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QUARTERLY ESTIMATES OF

THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS
SECOND QUARTER 1954DOMINION BUREAU
OF STATISTICS

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In the first half of 1954 Canada's transactions in goods and services with other countries resulted in a current account deficit of \$357 million. This was somewhat less than the deficit of \$375 million in the first half of 1953. The current deficit of \$178 million in the second quarter of 1954 was almost unchanged from that of \$179 million in the first quarter, and both were only moderately lower than the deficits of the first two quarters of 1953. Adjusted export and import values were both some 8 per cent lower in the first half of 1954 compared to the first half of 1953, while receipts and payments for invisibles each fell by 6 per cent. The deficit on trade decreased by \$6 million to \$126 million and that on invisibles by \$12 million to \$231 million in the half yearly comparison.

But the current deficit in the second quarter would have been significantly smaller if the statistical change referred to below had not affected the figures shown in the balance of payments statement. A change in statistical procedure raised the June import figure by a substantial but indeterminate amount. Indications at present are that this factor may have added at least some \$40 million to the total imports in the month. The change in compilation practice had the effect of recording as June imports two working days in addition to the usual full month. The effect of this non-recurring change should be kept in mind in assessing changes in imports and the deficit and in the item "capital movements n.o.p." which includes "leads and lags."

Although the current deficit was little changed from the first quarter, the movements of capital which financed it differed considerably. Portfolio security transactions, which in the first quarter led to net inflows of capital sufficiently large to cover practically all Canada's current deficit, were virtually in balance in the second quarter. Direct investment inflows were maintained at about the same rate as the first quarter. The other major source of financing was an inflow on account of "capital movements n.o.p." which is discussed later in this report.

Total official holdings of gold and foreign exchange rose by \$37 million over the quarter; holdings of gold and United States dollars were decreased by \$17 million in April but increased by \$53 million in May and June. On the exchange market, the noon average price of the United States dollar in Canadian funds was 98.27 cents compared with 97.01 cents in the first quarter. The Canadian dollar weakened over April but strengthened somewhat in May and June when the trading range was only 0.81 cents. Over the quarter, the range of trading was only 1.09 cents; this was the narrowest fluctuation recorded in any quarter since the withdrawal of fixed exchange rates in 1950.

The re-appearance of current deficits in the first half of 1953 was due primarily to very rapid increases in import volume. Contributory factors included the relative stability of export volume in the first half of 1953 compared to the first half of 1952, some deterioration in the terms of trade, and a deficit on invisibles larger than that for any half year period since the war. The current deficits were reduced in the second half of 1953 due partly to seasonal improvement on merchandise trade and invisible items. An important part of the change, however, reflected a retardation in the growth of import volume after mid-1953. In the fourth quarter of 1953 both export and import volume fell below the levels of one year earlier. The same occurred in the first and second quarters of 1954. The fall in export volume and value in the last nine months has been closely associated with declining exports of wheat, though a number of other commodities were involved also. Import volume fell more rapidly than export volume in the first half of 1954, but import prices rose slightly while export prices fell. This deterioration in the terms of trade continued a tendency evident since the fourth quarter of 1952. Transactions in non-merchandise items yielded a deficit only a little less than the record deficit on these transactions in the first half of 1953. The current deficit was somewhat reduced in the half year, but since current receipts and payments fell, it continued at 7 per cent of total current transactions as in the first half of 1953.

Commodity trade value and volume lower

The decline in exports and imports which has continued since the fourth quarter of 1953 reflects Prepared in the Balance of Payments Section, International Trade Division.
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a variety of influences. The most important factor on the export side has been the decline in wheat exports to overseas countries which had been at most exceptional levels in 1952 and 1953. But shipments of other Canadian commodities overseas have been higher in value this year. Lower production levels in the United States reduced Canadian exports of some products but others were well maintained. The fall in Canadian imports reflects in particular the slowing down and reversal of the inventory growth so conspicuous for much of 1953. In some industries, such as textiles and some durable manufactures, activity has been reduced and imports affected. While total domestic output, seasonally adjusted, fell slightly in the fourth quarter of 1953 and first quarter of 1954, the more significant effect on imports was probably the marked change in composition of output. Output in many of the commodity producing industries has fallen in the past nine months or so, while that in the service industries has expanded. The former probably have a larger import content than the latter.

