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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FOURTH QUARTER 1958, AND

PRELIMINARY ESTIMATES FOR THE YEAR 1958

Canada's deficit from current transactions in goods and services with other countries was reduced to \$1,112 million in 1958 from \$1,400 million in 1957. This current deficit in 1958 was still larger than in any year before 1956, even though the import balance from merchandise trade was sharply reduced by \$405 million to \$174 million in the year. An excess of expenditures over receipts on account of non-merchandise transactions was responsible for over four-fifths of the deficit in 1958. This deficit of \$938 million from "invisible" transactions grew by \$117 million in the year and has more than doubled in four years. Almost half of the deficit from "invisibles" originated in income payments on foreign investments in Canada and large amounts of the remainder were for travel, transportation, and business services and personal remittances.

In each of the first three quarters the total current deficit from all transactions was less than in the corresponding quarters of 1957 because of declines in the balance of merchandise imports. But by the fourth quarter the latter balance exceeded the deficit from merchandise trade in the fourth quarter of 1957 and in each quarter of 1958 the deficit from non-merchandise transactions was higher than in 1957. The rising trend in this group of transactions in 1958 was mainly due to larger official contributions by the Canadian government, larger Canadian expenditures on travel abroad, reductions in inflows of immigrants' funds, and in current expenditures by the United States government on defence installations in Canada. Maintenance of a high total of interest and dividend payments was partly offset by the resumption of receipts of interest from the United Kingdom on the post-war loan.

Among leading factors in the economic background influencing the shape of Canada's international accounts in 1958 have been the changing character of investment in Canada and the altered rate of general growth. While business investment involving many import expenditures has been reduced, investment outlays by public bodies have risen and levels of business inventories also fluctuated in a manner to reduce imports in most of 1958. At the same time higher levels of personal consumption and government expenditures and the maintenance of commodity exports have continued to contribute to high levels of production and to many types of Canadian expenditure abroad. Some of the effects of the high rate of growth of earlier years have shown themselves in new Canadian export capacity and in "invisible" items leading to larger external outlays for such purposes as interest and dividend payments and travel and business services. Related to the higher level of income payments is the mounting size of Canada's net international indebtedness which has more than doubled in half a decade resulting from the continued increase in non-resident capital invested in Canada.

The inflow of capital in such forms as direct investment, portfolio security transactions, and official loans, was adequate to finance practically the entire deficit on current account in 1958. In 1957 the corresponding inflows were equivalent to 91 per cent of the deficit.

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A revealing feature of the capital account in 1958 was the decline in inflows involving investment in Canadian businesses. The net movement of capital into foreign-controlled concerns in Canada fell by \$120 million, and the net movement for the acquisition of securities of other Canadian companies fell by \$291 million. But despite this striking contraction, the inflows into these Canadian business investments in 1958 amounted to almost \$700 million, and the growth of non-resident investment in Canadian corporations was even larger because of the reduced but nevertheless substantial amounts of earnings ploughed back into these firms. Associated with the decline in the rate of business investment was substantially increased activity on government account, reflected in the capital account of the balance of payments by net sales of securities of Canadian governments which totalled \$352 million, an increase of nearly 125 per cent over 1957.

As a result of these capital movements and of other factors Canada's ~~net~~ external long-term liabilities rose from \$17.1 billion at the beginning of the year to about \$18 1/2 billion at the end of 1958. Canada's net international indebtedness, exclusive of short-term commercial liabilities, rose during the same period from \$11.0 billion to well over \$12 billion. Despite the reduced pressures within the Canadian economy the use of foreign resources as a proportion of net capital formation in 1958 was only slightly smaller than the one-third contributed in 1956-1957, and was much higher than for the period 1950-1955. Direct foreign financing of net capital formation which exceeded 40 per cent in the years 1956-1957 was still about one-third under the conditions prevailing in 1958.

Sharp drop in deficit from commodity trade

For the year 1958 as a whole the import balance on merchandise trade was less than one-third that in 1957 due to the much larger drop in imports than in exports. This change occurred in each of the first three quarters of 1958 following declines which had occurred in the latter part of 1957 in both imports and accompanying import balances. This trend altered, however, in the final quarter of 1958 as imports rose above the corresponding quarter of the previous year for the first time in over a year. In the fourth quarter 1958 the import balance was \$46 million compared with \$8 million in the same quarter of 1957. For the whole year the import balance of \$174 million in 1958 (adjusted for balance of payments purposes) compares with \$579 million in 1957, \$728 million in 1956, and \$211 million in 1955.

