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QUARTERLY ESTIMATES OF
THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS
THIRD QUARTER, 1953

In the first nine months of 1953 Canada's current receipts from international transactions were \$4,108 million, a decline of 1% from the same period of 1952. Current payments rose by 11% to \$4,494 million. These opposite movements led to a deficit of \$386 million from transactions in goods and services in the nine month period of 1953, contrasting with a surplus of \$138 million in the same period one year earlier. A small decrease in merchandise exports and a large increase in imports accounted for most of the change in the current account balance; the non-merchandise items contributed only \$41 million to the deterioration in the balance.

Almost all of the current deficit to the end of September, 1953 was incurred in the first and second quarters of the year. The deficit of \$181 million in the second quarter (and \$184 million in the first) changed to a small deficit of \$21 million in the third quarter of 1953. This improvement was mainly due to the decline in import volume from the second quarter level, which was partly a seasonal change, and to the usual third quarter rise in net receipts on travel account. The third quarter deficit of \$21 million compares with a surplus of \$69 million in the same quarter of 1952, reflecting the very high level of imports in 1953.

The immediate factors in the deficits can be indicated by comparing the quarterly totals with the levels one year earlier. In both the first and third quarters of 1953 payments for goods and services exceeded the corresponding 1952 levels by about 10%, while in the second quarter the increase was 16%. Current receipts during the first quarter of 1953 were lower than in the corresponding 1952 period. In the second quarter they were about level with the same quarter of 1952, and only in the third quarter did current receipts exceed (by about 3%) the corresponding 1952 total.

Merchandise trade deficit in nine months

Merchandise exports in the nine months of 1953 were \$3,106 million, down by \$75 million from the 1952 period; almost all of this change was in the first quarter of 1953 compared to the same period of 1952. The major decreases were in exports of wood pulp, zinc, automobiles, and farm machinery and implements. The fall in prices of wood pulp and zinc had important effects on the value of exports of these products, while declining farm incomes in the United States have affected exports of farm machinery. Exports of wheat in the first nine months of 1952 were almost unchanged from the 1952 period in value, although less in volume, while newsprint exports were up by 5% in value.

There were striking changes in the direction of exports in the 1953 period. While exports to the United States rose by 8% over the first nine months of 1952, exports to the United Kingdom and to other overseas countries fell by 12% and 16% respectively. The fall in exports to the United Kingdom and other overseas countries mainly reflects lower sales of wood products and metals, while in the case of overseas countries other than the United Kingdom sales of barley and automobiles were also down sharply.

Merchandise imports in the first nine months of 1953 rose to \$3,217 million, an increase of \$408 million over the same period of 1952. Almost half of the change was in the second quarter of 1953 compared to the same quarter of 1952, and the rest evenly divided between the first and third

quarters. There were widespread increases in the iron and products group in 1953, particularly in machinery of various types and automobiles and parts. A variety of textile imports were higher, and substantial increases also occurred in imports of refrigerators and electrical apparatus. Imports from the United States in the first nine months of 1953 rose by 15%, while imports from the United Kingdom rose sharply by 38%. In the case of the United States the increases were spread throughout all groups except the agricultural products group, with imports of iron products showing the largest increase in value. The increase in imports from the United Kingdom was more heavily concentrated in textiles, automobiles, aircraft engines, and other metal products.

The value of both exports and imports fell from the second to the third quarter of 1953, the latter showing the larger fall. These changes reflect changes in volume rather than price; import volume fell by 8% and export volume by less than 2% from the second quarter levels. (1) If allowance is made for seasonal factors, it appears that the striking increase in the volume of imports which has occurred for several quarters was arrested, at least temporarily, in the third quarter of 1953. The actual volume and value of imports in the third quarter of 1953, however, were well over the levels attained one year earlier. Export volume, after allowance for seasonal movements, had shown some weakening particularly in the first quarter of 1953; it recovered strongly in the second quarter however, and remained at a high level in the third. Prices of exports and imports were virtually unchanged from the second to the third quarter. Export prices have continued to fall slowly in 1953. Import prices have risen slowly since the third quarter of 1952, reflecting in part the reduction in the premium of the Canadian dollar up to mid-1953.