Adjusted merchandise exports fell by \$166 million in the first half of 1954 relative to the first half of 1953. About two-thirds of this decrease was in the second quarter. Imports fell by \$172 million, a decrease more evenly distributed over the two quarters. Export prices were about two to three per cent lower than in the previous year in each quarter, while import prices were about one per cent higher in each quarter. The terms of trade accordingly deteriorated by some 3 per cent, relative to the same quarters of 1953 but were still considerably more favourable than in the period before 1952. In the first quarter export volume declined 3 per cent from the low first quarter level of 1953, while the volume of imports fell by close to 8 per cent. In the second quarter both fell more rapidly; the volume of exports fell 7 per cent below the same quarter of 1953 while import volume fell 12 per cent in spite of the change in statistical procedure mentioned earlier which raised June imports.

About half the decline in exports in the six month period was with the United States, the remainder with the sterling area and O.E.E.C. countries. Exports to other countries were virtually unchanged, with sharp declines to Egypt and Korea offset by a large increase in exports to Japan. The decline in exports to the United States occurred in both quarters, while that to overseas countries as a whole was concentrated in the second quarter. While the largest absolute area decrease in exports was that to the United States, this was largely a reflection of the fact that about 60 per cent of Canadian exports were sold to that country in the first half of 1954; the percentage declines were greater in exports to Other Sterling Area countries and Western Europe.

The decline in imports in the first half year was concentrated in trade with the United States and United Kingdom; those from other overseas countries were higher compared to the same period one year earlier. The effect of these changes in adjusted exports and imports in the half year period was to lower the trade deficit with the United States and raise the surplus with the United Kingdom since in each case imports declined more than exports. With other overseas countries, however, the trade surplus was lowered as exports fell while imports rose. The deficit of \$126 million on trade with all countries was only slightly less than in the first half of 1953.

Summary of Current Transactions with the United States,
the United Kingdom, and with Other Countries
(Millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1953	1954	1953	1954	1953	1954	1953	1954
<u>Second Quarter</u>								
Exports (adjusted)	1,113	998	629	596	191	157	293	245
Imports (adjusted)	1,161	1,069	841	768	136	110	184	191
Balance on trade	- 48	- 71	- 212	- 172	+ 55	+ 47	+109	+ 54
Other transactions (net)	- 143	- 107	- 130	- 105	- 23	- 12	+ 10	+ 10
Current account balance	- 191	- 178	- 342	- 277	+ 32	+ 35	+119	+ 64
<u>January to June</u>								
Exports (adjusted)	2,031	1,865	1,219	1,134	310	291	502	440
Imports (adjusted)	2,163	1,991	1,600	1,447	239	205	324	339
Balance on trade	- 132	- 126	- 381	- 313	+ 71	+ 86	+178	+101
Other transactions (net)	- 243	- 231	- 209	- 210	- 37	- 25	+ 3	+ 4
Current account balance	- 375	- 357	- 590	- 523	+ 34	+ 61	+181	+105

The decrease in wheat exports from the exceptional levels of the two previous years was equivalent to almost three-quarters of the decline in exports in the first six months of 1954 compared to the same period of 1953. The decline was particularly sharp in the second quarter of 1954. Non-wheat exports as a group were moderately lower as compared to the first half of 1953, but the behaviour of specific commodities varied a good deal. Some of the larger absolute declines in non-wheat exports in the first six months were in other grains, automobiles, primary iron and steel, ferro-alloys and copper and zinc. On the other hand exports of newsprint and woodpulp were higher, nickel and aluminum exports rose in the second quarter in particular, and a number of farm products and chemicals were higher. The mixed behaviour of exports is evident from the fact that of Canada's sixteen leading commodity exports in the first half of 1953, apart from wheat, eight were higher in value and eight lower in the first half of 1954.

Virtually all of Canada's major import products declined in value in the first five months of 1954 compared to the same period of 1953, showing that the decline in imports was less concentrated by commodities than that in exports. Imports of fibres and textiles continued the decline of the first quarter into April and May, as did imports of farm implements and machinery. Imports of automobiles and parts fell in April and May after remaining fairly level in the first quarter. While few of the major imports rose in the five months, some of the large items were not far from the 1953 levels. This was the case in the very large item of non-farm machinery.

Deficit on invisibles continues at high levels

Net payments for invisibles in the first half of 1954 were \$231 million. This was \$12 million less than in the first half of 1953, when the deficit for invisibles had exceeded that of any half year period since the war. The decline in official contributions was close to this amount. While the deficit on other invisibles was not greatly changed the level of both receipts and payments fell. The deficit was greater in the first quarter and smaller in the second, relative to the levels of one year earlier. To an important degree this was due to special factors. Gold production available for export fell sharply from the first quarter of 1953 to the first quarter of 1954, while there were large non-recurring military expenditures of a service nature in the second quarter of 1953.

