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## QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FOURTH QUARTER 1959, AND

PRELIMINARY ESTIMATES FOR THE YEAR 1959

The imbalance from Canada's current transactions in goods and services with other countries rose to \$1,460 million in 1959 from \$1,085 million in 1958. At this level Canada's international current account deficit was slightly higher than the previous annual peak of \$1,424 million in 1957. As a result of this imbalance Canada's indebtedness to other countries has again continued to rise sharply from the inflows of capital from other countries which financed the balance of payments for goods and services imported.

Canada's net indebtedness to other countries rose from \$13.5 billion at the end of 1958 to some \$15.4 billion by the end of 1959 due to the inflows of capital and to the retention in Canada of earnings on non-resident investments. The main factor leading to this rise in net indebtedness has been the steady growth in long-term investments in Canada owned by non-residents. At the end of 1959 these were some \$20.6 billion compared with \$19.1 billion in 1958 and \$8.0 billion at the beginning of 1950.

The current deficit of \$1,460 million in 1959 arises from the excess of payments for goods and services purchased from other countries over receipts from goods and services sold to other countries. More than one-half of the increase in the deficit for the year was contributed by the enlarged balance from merchandise trade which rose from \$170 million in 1958 to \$386 million in 1959 as merchandise imports rose more than merchandise exports. At the same time the deficit from non-merchandise transactions continued the steady growth which has been under way for a number of years. At \$1,074 million in 1959 this deficit from non-merchandise transactions made up about three-quarters of the total current deficit, having risen from \$915 million in 1958. At this level in 1959 this deficit was more than double the deficit from the same sources as recently as 1955 and many times the deficit a decade ago.

The rising balance of payments for non-merchandise transactions is largely attributable to the continued rapid growth in Canada's indebtedness to other countries and to the high levels of incomes spent by an enlarged population. More than one-half of this deficit of \$1,074 million is directly related to Canada's indebtedness abroad and subject to the effects of continued growth. Total interest and dividend payments by Canadians to other countries at \$656 million in 1959 were higher than ever before. In addition other forms of transfer of investment income added a further \$100 million of related payments and there were also larger payments by Canadian subsidiaries to parent companies for services abroad. Net payments on account of the above groups of transactions which are related to Canada's foreign investment position amounted to well over \$600 million in 1959. And not included in this figure or the current account are the substantial earnings retained in Canada on foreign investments.

The continued recovery in economic activity in Canada and abroad of course had the effect of enlarging both international income and outgo. As the greatest increases both absolutely and relatively were in outlays for imports of merchandise and in income transfers and other payments for services, there was the above expansion in the deficit both from merchandise trade and non-merchandise trade. In the case of merchandise the deficit is highly variable being a relatively small part of very large magnitudes. In the case of non-merchandise transactions the deficit has reached unprecedentedly large proportions amounting to fully two-thirds of the current receipts from non-merchandise items. And the trend in payments for most groups of these transactions has been contributing to rises for the reasons noted above. Changing forms of investment in Canada and conditions in national and international financial markets were also influential factors affecting the balance of payments.

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Larger inflows of capital from the sale of government issues to non-residents accompanied more borrowing by governments in a period of rising interest rates. At the same time total capital inflows into business forms of investment were less than in recent years even when significant purchases of existing assets are included. As a result long-term forms of capital inflow were relatively stable during the year but were supplemented by substantial short-term inflows in the earlier parts of the year.

#### Developments in Fourth Quarter

In the fourth quarter the current deficit of \$303 million was only slightly higher than the deficit of \$297 million in the same period of 1958, although the deficit from non-merchandise transactions of \$339 million in this quarter of 1959 was one-third larger than in the previous year. The other main change was the appearance of an export balance of \$36 million on merchandise account compared with an import balance in 1958. The deficit from non-merchandise transactions of \$339 million establishes a new record much higher than any earlier quarter, but it should be noted that the fourth quarter has usually been the period of the year when the deficit from these transactions is greatest. Contributing to this concentration in 1959 were large net payments of interest and dividends and high levels of other payments for services and official contributions. On the other hand the export balance on commodity account in the quarter appears to have been affected by special factors. This small export balance was considerably less than the abnormal exports of steel and copper to the United States during the period of restricted supplies in that country due to industrial disputes -- a situation which also is believed to have reduced supplies of some commodities imported into Canada. Inflows of capital of a long-term type financed the main part of the deficit in the fourth quarter with a sharp increase in inflows for direct investment and continued large inflows into Canadian securities.

#### Summary of Current Transactions with the

#### United States, United Kingdom and Other Countries, 1958 and 1959

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1958	1959	1958	1959	1958	1959	1958	1959
<u>Fourth Quarter</u>								
Merchandise exports (adjusted)	1,307	1,450	782	882	213	227	312	341
Merchandise imports (adjusted)	1,349	1,414	885	924	141	156	323	334
Balance on merchandise trade	- 42	+ 36	- 103	- 42	+ 72	+ 71	- 11	+ 7
Other current receipts	387	376	261	255	65	66	61	55
Other current payments	642	715	464	512	73	84	105	119
Balance on non-merchandise trade	- 255	- 339	- 203	- 257	- 8	- 18	- 44	- 64
Current account balance	- 297	- 303	- 306	- 299	+ 64	+ 53	- 55	- 57
<u>Calendar Year</u>								
Merchandise exports (adjusted)	4,890	5,152	2,909	3,192	768	780	1,213	1,180
Merchandise imports (adjusted)	5,060	5,538	3,437	3,710	538	598	1,085	1,230
Balance on merchandise trade	- 170	- 386	- 528	- 518	+ 230	+ 182	+ 128	- 50
Other current receipts	1,533	1,605	1,096	1,159	195	205	242	241
Other current payments	2,448	2,679	1,702	1,877	317	335	429	467
Balance on non-merchandise trade	- 915	-1,074	- 606	- 718	- 122	- 130	- 187	- 226
Current account balance	-1,085	-1,460	-1,134	-1,236	+ 108	+ 52	- 59	- 276



#### Larger deficit on merchandise trade in the year

The import balance on merchandise trade at \$386 million in 1959 was more than twice the balance of \$170 million in 1958, but still considerably below the peak imbalance from this source of \$728 million and \$579 million which occurred in 1956 and 1957 respectively. The rise was the result of a greater increase in imports than in exports as imports have demonstrated much more flexibility than exports in recent years. But exports reached an appreciably higher total value than the level of the previous three years while imports had not regained the total value reached in 1956. The sharpest increases in imports occurred in the second and third quarters while the biggest upturn in exports was in response to strong demands in the fourth quarter following moderate rises in the second and third quarters. The increase in the deficit on merchandise account occurred in the first half of the year as a surplus, commented on elsewhere, appeared in the final quarter.

