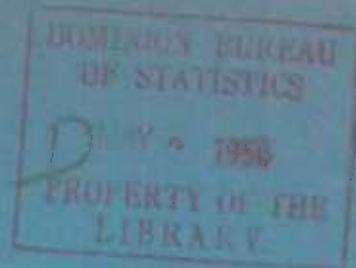


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GOVERNMENT OF CANADA

**THE CANADIAN BALANCE
OF
INTERNATIONAL PAYMENTS**

PRELIMINARY STATEMENT, 1949



DOMINION BUREAU OF STATISTICS
DEPARTMENT OF TRADE AND COMMERCE

THE CANADIAN BALANCE
OF
INTERNATIONAL PAYMENTS

PRELIMINARY STATEMENT, 1949

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Minister of Trade and Commerce

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CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

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The Canadian Balance of International Payments, 1949

Canada's current account surplus with all countries in 1949 declined to \$180 million from the surplus of \$452 million in 1948, but ~~this~~ compares with a surplus of only \$47 million in 1947. A reduced export balance on commodity account was the principal contributor to a smaller current surplus in 1949. Trends in other current transactions were also generally adverse.

These changes in 1949 occurred chiefly in the current account with the United States. Canada's current deficit with that country expanded sharply to \$594 million from \$393 million in 1948. The greatest single change was the growth in the value of imports which rose about 5%, reaching a level not far below the peak year, 1947, when prices were lower. The rise in value over 1948 is due to a combination of net price increases and a higher volume but the volume continued to be significantly less than in 1947 before import restrictions were introduced. Canadian exports to the United States continued to have an exceptionally high value. Most of the adverse trends in other current transactions also appeared in the account with the United States. The most notable of these were the increase in income payments by Canadian companies to parent companies and other shareholders in the United States and the sharp contraction in the net receipts from international travel expenditures. This balance of receipts was reduced by a sharp rise which occurred in the expenditures of Canadians on travel in the United States at a time when only a slight increase occurred in the value of United States tourist expenditures in Canada.

There was at the same time a significant decline in the current account surplus with overseas countries but this was both proportionately and absolutely less than the increase in the current account deficit with the United States. The decline in the current surplus with this group of overseas countries as a whole was from \$845 million in 1948 to \$774 million. The current surpluses with the United Kingdom and with the non-sterling overseas countries were both less than in 1948 but the surplus with the other countries of the sterling area was slightly higher in 1949 than in the preceding year. The reduction of \$43 million in the surplus with the United Kingdom resulted from divergent trends in receipts and payments. While receipts declined slightly there was also a slight rise in current payments to the United Kingdom. The reduction in receipts was mainly in such current items as shipping receipts and transfers of immigrants' funds while the principal change in payments was an increase in Canadian imports from the United Kingdom. The slight gain in the current surplus with the rest of the sterling area was mostly due to the larger total of exports which were maintained by exceptionally high shipments of certain commodities like wheat and railway equipment to India and the Union of South Africa. The decline in the current surplus with other overseas countries was almost all due to reduced receipts from exports to Continental Europe and to lower revenues from freight and shipping services. Total current payments to this group of countries as a whole declined moderately with most of the decline in imports from countries other than the "E.R.P." group.

Influencing this trend in the Canadian balance of payments with overseas countries have been the exchange and balance of payments problems of overseas countries centering around their shortage of dollars. These overshadowing problems have led to restrictions by most overseas countries in expenditures in Canada and other dollar countries. The consequent effects upon Canadian trade in many commodities have been greater than appear in the trend in the totals shown with overseas countries as a whole. This is because of unusually large exports of certain commodities in 1949. Exceptionally large deliveries of wheat to a number of countries and of certain other special exports, like railway equipment, assisted in maintaining the total value of exports from Canada to overseas countries in a period when declines in other commodities were widespread. At the same time Canadian imports from most

Table I - Summary of Current and Capital Transactions
between Canada and All Other Countries, 1945 - 1949.

(Millions of Dollars)

	1945	1946	1947	1948	1949(1)
<u>Current Account</u>					
Gross Current Receipts	4,456	3,365	3,746	4,147	4,070
Gross Current Payments	2,910	2,905	3,661	3,676	3,890
Current Account Balance	+1,546	+ 460	+ 85	+ 471	+ 180
Current Deficit with U.S.A.	+ 36	- 607	-1,135	- 393	- 594
Current Surplus with Overseas Countries	+1,510	+1,067	+1,220	+ 864	+ 774
Official Contributions to Overseas Countries	- 858	- 97	- 38	- 19	-
Net Balance on Current Account (Excluding Official Contributions)	+ 688	+ 363	+ 47	+ 452	+ 180
<u>Capital Account</u>					
Net Post War Loans by Canada (2)	- 105	- 750	- 563	- 126	- 107
Repayments by U.K. on 1942 Loan	+ 64	+ 89	+ 104	+ 64	+ 5
Financial Settlement with U.K.	-	+ 150	-	-	-
Interim Advances to British Countries	- 209	- 112	-	-	-
Net Retirements of Canadian Securities Held Abroad	- 120	- 315	- 275	+ 37	- 42
All other Capital Movements (net) (3)	+ 349	+ 324	- 36	+ 69	+ 98
Net Change in Official Liquid Reserves					
Decrease (+)		251	743		134
Increase (-)	667			496	
	- 688	- 363	- 47	- 452	- 180

(1) Subject to revision.

(2) Excluding interim advances to British Countries.

(3) Including small balancing items of errors and omissions.

overseas countries only rose moderately because of the difficulties of supply abroad and the diversionary effects which alternative markets in soft currency countries had upon the available supplies of commodities required by Canada.

The rise in Canada's official reserves of \$119 million U.S. was less than the current account surplus of \$180 million with all countries as there were small net outflows of capital leading to the use of reserves in 1949. This contrasts with 1948 when capital movements contributed to the increase in position which rose \$496 million although the current account surplus was only \$452 million in that year. The principal capital movements contributing to the net outflow of capital in 1949 (exclusive of the increase in official reserves) were further drawings of \$120 million on the Canadian loan to the United Kingdom. Other capital transactions, although predominantly inward, were insufficient to offset all of this type of outflow in 1949. Principal among the capital inflows in 1949 were continued inflows connected with the establishment and development of direct investments in Canada by United States and British firms and increases in certain non-resident balances in Canadian dollars. In 1948 the sale of the issue of \$150 million in Government of Canada bonds in the United States was an unusual feature contributing to the net inflow of capital in that year.

Canada's official reserves of gold and United States dollars at the end of 1949 amounted to \$1,117.1 million compared with \$997.8 million at the end of 1948 and \$501.7 million at the end of 1947. The increase of \$119.3 million has a Canadian dollar equivalent of \$134 million, the figure which is entered in the Canadian capital account where all figures are expressed in terms of Canadian dollars.

Among special factors of significance to the Canadian balance of payments in 1949 were the currency revaluations of September. Chief among these were the devaluation of sterling by 30.5% in terms of the United States dollar or 23.5% in relation to the new value of the Canadian dollar and the widespread devaluation of other currencies by varying amounts in the same period. The new value of the Canadian dollar established at the same time reflects a depreciation of close to 9.1% in relation to the United States dollar. While some effects of the currency revaluations of September upon the Canadian balance of payments were immediate and discernable other effects are more difficult to evaluate or less immediate in appearing. For example, the 1949 statement does reflect, in the period following the rate change, the higher Canadian dollar value of imports from the United States and from other countries maintaining the value of their currencies. Similarly in that period the Canadian dollar equivalent of imports from the United Kingdom and from other countries depreciating their currencies in relation to the Canadian dollar was lower than would have been the case before the rate change. Likewise most exports to the United States and other countries whose currencies are now appreciated in relation to the Canadian dollar have a higher Canadian dollar value. Some changes in the volume of exports and imports in the latter months of the year may also have been among the immediate effects of the devaluations. But the indirect and long-run effects of devaluation, which did not have time to show themselves in 1949, are those which will arise from such factors as new price relationships and changing elements in supply and demand.

