GOVERNMENT OF CANADA

THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS IN THE POST-WAR YEARS, 1946-1952

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PREFACE

This volume is the latest in a series of publications on the Canadian balance of international payments which have been published for the period from 1926 on by the Dominion Bureau of Statistics.

Prominent among earlier publications were The Canadian Balance of International Payments, a Study of Methods and Results, published in 1939, and The Canadian Balance of International Payments, 1926-1948, published in 1949. The first of these volumes contained detailed descriptions of methods developed up to 1939; the second volume described and analyzed trends in the balance of payments in the period from 1926 to 1948, and brought up-to-date the description of methods together with revised statistics for the whole period.

The present volume presents, for the first time, quarterly statistics of the current account for the period 1946 to 1952, and of the capital account for the period 1950 to 1952. It also contains extensive comment on the post-war period as a whole, along with the latest revised statistics which are set forth in a comparable form for the period.

Comprehensive information on the balance of payments and international investments is only possible with the co-operation of the public as well as of a number of government departments and agencies. Close liaisons with the Bank of Canada and the Foreign Exchange Control Board were particularly valuable in the period covered in this report in which use was made of information on exchange transactions up to the end of 1951 when exchange control in Canada was terminated. Valuable assistance has also been obtained from other government departments, especially the Customs and Excise Division of the Department of National Revenue and the Department of Citizenship and Immigration. Regular co-operative exchanges of information, particularly on tourist expenditures, have been maintained for many years with the United States Department of Commerce.

The work on the balance of payments has been under the direction of Mr. C.D. Blyth, Chief, Balance of Payments Section, who was assisted in the preparation of this report by Mr. E.B. Carty and Mr. A.E. Safarian of the Balance of Payments Section.

HERBERT MARSHALL,
Dominion Statistician

Ottawa,
July 31, 1953.

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BALANCE OF PAYMENTS TRENDS DURING THE POST-WAR YEARS

The post-war period reviewed in this report was one featured by full employment and development in the Canadian economy in a world in which international financial dislocations were widespread. In the earlier part of the period particularly Canada provided substantial financial assistance required by the overseas world to restore economies and to maintain the international flow of commodities. Later the direction of international capital movements in Canada's balance of payments changed. This change accompanied an increasing scale of development in Canada with alterations in the relative position of the overseas world, and price and demand changes following the outbreak of hostilities in Korea.

Some of the characteristics of Canada's balance of payments in the post-war period originated in the special features of Canada's wartime activities and the transition from that background which followed. The war years were characterized by the large volume of Canadian production exported to Canada's allies abroad, and limitations upon Canadian consumption and other activity such as investment through fiscal measures as well as by controls and shortages. The wartime economy made for large export balances and current surpluses which were financed chiefly by special wartime financial measures such as Canadian Mutual Aid and military expenditures. At the same time Canada's United States dollar problems were ameliorated by special measures such as the sale of war supplies to the United States Government under the Hyde Park arrangements and by abnormal receipts of United States exchange from sales of grain and defence activities. While the levels of imports for war purposes were exceedingly high, imports from the United States for civilian purposes were reduced by various types of restraint and by wartime shortages[1].

There was consequently a major shift in activity in the Canadian economy once reconversion from war production to peacetime purposes was accomplished. A great change occurred in the composition and direction of Canadian exports as civilian commodities took the place of war production shipped abroad. Major changes also occurred in the composition of Canadian imports as civilian demands became effective and displaced and later exceeded the imports for war purposes. The main consequence of these changes on the balance of payments was a sharp reduction in the size of the current account surpluses with overseas countries and an increase in the current deficit with the United States.

1. For detail on the wartime balance of payments, see the *Canadian Balance of International Payments 1926-1948*, and the annual issue of this publication for 1945, and the March 1946 report of the Foreign Exchange Control Board.

Early post-war financial measures were designed to reduce the impact of the readjustments on overseas exports by providing financial measures, such as the loan to the United Kingdom and export credits to other countries, to finance the flow of exports overseas. In the early years there were consequently not the same impediments to trade with overseas countries which developed later when these credits were no longer available. The sterling crisis of 1947 and the general exchange difficulties which spread throughout most of the overseas world led to sharp curtailments in dollar expenditures by overseas countries. In the years which followed, Canadian exports to countries like those of the sterling area and continental Europe contracted as restrictions on expenditures spread. This contraction occurred despite major efforts such as the European Recovery Program, which was introduced in 1948 to restore the economic position of European countries.

As the overseas financial position deteriorated Canada's own position was transformed. The loans and export credits extended by Canada had direct effects upon Canada's ability to finance the large deficit arising from the growth of Canadian imports from the United States. There were large declines in official reserves arising from the heavy current deficits with the United States and from the exports of capital from Canada, largely in the form of government export credits. This led to the series of exchange conservation measures which were introduced at the end of 1947.

Canada started the post-war period with a high level of liquid reserves. These served to carry the country through the first few post-war years. But Canada could not long maintain the level of financial assistance provided in the opening years of the post-war period. Because of the loans a large part of Canadian exports overseas did not yield current receipts of exchange, and the deterioration in the position of the overseas world did not encourage the outlook for early recovery. Meanwhile, Canadian investment and development continued at a growing pace. Consumption also rose to new high levels. While the range of production in Canada was increased there continued to be widespread needs for imported commodities with the high levels of incomes and activity prevailing. Consequently, Canadian imports of goods rose where supplies became more plentiful, as reconversion and rehabilitation throughout the world progressed. Another stimulus to imports was the restoration of the Canadian dollar to par in July 1946. At first the United States was the most accessible source of supply and imports were therefore heavily concentrated from that country. Only in later years, as recovery spread throughout the overseas world, did the volume of Canadian imports originating outside the western hemisphere grow substantially.

Exchange Crisis in 1947

The circumstances which have been described above led to a rapid loss of liquid reserves and to the exchange crisis of 1947. Canada's receipts of exchange from trade with overseas countries were not large enough to cover the growing current deficit with the United States. Even though Canada had a small current surplus with all countries, a large part of the export balance with overseas countries did not yield convertible exchange as it was financed by loans and export credits by the Canadian Government. The loss of reserves was accentuated by the larger current deficit with the United States during 1947 as improving supplies of commodities in that country made possible a rapid increase of shipments of goods to Canada. There were also other capital outflows which further contributed to the exchange crisis. The contraction in reserves accelerated in 1947 and the official holdings of gold and United States exchange were reduced to a low point of just under $461 million in December 1947.

The years 1946 and 1947 are dealt with as a single period in the chapter which follows because of the common features in the background and the culmination of the period late in 1947 with the introduction of the emergency exchange conservation measures. The latter were to become fully effective and to influence the balance of payments in the period which followed.

Recovery In Reserves

The two years which follow the exchange crisis, 1948 and 1949, contrast sharply with 1946 and 1947. There was a substantial recovery in the level of the official reserves. The changes which contributed most to this were the sharp reductions in drawings on loans and export credits extended by the Canadian Government for financing exports and in other outflows of capital. As capital movements in the two years 1948 and 1949 were mainly offsetting they led to no net drain on the reserves. The current surplus which Canada had with all countries was therefore available as a source of the increased official reserves. During the same period there was an intensification of import restrictions in the overseas world which mainly discriminated against expenditures in North America. This had the effect of reducing Canadian exports to overseas countries and making available more Canadian goods for export to the United States. Early in 1948 there was a removal of restrictions upon Canadian exports to the United States; these had originated in price controls, wartime allocations, and related efforts to maintain exports overseas. Because of this and other factors exports to that country rose sharply in 1948. Among these other factors were the availability of Canadian commodities resulting from the reduction in effective overseas demand, reduced tariffs following the implementation of the General Agreement on Tariffs and Trade, and rising Canadian production of raw materials which were scarce in the United States with growing demands in that country. In this way, the United States became the market for more than half the commodities exported from Canada in the years following 1948, as the proportions fell which were exported to the United Kingdom and the rest of the Commonwealth particularly.

Re-appearance of Current Deficits

Deficits in Canada's current account re-appeared for a period in 1950 and 1951 for the first time since 1933. Enlarged deficits from non-merchandise transactions were the principal contributors to the deficits at a time when the trend in the commodity balance was also adverse. The greatest changes from the two previous years, however, occurred in the balance on commodity account. For a long period of years surpluses on commodity account had been more than enough to offset deficits from non-merchandise transactions. The commodity balance changed from a credit balance of $725 million in the two years 1948 and 1949 combined to a deficit of $137 million in 1950 and 1951. The deficit from other current transactions in the same two periods rose from $97 million in the earlier years to $714 million in the two following years.

The deficits occurred at a time when there were predominantly inward capital movements into Canada and when inflationary pressures were widespread. They also first appeared when Canada's credit balance with overseas countries was greatly reduced and the deficits were partly results of the reduced volume of commodities being exported overseas. The deficits extended, however, into 1951 after the volume of exports to overseas had again started to rise, since the volume of Canadian imports continued to rise sharply in that year. The volume of imports rose under the pressure of strong demands as supplies abroad improved and the remaining Canadian restrictions were finally removed. The adverse movement in Canada's terms of trade accompanying the inflation of prices abroad following the outbreak of hostilities in Korea was another factor increasing the deficits, but deficits had occurred also in the first half of 1950. The increase in inventories in Canada in the first half of 1951 was another influential factor in the rise in imports.

But it should be emphasized that the major part of the deficits in both years arose from the deficits from non-merchandise transactions rather than from the deficits on commodity trade which did not become a contributor until 1951. Particularly influential in contributing to the greatly enlarged deficits from non-merchandise transactions were adverse trends in travel account, interest and dividends, freight and shipping, migrants' funds and inheritances, and miscellaneous current transactions in comparison to the result from these transactions in the years 1948 and 1949. While partly due to relaxations in restrictions these changes were also influenced by the high levels of activity in Canada which in turn led to large business profits and higher expenditures in the United States on services of all kinds by individuals and businesses.

A prominent feature of this period was the enlarged inflow of capital, particularly inflows connected with Canadian development. Inflows for direct investment in Canada and from the sale of new issues of securities in the United States were the principal channels of the investments connected with development. In addition, other large inflows, many of a speculative character, were characteristic of the widespread movement into Canadian dollars in the summer of 1950.

Developments in 1952

Current surpluses again re-appeared in Canada's current account in the last quarter of 1951 and continued in 1952. A return to an export balance on commodity account was the principal change from the period of deficits. Two leading factors contributed to this change; namely, a very marked favourable trend in Canada's terms of trade, and a sharp increase in the volume of commodities exported to overseas countries, which was featured by heavy grain shipments. Changes in other transactions were more mixed. There was an unfavourable trend in the balance on travel account with a continued increase in expenditures of Canadians travelling abroad, and favourable trends on income account and from freight and shipping transactions.

The strength of the Canadian dollar was another outstanding feature in 1952. This in turn had important influences on some capital movements. Prominent among the outflows of capital were liquidations by non-residents of holdings of outstanding Canadian securities and changes in short-term assets and liabilities. These were greater than the continued large long-term inflows connected with Canadian development.

Volatility of Current Balances

The effects on current account balances of fluctuations of exports and imports and of other current transactions are often magnified. Comparatively small changes in such large aggregates as current receipts and current payments may lead to very large relative changes in the balance on current account. In periods when this balance has been small it was particularly susceptible to large percentage changes with the balances being transformed in size or in sign in a short period of time. Factors like changes in demand and in supply and the terms of trade may bring about rapid variations in transactions. Changes in inventories also have important effects on the movement of commodities. During the post-war period as a whole, there has been a build-up of inventories due both to increased volume and rising prices. But within this general period of build-up, there have been short-run periods in which inventories have been drawn upon.

Changes in Bilateral Unbalance

Changes in the position of the overseas world as well as developments in Canada and the United States have had important influences upon the bilateral pattern of Canada's balance of payments. The underlying international currents of supply and demand have had basic effects upon the changing patterns of Canada's balance of payments in the period. As regards supply, the earlier part of the period was one characterized by general scarcities of commodities. But these scarcities were greater in the overseas world than in Canada and the United States, because of the impact of wartime dislocations abroad. Consequently, the predominant flow of commodities was strongly outwards from Canada and the United States in the early years. Differences between the supply situations in Canada and the United States also had their effects upon the current account between the two countries. At the beginning of the period, commodities which were in demand in Canada were also in heavy demand in the United States with the result that Canadian imports from that country did not fully reflect the strength of Canadian demands until 1947, when supplies of commodities in the United States became less restricted. When this occurred there were rapid increases in Canadian imports as Canadian requirements of many commodities bought in the United States are comparatively small in relation to the supply available in that country.

Fluctuations in international demand have also played a major part in balance of payments trends. In the early years of the period there were heavy accumulations of demand and savings carried over from the period of wartime stringency. In addition full employment and heavy investment which have characterized conditions in most countries throughout the period acted to maintain demand at unusually high levels.

Directly affecting overseas demand for Canadian commodities were such financial factors as the loans and credits extended by the Canadian Government to overseas countries which financed their purchases in Canada during the earlier years. After that, with the occurrence of foreign exchange difficulties abroad, there were the restraining effects on overseas demand of import restrictions and other practices discriminating against expenditures in Canada. Canadian demands for imports have been characterized by their prevailing strength and during much of the post-war period they were largely unrestricted. The principal exception was the emergency exchange conservation measures introduced at the end of 1947, but these restrictions which were at a peak in 1948 were progressively removed thereafter. The magnitude of potential Canadian demands was indicated in 1951 and 1952 when the volume of Canadian imports rose to new peaks. Short-run fluctuations in consumption and in inventories have also effects upon movements of this kind. Even though the range of Canadian production has been greatly widened with the new investments of recent years, there is still a great diversity of imports. These

STATEMENT 1. Percentage Share of United States in Canada's Current Account Transactions[1]

Year	Merchandise Exports	Total Current Receipts	Merchandise Imports	Total Current Payments
1937-39	35.9	50.9	62.4	64.6
1945	32.6	39.1	77.6	58.7
1946	39.6	46.6	75.6	74.8
1947	39.0	45.7	77.0	77.7
1948	49.8	54.2	69.2	71.9
1949	50.9	55.5	70.4	73.5
1950	65.2	67.9	66.9	71.7
1951	58.9	61.5	69.4	72.8
1952	54.1	58.1	73.1	75.4

1. Mutual Aid to NATO Countries is excluded throughout this statement, and official contributions are excluded from total current payments.

extend into many industrial raw materials and also include a great variety of imports of industrial equipment. The extent of Canadian investment throughout the post-war period has been a large influence on the volume of Canadian imports.

Transactions with overseas countries constituted a greater part of the Canadian balance of payments in the early post-war years than was the case in the years following 1948 when the proportion of exports to the United States rose as the ratio exported overseas generally dropped. This affected the bilateral disequilibrium of Canada's current account and has led to notable changes in Canada's international economic relations. In the early post-war years there were large current account surpluses with the United Kingdom and other overseas countries. These were mainly due to large totals of exports and related services provided overseas countries, and the comparatively slow rate at which Canadian imports from the United Kingdom and other overseas countries rose in the early part of the post-war period. During the early post-war years the Canadian loan to the United Kingdom and the other export credits were available to overseas countries for financing purchases in Canada and supplies of commodities abroad were limited. It was only in the later years that the supplies of commodities overseas reached the point where there was a substantial increase in the flow of commodities from overseas to Canada. This movement was retarded, too, by price factors in the period before the general currency devaluations in 1949. In the inflationary conditions which developed following the opening of hostilities in Korea there were again international shortages. Besides affecting the available supply of some strategic commodities required in defence production, there were also heavy demands for many other commodities. Canadian demands for many of these were comparatively small in relation to the supplies available in the United States. Consequently, Canadian imports rose to new peaks late in 1950 and in the first half of 1951, in response to the inflationary pressures even though there were scarcities of many commodities abroad. Prevailing high levels of prices were also important contributors to the high values of Canadian imports at that time. Following the same period there was again a tendency for the flow of commodities from overseas to decline. This was due to the effects of softening in some Canadian demands and increasing competition.

The result of these changes was that the bilateral unbalance in Canada's current account was reduced sharply by 1950. But in 1951, there was again an increase in the gaps between credits and debits in the current accounts with the United Kingdom and with other overseas countries. Nevertheless the amount of disequilibrium with overseas countries was still much less than in the first four post-war years as the problems of overseas countries in financing their purchases in Canada remained. At the same time, Canada's current account deficit with the United States had widened to an extent which was only exceeded in the record year of 1947. These changes which occurred in 1951 continued in 1952 when there was an increase in the current surplus with each of the United Kingdom, the rest of the sterling area and other overseas countries. The deficit with the United States in 1952 showed less change, continuing at about the same level as in 1951. Changes in foreign exchange rates have also been an important influence in the background affecting the direction of international trade. But their effects are not always clearly distinguishable from other influences, particularly in a period of strong and sustained demands in some countries and financial restrictions in others, and generally tight supplies of available commodities.

The Mechanism of Adjustment

Initiative for international transactions may originate in either the current or capital account. The effects may then spread out through numerous interrelationships. For example, heavy merchandise imports induced by fears of shortages may result in a capital inflow through the reduction of assets abroad or the accumulation of foreign liabilities. On the other hand decisions of foreigners to make investments in Canada may lead, directly or indirectly, to increased imports.

Under the operation of the gold standard in its classic form the merchandise imports in the first case would result in a reduction of gold holdings. This contraction of the credit base would lead to tighter money and in turn to reduced domestic price and income levels which would encourage exports and discourage imports to the point where a new balance was reached. In the second example referred to, the gold inflow would lead to an expansion of the credit base, rising domestic prices and incomes, increased imports and decreased exports, to the extent that the investment did not itself involve direct imports of capital equipment.

During the period of fixed rates of exchange official holdings of gold and foreign exchange represented the residual factor in the balance of payments. As these holdings were held by the central authorities changes did not have the same automatic effects on the money supply as would have been the case in earlier periods. The adjustment of the balance of payments was effected through such factors as changing levels of these holdings, government transactions such as the extension of credit to foreign governments or the borrowing of funds abroad, changes in the official rates of exchange, direct controls over exchange transactions and domestic sectors of the economy, and indirect influences like fiscal policy.

The mechanism of adjustment since the end of exchange control in 1951 has had some features in common with that in the years immediately following the abandonment of a gold standard, although there are many other differences in background between the two periods. Intervention by the central authorities in the exchange market has been a limited one, and the exchange rate has moved to a point at which supplies of and demands for exchange were in equilibrium. In the final quarter of 1951 and through 1952 the very heavy inflow of long-term capital to finance Canadian development coincided with a current account surplus. The strong pressure exerted on the exchange rate as a result of these factors sent the Canadian dollar to a premium in relation to the United States dollar. Neither the current account nor the investment inflow was immediately responsive to this change in the value of the Canadian dollar, and the adjustment of the balance of payments largely took the form of repatriation of Government of Canada bonds and outflows of short-term capital. At the same time the economy at large has been influenced by the indirect effects of official financial policy.

Capital Movements and Changes in the Balance of Indebtedness

While capital movements in the post-war years have in general been large and varied, over the seven year period from 1946 to 1952 the net movement in many categories and in total has been relatively small.

There were net inflows for direct investment in Canada of about $1,100 million and net outflows of about the same amount arising from credits extended by the Government of Canada. These movements represented on the one hand an increase of private Canadian liabilities largely to the United States, an investment participating in the growth and direction of the Canadian economy, and on the other an increase of Canadian assets in overseas countries in the form of long-term inter-governmental debt. But sales of portfolio Canadian securities to nonresidents of over $3,900 million were largely offset through repatriation by repurchase or retirement, and the resulting net capital inflow over the seven years was only $251 million, although in the process there was a considerable transfer of Canadian indebtedness from overseas countries to the United States. Capital movements of all other types were on balance outward, and the net inflow of $86 million, together with the current account balance of $340 million, was reflected in the growth of official holdings of gold and foreign exchange.

Changes in the balance of international indebtedness have been larger than these figures indicate because of retained earnings not shown as capital movements and other factors. Aside from short-term commercial indebtedness, gross Canadian liabilities are estimated to have increased $3,500 million dollars in the seven years, to total $11,100 million at the end of 1952. Gross Canadian assets exclusive of short-term commercial indebtedness and holdings of blocked currencies, rose $2,600 million in the same period to total $6,400 million at the end of 1952. Over the seven years Canada's net international indebtedness increased from $3,900 million to $4,700 million, compared with $5,500 million at the end of 1939.

Structure of Economy and Importance of International Transactions

The balance of payments should not be thought of merely as an accounting mechanism for recording international transactions. Properly understood, it is a powerful tool of economic analysis.

Its relation to the economy can be suggested by use of the National Accounts. The gross national product is a measure of the value of goods and services produced by Canadian residents in a given period. It is arrived at by adding together all costs arising in production. It equals gross national expenditure, which is arrived at by adding together all final sales made during a period, adjusted for changes in inventories and imports. The expenditure side of the accounts shows the three domestic components; namely, personal consumption, government expenditure, and gross domestic investment. Two sets of transactions with non-residents are shown, consisting of exports and imports of goods and services. These various streams of expenditure are closely related. Imports of goods and services result from the other four types of expenditures, and are embodied in the totals for these expenditures. Thus to measure production by residents of Canada imports of goods and services have to be deducted from the grand total of sales. Exports of goods and services are the products of a large number of Canadian industries. Production by these industries for both export markets and for domestic sales helps to generate the gross national product. Exports and imports of goods and services should be thought of then as those sales and purchases of consumers, business, and government which take place with non-residents, and are a part of economic activity in many industries in Canada.

The importance of exports of goods and services ranges from being the dominant factor in some industries, such as newsprint, to negligible signifi-

STATEMENT 2. Components of Gross National Expenditure as a Percentage of Gross National Expenditure
Based on current dollar series

	1946	1947	1948	1949	1950	1951	1952
Personal consumption	66.3	66.6	64.8	66.6	66.1	62.0	62.3
Government expenditure	15.2	11.4	11.5	12.9	12.8	15.0	18.3
Gross domestic investment	15.9	22.3	21.1	19.4	22.9	25.3	19.2
Exports of goods and services	26.7	26.4	26.0	24.4	23.0	23.7	24.3
Imports of goods and services	-23.9	-26.3	-23.3	-23.3	-24.8	-26.2	-23.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Merchandise exports	19.9	19.8	19.4	18.2	17.2	18.4	18.8
Merchandise imports	-15.2	-18.4	-16.6	-16.4	-17.2	-19.1	-16.7

Note: Because of a residual error of estimate and some rounding, the items may not add to exactly one hundred per cent. The values used were based on the definitions of international transactions which are used in the National Accounts.

cance in several service industries which sell almost all of their product to residents. Some aggregates may be useful in assessing the importance of current transactions to Canada.

The important role of international transactions to Canada is clear from Statement 2. About 25% of the gross national product in the years 1946-1952 arose directly from sales to non-residents of goods and services. For merchandise exports only, the proportion varied from 17-20% of gross national expenditure, with merchandise imports amounting to 15-19%[1].

The presentation of such statistics is only a beginning to the consideration of the importance of international transactions to income and employment. It is important to note that much of the investment in physical assets takes place in industries which directly export much of their produce. In 1950, for example, about one-fifth of all private and public investment in durable physical assets was in industries which directly exported 20% or more of their production. The primary industries of agriculture, fishing, and mining all rely to a significant extent on exports. An outstanding example is wheat, of which 50% to 65% is normally exported. Among the manufacturing industries, the wood and paper products industries (particularly newsprint) and the non-ferrous metal products industries are highly dependent on exports. Some other manufacturing industries such as iron and steel products and chemical products export a smaller proportion of their production, although the proportion is quite important. A number of other industries such as textiles and clothing, directly export a small part of their total output. Even in these cases the ability to sell abroad may determine the margin between profit and loss. Not included above are a number of important service industries such as transportation and the tourist industry which also benefit to an important degree from sales to non-residents; their receipts are included in the non-merchandise items of the current account.

The opportunity to sell some part of production on the foreign market often permits economies from greater production which lowers prices on domestic sales. Concentration on a relatively few exports of foods and materials, either raw or semi-processed, which can be produced efficiently in Canada, permits acquisition of certain materials or manufactures which cannot be produced in Canada or cannot be produced as efficiently. The picture is constantly changing as resource development and manufacturing expands in Canada, adding new exports or decreasing our reliance on certain imports.

The direct effects of exports on output and investment are the important ones, but there are also indirect effects created by the spending of the income received by export industries on the products of other export industries and domestic industries. This respending affects consumption expenditures and leads also to some expansion in plant, equip-

1. The first four types of expenditure, consumption, government, investment and exports of goods and services add up to more than 100% as each includes an import content. Deducting imports of goods and services leaves 100%. In comparing exports and imports with gross national product, certain problems are involved. Some of the indirect taxes in gross national product, for example, do not affect export prices so that a comparison of the two understates the importance of exports. On the other hand, the net initial impact of exports on the economy should take account of the imports used to produce these exports, for imports do not as such give employment to residents. It is likely that the opposite effects of these two factors cancel out to a large degree, so that the direct comparison of exports and gross national product is a useful measure of the primary effect of exports on income.

ment, and inventories in order to service the increased demand. Export prospects, moreover, are one of the expectations about the future which businessmen in many industries have in mind when undertaking investment. The investment in iron ore in Labrador and in some base metals are cases in point. Much investment in plant, equipment, and inventories is of course mainly for the domestic market, and the growth of the various types of investment since 1946 has been phenomenal. But its dependence to some degree on current exports and the prospect of future exports should be kept in mind in assessing the statistics presented in Statement 2. The fluctuations in exports, finally, are beyond the direct influence of Canadian policy in a sense which is not true of some other components of gross national expenditure.

The emphasis above has been primarily on exports. Exports enable a country to secure imports which cannot be produced in that country at all or as cheaply. A country must import if it expects other countries to take its exports, unless that country is willing to build up its foreign assets or make loans abroad indefinitely. Furthermore, in recent years the problems facing many countries with respect to imports have been in many cases supply problems. Canada depends on imports for many industrial materials and a wide range of machinery and equipment. Some aspects of the investment boom in Canada, with its widespread income and employment effects, have been heavily dependent on such imports. Where deficits appear, a country has in effect made a net acquisition of goods and services from other countries and thus eased the strain on her own resources associated with rapid expansion in economic activity.

There are still other effects from international transactions which need to be considered. One important factor in certain periods has been the effect of price increases in import and export commodities on the domestic price level, as well as on the current account balance. The period after June 1950 provides a good example. Other significance lies in the substantial total of income payments to non-residents, particularly in the case of dividends. A study of the capital account, moreover, reveals many factors which have profoundly influenced Canada. While the place of international capital movements in Canadian investment was relatively much greater in earlier periods of Canadian growth than in the post-war period, some types of movement in recent years have been particularly prominent. The movement of branches and subsidiaries to Canada, and capital brought in by established branches and subsidiaries, is measured in direct investment inflows. These have contributed significantly to investment in many industries, particularly in manufacturing, and not least in the acquisition of highly developed techniques. The floatation of new issues in the United States by governments and corporations in Canada has been an important source of financing for investment in recent years, thus adding to the supply of capital available in Canada. The trade in outstanding securities has been not only a method of investment in Canada but in some periods a vehicle for substantial speculative movements which threatened to have important inflationary effects in Canada. In other periods it has had equilibrating effects. Similarly, short term capital movements have not only financed normal trade and inventory accumulation, but in some periods have been strongly speculative in character. These financial transactions do, of course, have real counterparts in the current account and in the change in reserves.

The outward movement of capital has also been significant. The most important change in the nature of Canadian assets abroad has been the great increase in official liquid reserves, and in government credits. The latter have had important effects on the balance of payments and on many Canadian industries as a result. Canadian direct investments abroad have also continued to grow in the post-war period.

The effects of capital movements on the financing of Canadian investment and the balance of indebtedness are discussed in detail in Chapter 7.

Chapter II

OPENING POST-WAR YEARS AND EXCHANGE CRISIS 1947

General Characteristics

Canada's international economic relations in the immediate post-war years were dominated by currency difficulties both abroad and in Canada, coming at a time when there was a major reconversion from wartime to peacetime production. In overseas countries heavy reconstruction demands added to burdens of reconversion, and the resultant stresses were intensified by abnormal weather and by political tensions. The Canadian problems on the other hand arose despite the fact that Canada continued to have overall a small current account surplus. Heavy domestic demands as the economy was freed from the restrictions of war did not leave sufficient financial resources to meet the commitments undertaken by Canada in the form of loans and credits to its traditional overseas customers. And as the crisis approached it became clear that the demands both at home and abroad were much larger than were apparent at the end of the war.

In 1946 and 1947 there was a rapid increase in imports from the United States at a time when a large part of exports to overseas countries was being financed by credits from the Canadian Government. Mainly as a result of this underlying background, the official reserves fell from $1,508 million at the end of 1945 to $502 million at the end of 1947 in terms of United States dollars.

In 1945 Canada had a current account surplus of $688 million, after allowance for official contributions of $858 million. A small and unusual surplus of $36 million occurred from current transactions with the United States. In 1946 the surplus with all countries fell to $363 million, and current transactions with the United States yielded a deficit of $607 million in contrast to the previous year's small surplus. Of the overseas surplus of $970 million, $750 million was financed by interim advances, export credits, and drawings on the loan of $1,250 million to the United Kingdom which was negotiated in March 1946. Since most of the overseas surplus was not available to meet the deficit with the United States, and since net private capital inflows were much less than in 1945, official holdings of gold and United States dollars fell by $251 million.

In 1947 official holdings of gold and United States dollars fell by a further $743 million. As in 1946, a combination of exports to overseas countries financed by credit and a rapidly growing level of imports from the United States paid for in cash depleted the reserves. Unlike 1946, the current surplus was very small at $49 million and private capital movements were outward on balance.

Among the more important steps taken in 1947 to control the loss in reserves were the emergency exchange conservation measures and arrangements for temporary borrowing in the United States. These are described in the chapter which follows. The remaining credits to overseas countries were drawn at a reduced rate from the previous year.

Factors in the Exchange Crisis

With the end of the war, two sets of forces came into play to produce an exchange crisis. One group of forces arose from the record peacetime level of expenditure in Canada. This was due not only to heavy consumption and investment expenditures, including additions to inventories, but also to a high level of exports financed to a large degree by the Canadian Government. Deferred demands arising from wartime restrictions and shortages were supported by a tremendous volume of savings, particularly in the hands of consumers. A world-wide shortage of important commodities prevailed, in Canada and the United States because of unsatisfied demands backed by heavy savings, and overseas because of reconstruction needs. The resulting upward pressure on prices was accentuated by the easing or abolition of price controls.

The second group of forces was external in origin and lay in the position in which Canada's traditional overseas customers found themselves when hostilities ceased. The productive capacity of many of these countries had been seriously impaired by the ravages of war, and tremendous demands for reconstruction and reconversion appeared as the war-time financial arrangements came to an end leaving these countries dependent on their depleted external assets. In these circumstances and in furtherance of Canadian interest in a high level of international trade Canada had undertaken substantial commitments through a programme of loans and credits. This led to a large loss of official reserves with the re-appearance of a large current account deficit with the United States which had to be settled on a cash basis, at a time when the large overseas surplus was to a substantial degree financed by government credits. Only part of this overseas surplus was available to Canada in the form of convertible exchange for settlement of her deficit with the United States. To accentuate the problem, the net capital inflow from the United States fell in 1946 and developed into an outflow in 1947.

Merchandise exports to the United States were not as flexible in an upwards direction as were imports from the United States. A large amount of exports continued to go overseas, while rapidly rising levels of consumption and investment absorbed for domestic use much labour and material which might have gone into exports. This situation was accentuated in 1947 as the physical volume of both consumption and investment rose and exports overseas continued on a large scale. Supply limitations were not as important on the import side, in spite of many shortages in the United States early in 1946 which left Canadian demands unsatisfied and kept down the movement of goods. Canadian imports from the United States are a very small part of total goods produced there, and therefore easily expanded, while many exports to the United States are a substantial part of our production. Furthermore, increased availability of United States supplies late in 1946 meant that many of the unsatisfied Canadian demands would spill over into 1947. Finally the War Exchange Tax of 10% imposed in 1940 on all imports from non-Empire countries was abolished in the budget introduced in October 1945.

