



DOMINION BUREAU OF STATISTICS

OTTAWA - CANADA

Published by Authority of the Hon. George Hees, Minister of Trade and Commerce

\$1.00 per year

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FOURTH QUARTER 1960, AND

PRELIMINARY ESTIMATES FOR THE YEAR 1960

There was a contraction in the imbalance in Canada's current transactions in goods and services with other countries in 1960 to \$1,270 million from a revised estimate of \$1,494 million in 1959. At this level in 1960 the current account deficit was less than in any year in the past half decade except 1958. Capital inflows associated with this imbalance continued to increase the amount by which Canadian liabilities to other countries exceed Canadian assets abroad mainly through the increases in various types of non-resident investments in Canada.

By the end of 1960 Canadian liabilities of all kinds to other countries estimated at \$26.1 billion exceeded the total of Canadian assets abroad of \$9.1 billion by \$17 billion, which compares with net international liabilities of \$15.5 billion at the end of 1959. The principal elements in the liabilities are the foreign long-term investments in Canada with a value estimated at \$22.3 billion in 1960 compared with \$20.8 billion in 1959.

Inflows for direct investment in foreign controlled enterprises rose to new heights but there was a sharp contraction in inflows of portfolio capital. Inward movements in other short-term forms supplied a slightly higher proportion of the financing than in recent years.

The most important single change in the current account in 1960 was the rise in the value of Canadian exports. The increase in receipts from this source was entirely the result of general rises in Canadian exports to overseas countries which rose by 20 per cent in the face of a contraction in exports to the United States. At the same time imports of merchandise were slightly less both from the United States and overseas.

While there was accordingly a sharp decline in the deficit from merchandise trade to \$148 million, there continued to be a large deficit of \$1,122 million from non-merchandise transactions. The latter was at a higher level than ever but the rise of some 5 per cent from the previous year was more moderate than in earlier years. As has been the case over the years the continued growth in imbalance was dispersed over most items and in 1960 the deficit from each of the non-merchandise items (except gold and official contributions) was higher than ever before. One reason the increase was less pronounced than formerly lies in the unusually low level of dividend transfers by subsidiaries to parent companies in the final quarter of the year.

The general economic background affecting the Canadian balance of payments for 1960 was one of divergent trends, overseas and in North America. These are exemplified by the strong demands for Canadian exports originating in the United Kingdom and other countries of Western Europe and elsewhere overseas on the one hand, and the more hesitant economic conditions in the United States and Canada. The effect of the divergent economic trends was, of course, to increase exports to overseas at a time when Canadian exports to the United States were tending to lag and when Canadian imports were no longer showing the tendency to grow so evident during the past decade. Affecting the level of imports more specifically have been such important influences as a reduced scale of business investment in Canada and some reductions in business inventories in part of the year.

The rise of 5 per cent in the current deficit on non-merchandise transactions was less than in preceding years but the large deficit from non-merchandise transactions has been growing substantially each earlier year since 1952, having more than tripled since then. The factors underlying this rise in payments to other countries on account of income and services seem to have been closely related to the general expansion in the Canadian economy during the past decade. This general economic growth was to a large extent made possible by foreign financing of investment activity which has led to a rapid rise in the Canadian balance of international indebtedness. The effects of the latter have been to increase the levels of net transfers of interest and dividends on foreign investments in Canada and to increase payments to parent companies for business services and other current charges. At the same time there have been increasing expenditures abroad by Canadians on services of various kinds and remittances which have been made possible by high levels of incomes in Canada and

Prepared in the Balance of Payments Section, International Trade Division.

also stimulated by the effects of recent migration and increasing personal mobility. These have been for such services as travel, transportation, and a great variety of business services, and there also have been larger remittances for personal and benevolent purposes. And the current outlays abroad by the Canadian Government on defence in the NATO countries and on economic aid and other contributions have been rising.

Developments in the fourth quarter

Following a fairly substantial dip in the current account deficit in the third quarter, the deficit again widened in the last quarter of 1960. The imbalance of \$318 million represented one-quarter of the total for the year of \$1,270 million, and this fourth quarter share compared with those of 19 1/2 per cent and 26 1/2 per cent for the corresponding period of 1959 and 1958. The deterioration of \$23 million in the deficit from \$295 million in the fourth quarter of 1959 to \$318 million was attributable wholly to merchandise trade, with a larger drop in exports than in imports, as a slight reduction took place in the deficit on non-merchandise transactions. This slight improvement in the deficit on "invisibles" was the interaction between a sharp drop in the deficit on the income account (to which reference is made elsewhere in the text) and a higher value of gold production available for export, offset in part by expanding deficits in other non-merchandise accounts.

Contraction in deficit on merchandise trade 1960

There was a sharp contraction in the import balance on merchandise trade from \$423 million in 1959 to \$148 million in 1960 as exports to all countries rose 5 per cent in total while imports fell slightly.

In 1960 the principal change in Canada's commodity trade was the sharp rise in exports to overseas markets at a time when exports to the United States were moderately lower and imports from both the United States and overseas slightly less than in 1959. This is in direct contrast to preceding years when Canadian imports were the more flexible component fluctuating widely in response to changing pressures of Canadian demands, particularly in the case of imports from the United States, while exports, especially to overseas countries, showed relative stability in total over a period of years.

The increasing strength in overseas demands for Canadian exports appeared in the latter part of 1959. Exports overseas continued at high levels throughout 1960 and were at even higher levels towards the end of the year than those prevailing at the beginning of the year. Exports to the United States in contrast started the year at a higher level but by the second quarter a downward trend was evident which continued during the remainder of the year.

The rise in exports overseas which amounted to 20 per cent occurred in trade to most principal markets but was most pronounced to such major markets as the United Kingdom, the countries of the Common Market, Japan, and Australia which together made up most of the total increase. While the largest parts of the increases were in demand for major export staples of primary and semi-processed materials, there were also gains in some manufactured goods particularly to the United Kingdom where restrictions on many imports had been removed. As a result of this trend to overseas countries, the United States took 56 per cent of Canada's exports compared with almost 62 per cent in 1959.

Some of the more substantial rises in exports to all countries occurred in such metals as aluminum, copper, nickel, zinc, primary steel and rolling mill products, and in asbestos and petroleum. Other leading exports like pulp and paper, lumber and chemicals also showed gains but some like iron ore remained close to the level of the previous year. Among impressive gains in manufactured goods were such exports as textiles and non-farm machinery. On the other hand agricultural products dropped, including wheat, other grains and flour, and cattle and dairy products as did shipments of fish, farm implements and uranium.

The relative stability of imports in 1960 is evident in most major groups of commodities and in sources. A small decline in total imports during the year was distributed among different sources including the United States, United Kingdom and Latin America.

Increases in imports in 1960 were usually small and confined to relatively few items some of which were affected by special circumstances. Among the increases were such divergent commodities as vegetables, cotton and textiles, iron ore, crude petroleum, automobiles and deliveries of aircraft. Reductions were more numerous and often relatively small, although drops in petroleum products, tractors and other agricultural implements were comparatively large. On the other hand imports of other kinds of machinery remained high, although some kinds of equipment were lower in the year.

With the export price index being only fractionally higher in 1960 than in 1959 and the average import price level about 1 1/2 per cent higher, the terms of Canada's trade with other countries declined about 1 per cent in 1960, but remained more favourable than in 1957 or 1958. There was a tendency for the degree of rise in the export prices to narrow towards the year end, while that of import prices heightened as the year progressed. Over the whole year, the export prices of non-ferrous metals advanced about 3 1/2 per cent while those of wood products and paper declined more moderately. Average import prices of fibres and textiles appeared to have risen about 7 per cent, while those of non-metallic minerals declined 2 per cent.

