Mention should also be made of the unrecorded transactions, or errors and omissions item, in the balance-of-payments accounts. As its name implies, the composition of this item is not known. However, when this item swings over from a long period of indication of unrecorded receipts, on balance, to an indication that payments are now being unrecorded, on balance, there is a presumption that such a swing reflects to a considerable extent capital flows. Thus, the emergence of a large unrecorded payments item in our balance of payments in most quarters since 1959 suggests that there have been unrecorded capital outflows of some magnitude. This may be either U.S. capital going abroad, withdrawals of foreign capital which previously entered the United States without having been recorded, or shifts in the direction of unrecorded capital flows which formerly went to the United States but now are directed elsewhere. It would be unwarranted, however, to imply that all unrecorded capital movements are of a volatile and short-term character, or that all errors and omissions represent unrecorded capital movements. There are many other foreign transactions for which data are not available.

LONG-TERM CAPITAL OUTFLOWS

Outflows of long-term private capital from the United States have been a large and relatively consistent feature of our balance of payments since 1950. In 1960 and 1961 the flow reached a rate of $2½ billion annually, which was higher than the average for 1951–59, but less than the rate in 1956–58 when investments by the petroleum industry and sales of foreign bonds here were extraordinarily large. In the first half of 1962, the available data indicate some slowing down of the rate of foreign investment.

Further additions to investments are derived from undistributed foreign profits of subsidiaries, now at an annual rate of over $1 billion. By the end of 1961 the aggregate value of private foreign investments was nearly $49 billion, compared with $17½ billion in 1950 (table 2).

Direct investments abroad by U.S. companies are by far the most important class of long-term investments in terms of their accumulated value, capital outflows, earnings ($3.7 billion in 1961) and overall economic impact.

A rising share of the direct-investment activity has gone to Europe in the past few years; over 45 percent of direct-investment capital flows went to Europe in 1961 compared to an average of 16 percent in 1951–59. Direct investments in Canada have tended downward with the completion of major projects to develop raw materials. In other areas, there has been a considerable dropping off of capital flows to Latin America since the high points of 1956–57, while there was an upturn in 1961 in flows to north Africa and the Middle East.

Sales of foreign bonds in the United States denominated in dollars (net of amortizations and retirements) have not shown any definite uptrend for several years. Such issues reached a peak of nearly $1 billion in 1958, when interest rates here were relatively low. The principal issues have been those of Canadian borrowers, Israel, and the International Bank for Reconstruction and Development.

Beginning in 1961, however, the volume of European issues has grown rapidly, and issues of Japan and others not active here since the war have also become more common. In the first half of 1962 European issues in the U.S. market amounted to roughly $200 million, of which about half was purchased by U.S. investors and the remainder by Europeans and others.

U.S. purchases of foreign equity securities also reached substantial amounts beginning in 1958. In 1961 such purchases amounted to about $325 million of which three-quarters went to Europe. This flow fell off quickly in the first half of 1962 as stock prices dropped in all principal markets.

Loans by banks and nonfinancial concerns with an original maturity of over 1 year make up nearly all of the "other" long-term capital outflows shown in table 2. The largest and most consistent flow has been to Latin America, although this has been sharply reduced since 1960. There have also been sizable flows to Europe, including financing of Norway's shipping fleet.

To summarize the data available for the first half of 1962, the rate of capital outflow from the United States was sharply reduced in nearly all categories. The first quarter rate was still quite high, but by the second quarter the flow was at an annual rate of about $2 billion, compared with over $3 billion in the like quarter of 1961. The drop was especially steep in short-term capital outflows reported by banks.