General Trend in Merchandise Trade

Most prominent among changes in the Canadian current account in 1949 was the sharp reduction in the export balance on merchandise account with all countries from \$432 million to \$293 million. This resulted from a small contraction in the value of exports combined with a moderate increase in the value of imports. The reduction in exports occurred in exports to foreign overseas countries, principally Continental Europe. The rise in imports occurred in the value of purchases from the United States, there being a slight decline in the total value of imports from overseas countries as a group.

Table 2 - Changes in Merchandise Exports and Imports, 1949
(adjusted for balance of payments purposes)
(Millions of dollars)

	EXPORTS			IMPORTS		
	1948	1949	Net Change 1949	1948	1949	Net Change 1949
United Kingdom	703	701	- 2	287	300	+ 13
Rest of Sterling area ...	293	300	+ 7	192	187	- 5
Other "E.R.P." Countries.	296	246	- 50	75	79	+ 4
United States	1,508	1,521	+ 13	1,797	1,899	+102
Other Countries	230	221	- 9	247	231	- 16
Total, All Countries	3,030	2,989	- 41	2,598	2,696	+ 98

The principal reason for the contraction in the export balance to all countries was the expansion which occurred in the import balance with the United States which rose from \$289 million to \$378 million. Most of the growth in total imports occurred in imports from that country while exports to the United States were maintained in value for the year as a whole. But a small part of the deterioration in the commodity surplus occurred in the export balance with other foreign countries which declined from \$721 million to \$671 million. This chiefly resulted from the sharp contraction in exports to Continental Europe, with a drop in imports from foreign overseas countries offsetting a small part of the reduced exports. Exports to the sterling area were slightly higher while imports from the sterling area were slightly lower, a decline in imports from the rest of the sterling area being a little larger than the small rise in imports from the United Kingdom.

Various predominant influences affected the annual totals of trade. Exports to most overseas countries were affected throughout the year by import restrictions abroad arising from the general dollar shortage. The period up to the late summer was also influenced by business readjustments in the United States and the resulting declines in exports due to reduced demand in that country. This influenced the level of exports early in the year when appreciable declines in volume occurred from the level of the previous year. During the same period the level of Canadian prosperity maintained heavy demands for imports during a period when supplies abroad were improving and import restrictions were being relaxed. But a revival of United States demand for many primary commodities in the latter part of the year, combined with the immediate effects of devaluation, led to a sharp rise in the value of Canadian exports to the United States in the closing months of the year. In contrast during the same period the volume of Canadian imports from the United States fell off appreciably due partly to interruptions to the supplies of coal and steel in the United States. These divergent influences and their resulting trends led to small export surpluses with the United States in the last two months of the year.

Trend in Exports

The volume of Canadian exports in 1949 declined slightly more than the drop in value as export prices were higher during the year. The volume was 5.9% lower during the first half of 1949 than in the corresponding period of 1948 and approximately 17% less than in the second half of that year. The volume of exports in the second half of 1949 rose appreciably though it was still less than in the corresponding peak period of 1948.

Higher prices and a concentration of shipments of some commodities like wheat served to partly offset some of the effects of unfavourable trends in foreign demand in 1949 which led to reduced purchases of many commodities. Although the total of exports was down in 1949 there were some notable gains. Chief among these was a larger volume of wheat at higher average prices than in the previous year. As this was sufficient to more than offset declines in a number of other groups of farm products, exports of the agricultural and vegetable products group rose in value by 20%. The non-ferrous metal group also rose in value due to general increases in exports of most metals. Other metal products also rose due chiefly to large gains in exports of farm machinery, locomotives and railway equipment which more than offset declines in other metal products such as automobiles and parts.

But declines were general over a wide range of manufactured goods due to import restrictions abroad. Declines also occurred in the value of exports of

forest products, the largest export group in 1949. Exports of most of the important types of commodity in this group declined, particularly lumber and wood pulp. The chief exception was newsprint paper which rose, influenced particularly by the inclusion of Newfoundland production from April on. Exports of animals and animal products were also lower than in 1948 when there was a concentration of shipments following the removal of the embargo on certain exports to the United States. The sharp decline in shipments of bacon and eggs to the United Kingdom accounted for the largest part of the decline in exports of animal products. Other notable declines occurred in shipments of asbestos which were interrupted by the strike early in the year and in exports of ships which were about half the level of 1948 when there were large deliveries of new vessels as well as sales of older ships.

Table 3 - Exports of Selected Commodities from Canada to All Countries,
1948 and 1949
(Millions of dollars)

	<u>1948</u>	<u>1949</u>
Wheat	243.0	435.2
Wheat flour	125.2	97.7
Other grains	75.3	64.3
Fish and fishery products	85.0	93.7
Cattle	73.9	61.4
Bacon	70.0	24.2
Other meats	63.4	43.9
Eggs	39.2	20.9
Newsprint	383.1	433.9
Wood pulp	211.6	170.7
Planks and boards	196.0	160.4
Non-ferrous metals and products	395.9	426.6
Farm machinery	73.8	92.5
Other machinery	40.5	31.8
Ships	81.4	41.2
Automobiles and parts	55.0	38.7
Locomotives and parts	8.8	28.1
Railway cars and parts	6.6	21.9
Textiles and fibres	45.6	25.2

Concentration of exports in a few staple commodities is indicated by the higher ratios which some of the leading commodities occupied of total exports in 1949. Such leading commodities as wheat and flour, newsprint, other paper and wood pulp, and lumber and pulpwood constituted 40.2% of exports in 1948. In 1949 the ratio occupied by this group of principal exports rose to 45.0% due to the higher value of wheat and newsprint. Each of the other types of commodity in the group declined in value in 1949. A similar trend is evident in the field of manufactured products. While manufactured products occupied a smaller proportion of the total exports in 1949 a larger portion of these products was concentrated in a few special types than formerly such as agricultural implements, locomotives and railway equipment, and aircraft. Declines were general in other types of manufactured commodities such as automobiles and parts, rubber manufactures, textiles and ships. In 1949 these above special export products which rose constituted almost one-third of exports of general manufactures (excluding newsprint) whereas in 1948 they amounted to less than one-fifth of the total manufactured goods.

Trend in Imports

The trend in Canadian imports was upwards in the early part of the year being influenced by slightly higher prices, the strong demands springing from the level of Canadian prosperity, and by some relaxations in import restrictions. The volume was substantially higher in the first half of the year than in the same period of 1948 but an apparent softening in demand and some interruptions to the supply of fuel and steel appeared in the second half of the year. Consequently the volume of imports in the second half of the year declined and was less than in the second half of 1948. The most notable declines occurred in the last quarter of the year. For the year as a whole the volume of imports appears to have been slightly higher than in 1948. While these opposite trends within the year were to a large extent offsetting in the period as a whole there were significant changes in the volume of certain groups of commodities imported in the two years.

Table 4 - Imports of Selected Commodities to Canada from All Countries,
1948 and 1949

(Millions of dollars)

	<u>1948</u>	<u>1949</u>
Crude petroleum	192.0	189.4
Petroleum products	109.8	85.3
Coal	186.4	141.1
Agricultural machinery	140.0	177.2
Mining and metallurgical machinery	22.5	33.4
All other machinery	204.6	194.5
Automobiles and parts	128.6	162.2
Rolling mill products	83.9	98.1
Non-ferrous metal products	155.8	174.7
Cotton and manufactures	135.3	140.4
Woollen manufactures	115.1	100.1
Chemicals and products	118.4	130.7
Fruits and vegetables	67.1	91.8
Sugar and products	71.8	71.1

Particularly notable declines occurred in 1949 in the volume of imports of coal and petroleum products. Reductions in volume also occurred through a wide range of consumers' goods and certain types of non-farm machinery and equipment. In contrast the volume of many other commodities was higher of which examples are primary steel, tractors and other agricultural implements, passenger cars, many other metal products, and raw cotton. Improving supplies in the United States made possible these increases as the accumulation of Canadian demands had not been satisfied. The declines in volume can be attributed in some cases to a development of Canadian sources of supply as in the case of petroleum products, to interruptions in supplies in the United States as in the case of coal, and to some decline in Canadian demands from recent peaks as is reflected by the lower imports of many types of non-farm machinery and equipment.

