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QUARTERLY ESTIMATES OF

THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

THIRD QUARTER 1954

Transactions in goods and services with other countries led to a current deficit of \$330 million in the first nine months of 1954, compared with a deficit of \$388 million in the same period of 1953. The deficits of \$173 million and \$179 million in the first two quarters of the year changed to a small surplus of \$22 million in the third quarter of 1954. This sharp change was due primarily to seasonal movements in the merchandise trade and travel accounts, and also to the effects of a statistical discontinuity which had raised June imports.⁽¹⁾ The corresponding current balance in the third quarter of 1953 had been a small deficit of \$13 million.

Both the nine month and third quarter comparisons indicate some improvement in the current account deficits of one year earlier. In each case the changes were due about equally to merchandise trade and to services. In both the third quarter and nine months, compared to 1953, the bilateral disequilibrium in the current account balance has been reduced, with a fall in both the deficit with the United States and the surplus with overseas countries. The surplus with the United Kingdom, however, has increased. In the third quarter of 1954 the deficit with the United States was unusually small, and almost matched by the surplus with the United Kingdom.

It should be noted, however, that the reduced deficits of 1954 have occurred at a lower aggregate level of transactions. Total current receipts and payments in the first nine months of 1954 were each lower by about 7 per cent, with merchandise receipts and payments down about 8 per cent each and service receipts and payments each lower by about 4 per cent.

The changes in each of the main components of the capital account in the third quarter were of an equilibrating nature when viewed against the striking change of \$201 million in the current account balance. Movements of direct investment and portfolio capital, official loan repayments, and other capital transactions all showed reduced inflows or increased outflows of capital. The largest single factor was a change of \$126 million in "other capital movements". Total official holdings of gold and foreign exchange were increased by \$38 million during the quarter. On the exchange market, the Canadian dollar showed considerable strength. The noon average price of the United States dollar in Canadian funds fell to 97.14 cents from 98.27 cents in the second quarter. The trading range of 1.13 cents was only slightly wider than in the preceding quarter.

Canada's current account deficit of \$330 million for the first nine months of 1954 was more than financed by the movement of long-term capital. The net inflow of foreign private long-term capital and official loan repayments aggregated \$434 million, while outflows for Canadian long-term investment abroad amounted to \$71 million. The outflow to finance an increase in official holdings of gold and foreign exchange totalled \$79 million, and there were net inflows from all other capital transactions, mainly short-term, of \$46 million.

The current surplus in the third quarter, while small, is worth putting in the perspective of the past several years. Canada has had quarterly current deficits consistently since the first

(1) A change in statistical procedure, discussed in the previous issue of this publication, raised June imports by some \$40 million.

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quarter of 1950, except for the last quarter of 1951 and during 1952 when grain exports soared and the terms of trade rapidly improved. A strongly rising volume of imports in particular, however, led to the re-appearance of current deficits in the first half of 1953. In the second half of 1953 the current deficits were reduced. This was in part a seasonal improvement in the balances of trade and invisible items. On a seasonally adjusted basis, both imports and exports fell sharply in the fourth quarter of 1953. Adjustments in output and imports had become necessary in a number of industries, partly in reaction to a rapid build-up of inventories earlier. Declines in exports of wheat, beginning in the fourth quarter of 1953, have formed a very large part of the fall in exports since then.

The current account deficit in the first half of 1954 was less than that of the first half of 1953, and, as already noted, a small surplus appeared in the third quarter of 1954. Both export and import volume in the first three quarters of 1954 have been below the levels of one year earlier, the fall in the latter exceeding that of the former. By contrast, import prices have been stable or slightly higher, while export prices have fallen. The terms of trade have continued a tendency evident since the fourth quarter of 1952, and have deteriorated by about 3 per cent in each quarter of 1954 relative to the same quarter of 1953. The data for the third quarter of 1954 reveal these trends as clearly as the first and second quarters, when comparisons are made with the period a year earlier. In the third quarter of 1954 import volume fell about 10 per cent and export volume 6 per cent. Import prices, however, were stable, while export prices fell 3 per cent from the levels of one year earlier.