Prices of both exports and imports maintained in general slightly rising trends during the last half of 1958, following the somewhat irregular patterns of the first six months. For the year as a whole, import prices advanced a little less than 1 per cent, and export prices declined by an even smaller fraction. This led to an almost negligible deterioration in the terms of trade. Among particular groups of exports, higher prices for wheat and other grains, fresh beef and veal, and iron and steel manufactures other than farm machinery were more than offset by somewhat lower prices for most wood products and paper and significant declines in the prices of some non-ferrous metals and products. Among imports, wood and paper products, and iron and steel manufactures contributed most to the small average price gain for the year.

Imports in 1958 remained much greater in both value and volume than any year before 1956 despite the sharp fall from the peak levels reached in 1956 and early 1957. The value in 1958 was still some 11% greater than in 1955, although 8% less than in 1957, and in comparison with early post-war years the value of imports in 1958 was about double the values a decade earlier.

Declines between 1958 and 1957 were most heavily concentrated in classes of imports which had risen most sharply in the period of peak levels. This period generally coincided with that during which large industrial and resource development was also most accentuated, and commodities for which demand was heaviest tended to be those in broad categories used in development such as investment goods and related industrial materials. Among the best examples of such commodities were machinery and equipment and primary steel and other rolling mill products. Consequently the sharpest increases occurring earlier had been in metal products and it was the same groups which accounted for some three-quarters of the decline in 1958. Another large part of the decline occurred in fuels with substantially reduced imports of both coal and petroleum products. In contrast, imports of many consumer goods were comparatively well maintained, although some materials used in their production showed appreciable declines. A general tendency of business firms to draw down inventories during the first part of 1958 was also a factor contributing to reduced imports of many commodities.

The increase which occurred in the final quarter of the year included imports from the United States in contrast to consistent declines earlier in the year. Some of this increase appeared in steel during the course of an industrial dispute in Canada.

In 1958 the total value of Canadian exports was maintained at close to the record level of 1957. This was the result, however, of a variety of quite opposite trends. A relatively small number of cases of substantial increases were enough to largely cancel more numerous instances of declines. A pattern of mixed trends had appeared in the previous year but declines became more numerous in 1958, as many export industries operated at less than capacity.

Among major commodities the largest increases in 1958 were among new exports still undergoing rapid growth of which uranium and natural gas to the United States are good examples, or among commodities subject to special situations such as wheat to Asia, cattle and beef to the United States, and military aircraft to Germany and Belgium.

Decreases occurred in many of the prominent traditional export staples including pulp and paper and most non-ferrous metals as well as in some of the newer industrial materials which have more recently become major exports. Examples of the latter in which declines were particularly sharp were petroleum and iron ore.

Changes in the direction of trade in 1958 were relatively not very great, although somewhat more than the slightly reduced total value. While exports to both the United Kingdom and the Rest of the Sterling Area were moderately higher in 1958 the opposite was the case with exports to the United States and all other foreign countries.

Summary of Current Transactions with the United States,

United Kingdom, and Other Countries, 1957 and 1958

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1957	1958	1957	1958	1957	1958	1957	1958
<u>Calendar Year</u>								
Merchandise exports (adjusted)	4,909	4,890	2,931	2,909	749	768	1,229	1,213
Merchandise imports (adjusted)	5,488	5,064	3,878	3,443	520	539	1,090	1,082
Balance on merchandise trade	- 579	- 174	- 947	- 534	+ 229	+ 229	+ 139	+ 131
Other current receipts	1,609	1,490	1,131	1,057	206	198	272	235
Other current payments	2,430	2,428	1,735	1,727	293	297	402	404
Balance on non-merchandise trade	- 821	- 938	- 604	- 670	- 87	- 99	- 130	- 169
Current account balance	-1,400	-1,112	-1,551	-1,204	+ 142	+ 130	+ 9	- 38
<u>Fourth Quarter</u>								
Merchandise exports (adjusted)	1,284	1,307	758	782	194	213	332	312
Merchandise imports (adjusted)	1,292	1,353	875	891	130	142	287	320
Balance on merchandise trade	- 8	- 46	- 117	- 109	+ 64	+ 71	+ 45	- 8
Balance on non-merchandise trade	- 242	- 258	- 189	- 223	- 28	- 2	- 25	- 33
Current account balance	- 250	- 304	- 306	- 332	+ 36	+ 69	+ 20	- 41

New record in deficit from services and other non-merchandise items

International current account transactions other than commodity trade in 1958 gave rise to an excess of payments over receipts of \$938 million. This record deficit was \$117 million greater than in the previous year, an increase of 14 per cent. While this rate of increase in imbalance was less than in 1956 and 1957 it persisted throughout each quarter and was in sharp contrast to the large reduction in the commodity trade deficit. The influence of these transactions on the current account deficit grew significantly in 1958, although there was very little change from last year in the ratios of this trade in "invisibles" to total receipts and payments. For the fourth quarter, the deficit from non-merchandise transactions was \$258 million, compared with \$242 million in the same period in 1957.

