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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FOURTH QUARTER 1961, AND

PRELIMINARY ESTIMATES FOR THE YEAR 1961

In 1961 a substantial contraction to \$989 million occurred in the imbalance in Canada's current transactions in goods and services with other countries from \$1,217 million in 1960. At this level the current deficit was less than in any year since 1955.

Bringing this change about was the emergence of an export balance on merchandise account of \$179 million for the first time for many years. The rises in exports and in the export balance were most concentrated in trade with foreign overseas countries, with a large part of the gain occurring in shipments of wheat to China and Eastern Europe. At the same time trade in both directions between Canada and the United States also increased significantly.

The source of the deficit on current account was the rising imbalance from non-merchandise transactions which rose 9 per cent to \$1,168 million, the highest level yet reached. Contributing to this deficit were larger net transfers of interest and dividends to non-residents and larger net payments for business and other services which more than offset the marked reduction in the deficit on travel account.

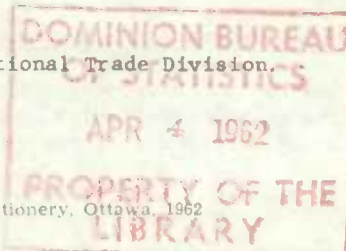
The flow of foreign capital into long-term investments in Canada in 1961 was somewhat smaller than in 1960, with a much larger proportionate decrease in investments in securities of governments and municipalities than in Canadian concerns. Capital movements into Canada, apart from changes in official holdings of gold and foreign exchange, were larger than in 1960, but included substantially greater amounts in short-term forms. There was, on the other hand, a large outflow to augment official reserves in 1961, in contrast to a small inflow in 1960.

Among effects of the continued inflows of capital has been a further increase in Canada's net balance of international indebtedness to around \$18 billion. This balance which measures the excess of foreign investments and other liabilities abroad over Canada's external assets amounted to \$16.9 billion at the end of 1960. The principal change contributing to the rise was the continued increase in foreign long-term investments in Canada to over \$23 billion at the end of 1961.

Among leading economic influences on the Canadian balance of payments were such factors as general rises in activity in the United States and Canada, additional overseas sales of wheat and other Canadian commodities in reflection of further growth in the levels of demand in many countries, and changes in Canadian economic policy announced in the June Budget. Of particular significance to the balance of payments were the resulting changes in exchange rates for the Canadian dollar with a discount prevailing from the second half of the year, and with reductions in interest rates in relation to rates abroad. While the strength in foreign demand for Canadian products led to a substantial rise in exports of both goods and services, there was also a marked increase in Canadian imports of merchandise in the latter part of the year. This seems to have reflected the rising level of Canadian economic activity with some additions to inventories and other business investment as well as a rising industrial use of imported materials and higher consumption accompanying the higher tempo of business in Canada.

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

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Export balance on merchandise trade

The largest single change contributing to the reduction in the current account deficit was the emergence of an export balance in the second half of 1961 compared with the import balance in 1960, which was concentrated in the first half year. On an annual basis the change was from an import balance of \$145 million in 1960 to an export balance of \$179 million in 1961. These figures are based on trade statistics adjusted for balance of payments purposes. Bringing about the change was a greater increase in exports than in imports with each being higher than ever previously recorded in both the year as a whole and in the fourth quarter. A part of the increased value of Canadian trade in 1961 is a reflection of the variation in the foreign exchange value of the Canadian dollar.

Exports rose sharply by 9 per cent in 1961 to a new peak of \$5,896 million with most of this rise being in volume. During the year there was a rising trend in exports to the United States with the second half year substantially higher than the first. Exports to other foreign countries were also substantially higher than in 1960 from the second quarter on, reflecting in particular large sales of wheat to Communist China and Eastern Europe. Exports were also notably higher to Japan, Latin America and to some countries in Western Europe. At the same time exports to the United Kingdom were maintained close to the high level of the previous year and shipments to other countries of the Sterling Area were only slightly less. These trends had the effect of reducing the proportion of exports to the United States, United Kingdom and other Sterling Area countries and increasing the ratio of sales to other foreign countries.

The rise in wheat exports represented about half of the annual increase. Other important contributors to the increment were such commodities as nickel, forest products, petroleum and natural gas, cattle, aircraft, and a variety of other manufactured products. But offsetting a part of the increase were declines in shipments of such major commodities as uranium, iron ore, copper and aluminum.

In the year 1961 as a whole the adjusted value of imports used in the balance of payments was \$5,717 million, or some 3 per cent more than in 1960. This percentage rise is not greatly different from preliminary indications of the rises in average prices during the year which would be appropriate to these figures. The record value in 1961 compares with the highest earlier annual total of \$5,565 million in 1956. But in that year average import prices were considerably lower than in 1961. Consequently the volume of imports in 1961 appears to have been still less than in the earlier peak year, although by the final quarter the difference in volume between the two peaks would not likely have been wide.

Rising trends in imports during 1961 were an important feature. During the year gains were concentrated in the second half as the first two quarters of the year were both less than in 1960. The rising course started before the middle of the year, and in the final quarter the total value was slightly higher than in any previous quarter, being some 12 per cent above the same quarter of 1960. Close to half of this rise reflects higher prices in the fourth quarter of 1961. The higher dollar value of imports has been influenced particularly by the decline of the Canadian dollar in the second half of the year.

The advance in imports was widely distributed as to source. When adjusted for balance of payments purposes, the value imported from the United States was greater than in any earlier years except 1956 and 1957. Imports from the United Kingdom when likewise adjusted were slightly less than in 1960.