Another factor affecting imports was the increase in the official rate for the Canadian dollar to $1.00 in United States currency in July, 1946. This move was taken at a time when prices were subject to strong upward pressures and when the official reserves were high. In itself this change tended to lower the Canadian dollar price and therefore the value of imports and also affected the domestic price level. It had the additional effect of making it cheaper to import goods, although supply difficulties made it difficult to get some imports.

In prewar years the whole of any overseas surplus and any net capital inflow from overseas would have been available to settle the current deficit with the United States. Post-war reconstruction problems made it impossible for overseas countries to finance their entire needs in Canada. The Canadian Government recognized the importance to a major trading country like Canada of restoration of world trade. Increased production overseas and the re-establishment of conditions facilitating multilateral trade were of great importance to a country which traditionally had a large overseas surplus and a deficit with the United States. To aid in the restoration of overseas economies, various loans and lines of credit were established by the Government. These credits were, of course, partly responsible for the size of the current deficits which they helped finance.

An important factor contributing to Canada's shortage of United States dollars was the slowness of European recovery. The severe winter of 1946-47, poor crops in 1947, and political tensions added to recovery problems. Faced with the necessity of importing more than they could export, and having much less income from services and investments than before the war, their reserves fell. In the latter part of 1947, therefore, restrictions upon imports from the Western Hemisphere were intensified by European countries and the dollar shortage led to measures by Latin American countries as well. The short-lived experiment in convertibility of sterling ended in August 1947 and sterling area countries re-imposed restrictions on expenditures in Canada and other dollar countries.

As was shown in Statement 1, the area distribution of Canada's transactions had changed considerably from the period before the war. While the United States share in Canada's current receipts had dropped somewhat in 1946 as compared to the pre-war years, her share in current payments by Canada was much larger. The rise in her share of payments in 1946 over 1945 was due both to an increase in expenditures in the United States and a large decrease in Canadian war expenditures overseas. In 1947, while the United States share in

STATEMENT 3. Summary of the Balance of Payments 1946-1947
(Millions of dollars)

	1946			1947		
	United States	Overseas Countries	All Countries	United States	Overseas Countries	All Countries
Commodity exports (adjusted)	948	1,445	2,393	1,061	1,662	2,723
Commodity imports (adjusted)	1,378	444	1,822	1,951	584	2,535
Balance on commodity trade	- 430	+1,001	+ 571	- 890	+1,078	+ 188
Balance on all other current transactions	- 177	- 31	- 208	- 244	+ 105	- 139
Current account balance (C)	**- 607**	**+ 970**	**+ 363**	**-1,134**	**+1,183**	**+ 49**
Net post-war loans and advances by Government of Canada (D9 + D10)	—	- 750	- 750	—	- 563	- 563
All other capital movements (E-D9-D10)	+ 80	+ 40	+ 120	- 238	+ 10	- 228
Balance settled by exchange transfers (G)	+ 276	- 276	—	+ 629	- 629	—
Change in official holdings of gold and foreign exchange (H)	**- 251**	**- 16**	**- 267**	**- 743**	**+ 1**	**- 742**

Note: Letters refer to code used in tables at end of publication.

current receipts fell slightly, her share in current payments rose again. Slowness in recovery overseas and a rapid reconversion in the United States were factors making for the very high share of the United States in Canadian imports.

Transactions in 1946

The current account surplus with all countries fell to $363 million in 1946, as compared with a surplus of $688 million in the previous year. As wartime needs abated, merchandise exports both overseas and to the United States fell considerably in 1946 as a whole compared to 1945, with most of the decrease occurring in exports to the United Kingdom. Imports were well over the 1945 level, however, because of a high level of gross national expenditure and improving supply conditions in the United States. Merchandise imports were about 15 per cent of gross national expenditure, as compared with about 12 per cent in 1945 and 1939. Exports fell substantially as a percentage of gross national expenditure from the level reached in 1945.

Of the overseas surplus of $970 million in 1946 (after allowance for official contributions of $97 million) $750 million was financed by interim advances, export credits, and drawings on the loan of $1,250 million to the United Kingdom negotiated in March 1946. Only $276 million was available to Canada from exchange transfers which could be applied to the deficit with the United States. Other capital movements between Canada and all countries were inward on balance but the net was much smaller than in 1945. In the world account the effect of these factors was a decrease in official holdings of gold and foreign exchange of $267 million. In the United States account, the receipt of $276 million in exchange transfers and a capital inflow of $80 million were not enough to offset a deficit of $607 million and reserves of gold and United States dollars fell accordingly by $251 million.

The reconversion through 1945 and 1946 was effected fairly quickly in Canada. While government expenditure in 1946 fell to half the 1945 total, and exports also fell, large increases in consumption and investment expenditures made up the difference[1]. Gross national expenditure in value terms was actually slightly higher in 1946 than in 1945. Heavy peacetime expenditures on consumption and investment, and a level of exports of goods and services over twice that of 1939, ensured that imports of goods and services remained about the same as the previous peaks of 1943 and 1945.

Recovery in the United States was also rapid. The large decrease in government expenditures was offset by domestic investment nearly three times the value of the 1945 figure, by a large increase in consumption expenditures, and a substantial current account surplus in contrast to a deficit in the previous year. Gross national expenditure was only slightly below the 1945 peak. The same type of behaviour in the components mentioned above led to a slight increase in gross national expenditure in the United Kingdom. The volume of United Kingdom exports doubled the abnormally low figure of 1945 and exceeded the 1939 volume.

The timing of the impact of these various forces on the current account in 1946 is clearer if quarterly data are used. The effects of heavy deferred demands and rising incomes in Canada on current account transactions with all countries were not felt at once because of supply problems, particularly in the first half of 1946. The increased volume of imports in the second quarter was sustained in the third quarter, while export volume rose in that quarter. Relative to the 1948 base, the terms of trade were favourable to Canada. Receipts from other current transactions, moreover, rose more quickly than payments in the first three quarters of 1946. This was partly due to the seasonal increase in tourist receipts; it was also due to special factors such as greater freedom in transferring inheritances to Canada from the United Kingdom, and rapidly decreasing war expenditures abroad. In the fourth quarter, however, imports rose more rapidly than exports and a combination primarily of decreased travel receipts and increased income payments brought a large adverse change in the balance on other current transactions. As a result of these factors, a current account surplus of $146 million in the third quarter of 1946 was reduced to $23 million in the fourth quarter.

It is clear from price and volume indexes that the main reason for the higher import values in 1946 was increased volume. The volume index for all imports, using 1948 as the base year, rose from 80.8 to 94.8 in the second quarter of 1946 and to 109.8 in the fourth. The rise in the price index for imports was much less spectacular. The stability of the import price index in the face of rapidly rising United States prices after mid-1946 was due chiefly to the revaluation of the Canadian dollar in July 1946. It was also due to some lag in the transfer of the impact of higher United States prices to the import price index.

Transactions with the United States in 1946

The decline in exports to the United States in 1946 compared to 1945 was primarily due to decreases in abnormal grain and munitions sales. Other exports were higher, particularly exports of wood products. A large increase in the volume of business inventories contributed to the rise in imports in this and the following year. The rise in imports spread over both consumer goods and durable goods. Particularly important were the absolute increase over 1945 of imports of fuel, materials, and machinery and equipment parts and finished items. These items are needed when Canadian production and particularly investment are high. Supply factors of importance in the United States were increasing availability of

1. In the National Accounts, official contributions are treated as government expenditures rather than exports of goods and services. Somewhat under half of the decrease of government expenditures in 1946 was due to the decrease in official contributions.

commodities as reconversion was quickly effected and gross national product rose rapidly, and better transportation conditions. Somewhat slower reconstruction overseas and tight supply conditions also led to more imports from the United States, as in the case of textile industry imports. The striking increase in imports in the fourth quarter of 1946 was clearly not due to seasonal factors, since only about one quarter of total imports move in this quarter under normal circumstances.

The balance on non-merchandise transactions improved in the third quarter of 1946 then deteriorated sharply in the fourth. This is typical behaviour for the non-merchandise balance, resulting from the seasonal nature of the balance on travel expenditures and heavier dividend payments in the fourth quarter than in the third. Other than seasonal factors were also at work. While United States travel expenditures in Canada reached new peaks in 1946, this change was offset by a rise of corresponding size in Canadian expenditures in the United States. Rising incomes after the first half of the year and greater freedom of travel were factors affecting both receipts and expenditures. Relaxation of travel restrictions in May 1945 and September 1946 by the Canadian authorities was an additional factor on the expenditures side. The Canadian dollar cost of interest payments to the United States was lower in 1946 than in 1945 because of the revaluation of the Canadian dollar, but dividend payments to the United States rose substantially. In 1945 payments were low as many companies retained earnings to finance expansion or increase working capital. The increase in 1946 was due to greater payments by subsidiaries to parent companies in the United States, particularly in the fourth quarter of 1946. A factor contributing to larger dividend payments after the middle of the year was the more favorable exchange rate. Another factor contributing to large net payments to the United States was a substantial drop in receipts from United States government expenditures for defence in Canada, while the Canadian Government made payments of $23 million, chiefly to cover the purchase of immovable assets and certain military equipment. Most miscellaneous expenditures were also higher in 1946. Larger emigration to the United States and a further liberalization of exchange control policy on transfer of emigrants' funds almost doubled the 1945 figure for inheritances and emigrants' transfers to the United States.

Over the year 1946 as a whole the unusually large volume of transactions in Canadian securities was offsetting. The net capital inflow from the United States of $80 million reflected principally inflows for direct investment and the growth of United States holdings of Canadian dollars.

Purchases by United States residents of outstanding Canadian securities, which had been substantial since 1942, reached an annual rate of nearly $400 million in the first half of 1946. Interest rates which were attractive relative to those available in the United States and a feeling that the Canadian dollar might be undervalued at the existing exchange rate contributed to the inflow, in which institutions played a prominent role. Paralleling these purchases considerable amounts of new issues of Canadian dollar bonds were acquired by United States accounts. The rate of inflow dropped abruptly when the official exchange rate was restored to parity in July 1946.

The declining interest rates during the war and immediate post-war months led to a substantial volume of refunding. In the early part of the year the Government retired several United States dollar issues, while a number of corporate debtors refunded obligations payable abroad. Following the return to parity, debtors having obligations payable in foreign currencies tended to take advantage of the opportunity to eliminate these to the extent that the terms and the exchange restrictions permitted.

Transactions with Overseas Countries in 1946

Exports to overseas countries in 1946 were lower than in 1945 but rose through the year. Imports rose more slowly. With the cessation of abnormal munitions shipments and the end of Mutual Aid, exports to the United Kingdom were much lower in 1946 than in 1945. The demand for food and some raw materials was very strong, however, so that export values were twice the level of those in 1937-39. Imports from the United Kingdom at $138 million in 1946 were $38 million over the 1945 level but not much higher than the 1937-39 average. Many commodities like coal and textiles which before the war were important British exports to Canada did not recover as much as British exports generally, and many British exports to Canada were limited by the internal requirements of the reconstruction period and the demands of overseas markets.

Offsetting to a large extent the decrease in the trade balance from 1945 was the decrease from $696 million to $73 million in Canadian government war expenditures in the United Kingdom. The rise in the level of receipts from inheritances and immigrants' funds was primarily due to the relaxation of British exchange restrictions in March 1946.

Exports to other sterling area countries in 1946 were somewhat below the 1945 total. They were very high, however, if the large amount of munitions and of special railway equipment to India are excluded from the 1945 total. The current surplus at $164 million was several times greater than that in 1937 or 1938.

The main financing of the sterling area deficit with Canada during the war was by Mutual Aid, while official and private repatriation of securities and the loan of $700 million to the United Kingdom in 1942 were other important sources of financing. In order that the necessary shipments of goods could continue at the end of the war, interim advances to the United Kingdom were made until drawings on the loan of $1,250 million negotiated in March 1946 commenced. At the same time, an agreement between Canada and the United Kingdom cleared away all outstanding liabilities between the two governments arising out of the war, including interim advances but not the 1942 loan. As part of the agreement the United Kingdom paid the Canadian Government $150 million, supplied by the sale of an equivalent amount of gold to Canada. In 1946 the sterling area deficit in Canada was $664 million. Of this total $540 million was financed by drawings on the March 1946 loan and $112 million by interim advances in the first quarter of the year, but as has been noted the British Financial Settlement involved payment of $150 million to Canada. Private repatriation of Canadian securities through repurchases and retirements yielded $125 million to the sterling area but this was partly offset by repayment of $89 million on the 1942 loan. After other capital transactions and including the change in official holdings of sterling the net capital outflow from Canada was $491 million. The balance of the financing of the sterling area current account deficit was settled by exchange transfers in the amount of $173 million.

Exports to non-sterling area overseas countries in 1946 were only slightly lower than in 1945, but increased imports lowered the trade surplus from $454 million in 1945 to $373 million in 1946. Official contributions amounted to $92 million, and were made mainly to U.N.R.R.A. but included some military relief and Mutual Aid. The current account balance was $306 million, of which $103 million was financed by exchange transfers and $210 million by export credits, while other capital movements on balance showed an inflow of $7 million.

Transactions in 1947

In 1947 there was an even more rapid reduction of $742 million in official holdings of gold and foreign exchange. This was due to a sharp decline in the size of the current account surplus to $49 million, and a further expansion in capital outflows as shown in Statement 3. Under the prevailing conditions in which a large part of exports overseas were financed by credits there was not sufficient exchange available from this source to finance the growing deficit with the United States.

The higher level of imports was the principal change which virtually eliminated the current surplus. Most of the increase in imports of $713 million in 1947 was in imports from the United States. The more moderate rise in exports of $330 million was less concentrated in one direction.

In the first quarter of 1947 the usual seasonal drop occurred in exports; any seasonal forces working toward a decrease in imports from the fourth quarter of 1946 were offset, however, by heavy demands in Canada, so that imports were unchanged. The resulting trade surplus of $56 million, which was well under the $100 million to $200 million quarterly trade balances of 1946, was not exceeded in the remaining three quarters of 1947. Although exports rose substantially over the corresponding quarters of 1946 the rise in imports was relatively greater. The seasonal decrease in tourist receipts, combined with continued heavy payments of dividends, were mainly responsible for a deficit on other current transactions in the first quarter which was close to that of the fourth quarter of 1946. A large deficit on other current transactions occurred in the second quarter as well, but the seasonal rise of tourist receipts in the third quarter converted the deficit on non-merchandise transactions to a surplus.

The periods of largest decreases in reserves were the last quarter of 1946 and the first two quarters of 1947, although the low point of just under $461 million was reached as late as December 1947. The deficit with the United States in these nine months amounted to $934 million. This deficit could be financed by receipts of convertible exchange, by capital inflows, or by the use of reserves. But most of the net outflows of capital to the United States occurred in this period, contributing to the deterioration of the reserve position. Receipts of convertible exchange exceeded the net capital outflow to the United States by only $83 million, as is evidenced by the fact that the reserves fell by $851 million in this period to finance the deficit with the United States. These broad observations suggest the significance for the exchange problem of the rising current deficit with the United States under current conditions of financing overseas trade with credits.

Annual price indexes for exports and imports suggest the terms of trade in themselves played a very small part in the deterioration in the current account from 1946 to 1947, since export and import prices rose proportionately. There was however some deterioration of the terms of trade from the fourth quarter of 1946. The volume of imports, however, rose much more rapidly than that of exports. The index for the former rose from 95.4 in 1946 to 110.9, while that for the latter rose from 94.1 to 98.5. The increase in export volume was restricted because agricultural crops were below average but some items, such as wood products, rose greatly. Improved supplies in the United States and large increases in the volume of consumption and investment expenditures in Canada were important factors affecting import volume.

The price level in Canada rose about 10 per cent in 1947 with the progressive removal of price controls during 1947, the effects of price increases abroad transmitted through foreign trade, and increases in demand and particularly in investment. The price increase was spread throughout the year. Most of the 15 per cent gain in 1947 for gross national product as a whole was due to price increases rather than volume, although some volume increases (as in machinery and equipment) were substantial. A continued decrease in government expenditures and the virtual disappearance of the current account surplus were more than offset by rising consumption and investment expenditures. In the United States, gross national product in physical terms was unchanged in 1947 but because of price increases the value figures rose about 10 per cent. Gross national product in the United Kingdom rose somewhat less than this.

Transactions with the United States in 1947

The current deficit with the United States in 1947 rose by $527 million to $1,134 million, a level greater than any recorded before or since. Of the increase in the deficit, $460 million was due to merchandise trade and $67 million to other current transactions.

Although exports to the United States were higher in each quarter of 1947 than the corresponding quarter of 1946, the increase was much more moderate than that in imports. Most of the increase in exports was concentrated in newsprint, pulp and paper, and other wood products. Grain exports to the United States continued to fall. The relative stability of exports to the United States was a reflection of the supply limitations affecting the main exports. Large volume increases could not be effected without an expansion in capacity or a diversion from overseas markets to the United States. In both 1946 and 1947 overseas commitments were a factor limiting exports to the United States. In some cases export controls on shipments to the United States were used so that overseas commitments could be met. High levels of demand in Canada also held down exports and stimulated imports. Merchandise imports from all countries rose to the very high level of 18.4% of gross national expenditure, as compared with 15.2% in 1946.

The most significant item increasing Canadian imports from the United States was probably the expansion in domestic investment including inventories. The United States dollar content of investment in machinery and equipment is particularly high. Investment in new machinery and equipment alone rose from $584 million in 1946 to $1,016 million in 1947; in constant dollar terms the increase was from $467 million to $723 million. Imports of both durable and non-durable consumer goods also rose rapidly as some long deferred consumer demands were satisfied. The strength of these various demands is shown by the fact that somewhat less than one half of the increase in value of imports from the United States in 1947 was in the iron and products group. This group includes many investment goods or materials, such as farm and non-farm machinery and steel, as well as consumer durables such as automobile parts. Approximately half the rise in value of imports can be attributed to price increases. While important increases in the prices of exports to the United States also occurred, especially in the wood products group, the effect of price increases was to raise greatly net expenditures of United States dollars by Canada. One reason for this was that the price increase on imports was distributed over a much greater volume increase than was true in the case of exports to the United States. Furthermore, since the price increases applied to a large deficit on merchandise trade with the United States in 1946 to begin with, even a uniform volume and price increase of exports and imports would add to United States dollar requirements.

The largest quarterly current account deficit with the United States in the two years was that of $378 million in the second quarter of 1947. Imports in this quarter rose to $537 million, a value over twice the level of exports. While imports stayed close to the $500 million dollar level in the last two quarters of 1947, the current deficit with the United States fell considerably. This was partly due to a rise in exports in the fourth quarter, but the main reason for the improvement in the second half of the year was the smaller deficit on non-merchandise transactions. For the year as a whole freight and shipping payments were higher with the increased volume of imports and increases in freight rates in the United States in 1946 and 1947. While interest payments were lower in 1947 because of refinancing at lower interest rates, redemptions, and the absence of a premium on United States dollars, dividend payments by subsidiaries increased because of larger earnings and withdrawals of income accumulated in previous years. A sharp drop in travel expenditures occurred in the fourth quarter, partly because of seasonal factors and partly due to a tightening of exchange regulations affecting travel expenditures. In November the amount of United States dollars which could be used for travel purposes was set at $150 annually, except for business, health, or educational purposes. Dividend payments also fell from the high levels of the last half of 1946 and the first half of 1947; in part this decrease was a normal reaction from the heavy transfers of accumulated and current income in the previous four quarters, and in part it was due to a revision in exchange control policy which affected the timing of remittances of earnings. A special war refund of $30 million from the United States Treasury also raised receipts in the last half of 1947.

The tendency towards capital outflow which was a direct and natural reaction to the return to parity in 1946 was soon overshadowed by changes in capital movements of a far larger size. As has been seen, at the end of 1946 the rising level of imports from the United States led the current account to a deficit. Indeed over the twelve months ending September 30, 1947, there was an overall current account surplus with all countries of only $42 million, while over this period post-war loans and advances were extended in the net amount of $656 million. The rapid deterioration of the Canadian position raised the question of whether the exchange rate would be maintained at par, and as a result added to the burden heavy net private capital outflows to the United States. Despite a more restrictive exchange policy in dealing with retirements in advance of maturity, net retirements of Canadian securities over the year as a whole totalled $218 million compared with $242 million in 1946 when Government issues had been retired on a large scale. Trade in outstanding securities led to an outflow of $3 million as against an inflow of $241 million in 1946. The full impact of other capital movements is not apparent in the annual data for, as the crisis developed, administrative measures of the exchange control restrained in part the short-term outflows and before the end of the year there had been some reflux of capital, although the movement was on balance outward. As a result of these factors and the payment of the gold subscription to the International Monetary Fund there was a net capital outflow to the United States in the year of $238 million, a deterioration of $318 million from the balance in 1946.

Transactions with Overseas Countries in 1947

The surplus on current account transactions with overseas countries rose by $213 million to $1,183 million in 1947. Merchandise trade accounted for $77 million of this improvement. The disappearance of expenditures associated with wartime activities and a drop in official contributions were responsible for the sharp improvement in the balance on non-merchandise transactions.

The increase in the surplus with the sterling area accounted for all but $2 million of the increase in the current surplus with overseas countries. The growth in exports was the principal change affecting the current account balance with the sterling area in 1947. British official contracts for many important foodstuffs made up a large part of exports to the United Kingdom, as in 1946. Bulk contracts for raw materials like lumber and metals were also important. The chief value increases were in wheat, flour and some other agricultural products, and in lumber and forest products. The merchandise trade balance with other sterling area countries increased markedly in 1947 as exports rose under the influence of improved supplies in Canada of such items as automobiles and parts and the removal of import restrictions in British countries in 1946. Many of these restrictions were reimposed, however, in the latter part of 1947. Imports from the United Kingdom and other sterling countries were also appreciably higher in 1947, but the gain in imports of $75 million was offset by a decline of $73 million in overseas war expenditures.

The sterling area deficit with Canada rose to $875 million in 1947. Drawings on the 1946 loan, amounting to $423 million, financed almost half of this. Exchange transfers were $518 million. Since no convertible exchange was received from the United Kingdom in 1946 following the receipt of gold in March, the large receipts of convertible exchange in 1947 should be related to total British drawings of $963 million on the Canadian loan to the end of 1947. The United States dollars received from the United Kingdom in 1947 were negotiated transfers and were not directly connected with the general convertibility of current transfers of sterling in effect for part of the year.

The current surplus with non-sterling overseas countries was virtually unchanged at $308 million. Exports did not change much but a substantial rise in imports lowered the trade surplus. Offsetting this was an improvement on non-merchandise items due to the disappearance of expenditures connected with the war. Exchange transfers yielded $111 million on balance, while net drawings on Canadian post-war credits financed $140 million of the surplus. The remainder was financed by a net capital outflow of $57 million arising from redemptions, withdrawal of balances released by the Custodian of Enemy Property, and other items.

Chapter III

PERIOD OF REPLENISHED RESERVES, 1948-1949

General Characteristics

The middle years, 1948 and 1949, of the post-war period under review are characterized by the large rise which occurred in Canada's official reserves in sharp contrast to the decline in the two preceding years. The official reserves declined from $1,508 million at the end of 1945 to $502 million at the end of 1947 and were built up in the two following years to a level of $1,117 million. The increase in reserves during this two year period was the result of the larger current account surplus which Canada had with all countries and the elimination of the net outflow of capital. The net movement of capital in the two year period was largely offsetting in striking contrast to the two preceding years when there were exceptionally large outflows of capital chiefly arising out of loans and export credits extended by the Canadian Government to overseas countries. The reduced drawings on these loans in 1948 and 1949 were mainly offset by private capital inflows.

The current account surplus which Canada had in the two years was increased by approximately one-half over the two preceding years, rising from $412 million in 1946-47 to $628 million in 1948-49. This was only partly due to the effects of the exchange conservation measures of the Canadian Government which reduced the volume of Canadian imports from the peak of 1947. But on the other hand Canada's current account also felt the effects of exchange restrictions imposed by overseas countries. Related to the latter was another important development during these years—the rise in Canadian exports to the United States which was made possible with the removal of Canadian restrictions on exports to that country. In spite of this there was a slightly smaller export balance on merchandise account in the two later years.

The largest part of the improvement on current account was from the reductions in Canada's official contributions and from the termination of war expenditures, along with an improvement in the balance from other non-merchandise transactions. Prominent among the latter was a larger balance of receipts on travel account.

The principal change in Canada's bilateral accounts in the middle years was a reduction in the extent of bilateral disequilibrium both with overseas countries and with the United States. But this trend in the direction of balance became more accentuated in 1950. Consequently the current surpluses which Canada had with the United Kingdom and overseas countries in both 1948 and 1949 were much greater in size than in the two years which followed, although much less than in the earlier post-war years.

The period under review was one of readjustments. Prominent among factors in the background were the introduction of Canada's emergency exchange conservation measures and their subsequent progressive removal, and the further deterioration in the currency positions of overseas countries. There was an intensification of import restrictions by overseas countries on expenditures in Canada and a worldwide realignment of currency values in 1949.

Emergency Exchange Conservation Measures

In November of 1947 the Government of Canada introduced measures to conserve the use and to increase the supply of United States dollars. The most extensive measures were the restrictions upon imports. Imports of a variety of consumer goods and certain other articles were prohibited, and imports of a variety of other commodities were placed under quota. The quota system had the effect of reducing imports from the United States and certain other countries not known to be short of United States dollars, while not restricting increases in imports of the same commodities under quota from other countries. Some other imports, mainly machinery and capital goods, were dealt with on a selective basis. Special excise taxes were applied to certain consumer durable goods which have a large United States dollar content. New restrictions upon pleasure travel involving the use of United States dollars were also adopted.

To provide new sources of United States dollars, several methods were used. Tariff reductions negotiated at the Geneva meetings worked to this end. Special assistance was provided by the Government to stimulate gold production. Efforts were made to expand and divert Canadian exports to the United States and other dollar countries. An important factor influencing the diversion of exports to the United States was the removal of export controls in 1948. Arrangements were made for a credit of $300 million from the Export-Import Bank of Washington, to be available as a supplement to the remaining official reserves. Of the total credit only $140 million was drawn and this was repaid in 1948.

These measures had important effects on the balance of payments during 1948, reducing the volume of certain imports and aiding in the rise in exports particularly in relation to the United States. They could be expected also to increase imports from overseas markets.

Overseas Countries' Restrictions on Imports

The difficulty of most European countries in balancing their dollar accounts had been evident in 1947, and various methods were used to meet this problem. These measures included some attempts to increase exports to dollar countries, but to a growing degree in 1948 they took the form of restrictions on imports from dollar countries. The effects of these restrictions on Canadian exports were particularly noticeable in the case of manufactured goods. An important development in this period was the advent of the European Recovery Program in April 1948. Under the European Recovery Program the sterling area, and the participating European countries and their dependencies, attempted to reach a degree of balance in their overall international accounts by 1952 which would not call for special assistance by the United States Government. The Program must be given credit, among other things, for moderating to some extent the impact on Canadian exports of the restrictions applied by these countries. Nevertheless the decline in Canadian exports to overseas countries in 1948 was one of the major developments in that and succeeding years.

Currency Devaluations

In September 1949 the United Kingdom reduced the value of the United Kingdom pound in terms of United States dollars by 30.5 per cent. All other currencies of the sterling area (except that of Pakistan) and many other currencies of important trading nations were also reduced in value by varying amounts. The Canadian dollar was reduced in value in terms of the United States dollar by about 9.1 per cent effective September 20.

The currency revaluations had widespread influences upon the course of international trade. This had been dislocated in the period preceding the changes, partly by anticipations that readjustments were imminent. A leading purpose of the devaluations was to stimulate exports to the Western Hemisphere. The success of the move depended on the extent to which the exchange advantage secured was not offset by rising internal prices, and on the extent to which domestic demand could be restrained so that more commodities could be exported. The effects of the devaluations, however, are not readily dissociated from the effects of other alterations in the background.

STATEMENT 4. Summary of the Balance of Payments 1948-1949

(Millions of dollars)

	1948			1949		
	United States	Overseas Countries	All Countries	United States	Overseas Countries	All Countries
Commodity exports (adjusted)	1,508	1,522	3,030	1,521	1,468	2,989
Commodity imports (adjusted)	1,797	801	2,598	1,899	797	2,696
Balance on commodity trade	- 289	+ 721	+ 432	- 378	+ 671	+ 293
Balance on all other current transactions	- 104	+ 123	+ 19	- 223	+ 107	- 116
Current account balance (C)	**- 393**	**+ 844**	**+ 451**	**- 601**	**+ 778**	**+ 177**
Net post-war loans and advances by Government of Canada (D9 + D10)	—	- 126	- 126	—	- 107	- 107
All other capital movements (E - D9 - D10)	+ 111	+ 56	+ 167	+ 64	- 6	+ 58
Balance settled by exchange transfers (G)	+ 778	- 778	—	+ 671	- 671	—
Changes in official holdings of gold and foreign exchange (H)	**+ 496**	**- 4**	**+ 492**	**+ 134**	**- 6**	**+ 128**

Note: Letters refer to code used in Tables at end of publication.

Transactions in 1948

The current account surplus rose from $49 million in 1947 to $451 million in 1948. Merchandise trade accounted for $244 million of the improvement of $402 million in the current account surplus. The balance on other current transactions was positive, the only year in which this has occurred in the post-war period. This was the result of a sharp increase in net receipts on travel account combined with favourable trends in each of the other main items. Exports to all countries rose by over $300 million; this was made up, however, of an increase to the United States and a decrease to the sterling area and to other O.E.E.C. countries. Imports were only slightly higher than in 1947. While imports from the United States decreased under the impact of the emergency measures taken in November of 1947 to conserve United States dollars, imports from each of the other areas shown in the Tables increased markedly. Particularly notable was the increase in imports from the United Kingdom, which rose by $105 million to a total of $287.

Current transactions with the United States resulted in a deficit of $393 million, or about one third of the deficit of $1,134 million in 1947. A smaller part of overseas exports was financed by official contributions and drawings on loans, and more of the surplus was financed by exchange transfers. In the world account, the current account balance of $451 million and the net inflow of other capital movements of $167 million more than offset net drawings on post-war loans and advances of $126 million and raised official holdings of gold and foreign exchange by $492 million.

In 1948 economic activity rose to high levels, accompanied by a sharp rise in prices. Gross national expenditure in Canada rose 3 per cent in physical volume and 13 per cent in terms of value. Similar trends appeared in the United States and United Kingdom. Both in Canada and the United States investment in durable physical assets gained strongly in both value and volume terms.

Exports to all countries were substantially higher in 1948 than in the corresponding quarters of 1947, except in the second quarter. The rise in the value of exports was mainly due to increased prices, although there were large volume increases in the second half of the year. Under the impact of the emergency regulations imposed by the Government of Canada, imports were fairly close to those of the corresponding quarters of 1947 until the fourth quarter. The stability of import values in 1948 was mainly due to price increases as the volume fell sharply by 10 per cent. The trade surplus improved sharply in the first quarter of 1948, rising to a level of $126 million. Another large surplus of $161 million occurred in the fourth quarter of 1948. These compare with trade surpluses of $33 to $56 million during 1947.

The balance on every other current account item shown in the Tables also improved, the most notable improvement occurring in the balance on travel expenditures. While travel receipts were higher in every quarter as compared to 1947, travel expenditures were lower in every quarter under the impact of the $150 limit on expenditures in United States currency on pleasure travel imposed in November 1947. The improvement on non-merchandise transactions in the first half of 1948 over the first half of 1947 was $100 million, apart from official contributions; in the second half of 1948 these non-merchandise items showed a further improvement of $43 million over the second half of 1947.

As a result of these changes, large current account surpluses occurred in every quarter except the second. In the second quarter the current account was in virtual balance, mainly because of a sharp increase in imports and in dividend payments from the first quarter. The timing of the latter was partly associated with the policy introduced in September 1947 of permitting remittances of earnings by subsidiaries and branches three months after the close of the fiscal year to which they related. The effect of these current account changes, when combined with capital movements including government borrowing in the United States, was to raise official holdings of gold and United States dollars steadily through 1948.