Deficit from services and other non-merchandise items

With an increase of \$51 million, the deficit from non-merchandise transactions with other countries stood at the highest recorded level of \$1,122 million. This absolute increase was considerably below those ranging between \$91 million and \$223 million which took place in the period from 1956 to 1959. But at the same time owing to the sharp improvement in the imbalance on merchandise trade during the year, the non-merchandise trade deficit in 1960 represented over 88 per cent of the current account deficit. The deficit from "invisible" transactions accounted in 1956 and in each of the three ensuing years for 47, 59, 84 and 72 per cent of the current account deficit. All the items among non-merchandise transactions, excepting gold production available for export and official contributions, shared in the 1960 growth in the deficit from the "invisibles". Larger deficits in the government account, freight and shipping services and migrants' funds and inheritances resulted in each case from a decline in receipts combined with an increase in payments. Higher increases in payments than in receipts from travel, business services and personal remittances and a larger reduction in receipts than in payments in the income account contributed to a continuing deterioration in the deficits on these accounts.

Following a modest reduction in the receipts of interest and dividends from \$183 million in 1959 to \$175 million in 1960 and in the payments from \$657 million to \$655 million, the deficit on the income account of \$480 million in 1960 represented nearly 43 per cent of the deficit from all non-merchandise transactions. This proportion compared with that of 44 per cent in 1959, about 60 to 65 per cent in the years 1953 to 1956 and over 80 per cent in 1952, when the income account deficit was at a much lower level of \$268 million. Dividend receipts from subsidiaries abroad of certain large manufacturing companies in Canada were lower in 1960, as were the receipts of interest on official loans, but earnings of the Exchange Fund Account rose fairly substantially. A \$28 million advance in interest payments was attributable mainly to sizable net sales of provincial, municipal and corporation bonds in the United States in 1959 and in the first half of 1960. On the other hand, there was a decline of \$30 million in dividend payments, which was concentrated in the last quarter of the year. Remittances of dividends abroad by public companies were moderately higher throughout the year, but absences of or contractions in the amounts remitted by a number of large Canadian companies to their non-resident parents accounted for the fourth quarter drop in dividend payments. This development may probably be related to the reappraisal by corporate decision makers of both the incidence of budgetary changes and the altered exchange value of the Canadian dollar. Indications at the time of writing are that there may be relatively larger payments than usual in the following quarter.

Gains of approximately 6 1/2 per cent in travel receipts from \$391 million in 1959 to \$417 million in 1960 and in tourist payments from \$598 million to \$632 million raised the imbalance on this account slightly to \$215 million, which accounted for 19 per cent of the deficit from all "invisibles". A minor decline from \$420 million to \$415 million in receipts from freight and shipping services together with a marginal gain in payments raised the 1960 deficit to \$111 million, representing 10 per cent of the deficit from all non-merchandise trade. Receipts of migrants' funds and inheritances declined on account of the number of immigrants in 1960 being at a lower level, with smaller per capita funds, than in 1959; but payments of migrants' funds and inheritances increased, accompanying a larger number of emigrants from Canada. Official contributions declined from \$71 million to \$58 million, due mainly to the absence in 1960 of relief shipments of wheat to countries in South-East Asia which were fairly sizable in the two preceding years. In addition there were gifts of canned meat, whole milk powder and other food to other countries, and wheat flour was contributed in the fourth quarter of the year to the food bank plan under the NATO auspices. The deficit from other government transactions rose fairly substantially from a decline in receipts combined with a larger gain in payments. An indicated falling off in United States government expenditures in Canada on defence installations was a factor in lower receipts, while among the causes contributing to enlarged payments in 1960 were higher defence expenditures in the United States and Europe, including a sharp rise in payments under the NATO infrastructure programme, acquisition of real estate for official use, advance payment of the 1961 United Nations assessment and remittance of old age security payments abroad. A marginal increase in receipts and a larger gain in payments for business services contributed to a further small deterioration in the deficit, which in 1960 accounted for 15 per cent of the total imbalance from non-merchandise trade. Finally, an increase of \$13 million to \$161 million in the value of gold production available for export provided a partial offset to the expansion in the deficit.

Transactions by areas

In a bilateral distribution of the positive change of \$224 million in the current account balance between 1959 and 1960, the deterioration with the United States and the improvement with the United Kingdom were offsetting as each amounted to \$136 million; thus the reduction in the deficit with Other Countries of \$224 million equalled the improvement in Canada's current account deficit with all countries. About half of the change with Other Countries was a contraction in the current account deficit with the other Metropolitan OEEC countries.

As a result, while the deficit with the United States widened to \$1,377 million there was a reappearance of a current surplus with all overseas countries as a group of \$107 million compared with the unusual current deficit of \$253 million which emerged in 1959. The leading factor influencing the above changes in current balances by countries was the sharp rise in merchandise exports to the United Kingdom and Other Countries and the contraction in merchandise exports to the United States. But the effect of rising exports overseas was partly offset by a gain in deficit from non-merchandise transactions which was concentrated in the account with Other Countries along with some increase also in the account with the United Kingdom.

An improvement of \$98 million, or 44 per cent of the \$224 million decline in the current account deficit with Other Countries, covered transactions with the other OEEC countries, about another 19 per cent took place with the Rest of the Sterling Area and the remaining 37 per cent with "other countries". Even larger shares of the improvement in the visible balance were concentrated in the trade with the other OEEC countries and "other countries". But since the deficit on non-merchandise trade widened with these two areas, the current account balances did not improve as much. The resulting current account balance in 1960 with other Metropolitan OEEC countries is estimated as a deficit of \$12 million, the deficit of \$230 million on non-merchandise transactions exceeding the surplus of \$218 million on merchandise trade by that amount.

In the trade with the United States, Canadian exports declined \$150 million from \$3,189 million in 1959 to \$3,039 million in 1960, while the total values of imports from the United States were practically unchanged at \$3,727 million and \$3,718 million in the two years. Prominent among reduced shipments were uranium exports which fell over \$40 million, primary aluminum and nickel whose exports each dropped over \$25 million. Further, exports declined between \$10 million and \$20 million in each of the following commodity groups: cattle, lumber, iron ore, farm implements and farm machinery parts. Sales, on the other hand, to the United States of newsprint gained about \$15 million and those of crude petroleum about \$20 million. With respect to imports from the United States (based on incomplete returns for the full year 1960), raw cotton and iron ore each increased about \$25 million, while tractors and parts declined nearly \$40 million and auto parts over \$20 million. Following a slightly higher advance from \$1,179 million to \$1,213 million in other current receipts than in payments from \$1,882 million to \$1,911 million, the deficit on non-merchandise transactions with the United States improved slightly from \$703 million to \$698 million. This imbalance in 1960 represented 51 per cent of the current account deficit, as compared with 57 per cent in the previous year. The references made before in the text to gold production, government account and migrants' funds apply in general to transactions with the United States. A considerably larger increase in the spending of American tourists in Canada than in expenditures by Canadian visitors there, together with a rise in interest and dividend receipts and a decline in dividend transfers by subsidiaries to parent companies in the United States made large positive contributions in 1960 to the non-merchandise trade balance. But on the other hand interest paid to bondholders in the United States rose substantially.

A sharp rise of \$143 million, or over 18 per cent, occurred in exports to the United Kingdom from \$781 million in 1959 to \$924 million in 1960, as compared with more modest gains of \$32 million and \$15 million in 1958 and 1959. In contrast, after advances of \$17 million and \$81 million in these two years, imports from the United Kingdom declined \$9 million in 1960 from \$618 million to \$609 million (including some prepayments). Exports of lumber rose over \$25 million, of newsprint and woodpulp \$16 million, of crude iron and semi-fabricated steel about \$35 million, and of non-ferrous metals, including primary aluminum, copper ingots, nickel and zinc \$56 million. Smaller losses covered exports of grain, canned salmon and uranium. During 1960, it appeared that imports of automobiles increased about \$20 million and purchases of aircraft engines and parts gained more moderately. Declines in imports included some fibres and textiles, electrical apparatus and aircraft frames. Except for increases in the deficit amounting together to \$18 million in the travel and freight and shipping services, the changes which occurred in other non-merchandise transactions with the United Kingdom were more minor and offsetting. In the travel account, the gain in payments was much larger than in receipts; and freight receipts declined, while payments for shipping services were slightly higher.