Price Trends

Trends in export prices in 1949 were varied. Average export prices during the year to September were declining from the high level at the opening of the year. But in the first half of 1949 taken as a whole average export prices were 8% higher than in the same period of 1948 and slightly higher than in the second half of that year. However, the effect of the currency devaluations in September was to raise the Canadian dollar value of a large group of exports by an equivalent amount. Consequently average export prices in terms of Canadian dollars recovered from part of the decline which had occurred in the first three quarters of the year. Average import prices were also slightly higher in 1949 than in 1948. Similarly the trend in these prices was downward during the year to September but following the devaluation of currencies in that month the average of all import prices rose. Because of the declines in export prices during the year and a possible rise in import prices by the end of the year the terms of trade at the year end were somewhat less favourable than at the beginning of the year. For the year as a whole there appears to have been only a slight change in comparison with 1948.

Effects of Newfoundland Transactions

The general effects of the entry of Newfoundland into Confederation upon statistics employed in balance of payments statements should be noted. These effects are influenced by the practice of dealing with Newfoundland transactions before Confederation. At that time the most significant group of transactions on Newfoundland account, net U.S. dollar receipts, was included in miscellaneous current transactions while Canadian commodity trade with Newfoundland was excluded from the merchandise account shown in the balance of payments statement as transactions were within the Canadian dollar area. Since Confederation Newfoundland trade with other countries has been included in the merchandise account and has contributed to the export balance shown in the balance of payments. An export balance of \$56.4 million is indicated from identifiable transactions in the nine months from April to December 1949. This is exclusive of imports for consumption in Newfoundland through Canadian Customs ports outside of Newfoundland. But entries in 1949 in the item, miscellaneous current receipts, to account for receipts of U.S. dollars on Newfoundland account have been reduced substantially as these transactions were limited to the early months of the year. Other entries on Newfoundland account elsewhere in the Canadian balance of payments in 1948 were comparatively small. The net effect of the change has been to add net credits to the Canadian current account in 1949 as the export balance on commodity account appears to have been considerably greater than the reduction in entries in the item, miscellaneous current receipts.

Trend in Other Current Transactions

The effect of all current transactions other than merchandise trade was to produce a large deficit with all countries of \$113 million in 1949 compared with a surplus of \$39 million in 1948. But in the former year there were also contributions of official relief amounting to \$19 million which offset exports of a similar amount. These did not recur in 1949. The principal changes in 1949 in other current items occurred chiefly in an increase in current payments. Gross payments excluding official contributions rose by \$116 million while gross receipts were \$36 million less. Larger net payments on income account which rose by \$52 million and a decline in the balance of receipts on travel and tourist account of \$49 million were the principal sources of the adverse trend in 1949. Unfavourable trends also occurred

in net receipts on freight and shipping account and in net receipts of migrants' funds and inheritances. Net receipts from these two accounts declined by \$19 million and \$21 million respectively. Net payments for services and other current items also were higher during the year by \$31 million. This is the change exclusive of official contributions which in 1948 were \$19 million. The only favourable trend among the usual major current transactions was shown by non-monetary gold which rose by \$20 million.

The increase in net payments on income account arose from the sharp increase which occurred in the dividends paid by Canadian subsidiaries to parent companies in the United States. The increase in these payments in 1949 was a reflection of the growth in 1948 earnings by this group of companies which were mainly remitted in 1949. Dividends paid by public companies to non-resident shareholders remained comparatively stable in the aggregate as did also interest payments to non-residents. The increase which occurred in receipts of income was due to larger receipts of interest by the Canadian Government on Export Credit loans.

The deterioration in net receipts on travel and tourist account arose from the sharp increase in the expenditures of Canadian travellers in the United States and elsewhere. More than half of these increased expenditures originated from purchases by tourists of goods whose entry was permitted by the removal of import restrictions on imports by travellers under the \$100 exemption privilege. Some increase also took place in the volume of Canadian travel to overseas countries. The expenditures of United States travellers in Canada remained comparatively stable in 1949 with the result that the balance of receipts was sharply reduced by the rise in Canadian expenditures. The relative stability of total expenditures of American tourists was after some varying trends in certain sectors of the trade. A decline occurred in the expenditures of shorter-term visitors but this was offset by a larger volume of motorists and other longer-term visitors.

The drop in net receipts on freight and shipping account resulted from various changes in the background affecting these transactions during the year. A lower volume of exports led to generally reduced receipts. But the revenues from inland freight in Canada were partly maintained by higher freight rates. Also affecting the amount of shipping receipts was the reduced size of the Canadian merchant fleet which was reduced by sales of vessels both in 1948 and 1949. The full operation and revenues of the remaining Canadian ships were also affected adversely by increasing competition from abroad, which was intensified by currency devaluations in September. These various factors cut Canadian receipts from freight and shipping materially but part of these declines was offset by a reduction in freight payments made by Canada on imports, a considerable portion of which was due to the reduced volume of coal imported in 1949.

The reduction in net receipts of immigrants' funds originated almost entirely from the decline in the volume of immigration to Canada and the effects of currency restrictions on transfers of funds to Canada. Outflows of funds arising from Canadian emigration were maintained at about the same level as in 1948.

The increase in net payments for the remaining group of current payments arises from a variety of changes. Gross payments were higher partly due to the higher Canadian dollar value of these following devaluation while gross current receipts were lower. One prominent influence on this latter decline was the change in the practice of dealing with net receipts on Newfoundland account which had added substantially to the item in 1948.

In addition there were debits in 1948 of \$19 million arising out of the final expenditures of the Canadian contributions to UNRRA and post-UNRRA relief which did not recur in 1949. These are included in the totals of all other current payments shown in detailed statements of the current account. The amount of exports financed in this way in 1948 was made up of \$13 million to other "E.R.P." countries and \$6 million to other foreign countries.

The rise in the value of non-monetary gold is a reflection of increased production made possible by improved supplies of labour and new mines and the higher Canadian dollar value of gold production following the devaluation of the Canadian dollar in September.

Capital Movements

The net movement of capital between Canada and all countries, apart from the rise in official reserves, was outward in 1949 in contrast to a small inward movement in 1948. This net outward movement of \$43 million in 1949 compares with a net inward movement of \$40 million in the former year. This change in net movement arose primarily from the absence in 1949 of the large special inflow which had resulted in 1948 from the sale in the United States of a bond issue of \$150 million of the Government of Canada, combined with a continuation in 1949 in the extension of credit to the United Kingdom by the Canadian Government to finance exports.

In the two previous years, 1946 and 1947, there had been very large net outward movements of capital contributing to the reductions in official reserves in those years. These outward movements arose mainly from the large volume of exports financed by loans and advances by the Canadian Government.

The principal changes occurring in the direction and relative significance of the different capital movements in 1949 compared with the general pattern of the Canadian capital account in 1948 follow. In the former year the sale in the United States of \$150 million of Canadian bonds was an outstandingly large transaction contributing to capital inflows. But in 1949, although there was a new Canadian Government issue in the United States of \$100 million, this was for the purpose of refinancing two government guaranteed issues being retired late in 1949, and one issue in February 1950. As most of these issues were held in the United States only a comparatively small inflow of capital arose from the holdings of the bonds by residents of Canada, along with the small temporary inflow prior to the redemption of the issue of C.N.R. bonds in February 1950. As a result of these security transactions and of the retirement of other Canadian securities owned outside of Canada there was a small outflow of capital in 1949 compared with a net inflow in the earlier year, arising from the amount by which the sale of the new issue in 1948 exceeded all retirements in that year of Canadian securities owned outside of Canada.

Another group of inward capital movements which occurred in 1948 on a larger scale than in 1949 were the repayments by the United Kingdom on the 1942 loan which declined from \$64 million in 1948 to \$5 million in 1949.

There were, however, in 1949 other types of inflow of capital which had not occurred in 1948. These took the form of a substantial rise in certain non-resident balances in Canadian dollars.