Some improvement occurred in the terms of trade from small changes in both export and import prices. While average export prices were slightly higher throughout the year there were also slightly lower import prices.

Increases in imports of merchandise which occurred in 1959 were widely distributed as is usually the case in a period of rising economic activity. The increase of \$478 million or over 9 per cent in the total was substantial but the total value was still slightly less than the peak which occurred in 1956, although many commodities were purchased in larger volume than then. Some commodities on which there had been exceptional import dependence in the earlier period of concentrated expansion in business investment were imported in significantly smaller volume in 1959. Examples of these are provided by primary steel, steel pipe, and industrial machinery. Some of the increases between 1958 and 1959 however, were in the latter group of commodities, although difficulties of supply due to industrial disputes in the United States tended to hold the total down. In addition there were larger imports of many industrial materials used by Canadian industry in a higher level of activity.

Sources of Canadian imports were less concentrated in the United States than formerly. Providing some 67 per cent of Canadian imports in 1959 the United States accounted for something more than one-half the rise during the year. But increases in imports of manufactured goods from overseas sources including the United Kingdom, Europe, and Japan were relatively sharper than from the United States.

A rise in the value of all exports of \$262 million, or over 5 per cent was the result of a greater expansion in shipments to the United States which country took some 62 per cent of Canadian exports in 1959. Total exports to overseas countries were less than in 1958, although there were increases to some markets like the United Kingdom and Japan. As a result of these trends exports to the United States were higher than ever before while the total overseas was somewhat less than in either of the previous three years. The appreciable rise in the total to all countries contrasts with the relatively stable level of the totals in the three previous years.

Expansions in demands for industrial materials produced by leading primary industries were responsible for most of the gain in total exports. As a result exports of forest products, minerals, and metals were up by over 10 per cent. Among the sharpest rises were lumber, pulp and paper, iron ore, milk products, and uranium and some other non-ferrous metals. There was also a substantial rise in agricultural implements and other steel products. In the latter part of the year a major part of the rise in exports to the United States was in commodities like primary iron and steel and copper where supplies in the United States were abnormally affected by industrial disputes.

Offsetting some of the above rises were reductions in shipments of agricultural products including grains and seeds, cattle and meat and in manufactured products like military aircraft and ships which had for special reasons been high in the previous year.

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

The tendency in evidence since early 1956 for a continuing growth in the deficit on non-merchandise transactions in each quarter and in the year was extended in 1959, when the deficit reached a record level of \$1,074 million. This total compared with \$915 million for the preceding year; while the deficit stood at \$255 million and \$339 million respectively in the fourth quarters of the two latest years. As compared with the 1949 total of \$116 million, the 1959 deficit was more than nine times as large, and more than twice as great as that for a year as recent as 1955.

The \$159 million rise in the non-merchandise deficit during 1959 was largely attributable to a sizable gain in the remittance abroad of interest and dividends, a sharper increase in payments than in receipts for freight and shipping and for miscellaneous transfers referred to as "all other" current transactions, and a reduced value of gold production available for export. Both the receipts and payments for travel advanced fairly substantially during the year, but as the changes were about the same magnitude, there was hardly any contribution from this account to heightening the deficit on "invisible" items. A similar interaction took place, though at a lower level, with respect to receipts and remittances of inheritances and migrants' funds. Immigration into Canada during 1959 was lower, particularly from the United Kingdom, but more liberal regulations were instituted in that country on the transfer of legacies and emigrants' funds.

Net transfers abroad of investment income in the form of interest and dividends on securities grew nearly 16 per cent from \$420 million in 1958 to a new high level of \$486 million in the year under review; and, apart from other forms of income transfer, represented 45 per cent of the current account deficit outside of merchandise trade. This proportion was at about the same level as in 1958, but much lower than in several preceding years. Total receipts of interest and dividends were up slightly from 1958, with the interest income being higher in the second half of 1959. Total remittances of interest and dividends rose \$70 million to \$656 million, or 12 per cent, with each of the components showing the same relative gain. An increase in the net holdings of securities, reflecting substantial bond sales in 1958 and early in 1959 by Canadian provinces, municipalities and utilities, together with higher interest rates accounted for the larger remittances, while transfers of dividends by non-resident-owned subsidiaries advanced sharply, and dividends to non-resident shareholders of public companies increased more moderately.

On freight and shipping account, the deficit increased over 60 per cent from \$59 million to \$95 million. Total receipts were only slightly more as higher receipts on inland freight on overseas exports were partly counterbalanced by a further reduction in the number of Canadian ships during 1959. Freight and shipping payments, on the other hand, rose \$46 million, reflecting a rise in general imports from overseas countries in particular.