More than one-half of the growth of \$258 million in exports to Other Countries was attributable to the other Metropolitan OEEC countries, whose imports from Canada jumped \$148 million, or 33 per cent, from \$449 million in 1959 to \$597 million in 1960. At the same time Canadian imports

Summary of Current Transactions with the
United States, United Kingdom and Other Countries, 1959 and 1960
and Change between the Periods

(millions of dollars)

	<u>All Countries</u>			<u>United States</u>		
	1959	1960	Change	1959	1960	Change
<u>Fourth Quarter</u>						
Merchandise exports (adjusted)	1,449	1,393	- 56	882	736	- 146
Merchandise imports (adjusted)	1,423	1,394	- 29	927	918	- 9
Balance on merchandise trade	+ 26	- 1	- 27	- 45	- 182	- 137
Other current receipts	398	396	- 2	268	263	- 5
Other current payments	719	713	- 6	510	483	- 27
Balance on non-merchandise trade	- 321	- 317	+ 4	- 242	- 220	+ 22
Current account balance	- 295	- 318	- 23	- 287	- 402	- 115
<u>Calendar Year</u>						
Merchandise exports (adjusted)	5,149	5,400	+ 251	3,189	3,039	- 150
Merchandise imports (adjusted)	5,572	5,548	- 24	3,727	3,718	- 9
Balance on merchandise trade	- 423	- 148	+ 275	- 538	- 679	- 141
Other current receipts	1,636	1,659	+ 23	1,179	1,213	+ 34
Other current payments	2,707	2,781	+ 74	1,882	1,911	+ 29
Balance on non-merchandise trade	-1,071	-1,122	- 51	- 703	- 698	+ 5
Current account balance	-1,494	-1,270	+ 224	-1,241	-1,377	- 136
	<u>United Kingdom</u>			<u>Other Countries</u>		
	1959	1960	Change	1959	1960	Change
<u>Fourth Quarter</u>						
Merchandise exports (adjusted)	227	240	+ 13	340	417	+ 77
Merchandise imports (adjusted)	164	143	- 21	332	333	+ 1
Balance on merchandise trade	+ 63	+ 97	+ 34	+ 8	+ 84	+ 76
Other current receipts	66	67	+ 1	64	66	+ 2
Other current payments	87	92	+ 5	122	138	+ 16
Balance on non-merchandise trade	- 21	- 25	- 4	- 58	- 72	- 14
Current account balance	+ 42	+ 72	+ 30	- 50	+ 12	+ 62
<u>Calendar Year</u>						
Merchandise exports (adjusted)	781	924	+ 143	1,179	1,437	+ 258
Merchandise imports (adjusted)	618	609	- 9	1,227	1,221	- 6
Balance on merchandise trade	+ 163	+ 315	+ 152	- 48	+ 216	+ 264
Other current receipts	200	203	+ 3	257	243	- 14
Other current payments	347	366	+ 19	478	504	+ 26
Balance on non-merchandise trade	- 147	- 163	- 16	- 221	- 261	- 40
Current account balance	+ 16	+ 152	+ 136	- 269	- 45	+ 224

from the other OEEC countries advanced \$15 million, or 4 per cent. Enlarged exports covered non-ferrous metals, wheat and some chemical products, while small increases in a large number of commodities more than offset a minor decline in imports of passenger cars. Most non-merchandise transactions shared in enhancing the "invisible" deficit by \$35 million. A small loss in receipts and a much larger gain in payments of interest and dividends and in the government account (the NATO infrastructure programme and other defence expenditures) together with a larger rise in payments than in receipts on travel account represented the bulk of the deterioration in the deficit from non-merchandise transactions.

The degree of amelioration in the deficit in transactions with the "other countries" was almost as favourable as that with the other OEEC countries, and the extent of improvement in the current account balance with the Rest of the Sterling Area about one-half that with the "other countries". The development in the latter group followed an increase of more than 10 per cent in exports, a smaller decline in imports and a modest rise in the deficit on non-merchandise trade. In transactions with the Rest of the Sterling Area, exports advanced nearly 20 per cent, adjusted imports less than 10 per cent and the deficit on the "invisibles" declined slightly. In 1960, exports grew \$45 million to Australia and over \$10 million to New Zealand; and increased exports of lumber, newsprint, aluminum and automobile parts to the Rest of the Sterling Area were recorded, while shipments of wheat were down. Imports of bauxite and alumina appeared to be higher in 1960 and those of raw sugar lower. The small decline in the deficit on non-merchandise trade with this group of countries resulted from a fairly pronounced reduction in the official contributions of wheat, which in part was offset by lower dividend receipts. Among the "other countries" group, exports rose \$38 million to Japan, \$12 million to Argentina and \$10 million to Mexico, while shipments to Venezuela were down \$10 million. Imports were lower about \$30 million in 1960 from Mexico, Venezuela and Netherlands Antilles taken together. Small increases in most items among the "invisibles" contributed to the modest rise in the deficit on non-merchandise transactions with the "other countries".

Capital movements

Canada continued to draw heavily on the physical and financial resources of the rest of the world in 1960. The deficit of \$1,270 million in the current account of the Canadian balance of payments showed that far from being able to make any net resources in real terms available to other countries, Canada absorbed resources from other countries, particularly the United States. The deficit arising from Canada's net purchases of goods and services abroad (including contributions by Canada) added to Canada's net external indebtedness.

Movements of capital for direct investment, portfolio stocks and bonds, and official loans and long-term investments, totalled about \$875 million in 1960, adequate to finance about 69 per cent of the current account deficit. In 1959 these movements totalled \$1,088 million, equivalent to 73 per cent of the deficit in that year. These proportions were smaller than in the earlier post-war years in which Canada incurred current account deficits, with the single exception of 1955, but over the post-war period as a whole inflows in long-term forms have been equivalent to all but three per cent of the net current account deficit. The correlation between current account deficits and capital inflows in long-term forms was less marked through 1960 than has been the case for many years past. For the first time in the ten years of current account deficit covered by official quarterly estimates, the proportion of capital inflows in long-term forms which occurred in the first half of the year was greater than the proportion of the current account deficit incurred. About 76 per cent of the inflows in long-term forms occurred in the first half when 64 per cent of the deficit was experienced. In the final quarter of the year these capital inflows were equivalent to only 17 per cent of the deficit; 6 per cent of the inflows occurred in this period, but 25 per cent of the deficit.

Geographically, about 85 per cent of the net capital inflow in long-term forms during 1960 came from the United States. This compared with 84 per cent in 1959. (Neither of these calculations takes into account as a capital movement with the United States Canada's subscription payments in gold or United States dollars to international financial agencies, which would have the effect of reducing to 78 per cent the figure for 1959). About 7 per cent of the movement in long-term forms in 1960 originated with the United Kingdom compared with 9 per cent in 1959; direct investment inflows were higher but there were withdrawals of portfolio capital in contrast to inflows a year earlier. The share of other overseas countries was also smaller, falling to 8 per cent from 12 per cent. As in the case of the United Kingdom direct investment inflows were higher but inflows of portfolio capital fell sharply.

