

BRITISH OVERSEAS INVESTMENTS IN 1937

In presenting his latest estimates<sup>x</sup>, Sir Robert Kindersley states that the 1937 results are of special significance, since the upward movement of the trade cycle which began in 1932 reached its peak in that year. Profits of companies operating abroad, which after 1933 rose continuously, mounted very steeply in the second half of 1936 and the early part of 1937, but were severely reduced in the latter part of 1937 following the collapse in commodity prices. Over the whole year, however, profits were on the average considerably higher than in 1936. Income from quoted overseas investments amounted to £176.6 million in 1937 as compared with £164.5 million in 1936.

The following summary, which relates to securities quoted on or known to the London market, compares the 1937 figures with those for the preceding year and the best and worst years in this series of estimates;-

£ millions	<u>1929</u>	<u>1933</u>	<u>1936</u>	<u>1937</u>
<u>INCOME</u>				
Governments & Municipalities:				
Dominion & Colonial	46.4	49.1	46.4	42.9
Foreign	18.2	12.0	12.6	11.7
British Companies operating abroad	86.0	41.9	57.0	71.4
Companies registered abroad	<u>61.7</u>	<u>35.3</u>	<u>48.5</u>	<u>50.6</u>
	<u>212.3</u>	<u>138.3</u>	<u>164.5</u>	<u>176.6</u>
<u>CAPITAL</u>				
Governments & Municipalities:				
Dominion & Colonial	1,061	1,147	1,100	1,089
Foreign	351	333	341	337
British Companies operating abroad	1,187	1,210	1,220	1,210
Companies registered abroad	<u>839</u>	<u>695</u>	<u>703</u>	<u>718</u>
	<u>3,438</u>	<u>3,385</u>	<u>3,364</u>	<u>3,354</u>

<sup>x</sup>In the Economic Journal, December 1938. It should be noted that all security values are nominal.



Income from Empire Government and Municipal loans declined by £3.5 million, the largest fall of which there is record. The decline was due, as in other recent years, to the effect of large scale refunding and conversion operations and to a decline in capital outstanding. Income from Foreign Government and Municipal loans also decreased, after having risen in 1936; and here too there was a reduction in outstanding capital (which includes a sum of £32.5 million on account of funding bonds issued in respect of unpaid interest, commercial debts and the like). The gradual increase in the proportion of Dominion sterling loans held by Dominion public authorities and the repurchase by foreign nationals of their own low-priced foreign bonds continued.

Receipts from British companies operating abroad increased substantially and were larger than in any year since 1930. Dividends on shares rose from £43.4 million in 1936 to £57.9 million in 1937, the average rate of dividend advancing from 5.2% to 6.8%. Of this increase in dividends, £9.0 million was from companies concerned with mining, rubber and oil, which between them (with capital representing 36% of the total) contributed as much as 63% of the receipts from this class of investment. Investment in the share capital of base-metal mining companies again increased; and also in banking. Offsetting decreases were recorded in a number of other types of enterprise, notably in rails and rubber. The total holding of debenture capital fell by about £10 million (of which £6 million in financial, land and investment and £4 million in mines); but the average interest rate rose slightly to 3.7%.

Investment in companies registered abroad is the most variable element in British overseas security investments. In the early part of 1937 the rapid rise in Wall Street stimulated a flow of British capital into American and international securities. In the second half of 1937 there was a sharp fall on Wall Street and a reversal



reversal of the movement. Holding of shares in mining companies registered abroad rose during the year by £14.5 million, in U.S. railways by £6.3 million and there were also substantial increases in Canadian and American electricity and iron and steel shares. The total of share holdings increased from £377 million to £390 million. The average dividend rate rose from 9.3% to 9.7% and the receipts from £35.2 million to £37.8 million, an increase small by comparison with that in British companies operating abroad. Investments in debentures were slightly higher than in 1936; but the average interest rate fell from 4.1% to 3.9% and interest receipts from £13.4 million to £12.8 million.

The above estimates cover the overseas investments that are known with a fair degree of accuracy. Estimates concerning private and unquoted investments, the existence of branches abroad, the ownership of estates and property, etc., are necessarily much more uncertain. British capital invested in non-quoted American securities is believed to have increased during 1937, and domestic concerns have expanded their sphere of operations by opening up branches or factories abroad; but against this must be set substantial losses to British property in Spain and China. The tentative estimate of £400 million for the total of direct and unquoted investments which was made for 1936 is left unaltered for 1937. Income is estimated to have increased from £19.6 million to £21.1 million.

In discussing the significance of recent trends in the nature of our overseas investments, Sir Robert says that the investor, faced with the continual undermining of the security offered to bondholders, has changed his attitude towards bond investments. Between 1930 and 1937 the total of loan investments fell from £2,219 million to £2,116 million and interest from £101.5 million to £80.9 million.

Share



Share capital increased from £1,206 million to £1,237 million and dividends from £90.7 million to £95.7 million. New investment abroad, he says, now tends to be of a more speculative kind and there is therefore the possibility of increasingly wide fluctuations in income from our overseas investments, and a decline in the amount of securities held for permanent investment. It should, however, be pointed out that, so far at least, the change in the capital structure of our overseas investments has not been very great.