While both the volume and value of exports and imports have been below the levels of one year earlier since the fourth quarter of 1953, the quarter to quarter movements in exports and imports have been upward since the first quarter of 1954. When allowance is made for seasonal factors, exports experienced a sharp decrease in the fourth quarter of 1953 but have been rising slowly since the first quarter of 1954. Imports fell sharply in both the fourth quarter of 1953 and the first quarter of 1954, on a seasonally adjusted basis, but the trend has been broadly upward since then.

Trade deficit and trade levels lower in nine months

The decline in wheat exports from the high 1952 and 1953 levels has been the most important factor in the decrease of exports. Fully three-quarters of the decline in total exports to all countries was due to wheat, and exports of other grains were also reduced. Various exports of manufactured goods have also declined, but exports of basic raw materials have increased. The lower levels of imports reflect in part the earlier rapid increase in inventories relative to sales, particularly for some consumer durable products. The reaction to this situation in durables led to reductions in both domestic output and imports, particularly the latter. While consumer expenditures were higher in 1954 to date, the increase was to a large extent in services, which do not involve as high an import content as do many commodities. Some other factors in the decline in imports were the fall in farm income with its effects on imports of farm machinery, and the continued decline in imports of coal as other sources of energy are exploited more fully.

Adjusted merchandise exports and imports fell by \$236 million and \$265 million respectively in the first nine months of 1954 compared to the same period of 1953. The declines were approximately 8 per cent in each case. The fall in imports has been fairly evenly distributed over all three quarters. That in exports has affected all three quarters, but was more heavily concentrated in the second. The decreases in export and import volume from the levels one year before were 3 and 8 per cent respectively in the first quarter, 8 per cent each in the second, and about 6 and 10 per cent in the third. It will be noted that the fall in import volume has been larger and more even than that in exports. The effect of this on import and export values has been modified, however, by differing behaviour in prices. Export prices have fallen about 3 per cent each quarter relative to the year before, while import prices have been stable or slightly higher. The terms of trade, which improved by about 20 per cent from the second quarter of 1951 to the third quarter of 1952, have deteriorated since the latter date by about 8 per cent. At the present levels, however, they are still well over the averages in 1948-51 inclusive.

About 40 per cent of the decline in exports was with the United States in the nine month period, while close to 60 per cent of total exports went to that country in the first nine months of 1953. In other words, the relative decline in exports was smaller to the United States than to overseas countries. The percentage declines for the United States, United Kingdom, and other overseas countries were 5, 7, and 14 per cent respectively. The third quarter to third quarter comparisons were 2, 7, and 17 per cent respectively. If wheat is excluded, however, exports both to the United Kingdom and to other sterling area countries were higher in the nine months, while those to non-sterling overseas countries were only moderately lower. Imports from both the United States and United Kingdom have been lower in each quarter of 1954 compared to one year earlier, while those

from other overseas countries have been somewhat higher. The decline in the nine months was 10 per cent in the case of the United States and 16 per cent in the case of the United Kingdom.

These changes in adjusted exports and imports had the effect of lowering the trade deficit with the United States and raising the trade surplus with the United Kingdom, in the nine month period. In each case imports declined more than exports. With other overseas countries, however, the surplus was considerably reduced as a result of a large reduction in exports and an increase in imports. These statements apply, as well, to the third quarter comparisons. The total deficit on trade was reduced from \$107 million in the first nine months of 1953 to \$78 million in the corresponding period of 1954.

