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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FOURTH QUARTER 1956, AND

PRELIMINARY ESTIMATES CALENDAR YEAR 1956

Canada's international accounts in 1956 showed, in even more pronounced form, a pattern which has become such a prominent feature of the last half dozen years. Current expenditures abroad on goods and services again rose more rapidly than did receipts to give rise to a current account deficit which doubled in 1956 to \$1,398 million from \$692 million in 1955. The deficit from merchandise trade rose by three and a half times to \$734 million while the deficit from other current transactions increased by more than one-third to \$664 million. This increased imbalance has chiefly taken the form of an increased deficit with the United States which widened to \$1,659 million while the surplus with overseas contracted further to \$261 million. The accompanying inflows of long-term capital financing the deficit were three times as high as in the previous year, and included substantial inflows from overseas as well as from the United States.

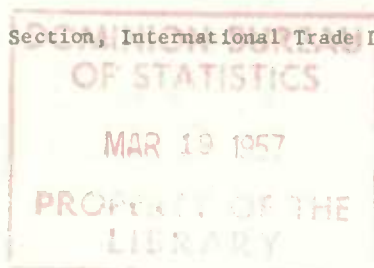
In absolute terms both the deficit and the long-term capital inflow are much higher than ever before. In relative terms too, the degree of imbalance has been most exceptional. The current deficit at some 22 per cent of current receipts bears some comparison with the corresponding ratios of 19 per cent and 26 per cent respectively in 1929 and 1930, and has only been greatly exceeded this century in relative terms by the deficits prevailing during the peak years of development which occurred before the First Great War. In that early period foreign capital is believed to have contributed the major share of financing investment in Canada. In contrast in the more recent period, domestic sources of savings have been the major overall source, although non-resident capital has been a large and growing source of financing in many spheres of development. This has particularly been the case in resource development and other industrial expansion, and in turn has greatly increased the non-resident ownership and control of Canadian industry. And in 1956 even as an overall source, non-resident capital contributed approximately one-third of the financing of net investment in Canada.

The high rate of economic growth in Canada and the more intense pace of economic activity in 1956 have contributed to the exceptionally large current deficits and capital inflows. The extraordinary increases in Canadian expenditures abroad resulted from the increased demand and supply pressures which had asserted themselves in the economy in 1955. A conspicuous feature of this growth has been the development of basic resource industries, and this in turn has led to the expansion of both secondary and tertiary forms of capital investment. Canadian outlays on building and engineering construction and producers' equipment were up 24 per cent in 1956. During the period of development in particular, imports are swollen by the heavy demands for industrial and construction machinery and equipment and materials, although the investment in primary industry is increasing export capacity. The accompanying high levels of economic activity in Canada in turn have contributed to heavy imports of industrial materials and consumers' goods. The current account deficits are a measure of the net contribution of non-resident goods and services to the supply of real resources available to Canadians and the capital inflows are the means by which these purchases are financed. In some cases the capital inflows have provided the initial stimulus to investment, as many of the investments, particularly in primary industry, have been financed by non-resident capital. Imports of both goods and services and capital have been much more flexible and have therefore risen proportionately much more than either domestic production, exports, or domestic savings.

As the Canadian economy continued to grow and prosper in 1956, so to a very large extent did the rest of the world. High levels of investment and consumption in the United States, Europe, Japan, Latin

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America, encouraged larger Canadian exports. The wheat shortages in Eastern and Western Europe served to supplement the demand for other Canadian goods and services.

#### Long-term capital inflows tripled in 1956

Capital movements and financial markets were affected by the special strains to which the Canadian economy was subjected, with an unprecedented volume of capital investment to be financed in a period of generally high economic activity. As noted the physical aspect of these pressures was felt in the substantial deficits incurred on current account as the Canadian economy supplemented its own output with large net draughts on goods and services of other countries. Strong pressure was also exerted on Canada's capital market, and there were sharp increases in interest rates. Higher interest rates were, of course, also characteristic of foreign capital markets but the differential between rates in Canada and in the United States widened. This development contributed to a very large volume of financing abroad by provincial governments, municipalities, and corporations. These inflows were superimposed on the persistent inflows in recent years for direct investment in foreign-controlled enterprises in Canada and for portfolio investment in Canadian equities, both of which reached new heights in 1956. For the year as a whole the inflow for direct investment is placed at \$525 million. Transactions in Canadian securities led to a further inflow of \$749 million, which included \$269 million of equities. These two groups of transactions added \$1,274 million to Canadian external liabilities in long-term forms. On the long-term asset side there were outflows of \$100 million for direct investment abroad, but inflows of \$14 million and \$69 million respectively occurred from transactions in foreign securities and repayments on loans made by Canada. Transactions in all the particular long-term forms described above thus led to a net capital import of \$1,257 million which was in striking contrast to the \$362 million recorded in 1955. There were outflows of \$24 million and \$33 million covering reductions of foreign-owned Canadian dollar holdings and increases in official holdings of gold and foreign exchange. All other capital movements, some of which were long-term in form, led to a net capital inflow of \$198 million, bringing the total net capital movement to \$1,398 million.

Capital in the long-term forms identified in the preceding paragraph was sufficient to finance 90 per cent of the current account deficit in 1956. In 1955 it covered only 52 per cent. In each earlier post-war year of current account deficits, capital imported in long-term forms exceeded the deficit to be financed. Thus in 1955 and 1956 the great demands of the booming Canadian economy were satisfied in part by drawing goods and services from abroad which represented the real transfer and use of long-term financing obtained in earlier periods. A review of the quarterly statistics reveals that by mid-year this phase came, temporarily at least, to a close. The growing internal problem of financing capital expenditure in Canada led to increasing resort by Canadian borrowers to foreign capital markets, and at the same time there were increased transfers from overseas countries on which international developments undoubtedly had some influence. From the middle of the year the capital imported in long-term forms was more than adequate to cover the physical drawings from abroad. The latter however, tend to be normally most heavily concentrated in the first half of the year.

