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QUARTERLY ESTIMATES OF

THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FIRST QUARTER 1956

Canada's current deficit from transactions in goods and services with other countries rose to a new peak for the first quarter of $345 million. This compares with $174 million in the first quarter last year and $255 million in the fourth quarter. This is about the same size as the highest quarterly deficit yet to appear which occurred in the second quarter of 1951. In relative terms too, the deficit is much higher than last year when it averaged almost 12% of current receipts. At 25% of current receipts it now represents almost the same proportion of current receipts as in 1930.

The new factor contributing to the large deficit was the massive size of the import balance on commodity account which amounted to $190 million. The deficit from all other current transactions of $155 million was slightly less than in the corresponding quarter last year. Until recently the principal elements in the current deficit in the past few years have originated in these "invisible" transactions in the absence of surpluses on commodity account. But since the fourth quarter of 1955 the appearance of a large import balance on commodity account has contributed greatly to the over-all current deficit and in this year it has been the major element for the first since early in 1951.

Unusually strong demands, both in Canada and abroad, continued to be the predominant influence upon the shape of Canada's international accounts in the first quarter. As a result of pressures arising from these demands new records were reached in the volume of both total transactions, and some major groups of transactions. But the widening imbalance appears to be related to greater increases in some aspects of Canadian economic activity than occurred abroad and a greater flexibility of imports which made this possible. Canadian imports rose much more rapidly than Canadian exports. Growth in some major groups of exports has been limited to increases in capacity.

The high level of activity in Canada has been readily translated into generally increased demands for industrial materials and consumer goods. But the predominant increase in demand has been for machinery and equipment and other types of goods related to investment. In both cases, the pressure on domestic resources has resulted in an extraordinary diversion into imports.

Record import balance

The great growth in the import balance has occurred even though the increase in Canada's exports has been substantial. The rate of increase in imports of over 28% for the first quarter of 1955 has outpaced the rise of 9% in exports. The resulting import balance on commodity account was at a new record size in the first quarter. This balance of $190 million compares with an import balance of $208 million for the whole year 1955, the figures in both periods being after adjustment for use in balance of payments statements. This import balance in 1955 was likewise in contrast to commodity export balances characteristic in most earlier periods during recent decades, although there was a larger import balance in the second quarter of 1951. This import balance in the first quarter represented a considerably higher proportion of the value of exports in the quarter, 18%, than has been the case in any year since the period before World War I.

A rapid expansion in Canadian imports has been underway since the middle of 1955 following a more moderate growth which reappeared in 1954. The new levels of imports are now well above the levels of the earlier peak which occurred in 1953. In the first quarter this year the value of imports rose some 28% from the same period of last year to a new peak for the period. This rate of increase has only been exceeded in a few periods in the past. Increases have been widespread with virtually all commodities sharing in the rise. In 1955 large increases occurred in industrial machinery and equipment, industrial materials and components and finished consumers' goods. In 1956 more of the increase seems to have occurred in groups of commodities related to investment than was the case even in 1955. But imports of industrial materials and finished goods have also continued to increase, although in some cases to a somewhat less extent than in the latter part of last year. The rises have been related to the unusually high levels of economic

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activity already referred to. Most sources abroad have shared in the increases but the United States accounted for over three quarters of the total, a slightly larger ratio than last year.

The growth in exports continued in the first quarter and the total reached a new peak level for the period. The rate of increase was some 9% over the same period last year and was most concentrated in some of the groups of industrial materials which have accounted for the growing volume of exports in recent years. Most notable increases were in such commodities as pulp and paper, some of the metals, and petroleum. It should be noted, too, that for seasonal reasons the first quarter only contains comparatively small shipments of another growth item, iron ore. And in contrast to 1955 when there was a decline in the value of exports of agricultural products, the total of these rose moderately in the first quarter of 1956 chiefly due to larger exports of wheat and flax seed. The increase in exports was greatest to the United States which continued to take over 60% of the total and which made up over two-thirds of the rise. While there was a moderate decline in shipments to the United Kingdom, exports to other OEEC countries rose by an even greater rate than the rise to the United States.