#### Changes in Principal Elements of the Current Account

with all Countries, 1949 and 1957 to 1959

(millions of dollars)

	1949	1957	1958	1959	<u>Net Change</u>	
					<u>1949-1959</u>	<u>1958-1959</u>
<u>Merchandise trade</u>						
Exports (adjusted)	2,989	4,909	4,890	5,152	+ 2,163	+ 262
Imports (adjusted)	<u>2,696</u>	<u>5,488</u>	<u>5,060</u>	<u>5,538</u>	<u>+ 2,842</u>	<u>+ 478</u>
Deficit on merchandise trade	+ 293	- 579	- 170	- 386	- 679	- 216
<u>Non-merchandise trade</u>						
Gold production available for export	+ 139	+ 147	+ 160	+ 147	+ 8	- 13
Travel expenditures	+ 92	- 162	- 193	- 192	- 284	+ 1
Interest and dividends	- 307	- 433	- 420	- 486	- 179	- 66
Freight and shipping	+ 50	- 70	- 59	- 95	- 145	- 36
Inheritances and migrants' funds	+ 9	- 33	- 54	- 55	- 64	- 1
Official contributions	- 6	- 37	- 50	- 71	- 65	- 21
All other current transactions	<u>- 93</u>	<u>- 257</u>	<u>- 299</u>	<u>- 322</u>	<u>- 229</u>	<u>- 23</u>
Deficit on non-merchandise trade	- 116	- 845	- 915	-1,074	- 958	- 159
Total deficit on current account	+ 177	-1,424	-1,085	-1,460	- 1,637	- 375



All other current transactions, second only to the income account in its influence towards widening the non-merchandise deficit, recorded a rise of \$44 million in net payments. Within this group, an increase of \$39 million, or 13 per cent, occurred in the payments for business services with the resurgence of economic activity in 1959. Included in these services are advertising, architectural, engineering, other professional, technical and research and management services, as well as royalties, patents and copyrights. Receipts for the sale of business services also advanced, but by 5-1/2 per cent. Payments on government account were at about the same level in both 1958 and 1959; but official contributions increased in the latter period, due mainly to larger contributions of wheat to India and Pakistan and to increased shipments financed under the Colombo Plan.

Transactions by areas -- emergence of current deficit with overseas along with trade deficit with the United States

In 1959 Canadian purchases of goods and services from overseas countries exceeded export sales by \$224 million, a deficit which contrasts with a credit balance of \$49 million in 1958. The principal factors bringing this about were a sharp rise in imports, a slightly lower total of exports, and a substantial growth in the balance of payments for other transactions with overseas countries. This current deficit contrasts with the surpluses formerly characteristic of this trade which played a part in settling Canada's chronic current deficits with the United States. The surplus with overseas, however, had been contracting each year since 1952.

Contributing to this development in 1959 was a decline in the current account surplus with the United Kingdom together with a widening in the deficit with the United States and with "other countries", as shown in the accompanying table. The increase in the deficit with the latter group, which was more than twice as great as that with the United States, mainly originated in trade with the OEEC countries and their overseas territories. There was also a sharp contraction in the surplus with the Sterling Area outside of the United Kingdom to some \$12 million.

After reductions in the current account deficit with the United States in the two preceding years, the deficit was widened by \$102 million to \$1,236 million in 1959. This imbalance, which was surpassed only by those of 1956 and 1957, resulted from a substantial increase in the deficit from non-merchandise transactions, offset by a small improvement in the merchandise trade deficit.

Following an interruption in 1958 in the growing tendency of the net payments for services and other non-merchandise transactions with the United States, the deficit from these transactions rose \$112 million, or about 18-1/2 per cent, from \$606 million to \$718 million in 1959. More than four-fifths of this change was attributable to increases of over 10 per cent in the remittances of interest and dividends and in the payments for business services. Net payments on freight and shipping, personal remittances, inheritances and migrants' funds and other miscellaneous income added smaller contributions to the non-merchandise imbalance, as did also the fall in the amount of gold production available for export. A larger gain in receipts than in payments on travel account together with an increase in current receipts from other services in 1959 served to ameliorate the deepening of the deficit from "invisible" transactions.

The smaller improvement in the merchandise trade deficit with the United States followed increases of \$283 million and \$273 million respectively in the exports and imports (both adjusted for balance of payments purposes) during 1959. Substantial increases in exports occurred in shipments of iron ore, steel sheets, plates and strips and other semi-processed steel products (these latter commodities being undoubtedly affected by the prolonged industrial dispute in the United States steel industry), other crude metals and minerals, lumber, pulp and paper. Exports of cattle and beef fell in 1959 as normal factors of demand were restored in the United States. Imports of farm and other machinery, tractors and automobile parts increased sharply within the important commodity division of iron and its products, while imports of pipes, tubes and fittings and some other steel products declined, as was the case with raw cotton.

The diminution in the current account surplus with the United Kingdom, which first developed in 1956, continued in 1959, when the favourable balance declined by \$56 million. With the exception of 1950, this is the smallest surplus with that country in over two decades. The reduction in the current surplus was largely attributable to the \$48 million decline in the merchandise trade surplus, as the increase in imports was about five times that of exports. Passenger automobile imports were up materially, as also were those of electrical apparatus and rolling mill products, but purchases of some types of fabricated steel products tended to be lower. A large increase in exports of uranium ores and concentrates to the United Kingdom occurred, and this gain was larger than that to the United States in 1959. Other export increases covered agricultural products such as soya cake and oil, tobacco and butter, offset by reductions in shipments of barley, other grains and beans. Lumber exports fell behind, while positive and negative changes in exports of crude metals and of various types of pulp approximately cancelled one another.

The unfavourable balance on non-merchandise trade with the United Kingdom, which increased \$8 million to \$130 million, continued to originate mainly from interest and dividends, travel, government expenditures and personal remittances. An extension in 1959 of the declining tendency evident in the past several years in the surplus on freight and shipping and increases in net payments for travel and on income account were compensated by larger transfers of legacies and immigrants' funds, smaller defence expenditures in the United Kingdom and the non-recurrence in 1959 of special government tax refunds.

The sharpest change in the bilateral pattern of trade in 1959 took place in the case of the "other countries", whose current account deficit jumped \$217 million from \$59 million to \$276 million. Most of this rise with this group of countries was concentrated in merchandise trade, where there was a turnaround of \$178 million from a surplus of \$128 million to a deficit of \$50 million. This singular development resulted from a decline of \$33 million in exports combined with a rise in imports of \$145 million. Within the "other countries" group, the change was focussed on the OEEC countries and their dependent territories, whose commodity surplus dropped about \$150 million to an estimated amount of \$40 million, and to a lesser degree on the rest of the Sterling Area, whose visible surplus was nearly halved from \$87 million to \$46 million. In contrast, the trade deficit for the residual group of countries declined from approximately \$150 million to about \$135 million, with exports growing more than imports.