The analysis which follows shows that the increase of \$117 million in the non-commodity trade deficit in 1958 was brought about by higher net payments abroad on each of the three important items representing international travel, migrants' funds (including inheritances) and the group of miscellaneous transfers referred to as "all other" current transactions in the detailed table in this bulletin. These changes more than offset reduced deficits on account of interest and dividends and freight and shipping transactions and a larger value of gold production available for export.

International transfers of investment income, which in recent years have been the source of well over half the current account deficit outside of commodity trade, contributed slightly less to the deficit than in 1957. The estimate of net payments of \$433 million in 1958 compared with \$444 million in 1957 provides the first interruption of a trend of imbalance that had been rising since 1953. It was brought about mainly by higher total receipts of interest with the resumption of interest payments by the United Kingdom on the post-war loan, since no net change took place in the level of total payments. The rise in interest payments related to the heavy Canadian bond financing in the United States of 1957 and subsequently was offset by a decline in dividend payments. The latter was probably associated with the generally lower earnings of 1957 and early 1958. There was, however, a sharp increase in the final quarter of 1958 in dividend transfers by subsidiaries to parent companies. Dividend payments of publicly-owned companies, which usually remain more stable than those related to direct investment, were on the other hand slightly lower in the fourth quarter and over the year as a whole. This partly reflects the absence in 1958 of some year-end extras that had been a common practice of a number of companies during the long period of boom conditions.

Much of the favourable development in investment income receipts during 1958 can be attributed to the resumption by the United Kingdom of interest payments of \$23 million on the Canadian loan of 1946, since the return on various holdings of short-term United States securities was adversely affected by the very pronounced fall in yields in the first half of the year. Dividend receipts were below 1957 levels, largely because of a reduction in this form of income from Canadian investment in secondary industries in other Commonwealth countries.

International freight and shipping transactions held to their customary importance as a source of receipts and payments, although net payments were lower. A fall in both inward and outward transfers of earnings accompanied the lower levels of external trade in commodities with relatively high transportation costs. The drop in receipts was influenced in addition by further sales of Canadian vessels following large sales in the previous year. The lower level of payments on transportation account relates mainly to the 11 per cent drop in imports from the United States and to the softening of ocean shipping rates, there being no significant net change from 1957 in imports from overseas countries.

On travel account the deficit rose as receipts were lower while payments continued to rise. The fall in total receipts from tourists was due to some reduction in expenditures in Canada of American visitors. While there was only a minor decline in their numbers, their lower level of spending was sufficient to offset the favourable effect of an increase in visitors from the United Kingdom and other countries. The larger overall deficit on travel account was due much more, however, to higher total expenditures abroad by Canadians on holiday. Overseas travel attracted about 10 per cent more Canadians than in 1957, a lower rate of increase than in previous years. And although recorded visits to the United States were practically unchanged from 1957 levels, there was a moderate rise in Canadian expenditures there.

There were marked changes in the patterns of both immigration and emigration during 1958, which on balance turned the small surplus of receipts in the previous year into a deficit of \$40 million. Immigration, which had been swollen by the arrival of Hungarian refugees and other heavy movements to a peak of over 280,000 in 1957, dropped to less than half this number with changing conditions. On the other hand there were some increases in the emigration of Canadian residents, with the movement to the United Kingdom rising by about one-third over 1957.

Two important components of the larger deficit in 1958 from the large group of miscellaneous current account transactions were reductions in United States current expenditures in Canada on defence installations, and a generally lower level of receipts by Canadian business firms for sundry services provided to non-residents. This deficit was also widened by moderate increases in Canadian defence costs under NATO obligations and by certain large but non-recurring government transfers. Official contributions by the Government of Canada rose from \$38 million to \$49 million. Chief among these were an increasing scale of expenditures under Colombo Plan commitments and shipments under the 1957-58 and 1958-59 Appropriations to provide for the purchase of wheat and flour for Commonwealth countries in Asia to relieve food shortages; and flour for refugees in the Near East.