Since both export and import prices rose by approximately the same amount there was no significant change in the terms of trade compared with the first quarter of 1955. As the rise in export prices was less than 4%, well over half the increase in the value of exports was in physical volume. In the case of imports the increase in value due to higher prices was small in comparison with the great rise in the volume of imports.

Deficit on "invisibles"

Following the pattern established late in 1955, the deficit on "invisible" transactions declined in the first quarter of 1956 relative to the same quarter a year ago. The major factor contributing to the smaller deficit was a decline in payments of dividends, and somewhat larger miscellaneous receipts. Partially off-setting this increase were larger expenditures by Canadians travelling in the United States and abroad, and higher freight and shipping payments associated with the new level of commodity trade. Part of the drop in dividend payments was due to the non-recurrence this year of some large payments to parent companies which were made in the first quarter last year. Dividend payments by Canadian public companies to non-resident shareholders were larger this year. It would appear, of course, that earnings retained in Canada have risen significantly with higher levels of profits and growing needs for funds in Canada.

Summary of Current Transactions with the
United States, United Kingdom, and Other Countries
First Quarter, 1955 and 1956
(millions of dollars)

	All Countries		United States		United Kingdom		Other Countries	
	1955	1956	1955	1956	1955	1956	1955	1956
First quarter								
Exports (adjusted)	967	1,055	580	640	183	180	204	235
Imports (adjusted)	971	1,245	723	935	88	96	160	214
Balance on trade	- 4	-190	-143	-295	+ 95	+ 84	+ 44	+ 21
Other current receipts	266	302	184	218	40	40	42	44
Other current payments	436	457	319	314	53	64	64	79
Balance on "invisibles"	-170	-155	-135	- 96	- 13	- 24	- 22	- 35
Current account balance	-174	-345	-278	-391	+ 82	+ 60	+ 22	- 14

Transactions by areas

The chief change in the bilateral pattern of transactions has been the enlargement in the deficit with the United States to $391 million, a level which has only been approached in several earlier quarters when imports were unusually high, and compares with $278 million in the first quarter of 1955. The sharp growth in Canadian imports of merchandise from the United States has been the outstanding factor in this change, with that country being a leading supplier of most of the kinds of industrial equipment and materials for which Canadian needs have risen sharply. Consequently the import balance on merchandise account with the United States more than doubled even though Canadian exports to the United States have risen substantially. But all other current transactions with the United States resulted in a significantly smaller deficit than last year, mainly because of a reduced deficit on income account and larger miscellaneous receipts which more than outbalanced increased deficits on travel and freight and shipping.

The other outstanding change was a contraction in the surplus with overseas countries, which dropped to $46 million, less than half the size of the surplus in the first quarter of the previous year. Again the leading factor in the change was the growth in imports which rose much more than the moderate increase in exports overseas. Rises in imports from the United Kingdom, Germany, Japan, Venezuela, and Mexico were particularly notable. The export surpluses with both the United Kingdom and all other countries were reduced mainly by these increased imports. Also contributing to the contraction in the current surplus were increases in the deficits from "invisibles" in the accounts with the United Kingdom and other countries. A larger deficit with the United Kingdom on income account was the leading change in "invisibles" with that country. The larger deficit from "invisibles" with other countries resulted from a variety of factors which tended to increase payments, including larger payments on freight and shipping account to OEEC countries and a rise in the provision of goods and services to Commonwealth countries financed under Canada's contribution to the Colombo Plan.

Financing the deficit

Canada's international accounts during the first quarter of 1956 were balanced without significant changes in either the exchange rate or official holdings of gold and foreign exchange. Net capital inflows in such long-term forms as direct investment, portfolio security transactions, and official loan repayments, although larger than for many quarters served to finance somewhat less than half the greatly increased current account deficit. These components have been influenced both by the capital investment programme and by the varying levels of interest rates in effect in Canada and in the United States. In total, however, they have not exceeded the current account deficit in any quarter since 1954 and in 1955 as a whole they financed only slightly more than half of it. The other capital movements were mainly short-term in character although they included some long-term borrowing. At times an important component has been the shifts of receivables and payables accompanying changing levels of exports and imports. The temporary bridging of gaps between current account balances-whether surplus or deficit - and long-term capital flows is a function of short-term capital movements. Evidence available to date suggests that long-term capital inflows have increased substantially in the second quarter.