Summary of Current Account Balances between Canada  
and the Principal Countries and Areas, 1950 - 1959

<u>Country or area</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>Change in 1959</u>
	(millions of dollars)										
United States	-400	-951	-849	-904	-807	-1,035	-1,639	-1,568	-1,134	-1,236	-102
United Kingdom	+ 24	+223	+388	+133	+229	+ 330	+ 252	+ 138	+ 108	+ 52	- 56
Other Sterling Area	- 23	- 24	+114	+ 83	+ 44	+ 60	+ 48	+ 9	+ 65	+ 12	- 53
Other OEEC countries and overseas territories	+108	+223	+332	+173	+ 93	+ 24	+ 17	+ 21	+ 13	- 149	-162
Other Countries	- 43	+ 12	+179	+ 72	+ 9	- 77	- 44	- 24	- 137	- 139	- 2
All Countries	-334	-517	+164	-443	-432	- 698	-1,366	-1,424	-1,085	-1,460	-375

Merchandise exports to the OEEC countries fell \$72 million, while imports from this group advanced a little more. The fact that the large special exports of military aircraft to Germany and Belgium were not maintained in 1959 more than accounted for the whole loss. Taking the group as a whole, other commodities whose export was lower in 1959 comprised wheat, seeds, semi-processed iron products and copper ingots. Exports increased in the cases of aluminum in primary forms, nickel, milled asbestos fibres, drugs and chemicals. The substantial growth in imports was accounted for partly by commodities such as passenger automobiles and other consumer goods, rolling mill products and other industrial materials. As there was a large deficit from non-merchandise transactions with the OEEC countries a substantial current account deficit with the area estimated at \$149 million resulted in contrast to surpluses characteristic in earlier years.

Increases in merchandise exports to other countries included an amount of \$35 million to Japan, \$15 million to Poland, and smaller amounts to Czechoslovakia and Iraq, while exports to Brazil, the U.S.S.R. and China declined moderately. Export gains to Japan comprised among other commodities wheat, wheat flour, seeds, pulp, metals and minerals, while increases to Poland were largely represented by wheat, barley, seeds, hides and aluminum. Increases in imports from Japan were estimated to be of a somewhat smaller magnitude than those for exports. Rising imports from Mexico, El Salvador, Ecuador, Peru and Panama were in total offset by lower imports from Venezuela, Cuba and Honduras. Imports from Iran were substantially more and those from Arabia tended to be higher.

Capital movements

Movements of capital for direct investment, portfolio stocks and bonds, and official loans and long-term investments, were somewhat larger in total than in 1958 but their growth failed to keep pace with Canada's rising deficit on current account. As a result they were adequate to finance only



71 per cent of the deficit on current account in 1959, compared with 93 per cent in 1958. Canada incurred a deficit on current account in nine of the fourteen years since World War II. Only in 1955 was a lower percentage than in 1959 met by net capital inflows in the long-term forms mentioned. That year the deficit was less than half the size it was in 1959, and the capital inflow in short-term and miscellaneous forms was smaller in amount than in 1959.

In general, the seasonal pattern characteristic of recent years continued. More than half of the current account deficit, but relatively less of the capital inflow in the long-term forms, occurred in the first half of the year. The relative difference increased in 1959 compared with 1958 and 1957. In 1959 some 59 per cent of the current account deficit occurred in the first half, while 49 per cent of the inflows in long-term forms occurred in this period. In 1958, 55 per cent of the deficit and 53 per cent of the capital inflows in long-term forms occurred in the first half, and the relative difference was smaller than in most recent years.

Capital inflows taking the form of increases in the outstanding net external long-term debt of the various levels of government in Canada rose again in 1959 both in absolute terms and relatively. At the same time, despite the greatly increased current account deficit, the net inflows in other long-term forms, mainly business investment, contracted. These trends have been characteristic of the Canadian balance of payments for several years and are shown clearly in the following table. (It may be noted that the figure for governments in 1959 takes account of the gold portion of Canada's increased quota in the International Monetary Fund; excluding that transaction, which was financed directly by a transfer from official holdings of gold regarded as short-term, the increase of net external long-term debt of governments would have been \$505 million.)

Changing Character of Capital Movements

	1955	1956	1957	1958	1959	1955	1956	1957	1958	1959
	(millions of dollars)					Percentage				
Transactions with non-residents affecting:										
Net external long-term debt of Canadian governments(1)	- 173	291	217	323	446	- 25	21	15	30	30
Foreign direct and portfolio investment in Canadian concerns	614	1,082	1,104	734	676	88	79	77	67	46
Canadian long-term investments abroad excluding investments by governments (increase,-)	- 80	- 102	- 62	- 45	- 81	- 11	- 7	- 4	- 4	- 5
Other external liabilities, net	337	95	165	73	419	48	7	12	7	29
Total capital inflow	698	1,366	1,424	1,085	1,460	100	100	100	100	100

(1) Increase in holdings by non-residents of Government of Canada, provincial and municipal bonds, less net repayments on intergovernmental loans and subscriptions in gold and foreign currencies to international financial organizations.

Geographically about 80 per cent of the net capital inflows in long-term forms during 1959 came from the United States.(1) In amount as well as in percentage terms this was about the same as in 1958. Net inflows from the United Kingdom represented about 10 per cent of the movement in 1959 compared with about 15 per cent in 1958. The change reflected on balance two developments, the completion in 1958 of repayments of the Canadian loan of 1942, and unusually large outflows from Canada in 1959 for direct investment in the United Kingdom. Net inflows in long-term forms from other overseas countries, on the other hand, were larger in 1959 for both direct and portfolio security investments, and there were no large extensions of intergovernmental loans. As a result the amount and the proportion of the net long-term inflow attributable to these countries rose sharply.(2)

(1) Canada's increased quota in the International Monetary Fund has not been regarded as a transaction with the United States in this calculation.