As noted above, the decline in exports of wheat amounted to three-quarters of the decline in total exports in the nine months of 1954, while the decline in wheat and grains together was equivalent to the decline in total exports. Both the second and third quarters shared in the decreases in exports of grains. Adjusted exports, other than grains, were stable in the nine month period, and higher in the third quarter comparison. The individual behaviour of non-grain exports varied a good deal, however. In the nine months there were declines in such exports as automobiles, primary iron and steel products, ferro-alloys and flour. Each of these items fell in the third quarter as well as in the nine months, compared to a year earlier. There were substantial increases, however, in a large number of major exports in the nine months. These include several wood products, especially planks and boards, wood pulp and newsprint, and other commodities such as fish products and nickel. A number of exports, furthermore, increased in the third quarter whereas they had fallen in one or both of the preceding quarters. This was true for planks and boards and several of the base metals. Iron ore exports rose late in the quarter as shipments from Labrador commenced. Of Canada's eighteen major exports other than wheat and other grains, half had fallen and half increased in the first six months of 1954; in the nine month comparison, however, two-thirds of the major exports had increased.

The decline in imports has been more widespread than that in exports. The major absolute declines in the first eight months of 1954, however, have been in raw cotton and wool and their products, farm implements and machinery, and automobiles and parts. These together accounted for about 55 per cent of the total fall in imports in the eight months. There were declines also in coal and petroleum, rolling mill products, engines and boilers, and refrigerators, but imports of a number of agricultural products were higher. The largest import group, non-farm machinery, was virtually unchanged.

Smaller deficit on invisibles

Net payments for invisibles fell by \$29 million to \$252 million in the first nine months of 1954. Both receipts and payments, but particularly the latter, have fallen below their 1953 levels. This is mainly due to sharply lower freight and shipping receipts and payments. To an important degree it also reflects large non-recurring military service expenditures in 1953, and lower exports financed by official contributions in 1954.

Gold available for export was slightly higher in the nine months; a sharp fall in the first quarter, and increases in succeeding quarters, reflect the effects of the strike which ended in the first quarter. The lower volume of trade, and further transfers of ships from Canadian registry, have brought markedly lower levels of freight receipts and payments.

Travel receipts and payments were virtually unchanged in the half-year, but estimates for the third quarter show somewhat larger payments and lower receipts than in the same quarter of 1953. Total receipts and payments of interest and dividends have been virtually unchanged in the nine months. While no marked trend has developed for dividend payments, interest payments have been rising in recent quarters as a result of the large net new issues floated earlier.

Transactions by areas

The current account deficits of the first two quarters of 1953 were reduced in the same period of 1954, while the small deficit of the third quarter of 1953 changed to a small surplus in the third quarter of 1954. Over the nine months the deficit was reduced by \$58 million to \$330 million, with trade and invisibles each accounting for about half of the improvement. This change reflects a decrease in the deficit with the United States and an increase in the surplus with the United Kingdom, partly offset by substantial reductions in the surplus with other sterling area countries and non-sterling overseas countries.

Throughout each quarter of 1954 exports to the United States have declined less than imports, and the trade balances improved, compared to the same quarters of 1953. The deficit with the United States on invisibles was unchanged in the first half of 1954, but some improvement occurred in the third quarter with the increase in gold production and a sharp fall in payments for freight. Over half of the decline in exports to the United States in the nine months was due to lower exports of grains and a number of base metals. Copper and zinc in particular were lower, but nickel higher. The major wood products exports were well maintained. The decline in imports, in the eight month period to the end of August, was mainly in such iron and steel products as farm implements and automobiles, but coal, petroleum, and a number of textiles were also considerably lower.

Exports to the United Kingdom increased in the first quarter but the decline in subsequent quarters much more than offset this; imports have declined in each quarter relative to a year earlier. Non-wheat exports to the United Kingdom have risen, however, in response to buoyant levels of economic activity in that country. In both the third quarter and nine month comparisons the trade surplus with the United Kingdom has risen. In both periods, moreover, the deficit on invisibles with the United Kingdom has fallen, mainly because of large non-recurring military service expenditures in 1953. While exports of grains were sharply lower in the nine months, there were important increases in exports of newsprint and planks and boards, and a number of base metals. The decline in imports from the United Kingdom was mainly concentrated in textiles and products, and automobiles.