Capital inflows taking the form of increases in the outstanding net external long-term debt(1) of the various levels of government in Canada fell from \$461 million in 1959 to \$191 million in 1960. This group gave rise to the smallest capital inflow in five years, and their share of the total capital movement, 15 per cent, was as small as it has been in this period, falling from 31 per cent in 1959. Foreign direct and portfolio investment in Canadian concerns totalling \$755 million in 1960 was, on the other hand, moderately higher than in 1959 when it amounted to \$713 million, although it did not of course regain the very high levels of well over one billion dollars established in 1956 and 1957. The inflows represented 59 per cent of the net capital movement in 1960, compared with 48 per cent in 1959. Outflows for Canadian long-term investments abroad, excluding investments by governments, totalled \$94 million in 1960 compared with \$113 million in the previous year, while the inflow reflected in all other external liabilities, net, fell slightly to \$418 million in 1960 from \$433 million in 1959. Since the overall capital inflow was smaller, the share of the latter group of transactions rose to 33 per cent from 29 per cent.

The net movement of foreign capital to Canada for direct investment in foreign-controlled enterprises during 1960 is estimated to have totalled \$690 million. This is \$140 million higher than in 1959 and slightly over \$100 million above the largest figure recorded previously. Earlier reports in this series have outlined the difficulties in relating these movements to the financing of new capital formation in Canada. While an appreciable amount of the inflow in both 1959 and 1960 was directed to the acquisition of existing concerns and interests, present indications are that this was no larger in 1960 than in 1959. A few large transactions of this sort are important in the totals, but there are also many small concerns which have been acquired by non-residents and some significant transfers in the opposite direction. During 1960 public announcement was made of plans for a number of mergers or other important corporate changes, some of which would give rise to non-resident control of concerns previously controlled by residents of Canada. Not all of these arrangements had been consummated at the year-end, nor would all of them involve international movements of capital.

The largest part of the net inflow for direct investment, probably amounting to more than a third of the total, was directed to the petroleum and natural gas industry. This was a somewhat higher proportion than in 1959, and is of course much larger in absolute terms. Most of the funds were directed to exploration and development, and to production facilities. Some of the increase covered the acquisition of resident-owned enterprises. The financing of transportation and distribution systems for natural gas was not in relative terms an important factor.

Direct investment to mining concerns showed an even greater growth, and accounted for nearly a third of the net movement. Iron ore projects and ancillary facilities made up the largest part.

Manufacturing concerns were also important areas of direct investment capital in 1960, accounting for about one fifth of the total movement, about one third of it to manufacturers of pulp and paper and other wood products. Although the amount of inflow did not rise significantly over 1959, the proportion directed to the acquisition of existing interests was lower in the more recent year.

Among other sectors attracting direct investment capital were financial institutions, and non-residents acquired important holdings in insurance, investment and real estate companies.

While investments in many hundreds of enterprises contribute to these totals, inflows for investment in a relatively few major enterprises account for a very large part. This tendency has been rising. The eight largest elements accounted for 42 per cent of net direct investment inflows in 1958, 48 per cent in 1959, and 57 per cent in 1960. Most of the substantial increase in direct investment inflows in 1960 originated in the large transactions.

The largest part of the movement occurred in the early part of the year. The inflow in the first quarter was \$210 million and it declined successively over the subsequent quarters to \$175 million, \$175 million and \$130 million. Transfers covering the acquisition of existing assets appear also to have been concentrated in the early part of the year, and they probably accounted for the decline from the extraordinary level of the first quarter to the second. Elimination of these transactions would also indicate a more gentle decline in the other inflows over the rest of the year.

Geographically, the United States accounted for about 77 per cent of the direct investment inflows in both 1959 and 1960. In 1959 the United Kingdom supplied about 16 per cent and other overseas countries about 7 per cent. In 1960 investors in other overseas countries may have increased

(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 agencies.

their share very slightly. The net inflow rose over the year by about 25 per cent. Direct investment inflows from overseas countries other than the United Kingdom showed the greatest relative growth, rising by perhaps more than a third. Inflows from the United Kingdom rose by nearly a fifth, and those from the United States by about a quarter.

Preliminary estimates of the movement of capital for direct investment abroad indicate a net outflow of \$85 million in 1960, which is slightly above the figure of \$80 million recorded for 1959. Movements to the United States, to the United Kingdom, and to other overseas countries all contributed in important amounts to the total. There were outflows for investment in a diverse group of manufacturing and service undertakings.

From 1956 to 1959 portfolio security transactions were the largest medium of capital inflow for the settlement of Canada's deficit from transactions in goods and services. In 1960 inflows for direct investment in foreign-controlled enterprises in Canada re-asserted themselves as Canada's major source of foreign capital.

Transactions in stocks and bonds between Canada and other countries in 1960 gave rise to a net capital inflow of \$218 million. The total value of transactions leading to this balance was \$2.5 billion. The net inward movement in 1960 was much smaller than in the years from 1956 to 1959 when it ranged between \$610 million and \$763 million, but it was larger than in all but two of the ten preceding post-war years. The total value of transactions was also lower than in recent years, the average from 1956 to 1960 having been of the order of \$2.9 billion.

Most of the net movement in 1960 occurred in the first quarter when there were inflows of \$206 million. In the two succeeding quarters the inflows fell to \$91 million and \$6 million respectively, and in the final quarter there was an outflow of \$85 million.

The proceeds of new issues of Canadian securities sold to non-residents amounted to \$397 million, but there were offsetting retirements of \$225 million of foreign-held Canadian securities. Trade in outstanding Canadian securities resulted in a sales balance to non-residents of \$55 million, bringing the net movement from transactions in Canadian securities to \$227 million. In the opposite direction there was a net capital export of \$9 million from all transactions by Canadians in foreign securities.

Foreign savings made available to Canada through the acquisition of Canadian provincial, municipal and corporate securities in 1960 were equal to about 15 per cent of the net new supply of these securities. In 1959 non-resident acquisitions were equal to about 45 per cent of the total. The amount of net new issues by these borrowers was of the same order of magnitude in each year. Canadian investors therefore absorbed a much greater amount of the new offerings of these classes of securities than was the case in 1959. Relatively, Canadian capital supplied a greater proportion of this financing than in any year since 1955, although the actual amount was smaller than in the first three years of this period.

The overall movement of portfolio security capital in 1960 came on balance entirely from the United States. There were outflows to the United Kingdom sufficient to offset the inflows from all other overseas countries. In 1959 residents of the United States accounted for 76 per cent of the very much larger inflow, with residents of the United Kingdom supplying 5 per cent and other overseas countries 19 per cent.

The capital inflow of \$55 million produced by trade in outstanding Canadian securities was made up of \$48 million of common and preference stocks and \$7 million of bonds and debentures reflecting net sales of \$50 million of Government of Canada direct and guaranteed issues, and \$4 million of municipal issues, offset by repurchases of \$39 million of corporate issues and \$8 million of provincial issues. The total of \$201 million for 1959 was made up of \$110 million of stocks and \$91 million of bonds and debentures; net sales of outstanding Government of Canada direct and guaranteed issues were \$68 million higher, accounting for the largest part of the difference in the two years.

Canada received \$397 million from the sale of new issues of Canadian securities to non-residents in 1960. This figure was much below the totals for the four preceding years, but was exceeded only once earlier in the post-war period. The inflows were heavily concentrated in the first half of the year, particularly in the first quarter. There was a notable decline in the sale to non-residents of new provincial issues from \$334 million in 1959 to \$102 million in 1960, and a somewhat smaller decline in the sale to non-residents of new municipal issues, from \$158 million to \$122 million. Sales of new Government of Canada direct and guaranteed issues fell from \$56 million to \$31 million, and sales of new corporate bonds and stocks fell from \$159 million to \$142 million.

This four page insert may be detached and kept with the 1959 Annual Report. It is suggested that a reference to it be made against Tables XII, XIV, XV and XVI.

