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QUARTERLY ESTIMATES OF

## THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FIRST QUARTER, 1955

Canada's transactions in goods and services with other countries led to a deficit of \$157 million in the first quarter of 1955, compared with a deficit of \$176 million in the first quarter of 1954. Both merchandise exports and imports exceeded the levels of one year earlier. The increase in exports was considerably larger than that in imports, however, so that the commodity trade deficit of \$51 million in the first quarter of 1954 changed to a surplus of \$8 million in the first quarter of 1955. Two-thirds of this improvement in the trade balance, however, was offset by an increase of \$40 million in the deficit on invisibles, mainly because of sharply increased dividend payments. A substantial increase in the current surplus with the United Kingdom offset the effects on the current balance of an enlarged deficit with the United States and a decreased surplus with other overseas countries in the first quarter of 1955 compared to the same period of 1954.

Unlike the experience in most of 1954, the levels of both merchandise trade and other current transactions in the first quarter of 1955 were considerably over the levels of a year earlier. The decline in exports of grains, and economic readjustments in a number of Canadian industries, had reduced export and import levels late in 1953. The balanced but moderate decline in both merchandise trade and invisibles led to current deficits of \$176 million and \$189 million in the first two quarters of 1954, which were not greatly changed from those of the same periods of 1953. The trade surpluses in the second half of 1954 exceeded those of the same period of 1953, but a sharp increase in net payments of interest and dividends in the fourth quarter of 1954 offset these changes. As a result of these opposite changes, the current deficits in the last half of 1953 and 1954 were almost unchanged at \$63 million and \$66 million respectively.

During the last half of 1954 the recessionary forces in Canada and the United States were increasingly offset by expansionary forces, and marked increases in economic activity occurred in both countries early in 1955. At the same time, economic activity in the United Kingdom and other west European countries has continued at high levels. The levels of current receipts and payments have responded strongly to these changes. Export and import volume in the first quarter of 1955 exceeded the levels of one year earlier by 12 per cent and 6 per cent respectively. Current receipts and payments were also higher, particularly the latter.

Commodity trade higher in value and volume

Sharply higher purchases by the United Kingdom were a leading factor increasing exports in the first quarter of 1955. Exports of grains to the United Kingdom rose markedly over the levels of the first quarter of 1954, while the demand for Canadian raw materials also increased in the buoyant United Kingdom economy. The effects of economic recovery in the United States were apparent in the increase of a number of exports to that market, but the proportionate gains were generally less than in the case of the rise to the United Kingdom. The more moderate increase in imports was spread more evenly throughout the various groups of products.

In the first quarter of 1955 the value of exports and imports, as adjusted for balance of payments purposes, exceeded the first quarter of 1954 by \$96 million and \$37 million respectively. Export and import volume rose by 12 per cent and 6 per cent respectively. Price changes were slight when compared to the levels of the first quarter of 1954, although a further moderate deterioration in the terms of trade appears to have occurred.

Exports to the United Kingdom rose by over one-third, while those to the United States and other countries rose by 7 per cent and 5 per cent respectively. Exports were higher to both the other sterling area countries and western Europe, but lower to other overseas countries as a group. Imports

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from the United Kingdom fell by almost 10 per cent, but those from the United States and other countries increased. The trade surplus with the United Kingdom rose sharply, while the trade balances with the United States and other countries were virtually unchanged.

The strongest export increases over the first quarter of 1954 occurred in wood products, non-ferrous metals, and chemicals. Among these groups, there were increases in such important exports as planks and boards, newsprint, wood pulp, all the major base metals, fertilizers, and other chemical products. In addition, exports of wheat and automobiles, which had been responsible for so much of the decline in 1954, were also higher. Exports of all grains and wheat flour were up only moderately, because of the decline in exports of flour.

Almost all groups of imports showed moderate increases over the levels one year earlier. Most imports of foodstuffs continued the gains of 1954. Textiles and products, imports of which had been greatly reduced in 1954, rose considerably as a group. Changes in the largest group, iron and steel products, were mixed. Imports of rolling mill products and some types of machinery were lower, but imports of most items in this group (particularly automobiles) were higher; the group as a whole rose moderately. There were striking increases in imports of electrical apparatus and aircraft, and small declines in coal and crude petroleum.

#### Increased deficit on invisibles

In the fourth quarter of 1954 the deficit on invisibles had widened over that of the previous year and offset the improvement in the trade balance. A similar pattern appeared in the first quarter of 1955 compared to the first quarter of 1954, with the increase of \$40 million in the deficit on invisibles offsetting two-thirds of the improvement in the trade balance. In each case the income account contributed most to this change.