Transactions with the United States in 1948

Of the decrease in the deficit with the United States from $1,134 million in 1947 to $393 million in 1948, $601 million was due to a reduction in the trade deficit and $140 million to a reduction in the deficit on other transactions. The reduction in the trade deficit was due to an increase of $447 million in exports and a decrease of $154 million in imports. The very large increases in exports in the third and fourth quarters of 1948 were mainly due to diversions of exports from overseas markets. Many export controls were removed in the third quarter, controls which formerly limited or prohibited shipment of many commodities to the United States. These has been used both to meet overseas commitments and internal shortages. Heavy exports to the United States of coarse grains and of beef and beef cattle resulted. Improving supplies of coarse grains and other commodities were also a factor in the export increases in 1948. Increased demands in the United States played an important part as well; for example, non-ferrous metal exports were very high in response to heavy investment and production demands in the United States. Reductions in the United States tariff as a result of the Geneva meetings also aided in raising some types of exports.

Imports in the first three quarters of 1948 were well below the corresponding quarters of 1947, in spite of rising incomes in Canada and rising import prices. Although some decline might have occurred in any case from the large volume of imports in 1947, most of the decline was due to the measures used to conserve United States dollars. The decrease in volume of imports was concentrated chiefly in consumers' goods such as textiles, and in cars and trucks. Imports of some commodities increased, however. Value increases occurred, for example, in coal, some types of petroleum, and in machinery. The last of these in particular reflected the continued upward trend of investment in durable physical assets.

The most important change contributing to the improvement on non-merchandise transactions was a large reduction in travel expenditures by Canadians in the United States. This was due not only to the limitations on pleasure travel involving expenditures of United States exchange, but to the import regulations which prohibited the import of many items which Canadian tourists normally buy. The reduction in travel payments, combined with larger receipts, raised the surplus on travel account by $65 million to $154 million in 1948. Most of the other items also showed improvement in 1948. The fluctuations in the balance on non-merchandise transactions in the first half of the year reflect mainly fluctuations in dividend payments. These were very low in the first quarter, and more than doubled in the second. Part of the reason for this change from the 1946 and 1947 pattern was the revision of regulations concerning income transfers, referred to above, which affected the timing of transfers.

Capital transactions with the United States in 1948 resulted in a net inflow of $111 million, adding to official holdings of gold and United States dollars, in contrast to a net outflow of $238 million in 1947. A borrowing of $150 million in the United States by the Government of Canada was the most important single transaction. Of this loan, $140 million was used to repay drawings on the Export-Import Bank loan. Retirements of Canadian securities at $96 million were less than a third of the 1947 retirements.

The extent to which special official transactions replenished the official holdings of gold and United States dollars in 1948 is indicated by the following figures, which are in millions of United States dollars.

Period	Holdings at end of period	Change in period	Net borrowing from Export-Import Bank	New issue sold in U.S.
1946	1,245	—	—	—
1947	502	-743	—	—
1948:				
I Quarter	607	+105	+ 50	—
II Quarter	742	+135	+ 90	—
III Quarter	855	+113	-140	+150
IV Quarter	998	+143	—	—

Transactions with Overseas Countries in 1948

When the European Recovery Program went into effect in April 1948, most of the important trading countries of Europe had come very close to the limit of their expendable exchange reserves. The European Recovery Program must be given credit for helping to prevent a more severe decrease in Canadian exports to this group of countries than actually occurred. Although alternative markets would probably have been found for some of Canada's overseas exports, the overall level of trade with overseas countries would have been more severely curtailed. While efforts were made by these countries to increase their exports to dollar countries, reliance was also placed on reducing dollar imports or diverting purchases to non-dollar countries.

The current account surplus with overseas countries declined by $339 million in 1948, with the sterling area accounting for $260 million of this decrease. The deterioration in 1948 was due to merchandise trade; non-merchandise items showed very little change on balance, while official contributions fell. Exports fell by $140 million, while imports rose by $217 million. If allowance is made for increases in export and import prices averaging over 10 per cent, it appears that the main factor in reducing the trade surplus with overseas countries was a decrease in the volume of exports, although the rise in the volume of imports was substantial. Decreases in exports overseas were particularly widespread in manufactured goods and in some foods and raw materials.

More than half of the reduction in the current surplus with the sterling area occurred in the account with the United Kingdom. The volume of some exports to the United Kingdom, such as bacon and lumber, was much less than in 1947 while purchases of apples and beef were terminated during the year. The decreases were concentrated in the last three quarters as compared with 1947. Imports from the United Kingdom were substantially higher in every quarter of 1948 as compared with 1947. This was due partly to higher prices, partly to the quotas on imports from the United States of commodities like textiles and automobiles which the United Kingdom could also supply, and partly to improving supplies. Imports from the other sterling area countries did not increase to the same extent as those from the United Kingdom. The substantial fall in exports to other sterling area countries as a result of their controls was most evident in many manufactured goods, particularly automobiles. The most important change in 1948 on non-merchandise transactions with the sterling area was a decline in freight and shipping receipts associated with lower export volume. Higher receipts from a heavy volume of immigration during the year offset part of this.

In the capital account with the United Kingdom the largest change was the reduction in drawings on the 1946 loan, which were limited to $52 million. This compares with $423 million in 1947. All of the drawings were in the first four months of 1948. Repayments on the 1942 loan were $64 million. Exchange transfers were higher and became the chief method of financing the sterling area deficit in Canada, in contrast to the situation in the 1946-47 period.

This pattern of lower Canadian exports because of restrictions on dollar purchases, while imports into Canada rose, was also evident in current transactions with non-sterling O.E.E.C. countries. Freight and shipping receipts fell because of lower exports and the reduction in the Canadian merchant fleet, but higher immigrants' funds offset this. The net capital outflow of $154 million to these countries in 1947 fell to $51 million, mainly because of reduced drawings on export credits.

The current surplus with other overseas countries virtually disappeared in 1948, mainly because of a rapid rise in imports. Most of this rise in imports was due to larger purchases of petroleum from Venezuela, reflecting a diversion from United States sources.

Transactions in 1949

In 1949 the current account surplus fell by $274 million to $177 million, a change which was due in approximately equal amounts to merchandise trade and non-merchandise items. Exports and imports to the various areas shown in the balance of payments were relatively unchanged from 1948, the largest change consisting of an increase of $102 million in imports from the United States. The non-merchandise items were more variable, with particularly large increases in travel payments and interest and dividend payments. The widening of the current deficit with the United States by $208 million to a total of $601 million was the major factor in reducing the current account surplus. Of the overseas surplus, $107 million was financed by net drawings on post-war loans and advances while exchange transfers yielded $671 million. The exchange transfers were more than enough to cover the deficit with the United States; coupled with a small capital inflow on other than net loans and advances, they raised official holdings of gold and United States dollars by $134 million. The net capital inflow from the United States fell to $64 million in 1949.

Relative to the other years in the post-war period 1949 was a year of stability. Prices rose much more slowly than in the previous two years, with more moderate rises in export and import prices easing the pressure on Canadian prices. The rise in gross national expenditure was 5 per cent in current value terms and 3 per cent in physical terms, with part of the increase being due to the inclusion of Newfoundland in the figures. The upward movement of industrial production in Canada was interrupted but not reversed. Thus the effects of the recession in the United States were felt only mildly in Canada. The adjustments in the United States were not particularly severe; gross national expenditure fell very slightly in current value terms, and not at all in physical terms. A strong recovery began in the United States in late 1949 and the first two quarters of 1950.

The slight fall in export values in 1949 was due to a decrease in volume, with higher export prices offsetting part of the volume decrease. Export volume was more than 5 per cent less than in 1948 and import volume about the same as that of 1948. Both import and export prices moved upward in 1948 and into the first quarter of 1949, then downward for the next two quarters as United States prices moved downward. The increase in Canadian import and export prices in the fourth quarter was due to the effects of the devaluation; prices in the United States in this quarter were still falling slowly.

In the first three quarters of 1949 the trade surpluses were below those of 1948, while that of the fourth quarter remained unchanged from 1948. The slight fall in exports for the year, while imports rose, lowered the trade surplus from $432 million in 1948 to $293 million in 1949. The balance on other current transactions fell from a surplus of $42 million in 1948 to a deficit of $110 million in 1949, excluding official contributions. All items except gold production contributed to this deterioration. The largest contributors were a decreased surplus on travel account and an increased deficit on income account, reflecting primarily increased payments on these items. The current account deficits in 1949, as a result of these trade and other transactions, were less favorable in every quarter as compared to 1948. In the second quarter a deficit appeared, due solely to a large increase in net payments on non-merchandise items and particularly dividends.

The surplus on current account was only partly offset by a small net outflow of capital, so that reserves of gold and United States dollars rose by $134 million in terms of Canadian dollars. A decrease of $90 million in reserves in the second quarter reflected mainly a current account deficit of $71 million, and in particular a sharp increase in dividend payments.

Transactions with the United States in 1949

The increase from $393 million to $601 million in the current deficit with the United States in 1949 was made up of an increase of $89 million in the trade deficit and $119 million in other current transactions. The value of exports in the first half of 1949 was greater than that of the same period of 1948 but considerably less than that of the second half of 1948. Part of this was a seasonal fall in the first quarter, part was a reaction from the heavy exports of the last two quarters of 1948, but most seems to have been due to the fall in activity in the United States which reduced the volume of many exports. Furthermore, prices weakened after the first quarter. The decrease in exports to the United States in the first quarter of 1949 from the high level of the previous quarter was unusually large. The second quarter did not show the usual seasonal increase in exports, while the third was still lower. A revival of United States demand toward the end of the year, combined with the immediate price effects of devaluation, led to a sharp increase in the value of exports in the last quarter. For the year as a whole the volume of exports was probably lower than in 1948, but the value was maintained by somewhat higher prices than in 1948 as a whole.

The increased trade deficit with the United States in 1949 was entirely due to greater imports. Imports in the first half of 1949 exceeded those of the first half of 1948 as activity in Canada was well sustained. Part of the increase in imports in 1949 was due to relaxation during the year of some of the controls imposed on imports from the United States. In spite of this, and in spite of the higher prices after September because of devaluation, import values weakened in the second half. In part this may represent the effect of the readjustments in the United States on Canadian economic activity. In the fourth quarter, however, the steel and coal strikes in the United States were important factors, while the higher Canadian dollar cost of purchases from the United States would affect all types of imports.

A decrease in the deficit on freight account because of the reduced volume of coal imports, and an increase in the production of gold, offset only part of the larger net payments on other non-merchandise items. During 1948, tourist purchases which could have been brought to Canada under the $100 duty-free provision of the Customs Tariff were refused entry if they appeared under Schedules I or II of the Emergency Exchange Conservation Act. This restriction was removed effective January 1, 1949. More than half of the increase of travel expenditures seems attributable to the removal of restrictions on tourist purchases while the volume of traffic was also higher. The annual ration for pleasure travel of $150 in United States currency was maintained. The increase in dividend payments arising from higher payments by subsidiaries was concentrated in the first half of the year, and exceeded first half payments for any other post-war year. Remittance of earnings by branches and subsidiaries was permitted only three months after the close of the fiscal period to which they related. Most companies end their fiscal year on December 31, so that the exceptionally high payments of the second quarter reflected increased earnings in 1948. An important factor in raising net payments on miscellaneous account by $40 million was the change in statistical procedure 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. Since Confederation, Newfoundland transactions with non-residents have been included in the various accounts shown in the balance of payments.

The effects of large quarterly fluctuations in the non-merchandise items is clearly evident in 1949. The second quarter current account deficit of $317 million represents one of the three quarters in the post-war period when the deficit with the United States exceeded $300 million. Of the increase in the deficit by $176 million from the first quarter of 1949, $63 million was due to an increased trade deficit and $113 million to the non-merchandise items. An increase in net payments of interest and dividends accounted for $74 million of the latter change. In the third quarter the improvement of $154 million in the non-merchandise balance, mainly due to lower dividend payments and higher travel receipts, was more important than the improvement in the trade balance in lowering the current account deficit.

Capital transactions with the United States in 1949 resulted in a net inflow of capital of $64 million, or $47 million less than in 1948. Direct investment in Canada rose to $84 million. The main factor reducing the inflow was the change in net retirements of securities to an outflow of $31 million, in contrast to an inflow of $54 million in 1948. In August 1949 the Government of Canada sold $100 million of its own securities in the United States in order to finance the retirement in the last quarter of 1949 and first quarter of 1950 of security issues guaranteed by the Government.

Transactions with Overseas Countries in 1949

The surplus with overseas countries fell once more in 1949, decreasing by $66 million, of which the sterling area accounted for half. The most important change was a decrease in exports of $54 million while imports were almost unchanged. Some deterioration occurred in non-merchandise items as well. The effect of restrictions imposed by overseas countries on Canadian exports was greater than the overall total of exports suggests. Exceptionally large shipments of wheat to several countries and of certain special non-recurring exports like railway equipment kept up the value of total overseas exports at a time when declines in other commodities were widespread.

Merchandise trade with the sterling area was relatively unchanged, while the surplus on non-merchandise transactions fell by $31 million. Exports to the United Kingdom were almost unchanged, but this was due to a large increase in wheat exports and increases in some base metals which offset important declines in flour, bacon, eggs, and lumber. Imports from the United Kingdom in 1949 showed the upward trend evident in 1948. Toward the end of 1949, after the devaluation of sterling, the volume of imports rose above that of the previous year but had a reduced value in Canadian dollars. Textiles and metal products made up more than two-thirds of imports from the United Kingdom in 1948 and 1949. Particularly important in 1949 was the increase in motor cars imported.

The rise in exports to other sterling countries is paradoxical in view of the restrictions imposed by many of these countries. Total exports to India and the Union of South Africa were sustained by very large shipments of wheat, and special shipments of locomotives and railway equipment referred to above. These offset sharp declines to many other sterling area countries, affecting particularly automobiles and general manufactures.

The decrease in the surplus on non-merchandise transactions with the United Kingdom in 1949 was larger than that on trade. Freight and shipping receipts fell considerably both because of lower earnings on exports to the United Kingdom and reduced expenditures of British ships in Canadian ports. The Canadian merchant marine was reduced by sales of vessels, and increased competition after the September 1949 devaluations affected the earnings of the remaining ships. Because of the sharp reduction in the number of immigrants, and restrictions on immigrant transfers introduced in 1948 by the United Kingdom, immigrants' funds and inheritances were much lower than in 1948.

Exchange transfers of $494 million were the largest single means of covering the sterling area deficit in Canada, as in 1948. Drawings on the 1946 loan were $120 million. Beginning in January of 1949, releases at the rate of $10 million a month had been arranged on the balance of $235 million then remaining.

The current surplus with non-sterling O.E.E.C. countries fell again in 1949 primarily because exports were decreasing. Along with restrictions against dollar imports and diversion of imports to non-dollar sources, special factors like the decline in ship deliveries to France were of importance in reducing exports. An increase of $8 million in interest received on export credit loans, and a decrease in official contributions, offset part of the decrease in the trade surplus. There were no drawings on export credits in 1949 because the drawing periods of the loans had expired. In both 1948 and 1949 exchange transfers were the major means of financing their deficit with Canada.

Exports and imports to the remaining overseas countries as a group fell somewhat, leaving a trade deficit of $10 million. The trade deficits in 1948 and 1949 with this group of countries reflect trade with Latin America rather than trade with other areas in this group. The usual surplus on other current transactions, other than official contributions, was sufficient to yield a small current account balance.

Chapter IV

PERIOD OF CURRENT DEFICITS AND CAPITAL INFLOWS, 1950-1951

For the first time since the early "thirties", Canada's transactions on current account with all countries led to deficits. These deficits, amounting to $334 million and $517 million respectively, were more than offset over the period by very substantial inflows of capital and official holdings of gold and United States dollars rose from $1,117.1 million at the end of 1949 to $1,778.6 million at the end of 1951, in terms of United States dollars. The current deficit of $851 million in the two years together compares with a surplus of $628 million in the previous two years. The deficits were at their peak in the last quarter of 1950 and the first half of 1951; the combined deficit for this period was $762 million.

The change to a deficit in 1950 was due to large adverse movements on both trade and the non-merchandise items. The adverse movement on trade was due to a sharp fall in the surplus with overseas countries, while transactions with both the United States and overseas countries accounted for the deterioration of the balance on non-merchandise items. The appearance of deficits in the first half of 1950 was not unusual, for this had occurred in 1947 and 1949. The large deficit in the fourth quarter was however quite unusual; a small deficit on trade, in contrast to other post-war years, and a very large deficit in other current transactions were responsible for this development. While the deficit with the United States was reduced by $201 million to $400 million in 1950, the surplus with overseas countries was virtually eliminated, falling by $712 million to $66 million.

The increase in the deficit in 1951 was due primarily to movements in the merchandise trade account. Imports rose more rapidly than exports in the first half of the year. In the last half, however, imports fell off while exports increased and the terms of trade improved. Although the surplus with overseas countries rose to $434 million, a rise in the deficit with the United States to $951 million more than offset this.

Although the changes in 1950 and 1951 were due more to trade than to movements in non-merchandise transactions, particularly in 1951, the larger contributors to the deficits in each year were the non-merchandise items. Net payments of interest and dividends continued to give the largest deficit of any item, with the deficit on miscellaneous transactions second in size in both years.

In 1950 and 1951 Canada contributed Mutual Aid to NATO countries of $57 million and $145 million respectively. Although these amounts do not directly affect the size of the current deficits, it should be noted that equipment which was contributed was partly replaced by equipment purchased by Canada in the United States.

Two major changes of Canadian foreign exchange policy were introduced in this period. At the end of September 1950 as speculative capital inflows reached towering proportions the Government announced the withdrawal of fixed exchange rates for the Canadian dollar. After more than eleven years banks in Canada began to act in foreign exchange transactions as principals rather than as agents of the exchange authorities, and an exchange market was re-established in Canada where rates were determined by market forces. Since that time, in the operation of the Exchange Fund it has been the policy of the authorities "to allow the rate to be determined by the normal play of economic forces without official intervention, except to ensure orderly conditions in the foreign exchange market. No attempt is made to reverse persistent trends, but only to smooth out excessive short-run fluctuations."

Finally in mid-December 1951 the Government announced the removal of all exchange restrictions in force in Canada and the termination of exchange control. In his statement the Minister of Finance said that he had come to the conclusion that "we would be better advised not to rely on exchange restriction, but rather on the general handling of our domestic economic situation to keep us in reasonable balance with the outside world and to maintain the Canadian dollar over the years at an appropriate relationship with foreign currencies."

Factors in the Current Deficits

The deficits in 1950 and 1951 were a much smaller percentage of total current receipts than was the case in earlier periods of deficit. As was the case in some earlier periods, the current account changes were mainly due to heavy investment demands. Unlike earlier periods of deficit, some of these investment demands were associated with defence expenditures.

The impact of Korea and defence expenditures on an economy which had been investing heavily for several years had marked effects on the balance of payments. The conjunction of these various demands on the economy exerted inflationary pressures on Canadian resources, pressures which greatly increased imports. In effect Canada was making use of foreign resources on balance (or importing capital on balance) as she had done for some periods of rapid development in the past. This net borrowing, however, financed a much smaller proportion of Canadian investment than was so in earlier periods of heavy investment.

The immediate effect of Korea was a wave of international buying in anticipation of price increases and scarcities, which brought substantial changes in prices and in the volume of trade. The rapid rise of inventories in the first half of 1951, a rise closely related to the heavy volume of imports in this period, was an important aspect of these changes. Another important development was the rapid rise in both import and export prices, with consequent effects on the domestic price level. The more rapid rise of import prices than of export prices in the first half of 1951 was also a factor in the deficits of that period, though of less importance than the rapid increase in the physical volume of imports. Advance payments for defence purchases added significantly to the current deficit in 1951, and internal defence spending affected the balance of payments indirectly in many ways.

The volume of exports was not very flexible in the first half of 1951. This inflexibility was due partly to special factors in particular industries, partly to greater domestic requirements, and partly to the difficulty of rapidly expanding output when little excess capacity existed. Short-run changes in the volume of agricultural production and exports depend on weather conditions and other factors such as transportation. Much of the 1950-1951 wheat crop was of low grades, and for a time in 1951 there was little milling wheat available in export positions to boost exports. Furthermore while import volume from the United States can be greatly expanded without taxing the United States economy, exports form a large part of Canadian capacity and cannot be expanded as rapidly under high employment conditions. This was an important factor in retarding the rise in exports and creating the large trade deficits of the first half of 1951.

Changes in Bilateral Disequilibrium

A unique feature of developments in 1950 was the virtual elimination of the surplus with overseas countries and the reduction of the deficit with the United States. A larger share of exports moved to the United States, and a smaller share of imports came from the United States, with the result that the bilateral imbalance which is characteristic of Canada's international transactions was greatly reduced. The United States share in Canadian exports, which was 50.9% in 1949, grew to 65.2% in 1950, while her share in Canadian imports fell from 70.4% to 66.9%. In 1951, however, imports from the United States and exports to overseas countries grew rapidly, so that the degree of imbalance was increased. The United States share in Canada's exports fell to 58.9% while her share in Canada's imports rose to 69.4%.

Some effects of the currency devaluations were becoming apparent early in 1950, but these are not all clearly distinguishable because of other influences on trade. The devaluation of the Canadian dollar raised both export and import prices, expressed in Canadian dollars, although part of the higher prices of the first half of 1950 were due to factors not related to devaluation. The increase in the price of United States dollars might be expected to slow somewhat the expansion of imports from the United States because of the greater Canadian dollar cost of imports. At the same time it raised the Canadian dollar receipts of many goods sold in the United States market, most notably when these were priced in United States currency. The greater degree of devaluation of the pound and other currencies had the reverse effects on overseas trade. Canadian export prices were raised to buyers in these countries, while prices of their goods tended

STATEMENT 5. Summary of The Balance of Payments 1950-1952

(Millions of dollars)

	1950			1951			1952		
	United States	Overseas Countries	All Countries	United States	Overseas Countries	All Countries	United States	Overseas Countries	All Countries
Commodity exports (adjusted)	2,046	1,093	3,139	2,326	1,624	3,950	2,345	1,991	4,336
Commodity imports (adjusted)	2,093	1,036	3,129	2,842	1,255	4,097	2,813	1,033	3,846
Balance on commodity trade	- 47	+ 57	+ 10	- 516	+ 369	- 147	- 468	+ 958	+ 490
Balance on all other current transactions	- 353	+ 9	- 344	- 435	+ 65	- 370	- 385	+ 46	- 339
Current account balance (C)	**- 400**	**+ 66**	**- 334**	**- 951**	**+ 434**	**- 517**	**- 853**	**+1,004**	**+ 151**
Direct investment in Canada (D1)	+ 200	+ 22	+ 222	+ 270	+ 39	+ 309	+ 306	+ 26	+ 332
Trade in outstanding Canadian issues (D3)	+ 362	- 33	+ 329	+ 20	+ 18	+ 38	- 105	+ 10	- 95
Net new issues of Canadian Securities (D4 + D5)	- 53	- 21	- 74	+ 245	- 18	+ 227	+ 242	- 12	+ 230
All other capital movements (E minus D1, 3, 4, 5)	+ 452	+ 127	+ 579	+ 19	- 20	- 1	- 518	- 63	- 581
Balance settled by exchange transfers (G)	+ 133	- 133	—	+ 436	- 436	—	+1,008	- 1,008	—
Change in official holdings of gold and foreign exchange (H)	**+ 694**	**+ 28**	**+ 722**	**+ 39**	**+ 17**	**+ 56**	**+ 80**	**- 43**	**+ 37**

Note: Letters refer to code used in Tables at end of publication.

to fall in terms of Canadian currency. These price changes tended to decrease Canadian exports to overseas countries and increase Canadian imports from overseas countries. The new restrictions on dollar imports imposed by these countries were a more important factor in reducing many exports, however, and there had been special exports in the previous year which did not recur in 1950.

The outbreak of hostilities in Korea overrode in its impact the effects of the devaluations, but it is clear that a large degree of balance was achieved in our external trade partly as a result of the devaluations. Another important result was that European countries and their trading partners increased their dollar balances, a change that was temporarily accentuated by the immediate effects of the Korean conflict.

Transactions in 1950

The current account surplus with all countries of $177 million in 1949 (and $451 million in 1948) became a deficit of $334 million in 1950. Of the total change of $511 million, $283 million was due to the virtual disappearance of the trade surplus in 1950, while $228 million was due to a widening of the deficit on other current transactions. Exports rose by only $150 million; while exports to the United States rose by $525 million, or over one-third, overseas exports fell by $375 million or about one-quarter. Exports fell drastically to each of the overseas areas shown in the balance of payments except the "All Other Countries" group. The import picture is quite different; the total increase was $433 million, with $194 million due to increased imports from the United States and $239 million as a result of increased imports from overseas countries. As a result of these changes from 1949, merchandise trade was very close to balance with each of the areas shown in the balance of payments and with the world as a whole.

Volume and price indexes for trade show clearly that the small increase in exports in 1950 was entirely due to price increases, while the rise in imports was due in approximately equal amounts to both volume and price increases. Greater availability of supplies in overseas countries and the devaluation of September 1949 were factors increasing import values. A particularly notable increase in volume of imports occurred in the fourth quarter. Sharp increases in prices of many raw material imports played a part later in 1950 and in 1951. Since import prices rose more rapidly than export prices in the year as a whole, and particularly in the fourth quarter, the terms of trade deteriorated and contributed to the virtual elimination of the surplus on trade account.

Sharp increases in payments of interest and dividends, and payments for freight, shipping, and business services, were particularly important in leading to a threefold increase of the deficit on other than merchandise trade. The figure of $475 million for interest and dividend payments was particularly notable, representing as it did an increase of $85 million over 1949 and the highest level these payments have ever reached.

The deficit on current account did not lead to any loss in reserves, however, because of unprecedently large net capital inflows during 1950 of $1,056 million, of which $961 million were from the United States. The net inflows were particularly striking in trade in outstanding securities and in accounts which are often associated with speculative short-term movements, such as changes in Canadian dollar holdings of foreigners, and the "other capital movements" category which reflects in large part the financing of trade. But the inflows reflecting long-term investments, such as direct investment inflows and new issues, also increased greatly. The net inflow from all countries was large enough to offset the current deficit of $334 million with all countries and add $722 million to official holdings of gold and foreign exchange. The current deficit of $400 million with the United States, of which only $47 million was due to merchandise trade, was more than offset by a net capital inflow of $961 million and exchange transfers of $133 million. Official holdings of gold and United States dollars rose accordingly by $694 million. The overseas current surplus shrank to $66 million from the 1949 level of $778 million, while the net capital inflow of $95 million from overseas countries compares with an outflow of $113 million in 1949.

In 1950 gross national product rose by about 11 per cent. The increase in physical terms was about 6 per cent. Particularly large increases occurred in inventory investment in physical terms and in the volume of imports. These constituents of gross national expenditure are, of course, interrelated; the very marked inventory boom which characterized the last half of 1950 and the first half of 1951 led to a large volume increase in imports. Much of the increase in these expenditures took place after the outbreak of hostilities in Korea and during the first half of 1951. The pressures on Canadian resources, the balance of trade, and the price level became very strong. An important factor alleviating the effects of these pressures on the price level in both 1950 and 1951 was the large government surpluses, which had been a feature since 1947.

The appearance of deficits in the first half of 1950 was less unusual than in the second half, and their size was not abnormal. The current deficit in the fourth quarter was particularly unusual, however, as normally a large export balance offsets the fourth quarter deficit on other current items. A very high level of dividend payments in the fourth quarter of 1950, combined with the normal fall in fourth quarter travel receipts, was the main factor in the change from the third to the fourth quarter of 1950. Comparing 1950 with the similar periods of 1949, the deterioration in the surplus was mainly due to non-merchandise items in the first half, while in the second half it was due to both trade and non-merchandise items. Since the increases in imports from all countries over the corresponding 1949 levels were larger than in the case of exports, the quarterly trade surpluses of 1949 gave place to virtual balance in 1950. The outbreak of hostilities in Korea sent the totals to very high levels in the fourth quarter. Large deficits on non-merchandise items occurred in the first half of the year, and the third quarter surplus on these items which had appeared in previous years became a deficit. The fourth quarter deficit on non-merchandise items was particularly large, mainly because of heavy dividend payments in that quarter. Apart from higher earnings, a change in exchange control policy in November permitting payments on the basis of quarterly rather than annual statements was responsible for this concentration[1].

Transactions with the United States in 1950

As was suggested earlier, the appearance of a deficit for 1950 as a whole, compared to 1949, cannot be traced to changes in total current transactions with the United States. The deficit with the United States declined in 1950, falling from a total of $601 million in 1949 to $400 million in 1950. This improvement however was entirely due to a large decrease in the trade deficit; the deficit on non-merchandise items grew considerably. Because of a higher level of economic activity in the United States, the Korean crisis, and the 1949 devaluation, exports recovered strongly from their relative stability in 1949, rising by $525 million or one-third. Increases in volume seem to have accounted for most of this increase. About $300 million of the increase was concentrated in the forest products group, and particularly in lumber exports. This was in part a diversion from the sterling area to the United States, for in 1949 large amounts of lumber were still being shipped to sterling area buyers. Many other staple exports showed important increases. The last three quarters of 1950 showed successive records for quarterly exports to the United States.

Merchandise imports were at high levels also, but the increases over 1949 were less marked than in the case of exports and were concentrated in the last half of 1950. Both rising prices in the United States and the September 1949 devaluation raised import prices and values. But continued high levels of business activity and consumption were also important, and in the last half of 1950 these demands were augmented by a rush to get commodities while they were still available as evident in the inventory boom. Particularly sharp volume increases occurred in the last few months and carried over into 1951.

While the more rapid increase of exports than imports almost eliminated the trade deficit, the deficit on merchandise items was widened. Most of this deterioration occurred in the fourth quarter of 1950, and was mainly responsible for the large current deficit appearing then. Extremely heavy interest and dividend payments in that quarter, and the seasonal drop in travel receipts, were the most important factors in the fourth quarter deficit.

The large increase in dividend payments was referred to earlier. While travel receipts were generally about the same as the levels reached in the corresponding quarters of 1949, payments showed a distinct upward trend. The abandonment of the specific ration for pleasure travel which had been in effect since November 1947, and the provision of funds up to any reasonable amounts were factors in the fourth quarter and afterwards. The increase in freight payments was to a large extent due to heavier coal imports, which play an important part in total freight payments. In the previous year this movement had been interrupted by strikes.

The net movement of capital from the United States to Canada rose from $64 million in 1949 to the tremendous figure of $961 million in 1950. In part this reflected the trend towards larger inflows for direct investment evident in each of the post-war years. But superimposed on these transactions were movements induced by the reports in the second quarter of the year that appreciation of the Canadian dollar could be expected. As a matter of fact, as shown in the quarterly figures in Table IV at this time the overall current account was running in deficit at an annual rate of over $400 million. With the outbreak of hostilities in Korea new uncertainties entered into the picture and through the third quarter the rate of inflow accelerated; the annual rate of inflow from the United States over the quarter was in excess of $2,500 million. These inflows took every conceivable form from the acceleration of transfers to finance long-term direct investment at one end of the scale, through portfolio holdings of securities, to changes of bank balances and open account indebtedness of a strictly short-term character. At the end of the quarter, with inflows at their peak the Government announced the institution of a fluctuating exchange rate for the Canadian dollar. The appreciation of the Canadian dollar was not as sudden or as large as had been predicted in some quarters. The post-Korean wave of buying caused the overall current account deficit to increase in the fourth quarter of the year at an annual rate of over $600 million. As a result the reflux of capital which might have been expected was deferred but the rate of inflow fell to more normal proportions. Over the year as a whole official holdings of gold and United States dollars rose in terms of United States dollars from $1,117.1 million to $1,741.5 million reflecting mainly the overall current account deficit of $334 million and net capital inflows of $1,056 million.

Transactions with Overseas Countries in 1950

The surplus with overseas countries fluctuated violently after 1949, falling from $778 million in 1949 to $66 million in 1950. Changes in both trade and other current transactions affected these swings, although fluctuations in trade played the major part.

Exports to overseas countries fell by $375 million in 1950 while imports rose by $239 million. These changes reflect, among other things, the improved competitive position of overseas countries

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1. See page 77.

with the devaluations in 1949, and an intensification of restrictions on dollar imports. The quarterly surpluses with overseas countries during 1950 fell well below those of the previous year; it was this change rather than transactions with the United States which accounted for the deterioration in the current account in the first nine months of 1950 as compared to the same period of 1949. The disappearance of the large quarterly surpluses of 1948 and 1949 with overseas countries was an important factor in the deficits of 1950 and the first half of 1951.