Following the abnormally high values recorded in the last quarter of 1957 and in the first quarter of 1958 gold production available for export levelled out for the remainder of the year at approximately \$38 million each quarter. This brought the total of \$160 million for 1958 very close to the post-war record level of \$163 million in 1950, and was a factor in restraining the rise of the non-merchandise current account deficit.

Transactions by areas

While the current account deficit with the United States was reduced to \$1,204 million in 1958 from \$1,551 million in 1957, it was still higher than in any year before 1956. At the same time a further contraction to \$92 million occurred in the surplus with all overseas countries. This compares with the historically small balance of \$151 million in the previous year, but is not as small as the surplus in the year 1950. With the United States the change was due to a greater reduction in current payments than in receipts, while with overseas countries the smaller surplus resulted from reduced receipts and increased payments.

Over one-half of the deficit of \$1,204 million with United States originated from net payments for services and other non-merchandise transactions. This group of net payments rose by some 10 per cent to a new peak of \$670 million, having risen sharply in each of the past three years. This level in 1958 is now almost twice as high as the average of \$359 million in the post-war years. Leading sources continued to be net payments on account of interest and dividends, travel expenditures, freight and shipping, migrants' funds, and miscellaneous services. In 1958 some further increases occurred in deficits from travel and interest and dividends, but the biggest change in this direction was a sharp drop in all other current receipts. The latter was partly due to a reduction in current expenditures by the United States on defence installations in Canada. Changes in the opposite direction were a reduction in the deficit on freight and shipping account accompanying the decline in imports and larger gold production than in the previous year.

The largest single change in transactions with the United States, however, was the drop of 11 per cent in merchandise imports. This was the reason for the sharp drop in the merchandise balance with the United States to a deficit of \$534 million from \$947 million in 1957 as the import change was only partly offset by a slight drop in merchandise exports.

The most volatile groups of commodities in Canada's imports in recent years have been concentrated in items obtained from the United States. A major part of the declines in 1958 were in metals and products from the United States such as steel and machinery and equipment. Imports of coal were also down sharply and many other industrial materials obtained in the United States also showed some declines. But a firming in some of these imports appeared in the final quarter.

The level of Canadian exports to the United States was largely sustained even though declines in important groups of commodities were widespread. Exports of uranium doubled to rank in size next to newsprint, and export of cattle also more than doubled due to special factors of demand. Farm implements, lumber, fish and natural gas were among other commodities which rose significantly. The sharpest declines occurred in petroleum, iron ore, nickel, and copper, and some of the other mineral products, while exports of newsprint were moderately lower.

In transactions with the United Kingdom there was a reduction in the current surplus from \$142 million to \$130 million due to a larger deficit in the non-merchandise items. The latter deficit of \$99 million continued to originate largely from travel, interest and dividends, and personal remittances including government expenditures. The growth was due to a reduction in net inward movements of migrants' funds and to a rise in non-recurring government items which more than offset the drop in net payments on income account, accompanying the resumption of interest payments on Canada's post-war loan to the United Kingdom. The commodity account export balance with the United Kingdom in 1958 at \$229 million was unchanged from the previous year when adjustments for balance of payments purposes are made to trade statistics. Both exports and imports rose in Canadian trade with the United Kingdom. In the case of exports the largest rises were in grains, canned salmon, and in the first substantial shipments of uranium. While newsprint and nickel were moderately higher there were declines in lumber

and pulp and in some other leading forest products, and in other minerals and industrial materials. With Canadian imports the most important gains from the United Kingdom were in automobiles and aircraft. Imports of many other items were also increased or maintained, but the textiles group was down.

With the Rest of the Sterling Area Canada's current account surplus rose sharply in 1958. This is estimated tentatively at \$66 million and compares with \$9 million in 1957. The change was due to a sharp rise in exports combined with a fall in imports. The rise in Canadian exports was chiefly due to the large shipments of wheat to Commonwealth countries in Asia financed by the Canadian government under loan and other arrangements. Official contributions by the Canadian government to Commonwealth countries which rose to \$46 million in 1958 include wheat and other commodities financed as contributions under the Colombo Plan and other arrangements. (In addition credit under government loans included in the capital account amounted to a total of \$34 million in 1958). Other current transactions with the Rest of the Sterling Area led to small net receipts by Canada partly because of reduced dividends received by Canadian companies from subsidiaries in the area.

The current surplus with OEEC countries rose to an estimated \$50 million in 1958 from \$29 million in 1957, mainly due to increased exports to this area. Prominent elements in this increase were larger sales of aircraft to Germany and some non-ferrous metals, although exports of iron ore and other industrial materials were down. The major part of the export balance on commodity account was again offset by the large deficit on "invisibles" which in 1957 was \$150 million. Canadian expenditures on defence, travel, transportation, and interest and dividends continued to contribute to a larger deficit on these transactions.