Despite the new peak in current account deficits and the relatively smaller net inflow of capital in long-term forms in the first quarter of 1956 other capital movements were such as to mitigate any tendency towards a significant change in the value of the Canadian dollar on the world's exchange markets. Official holdings of gold and foreign exchange served to finance only $29 million or about 8 per cent of the deficit. The official holdings of gold and United States dollars at the end of March amounted, in terms of United States dollars, to $1,871 million. This figure was the same as at the end of March, 1955 and was some $67 million below the highest month-end level of the year recorded for the end of July.

The size of changes in the official reserves in relation to the magnitude of Canada's international transactions during the quarter gives added significance to the stability of the exchange rate. The price of the United States dollar in Canada closed in March at 99 7/8 cents or 1/32 of one cent below the close for December 1955. The trading range over the quarter was only 5/32 of one cent, and the noon average in the market was 99.88 cents or 0.07 cents higher than for the fourth quarter of 1955.

Capital movements

The net inflow of capital for direct investment in foreign-controlled enterprises in Canada is tentatively placed at $110 million during the first quarter of 1956. This level is about the same as during the final quarter of 1955, now recorded at $111 million, and it is somewhat above the quarterly average for that year. Resource development continued to be the major area of foreign direct investment. Net outflows of capital from Canada for direct investment abroad during the first quarter of 1956 appear to have been of the order of $45 million, setting a new quarterly record. Contributing substantially to the total was the acquisition by Canadians of interests in a number of existing enterprises in the United States.

Transactions in Canadian portfolio securities led to a capital inflow of $109 million in the first quarter of 1956. In the final quarter of 1955 the net inflow was only $21 million, and in preceding quarters there were outflows. Trade in outstanding securities produced $78 million, of which $57 million came from the United States, $4 million from the United Kingdom, and $17 million from other overseas countries. Net sales of $32 million outstanding Canadian stocks were larger than for either of the two preceding quarters but well below the very high levels recorded in the final quarter of 1954 and through the first half of 1955. Nearly $24 million of the sales of outstanding stocks were to the United States and the remainder to overseas countries. Net sales of $46 million of outstanding Canadian bonds and debentures were more than triple the figure for the final quarter of 1955 and were in striking contrast to the substantial outflows which were characteristic of the preceding period when Canadian and United States interest rates were closer. Sales included $30 million of Government of Canada direct issues, nearly $11 million of corporation issues, and smaller amounts of issues of other debtors. United States residents acquired on balance $34 million and residents of other countries $12 million of the net outstanding bonds sold by Canadians during the quarter.

Sales abroad of new issues of Canadian securities during the first quarter of the year amounted to $105 million. This was many times larger than the figures for the preceding three quarters, and was only slightly smaller than the total recorded for the corresponding quarter of 1955. Direct and guaranteed issues of Provincial governments, payable solely in United States funds, represented over 85% of the total. The balance was about evenly divided between municipal and corporation issues as equity securities represented only a small fraction of the total. Retirement of Canadian securities held by non-residents amounted to $74 million during the quarter, and as in the case of new issues were larger than in the three preceding quarters but smaller than for the corresponding quarter of the previous year. About half of the retirements represented redemption at maturity and the balance calls in advance of maturity.

Transactions in foreign protfolio securities resulted in net capital outflows of $21 million. Most of this represented net purchases by Canadians of outstanding stocks of United States corporations. Dominating the whole account was a substantial participation by Canadian investors in a public redistribution of stock of an automobile company previously owned by a United States foundation.

Repayments on Canadian government loans to overseas countries were limited as usual during the first quarter to receipt of $7.5 million from the United Kingdom.

Among capital movements of a generally more short-term nature was an outflow of $22 million reflecting reduced holdings of Canadian dollars by non-residents. Holdings by United States residents were reduced by a substantially larger amount but residents both of the United Kingdom and of other overseas countries increased their holdings. A capital inflow of $29 million arising from changes in official holdings of gold and foreign exchange has already been referred to.

All other capital movements appear to have resulted in a net capital inflow of $178 million during the quarter. This magnitude has been exceeded only twice in the period of five years covered by official quarterly estimates of capital movements, in the second quarters of 1951 and of 1952. Among the components of the total which are currently indentifiable have been borrowings by Canadian finance companies, and the virtual elimination of Canadian holdings of United Kingdom treasury bills previously acquired on an interest arbitrage basis. There is also evidence of significant shifts in Canada's international accounts receivable and payable. These are known to have included some pre-payments for exports arising from seasonal factors, and some collections on outstanding receivables. Payables, on the other hand, are known to have increased sharply.

It has been noted in the past that changing levels of international trade are ordinarily accompanied by changes in Canada's international receivables and payables. This is because payments do not normally coincide with commodity movements. Commodity trade statistics (which have not been adjusted to balance of payments concepts) indicate that imports in March were more than $75 million higher than in December, 1955, while exports fell over $40 million. The terms of payments for particular commodities and the composition of the commodity flows are, of course, constantly changing and it is not possible to calculate the "normal" change which might be expected in receivables and payables as the result of any given change in commodity flows, nor is it possible to collect data of this nature quarterly. Nevertheless there can be no doubt that a substantial capital import occurred during the first quarter of the year as a result of these factors.

Summary of Capital Movements, by quarters 1954 - 1956

(millions of dollars)

	1954	1955				1956
	IV	I	II	III	IV	I
Direct investment in Canada	155	+ 87	+111	+101	+111	+110
Direct investment abroad	- 22	- 8	- 9	- 12	- 38	- 45
Canadian securities						
Trade in outstanding stocks	+ 47	+ 52	+ 58	+ 25	+ 13	+ 32
Trade in outstanding bonds	- 29	- 83	- 51	- 46	+ 15	+ 46
New issues	+ 25	+109	+ 29	+ 16	+ 12	+105
Retirements	- 54	- 85	- 62	- 18	- 19	- 74
Foreign securities	- 5	+ 10	- 25	+ 14	- 14	- 21
Official loan repayments	+ 34	+ 7	+ 18	+ 9	+ 35	+ 7
Canadian dollar holdings of foreigners	+ 28	+ 30	+ 39	+ 6	+ 14	- 22
Official holdings of gold foreign exchange (increase, -)	- 45	+ 71	- 56	- 7	+ 36	+ 29
Other capital movements	- 54	- 16	+122	+ 1	+ 90	+178
Net capital movement financing current account	+ 80	+174	+174	+ 89	+255	+345

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1956 are preliminary and

		1954			
		I	II	III	IV
A	**Current Receipts**				
1	Merchandise exports (adjusted)	872	993	1,002	1,062
3	Gold production available for export	35	43	39	38
4	Travel expenditures	24	59	172	50
5	Interest and dividends	24	33	23	67
6	Freight and shipping	70	78	83	82
7	Inheritances and immigrants' funds	18	28	24	19
11	All other current receipts	65	72	81	80
12	**Total Current Receipts**	1,108	1,306	1,424	1,398
B	**Current Payments**				
1	Merchandise imports (adjusted)	923	1,068[x]	941	984
4	Travel expenditures	65	102	134	88
5	Interest and dividends	88	94	85	156
6	Freight and shipping	70	93	99	94
7	Inheritances and emigrants' funds	21	23	25	25
9	Official contributions	4	2	2	3
11	All other current payments	114	119	118	128
12	**Total Current Payments**	1,285	1,501	1,404	1,478
	Balance on Merchandise Trade	- 51	- 75	+ 61	+ 78
	Balance on Other Transactions, excluding B 9	- 122	- 118	- 39	- 155
	Official Contributions	- 4	- 2	- 2	- 3
C	**Current Account Balance**	- 177	- 195	+ 20	- 80
D	**Capital Account**				
	Direct Investment				
1	Direct investment in Canada	+ 93	+ 98	+ 77	+ 155
2	Direct investment abroad	- 11	- 18	- 30	- 22
	Canadian Securities				
3	Trade in outstanding issues	+ 16	+ 28	+ 1	+ 18
4	New issues	+ 177	+ 93	+ 36	+ 25
5	Retirements	- 26	- 76	- 47	- 54
	Foreign Securities				
6	Trade in outstanding issues	+ 4	+ 9	- 1	- 5
7	New issues	- 2	- 26	- 3	- 2
8	Retirements	-	-	-	+ 2
	Loans by Government of Canada				
10	Repayment of post-war loans	+ 2	+ 11	+ 3	+ 26
11	Repayment of war loans	+ 7	+ 8	+ 7	+ 8
14	Change in Canadian dollar holdings of foreigners	- 17	+ 13	+ 10	+ 28
16	Change in official holdings of gold and foreign exchange (increase, minus)	- 4	- 37	- 38	- 45
17	Other capital movements	- 62	+ 92	- 35	- 54
E	**Net Capital Movement**	+ 177	+ 195	- 20	+ 80