Drawings of \$120 million on loans by the Canadian Government to other countries in 1949 were limited to the \$10 million a month released from the remainder

of the post-war credit of \$1,250 million to the United Kingdom. By the end of 1949 the total which had been drawn on this loan amounted to \$1,135 million. Drawings on this loan in 1948 had been limited to \$52 million. But in that year drawings on Export Credit loans to other countries totalled \$90 million. In the same year principal repayments on these Export Credit loans amounted to \$16 million, leaving net drawings of \$126 million on post-war loans. In 1949 there were no further drawings on the Export Credit loans to other countries as the drawing periods of the loans had expired and the only capital transactions connected with the Export Credit loans were the repayments of principal of \$13 million. Consequently net drawings on post-war loans and Export Credits in 1949 amounted to \$107 million compared with \$126 million in the previous year, \$563 million in 1947, \$750 million in 1946, and \$105 million in 1945.

Among all other capital movements in 1949 the largest were the inflows connected with the establishment and development of direct investments in Canada by United States and British firms. These were somewhat heavier than in the earlier year with the larger amount of the total being employed in the development of natural resources. In addition there were some liquidations of Canadian assets owned outside of Canada, further adding to the net inflows of capital. Also contributing to larger net inflows through this group of transactions in 1949 was the change in the direction of the international trade in outstanding securities between Canada and other countries. There were net sales of outstanding Canadian and American securities by Canada to other countries, principally the United States. Although the balance of \$22 million continued to be relatively small it compares with net purchases of \$17 million in the previous year. These various miscellaneous capital movements of a predominantly inward direction had the effect of offsetting part of the other outflows described above.

As a result of the above divergent capital movements there was a comparatively small net outward balance to the movements of capital referred to. This contrasts with the result in 1948 for the corresponding movements when there were net inflows contributing to the rise in official reserves. In 1949 in contrast the rise in the official reserves was less than the balance on current account.

Transactions with the United States

The principal change in Canada's current account in 1949 was the increase of \$201 million in the current deficit with the United States which rose from \$393 million in 1948 to \$594 million in 1949. This deterioration in the current account balance was due to a variety of factors. The largest single change was an increase of \$89 million in the deficit on merchandise account which rose to \$378 million. This was due entirely to the growth in the value of imports as the value of exports was slightly higher. The deficit from all other current transactions with the United States rose from \$104 million in 1948 to \$216 million in 1949. The most important contributing factors to this deterioration were the decline of \$48 million in net receipts from international tourist expenditures, an increase of \$55 million in net payments on income account, and an increase of \$38 million in net payments on account of miscellaneous current transactions. An increase in the value of gold production of \$20 million and a drop of \$9 million in net payments on freight and shipping account only offset minor parts of the above increases in expenditures.

A predominant factor influencing the trend in the merchandise account in 1949 was the divergence of economic conditions in Canada and the United States. While United States demand, particularly in the middle part of the year was reduced by

business readjustments occurring mostly in the first half of the year, there was a maintenance of Canadian demand throughout most of the year by the continued high level of business activity in Canada. This sustained Canadian prosperity led to an appreciably higher volume of imports from the United States in the earlier part of the year which together with higher prices contributed towards the increased value of Canadian imports from the United States. Relaxations of some restrictions on imports and improving supplies of commodities also influenced the increased imports. But in the latter months of the year the strikes in the steel and coal industries in the United States led to interruptions in supply which affected the volume of Canadian imports. While the value of Canadian exports was slightly higher than in the preceding year this was due to higher average export prices. The volume of some exports to the United States was lower in the year as a whole than in 1948. During the period of business readjustment reductions in volume were widespread but later these were partly offset by a higher volume following the revival of demand later in the year.

Table 5 - Factors in Canada's Current Account Deficit with the United States

(Millions of Canadian Dollars)

	1929	1937	1946	1947	1948	1949(2)	Net Change 1949
Merchandise Trade							
Imports from U.S.A. (adjusted)	875	463	1,378	1,951	1,797	1,899	-102
Exports(1) to U.S.A. (adjusted)	519	391	948	1,061	1,508	1,521	+ 13
	-356	- 72	- 430	- 890	- 289	- 378	- 89
Non-monetary gold	+ 37	+145	+ 96	+ 99	+ 119	+ 139	+ 20
Tourist expenditures	+103	+ 84	+ 86	+ 89	+ 154	+ 106	- 48
Interest and dividends	-172	-130	- 203	- 239	- 230	- 285	- 55
Freight and shipping	- 35	- 23	- 68	- 117	- 82	- 73	+ 9
All other current transactions	- 14	- 31	- 88	- 77	- 65	- 103	- 38
<u>Total Current Deficit</u>	<u>-437</u>	<u>- 77</u>	<u>- 607</u>	<u>-1,135</u>	<u>- 393</u>	<u>- 594</u>	<u>-201</u>

(1) Including receipts by War Supplies Ltd. of \$55 million in 1946 and \$13 million in 1947.

(2) Subject to revision.

Although the total value of exports to the United States was maintained in 1949 for the year as a whole this was due to opposite trends in different groups of commodities and to varying trends during the year. Exports of metals and metal products and agricultural and vegetable products were higher in value. But most of the increases in these groups were offset by reductions in the value of exports of other groups, a large part of which occurred in forest products and animal products. Particularly notable among the increases in exports were such items as iron ore, agricultural implements, newsprint, base metals, and certain grains. Although there was a general decline in exports of forest products which was notable in wood pulp and certain types of lumber, exports of newsprint and some kinds of lumber reached new high levels. While the value of exports of live cattle showed some declines from the record levels reached in 1948 following the removal of embargoes the total exported remained high and exports of beef were higher. Exports to the United States in 1949 amounted to more than half of the total recorded value of Canadian shipments, the percentage being 50.2% compared with 48.8% in 1948 and 32.8% in 1938. The percentage of adjusted exports as appears in the balance of payments statement was 50.9% in 1949.

The increase in the value of imports from the United States occurred in each of the main groups except non-metallic minerals which reflected declines in imports of crude petroleum and products and coal. While some of the increase in value can be attributed to the higher Canadian dollar cost of imports from the United States following devaluation most of the increase in the value of imports occurred in the months prior to September, a period when some Canadian demands seem to have been highest and when supplies were unaffected by the strikes occurring in the latter months of the year. Almost two-thirds of the increased value of imports in 1949 occurred in the metal products groups. Demands were particularly heavy for commodities in these groups in the earlier part of the year when supplies were uninterrupted. Further contributing to these gains in value were the price increases among these commodities which were larger and more general than in other groups.

But declines occurred in the volume of imports from the United States in the latter months of the year. This decline in the latter months of the year appears to have been influenced by a variety of factors. The over-all decline in the volume of imports in the fourth quarter can be mainly traced to the falling off in imports of iron and its products and non-metallic minerals. Supplies of many commodities, like coal and primary steel, entering into these groups were affected by the strikes in the coal and steel industries in the United States in the latter months of the year. But the declines appear to have been due to other factors as well, as in the case of metal products where in particular the volume of many types of machinery imported was reduced. Some reductions in Canadian demands, which had been satisfied in earlier periods, seem to have occurred. At the same time there were affecting all types of imports from the United States the higher Canadian dollar costs of purchases in the United States following the devaluation of the Canadian dollar in September.

Only a part of the increase in imports from the United States in 1949 seems to be attributable to relaxations in import restrictions imposed under the Emergency Exchange Conservation Act. The increase in official reserves made it possible to remove some of the restrictions. While many of the resulting increases were proportionately large they only accounted for a portion of the total rise in the value of imports in 1949. Among the relaxations affecting imports in 1949 was the removal of some commodities from the prohibited list at the beginning of the year. In addition there was a general removal of controls on imports of fresh fruits and vegetables at the beginning of October 1949 following increases in quotas applying to these commodities on two earlier occasions, October 1st, 1948 and April 1st, 1949. At the latter date the quotas on textiles had also been increased by approximately 25%. Other relaxations early in 1949 led to increased imports of a variety of production materials and capital goods when the allotment permits were increased substantially. Controls on imports of primary iron and steel were also modified during the year making larger imports possible as the supply improved. Removal of restrictions on incidental purchases by travellers under the \$100 exemption privilege at the beginning of the year also led to increased imports.

The proportion of Canada's total recorded imports bought from the United States increased from 68.5% in 1948 to 70.7% in 1949 but remained below the corresponding 1947 ratio of 76.7%. Part of the increase in 1949 arises from tourist purchases which however are included in the balance of payments in the item of tourist expenditures rather than the merchandise item of the balance of payments.

