduced, however, by return flows of about \$100 million deposited over the year-end in European banks.

A major improvement occurred also in the movement of foreign capital other than liquid funds. Direct foreign investments in the United States as well as foreign purchases of U.S. securities were up. A major factor was an increase in non-liquid funds held by foreign governments for military purchases in the United States. The transfer of these funds to restricted liabilities is shown in the main balance of payments table as a credit entry on line 45 and a debit entry on lines 46 and 48, and thus tends to improve the overall balance. In table 2 the credit entry is shown as military cash receipt. Military cash receipts thus include all actual deliveries of military equipment during the period and net cash receipts for military purchases delivered in previous periods or to be delivered in the future.

Merchandise trade

Merchandise exports, excluding commodities shipped by the Defense Department to foreign countries under aid and sales programs, were about \$80 million lower than in the preceding quarter after adjustments for seasonal variations. The annual rate of about \$20.3 billion was about the same as in the first quarter of 1961 and slightly higher than the \$19.9 billion exported in 1961 as a whole.

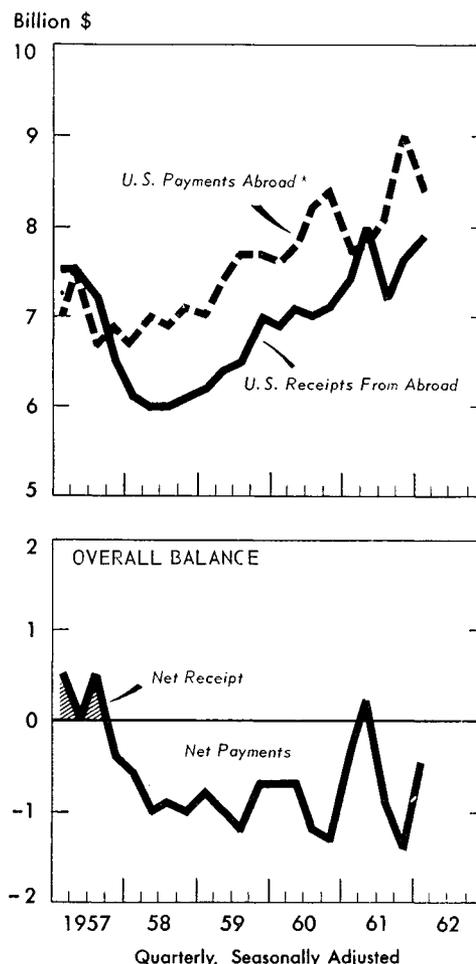
Exports of merchandise financed by Government grants or capital increased slightly from the last quarter of 1961 to the first quarter of 1962. The decline was in other shipments.

Exports to Western Europe were about \$70 million higher than in the first quarter of 1961. The rise corresponds roughly to an increase in "special category" items, which include military as well as civilian goods.

The following figures show recent changes from the corresponding quarters a year earlier in U.S. exports

U.S. BALANCE OF PAYMENTS

Substantial Improvement in Balance in First Quarter 1962



* Excluding Military aid and U. S. Payments to IMF

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

62-6-9

somewhat slower and the level lower than one might expect on the basis of historical relationships of imports to GNP and nonfarm inventory changes. In April imports speeded up somewhat.

The increase in imports over the first quarter of 1961 was distributed over the main categories of foodstuffs, materials and finished manufactures.

The increase in domestic production stimulated mainly imports of industrial materials, particularly metals and petroleum. Steel mill products are an important item in that group. First quarter imports exceeded those a year earlier by about \$50 million, or roughly

60 percent. The rise in imports appears to have taken place mainly during 1961, and the advance from the last quarter of 1961 to the first quarter of 1962 was relatively small. The import pattern for steel mill products suggests that the expansion in domestic business over that period and the development of excess capacities and of technological advances abroad have contributed to the rise, but that imports were not much affected by stockpiling here last winter in anticipation of a strike. The stabilization of steel imports at that time when domestic demand was greatly stimu-

lated suggests that the competitive position of domestic industry may have been somewhat strengthened.

Among finished manufactures, the principal increases in imports over a year earlier were in machinery, automobiles, and aircraft. The rise in automobiles by more than 50 percent reflects changes in inventories movements rather than final sales. Imports of aircraft are dominated by two types of large commercial planes; orders still outstanding are scheduled to be delivered by the middle of this year.

The commodity composition of imports does not indicate a particularly sharp spurt in any of the major items, as was the case in the previous upswing in 1959 when autos and steel contributed greatly to the rise in the total. Among the larger items which could have contributed to a sizable import rise is steel, but the stability of domestic prices appears to have averted that danger.

Unrecorded transactions

A large part of the improvement in the overall balance cannot be explained from the data so far available. The balance on unrecorded transactions shifted from net payments of \$565 million in the last quarter of 1961 to net receipts of about \$260 million in the first quarter of this year. A part of the \$825 million shift can be attributed to seasonal factors, but even after adjustment for these the shift amounted to about \$620 million, from net payments of about \$400 million to net receipts of about \$220 million.

Although this shift reversed an almost equally large shift from the third to the fourth quarter of 1961, the prevailing tendency of unrecorded transactions still seems to indicate an excess of payments. The net receipts balance for the first quarter of 1962, therefore, seems to reflect some special circumstances, which may have led to unrecorded inflows of foreign funds or repatriations of American capital.

Changes in Area Balances

The balances on transactions with each of the areas shown in the main table indicate a \$200 million improvement from the fourth to the first quarter in our transactions with Western Eu-

Table 2.—U.S. Balance of Payments by Major Components, ¹ Seasonally Adjusted

[Millions of dollars]