These developments were accompanied by the marked shift in the exchange rate. The price of the United States dollar in Canada fell from 99 29/32 cents at the end of 1955 to 95 31/32 cents at the end of 1956. It moved through a high of 99.97 cents in February and a postwar record low of 95.66 cents in November, a trading range of 4.31 cents which was wider than for any year since 1952. In general, persistent strengthening of the Canadian dollar on the international exchange market was characteristic of 1956. The Canadian dollar had weakened through 1955 and the annual noon averages for the two years were not greatly different, 98.63 cents in 1955 compared with 98.41 in 1956.

The United States continued to be the major source of long-term external capital for Canada in 1956. Indeed the net movements in long-term forms identified earlier in this report were about two-thirds from the United States in 1956 in contrast to somewhat less than one-half in 1955 when there was a significant volume of repatriation of Canadian funded debt from that country. Although overshadowed by the size of the tremendous inflows from the United States the movements from overseas also rose sharply, in the case of the United Kingdom to about twice their level in 1955, and in the case of other overseas countries to about two and one-half times the 1955 figure. While overseas countries have not, as a general rule, been an important source of debt capital for Canada for many years past, their demand for Canadian portfolio equities together with some major direct investments in Canada and the placement of some new Canadian issues in European markets, brought the total inflow in long-term forms to well over \$400 million for the year. This is more than double the figure for 1955 and is far in excess of any year since the commencement of regular official balance of payments statistics in 1926.

#### Fourth quarter deficit

The \$375 million deficit in the fourth quarter, \$157 million more than in the third quarter, and \$120 million more than in the fourth quarter of 1955, brought the annual deficit to a total of \$1,398 million. The pressure of demand for merchandise imports continued in the fourth quarter; exports increased to a smaller extent, and the deficit on merchandise trade was \$165 million. The non-merchandise deficit



rose to a new peak in the fourth quarter, as a result of a \$24 million decline in receipts and a \$49 million increase in payments over the same quarter of 1955. The major factor in the increased deficit was income. Income receipts declined, largely on account of the absence of the normal interest receipt from the United Kingdom on account of the 1946 loan. Pending the decision to waive the interest payment, the amount of the interest set aside in a special fund by the United Kingdom has not been included as a current account receipt. Income payments to non-residents normally high in the fourth quarter of the year reached a level not exceeded since 1950. In addition, as the high level of activity was maintained right up to the end of the year, net payments in the fourth quarter continued above the same quarter last year for travel, freight and shipping, and other miscellaneous items.

Inflows of capital for long-term investment, containing some unusually large transactions, continued at a high level in the fourth quarter. These were about the same magnitude as the current deficit and there was not the substantial net outflow on short-term account that characterized the previous quarter. As noted above the Canadian dollar displayed its greatest strength in this period.

#### Sharp expansion in import balance

Merchandise trade transactions (adjusted for balance of payments purposes) showed substantial increases in 1956 as both imports and exports reached new peaks, and the value of total trade rose to \$10.4 billion. Imports increased by \$1,028 million and exports by \$502 million, increasing the deficit on merchandise trade from \$208 million to \$734 million. This deficit represents just under 40 per cent of the value of exports, a record level for this comparison.

Most of these increases were in the physical volume of trade. For the year as a whole, both export and import prices were some 3 per cent above the 1955 levels, leaving the terms of trade relatively unchanged. Over the year, from January to December 1956, export prices were rising and import prices falling slightly.

The flexibility shown by Canada's imports in the past few years has been one of the outstanding features of the Canadian balance of payments. The value of imports in 1956 rose 23 per cent following a rise of 16 per cent in 1955. The 1956 level is 32 per cent higher than the previous peak which occurred in 1953. Even greater flexibility has occurred in certain important areas of imports of which good examples are provided by industrial machinery and equipment, and industrial and construction materials like primary and semi-finished steel. The increase in 1956 in imports of non-agricultural machinery was not far short of one-half while a broad group of imports of primary and semi-finished steel was almost double. Although the instances cited were among the more extreme, increases were general throughout the import items. In only a few cases were there declines in imports and these were usually due to special circumstances such as reduced imports of military and commercial aircraft or declines in prices of some agricultural imports.

As already noted there are close links between this pattern of imports and the strength and nature of demands in the Canadian economy in 1956. The unprecedented levels of investment and large scale construction in Canada have been a particularly influential factor in giving rise to the large scale imports of machinery and equipment and materials used in connection with investment activities. At the same time the accompanying high levels of production and incomes have created a need for the record volume of imports of industrial materials which has resulted, and likewise imports of consumer goods have also been at unusually high levels because of rising incomes.

As imports from the United States continued to amount to almost three-quarters of the total, the largest part of the increase during the year was from that country which showed an increase close to the rate of increase of imports from all countries. Imports from the United Kingdom also rose at about that rate but imports from Latin America increased at a slower rate, while imports from Europe and some other foreign countries were up about one-half.

While the strong growth in the value of Canadian exports continued in 1956 there were different underlying elements in the increase. About two-fifths of the rise in the year sprang from the revival in wheat and other grain sales. Consequently although the overall rise of about 12 per cent was more than in the previous year, the rate of increase of some 8 per cent in the trade in other commodities was less than that of 14 per cent in the previous year. A large and rising part of this increase was again in commodities undergoing rapid development in production like iron ore, petroleum, and uranium. Most of the remaining increase was in the value of some of the non-ferrous metals and price increases played a large part in this. Other rises in value were scattered and included pulp and paper and some secondary products like aircraft, passenger cars, non-farm machinery, alcoholic beverages, and also steel. Prominent among decreases in exports were lumber and shingles, farm machinery, and fertilizers.

A little more than one-half of the rise in exports during the year was in shipments to the United States which once more represented around 60 per cent of the total. The increase in exports to the United States was almost all in exports of industrial materials with only a very small part being from exports of agricultural products in contrast to overseas countries where most of the larger shipments of commodities can be traced to larger sales of wheat. Most of the rise in commodities undergoing rapid development referred

to above went to the United States, and most of the more established exports to that country showed further, although more moderate, increases. On the other hand declines or a softening appeared in some exports to the United States, examples of which are provided by construction materials such as certain kinds of lumber and shingles and some types of agricultural implements and fertilizers.