Most of the fall in exports to overseas countries in 1950 occurred in exports to the sterling area. Expenditures by the United Kingdom in 1950 on a variety of Canadian exports dropped sharply, particularly in the case of agricultural products. At the same time, imports from the United Kingdom increased about one-third. The largest contributor to the rise in imports was an impressive rise in the volume of imports of British automobiles. A contraction in receipts on freight and shipping account, due to lower exports and the transfer of a large number of ships to United Kingdom registry, added to the fall in the current surplus with the United Kingdom. Declines in receipts of immigrant funds and inheritances because of a smaller volume of immigration and the re-introduction of United Kingdom controls on the transfer of estates, were further factors decreasing receipts by Canada.

A very great change occurred in transactions with the other sterling area with the surplus of \$135 million in 1949 changed to a deficit of \$23 million in 1950. Exports were reduced by import restrictions by this group of countries, which were extended in 1949, and by the devaluation of sterling currencies in September 1949. Some unusual deliveries of railway equipment which occurred in 1949 and mitigated the effect of restrictions in that year were much lower in 1950. Imports from these countries were higher, partly because of volume increases and partly because of conspicuous increases in the prices of such commodities as crude rubber and wool after the middle of 1950.

Exports to other O.E.E.C. countries also fell in 1950, mainly because of a decrease in exports of grain and other agricultural products. In contrast to this, exports to Latin America were higher. Imports from non-sterling area overseas countries rose substantially.

Transactions in 1951

In 1951 the current account deficit with all countries rose to \$517 million. The factors leading to this deficit were different to those of 1950. In 1950 the current deficit had occurred because of a fall in the overseas surplus, particularly the trade surplus, and a rise in the deficit on non-merchandise transactions with the United States; merchandise trade with the United States in 1950 had resulted in a much smaller deficit than in 1949. In 1951, however, the current surplus with overseas countries rose to \$434 million, or over six times that of 1950. The current deficit with the United States, however, rose from \$400 million in 1950 to \$951 million mainly because of a sharp increase in imports. Thus the forces leading to the deficit in 1951 were mainly associated with a rise in imports from the United States, and in this respect were closer to the pattern of 1947 than that of 1950.

Another factor to be noted during 1951 is that payments for purchases of defence equipment, which were particularly heavy in that year, were substituted for defence imports in the current account. Since payments exceeded actual imports in 1951, the treatment of this item was a factor in the current deficit.

Exports rose markedly in 1951 as a whole, increasing by \$811 million to \$3,950 million. Overseas markets took \$531 million of this increase. Imports rose even more strongly, increasing by \$968 million to \$4,097 million. The United States accounted for \$749 million of the increase in imports. The changes mentioned for exports and imports tended to re-establish the traditional pattern of a large surplus with overseas countries and a large deficit with the United States, a pattern which had been greatly altered in the previous year. Changes in the non-merchandise items in 1951 worked in the same direction, resulting in a larger deficit with the United States and a larger surplus with overseas countries.

The large increases in exports and imports were due to substantial increases in both price and volume in each case. Import volume was at a very high level all through 1951, while export volume was much higher in the second half. Import prices rose more rapidly than those of exports in the first half, but decreased in the second half when export prices were still slowly rising. The terms of trade deteriorated slightly in the year as a whole, reflecting deterioration in the first half and improvement in the second half.

Other items in the current account contributed \$26 million to the deterioration of \$183 million in the current account. The largest change contributing to this deterioration was a sharp rise in travel expenditures abroad by Canadians, which changed the customary surplus on this account to a small deficit. Offsetting this change were the smaller net payments on interest and dividend account.

The net capital inflow of \$573 million in 1951 was quite substantial, although much smaller than that of 1950. The main inflows in 1951, in contrast to those of 1950, were for long-term investment. Particularly noticeable increases occurred in direct investment inflows and new issues sold abroad. In spite of the current deficit with the United States of \$951 million, a net capital inflow of \$554 million from the United States, along with much higher exchange transfers from overseas countries, actually led to a small increase of \$39 million in official holdings of gold and United States dollars. Capital transactions with overseas countries led to a small inflow in 1951. The main factor in financing the larger current surplus of overseas countries was exchange transfers.

The heavy demands of this period are evident in the changes in gross national expenditure. There was an increase of about 18 per cent in gross national expenditure; although the physical volume of several components such as government expenditures increased, a price rise of over 11 per cent accounted for the greater part of the change. Industrial production rose rapidly in the fourth quarter of 1950 and the first half of 1951, as did wholesale prices. Inventory increases were also very marked. These nine months were the period of greatest deficits over the two years. In the last half of 1951 industrial production and wholesale prices fell off as the inflationary pressures abated.

Quarterly data show that the deficit of 1951 was in the first half of the year. The full impact of high levels of economic activity, defence spending, and heavy international buying were apparent in the price increases in the first half of 1951, the deterioration in the terms of trade, and the rapid increase in the volume of imports. In the first quarter exports showed a seasonal fall but the level of imports continued to rise. The trade deficit grew rapidly in the second quarter as the volume of imports from the United States rose sharply. The usual first half deficits on non-merchandise items were particularly large. The period of most rapid deterioration in the terms of trade was in the fourth quarter of 1950 but this continued in the succeeding two quarters. This deterioration, combined with the heavy import volume of the fourth quarter of 1950 and the first half of 1951, at a time when export volume was not very flexible, indicates the shortness of the period of deficits as well as some of the factors involved. In the second half, and particularly in the last quarter, the trade balances were greatly changed as exports to overseas countries increased while imports from the United States decreased. Another large deficit in non-merchandise items in the fourth quarter offset much of the substantial trade surplus which appeared in that quarter.

Transactions with the United States in 1951

In 1951 the current deficit with the United States rose by $551 million to $951 million, a deficit second only to that of $1,134 million in 1947. A sharp increase in the trade deficit from $47 million in 1950 to $516 million in 1951 was the main factor in this large rise. Non-merchandise elements contributed $82 million to the higher deficit.

The quarterly tables indicate a large increase in imports in the first quarter of 1951, a quarter in which it is unusual for imports to rise at all. The second quarter showed an even larger increase, leading to a quarterly current deficit of $359 million or only $21 million less than that of the second quarter of 1947. In the first half of 1951 exports to the United States were at the same levels as they had been in the second half of 1950. Unlike 1947, however, there was a continuing large net capital inflow, there were no large overseas exports financed by loans, and the reserves had been raised to very high levels by the third quarter capital inflows of 1950. Thus the current deficits could be financed with a relatively small loss in reserves. Furthermore, imports fell off in the last half of 1951 while exports to the United States remained high and exports overseas rose rapidly.

The increase of $280 million in exports to the United States in 1951 was mainly due to price rises, unlike the increases in 1948 and 1950 which showed large volume changes. No single factor was responsible for the change. Declines in shipments to the United States were generally accompanied by heavier shipments overseas, particularly in basic raw materials.

The increase in imports of $749 million or more than one-third occurred mainly in the first half of 1951. The rise in the volume of imports was responsible for the major part of this increase. Almost half of the increase in imports from the United States was in the iron and products group, reflecting heavy investment demands as well as demand for consumer durables such as automobile parts. The only group which failed to rise significantly was non-metallic minerals and products. One reason for this was that Alberta production of crude petroleum and greater use of overseas sources of supply decreased the dependence on the United States for this import.

The deficit on non-merchandise transactions rose from $353 million in 1950 to $435 million. The most important change contributing to this was a sharp drop in net receipts on travel account from $67 million in 1950 to $12 million. As was the case in 1949 and 1950 higher expenditures by Canadians in the United States were responsible for this, with receipts relatively unchanged. Another factor in the larger deficit was increased net payments on freight account, mainly because of greater inland freight to the border on the increased volume of imports. Somewhat lower net payments of dividends offset only part of the higher payments for these and other non-merchandise items.

The substantial overall current account deficit incurred in the fourth quarter of 1950 was followed by even larger deficits in the first and second quarters of 1951 and the Canadian dollar retreated from the high of 96.9 cents in United States funds reached in November 1950 to an average of 93.5 cents in June. Any reflux of the short-term inflows of 1950 which may have occurred at these rates was more than offset by new inflows. In part these were the normal financing of the greatly increased value of imports. But the credit restriction policy in force in Canada also made it convenient to look to foreign sources of financing both through new issues sold abroad, mainly payable in United States funds, and through increases in open account commercial indebtedness.

In the fourth quarter of the year the current account balance with all countries changed to a substantial surplus, a relative improvement over the third quarter of $201 million. At the same time direct investment inflows reached a record quarterly level and there was a heavy volume of new issues placed abroad. The resultant rise in the Canadian dollar to a high in United States funds of 98.8 cents in December contributed to heavy capital outflows through repatriation of Government bonds and changes in short-term commercial indebtedness. During 1951 official reserves of gold and United States dollars were increased only moderately to total $1,778.6 million in terms of United States dollars at the end of the year.

Transactions with Overseas Countries in 1951

An increase of $531 million in exports to overseas countries, which was more than double the increase in imports, was mainly responsible for an improvement of $368 million in current transactions with overseas countries. Non-merchandise items were also a factor in the change, the surplus on these items rising by $56 million to $65 million. The rise in exports to overseas countries in 1951 was a reflection of their improved dollar position in 1950 and early 1951, the greater availability of Canadian supplies of grains in particular, and a renewal of active trading by Germany and Japan. These improvements in the current account did not appear until the second half of 1951.

In 1951 a larger surplus of $223 million was recorded with the United Kingdom, although this was considerably less than the surpluses before 1950. Transactions with the other sterling area once again showed a small deficit. The main reason for the increase in the surplus with the United Kingdom was larger exports, with most of the increase concentrated in the last half of 1951. Forest products and non-ferrous metals showed the largest increases, while food exports declined. An important decline in automobile imports occurred in the second half of 1951 partly because of the effects of credit restrictions on automobile sales. The increase in exports to the other sterling area was concentrated in a small range of basic commodities, since the intensification of restrictions which had occurred in 1949 continued to reduce exports of Canadian manufactured goods. Sharp rises in prices of imports from these countries were the principal factor in raising imports.

Transactions with other overseas countries show the same pattern as those with the sterling area, namely a sharp drop in the surplus in 1950 and increased surpluses in 1951. A very large increase in exports to non-sterling overseas countries occurred in the second half of 1951, an increase which more than offset the increase in imports. Much of the increase in exports in 1951 represented food and raw material exports to the O.E.E.C. countries, with renewed larger exports of wheat, flour and coarse grains playing a major role as Canadian supplies improved. Both exports and imports to Latin America continued to increase.

Chapter V

DEVELOPMENTS IN 1952

The current account balance changed to a small surplus of $151 million in 1952, in contrast to the deficits of the previous two years. There was, in other words, a net export of capital as compared to net imports of capital in 1950 and 1951.

The abrupt change of $668 million on current account was due almost wholly to an improvement of $637 million in the commodity trade balance. All but $98 million and $48 million of these respective changes were due to increased surpluses with overseas countries.

The main factor in the change in commodity trade was an improvement of 13% in the terms of trade in 1952, reflecting a substantial fall in import prices while export prices were only slightly lower than in the previous year. The volume of both exports and imports rose to new peaks with increased economic and defence activity here and abroad and very large grain crops in Canada and increased demands for them. The increase of $280 million in exports of wheat, barley, and oats alone, representing three-quarters of the increase in exports, is of some importance in assessing the change to a surplus on current account transactions. Another factor in the change to a surplus was the effect of the treatment of defence prepayments to the United States Government. In 1952 defence imports exceeded payments and this contributed to the surplus on current account; in 1951 defence prepayments had contributed to the deficit[1].

Changes in the Exchange Rate

The rise in the value of the Canadian dollar was a spectacular development in 1952. The value of the United States dollar in Canadian funds fell from an average of $1.0400 in the fourth quarter of 1951 to an average of $.9635 in the third quarter of 1952, with an average discount for the year 1952 of 2⅛ per cent compared with an average premium of about 5¼ per cent in 1951.

The supply of and demand for a currency in international transactions determine its value in terms of other currencies when, as has been the case in Canada since October 1950, there has been no official attempt to affect a persistent trend in the rate. The ultimate determinants include the competitive position of a country, the level of demand for and supply of goods and services, and the attitude of investors to long-run prospects of a country. A new factor in 1952 was the absence of exchange restrictions in Canada following the termination of Canadian exchange control in mid-December 1951.

As reflected in the balance of payments, the greatest single change influencing the rise in the value of the Canadian dollar was the improvement of $637 million in the commodity balance. A dominating influence, however, on the relatively high value of the Canadian dollar since the exchange rate was freed has been the inflow of long-term capital. New issues of Canadian securities were at high levels in the years 1950 to 1952. Foreign direct investment in Canada grew rapidly after 1949 reflecting increased interest in resource development particularly. The change to a small current surplus in 1952 and the continued inflow of long-term capital sent the Canadian dollar to a sufficient premium over the United States dollar to create substantial equilibrating outflows of capital. The major part of the outflow was in short-term movements such as changes in the timing of receipts and payments associated with commercial trade. In part, however, the outflow took the form of the liquidation by non-residents of holdings of outstanding Canadian securities which were acquired when the value of the Canadian dollar was lower.

Changes in Bilateral Disequilibrium

Total merchandise exports to and imports from the United States, as adjusted for balance of payments purposes, were virtually unchanged from the 1951 levels. Exports to overseas countries, on the other hand, rose by $367 million while imports fell by $222 million. Primarily as a result of these changes current receipts from the United States were lowered to 58 per cent of the total while her share in Canada's current payments rose to 75 per cent. This increase in bilateral disequilibrium was a continuation of developments which began in 1951, and is in contrast to the unusually small amount of disequilibrium in 1950; in that year the share of the United States in Canada's current receipts had risen to 68 per cent while her share in total current payments had fallen to 72 per cent.

Transactions in 1952

The change in the current account balance from a deficit of $517 million to a surplus of $151 million reflects mainly a sharp improvement in the merchandise trade balance with overseas countries. The increase in exports was due to an increase in volume of 11 per cent, with export prices virtually unchanged in 1952 as a whole. With two large crops of wheat and other grains, and strong demands for them, the increase in exports of grains amounted to about three quarters of the total increase in the value of exports. The value of imports in trade returns shows a small decrease, reflecting a large increase in volume offset by a large decrease in price. When adjusted for balance of payments

1. See page 71.

purposes the decrease in imports was greater than that shown in trade returns since defence payments were less than the actual imports for which they were substituted.

The deficit on other current transactions fell by $31 million from 1951 but was still at the high level of $339 million. The change reflected wide swings in some of the accounts. The small deficit which appeared on travel account in 1951 was widened to $60 million in 1952 as Canadian travel expenditures in the United States continued to rise. Transfers by emigrants were also higher. Offsetting these changes were increased receipts of dividends combined with lower payments, and larger receipts from defence activity by the United States Government in Canada.

Economic activity in Canada continued at high levels in 1952. One striking change from 1951 was the small increase in the book value of inventories, in contrast to the very large increases in 1950 and 1951. The volume of inventories actually increased in 1952, though to a much smaller extent than in 1951. Offsetting this decrease in inventory change were the increases in government expenditure, consumption, and exports in particular.

After a period of rapid price increases and advance buying extending through the first half of 1951, prices began to fall and economic activity levelled off for a time. A change occurred in the current account in the last half of 1951, especially in the fourth quarter, as the buying wave affecting imports decreased, the terms of trade improved, and exports to overseas countries rose. Small current account surpluses appeared in each quarter of 1952. The improvement in the current account balance during 1952 as compared to the corresponding quarters of 1951 was concentrated in the first nine months of the year, and particularly in the first half. In the last half of the year import volume was at very high and growing levels, while the terms of trade ceased to improve.

In contrast to the net capital inflows of $1,056 million in 1950 and $573 million in 1951, there was a net outflow of $114 million in 1952, exclusive in each case of official holdings of gold and foreign exchange. But the change of $687 million between 1951 and 1952 did not reflect any lessening of the rate of inflow of long-term foreign capital for resource and other development. Inflows for direct investment reached a record level of $332 million, and new issues of Canadian securities sold abroad, net of retirements, were about the same as in 1951. Indeed these particular net inflows for long-term investment totalling $562 million in 1952 were some 5 per cent higher than in the preceding year. The main reasons for the change to a net outflow were substantial outflows of short-term capital in the form of funds held abroad by Canadians and changes in open commercial accounts and heavy liquidations of non-resident holdings of Canadian government bonds. These outflows were directly influenced by the rise in the value of the Canadian dollar, and played the role of the major equilibrating factor in the balancing of Canada's international accounts in 1952. Further discussion of new and prominent factors in 1952 appears in the various sections on items of the capital account in Chapter 6.

Transactions with the United States in 1952

The deficit with the United States remained at the high level of $853 million in 1952, although this was a decrease of $98 million from 1951. Both trade and non-merchandise items contributed to this decrease in approximately equal amounts.

The value of exports to the United States showed little change in 1952. There were larger exports of newsprint, aircraft, grains and base metals but these were offset by decreases in woodpulp, beef and cattle. The fall in the latter two exports was due to the embargo on such exports after the outbreak of foot and mouth disease. There were increases in imports of many items associated with defence activity and investment. The changes in non-merchandise items discussed above were mainly due to transactions with the United States. Capital inflows from the United States for long-term investment continued at high levels in 1952. Particularly notable were the levels of direct investment in Canada and the continued large net new issues of Canadian securities. Unlike 1951 there was net liquidation of holdings of outstanding Canadian bonds and very large short-term outflows associated with the change in the exchange rate.

Transactions with Overseas Countries

The increase in the surplus with overseas countries from $434 million to $1,004 million was an outstanding development of 1952, and accounted for most of the improvement in Canada's position on current account. In the post-war period this surplus was exceeded only by that of $1,183 million in 1947; in that year, however, export credits and loans extended by the Canadian Government were an important factor in maintaining exports to overseas countries. The increase in the surplus in 1952 was widely distributed; about half of the change with overseas countries occurred in the accounts with the United Kingdom and the rest of the sterling area, and the remainder was the result of sharp gains in the surplus with other O.E.E.C. countries and with other overseas countries especially Germany, Japan and Brazil.

Large exports of grains to overseas countries was the major change, although increased exports of newsprint, non-ferrous metals, and automobiles were also important. A fall in the demand for textiles and the associated price decreases were important factors affecting imports from the United Kingdom and countries in Western Europe. A sharp drop in the prices of several raw materials was mainly responsible for the decrease in the value of imports from the other sterling area group of countries. Payments to the United Kingdom and non-sterling O.E.E.C. countries because of Canada's commitments in the North Atlantic Treaty Organization, and expenditures of approximately $15 million under the Colombo plan, were among the more important changes in the non-merchandise items.

Chapter VI

CAPITAL MOVEMENTS, 1946-1952

The Canadian balance of payments from 1946 to 1952 reflects the movement of the Canadian economy through the immediate post-war period of re-adjustment and development, and the transition from fixed exchange rates and exchange control to fluctuating exchange rates and freedom from control. An underlying influence has been the high level of activity in Canada, particularly the growing volume of investment.

International financial relations were dominated by three international exchange crises: the critical situation arising in the summer of 1947 out of post-war payments disequilibrium and associated with the British experience of convertibility; the emergence of a buyer's market and the decline of confidence in sterling leading to the devaluations of 1949; and the readjustment at the turn of 1951-52 following the post Korea buying wave.

During the period under review there were substantial pressures on the Canadian exchange rate generated by capital movements. While events overseas played their part in these movements there were also developments of North American origin influencing their course.

Among the problems faced by the Canadian authorities were wide fluctuations in the volume and direction of capital movements. For instance, there were heavy capital inflows from the United States prior to the alteration of the exchange rate in mid-1946. Subsequently the outflow to the United States which developed at a time when there were mounting current account deficits with that country culminated in the drastic measures of November 1947. Again there were the tremendous capital inflows of 1950. In late 1951 and through 1952 the fluctuating rate rose in response to the pressure of a current account surplus and persistent long-term capital inflows, sending the Canadian dollar to a premium and inducing other capital outflows as an element in the mechanism of adjustment of Canada's international accounts.

Although over the seven-year period as a whole there was on balance a net capital inflow[1] of only $86 million, in the first four years from 1946 to 1949 there was a net outflow of no less than $1,429 million. And over the whole period the small balance concealed a net inflow of $1,457 million from the United States and a net outflow of $1,371 million to overseas countries. Thus despite the substantial degree to which the major aggregates were offsetting within the period the underlying detail reflects the existence of diverse and complex factors.

Over the two years 1944 and 1945 Canada had had a modest current account surplus with the United States while the balance with all other countries reached $2,500 million of which $1,800 million was financed by Mutual Aid and other official contributions and $300 million by post-war government loans and advances. The latter included the first drawings on a $2,000 million credit programme proposed to cover the period to the end of 1948, of which some $1,740 million was utilized by the end of 1950 and the balance either was never allocated or lapsed.

As high post-war demands began to be effective as supplies became available, the current account deficit with the United States reached successive new records of $600 million in 1946, and $1,100 million in 1947, while the current account surplus with other countries for the two year period fell to $2,200 million, of which $100 million was financed by official contributions and $1,300 million by government credits. Other capital movements resulted in an outflow of $100 million, and over the period it was necessary to draw down official reserves by $1,000 million.

1946-1947	(thousands of millions of dollars)	
Current account balance with United States		-1.7
Current account balance with other countries	+2.1	
Deduct amounts financed by official loans	-1.3	+0.8
Other capital movements (net)		-0.1
		- 1.0

The credit extended by Canada during these years far exceeded Canada's current account surplus. This could have been continued only if Canada were prepared and able to incur indebtedness in the United States to finance the balance. Drastic action was taken to reduce the bilateral disequilibrium in the current account and further extensions of credit were restricted.

During the following two years 1948-49 net drawings on post-war loans and advances amounted to only $200 million and were offset by other capital

1. Throughout this report capital movements are, unless otherwise indicated, exclusive of changes of official holdings of gold and foreign exchange. This treatment has been followed because during most of the period fixed exchange rates were in force and the official holdings played a residual role bearing the brunt of the surplus or deficit in all other international transactions. Also excluded from capital movements are retained earnings accruing in Canada to foreigners or abroad to Canadians, which are not included in statements of the balance of payments but are reflected in the balance of international indebtedness.

inflows of this magnitude. Official reserves rose by $600 million, the amount of the current account surplus.

The third two year phase 1950-51 was characterized by a capital inflow of $1,600 million, mainly from the United States. Of this one half was required to meet a deficit in the current account, and the balance increased official holdings of gold and foreign exchange. Whereas the outflow in the earlier period had represented mainly government investment abroad through loans to governments in the United Kingdom and other overseas countries, this inflow reflected for the most part the decision of private investors and institutions in the United States to invest in Canada. A growing feeling that the Canadian dollar was undervalued at the official exchange rate of 90.91¢ in United States funds contributed to the heavy capital inflows in 1950 which amounted to over $700 million in the third quarter alone. At the end of September 1950 the official exchange rates were withdrawn. While speculative motives were important in the early part of the two-year period, other important factors included a strong desire to participate in the long-term growth of the Canadian economy (as evidenced by direct investment in Canada in excess of $500 million) and credit restrictions imposed in Canada in the latter months of 1950.

In 1952, as in the latter months of 1951, the co-existence of a current account surplus and the persistent inflows of capital for Canadian development led to strong demands for Canadian funds. Increased official holdings of gold and foreign exchange supplied only a small part of these funds. The pressures created in the exchange market as a result of these transactions forced the Canadian dollar to a premium and contributed to a balance by stimulating outflows of capital. These took the form of repatriation of government debt through trading in outstanding securities and of short-term outflows in the form of increased private and banking holdings of exchange, reduced holdings of Canadian dollar balances by non-residents and changes in open account commercial indebtedness.

Elements of the Capital Account 1946-1952
(thousands of millions of dollars)

	All Countries	United States	Other Countries
Direct Investment	+1.1	+1.0	+0.1
Portfolio securities	+0.4	+0.7	-0.3
Official loans and advances	-1.1	—	-1.1
Other capital movements	-0.3	-0.2	-0.1
Net capital movement[1]	+0.1	+1.5	-1.4

1. Exclusive of retained profits and revaluations.

In the following sections comment will be found on the individual sectors of the capital account.

Direct Investment in Canada

Movements of capital into Canada for direct investment in foreign controlled companies and branches have risen year by year since the end of the war. Over the seven year period the net capital inflow for direct investment from all countries has totalled $1,129 million. The inflows have been particularly large in recent years, rising from $94 million in 1949 to successive records of $222 and $309 million in 1950 and 1951 and, undeterred by the higher costs implied in the rising value of the Canadian dollar, reaching $332 million in 1952. In addition to these actual transfers of capital the retention by non-resident controlled enterprises of profits accruing to non-residents represented another important source of international financing.

About nine-tenths of the tremendous total of post-war movements, or $1,017 million, has been investment from the United States, some detail of which appears in Statement 6. As will be seen, these direct investment inflows do not include substantial investment in foreign controlled companies in such forms as portfolio security transactions and loans by unrelated interests in the United States which amounted to a further $150 million in the seven years.

United States investment in petroleum exploration, development, and refining has been the major contributor to the total, accounting for over one-third of the gross inflows since 1946. In 1952 the rate of inflow fell somewhat from the level in 1951 when there was heavy financing in the closing months of the year to cover capital requirements in 1952, but if investment in associated transportation facilities is taken into account, the inflow in 1952 for direct investment in the Canadian petroleum industry represented more than one-half the gross inflow for direct investment and was over 20% higher than in 1951. It seems probable, however, that this increase was offset by a decrease in inflows of other types and that the movement of United States direct investment and portfolio capital into the industry as a whole was not greatly different from the total of $221 million recorded in 1951. At the end of that year United States investment in all branches of the petroleum industry in Canada represented about 52% of the $1,225 million aggregate book value of the industry in Canada[1].

As in the case of the petroleum industry, direct investment inflows into mining have grown each year since 1946. These inflows which totalled $174 million in the seven year period, with more than half occurring in 1952, were largely associated with titanium and iron ore development. Other inflows of direct investment capital went into a wide variety of manufacturing and miscellaneous industries.

In addition to detail of capital inflows for direct investment statement 6 gives a summary reconciliation of these figures with growth in the book value

1. D.B.S. Reference Paper No. 37. International Distribution of the Ownership of the Petroleum Industry in Canada.

STATEMENT 6. United States Direct Investment in Canada 1946-1952

(Millions of dollars)

	1946	1947	1948	1949	1950	1951	1952	1946-1952
Inflow of new capital:								
Petroleum exploration, development and refining	2	12	23	59	98	140	124	458
Mining	—	2	5	10	30	37	90	174
Pulp and Paper	20	11	14	3	9	31	7	95
Transportation	—	—	—	—	18	10	50	78
Finance	15	7	2	3	8	8	1	43
Other manufacturing, and miscellaneous	26	34	35	39	80	83	70	367
Inflow of new capital	63	66	79	114	243	309	341	1,215
Return of capital	25	8	18	30	43	39	35	198
Net capital inflow for direct investment (Table II, item DI..	38	58	61	84	200	270	306	1,017
Net other identified capital movements affecting the investment of U.S. residents in U.S. controlled enterprises	-43	-35	20	17	17	34	140	150
Net capital inflow	**-5**	**23**	**81**	**101**	**217**	**304**	**446**	**1,167**
Retention of profits, and other factors including revaluations, reclassifications, and similar accounting adjustments	129	97	178	187	130	176	172[2]	1,069
Net Increase in book value (Table XIV)	**124**	**120**	**259**	**288**	**347**	**480**	**618[2]**	**2,236**

Note: In addition to investment in new construction and new machinery and equipment included in gross domestic investment as published in the National Accounts, the above figures reflect investment in other forms and the acquisition of existing assets and resources of Canadians. For these and other reasons the series are not strictly comparable.

1. Included with other capital movements.
2. Provisional estimate subject to revision.

of United States direct investments in Canada as calculated for the Canadian balance of international indebtedness, estimated to have risen from $2,304 million at the end of 1945 to $4,540 million at the end of 1952. This statement is of particular interest as an indication of the substantial part played by retained earnings in the growth of United States direct investment in Canada.

Inflows from the sterling area for direct investment totalled $91 million over the seven year period, while those from other overseas countries totalled $21 million.

Direct investment inflows were probably less influenced by considerations of the exchange rate than any other group of private capital movements. The dominating motives have been long term earning possibilities coupled with a desire by foreign interests to ensure access to Canadian markets and natural resources on favourable terms. It is of interest to recall that the risks assumed by investors having technical "know-how" of an industry, important marketing organizations and connections, and in some cases long term contracts with affiliates, may be somewhat less than the risks attached to similar undertakings by other investors.

Further comment on the role and value of foreign direct investment in Canada will be found in Chapter 7.

Direct Investment Abroad

During the period of exchange control the investment of funds abroad required official approval and this tended to act as a deterrent in periods of exchange stringency. In only two of the six post-war years of exchange control were there net outflows of capital for direct investment abroad and indeed over the period as a whole there were net inflows totalling $36 million reflecting net transfers from the United States of $67 million and net transfers to all other countries of $31 million. The investments affected were in a wide variety of industries by far the largest transaction being the sale to the United States of a controlling interest in a petroleum company operating in South America, proceeds of which were used to finance petroleum exploration and development in Western Canada. Despite the net outflow the book value of Canadian owned direct investments abroad rose substantially, the net capital repatriation being more than offset by retained earnings.

In 1952 there was a very substantial increase in outflows of capital from Canada for direct investment abroad, which totalled $64 million in 1952 compared with $20 million in the previous year. Movements to the United States totalled $42 million against $4 million in 1951 and were invested in a variety of undertakings including beverage and other manufacturing industries, petroleum and other mining enterprises, and real estate. The increase in 1952 was no doubt partly due to the termination of exchange control, but in the main it reflected some large transactions of a special character. Investment outflows to the sterling area were unchanged from 1951 at $6 million, while those to other overseas countries totalled $16 million, an increase of $6 million over 1951. Important elements included the provision of additional capital for Canadian enterprises in Latin America and elsewhere.

Further comment on the value of Canadian direct investment abroad will be found in Chapter 7.

Canadian Securities

1946-1952	Transactions Between Canada and All Countries	United States	Sterling Area	Other Countries
	(millions of dollars)			
Trade in outstanding issues	+ 464	+ 545	- 133	+ 52
New issues	+ 1,508	+ 1,499	+ 8	+ 1
Retirements	- 1,721	- 1,502	- 195	- 24
Net Proceeds to Canada	+ 251	+ 542	- 320	+ 29

Transactions in Canadian securities resulted in a net inflow of capital from all countries of only $251 million in the seven year period. But it should be noted that the volume of transactions was very large, turnover exceeding $7,500 million while the annual balance varied from an outflow of $282 million in 1947 to an inflow of $265 million in 1951. Furthermore the net balance conceals other significant movements. Over the period transactions with the sterling area resulted on balance in repatriation totalling $320 million, against which there were inflows of $542 million from the United States and $29 million from other countries. At times the inflows represented net placements by Canadians of new issues in foreign markets; this was particularly the case in 1951 when credit policies in force in Canada led Canadians to seek financing abroad. Most borrowing of this character was in United States dollars and the exchange risk was accordingly assumed by Canadians. At other times the inflow originated with foreign investors who purchased outstanding Canadian dollar issues and participated in new issues floated on a Canadian dollar basis. In these cases the non-residents assumed a Canadian dollar position, some of it representing speculation on the exchange rate. There have since been repurchases and retirements of Canadian dollar bonds more than equal in size to the massive inflow of this nature which occurred in 1950. Part of the outflow has been through retirements of the short-term securities then purchased, and part through heavy net sales by non-residents of Government of Canada direct and guaranteed issues. During part of the period these movements were obscured by substantial purchases by non-residents of stocks and corporate bonds. Statement 7 shows the changing elements in the Canadian securities account with the United States.

Trading in Outstanding Canadian Issues

Over the seven-year period ending in 1952 the net proceeds of outstanding Canadian securities sold to non-residents totalled $464 million; net sales to the United States and other non-sterling area countries of $545 million and $52 million respectively were offset to the extent of $133 million by net repurchases from the sterling area.