	1960	1961	1961				1962
			I	II	III	IV	
Goods and Services, Government Assistance and Long-Term Capital Accounts ²							
A. 1. Nonmilitary merchandise exports.....	19,459	19,915	5,061	4,768	4,940	5,146	5,068
2. Less those financed by Government grants and capital.....	1,798	2,183	559	435	594	595	606
3. Merchandise exports other than those financed by Government grants and capital.....	17,661	17,732	4,502	4,333	4,346	4,551	4,462
4. Nonmilitary merchandise imports.....	-14,723	-14,514	-3,369	-3,417	-3,840	-3,888	-3,914
5. Balance on trade, excluding exports financed by Government grants and capital.....	2,938	3,218	1,133	916	506	663	548
6. Nonmilitary service exports.....	7,219	7,745	1,937	1,910	1,863	2,035	2,095
7. Less those financed by Government grants and capital.....	322	391	86	92	105	108	120
8. Service exports, other than those financed by Government grants and capital.....	6,897	7,354	1,851	1,818	1,758	1,927	1,975
9. Nonmilitary service imports.....	-5,417	-5,462	-1,309	-1,337	-1,388	-1,428	-1,376
10. Balance on services, other than those rendered under Government grants and capital.....	1,480	1,892	542	481	370	499	599
11. Balance	4,418	5,110	1,675	1,397	876	1,162	1,147
B. Other Major Transactions							
1. Military expenditures.....	-3,048	-2,947	-770	-756	-699	-722	-755
2. Military cash receipts.....	336	398	66	150	87	95	215
3. Government grants and capital—dollar payments to foreign countries and international institutions.....	-1,235	-1,283	-302	-254	-303	-424	-289
4. Repayments on U.S. Government loans, excluding fundings by new loans.....	585	1,199	123	828	59	189	131
5. U.S. direct and long-term portfolio investments abroad ²	-2,544	-2,481	-577	-487	-623	-794	-676
6. Foreign direct and long-term portfolio investments in the United States.....	430	466	122	201	20	123	153
7. Remittances and pensions.....	-842	-878	-221	-221	-216	-220	-218
8. Balance	-6,318	-5,526	-1,559	-539	-1,675	-1,753	-1,439
C. Balance on Goods and Services, Government assistance and long-term capital account							
	-1,900	-416	116	858	-799	-591	-292
D. Recorded U.S. private short-term capital outflow less foreign short-term credits to the United States (excluding foreign liquid dollar holdings)							
	-1,433	-1,443	-406	-316	-304	-417	-401
E. Unrecorded transactions							
	-592	-602	-29	-366	193	-400	217
F. Overall balance, seasonally adjusted							
1. Overall balance, seasonally adjusted.....	-3,925	-2,461	-319	176	-910	-1,408	-476
2. Less seasonal adjustment.....			-11	87	-1	-75	-11
G. 1. Overall balance, actual (not seasonally adjusted)³							
	-3,925	-2,461	-308	89	-909	-1,333	-465
2. Equals: Changes in liquid liabilities to foreign private holders, including banks and nonmonetary international and regional institutions.....	-361	-1,202	74	-570	-234	-472	-584
3. Plus: Changes of holdings of gold and convertible currencies by U.S. monetary authorities and changes in U.S. liquid liabilities to foreign and international monetary authorities.....	-3,564	-1,259	-382	659	-675	-861	119

¹ Excludes military transfers under grants.

² Short-term capital movements between parent companies and their foreign affiliates are reported as part of direct investment.

³ Increase in U.S. liabilities and sales of gold (-).

rope (main table memorandum line II). Allowing for certain special transactions, including the temporary shift of \$100 million over the year-end and the restrictions of certain foreign funds for military purposes, as well as the usual large year-end receipts on principal and interest on Government loans, the balance did not change much between the two periods. Compared with the first quarter of 1961 the balance in the first quarter of this year was less favorable, however. This resulted from a less favorable balance on goods and services (mainly because of higher imports) and higher capital outflows.

The balances with Latin America and the countries in Asia, Africa, and Oceania were also less favorable than a year earlier.

The major exception to this general trend was our balance with Canada, which improved over that period by about \$130 million. The first quarter balance indicated net receipts by the United States of about \$80 million (main table memorandum line II) while a year earlier our payments exceeded our receipts by about \$50 million. Net receipts in our transactions with Canada were the general experience during most of the postwar period, so that 1961 appears to have been an exception. This applies to the balances for the years as a whole as well as for those in the first quarters.

Compared with the first quarter of 1961 the major factor in the shift in the balance was the decline in capital outflows, which more than offset a drop in the balance on goods and services. Although the changes in our balance of payments with Canada seemed to have restored a pattern that prevailed prior to 1961, they may have contributed to the difficulties in the Canadian balance of payments during the last quarter of 1961 and the first quarter of this year. Starting with November Canada has lost large amounts of official reserves and these losses continued until early May when the Canadian dollar was devalued and its exchange rate fixed at 92½ cents. These losses can be explained only in part by changes in recorded transactions between Canada and the United States. The major part seems to be reflected in shifts in unrecorded transactions,

suggesting an increase in payments by Canada to other countries or unrecorded payments to the United States. The latter may include unrecorded movements of U.S. as well as Canadian capital.

These unrecorded transactions with Canada may also have been a major factor in the shift in the balance on all unrecorded transactions after seasonal adjustment from the last quarter of 1961 to the first quarter of this year.

The recent deterioration in the Canadian balance of payments was so sharp that, at least in the intensity experienced until the stabilization was announced, it must be considered a development of relatively short duration.

Special factors

Major developments during the first quarter which may be considered to have been superimposed upon the more fundamental trends are the return

flow of the banking funds deposited abroad over the year-end, the restrictions to military use of certain foreign funds, and the developments in Canada, all of which tended to improve our balance of payments. Among the major developments having an adverse effect were in particular the large bank loans to Japan, which are not likely to continue and which helped to raise Japanese dollar assets during that period by about \$150 million, and the large new bond issue by the International Bank. On balance, developments and transactions favorable to the overall balance appear to have been somewhat larger.

Government grants and capital transactions

One of the questions frequently arising in the interpretation of foreign trade and balance of payments data concerns the treatment of goods or services supplied to foreign countries

Table 3.—U.S. Short-Term Private Capital, 1960, 1961, and First Quarter 1962, by Country and Type

	Amount outstanding, end of period				Changes ² quarterly (decreases (-))								1962
					1960				1961				
	1959	1960	1961	March 1962	I	II	III	IV	I	II	III	IV	
Total reported by U.S. banks¹.....	2,599	3,594	4,656	4,830	104	37	417	432	356	159	1	547	175
Major financial centers, total.....	666	971	1,140	1,095	-84	119	185	85	54	35	-47	127	-45
United Kingdom.....	121	245	181	162	-9	69	83	-19	-78	-2	20	-4	-19
EEC and Switzerland.....	273	305	422	393	-49	24	5	52	64	12	-44	35	-29
Canada.....	272	421	537	540	-26	26	97	52	68	25	-23	46	3
By type:													
Commercial and financial claims payable in dollars.....	488	566	667	726	-74	49	63	40	19	76	-6	12	59
Foreign currency deposits and claims.....	178	405	473	369	-10	70	122	45	35	-41	-41	115	-104
Other countries, total.....	1,933	2,623	3,516	3,735	188	-82	232	347	302	124	48	420	220
Japan.....	324	806	1,445	1,681	96	77	163	146	263	203	16	157	236
Latin American Republics.....	1,147	1,328	1,447	1,456	85	-150	39	202	24	-129	72	153	10
Others.....	462	489	624	598	7	-9	30	-1	15	50	-40	110	-26
By type:													
Commercial and financial claims payable in dollars.....	1,919	2,569	3,447	3,678	188	-85	195	352	317	125	43	393	231
Foreign currency deposits and claims.....	14	54	69	57		3	37	-5	-15	-1	5	27	-11
Total reported by non-financial concerns.....	705	1,130	1,475	n.a.	-13	145	64	155	106	170	116	-20	4 179
Major financial centers.....	271	612	863	n.a.	1	125	52	120	123	175	36	8	4 147
United Kingdom.....	50	272	170	n.a.	18	79	15	107	6	-54	-37	12	4 5
EEC and Switzerland.....	120	153	203	n.a.	-5	11	-4	18	9	50	-20	39	4 50
Canada.....	101	187	490	n.a.	-12	35	41	-5	108	179	93	-43	4 92
Claims payable in dollars.....	217	397	602	n.a.	-19	54	54	65	71	197	50	46	n.a.
Foreign currency deposits and claims.....	54	215	261	n.a.	20	71	-2	55	52	-22	-14	-38	n.a.
Other countries, total.....	434	518	612	n.a.	-14	20	12	35	-17	-5	80	-28	4 32
Claims payable in dollars.....	388	461	531	n.a.	-12	20	12	29	-14	-6	61	-35	n.a.
Foreign currency deposits and claims.....	46	57	81	n.a.	-2			6	-3	1	19	7	n.a.

n.a. Not available.