The rate of increase in exports overseas was greater than to the United States because of the sharply increased sales of wheat. Besides increases in exports of wheat to the United Kingdom and some other countries of Western Europe, there were large sales to the USSR and other countries of Eastern Europe. The rise in the exports of grains made up some three-quarters of the whole increase in exports overseas. The remaining increase in exports of other commodities overseas of some 5 per cent was chiefly in the non-ferrous metals group and in a few other commodities. Exports of forest products to the United Kingdom and elsewhere overseas were lower, mainly due to the drop in sales of lumber.

Only a small part of the rise in exports overseas was to the United Kingdom, and there was little change in the total to the rest of the Sterling Area. The chief increase in the movement overseas was to Europe with the most notable gains to Eastern Europe and to Western Germany. Another large rise occurred in exports to Japan with a further more moderate rise to Latin America.

#### Deficit from transactions in services and other non-merchandise items

Between 1955 and 1956, the overall balance of payments deficit increased by \$706 million; of this, \$180 million relates to larger net payments for "invisible" items. As non-merchandise receipts increased by some 4 per cent, and payments by 12 per cent, the deficit rose by more than one-third to \$664 million. All of the non-merchandise items with the exception of inheritances and migrants' transfers, showed either larger deficits or smaller surpluses in 1956.

The deficit from interest and dividend transactions rose from \$317 million in 1955 to \$389 million in 1956. Payments of these types of income to non-residents increased by over 10 per cent. Larger remittances of dividends and profits to the United States by public companies, branches and many subsidiaries accounted for almost all of the increase in total income payments during 1956. Earnings seem to have been adequate to permit substantial remittances at the same time as investment requirements were high, and money rather tight. Significant parts of the increased remittances were earnings on recent investments. Interest payments remained relatively unchanged for the year, but the extraordinary growth of new issues of funded debt sold to non-residents points to a substantial increase in these payments during the coming year.

#### Changes in Principal Elements of the Current Account with all Countries, 1956

(millions of dollars)

	<u>1955</u>	<u>1956</u>	<u>Change in 1956</u>
Commodity trade			
Exports adjusted	4,332	4,834	+ 502
Imports adjusted	4,540	5,568	- 1,028
Balance	- 208	- 734	- 526
Gold production available for export	+ 155	+ 150	- 5
Travel expenditures	- 121	- 162	- 41
Interest and dividends	- 317	- 389	- 72
Freight and shipping	- 23	- 50	- 27
Inheritances and migrants' funds	- 15	- 9	+ 6
Official contributions	- 24	- 29	- 5
All other current transactions	- 139	- 175	- 36
Current account balance	- 692	- 1,398	- 706

Income receipts showed a decline in 1956. A major factor in this decline was the drop in interest receipts from the United Kingdom discussed earlier. Interest receipts by the Government on account of official reserves were somewhat higher. For the most part dividend receipts showed little overall change in spite of continuing high levels of activity outside Canada, chiefly because of some reduced remittances from foreign subsidiaries of Canadian companies.

The deficit on freight and shipping account more than doubled in 1956 to \$50 million. This is a more moderate rise than in the commodity balance and resulted chiefly from a relatively substantial increase in earnings from inland freight on exports, particularly on such bulk commodities as iron ore, petroleum, and grains which offset some of the increased payments. Receipts on shipping account also rose with larger Canadian earnings on time charters and on traffic between foreign countries. The increased deficit however, was from a larger absolute rise in total payments for inland freight and shipping services on imports. The increase in deficit with all countries was about the same as the growth in the deficit on this account with the United States. The surplus with overseas countries remained about the same in both years.

The deficit on travel account rose by one-third to \$162 million from \$121 million in 1955. The increase was fairly evenly divided between the travel accounts with the United States and overseas countries. In both cases Canadian expenditures on travel abroad rose more rapidly than outlays in Canada by non-resident travellers. Although the latter at \$335 million were higher than ever before the increase was slight compared with the increase in Canadian expenditures abroad to a total of \$497 million. Canadian expenditures on travel in the United States rose by some 8 per cent while expenditures on travel overseas rose by about 23 per cent.

Payment for other miscellaneous "invisible" items rose by \$54 million, and receipts rose by \$18 million during 1956. The small increase in receipts relates to a wide variety of items, largely with the United States. Payments rose in 1956 for business and engineering services purchased from abroad as a part of the general growth pattern. In addition there were larger expenditures in connection with Canada's commitments for NATO forces in Europe, and for personal remittances abroad.

Gold available for export declined by \$5 million in 1956. Official contributions increased by \$5 million in 1956; the major part of this covers Canada's contribution to the Colombo Plan.

The one account which showed an improvement on balance was inheritances and migrants' funds. Primarily as a result of a substantial increase in immigration to Canada from 110,000 in 1955 to some 165,000 in 1956, receipts of migrants' funds rose. Most of this increase relates to the United Kingdom and continental European countries. Emigration from Canada to the United States continued to rise during 1956, but there was a falling off of emigration to the United Kingdom; total transfers abroad rose moderately.