Sales of outstanding Canadian securities to the United States and other non-sterling area countries were heavily concentrated in the first half of 1946 and the third quarter of 1950 when foreign investors

STATEMENT 7. Canadian Security Transactions with the United States 1946-1952
(Millions of dollars)

	Net New Issues (+) or Retirements (-)								
	Government of Canada direct and guaranteed U.S. dollar Bonds and Debentures	Other U.S. dollar Bonds and Debentures	Sub-Total U.S. dollar Bonds and Debentures	Canadian dollar Bonds and Debentures	Total Bonds and Debentures	Stocks	Net New Issues or Retirements	Trade in Outstanding Securities	Total
1946	- 151	- 87	- 238	+ 15	- 223	- 19	- 242	+ 241	- 1
1947	- 32	- 142	- 174	- 27	- 201	- 17	- 218	- 3	- 221
1948	+ 148	- 50	+ 98	- 43	+ 55	- 1	+ 54	+ 5	+ 59
1949	+ 27	- 26	+ 1	- 31	- 30	- 1	- 31	+ 25	- 6
1950	- 72	+ 45	- 27	- 28	- 55	+ 2	- 53	+ 362	+ 309
1951	- 48	+ 279	+ 231	- 21	+ 210	+ 35	+ 245	+ 20	+ 265
1952	- 1	+ 200	+ 199	+ 20	+ 219	+ 23	+ 242	- 105	+ 137
Proceeds to Canada	- 129	+ 219	+ 90	- 115	- 25	+ 22	- 3	+ 545	+ 542

anticipated a revaluation of the Canadian dollar, while repatriation took place on a relatively large scale in 1952.

Even before the end of the war knowledge of the strength of the Canadian balance of payments and indications of the growth of Canadian reserves led to anticipation that the Canadian dollar might be revalued. Aside from the increasing favour with which United States residents looked upon the Canadian dollar, interest rates in Canada were attractive relative to those in the United States. Foreign purchases of outstanding Canadian securities, mainly bonds, which had been substantial since 1942, continued at a high rate until the official buying rate for United States dollars was reduced from \$1.10 to \$1.00 as part of the anti-inflationary programme announced on July 5, 1946. For the first half of 1946 net sales of outstanding Canadian securities to the United States were at an annual rate of nearly \$400 million compared with nearly \$300 million in 1945 as a whole. Probably well over three-quarters of the inflow was for the purchase of Canadian dollar securities of which Government of Canada bonds were the most important. Most of the sales to non-residents of outstanding Canadian securities payable optionally or solely in United States dollars were provincial and corporate issues. The inflow during the early part of 1946 was particularly noteworthy because in January the Foreign Exchange Control Board had discontinued registering cash purchases by non-residents of bonds and debentures. The practice of registering such purchases had been introduced in 1940. These securities could then be resold in Canadian markets for Canadian funds which United States holders could dispose of through the unofficial exchange market. Purchases of bonds and debentures subsequent to the change in policy were not so eligible. Accordingly insofar as most of the inflow in 1946 was concerned, under the policy then in effect United States investors as a group could not look to the repatriation of their investments although within certain limits switching was permissible[1]. Registrations of purchases of stock continued to be accepted. Institutional investors, mainly foreign insurance companies, to whom this liquidity was not an important attraction, were not deterred by this change. Higher interest rates obtainable on Canadian securities coupled with a conviction that at some time over the life of the bonds the Canadian dollar would be valued more highly continued to attract conservative financial institutions. Despite this change of policy the inflow continued at a high level until the exchange rate was altered, when the movement dropped abruptly.

The balance of transactions with the United States in outstanding Canadian securities remained small until on September 19, 1949, a return of the official buying rate from \$1.00 to \$1.10 per United States dollar was announced concurrently with the devaluation of sterling and other currencies throughout the world. The resale registration policy of the Foreign Exchange Control Board had been extended again to bonds in May 1949.

United States participation in Canadian industrial expansion and natural resource development directed favourable attention to the Canadian economy and the Canadian dollar, and beginning in June 1950 this developed into unprecedented pressure on the official rate which was withdrawn on September 30. A substantial part of the pressure by non-residents to acquire a Canadian dollar position took the form of purchases by United States residents of Canadian dollar securities, mainly Government of Canada bonds. Trade in outstanding Canadian securities with the United States resulted in an inflow of \$362 million during the year, and of this \$300 million occurred in the third quarter.

There continued to be a heavy inflow of capital for the purchase of outstanding Canadian stocks and bonds in the first quarter of 1951, and although in the second and third quarters there was some liquidation of foreign holdings of Canadian bonds this was more than offset by purchases of stocks. In the final quarter of the year, as the Canadian dollar rose in response to the re-emergence of a substantial current account surplus, liquidations of bond holdings reached very high levels, the total for Government of Canada direct and guaranteed issues reaching \$88 million. Offsetting this outflow of capital were movements into corporate bonds and stocks and the net outflow to the United States and other non-sterling area countries on outstanding Canadian securities account was \$34 million in the quarter, reducing the inflow for the year to \$54 million. Residents of non-sterling area O.E.E.C. countries were on balance the major purchasers of outstanding Canadian securities in 1951, accounting for about \$34 million of this net inflow, mainly in stocks.

The trading trends which developed in the fourth quarter of 1951 continued into 1952 and led on balance to an outflow for the first time since 1947. Although there were net inflows for investment in Canadian corporations these were more than offset by liquidations of government bond holdings. Repatriation (including retirements) of foreign-held Government of Canada direct and guaranteed debt in the fifteen months ending December 31, 1952, had reduced these holdings well below the level prevailing prior to the massive capital inflows of 1950.

The long climb of the Canadian dollar on the exchange markets undoubtedly had a strong influence on transactions in government bonds and indeed over this period the change in the exchange rate more than offset for non-resident investors the

1. It is of interest to note that in later years when selling pressure caused the price of unregistered bonds abroad to fall considerably, some institutions sold in Canada their registered bonds, converted the proceeds through the unofficial exchange market, and then purchased from holders abroad similar issues which had been acquired without registration. The resultant profit represented the value of registration at the time of the transaction.

STATEMENT 8. Selected Market Data on Canadian and United States Government Bonds

Month	Price of Government of Canada 3/66 [1]		Yield on United States Treasury Bond 2½/68
	Canadian funds	U.S. funds [2]	
1945 September	100.00 [3]	89.91	2.36%
1947 December	104.75	92.56	2.35
1950 September	102.88	93.53	2.29
December	100.24	95.19	2.35
1951 June	97.12	90.82	2.70
December	94.86	92.49	2.71
1952 June	94.57	96.59	2.55
December	93.74	96.58	2.68

1. Average of business days.
2. Converted at noon average in unofficial market during period of fixed rates.
3. Issue price.

decline in Canadian bond prices. This factor and the general rise in the level of interest rates had, as will be seen in Statement 8, added to the attractiveness of repatriation.

Thus a United States investor who in September 1945 elected to accept a yield of 3% on a 21-year Government of Canada issue in preference to a yield of less than 2.4% on a roughly comparable United States issue, could at the end of 1952 have realized a capital profit of some 7% on the investment. And in addition he could then buy into the original United States issue on terms to yield him almost 2.7%.

The capital profit to be realized on these transactions in the face of generally declining bond prices was the inducement provided through the exchange market for capital outflows sufficient to meet some of the demands by non-residents for Canadian funds. These demands arose from the current account balance and from capital inflows such as those for direct investment which were relatively insensitive to exchange rate fluctuations. It was this price factor which led to the outflow. Although restrictions on the sale in Canada of non-resident holdings of securities were eliminated with the abolition of exchange control in December, 1951, these restrictions would not have applied to the great part of the securities repatriated which had been purchased for cash and registered at the time with the Foreign Exchange Control Board. The rate of liquidation of non-resident holdings of Government of Canada debt declined markedly in the closing months of 1952.

While most of the trading in Government of Canada issues was in bonds payable in Canadian funds only, trading in guaranteed and provincial issues represented largely the repatriation of issues payable at the holder's option in Canadian or United States currency. In the case of corporate securities, in contrast to government bonds, although sales to non-residents tended to decline through 1952, the continuing desire of non-residents to participate in Canadian development through ownership of equities and convertible debentures was strong enough to offset the effects of the rising exchange rate.

The 1942 loan arrangements between Canada and the United Kingdom caused repayments to be determined largely by gross liquidations of Canadian security holdings of United Kingdom residents, thus avoiding the use of sterling area official holdings of gold and dollars. It was not the policy of the United Kingdom exchange authorities to permit the switching of security holdings in Canada as such transactions would have led to repayments on the loan without providing the necessary dollars to the authorities. As a consequence of this policy there were net repurchases from sterling area holders in each year. The effects of a rising market in Canada and of changes in the value of the Canadian dollar in terms of sterling may be clearly seen below.

	Canadian Investors' Price Index (Industrials, utilities and banks)		Net Repurchases by Canadians of outstanding Canadian securities from United Kingdom and other sterling area countries
	Expressed in Canadian dollars	Expressed in Sterling equivalent	
	(Dec. 1945=100)		(Millions of dollars)
1946	95	104	48
1947	94	104	11
1948	103	113	4
1949	105	151	16
1950	130	196	35
1951	158	244	16
1952	150	244	3

Between 1945 and 1952 United Kingdom and other British holdings of common stock of the Canadian Pacific Railway Company were reduced by over 2,650,000 shares probably accounting for more than one-third of the total transactions.

New Issues

From 1946 to 1952, the proceeds of new issues of Canadian securities sold to non-residents amounted to $1,508 million; practically all of this sum represented sales to the United States, details of which appear in Statement 9. The volume and nature of financing of this character is influenced by the demand for new and refunding capital, by relative interest rates, market and credit conditions in the domestic and foreign security markets, and by the exchange rate.

Declining interest rates during the war and immediate post-war months had led to a period of substantial refunding operations, a general revision of funded debt structure being undertaken by many debtors who were faced with maturing debt or whose obligations had provisions permitting retirement in advance of maturity. Not only did debtors have an opportunity to reduce interest outlays, but with the official exchange rate established at parity, there existed an opportunity for those with funded debt payable optionally or solely in United States dollars to rid themselves of a liability which had carried a heavy burden of exchange premium. A tendency to refund in the Canadian market was reinforced by a rise in long-term United States interest rates relative to Canadian rates.

Average Yield	Government of Canada 3/61-66	United States Treasury 2½/63-68
1946 January	2.80	2.18
June	2.61	2.11
December	2.61	2.20
1947 June	2.58	2.17
December	2.59	2.35

Paralleling the institutional interest in outstanding Canadian dollar securities, considerable amounts of the new issues of Canadian dollar bonds were acquired by United States accounts in the early part of 1946.

As the exchange situation deteriorated in the latter months of 1946 and early 1947, the Foreign Exchange Control Board tightened its restrictions on the retirement of United States dollar debt in advance of maturity other than by refunding on a United States dollar basis abroad.

During 1948 and 1949 practically all the new issues sold abroad were Government of Canada obligations. An issue of $150 million was placed privately in the former year to repay drawings earlier in the year under an emergency line of credit established in the fall of 1947 with the Export — Import Bank of Washington; the proceeds were used to build up Canada's official reserves. In 1949, the sale in the New York market of a Government refunding issue produced $99 million. Other new issues placed abroad in 1949 amounted to only $6 million.

During 1950 there was a considerable volume of placements in the New York market. A substantial part of this United States dollar borrowing was for refunding similar obligations which debtors were not anxious to retire at the existing exchange rate, but there were heavy net Government retirements and taken as a whole new issues payable in United States dollars fell short of retirements.

In 1951 the proceeds of new issues sold abroad reached a record $411 million, slightly exceeding the level reached in 1930. In that year Government of Canada direct and guaranteed issues had been an important contributor to the total but in 1951 provincial and municipal debentures and corporate stocks were dominant. Rising interest rates and

STATEMENT 9. Proceeds of New Issues of Canadian Securities Sold to Residents of the United States 1946-1952

(Millions of Canadian dollars)

	1946	1947	1948	1949	1950	1951	1952	Total 1946-1952
Bonds and debentures:								
Payable in United States dollars:								
Government of Canada, direct and guaranteed..	—	—	150	99	62	—	—	311
Provincial Governments, including guaranteed	—	5	—	—	96	262	101	464
Municipal Governments	4	77	—	6	20	72	43	222
Corporations	177	5	—	—	28	6	118	334
Sub-total	**181**	**87**	**150**	**105**	**206**	**340**	**262**	**1,331**
Payable in Canadian dollars	37	8	—	—	—	22	32	99
Total, Bonds and debentures	**218**	**95**	**150**	**105**	**206**	**362**	**294**	**1,430**
Stocks	—	—	—	—	4	42	23	69
TOTAL NEW ISSUES (D4 in Tables)	**218**	**95**	**150**	**105**	**210**	**404**	**317**	**1,499**

the general programme of credit restrictions in Canada, referred to elsewhere, contributed to this heavy foreign financing.

The proceeds of new issues of Canadian securities sold to non-residents totalled $319 million in 1952. While this represented a substantial decline from the preceding year, retirements were also lower than in 1951 when there had been substantial redemptions of short-term holdings of Government debt. As a result, the net inflow from new issues and retirements of $230 million in 1952 was slightly higher than in 1951.

Nearly nine-tenths of the new issues of bonds sold abroad in 1952 were payable optionally or solely in foreign currencies. That new issues remained so heavy despite the exchange rate is a reflection of the high level of interest rates in Canada and of the tremendous growth in outstanding Canadian provincial, municipal and corporate funded debt which increased by about $770 million in 1952 and somewhat less than $650 million in 1951.

In contrast to 1951 when Canadian governments, mainly provincial, accounted for 80 percent of total new issues, in 1952 corporate financing represented more than one-half.

Retirements

From 1946 to 1952 foreign held Canadian securities aggregating $1,721 million were retired. Of the total $1,502 million were holdings of United States residents. Details of these transactions appear in Statement 10.

As has been noted above, falling interest rates brought about substantial refunding operations following the end of war. In the early part of 1946 the Government retired several U.S. dollar issues and following the change in the official selling rate for the United States dollar from $1.10½ to $1.00½ in July of that year many debtors having obligations payable in foreign currencies took advantage of the favourable opportunity to eliminate these insofar as exchange control policies permitted. In 1946 and 1947 there were retirements of $903 million, including $773 million to the United States; a substantial part of this total was refunded, some of it abroad, and net retirements of foreign held securities amounted to $590 million and $460 million to all countries and to the United States respectively.

In 1948 and 1949 retirements totalled only $261 million including $232 million to the United States; new issues totalled $255 million.

Retirements in 1950 totalled $284 million and $263 million to all countries and to the United States respectively. Several major Government issues carrying high interest rates were retired in advance of maturity, a portion being refunded. As a result of these Government operations and despite heavy new issues there were net retirements of United States held securities during the year.

In 1951 retirements totalled $184 million, including $159 million of securities held in the United States. Retirements of Government of Canada direct and guaranteed issues held in that country totalled

STATEMENT 10. Retirements of Canadian Securities Held by Residents of the United States 1946-1952

(Millions of Canadian dollars)

	1946	1947	1948	1949	1950	1951	1952	Total 1946-1952
Bonds and debentures:								
Payable in United States dollars:								
Government of Canada, direct and guaranteed	151	32	2	72	134	48	1	440
Provincial Governments, including guaranteed	27	48	26	9	74	40	36	260
Municipal Governments	20	55	12	11	8	9	15	130
Corporations	221	126	12	12	17	12	11	411
Sub-total	**419**	**261**	**52**	**104**	**233**	**109**	**63**	**1,241**
Payable in Canadian dollars:								
Government of Canada, direct and guaranteed	5	5	33	21	18	35	11	128
Provincial Governments, including guaranteed	1	3	2	1	1	2	—	10
Municipal Governments	1	1	—	—	—	—	—	2
Corporations	9	23	5	7	5	3	1	53
Unspecified	6	3	3	2	4	3	—	21
Sub-total	**22**	**35**	**43**	**31**	**28**	**43**	**12**	**214**
Total — Bonds and debentures	**441**	**296**	**95**	**135**	**261**	**152**	**75**	**1,455**
Stocks	19	17	1	1	2	7	—	47
TOTAL RETIREMENTS (D5 in Tables)	**460**	**313**	**96**	**136**	**263**	**159**	**75**	**1,502**

$48 million payable in United States dollars and $35 million payable in Canadian dollars; the latter included some of the holdings acquired in 1950 through the purchase of outstanding issues.

Retirements in 1952 fell to $89 million, considerably below the level of any other post war year.

Foreign Securities

Foreign Securities 1946-1952	All Countries	United States	Sterling Area	Other Countries
	Transactions Between Canada and			
	(Millions of dollars)			
Trade in outstanding issues	+136	+122	+12	+2
New issues	- 39	- 24	—	-15
Retirements	+ 35	+ 20	+10	+5
Net Proceeds to Canada	+132	+118	+22	-8

Net proceeds from the liquidation of Canadian holdings of foreign securities over the seven year period amounted to $132 million, arising mainly from trading in outstanding issues. As could be expected this trading was influenced by prices in United States security markets and by current and expected exchange rates. Throughout most of this period movements in these factors were generally in harmony.

Net Proceeds of trading in outstanding foreign securities	All Countries	United States	Index of U.S. Security Prices[1] U.S. Dollars	Can. Dollars[2]
	(Millions of dollars)		(1935-39 = 100)	
1946	+25	+21	154	170
1947	- 1	- 2	129	129
1948	- 7	9	135	135
1949	+22	+19	133	146
1950	+70	+68	158	169
1951	+15	+18	187	198
1952	+10	+ 7	197	192
	+136	+ 122		

During the period of exchange control Canadians were able in general to purchase foreign securities abroad only against the sale abroad of other foreign securities or of certain classes of Canadian securities. This provision was intended to allow some flexibility in individual portfolios by facilitating exchanges of securities, while at the same time the exchange position was protected by ensuring that an export of capital was associated with a simultaneous import. The existence of non-resident holdings of Canadian securities not eligible under exchange control for resale in Canada at times led to prices in United States security markets lower than the United States dollar equivalent of prices in Canada; when non-residents were on balance adding to their Canadian holdings prices in the United States were bid up to the point where this discount practically disappeared. The cost to Canadians, vis-a-vis the official exchange rate, of adding to their holdings of foreign securities consequently varied considerably over the period, and at times the channel was an expensive one.[1]

1. High month recorded by Standard and Poor's composite stock index (industrials, railroads and utilities).

2. High month recorded by Standard and Poor's composite stock index (industrials, railroads and utilities) converted to Canadian dollars at official rate of exchange to 30 Sep. 50 and at high market rate for month thereafter.

It is interesting to note that despite the freedom from Canadian exchange control and the relatively attractive exchange rate Canadians showed little interest in 1952 in United States and other foreign securities, and on balance trading led to repatriation, although on a reduced scale compared with the preceding three years. This movement is probably the product of heavy demands in the domestic markets for capital of all types coupled with the special tax advantages accruing to Canadian holders of Canadian stocks relative to foreign securities. Canadians on the whole have not participated on any large scale in foreign security markets since the thirties. Relatively large purchases of foreign new issues in 1952 were mainly of a special character associated with transactions of the International Bank for Reconstruction and Development and with the financing of foreign corporations having interests in Canada.

Loans and Advances by Government of Canada

Over the two years 1944 and 1945 Canada had a current account surplus of $67 million with the United States, while the balance with other countries reached $2,997 million of which $1,818 million was financed by Mutual Aid and other official contributions, and $314 million by post-war government loans and credits. The latter included the first drawings on a $2,000 million programme of post-war credits provided for by Canada in 1945 and 1946. This was to be made available to the end of 1948 to facilitate foreign purchases of goods and services and to assist in making it possible for overseas countries to meet transitional post-war defi-

1. For example, in early 1948 when the official exchange rate was par and there was a discount of about 11½ per cent on the Canadian dollar in the unofficial exchange market, the discount in New York on four Canadian stocks paying dividends in Canadian funds averaged over 20%. But even at this time a Canadian could acquire a foreign security against the sale of a Canadian stock paying dividends in United States dollars, at a discount of about 16 per cent. At other times the cost of acquiring foreign securities was much closer to rates in the official and unofficial exchange markets. At the end of 1949 the discount on the Canadian dollar was 9 per cent in the official and 11½ per cent in the unofficial markets; at this time the discount on Canadian stocks was less than 15 per cent on those paying dividends in Canadian funds and 13 per cent on those paying dividends in United States funds.

cits in their balance of payments, to maintain adequate reserves and to assume the obligations of multilateral trade[1].

Under this programme between 1946 and 1950 Canada extended credits of $1,627 million, including $1,185 million lent to the United Kingdom. The importance of official Canadian financing in the early post-war years is clearly seen when expressed as a percentage of some of the important balance of payments aggregates.

Official Canadian financing[1] as a percentage of	1946	1947	1948	1946-1950
Merchandise Exports to:				
United Kingdom and other sterling area countries	61	38	5	25
Other OEEC countries	69	37	22	27
All other countries except United States	35	26	13	14
All countries	35	22	5	12
Exports of Goods and Services[2] to:				
United Kingdom and other sterling area countries	47	31	4	20
Other OEEC countries	59	32	18	23
All other countries except United States	29	20	10	11
All countries	25	16	3	9
Current account surplus[3] with				
United Kingdom and other sterling area countries	81	48	8	43
Other OEEC and all other countries except United States	76	51	37	43

1. Net post-war loans and advances, and official contributions other than Mutual Aid to NATO countries.
2. Excluding Mutual Aid to NATO countries.
3. Excluding official contributions.

It was anticipated that while Canada's overseas customers were being financed largely on credit it would be necessary to meet most of the balance of payments deficit with the United States out of Canadian resources. In the face of strong demand conditions in the Canadian economy and as supplies became available in the United States successive current account deficits of unprecedented magnitude developed with the United States in 1946 and 1947. In the absence of capital inflows there occurred a drastic decline in official holdings of gold and United States dollars culminating in the institution of import controls designed to reduce the bilateral disquilbrium, in restrictions on the rate at which the remaining credits might be drawn, and Government borrowing in the United States to build up official exchange reserves.

In addition to drawings and repayments on post-war loans by the Government of Canada to other governments, during the period there were repayments on war loans of $347 million by the United Kingdom and $10 million by other countries. Most of the repayments by the United Kingdom were on the $700 million interest free loan of 1942. Under the arrangements between Canada and the United Kingdom the amount of these repayments was related directly to liquidations of United Kingdom holdings of Canadian securities, either through sale or redemption, less amounts made available by the United Kingdom for investments in the development or expansion of industrial enterprises in Canada and certain British purchases of aircraft manufactured in Canada. Also reflected is the settlement of war claims between Canada and the United Kingdom in 1946 under which Canada received $150 million from which has been deducted interim credits advanced by Canada during the year which were among the claims included in the settlement.

1. By the end of 1950 $1,740 million of these credits had been utilized and the balance either was never allocated or lapsed.

Subscriptions to the International Monetary Fund and International Bank for Reconstruction and Development

Canadian subscriptions to the International Monetary Fund and International Bank for Reconstruction and Development were set in terms of United States dollars at $300 million and $325 million, as follows:

	IMF	IBRD
	(Millions of U.S. dollars)	
Amounts paid in		
Gold	75.0	—
United States dollars	—	6.5
Canadian currency	225.0	58.5
Total	**300.0**	**65.0**
Subject to call to meet obligations of IBRD	—	260.0
	300.0	325.0

The amounts directly affecting official holdings of gold and United States dollars appear in item D13 of the capital account with the United States. The subscriptions in Canadian currency had no immediate effect on the capital account, for Canada acquired an asset against the simultaneous creation of a liability in the form of cash balances or non-interest bearing non-negotiable demand notes; these assets and liabilities are included in item D17 of the capital account with "Other Countries" and insofar as the act of subscription is concerned they are offsetting. The devaluation of September 1949 involved further payments of Canadian currency by Canada to maintain the gold value of the original subscriptions, and these were dealt with similarly. As no new par value has been established for the Canadian dollar no adjustments have been made arising out of its subsequent appreciation.

A number of loans made by the International Bank for Reconstruction and Development involved disbursements in Canada. To the extent that these and other transactions affected its short-term Canadian dollar resources they are reflected in item D17. To the end of 1952 IBRD lending operations had involved disbursements in Canada of the order of $48 million. Of this amount approximately $30 million was financed from the Canadian dollar resources of the Bank and represented a capital outflow from Canada, while the balance was covered by transfers of United States dollars to Canada. Canadian dollar resources of the Bank arose from Canada's subscription in Canadian funds and from the sale of a Canadian dollar bond issue in Canada in 1952.

Canadian Dollar Holdings of Foreigners

Canadian dollar holdings of foreigners include deposits with banks and other depositories, and holdings of Government of Canada treasury bills, by all foreigners other than the International Monetary Fund and International Bank for Reconstruction and Development, which are treated differently for the reason given above.

Changes in Canadian Dollar Holdings
(Millions of dollars)

	United States	United Kingdom and Other Sterling Area Countries	Other Countries	Total
1946	+27	+ 32	+11	+ 70
1947	- 3	- 4	-19	- 26
1948	-14	- 20	+13	- 21
1949	- 8	+ 62	-14	+ 40
1950	+89	+116	+28	+233
1951	-53	-128	-11	-192
1952	-36	- 23	- 7	- 66
	+ 2	+ 35	+ 1	+ 38

United States holdings were practically all in private hands and during the period of Canadian exchange control were acceptable payment only for limited purposes in Canada. On the other hand holdings in countries where exchange control was in force represented for the most part official reserves and authorized working balances.

At the end of 1952 Canadian dollar holdings of foreigners were somewhat less than $350 million.

Refunding Loan Proceeds set aside for retirements

This entry represents the balance of a Government of Canada refunding issue placed in the United States in 1949 which was held over the year end to meet the retirement early in 1950 of a guaranteed issue payable abroad.

Other Capital Movements

Other capital movements comprise a variety of transactions including changes in accounts receivable and payable and in inter-company accounts, short and long-term loans between private unrelated parties, changes in private and chartered bank holdings of foreign exchange, and the net change in Canadian dollar short-term holdings of the International Monetary Fund and International Bank for Reconstruction and Development. It is important to note that the statistical coverage of accounts receivable and payable and of inter-company accounts is limited to relatively few companies.

Also included is the balancing item covering the amount by which estimates of the current account balance and recorded capital movements differed from changes in official holdings of gold and foreign exchange; this difference represents only a very small proportion of gross international transactions. A study of the behaviour of this residual over a number of years suggests that it represents principally changes in receivables and payables not directly recorded.

STATEMENT 11. Estimated Composition of "Other Capital Movements" 1950-1952
(including balancing item)

Note. A minus sign indicates an outflow of capital from Canada
(Millions of dollars)

	All Countries			United States		
	1950	1951	1952	1950	1951	1952
Long-term loans, advances and other capital	- 5	+ 30	+ 17	- 1	+ 8	- 7
Short-term loans and advances	+ 23	+ 19	+ 9	+ 18	+27	+ 11
Short-term Canadian dollar holdings of IBRD	- 5	- 4	- 1	—	—	—
Accounts receivable	- 21	- 6	- 38	+ 3	-16	- 17
Accounts payable	+207	+103	-231	+203	+70	-193
Bank balances and other short-term funds abroad (excluding official reserves)	- 7	- 14	-253	+ 8	-30	-236
Total (Tables II and III, item D17)	+192	+128	-497	+231	+59	-442

	Balancing Item			
	Non-Sterling Area	Sterling Area	Total	Total of "Other Capital Movements"
	(Millions of dollars)			
1946....	+ 21	- 7	+ 14	- 7
1947....	+ 5	+21	+ 26	- 27
1948....	- 17	+18	+ 1	+ 7
1949....	+ 11	-15	- 4	- 62
1950....	+136	-17	+119	+192
1951....	+ 9	+47	+ 56	+128
1952....	-186	-40	-226	-497

While precise measurement of all the elements of "other capital movements" is not possible, an estimate of the composition of the category for the years 1950 to 1952 is given in statement 11. In these figures the balancing item has been allocated to international accounts receivable and payable.

Changes in such open account commercial indebtedness may be induced by a wide variety of considerations. While it is customary to think first in this connection of exchange rate expectations as in 1950, there is considerable evidence that this factor is not the dominant one in normal periods. Timing of payments for imports and exports rarely coincides with the physical movement as shown in the current account and, as terms of payment relating to different commodities also vary considerably, a change in either the composition or flow of imports or exports usually affects the balances due or receivable on open commercial accounts. Also of importance is the role of short term capital movements in financing production and distribution, and definite seasonal patterns exist with respect to the financing of some commodities such as coal. Distinct from seasonal movements are changes reflecting abnormal supply and demand conditions in the market; in times of short supply advance payments have been important.

Aside from financing directly related to commodity movements, other corporate requirements may be met through an increase in accounts payable, particularly in the case of inter-company relationships where the credit risk, which is an inherent limiting factor in the case of unrelated parties, does not exist. For limited periods financing of this character has contributed to expansion and development programmes. More apparent were the effects of the restrictive bank lending policies in force in Canada through most of 1951 resulting in inflows which more than offset any withdrawal of the speculative inflows of 1950. In 1952, as credit restrictions were progressively relaxed and as the Canadian dollar strengthened, there were substantial reversals of the inflows of the two preceding years. Thus the behaviour of these items lent confirmation to the treatment of the residual in the balance of payments as a short term capital movement. Over the three years from 1950 to 1952 the net increase of accounts payable is estimated at about $79 million while the growth in the value of monthly imports was about $132 million; the net increase in accounts receivable was about $65 million compared with an increase in monthly export values of $106 million. There was at the same time a large increase in United States dollar bank balances and short-term investments held by Canadians. In part this increase may have reflected delay in the transfer of export proceeds or other receipts of foreign exchange as the exchange rate became increasingly unfavourable; moreover forward exchange rates and short-term interest rates have combined to make attractive the temporary employment of Canadian funds in the United States.

It should not be overlooked that changes in open account international indebtedness may take place in the opposite direction to that indicated by general exchange rate expectations without necessarily implying the assumption of an exchange risk. During the period of fixed official exchange rates, limited forward exchange coverage was made available through the Foreign Exchange Control Board and these facilities made it possible for Canadian residents to transfer to the Exchange Fund Account a considerable burden of exchange risks. In conditions of a free exchange market the creation of a substantial short or long balance of forward contracts tends to be limited by the impact of coverage on the spot rate, a factor which was not operative in the period of fixed rates.

Balance Settled by Exchange Transfers

The "triangular" nature of Canada's international transactions has long been well known, receipts from balance of payments surpluses accruing with the United Kingdom and other overseas countries having for the most part been applied against deficits with the United States. In the bilateral statements of the balance of payments item G, "Balance settled by exchange transfers", is a measure of these multilateral settlements; a negative figure indicates the extent to which the account in which it appears was settled by transfers in Canada's favour, while a positive figure indicates the application of these receipts in another account. Settlements occur between the bilateral sectors but cancel out as a whole and consequently do not appear in the account between Canada and all countries.

For example, over the seven year post-war period Canada had current account surpluses aggregating $5,279 million with overseas countries, of which $1,371 million was financed by a net capital outflow from Canada to these areas. All the remainder and a reduction of $23 million in official holdings of sterling was financed by multilateral settlements, i.e. net payments of international "cash" (mainly gold and United States dollars) amounting to $3,931 million. During the same period Canada had a net current account deficit with the United States of $4,939 million, but there were net capital imports from that country of $1,457 million, leaving $3,482 million to be financed. As multilateral transfers from overseas countries amounted

1946-1952	All Countries	United States	United Kingdom and Other Sterling Area Countries	Other OEEC Countries	Other Countries
	(Millions of dollars)				
C Current account balance	+ 340	- 4,939	+ 3,427	+ 1,601	+ 251
E Net capital movement exclusive of changes in official holdings of gold and foreign exchange	+ 86	+ 1,457	- 952	- 292	- 127
F Balance to be settled	+ 426	- 3,482	+ 2,475	+ 1,309	+ 124
G Balance settled by exchange transfers	—	+ 3,931	- 2,498	- 1,309	- 124
H Change in official holdings of gold, U.S. dollars and sterling	+ 426	+ 449	- 23	—	—

to $3,931 million, it was possible to use the balance of $449 million to add to official holdings of gold and United States dollars.

While it is customary and convenient to think of these settlements as taking place in gold or United States dollars, as is generally true, in fact they include a wide variety of private and official transactions in various currencies. Indeed any exchange between two countries of a short term claim on a third is a multilateral settlement.