The rise in the value of imports between 1960 and 1961 was widely distributed by commodities, apart from the concentration of deliveries of both civilian and military aircraft, which are dealt with specially when adjusting the values for balance of payments use. While complete commodity details are not yet on hand, available indications on the upturn in the second half point to increased receipts of many industrial materials and in machinery and equipment. In the latter part of the year there were also imports of some grains and other agricultural commodities of which Canadian supplies were short because of reduced production in Western Canada. Some other imports of consumer goods were also higher towards the end of the year.

Deficit from services and other non-merchandise items

Due to the emergence of the trade surplus, 1961 was the first year since 1954 in which the net payments on non-merchandise transactions outweighed the current account deficit. The estimated deficit on non-merchandise transactions increased \$96 million, or 9 per cent, from \$1,072 million in

1960 to \$1,168 million in 1961. This rise resulted from a combination of sizable gains in the deficit on income and "other current transactions" accounts, offset to the extent of about a third by a decline in net travel payments. Within the "other current transactions" account, the widening deficit was concentrated in business services, miscellaneous income and government transactions, other than official contributions, which were reduced during 1961. Changes from 1960 in the balances of other accounts, including shipping, gold and inheritances and migrants' funds, were less pronounced.

INCOME ACCOUNT At \$575 million, net payments of interest and dividends accounted for nearly one half of the deficit on "invisibles" in 1961. The substantial expansion of \$84 million, or 17 per cent in the deficit on income account from \$491 million in 1960 was due to a rise in payments of interest and dividends of \$102 million, or 15 per cent, to an estimated total of \$771 million in 1961. This change was only partly counter-balanced by an increase in receipts of \$18 million, or 10 per cent, to \$196 million.

Income Account: Payments
(millions of dollars)

Period	Total	Interest	Dividends
1959	671	210	461
1960	669	239	430
1961	771	259	512
1960 I Q	149	54	95
II Q	164	65	99
III Q	161	53	108
IV Q	195	67	128
1961 I Q	204	61	143
II Q	173	68	105
III Q	173	58	115
IV Q	221	72	149

The increase in payments of \$102 million was made up of \$82 million of dividends and \$20 million of interest. At \$512 million, dividend remittances in 1961 were 19 per cent higher than \$430 million for 1960, and \$51 million, or 11 per cent, above the previous record total of \$461 million in 1959. In an over-the-year quarterly comparison, nearly three-fifths of the expansion was attributable to the confluence of dividend transfers by Canadian subsidiaries to their parents in the first quarter of 1961. For the year as a whole, income returned to non-residents on direct investment, including net profits of unincorporated branches, accounted for the entire gain in dividend payments, as remittances abroad on portfolio investment remained unchanged in the two years. Industrially, most of the gain in dividend payments was derived from firms engaged in manufacturing, mining and merchandising.

Interest payments at \$259 million were higher than ever before. About two-thirds of the \$20 million increase in the year was ascribable to large net new issues of corporate bonds and provincial and municipal debentures sold in the United States, mainly, during 1960 and the first half of 1961. Approximately one-third of the increase was due to the influence of the foreign exchange rate of the Canadian dollar, which moved from a premium position to that of discount during 1961.

More than four-fifths of interest and dividend payments flowed to the United States and over 10 per cent to the United Kingdom in 1960 and 1961.

TRAVEL EXPENDITURES A significant contraction occurred in Canada's deficit on travel account in both the fourth quarter and the year 1961. In the full year this deficit amounted to \$160 million compared with \$207 million in each of 1959 and 1960. The contraction in this annual deficit occurred in the travel account with the United States where receipts from United States travellers rose substantially while Canadian expenditures in the United States were slightly lower. On overseas account there was a further rise in the excess of Canadian expenditures overseas over receipts to \$136 million.

Canadian travel overseas continued to grow although at a slightly lower rate than in the previous year. Expenditures overseas increased some 9 per cent compared with a rise of 10 per cent in 1960. In both years the number of Canadians travelling overseas increased considerably more than these ratios in expenditures. In 1961 average expenditures overseas per person were generally less than in 1960. This seems to have been mainly a reflection of shorter lengths of stay outside of Canada, as costs would be higher because of the rise in the cost of foreign currencies. In addition, contributing to the more moderate rise in expenditures, there was relatively less use of foreign transportation facilities between Canada and overseas, and also a small contraction in average cost of transportation.

Travel Expenditures
(millions of dollars)

	1960	1961
<u>Receipts</u>		
United States	375	429
Overseas	45	44
All countries	420	473
<u>Payments</u>		
United States	462	453
Overseas	165	180
All countries	627	633
<u>Net Payments</u>		
United States	87	24
Overseas	120	136
All countries	207	160

In contrast to the continued rise in overseas travel there was a small drop in the volume of Canadian travel to the United States which was enough to lead to a slight contraction in travel expenditures there. This was

most evident in the second half of the year in automobile travel, following the higher cost to Canadians of United States currency, but appeared in travel by other means throughout the year. While average expenditures by Canadians in the United States often tended to be higher in 1961 this was not a consistent trend and some types of expenditures contracted significantly such as purchases of merchandise by tourists. Although the total expenditures by Canadians in the United States in 1961 were slightly less than in 1960, they remained considerably higher than in the years before 1959.

In contrast to the reduction in Canadian expenditures in the United States there was a further significant increase in the number and expenditures of United States travellers in Canada. This carried the total expenditures of non-residents in Canada to a new peak of \$473 million which is some 13 per cent over the previous high of \$420 million in 1960. The volume was higher in both halves of the year and average expenditures in Canadian dollars were considerably higher, particularly in the second half when the premium on United States funds prevailed.

FREIGHT AND SHIPPING Increases in both receipts and payments for freight and shipping services issued from the handling of a larger volume of trade, including petroleum exported to the United States, and higher payments to foreign vessels for the carriage of imports. Gains in receipts of \$25 million to \$467 million and in payments of \$21 million to \$554 million contributed to reducing the deficit on this account from \$91 million to \$87 million, representing about 7 1/2 per cent of net payments on non-merchandise transactions in 1961.