Summary of Current Transactions with the  
United States, United Kingdom, and Other Countries, 1955 and 1956

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1955	1956	1955	1956	1955	1956	1955	1956
<u>Calendar Year</u>								
Exports (adjusted)	4,332	4,834	2,598	2,850	772	817	962	1,167
Imports (adjusted)	4,540	5,568	3,280	4,025	405	491	855	1,052
Balance on trade	- 208	- 734	- 682	- 1,175	+ 367	+ 326	+ 107	+ 115
Other current receipts	1,507	1,574	1,098	1,135	208	197	201	242
Other current payments	1,991	2,238	1,457	1,619	234	272	300	347
Balance on "invisibles"	- 484	- 664	- 359	- 484	- 26	- 75	- 99	- 105
Current account balance	- 692	- 1,398	- 1,041	- 1,659	+ 341	+ 251	+ 8	+ 10
<u>Fourth Quarter</u>								
Exports (adjusted)	1,140	1,274	701	758	189	219	250	297
Imports (adjusted)	1,258	1,439	898	1,039	108	121	252	279
Balance on trade	- 118	- 165	- 197	- 281	+ 81	+ 98	- 2	+ 18
Balance on "invisibles"	- 137	- 210	- 123	- 184	+ 10	- 12	- 24	- 14
Current account balance	- 255	- 375	- 320	- 465	+ 91	+ 86	- 26	+ 4



### Transactions by areas

The increased deficit in 1956 was substantially the result of swings in opposite directions in the balances with the United States and the United Kingdom, as the deficit with the former increased sharply and the surplus with the latter declined. The overall balance with other groups of overseas countries remained small and relatively unchanged in total although there was a decline in the 1955 surplus position of the other Sterling Area and OEEC countries, partly offset by a decline in the deficit with the remaining countries. The general effect therefore, was to widen sharply to a new peak of \$1,659 million the imbalance with the United States, and to reduce the current surplus with overseas countries to \$261 million. This current surplus with overseas was the smallest since 1950, and a large contributor to the surplus which remained in 1956 with these countries was the unusually heavy sale of wheat in the past year.

The other unusual feature about the pattern of transactions by areas in 1956 was the unprecedentedly large volume of inflows of capital from overseas countries for long term investment in Canada. These inflows were about double the amount in the previous year which up to then had been much the highest of any post-war year. Being well over \$400 million these capital inflows from overseas served to finance about one-quarter of the current deficit with the United States. And together with the current surplus with overseas countries, over 40 per cent of that deficit was financed from overseas sources. Long term types of inflow from the United States although they were almost five times the previous year only financed about one-half of Canada's current deficit with that country. Short term inflows from the United States also contributed a minor part of the financing.

The main impact of the strong pressures of demand and supply in Canada in 1956 was reflected in the greatly enlarged deficit with the United States. Of the total increase in deficit of \$706 million, \$618 million was with the United States, - some \$493 million in merchandise trade and \$125 million in "invisible" items. The resulting current deficit of \$1,659 million was almost half as high again as the previous peak deficit with that country of \$1,134 million in 1947. Almost three-quarters of the overall billion dollar increase in merchandise imports was from the United States, and for a large part in investment goods. The growth in the trade deficit with the United States from \$445 million in 1954 to \$682 million the following year, to \$1,175 million in 1956 has been related almost entirely to increased expenditures for imports. From 1954 to 1955, Canadian imports from the United States increased by \$480 million, and from 1955 to 1956, the increase was \$745 million. On the other hand, and in spite of a considerable growth in some Canadian exports to the United States in which capacity has been rising such as petroleum, newsprint, and non-ferrous metals, exports rose from 1954 to 1955 by \$243 million, and from 1955 to 1956 by only \$252 million. Another important factor in the increased deficit with the United States in 1956 has been the growth in the deficit in "invisibles". High levels of production, investment, and income in Canada have resulted in increased net payments abroad for the whole range of non-merchandise items including travel, income, freight and shipping charges, engineering, and other business services.

Transactions with the United Kingdom in 1956 resulted in a fall in the 1955 surplus from \$341 million to \$251 million. This was the combined result of relatively larger imports and increased "invisible" payments. The United Kingdom increased her imports from Canada for grain and non-ferrous metals, but cut imports of lumber. Canadian imports from the United Kingdom showed substantial increases for construction and electrical equipment and machinery. The deficit in "invisibles" rose from \$26 million in 1955 to \$75 million in 1956. Receipts for non-merchandise items showed a variety of offsetting changes but remained relatively unchanged in total. An important point in this connection is the decline in income receipts from the United Kingdom as mentioned above in the comment on the fourth quarter deficit. Payments to the United Kingdom for non-merchandise items rose by \$38 million. The increases were spread over all the "invisible" items except inheritances and migrants' funds, which reflected a drop in emigration to the United Kingdom in 1956.

The surplus with all other overseas countries was only \$8 million in 1955 and increased to \$10 million in 1956. For the rest of the Sterling Area countries, a relatively small decline in exports and rise in imports, and increased Colombo Plan contributions, resulted in a drop in the surplus from \$60 to \$39 million in 1956. Merchandise exports and imports with other OEEC countries both rose by some \$100 million in 1956 leaving the appreciable trade surplus which had been \$152 million in 1955 substantially unchanged. But this export balance was largely offset by larger net payments for "invisibles", (travel, income, freight and military expenditures) and there was a resulting decline in the current surplus from \$30 million in 1955 to \$16 million in 1956. Exports to other overseas countries increased by \$121 million, primarily to Japan, Eastern Europe and Russia. A large part of this overall increase was in Canadian exports of wheat. Imports from other overseas countries increased by \$89 million, with significant increases from Latin America, Japan, Arabia and the Netherlands Antilles. The surplus in "invisible" items rose from \$5 million to \$10 million as a result of increased receipts from freight and shipping transactions and on income account, offset to some extent by larger expenditures of Canadians travelling abroad.

### New records set for direct investment and portfolio inflows

The net movement of foreign capital to Canada for direct investment in foreign controlled enterprises in 1956 is tentatively placed at \$525 million. This figure is more than 25 per cent larger than for

1955, representing an increase of nearly \$100 million over the previous record established in 1953. Net movements from the United States and from overseas countries each reached new heights. The proportion of the total movement coming from the United States fell slightly from the figure of 75 per cent recorded in 1955. Resource development and associated industries continued to attract the preponderant part of the total. The petroleum industry received larger amounts of foreign capital than ever before. Mining fell sharply with the completion of some major non-resident owned projects. Inflows into manufacturing showed a sharp increase over 1955, much of it related to basic resource and export industries and to the provision of industrial and construction materials. There were also significant direct investment inflows to holding and real estate companies.