The significance of these international settlements also varied. While, for example, the resulting balance of Canada's transactions with the sterling area was convertible and accordingly available to meet Canada's deficit with the United States as in pre-war years, the size of the balance was itself influenced, if not determined, by the existence of stringent controls in sterling area countries. Imports from and capital exports to Canada were determined by the policies of the sterling area authorities after taking into consideration the loan made available by the Canadian Government, export revenue and other sources of Canadian dollars. The net Canadian dollar deficiency of the sterling area giving rise to gold and United States dollar settlements was therefore directly related to and limited by the general balance of payments situation of the sterling area. Unlike multilateral settlements between other areas and Canada, the great bulk of such settlements by the sterling area took the form of direct central bank sales of gold and United States dollars to Canada.

Motivating Factors

Factors influencing the direction, form, and magnitude of capital movements over the period were many and diverse.

Exchange Rate

Timing of much of the private capital movement occurring in the post-war period was directly influenced by changes and anticipated changes in the officially prescribed rates of exchanges. While the great mass of Canada's international transactions took place at these rates, certain types of capital movement took place through the unofficial market abroad[1]. The existence of a significant discount on the unofficial rate vis-a-vis the official rate generally signalled the absence of private capital inflows to official reserves and tended to raise doubt in the public mind, especially abroad, as to the maintenance of the official rate. For this reason the relationship in some periods represents a convenient measure of exchange rate expectations, relevant not only to transactions through the unofficial market but also to those directly affecting official holdings of exchange.

On more than one occasion substantial pressures developed against the official exchange rate as trends in the balance of payments developed which suggested the possibility and direction of a change of some magnitude in the official par value of the Canadian dollar.

Thus for an extended period prior to the return of the official exchange rate to parity in 1946, non-residents increased greatly their holdings of Canadian dollar securities and bank balances while Canadians, on the other hand, sold foreign securities (and Canadian securities payable abroad) and allowed their accounts payable to rise. At the sametime there was a tendency for Canadian debtors to arrange refunding of United States dollar debt on a short-term basis which would permit early retirement of new obligations should a more favourable exchange rate prevail. Aside from these capital movements there were some elements of the current account such as profit transfers and dividends payable to parent companies on which exchange rate considerations had considerable influence. And, as has been mentioned elsewhere, the existence of facilities for forward exchange coverage permitted the transfer of exchange risks to the central authorities which were not reflected in either the current or capital account. The establishment of a new exchange rate in July 1946 was followed by reactions and adjustments within each of these categories.

1. For a description of this market, see Annual Reports of the Foreign Exchange Control Board for 1946, 1947 and 1948.

STATEMENT 12. Average Quarterly Rates of Exchange for Canadian Dollar 1946-1952 in terms of U.S. cents

Quarter	Official[1]	Unofficial	Discount on unofficial rate over official rate
1946 I Q	90.9	90.7	0.2
II Q	90.9	90.7	0.2
III Q	99.6	96.6	3.0
IV Q	100.0	95.5	4.5
1947 I Q	100.0	95.0	5.0
II Q	100.0	91.8	8.2
III Q	100.0	91.3	8.7
IV Q	100.0	89.3	10.7
1948 I Q	100.0	89.6	10.4
II Q	100.0	92.0	8.0
III Q	100.0	92.6	7.4
IV Q	100.0	92.5	7.5
1949 I Q	100.0	92.8	7.2
II Q	100.0	94.7	5.3
III Q	98.8	94.2	4.7
IV Q	90.9	89.6	1.4
1950 I Q	90.9	89.7	1.3
II Q	90.9	90.3	0.7
III Q	90.9	90.8	0.1
IV Q	95.2		[1]
1951 I Q	95.2		
II Q	93.9		
III Q	94.6		
IV Q	96.1		
1952 I Q	99.9		
II Q	101.9		
III Q	103.8		
IV Q	103.1		

1. Official exchange rates were withdrawn September 30, 1950.

As the exchange crisis of 1947 loomed there were naturally attempts by foreigners to reduce their Canadian dollar positions and by Canadians to assume foreign currency positions. But viewed in retrospect it is surprising that the magnitudes of the capital outflows were so small. The net capital outflow to all countries during the year was, it is true, $791 million but of this $553 million was to countries other than the United States and represented on balance the extension of post-war government credits. The outflow of $238 million to the United States was dominated by net retirements of Canadian debtor securities totalling $218 million; some of these retirements reflected maturing debt but the greater part represented securities called for retirement in advance of maturity. Aside from measures adopted to limit capital outflows, there were other important influences at work in the same direction, notably the very substantial financing required for gross domestic investment which rose from $1,917 million in 1946 to $3,068 million in 1947. These influences affected similarly the transfer of profits abroad. Most of the pressure against the official exchange rate was not in fact reflected in the capital account but in the forward exchange liability of the Exchange Fund Account. Although forward coverage was, in general, made available only in respect of net commercial exchange risks, there was of course no compulsion on persons to enter into such contracts. As a result in times when the only possible change in the exchange rate would be appreciation of the Canadian dollar, the Fund found itself a heavy net forward purchaser of exchange. On the other hand in 1947 the Fund had a very substantial commitment as a seller. Insofar as the Canadian balance of payments was concerned such contracts had no immediate effects. The pressures of 1947 subsided as corrective measures taken by the Government began to be effective in increasing official holdings of gold and foreign exchange.

The world-wide devaluations of 1949 involving the re-establishment by Canada of a buying rate for United States dollars of $1.10 on September 20 were preceded by some pressure against the official rate, mainly of a commercial character; but it remained for 1950 to provide an extreme example of speculative capital movement. In the third quarter of 1950, when the net capital inflow exceeded $700 million, every category in the capital account except official loan repayments reflected to a greater or less extent the impact of an expected appreciation of the Canadian dollar. Even direct investment transactions, in which short-run exchange rate expectations normally play little part, were affected: transfers to Canada took place in anticipation of requirements some months in the future, and repatriation of Canadian investment abroad was also accelerated. Trading in outstanding securities resulted in an inflow of spectacular proportions, which has been noted earlier; there was in addition a substantial volume of new issues in the New York market, part of it representing new money and part the refunding of United States dollar obligations which debtors were not anxious to retire at the existing exchange rate. Non-residents increased their Canadian dollar holdings substantially during this period, and there were tremendous "other capital movements" inwards, mostly through increased accounts payable of Canadians, as indicated in Statement 11.

Following the withdrawal of fixed exchange rates, the rate of capital inflow dropped substantially, but the reflux of capital which might have been expected was long delayed. The Canadian dollar did not appreciate to the extent that some holders had expected, because the current account deficit rose to very substantial proportions. Moreover declining bond prices had offset in part the exchange appreciation which did occur while foreign taxation of capital gains was also a temporary deterrent to capital withdrawal by bondholders. The introduction of a restrictive credit policy in the latter months of the year and early 1951 resulted in heavy demands for foreign short-term capital and in placement of a substantial volume of new issues in the New York market. In the first twelve months of the free rate there was a further net capital inflow of $567 million. During this period the monthly noon-average price of the United States dollar in Canada ranged between 104.03 cents in November 1950 and 106.94 cents in June 1951; the effect on the exchange rate of operations of the Exchange Fund Account cannot be assessed in the absence of data on forward transactions.

In the fourth quarter of 1951, when the series of successive current account deficits was replaced by a substantial current account surplus, the role of the fluctuating exchange rate became clearly apparent. The current surplus added to the already heavy demand for Canadian funds created by substantial long-term capital inflows to finance Canadian development. Only a relatively small part of offerings of foreign funds was acquired for the Exchange Fund Account; it continued to be the policy of the exchange authorities to allow the exchange rate to be determined by the normal play of economic forces without official intervention, except to ensure orderly conditions in the foreign exchange market. No attempt was made to reverse persistent trends, but only to smooth out excessive short-run fluctuations. The result was that practically all the impact of the current account surplus and long-term inflows for development fell on the exchange market and was seen in the falling price for the United States dollar in Canada which reached a low noon-average in September 1952 of 95.98 cents. This appreciation of the Canadian dollar led in turn, as we have seen, to substantial capital outflows in the form of repatriation of outstanding Government of Canada bonds held abroad and other short-term movements. The latter took the form mainly of decreases in outstanding accounts payable and increases of short-term funds of Canadians held abroad, movements which were facilitated by the progressive relaxation of credit restrictions in Canada. Thus the large capital inflows were able to take place only by inducing equivalent outflows, a method of adjustment which largely neutralized the potential internal inflationary effects of the inflows themselves.

It has been seen that reactions to fluctuations and anticipated fluctuations of the exchange rate differed from time to time not only in direction but also in form. The initiative came at times very largely from non-residents, at times largely from residents. Parts of the "speculative" movements represented the acceleration of long-term financing arrangements -- for example the transfers of funds for direct investment in excess of immediate requirements in 1950, and the exercising of provisions to retire in advance of maturity debt payable in foreign currency which occurred after the return to parity in 1946. Other parts reflected the assumption for short periods of exchange positions through changes in bank deposits, open accounts, securities, etc.

The capital movement in 1950 was so large that it is useful to examine the data for evidence of the timing of the subsequent reflux. This is done in Statement 13. This statement does not show clearly the extent of the repatriation of Canadian securities sold to non-residents in the first nine months of 1950, for a substantial repatriation of Canadian dollar debt had taken place through retirements but is offset in the figures by unrelated new issues payable in foreign currencies; repatriation through trading in outstanding issues had also been offset to some extent by sales of Canadian stocks. As has been noted earlier, in the twelve months ending September 1952 repatriation of Government of Canada direct and guaranteed issues more than offset the capital movement into this group of securities in the whole of 1950.

Net "other capital movements" over the three years, 1950 to 1952, as shown in the statement, are provisionally estimated to have taken the following form:

	(Millions of dollars)
Long-term capital, net inflow	+ 42
Short-term capital, net inflow	+ 51
Accounts receivable (increase)	- 65
Accounts payable (increase)	+ 79
Short-term Canadian dollar holdings of IBRD	- 10
Bank balances and other short-term funds abroad	-256
	-159

The net changes in accounts receivable and payable are the result largely of changes in the total value

STATEMENT 13. Net Capital Inflow to Canada from All Countries 1950-1952
(Millions of dollars)

	Jan.-Sept. 1950	Oct. 1950 to Sept. 1951	Oct. 1951 to Sept. 1952	Oct. 1952 to Dec. 1952	Total
Direct investment	+ 215	+ 206	+ 336	+ 58	+ 815
Portfolio securities					
Outstanding Canadian issues	+ 314	+ 90	- 107	- 25	+ 272
Net new Canadian issues	- 58	+ 112	+ 312	+ 17	+ 383
Foreign issues	+ 66	+ 21	- 6	—	+ 81
Government loans and credits	- 7	+ 65	+ 59	+ 31	+ 148
Canadian dollar holdings of foreigners	+ 264	- 141	- 82	- 66	- 25
Other capital movements	+ 219	+ 214	- 568	- 24	- 159
Total	**+1,013**	**+567**	**- 56**	**- 9**	**+1,515**

of commodity transactions. Merchandise exports in December 1952 exceeded those in December 1949 by \$106 million; accounts receivable rose about \$65 million. Merchandise imports in December 1952 exceeded those in December 1949 by \$132 million; accounts payable rose about \$79 million.

It seems clear from a consideration of these figures that by September 1952 most of that part of the capital inflow in 1950 which might be regarded as speculative had been repatriated. There had been, on the other hand an increase in Canadian short-term assets abroad representing perhaps in part an indisposition on the part of Canadian receivers of exchange to transfer it to Canada at existing exchange rates and in part attractive opportunities for the temporary employment of Canadian funds arising from short-term interest and forward exchange rates.

By and large the rate affected the timing of capital movements; over the long run its influence was limited. The flows of capital directly responsive to exchange rate expectations, whose volatility added in no small measure to the problems of the authorities during the period of fixed exchange rates, tended to obscure more fundamental movements subject to other motivating factors.

Underlying Short-Run and Long-Run Motivating Factors

Among the other factors motivating short-term capital movements several have already been mentioned. Changes in either the composition or flow of imports or exports almost invariably result in short-term movements because the terms of payment relating to different commodities vary considerably and in any event payment rarely coincides precisely with the physical movement of goods. Aside from movements in what might be regarded as the working capital of international traders, working capital may by supplied to domestic sectors of the economy through, for example, short-term loans or through delays in settlement of international accounts payable. These movements may be associated with the financing of production and distribution, or may represent temporary financing of long-term capital investment pending more permanent arrangements. This is particularly the case in respect of related companies where the normal considerations of credit risk do not apply. The demand for this type of temporary financing is affected by changes in credit policies and interest rates in Canada and abroad. The limitations imposed on inflationary credit expansion in 1951 were relatively greater in Canada than in the United States and as a result it was easier for some Canadian borrowers to obtain financing in the United States than in Canada.

Although it is not possible to assess its importance, another interesting set of factors may be found in the relationship of forward exchange rates and short-term interest rates. In conditions of a free exchange market if there are on balance buyers of forward exchange a premium will develop representing in part the interest cost of holding spot exchange against the forward commitments. On the other hand if there are on balance sellers of forward exchange the resultant discount will include a factor representing the interest cost of the foreign exchange sold into the market to maintain the exchange trader's position. Changes in the spot positions of exchange traders in order to maintain a balanced overall exchange position represent capital movements in the balance of payments; such movements are the reflection in part of exchange rate expectations and in part of flows of commodities, services and capital. A premium on forward exchange may itself also be an inducement to employ funds temporarily abroad as will be seen from the following table.

STATEMENT 14. Net Capital Inflow to Canada from All Countries 1946-1952

(Millions of dollars)

Direct investment	+ 1,101
Portfolio securities:	
Outstanding Canadian issues	+ 464
Net retirements	- 213
Foreign issues	+ 132
Government loans and credits	- 1,088
Other capital movements	- 310
	+ 86

Approximate Yields to Canadians on 90-day Treasury Bills (based on tender rates)

	Canada	United States Basic Rate	United States Adjusted for swap premium or discount
15 Jan. 51	0.75	1.47	(negative)
15 Dec. 51	0.89	1.70	1.45
15 Jan. 52	1.08	1.75	2.25
15 Dec. 52	1.25	2.14	3.51

Private capital outflows of this character would reduce the necessity for increased holdings of spot exchange in the trading positions of banks, for the forward end of the swap transaction with the customer employing funds abroad would serve the same purpose. While the structure of forward exchanges rates would have contributed to such an outflow, insofar as the capital exporter was concerned the spot exchange rate itself would be of little significance.

But one must look to other considerations to explain the preponderant movements revealed when the seven-year post-war period is viewed as a whole. As shown in Statement 14, the dominant private capital movement has been the inflow in connection with direct investment. Factors motivating capital movements for direct investment include long-term earning possibilities, assurance of access to raw material sources, and the general advantages of integration. The direct investment inflows took place in a period of extraordinary growth in the Canadian economy and to a considerable degree were related to the great resource discoveries and development featured in the post-war years. Underlying the whole of the post-war period has been the high level of economic activity, not least in Canada, which has contributed to strong demand conditions and offered attractive earning possibilities. These conditions are reflected not only in foreign direct investment in Canada but also to an even greater extent in investment by Canadians. As will be seen in the following chapter, Canadian capital is playing a larger role in Canadian development on balance than in the past.

Participation in the long-run growth of the economy is also a motive in purchases of equity securities, while interest rates may play a long-run role in the case of bonds and debentures; the net movement in portfolio securities has not, however, been as large as in the case of direct investment and it is clear that short-run considerations are on balance of much greater importance in this category of capital movement. Loans and credits of the Government, and Canada's subscription to the international monetary institutions represent a special category of capital movement designed to facilitate foreign purchases in Canada, and to assist overseas countries to meet transitional post-war deficits in their balance of payments, with the ultimate objective of restoring a higher level of multilateral trade.

Chapter VII

CANADA'S INTERNATIONAL INVESTMENT POSITION

During the seven year period from 1946 to 1952, Canada's net indebtedness to other countries rose by some $800 million. This rise is about one half of the decrease which occurred between 1939 and 1945, when there was a sharp decline in the British net investment position with Canada. Canada's net indebtedness to other countries in 1952 was consequently less than at the beginning of World War II, when it had been lower than at the peak which occurred around 1930.

The rise in net indebtedness in the post-war period is much less than occurredin grossliabilities as gross assets also increased substantially during the period. Gross liabilities increased from $7.6 billion in 1945 to $11.1 billion in 1952, a rise of almost one half, while gross assets rose from $3.8 billion to $6.4 billion, or by more than two thirds.

Relatively greater changes occurred in the composition of assets and liabilities than are revealed in the movements of the totals. Most of the increase in liabilities has been in United States direct and portfolio investments in Canada while the rise in assets has been largely in government owned forms although Canadian direct investments abroad have risen substantially. The most concentrated increase in liabilities was in equity investments which rose sharply by some 70%, but there was also a rise in bonds of more than 15% and a large increase in non-resident owned bank balances in Canada which are included in the gross liabilities. The largest part of this increase in equity investments was in United States direct investments in Canada which almost doubled in the same seven year period.

The net increase in the total of Canadian assets abroad in the post-war period in the form of government loans and export credits to other countries was $1,159 million and the increase in the Canadian dollar equivalent of government holdings of foreign exchange and gold was $142 million. Canadian investments abroad which are privately owned have also increased. The value of Canadian direct investments abroad rose sharply but there was a small decline in the value of portfolio holdings of foreign securities which moderated the overall increase in private investments abroad.

This increase in the balance of indebtedness in the period under review may be attributed largely to the retention of earnings in Canada as, in the period as a whole, there was a small net export of capital. This is indicated by the net current account balance of $340 million for the full seven year period. Reinvestments of earnings are not included in the construction of Canadian balance of payments statements, and consequently are not reflected in this net figure of capital movements. Net reinvestments of earnings are the leading factor accounting for the rise in the balance of Canadian indebtedness to other countries of $0.8 billion.

The amount of foreign private capital invested in Canada exceeds that invested in any other country, but this represents a smaller proportion of the total of all capital invested in Canada than is the case in many debtor nations of the world where foreign capital is the main contributor to development. Furthermore, the existence of large Canadian owned assets abroad has reduced substantially the balance of indebtedness and the relative significance of the absolute total of foreign capital in Canada. The balance of indebtedness is also small in relation to the pace of Canadian development in the post-war period, most of which has been financed by capital of Canadian origin. A feature distinguishing Canada's foreign debt is that it represents private investment in Canada, rather than indebtedness to other governments as is the case with some other debtor countries.

The balance of indebtedness shown in statement 15 includes long-term investments and short-term assets and liabilities except those of a commercial character. More detail on the components of gross assets and liabilities is shown in Table X.

STATEMENT 15. Summary of Canada's Balance of International Indebtedness, Selected Year Ends (see Table X)

(Thousands of millions of dollars)

	1930	1939	1945	1949	1950	1951	1952
Gross liabilities to other countries	8.0	7.4	7.6	8.9	9.9	10.5	11.1
Gross external assets	1.5	1.9	3.8	5.2	5.9	5.9	6.4
Net Indebtedness	**6.5**	**5.5**	**3.9**	**3.7**	**4.0**	**4.6**	**4.7**

The Relative Place of Foreign Capital in Canadian Investment

The relative place which foreign capital occupies in Canada has changed greatly over the years. Foreign capital used to make up a larger part of total capital investment in Canada than has been the case in the post-war period. In early periods of Canadian development, capital from outside Canada was a major contributor to investment in the country. This was more so in periods of development which preceded World War I. But even in years of heavy investment which followed it, as for example, 1929 and 1930, foreign capital was of much greater relative importance as a source than has been the case in the post-war period under review. But, in contrast, for a long succession of years which followed, Canada was a net exporter of capital. This was the case in each year from 1934 to 1949. While there continued to be some capital inflows, these were more than offset by outflows of capital in various forms. As a result of this period of capital outflows, Canada reduced certain types of liability abroad and increased Canadian owned assets abroad, most notably through loans to other governments. There continued at the same time to be some growth in certain kinds of foreign investments in Canada, particularly in direct investments by United States companies in Canadian industry. Much of this latter investment was through reinvested earnings, but fresh capital was also transferred as well. It was only in 1950 and 1951 that there were again net inflows of capital into Canada. These were not large, however, in relation to the level of total investment in the country. Substantial parts of the capital inflows in 1950 and 1951 were into the petroleum and mineral industries. Inflows of non-resident capital were a particularly important source of financing of these developments of resources. But the capital inflows even in 1950 and 1951 were still only a relatively small source of all the capital being invested in Canada in those years. The net contribution by non-residents and foreign controlled companies to the savings used for all types of investment in Canada was only about 1/7th in these two years.

STATEMENT 16. Percentage of Non-Resident Ownership of Canadian Industry, End of 1939 and 1950

Type of Industry	Percentage Made Up of			
	Total Non-Resident Ownership		United States Ownership	
	1939	1950	1939	1950
	%	%	%	%
Manufacturing	42	40[1]	34	33[1]
Mining, smelting, and petroleum exploration and development	40	45	31	39
Steam railways	57	42	18	20
Other utilities	27	16	20	14
Merchandising	9	9	6	7
Total of above industries	**38**	**31**	**22**	**23**

1. Including investments in exploration and development of petroleum by companies engaged principally in refining and production of petroleum products.

The accumulated value of all foreign capital which has been invested in Canada continues to represent a smaller ratio of total capital invested in the country than was the case at the beginning of World War II. Foreign ownership of Canadian businesses amounted to approximately 31% in 1950 compared with some 38% in 1939 as shown in Statement 16. Non-resident holdings of Canadian bonds of all types amounted to only about 15.2% of the total funded debt of all Canadian governments and corporations in 1952, whereas in 1939 the non-resident holdings were over one-third of the smaller total of Canadian bonds which were then outstanding. The distribution of ownership of Canadian funded debt is shown in Statement 17.

The above ratios provide some indication of the nature of the changes in the relative place occupied by foreign capital in Canada. Two major groups of investments are covered in the comparison, but it should be noted that they overlap to some extent, since investments in bonds of corporations and in some government owned utilities are included in both. As there are no definitive statistics on the national wealth of Canada it is not possible to show what percentage of the national wealth is owned by non-residents. There are formidable problems of valuing many kinds of assets, particularly in a period of widely changing values. In the comparison which has been made above of the ownership of Canadian business use has been made of consolidated balance sheet values where these are available from taxation statistics collected by the Department of National Revenue. These balance sheet data have been supplemented by other information to cover non-corporate investments in merchandising and manufacturing and non-taxable investments in utilities and other fields. It will be noted that all investments in agriculture and in residential real estate and personal property have been excluded from the comparison. These are fields in which Canadian capital is the principal source. Consequently, it is apparent that the ratio of foreign ownership to the national wealth would be appreciably lower than is the case in the field of business which has been compared above.

STATEMENT 17. Estimated Distribution of Ownership of Funded Debt of Canadian Governments and Corporations, End of 1952

(Millions of dollars)

Items	Distribution of Ownership				
	Amounts Outstanding	Canada	United States	United Kingdom	Other Foreign Countries
Dominions — direct and indirect excluding railways	14,719	13,851	747	68	53
Provincials — direct and indirect excluding railways	2,926	2,104	782	38	2
Municipals	1,436	1,091	307	36	2
Total Government Bonds	19,081	17,046	1,836	142	57
Percent Distribution	100.0	89.34	9.62	0.74	0.30
Steam railways	1,127	478	308	309	32
Other corporations	3,050	2,190	705	129	26
Total Bonds and Debentures	23,258	19,714	2,849	580	115
Percent Distribution	100.0	84.77	12.25	2.49	0.49

The percentage which non-resident ownership occupies varies widely in different industries and kinds of business. The percentage is comparatively high in some branches of manufacturing like non-ferrous metals, the automobile industry, and petroleum refining and development. In other fields of manufacturing the percentage is comparatively low, as in textiles and primary iron and steel. In other industries like newsprint and wood products non-resident capital plays a very important part, but more than half the ownership is Canadian. This is also the case in the ownership of railways, but Canadian capital is much the largest source of investments in hydro-electric power and other utilities. In merchandising, non-resident ownership is comparably minor, although there are some important units which are non-resident controlled.

A special study of the international ownership of the petroleum industry in Canada shows that in 1951 Canadian ownership amounted to $578 million or 47% of the total investment of $1,225 million. This compares with 58% in 1945 when the total investment was $296 million. United States ownership in 1951 accounted for $636 million or 52% of the total investment. Further details on this subject appear in D.B.S. Reference Paper No. 37-International Distribution of Ownership of the Petroleum Industry in Canada.

United States Direct Investments in Canada

An important aspect of non-resident investments in Canada is the extent to which these are in the form of branches and subsidiary companies which are controlled in the United States. The possibility of control increases the significance of this group of investments which are called direct investments. An analysis of United States direct investments in Canada is shown in Table XIV.

Included in the group are branches, subsidiaries and controlled companies in which 50% or more of the capital stock is owned in the United States. In a few cases public companies have been included because of their close affiliation with a United States company even though only a minority of the capital stock may be held by that company. In the most typical cases, the Canadian companies are wholly owned subsidiaries of United States companies in similar lines of business and allied operations are carried on in Canada through these subsidiaries. This has been the means by which much of the industrial development of Canada has progressed. Industrial techniques, "know-how", and managements skills have been introduced into Canada through these branch and subsidiary companies. Close connections with the business life of the United States have resulted. The extent to which non-resident control over management of the Canadian branch, or subsidiary exists varies of course, with the companies concerned. But there are many instances where close control is exercised. The classification of United States controlled companies as shown in the tables of this report refers to potential control, rather than to control which is necessarily exercised.

The largest part of United States direct investments amounting to 59% is in the manufacturing industries. The investment in these has accounted for most of the growth in the post-war years, together with the rise in Mining and Smelting. The growth in United States controlled investments in manufacturing has been distributed throughout most industries. A large part of the total increase was in industries in which the amount of United States capital is substantial such as wood and paper products, iron and products and non-ferrous metals, in addition to the rise in the non-metallic minerals group due to the growth in the petroleum industry.

The increase in the latter industry which has been included in manufacturing is $274 million for the six year period ending in 1951. If the investments of companies engaged in petroleum refining are excluded the increase in the remaining manufacturing industries has been $739 million, or 62% of the investments at the end of 1945. Of this increase $145 million was in wood and wood products, $180 million in iron and products (excluding investments in iron ore development which are included in Mining and Smelting), $159 million in non-ferrous metal industries, and $101 million in chemicals and allied products.

The development of the petroleum industry has accounted for $448 million of the increase of $1,618 million in United States direct investments during the same six year period. The major parts of this industry are included in the Non-Metallic Mineral group of Manufacturing and in Mining and Smelting, the increases being $274 million and $160 million respectively. All investments in petroleum by companies engaged in refining petroleum are included in the former group, while companies engaged solely in exploration and development are included in the latter. There are also some parts of the investments in petroleum in the Merchandising group, and in transportation which is part of Public Utilities, but these are comparatively small.

The growth in United States direct investments in Canada over the post-war period has been financed by inflows of new capital and by reinvestments of earnings in approximately equal amounts. The reinvested earnings were a proportionately larger contributor in the earlier years than in 1950 and 1952 when inflows of new capital rose to new heights with the large non-resident financing of resource developments in those years. In the seven year period to 1952 inflows of new capital have contributed some $1,215 million to the increase in investment, and profits which have been retained in Canada contributed over $1,000 million as may be seen from Statement 6. Offsetting part of the inflows were liquidations of some investments and withdrawals of capital amounting to $198 million. Accounting changes affecting the book value and differences arising from classifications make up the remainder of the net increase in book value of United States direct investment of $2,236 million during the period. Inflows for petroleum exploration, development and refining made up $458 million of the inflow of $1,215 million of new capital. The capital inflow into mining was $174 million and into transportation and finance $78 million and $43 million respectively. Most of the remaining $462 million was into manufacturing with $95 million of this being invested in pulp and paper.

The place occupied by United States controlled companies in Canadian industry varies in different industries. In some like automobile manufacturing electrical apparatus, and petroleum refining, a large proportion of the industry is controlled in the United States. But in other industries, Canadian controlled companies make up the largest part of the group, as is the case in cotton textiles, sugar refining and most of the vegetable products industries, primary iron and steel, and dairy products. Using control in the broadest potential sense the total investment of the United States controlled companies in the manufacturing industries of Canada amounted to 35% in 1950. The corresponding percentages were 46% in mining, 12% in railways and public utilities, and well under 10% in merchandising. United States controlled companies accounted for 23% of the whole field of Canadian industries and trade covered by the above groups of activity. These percentages include the value of Canadian and other minority investments in these companies as well as the United States owned portion. The value and percentages of the investment in these companies which was owned in the United States was less therefore. This United States owned portion of direct investments was about 17% of the total capital invested in Canadian industry and commerce, mines, railways and public utilities and 28% of the capital in the manufacturing industries.

An analysis has been made of the relative position which the larger United States controlled manufacturing companies occupied in the field of Canadian manufacturing in the year 1946. This showed the great variations in the relative importance of this group of companies in different manufacturing industries. In most instances these selected larger companies represented a larger ratio of investment than they did of either employment, salaries and wages, or production. The analysis also showed a concentration of the larger United States controlled companies to be located in Ontario and Quebec, with the greatest concentrations in Montreal and Toronto. Details and comments on this investigation are presented in the two Bureau publications "Canada's International Investment Position, Selected Years 1926 to 1949" and "United States Direct Investments in Canada--Statistics of investments in all companies and operations of the larger manufacturing companies."

The number of Canadian business concerns controlled in the United States has increased substantially in the six year period. The total has grown from 1,985 in 1945 to 2,568 in 1950 and 2,821 in 1951. The number in manufacturing has risen from 992 in 1945 to 1,229 in 1950 and 1,289 in 1951. Further details on types of business are shown in Table XV. These numbers of concerns controlled in the United States are small in relation to the number of all Canadian business concerns. There were over 49,575 taxable companies in Canada in 1950 and in addition a larger number of unincorporated business firms.

Portfolio Investments in Canadian Securities by United States Investors.

Portfolio holdings of Canadian securities in the United States have increased by more than one quarter during the post-war years under review. This

STATEMENT 18. Long-Term Investments in Canada Owned by Residents of the United States Selected Year Ends

(Millions of dollars)

	1945	1949	1950	1951	1952[1]
Direct investment	2,304	3,095	3,442	3,922	4,540
Government and municipal bonds	1,450	1,534	1,746	1,898	1,836
Other portfolio investments	1,106	1,106	1,187	1,288	1,424
Miscellaneous assets	130	170	190	195	200
Total book value	**4,990**	**5,905**	**6,565**	**7,303**	**8,000**

1. Provisional estimate subject to revision.

group of investments in public issues of Canadian securities in 1952, however, was less in value than direct investments by the United States, although in 1945 it had occupied first place. The principal groups of United States investments in Canada are shown in Statement 18. Portfolio investments comprise the items "Government and municipal bonds" and "Other portfolio investments", which appear in this statement.

Portfolio investments are generally made up of scattered minority holdings of securities, and consequently do not give rise to control of Canadian industry. Capital movements connected with portfolio securities usually have more immediate effect upon capital markets in Canada than those connected with direct investments. Many of the capital movements in the post-war period are not directly related to development in Canada, although other forms of portfolio investment like new issues of securities abroad represent the employment of non-resident sources of finance in Canadian development.

A great variety of motivating factors affect portfolio investment and disinvestment. Much of the investment is long-term, but some is short-term subject to speculative or other volatile considerations. The largest part of the United States portfolio investments in Canada are holdings of bonds of Canadian governments and corporations. Large groups of these have customarily been made up of issues originally offered in the United States being payable in United States dollars, or with an option of payment in that currency. This kind of investment is for the most part long-term and even if disposed of by the original investors usually continues to be held by non-residents. But during the post-war period there have also been large United States investments in Canadian domestic bond issues, particularly issues of the Government of Canada. Some of this type of investment has been speculative and has since been liquidated. Considerations of changing exchange rates as well as interest rates are factors in investment of this kind. Holdings of the stock of Canadian companies are also large and have fluctuated with the ebb and flow of the international trade in securities, being subject to a particularly wide range of motivating factors.

The increase in portfolio holdings of Canadian securities in the United States which has occurred during the post-war period has been due to three prominent types of capital inflow. There have been large purchases of domestic issues of the Government of Canada, new issues of foreign pay issues of Canadian governments and corporations sold in the United States, and a general increase in the book value of Canadian stocks held by portfolio investors which has continued throughout the period.