(2) The preceding paragraphs distinguish only the long-term types of movement listed; there are normally some movements in other long-term forms included in "other capital movements", details of which are not yet available for 1959.

The net movement of foreign capital to Canada for direct investment in foreign-controlled enterprises during 1959 is estimated to have totalled \$500 million. This compares with a revised figure of \$420 million for 1958. It was exceeded only in 1957, and in 1956 when a record of \$583 million was established. Some special factors contributed to the high level in 1959, and must be taken into consideration in assessing its significance.

Capital movements for direct investment include a great variety of transactions, large and small, inwards and outwards, recurring and non-recurring. They include funds to finance capital formation in Canada involving the use of Canadian labour, machinery and equipment. They include the financing of machinery and equipment imported from outside of Canada, ranging from small components to massive installations of custom built equipment. They include the acquisition from residents of existing assets, such as land, or buildings, or going concerns. They include the provision of working capital to finance inventory accumulation, receivables from customers, etc. The net movement in 1959 reflected all of these things. A few undertakings accounted for some \$200 million of the total, half covering non-recurring transactions, and half the peak level of some major developments. While some parent companies were supplying additional capital to finance expansion in Canada, others found that the funds generated in Canada from earnings, depreciation, etc., were greater than their foreseeable needs in this country and there was some significant return of capital from Canada.

It is never possible to measure precisely the part of direct investment inflows devoted to new capital formation or investment in a physical sense. While some transfers occur specifically for the purpose of acquiring existing concerns, property, etc., others represent only an additional source of financing for active companies which are constantly acquiring or disposing of existing interests, or are shifting the nature of their financial liabilities, from one form to another, in accordance with changing circumstances. Despite difficulties of measurement, there is evidence that most if not all of the increased net movement to Canada in 1959 of foreign direct investment capital was of this special character.

Geographically nearly three-quarters of the net movement is estimated to have been from the United States, with the remainder originating as to about two-thirds from the United Kingdom and one-third from other overseas countries. The largest part of the increase over 1958 was in net inflows from the United States, with a significant and relatively larger increase in the net movement from overseas countries other than the United Kingdom.

For the second successive year there was a reduction in the net inflow of foreign direct investment capital to the petroleum and natural gas industry in Canada. This no doubt reflected the moderation in rate of growth undertaken by the industry. However, the drop in inflows to the petroleum and natural gas industry was more than offset by increased inflows for mining. Some of the new major developments in mining probably reached in 1959 a peak level of capital expenditure. Together petroleum, natural gas and mining appear to have accounted for more than half the net movement. This was smaller than in 1958. About a quarter was represented by investment in manufacturing concerns, but a substantial part of it represented the purchase by non-residents of existing interests in the field of automobiles and sugar. Other significant inflows occurred for investment in financial concerns, property, etc.

The capital inflow for direct investment was about equal in the two halves of 1959, but the special transactions already referred to affected this timing. Excluding these, there appears to have been some increase in the rate of inflow in the last half of 1959.

Preliminary estimates of the movement of capital for direct investment abroad indicate a net outflow of \$60 million in 1959, which compares with a revised estimate of \$48 million for 1958. As in the case of foreign direct investment in Canada, the net movement embraced a diverse mixture of transactions. Acquisitions and disposals of existing assets were, however, of relatively greater importance, among them being the purchase of manufacturing undertakings in the United Kingdom, and the sale of petroleum interests in the United States.

Portfolio security transactions were again by far the largest source of foreign capital in 1959, supplying an amount equivalent to 43 per cent of the deficit on current account. The net inflow of \$627 million, arising from nearly \$3,000 million of transactions, was slightly larger than the total of \$610 million recorded for 1958 but in that year the current account deficit was much smaller and security transactions led to an inflow equivalent to 56 per cent. Even larger amounts of capital were imported in this form in 1956 and 1957, and in the four year period the net capital inflow from security transactions has totalled \$2,727 million. Transactions in 1959 included net sales to non-residents of \$208 million of outstanding Canadian securities and \$662 million of new issues, offset by retirements of \$222 million of foreign-held Canadian securities. In the opposite direction there was a net capital export of \$21 million from all transactions by Canadians in foreign securities.



The figures for 1959 reveal increased reliance by Canada on foreign investors to supply portfolio security capital. The foreign savings made available to Canada through sale of Canadian stocks and bonds in 1959 were equivalent to about 40 per cent of the net new supply of such securities. In 1958, when the Government of Canada was a substantial borrower of funds in Canada, sales to non-residents were equivalent to about 19 per cent of the new supply. Excluding Government of Canada direct and guaranteed issues, the percentage in 1958 was 28. Non-resident acquisitions of securities of provincial and municipal governments and of corporations, taken as a group, were larger in 1959 than in 1958, notwithstanding the fact that the net new issues of such securities were smaller.

The overall movement of portfolio security capital in 1959 came 75 per cent from the United States, 6 per cent from the United Kingdom, and 19 per cent from other overseas countries. In 1958 the proportion from the United States was 87 per cent and that from the other overseas countries 7 per cent.

The capital inflow of \$208 million produced by trade in outstanding Canadian securities was the largest since 1950. It included on balance \$96 million of Canadian bonds and debentures and \$112 million of Canadian stocks. There were net sales of outstanding bonds and debentures in every month except one, and their total was also the largest since 1950. In 1958 there was no net movement from trading in bonds, and in 1957 trading resulted in a repurchase balance of \$45 million. Net sales to non-residents during 1959 of \$119 million of Government of Canada direct and guaranteed issues were offset to the extent of \$23 million by net repurchases of issues of other Canadian debtors, some of which may reflect transactions of sinking funds. The capital inflow of \$112 million produced by net sales to non-residents of outstanding Canadian common and preference stocks was larger than the figure of \$88 million recorded in 1958 but was smaller than in the other years since 1953. There were net sales of outstanding Canadian stocks in every month of 1959; in the past six years there have been only four months in which a sales balance did not occur.