Preliminary estimates of the net movement of capital from Canada for direct investment abroad indicate a net outflow of \$100 million in 1956. This figure, which represents a new record, is about half as large again as the amount for 1955. More than half this amount was to the United States. There were a number of major transactions during the year involving the acquisition by Canadian interests of control over existing enterprises abroad, the largest such transactions being in the merchandising field. Canadians also disposed of major interests in other ventures in which Canadian capital had long been dominant. Outflows to overseas countries were particularly large and were mainly in the field of mining.

It was in movements of portfolio security capital that the impact of heavy financing demands appeared most dramatically. During 1956 Canada imported some \$763 million; net, of capital through international security transactions. This tremendous figure compares with a capital export of \$50 million in 1955 and is considerably more than twice as large as the previous record net inflow established in the exceptional circumstances of 1950. Transactions in portfolio securities were a dominating feature of the international capital account in 1956, as the balance from these transactions exceeded for the first time since 1950 the net inflow for direct investment in foreign controlled enterprises. The net capital import from all portfolio security transactions included \$208 million from trade in outstanding Canadian issues, and \$681 million from the sale to non-residents of new Canadian issues, offset to the extent of \$140 million by retirements of foreign-held Canadian securities. A net inflow of \$14 million occurred, on balance, from transactions in foreign securities.

A striking development in 1956 was the increased flow of portfolio investment capital from overseas countries to Canada. While the inflows were intensified with the growing international tension in the latter part of the year, the trend was unmistakable before the occurrence of political disturbances. The net inflow in the first half of 1956 was \$76 million, and in the second half it rose to \$169 million. The net movement from overseas countries reached \$245 million for the year as a whole compared with \$33 million in 1955 and with the previous post-war record of \$48 million in 1954. This change was influenced to a very limited extent by the absence in 1956 of major financing in the Canadian market by non-residents. But for the most part it reflected sharp growth in sales of outstanding Canadian securities both to the United Kingdom and to other overseas countries.

Notwithstanding the sharp increase in the portfolio capital movement from overseas, the United States was by far the most important source of external capital of this type. The net movement from that country amounted to \$518 million in 1956, in contrast to an outflow of \$83 million recorded in 1955. The earlier post-war record for the net capital movement from the United States for all security transactions was \$382 million in 1950.

Trade in outstanding Canadian issues in 1956 was dominated by the sale to non-residents of Canadian common and preference stocks. The net sales balance for the year totalled \$196 million reflecting an increase of nearly one-third over 1955, and setting a new record for the third successive year. The inflow rose from \$29 million in the first quarter to new heights of \$62 million and \$77 million in the second and third quarters respectively, but fell in the final quarter to \$28 million. Compared to the significant inflow for equity portfolio investment in Canada, the trade in outstanding Canadian bonds, debentures and other securities led to a net inflow of only \$12 million. There was a substantial inflow of \$46 million in the first quarter, which exceeded the net sales of Canadian stocks in that period; this total included \$31 million Government of Canada direct and guaranteed issues and \$11 million corporate issues. But in each of the later quarters there were outflows of capital from transactions in outstanding Canadian bonds as Canadians became net repurchasers of this group of securities; during the nine months the net repatriation through repurchases amounted to \$34 million which included some \$25 million of Government of Canada direct and guaranteed issues.

Net sales of outstanding Canadian securities to the United States amounted to \$42 million in 1956 which included net sales of \$76 million of Canadian common and preference stocks offset by net repurchases of \$34 million of Canadian bonds, debentures and other securities. These figures are in sharp contrast to the results from security trading in 1955 when there was a net purchase balance or capital export of \$62 million. In that year Canadians sold to the residents of the United States \$97 million on balance of outstanding Canadian common and preference stocks, but they repurchased \$159 million of outstanding Canadian bonds, debentures and other securities, which included \$82 million net repatriation of outstanding Government of Canada direct and guaranteed issues, and \$61 million of provincial issues. It has been revealed that during 1955 Government accounts were acquiring Government of Canada direct issues payable in United States dollars.



The group of eight special investment funds established by United States interests under circumstances described in previous reports continued to be an important influence in the Canadian stock market. Their holdings of Canadian securities, mainly common stocks, rose in market value during the year by some \$85 million. A part of this sum represented capital appreciation of their portfolios and is not reflected in the net sales of Canadian securities to residents of the United States. Nevertheless incomplete data suggest that these investors probably accounted for about \$70 million or more than 90 per cent of the net sales balance of \$76 million from trade in outstanding Canadian common and preference stocks with the United States. In 1955 the proportion was about 60 per cent. It is of particular interest to note that during the second half of 1956 these funds appear to have added to their holdings of Canadian stocks at a time when other United States investors as a group were reducing their portfolios.

Trade in outstanding Canadian issues with the United Kingdom and with other overseas countries also led to impressive capital inflows in 1956. For the fourth successive year since 1937, Canada had a sales balance from security trading with the United Kingdom. The capital import of \$83 million represented a sharp increase over the total of \$26 million recorded in 1955, and was actually larger than the total for the three years from 1953 to 1955. Particularly noteworthy in 1956 were the sales of Canadian common and preference stocks to residents of the United Kingdom, which amounted to \$72 million. The balance of the net movement represented sales of \$11 million of Canadian bonds, debentures and other securities. In the light of the very large movements, it is worth recalling that security sales to residents of the United Kingdom do not necessarily reflect current outflows of capital from that country. For example, it is possible that some transactions represent the switching by United Kingdom investors between their holdings of United States (and other dollar) securities and of Canadian securities. Moreover, some sales attributed in this report to the United Kingdom may be to nominees for non-residents of that country.

Transactions in outstanding Canadian securities with other countries led to a net capital inflow of \$83 million. This total compared with \$19 million in 1955 and was practically double the previous record set in 1954. The net sales included \$48 million of Canadian common and preference stocks compared with \$23 million in 1955, while there were net sales of \$35 million of other securities, mainly Government of Canada and corporate bonds, in contrast to net purchases of \$4 million in 1955.