Holdings in the United States of domestic bonds payable solely in Canadian dollars amounted to an estimated $725 million at the end of 1951, a considerable decline from the holdings of $840 million at the end of 1950. Holdings at the end of 1945 amounted to some $510 million. These had been increasing rapidly during the previous year. Holdings continued to rise sharply in the first half of 1946 before the restoration of the Canadian dollar to par in July of that year. Besides investments in Government of Canada issues there were large increases in holdings of Canadian corporation issues, particularly public utilities. The other sharp rise in domestic issues occurred in the second half of 1950 and continued on in the early months of 1951. The early months of this period of inflow marked the period of heavy speculative inflows into Canadian dollar forms of assets which reached a peak in September 1950 before the abandonment of a fixed official rate of exchange at the beginning of October. A large liquidation of this group of investments started, however, in the closing months of 1951 and continued in 1952. In addition there were some reductions in holdings of domestic bonds due to retirements in both years.

The other important group of inflows of capital into Canadian bonds arose from the sale of new issues in the United States by Canadian governments and corporations. These became a large source of inflow from 1950 to 1952 with the rise in interest rates in Canada and the generally tight credit conditions. But retirements of Canadian bonds owned abroad slightly exceeded new issues in the post-war period, and there were net retirements even in 1950 when new issues had rapidly increased. The only years in which new issues exceeded retirements were 1948, 1951 and 1952. Sales of new issues in the United States by Canadian provinces and municipalities were particularly large in 1950, 1951 and 1952 and in 1948 the sale of a large Government of Canada issue in the United States was the reason for the net new issues. In the seven year period there were net new issues of provincials and municipals of $204 million and $92 million respectively, while the Government of Canada and corporations reduced indebtedness payable in United States dollars by $129 million and $77 million respectively. But in the early part of the post-war period and again in 1950 there have been the large United States investments in Canadian domestic bond issues already noted. As these were concentrated in issues of the Government of Canada, there has been a very great increase in holdings of Government of Canada bonds since the end of the recent war. But the liquidations which started late in 1951 and continued in 1952 have since reduced the holdings from their peak early in 1951.

The increase in the book value of United States holdings of public issues of Canadian stock has been due to rising book values and to increases in holdings in some parts of the period. The book value of the holdings has increased from $462 million at the end of 1945 to $635 million at the end of 1950, and $724 million at the end of 1951. A general increase has occurred in book value of most public issues of stock due to reinvested earnings. This has continued throughout the period, but it has been only in certain periods that the movement of capital has been into stocks. In other periods, there have been outward movements as repurchases by Canadians exceeded sales.

Most of the increased value of holdings has been in the stock of manufacturing and mining companies which have both almost doubled in the six years. Holdings of railway issues have increased more moderately but continue to be a large part of the total.

At the end of 1951 investments of United States life insurance companies in Canadian securities, apart from their business in Canada, were provisionally estimated at $1,125 million as shown in Statement 19. This is an increase of $400 million since the end of 1945.

STATEMENT 19. Estimated Portfolio Holdings of Canadian Bonds by United States Residents, December 31, 1951
(Millions of dollars)

	Holdings by	
	All U.S. residents	U.S. life companies
Government of Canada	887	525
Provincial	732	185
Municipal	279	105
Corporate	894	310
Total holdings	**2,792**	**1,125**

At some times transactions of United States life insurance companies have played a dominant role in Canadian security markets. Of the net reduction in 1951 of $122 million in Government of Canada issues held by United States residents some 70% reflected transactions of these companies.

Investments of Capital in Canada Owned in British and Overseas Countries

Investments by non-residents in Canada owned in the United Kingdom are still a large portion of the total, 18% in 1952, but the total British capital of some $1,800 million in 1952 has not changed significantly during the post-war period, comparing with $1,750 million in 1945 as shown in Statement 20. In 1939, before wartime repatriations British investments amounted to 36% of total non-resident investments in Canada. In the post-war period there has been a considerable change in the composition of the investments. Direct investments have been increasing while portfolio investments have declined.

British direct investments in branches, subsidiaries and controlled companies have risen from $348 million in 1945 to $490 million in 1951, with a further gain in 1952. The largest increases have been in the fields of manufacturing in which British direct investments have risen from $156 million to $300 million in 1951, and merchandising which have grown from $52 million to $98 million in the same six years. At the end of 1951 there were 641 concerns in Canada controlled in the United Kingdom. Of this total 200 were engaged in manufacturing, 236 in merchandising, and 145 were in the financial field.

British portfolio investments in Canadian securities have been declining as there are controls on capital movements from the United Kingdom to Canada. In the case of holdings of stocks the greatest declines have been in holdings of railway stocks but portfolio holdings of other groups of securities have also generally declined. The book value of investment in stocks conceals some of the reduction in holdings as there has been a tendency for the book value of public companies to rise generally in the post-war period through reinvested earnings. In 1951 the book value of portfolio holdings of stocks was $601 million, with $392 million in railway stocks and most of the remaining $209 million in stocks of manufacturing companies, financial concerns and public utilities. In 1945 the corresponding portfolio holdings were $689 million, of which $487 million was in railway stocks and $202 million in other public issues of stocks or about the same amount as in 1945.

Holdings of Canadian bonds in the United Kingdom in 1952 were slightly more than in 1945 because of the inclusion of Newfoundland bonds since 1949. But apart from this there have been declines in other holdings through retirement and continued

STATEMENT 20. Long-Term Investments in Canada Owned by Residents of the United Kingdom, Selected Year Ends

(Millions of dollars)

	1945	1949	1950	1951
Direct investments	348	428	468	490
Government and Municipal bonds	157	171	163	146
Other portfolio investments	1,160	1,049	1,048	1,069
Miscellaneous assets	85	67	65	65
Total	**1,750**	**1,715**	**1,744**	**1,770**

N.B. The inclusion of investments in Newfoundland in 1949 added considerable amounts to the totals of direct investments and government and municipal bonds.

liquidations. An analysis of holdings of all Canadian bonds in the United Kingdom is given in Statement 17.

Investments in Canada owned in other overseas countries have never been a substantial part of the total. In 1951 the total shown in tables appearing in this report was $416 million compared with $352 million in 1945. A further increase occurred in 1952. It should be pointed out, however, that some investments shown as held in the United Kingdom and the United States are beneficially owned in overseas countries. There was not much change in the total of overseas capital invested in Canada in the post-war period until 1951 when there was a substantial inflow of capital to Canada from Europe. The increase in the total invested was from $358 million in 1950 to $416 million in 1951. The increase which occurred in 1952 was at a reduced rate from the previous year.

STATEMENT 21. Long-Term Investments in Canada Owned by Residents of Countries Other than the United Kingdom and the United States, Selected Year Ends

(Millions of dollars)

	1945	1949	1950	1951
Direct investments	61	63	74	106
Government and Municipal bonds	55	50	53	59
Other portfolio investments	167	162	166	183
Miscellaneous assets	69	65	65	68
Total	**352**	**340**	**358**	**416**

N.B. The above figures exclude some investments held by nominees in the United Kingdom and the United States for residents of other countries.

Direct investments owned in other countries have risen from $61 million in 1945 to $106 million in 1951. Holdings of government and municipal bonds were only slightly higher as some accumulations in these during the war were withdrawn subsequently. Other portfolio holdings have risen from $167 million in 1945 to $183 million in 1951, an increase mainly arising from stocks acquired in 1951.

CANADIAN INVESTMENTS AND ASSETS ABROAD

Loans and Advances by the Canadian Government to Other Countries

Canada's largest group of assets abroad at the end of 1952 were the balances outstanding on loans and advances by the Government of Canada to foreign governments. These included balances of $199.9 million and $1,156.7 million respectively on the 1942 interest free loan of $700 million, and the 1946 post-war loan of $1,250 million to the United Kingdom. There was $461.9 million outstanding on the programme of $594.5 million post-war loans to other governments authorized under the Export Credits Insurance Act, and miscellaneous credits totalled $51.7 million.

Of the total of $1,870.2 million outstanding at the end of 1952 only $230.8 million represented loans made prior to the end of the War on which the balance outstanding at the end of 1944 was $666.2 million. The amount outstanding was at a peak of $2,000 million in 1949, repayments having reduced the total since then. The rapid growth in loans in the earlier post-war years is shown in Table II.

STATEMENT 22. Loans and Advances by the Government of Canada to Foreign Governments, Outstanding at December 31, 1952
(Millions of dollars)

	Amount
Loans to the United Kingdom:	
Loan of 1942	199.9
Loan of 1946	1,156.7
Export Credit Loans:	
Belgium	55.4
China	49.4
Czechoslovakia	10.0
France	209.2
Indonesia	9.3
Netherlands	110.2
Norway	18.4
Miscellaneous credits	51.7[1]
Total	**1,870.2**

1. Includes loans to Greece and Roumania, advances to the U.S.S.R., funded interest on advances to France, and military relief settlement by France and Netherlands.

Taking into account official holdings of gold and foreign exchange, about two-thirds of gross Canadian assets abroad at the end of 1951 were held by the Government of Canada. The official holdings of gold and United States dollars are shown in Table XVI.

The above loans and advances by the Canadian Government are, of course, apart from the outright contributions which the Canadian Government has made to overseas countries both during and after the recent War. Being outright contributions, the latter type of economic aid did not give rise to any future financial liabilities to Canada. During the War, Canadian Mutual Aid to allied governments amounted to over $3 billion. There were also contributions to international agencies like U.N.R.R.A. and Post U.N.R.R.A. and more recently prominent among Canadian contributions have been those under the Colombo Plan and Canadian Mutual Aid to the North Atlantic Treaty countries.

A summary of war and post-war aid extended by Canada in the form of grants and loans appears in Statement 23. These totals are based upon the material included in the appropriate categories of the balance of payments, but they cannot represent a final measure of Canadian aid. Aside from private contributions and from some official transactions not recorded in the balance of payments for conceptual reasons, it might be claimed that other elements such as the interest cost of some financing and the value of some special contract prices should be taken into account. But against these items, and equally immeasurable, were intangible receipts by Canada of international security and of assured export markets in the early post-war years.

Canadian Direct Investments Abroad

The value of Canadian direct investments abroad has increased from $720 million at the end of 1945 to $1,160 million at the end of 1951, or a rise of 61 per cent. The increase in direct investments in the

STATEMENT 23. War and Post-war Aid Extended by Canada 1939-1952
(Thousands of millions of dollars)

	War		Post-war	
	Gross Aid Extended	Net of Repayments	Gross Aid Extended	Net of Repayments
Grants:				
Mutual Aid, 1939-45 war	3.2	3.2	—	—
Post-war interim advances to sterling area countries covered in 1946 settlement of war claims, less settlement	—	—	0.2	0.2
Mutual Aid to NATO countries	—	—	0.4	0.4
Other official contributions	0.1	0.1	0.2	0.2
Total Grants	**3.3**	**3.3**	**0.8**	**0.8**
Loans and similar balance of payments aid:				
War loans	0.7	0.6	—	- 0.4
Post-war loans and advances	—	—	1.7	1.6
IBRD and IMF	—	—	0.1	0.1
	0.7	**0.6**	**1.8**	**1.3**
TOTAL AID	**4.1**	**3.9**	**2.6**	**2.1**

Note. Because of rounding totals may not represent sums of components.

United States was even more than this, and the rate of increase much greater, as a small decline occurred in investments in Latin America as the result of the sale by a petroleum company located in Canada of its interests there. The value of investments in the United States almost doubled in the six year period, rising from $455 million in 1945 to $906 million at the end of 1951. The main source of the funds invested has been the earnings of the branches and subsidiaries abroad. Large amounts of these have been retained abroad, providing the principal reason for the increase. In addition, there were some transfers of capital from Canada, but during most of the period covered these were subject to approval under exchange control.

Most of the increase in investments in the United States has been in industrial and commercial concerns and in railways and utilities. Canadian direct investments in industrial and commercial concerns in the United States have risen from $214 million in 1945 to $533 million in 1951. Substantial parts of this increase occurred in the distilling industries and in the agricultural implements industry. In addition there were many increases distributed over a wide range of industries, with many new undertakings being established. In the same period investments in mining and petroleum rose from $25 million to $71 million. There was also a considerable increase in investments in railways and utilities. This last-named group remains the second largest in terms of capital invested, due principally to the holdings of Canada's railways.

Investments in the countries of the British Commonwealth increased at a proportionately high rate, but the total amount of Canadian capital invested in business undertakings in these countries continued to be a comparatively small part of total investments amounting to 14 per cent in 1951. Investments in the United Kingdom rose by more than a third, but the total invested in that country at the end of 1951 was still only $74 million compared with $54 million at the end of 1945. In other Commonwealth countries total direct investments amounted to $88 million, a figure which is appreciably higher than in 1945. Virtually all of the direct investments in the United Kingdom were in the industrial and commercial field. This was also the principal field of investments in the rest of the Commonwealth, but there were also investments in utilities and in mining and petroleum properties in that group of countries. Total investments in the rest of the Commonwealth were $88 million in 1951 compared with $46 million in 1945, if investments in Newfoundland, which are included in the table for years prior to 1949 are excluded. After making allowance for this adjustment, the principal change during the period was in industrial and commercial establishments, which rose in value from $31 million to $61 million. On the same basis, investments in mining and petroleum in the Commonwealth also rose from $10 million to $20 million.

Investments in all other countries amounted to $92 million at the end of 1951. These were less concentrated in the industrial and commercial field than is the case in other countries. The total was less than in 1945, because of the liquidation of investments in the petroleum industry in Latin America with the sale by Imperial Oil Limited in 1948 of its interest in International Petroleum Limited. Investments were moderately higher in 1951 than in 1945 in utilities and the industrial group, and considerably higher in mining, taken by itself apart from petroleum.

The rate of increase in the six post-war years of 61 per cent in all countries is greater than the increase which occurred in the nine year period between 1930 and 1939, when it was 51 per cent. The rate of growth during the wartime period, was of course, comparatively small. The rate of increase in the value of Canadian direct investments abroad of 25 per cent in the two years 1950 and 1951 was comparable to the percentage rise which has occurred in the value of United States direct investments in Canada.

The foregoing description, confined mainly to the period from 1946 to 1951, may be further amplified by a consideration of the last two years thereof. The relative amounts invested in the various types of industry abroad were broadly comparable in 1949 and 1951. About 1 per cent more of the overall investment was in industrial and commercial concerns in the latter year, and about the same per cent less in utilities. Otherwise the percentage distribution was very similar. This conclusion does not apply to the ratio of increase exhibited by the various industrial groups, however. Thus the mining and petroleum group increased at a greater rate in the two years than either of the much larger industrial and commercial, and utilities groups. In the case of the utilities, a considerable part of the change was a result of the extension of oil pipe lines into the United States. In the petroleum industry it was to some extent a result of new companies coming into the field of foreign investment, acquiring oil lands in the United States as a means of diversifying their holdings, as well as the increased activities by companies already established there. In the commercial and industrial category, which contains over half the total investment, the gain over 1949 was 28 per cent, as compared with 20 per cent in the case of utilities and 29 per cent in that of mining and petroleum.

The increase in direct investments was greater in the two-year period since 1949 than in the four-year period immediately preceding, in the world as a whole, though this does not apply to Canadian investments in the United States. In the United Kingdom it was three times as great, in other Commonwealth countries it was $12 million against $7 million, while in other foreign countries a net gain replaced the net decline already referred to.

In the United States, which accounts for 78 per cent of Canada's direct investments abroad, the total Canadian-held dollar value increased between 1949 and 1951 at approximately the same rate as in the world as a whole. Of the gain in commercial and industrial concerns, the United States accounted for nearly 80 per cent; of the gain in mining and petroleum, over 50 per cent; and over 90 per cent of the gain in utilities, when pipelines are included.

The parts of the world other than the United States and the United Kingdom may be divided on a continental basis, or, more simply, into other Commonwealth and other foreign countries. Taking the second method first, it may be noted that whereas in 1949 a slightly greater dollar investment was held within the Commonwealth, by the end of 1951 the balance had shifted. The gain was 16 per cent in the Commonwealth, 31 per cent in foreign countries. Considering the data from a continental and regional standpoint, in both years nearly a third of Canada's total direct investments, apart from the United States and Great Britain, was held in Latin America, while the smallest proportion was held in Asia. In the British colonies of the two Americas, investment from Canada stood still or receded slightly, on balance. Investments in Asia, Africa, Australasia and Europe all showed considerable advances. In all these regions, except Africa, the greatest gain in the two-year period in terms of dollars occurred in the industrial field-a trend not uniformly applying to percentage changes.

The increased investment in the United States in the same two years has been accompanied by a larger proportionate increase in the number of parent companies than is the case in other parts of the world. Direct investments in that country rose by 26 per cent in value, while the number of parent companies rose from 106 to 167, or over 57 per cent. The United Kingdom subsidiaries, on the other hand, with a similar percentage rise in dollar values, were held by only 4 per cent more parent companies. In other foreign countries, where there was a greater percentage dollar increase than in the United States, the proportionate gain in parent companies was nevertheless smaller.

The direct investments abroad, which are described above, include investments by some Canadian companies in which there is a large non-resident ownership. In statistics of foreign investments in Canada shown elsewhere in this report, the non-resident shareholders' interests in the investments abroad of Canadian companies have been deducted. Consequently, the balance of international indebtedness in a corporate form is affected by this method of presenting the statistics. In showing Canada's balance of international indebtedness, the equity of non-residents in the assets abroad of Canadian companies is included in Canadian liabilities in order to offset the inclusion of this equity in the statistics of Canadian direct investments abroad.

Canadian life insurance companies have an extensive business abroad involving substantial assets, but these historically have fallen short of liabilities abroad. This reflected the practice of maintaining a portion of the reserve funds applicable to foreign business in Canadian assets including Canadian debtor securities payable optionally or solely in foreign currencies. As is indicated in Statement 24, on balance this shortfall has practically disappeared. But a substantial imbalance remains when individual foreign currencies are considered. At the end of 1951 Canadian life insurance companies had, exclusive of optional-pay securities, net assets of $132 million in United States funds, but these were offset by net liabilities in sterling of $31 million and by liabilities in other foreign currencies. Details of gross assets abroad of Canadian life insurance companies will be found in Statement 25.

STATEMENT 24. Canadian Life Insurance Companies' Assets and Liabilities Outside of Canada, Selected Year Ends

(Millions of dollars)

	Assets	Liabilities	Net Assets
1937	674	942	- 268
1945	1,401	1,491	- 90
1951	1,823	1,827	- 4

STATEMENT 25. Assets of Canadian Life Insurance Companies Outside of Canada, End of 1951

(Millions of dollars)

Securities held in	
United Kingdom	345
Other British countries	94
United States	1,030
Latin America	12
Other countries	10
Total Securities	**1,491**
Mortgage loans	142
Loans on policies	85
Cash	47
All other	58
Total assets abroad	**1,823**

Canadian chartered banks operate abroad through over one hundred branches, agencies, and subsidiaries, located in the United Kingdom, United States, France, Cuba, West Indies, and Central and South America. The gross assets of these branches amounted to over $1,000 million at the end of 1952.[1]

1. The statutory Return of the Chartered Banks of Canada for the end of 1952 indicated total bank assets in the form of gold and coin held outside Canada, foreign government and bank notes, balances due by foreign banks, foreign public securities, and call, short, and current loans abroad, aggregating $1,015 million. Not all these assets were foreign, e.g. loans abroad were in some cases made to Canadians; on the other hand some foreign assets may have been included in other categories of the published return. Against these assets were deposits in Canada in foreign currencies of about $160 million, and some deposits abroad were undoubtedly due to Canadians. The statutory return does not lend itself to precise international economic analysis, and special arrangements exist to arrive at the changes in banking capital abroad incorporated in the Canadian balance of payments.

but these assets are held against liabilities to customers and to the head offices. During the war the net investment abroad of Canadian chartered banks both directly and in branches was reduced to necessary amounts of working capital. Since September 30, 1950, when banks again began to act as principals in Canadian exchange markets, they have, from time to time, added comparatively moderate amounts to their working capital positions abroad or have held exchange temporarily to meet forward commitments. These international capital movements, which are included in "other capital movements" in the balance of payments, have some of the characteristics of changes in official holdings of gold and foreign exchange. The value of net chartered bank holdings of foreign exchange is, however, small in relation to the official reserves. Net holdings of the Bank of Canada are included in the official holdings.

Canadian Portfolio Holdings of Foreign Securities

Canadian holdings of foreign portfolio securities have not been as variable in the post-war period as has been the case in other groups of international investments or in this group of investments in the inter-war years. The volume of holdings was reduced during the period but the book values were comparatively well maintained. The value of all holdings was $609 million in 1951 compared with $621 million in 1945 as shown in Table XI. This followed a larger decline during World War II. Most of the decline has occurred in holdings of United States stocks and in British securities. As there was a rise in the value of other foreign stocks owned, the holdings of all foreign stocks were slightly higher in 1951 than in 1945 while the value of bonds held was reduced largely through retirements. Not included in these holdings are short-term Treasury issues which are more comparable to cash balances and other forms of short-term asset.

The influence of controls on exports of capital from Canada upon portfolio holdings of foreign securities has been discussed in Chapter 6 where statistics are shown indicating the volume of liquidations of United States securities. There has, however, been a considerable turn-over in holdings as exchanges of securities were substantial in most years.

The factor most responsible for maintaining the value of holdings has been the general growth in the book values of United States stocks through a retention of earnings. A calculation of the book values of stocks which make up a large part of the holdings shows that these values have risen by some two-thirds since 1939 with most of this occurring in the post-war years. Partly as a result of this maintenance of the amount of capital invested, receipts of dividends from foreign securities have continued to be substantial. The capital invested in other foreign securities has continued to increase for the same reasons as well as from some growth in the number of securities held by Canadians. Investments in securities of some Canadian companies operating in South America represented a substantial amount of portfolio investments in "other foreign securities".

The portfolio investments exclude investments in other securities by Canadian insurance companies and banks which have been referred to above.

Chapter VIII

NOTES ON MAJOR ITEMS AND STATISTICAL SOURCES

The accompanying discussion will be clearer if the nature of the concepts used is kept in mind. The balance of payments measures all transactions between residents of Canada and residents of other countries within a given period of time. It can be most simply thought of as a statement showing the sources and uses of internationally acceptable money, or foreign exchange, classified by the types of transactions which occur. A country can acquire foreign exchange only by earning it through sales of goods and services to other countries, the receipt of donations from abroad including various unilateral transfers, the sale of foreign assets previously acquired, and by borrowing from abroad. Similarly, a country can use foreign exchange to buy goods and services from other countries, to make donations to other countries, to purchase foreign assets, and to make loans abroad.

The current account of the balance of payments is a term used to include receipts and payments in connection with transactions in goods and services, and donations. It is an income account, including therefore interest and dividend income received or paid in connection with investments. The remaining groups of transactions mentioned above, consisting of purchase and sale of assets and borrowing and lending, are of a capital nature and make up the capital account. Included in Canada's foreign assets are the official holdings of gold and foreign currencies.

When current income exceeds current expenses, the balance is referred to as a current account surplus. When the converse is true, we refer to a current account deficit. It should be evident that a country can use foreign exchange only to the extent to which it acquires it. A country which is earning less through the sale of goods and services and the receipt of donations than it pays for goods, services, and donations must make up the difference by disposing of foreign assets previously acquired, or by borrowing abroad, or both. Conversely, a country which earns more through the sale of goods and services and the receipt of donations than it pays for these items must acquire foreign assets, or repay liabilities previously incurred abroad, or both.

The balance of payments should not be confused with the balance of trade or the balance on commodity account, which is a narrower concept covering only the transactions in merchandise imports and exports. Nor should it be confused with a statement of a country's international indebtedness. This latter measures total creditor and debtor relations between countries at a given time. It is possible to think of the balance of payments as a statement of transactions during the year, while the balance of indebtedness is the balance sheet prevailing at the end of that year. The balance of indebtedness would thus cover past debtor or creditor transactions as well as those covered in the balance of payments for the year just concluded. The integral relationship of transactions and the balance sheet is clear in that the capital account transactions of the balance of payments are among those which affect a country's indebtedness. A full reconciliation of the two concepts is, however, not readily achieved because of differences in valuation, timing, and coverage. An important difference is that retained earnings are included in the balance of indebtedness but not in the balance of payments.

The Period 1946-1952 as a Whole

Merchandise trade has formed the main element in the current account, with merchandise exports amounting to 73.2% of total current receipts and merchandise imports 68.0% of total current payments in the period 1946-1952 as a whole. The second largest items were freight and shipping on the receipts side, amounting to 7.4% of total receipts for the period, and payments of interest and dividends which amounted to 8.9% of total payments.

Both the concentration of Canada's international transactions, and the bilateral unbalance characteristic of them, are apparent in cumulated statistics. For the period as a whole, the United States accounted for 52.1% of all merchandise exports and 55.6% of Canada's total current receipts. Merchandise imports from the United States and total current payments to the United States were 71.3% and 72.5% respectively of the totals for all such transactions by Canada. Gold production available for export is included in total current receipts from the United States in the balance of payments. These figures conceal, of course, the variation of individual sectors of the current account. Apart from official contributions, Mutual Aid, and war services, the United States share in the total for various items in current receipts ranged from 94.9% for travel receipts to 34.7% for inheritances and immigrants' funds. On the payments side the United States share did not vary as much between the items, ranging from 87.9% in the case of travel expenditures and 83.4% for interest and dividend payments to 71.3% for merchandise imports. The United Kingdom accounted for 20.4% of Canadian exports and 19.3% of total current receipts by Canada. On the payments side, the United Kingdom accounted for 10.0% of Canadian imports and 10.7% of total current payments by Canada in the period 1946 to 1952 as a whole. It should be noted that Mutual Aid to NATO countries is included above wherever total current receipts or payments are used.

Current account transactions with all countries for the period as a whole led to a surplus of only $340 million. This was the result of two offsetting balances; there was a commodity account surplus of $1,837 million for the period, but this was largely offset by a deficit on other transactions of $1,303 million and official contributions of $194 million. Gold production available for export contributed $916 million to receipts, but the net for other transactions more than offset this. The largest contributors to the deficit on non-merchandise transactions were interest and dividends, and the category "all other current transactions" which consists mainly of business services connected with direct investments, merchandise trade, and other factors. The net payments of interest and dividends were $2,063 million, while net payments for the "all other current transactions" group were $751 million.

The current account surplus of $340 million for the six year period was made up of a deficit of $4,939 million with the United States, offset by a surplus of $2,689 million with the United Kingdom and $2,590 million with other overseas countries. This triangular pattern for the current balance, involving a deficit with the United States and a surplus with overseas countries, has prevailed with only two exceptions since 1926. Table I indicates this pattern for 1946 to 1952. A large commodity trade surplus with each of the overseas areas or countries which are shown (except the "All Other Countries" group) and a relatively small surplus on other transactions contrasts with large deficits for both merchandise and other transactions with the United States. As a general statement this is true not only for the period as a whole but for most years in the period for each of the areas or countries shown.

Bilateral Accounts

In practice bilateral accounts cannot be constructed according to entirely consistent principles. More deviations from consistent principles are necessary than is the case with the global accounts since more expedients have to be resorted to in recording transactions by countries. The basic source material originates from a great variety of sources which necessitate following different principles in making geographical classifications. Even if it were possible to examine closely individual transactions with a view to allocating them by countries, it would still require arbitrary decisions in a great many instances to decide what bilateral account a transaction belonged to. In practice, of course, no such close examination is feasible. Data have to be compiled from a number of sources in different organizations and it is only some of the more irregular and special situations which can be given close attention. Fortunately, however, a great many transactions do fall clearly into well defined bilateral patterns which give no problem of classification. But there are sufficient of the irregular type to make any complete presentation of bilateral accounts full of complicating elements which cannot be resolved according to any nicely drawn up plan of classification.

The largest item in Canada's accounts, merchandise trade, is compiled on the basis of the country of consignment. Information is not available making it possible to adjust these figures exactly according to the country of residence of the foreign participant (normally country of purchase or sale). In most cases, of course, the country of consignment usually coincides with the country of purchase or sale, but invariably there are sufficient exceptions to disprove the rule.

Methods used in breaking down the other items of the current account vary according to the sources employed. While in some cases the basis of classification is fairly closely allied to country of purchase or sale this is not invariably the case.

In constructing the capital account in the post-war years up to 1951 the analysis of foreign exchange transactions has been employed to a large extent. While this provides an accurate division according to currencies, in practice it has not always been possible to separate all the foreign principals of capital transactions according to country of residence. While some segregation of most transactions according to country is possible within the classification by foreign currencies, these bilateral subdivisions cannot be made complete because of the variety of capital transactions which are carried on through intermediaries, particularly in countries like the United States and the United Kingdom. Consequently in presenting some capital statistics bilaterally the currencies in which transactions have occurred have been a guide. Many capital movements, however, do relate reasonably closely to the countries to which they have been classified because of the character of the various exchange controls which have limited the ranges and directions of transactions which are permitted.

Quarterly Statements

The construction of quarterly statements of the balance of payments involves some statistical techniques which are different from those used in annual statements. But apart from this there are timing factors inherent in the use of information from a variety of sources in constructing statements covering short periods like three months. The results, too, are influenced by seasonal factors which show this directly in quarterly data. Likewise special administrative factors at times have major effects on quarterly figures which are less apparent in the annual totals.

Timing problems arise from the fact that periods covered by statistical series originating in different sources do not all coincide. For example, statistics of commodity trade are compiled on the basis of Customs months. In like manner, other sources may be influenced by administrative factors, while still other information conforms strictly to the calendar month.

Yet, throughout the balance of payments, there are inter-relationships between different items. Many short-term movements of capital for instance, are closely related to commercial trade. Differences in the time of recording related transactions are inevitable in many series. The significance of these in quarterly statements is relatively greater than in annual statements. The reason for this is that the inevitable variations in timing and "floats" over the beginning and end of the period are proportionately more of the smaller quarterly totals than of the larger annual totals. This situation contributes particularly to apparent "leads and lags" in payments for commercial trade and in other short-term movements of capital. Actual fluctuations in the latter from quarter to quarter are often large however, as has been described in Chapter 6.

Likewise, the stage at which some involved transactions may be recorded is a more important consideration in short-run statements than in statements for a longer period. In many types of transactions there are a variety of different stages at which the recording process may occur. Variations in timing can occur through situations of this kind which have more effects on quarterly than annual statements.

Seasonal influences have pronounced effects on some items in the quarterly statements. Commodity trade is of course subject to well known influences of this kind. The prices of exports and imports are not greatly affected by seasonal factors, but volume (and therefore value) are noticeably affected by seasonal factors. Based on the post-war pattern, somewhat over one-fifth of exports and imports move in the first quarter when transportation problems are most acute, and when the harvest season on this continent is distant. About one-quarter of exports move in each of the second and third quarters normally. In the case of imports a little more than this moves in the second quarter and somewhat less in the third. In the fourth quarter the movement of agricultural commodities is heavy; close to 28% of exports move in this period, and about one quarter of the year's imports. Both the desire to move commodities like grains and cattle before the winter, and heavy stockpiling of bulky commodities before the winter freeze-up, are responsible for the heavy fourth quarter level of trade.

The seasonal swing in exports is greater than that of imports, and in particular there is a greater concentration of exports than of imports in the fourth quarter. There is a pronounced tendency for the trade balance to be less favourable in the first half of the year than in the last half, if only the seasonal factor is taken into account.

In spite of the smaller size of non-merchandise items compared to merchandise trade, the fluctuations in the balance on these items as a whole are often as large as or larger than those of the trade balance. The two items which show the largest fluctuations in the quarterly non-merchandise accounts are travel expenditures and dividend payments. The large quarterly changes in the balance on non-merchandise items are primarily due to the seasonal and administrative factors which have affected these two items. A very pronounced seasonal peak in travel receipts occurs in the third quarter, while for seasonal and administrative reasons the peak of dividend payments has been normally in the second and fourth quarters. Well over one-half of United States expenditures on travel in Canada are in the third quarter of the year, compared with about one-third of Canadian travel expenditures. But dividend payments are now more evenly distributed over the year than was the case formerly with fluctuating exchange rates and the absence of exchange control influences.

Among administrative influences on non-commodity transactions have been changes in exchange restrictions on such items as dividend transfers, personal remittances, migrants' funds and expenditures on pleasure travel by Canadians. Examples of other administrative influences on the balance of payments are decisions of corporations, tax changes and credit conditions.