Changes in Principal Elements of the Current Account

with all Countries, 1957 and 1958

(millions of dollars)

<u>Merchandise trade</u>	<u>1957</u>	<u>1958</u>	<u>Change in 1958</u>
Exports (adjusted)	4,909	4,890	- 19
Imports (adjusted)	<u>5,488</u>	<u>5,064</u>	- 424
Deficit on merchandise trade	- 579	- 174	+ 405
<u>Non-merchandise trade</u>			
Gold production available for export	+ 147	+ 160	+ 13
Travel expenditures	- 162	- 192	- 30
Interest and dividends	- 444	- 433	+ 11
Freight and shipping	- 75	- 58	+ 17
Inheritances and migrants' funds	+ 2	- 40	- 42
Official contributions	- 37	- 49	- 12
All other current transactions	<u>- 252</u>	<u>- 326</u>	- 74
Deficit on non-merchandise trade	- 821	- 938	- 117
Total deficit on current account	-1,400	-1,112	+ 288

The deficit with all other countries widened sharply to \$154 million in 1958 from \$29 million in the previous year. This was mainly the result of a trebling in the import balance on merchandise account as exports were substantially lower and imports rose moderately. Exports were lower to principal regions and markets included in this group of countries such as Latin America and Japan. A fall in the surplus from other current transactions with these countries also contributed to the increased current deficit.

Capital movements

The United States supplied an increased share of the capital imported in long-term forms in 1958. In amount, the net inflow of direct and portfolio capital from that country was well maintained during the year. Funds for direct investment were off somewhat, but security sales were higher than in 1957 and the net movement was only slightly below the total of \$930 million for the earlier year. In 1958 it accounted for between 80 and 85 per cent of the total movement in these forms (including inter-governmental loans to overseas countries). This was about ten percentage points higher than in 1957 when net capital inflows from overseas countries were higher. The proportion of these movements originating in the United States has increased each year since 1955 when they accounted for less than half the total. In 1958 the inflows in these forms from the United Kingdom and from other overseas countries fell by about one-third and two-thirds respectively. The inflow from portfolio security transactions with the United Kingdom was down sharply, but this decline was partly offset by the repayment on the Canadian loan of 1946, deferred in the previous year, and by somewhat higher inflows for direct investment. Receipts from other overseas countries for both direct and portfolio investment were down compared with 1957, and in addition there was in 1958 a significant extension of credit by the Government of Canada to finance the purchase of wheat.

The net movement of foreign capital to Canada for direct investment in foreign-controlled enterprises during 1958 is tentatively placed at \$400 million. This represents a decline of \$120 million from 1957 and of \$183 million from the record year of 1956. The inflow in 1958 was, however, nearly \$50 million above the average for the years from 1950 to 1955 and many times larger than the annual inflows prior to the fifties. Net inflows from the United States appear to have fallen by about \$100 million, or by one-quarter, while a drop of perhaps \$25 million in net inflows from overseas countries other than the United Kingdom represented a reduction of about half in the rate of inflow in 1957. On the other hand the net inflow of direct investment capital from the United Kingdom rose moderately in 1958 compared with 1957, although the increase was not related to capital formation during the year.

Industrially there were sharp drops in the inflows for the petroleum industry and manufacturing, offset to some extent by an increase in the inflow for mining operations. Compared with 1957 it would seem that there was relatively little change in the proportion of the inflow going into the petroleum industry, but a significant increase in the proportion going into mining developments, and a decline in the capital supplied to manufacturing.

The capital inflow for direct investment was considerably higher in the last half of 1958 than in the first half. The fourth quarter figure of \$130 million was the third highest recorded for a fourth quarter during the period of nine years covered by official estimates, having been exceeded in 1951 and 1956. Some 55 per cent of the inflow in 1958 occurred in the last half of the year, compared with 51 per cent in 1956 and 1957. But in all three years there were extraordinary transactions in the last half of the year relating to capital formation in other periods.

Preliminary estimates of the movement of capital for direct investment abroad indicate a net outflow of \$15 million in 1958. This figure compares with \$65 million in 1957 and with a record \$104 million in 1956. The net outflow in 1958 was the smallest since 1950; in that year, and for some years earlier, there were net inflows of capital arising from the sale or liquidation of Canadian direct investments abroad. The reduction from 1957 did not reflect reduced Canadian direct investment activity abroad so much as the disposition by Canadian investors of important interests acquired in earlier periods.

