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Minister of Trade and Commerce.

CANADA
DEPARTMENT OF TRADE AND COMMERCE
DOMINION BUREAU OF STATISTICS
INTERNAL TRADE BRANCH

THE CANADIAN BALANCE
OF
INTERNATIONAL PAYMENTS
1937



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1938

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THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

1937

The accompanying statement of the Canadian balance of international payments in 1937 supersedes the preliminary statement issued earlier in the year. While it is possible that subsequent research may give rise to further revision of some items, the statement is, for the most part, not likely to be altered.

Summary

The statement of the Canadian balance of payments for 1937 reveals many of the characteristics displayed in the last few years. A substantial balance of credits in the current account of goods, gold and services, reflecting a net outward movement of capital, continued to be the most outstanding feature. In other words, Canada's external income from the sale abroad of merchandise and gold and from the services provided in the Dominion for tourists from other countries was more than sufficient to cover current external payments, such as interest and dividends to investors in other countries. The resulting excess of income over payments produced a surplus of external credits that made it possible for Canada to make outward payments on capital account for such purposes as the retirement of Canadian bonds and debentures owned in other countries.

The principal developments affecting the balance of payments in 1937 are best observed by comparing changes in the larger groups of transactions during the past few years. A summary of the more important changes in Canada's international accounts during the five year period between 1933 and 1937 is shown in the table on the following page. The beginning of this period, 1933, marks the year when a credit balance reappeared in Canada's current account and the development of the credit balances and the accompanying export of capital are shown in the succeeding years. Each of the three major sources of external income, the merchandise trade, gold, and the tourist trade produced larger net credits annually until 1936. But, in 1937, while net credits from gold and from the tourist trade continued to expand, the balance of merchandise exports contracted sharply but it was still at a higher level than in any of the years shown before 1936. Although net payments of interest and dividends have increased in recent years with the rise in corporation incomes, in no year has the growth in net payments for interest, dividends, freight and other services been greater than the expansion in net income from the first three items mentioned.

The most flexible item of the current account during this period has been the merchandise trade and it was the sharp contraction in this item that constituted the most important change in the current account of the Canadian balance of payments in 1937. The continued growth in external income from the sale of gold and from the tourist trade was sufficient, however, to more than offset the rise in debits from interest and dividend payments, freight, and miscellaneous services. The decline in the credit balance was, therefore, less than the sharp drop in credits from the merchandise

trade and the net outflow of capital indicated by the credit balance in the current account, \$218.2 million, was still of very large proportions, being exceeded only, in the period since 1926, by the credit balance of \$308.5 million in 1936.

Movements of capital between Canada and other countries also followed very definite tendencies between 1933 and 1937 as may be observed from the capital account shown in the summary table. The net outward movements of capital from Canada, during these five years, have been principally made up of two groups, those in connection with the retirement of Canadian securities owned abroad and those connected with the international operations of companies, particularly insurance companies, companies falling in the class of British and foreign direct investments in Canada, and Canadian companies with direct investments abroad. While retirements of Canadian bonds and debentures owned abroad have, in each of the five years, exceeded new Canadian issues sold in capital markets outside of Canada, these redemptions were especially heavy in 1935 and 1936. The large volume of retirements in those two years was partly the result of large maturing issues. But, besides the issues falling due, there were a number of issues of corporation bonds owned abroad that were called for redemption and refinanced by new flotations in the Canadian market. In 1937, however, there was a decided contraction in the total of issues called, with the development of less favourable conditions for refinancing. This decline in net retirements in 1937 is the largest change in the movement of capital between Canada and other countries during the year and is the principal reason for the reduction in the net outward movement of capital, as the other groups of capital movements were outward on balance and in greater amounts than in preceding years.

The net result of the international trade in outstanding securities (classified as Other Security Transactions in the summary table) is noteworthy in 1937, principally for the change in direction that appears on balance. Purchases of outstanding securities by Canada exceeded sales in 1937, in contrast to the excess of sales in each of the four preceding years in which the trade has been completely recorded. In this connection, it is of interest to note that the movement in the index of common stock prices in Canada was upward throughout this period, until March, 1937.

The group of capital movements classified as "Other Capital Movements" in the summary table has grown throughout the five years. To a certain extent these are intercompany and intracompany movements that have increased in scale with the development of recovery. There is, however, a considerable diversity in the composition and significance of these movements that have been on balance outwards during the five year period, and the net increase between 1936 and 1937 must be considered in more detail.

A large part of the increase was due to a larger net debit in the item "Net Capital Transactions of International Direct Investments etc." shown in the detailed capital account for 1937. This increase was a result of the operations of both British and foreign-owned direct investments in Canada and Canadian direct investments abroad. The outward movement on account of the first group of concerns no doubt reflects the increasing incomes of many of these concerns in Canada, whereas the growth in the second group of transactions, those connected with Canadian direct investments abroad, may have been influenced to some extent by the recession in the United States in the latter part of 1937. Net outward remittances of Canadian trust companies included in this item declined, on the other hand, as did also the net outward remittances from insurance companies in Canada. The remaining source of debits recorded on capital account in 1937 was the increase in the net assets of Canadian banks abroad, a result of the growth in the external assets of the Bank of Canada.

Summary Table

Canadian Balance of International Payments 1933 - 1937

Net Receipts or Credits (+): Net Payments or Debits (-)

(In millions of dollars)

	1933	1934	1935	1936	1937
<u>Current Account of Goods, Gold and Services</u>					
1. Merchandise	+146.6	+146.1	+192.7	+322.2	+213.3
2. Gold	+ 87.8	+109.6	+116.7	+131.0	+145.0
3. Tourist Trade	+ 66.2	+ 82.4	+119.2	+140.9	+170.3
4. Interest and dividends	-224.3	-211.6	-208.6	-233.8	-246.2
5. Freight	- 22.1	- 27.9	- 14.1	- 17.8	- 25.5
6. Miscellaneous services	- 34.2	- 25.8	- 29.0	- 34.0	- 38.7
7. Net receipts or credits on current account .	+ 20.0	+ 74.8	+176.9	+308.5	+218.2
<u>Capital Account</u>					
8. New Issues and Retirements of Securities....	- 26.1	- 58.0	-154.4	-163.9	- 88.4
9. Other Security Transactions	+ 51.0	+ 8.9	+ 51.0	+ 7.8	- 4.8
10. Other Capital Movements	- 51.4	- 66.7	- 70.1	- 97.6	-105.6
11. Net outward capital movement	- 26.5	-115.8	-173.5	-253.7	-198.8
12. Residual item	6.5	41.0	3.4	54.8	19.4

In appraising the effects of the movement of capital between Canada and other countries, during recent years, upon Canada's balance of international indebtedness, it is apparent that these have been more in the direction of reducing the foreign liabilities of Canada rather than in that of increasing Canadian investments abroad. The retirements of Canadian bond issues owned abroad have been definitely in this direction. It is less easy to distinguish the effects upon international indebtedness of the other movements of capital, although these also appear to have been more in the direction of reducing liabilities. In 1937, however, as distinguished from the previous years, it would seem that a smaller proportion of the net outward movement of capital was employed for the reduction of liabilities than formerly. The decline in the net retirements, the increase in external banking assets, and the net purchases by Canada of United States securities all point to this conclusion. But, too much significance should not be given to the effects of the annual movement of capital upon international investments, as the values of these investments are subject to a wide range of influences independent of balance of payments transactions.

Particular characteristics and movements in the principal items appearing in the statement are described in more detail in the notes that follow.

Geographical Distribution of Canadian Balance of
Payments Transactions 1937

The accompanying table shows the approximate geographical distribution of the net balances of the principal items of the balance of payments in 1937. While the exact distribution of many transactions is recorded, the distribution shown for others is of necessity less accurate than the estimates of transactions with all countries. The table does, however, illustrate the general character of the relations between Canada and the three areas shown. It should be pointed out that the classification of transactions by countries is generally based upon the final incidence of the transactions rather than on the currency in which they were executed.

The credit balance of \$218.2 million between Canada and all countries in the current account is the result of credit balances from current transactions with the United Kingdom and other overseas countries of \$176.8 million and \$96.7 million respectively, as against a debit balance of \$55.3 million arising from current account transactions with the United States.

Credit balances from trade with the United Kingdom in merchandise and gold were reduced principally by the large debit balance arising from interest and dividend payments. In current account transactions with the United States, large credit balances from gold and the tourist trade were more than offset by net debits from the merchandise trade, interest and dividends and miscellaneous transactions. In the current transactions with other overseas countries there were substantial net credits from merchandise and interest and dividends.

The net capital movements between Canada and each of the three areas must also be taken into account, as the net capital movement shown by the current account balance with all countries does not in itself disclose the extent of the movements between Canada and each country. The outward movement of capital during the year was predominantly to the United States, outward movements to that country being recorded in each of the principal groups of capital movement. Capital movements between Canada and the United Kingdom were on balance outwards although the total outward movement for retirements and other capital movements was considerably reduced by inward movements of capital through the trade in outstanding securities. Movements of capital between Canada and other overseas countries were on balance inwards.

When the balances on current and capital account are considered together for each of the three areas, the general character of the commercial and financial transactions with these countries, during the year, becomes evident. Thus, net receipts from the United Kingdom were \$152.5 million, if the net payments on capital account are deducted from the net receipts on current account. Net payments to the United States in 1937, on the other hand, totalled \$240.2 million, if the net payments on capital account are added to the net payments on current account. Receipts from current account transactions from the countries other than the United States and United Kingdom were augmented by net receipts from these overseas countries on capital account.

The large volume of capital payments to the United States, as well as the smaller volume of net current payments to that country and the capital payments to the United Kingdom were made possible by the net credits from the current account with the United Kingdom and from the current and capital account with other overseas countries.

Geographical Distribution of the Net Balances of the Principal
Items of the Canadian Balance of International Payments, 1937

(In millions of dollars)

	Net credits (+) or net debits (-) Between Canada and			
	All Countries	United Kingdom	United States	Other Countries
Commodity Trade	+213.3	+253.1	-107.3	+67.5
Gold	+145.0	+ 31.8	+111.1	+ 2.1
Tourist Trade	+170.3	- 5.3	+175.6	-
Interest and Dividends	-246.2	- 88.0	-200.2	+42.0
Miscellaneous Current Transactions	- 64.2	- 14.8	- 34.5	-14.9
Net Credits on Current Account ...	+218.2	+176.8	-	+96.7
Net Debits on Current Account	-	-	- 55.3	-
Net Retirements	- 88.4	- 25.7	- 62.4	- 0.3
Other Security Transactions	- 4.8	+ 20.1	- 36.3	+11.4
Other Capital Movements	-105.6	- 18.7	- 86.2	- 0.7
Net Outward Capital Movement	-198.8	- 24.3	-184.9	-
Net Inward Capital Movement	-	-	-	+10.4

Estimated Canadian Balance of International Payments, 1937

(In millions of dollars)

	<u>Credits</u> Exports Visible and Invisible	<u>Debits</u> Imports Visible and Invisible	Net Credits (+) or Debits (-)
<u>Current Account of Goods, Gold and Services</u>			
1. Commodity Trade--			
Recorded merchandise exports and imports	1,125.0	808.9	
Unrecorded imports of ships	-	2.3	
	1,125.0	811.2	
Deductions for settlers effects and other non-commercial items.	3.9	9.8	
	1,121.1	801.4	
Correction for overvaluation and undervaluation	-	6.2	
Deduction of gold bullion and quartz from exports and addition of silver and other coin	1,121.1	795.2	
	111.4	1.2	
Corrected total of commodity trade	1,009.7	796.4	+213.3
2. Gold Exports and Imports (Including Earmarked Gold)--			
Non-monetary	145.1	0.1	
Monetary	-	-	
Total Gold	145.1	0.1	+145.0
3. Freight Receipts and Payments, n.o.p.	111.7	137.2	- 25.5
4. Tourist Expenditures	294.7	124.4	+170.3
5. Interest and Dividend Receipts and Payments	78.8	325.0	-246.2
6. Immigrants' Remittances	7.5	22.0	- 14.5
7. Government Expenditures and Receipts	7.6	11.1	- 3.5
8. Charitable and Missionary Contributions	0.9	2.0	- 1.1
9. Advertising Transactions	2.7	2.5	+ 0.2
10. Motion Picture Earnings	-	4.5	- 4.5
11. Capital of Immigrants and Emigrants	1.6	4.1	- 2.5
12. Earnings of Canadian Residents Employed in U.S.A. and U.S. Residents Employed in Canada	4.9	1.7	+ 3.2
13. Net Payments for Entertainment Services, Royalties etc. not included above	-	16.0	- 16.0
14. Total Credits and Debits as Above	1,665.2	1,447.0	+218.2
15. Balancing Item-Difference Between Credits and Debits Above		218.2	
	1,665.2	1,665.2	

Capital Account

	<u>Credits</u>	<u>Debits</u>	
1. New Issues (par value)	93.0		
Less Commissions and Discounts	3.5		
Net New Issues	89.5	-	
2. Retirements of Securities Owned Outside Canada	-	177.9	- 88.4
3. Sales and Purchases of Outstanding Securities	506.6	511.4	- 4.8
4. Net Capital Transactions of International Direct Investments etc.	-	82.6	- 82.6
5. Insurance Transactions n.o.p.	24.0	34.0	- 10.0
6. Change in Estimated Net Assets of Canadian Banks Outside Canada	-	13.0	- 13.0
7. Total Credits and Debits as above	620.1	818.9	-198.8
8. Balancing Item - Direct Estimate of Net Outward Capital Movement	198.8		
	818.9	818.9	
9. Residual Item ⁽¹⁾ - Difference between the Balancing Items of Current and Capital Accounts	19.4		

(1) This item is the difference between Item 15 of the current account, which indirectly indicates the net capital movement, and Item 8 of the capital account, which is the net capital movement arrived at by the direct estimate of the capital movements shown. As these two balancing items would balance in a statement that was absolutely correct and all-inclusive, it may be assumed that the residual item represents either errors in the computations or the omission of transactions which have not been traced.

Notes on the Principal Items of the Current Account

Merchandise Trade (Exclusive of Gold)

In 1937 Canada's credit balance of commodity trade was much lower than in 1936. This contraction in the active balance on merchandise account from \$322.2 million in 1936 to \$213.3 million in 1937 was the most important change in the current account of the Canadian balance of payments in 1937. A greater increase in the value of imports than in the value of exports was the reason for the shrinkage in net credits. To an important extent the small increase in total exports was the result of the marked decline in grain exports, the consequence of poor crops in the Prairie Provinces, while growing imports customarily follow a period of heavy exports.

But even with this sharp contraction from the peak of 1936, the credit balance on merchandise trade in 1937 was still at an unusually high level, being greater than in any year in the previous decade with the exception of 1936. Reduced balances of exports or increasing debit balances were experienced, however, by many of the debtor countries of the world in the latter half of 1937, with the decline in demand for raw materials and foodstuffs, and the weakness in prices that developed. But, in contrast, it is interesting to observe that the demand for many commodities, especially metals, exported from Canada was well maintained throughout 1937. The Canadian balance of exports in the latter half of the year was greater than in the first half, although exports of wheat, the commodity customarily adding substantially to the value of exports from Canada in the latter part of the year, were unusually light. The behaviour of the Canadian balance of commodity exports in 1937 contrasts with the rapid deterioration in the balances of exports of many of the other primary producing countries in the latter part of 1937.

Analysis of the balance of merchandise trade between Canada and the United Kingdom, the United States and all other countries discloses the divergent trends in the trade with different countries during the year. The balance of merchandise exports, excluding gold and without adjustments for non-commercial and other small items, was \$92.9 million in the first six months of 1937 and \$110.5 million in the last half of the year. In contrast, the balance of imports from the United States was greater during the second half year than during the preceding six months. This debit balance from the merchandise trade with the United States increased from \$52.4 million in the first period to \$65.1 million in the second. Decreasing credits are also evident in the trade with overseas countries other than the United Kingdom. Net credits derived from the trade with these other countries were \$38.2 million in the first half year and \$26.7 million in the second half year. The explanation for the growing export balance in the trade with all countries in the second half of the year lies, of course, in the trade with the United Kingdom. Net credits from the merchandise trade with the United Kingdom grew from \$107.1 million in the first half year to about \$149.0 million in the second half. This change was the result of expanding exports. Imports from the United Kingdom in the second half of 1937 were \$8.3 million greater than in the first half, while exports were greater by \$50.1 million. This increase in exports to the United Kingdom is particularly impressive when the low level of wheat exports in 1937 is considered. It is clear that the heavy British demand for Canadian merchandise in 1937, especially in the latter part of the year, was a most important factor maintaining Canada's export balance of merchandise trade during the year.

The recorded statistics of merchandise trade, it will be noted, have been adjusted for balance of payments purposes when entered in the balance of payments statement. Besides the deduction of gold bearing quartz and non-monetary gold bullion from exports of merchandise, certain other adjustments have been made. These include -

Merchandise Trade, Exclusive of Gold, Between Canada and Other Countries

1937

(In millions of dollars)

For Month of	Total			United States				United Kingdom				Other Countries			
	Exports	Imports	Net Exports(+) Imports(-)	Exports	Imports	Net Exports(+) Imports(-)	Exports	Imports	Net Exports(+) Imports(-)	Exports	Imports	Net Exports(+) Imports(-)	Exports	Imports	Net Exports(+) Imports(-)
January..	78.0	52.0	+ 26.0	29.1	33.3	- 4.2	30.5	9.3	+ 21.2	18.4	9.4	+ 9.0			
February.	64.9	48.7	+ 16.2	26.1	31.8	- 5.7	23.6	9.2	+ 14.4	15.2	7.7	+ 7.5			
March ...	84.6	71.1	+ 13.5	35.0	44.8	- 9.8	30.1	12.9	+ 17.2	19.5	13.4	+ 6.1			
April ...	59.9	56.9	+ 3.0	26.8	36.7	- 9.9	19.6	10.2	+ 9.4	13.5	10.0	+ 3.5			
May	91.3	76.8	+ 14.5	35.4	46.0	- 10.6	34.8	14.5	+ 20.3	21.1	16.3	+ 4.8			
June	95.5	75.8	+ 19.7	33.5	45.7	- 12.2	38.0	13.4	+ 24.6	24.0	16.7	+ 7.3			
July	92.0	72.1	+ 19.9	33.0	42.0	- 9.0	36.6	14.6	+ 22.0	22.4	15.5	+ 6.9			
August ..	91.2	70.1	+ 21.1	33.6	40.3	- 6.7	35.9	13.1	+ 22.8	21.7	16.7	+ 5.0			
September	83.8	70.4	+ 13.4	33.4	41.7	- 8.3	33.3	12.7	+ 20.6	17.1	16.0	+ 1.1			
October .	94.3	82.2	+ 12.1	32.4	47.4	- 15.0	40.4	13.7	+ 26.7	21.5	21.1	+ 0.4			
November	102.0	80.8	+ 21.2	29.0	46.5	- 17.5	49.2	15.0	+ 34.2	23.8	19.3	+ 4.5			
December	76.0	53.2	+ 22.8	26.3	34.9	- 8.6	31.3	8.7	+ 22.6	18.4	9.6	+ 8.8			
Total - 12 Months	1013.5	810.1	+ 203.4	373.6	491.1	-117.5	403.3	147.3	+ 256.0	236.6	171.7	+ 64.9			

Cumulative Merchandise Trade, Exclusive of Gold, Between Canada and Other Countries

1937

(In millions of dollars)

To End Of	Total			United States			United Kingdom			Other Countries		
			Net			Net			Net			Net
	Exports	Imports	Exports(+) Imports(-)	Exports	Imports	Exports(+) Imports(-)	Exports	Imports	Exports(+) Imports(-)	Exports	Imports	Exports(+) Imports(-)
January..	78.0	52.0	+ 26.0	29.1	33.3	- 4.2	30.5	9.3	+ 21.2	18.4	9.4	+ 9.0
February..	142.9	100.7	+ 42.2	55.2	65.1	- 9.9	54.1	18.5	+ 35.6	33.6	17.1	+ 16.5
March ...	227.5	171.8	+ 55.7	90.2	109.9	- 19.7	84.2	31.4	+ 52.8	53.1	30.5	+ 22.6
April ...	287.4	228.7	+ 58.7	117.0	146.6	- 29.6	103.8	41.6	+ 62.2	66.6	40.5	+ 26.1
May	378.7	305.5	+ 73.2	152.4	192.6	- 40.2	138.6	56.1	+ 82.5	87.7	56.8	+ 30.9
June.....	474.2	381.3	+ 92.9	185.9	238.3	- 52.4	176.6	69.5	+ 107.1	111.7	73.5	+ 38.2
July	566.2	453.4	+ 112.8	218.9	280.3	- 61.4	213.2	84.1	+ 129.1	134.1	89.0	+ 45.1
August ..	657.4	523.5	+ 133.9	252.5	320.6	- 68.1	249.1	97.2	+ 151.9	155.8	105.7	+ 50.1
September	741.2	593.9	+ 147.3	285.9	362.3	- 76.4	282.4	109.9	+ 172.5	172.9	121.7	+ 51.2
October..	835.5	676.1	+ 159.4	318.3	409.7	- 91.4	322.8	123.6	+ 199.2	194.4	142.8	+ 51.6
November	937.5	756.9	+ 180.6	347.3	456.2	-108.9	372.0	138.6	+ 233.4	218.2	162.1	+ 56.1
December	1,013.5	810.1	+ 203.4	373.6	491.1	-117.5	403.3	147.3	+ 256.0	236.6	171.7	+ 64.9

- the addition to imports of unrecorded imports of ships, the deduction from imports and exports of settlers' effects and other non-commercial items recorded in the trade statistics, the deduction of goods imported by Canadian tourists returning to Canada when these have been declared under the \$100 tourist exemption clause of the Customs Act as these are included in the estimated expenditures of Canadian tourists in other countries, and corrections for known overvaluations or undervaluations of imports.

The accompanying tables showing the merchandise trade by months, exclude gold, but have not been adjusted for the various non-commercial factors mentioned above, as these latter adjustments have only been made for the year as a whole.

Gold Exports and Imports--

This item includes all gold exported in the form of quartz, bullion, or coin, as well as Canadian gold sold and earmarked for external account. Accordingly, gold bearing quartz and gold bullion other than monetary have been deducted from the statistics of merchandise exports, and to them have been added exports of foreign gold coin, and earmarked gold.

Exports of Gold from Canada, Calendar Year 1937

(In millions of dollars)

	Total Exports	To United Kingdom	To United States	To Other Countries
Gold Bearing Quartz	7.1	(1)	7.0	0.1
Gold Bullion-Other than monetary	105.7	2.5	103.2	-
Canadian Gold Coin	-	-	-	-
Canadian Bullion-Monetary	-	-	-	-
Foreign Gold Coin	12.0	9.1	0.9	2.0
Foreign Bullion-Monetary	-	-	-	-
Total Exports as above	124.855	11.6	111.1	2.1
Earmarked Gold	20.2			
Total Sales of Gold	145.1			

(1) Less than .05

The credits in 1937 from gold, \$145 million, compare with \$132 million in 1936 and \$116.7 million in 1935. This growth in the credits received from the sale of gold outside of Canada reflects the expansion in production in Canada. Dividends paid by mines to shareholders outside of Canada appear as debits in the interest and dividend item and offset in part the external credits received from the sale of gold, as also do some transactions recorded in the capital account.

Freight Receipts and Payments n.o.p.--

This item includes payments for freight that have not been already included in the value of merchandise imports and exports, as well as earnings on intransit and other traffic with a direct bearing upon the Canadian balance of payments. Gross re-

ceipts and payments shown for 1937 are heavier than in previous years although the net debits have increased more moderately, being \$25.5 million in 1937 as compared with \$17.8 million in 1936. The larger gross amounts are due partly to larger payments to United States railways arising from increased imports from that country of merchandise, especially coal, and to higher ocean freight rates. But a change in the method of treating ocean shipping transactions is also responsible for some of the increase in gross amounts.

Tourist Expenditures--

Canada's external income from the tourist trade continued to grow in 1937. The estimated expenditures in Canada of tourists from other countries in 1937 are \$294.7 million contrasted with \$251.3 million in 1936. This amount is not far short of the peak in expenditures in 1929 estimated at \$309.4 million. The principal part of the increase in 1937 was in the expenditures of tourists from the United States entering Canada by automobile on tourist permits. The expenditures of this group constituted more than 60 per cent of the total.

The expenditures of Canadian tourists in other countries are estimated at \$124.4 million for 1937 compared with \$110.4 million for 1936. These expenditures in 1937 are higher than those estimated for any previous year. Net credits from the tourist trade increased to \$170.3 million from \$140.9 million in 1936 but were still lower than those estimated for the years from 1929 to 1931.

Estimated Expenditures in Canada of Tourists from Other Countries

	<u>1937</u>	<u>1936</u>
From Overseas Countries	16,972,000	12,946,000
From the United States--		
By Automobile	181,332,000	153,509,000
By Rail and Steamer	69,751,000	64,844,000
Other Visitors (Ferry, airplane, bus, etc.)	26,627,000	20,000,000
Total -- All Expenditures	294,682,000	251,299,000

Estimated Expenditures of Canadian Tourists in Foreign Countries

	<u>1937</u>	<u>1936</u>
Overseas Countries	22,335,000	21,336,000
The United States--		
By Automobile	48,893,000	43,811,000
By Rail and Steamer	24,194,000	21,253,000
By Bus, Ferry, Airplane etc.	29,000,000	24,000,000
	124,422,000	110,400,000
Net Credits Received by Canada	170,260,000	140,899,000

Interest and Dividend Receipts and Payments--

Interest and dividends received by Canada from investments in other countries show little change in 1937 from the amounts received in 1936. Income received in these forms from Canadian direct investments abroad was about the same as in the preceding year, while the estimated receipts from United States stocks and foreign bonds increased only slightly.

Dividends paid by Canadian companies to shareholders abroad were more flexible, on the other hand, showing a considerable increase. Total dividends paid by Canadian companies to shareholders resident in other countries are estimated to have been about \$172 million in 1937. This amount, however, is still subject to revision as, although the majority of Canadian companies with non-resident shareholders have already reported 1937 dividend payments, there are still some of these payments not yet recorded. Interest paid on Canadian bonds estimated as owned in other countries totalled \$153 million in 1937.

Miscellaneous Current Transactions--

Quite a wide range of services is embraced in this group of transactions. Included are government expenditures, charitable and missionary contributions, advertising transactions, motion picture royalties, entertainment services, other royalties, earnings of Canadian residents employed in the United States and of United States residents employed in Canada, immigrants' remittances and the capital of migrants. While some of these groups of transactions give rise to only small net balances, there are several that are more significant in their effects, notably immigrants' remittances and the payments for miscellaneous services including royalties. The net debits from all these transactions were not far short of \$40 million in 1937, compared with \$34 million in 1936.

Notes on the Items of the Capital Account

New Issues of Canadian Securities Sold Abroad--

The par value of Canadian bond issues sold outside of Canada in 1937, \$93.0 million, was slightly lower than in 1936. The principal amount of this total is represented by two Dominion issues floated in New York in January and having a par value of \$85,000,000. Although some part of this flotation was subsequently placed in Canada, it is believed that the amounts sold in Canada have been reported as Canadian purchases from the United States in the trade in outstanding securities. Consequently, the amount of the new issue sold in Canada is offset by debits in the "Sales and Purchases of Securities" item of the capital account.

Most of the new issues sold outside of Canada were in connection with refinancing operations. Only a minor part of the total represents new capital raised abroad. At least one purely refinancing operation has been excluded from the total, there being no net capital movement resulting.

Retirements of Canadian Securities Owned Outside of Canada--

Besides maturing issues, this item includes redemptions by call, and remittances from Canada on account of the operations of sinking funds except repurchases reported in the trade in outstanding securities.

Total retirements in 1937 of issues owned outside of Canada were \$177.9 million compared with \$270.0 million in 1936 and \$267.5 million in 1935. This sharp reduction represents the largest change in capital movements in 1937 and is due to a smaller volume of maturities and a decline in the number of corporation issues called for redemption, as circumstances were less favourable in the latter part of the year for refinancing in the Canadian market.

The net outward movement of capital in 1937 arising from the redemption of Canadian bonds owned outside of Canada was \$88.4 million. This is the amount by which the amounts owned abroad of retired issues exceeded the net proceeds from the sale of new Canadian issues abroad and compares with \$163.9 million in 1936 and \$154.4 million in 1935. Most of the net reduction in foreign liabilities was in the indebtedness of Canadian corporations, although the outstanding external indebtedness of provincial and municipal governments was also reduced.

Sales and Purchases of Securities Between Canada and Other Countries

Although the trade in outstanding securities between Canada and other countries in 1937 was of even greater proportions than in previous years, it was only accompanied by a relatively small net outward movement of capital that was in an opposite direction to the net movement in the preceding years. Total purchases by Canada of \$511.4 million exceeded total sales of \$506.6 million by only \$4.8 million. As sales and purchases almost balanced in the second half of the year, it was in the first half of the year, particularly in April, when these net purchases were executed. In fact, net purchases in the second quarter of the year more than offset the large net sales in the first quarter that were concentrated in February when the prices of stocks were unusually high.

As the amounts of these international security transactions recorded are the amounts of the sales and purchases, the gross transactions are not all accompanied by foreign exchange transactions, especially in the case of stock exchange transactions. Statements received on foreign exchange transactions accompanying reports on sales and purchases of securities, however, reveal that the net sales and purchases generally reflect the movements of capital of significance to the balance of payments.

The net outflow of capital during the year was the result of a number of offsetting capital movements. The more pronounced tendencies are revealed in the trade with different countries and in the trade in the various classes of security. The extent to which the large outflow of capital from Canada to the United States was offset by inflows of capital from the United Kingdom and other overseas countries is shown in the accompanying table.

Sales and Purchases of Securities Between Canada and Other Countries 1937

(Millions of dollars)

	Sales to	Purchases from	Net Sales (+) Purchases (-)
United Kingdom	105.7	85.6	+20.1
United States	376.4	412.7	-36.3
Other Countries	24.5	13.1	+11.4
Total, All Countries	506.6	511.4	- 4.8

The net purchases from the United States of \$36.3 million were principally the result of repurchases on balance by Canada of Canadian stocks, although Canadian provincial, municipal and corporation bonds were also purchased in considerable amounts, as well as United States stocks and bonds. During the same period, Dominion government issues and Canadian railway issues were sold on balance to the United States.

On the other hand, the influx of capital from the United Kingdom was produced, for the most part, by sales of Canadian stocks and bonds, although there were also sales of United Kingdom bonds as well. Likewise, excess sales over purchases of the stocks and bonds of Canadian companies and Dominion government bonds were the principal transactions giving rise to the inflow of capital from other overseas countries.

The consequence of these diverse transactions was that, although the total net change in the external ownership of Canadian securities was slight, there were more marked changes in the ownership of particular groups of securities. Thus, reduced United States holdings of Canadian stocks were accompanied by enlarged British and overseas holdings. Then, while external holdings of Dominion Government issues and Canadian railway bonds increased as a result of the trade in securities, there were reductions in the holdings of Canadian provincial, municipal and corporation bonds. Canadian holdings of United States bonds increased and the slight excess of Canadian purchases of United States stocks over sales indicates that Canadian holdings of these securities may also have increased, although fluctuations in the market prices of stocks make such a conclusion uncertain.