There were very sharp declines in receipts and payments on freight and shipping account in the second quarter. The reduced volume of trade in certain commodities was primarily responsible for these changes. Reduced exports of wheat, which has a high freight content, were of major importance on the receipts side. Gold production available for export had fallen in the first quarter of 1954, reflecting both the high production levels of one year earlier and the strike which was in effect until mid-February of 1954. In the second quarter of 1954, however, part of the first quarter decline was offset. Travel receipts and payments were almost unchanged from the first half of 1953. Receipts and payments both declined slightly in the first quarter of 1954 and rose in the second. Net payments for interest and dividends were reduced in the first half of 1954. While dividend receipts were about the same in the half year, those from the United States were lower while receipts from the Other Sterling Area countries rose. Dividend payments fell in the half year but part of this decline was offset by larger interest payments associated with the net new issues of recent quarters.

Transactions by Areas

While the current deficit with all countries was not greatly changed, there were important changes by areas. The deficit with the United States was decreased and the surplus with the United Kingdom increased in the half year period, thus tending to decrease the overall deficit in the accounts. But the surplus with other countries was sharply reduced by the contraction in grain shipments and this offset much of the change with the United States and United Kingdom.

Exports and imports with the United States were both lower in the second quarter and half year compared with the period one year earlier, but since imports declined more the trade deficit with the United States was reduced. The deficit on invisibles with the United States was unchanged in the half year period. Exports of lumber to the United States were below the 1953 levels but newsprint and pulp exports were virtually unchanged. While copper and zinc export values declined, other non-ferrous metal exports to the United States were well maintained and nickel exports increased. The decrease in imports was particularly evident in the textiles group and iron products.

The current account surplus with the United Kingdom in the half year exceeded the small surplus of one year earlier. This change was restricted almost wholly to the first quarter. In the half year, exports declined less than imports and the deficit on invisibles was decreased. Exports to the United Kingdom had risen in the first quarter but the second quarter decline more than offset this. Exports of wood products, non-ferrous metals and several other groups were higher in the six months comparison but the sharp decline of wheat exports, which was concentrated in the second quarter, offset these increases.

The decline in the surplus with other overseas countries can also be traced in large part to wheat, and in particular to large shipments to India and Pakistan in the first half of 1953 which did not recur in the first half of 1954. The decline in exports was mainly concentrated in the second quarter of 1954. Imports from both the Other Sterling Area countries and non-sterling overseas countries have risen by contrast.

Direct investment maintained but security inflow dropped

Net inflows of foreign capital for direct investment in Canadian industry are tentatively estimated to have totalled \$70 million in the second quarter, about the same rate as in the first three months of the year. Capital imports for petroleum exploration and development accounted for about seven-tenths of the net inflow, continuing at the high levels of 1953. Inflows for mining brought the share of resource development as a whole to more than nine-tenths, in contrast to 1952 and 1953 when it amounted to about three-quarters of the total. Other inflows for direct investment were smaller than last year and the total movement in the first half of the year was reduced by more than 25 per cent compared with 1953.

Portfolio security transactions in the second quarter of 1954 led to a capital inflow of only \$3 million, in contrast with \$169 million in the first quarter of the year. Gross transactions exceeded \$500 million in each quarter. Long-term interest rates in Canada continued to fall during the second quarter, and the spread between rates in Canada and in the United States fell about 1/4 per cent. Proceeds of new Canadian issues sold abroad, amounting to \$70 million or \$99 million below the previous quarter, included nearly \$60 million of issues payable in United States funds which were placed privately. Of the total sales, \$20 million represented provincial and municipal issues, and the remainder was mainly corporate financing. While the larger part of the proceeds was used to finance expansion programmes in Canada or subsidiaries abroad, nearly half covered the refunding of other issues held by non-residents.

Retirements of foreign-held debt totalled \$73 million in the quarter. About \$48 million of the total is estimated to have been payable solely in United States funds, and a further \$16 million was payable optionally in that currency. Governments and municipalities, mainly provincial governments, accounted for about \$59 million of the total. The changes in interest rates led to some refunding, and retirements included several long-term provincial issues which had been sold abroad in 1951 and 1952 and were called for redemption with part of the refinancing done in the Canadian market. Some refunding abroad took place as the result of changing corporate financial arrangements and did not give rise to any change in Canada's interest costs. Other retirements represented the normal maturity of obligations held abroad or the retirement in advance of maturity of Canadian domestic issues part of which had been acquired by non-residents.