Portfolio security transactions were again by far the largest source of foreign capital in 1958, supplying an amount equivalent to 62 per cent of the deficit on current account. The net inflow of \$680 million was less than occurred in either 1956 or 1957 when very strong demand pressures were exerted in Canadian capital markets by unprecedented levels of business capital investment. The capital import from security transactions in 1958 was, however, more than twice the amount in 1950 when the previous record was set in an atmosphere of exchange rate speculation.

The broad similarity of magnitude in the overall capital movement arising from portfolio security transactions in 1956, 1957, and 1958 conceals underlying changes of considerable significance. There were changes in the trend between 1956 and 1957 and again in 1958. The period of greatest inflow occurred in the last half of 1956 and the first half of 1957 when the movement from these transactions was about \$1,000 million. With a moderating level of economic activity the capital inflow from these transactions in the ensuing twelve months fell to about \$600 million. An upturn was apparent in the last half of 1958 when net sales of portfolio securities produced a capital inflow about a third larger than in the corresponding period of 1957.

The total for 1958 was made up of \$651 million from net sales to non-residents of Canadian securities and \$29 million from net sales of foreign securities. This movement of \$680 million compared with \$766 million in 1957 when there were net sales of \$747 million Canadian securities and \$19 million foreign securities. Trade in outstanding Canadian securities in 1958 reflected a sharp drop in net sales of Canadian stocks, but there were also net sales of outstanding Canadian bonds and debentures, in contrast to significant net repurchases in 1957. The balance from trade in all outstanding Canadian securities was \$89 million compared with \$94 million in 1957. The sale to non-residents of new issues of Canadian securities produced \$666 million, compared with \$790 million in 1957, and retirements of foreign held Canadian securities amounting to \$104 million were also smaller than in the previous year.

The increased role in economic activity in 1958 of expenditures by governments at all levels was mirrored in the capital movements from security transactions. In contrast to 1957 when the net inflow from all Canadian securities was made up of \$157 million from transactions in bonds and debentures of Canadian governments and municipalities and \$590 million from corporate bonds, debentures and stocks, the 1958 totals included \$352 million of government issues and \$299 million of corporate issues. Thus the inflow from net transactions in government issues rose by some \$195 million to well over twice the 1957 total, while at the same time net transactions in corporate issues fell by \$291 million to just over half their 1957 value.

Another striking change in portfolio security transactions in 1958 was the geographical origin of the capital inflow. Although the net inflow from all countries declined by 10 per cent to \$680 million, inflows from the United States increased by 8 per cent to \$599 million. Net sales to the United Kingdom fell from \$129 million to \$38 million or by 70 per cent, and net sales to other overseas countries fell from \$74 million to \$43 million, or by 43 per cent. As a result of these changes the proportion of the movement coming from the United States rose from 73 per cent in 1957 to 88 per cent in 1958, while the proportions from the United Kingdom and from other overseas countries fell from 17 per cent and 10 per cent respectively to 6 per cent in each case.

Additional comment and statistical detail on international movements of portfolio capital, including quarterly figures classified by debtor and statistics relating sales contracts and deferred deliveries to non-residents of new issues of Canadian securities, will be found in the DBS report, "Sales and Purchases of Securities between Canada and Other Countries, December 1958, and Review of Security Trading during 1958".

A feature of the Canadian balance of payments in 1958 which has been absent since 1950 was the extension of Government credit to overseas Governments. Advances to India and Ceylon to cover purchases of Canadian wheat totalled \$34 million during the year. Repayments of principal on earlier intergovernmental loans totalled \$64 million, compared with \$50 million in 1957. During 1958 the Government of the United Kingdom repaid \$30 million on the interest-free loan of 1942, completing repayment of the entire credit of \$700 million, and also repaid \$16 million on the 1946 loan; in 1957 the United Kingdom elected under the agreement to defer the scheduled principal repayment on the latter loan. Other principal repayments totalling \$18 million were made during 1958 by Belgium, France, the Netherlands, and Norway.

Increased holdings of Canadian dollars by foreigners represented a significant inflow of \$105 million of non-resident capital. This increase followed declines in 1956 and 1957. The largest part of the change in 1958 occurred in the third quarter when Canadian dollar holdings of foreigners rose by \$90 million. A substantial part of this increase is known to have been set aside for future expenditure in Canada. By far the largest part of the rise during the year occurred in holdings of residents of the United States.