Larger deficit on non-merchandise transactions in nine months

The deficit on non-merchandise transactions, which has been typical of recent years, widened to \$275 million in the nine months of 1953, as compared with \$234 million in the same months of 1952. The usually large payments balance on dividend account declined somewhat as dividend payments levelled off for the nine months while receipts from Canadian subsidiaries abroad continued to rise. Travel receipts and payments both rose by about the same amount and the payments balance on this account was not significantly changed, in contrast to the rising deficit of the previous year. The important changes in the invisible items occurred in the freight and shipping account and in the miscellaneous items. Receipts from freight and shipping transactions have been lower in 1952 while payments have risen with the larger volume of imports. The largest change in the invisibles was an increase from \$121 million to \$160 million in net miscellaneous payments, (including official contributions) due to sharply increased payments. A significant part of the increase arose from settlement of costs incurred in connection with the Korean hostilities, while payments under the Colombo Plan and in connection with the North Atlantic Treaty were also higher. Business service payments also rose, reflecting an increased volume of imports and high levels of activity and investment in Canada.

Summary of Current Account Transactions with the United States, the United Kingdom, and with Other Countries.

(Million of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1952	1953	1952	1953	1952	1953	1952	1953
<u>Third Quarter</u>								
Exports (adjusted)	1,049	1,076	562	611	169	194	318	271
Imports (adjusted)	936	1,054	662	747	95	114	179	193
Balance on trade	+ 113	+ 22	- 100	- 136	+ 74	+ 80	+ 139	+ 78
Other transactions (net)	- 44	- 43	- 44	- 13	- 8	- 26	+ 8	- 4
Current account balance	+ 69	- 21	- 144	- 149	+ 66	+ 54	+ 147	+ 74
<u>January to September</u>								
Exports (adjusted)	3,181	3,106	1,691	1,832	573	503	917	771
Imports (adjusted)	2,809	3,217	2,053	2,354	252	348	504	515
Balance on trade	+ 372	- 111	- 362	- 522	+ 321	+ 155	+ 413	+ 256
Other transactions (net)	- 234	- 275	- 250	- 216	- 14	- 59	+ 30	-
Current account balance	+ 138	- 386	- 612	- 738	+ 307	+ 96	+ 443	+ 256

(1) Export and import values are adjusted for balance of payments purposes, while price and volume indexes refer to unadjusted data.

The deficit on non-merchandise items contracted sharply from \$133 million in the second quarter of 1953 to \$43 million in the third. This is typical behaviour for these items as a whole, due mainly to the seasonal increase in travel receipts in the third quarter. This summer the level of expenditures in Canada by United States travellers has risen appreciably above that of the previous summer. An increase of some 10% contrasts with the relative stability in the total of these expenditures between 1948 and 1952. A greater number of visitors and larger average expenditures both contributed to the increase. Nevertheless, the balance of receipts on travel account in the third quarter was about the same as last year as Canadian expenditures on travel outside of Canada continued to rise.

Larger deficit with United States, smaller surplus with overseas countries

The deterioration of the current account in the first nine months of 1953 was mainly due to transactions with overseas countries. An enlarged deficit with the United States also appeared, resulting from a faster rise in imports than in exports. Offsetting this in part was the smaller deficit with the United States from non-merchandise transactions, due mainly to smaller net payments on travel and dividend accounts and larger receipts from United States Government spending in Canada. Transactions with the United Kingdom and other overseas countries show in both cases a fall in exports and a rise in imports. When combined with larger payments of a service nature for defence, the changes in trade with overseas countries in the first nine months of 1953 led to a sharp decrease in the usual surplus with these countries. These comparisons with the situation one year earlier also apply broadly to the third quarter, with the significant exception that exports to the United Kingdom in the third quarter of 1953 exceeded those of the third quarter of 1952.

Exchange rate relatively stable

Despite the substantial reduction of the current account deficit from \$181 million in the second quarter of 1953 to \$21 million in the third quarter, Canada's international accounts were balanced with only a modest rise in the exchange value of the Canadian dollar. This was reflected in a decline in the average value of the United States dollar, in Canada, from 99.08 cents in the second quarter to 98.82 cents in the third. A moderate upward trend in the value of the Canadian dollar over the third quarter contrasted with the slow decline evident over the first half of the year. But the range was relatively narrow, the United States dollar having moved between 97.78 cents and 99.44 cents in the third quarter, and between 96.75 cents and 99.78 cents in the earlier part of the year. Analysis of the capital account indicates that there continued to be capital inflows increasing Canadian long-term liabilities and decreasing government long-term assets abroad, while movements of capital affecting short-term assets and liabilities continued to be outwards on balance.