1. Excludes Exchange Stabilization Fund holdings.

2. Changes adjusted for variations in coverage and therefore do not correspond exactly to changes computed from reported amounts outstanding.

3. Excludes \$370 million held pending direct investment.

4. Estimated on the basis of partial preliminary reports.

Table 4.—United States Balance of Payment by Areas—1960, 1961 and First Quarter 1962—Continued

[Millions of dollars]

Line	Type of transaction	Sterling Area																				
		Total							United Kingdom and Other Europe							Other countries						
		1960 ^r year	1961 ^r year	1961				1962 ^p	1960 ^r year	1961 ^r year	1961				1962 ^p	1960 ^r year	1961 ^r year	1961				1962 ^p
				I	II	III	IV				I	II	III	IV				I	II	III	IV	
3	Goods and services excluding transfers under military grants.....	5,262	4,882	1,260	1,080	1,105	1,437	1,205	2,264	2,086	518	440	448	680	470	2,998	2,786	742	640	657	757	735
13	Imports of goods and services.....	3,887	3,934	893	987	1,043	1,011	1,046	2,030	1,883	422	470	504	487	467	1,857	2,051	471	517	539	521	579
23	Balance on goods and services excluding transfers under military grants.....	1,375	948	367	93	62	426	159	234	203	96	-30	-56	193	3	1,141	745	271	123	118	233	156
25	Unilateral transfers, net excluding military transfers.....	-441	-505	-122	-122	-109	-152	-166	-80	-85	-22	-22	-18	-23	-23	-361	-420	-100	-100	-91	-129	-143
30	U.S. capital, net (increase in U.S. assets (-)).....	-1,623	-839	-102	-205	-265	-267	-205	-815	-25	96	10	-77	-54	-44	-808	-814	-198	-215	-188	-213	-161
31	Private, net.....	-1,100	-499	41	-103	-194	-243	-92	-897	-111	86	5	-83	-119	-44	-203	-388	-45	-108	-111	-121	-48
38	Government, net.....	-523	-340	-143	-102	-71	-24	-113	82	86	10	5	6	65	(*)	-605	-426	-153	-107	-77	-89	-113
42	Foreign capital, net (increase in U.S. liabilities (+)).....	691	795	109	58	1,019	-391	238	713	671	157	10	950	-446	231	-22	124	-48	48	69	55	7
46	Increase in foreign holdings of liquid dollar assets.....	741	674	55	-17	1,023	-387	223	777	598	118	-57	956	-419	214	-36	76	-63	40	67	32	9
47	Gold and convertible currencies, purchases (-) or sales (+) by monetary authorities.....	574	342	160	-224	55	351	186	552	308	150	-225	55	328	186	22	34	10	1	23
48	Reduction in gold and convertible currency holdings (line 47) and increase in U.S. liquid liabilities (line 46).....	1,315	1,016	215	-241	1,078	-36	409	1,329	906	268	-282	1,011	-91	400	-14	110	-53	41	67	55	9
49	Errors and omissions and transfers of funds between foreign areas (receipts by foreign areas (-)), net.....	-576	741	-412	400	-762	33	-212	-604	-1,072	-477	257	-854	2	-353	28	331	65	143	92	31	141
I	Memorandum items:																					
	Increase in reported total foreign gold reserves and liquid dollar holdings ²	983	306	-88	-280	738	-64	470	1,077	98	-57	-282	656	-219	364	-94	208	-31	2	82	155	106
II	Through estimated net receipts from, or payments (-) to, the United States ³	739	275	-197	159	316	-3	197	725	-166	-209	-25	157	-89	47	14	441	12	184	159	86	150
III	Through other transactions ⁴	244	31	109	-439	422	-61	273	352	264	152	-257	499	-130	317	-108	-233	-43	-182	-77	69	-44

For footnotes see preceding pages.

through Government grants and loans, or against payment in foreign currencies the use of which by the United States is restricted to relatively few and comparatively minor types of Government transactions.

In utilizing balance of payments compilations it must be realized that they are designed to include all international transfers, real as well as financial, both those which are and those which are not paid for within the same accounting period. In that way the international transactions can be related to the domestic economy.

Showing transactions both on the credit side and the debit side of the balance of payments account makes it possible to evaluate the relationship of the international transfers of real and financial resources to international monetary movements and the changes in reserves of the monetary authorities. Thus balance of payments data properly include not only Government transfers but also large private transactions in which exports, imports, grants, capital movements, investment incomes, and other transactions which are directly associated with each other, and do not,

within the same accounting period, involve payments in "money," i.e. gold or liquid funds in dollars or other freely convertible currencies.

The extent to which transactions do not involve payments in "money" but are otherwise associated with each other during any single accounting period is known only in some instances, because the various sources for the data usually show only the credit (receipt) or debit (payments) side of the transaction, but not both. Thus, the original documents which form the basis of the trade statistics (with the exception of shipments under the military aid program and of some relief goods) do not show the mode or time of payment or other financial arrangements, such as gifts, loans, or investments. Some information on such associations is available, however, from records of Government agencies providing grants and loans to foreign countries.

The link between credits and debits varies, of course, also with the length of the accounting period. Thus merchandise may be exported against credits, but if the accounting period is long enough to include the repayments of the

credits, the exports will in fact be paid in "money."

Data on the association of Government grants and capital outflows with other balance of payments categories were presented in the SURVEY for the first time in September 1961 on the basis of very tentative estimates. In the present issue an attempt has been made—on the basis of slightly improved but still incomplete information—to show for the year 1961 the composition of the figures by major Government programs and the various estimating and allocating steps which have to be taken to obtain the figures shown in table 1 and incorporated in table 2.

Table 5 shows across the top the major types of Government programs under which grant or capital transactions are conducted.¹ These programs include sales for foreign currencies, loans repayable in foreign currencies as well as in dollars, and outright grants. The loans repayable in dollars include some which extend over relatively long periods as

1. The table was set up and the figures estimated by Mr. E. Seymour Kerber, Chief, Government Grants and Credits Section, Balance of Payments Division, Office of Business Economics.

well as those which will result in a dollar inflow within a relatively short time. Most of the loans are to less developed countries, but some are also to industrially advanced countries.

The columns showing secondary foreign currency acquisitions include principal and interest collections in inconvertible foreign currencies which are added to the other Government holdings of foreign currency assets. Miscellaneous short-term capital transactions include the operations of the Exchange Stabilization Fund, and net changes in foreign currency holdings purchased by various Government agencies to meet their operating expenses abroad.

The subtotal of these transactions has to be reduced by the utilization of foreign currencies, acquired under the various programs, for U.S. administrative expenditures in order to derive the figure on grants and capital outflows shown in the balance of payments tables. Since the funds used for U.S. purposes are drawn from the overall

holdings, it is not possible to establish for each drawing when or from what transaction they were acquired. To obtain a figure for exports of merchandise, services and other transactions associated with grants, credits, and net acquisitions of foreign currencies, the utilization of these currencies was allocated to these items mainly in proportion to acquisitions of foreign currencies from these sources during the same year.