Exchange transactions of the Government of Canada, including the operations of the Exchange Fund Account, led to a capital outflow of \$109 million. This movement followed an inflow of \$105 million in 1957 when official holdings of gold and foreign exchange were reduced. The outflow in 1957 included \$108 million covering the acquisition of gold and United States dollars, and \$1 million covering the acquisition of sterling for official accounts. In terms of United States dollars official holdings of gold and United States funds rose from \$1,828 million at the beginning of the year to

\$1,939 million at the end. Holdings rose in all but two months of 1958, but the year-end total was nearly \$34 million below the month-end record of July, 1957.

Other capital movements resulted over the year in a net inflow of \$21 million. Much larger inflows had occurred on balance from these movements in each of the years from 1955 to 1957, and there were large outflows earlier. The comparatively small net balance suggests a simplicity in these movements which is misleading. The quarterly balances ranged between an inflow of \$114 million in the first quarter to an outflow of \$165 million in the third. Bank balances and other short-term funds held abroad by Canadians, excluding official holdings, increased only moderately over the year as a whole; substantial increases in the first three quarters of the year were followed by reductions in the closing months. Finance companies repaid foreign indebtedness in the first half of the year, but increased their outstanding borrowings from non-residents in the last half of the year and during the year as a whole. A wide variety of other types of capital movement, both inward and outward, was also encompassed within this group.

The price of the United States dollar in Canada fell from 98.41 cents at the end of 1957 to 96.44 cents at the end of 1958. It moved through a high of 99.16 cents in January and a low of 95.75 cents in June, a trading range of 3.41 cents which was narrower than for any year since 1954. In general the United States dollar tended to decline over the first half of the year. The average noon rates from February to July were each lower than for the preceding month. For the first quarter the noon average was 98.11 cents and for the second 96.64 cents. In the third quarter the United States dollar strengthened, and the noon average for the period was 96.70 cents. During the final quarter of the year this tendency was reversed, but the noon average for the quarter as a whole was somewhat higher at 96.79 cents. The noon average of 97.06 cents for the year as a whole compared with 95.88 cents in 1957.

Summary of Capital Movements, 1955 to 1958

(millions of dollars)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>Change in movement 1958 from 1957</u>
Direct investment in Canada	+ 417	+ 583	+ 520	+ 400	- 120
Direct investment abroad	- 74	- 104	- 65	- 15	+ 50
Canadian securities:					
Trade in outstanding bonds	- 165	+ 11	- 43	+ 6	+ 49
Trade in outstanding stocks	+ 138	+ 188	+ 137	+ 83	- 54
New issues	+ 166	+ 667	+ 790	+ 666	- 124
Retirements	- 184	- 141	- 137	- 104	+ 33
Foreign securities	- 6	+ 2	+ 19	+ 29	+ 10
Loans by Government of Canada:					
Drawings	-	-	-	- 34	- 34
Repayments	+ 69	+ 69	+ 50	+ 64	+ 14
Canadian dollar holdings of foreigners	+ 89	- 24	- 34	+ 105	+ 139
Official holdings of gold and foreign exchange (increase, -)	+ 44	- 33	+ 105	- 109	- 214
Other capital movements	<u>+ 204</u>	<u>+ 148</u>	<u>+ 58</u>	<u>+ 21</u>	<u>- 37</u>
Net capital movement financing current account deficit	+ 698	+1,366	+1,400	+1,112	- 288

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1958 are preliminary and

		1956	1957		
		IV	I	II	III
A	Current Receipts				
1	Merchandise exports (adjusted)	1,277	1,102	1,215	1,308
3	Gold production available for export	35	39	31	27
4	Travel expenditures	55	31	76	197
5	Interest and dividends	41	25	37	31
6	Freight and shipping	120	104	114	113
7	Inheritances and immigrants' funds	28	25	42	34
11	All other current receipts	124	111	106	91
12	Total Current Receipts	1,680	1,437	1,621	1,801
B	Current Payments				
1	Merchandise imports (adjusted)	1,427	1,328	1,518	1,350
4	Travel expenditures	103	100	142	178
5	Interest and dividends	170	129	142	141
6	Freight and shipping	137	109	143	135
7	Inheritances and emigrants' funds	31	27	30	32
9	Official contributions	6	5	8	7
11	All other current payments	150	166	166	153
12	Total Current Payments	2,024	1,864	2,149	1,996
	Balance on Merchandise Trade	- 150	- 226	- 303	- 42
	Balance on Other Transactions, excluding B 9	- 188	- 196	- 217	- 146
	Official Contributions	- 6	- 5	- 8	- 7
C	Current Account Balance	- 344	- 427	- 528	- 195
D	Capital Account				
	Direct Investment				
1	Direct investment in Canada	+ 181	+ 91	+ 163	+ 137
2	Direct investment abroad	- 11	- 20	- 22	- 18
	Canadian Securities				
3a	Trade in outstanding bonds and debentures	- 13	- 10	- 3	- 15
3b	Trade in outstanding common and preference stocks	+ 29	+ 40	+ 47	+ 43
4	New issues	+ 200	+ 264	+ 296	+ 142
5	Retirements	- 22	- 41	- 23	- 45
	Foreign Securities				
6	Trade in outstanding issues	+ 22	- 10	+ 19	+ 17
7	New issues	- 6	- 4	- 4	- 8
8	Retirements	-	+ 1	+ 2	+ 1
	Loans by Government of Canada				
9	Drawings	-	-	-	-
10,11	Repayments	+ 34	+ 7	+ 19	+ 7
14	Change in Canadian dollar holdings of foreigners	+ 5	- 33	- 26	+ 7
16	Change in official holdings of gold and foreign exchange (increase, minus)	- 27	+ 13	- 22	+ 53
17	Other capital movements	- 48	+ 129	+ 82	- 126
E	Net Capital Movement	+ 344	+ 427	+ 528	+ 195