There were some moderate increases in non-merchandise receipts, especially freight and miscellaneous receipts, but these were much more than offset by a considerable increase in dividend payments. In addition, travel expenditures and military service expenditures rose well over the levels one year earlier. The increase in net income payments of \$29 million was virtually all due to higher dividend payments to parent companies abroad, with the other components of this account showing little change. Travel payments rose by \$11 million over the first quarter of 1954, while receipts increased only slightly.

#### Transactions by areas

In 1954 the current account deficit with the United States had been reduced and the surplus with the United Kingdom had increased, but a sharp fall in the surplus with other overseas countries offset these changes. In the first quarter of 1955, compared to the same quarter of 1954, the deficit with the United States widened by \$26 million to \$263 million and the surplus with overseas countries other than the United Kingdom fell by \$12 million to \$25 million; both these changes primarily reflect enlarged deficits on non-merchandise transactions. By contrast, the current surplus with the United Kingdom rose by \$57 million to \$81 million, because of an enlarged merchandise trade surplus.

The export and import trade with the United States increased by about the same amount in each case, so that the deficit on this trade was virtually unchanged. Exports of wood products, base metals, and chemicals to the United States exceeded the levels of one year earlier, but exports of agricultural products continued to fall. Almost all groups of imports from the United States showed gains, the one exception occurring in non-metallic minerals. The increased deficit on invisibles with the United States was equal to the increased payments of dividends to that country. Travel expenditures were also considerably higher, but increases in gold production available for export and some other current receipts offset this change.

The substantial rise in exports to the United Kingdom, along with lower imports, sharply raised the trade surplus over that of the first quarter of 1954. The largest export increases were in grains, while a number of other agricultural exports to the United Kingdom were also higher. Exports of planks and boards, newsprint, and most base metals were also higher. Most import groups were slightly higher, but iron and steel imports declined sharply. The deficit on invisibles with the United Kingdom was almost unchanged, with higher military service payments offset by increased freight and other receipts.

There was a balanced expansion in export and import trade with other overseas countries as a whole, leaving the trade surplus with this group of countries at about the figure for the first quarter of 1954. The trade surplus with both the other sterling area and other OEEC countries was enlarged as exports rose more rapidly than imports, but a sharp decline in exports to Japan led to a deficit in trade with the remaining overseas countries. Increased military service payments to European countries were primarily responsible for the enlarged deficit on invisibles with these countries as a whole.



## Capital movements

Gross direct investment inflows continued to be large in the first quarter of 1955, although below the record level established in the previous quarter. The liquidation of important investments, however, reduced the net inflow. Security transactions led to a relatively small inflow because heavy repatriation of bonds and debentures offset large net sales of stocks. There was a small inflow from the amortisation of loans to overseas governments. The net movement from these transactions in long-term assets and liabilities was not sufficient to meet Canada's current account deficit in the quarter. A relatively large inflow of capital occurred from increased holdings by non-residents of Canadian dollars and from a reduction of official holdings of gold and foreign exchange, but there were outflows on account of all other capital movements reflecting mainly the transfer of Canadian short-term funds to the London money market. On the exchange market, the noon-average price of the United States dollar in Canadian funds was 97.60 cents, compared with 96.90 cents in the fourth quarter of 1954. The United States dollar weakened slightly in January but strengthened considerably in both February and March, in terms of Canadian funds.

Although gross inflows of capital for direct investment in foreign-controlled enterprises in Canada continued to be high during the first quarter of 1955, net inflows are tentatively estimated at \$75 million. With the exception of the third quarter of 1954, this is the lowest quarterly level of net transfers recorded since early 1952, and represents a decline of more than 40 per cent from the last quarter of 1954 when inflows were at a record level. The figures give effect, however, to the withdrawal from Canada of the proceeds of the liquidation of a major investment. Had it not been for the transactions in connection with this development, the inflow for the quarter would have been above the rate for last year as a whole. Mining and petroleum investment continued to be heavy with considerable overseas participation. Flows of Canadian capital for direct investment abroad appear to have been smaller than usual and are tentatively placed at about \$5 million.

Transactions in Canadian portfolio securities led to a small capital inflow of \$4 million, following outflows in the last two quarters of 1954. Trade in outstanding Canadian issues led to an outflow of \$20 million, after four successive quarters of inflow. This outflow occurred despite the fact that there were net sales of Canadian stocks aggregating nearly \$52 million. United States residents added \$36 million to their holdings of stocks, United Kingdom \$10 million, and other overseas countries \$6 million. Repatriation through trading of nearly \$74 million of outstanding Canadian bonds and debentures, mainly held in the United States, was also at a record level. Transactions in other types of Canadian securities accounted for a small inflow. The trading in bonds reflected net repurchases of \$45 million Government of Canada direct and guaranteed issues, \$27 million provincial and municipal, and \$2 million corporation bonds. The trading and retirements of Government of Canada direct issues reduced total non-resident holdings well below \$600 million, to about half the total held at the end of 1950.