The last column shows the total amount of Government grants and capital outflows (line 1) broken down by the amounts immediately used in the United States (line 3) and the amounts resulting in dollar outflows (line 2). The latter is estimated to have been \$1,283 million.

Of the \$2,768 million estimated to have been used in the United States, \$2,183 million was allocated to exports of merchandise (line 4), \$425 million was associated with services rendered, including transportation, technical services, construction operations, and

interest which was paid by foreign countries in their own—generally inconvertible—currencies (line 5).

About \$160 million of new capital outflows was estimated to have been used to repay foreign debts to the United States (line 6). These capital outflows include acquisitions of foreign currencies less the amounts used by the United States for administrative expenditures, and Export-Import Bank loans to Brazil and other countries to repay older Government loans or private U.S. creditors. The private claims were probably mostly "short-term" commercial credits by banks and corporations, but may also include intercompany credits reported under direct investment transactions. (In table 2 the adjustment for transactions associated with Government grants and credits is made in "short-term" capital movements.)

The portion of U.S. grants and capital outflows which can be associated with

(Continued on p. 24)

Table 5.—Interaccount Relationships of Government Grant and Capital Outflows in the U.S. Balance of Payments for Calendar Year 1961¹

[Amounts shown include allocations not necessarily based on recorded data. In millions of dollars]

Line	Allocation of grant and capital outflows by interaccount relationships (Numbers in italics show balance of payments lines (in table 4) to which grants and capital outflows are related or allocated.)	Assistance programs and other sources								Less: Foreign currency expenditures allocated to transactions by which the currency was acquired ³	Equals: Government grant and capital outflows distributed by other balance of payments categories		
		Under authorizations for farm products disposals	A.I.D. and related programs		Export-Import Bank	Other grant and credit programs	Investments in international financial institutions	Secondary foreign currency acquisitions				Miscellaneous capital transactions (net) ²	Subtotal (for lines 1 through 10)
			Financing of military sales	Other				From principal repayments	From interest collections				
1	Total use of grant and capital funds.....	1,350	20	1,774	822	23	172	51	70	12	4,294	243	4,051
2	Funds transferred to other countries or international organizations (40).....			1,094		19	172			-2	1,283		1,283
3	Funds immediately used in the United States.....	1,350	20	680	822	4		51	70	14	3,011	243	2,768
4	For merchandise exported (4).....	1,239		499	621	4					2,363	180	2,183
5	For services and military purposes (5, 7, 8, 9, 12).....			69					70	14	465	40	425
6	For repayments of credits.....	111	20	181	132			51			183	23	160
	(a) Government credits (40).....				21			51			72	23	49
	(b) Private credits (57).....				111						111		111
7	Transactions resulting in receipts of foreign currencies (included in lines 3 to 6a above).....	951		209				51	70		1,281		
8	For merchandise exported.....	903		192							1,095		
9	For services.....	48		17					70		135		
10	For repayments of Government credits.....							51			51		
11	Foreign currency expenditures allocated to source of acquisition ³	147		50				23	23			243	
	a) Sources known.....	147		21				3	8			179	
	b) Sources allocated by pro-rating.....			29				20	15			64	
12	Net receipts of foreign currencies by sources (lines 7 less 11).....	804		159				28	47				1,638
13	Direct grants and credits (lines 1 less 7).....	399	20	1,565	822	23	172			12			3,013
14	Grants and capital outflows by program or other source (28+59+41) (lines 12+13 or 1 less 11).....	1,203	20	1,724	822	23	172	28	47	12			4,051

1. Excludes the military assistance grant program, which appears in table 4 as exports of goods and services (line 2) and as grants (line 27).

2. Includes \$8 million which is incorporated as a component in "errors and omissions" (table 4, line 49). This discrepancy results from the recording of long-term capital disbursements of foreign currencies by the Agency for International Development at valuations which differ from those used by the Treasury Department to record the decreases in the U.S. holdings of foreign currencies.

3. The use of foreign currencies is netted against acquisitions in order to derive a measure of net transfers of resources to foreign countries, and for each of the various programs and other sources.

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

Foreign Travel Expenditures in 1961 Maintained Rise in 1962 Underway

UNITED STATES residents spent \$2.6 billion for foreign travel in 1961, about the same as in 1960. All but about \$400 million of this amount accrued to foreign countries, either as fare payments to foreign transoceanic carriers or as payments for expenses within the foreign countries. The excess of travel payments over U.S. travel receipts remained at about \$1.1 billion as foreign visitors to this country also did not spend more than in 1960.

The outlook for 1962, based on early indicators, is for a modest rise in U.S. travel expenditures and travel receipts. During the first quarter of 1962, U.S. travel expenditures abroad rose \$40 million above last year's first quarter to about \$315 million, led by a strong rising trend in the Pacific and Far East areas. Continued growth of U.S. personal disposable income, emergence from the period of recession in time for formulation of 1962 travel plans, the prospect of lower dollar costs for travel in Canada due to devaluation of the Canadian dollar, and improvement

in political conditions in some key tourist destinations, point to increases in U.S. travel spending this year.

More foreign visitors to the United States from overseas are expected during 1962, leading to some increase in receipts. First quarter receipts from foreign visitors were up about 8 percent, or \$15 million over the same months of 1961, according to preliminary estimates. Receipts from overseas visitors rose about 10 percent, those from Mexican visitors about 20 percent. Canadians spent slightly less than 1961's early months, and the reduced value of the Canadian dollar will probably hold down receipts from Canada for the year as a whole.

Fares paid by U.S. travelers for transoceanic transportation in 1961 reached almost \$900 million, essentially unchanged from 1960. Increased travel to more distant areas, with correspondingly higher costs per trip, and a 30 percent increase in cruise travel helped to offset lower payments as a result of the decline in the number of U.S. residents traveling overseas.

Foreign carriers once again, as in 1960, received more than half of total fare payments, increasing their receipts by 5 percent to \$515 million. Added capacity as foreign airlines acquired U.S. built jet aircraft was a major factor in their improved competitive position. Cruise travel, preponderantly to nearby areas, carried about 90 percent in foreign-flag ships, also made a significant contribution to the increase in the foreign share of travelers' fare payments.

Drop in overseas travel: Cruise travel up

Almost all of the drop in the number of overseas travelers was in those traveling by sea. Ship travel fell almost 20 percent below the 1960 figure, while air travel was off less than 1 percent. Of the total of 1,575,000 U.S. residents

going to overseas destinations, 83 percent chose air transportation, compared to 80 percent who did so in 1960. To areas other than Europe, the proportion of air travelers was 92 percent in 1961 and 89 percent in 1960.

More than 210,000 Americans went on sea cruises, compared with about 160,000 in the previous year. An important part of the increase took place in the summer season, and reflected growing popularity of short cruises in nearby Caribbean waters, in what was once the "off-season." Indications are that this type of travel may have been substituted for weekend trips to Cuba, which previously attracted many thousands of Florida visitors and residents.