The decline in the net receipts on international travel account between Canada and the United States was due to the sharp rise in expenditures of Canadians on travel in the United States which at \$164 million showed an increase of \$51

million, or 45% over 1948. This was a much greater increase than occurred in the personal incomes of Canadians. More than half of this increase in expenditures by travellers was due to tourist purchases under the \$100 exemption privilege following the relaxations of import prohibitions on these purchases at the beginning of 1949. The remainder of the increase resulted from a larger volume of traffic and from higher average expenditures. United States expenditures at \$270 million remained close to the total of the previous year. In this connection it should be noted that total personal incomes in the United States in 1949 did not change significantly even with the business recession which took place during the year. While the volume and expenditures of longer-term American motorists and certain other groups of tourists were higher, there were declines in the expenditures by the short-term local classes of traffic. The latter declines appear to reflect a falling off in local purchasing at border communities.

The increase in the deficit on income account was due to a sharp rise in total payments to \$325 million. This increase was in dividends paid by Canadian companies to the United States. These payments rose from \$183 million in 1948 to \$242 million in 1949, a new peak comparing with \$139 million in the year 1938. The increase was concentrated in dividend payments by Canadian subsidiaries to parent companies in the United States and reflects the high earnings of 1948 which were remitted in 1949. Dividend payments by public companies to portfolio shareholders in the United States were comparatively stable. Interest payments on Canadian bonds and debentures held in the United States declined slightly to \$83 million, due chiefly to the effects of redemptions in recent years. The additional cost of United States dollar interest only added a small amount to payments in the last part of the year. Receipts of income from the United States of \$40 million were slightly higher than in previous years, receipts of both interest and dividends being larger. A small part of this gain came from the higher Canadian dollar value of income in United States currency in the last quarter.

There was an increase of \$38 million in net payments on account of miscellaneous current transactions. A prominent factor affecting this increase was a change in statistical practice following the entry of Newfoundland into Confederation. Prior to then net receipts of United States dollars on Newfoundland account were included in miscellaneous current receipts. But a considerable part of the increased deficit arose from higher payments for business services and in the last part of the year there was also the additional Canadian dollar cost of payments in United States currency following the rate change. Migrants' funds and inheritances were higher in both directions in 1949 with no change in the balance of payments by Canada.

Gold available for export in 1949 had a value in Canadian currency of \$139 million, \$20 million more than in 1948. Part of this rise in value was from the higher price following the devaluation of the Canadian dollar but a larger production throughout the year was responsible for most of the increase. This item is included in the current account with the United States even though only a small part of gold production in 1949 was exported to that country, as the remainder was either available for addition to Canada's reserves of gold and United States dollars or for sale for United States dollars.

A decline of \$9 million in net payments on freight and shipping account was the only other favourable trend on balance in the current account with the United States. This resulted from a larger decline in payments than in receipts. Smaller freight payments on the reduced imports of coal accounted for most of the reduction. Payments to United States railways for inland freight on other commodities were about the same as in 1948 while payments on shipping account were

somewhat higher. The reduction in receipts was in the earnings of Canadian railways on inland freight on exports to the United States and on intransit traffic. The earnings of Canadian shipping companies on exports to the United States by vessels were however higher although there were larger charter payments offsetting some of these earnings.

Table 6 - Selected Factors Affecting the Size of Canada's Official Liquid Reserves, 1946-1949
(Millions of Dollars)

	1946	1947	1948	1949(2)
Current Account Deficit with United States	-607	-1,135	-393	-594
Net receipts of convertible exchange from overseas	+237	+ 638	+763	+663
Net Current Deficiency	-370	- 497	+370	+ 69
Capital Transactions with U.S. Dollar Area (1)				
Net Redemptions of Canadian Securities	-238	- 227	- 96	- 30
Sale of new Canadian issue to insurance companies	-	-	+150	-
Net sales (+) or net repurchases (-) of outstanding Canadian securities	+204	- 8	- 2)	
Redemptions and sales of U.S. and foreign securities (net)	+ 64	+ 13	- 9)	+ 39
All other capital movements	+ 78	+ 58	+ 87	+ 50
Gold subscription to International Monetary Fund	- 1	- 74	-	-
Balancing item - errors and omissions	+ 12	- 8	- 4	+ 6
Net Change in Official Liquid Reserves -				
Decrease (+)	251	743	-	-
Increase (-)	-	-	496	134

(1) Capital transactions in Canadian dollars with foreign countries belonging to the Special Arrangement Area in 1947, 1948 and 1949, and other known transactions with other countries in 1949, are excluded.

(2) Subject to revision.

Capital Movements with the U.S. Dollar Area

Capital movements between Canada and the United States were inwards on balance in 1949 as in 1948. Inflows arising from private capital movements were larger in 1949 but the total net inflow in 1948 was greater because of the sale of a new Government of Canada issue of \$150 million in the United States in that year. Various changes contributed to the larger private inflow of capital. There was, for instance, a change in the direction of the international trade in securities. In 1949 there were net sales of outstanding securities to the United States compared with net purchases by Canada in 1948. Most of these net sales occurred in the latter months of 1949 and during the year there were net sales of both Canadian and United States

securities. In addition in 1949 inflows for direct investment were heavier as various developments of Canadian resources which were financed by United States capital proceeded. There were also some liquidations of U.S. assets owned by residents of Canada further adding to the inflows. Total redemptions of Canadian securities owned in the United States were greater in 1949 than in 1948. Part of the redemptions was financed by the sale of a new Government of Canada issue of \$100 million in the United States and the resulting amount of net redemptions of securities amounted to \$30 million. This compares with net new issues of Canadian securities owned abroad in 1948 as the new issue of \$150 million in that year exceeded the total redemptions of Canadian securities in the United States which amounted to \$96 million in that year. Part of the new issue in 1949 was for the purpose of retiring the C.N.R. 5's of 1970, an issue with a par value of \$17.3 million which was called for redemption in February 1950. There was consequently a temporary inflow in 1949 of the funds required to redeem this issue.

A summary of factors affecting the rise in the official position of \$119 million U.S. is shown in the Summary of Preliminary Estimates of Canada's International Accounts. This rise in official position had a Canadian dollar equivalent of \$134 million, the figure which is entered to cover this change in the capital account of the Canadian balance of payments. Net receipts of convertible exchange from overseas countries in 1949 amounted to \$663 million. These arise from direct sales of U.S. dollars by overseas countries and from a variety of different types of multilateral settlement.

Changes in the value of United States investments in Canada due to capital movements were comparatively small in 1949 as this analysis of capital movements in the capital account of the balance of payments indicates. While there continued to be some further substantial transfers of capital for direct investments in Canadian businesses changes in holdings of portfolio securities were minor and partly offsetting. Data are not yet available on other changes in the value of United States investments in Canada due to reinvestments of earnings and other alterations in value of the investments. At the end of 1948 the value of total United States investments in Canada was \$5.6 billion of which \$2.8 billion was made up of direct investments in branches, subsidiaries, and controlled companies. In both cases these total were higher than in any other earlier period.

Table 7 - Canada's Holdings of Gold and U.S. Dollars(1)
(In millions of U.S. Dollars)

	<u>Gold</u>	<u>U.S. Dollars(2)</u>	<u>Total</u>
Dec. 31, 1939	218.0	186.2	404.2
Dec. 31, 1940	136.5	195.6	332.1
Dec. 31, 1941	135.9	51.7	187.6
Dec. 31, 1942	154.9	163.6	318.5
Dec. 31, 1943	224.4	425.2	649.6
Dec. 31, 1944	293.9	608.3	902.2
Dec. 31, 1945	353.9	1,154.1	1,508.0
Dec. 31, 1946	536.0	708.9	1,244.9
Dec. 31, 1947	286.6	215.1	501.7
Dec. 31, 1948	401.3	596.5	997.8
Dec. 31, 1949	486.4	630.7	1,117.1

(1) Exclusive of working balances and gold held against Postal Savings Bank deposits, but including private balances of 98 in 1939 and 2 in 1940.

(2) Includes United States exchange and short-term securities of the United States Government.

Transactions with the Sterling Area

Canada's current surplus with the sterling area of \$578 million was only 6% less than the corresponding balance of \$615 million in 1948. The current surplus with the United Kingdom of \$443 million was down slightly more than the balance with the whole sterling area, comparing with \$486 million in 1948. A slight rise occurred in the surplus with the rest of the sterling area which rose from \$129 million to \$135 million. Most of the reduction of \$37 million in the current balance with the sterling area occurred in current receipts which dropped \$30 million, the remainder of the change in balance being due to a rise of \$7 million in current payments by Canada.

But this apparent stability in result was due to a variety of offsetting changes which were in themselves often substantial and significant and to some extent transitory. Some of these changes are pointed out below in the description of more detailed trends.

One of the outstanding factors maintaining the value of exports to the United Kingdom was the larger volume of exports of wheat which were at a higher price than in most of the preceding year. There were also larger exports of some base metals like aluminum and nickel and deliveries of aircraft acting to maintain the total of exports, which at \$701 million was approximately the same as the adjusted value of exports in 1948. There were also some special sales of commodities like fresh apples and canned salmon which had not been sold in the previous year and new exports like iron ore arising out of the inclusion of Newfoundland exports to the United Kingdom in April and succeeding months. But substantial declines occurred in exports of other important commodities of which examples are flour, bacon, eggs, and lumber.

Canadian imports from the United Kingdom rose only moderately in 1949. The value adjusted for balance of payments purposes of \$300 million compares with \$287 million in 1948. The gain in imports of metal products was greater than this but an appreciable decline occurred in the value of imports of textiles. Much of the decline in this group was in various types of cotton products and in worsted tops, although imports of many woollen products were also below their recent peaks. The most substantial rise in imports of metal products was in motor cars which doubled in value, being about \$34 million in 1949 although other imports of metal products, like primary iron and steel, tractors, and other manufactured goods also rose. Increases in other leading groups of commodities were also general but they still represent a minor part of total imports. Textiles and metal products made up more than two-thirds of imports from the United Kingdom in 1949 or about the same ratio as in the previous year. Among the factors appearing to continue to limit Canadian imports from the United Kingdom have been the inadequate supplies of commodities in relation to the exceptionally heavy demands for these commodities in the sterling area and elsewhere. In the middle of 1949 the Canadian tariff on certain textiles (which had been suspended early in 1948) was reimposed. In the closing months of 1949, following the devaluation of sterling, the volume of imports was substantial, being above the same period of the previous year. But the sterling cost of these imports had a reduced value in terms of Canadian funds. The proportion of Canadian imports from the United Kingdom declined slightly in 1949 and was still substantially less than before the war.

The changes in commodity trade with the United Kingdom described above led to a reduction of \$15 million in the export balance. The largest part of the reduction of \$43 million in the current account surplus with the United Kingdom

Table 8 - Summary of Current and Capital Transactions Between Canada and
the Sterling Area, 1938 and 1946-1949
(Millions of dollars)

	<u>1938(1)</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949(3)</u>
Current Account -					
Gross Current Receipts	508	1,149	1,382	1,260	1,230
Gross Current Payments	337	480	508	645	652
Current Account Balance	+171	+ 669	+ 874	+ 615	+ 578
Current surplus with United Kingdom	+127	+ 500	+ 633	+ 486	+ 443
Current surplus with Other Sterling Area (1)	+ 44	+ 169	+ 241	+ 129	+ 135
Mutual Aid	-	- 5	-	-	-
Net Balance on Current Account (Excluding Mutual Aid)	+171	+ 664	+ 874	+ 615	+ 578
Capital Account -					
Postwar Loan to United Kingdom	-	- 540	- 423	- 52	- 120
Repayments by U.K. on War Loan	-	+ 89	+ 104	+ 64	+ 5
British Financial Settlement and Interim Advances (net)	-	+ 38	-	-	-
Repatriations of Securities	- 33	- 131	- 50	- 18	- 27
Other Capital Movements	- 26	+ 29	- 7	- 20	+ 60
Net Capital Movements	- 59	- 515	- 376	- 26	- 82
Sales of Gold or Convertible Exchange	-112(2)	- 150	- 505	- 597	- 487
Balancing Item	-	+ 1	+ 7	+ 8	- 9
	-171	- 664	- 874	- 615	- 578

(1) Includes only Commonwealth countries in 1938.

(2) In 1938 this item indicates the net amount of exchange available for multilateral settlements.

(3) Subject to revision.

occurred in other current items, principally in current receipts. The chief declines in these were in receipts on freight and shipping transactions and in immigrants' funds. The decline of \$14 million in the former was a combination of reduced expenditures in Canadian ports by British ships and reduced revenues earned by Canadian shipping companies carrying exports to the United Kingdom. The decline in immigrants' funds was a reflection of a sharp reduction in the volume of immigration combined with the effects in the full year of the British restrictions introduced in 1948 on transfers by immigrants from the United Kingdom. The volume of immigration in 1949 dropped to less than half that in 1948 and the decline in transfers was comparable. Total receipts of immigrants' funds and inheritances of \$34 million were down \$18 million, the figure being still sustained by inheritances. Changes in other current receipts in 1949 were minor. There was a moderate increase in British tourist

expenditures in Canada and no change in receipts of interest and dividends from the United Kingdom. Other current payments to the United Kingdom dropped only slightly in 1949. There were, however, appreciable increases in the travel expenditures by Canadians in the United Kingdom and in interest and dividend payments to the United Kingdom and in emigrants' transfers and inheritances. A slight decline in freight and shipping payments and a larger decline in all other current payments more than offset the above increases. The expenditures of Canadian travellers in the United Kingdom rose by one-third over the previous year, a reflection partly of improved trans-Atlantic transportation facilities. An increase of 10% in interest and dividend payments to the United Kingdom which totalled \$55 million was distributed between interest and dividends and partly arose from the inclusion of payments on Newfoundland obligations.

The increase of \$6 million in the current surplus with the remaining countries of the sterling area stands out paradoxically in light of the sharp contractions which occurred in 1949 in purchases by most sterling area countries in Canada. One of the principal factors leading to this result was a slight increase in aggregate exports to this group of countries. This was due to the sustaining effects on the totals of extraordinarily large shipments of wheat, locomotives, and railway equipment to India and the Union of South Africa. These and some other largely non-recurring exports were concentrated in 1949 and offset sharp declines in Canadian exports to such Commonwealth countries as some of the Crown colonies in the British West Indies and elsewhere and other declines to Australia and New Zealand. Declines in exports of automobiles and general manufactured goods were particularly widespread as import restrictions throughout the sterling area have greatly reduced this kind of purchase in Canada.

Although Canadian imports from the countries of the sterling area other than the United Kingdom were slightly less than in the preceding year there were some significant shifts in composition. Most notable of these was a diversion of sugar purchases to Commonwealth countries from dollar countries in the West Indies and Central America. But at the same time there were declines in imports of some Commonwealth commodities such as jute and rubber.

The above merchandise transactions resulted in an export balance of \$113 million, about 13% higher than in 1948. There was also a surplus of \$25 million from other current transactions in 1949, a slightly smaller figure than in 1948. A variety of minor changes influenced this result including a slightly smaller surplus on freight and shipping account which is the largest contributor to the surplus from non-commodity transactions with the rest of the sterling area. This reflects a reduction in the revenues of Canadian ships carrying exports to these countries.

Capital Movements with the Sterling Area

Drawings on the Canadian loan to the United Kingdom of \$120 million in 1949 were again the principal special capital means serving to finance part of the current account surplus of \$578 million which Canada had with the sterling area. By the end of the year \$1,135 million of the loan of \$1,250 million extended in 1946 had been drawn, leaving \$115 million unspent at the end of 1949. All other capital movements were inwards on balance in 1949 due to a large increase in sterling area balances in Canada. In addition there were further repayments of \$5.2 million on the 1942 loan, the amount of which remaining outstanding at the end of 1949 was \$298.9 million. Other capital movements between Canada and the sterling

area included outflows of \$11 million for redemptions of Canadian securities and some \$16 million for other repatriations of securities arising from British liquidations of outstanding issues. There were also numerous other capital movements many of which were offsetting. These arose out of various kinds of private transactions including direct investments in Canada by the United Kingdom and Canadian direct investments in the sterling area. Multilateral settlements, principally in the form of transfers of United States dollars to Canada on sterling area account, were again the largest single means of covering the gap in the sterling area accounts with Canada. Total transfers of convertible exchange on sterling area account in 1949 including multilateral settlements amounted to some \$487 million.