Taken as a whole, trade in outstanding Canadian securities produced \$66 million in the first quarter of 1959, the largest quarterly balance since 1956. This fell to \$50 million in the second quarter, \$58 million in the third, and \$34 million in the last quarter of the year.

Canada received \$662 million from the sale of new issues of Canadian securities to non-residents in 1959. This represented a decrease of \$15 million compared with 1958, and was also smaller than for the two preceding years, although substantially larger than for earlier post-war years. Gross new corporate issues dropped to \$132 million, less than half the total for 1958, or about one-quarter of the level for the preceding year. In both 1957 and 1958, however, there was a significant volume of deliveries of pipe line bonds sold earlier. On the other hand sales to non-residents of new issues of governments rose to \$530 million in 1959, increasing by one-third over the previous year.

Retirements of foreign-held Canadian securities totalled \$222 million in 1959, compared with \$158 million in 1958. Much of the increase covered Government of Canada issues. This is the largest figure for retirements for many years. It is no doubt a reflection of the growing volume of funded debt outstanding in the hands of non-residents. Since retirements required by the operation of sinking funds may often be satisfied through the surrender of bonds acquired in the market, it may be surmised that in addition some current retirements took the form of repurchases of outstanding securities.

Transactions in foreign securities gave rise to a net capital outflow of \$21 million in 1959. There were net purchases by Canadians of \$18 million of outstanding foreign issues. The only other year since the end of World War II in which Canadians added to their holdings of foreign securities through purchases of outstanding issues was in 1948 when there was a net outflow of \$7 million. Net purchases occurred in each quarter of 1959 and largely represented, on balance, the purchase of foreign bonds. Canadians also purchased \$11 million of new issues of foreign securities but \$8 million of existing Canadian-owned issues were retired.

Additional comment and statistical detail on movements of portfolio capital, including quarterly figures classified by debtor and statistics covering sales contracts and deferred deliveries to United States residents of new issues of Canadian bonds, will be found in the DBS report "Sales and Purchases of Securities between Canada and Other Countries, December 1959, and Review of Security Trading during 1959" (DBS Catalogue No. 67-002).

Canadian aid abroad in 1959 in the form of loans to overseas governments consisted of \$1 million credit extended to Ceylon and to India to finance the purchase of Canadian wheat and flour. In the previous year credits totalling \$34 million were extended for this purpose. Repayments of principal on earlier intergovernmental loans totalled \$34 million, including amounts from the United Kingdom, Belgium, France, the Netherlands, and Norway; the repayment by Norway was the final payment on a loan of \$23 million made between 1945 and 1948. In 1958 repayments to Canada totalled \$64 million, but that total included \$30 million repaid on the loan of 1942 to the United Kingdom which had been fully repaid by the end of the year. In addition to the principal repayments Canada received

in 1959, \$33 million of interest on intergovernmental loans; this is a part of the item in the current account covering Canada's receipts from interest and dividends.

Summary of Capital Movements, 1956 to 1959

(millions of dollars)

	1956	1957	1958	1959	Change in movement 1959 from 1958
Direct investment in Canada	+ 583	+ 514	+ 420	+ 500	+ 80
Direct investment abroad	- 104	- 68	- 48	- 60	- 12
Canadian securities:					
Trade in outstanding bonds	+ 11	- 45	-	+ 96	+ 96
Trade in outstanding stocks	+ 188	+ 137	+ 88	+ 112	+ 24
New issues	+ 667	+ 798	+ 677	+ 662	- 15
Retirements	- 141	- 133	- 158	- 222	- 64
Foreign securities	+ 2	+ 6	+ 3	- 21	- 24
Loans by Government of Canada:					
Drawings	-	-	- 34	- 1	+ 33
Repayments	+ 69	+ 50	+ 64	+ 34	- 30
Subscriptions in gold and U.S. dollars to IFC and IMF	- 4	-	-	- 59	- 59
Canadian dollars holdings of foreigners	- 24	- 35	+ 106	+ 13	- 93
Official holdings of gold and foreign exchange (increase, -)	- 33	+ 105	- 109	+ 70	+ 179
Other capital movements	+ 152	+ 95	+ 76	+ 336	+ 260
Net capital movement financing current account deficit	+1,366	+1,424	+1,085	+1,460	+ 375

During the year an amendment to the Bretton Woods Agreements Act was passed providing for an increase in Canada's quota in the International Monetary Fund and subscription to the International Bank for Reconstruction and Development. There were general increases of 50 per cent in the quotas for the IMF and of 100 per cent in the subscriptions to the IBRD. Canada was among the countries for which special increases exceeding these percentages were recommended. As a result, Canada's quota in the IMF was raised from \$300 million to \$550 million, and its subscription to the IBRD from \$325 million to \$750 million, all of these amounts being expressed in United States funds. The increased quota for IMF involved the payment of U.S. \$62.5 million in gold, and U.S. \$187.5 million in Canadian funds. A capital outflow of \$59 million appears in the balance of payments in the fourth quarter, representing the Canadian dollar equivalent of the payment in gold. (The impact of this payment on Canada's official holdings of gold and foreign exchange is a capital inflow in that item). Since it has been the practice to record quota and subscription payments in Canadian funds to these institutions, with changes in short-term Canadian dollar holdings by them, in the item "other capital movements" the payment in Canadian dollars to the IMF has no immediate effect on the balance of payments statement. Canada's increased subscription to the IBRD will involve payment of \$1 million in gold or United States dollars, and \$9 million in Canadian funds, with the remainder of \$415 million to remain on call to serve as an increased guarantee of IBRD obligations; this transaction had not been completed at the end of 1959.