Cruise travelers are not included in the number of U.S. residents traveling to overseas destinations. They are treated as a separate group, in accordance with the procedure recommended by the United Nations. Because they

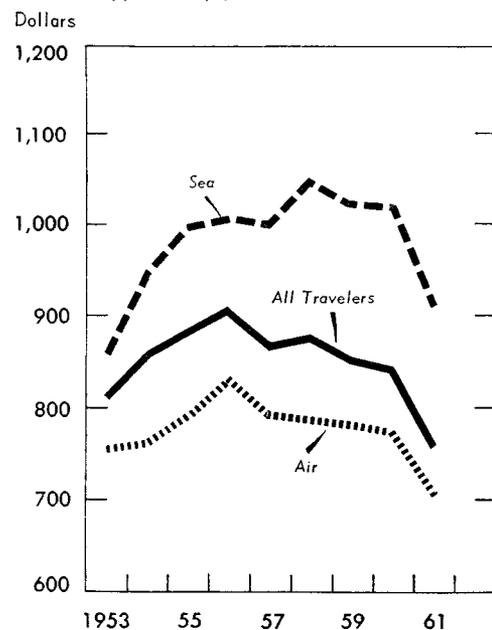
Table I.—Expenditures for Foreign Travel by U.S. Residents

Year	Total	Expenditures in foreign countries	Fares paid to—	
			Foreign carriers	U.S. carriers
1929.....	688	483	164	41
1937.....	470	348	95	27
1947.....	716	573	55	88
1951.....	1,028	757	132	139
1952.....	1,188	840	172	176
1953.....	1,306	929	179	198
1954.....	1,401	1,009	183	209
1955.....	1,612	1,153	201	258
1956.....	1,814	1,275	238	301
1957.....	1,955	1,372	261	322
1958.....	2,140	1,460	320	360
1959.....	2,380	1,610	380	390
1960.....	2,640	1,745	490	405
1961.....	2,642	1,747	515	380

NOTE.—Excludes travel by military personnel and other Government employees stationed abroad, their dependents and U.S. citizens residing abroad; includes shore expenditures of cruise travelers; passenger fares exclude fares paid by emigrant aliens.

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

AVERAGE EXPENDITURES OF U.S. RESIDENTS TRAVELING IN EUROPE AND MEDITERRANEAN AREA
Dropped Sharply Last Year



Data: SEC & OBE

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

62-6-10

use the ship as a hotel and stay only briefly in each port, cruise travelers do not meet the general definition accepted for the foreign traveler: "any person traveling for a period of 24 hours or more in a country other than that in which he usually resides." Additionally, the spending habits of cruise travelers differ radically from those of other travelers, 75 percent or more of all outlays going for fares and other shipboard expenses.

Outlays in foreign countries

Outlays for travel within foreign countries remained at the 1960 level, about \$1,745 million. Expenditures were higher in all areas except the circum-Caribbean area, and in Europe and the Mediterranean. Americans spent about \$630 million in the last-named area, 10 percent less than in 1960.

Various factors discouraged travel to these areas, and quite probably con-

tributed to shorter stays, which in turn tended to reduce average per capita expenditures. Among these dampening factors were apprehensions over the political situation in Europe; the economic recession experienced in the United States during the fall and winter of 1960-61; a more general public awareness of the country's balance of payments difficulties; reduction in the duty-free exemption for goods brought in by returning travelers from \$500 to \$100; and the absence of such special attractions as the Olympic games which were important in 1960. Not all of these factors were of equal strength, and were probably of varying importance according to special conditions in each travel area.

Lower spending per traveler

Contributing to the lower average outlays in Europe was the increased proportion of travelers by air, whose visits are characteristically shorter than those of sea travelers, and who therefore tend to spend less. The growth of reduced-rate charter flights in 1961, carrying increased numbers of travelers who previously would have been deterred by the costs of regular transatlantic transportation, may also have been a factor in the lower spending averages in Europe.

Reduced total expenditures in the Caribbean area, on the other hand, actually disguise higher expenditures in most countries of the area, offset by the disappearance of U.S. tourist travel to Cuba. After reaching a peak of \$43 million in 1957, U.S. travel spending in that country has dwindled rapidly in the face of deteriorating relations between the two countries, finally reaching the vanishing point in 1961.

Stimulated by the decline in the value of the Canadian dollar, in effect setting after midyear a premium on U.S. dollars, payments by U.S. residents for travel in Canada rose 12 percent to about \$425 million. Auto and air travel increased, while rail and bus travel dropped somewhat.

Once again in 1961, a small rise occurred in U.S. travel expenditures in Mexico, the total reaching \$370 million. More spending in the border area brought about the increase. Travel to the interior of Mexico accounted for

about \$116 million, about the same as in 1960. The failure of interior expenditures to rise can be traced to the spring months of 1961, when tensions directly related to the Cuban situation temporarily discouraged travel to Mexico. During this period fewer Americans visited Mexico than in the same months of 1960, and those who did spent less.

Travel expenditures in Europe off

The number of Americans traveling to Europe and the Mediterranean declined slightly to about 825,000, not quite 1 percent below 1960. The decline was confined to Americans of

RISE IN FOREIGN TRAVEL INTERRUPTED IN 1961

Excess of U.S. Expenditures Over Receipts Last Year Was \$1.1 Billion

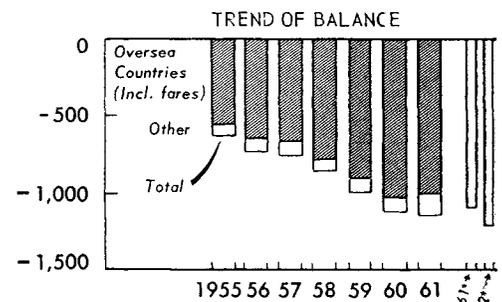
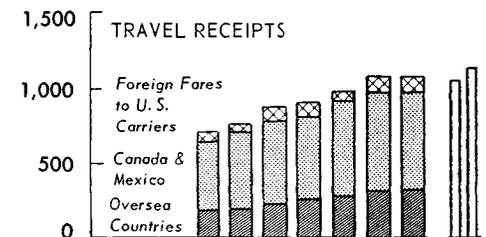
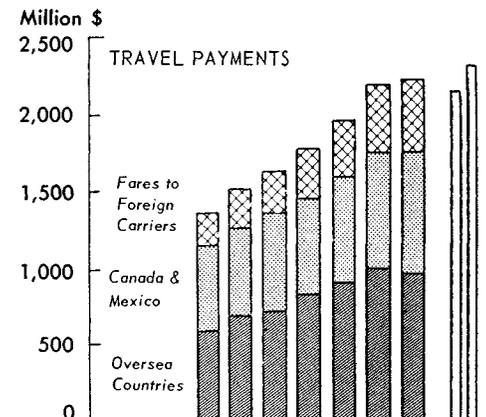
1962 First Quarter Travel Higher Than a Year Ago

Table 2.—Expenditures for Foreign Travel by U.S. Residents, 1957-61
[Millions of dollars]