Transactions with other "E.R.P." Countries

The principal change in Canada's current account with other countries belonging to the Organization for European Economic Cooperation was a decline in the current surplus. Most of this was due to a contraction in exports which declined to \$246 million in 1949, a drop of about 17%. The sharpest declines occurred in exports to France, Italy, and the Netherlands. In the case of the former country most of the decline occurred in deliveries of ships which had been exceptionally concentrated in 1948 although there were also declines in other commodities, particularly base metals. A considerable part of the reduction in exports to Italy was concentrated in grains and other foods. In the case of the Netherlands the reductions were distributed over a wide range of commodities, including grains and other vegetable products, and a variety of raw materials. In contrast to these declines there were substantial gains in exports to certain other countries, notably Belgium, Germany, and Switzerland. In the case of exports to Belgium larger shipments of wheat and other grains were prominent and with Germany the increases were distributed over a variety of foods and raw materials. Larger exports of wheat also made up the principal change in exports to Switzerland.

Canadian imports from other "E.R.P." countries rose only slightly in total in 1949. This was due to some opposite trends. While there were substantial gains in imports from some countries, most notably Belgium, Germany, Italy, and Switzerland a large decline in abnormal imports of butter from Denmark offset much of these increases.

The decline in the export balance with this group of countries was \$54 million during the year. But official contributions by the Canadian Government to UNRRA and post-UNRRA financed \$13 million of these exports in 1948 and debits representing these contributions have been entered in the item "All Other Current Payments". The remaining current transactions give rise to a slightly larger balance of receipts than in 1948. One of the principal changes was an increase of \$8 million in interest received on Export Credit loans. But at the same time earnings of Canadian shipping companies on traffic to this group of countries were lower. Other changes included a substantial increase in the expenditures of Canadians on travel in Continental Europe which at \$6 million was double the previous year. Stimulating this increase was the improvement in transportation and the extension of facilities for spending Canadian dollars in most of the countries of Western Europe during 1949.

Capital movements with this group of "E.R.P." countries and the non-sterling area were comparatively small and outward on balance from Canada. While there were repayments on Export Credit loans of around \$11 million these receipts were more than offset by outflows arising from liquidations of direct and other investments in Canada, redemptions of Canadian securities, and from a decline in

the balances of this group of countries in Canada. Consequently most of the current account surplus of \$187 million in 1949 was settled by transfers of convertible exchange to Canada estimated at \$171 million and comparing with \$176 million in 1948.

Transactions with Other Foreign Countries

Current transactions with this group of other foreign countries overseas continued to be close to equilibrium in 1949 as in 1948. The current surplus in the two years was only \$3 million and \$9 million respectively. But with individual countries and regions within the group there were varying degrees of disequilibrium. Canada had, for instance, a merchandise deficit with Latin America due to a large extent to imports of petroleum from Venezuela and a variety of tropical commodities like coffee from Brazil and Colombia, raw cotton from Mexico, and bananas from Central America. This deficit with Latin America was smaller than in 1948 when imports were higher, having included most of Canada's sugar purchases in that year. Other countries in the group were widely dispersed throughout the world including, in the case of exports, prominent markets like China, Egypt, Iran, Japan, Palestine, and the Philippines. The origins of imports from the same regions were also widely scattered but there was some concentration in countries like Arabia, China, Japan, and the Philippines. A commodity surplus originated from total trade with these other foreign countries exclusive of Latin America but it was less than the commodity deficit with Latin America. Commodity trade with the whole group of other foreign countries showed a deficit of \$10 million in 1949. All other current transactions produced a surplus of \$19 million in 1949, slightly less than the surplus from corresponding transactions in 1948. The principal contributors to this surplus were interest and dividends on Canadian investments in Latin America and freight and shipping services by Canadian shipping companies. But receipts from sources such as these were partly offset by payments for services including personal remittances to various countries in Asia and elsewhere. Most of the small current account surplus with the group was settled with transfers of convertible exchange as capital movements with other foreign countries were comparatively small.

Table 8(a) - Summary of Current and Capital Transactions with
Other "E.R.P." Countries (1), 1947-1949

(Millions of dollars)

	1947	1948	1949
Current Receipts	378	348	304
Current Payments	97	108	117
Official Contributions	7	13	-
Current Account Balance	+274	+227	+187
Post-War Loans by Canadian Government (net)	-116	- 51	+ 11
Other Capital Movements	- 44	-	- 27
Net Sales of Convertible Exchange	-114	-176	-171
	-274	-227	-187

- (1) Includes countries belonging to the Organization for European Economic Cooperation and their overseas dependent territories. Iceland, Ireland, and the overseas dependencies of the United Kingdom are included in the other sterling area.

Table 9 - Summary of Revised Estimates of Canada's International Accounts,
1948

(Millions of dollars)

	<u>All Countries</u>	<u>United Kingdom and Ster- ling Area</u>	<u>Other "E.R.P." Countries</u>	<u>Other Overseas Countries</u>	<u>United States</u>
Current Account					
Current Balance (Including Exports of Official Relief)	+ 471	+ 615	+ 240	+ 9	- 393
Contributions of Official Relief	- 19	-	- 13	- 6	-
Current Balance (Excluding Exports of Official Relief)	+ 452	+ 615	+ 227	+ 3	- 393
Capital Account					
Post War Loan to U.K. and Export Credits					
Total Drawings on Loans	- 142	- 52	- 67	- 23	-
Principal Repayments	+ 16	-	+ 16	-	-
Net Loans	- 126	- 52	- 51	- 23	-
New Issue of Canadian Bonds in the United States	+ 150	-	-	-	+ 150
Retirements of Canadian Securities	- 113	- 14	- 3	-	- 96(1)
Net Purchases of Outstanding Securities	- 17	- 4	- 2	-	- 11(1)
Other Capital Movements (2)	+ 146	+ 44	+ 5	+ 10	+ 87(1)
Net Receipts of Convertible Exchange from Overseas Countries	-	- 597	- 176	+ 10	+ 763
Balancing Item (3)	+ 4	+ 8	-	-	- 4
Balance from above Transactions	+ 496	-	-	-	+ 496
Increase in Official Liquid Reserves	+ 496	-	-	-	+ 496

(1) Including some capital transactions on account of "other overseas countries".
 (2) Including currency adjustments. (3) The balancing item reflects errors and omissions.
 N.B. A minus sign (-) designates payments, outflows of capital from Canada, or purchases of convertible exchange.

Table 10 - Summary of Preliminary Estimates of Canada's International
Accounts, 1949

(Millions of dollars)

	<u>All Countries</u>	<u>United Kingdom and Ster- ling Area</u>	<u>Other "E.R.P." Countries</u>	<u>Other Overseas Countries</u>	<u>United States</u>
<u>Current Account</u>					
Current Account Balance	+ 180	+ 578	+ 187	+ 9	- 594
<u>Capital Account</u>					
Post War Loan to U.K. and Export Credits					
Total Drawings on Loans	- 120	- 120	-	-	-
Principal Repayments	+ 13	-	+ 11	+ 2	-
Net Loans	- 107	- 120	+ 11	+ 2	-
Net Retirements of Canadian Securities	- 42	- 11	- 1	-	- 30(1)
Net Trade in Outstanding Securities	+ 22	- 16	- 2	+ 1	+ 39(1)
Other Capital Movements	+ 84	+ 65	- 24	- 7	+ 50(1)
Net Receipts of Convertible Exchange from Overseas Countries	-	- 487	-171	- 5	+ 663
Balancing Item (2)	- 3	- 9	-	-	+ 6
Balance from all above Transactions	+ 134	-	-	-	+ 134
Increase in Official Liquid Reserves	+ 134	-	-	-	+ 134

(1) Including some capital transactions on account of "other overseas countries".

(2) The Balancing item reflects errors and omissions.

N.B. A minus sign (-) designates payments, outflows of capital from Canada, or purchases of convertible exchange.