Canadian dollar holdings by non-residents are estimated to have risen by \$13 million over the year as a whole. There were, however, much more significant changes over the course of the year. A decline of \$12 million in the first quarter of the year was followed by increases of \$46 million and \$22 million in the second and third quarters respectively. These capital inflows were reversed as to \$43 million in the final quarter of the year. Transactions by non-residents in Canadian Treasury Bills were an important contributor to these changes. During the year non-residents purchased \$369 million of these instruments. Most matured or were repurchased by Canadians during the year, and net holdings by non-residents rose by only \$14 million. In the five months from April to August, however, there occurred a net capital inflow of \$89 million for the purchase of bills, followed by a net outflow of \$75 million in the succeeding four months. On a quarterly basis there were inflows of \$63 million and \$1 million in the second and third quarters, and an outflow of \$50 million in the final quarter. Further details and discussion on interest arbitrage movements of capital will be found in the report "Sales and Purchases of Securities Between Canada and Other Countries, December 1959, and Review of Security Trading during 1959."

There was a net capital inflow of \$70 million in 1959 reflecting changes in Canada's official holdings of gold and foreign exchange. An inflow of \$49 million in the first quarter through a reduction of official holdings was followed by outflows of \$43 million and \$3 million as holdings were increased in the second and third quarters. There followed an inflow of \$67 million in the final quarter of the year. As has been seen \$59 million of this reflected the reduction of holdings resulting from payment of Canada's increased quota in the International Monetary Fund. This quota might be regarded as a second line of reserve. Official holdings of gold and United States dollars fell from \$1,939.1 million, expressed in United States funds, at the beginning of the year, to \$1,869.2 million at the end. The highest level of month-end holdings was reached in September when the total was \$1,938.3 million.

The category "other capital movements" shows a net inflow totalling \$336 million in 1959. The year was the first in the decade covered by official quarterly estimates of the capital account in which inflows appeared each quarter in this item, although in 1952, when special influences were at work, there were recurrent outflows. While some components of the category in 1959 have been identified, a substantial part represents the balancing item between the estimates at this time of the current account deficit and measured capital inflows. Available quarterly measures of many short-term receivables and payables and of international banking movements are limited in concept or coverage, and it is possible now only to surmise the significance of the large balance in 1959. Among the measured components there appears to have been a large outflow in the last half of the year to cover increased holdings of foreign exchange by Canadians. There were inflows of the order of \$65 million in the form of borrowings by Canadian finance and loan companies, largely in the latter part of the year, and there was also evidence of a significant increase in short-term Canadian commercial indebtedness in the final quarter.

The Canadian dollar continued to be in strong demand in the world's exchange markets in 1959. The price of the United States dollar in Canada fell from 96.44 cents at the end of 1958 to 95.22 cents at the end of 1959, the lowest year-end quotation for many decades. It moved through a high of 98.19 cents in February and a low of 94.56 cents in November, a trading range which was slightly wider than in 1958. In general the exchange value of the United States dollar in Canada rose until mid-February, then declined for more than eight months. A sharp rise of about one cent occurred in mid-November but was not sustained. The average noon rates from March to October were each lower than for the preceding month. The successive quarterly averages were 97.05 cents, 96.17 cents, 95.45 cents and 94.97 cents. The noon average for the year as a whole of 95.90 cents compared with 97.06 cents in 1958, and was about the same as in 1957.

#### Balance of indebtedness

Canada's net balance of international indebtedness is estimated to have risen from \$13.5 billion at the end of 1958 to about \$15.4 billion at the end of 1959. At this figure, it has more than doubled in the last five years, tripled in the last seven years, and quadrupled in the decade. The increase reflects not only the movements of capital which served to finance Canada's current account deficit, but also the retained earnings on both direct and portfolio investment, in Canada and abroad, and the effects of migration, exchange rate and other valuation changes, etc. Canada's gross liabilities were \$24.0 billion at the end of 1959. This amount included \$11.9 billion of foreign direct investment in Canada and \$8.7 billion of other foreign long-term investment in Canada, a total of \$20.6 billion for foreign long-term investment in Canada, as well as \$3.4 billion of other liabilities such as the equity of non-residents in Canadian assets abroad and short-term liabilities of various sorts. Canada's gross external assets of \$8.6 billion included \$3.3 billion of private long-term investments abroad, \$2.1 billion of Government loans and subscriptions to international financial organizations, and \$3.2 billion of other short-term assets including official holdings of gold and foreign exchange, private and banking holdings of foreign exchange, and receivables.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1959 are preliminary and

		1957	1958			
		IV	I	II	III	IV
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted) .....	1,284	1,088	1,277	1,218	1,307
3	Gold production available for export .....	50	44	39	39	38
4	Travel expenditures .....	59	32	76	186	55
5	Interest and dividends .....	58	31	34	29	72
6	Freight and shipping .....	103	98	102	98	103
7	Inheritances and immigrants' funds .....	23	18	27	26	20
11	All other current receipts .....	85	94	88	85	99
12	<b>Total Current Receipts</b> .....	<b>1,662</b>	<b>1,405</b>	<b>1,643</b>	<b>1,681</b>	<b>1,694</b>
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted) .....	1,292	1,151	1,354	1,206	1,349
4	Travel expenditures .....	105	100	140	191	111
5	Interest and dividends .....	173	116	133	141	196
6	Freight and shipping .....	120	95	114	127	124
7	Inheritances and emigrants' funds .....	44	29	36	39	41
9	Official contributions .....	17	11	16	12	11
11	All other current payments .....	164	170	173	163	159
12	<b>Total Current Payments</b> .....	<b>1,915</b>	<b>1,672</b>	<b>1,966</b>	<b>1,879</b>	<b>1,991</b>
	Balance on Merchandise Trade .....	- 8	- 63	- 77	+ 12	- 42
	Balance on Other Transactions, excluding B 9 .....	- 228	- 193	- 230	- 198	- 244
	Official Contributions .....	- 17	- 11	- 16	- 12	- 11
<b>C</b>	<b>Current Account Balance</b> .....	<b>- 253</b>	<b>- 267</b>	<b>- 323</b>	<b>- 198</b>	<b>- 297</b>
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada .....	+ 128	+ 93	+ 94	+ 103	+ 130
2	Direct investment abroad .....	- 8	- 20	- 23	+ 6	- 11
	Canadian Securities					
3a	Trade in outstanding bonds and debentures .....	- 16	- 2	- 12	- 7	+ 21
3b	Trade in outstanding common and preference stocks .....	+ 6	+ 3	+ 17	+ 35	+ 33
4	New issues .....	+ 85	+ 179	+ 295	+ 102	+ 101
5	Retirements .....	- 30	- 30	- 50	- 27	- 51
	Foreign Securities					
6	Trade in outstanding issues .....	+ 8	+ 4	- 1	+ 3	+ 7
7	New issues .....	- 7	- 4	- 7	- 2	- 4
8	Retirements .....	+ 2	+ 2	+ 1	+ 2	+ 2
	Loans by Government of Canada					
9	Drawings .....	-	- 16	- 8	-	- 10
10,11	Repayments .....	+ 17	+ 7	+ 17	+ 7	+ 33
13	Subscriptions in gold and U.S. dollars to IBRD, IFC and IMF .....	-	-	-	-	-
14	Change in Canadian dollar holdings of foreigners .....	+ 18	- 16	+ 41	+ 90	- 9
16	Change in official holdings of gold and foreign exchange (increase, minus) .....	+ 61	- 39	- 52	+ 32	- 50
17	Other capital movements .....	- 11	+ 106	+ 11	- 146	+ 105
<b>E</b>	<b>Net Capital Movement</b> .....	<b>+ 253</b>	<b>+ 267</b>	<b>+ 323</b>	<b>+ 198</b>	<b>+ 297</b>