Trading in outstanding Canadian securities in the three months resulted in a sales balance or capital import of \$22 million. Part of this total represented the temporary employment in Government of Canada obligations of some of the proceeds of a new issue placed in Canada by a non-resident borrower. But this inflow was largely offset by re-purchases of Government bonds from other non-residents. But the significant characteristic of trade was the continued interest of non-residents in Canadian stocks, resulting in sales balances of more than \$20 million in each of the two quarters of 1954, following repatriation in the final quarter of 1953. The commencement of operations by several new companies formed to provide a medium for United States investment in Canada appears to have had only a limited effect on trading to the middle of the year.

Transactions in foreign securities were dominated by the sale of a new issue in Canada by the International Bank for Reconstruction and Development. This accounted for most of the purchases by Canadians of new issues of foreign securities which aggregated \$26 million. Trade in outstanding foreign issues led to a net capital inflow of \$10 million, most of which represented liquidation of Canadian holdings of United States stocks.

Other capital movements showed large reversal

Canada received repayments of \$19 million on its outstanding loans to foreign governments during the second quarter of the year. Further inflows arose from an increase of \$16 million in holdings of Canadian dollars by non-residents, following three quarters during which these holdings were reduced by nearly \$100 million. It seems likely that some of the increase represented funds destined for investment in Canadian securities which were held in the form of cash balances at the end of June. Reference has already been made to the changes which occurred in Canada's official holdings of gold and foreign exchange.

The abrupt change of "capital movements n.o.p." from an outflow of \$50 million in the first quarter to an inflow of \$107 million in the second quarter took place in a period of relative exchange stability. Among factors contributing to the inflow were an increase in holdings of Canadian funds by international institutions, and a marked reduction of Canadian holdings of United States funds, which had risen in the preceding quarter. But in contrast, substantial borrowings in the first quarter by companies engaged in the consumer credit field were partially repaid in the second quarter. Undoubtedly of considerable importance in the shift was the record growth of June imports (unadjusted) by nearly \$65 million over March. As has been noted, a significant part of this increase was caused by a change in statistical procedure which resulted in the extension of the June compilation month by approximately two days. "Capital movements n.o.p." would be affected not only by any actual growth in the rate of imports, with which some increase in accounts payable would normally be expected, but also by the statistical adjustment, because this item includes the residual in estimates of Canada's balance of payments. Both these factors would have tended to give rise to an import of capital in the estimates.

Summary of Capital Movements

(Millions of dollars)

	<u>1953 First Half</u>	<u>1953 Second Half</u>	<u>1954 First Half</u>
Direct investment in Canada	+ 193	+ 205	+ 140
Canadian securities			
Trade in outstanding issues	- 26	- 5	+ 38
New issues	+ 192	+ 150	+ 239
Retirements	- 116	- 26	- 91
Foreign securities	+ 3	- 4	- 14
Official loan repayments	+ 24	+ 63	+ 28
Canadian dollar holdings of foreigners	+ 65	- 82	+ 1
Official holdings of gold and foreign exchange (increase, -)	+ 107	- 69	- 41
Capital movements, n. o. p.	- 67	- 168	+ 57
<hr/>			
Net capital inflow financing current account deficit	+ 375	+ 64	+ 357