	1957	1958	1959	1960	1961
Total	1,955	2,140	2,380	2,640	2,642
Transportation	583	680	770	895	895
Foreign-flag carriers.....	261	320	380	490	515
U.S.-flag carriers.....	322	360	390	405	380
Expenditures abroad	1,372	1,460	1,610	1,745	1,747
Canada.....	340	323	365	380	425
Persons staying under 24 hours.....	n.a.	n.a.	n.a.	55	n.a.
Mexico.....	305	319	350	365	370
Persons visiting Mexican border only.....	203	210	233	245	254
Overseas areas.....	727	818	895	1,000	952
Europe and Mediterranean.....	483	560	604	704	630
United Kingdom.....	82	90	102	116	107
Ireland.....	12	13	n.a.	12	13
France.....	83	93	n.a.	118	105
Benelux.....	21	40	n.a.	33	26
Germany.....	58	64	n.a.	83	63
Austria.....	15	19	n.a.	25	22
Switzerland.....	42	43	n.a.	53	46
Italy.....	93	99	n.a.	122	112
Spain.....	21	21	n.a.	25	24
Israel.....	n.a.	12	n.a.	20	22
Greece.....	n.a.	11	n.a.	15	16
Denmark.....	n.a.	16	n.a.	23	19
Norway.....	n.a.	9	n.a.	11	12
Sweden.....	n.a.	10	n.a.	14	13
West Indies and Central America.....	153	156	174	166	160
Bermuda.....	28	29	n.a.	28	31
Nassau.....	29	23	n.a.	42	45
Jamaica.....	58	25	n.a.	28	30
Other British West Indies.....	11	11	n.a.	18	18
Cuba.....	43	37	n.a.	15	n.a.
Netherlands West Indies.....	5	7	n.a.	10	11
South America.....	37	37	41	45	48
Venezuela.....	8	9	n.a.	9	8
Other overseas areas.....	54	65	76	85	114
Japan.....	26	29	n.a.	36	46
Hong Kong.....	9	13	n.a.	18	24
Australia—New Zealand.....	4	5	n.a.	n.a.	11

NOTE.—For coverage, see table 1. n.a. Not available.

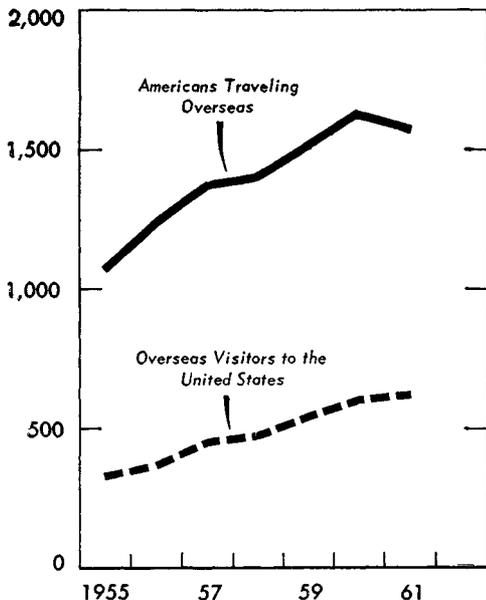
Source: U.S. Department of Commerce, Office of Business Economics.



* Seasonally Adjusted, at Annual Rates

**In 1961 Number of U.S. TRAVELERS Declined
While FOREIGN VISITORS Rose Slightly**

Thousand Persons



Data: INS & OBE

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

62-6-12

foreign birth; native-born Americans were actually more numerous than in the previous year. Nevertheless, the major tourist destinations in the area, Italy, France, Germany, and the United Kingdom, each saw fewer Americans of both groups. Increases in travel volume were concentrated in the Mediterranean basin, particularly Israel and Greece, with few exceptions.

Average expenditures were well below 1960 in all cases. In consequence, European dollar earnings from U.S. travel dipped more sharply than the number of travelers. For example, in France the number of U.S. visitors dropped about 5 percent to 477,000, but receipts slumped to \$105 million, off 11 percent. Those traveling to Italy also were about 5 percent less numerous, but their expenditures were down 9 percent. However, Italy still led in receipts from U.S. travelers, with \$112 million.

Germany was the most seriously affected in the general decline, with U.S. visitors off 13 percent (50,000 less than 1960) and expenditures down 24 percent to \$63 million. Expenditures were equal to or greater than 1960 in several countries, notably Israel, Ireland, and Greece, despite lower average per capita expenditures.

A trip to Europe last year cost the average U.S. traveler about \$1,390,

down sharply from 1960's \$1,500 average. A shorter average stay, associated partly with a reduction in the average number of countries visited, was at the root of the lower trip costs. Reduced purchases because of the lower duty-free exemption may also have been a factor in the last half of the year, but could scarcely be blamed for the lower expenditures, which were evident throughout the year.

The portion of the total which went for transoceanic fares amounted to \$630, while that covering expenditures in Europe fell to \$760, both well below 1960. Once again, travelers crossing the ocean by ship spent more per trip than did air travelers, although their outlays averaged about 10 percent lower than in 1960. About \$640 of the average sea traveler's outlays went for fares, and slightly more than \$900 covered expenses in Europe. In 1960 the corresponding averages were \$700 and \$1,000 respectively.

Fares of air travelers, at \$620, held more closely to the previous year's figure of \$630, reflecting the increased use of economy class and growing utilization of chartered aircraft. Air travelers also spent less in Europe than in 1960, per capita outlays reaching about \$700, or 9 percent less than the previous year (\$770).

The average fare, it should be noted, covers not only the cost of transporta-

tion between the United States and the point of entry into Europe, but also payments made in the United States for air travel within Europe and the Mediterranean area even when passengers make several stops and changes of airlines. Overweight baggage charges may also be included. Consequently, the average is much higher than the economy rates at which most air passengers travel between the United States and the major points of first entry to Europe such as London or Paris. Averages based on the transoceanic part of the trip alone, or on cost between the U.S. port and the first overseas destination, would be considerably lower.

In the West Indies and Central America, U.S. travelers spent about \$160 million. As mentioned above, the total for the area would have been higher than the previous year's \$166 million except for the elimination of tourism to Cuba. However, the number of visitors decreased more sharply than expenditures, as many persons did their traveling by cruise ships and these are not included in the enumeration of visitors to the area. Their expenditures are included in the total.

U.S. travel spending in South America climbed about 7 percent to \$48 million. The number of visitors increased relatively more, 16 percent, but average per capita expenditures were lower than in 1960.

In other areas, principally the Far East, U.S. travel payments jumped more than one-third to \$114 million, responding to the addition of new travel facilities, increased jet-plane capacity, and increased promotion in the United States by the Pacific countries in particular. Japan and Hong Kong remained the area's prime destinations for American visitors. Japan received about \$46 million in U.S. travel payments, Hong Kong \$24 million. The two accounted for better than half of the total for the area. Average spending per traveler remained at 1960 levels in both countries, while the number of visitors climbed sharply.

Table 3.—U.S. Travelers to Oversea Countries by Means of Transportation

(Thousands of travelers)

	1957	1958	1959	1960	1961
Total	1,369	1,398	1,516	1,634	1,575
Sea.....	303	292	279	317	268
Air.....	1,066	1,106	1,237	1,317	1,307
Europe and Mediterranean.....	556	637	705	832	826
Sea.....	205	218	204	230	206
Air.....	351	419	501	602	620
West Indies and Central America.....	704	645	677	641	550
Sea.....	79	55	55	67	37
Air.....	625	590	622	574	513
South America.....	51	52	59	71	83
Sea.....	7	6	7	9	10
Air.....	44	46	52	62	73
Other.....	58	64	75	90	116
Sea.....	12	13	13	11	15
Air.....	46	51	62	79	101

NOTE.—For coverage, see table 1; also excludes cruise travelers, who numbered about 160,000 in 1960, and 212,000 in 1961.