In considering the general character of the trade in securities in 1937, as contrasted with previous years, it should be borne in mind that the first serious recession in the prices of Canadian stocks in recent years took place in 1937. The course of the official index of common stock prices shows that the month of March, 1937 marked the termination of an irregular advance that started early in 1933. The declines in the latter part of 1937 were particularly sharp. Canadian net purchases of securities were mostly executed in the months following the peak in stock prices reached in March.

Net Capital Transactions of International Direct Investments etc.--

The net debits arising from this group of transactions totalled \$82.6 million in 1937 contrasted with \$74.2 million in 1936. The capital movements included in this item are made up of the net transactions not recorded elsewhere connected with (1) British and foreign direct investments in Canada, (2) Canadian direct investments abroad, (3) Canadian trust companies. The first of these groups of transactions is the most important. The increase in the net outward movement was in the first and second groups, the net outflow connected with the operations of Canadian trust companies being less than in the previous year.

Although the transactions shown in this item of the capital account are, for the most part, capital movements, there are some small items of current transactions included.

Insurance Transactions--

The transactions recorded in this item are the movements of funds between Canada and other countries arising from the international operations of insurance companies that are not recorded in other items of the balance of payments statement. The amounts have been reported by both Canadian companies and British and foreign

companies with branches in Canada.

In 1937 the net outflow of funds declined to \$10.0 millions contrasted with the net outward movement of \$26.0 million in 1936. This was the result of an expansion in the total inward movement of funds and a contraction in the outward movement. The transactions of Canadian companies showed a change from a net outflow in 1936 to a net inflow in 1937, while the operations of British and foreign insurance companies in Canada resulted in a smaller net outflow of funds.

International Insurance Transactions, 1936 and 1937

(A) Movements of Funds, n.o.p., between Canada and Other Countries

(In millions of dollars)

Plus sign indicates net inflow of funds to Canada
Minus sign indicates net outflow of funds from Canada

	<u>1936</u>	<u>1937</u>
Between Canada and		
United Kingdom---		
Inflow from	1.8	9.0
Outflow to	8.0	9.2
Net Movement	-6.2	-0.2
United States---		
Inflow from	14.6	11.8
Outflow to	35.8	23.7
Net Movement	-21.2	-11.9
Other Countries---		
Inflow from	2.6	3.2
Outflow to	1.2	1.1
Net Movement	+1.4	+2.1
All Countries---		
Inflow from	19.0	24.0
Outflow to	45.0	34.0
Net Movement	-26.0	-10.0

(B) Movements of Funds n.o.p. between Canada and all Other Countries
by Groups of Companies.

(In millions of dollars)

Plus sign indicates net inflow of funds to Canada
Minus sign indicates net outflow of funds from Canada

	<u>1936</u>	<u>1937</u>
Nationality of Companies		
Canadian Companies--		
Inward	14.6	20.1
Outward	17.5	12.5
Net Movement	-2.9	+7.6
British, United States, and Other Companies--		
Inward	4.4	3.9
Outward	27.5	21.5
Net Movement	-23.1	-17.6
All Companies--		
Inward	19.0	24.0
Outward	45.0	34.0
Net Movement	-26.0	-10.0

Change in Estimated Net Assets of Canadian Banks Outside of Canada--

The estimated net assets of Canadian banks outside of Canada increased by \$13.1 million between the beginning and the end of the year. The increase in the external assets of the Bank of Canada was more than this but part of this growth was offset by a decline in the net assets abroad of the chartered banks.

It should be noted that all changes in international short-term banking assets and liabilities are not included in this item. For example, fluctuations in foreign deposits in Canada and Canadian assets or liabilities in foreign banks are not completely reflected in this item. While it is known that the deposits of foreign banks in Canadian banks in Canada increased, it is not known to what extent there were other movements offsetting this apparent inward movement of funds.

Residual Item--

In the balance of payments statement for 1937 the residual item is \$19.4 million. This item is the difference between the net movement of capital indicated by the current account balance and the net movement of capital traced in the capital account. Theoretically, in a perfect balance of payments statement, the net balances in the current account and capital account would exactly offset one another. The residual item, therefore, is a measure of the accuracy and completeness of the statement and may reflect either errors or omissions. There is reason to believe that part of the residual item in 1937 is due to the absence of debits in the capital account to offset merchandise exported from Canada under various special circumstances. An illustration is provided by the stocks of newsprint stored in the United States at the end of the year but still owned by Canadian producers. As special transactions such as these are difficult to record exactly, no account of them has been taken in the statement. Similarly, certain other classes of short-term transactions are unrecorded.

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