Supplement to
Catalogue No.
67 - 201

A Supplement to "THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS,
1959, AND INTERNATIONAL INVESTMENT POSITION"

Since "The Canadian Balance of International Payments, 1959, and International Investment Position" went to press, additional statistical material has become available which brings forward and extends the data covered in this report. The material is contained in statements on the following pages.

Foreign Ownership and Control of Canadian Industry

Estimates of the book value of total investment in selected Canadian industries have now been completed for the end of 1958, and permit the calculation of ratios of foreign ownership and control at that date. As in 1956 and 1957 more than half of the increases in the book values of the manufacturing industry, the petroleum and natural gas industry, and mining and smelting, were reflected in increased non-resident ownership and control.

The ownership of Canadian manufacturing by residents fell during 1958 by one per cent to 49 per cent at the end of the year while the capital controlled by residents also fell one per cent to 43 per cent. Canadian ownership of the petroleum and natural gas industries remained relatively unchanged at 36 per cent, while control increased by one per cent to 25 per cent; Canadian ownership and control are much more important elements in natural gas distribution and marketing systems than in petroleum. Canadian ownership of the mining and smelting industry was unchanged at 44 per cent and control appears to have increased by one per cent to 40 per cent. Taking into account also railways, other utilities, merchandising, and construction, which are predominantly Canadian owned and controlled, non-resident ownership and control of the industries covered remained unchanged over the year at 34 per cent and 32 per cent respectively.

Another statement appearing overleaf gives additional industrial detail at the end of 1958. It should be emphasized that these statistics are constructed from a wide variety of sources, and some individual changes may reflect statistical short-comings arising from various accounting and reporting practices. Since the data are based partly upon consolidated financial statements, the entire investment in Canada of a corporation and its subsidiaries must normally be attributed to one activity. Thus, for example, the agricultural implements industry as shown includes enterprises also engaged in the manufacture of other heavy equipment; the proportions of capital actually engaged in the manufacture of agricultural implements only could therefore be different from the proportions shown for the group of enterprises in their entirety.

Distribution of Ownership of Net Canadian Long-Term Funded Debt, 1954 and 1959

The statement on page 4 of this Supplement provides a detailed classification of the estimated distribution of ownership of Canadian long-term funded debt by currency of payment at the end of 1954 and 1959 (net of sinking funds). Over the five year period, outstanding funded debt is estimated to have risen by 34 per cent to \$32 billion. About 14 per cent of this overall total, and about 23 per cent of the funded debt other than Government of Canada direct issues, provide for payment solely or optionally in foreign currency. Non-resident ownership rose in the five year period by 52 per cent to \$5.8 billion, accounting for 4 per cent of outstanding Government of Canada debt, 28 per cent of both provincial debt and municipal debt, 24 per cent of railway debt and 30 per cent of other corporate debt. This was 18 per cent of all funded debt or 29 per cent of all funded debt except Government of Canada direct issues.

Foreign Ownership and Control of Canadian Industry

TABLE III

Non-Resident OWNERSHIP
as a percentage of
selected Canadian
industries

TABLE XIV

Non-Resident CONTROL
as a percentage of
selected Canadian
industries

Industry classification	1957	1953	1957	1953
Percentage of total owned or controlled by all non-residents:				
Manufacturing	50	51	56	57
Petroleum and natural gas	64	64	76	75
Mining and smelting	56	56	61	60
Railways	30	29	2	2
Other utilities	14	14	5	5
Total of above industries and merchandising	34	34	32	32
Percentage of total owned or controlled by United States residents:				
Manufacturing	39	40	43	44
Petroleum and natural gas	57	52	70	69
Mining and smelting	46	47	52	51
Railways	11	10	2	2
Other utilities	11	12	4	4
Total of above industries and merchandising	26	26	27	26

TABLE IV Ownership and Control of Selected Canadian Industries, End of 1958

Company classification	Esti- mated Total Invest- ment	Investment owned in:			
		Canada	United States	United Kingdom	Other Coun- tries
millions of dollars					
Manufacturing:					
Beverages	435	320	99	14	2
Rubber	184	26	145	13	-
Textiles	605	470	73	60	2
Pulp and paper	1,700	799	760	129	12
Agricultural machinery	201	130	71
Automobiles and parts	382	83	297	1	1
Transportation equipment n.o.p.	275	116	69	90	-
Primary iron and steel	615	463	90	57	5
Electrical apparatus	504	139	312	36	17
Chemicals	993	376	444	146	27
Other	5,100	2,437	2,078	428	161
Sub-total	10,994	5,359	4,434	974	227
Petroleum and natural gas	4,980	1,793	2,866	134	187
Mining:					
Smelting and refining of non-ferrous native ores	880	397	359	68	56
Other mining	2,066	892	1,027	103	44
Sub-total	2,946	1,289	1,386	171	100
Total of above industries	18,920	8,441	8,686	1,279	514

IMPORTANT NOTE: The footnotes and qualifications given in the annual report are applicable to all these data. Data for some earlier years will also be revised.

TABLE XVI Estimated Book Value, Ownership and Control of Capital Employed in Selected Canadian Industries, End of 1958

billions of dollars

Industry classification	Total Capital Employed	Resident Owned Capital	Non-Resident Owned Capital
Manufacturing	11.0	5.4	5.6
Petroleum and natural gas	5.0	1.8	3.2
Other mining and smelting	2.9	1.3	1.7
Railways	4.9	3.5	1.4
Other utilities	8.2	7.0	1.1
Merchandising and construction	8.5	7.7	0.8
Total of above	40.5	26.7	13.8

Industry classification	United States Owned Investments	Total Canadian and External Investment in Companies Controlled Outside Canada	Total Canadian and External Investment in Companies Controlled in the United States
Manufacturing	4.4	6.3	4.8
Petroleum and natural gas	2.9	3.8	3.5
Other mining and smelting	1.4	1.8	1.5
Railways	0.5	0.1	0.1
Other utilities	0.9	0.4	0.3
Merchandising and construction	0.5	0.7	0.5
Total of above	10.7	13.1	10.7

Total Canadian and external capital in companies controlled in:			Percentage of capital employed owned in:				Percentage of capital employed controlled in:		
Canada	United States	Elsewhere outside Canada	Canada	United States	United Kingdom	Other Countries	Canada	United States	Elsewhere outside Canada
millions of dollars									
375	55	5	74	23	3	-	86	13	1
4	165	15	14	79	7	-	2	90	8
483	66	56	78	12	10	-	80	11	9
762	731	207	47	44	8	1	45	43	12
110	70	21	65	35	55	45	...
13	369	-	22	78	-	-	3	97	-
83	69	123	42	25	33	-	30	25	45
462	51	102	75	15	9	1	75	8	17
105	328	71	28	62	7	3	21	65	14
255	506	232	38	44	15	3	26	51	23
2,078	2,390	632	48	41	8	3	41	47	12
4,730	4,821	1,443	49	40	9	2	43	44	13
1,227	3,456	297	36	57	3	4	25	69	6
307	573	-	45	41	8	6	35	65	-
862	922	282	43	50	5	2	41	45	14
1,169	1,495	282	44	47	6	3	40	51	9
7,126	9,772	2,022	44	46	7	3	38	51	11

IMPORTANT NOTE: The footnotes and qualifications given in the annual report are applicable to all these data. Data for some earlier years will also be revised.