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) B 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) B 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income, insurance transactions, and business services.

BALANCE OF INTERNATIONAL PAYMENTS

data for 1955 are subject to revision.

1955 I	1955 II	1955 III	1955 IV	1956 I	Annual Totals 1953	Annual Totals 1954	Annual Totals 1955	Four Quarters ending Mar. 31, 1956	
(millions of dollars)									
									A
967	1,098	1,127	1,140	1,055	4,152	3,929	4,332	4,420	1
39	39	37	40	37	144	155	155	153	3
26	66	182	54	27	302	305	328	329	4
25	34	28	73	31	165	147	160	166	5
82	95	101	107	98	318	313	385	401	6
16	25	24	21	17	91	89	86	87	7
78	105	106	104	92	319	298	393	407	11
1,233	1,462	1,605	1,539	1,357	5,491	5,236	5,839	5,963	12
									B
971	1,148	1,163	1,258	1,245	4,210	3,916	4,540	4,814	1
78	119	156	96	89	365	389	449	460	4
121	108	93	155	103	404	423	477	459	5
77	106	110	115	100	374	356	408	431	6
22	24	28	27	21	91	94	101	100	7
5	4	8	7	8	25	11	24	27	9
133	127	136	136	136	465	479	532	535	11
1,407	1,636	1,694	1,794	1,702	5,934	5,668	6,531	6,826	12
- 4	- 50	- 36	- 118	- 190	- 58	+ 13	- 208	- 394	
- 165	- 120	- 45	- 130	- 147	- 360	- 434	- 460	- 442	
- 5	- 4	- 8	- 7	- 8	- 25	- 11	- 24	- 27	
- 174	- 174	- 89	- 255	- 345	- 443	- 432	- 692	- 863	C
									D
+ 87	+ 111	+ 101	+ 111	+ 110	+ 426	+ 423	+ 410	+ 433	1
- 8	- 9	- 12	- 38	- 45	- 63	- 81	- 67	- 104	2
- 31	+ 7	- 21	+ 28	+ 78	- 31	+ 63	- 17	+ 92	3
+ 109	+ 29	+ 16	+ 12	+ 105	+ 335	+ 331	+ 166	+ 162	4
- 85	- 62	- 18	- 19	- 74	- 146	- 203	- 184	- 173	5
+ 12	- 8	+ 4	+ 8	- 16	+ 22	+ 7	+ 16	- 12	6
- 5	- 17	- 4	- 22	- 5	- 23	- 33	- 48	- 48	7
+ 3	-	+ 14	-	-	+ 1	+ 2	+ 17	+ 14	8
-	+ 10	+ 2	+ 27	-	+ 37	+ 42	+ 39	+ 39	10
+ 7	+ 8	+ 7	+ 8	+ 7	+ 50	+ 30	+ 30	+ 30	11
+ 30	+ 39	+ 6	+ 14	- 22	- 18	+ 34	+ 89	+ 37	14
+ 71	- 56	- 7	+ 36	+ 29	+ 38	- 124	+ 44	+ 2	16
- 16	+ 122	+ 1	+ 90	+ 178	- 185	- 59	+ 197	+ 391	17
+ 174	+ 174	+ 89	+ 255	+ 345	+ 443	+ 432	+ 692	+ 863	E

NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.

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