Official contributions in 1961 amounted to \$54 million, down from \$60 million in 1960. In the year under review, contributions under the Colombo Plan remained practically unchanged, while the two new vessels presented to the Government of the West Indies Federation were valued at \$5 1/2 million. However, gifts of wheat flour, milk powder and other relief supplies were lower, and donations of flour to the NATO food bank did not recur in 1961.

Miscellaneous Current Transactions
(millions of dollars)

	<u>Receipts</u>		<u>Payments</u>	
	<u>1960</u>	<u>1961</u>	<u>1960</u>	<u>1961</u>
Government, excluding official contributions	124	108	160	155
Personal and institutional remittances	24	23	97	98
Miscellaneous income	93	78	116	124
Business services	179	179	353	381
Total	420	388	726	758

The deficit on other government transactions was about \$11 million larger, following more decline in receipts than in payments. Most of the decrease in the receipts was estimated to be in expenditures in Canada for United States defence purposes. Cash payments for the NATO infrastructure programme in 1961 were about one-third of those for 1960, but this reduction was partially offset by special contributions in 1961 towards financing the United Nations operations in the Congo and elsewhere.

A deficit of \$202 million resulted from net payments for business services in 1961 which was over 15 per cent greater than in 1960. Contributing to this has been such factors as rising production during the year in manufacturing and

in other branches of the economy, the higher Canadian dollar cost of services arising from the premium on foreign exchange, and an apparent general tendency for payments of this type to increase. Lower receipts of miscellaneous income and the virtual termination in 1960 of special compensation for contract cancellations, combined with larger remittances, resulted in raising the 1961 deficit on this item substantially.

Gold production available for export, estimated at \$158 million in 1961, was \$4 million below the value for 1960 but above the average level for the six most recent years by about the same amount.

Transactions by areas

The bilateral distribution of the decline in the current account deficit in 1960 was repeated in 1961. While both the widening in the deficit with the United States and in the surplus with the United Kingdom continued, the amounts of change were appreciably reduced. On the other hand the development of a large surplus with Other Countries took place rapidly within the year. The deficit with the United States rose \$37 million, or about 2 1/2 per cent, from \$1,356 million in 1960 to \$1,393 million in 1961, while the surplus with the United Kingdom went up slightly from \$171 million to \$182 million. The turn-around from a deficit of \$32 million in 1960 to a surplus of \$222 million with Other Countries amounted to \$254 million, roughly the same as the sizable improvement which occurred in 1960.

Summary of Current Transactions with the
United States, United Kingdom and Other Countries, 1960 and 1961
and Change between the Periods

(millions of dollars)

<u>Fourth Quarter</u>	<u>All Countries</u>			<u>United States</u>		
	1960	1961	Change	1960	1961	Change
Merchandise exports (adjusted)	1,394	1,624	+ 230	736	905	+ 169
Merchandise imports (adjusted)	1,390	1,554	+ 164	915	1,016	+ 101
Balance on merchandise trade	+ 4	+ 70	+ 66	- 179	- 111	+ 68
Other current receipts	412	423	+ 11	273	278	+ 5
Other current payments	720	759	+ 39	496	538	+ 42
Balance on non-merchandise transactions	- 308	- 336	- 28	- 223	- 260	- 37
Current account balance	- 304	- 266	+ 38	- 402	- 371	+ 31

Calendar Year

Merchandise exports (adjusted)	5,400	5,896	+ 496	3,039	3,215	+ 176
Merchandise imports (adjusted)	5,545	5,717	+ 172	3,715	3,831	+ 116
Balance on merchandise trade	- 145	+ 179	+ 324	- 676	- 616	+ 60
Other current receipts	1,724	1,785	+ 61	1,242	1,280	+ 38
Other current payments	2,796	2,953	+ 157	1,922	2,057	+ 135
Balance on non-merchandise transactions	-1,072	-1,168	- 96	- 680	- 777	- 97
Current account balance	-1,217	- 989	+ 228	-1,356	-1,393	- 37

<u>Fourth Quarter</u>	<u>United Kingdom</u>			<u>Other Countries</u>		
	1960	1961	Change	1960	1961	Change
Merchandise exports (adjusted)	241	248	+ 7	417	471	+ 54
Merchandise imports (adjusted)	144	155	+ 11	331	383	+ 52
Balance on merchandise trade	+ 97	+ 93	- 4	+ 86	+ 88	+ 2
Other current receipts	72	73	+ 1	67	72	+ 5
Other current payments	88	89	+ 1	136	132	- 4
Balance on non-merchandise transactions	- 16	- 16	-	- 69	- 60	+ 9
Current account balance	+ 81	+ 77	- 4	+ 17	+ 28	+ 11

Calendar Year

Merchandise exports (adjusted)	924	923	- 1	1,437	1,758	+ 321
Merchandise imports (adjusted)	611	588	- 23	1,219	1,298	+ 79
Balance on merchandise trade	+313	+ 335	+ 22	+ 218	+ 460	+ 242
Other current receipts	223	218	- 5	259	287	+ 28
Other current payments	365	371	+ 6	509	525	+ 16
Balance on non-merchandise transactions	-142	- 153	- 11	- 250	- 238	+ 12
Current account balance	171	182	+ 11	- 32	+ 222	+ 254

This improvement was concentrated almost wholly in trade, with increments to exports and imports being estimated at roughly \$320 million and \$80 million, respectively.

In transactions with the United States, a lowering of \$60 million in the import balance in part offset the continuing growth in the deficit on "invisibles", which was \$97 million higher in 1961. Merchandise exports expanded \$176 million, or nearly 6 per cent from \$3,039 million to \$3,215 million, while imports advanced \$116 million, or 3 per cent, from \$3,715 million in 1960 to \$3,831 million. The 14 per cent addition to net payments in service transactions with the United States from \$680 million in 1960 to \$777 million in 1961 was accounted for by a sharp increase in payments of investment income, a decline in receipts and increase in payments (each about \$30 million) for "miscellaneous current transactions", offset to the extent of about 40 per cent by a substantial increase in travel receipts, reinforced by a smaller decline in payments. Lower receipts of miscellaneous income and on government account, and larger payments of the former as well as for business services, accounted for the increased deficit on miscellaneous current transactions with the United States.

The \$11 million increase in the current account surplus with the United Kingdom in 1961 arose from a \$23 million decline in adjusted merchandise imports from \$611 million in 1960 to \$588 million, while exports were practically unchanged at \$923 million in 1961, and a small widening in the deficit on non-merchandise transactions from \$142 million to \$153 million. The travel and income accounts, government transactions, personal and institutional remittances continued to be the main sources of this imbalance.

Within the Other Countries group, the current account surplus with the rest of the Sterling Area was reduced by \$25 million while the deficit with the other OEEC countries widened by about the same amount, the changes in both cases being due to trade. The striking improvement of \$254 million in the current account balance with the whole group, therefore, originated in transactions with the remaining countries, and centred again in the export component, which rose by well over one-half. Wheat was a prominent factor in this development.

Developments in the fourth quarter

The same factors bringing about this change during the year led to a reduction in the current deficit in the fourth quarter of 1961 to \$266 million from \$304 million in the same period of 1960. The rise in the export balance from merchandise trade was partly offset by a further widening in the deficit from non-merchandise transactions to \$336 million compared with \$308 million in the fourth quarter of 1960. Growth in this latter imbalance was again mainly due to larger deficits on income account and from business services and other miscellaneous current transactions. In addition there was a considerable reduction in gold production available for export. Each of the other non-merchandise accounts including travel showed reduced deficits compared with the same quarter a year ago. On merchandise account an important factor was the rise in exports to the United States as well as the sale of wheat overseas. A part of the gain in exports to that country was offset by a rise in imports which were also at a high level.

Capital movements

Movements of capital for direct investment, portfolio stocks and bonds, and official loans and long-term investments totalled \$604 million, equivalent to 61 per cent of the current account deficit in 1961. In 1960 these movements totalled \$873 million equivalent to 72 per cent of the deficit in that year. The proportion in 1961 was smaller than in the earlier post-war years in which Canada incurred current account deficits, with the single exception of 1955, but over the period as a whole inflows in long-term forms were equivalent to all but 7 per cent of the net current account deficit.

Geographically in 1961, the movement in these forms from the United States was about 5 per cent greater than the overall movement, while the net inward movement from the United Kingdom was equivalent to about 5 per cent of the total. There were net outflows to other overseas countries equal to about 10 per cent of the net inward movement from all countries in long-term forms; contributing in important amounts to this result were trade credits. In 1960 about 78 per cent of the movement came from the United States, 10 per cent from the United Kingdom, and 12 per cent from other overseas countries.

Capital inflows taking the form of increases in outstanding net external long-term debt⁽¹⁾ of the various levels of government in Canada continued to contract, falling from \$198 million in 1960 to \$124 million in 1961. This was the smallest capital inflow to this group for a number of years, and was in sharp contrast to the inflow of \$461 million in 1959. Foreign direct and portfolio investment in Canadian concerns totalling \$637 million in 1961 was below the figure of \$722 million for 1960 and those for earlier years since 1955, but at 64 per cent it made up a larger proportion of the net capital inflow than in either 1959 or 1960.

DIRECT INVESTMENT The net movement of foreign capital to Canada for direct investment in foreign-controlled enterprises during 1961 is estimated to have totalled \$420 million. This figure was down sharply from the record level of \$645 million reached in 1960, although it may be noted that it was exceeded in only three earlier post-war years. About a quarter of the change is estimated to reflect a reduction in the net inflow for the acquisition of existing concerns and interests and for refinancing, etc. having no counterpart in current new capital formation in Canada. Industrially nearly half the decline was to the mining industry where the phasing out of some major developments coincided with the reacquisition by Canadian groups of some existing foreign-owned investments. The balance of the decline was shared by the petroleum and natural gas industry, and by manufacturing. In each case the reduction was accounted for in part by larger transfers in 1960 covering the acquisition of existing Canadian-owned concerns. Inflows to finance and real estate continued to be large with the acquisition of insurance undertakings playing a prominent part in 1961.

It has been noted before that investments in many hundreds of enterprises contribute to the direct investment totals. The net inflow from the eight largest elements fell by about 50 per cent from 1960 to 1961, accounting for 59 per cent of the net movement in the earlier year and about 48 per cent in 1961.

Although the inflows in each quarter of 1961 fell below those of the corresponding quarter of 1960, the moderation was particularly evident in the last half of the year when the inflow fell to \$160 million, the lowest level since the first half of 1952. The decline from the first half of 1961 was \$100 million.

Geographically, United Kingdom direct investment flows to Canada rose both relatively and in total over 1960, accounting in 1961 for perhaps 30 per cent of the total, compared with 18 per cent in 1960. Direct investment transfers from the United States, are estimated to have accounted for about 55 per cent of the total, in contrast to 68 per cent in 1960, a reduction of the order of \$200 million. Inflows from other overseas countries maintained their relative proportion but dropped in amount.

Preliminary estimates of the movement of capital for direct investment abroad indicate a net outflow of \$110 million, compared with \$85 million in 1960. The estimate for 1961 is the highest recorded. The largest part of the outflow was to manufacturing concerns but there were also outflows to a variety of financial, mining, and other operations. Nearly half the outflow was to overseas countries other than the United Kingdom, mainly outside Western Europe.

SECURITY TRANSACTIONS Transactions in stocks and bonds between Canada and other countries in 1961 gave rise to a net capital inflow of \$273 million, up considerably from that of \$226 million recorded for 1960. The total value of the transactions leading to this balance was \$4.1 billion. The net inward movements in 1960 and 1961 were much smaller than in the years from 1956 to 1959 when they ranged between \$610 million and \$763 million, but were larger than in all but two of the ten preceding post-war years. The total value of transactions was some \$1.5 billion higher than in 1960 and was well above the average of about \$2.9 billion from 1956 to 1960. Contributing to the turn-over in recent years in a indeterminate amount has been the development of buy-backs or purchase and resale arrangements under which essentially short-term transactions may be carried out in securities which are nominally long-term.

Foreign savings supplied a smaller part again in 1961 of the new money raised by Canadians in capital markets. Net acquisitions by non-residents of provincial, municipal, and corporate securities were equivalent to about 14 per cent of the net new supply of these securities. In 1960 the proportion had exceeded 16 per cent and in 1959 it was more than 40 per cent. The reduction in 1961 occurred despite the fact the new supply of these securities was about 25 per cent greater than in 1960. Foreign

(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.

savings invested in provincial securities were equal to more than half of the net new supply in 1959, but fell to 9 per cent in 1960 and to 3 per cent in 1961 despite a substantial growth in borrowing in

Portfolio Security Transactions Between Canada and
Other Countries, 1961

Net Sales (+) or Purchases (-)						
by Canadians		I	II	III	IV	YEAR
<u>Canadian Securities</u>		(millions of dollars)				
Outstanding -						
Bonds	+ 31	+ 34	- 12	+ 10	+ 63	
Stocks	+ 13	+ 32	-	- 5	+ 40	
New issues	+ 90	+171	+127	+104	+492	
Retirements	- 69	- 93	- 29	-101	-292	
<u>Foreign Securities</u>						
Outstanding issues	+ 3	-	+ 2	- 10	- 5	
New issues	- 5	- 18	- 6	- 5	- 34	
Retirements	+ 2	+ 2	+ 3	+ 2	+ 9	
Total - all countries	+ 65	+128	+ 85	- 5	+273	
United States ...	+ 58	+163	+129	+ 65	+415	
United Kingdom ..	- 2	- 15	- 30	- 54	-101	
Other Countries .	+ 9	- 20	- 14	- 16	- 41	

the latter year. Foreign investment in municipals equalled 39 per cent of net new issues in 1959 and 33 per cent in 1960 but in 1961 there was no significant foreign investment in this group of securities. In the case of corporation securities, on the other hand, net acquisitions by non-residents equalled about one-third of the net new supply in 1961, compared with 14 per cent in 1960, although the proportion at that time was unusually low in relation to earlier years. Taking corporate bonds and debentures alone, the net acquisition by non-residents in 1961 of over 50 per cent was higher even than in 1956 and 1957 when very much larger amounts of capital were raised by Canadian corporations.

The overall movement of portfolio security capital to Canada came in 1961 as in 1960 entirely from the United States. Inflows from the United States amounted to \$415 million, but there were outflows of \$101 million and \$41 million to the United Kingdom and to other overseas countries respectively.

A capital inflow of \$103 million produced from trade in outstanding Canadian securities was made up of net sales to non-residents of \$63 million of bonds and debentures and of \$40 million of common and preference stocks. The total was practically double the figure for 1960. The largest changes between the two years occurred in trade in outstanding Government of Canada direct and guaranteed issues in which net sales rose from \$49 million to \$75 million and in corporate bonds and debentures where net repurchases fell from \$42 million to \$7 million. In both years substantial sales balances occurred in the first half of the year, and there were small repurchase balances in the second half.

Net Sales of Outstanding Canadian Stocks
to Non-Residents
(millions of dollars)

Quarter		Total	United States	Other Countries
1960	I Q	13	5	8
	II Q	24	22	2
	III Q	10	14	- 4
	IV Q	2	13	-11
1961	I Q	13	21	- 8
	II Q	32	45	-13
	III Q	-	22	-22
	IV Q	- 5	32	-37

A rather striking feature of transactions in Canadian securities has been the persistence of sustained sales of outstanding Canadian stocks to residents of the United States and sustained repurchases of them from the United Kingdom and other overseas countries.

Canada imported \$492 million of foreign capital from the sale to non-residents of new issues of Canadian securities in 1961. This figure was 10 per cent higher than sales in 1960, but was well below the totals for the years from 1956 to 1959. Perhaps the most striking feature of the series is the contraction in sales to non-residents of new issues of governments and municipalities, which fell from \$548 million in 1959 to \$126 million in 1961, in contrast to the sharp increases in sales to non-residents of new corporate issues which rose in the same period from \$159 million to \$366 million. Among the corporate issues placed abroad or attracting considerable non-resident

interest at the time of issue in Canada in 1961, petroleum and natural gas including ancillary facilities stood out prominently, accounting for over 40 per cent of the total. Securities of real estate investment companies, pulp and paper concerns, and financial institutions were in that order the next largest contributors to the total. It may be observed that a wide range of factors besides general interest rate and exchange differentials may influence borrowing abroad. Among them may be specific relationships existing between entrepreneurs and particular capital sources, and the absorptive capacity of the market not only in total but also in respect of a particular type of security or the securities of a particular borrower.

Although the proceeds of new issues sold to non-residents were more evenly distributed over 1961 than 1960, receipts tended again to be larger in the first half of the year. About 40 per cent of the proceeds received during the last six months of 1961 arose from arrangements completed in earlier periods.

Retirement of foreign-held Canadian securities rose in 1961 to \$292 million. This figure was some \$39 million higher than in 1960. The total included \$53 million of common and preferred stocks retired from the market through redemption, negotiated purchases, etc.; a significant part reflected principal repayments on the partial liquidation of an utility holding company. Since retirements required by the operation of sinking funds are often satisfied through the surrender of bonds acquired in the market, some repurchases of outstanding issues in effect also represent debt retirement. Rising payments for retirements are to be expected with the increasing amounts of debt of Canadians held by non-residents. The retirements of bonds and debentures in 1961 represented less than 1/25 of the debt held by non-residents.

All transactions in foreign securities led to a net capital export of \$30 million in 1961, up \$10 million from 1960. Included in the total for 1961 were net purchases of \$5 million of outstanding issues; Canadians purchased \$18 million of United States, United Kingdom, and other foreign equities, but sold \$13 million of foreign bonds and debentures, about half of them United States Government issues. Canadians also purchased \$34 million of new foreign securities. This outflow was the largest for these transactions since 1955. Contributing to the total was an offering of Canadian dollar bonds by the Commonwealth of Australia. Other purchases by Canadians included issues of borrowers in the United States, Israel and United Kingdom. Retirements of Canadian-held foreign securities in 1961 totalled \$9 million, about half the total for 1960, including investments in the United States, other countries, and international financial organizations.

A more extended review of international security movements in 1961 will be found in the December issue of "Sales and Purchases of Securities Between Canada and Other Countries". (DBS Catalogue No. 67-002).

OTHER CAPITAL MOVEMENTS

Canadian Government aid abroad in 1961 took the form of official contributions or of guarantees of credit provided directly or indirectly from private sources, or of subscriptions to international financial agencies discussed later in this report. There were no loans made directly by the Government. Official contributions, which appear in the current account, totalled \$54 million.

Repayments of principal on earlier intergovernmental loans totalled \$38 million, including amounts from the United Kingdom, France, India, the Netherlands, Belgium and Ceylon. The total was some \$6 million higher than in 1960, reflecting the commencement of repayments on special wheat and flour loans extended to India and Ceylon in 1958 and 1959, and a rising capital element in the repayment from the United Kingdom. In addition to these principal repayments, there were receipts of \$31 million on account of interest in 1961; this is a part of the item in the current account covering Canada's receipts from interest and dividends.

Other Canadian aid abroad in 1961 was associated with the extension of export credit facilities through the Government-owned Export Credits Insurance Corporation, the Export Finance Corporation of Canada Limited established by the Chartered Banks of Canada, and the Canadian Wheat Board. A description of these facilities and some comment on the character of capital movements to which they give rise were provided in the last issue of this series of reports. The net capital outflows originating from these trade credits, apart from paper rediscounted with non-residents or into Canadian banking assets abroad, are a part of "other capital movements". The amount involved for 1961 as a whole was somewhat more than \$50 million. The contingent liability of the Government of Canada and its agencies is of course much larger.

Change in Canadian dollar holdings of foreigners (millions of dollars)

Quarter	Total	Treasury Bills	Deposits etc.
1960			
I Q	- 2	- 8	+ 6
II Q	- 2	-10	+ 8
III Q	+45	+27	+18
IV Q	+79	+47	+32
1961			
I Q	- 5	+32	-37
II Q	-72	-76	+ 4
III Q	- 1	-34	+33
IV Q	+44	+18	+26

Canadian dollar holdings of foreigners fell over the first three quarters of the year, particularly in the second, but rose in the fourth quarter, reducing the capital outflow for the year as a whole to \$34 million. As the accompanying statement shows the series include holdings of Government of Canada treasury bills and also Canadian dollar deposits at banks and other depositaries.

Total non-resident-owned holdings of Canadian dollars fell from about \$600 million at the end of 1960 to about \$565 million at the end of 1961. Somewhat more than half the total at the end of 1961 was represented by holdings of residents of the United States. These movements and balances are apart from the holdings of international financial agencies which are included elsewhere in the capital account.

Holdings by non-residents of Canadian treasury bills included in the totals fell from \$120 million at the end of 1960 to \$62 million at the end of 1961. The largest change occurred in holdings of residents of the United States which fell during the year from \$93 million to \$26 million. The peak of foreign holdings was reached in April when they totalled \$163 million, falling sharply over the four succeeding months to \$43 million. (The December 1961 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.)

Official Holdings of
Gold and United States dollars
(millions of United States dollars)

End of	Amount	Change in Period
1961 I Q	1,935	+106
II Q	1,985	+ 50
III Q	1,924	- 61(1)
IV Q	2,056	+132
Oct.	2,111	+186
Nov.	2,079	- 32
Dec.	2,056	- 23

(1) Includes special transactions under arrangements related to U.K. drawing from IMF -50.

The net capital outflow represented by increased official holdings of gold and foreign exchange in 1961 was \$229 million. Since a balance of about \$52 million was provided to the United Kingdom against Canadian dollars drawn from the International Monetary Fund, a reduction represented in this item of the balance of payments capital inflow, the net outflow apart from this special transaction was \$281 million. The overall change was the largest annual one since the withdrawal of fixed exchange rates in 1951, but in four of the five earlier post-war years the net annual change was substantially larger. The increased use of the Exchange Fund Account in 1961 is consistent with the announced intentions of the Minister of Finance covered in the report in this series for the second quarter. There were outflows of \$105 million, \$51 million, and \$135 million in the first, second and fourth quarters, while in the third quarter official holdings were reduced, largely as the result of the special transaction with the United Kingdom, giving rise to a capital inflow of \$62 million. Over the year there was a small net increase of \$2 million

in official holdings of sterling, while the remainder of the net movement was reflected by increased holdings of gold and United States dollars, shown (in terms of United States funds) in the accompanying statement. Particularly, interest naturally attaches to the sharp increase in official holdings of gold and United States dollars which occurred in the month of October, and which appears to have involved some changing of exchange positions. The transactions were probably reversed to some extent later within the quarter.