Estimated Distribution of Ownership of Net Canadian Long-Term Funded Debt
Classification by Currency of Payment, End of 1954 and 1959

(Millions of dollars)

Debtor and Currency	Amounts Outstanding		Distribution of Ownership							
			Canada		United States		United Kingdom		Other Countries	
	1954	1959	1954	1959	1954	1959	1954	1959	1954	1959
Government of Canada, direct and guaranteed excluding railways:										
Payable in Canadian dollars only ²	12,640	13,554	12,284	13,068	265	291	22	29	69	166
Payable in foreign currencies only	392	185	97	59	242	92	49	31	4	3
Payable optionally in Canadian or foreign currencies	9	-	1	-	8	-	-	-	-	-
Sub-total	13,041	13,739	12,382	13,127	515	383	71	60	73	169
Provincial, direct and guaranteed excluding railways:										
Payable in Canadian dollars only	2,543	4,188	2,456	4,040	45	80	30	44	12	24
Payable in foreign currencies only	512	1,283	1	7	510	1,272	1	-	-	4
Payable optionally in Canadian or foreign currencies	388	171	22	10	359	157	7	4	-	-
Sub-total	3,443	5,642	2,479	4,057	914	1,509	38	48	12	28
Municipal:										
Payable in Canadian dollars only	1,491	2,401	1,389	2,276	72	92	26	24	4	9
Payable in foreign currencies only	285	750	14	1	267	742	3	6	1	1
Payable optionally in Canadian or foreign currencies	87	63	27	22	54	38	6	3	-	-
Sub-total	1,863	3,214	1,430	2,299	393	872	35	33	5	10
Railways:										
Payable in Canadian dollars only	895	1,576	850	1,515	30	15	7	20	8	26
Payable in foreign currencies only	422	420	-	4	133	143	287	271	2	2
Payable optionally in Canadian or foreign currencies	253	36	116	22	111	1	4	-	22	13
Sub-total	1,570	2,032	966	1,541	274	159	298	291	32	41
Other corporations:										
Payable in Canadian dollars only	3,193	5,837	2,779	5,094	249	466	142	193	23	84
Payable in foreign currencies only	689	1,400	9	36	664	1,328	11	13	5	23
Payable optionally in Canadian or foreign currencies	86	153	18	37	68	112	-	1	-	3
Sub-total	3,968	7,390	2,806	5,167	981 ⁽³⁾	1,906 ⁽³⁾	153	207	28	110
Total bonds and debentures:										
Payable in Canadian dollars only	20,762	27,556	19,758	25,993	661	944	227	310	116	309
Payable in foreign currencies only	2,300	4,038	121	107	1,816	3,577	351	321	12	33
Payable optionally in Canadian or foreign currencies	823	423	184	91	600	308	17	8	22	16
TOTAL	23,885	32,017	20,063	26,191	3,077	4,829	595	639	150	358

1. Includes bonds held by United States Life Insurance Companies (aside from business in Canada):	1954	1959
Government of Canada, direct and guaranteed excluding railways	144)
Provincial direct and guaranteed excluding railways	267)
Municipal	219) Not
Railways))
Other corporations) 687) available
TOTAL	1,317)
2. Excludes treasury bills and notes	1,530	2,077
3. Includes Corporate bonds held by United States parent companies and affiliates:		
Payable in Canadian dollars only	7	28
Payable in foreign currencies only	142	130
Payable optionally in Canadian or foreign currencies	39	35
TOTAL	188	193

Retirements of foreign-held Canadian securities totalled \$225 million in 1960. This figure was smaller than in 1959 when larger amounts of foreign-held Government of Canada issues were paid off. Retirements of other issues were, however, larger than in 1959, as might be expected with Canada's rising amount of foreign-held debt. Retirements required by the operation of sinking funds are often satisfied through the surrender of bonds acquired in the market and consequently some of the repurchases of outstanding issues in effect also represent debt requirement.

Canadians in 1960 purchased \$8 million of outstanding foreign securities and \$20 million of new foreign securities including issues of borrowers in the United States, Israel, and other countries. Retirements of Canadian-held foreign securities in the same period totalled \$19 million including investments in the United States, Latin America, other countries, and international financial organizations.

A more extended review of international security movements in 1960 will be found in the December issue of "Sales and Purchases of Securities between Canada and Other Countries". (DBS Catalogue No. 67-002).

All the aid extended in 1960 by Canada directly to overseas governments took the form of official contributions, and there were consequently no increases in outstanding loans. Repayments of principal on earlier intergovernmental loans totalled \$32 million, including amounts from the United Kingdom, Belgium, France, and the Netherlands. The total was about \$2 million lower than in 1959 when the final payment was received on the loan to Norway. In addition to the principal repayments, there were receipts of \$32 million on account of interest in 1960; this is a part of the item in the current account covering Canada's receipts from interest and dividends.

During 1960 Canada's additional subscription to the capital stock of the International Bank for Reconstruction and Development involved a net payment of about \$3 million. About \$1 million of this was paid in United States funds, and the balance accomplished through adjustment of the Bank's holdings of Canadian dollars. (The subscription and adjustments in Canadian funds, together with the Bank's holdings of Canadian funds, are included in the item "other capital movements"). In addition to the capital subscription to the IBRD, Canada's initial participation in the recently established International Development Association involved an outlay in the fourth quarter of between \$8 million and \$9 million. Nearly \$2 million of this was paid in United States funds, and the balance in Canadian funds. The latter part of the subscription and the Canadian dollar holdings arising from it are, as in the case of the other international financial agencies, included as "other capital movements". The International Development Association is to provide assistance to less-developed areas of the world covered by the membership. Further subscriptions are to be made over a four year period.

A sharp rise occurred in Canadian dollar holdings of foreigners in the last half of 1960, when an increase of \$75 million in the fourth quarter followed one of \$45 million in the third. There were minor reductions during the first half, and the capital inflow for the year as a whole was \$115 million. This movement was the largest since 1950 and 1951. Increased holdings by residents of the United States and of overseas countries other than the United Kingdom accounted for most of it; the rise in the latter group of balances may bear some relationship to political and economic disturbances in some parts of the world. Canadian dollar holdings of foreigners have risen in each of the past three years and now total over \$600 million. These movements and balances are apart from the holdings of international financial agencies which are included elsewhere in the capital account.

Transactions by non-residents in Canadian treasury bills were one important factor increasing Canadian dollar holdings of foreigners. Over the course of 1960 non-residents purchased about \$380 million of Canadian treasury bills; this was somewhat above the total of \$369 million for the previous year when, moreover, non-residents had acquired some bills under an exchange offer. As most of the bills acquired by non-residents naturally matured or were repurchased by Canadians in the same year, the net holdings by non-residents rose by \$56 million in 1960 as against \$14 million in the previous year. Total non-resident-owned holdings at the end of the year were \$120 million. More than three-quarters were holdings of residents of the United States who held \$93 million. In contrast, at the end of 1959 residents of the United States held only \$22 million out of \$64 million total foreign holdings. (The December, 1960 issue of the monthly publication "Sales and Purchases of Securities Between Canada and Other Countries" contains a more extended description of these movements together with comment on the factor of interest arbitrage.)

Canada's official holdings of gold and foreign exchange were reduced during 1960. This reduction in Canadian assets abroad represents an import of capital amounting to \$39 million, and it followed a similar import of \$70 million in 1959 (mainly offset by Canada's gold subscription in that year to the International Monetary Fund). In 1958 Canada's official holdings of gold and foreign exchange were increased by an outflow of \$109 million. The capital inflow in 1960 occurred in the

first half of the year, and was partly offset by outflows in the latter half. Virtually all of the movement reflected a net reduction of Canada's holdings of gold and United States dollars, as official holdings of other currencies are generally limited to working balances.

In terms of United States dollars, official holdings of gold and United States funds fell from \$1,869.2 million at the end of 1959 to \$1,829.2 million at the end of 1960. The month-end figures through 1960 did not again reach the level at the beginning of the year. The closing total was, however, well above the month-end low point of \$1,740.3 million recorded for May.