Capital inflows for direct investment continue at high level

The net movement of capital into Canada for direct investment in foreign-controlled enterprises is tentatively estimated to have been \$90 million in the third quarter, a rate slightly higher than during the first half of the year. Although over the nine months of the year about 90% of this direct investment inflow has been from the United States, in the third quarter there appears to have been a marked increase in the inflow from the United Kingdom and the share of United States capital in the total was closer to 80%. Resource development continued to be the major field for new foreign investment; in the nine months of the year about 45% of the inflows were related to the expansion of the petroleum industry and 30% to other mining enterprises (associated transportation facilities are included in each case). While estimates of movements of capital in connection with Canadian direct investments abroad are not yet available for 1953, there appear on balance to have been outflows to a variety of Canadian enterprises in various parts of the world.

Portfolio security transactions fluctuate widely

Despite a turnover of nearly \$200 million in the third quarter portfolio security transactions were nearly in balance; this followed an outflow of \$80 million in the preceding quarter when transactions were dominated by repatriation of \$75 million of government debt. The net inflow of capital arising from security transactions in the first nine months of the year was \$23 million, including \$2 million from transactions in foreign securities. Proceeds of new Canadian issues sold to non-residents amounting to \$179 million were offset by retirements of \$128 million and an outflow of \$30 million from trading in outstanding Canadian issues.

The sale of new issues to non-residents was heavily concentrated in the first quarter of the year when there was a substantial volume of financing in the New York market by provinces and municipalities. In later quarters the volume of Canadian new issues in both domestic and foreign markets dropped sharply. Long-term interest rates in the United States rose rapidly in the second quarter, leading to an abrupt narrowing of the spread between interest rates in the two countries. The capital inflows arising from new issues in the middle six months of the year included only two bond

issues payable in United States funds, accounting for about one-quarter of the total inflows. Roughly a similar amount was received from the sale of new Canadian dollar bond issues to non-residents while the balance of the proceeds came from the participation of non-residents in new issues of stock by Canadian companies. Towards the end of the third quarter United States bond prices rose, increasing the spread between interest rates in the two countries, and Canadian borrowers again began to look with interest to the New York market for fourth quarter financing.

Repatriation of Canadian securities owned abroad was dominated during the nine months by two special factors. The repurchase for Government account of \$75 million of Canada 3/63 (external) loan has already been mentioned. The second quarter also saw a sudden but limited liquidation of non-resident holdings of government direct and guaranteed bonds, reflected in net repurchases of \$44 million. The timing of this movement clearly relates it to the major readjustments taking place in the United States bond and mortgage markets at that time. Net repurchases of outstanding Canadian securities of \$30 million in the nine months of the year reflect repurchases of \$57 million of bonds and debentures, and sales of \$27 million of stocks. United Kingdom and other overseas residents were net buyers in the amount of \$13 million and \$16 million respectively, while United States residents were net sellers of Canadian securities in the amount of \$59 million.

United Kingdom repayment on 1942 loan

The largest individual capital transaction during the third quarter was the payment of approximately \$39 million made by the United Kingdom on the Canadian loan of 1942. This loan originated from the funding of \$700 million advanced to the Government of the United Kingdom prior to the wartime arrangements for Mutual Aid. At that time it was agreed that the loan would bear no interest until after the war, a provision which was subsequently extended to the end of 1953. The loan was to be reduced by crediting against it dollars accruing to the United Kingdom from sales to non-residents of Canadian securities (payable in Canadian dollars) held by residents of the United Kingdom together with proceeds of redemption of any Canadian securities. Subsequently it was agreed that certain new direct investments in Canada and the financing of an order for Canadian aircraft by United Kingdom residents could be offset against the amounts accruing for payment. By the end of June of this year, as a result of these repayment provisions, the amount outstanding on the loan had been reduced to about \$189 million.

Under the new arrangements the United Kingdom has been released from the provisions for repayment heretofore in effect. The payment made in August reduced the amount outstanding to \$150 million and this will be repaid in full in twenty equal quarterly instalments commencing next year and running through 1958. (The amount outstanding on the Canadian postwar loan of 1946 to the United Kingdom is currently about \$1,157 million; repayment of this loan extending over fifty years commenced in 1951). The authorities in the United Kingdom have now withdrawn the special restrictions imposed on the switching abroad of Canadian securities owned by United Kingdom residents. The overall effect of the new arrangements is to eliminate the generally self-balancing nature of the loan repayments, the security transactions, and the direct investment in Canada coming under the understanding described in the paragraph above. Henceforth as a general rule the switching in Canada or elsewhere abroad of United Kingdom holdings of Canadian securities will not directly affect that country's position, but any further reductions of these holdings will augment its exchange resources, while repayments on the loan and transfers for direct investment in Canada will represent a charge upon them.