Source: U.S. Department of Commerce, Office of Business Economics, based on data of U.S. Department of Justice, Immigration and Naturalization Service.

U.S. Travel Receipts

A marked improvement in the volume of overseas visitors to the United States

was in the "pleasure" category. Only about 2,000 more business travelers entered the country from overseas. Of the 300,000 visitors from Europe and Mediterranean countries, almost two-thirds came for pleasure visits. Pleasure travelers increased by about 26,000 over 1960, while the total of visitors from the area increased only 25,000.

The United Kingdom retained its position as the leading overseas origin for travel to this country; over 100,000 British residents visited here last year. About 42,000 Germans, 5,000 more than 1960, also entered for temporary visits. French visitors increased more moderately to 27,000.

Fewer visitors from the West Indies, Central and South America traveled in the United States than in 1960. Less than 240,000 made the trip, compared to about 250,000 in 1960. Cubans, who once made numerous trips to nearby Florida and other parts of the United States, have ceased to come for either temporary business or pleasure. Although the drying up of the Cuban travel trade was a major factor in the decrease, there are indications that internal political and economic conditions in other Latin American countries also impeded the upward trend of recent years. For example, some 7,000 fewer Venezuelans than in 1960 visited here, and there was no increase in the number from Colombia. These two countries accounted for over half of South America's visitors to the United States in 1960, but slightly less than half in 1961.

Travelers from Japan and Australia comprised the major share of visitors from other areas. About 23,000 Japanese, 1,000 more than in 1960, entered this country for temporary visits. There was little change in the number of Australians, about 22,000 in each of the last 2 years. The composition of travel volume from the two Pacific area countries varied sharply. Almost 60 percent of the Japanese visitors came on business trips, while only 20 percent of the Australians came for that purpose. Japanese exchange restrictions, under which business travel received significantly higher priority than pleasure trips, account for this distribution. Even more restrictive

Table 7.—Foreign Visitors to the United States from Oversea Countries for Business, Pleasure, in Transit, or as Students
(Thousands of travelers)

	1960	1961
All oversea areas	602	624
Europe ¹	263	288
United Kingdom.....	94	103
Germany.....	37	42
France.....	25	27
Italy.....	18	20
Asia.....	51	57
Japan.....	20	23
Israel.....	7	8
West Indies and Central America.....	150	136
South America.....	100	102
Venezuela.....	40	33
Argentina.....	15	19
Colombia.....	15	15
Africa.....	8	8
Oceania.....	30	33
Australia.....	22	22

NOTE.—Excludes visitors from Canada and Mexico; excludes foreign government personnel and foreign businessmen employed in the United States.

1. For Europe and Mediterranean area combined, see table 6.

Source: U.S. Department of Justice, Immigration and Naturalization Service.

changes in the regulations are expected to affect adversely 1962 travel from Japan.

Balance of Payments

(Continued from p. 19)

immediate expenditures in the United States amounting to \$2,768 million (line 3) includes \$1,038 million of net acquisitions of foreign currencies, mainly from the sale of agricultural commodities (line 12), and \$1,730 million of other grants and capital (lines 3 less 12).

These figures are intended to assist in the analysis of the effect of these transactions on the balance of payments but should not be considered to provide a measure of the full impact. While \$2.8 billion of grants and capital outflows were associated with exports of goods and services or debt repayments, one cannot conclude that changes in either the credit or the debit side of these transactions would have to result in precisely equal changes on the other side. But even less can one conclude that the other side would remain unaffected.

Nor can one conclude that the \$1.3 billion which were transferred in the form of dollars contributed to that extent to the net outflow of gold or rise in liquid liabilities during that period. These funds enabled the recipient countries to finance additional foreign expenditures and one can assume that some of these were made in the United

States. The same applies to dollar funds paid by the immediate recipients to third countries. In fact, of all funds spent abroad, a very high proportion has been used here, since the overall deficit is only a relatively small part of the total outflow of funds from all transactions.

Business Population

(Continued from p. 11)

of slightly under 1½ percent per year. This growth in the number of firms slackened in the past 2 years to about 1 percent per annum. The largest growth rate in the 1952-62 period, somewhat over 2 percent, was shown for contract construction, services, and the "all other" category (mining, transportation, and finance). Except for the service sector, this growth rate has declined in the last 2 years. Only in manufacturing is the total number of firms at the beginning of 1962 lower than in 1952.

Table 1.—Number of Firms in Operation January 1, 1958-62 and Number of New and Discontinued Businesses, 1957-61
(Thousands)

	All industries	Contract construction	Manufacturing	Wholesale trade	Retail trade	Services	Other
FIRMS IN OPERATION JANUARY 1¹							
1958.....	4,533	466	329	309	1,955	828	647
1959.....	4,583	464	323	312	1,977	848	658
1960.....	4,658	476	323	317	1,997	872	674
1961.....	4,713	477	322	322	2,011	895	686
1962.....	4,752	473	318	326	2,022	917	696
NEW BUSINESSES¹							
1957.....	398	57	25	23	163	71	56
1958.....	397	58	24	22	160	76	56
1959.....	422	67	27	23	161	82	62
1960.....	438	66	27	24	170	89	62
1961.....	437	64	27	25	170	90	61
DISCONTINUED BUSINESSES¹							
1957.....	335	57	29	17	137	53	43
1958.....	347	59	30	19	138	56	45
1959.....	346	56	27	18	140	59	46
1960.....	384	64	29	19	157	65	49
1961.....	398	67	31	21	159	68	51

¹ Revised. ² Preliminary.

1. May not add to total because of rounding.

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

Table 2.—Number of Firms in Operation 1957-1962

(Thousands of firms, adjusted for seasonal variation)

	End of quarter			
	I	II	III	IV
1957.....	4,500	4,520	4,535	4,545
1958.....	4,555	4,565	4,580	4,595
1959.....	4,615	4,635	4,655	4,670
1960.....	4,690	4,710	4,720	4,730
1961.....	4,740	4,750	4,760	4,770
1962.....	4,780			

¹ Revised.

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

Table header with columns for years 1960, 1961, 1961 (Monthly average), and 1962 (Apr., May, June, July, Aug., Sept., Oct., Nov., Dec., Jan., Feb., Mar., Apr., May). Includes note: 'Unless otherwise stated, statistics through 1960 and descriptive notes are shown in the 1961 edition of BUSINESS STATISTICS'.

GENERAL BUSINESS INDICATORS—Continued

Main data table with columns for 1960, 1961, 1961 (Monthly average), and 1962 (Apr., May, June, July, Aug., Sept., Oct., Nov., Dec., Jan., Feb., Mar., Apr., May). Rows include 'INDUSTRIAL PRODUCTION', 'By market grouping', and 'BUSINESS SALES AND INVENTORIES'.

† Revised. Preliminary.
‡ Total and components are based on unadjusted data.
§ See corresponding note on p. S-3.
¶ Includes data not shown separately.