Proceeds of new Canadian securities sold abroad totalled \$105 million. This amount is remarkably large in view of the prevailing narrow differential in interest rates. Although there were several municipal issues of significant size placed abroad, the larger part of the total is attributable to the acquisition by non-residents of new stock offered to shareholders by Canadian companies, and to institutional purchases of new domestic issues, principally of corporations. Retirements of foreign-held debt, amounting to \$81 million, were also at a high level. The major transaction represented official repatriation of debt by the Government; there were also heavy retirements on the maturity of issues sold abroad many years ago.

Transactions in bonds and debentures undoubtedly reflect the existence of a relatively narrow differential between interest rates in Canada and in the United States. Yields on representative Canadian and United States Government issues maturing in 1968 were 2.81 per cent and 2.72 per cent respectively at the end of March. The differential of 9 base points or less than one-tenth of one percentage point is in sharp contrast to the differential of 40 base points at the end of 1954 and of more than 90 base points earlier in that year. The narrow margin is an influence discouraging the assumption of exchange risks involved in issues abroad, and encouraging their elimination through refunding in the Canadian market. It is of course also a powerful force in the movement of outstanding issues across the border.

Transactions in foreign securities led to a net capital inflow of \$9 million, reflecting mainly net sales of outstanding issues, chiefly United States stocks, in the amount of \$12 million.

Among other types of capital movements classified separately in Canadian balance of payments statements were inflows of \$7 million representing principal repaid on outstanding loans to foreign governments, and \$36 million covering increased holdings of Canadian dollars by non-residents. A capital inflow of \$71 million resulted from reductions in official holdings of gold and foreign exchange; a substantial part of this decline was related to official debt repatriation.

All other capital movements resulted in a net capital outflow of \$40 million in the first quarter of 1955. A leading influence on this figure was the movement of short-term funds to the United Kingdom for interest arbitrage. During March, 3 Month Treasury Bills were selling in the United Kingdom to yield an average of about 3.80 per cent; in Canada the rates averaged about 1.13 per cent. The average noon discount on 90 day forward sterling in Canada was 1 cent or about 0.36 per cent. The net theoretical advantage, before commissions, of employing Canadian funds in the London market was consequently of the order of 1 1/4 per cent per annum.

# QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1955 are preliminary and

		1952		1953		
		IV	I	II	III	IV
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	1,156	918	1,113	1,077	1,044
3	Gold production available for export .....	37	48	37	30	29
4	Travel expenditures .....	42	26	57	172	47
5	Interest and dividends .....	73	27	33	24	81
6	Freight and shipping.....	103	66	86	81	85
7	Inheritances and immigrants' funds .....	19	16	26	26	23
11	All other current receipts .....	89	69	73	94	83
12	<b>Total Current Receipts</b> .....	1,519	1,170	1,425	1,504	1,392
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	1,038	1,002	1,161	1,053	994
4	Travel expenditures .....	71	68	95	124	78
5	Interest and dividends .....	148	86	102	83	133
6	Freight and shipping.....	107	69	106	107	92
7	Inheritances and emigrants' funds .....	25	21	22	23	25
9	Official contributions .....	5	10	10	3	2
11	All other current payments.....	108	100	123	126	116
12	<b>Total Current Payments</b> .....	1,502	1,356	1,619	1,519	1,440
	Balance on Merchandise Trade .....	+ 118	- 84	- 48	+ 24	+ 50
	Balance on Other Transactions, excluding B 9 .....	- 96	- 92	- 136	- 36	- 96
	Official Contributions.....	- 5	- 10	- 10	- 3	- 2
<b>C</b>	<b>Current Account Balance</b> .....	+ 17	- 186	- 194	- 15	- 48
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada.....	+ 91	+ 109	+ 97	+ 106	+ 114
2	Direct investment abroad .....	- 28	- 11	- 10	- 11	- 31
	Canadian Securities					
3	Trade in outstanding issues .....	- 24	+ 10	- 35	- 5	- 1
4	New issues.....	+ 46	+ 129	+ 60	+ 14	+ 132
5	Retirements .....	- 29	- 29	- 89	- 9	- 19
	Foreign Securities					
6	Trade in outstanding issues .....	-	+ 2	+ 3	+ 2	+ 15
7	New issues.....	-	- 1	- 2	- 1	- 19
8	Retirements .....	-	+ 1	-	-	-
	Loans by Government of Canada					
10	Repayment of post-war loans .....	+ 24	+ 2	+ 11	-	+ 24
11	Repayment of war loans.....	+ 7	+ 4	+ 7	+ 39	-
14	Change in Canadian dollar holdings of foreigners....	- 68	+ 44	+ 20	- 71	- 11
16	Change in official holdings of gold and foreign exchange (increase, minus).....	- 4	+ 16	+ 91	- 35	- 34
17	Other capital movements .....	- 32	- 90	+ 41	- 14	- 122
<b>E</b>	<b>Net Capital Movement</b> .....	- 17	+ 186	+ 194	+ 15	+ 48