Other capital movements outwards

Canadian dollar holdings of foreigners were reduced by \$65 million in the quarter. This comparatively large outflow of capital reflects in part the use in the third quarter of balances accumulated in anticipation of specific transactions; over the nine months of the year Canadian dollar holdings of foreigners are estimated to have increased by \$3 million. In the third quarter there was also an outflow of \$35 million to increase Canada's official holdings of gold and foreign exchange. This contrasted with an inflow of \$107 million in the first half of the year, of which a substantial part was

directly related to the repurchase from abroad of \$75 million of government debt.

"Capital movements n.o.p." resulted on balance in a small outflow of capital in the third quarter in contrast to the inflow of \$50 million in the previous period, but the heterogeneous character of the transactions covered makes this balance of limited significance. In this category movements of capital to finance Canadian-controlled enterprises abroad merge with such diverse groups of transactions as loans to Canadian companies by the United Kingdom and United States Governments, foreign financing of acceptance and loan companies, and the use of Canadian resources by the International Bank for Reconstruction and Development. And included also, of course, are transactions normally playing a more passive role, such as changes in international open account commercial indebtedness, and in private and chartered bank holdings of foreign exchange.

Summary of Capital Movements, 1953

(Millions of dollars)

	<u>Third Quarter</u>		<u>January to September</u>	
	1952	1953	1952	1953
Direct investment in Canada	+ 103	+ 90	+ 246	+ 260
Canadian securities				
Trade in outstanding issues	- 51	- 4	- 70	- 30
New issues	+ 23	+ 15	+ 273	+ 179
Retirements	- 7	- 10	- 60	- 128
Official loan repayments	+ 8	+ 39	+ 25	+ 63
Canadian dollar holdings of foreigners	+ 2	- 65	-	+ 3
Official holdings of gold and foreign exchange	- 25	- 35	- 33	+ 72
Capital movements n.o.p.	- 122	- 9	- 519	- 33
Net capital movement financing current account balance	- 69	+ 21	- 138	+ 386

Prepared in the Balance of Payments Section.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1953 are preliminary and

(Millions of dollars)

		1951			
		I	II	III	IV
A	CURRENT RECEIPTS				
1	Merchandise exports (adjusted)	815	952	1,044	1,139
3	Gold production available for export	37	43	35	35
4	Travel expenditures	23	51	157	43
5	Interest and dividends	16	25	19	55
6	Freight and shipping	68	31	96	106
7	Inheritances and immigrants' funds	14	19	22	22
11	All other current receipts	65	57	65	62
12	TOTAL CURRENT RECEIPTS	1,038	1,228	1,438	1,462
B	CURRENT PAYMENTS				
1	Merchandise imports (adjusted)	946	1,193	1,082	876
4	Travel expenditures	54	74	96	56
5	Interest and dividends	100	96	91	163
6	Freight and shipping	59	93	102	100
7	Inheritances and emigrants' funds	15	17	19	19
9	Official contributions	1	5	-	3
11	All other current payments	99	102	113	109
12	TOTAL CURRENT PAYMENTS	1,274	1,580	1,503	1,326
	Balance on Merchandise Trade	- 131	- 241	- 38	+ 263
	Balance on Other Transactions, excluding B 9	- 104	- 106	- 27	- 124
	Official Contributions	- 1	- 5	-	- 3
C	CURRENT ACCOUNT BALANCE	- 236	- 352	- 65	+ 136
D	CAPITAL ACCOUNT				
	Direct Investment				
1	Direct investment in Canada	+ 46	+ 75	+ 53	+ 135
2	Direct investment abroad	- 3	- 4	- 4	- 9
	Canadian Securities				
3	Trade in outstanding issues	+ 63	+ 1	+ 11	- 37
4	New issues	+ 26	+ 155	+ 76	+ 154
5	Retirements	- 25	- 37	- 67	- 55
	Foreign Securities				
6	Trade in outstanding issues	+ 1	+ 5	+ 5	+ 4
7	New issues	-	- 1	- 1	- 1
8	Retirements	+ 1	-	+ 1	+ 1
	Loans by Government of Canada				
10	Repayment of post-war loans	-	+ 7	-	+ 27
11	Repayment of war loans	+ 5	+ 14	+ 8	+ 7
14	Change in Canadian dollar holdings of foreigners	- 20	- 13	- 77	- 82
16	Change in official holdings of gold and foreign exchange (increase, minus)	+ 110	- 45	+ 64	- 185
17	Capital movements, n.o.p.	+ 32	+ 195	- 4	- 95
E	NET CAPITAL MOVEMENT	+ 236	+ 352	+ 65	- 136