The decline in exports to other overseas countries has been moderate, if the large decline in wheat is excluded. Automobile exports have fallen to such countries but some increases, as in metals, have partly offset these decreases. The fall in wheat has affected exports to both the other sterling area and non-sterling overseas countries. Special large shipments to India and Pakistan in 1953 have in particular affected the 1953-54 comparison. Imports from overseas countries as a group, excluding the United Kingdom, have risen in the first nine months of 1954. Imports of textiles and products have fallen, but several agricultural products and petroleum from Venezuela have increased.

Summary of Current Transactions with the
United States, United Kingdom, and 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>Third Quarter</u>								
Exports (adjusted)	1,077	1,006	612	601	194	180	271	225
Imports (adjusted)	1,052	961	742	670	116	95	194	196
Balance on trade	+ 25	+ 45	- 130	- 69	+ 78	+ 85	+ 77	+ 29
Balance on invisibles	- 38	- 23	- 5	+ 6	- 30	- 16	- 3	- 13
Current account balance	- 13	+ 22	- 135	- 63	+ 48	+ 69	+ 74	+ 16
<u>January to September</u>								
Exports (adjusted)	3,108	2,872	1,831	1,739	504	467	773	666
Imports (adjusted)	3,215	2,950	2,342	2,116	355	299	518	535
Balance on trade	- 107	- 78	- 511	- 377	+ 149	+ 168	+ 255	+ 131
Other current receipts	1,007	968	750	727	120	111	137	130
Other current payments	1,288	1,220	964	929	187	152	137	139
Balance on invisibles	- 281	- 252	- 214	- 202	- 67	- 41	-	- 9
Current account balance	- 388	- 330	- 725	- 579	+ 82	+ 127	+ 255	+ 122

Inward movement of long-term capital smaller

Net inflows to Canada of long-term capital showed a continued tendency to contract. Inflows of foreign capital for direct investment in Canadian industry are tentatively estimated to have totalled \$65 million in the third quarter, with a marked reduction in foreign financing of petroleum exploration and development. The rate of direct investment inflow to the petroleum industry during the quarter was only about two-thirds of the annual rate for 1953; this was in contrast to the earlier quarters of 1954 when the rate was higher than last year. Inflows for mining have been at a lower rate during each quarter of 1954 than for 1953 as a whole. The reduction has amounted to 25 per cent for the three quarters. Total direct investment inflows of \$220 million in the first nine months of 1954 were about three-quarters of the amount for the comparable period of 1953. About 60 per cent of the funds were destined for the petroleum industry, 30 per cent for mining, and 10 per cent for manufacturing and other undertakings. Outflows of capital from Canada for direct investment abroad are estimated at \$55 million for the first nine months of the year, or nearly double the rate of outflow for the same period of 1953.

Portfolio security transactions between Canada and other countries during the third quarter led to a capital outflow of \$18 million in contrast to the inflows of \$13 million and \$165 million recorded in the second and first quarters respectively. Despite the turnover of nearly \$400 million, trade in outstanding Canadian securities was in virtual balance. A substantial inflow from the sale of equity securities was offset by repurchases of Canadian government and municipal debt. There were net sales to non-residents of \$32 million of Canadian stocks. These sales raised the total for nine months to \$74 million or more than has occurred in any full post-war year. They include sales to new Canadian diversified management companies formed by United States interests, which raised some \$90 million of capital between June and September. Net repurchases during the quarter of Canadian bonds, mainly government and municipal issues, totalled \$32 million and would have been substantially larger had there not been sales representing the temporary employment of funds raised in Canada by a non-resident borrower during the second quarter. Factors which might have been expected to lead to repatriation included both the further narrowing of the differential between yields on long-term Canadian and United States issues, and the higher exchange value of the Canadian dollar.