Table 11 - Current Account of the Canadian Balance of International Payments
Revised Statement for 1948 and Preliminary Estimates for 1949

(Millions of Canadian dollars)

	All Countries		United Kingdom		Other Sterling Area		United States		Other "E.R.P." Countries		All Other Countries	
	1948	1949	1948	1949	1948	1949	1948	1949	1948	1949	1948	1949
A. Current Receipts												
Merchandise exports (adjusted)	3,030	2,989	703	701	293	300	1,508	1,521	296	246	230	221
Gold available for export	119	139	-	-	-	-	119	139	-	-	-	-
Tourist expenditures	279	288	9	11	1	2	267	270	2	4	-	1
Interest and dividends	70	83	9	9	4	4	37	40	6	14	14	16
Freight and shipping	336	293	105	89	34	30	131	120	32	28	34	26
Inheritances and immigrants' funds	84	66	52	34	2	1	18	20	8	8	4	3
All other current receipts	229	212	44	46	4	3	167	151	4	4	10	8
Total Current Receipts	4,147	4,070	922	890	338	340	2,247	2,261	348	304	292	275
B. Current Payments												
Merchandise imports (adjusted)	2,598	2,696	287	300	192	187	1,797	1,899	75	79	247	231
Tourist expenditures	133	191	12	16	4	4	113	164	3	6	1	1
Interest and dividends	325	390	50	55	1	1	267	325	5	7	2	2
Freight and shipping	279	255	34	32	7	5	213	193	15	16	10	9
Inheritances and emigrants' funds	50	53	7	10	1	2	37	39	1	1	4	1
All other current payments (1)	310	305	46	34	4	6	213	235	22	8	25	22
Total Current Payments	3,695	3,890	436	447	209	205	2,640	2,855	121	117	289	266
C. Current Account Balance	+ 452	+ 180	+486	+443	+129	+135	- 393	- 594	+227	+187	+ 3	+ 9

(1) Including contributions of official relief of \$19 million in 1948, of which \$13 million was to "E.R.P." countries and \$6 million to other countries.

Table 12 - Current Account Between Canada and All Countries, 1926-1949
(Millions of dollars)

Year	Current Receipts	Current Expenditures	Net Balance On Current Account	Mutual Aid and Other Official Contributions	Net Balance on Current Account Excluding Official Contributions
1926 ..	1,665	1,538	+ 127	-	+ 127
1927 ..	1,633	1,643	- 10	-	- 10
1928 ..	1,788	1,820	- 32	-	- 32
1929 ..	1,646	1,957	- 311	-	- 311
1930 ..	1,297	1,634	- 337	-	- 337
1931 ..	972	1,146	- 174	-	- 174
1932 ..	808	904	- 96	-	- 96
1933 ..	829	831	- 2	-	- 2
1934 ..	1,020	952	+ 68	-	+ 68
1935 ..	1,145	1,020	+ 125	-	+ 125
1936 ..	1,430	1,186	+ 244	-	+ 244
1937 ..	1,593	1,413	+ 180	-	+ 180
1938 ..	1,361	1,261	+ 100	-	+ 100
1939 ..	1,457	1,331	+ 126	-	+ 126
1940 ..	1,776	1,627	+ 149	-	+ 149
1941 ..	2,458	1,967	+ 491	-	+ 491
1942 ..	3,376	2,275	+ 1,101	1,002	+ 99
1943 ..	4,064	2,858	+ 1,206	518	+ 688
1944 ..	4,557	3,539	+ 1,018	960	+ 58
1945 ..	4,456	2,910	+ 1,546	858	+ 688
1946 ..	3,365	2,905	+ 460	97	+ 363
1947 ..	3,746	3,661	+ 85	38	+ 47
1948 ..	4,147	3,676	+ 471	19	+ 452
1949 ..	4,070	3,890	+ 180	-	+ 180

Table 13 - Geographical Distribution of the Balance on Current Account, 1926-1949
(Millions of dollars)

Year	All Countries	United (1) Kingdom	Other Overseas (2) Countries	United (3) States
1926	+ 127	+ 58	+ 300	- 231
1927	- 10	- 19	+ 257	- 248
1928	- 32	- 21	+ 338	- 349
1929	- 311	- 99	+ 225	- 437
1930	- 337	- 106	+ 113	- 344
1931	- 174	- 54	+ 85	- 205
1932	- 96	- 14	+ 86	- 168
1933	- 2	+ 26	+ 85	- 113
1934	+ 68	+ 46	+ 102	- 80
1935	+ 125	+ 62	+ 92	- 29
1936	+ 244	+ 122	+ 123	- 1
1937	+ 180	+ 135	+ 122	- 77
1938	+ 100	+ 127	+ 122	- 149
1939	+ 126	+ 137	+ 105	- 116
1940	+ 149	+ 343	+ 98	- 292
1941	+ 491	+ 734	+ 75	- 318
1942	+ 1,101	+ 1,223	+ 58	- 180
1943	+ 1,206	+ 1,149	+ 76	- 19
1944	+ 1,018	+ 746	+ 241	+ 31
1945	+ 1,546	+ 747	+ 763	+ 36
1946	+ 460	+ 500	+ 567	- 607
1947	+ 85	+ 633	+ 587	- 1,135
1948	+ 471	+ 486	+ 378	- 393
1949	+ 180	+ 443	+ 331	- 594

(1) Excl. wheat exports diverted to other overseas countries, and exports of gold
(2) Incl. estimated wheat sold in European Countries. (3) Incl. all net exports of non-monetary gold.

Table 14. - Statistics on Canada's International Investment Position

A. Summary - Non-Resident Investments in Canada, 1926-1948
(Millions of Canadian dollars)

	1926	1930	1939	1945	1946	1947	1948(1)
Held in United Kingdom.	2,636.3	2,766.3	2,475.9	1,750.0	1,668.0	1,631.0	1,593.0
Held in United States..	3,196.3	4,659.5	4,151.4	4,990.0	5,157.0	5,218.0	5,588.0
Held in Other Countries	170.0	188.0	286.0	352.0	353.0	343.0	332.0
Total - Non-Resident Investments in Canada.	6,002.6	7,613.8	6,913.3	7,092.0	7,178.0	7,192.0	7,513.0

B. Summary - Book Value of United States Direct Investments in Canada
In Companies Controlled in the United States,
by Forms of Investment, 1926-1948
(Millions of Canadian dollars)

	1926	1930	1939	1945	1946	1947	1948(1)
Capital Stocks	1,000.0	1,329.4	1,289.2	1,613.0	1,691.0	1,806.0	2,061.0
Bonds	187.6	336.3	305.8	292.0	320.0	311.0	321.0
Other Investments	214.9	327.0	285.9	399.0	417.0	448.0	447.0
Total	1,402.5	1,992.7	1,880.9	2,304.0	2,428.0	2,565.0	2,829.0

C. Summary - Canadian Assets Abroad, 1930-1948
(Excluding Investments of Insurance Companies)
(Millions of Canadian dollars)

	1930	1939	1945	1946	1947	1948(1)
Direct Investments Outside of Canada ...	443	671	720	772	822	788
Portfolio Holdings of Foreign Securities	842	719	621	551	579	605
Government Credits	31	31	707	1,362	1,816	1,878
Net External Assets of Canadian Banks ..	180	(2)	(2)	(2)	(2)	(2)
Official Liquid Reserves (3)	(2)	444	1,667	1,251	511	1,006
	1,496	1,865	3,715	3,936	3,728	4,277

(1) Subject to revision.

(2) Not available. (3) Including holdings of gold which at the end of 1945 had a Canadian dollar value of \$388 million, \$536 million in 1946, \$286.6 million in 1947 and \$401.3 million in 1948.

N.B. A more detailed analysis of British and Foreign Investments in Canada and Canadian Investments Abroad has been published in The Canadian Balance of International Payments, 1926-1948.

Section 1. General. The purpose of this Act is to provide for the

and to provide for the

Section 2. Definitions. In this Act, the following definitions shall apply:

Section 3. The Board of Directors shall have the authority to

Section 4. The Board of Directors shall have the authority to

Section 5. The Board of Directors shall have the authority to

Section 6. The Board of Directors shall have the authority to

Section 7. The Board of Directors shall have the authority to

Section 8. The Board of Directors shall have the authority to

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