Summary of Capital Movements, 1953 to 1956

(millions of dollars)

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>Change 1956 from 1955</u>
Direct investment in Canada	+ 426	+ 376	+ 410	+ 525	+ 115
Direct investment abroad	- 63	- 74	- 67	- 100	- 33
Canadian securities					
Trade in outstanding stocks	+ 21	+ 121	+ 148	+ 196	+ 48
Trade in outstanding bonds	- 52	- 66	- 165	+ 12	+ 177
New issues	+ 335	+ 326	+ 166	+ 681	+ 515
Retirements	- 146	- 202	- 184	- 140	+ 44
Foreign securities	-	- 24	- 15	+ 14	+ 29
Official loan repayments	+ 87	+ 72	+ 69	+ 69	-
Canadian dollar holdings of foreigners	- 18	+ 22	+ 89	- 24	- 113
Official holdings of gold and foreign exchange (increase, -)	+ 38	- 124	+ 44	- 33	- 77
Other capital movements	- 185	+ 4	+ 197	+ 198	+ 1
Net capital movement financing current account deficit	+ 443	+ 431	+ 692	+ 1,398	+ 706



The proceeds of new issues of Canadian securities sold abroad set a new record of \$681 million in 1956. Over the last half of the year new issues were sold to non-residents at an annual rate of \$800 million. The total for the year compared with \$166 million in 1955 and with the previous record of \$411 million established in 1951 which was also a period of strong demand in the Canadian capital market. Provincial governments, municipalities and corporations were all substantial borrowers abroad during the year. Residents of the United States bought nearly 90 per cent of the new issues sold to non-residents compared with somewhat more than 75 per cent of the smaller total in 1955. But at the same time there was a significant increase in the amount of new issues sold to European investors. Nearly 90 per cent of the new bonds and debentures sold to non-residents were payable solely or optionally in foreign currencies. Retirements of foreign-held Canadian securities amounted during 1956 to \$140 million. This repatriation was lower than for any other post-war year except 1948 and 1952. A very substantial part of foreign-owned holdings retired during 1956, more than 95 per cent, was held by residents of the United States. Between 80 and 85 per cent of the bonds and debentures retired were payable optionally or solely in foreign currencies.

Transactions in outstanding foreign securities led to a net capital inflow of \$28 million during 1956 compared with \$16 million in 1955. During the first quarter of 1956 there was an outflow of \$16 million, when trading was dominated by a substantial participation by Canadian investors in a public re-distribution of stock of an automobile company previously owned by a United States foundation. In the subsequent quarters of 1956 Canadians were net sellers of \$44 million foreign securities. The net movement for the year as a whole reflected on balance the sale by Canadians of foreign stocks, mainly of United States corporations. During the year Canadians purchased \$14 million of new issues of foreign securities. Retirements of Canadian-held foreign debt were negligible.

Additional details of portfolio security transactions between Canada and other countries and the influences affecting them will be found in the Dominion Bureau of Statistics report, "Sales and Purchases of Securities between Canada and Other Countries, December 1956, and Review of Security Trading During 1956".

#### Various other capital movements mixed but predominately inward

Repayments of principal on the war and post-war loans made by Canada to overseas governments amounted to \$69 million in 1956. This capital inflow was the same amount as in 1955. The Government of the United Kingdom repaid \$45 million and there were also receipts from Belgium, Czechoslovakia, France, the Netherlands, Norway and the USSR. The payment by the USSR was the final instalment due from that country. At the end of 1956 the outstanding balances on Canada's war and post-war loans of \$2,450 million amounted to \$1,531 million. There was in addition a further \$34 million owing to Canada on intergovernmental loans extended following World War I and on account of military relief settlements arising out of World War II.

An outflow of capital from Canada occurred in 1956 from a reduction of \$24 million in the holdings of Canadian dollars by non-residents. This outflow was in contrast to an inflow of \$89 million in 1955. Holdings by United States fell by \$49 million; in part this reflected the use by investment funds of cash held at the beginning of the year. Holdings by residents of the United Kingdom and other overseas countries rose by \$25 million; these holdings included \$22 million set aside by the Government of the United Kingdom to cover interest on the 1946 loan from Canada until a decision has been reached as to whether or not there will be a waiver of interest.

In the course of the operations of the Exchange Fund Account and the other exchange transactions of the Government during the year, the authorities increased official holdings of gold and foreign exchange. The net capital outflow amounted to \$33 million. There was a net inflow of \$1 million from reduced holdings of sterling, and an outflow of \$34 million in connection with Canada's official holdings of gold and United States dollars. These rose, in terms of United States dollars, from \$1,901 million at the end of 1955 to \$1,936 million at the end of 1956. A month-end low point of \$1,865 million was recorded in April, and the year-end figure was the highest month-end recorded.

Other capital movements were again an important element in balancing Canada's international accounts in 1956. The net inflow for the year was nearly \$200 million, about the same amount as in 1955. Details for 1956 are not yet available but there seems little doubt that in contrast to 1955 when about two-thirds of the net inflow reflected a drawing down of Canadian-owned bank balances and other short-term funds held abroad, in 1956 Canadians added very substantially to their holdings outside Canada. In part these increases represent the proceeds of new issues sold abroad which had not been transferred to Canada at the year-end. Other outflows included reductions in the short-term Canadian dollar holdings of the International Bank for Reconstruction and Development and of the International Monetary Fund, and the payment of Canada's subscription of \$3.6 million to the International Finance Corporation. These transactions with international organizations led to an outflow of \$20 million. It has been revealed by the International Monetary Fund that during the third quarter of the year Egypt purchased nearly \$15 million Canadian dollars from the Fund. This is the first occasion upon which the International Monetary Fund has sold Canadian dollars.

Against the outflows referred to in the preceding paragraph, there were large inflows in other forms. Borrowings by finance companies were substantial, and there were also significant capital transfers by financial institutions. And it seems clear in addition that a very large increase must have occurred in Canada's net liability on account of international receivables and payables, although at the moment only fragmentary evidence of these movements is available. An increased external liability on commercial account is consistent with the high level of trade to be financed and indeed to be expected in the conditions of financial pressure existing in Canada in 1956. A similar substantial capital import in this form occurred in 1950 and 1951 when the credit stringency which was an aftermath of the action in Korea added to the short-term inflows associated with exchange rate considerations. There was a reflux of this capital in 1952 and 1953.