The proceeds of new Canadian issues sold to non-residents amounted to \$29 million. More than two-thirds of this total represented private placements abroad, some of which covered deferred deliveries on earlier sales. Non-resident participation in issues in Canada accounted for most of the balance. A significant part of the new funds was used to finance capital expansion abroad by the Canadian borrowers. Retirements of foreign-held Canadian issues amounted to \$45 million, and were dominated by an official transaction of debt repatriation. Also of major importance were the refunding in Canada of a 20-year United States dollar issue floated in 1952, and some retirements of Canadian stocks.

Transactions in foreign securities led to a capital outflow of \$2 million during the quarter, as Canadians purchased new issues of United States and other foreign bonds. Trading in outstanding issues resulted in some net switching of holdings of United States bonds into stocks.

Other capital movements

The balance of payments category "other capital movements" reflects an outflow of \$23 million in the third quarter, in striking contrast to the inflow of \$103 million shown for the second quarter. Nearly nine-tenths of the change of \$126 million in this item is accounted for by three of the components. In the second quarter, two of these had shown significant inflows which did not recur in the third quarter: the increase in accounts payable corresponding to the import compilation adjustment in that quarter, and a decrease in holdings of exchange associated with outstanding forward exchange contracts. Holdings of Canadian funds by international institutions were reduced sharply in the third quarter after having been increased in the second.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1954 are preliminary and

		1952			1953	
		II	III	IV	I	II
A	Current Receipts					
1	Merchandise exports (adjusted).....	1,124	1,049	1,156	918	1,113
3	Gold production available for export	35	37	37	48	37
4	Travel expenditures	53	156	42	26	57
5	Interest and dividends	32	23	73	26	32
6	Freight and shipping.....	98	98	103	71	92
7	Inheritances and immigrants' funds	27	22	19	16	27
11	All other current receipts	67	67	89	69	73
12	Total Current Receipts	1,436	1,452	1,519	1,174	1,431
B	Current Payments					
1	Merchandise imports (adjusted).....	985	937	1,038	1,002	1,161
4	Travel expenditures	97	110	71	68	95
5	Interest and dividends	88	95	148	86	102
6	Freight and shipping.....	98	105	107	70	108
7	Inheritances and emigrants' funds	24	24	25	21	22
9	Official contributions	-	-	5	10	9
11	All other current payments.....	100	106	108	101	125
12	Total Current Payments	1,392	1,377	1,502	1,358	1,622
	Balance on Merchandise Trade	+ 139	+ 112	+ 118	- 84	- 48
	Balance on Other Transactions, excluding B 9	- 95	- 37	- 96	- 90	- 134
	Official Contributions.....	-	-	- 5	- 10	- 9
C	Current Account Balance	+ 44	+ 75	+ 17	- 184	- 191
D	Capital Account					
	Direct Investment					
1	Direct investment in Canada	+ 78	+ 106	+ 91	+ 103	+ 90
2	Direct investment abroad	- 21	- 19	- 28	- 8	- 10
	Canadian Securities					
3	Trade in outstanding issues	- 19	- 51	- 24	+ 10	- 36
4	New issues.....	+ 159	+ 23	+ 46	+ 132	+ 60
5	Retirements	- 41	- 7	- 29	- 28	- 88
	Foreign Securities					
6	Trade in outstanding issues	+ 3	+ 3	-	+ 2	+ 3
7	New issues.....	- 1	-	-	- 1	- 2
8	Retirements	-	-	-	+ 1	-
	Loans by Government of Canada					
10	Repayment of post-war loans	+ 9	-	+ 24	+ 2	+ 11
11	Repayment of war loans.....	+ 6	+ 8	+ 7	+ 4	+ 7
14	Change in Canadian dollar holdings of foreigners..	+ 4	+ 2	- 68	+ 45	+ 20
16	Change in official holdings of gold and foreign exchange (increase, minus).....	- 32	- 25	- 4	+ 16	+ 91
17	Other capital movements	- 189	- 115	- 32	- 94	+ 45
E	Net Capital Movement	- 44	- 75	- 17	+ 184	+ 191