The composition of "other capital movements" is given in the statement below. In total they gave rise to an exceptionally large net capital inflow of \$631 million over the year compared with \$243 million in 1960. A particularly sharp turnaround of \$410 million occurred between the third and fourth quarters of the year.

Among the features which stand out on an annual basis is the return of capital to Canada through reductions in private and banking holdings of short-term funds abroad. While there have been quarters in which there were net movements into Canada, there has been only one other year, 1955, in the decade since the termination of foreign exchange in Canada when private and banking Canadian holdings of foreign exchange were not increased. The capital inflow from these balance changes in 1961 amounted to \$154 million, in sharp contrast to the outflow of \$61 million which occurred in 1960. Canadian holdings in these forms were well in excess of \$1.1 billion at the end of 1960 and, taking into account changes in their exchange value, fell by slightly over \$100 million in 1961.

Transactions between Canada and international financial agencies were dominated by drawings of Canadian dollars by member countries of the International Monetary Fund. A drawing in the second quarter by the Government of Australia of the equivalent of \$175 million in United States funds in currencies held by the Fund included about \$10 million in Canadian dollars; Australia also raised \$20 million in the Canadian capital market about this time. In the third quarter the Government of the United Kingdom arranged a drawing of the equivalent of \$1,500 million in United States funds in nine currencies, including \$75 million in Canadian funds. The Fund then replenished its holdings of each of these currencies, in an amount equal to one-third of the drawings by the United Kingdom, through sales of gold. The net effect on Canada of the transactions with the United Kingdom was that Canadian liabilities to the International Monetary Fund fell by about \$52 million, and there was a decline of about the same amount in Canada's official holdings of gold and foreign exchange.

The total decline of \$60 million in Canada's short-term liabilities to international financial agencies arising from the drawings and other uses was partially offset by Canadian quota or subscription payments of \$9 million to the International Monetary Fund, representing adjustment of the Fund's Canadian dollar holdings arising from exchange rate changes, and a capital subscription payment of \$8 million to the International Development Association.

Reference has already been made to the elements in this group of movements representing Canadian aid abroad through the extension of export credit facilities.

Borrowings from non-residents by finance companies (apart from transactions in long-term securities) together with non-resident holdings of Canadian commercial paper accounted for a net capital inflow of \$108 million in 1961. A very substantial part of this inflow occurred in the first quarter.

Regular readers of these reports will be aware of the wide variety of items embraced within the group of "all other transactions including changes in loans and accounts receivable and payable" totalling some \$446 million in 1961. When all the source data for 1961 have become available it may be that some items currently grouped here may be transferred to other categories in the balance of payments, but there will remain a wide range of accounts receivable and payable, intercorporate short-term items, bank loans, etc., quite apart from the real, financial, or documentary floats inherent in the compilation of estimates of this sort. For example, at the end of 1961 it is estimated that cheque floats in connection with a single transaction contributed more than \$30 million to this item in the statement. And there remain the possibilities of errors and omissions in some other items; the wide variety of channels open to Canadians for international security transactions make it difficult to ensure that all movements of capital are recorded, although coverage of the series is extended wherever possible to include new intermediaries or participants. As in the past changes in short-term receivables and payables of various sorts are believed to be the area of capital movements least completely covered.

Composition of "Other Capital Movements"
(millions of dollars)

	1960	1961	1960	1961			
	Year	Year	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Transactions with all countries							
International Financial Agencies(1)							
Canadian dollar subscriptions	- 10	- 17	- 6	-	- 9	-	- 8
Short-term Canadian dollar holdings	5	- 43	-	2	-	- 52	7
Other long-term capital transactions	58	- 17	15	- 1	- 27	- 1	12
Bank balances and other short-term funds abroad (excluding official reserves)	- 61	154	73	128	54	-140	112
Borrowings from non-residents by finance companies, and non-resident holdings of commercial paper (1961 only)	65	108	54	71	21	- 1	17
All other transactions including changes in loans and accounts receivable and payable(2)	186	446	55	105	157	54	130
TOTAL (Item D 17)	243	631	191	305	196	-109	270

(1) International Bank for Reconstruction and Development, International Monetary Fund, and International Development Association.

(2) Includes also balancing item representing difference between direct measurements of current and capital accounts.

NOTES: The figures in this statement are based on incomplete data, and make use in some cases of statistics compiled in other countries. The items are therefore subject to greater possible error than others in the balance of payments statement.

A minus sign indicates an outflow of capital from Canada.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1961 are preliminary and

		1959	1960		
		IV	I	II	III
A	Current Receipts				
1	Merchandise exports (adjusted)	1,449	1,283	1,323	1,400
3	Gold production available for export	37	44	35	42
4	Travel expenditures	61	36	91	221
5	Interest and dividends	69	36	40	36
6	Freight and shipping	110	102	115	118
7	Inheritances and immigrants' funds	24	18	29	31
11	All other current receipts	97	100	107	111
12	Total Current Receipts	1,847	1,619	1,740	1,959
B	Current Payments				
1	Merchandise imports (adjusted)	1,423	1,327	1,510	1,318
4	Travel expenditures	121	119	168	213
5	Interest and dividends	222	149	164	161
6	Freight and shipping	144	114	137	141
7	Inheritances and emigrants' funds	48	38	43	50
9	Official contributions	19	10	10	16
11	All other current payments	173	183	178	182
12	Total Current Payments	2,150	1,940	2,210	2,081
	Balance on Merchandise Trade	+ 26	- 44	- 187	+ 82
	Balance on Other Transactions, excluding B 9	- 310	- 267	- 273	- 188
	Official Contributions	- 19	- 10	- 10	- 16
C	Current Account Balance	- 303	- 321	- 470	- 122
D	Capital Account				
	Direct Investment				
1	Direct investment in Canada	+ 183	+ 196	+ 144	+ 168
2	Direct investment abroad	- 18	- 15	- 25	- 29
	Canadian Securities				
3a	Trade in outstanding bonds and debentures	+ 11	+ 19	+ 15	- 19
3b	Trade in outstanding common and preference stocks	+ 19	+ 13	+ 24	+ 10
4	New issues	+ 197	+ 209	+ 146	+ 52
5	Retirements	- 71	- 50	- 78	- 32
	Foreign Securities				
6	Trade in outstanding issues	- 8	+ 7	- 5	+ 2
7	New issues	- 7	- 2	- 3	- 2
8	Retirements	+ 4	+ 6	+ 3	+ 7
	Loans by Government of Canada				
9	Drawings	-	-	-	-
10,11	Repayments	+ 25	-	+ 7	-
13	Subscriptions in gold and U.S. dollars to international financial agencies	- 59	-	-	- 1
14	Change in Canadian dollar holdings of foreigners	- 44	- 2	- 2	+ 45
16	Change in official holdings of gold and foreign exchange (increase, minus)	+ 67	+ 11	+ 82	- 40
17	Other capital movements	+ 4	- 71	+ 162	- 39
E	Net Capital Movement	+ 303	+ 321	+ 470	+ 122