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 1954 are subject to revision.

1 9 5 4				1 9 5 5		Annual Totals		Four Quarters ending March 31, 1955	
I	II	III	IV	I	1952	1953	1954		
(millions of dollars)									
872	993	1,002	1,062	968	4,339	4,152	3,929	4,025	A
35	43	39	38	38	150	144	155	158	1
24	59	170	49	26	275	302	302	304	3
24	33	23	63	23	145	165	143	142	4
70	78	82	79	77	383	318	309	316	5
18	28	24	19	17	85	91	89	88	6
64	72	81	81	73	281	319	298	307	7
1,107	1,306	1,421	1,391	1,222	5,658	5,491	5,225	5,340	11
923	1,068 <sup>x</sup>	941	984	960	3,850	4,210	3,916	3,953	12
66	98	131	87	77	341	365	382	393	B
89	95	86	161	117	413	404	431	459	1
70	93	99	93	74	375	374	355	359	4
21	23	25	25	22	94	91	94	95	5
4	2	2	3	5	16	25	11	12	6
110	116	117	124	124	405	465	467	481	7
1,283	1,495	1,401	1,477	1,379	5,494	5,934	5,656	5,752	9
- 51	- 75	+ 61	+ 78	+ 8	+ 489	- 58	+ 13	+ 72	11
- 121	- 112	- 39	- 161	- 160	- 309	- 360	- 433	- 472	12
- 4	- 2	- 2	- 3	- 5	- 16	- 25	- 11	- 12	
- 176	- 189	+ 20	- 86	- 157	+ 164	- 443	- 431	- 412	C
									D
+ 83	+ 88	+ 67	+ 138	+ 75	+ 346	+ 426	+ 376	+ 368	1
- 9	- 18	- 28	- 19	- 5	- 77	- 63	- 74	- 70	2
+ 16	+ 21	+ 1	+ 17	- 20	- 94	- 31	+ 55	+ 19	3
+ 174	+ 93	+ 35	+ 24	+ 105	+ 316	+ 335	+ 326	+ 257	4
- 25	- 75	- 48	- 54	- 81	- 89	- 146	- 202	- 258	5
+ 4	+ 9	- 1	- 5	+ 12	+ 12	+ 22	+ 7	+ 15	6
- 2	- 26	- 3	- 2	- 4	- 20	- 23	- 33	- 35	7
-	-	-	+ 2	+ 1	-	+ 1	+ 2	+ 3	8
+ 2	+ 11	+ 3	+ 26	-	+ 33	+ 37	+ 42	+ 40	10
+ 7	+ 8	+ 7	+ 8	+ 7	+ 23	+ 50	+ 30	+ 30	11
- 18	+ 13	+ 10	+ 17	+ 36	- 66	- 18	+ 22	+ 76	14
- 4	- 37	- 38	- 45	+ 71	- 37	+ 38	- 124	- 49	16
- 52	+ 102	- 25	- 21	- 40	- 511	- 185	+ 4	+ 16	17
+ 176	+ 189	- 20	+ 86	+ 157	- 164	+ 443	+ 431	- 412	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.)

Current Transactions with Principal Countries  
and Areas, First Quarter 1954 and 1955

<u>First Quarter</u>	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1954	1955	1954	1955	1954	1955	1954	1955
	(Millions of dollars)							
Exports (adjusted)	872	968	543	581	134	183	195	204
Imports (adjusted)	923	960	679	713	96	87	148	160
Balance on trade	- 51	+ 8	-136	-132	+ 38	+ 96	+ 47	+ 44
Other current receipts	235	254	164	178	32	37	39	39
Other current payments	360	419	265	309	46	52	49	58
Balance on invisibles	-125	-165	-101	-131	- 14	- 15	- 10	- 19
Current account balance	-176	-157	-237	-263	+ 24	+ 81	+ 37	+ 25



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