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1954 are preliminary and

		1952				1953
		I	II	III	IV	I
A	Current Receipts					
1	Merchandise exports (adjusted).....	1,010	1,124	1,049	1,156	918
3	Gold production available for export	41	35	37	37	45
4	Travel expenditures	24	53	156	42	36
5	Interest and dividends	17	32	23	73	26
6	Freight and shipping.....	84	98	98	103	71
7	Inheritances and immigrants' funds	17	27	22	19	16
11	All other current receipts	58	67	67	89	69
12	Total Current Receipts	1,251	1,436	1,452	1,519	1,174
B	Current Payments					
1	Merchandise imports (adjusted).....	890	985	937	1,038	1,002
4	Travel expenditures	63	97	110	71	68
5	Interest and dividends	82	88	95	148	86
6	Freight and shipping.....	65	98	105	107	70
7	Inheritances and emigrants' funds	21	24	24	25	21
9	Official contributions	11	-	-	5	10
11	All other current payments.....	91	100	106	108	101
12	Total Current Payments	1,223	1,392	1,377	1,502	1,358
	Balance on Merchandise Trade	+ 120	+ 139	+ 112	+ 118	- 84
	Balance on Other Transactions, excluding B 9	- 81	- 95	- 37	- 96	- 90
	Official Contributions.....	- 11	-	-	- 5	- 10
C	Current Account Balance	+ 28	+ 44	+ 75	+ 17	- 184
D	Capital Account					
	Direct Investment					
1	Direct investment in Canada	+ 71	+ 78	+ 106	+ 91	+ 103
2	Direct investment abroad	- 9	- 21	- 19	- 28	- 8
	Canadian Securities					
3	Trade in outstanding issues	-	- 19	- 51	- 24	+ 10
4	New issues.....	+ 88	+ 159	+ 23	+ 46	+ 132
5	Retirements	- 12	- 41	- 7	- 29	- 28
	Foreign Securities					
6	Trade in outstanding issues	+ 6	+ 3	+ 3	-	+ 2
7	New issues.....	- 19	- 1	-	-	- 1
8	Retirements	-	-	-	-	+ 1
	Loans by Government of Canada					
10	Repayment of post-war loans	-	+ 9	-	+ 24	+ 2
11	Repayment of war loans.....	+ 2	+ 6	+ 8	+ 7	+ 4
14	Change in Canadian dollar holdings of foreigners....	- 4	+ 4	+ 2	- 68	+ 45
16	Change in official holdings of gold and foreign exchange (increase, minus).....	+ 24	- 32	- 25	- 4	+ 16
17	Capital movements, n.o.p.	- 175	- 189	- 115	- 32	- 94
E	Net Capital Movement	- 28	- 44	- 75	- 17	+ 184

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 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 remittances, miscellaneous income, B 11) insurance transactions, and business services.

BALANCE OF INTERNATIONAL PAYMENTS

data for 1953 are subject to revision.

1953			1954		Annual Totals			Four Quarters ending June 30, 1954	
II	III	IV	I	II	1951	1952	1953		
(millions of dollars)									
1,113	1,077	1,044	867	998	3,950	4,339	4,152	3,986	A
37	30	29	35	43	150	150	144	137	1
57	172	47	24	59	274	275	302	302	3
32	24	82	24	31	115	145	164	161	4
92	86	88	68	76	351	383	337	318	5
27	26	23	17	28	77	85	92	94	6
73	95	84	63	71	249	281	321	313	7
1,431	1,510	1,397	1,098	1,306	5,166	5,658	5,512	5,311	11
1,161	1,052	994	922	1,069*	4,097	3,850	4,209	4,037	12
95	124	78	67	97	280	341	365	366	B
102	81	141	90	90	450	413	410	402	1
108	110	94	66	89	354	375	382	359	4
22	25	23	22	23	70	94	91	93	5
9	3	2	4	2	9	16	24	11	6
125	128	116	106	114	423	405	470	464	7
1,622	1,523	1,448	1,277	1,484	5,683	5,494	5,951	5,732	9
- 48	+ 25	+ 50	- 55	- 71	- 147	+ 489	- 57	- 51	11
- 134	- 35	- 99	- 120	- 105	- 361	- 309	- 358	- 359	12
- 9	- 3	- 2	- 4	- 2	- 9	- 16	- 24	- 11	
- 191	- 13	- 51	- 179	- 178	- 517	+ 164	- 439	- 421	C
+ 90	+ 97	+ 108	+ 70	+ 70	+ 309	+ 346	+ 398	+ 345	D
- 10	- 10	- 28	x	x	- 20	- 77	- 56	x	1
- 36	- 4	- 1	+ 16	+ 22	+ 38	- 94	- 31	+ 33	2
+ 60	+ 15	+ 135	+ 169	+ 70	+ 411	+ 316	+ 342	+ 389	3
- 88	- 9	- 17	- 18	- 73	- 184	- 89	- 142	- 117	4
+ 3	+ 1	+ 15	+ 4	+ 10	+ 15	+ 12	+ 21	+ 30	5
- 2	- 1	- 19	- 2	- 26	- 3	- 20	- 23	- 48	6
-	-	-	-	-	+ 3	-	+ 1	-	7
+ 11	-	+ 24	+ 2	+ 11	+ 34	+ 33	+ 37	+ 37	8
+ 7	+ 39	-	+ 7	+ 8	+ 34	+ 23	+ 50	+ 54	10
+ 20	- 71	- 11	- 15	+ 16	- 192	- 66	- 17	- 81	11
+ 91	- 35	- 34	- 4	- 37	- 56	- 37	+ 38	- 110	14
+ 45	- 9	- 121	- 50	+ 107	+ 128	- 511	- 179	- 111	16
+ 191	+ 13	+ 51	+ 179	+ 178	+ 517	- 164	+ 439	+ 421	17
									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.

x Included with D 17.

* Raised significantly by procedural change - see text.

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