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

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance trans-
B 11) actions, and business services.

BALANCE OF INTERNATIONAL PAYMENTS

data for 1957 are subject to revision.

1957		1958			Annual Totals				
IV	I	II	III	IV	1955	1956	1957	1958	
(millions of dollars)									
1,284	1,088	1,277	1,218	1,307	4,332	4,837	4,909	4,890	A
50	44	39	39	38	155	150	147	160	1
59	32	76	185	59	328	337	363	352	3
56	31	33	27	70	160	142	149	161	4
100	95	98	96	100	398	457	431	389	5
23	18	27	26	20	86	99	124	91	6
87	88	84	80	85	391	442	395	337	7
									11
1,659	1,396	1,634	1,671	1,679	5,850	6,464	6,518	6,380	12
									B
1,292	1,151	1,354	1,206	1,353	4,543	5,565	5,488	5,064	1
105	101	145	190	108	449	498	525	544	4
181	125	129	142	198	483	523	593	594	5
119	94	116	121	116	415	502	506	447	6
33	29	33	34	35	105	115	122	131	7
17	11	16	12	10	24	30	37	49	9
162	167	172	161	163	529	597	647	663	11
1,909	1,678	1,965	1,866	1,983	6,548	7,830	7,918	7,492	12
- 8	- 63	- 77	+ 12	- 46	- 211	- 728	- 579	- 174	
- 225	- 208	- 238	- 195	- 248	- 463	- 608	- 784	- 889	
- 17	- 11	- 16	- 12	- 10	- 24	- 30	- 37	- 49	
- 250	- 282	- 331	- 195	- 304	- 698	-1,366	-1,400	-1,112	C
									D
+ 129	+ 85	+ 95	+ 90	+ 130	+ 417	+ 583	+ 520	+ 400	1
- 5	- 15	- 10	+ 15	- 5	- 74	- 104	- 65	- 15	2
- 15	- 1	- 10	- 5	+ 22	- 165	+ 11	- 43	+ 6	3a
+ 7	+ 3	+ 13	+ 35	+ 32	+ 138	+ 188	+ 137	+ 83	3b
+ 88	+ 168	+ 290	+ 96	+ 112	+ 166	+ 667	+ 790	+ 666	4
- 28	- 16	- 38	- 8	- 42	- 184	- 141	- 137	- 104	5
+ 11	+ 10	+ 5	+ 8	+ 14	+ 25	+ 20	+ 37	+ 37	6
- 7	- 3	- 7	- 1	- 3	- 48	- 18	- 23	- 14	7
+ 1	+ 1	+ 2	+ 1	+ 2	+ 17	-	+ 5	+ 6	8
-	- 16	- 8	-	- 10	-	-	-	- 34	9
+ 17	+ 7	+ 17	+ 7	+ 33	+ 69	+ 69	+ 50	+ 64	10,11
+ 18	- 16	+ 40	+ 90	- 9	+ 89	- 24	- 34	+ 105	14
+ 61	- 39	- 52	+ 32	- 50	+ 44	- 33	+ 105	- 109	16
- 27	+ 114	- 6	- 165	+ 78	+ 204	+ 148	+ 58	+ 21	17
+ 250	+ 282	+ 331	+ 195	+ 304	+ 698	+1,366	+1,400	+1,112	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 throughout the accounts.

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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS