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

THE CANADIAN BALANCE
OF
INTERNATIONAL PAYMENTS

PRELIMINARY STATEMENT
1938

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

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ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Preliminary Statement for 1938

The preliminary statement of the Canadian Balance of International Payments for 1938 presents provisional estimates of the current items of goods, gold and services and the principal capital items in Canada's international accounts for the year. While complete and final information will not be available until later in the year, sufficient data are now available to permit the presentation of the salient features of last year's transactions.

A substantial credit balance on current account, revealing a net outflow of capital from Canada, continued to be the outstanding feature of the Canadian balance of international payments statement for 1938. Thus, changes appearing in the statement for 1938 do not alter the fundamental features characteristic of statements for a period of at least five years. Developments revealed in the statement for 1938, as in other recent years, alter the emphasis and significance of individual groups of transactions rather than point to any transformation in the essential nature of Canada's commercial and financial transactions with other countries.

Statements of the Canadian balance of payments in each of the five years from 1934 to 1938 display many common characteristics as is illustrated in the accompanying summary table. It is noteworthy that each of the principal items or groups of transactions, with the single exception of "other security transactions" in 1937, have given rise to balances of a similar kind in each year throughout the period. For example, a balance of credits in the current account pointing to outward movements of capital, is found in each statement. The principal sources of the credit balances on current account have invariably been the merchandise trade, gold, and the tourist trade, credit balances ruling for each of the three in every year. While debit balances from international payments on account of interest and dividends, freight and miscellaneous services are found in each of the annual statements, they have always been much less than the credit balances from the three items already mentioned. In other words the income of the Dominion from external sources of revenue has exceeded all the current disbursements in other countries made by Canadians by substantial surpluses in every year from 1934 to 1938. These substantial surpluses or credit balances on current account have been employed by Canada for transactions on capital account and the summary of capital movements in the capital account discloses the general nature of the movements of capital.

Capital movements likewise display many parallel tendencies throughout the five-year period. In each year the outward movements of capital for the redemption of Canadian securities owned abroad have exceeded inward movements of capital from the flotation of new issues of Canadian securities in capital markets abroad. Canadian liabilities abroad have accordingly been reduced by such retirement operations. Other security transactions (international trade in outstanding securities) with the exception of 1937 have given rise to inward movements of capital on balance, offsetting in part the reduction in Canadian securities owned abroad resulting from retirements. Other capital movements arising mostly from the international operations of companies and institutions have been outwards on balance and in increasing volume. These, too, have the general effect of either reducing Canadian indebtedness abroad or increasing Canadian assets outside of Canada.

As the summary table shows, the changes in the balance of payments in 1938 were more evident in individual items than in the character of the statement as a whole. The credit balance on current account declined from \$218.2 million in 1937 to \$184.8 million in 1938. This item is the extent by which receipts from the sale of goods, gold and services to other countries exceeded payments abroad for goods and services. Considering the generally lower level of prices of foodstuffs and raw materials and of incomes throughout the world in 1938, and the wide fluctuations in the merchandise balance of other nations under these circumstances, this change appears moderate. Such international de-

January 31, 1939.

Summary Table

Canadian Balance of International Payments 1934 - 1938

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

(In millions of dollars)

	1934	1935	1936	1937	1938*
<u>Current Account of Goods, Gold and Services</u>					
1. Merchandise.....	+148.1	+192.7	+322.2	+213.3	+180.5
2. Gold.....	+109.6	+116.7	+131.0	+145.0	+156.5
3. Tourist Trade.....	+ 82.4	+119.2	+140.9	+170.3	+145.0
4. Interest and Dividends.....	-211.6	-208.6	-233.8	-246.2	-242.0
5. Freight.....	- 27.9	- 14.1	- 17.8	- 25.5	- 20.0
6. Miscellaneous Services.....	- 25.8	- 29.0	- 34.0	- 38.7	- 35.2
7. Net Receipts or Credits on Current Account.....	+ 74.8	+176.9	+308.5	+218.2	+184.8
<u>Capital Account</u>					
8. New Issues and Retirements of Securities	- 58.0	-154.4	-163.9	- 88.4	- 60.1
9. Other Security Transactions.....	+ 8.9	+ 51.0	+ 7.8	- 4.8	+ 27.0
10. Other Capital Movements.....	- 66.7	- 70.1	- 97.6	-105.6	-127.0
11. Net Outward Capital Movement.....	-115.8	-173.5	-253.7	-198.8	-160.1
12. Residual Item.....	41.0	3.4	54.8	19.4	24.7

* Preliminary.

velopments directly influenced the merchandise trade in particular, and most of the other items directly or indirectly as well. For instance, lower prices and reduced demand for merchandise had its effect upon the Canadian merchandise trade, both exports and imports declining. The international tourist trade likewise no doubt reflected reduced incomes, while lower corporate incomes are reflected in the principal changes in the dividends item. Reduced international movements of merchandise and lower ocean freight rates contributed to a decline in net debits on freight account while miscellaneous services also effected reduced debits on balance, the consequence of more diverse causes. The outstanding exception to the changes already pointed out was the gold item. The expansion in net credits from the sale of gold continued, the result of increasing production and rigid price. In brief, the principal changes in the current account in 1938 were the consequence of reduced credit balances from the merchandise and tourist trades, being partly offset by increased credits from the sale of gold and declines in net debits on account of interest and dividends, freight and miscellaneous services with the result that the reduction in the credit balance on current account was only moderate.

As is to be expected, the capital account in 1938 also reveals a contraction in the net outflow of capital. Outstanding among the changes in the capital movements are the reduced outflow of capital for the redemption of Canadian securities, the change in direction in the international trade in securities and the apparent increased proportions of other capital movements. Net retirements were lower as the number of issues maturing in 1938 was less than in recent years, and, conditions being generally less favourable for refinancing than in earlier years, there was also a drop in the number of issues owned abroad that were called for redemption. The international trade in securities gave rise to a net inflow of capital in 1938 in contrast to a small outflow in 1937. Increased demand for Canadian stocks from the United States and from overseas countries other than the United Kingdom was the principal source of the net inflow of capital from the trade in securities. This demand was evident in the reports on the trade in securities during most months of the year including those when international unsettlement prevailed. Less complete information is available at the time of writing on the group of capital transactions classified as "other capital movements". On the basis of the level of transactions in 1937 and previous years and taking account of known developments in 1938 together with some detailed information already available the net outflow of capital has been tentatively placed at a higher level than in 1937. Although amounts offsetting entries elsewhere in the statement represent part of this item, it may be generally taken as indicative of an increase in the transactions included in the group in previous years.

Statements of British and Foreign Capital Invested in Canada and Canadian Investments Abroad as at the end of 1938 will not be available until later in the year.

Notes on the Principal Items of the Current Account

Merchandise Trade (Exclusive of Gold)--

Statistics shown under this item exclude all gold and have also been altered for balance of payments purposes by the elimination of non-commercial items and other adjustments.

Comparable data on the commodity trade for a five-year period follow:

1. Merchandise Trade Between Canada and Other Countries--Exclusive of Gold, and adjusted for Balance of Payments Purposes, 1934-1938.

(In millions of dollars)

	<u>Exports</u>	<u>Imports</u>	<u>Net Credits</u>
1934.....	652.9	504.8	+ 148.1
1935.....	735.6	542.9	+ 192.7
1936.....	947.9	625.7	+ 322.2
1937.....	1,009.7	796.4	+ 213.3
1938.....	847.0	666.5	+ 180.5

As revealed by the above table, the decline in the value of imports in 1938 from the level of the previous year was almost as great as the drop in the value of exports, with the result that the net credits from the commodity trade were only \$32.8 million lower than in 1937. The declines in both exports and imports were about 16 per cent. As export prices generally declined more than import prices this would suggest that the decline in the volume of imports was greater than the decline in the volume of exports.

More than half of the credit balance on commodity account resulted from trade recorded in the last four months of the year. Smaller debit balances in the last five months of the year in trade with the United States and sustained demand from the United Kingdom and other overseas countries produced this result even though the value of exports of wheat remained at a low level. The lightest credit balances were in the spring and early summer months. In fact the balance of exports in each of the last three months of 1938 was greater than the balance of trade in any month during 1937 with the exception of January.

From available statistics on the trends in the external trade of other countries in which exports of raw materials and foodstuffs have an important place there is evidence pointing to the conclusion that Canada's balance of merchandise trade was maintained more firmly throughout 1938 and the latter part of 1937 than that of most countries depending upon foreign demand for the sale of primary products. While the merchandise balances of most primary producing debtor countries displayed marked changes as a consequence of reduced foreign demand, the Canadian balance of merchandise exports remained relatively firm. Sustained demand for non-ferrous metals was no doubt an important contributing factor to the strength in the Canadian position. Viewed from the point of view of the balance of payments as a whole, however, it should be pointed out that there are invisible debits elsewhere in the statement offsetting in part credits from the export of some commodities like metals, such as dividends to shareholders abroad of Canadian companies.

Gold Exports and Imports (Including Earmarked Gold)--

Amounts shown in this item have been selected to reflect the transactions in gold with direct effects upon the Canadian balance of payments. Accordingly, imports of gold for deposit in Canada under earmarked account and exports of gold from earmarked account have been deducted, while sales of gold to earmarked account have been included.

Total gold recorded among exports in Canadian trade statistics in 1938 is made up of the following items:

	<u>Millions of dollars</u>
Gold bearing quartz etc.	8.2
Gold bullion other than monetary	67.7
Foreign gold coin.....	<u>60.6</u>
	136.5

Imports of gold recorded in 1938 follow:

	<u>Millions of dollars</u>
Gold in bars, blocks etc.	57.4
Gold coin	<u>0.4</u>
	57.8

But earmarking transactions must be taken into account as well, for substantial amounts of the gold movements included in several of the items above, being movements to and from Canada of earmarked gold, did not give rise to financial transactions with effects upon the Canadian balance of payments. On the other hand, other transactions on earmarked account, i.e. sales of gold to earmarked account, did give rise to credits of significance to the balance of payments although the gold was not exported. Net credits received on account of gold in 1938 amounted to about \$156.5 million. This amount is comparable in its significance to the export of an equivalent amount of non-monetary gold and compares with net credits of \$145.0 million in 1937, \$131.0 million in 1936 and \$116.7 million in 1935.

Tourist Expenditures--

A provisional estimate of the tourist trade in 1938 based on incomplete data indicates net credits from tourist expenditures of about \$145 million compared with \$170.3 million in 1937 and \$140.9 million in 1936.

Total expenditures of foreign tourists in Canada in 1938 are estimated tentatively at \$267.0 million while the expenditures of Canadian tourists outside of Canada are placed provisionally at \$122.0 million. Corresponding foreign expenditures in Canada in 1937 and 1936 were \$294.7 and \$251.3 million respectively, while Canadian expenditures abroad were \$124.4 million in 1937 and \$110.4 million in 1936.

Interest and Dividends--

Net payments on account of interest and dividends are estimated tentatively at \$242.0 million in 1938 compared with \$246.2 million in 1937 and \$233.8 million in 1936.

Declines in both interest and dividends paid to investors abroad by Canadian governments and corporations were partly offset by reduced receipts by Canadians from investments outside of Canada, particularly receipts of dividends from United States stocks.

Freight and Miscellaneous Services, etc.--

Payments to other countries for freight and the numerous services grouped under "Miscellaneous Services" customarily exceed receipts. Net payments on account of freight declined from \$25.5 million in 1937 to about \$20 million in 1938. This was principally due to lower payments to United States railways and to British and foreign ships for the transportation of imports to Canada, the result of reduced quantities of imports and lower ocean freight rates. The decline in such payments from data so far available appears to have been greater than the drop in Canadian revenue from the performance of transportation services for other countries.

Preliminary data also point to a small reduction in payments for miscellaneous services. Items in this group include government expenditures, charitable and missionary contributions, advertising transactions, motion picture and other royalties, entertainment services, the earnings of international commuters, immigrants' remittances, and the capital of international migrants.

Notes on the Capital Account

New Issues and Retirements of Canadian Securities Owned

Outside of Canada

Two Dominion government issues constitute the largest part of the total credits of \$89.9 million entered in the item of New Issues in the capital account. Both were for purposes of refinancing maturing issues owned outside of Canada. One issue, the 3 1/4% London Loan of £10,000,000 of 1958/63 was floated in the London market in January; the other, the \$40,000,000 3% of 1968 was sold to a syndicate in New York in November. The amounts credited in the capital account are the par values less commissions, discounts etc. In the case of the London Loan the net proceeds so calculated have been taken although a considerable part of maturing issues held in sinking funds were reinvested in the new loan. Accordingly, the amounts of the maturing issues held in sinking funds have been included among the retirements as offsetting debits. Most of the remainder of the \$89.9 million new issues was made up of new issues of stock of Canadian companies sold in England and the United States.

Retirements include the maturing Dominion issues refinanced by the two new issues abroad although the date of one maturing issue, the \$40,000,000 2% Notes, is January 1, 1939. Other retirements of issues owned outside of Canada were relatively light in 1938 compared with the volume of retirements in previous years. Serial payments, maturing railway issues and calls of other corporation issues constituted a large part of the remaining retirements.

The preliminary estimate of net retirements of \$60.1 million in 1938 compares with \$88.1 million in 1937, \$163.9 million in 1936 and \$154.4 million in 1935. These are the amounts by which retired issues owned abroad exceeded the net proceeds from the sale of new issues abroad. They are an estimation of the net outward movement of capital arising from redemption operations and are an indication of the extent by which Canadian indebtedness abroad has been reduced in recent years by means of redemptions.

Sales and Purchases of Outstanding Securities

Statistics entered in this item of the capital account are derived from monthly reports by banks, brokers, investment dealers etc. on the international trade in securities. While at the time the accompanying statement was prepared the records of the trade during the first eleven months were on hand, it was necessary to estimate the trade during December on the basis of partial returns.

The principal development in the international trade in outstanding securities in 1938 as contrasted with 1937 is the change in direction. Whereas in 1937 there was a small balance of purchases, in 1938 sales of securities by Canada to other countries exceeded purchases as was the case during the years prior to 1937 in which the trade has been recorded.

The direction of trading between Canada and the United Kingdom, United States and other countries was definite throughout the year. Inflows of capital from the United States and from other countries were only partly offset by outflows to the United Kingdom in almost every month. In the eleven months ending in November net sales to all countries were almost \$36 million. During the same period net sales to the United States were more than \$27 million and to other countries \$17 million, while net repurchases from the United Kingdom amounted to about \$3 million. Information available on the trade during December indicates that the balance of sales to the United States for the twelve months was somewhat lower than during the eleven months. In contrast, in the year 1937, inflows of capital through the trade in securities from the United Kingdom and other countries were exceeded by a predominant net outflow to the United States.

Most of the net sales in 1938 were concentrated in the trade in Canadian stocks. During the first eleven months net sales to the United States of the stocks of Canadian companies were \$22 million while net repurchases of Canadian stocks from the United Kingdom amounted to about \$8 million. Most of the increased demand from other overseas countries was also for Canadian stocks, the balance of sales being \$15 million.

Less marked balances resulted from the trade in other groups of securities. Although the volume of transactions was large, total sales of bonds only exceeded purchases by a few million in the first eleven months, while large purchases of United States bonds in December resulted in net purchases of bonds for the twelve-month period. Likewise volume of trading in United States stocks was large, but the balance of sales for the year as a whole was not great.

Net sales characterized the total trade during the year in Dominion government and Canadian corporation bonds and both also appeared on balance in the trade with each of the United Kingdom, the United States and other countries with the exception of transactions in corporation bonds between Canada and the United Kingdom.

Groups of issues purchased by Canada on balance during the year were Provincial, Municipal, Railway, and United States bonds, both government and corporate. Most of these repurchases of bonds were from the United States although repurchases of Canadian corporation bonds and Dominion guarantees from the United Kingdom were also appreciable.

Other Capital Movements

Information regarding the extent of the capital movements in this group is less complete at the time of writing than for most other items of the balance of payments. Reports on international transactions will only be received from most of the companies and institutions concerned at a later date in the year. Sufficient information, however, is already available on the general character and scale of the transactions covered in this item to establish the predominant direction of the movements and to indicate their approximate proportions.

In 1938 the net movements of capital included in this group continued to be outwards on balance and in very large volume, probably of greater proportions than in the preceding year. To a certain extent, however, this apparent increase in outward movements of capital is due to the necessity of introducing in the capital account debits to offset some entries in other items of the statement.

The principal groups of transactions included among "other capital movements" are those arising from the operations of banks, insurance companies, trust companies, concerns in Canada falling in the category of British and foreign direct investments in Canada and Canadian companies with direct investments in branches or subsidiaries abroad.

Residual Item

This is a balancing item measuring the difference between the balancing items of the current and capital accounts. 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. In a preliminary statement like the present it is not usually possible to draw very definite conclusions regarding the character of transactions or estimates affecting the residual item.

Estimated Canadian Balance of International Payments

Preliminary Statement for 1938

(In millions of dollars)

	<u>Credits</u>	<u>Debits</u>	
	<u>Exports</u>	<u>Imports</u>	Net
	Visible	Visible	Credits (+)
	and	and	or
	Invisible	Invisible	Debits (-)
<u>Current Account of Goods, Gold and Services</u>			
1. Commodity Trade (adjusted)	847.0	666.5	+ 180.5
2. Gold (Net credits)(1)	156.5	-	+ 156.5
3. Tourist Expenditures(2)	267.0	122.0	+ 145.0
4. Interest and Dividends	70.0	312.0	- 242.0
5. Freight Transactions n.o.p.	101.0	121.0	- 20.0
6. Miscellaneous Services, etc.	24.6	59.8	- 35.2
7. Total Credits and Debits as Above	1,466.1	1,281.3	+ 184.8
8. Balancing Item--Difference between Credits and Debits Above		184.8	
	1,466.1	1,466.1	

	<u>Credits</u>	<u>Debits</u>	
<u>Capital Account</u>			
1. New Issues of Canadian Securities sold abroad (including refinancing)	89.9	-)	
2. Retirements of Canadian Securities Owned abroad	-	150.0)	- 60.1
3. Sales and Purchases of Outstanding Securities	367.0	340.0	+ 27.0
4. Other Capital Movements (Net)	-	127.0	- 127.0
5. Total Credits and Debits as Above	456.9	617.0	- 160.1
6. Balancing Item--Difference between the balancing items of current and capital accounts	24.7		

(1) Includes earmarked gold--see notes.

(2) Provisional estimate based on incomplete data.



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Table 1. Balance of Payments for 1978

(In millions of dollars)

	1978	1977	1976
1. Merchandise exports	165.2	158.0	152.0
2. Merchandise imports	(152.0)	(148.0)	(145.0)
3. Services exports	100.0	95.0	90.0
4. Services imports	(95.0)	(90.0)	(85.0)
5. Income from abroad	10.0	10.0	10.0
6. Income paid abroad	(10.0)	(10.0)	(10.0)
7. Total current account	10.0	10.0	10.0
8. Capital account	10.0	10.0	10.0
9. Total balance of payments	20.0	20.0	20.0

	1978	1977	1976
1. Merchandise exports	165.2	158.0	152.0
2. Merchandise imports	(152.0)	(148.0)	(145.0)
3. Services exports	100.0	95.0	90.0
4. Services imports	(95.0)	(90.0)	(85.0)
5. Income from abroad	10.0	10.0	10.0
6. Income paid abroad	(10.0)	(10.0)	(10.0)
7. Total current account	10.0	10.0	10.0
8. Capital account	10.0	10.0	10.0
9. Total balance of payments	20.0	20.0	20.0

(1) Provisional estimates based on incomplete data.
(2) Includes commodity trade in goods.