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

B 1) 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 Sept. 30, 1954	
III	IV	I	II	III	1951	1952	1953		
(millions of dollars)									
1,077	1,044	873	993	1,006	3,950	4,339	4,152	3,916	A
30	29	35	43	39	150	150	144	146	1
172	47	24	59	167	274	275	302	297	3
24	82	24	33	23	115	145	164	162	4
86	88	68	76	80	351	383	337	312	5
26	23	17	28	26	77	85	92	94	6
95	84	64	75	87	249	281	321	310	7
									11
1,510	1,397	1,105	1,307	1,428	5,166	5,658	5,512	5,237	12
1,052	994	923	1,066 ^x	961	4,097	3,850	4,209	3,944	B
124	78	67	98	129	280	341	365	372	1
81	141	88	93	82	450	413	410	404	4
110	94	66	90	95	354	375	382	345	5
25	23	22	23	23	70	94	91	91	6
3	2	4	2	1	9	16	24	9	7
128	116	108	114	115	423	405	470	453	9
									11
1,523	1,448	1,278	1,486	1,406	5,683	5,494	5,951	5,618	12
+ 25	+ 50	- 50	- 73	+ 45	- 147	+ 489	- 57	- 28	
- 35	- 99	- 119	- 104	- 22	- 361	- 309	- 358	- 344	
- 3	- 2	- 4	- 2	- 1	- 9	- 16	- 24	- 9	
- 13	- 51	- 173	- 179	+ 22	- 517	+ 164	- 439	- 381	C
									D
+ 97	+ 108	+ 75	+ 80	+ 65	+ 309	+ 346	+ 398	+ 328	1
- 10	- 28	- 10	- 15	- 30	- 20	- 77	- 56	- 83	2
- 4	- 1	+ 16	+ 22	-	+ 38	- 94	- 31	+ 37	3
+ 15	+ 135	+ 170	+ 80	+ 29	+ 411	+ 316	+ 342	+ 414	4
- 9	- 17	- 23	- 73	- 45	- 184	- 89	- 142	- 158	5
+ 1	+ 15	+ 4	+ 10	-	+ 15	+ 12	+ 21	+ 29	6
- 1	- 19	- 2	- 26	- 2	- 3	- 20	- 23	- 49	7
-	-	-	-	-	+ 3	-	+ 1	-	8
-	+ 24	+ 2	+ 11	+ 3	+ 34	+ 33	+ 37	+ 40	10
+ 39	-	+ 7	+ 8	+ 7	+ 34	+ 23	+ 50	+ 22	11
- 71	- 11	- 15	+ 16	+ 12	- 192	- 66	- 17	+ 2	14
- 35	- 34	- 4	- 37	- 38	- 56	- 37	+ 38	- 113	16
- 9	- 121	- 47	+ 103	- 23	+ 128	- 511	- 179	- 88	17
+ 13	+ 51	+ 173	+ 179	- 22	+ 517	- 164	+ 439	+ 381	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 Raised significantly by procedural change (see text, Vol. 2, No. 2.)



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Summary of Capital Movements

(Millions of dollars)

	<u>Third Quarter</u>		<u>Nine Months</u>	
	<u>1953</u>	<u>1954</u>	<u>1953</u>	<u>1954</u>
Direct investment in Canada	+ 97	+ 65	+ 290	+ 220
Direct investment abroad	- 10	- 30	- 28	- 55
Canadian securities				
Trade in outstanding issues	- 4	-	- 30	+ 38
New issues	+ 15	+ 29	+ 207	+ 279
Retirements	- 9	- 45	- 125	- 141
Foreign securities	-	- 2	+ 3	- 16
Official loan repayments	+ 39	+ 10	+ 63	+ 38
Canadian dollar holdings of foreigners	- 71	+ 12	- 6	+ 13
Official holdings of gold and foreign exchange (increase, -)	- 35	- 38	+ 72	- 79
Other capital movements	- 9	- 23	- 58	+ 33
Net capital movement financing current account balance	+ 13	- 22	+ 388	+ 330