#### Increase in Canada's Indebtedness to Other Countries

One leading consequence of the unprecedentedly heavy inflows of capital in recent years has been the increase in the total amount of foreign capital invested in Canada and the net indebtedness to other countries. These are now much higher than ever before. At the end of 1955 the total of non-resident long-term investments in Canada was \$13.5 billion. By the end of 1956 these had probably risen to more than \$15 billion when account is taken of re-investments of earnings in 1956 as well as the increase from the record volume of capital inflows. Canada's net international indebtedness which had risen from \$3.7 billion at the end of 1949 to \$7.8 billion in 1955 was at the end of 1956 well over \$9 billion.

The broad outlines of the recorded changes in foreign long-term investments in Canada and Canadian long-term investments abroad are presented in a table appearing at the end of this section. The recent rapid growth in the value of non-resident investments in Canada clearly stands out in the changes since 1949. The total amount of these investments has risen by 69% between 1949 and 1955. Most of this increase has occurred in direct investments in concerns which are controlled by non-residents. The value of this group of investments was more than double the value in 1949 in the case of investments controlled in each of the United States and the United Kingdom. And in the case of the small group of direct investment controlled in other countries the rise was fourfold. In the same period the rise in non-resident holdings of government and municipal bonds was relatively moderate while the increase in other portfolio investments, mainly in public securities of Canadian controlled companies, was more than one-third.

About four-fifths of the rise in non-resident investment between 1949 and 1955 was in investments owned in the United States which had a value of \$10,289 million by the end of 1955. At the same time investments owned in the United Kingdom had risen to \$2,347 million and investments owned in other countries to \$832 million.

While comparable figures for 1956 are not yet available it would appear that proportionally much more of the rise in that year was in portfolio holdings than in the earlier period, although direct investments also continued to rise sharply. The rise in overseas investments in 1956 also accounted for relatively more of the total increase than in the longer period.



Selected Statistics of Canada's International Investment Position, 1945 - 1955

(Millions of dollars)

	1945	1949 <sup>(1)</sup>	1952	1953	1954	1955
<b>FOREIGN LONG-TERM INVESTMENTS IN CANADA OWNED BY:</b>						
<b>ALL NON-RESIDENTS</b>						
Direct investments	2,713	3,586	5,218	6,003	6,797	7,715
Government and municipal bonds	1,662	1,755	2,028	2,087	2,056	1,878
Other portfolio investments	2,433	2,320	2,692	2,904	3,163	3,234
Miscellaneous investments	284	302	447 <sup>(2)</sup>	467	561	641
TOTAL	7,092	7,963	10,385	11,461	12,577	13,468
<b>RESIDENTS OF THE UNITED STATES<sup>(3)</sup></b>						
Direct investments	2,304	3,095	4,530	5,206	5,815	6,517
Government and municipal bonds	1,450	1,534	1,835	1,870	1,822	1,649
Other portfolio investments	1,106	1,107	1,383	1,537	1,753	1,756
Miscellaneous investments	130	170	249 <sup>(2)</sup>	257	302	367
TOTAL	4,990	5,906	7,997	8,870	9,692	10,289
<b>RESIDENTS OF THE UNITED KINGDOM<sup>(3)</sup></b>						
Direct investments	348	428	544	612	763	883
Government and municipal bonds	157	171	136	150	144	141
Other portfolio investments	1,160	1,051	1,092	1,130	1,137	1,166
Miscellaneous investments	85	67	114 <sup>(2)</sup>	116	137	157
TOTAL	1,750	1,717	1,886	2,008	2,181	2,347
<b>RESIDENTS OF ALL OTHER COUNTRIES</b>						
Direct investments	61	63	144	185	219	315
Government and municipal bonds	55	50	57	67	90	88
Other portfolio investments	167	162	217	237	273	312
Miscellaneous investments	69	65	84 <sup>(2)</sup>	94	122	117
TOTAL	352	340	502	583	704	832
<b>CANADIAN LONG-TERM INVESTMENTS<sup>(4)</sup> IN</b>						
<b>ALL FOREIGN COUNTRIES</b>						
Direct investments	720	926	1,271	1,485	1,628	1,776
Portfolio investments	621	638	830 <sup>(2)</sup>	869	926	989
Government of Canada credits	707	2,000	1,866	1,778	1,705	1,635
TOTAL	2,048	3,564	3,967	4,132	4,259	4,400
<b>UNITED STATES</b>						
Direct investments	455	721	968	1,127	1,240	1,302
Portfolio investments	409	443	536 <sup>(2)</sup>	564	579	624
TOTAL	864	1,164	1,504	1,691	1,819	1,926
<b>UNITED KINGDOM</b>						
Direct investments	54	59	81	104	119	157
Portfolio investments	53	40	31	29	31	47
Government of Canada credits	561	1,434	1,357	1,292	1,247	1,202
TOTAL	668	1,533	1,469	1,425	1,397	1,406
<b>ALL OTHER COUNTRIES</b>						
Direct investments	211	146	222	254	269	317
Portfolio investments	159	155	263	276	316	318
Government of Canada credits	146	566	509	486	458	433
TOTAL	516	867	994	1,016	1,043	1,068

NOTES: Data represent book values. As the fiscal year-ends of some corporations do not correspond with the calendar year, comparisons of year to year changes with balance of payments data should be made with caution. The estimates are also affected by reclassifications between direct and portfolio series and by accounting adjustments in the basic data. Figures for 1955 are subject to revision.

(1) Prior to 1949 Newfoundland was classified as an "other country".

(2) New series not strictly comparable with earlier years.

(3) Including some investments held as nominees for other countries.