Other capital movements were inwards on balance over the year, amounting to \$264 million. Although this was considerably smaller than in 1959 when it totalled \$350 million, it nevertheless is substantial in relation to most earlier years. The broad outline of the movements in 1960 is already clear and emphasizes the wide variety of elements included:

(millions of dollars)

Net inflows of capital in miscellaneous long-term forms	23
Net borrowings abroad by instalment finance and small loan companies	43
Subscriptions by Canada in Canadian funds to international financial agencies (-)	-9
Net increase in short-term Canadian dollar holdings of international financial agencies	4
Net decrease in Canadian private and banking holdings of foreign currencies	78
Increase in net accounts and loans payable by Canadians (including balancing item representing difference between current account balance and recorded capital movements)	125
Total	264
(preliminary)	

On a quarterly basis these items gave rise to capital outflow of \$81 million in the first quarter, an inflow of \$158 million in the second, an outflow of \$17 million in the third, and an inflow of \$204 million in the final quarter. It may be of interest to note that there have been inflows from these transactions in the second quarter and outflows in the third in seven of the last eight years. While seasonal factors are clearly in evidence, the individual components are not yet generally obtainable on a quarterly basis with sufficient precision to facilitate research on their behaviour.

The inflow in these items in the fourth quarter was nearly as large as any on record, and in view of the behaviour of the exchange rate at this time more than usual interest attaches to the elements. Private and banking holdings of foreign currency were reduced by more than \$200 million, of which perhaps a fifth represented the return of Canadian funds placed in London earlier in the year. Canadian instalment finance and small loan companies added more than \$40 million to their outstanding foreign indebtedness. Against these inflows there appear to have been net repayments of accounts and loans payable of the order of \$50 million.

There are of course always a variety of influences which may have contributed to "other capital movements". Among those which may have had some relevance in the fourth quarter were changing short-term interest differentials, making the employment of money in Canada significantly more attractive than in the United States, both before and after provision for forward exchange protection. The corresponding differentials between Canada and the United Kingdom also changed, reducing the attraction for Canadians of the London money market. New bank instruments came into use in Canada competing for funds with other types of medium term borrowers. A heavy volume of Canadian borrowing in the form of sales to non-residents of commercial paper also began to appear. Some Canadian banking interests abroad were disposed of. The introduction of Canadian budgetary measures affected withholding taxes on income paid to non-residents and some other aspects of international investment, and there were some similar effects arising from the operation of reciprocal tax agreements; there was only a brief period before the end of the year for appraisal by those affected of the incidence of these changes. To these possible factors there may be added effects of the constantly changing pattern of Canada's trade and its financing. In the quarter, too, there was a sharp change in the external value of the

Summary of Capital Movements, 1957 to 1960

(millions of dollars)

	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>Change in movement 1960 from 1959</u>
Direct investment in Canada	+ 514	+ 420	+ 550	+ 690	+140
Direct investment abroad	- 68	- 48	- 80	- 85	- 5
Canadian securities:					
Trade in outstanding bonds	- 45	-	+ 91	+ 7	- 84
Trade in outstanding stocks	+ 137	+ 88	+ 110	+ 48	- 62
New issues	+ 798	+ 677	+ 707	+ 397	-310
Retirements	- 133	- 158	- 258	- 225	+ 33
Foreign securities	+ 6	+ 3	- 33	- 9	+ 24
Loans by Government of Canada:					
Drawings	-	- 34	- 1	-	+ 1
Repayments	+ 50	+ 64	+ 34	+ 32	- 2
Subscriptions in gold and U.S. dollars to international financial agencies	-	-	- 59	- 3	+ 56
Canadian dollars holdings of foreigners	- 35	+ 106	+ 13	+ 115	+102
Official holdings of gold and foreign exchange (increase, -)	+ 105	- 109	+ 70	+ 39	- 31
Other capital movements	+ 126	+ 122	+ 350	+ 264	- 86
Net capital movement financing current account deficit	+1,455	+1,131	+1,494	+1,270	-224

Canadian dollar which, reflecting the incidence of some transactions and expectations on the one hand, may have contributed to other shifts.

Exchange rate

The Canadian dollar continued to be a "strong" currency in the world's exchange markets during 1960, although there was at the end of the year some moderation from the very high levels of recent years. The exchange value of the United States dollar in Canada was 95.22 cents at the end of 1959. A tendency to rise was in evidence before the end of March, and this movement continued, with a pause in the latter part of April, until May 25 when the price reached 99.00 cents. By mid-year this rate was down to 98.03 cents and the trend continued until mid-August when it had declined to 96.62 cents. With the exception of this period centered about the May peak, rates were relatively stable until the last ten days of December. The price of the United States dollar in Canada then rose sharply by more than 1 1/2 cents to close the year at 99.66 cents. Factors contributing to this change probably included both uncertainty related to the introduction of the Budget and year-end transfers.

The highest rate recorded during the year was 99.81 cents on December 28, which was 0.25 cents below the high for 1955, and the lowest was 94.94 cents recorded early in March. The trading range for the year as a whole was 4.87 cents which was somewhat larger than in recent years. From 1956 to 1959 the annual trading ranges were 4.31 cents, 4.40 cents, 3.41 cents, and 3.63 cents. During the successive quarters of 1960 the corresponding trading ranges were 0.87 cents, 3.44 cents, 1.69 cents, and 2.59 cents.

The noon average price of the United States dollar in Canada was 96.97 cents in 1960, compared with 95.90 cents in 1959 and 97.06 cents in 1958. The successive quarterly averages in 1960 were 95.18 cents, 97.49 cents, 97.33 cents, and 97.92 cents.

Canada's International Investment Position

Canada's international investment position at the end of 1960 and various earlier years is set out in the accompanying statement of the "Canadian Balance of International Indebtedness" which includes the various types of Canada's external assets and of foreign-owned assets in Canada. As the statement shows, in addition to contractual borrowings it covers all other types of international investment and liabilities.

Foreign long-term investment in Canada is tentatively estimated to have totalled \$22.3 billion at the end of 1960, up from \$20.8 billion at the earlier year-end and \$7.1 billion at the beginning of the post-war period. Direct investments in foreign-controlled enterprises amounting to \$12.8 billion make up more than half the total, and have been growing more rapidly over the period than portfolio investments. Other liabilities to non-residents bring Canada's total external liabilities to \$26.1 billion. Canadian long-term investments abroad totalled about \$5.8 billion at the end of 1960 (about \$1.5 billion of them are directly offset by items included among other liabilities to cover the equity in them of non-residents, or short-term Canadian dollar liabilities arising from Canada's subscriptions to international financial agencies). They include \$3.8 billion of private direct and portfolio investment abroad, and \$2.0 billion of Government of Canada loans and investments. To their total must be added other short-term assets abroad including Canada's official holdings of gold and foreign exchange, private and banking holdings of foreign funds, and accounts receivable, bringing gross assets to \$9.1 billion.

Canada's net international indebtedness at the end of 1960 is accordingly estimated to have been \$17.0 billion, compared with \$15.5 billion a year earlier and \$3.8 billion eleven years ago. Contributing to the increase of \$1.5 billion in 1960 was the financing of Canada's net current account deficit of \$1.3 billion as well as the net balance of earnings accruing but not paid on foreign investments in Canada less those on Canadian investments abroad. Canada's external assets also rose in 1960 because of the higher exchange value of foreign currencies in terms of Canadian funds.

More detailed statistics of Canada's international investment position will be found in annual reports on "The Canadian Balance of Payments and International Investment Position" (DBS Catalogue No. 67-201).