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

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items
B 1) 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) This item includes government transactions (except merchandise trade and interest), personal re-
B 11) mittances, miscellaneous income, insurance transactions, and business services.

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

1,2 Exclusive of undistributed profits.

BALANCE OF INTERNATIONAL PAYMENTS

data for 1952 are subject to revision.

(Millions of dollars)

1952				1953			Annual Totals		Four Quarters Ending 30 Sept. 53	
I	II	III	IV	I	II	III	1951	1952		
1,009	1,123	1,049	1,155	916	1,114	1,076	3,950	4,336	4,261	A
41	35	37	37	48	37	31	150	150	153	1
24	53	156	43	26	54	171	274	276	294	3
17	31	22	76	27	33	21	115	146	157	4
81	93	89	97	71	93	87	351	360	348	5
17	25	22	17	15	31	24	77	81	87	6
66	76	75	96	71	77	85	249	313	329	7
1,255	1,436	1,450	1,521	1,174	1,439	1,495	5,166	5,662	5,629	11
889	984	936	1,037	1,001	1,162	1,054	4,097	3,846	4,254	B
62	96	108	70	67	94	122	280	336	353	1
82	33	95	148	83	98	73	450	413	407	4
61	94	101	102	65	102	105	354	358	374	5
21	24	24	25	23	25	22	70	94	95	6
11	-	-	5	9	12	3	9	16	29	7
100	110	117	121	110	127	132	423	448	490	9
1,226	1,396	1,381	1,508	1,358	1,620	1,516	5,683	5,511	6,002	11
+ 120	+ 139	+ 113	+ 118	- 85	- 48	+ 22	- 147	+ 490	+ 7	C
- 80	- 99	- 44	- 100	- 90	- 121	- 40	- 361	- 323	- 351	
- 11	-	-	- 5	- 9	- 12	- 3	- 9	- 16	- 29	
+ 29	+ 40	+ 69	+ 13	- 184	- 181	- 21	- 517	+ 151	- 373	D
+ 68	+ 75	+ 103	+ 86	+ 90	+ 80	+ 90	+ 309	+ 332	+ 346	1
- 6	- 15	- 15	- 28	x	x	x	- 20	- 64	x	2
-	- 19	- 51	- 25	+ 10	- 36	- 4	+ 38	- 95	- 55	3
+ 89	+ 161	+ 23	+ 46	+ 116	+ 43	+ 15	+ 411	+ 319	+ 225	4
- 12	- 41	- 7	- 29	- 25	- 93	- 10	- 134	- 89	- 157	5
+ 6	+ 2	+ 2	-	+ 1	+ 3	+ 1	+ 15	+ 10	+ 5	6
- 19	- 1	-	-	- 1	- 2	- 1	- 3	- 20	- 4	7
-	-	-	-	+ 1	-	-	+ 3	-	+ 1	8
-	+ 9	-	+ 24	+ 2	+ 11	-	+ 34	+ 33	+ 37	10
+ 2	+ 6	+ 8	+ 7	+ 4	+ 7	+ 39	+ 34	+ 23	+ 57	11
- 5	+ 3	+ 2	- 66	+ 46	+ 22	- 65	- 192	- 66	- 63	14
+ 24	- 32	- 25	- 4	+ 16	+ 91	- 35	- 56	- 37	+ 68	16
- 176	- 188	- 109	- 24	- 76	+ 50	- 9	+ 128	- 497	- 87	17
- 29	- 40	- 69	- 13	+ 184	+ 181	+ 21	+ 517	- 151	+ 373	E

NOTES:

14 Excludes holdings of IMF and IBRD (D 17)

16 Excluded are changes in accounts established by special arrangement with the U.K. under which sterling was acquired for codfish sold in European markets and was available for the repurchase of certain funded obligations (entries under D 5 and D 17).

17 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.

x Included with D 17.

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