(4) Excluding investments of insurance companies and banks, and subscriptions by the Government of Canada to the IMF and IBRD, but including the equity of non-residents in assets abroad of Canadian companies.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1956 are preliminary and

		1954		1955		
		III	IV	I	II	III
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	1,002	1,062	967	1,098	1,127
3	Gold production available for export .....	39	38	39	39	37
4	Travel expenditures .....	172	50	26	66	182
5	Interest and dividends .....	23	67	25	34	28
6	Freight and shipping.....	83	82	82	95	101
7	Inheritances and immigrants' funds .....	24	19	16	25	24
11	All other current receipts .....	81	80	78	105	106
12	<b>Total Current Receipts</b> .....	<b>1,424</b>	<b>1,398</b>	<b>1,233</b>	<b>1,462</b>	<b>1,605</b>
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	941	984	971	1,148	1,163
4	Travel expenditures .....	134	88	78	119	156
5	Interest and dividends .....	85	156	121	108	93
6	Freight and shipping.....	99	94	77	106	110
7	Inheritances and emigrants' funds .....	25	25	22	24	28
9	Official contributions .....	2	3	5	4	8
11	All other current payments.....	118	128	133	127	136
12	<b>Total Current Payments</b> .....	<b>1,404</b>	<b>1,478</b>	<b>1,407</b>	<b>1,636</b>	<b>1,694</b>
	Balance on Merchandise Trade .....	+ 61	+ 78	- 4	- 50	- 36
	Balance on Other Transactions, excluding B 9 ....	- 39	- 155	- 165	- 120	- 45
	Official Contributions.....	- 2	- 3	- 5	- 4	- 8
<b>C</b>	<b>Current Account Balance</b> .....	<b>+ 20</b>	<b>- 80</b>	<b>- 174</b>	<b>- 174</b>	<b>- 89</b>
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada .....	+ 77	+ 124	+ 87	+ 111	+ 101
2	Direct investment abroad .....	- 30	- 22	- 8	- 9	- 12
	Canadian Securities					
3	Trade in outstanding issues .....	+ 1	+ 18	- 31	+ 7	- 21
4	New issues.....	+ 36	+ 25	+ 109	+ 29	+ 16
5	Retirements .....	- 47	- 54	- 85	- 62	- 18
	Foreign Securities					
6	Trade in outstanding issues .....	- 1	- 5	+ 12	- 8	+ 4
7	New issues.....	- 3	- 2	- 5	- 17	- 4
8	Retirements .....	-	+ 2	+ 3	-	+ 14
	Loans by Government of Canada					
10	Repayment of post-war loans .....	+ 3	+ 26	-	+ 10	+ 2
11	Repayment of war loans.....	+ 7	+ 8	+ 7	+ 8	+ 7
14	Change in Canadian dollar holdings of foreigners ..	+ 10	+ 28	+ 30	+ 39	+ 6
16	Change in official holdings of gold and foreign exchange (Increase, minus).....	- 38	- 45	+ 71	- 56	- 7
17	Other capital movements .....	- 35	- 23	- 16	+ 122	+ 1
<b>E</b>	<b>Net Capital Movement</b> .....	<b>- 20</b>	<b>+ 80</b>	<b>+ 174</b>	<b>+ 174</b>	<b>+ 89</b>

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 1955 are subject to revision.

1955	1 9 5 6				Annual Totals				
IV	I	II	III	IV	1953	1954	1955	1956	
(millions of dollars)									
1,140	1,051	1,262	1,247	1,274	4,152	3,929	4,332	4,834	A
40	37	40	38	35	144	155	155	150	1
54	26	65	191	53	302	305	328	335	3
73	35	40	23	43	165	147	160	141	4
107	98	113	114	114	318	313	385	439	5
21	18	26	27	27	91	89	86	98	6
104	95	107	106	103	319	298	393	411	7
									11
1,539	1,360	1,653	1,746	1,649	5,491	5,236	5,839	6,408	12
									B
1,258	1,241	1,541	1,347	1,439	4,210	3,916	4,540	5,568	1
96	90	132	173	102	365	389	449	497	4
155	114	118	126	172	404	423	477	530	5
115	99	132	128	130	374	356	408	489	6
27	23	28	29	27	91	94	101	107	7
7	9	10	4	6	25	11	24	29	9
136	142	139	157	148	465	479	532	586	11
1,794	1,718	2,100	1,964	2,024	5,934	5,668	6,531	7,806	12
- 118	- 190	- 279	- 100	- 165	- 58	+ 13	- 208	- 734	
- 130	- 159	- 158	- 114	- 204	- 360	- 434	- 460	- 635	
- 7	- 9	- 10	- 4	- 6	- 25	- 11	- 24	- 29	
- 255	- 358	- 447	- 218	- 375	- 443	- 432	- 692	-1,398	C
									D
+ 111	+ 105	+ 150	+ 120	+ 150	+ 426	+ 392	+ 410	+ 525	1
- 38	- 50	- 5	- 25	- 20	- 63	- 81	- 67	- 100	2
+ 28	+ 75	+ 48	+ 69	+ 16	- 31	+ 63	- 17	+ 208	3
+ 12	+ 106	+ 173	+ 202	+ 200	+ 335	+ 331	+ 166	+ 681	4
- 19	- 69	- 26	- 24	- 21	- 146	- 203	- 184	- 140	5
+ 8	- 16	+ 10	+ 10	+ 24	+ 22	+ 7	+ 16	+ 28	6
- 22	- 1	- 5	- 3	- 5	- 23	- 33	- 48	- 14	7
-	-	-	-	-	+ 1	+ 2	+ 17	-	8
+ 27	-	+ 13	-	+ 26	+ 37	+ 42	+ 39	+ 39	10
+ 8	+ 7	+ 8	+ 7	+ 8	+ 50	+ 30	+ 30	+ 30	11
+ 14	- 22	- 5	- 2	+ 5	- 18	+ 34	+ 89	- 24	14
+ 36	+ 29	- 30	- 5	- 27	+ 38	- 124	+ 44	- 33	16
+ 90	+ 194	+ 116	- 131	+ 19	- 185	- 28	+ 197	+ 198	17
+ 255	+ 358	+ 447	+ 218	+ 375	+ 443	+ 432	+ 692	+1,398	E

## NOTES:

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

D1,2 Exclusive of undistributed profits.

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







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