The Canadian Balance of International Indebtedness

(billions of dollars)

	<u>1945</u>	<u>1949</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959P</u>	<u>1960P</u>
<u>Canadian Liabilities</u>								
Direct investments	2.7	3.6	7.7	8.9	10.1	10.9	11.8	12.8
Government and municipal bonds	1.7	1.8	1.9	2.1	2.3	2.6	3.1	3.3
Other portfolio investments	2.4	2.3	3.1	3.5	3.9	4.1	4.4	4.6
Income accumulating investment funds	-	-	0.2	0.2	0.3	0.3	0.3	0.3
Miscellaneous investments	0.3	0.3	0.6	0.8	0.9	1.1	1.3	1.3
Foreign long-term investments in Canada ..	7.1	8.0	13.5	15.6	17.5	19.0	20.8	22.3
Equity of non-residents in Canadian assets abroad	0.2	0.3	0.7	0.8	0.8	0.9	1.1	1.1
Canadian dollar holdings of non-residents ..	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.6
Canadian short-term assets of international financial agencies	-	0.3	0.2	0.2	0.2	0.2	0.4	0.4
Short-term commercial payables	0.4	0.4	0.5	0.7	1.0	1.2	1.6	1.7
Gross liabilities	8.0	9.3	15.3	17.7	19.9	21.8	24.4	26.1
<u>Canadian Assets</u>								
Direct investments	0.7	0.9	1.8	1.9	2.1	2.2	2.3	2.6
Portfolio investments	0.6	0.6	1.0	1.0	1.1	1.1	1.1	1.2
Government of Canada loans and advances ...	0.7	2.0	1.6	1.6	1.5	1.5	1.5	1.4
Government of Canada subscriptions to international financial agencies	-	0.4	0.4	0.4	0.4	0.4	0.6	0.6
Canadian long-term investments abroad ...	2.0	4.0	4.7	4.8	5.0	5.1	5.5	5.8
Government of Canada holdings of gold and foreign exchange	1.7	1.2	1.9	1.9	1.8	1.9	1.8	1.8
Bank balances and other short-term funds abroad	0.1	0.1	0.3	0.6	0.9	1.0	1.0	1.0
Short-term commercial receivables	0.1	0.2	0.3	0.4	0.4	0.5	0.5	0.4
Gross assets	4.0	5.5	7.4	7.7	8.1	8.4	8.8	9.1
<u>Canadian Net International Indebtedness</u>								
Net liabilities	4.0	3.8	7.9	10.0	11.8	13.4	15.5	17.0

Note: As figures are rounded, totals do not necessarily equal the sum of their component parts.

P Preliminary

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1960 are preliminary and

		1958	1959		
		IV	I	II	III
A	Current Receipts				
1	Merchandise exports (adjusted)	1,307	1,060	1,354	1,286
3	Gold production available for export	38	37	41	33
4	Travel expenditures	55	32	85	213
5	Interest and dividends	70	30	43	40
6	Freight and shipping	103	93	112	105
7	Inheritances and immigrants' funds	26	18	34	33
11	All other current receipts	101	92	94	103
12	Total Current Receipts	1,700	1,362	1,763	1,813
B	Current Payments				
1	Merchandise imports (adjusted)	1,349	1,218	1,551	1,380
4	Travel expenditures	111	117	144	216
5	Interest and dividends	199	141	152	150
6	Freight and shipping	124	99	133	149
7	Inheritances and emigrants' funds	41	31	39	47
9	Official contributions	11	9	21	22
11	All other current payments	166	169	174	175
12	Total Current Payments	2,001	1,784	2,214	2,139
	Balance on Merchandise Trade	- 42	- 158	- 197	- 94
	Balance on Other Transactions, excluding B 9	- 248	- 255	- 233	- 210
	Official Contributions	- 11	- 9	- 21	- 22
C	Current Account Balance	- 301	- 422	- 451	- 326
D	Capital Account				
	Direct Investment				
1	Direct Investment in Canada	+ 130	+ 101	+ 181	+ 85
2	Direct investment abroad	- 11	- 25	- 13	- 24
	Canadian Securities				
3a	Trade in outstanding bonds and debentures	+ 21	+ 33	+ 15	+ 32
3b	Trade in outstanding common and preference stocks	+ 33	+ 32	+ 33	+ 26
4	New issues	+ 101	+ 180	+ 117	+ 213
5	Retirements	- 51	- 42	- 84	- 61
	Foreign Securities				
6	Trade in outstanding issues	+ 7	- 5	- 12	- 7
7	New issues	- 4	- 3	- 2	- 1
8	Retirements	+ 2	+ 3	+ 2	+ 3
	Loans by Government of Canada				
9	Drawings	- 10	- 1	-	-
10,11	Repayments	+ 33	-	+ 9	-
13	Subscriptions in gold and U.S. dollars to international financial agencies	-	-	-	-
14	Change in Canadian dollar holdings of foreigners	- 9	- 12	+ 47	+ 22
16	Change in official holdings of gold and foreign exchange (increase, minus)	- 50	+ 49	- 43	- 3
17	Other capital movements	+ 109	+ 112	+ 201	+ 41
E	Net Capital Movement	+ 301	+ 422	+ 451	+ 326

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 1959 are subject to revision.

1959	1960				Annual Totals				
IV	I	II	III	IV	1957	1958	1959	1960	
(millions of dollars)									
1,449	1,283	1,323	1,401	1,393	4,894	4,887	5,149	5,400	A 1
37	44	35	42	40	147	160	148	161	3
61	36	91	224	66	363	349	391	417	4
70	35	37	36	67	154	168	183	175	5
110	94	107	111	103	445	401	420	415	6
24	18	29	31	24	124	97	109	102	7
96	90	99	104	96	388	375	385	389	11
1,847	1,600	1,721	1,949	1,789	6,515	6,437	6,785	7,059	12
1,423	1,327	1,510	1,317	1,394	5,488	5,066	5,572	5,548	B 1
121	112	168	219	133	525	542	598	632	4
214	147	161	163	184	589	612	657	655	5
144	111	137	139	139	515	460	525	526	6
47	38	43	50	50	157	145	164	181	7
19	10	9	16	23	40	53	71	58	9
174	183	179	183	184	656	690	692	729	11
2,142	1,928	2,207	2,087	2,107	7,970	7,568	8,279	8,329	12
+ 26	- 44	- 187	+ 84	- 1	- 594	- 179	- 423	- 148	
- 302	- 274	- 290	- 206	- 294	- 821	- 899	-1,000	-1,064	
- 19	- 10	- 9	- 16	- 23	- 40	- 53	- 71	- 58	
- 295	- 328	- 486	- 138	- 318	-1,455	-1,131	-1,494	-1,270	C
+ 183	+ 210	+ 175	+ 175	+ 130	+ 514	+ 420	+ 550	+ 690	D 1
- 18	- 15	- 25	- 30	- 15	- 68	- 48	- 80	- 85	2
+ 11	+ 20	+ 16	- 18	- 11	- 45	-	+ 91	+ 7	3a
+ 19	+ 13	+ 24	+ 9	+ 2	+ 137	+ 88	+ 110	+ 48	3b
+ 197	+ 204	+ 127	+ 29	+ 37	+ 798	+ 677	+ 707	+ 397	4
- 71	- 44	- 73	- 24	- 84	- 133	- 158	- 258	- 225	5
- 8	+ 10	- 2	+ 5	- 21	+ 24	+ 13	- 32	- 8	6
- 7	- 3	- 4	- 3	- 10	- 24	- 17	- 13	- 20	7
+ 4	+ 6	+ 3	+ 8	+ 2	+ 6	+ 7	+ 12	+ 19	8
-	-	-	-	-	-	- 34	- 1	-	9
+ 25	-	+ 7	-	+ 25	+ 50	+ 64	+ 34	+ 32	10,11
- 59	-	-	- 1	- 2	-	-	- 59	- 3	13
- 44	- 3	- 2	+ 45	+ 75	- 35	+ 106	+ 13	+ 115	14
+ 67	+ 11	+ 82	- 40	- 14	+ 105	- 109	+ 70	+ 39	16
- 4	- 81	+ 158	- 17	+ 204	+ 126	+ 122	+ 350	+ 264	17
+ 295	+ 328	+ 486	+ 138	+ 318	+1,455	+1,131	+1,494	+1,270	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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