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 transactions, and business services.



## BALANCE OF INTERNATIONAL PAYMENTS

data for 1958 are subject to revision.

1959				Annual Totals				
I	II	III	IV	1956	1957	1958	1959	
(millions of dollars)								
1,061	1,355	1,286	1,450	4,837	4,909	4,890	5,152	A 1
37	40	33	37	150	147	160	147	3
33	87	222	55	337	363	349	397	4
27	41	37	65	142	154	166	170	5
98	110	98	105	457	445	401	411	6
18	29	31	22	99	124	91	100	7
91	94	103	92	442	388	366	380	11
1,365	1,756	1,810	1,826	6,464	6,530	6,423	6,757	12
1,215	1,545	1,364	1,414	5,565	5,488	5,060	5,538	B 1
117	140	213	119	498	525	542	589	4
136	156	149	215	523	587	586	656	5
98	128	141	139	502	515	460	506	6
31	39	42	43	115	157	145	155	7
9	22	22	18	30	37	50	71	9
170	173	178	181	597	645	665	702	11
1,776	2,203	2,109	2,129	7,830	7,954	7,508	8,217	12
- 154	- 190	- 78	+ 36	- 728	- 579	- 170	- 386	
- 248	- 235	- 199	- 321	- 608	- 808	- 865	-1,003	
- 9	- 22	- 22	- 18	- 30	- 37	- 50	- 71	
- 411	- 447	- 299	- 303	-1,366	-1,424	-1,085	-1,460	C
+ 80	+ 170	+ 85	+ 165	+ 583	+ 514	+ 420	+ 500	D 1
- 20	- 10	- 20	- 10	- 104	- 68	- 48	- 60	2
+ 34	+ 16	+ 33	+ 13	+ 11	- 45	-	+ 96	3a
+ 32	+ 34	+ 25	+ 21	+ 188	+ 137	+ 88	+ 112	3b
+ 178	+ 108	+ 205	+ 171	+ 667	+ 798	+ 677	+ 662	4
- 37	- 73	- 54	- 58	- 141	- 133	- 158	- 222	5
- 1	- 9	- 4	- 4	+ 20	+ 24	+ 13	- 18	6
- 2	- 2	- 1	- 6	- 18	- 24	- 17	- 11	7
+ 2	+ 2	+ 2	+ 2	-	+ 6	+ 7	+ 8	8
- 1	-	-	-	-	-	- 34	- 1	9
-	+ 9	-	+ 25	+ 69	+ 50	+ 64	+ 34	10,11
-	-	-	- 59	- 4	-	-	- 59	13
- 12	+ 46	+ 22	- 43	- 24	- 35	+ 106	+ 13	14
+ 49	- 43	- 3	+ 67	- 33	+ 105	- 109	+ 70	16
+ 109	+ 199	+ 9	+ 19	+ 152	+ 95	+ 76	+ 336	17
+ 411	+ 447	+ 299	+ 303	+1,366	+1,424	+1,085	+1,460	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.

The Canadian Balance of International Indebtedness  
(Billions of dollars)

	<u>1945</u>	<u>1949</u>	<u>1952</u>	<u>1954</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
<u>Canadian Liabilities</u>							
Non-resident owned long-term investments in Canada:							
Direct	2.7	3.6	5.2	6.8	10.1	11.0	11.9
Other	4.4	4.4	5.2	5.7	7.4	8.1	8.7
Total	7.1	8.0	10.4	12.5	17.5	19.1	20.6
Other liabilities	0.9	1.3	1.5	1.6	2.4	2.6	3.4
Gross liabilities	8.0	9.3	11.9	14.1	19.9	21.7	24.0
<u>Canadian Assets</u>							
Canadian long-term investments abroad:							
Private	1.3	1.5	2.1	2.5	3.2	3.2	3.3
Government of Canada	0.7	2.4	2.3	2.1	1.9	1.9	2.1
Total	2.0	4.0	4.4	4.6	5.0	5.0	5.4
Official holdings of gold and foreign exchange	1.7	1.2	1.8	1.9	1.8	1.9	1.8
Other assets	0.2	0.3	0.6	0.8	1.2	1.2	1.4
Gross assets	4.0	5.5	6.7	7.2	8.1	8.2	8.6
<u>Canadian net international indebtedness</u>	4.0	3.8	5.1	6.8	11.9	13.5	15.4

Private long-term investments abroad include a substantial equity of non-residents through their ownership of Canadian companies; this equity is included among "other" liabilities. Data for 1958 and 1959 are preliminary.



(Continued)

1940-1941

(Continued)

1940-1941

1940-1941

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