§ The term "business" here includes only manufacturing and trade. Business inventories as shown on p. S-1 cover data for all types of producers, both farm and nonfarm. Unadjusted data for manufacturing are shown on p. S-5; those for retail and wholesale trade on pp. S-11 and S-12. ¶ See note marked "†" on p. S-11.
† Revised series. See note marked "‡" on p. S-11.

Table with columns for years 1960, 1961, 1961, and 1962, and rows for monthly averages and specific months (Apr., May, June, July, Aug., Sept., Oct., Nov., Dec., Jan., Feb., Mar., Apr., May).

GENERAL BUSINESS INDICATORS—Continued

Table containing data for BUSINESS INCORPORATIONS and INDUSTRIAL AND COMMERCIAL FAILURES, including various sub-categories like new incorporations, failures, and liabilities.

COMMODITY PRICES

Table containing data for PRICES RECEIVED AND PAID BY FARMERS, including various agricultural products like crops, livestock, and poultry.

CONSUMER PRICES;

(U.S. Department of Labor Indexes)

Table containing data for CONSUMER PRICES, categorized by groups like All Items, Special group indexes, and various services and commodities.

Revised. Based on unadjusted data. Index based on 1947-49=100 is 129.1. Data are from Dun & Bradstreet, Inc. Figures in 1961 BUSINESS STATISTICS volume cover 49 States (Alaska not included); see July 1961 SURVEY for unadjusted data back to January 1960 for 50 States. New series. Data for Jan.-Dec. 1959 (49 States) appear in the Oct. 1961 SURVEY. Seasonally adjusted data (50 States) have been revised beginning Jan. 1960; data for Jan.-Dec. 1960 are as follows (number): 16,561; 15,274; 15,233; 15,280; 15,176; 15,630; 15,828; 15,114; 15,112; 15,240; 14,281; 14,167.

Revised beginning Jan. 1959 to incorporate price revisions for individual commodities; revisions for earlier periods will be shown later.

Ratio of prices received to prices paid (including interest, taxes, and wage rates). Data reflect conversion to the 1957-59=100 reference base period. Monthly and annual data for earlier periods are available upon request from the U.S. Department of Labor, Bureau of Labor Statistics, Washington 25, D. C.

Includes data not shown separately.

Table header with columns for years 1960, 1961, and 1962, and months Apr through May. Includes note: 'Unless otherwise stated, statistics through 1960 and descriptive notes are shown in the 1961 edition of BUSINESS STATISTICS'

CONSTRUCTION AND REAL ESTATE—Continued

Main table for Construction and Real Estate. Sections include CONSTRUCTION COST INDEXES (with sub-sections like E. H. Boeckh and Associates), CONSTRUCTION MATERIALS, and REAL ESTATE (with sub-sections like Home mortgages, New mortgage loans, Nonfarm mortgages).

DOMESTIC TRADE

Main table for Domestic Trade. Sections include ADVERTISING (Printers' Ink advertising index, Television advertising, Magazine advertising) and Beer, wine, liquors.

Footnote section with symbols and text: 'Revised. 1 Quarterly average based on quarterly data. 2 End of year. 3 Quarterly average based on revised annual total; breakdown not available. 4 Copyrighted data; see last paragraph of headnote, p. S-1. 5 Data reported at the beginning of each month are shown here for the previous month. 6 Revised to reflect current specifications and base period; data prior to 4th qtr. 1960 are available upon request. 7 Includes data for items not shown separately. 8 Revisions for 1955-Mar. 1961 (1959-1960 for lumber and wood) are available upon request. 9 Revised beginning 1961 to provide for horizontal contiguity rate structure, wherein a single advertiser might obtain a lower basic rate through the purchase of time across-the-board; not directly comparable with earlier data. Revisions for breakdown for 1961 not presently available; those for total costs for Jan.-Mar. 1961 are as follows (mil. \$): 59.4; 54.6; 60.5.

Table with columns for years 1960, 1961, and 1962. Sub-headers include 'Monthly average' for 1960 and 'Apr.', 'May', 'June', 'July', 'Aug.', 'Sept.', 'Oct.', 'Nov.', 'Dec.' for 1961 and 1962. Text: 'Unless otherwise stated, statistics through 1960 and descriptive notes are shown in the 1961 edition of BUSINESS STATISTICS'.

FINANCE—Continued

Main data table containing categories: SECURITIES ISSUED—Continued, SECURITY MARKETS, Bonds, Stocks, and Dividend rates and prices, common stocks. Includes various sub-items like 'Securities and Exchange Commission—Continued', 'Brokers' Balances', 'Average price of all listed bonds', and 'Cash dividend payments publicly reported'.

* Revised. 1 End of year. 2 Annual total. * Corrected. §Data include bonds of the International Bank for Reconstruction and Development not shown separately; these bonds are included in computing the average price of all listed bonds. ¶Number of bonds represent number currently used; the change in the number does not affect the continuity of series. ¶Prices are derived from average yields on basis of an assumed 3 percent 20-year bond. ©For bonds due or callable in 10 years or more. ¶Includes data not shown separately.

Unless otherwise stated, statistics through 1960 and descriptive notes are shown in the 1961 edition of BUSINESS STATISTICS

Table with columns for years 1960, 1961, and 1962, and months Apr, May, June, July, Aug, Sept, Oct, Nov, Dec, Jan, Feb, Mar, Apr, May.

CHEMICALS AND ALLIED PRODUCTS—Continued

Main table containing categories such as CHEMICALS—Continued, FERTILIZERS, MISCELLANEOUS PRODUCTS, and SYNTHETIC PLASTICS AND RESIN MATERIALS, with detailed monthly and annual data.

† Revised. a See similar note on p. S-24. 1 Average for July-Dec. 2 Based on data for 11 States; see note "§". 3 Beginning Jan. 1961, trade sales of lacquers (formerly shown with industrial finishes) are included under trade products. 4 Beginning Jan. 1962, data include protective coatings (formerly excluded); amounts of these for Jan. 1962 are as follows (mil. lb.): Phenolic, 2.5 (incl. some rosin modifications no longer shown separately); polystyrene, 6.0; urea, etc., 3.8. 5 Revisions for Jan. 1959-June 1960 for carbon dioxide and Jan.-June 1960 for acetylene, oxygen, and sulfuric acid are shown in the Oct. 1961 SURVEY. 6 Data (except for alcohol) are reported on the basis of 100% content of the specified material unless otherwise indicated.

§ States represented are: North Carolina, South Carolina, Georgia, Florida, Alabama, Tennessee, Arkansas, Louisiana, Texas, Oklahoma; also Virginia in the monthly averages. According to quarterly reports from Virginia, consumption in that State was as follows (thous. sh. tons.): 1961—Jan.-Mar., 258; Apr.-June, 311; July-Sept., 75; Oct.-Dec., 97. 7 Inclusive data not shown separately. 8 Revisions for Jan.-Mar. 1961 will be shown later. 9 Revised effective with the Jan. 1962 SURVEY to include recovered sulfur. 10 Beginning July 1961, data are not strictly comparable with those for earlier periods because of the inclusion of companies formerly not reporting; monthly averages are based on reported annual totals.