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 1960 are subject to revision.

1960	1961				Annual Totals				
IV	I	II	III	IV	1958	1959	1960	1961	
(millions of dollars)									
1,394	1,266	1,447	1,559	1,624	4,887	5,150	5,400	5,896	A
41	41	42	41	34	160	148	162	158	1
72	38	101	254	80	349	391	420	473	3
66	35	56	39	66	168	182	178	196	4
107	99	116	128	124	401	420	442	467	5
24	19	28	31	25	97	109	102	103	6
102	99	99	96	94	375	392	420	388	7
									11
1,806	1,597	1,889	2,148	2,047	6,437	6,792	7,124	7,681	12
1,390	1,263	1,478	1,422	1,554	5,066	5,572	5,545	5,717	B
127	126	173	214	120	542	598	627	633	1
195	204	173	173	221	612	671	669	771	4
141	114	138	149	153	460	525	533	554	5
50	40	46	49	48	145	165	181	183	6
24	12	8	14	20	53	72	60	54	7
183	181	187	193	197	690	693	726	758	9
									11
2,110	1,940	2,203	2,214	2,313	7,568	8,296	8,341	8,670	12
+ 4	+ 3	- 31	+ 137	+ 70	- 179	- 422	- 145	+ 179	
- 284	- 334	- 275	- 189	- 316	- 899	-1,010	-1,012	-1,114	
- 24	- 12	- 8	- 14	- 20	- 53	- 72	- 60	- 54	
- 304	- 343	- 314	- 66	- 266	-1,131	-1,504	-1,217	- 989	C
									D
+ 137	+ 120	+ 140	+ 75	+ 85	+ 420	+ 550	+ 645	+ 420	1
- 16	- 40	- 35	- 15	- 20	- 48	- 80	- 85	- 110	2
- 12	+ 31	+ 34	- 12	+ 10	-	+ 91	+ 3	+ 63	3a
+ 2	+ 13	+ 32	-	- 5	+ 88	+ 110	+ 49	+ 40	3b
+ 40	+ 90	+ 171	+ 127	+ 104	+ 677	+ 707	+ 447	+ 492	4
- 93	- 69	- 93	- 29	- 101	- 158	- 258	- 253	- 292	5
- 24	+ 3	-	+ 2	- 10	+ 13	- 32	- 20	- 5	6
- 11	- 5	- 18	- 6	- 5	- 17	- 13	- 18	- 34	7
+ 2	+ 2	+ 2	+ 3	+ 2	+ 7	+ 12	+ 18	+ 9	8
-	-	-	-	-	- 34	- 1	-	-	9
+ 25	+ 3	+ 8	-	+ 27	+ 64	+ 34	+ 32	+ 38	10,11
- 2	-	-	-	-	-	- 59	- 3	-	13
+ 79	- 5	- 72	- 1	+ 44	+ 106	+ 13	+ 120	- 34	14
- 14	- 105	- 51	+ 62	- 135	- 109	+ 70	+ 39	- 229	16
+ 191	+ 305	+ 196	- 140	+ 270	+ 122	+ 360	+ 243	+ 631	17
+ 304	+ 343	+ 314	+ 66	+ 266	+1,131	+1,504	+1,217	+ 989	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.

Exchange rate

The value of the Canadian dollar on the international exchange markets fell sharply during 1961.

United States Dollar in Canada
(Canadian cents)

<u>Period</u>		<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Noon Average</u>
1961	I Q	99.69	98.25	98.91	98.99
	II Q	103.53	98.59	103.50	99.42
	III Q	104.00	103.00	103.00	103.21
	Oct.	103.44	103.00	103.37	103.03
	Nov.	104.34	103.25	104.28	103.57
	Dec.	104.37	104.03	104.34	104.27

The last quotation for the United States dollar reported on transactions between banks in the Canadian exchange market in 1960 was 99.66 cents. At the end of 1961 it was 104.34 cents. The largest part of the change occurred between June 12 and June 23 when the noon average rose by more than four cents, and there were further rises toward the year-end. The trading ranges of 1.44 cents, 4.94 cents, 1 cent and 1.38 cents in the successive quarters of 1961 compared with 0.87 cents, 3.44 cents, 1.69 cents and 2.59 cents over the corresponding quarters of 1960.

The Canadian Balance of International Payments and International Investment Position

The annual DBS report, "The Canadian Balance of International Payments 1961 and International Investment Position", (Catalogue No. 67-201) will cover Canada's international transactions in 1961, including movements of direct investment and other capital not reviewed in this report, as well as recent estimates of foreign investment in Canada and of Canadian investment abroad.

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