In addition to the types of influence which have been referred to above, there remain the effects of general economic changes. These have of course, been dominating influences on the balance of payments in some periods. In the analysis of quarterly data therefore, there are the special problems of isolating seasonal, administrative and "timing" influences from those which are due to more basic kinds of economic change.

Merchandise Trade

Because of the size of merchandise trade in the current account, and its susceptibility to changes in demand and price, fluctuations in trade have been the most important contributors to changes in the current account balance. When trade is at high levels as it has been in the last decade, small relative changes in the price or volume of exports or imports can lead to large absolute changes in the trade balance. The exchange crisis of 1947 was precipitated mainly by a deterioration of $383 million in the trade surplus at a time when large parts of exports were financed by export credits. The improvement in 1948 in the current account was mainly due to trade, although other current items played an important part. Both the trade balance and other transactions played important parts in the appearance of a current deficit in 1950. The increase in this deficit in 1951, and the great improvement in the current balance in 1952, were mainly due to fluctuations in the trade surplus.

The rates of growth of exports and imports have been erratic, influenced as they are not only by the level of activity and supplies in Canada and in export markets, price changes and the degree of competition, but also by special factors such as the Emergency Exchange Conservation Act in 1947, export controls in the early part of the period, the dollar problems of overseas markets, and the defense program after the middle of 1950. These and other forces determining the behaviour of trade are considered in some detail in chapters one to five above.

Detailed statistics of merchandise trade, by commodities and countries, are prepared and published on a monthly basis by the External Trade Section of the International Trade Division of the Bureau. Certain adjustments are necessary to these statistics when used for balance of payments purposes. The main adjustments are described below.

The export values include both domestic exports and exports of foreign produce. Domestic exports include all Canadian products exported and also all exports of commodities of foreign origin which have been changed in form or increased in value by further processing in Canada. These exports are valued at the actual amount received or to be received by the exporter in Canadian dollars, exclusive of freight, insurance, handling and other charges. In effect, this method gives values f.o.b. original point of shipment of the goods for export. Exports of foreign produce include any goods previously "imported for consumption" which are exported from Canada in the same condition as when imported.

One adjustment to the trade returns is the substitution for wheat exports of the clearances to overseas countries prepared by the Board of Grain Commissioners, and the import statistics of the United States Department of Commerce. At times much Canadian wheat is temporarily stored in United States elevators before shipment to overseas countries; the country of consignment is often not known when the export form is drawn up. By using the wheat clearance figures, which follow up the shipments from North American ports and classify them by countries of destination, and the United States import figures, a clearer picture of actual purchases of Canadian wheat is obtained and the timing is closer to that of the actual transaction.

Because of the treatment of Newfoundland in the balance of payments Canadian trade with Newfoundland was deducted from the trade returns prior to Confederation in 1949. One item in the "all other adjustments" group in 1949 is a deduction from exports for the amount by which recorded exports of ships exceeded receipts on the contracts for the ships in 1949. Most of these receipts had been credited in earlier years in the balance of payments when the funds were received as this came closer to measuring the international transactions involved in the production and sale of ships.

Many unilateral transactions are removed from both import and export statistics which are not commercial transactions and in fact involve no currency transfers. Examples are settlers effects, articles to diplomats and bequests. Other items, such as tourist exports and imports, and advertising matter, are removed because they are better classified in other sectors of the current account. Private donations and gifts are also deducted from exports in so far as they are recorded. But official contributions including Mutual Aid are included in current receipts and offset by debit entries as is described in notes which follow on those items.

Imports include all goods which enter Canada and are cleared by the customs officials for domestic sale or use. The value as determined for duty purposes is the fair market value at which equivalent goods would be sold for home use in the country from which they are received, providing that this is not less than the cost of production at the time of shipment plus a fair profit. The values, therefore, are f.o.b. original point of shipment to Canada. In most cases the customs value corresponds with the invoice value. Where the commodities are overvalued for duty purposes, for example where dumping duty is applied, a deduction is made for the overvaluation in order to arrive at the commercial value for balance of payments purposes. The adjustment for rate spread was necessary because the import values included the commission of the Foreign Exchange Control Board on the selling rate of foreign currencies. This was an internal item and was accordingly deducted.

Increases in goods in warehouses are normally the property of Canadian importers, but the goods are not reflected in unadjusted statistics of imports until withdrawn from the warehouses. For balance of payments purposes adjustments are made as the time at which the goods are entered into the warehouses is taken as being more indicative of the time of the international transaction than the time when the goods are withdrawn from the warehouses and included in the import totals. Another adjustment of varying importance has been the addition of unrecorded imports of ships. Certain types of vessels purchased by Canadian shipping companies are not entered through Canadian Customs, and are, therefore, not included in the normally recorded statistics of imports.

Of particular importance in some periods are adjustments for the movements of commodities on government account. During the war much Canadian production was exported under bulk contracts on government account. Data on international payments through official channels for war supplies were substituted in the balance of payments for the value of goods exported. Thus in the years 1941 to 1946 British payments through official channels for war supplies and food, and payments by the United States Government for war supplies and metals exported under the Hyde Park Agreement, were substituted in merchandise trade for the value of the goods exported. Similarly, from 1943 to 1946 the expenditures on account of various countries from Mutual Aid or other appropriations are reflected, rather than the commodities exported.

During the war the Canadian Government purchased aircraft and military equipment in the United States for the Canadian Services; there were important differences between the time of importation and the time when payments were made on account. Data on payments by the Canadian Government to the United States Government on account of these purchases under the "Can-pay" procedure were substituted for the value of the commodities imported.

Imports into Canada of aircraft, military equipment, and other war materials which were not on account of residents of Canada were deducted from the import statistics during the war. This included goods provided under United States Lend-Lease to the British and other governments for air training in Canada, and imports of components of equipment purchased by the British in the United States for use in production or air training in Canada. Likewise any imports of components provided by non-residents as free issue must be deducted from imports if these are not offset by capital imports.

Abnormal movements of commodities on government account appeared again after 1950. Payments to the United States Government on defence purchases in the United States by the Canadian Government have been substituted for actual imports in the merchandise trade sector. Because of the arrangements for procurement of this kind there tended to be substantial prepayments in 1951 in advance of the deliveries of the goods in subsequent years. On the export side, the payments by other governments for defence orders in Canada have not diverged so greatly from actual exports. The effect of this adjustment to imports in 1951 was to raise the current deficit, while in 1952 it raised the current surplus. The effect, however, on total receipts and payments in 1951 and 1952 is relatively small.

There are various reasons for substituting payments through official channels for the actual movement of commodities. The adjustments are necessary to eliminate the timing differences between movements of goods and of payments and to avoid, therefore, the introduction of abnormal capital account entries. The proper values to be assigned to shipments of these types are often not known at the time of shipment; substitution of payments for the values shown in the trade returns is a better approximation to the actual values as finally determined. The payments figures also are the most practical way of recording purchases of equipment and commodities in the United States which are directly delivered to Canadian forces overseas and therefore never enter Canadian import statistics. Balance of payments practice includes purchases of this kind in the import item and the transactions are automatically recorded in this way by using payments data.

The treatment is also more realistic from the point of view of government expenditures since it takes these into the current account in the period when they are incurred. The actual physical movement of military goods across the border is a less significant stage in the transactions than the payments, which have more meaning from the fiscal point of view. In the wartime period, particularly, when relations between the balance of payments and government finance were very close, it was important that entries in the balance of payments for commodity movements on government account should coincide with their financial counterparts appearing elsewhere in the accounts.

Exports of military equipment and other commodities to Canadian Armed Services abroad have not been included in recorded statistics of Canadian exports in recent years. Likewise, equipment and supplies returned to Canada by the Canadian Armed Services abroad are now excluded from imports. In earlier years before 1950 when these items were recorded they were deducted from the adjusted export and import statistics as shown in the balance of payments.

STATEMENT 26. Adjustments to Commodity Trade 1949

Trade with all countries in millions of dollars

Domestic exports in trade returns	2,993.0	Imports in trade returns	2,761.2
Foreign produce exported	30.5		
	3,022.5	Adjustments:	
Adjustments:		Imports from Newfoundland	- 0.9
Exports to Newfoundland	- 9.5	Settlers effects	- 13.5
Settlers effects	- 10.9	Tourist imports	- 28.8
Tourist exports	- 2.6	Rate spread on imports	- 12.1
Private donations	- 7.1	Warehousing	- 0.4
Wheat and grain	- 4.4	Unrecorded imports of ships	+ 5.6
All other adjustments	+ 0.9	All other adjustments	- 15.0
Total adjustments	**- 33.6**	**Total adjustments**	**- 65.1**
Merchandise exports (adjusted)	2,998.9	Merchandise imports (adjusted)	2,696.1

Another group of exports which are not included in the published totals of Canadian exports are the shipments of defence equipment and supplies transferred by Canada to the North Atlantic Treaty Countries under the Defence Appropriation Act. These Canadian contributions to NATO countries are included in a special item in the current account along with other contributions to these countries, such as air training to European aircrews.

On the other hand, other contributions in kind by the Canadian Government to foreign governments and international organisations are included in recorded Canadian exports, and in the item of exports shown in the balance of payments. The contributions which are included in the exports side of the current account are offset by corresponding entries on the debit side representing the contributions.

It should also be noted that exports and imports of gold are excluded from Canadian trade statistics with the exception of some comparatively small amounts of gold in jewellers' sweepings and other industrial forms. Subsidiary coins are also excluded.

Non-Monetary Gold

In the balance of payments statements provision is made for Canada's important gold producing industry through the item "non-monetary gold" which may also be described as "gold production available for export." Canadian gold production is a source of international credits like other industries producing for export. The item appearing in the current account is closely representative of the value of production less Canadian consumption. This measures the international credits arising from Canadian production, whether the gold is exported and sold abroad, or is taken into the Canadian official reserves of gold and United States dollars. As official reserves include holdings of gold, a rise in reserves due to an increase in holdings of currently produced gold appears in the capital account of the balance of payments as a debit reflecting the rise in Canada's foreign assets. This debit is offset in the current account by a credit entry in the item of non-monetary gold.

In the calculation of non-monetary gold, Canada's gold production is taken at the stage which follows refining at the Mint. This is when the gold is sold by the Minister of Finance to the Exchange Fund to become part of the official reserves, or to be sold abroad. Also included is commercial gold sold abroad directly by producers, as well as gold exported in ore or quartz for refining in the United States. The effect of this procedure is that the figures shown in the current account represent Canadian gold production less gold consumed by industry or the arts, when taken at the more final stages of production. Gold still held by producers before the refining stage, whether at the mines, in transit, or at the Mint is therefore not included in the item. Also excluded since November 1951 is commercial gold held in safekeeping at the Mint for producers. In recent years the percentage of Canadian gold production consumed by Canadian industry has averaged around 5%.

Because of the nature of the item and the basis of calculation it is not possible to present the non-monetary item in a detailed statement showing individual countries with which gold transactions have occurred. In bilateral statements of the Canadian balance of payments the item is shown in the current account with the United States for various special reasons. The principal market for Canadian gold has been the United States and a leading factor influencing the price of gold for decades has been the official purchases of the United States. Even when there have been sales to other countries these have normally yielded United States exchange available for meeting Canada's customary deficits with the United States. Similarly when Canadian gold production goes into official reserves it is an element in Canada's accounts with the United States as the changes in official reserves are shown in Canada's capital account with that country.

Monetary Gold

Monetary gold transactions take a variety of forms but their principal significance in the Canadian balance of payments is in the changes in holdings of gold which are part of Canada's official liquid reserves. Such transactions are monetary movements on Canadian account. Examples of these are sales of gold from Canadian monetary stocks to settle liabilities abroad, or receipts of gold from other countries in settlements which they make with Canada by this means. On the other hand gold transactions which lead only to changes in the form of assets held have no net effect on the balance of payments, such as the sale of gold holdings accompanied by corresponding increases in holdings of United States exchange.

In addition to the above transactions which involve Canada as a principal, there are other gold transactions on the account of other countries which do not affect the Canadian balance of payments. Examples of these are foreign-owned gold held in Canada under earmark for safekeeping. Movements of gold into and out of Canada in connection with these safekeeping transactions have often been very substantial. These movements affect the size of exports and imports of gold but are not taken into the Canadian balance of payments as they are on foreign account.

But some types of earmarking transaction may involve the sale of Canadian gold to non-residents to be held under earmark in Canada. Such transactions are a part of the net exports of non-monetary gold when out of current production.

International Travel Expenditures

Canada has customarily had a large surplus of receipts on account of international travel. The size of the balance has been quite variable and in many years has been an important influence on the current account balance. There has been a change in this customary pattern in recent years with the continued rise in Canadian expenditures on travel outside of Canada. This rise has occurred at a time when United States expenditures in Canada of travellers from the United States have been comparatively stable. A small deficit first appeared on travel account with all countries in 1951. This became more substantial in 1952 as Canadian expenditures abroad continued to rise and there was also a deficit in that year with the United States.

The balance on travel account had yielded substantial surpluses in each of the inter-war years for which estimates are available from 1926 on, and also in the war years when Canadian expenditures on travel were under control. The first four years of the post-war period again yielded large surpluses with a peak of $145 million in 1948. This surplus fell to $92 million in 1949, $49 million in 1950 and became a deficit of $6 million in 1951 which increased to $60 million in 1952.

The volume of United States expenditures in Canada was heavier in the earlier part of the period. Receipts rose sharply in the early post-war years with the revival of civilian travel by automobile. Each year up until 1948 there were sharp increases in expenditures. Since 1948 there has been some decline in the volume of expenditures in Canada, although higher prices have tended to maintain the dollar values of expenditures. A reduction in the length of visits in Canada and declines in some periods in certain types of traffic have acted to reduce the real volume. At the same time the actual number of visitors has risen, particularly in the case of persons travelling by automobile. This is the largest and most volatile part of the traffic. The rise in traffic has been influenced by the great increase in the number of passenger cars in the United States. But American travellers have been tending to spend more of their vacations in the United States. At the same time increases in travel abroad have tended to be in travel to other countries than Canada. While the volume of expenditures by American travellers in Canada has been comparatively stable, there have been increases in expenditures of overseas visitors in Canada, but these remain at a comparatively small part of the total.

Travel expenditures abroad by Canadians, on the other hand, have risen markedly since 1945, with the one exception of the year 1948 which shows the effects of the special measures taken to conserve exchange. With the withdrawal of these restrictions in subsequent years, coupled with rising consumption expenditures generally, rising prices and a larger volume of traffic, total expenditures in 1952 had risen to two and a half times the 1948 total. An important part of the rise of expenditures abroad by Canadians has been on merchandise. Purchases of merchandise in the United States by travellers rose sharply as the restrictions on imports and expenditures, which were at their peak in 1948, were withdrawn. The very rapid increase in the number of passenger cars owned by Canadians was another important factor influencing the movement of Canadians to the United States in later years. Travel expenditures by Canadians in overseas countries have increased steadily in every year since 1946. The sharpest gains were in the early years and reflect the restoration of transportation and other travel facilities overseas.

Canada's location, adjacent to the United States and comparatively far removed from other countries, has concentrated a very large part of her foreign travel into a single channel, traffic which crosses the international land border. But this traffic is exceedingly complex as movements of people between the two countries are most varied as to purpose and

STATEMENT 27. Balance of Payments on Travel Account Between Canada and Other Countries, 1945-1952
(Millions of dollars)

Year	Account with United States			Account with Overseas Countries [1]			Account with All Countries		
	Receipts	Payments	Net	Receipts	Payments	Net	Receipts	Payments	Net
1945	163	81	+ 82	3	2	+ 1	166	83	+ 83
1946	216	130	+ 86	5	5	—	221	135	+ 86
1947	241	152	+ 89	10	15	- 5	251	167	+ 84
1948	267	113	+ 154	12	21	- 9	279	134	+ 145
1949	267	165	+ 102	18	28	- 10	285	193	+ 92
1950	260	193	+ 67	15	33	- 18	275	226	+ 49
1951	258	246	+ 12	16	34	- 18	274	280	- 6
1952	258	294	- 36	18	42	- 24	276	336	- 60

1. Prior to confederation with Canada in 1949 Newfoundland was classed as an overseas country.

significance. The estimation of international travel expenditures in these circumstances requires carefully constructed methods in order to obtain reliable data.

Statistical methods for measuring the movement of traffic and travel expenditures between Canada and other countries have been patterned upon the heavy preponderance of travel between Canada and the United States. The undertaking is a large statistical operation because of the great volume of travel in both directions across the international border. The number of entries of non-immigrants into Canada from the United States has exceeded 25 million in a single year, and the annual volume of entries of Canadians returning from the United States has grown recently to more than 20 million. These visits are made by vacationists, summer residents, commuters, businessmen and all other travellers except migrants. They include repeat visits by commuters and others who cross the border many times during a year. They also include people whose only purpose in crossing the border is to take the most direct route between two points in their own country.

The procedure is a co-operative one, carried out by officials of the Canadian Customs and Immigration Services and the Dominion Bureau of Statistics. Border officers at all points of entry maintain an exact count of the number of persons entering the country, each arrival of the same person being counted separately. Residents of Canada are distinguished from non-residents and the latter are classified by country of residence. There is a further classification according to the type of transportation used in crossing the border. Average expenditure rates of non-residents travelling in Canada and of residents travelling outside Canada are obtained by means of sample questionnaires distributed by border officers. Estimates of non-resident travel expenditures in Canada and of Canadian expenditures in other countries are obtained by applying average rates per person to appropriate volumes of traffic.

STATEMENT 28. Non-Resident Motorists Travelling in Canada on Customs Permits[1]

	Average length of visit in days	Average declared expenditure per car in dollars
1947	5.39	61.66
1948	5.28	63.34
1949	4.99	66.53
1950	4.80	60.29
1951	4.51	57.25
1952	4.62	51.92

1. Exclusive of summer residents, locals and commuters.

The main problems involved in estimating expenditures arise out of the difficulty of obtaining a representative sample of expenditures from the many and varied types of travellers who enter the country. Non-resident visits from the United States range in length from an hour or less to as long as a year, but only 15 or 16 per cent of the visits last longer than 48 hours. This is due to the predominance of local visits to points at or near the border and to the fact that there is a substantial volume of intransit traffic following direct routes through Canada between points in the United States.

The total volume of non-resident traffic from the United States is too heterogeneous to serve as a basis for sampling and is therefore broken down into a number of more homogeneous sub-groups, in each of which an average expenditure rate per visit is obtained by sample. To avoid excessive cost the subgroups in most cases are determined by classifications which were already in use by Canadian border officials. In some respects the pre-existing breakdown of traffic coincides with a division between heavy spending and light spending groups but in others it does not. Wherever the classification is not satisfactory, supplementary procedures are used to provide a suitable breakdown of traffic. For example, the Canadian Immigration Service classifies non-resident entries from the United States according to the following five groups:

Persons arriving: (1) by train
(2) by boat
(3) by through bus
(4) by plane
(5) by all other means

Each of the first four groups constitutes a satisfactory classification for sampling after minor adjustments are made to segregate intransit traffic. The fifth group, however, is a residue containing more than 90 per cent of the total number of entries and comprising such diverse groups as motorists spending their annual vacations in Canada and pedestrians remaining in the country for only an hour or two. A breakdown of this residue is obtained by taking advantage of the administrative procedure used by the Canadian Customs Service in enforcing the Customs Act. Non-resident motorists are permitted to import their vehicles free of duty on satisfactory evidence that the vehicle will not remain in Canada. Motorists who intend to travel beyond the jurisdiction of the port of entry and those who intend to remain longer than 48 hours irrespective of their destination are required to apply for customs permits. These permits are prepared in triplicate, one copy being forwarded by customs officials to the Dominion Bureau of Statistics. The Bureau's copy of the permit, which is retained by the driver throughout his visit, contains an expenditure question: "Approximate total amount spent in Canada on this visit by you and those in your vehicle for all purposes — Examples: gas, oil, repairs, lodging, food, beverages, merchandise, amusements, etc."

A detailed analysis by mechanical tabulation is made of answers to the expenditure question and other information appearing on the permit. It is thus possible to segregate special classes such as summer residents and commuters and obtain separate expenditure rates for each class. The remaining permit-holders are classified by province of entry and are subjected to a further breakdown to separate the large number of cars which stay for only one or two days from the smaller number which remain for longer visits. Within each of the groups thus formed, traffic is sufficiently homogeneous to permit expenditure estimates to be made with confidence.

The expenditure sample referred to above is unusually large. In 1952 more than two and a quarter million permits were issued to foreign vehicles entering Canada. The expenditure question, although a voluntary one, is answered by more than 75 per cent of all permit-holding motorists. Thus by sheer size the sample should be reasonably representative of the whole traffic. For visits lasting more than 48 hours, the tabulated data are based on a complete coverage of all permits. For shorter visits it has been found that satisfactory data can be obtained without fully processing all permits. This principle has also been applied to other types of highway traffic which are referred to below.

Although motorists entering Canada on customs permits account for little more than a quarter of all entries from the United States, their expenditures are half the total amount brought in by visitors from that country. Motorists who are not obliged to apply for permits -- those who stay less than 48 hours and remain within the jurisdiction of the port of entry -- are more numerous than the permit-holders, but due to their short visits they spend much less. Their expenditures are less than a tenth of the total amount coming from the United States. This type of traffic is covered statistically by Canadian Customs Form E49, one copy of which is forwarded from the port of entry to the Dominion Bureau of Statistics for each incoming vehicle. As in the case of the customs permit the form serves as a basis for recording the volume of traffic, and, through a voluntary question on expenditures, provides sample data on spending. Here again the size of the sample is very large, expenditures being furnished on more than 75 per cent of the forms.

The number of non-automobile visits from the United States is supplied by the Canadian Immigration Service, broken down according to the principal types of common carrier. These groups are sufficiently homogeneous for sampling, and only require minor adjustments in order that intransit traffic may be handled separately from other entries. Average expenditure rates per person for each group are provided by the United States Department of Commerce, which obtains the information from a questionnaire distributed by United States border officials to approximately one returning traveller out of every seven. The questionnaire is in the form of a post card addressed to the Department of Commerce at Washington. In this way the cards may be mailed free of postage anywhere in the United States, after the traveller has returned home.

The procedure for handling Canadian visits to the United States does not differ materially from the methods described above for visits from the United States to Canada. With regard to automobile traffic, the number of visits and the average expenditure rate per visit are both provided by Canadian Customs Form E60A. The form is similar to No. E49 mentioned above, one copy being forwarded from the port of entry to the Dominion Bureau of Statistics for each incoming vehicle. The volume of this type of traffic has increased sharply in recent years and amounted in 1952 to more than four million vehicles. Most of the visits are of short duration, eighty per cent or more lasting not over 24 hours. Expenditures are declared on more than 90 per cent of the forms. Some special procedures are followed in dealing with the one day group in order to reduce the volume of forms processed completely.

Expenditure rates for non-automobile traffic are obtained by the Dominion Bureau of Statistics through a questionnaire post card generally similar to that used for residents of the United States by the Department of Commerce. The rates are made available to the United States Government in a similar manner to the comparable information furnished by it to the Bureau of Statistics. The Bureau also furnishes to the Department of Commerce average expenditure rates for Canadian motorists in the United States and American motorists in Canada derived from the large sample returns described above. Detailed statements of the volume of traffic crossing the international boundry classified by country of origin and method of transportation are also made available to the Department of Commerce by the Bureau.

The volume of travel between Canada and overseas countries is normally less than one per cent of that between Canada and the United States. Overseas travellers, however, stay for longer visits and transportation costs are higher, hence their expenditures are more significant than the number of travellers would suggest. The sum of receipts and payments in Canada's overseas travel in 1952 were almost 10 per cent of travel expenditures between Canada and the United States. The number of residents returning directly from visits to overseas countries and the number of non-residents arriving are furnished by the Canadian Immigration Service. Average expenditure rates are obtained by means of questionnaires.

Interest and Dividends

The most important contributor of net payments in the period as a whole and for every year in the period was net payments of interest and dividends. These net payments yielded a deficit of $2,063 million in the period 1946-52 inclusive. During this period, Canadians received $639 million in interest and dividends (including interest on government loans) amounting to 2.1% of total current account receipts. Payment of interest and dividends to all countries was $2,702 million, amounting to 8.9% of total current account payments. This lack of balance is even more significant since it is mainly with the United States, with which Canada customarily has a deficit on several other items of the current account. Of total interest and dividend receipts, 55.4% were from the United States in the period, while 83.4% of payments were to the United States. Since total payments are several times larger than total receipts, these percentages alone conceal the absolute size of the deficit with the United States. The largest deficit with the United States in this period was $361 million in 1950. The deficit with countries other than the United States has fallen over the six year period, particulary because of interest receipts on Canadian government loans. Although Canada still has a deficit with the United Kingdom on interest and dividend account, there is a surplus with other overseas countries and particularly the "All Other Countries" group, principally arising from the interest received by the Canadian Government on export credits.

The large deficit on interest and dividend account is due to a net balance of indebtedness which has resulted from net borrowing abroad over many years. The balance of indebtedness has been substantially lower in the years since 1945 than it was before World War II. Canadian assets abroad, particularly government credits and official liquid reserves, rose faster than non-resident investments in Canada in the period from the beginning of the war up to 1949. Since then there has again been an increase in net liabilities. But although Canadian assets abroad have risen greatly, income received by Canada from these has not risen proportionately. No income has been received on some forms of asset like gold, or from certain government loans in some periods. With other assets the rate of earnings has been comparatively low as is the case with holdings of foreign exchange. Furthermore not all earnings are remitted to Canada. Much of the earnings from Canadian direct investments abroad have been reinvested in branches and subsidiaries outside of Canada.

As is shown in chapter 7, foreign investment has played a much smaller part recently in financing new Canadian investment than was true in previous periods of rapid development. The total of non-resident investment has continued to grow however, and, combined with prosperous conditions in Canada, has led to a continuance of large payments abroad. Total payments were particularly large in the years 1949 to 1952, exceeding in each case every year before that period and reaching a peak of $475 million in 1950.

The relative importance of interest and dividend payments to gross current receipts and payments, however, has declined considerably with the great expansion in the value of commodity trade. As a percentage of all current payments, their payments were only half as large in 1946 to 1951 as compared with 1926 to 1930. They were almost one third of total current payments in the depression years from 1931 to 1933, when fixed interest charges and the continued payment of some dividends by many companies contrasted sharply with the fall in other items of the current account. A similar picture appears if we compare payments of interest and dividends with current receipts; the latter receipts, along with any net capital inflow, supply the foreign exchange necessary to meet interest and dividend payments as well as other payments. But the chronic deficit on income account continues to be large in relation to the balance on current account and is normally a major influence on the relative size of the balance. For although the value of commodity exports in a single month is sometimes not far short of income payments for a whole year, there are new high levels of imports as well.

Interest and Dividend Payments to Non-Residents

	As a percentage of	
	Current Payments[1]	Current Receipts[1]
1926-30	16.8	18.0
1931-33	31.1	34.3
1938-39	23.6	21.8
1946-52	9.0	8.9
1950	10.4	11.2

1. Excluding Mutual Aid to NATO Countries.

The changes in these remittances are due to various factors. Interest receipts have been rising because of government loans in the early post-war period. The initial payment of $23.7 million interest to the Canadian Government by the United Kingdom on the post-war loan was in 1951. The war loan to the United Kingdom continues to be interest free. Interest paid by foreign governments on export credits became substantial in 1948 and in 1951 exceeded $14 million but were less in the succeeding year. Some interest on early drawings on export credits and on advances to foreign governments preceeding these credits was funded and not included in current receipts.

Factors determining changes in the level of interest payments include new and refunding issues, retirements, the trade in outstanding bonds and rates of exchange and of interest. In the early post-war period interest payments were falling because of large retirements for a period of years, some refinancing at lower interest rates, and a higher value of the Canadian dollar from mid 1946 to September 1949 which eliminated the premium on exchange. This trend was reversed in 1950 because of a number of factors relating to capital movements described more fully elsewhere in this report. Large scale borrowing in the United States market was resumed under the effect of heavy investment in Canada. Relative conditions for borrowing abroad were more favourable particularly in 1951 following the introduction of credit restrictions in Canada. The large purchases of outstanding securities in 1950 added to the interest burden. Rising interest rates on new issues in 1951 and 1952, and a lower value of the Canadian dollar in 1950 and 1951 compared to the earlier post-war years, were also factors in raising interest payments. Liquidations of holdings of outstanding securities by non-residents and the premium on the Canadian dollar in 1952 have offset part of this tendency to higher interest payments although there continued to be substantial net new issues.

The factors affecting the level of dividend payments are manifold, reflecting not only the level of foreign investment in Canada but also such factors as total earnings and the desire to expand existing investment in Canada by reinvestment of earnings. The timing of payments can vary considerably. In recent years the largest and most variable parts of dividend payments have been by subsidiary companies controlled in the United States. Payments by these companies can be quite volatile, affected as they are by decisions between related parties. These may be influenced by such considerations as those relating to financial requirements, taxation and exchange rates. Administrative changes in exchange control have also played a part in the timing of transfers. The peak level of dividend payments in the fourth quarter of 1950 was partly due to higher earnings, partly to prospective changes in United States taxes, and partly to administrative changes by the exchange control which permitted remittance of earnings on a quarterly rather than an annual basis, with a reduction in the period between when income was earned and when it might be remitted. Following this, remittances tended to be more evenly distributed through the year although there continued to be concentrations in some periods like the year end.

An analysis of dividend payments by groups of Canadian companies to non-residents of Canada for selected years appears in Statement 30, and an analysis of payments to the United States by companies controlled in that country appears in Statement 31. The major part of the totals paid in each year and of the increase in recent years has been in payments by manufacturing companies controlled in the United States. Most of this growth has been in payments by wholly owned subsidiary companies. Payments by public companies have been relatively more stable, although they have also increased with the rise in earnings. It should be noted that payments of dividends in the post-war period have only amounted to part of earnings. There has been a general tendency for companies to finance increasing activity in Canada out of earnings, as is indicated in Statement 6. Consequently, some substantial amounts of earnings have been reinvested. The potential level of dividends, therefore, has been much larger than the actual amounts of dividends paid would suggest.

The item of interest and dividends includes interest on bonds and debentures, dividends on stock, and profits paid or received by unincorporated branch businesses other than insurance companies and banks. It covers all payments by Canadian debtors to non-resident owners regardless of whether they are converted into foreign currencies or held in Canada. The latter are offset by a credit in the capital account. Dividends paid out and then reinvested are also included in both dividend payments and as a capital account credit. Reinvestments in Canada by externally owned or controlled companies which are not formally paid out as dividends or interest are excluded from the balance of payments, but are reflected in the balance of indebtedness. Practical difficulties and delays in securing the information have led to the Canadian practice of limiting the amount to actual cash payments. Excluded from this item are miscellaneous income remittances of different kinds described in "All other current transactions" below.

STATEMENT 29. Receipts and Payments of Interest and Dividends, between Canada and All Countries

(Millions of dollars)

Year	Receipts		Payments		Balance
	Interest	Dividends	Interest	Dividends	
1946	13	57	125	187	- 242
1947	10	54	113	224	- 273
1948	15	55	104	221	- 255
1949	26	57	104	286	- 307
1950	28	63	109	366	- 384
1951	53	62	114	336	- 335
1952	60	86	115	298	- 267

STATEMENT 30. Analysis of Dividend Payments by Canadian Companies to Non-Residents of Canada 1938, 1946 and 1950

(Millions of dollars)

Type of Business	United States			United Kingdom			Other Countries			Total Outside of Canada		
	1938	1946	1950	1938	1946	1950	1938	1946	1950	1938	1946	1950
Manufacturing	76.2	88.0	221.1	12.8	9.8	18.9	0.6	0.6	0.9	89.6	98.4	240.9
Mining and smelting	39.5	29.3	52.8	6.5	4.2	4.5	4.0	1.3	1.7	50.0	34.8	59.0
Railways and public utilities	4.4	13.8	13.7	5.2	11.8	9.0	0.4	1.2	1.0	10.0	26.8	23.7
Merchandising	4.2	6.0	15.2	0.6	0.7	0.8	0.4	0.2	0.2	5.2	6.9	16.2
Financial	1.1	2.2	6.1	1.3	3.3	4.3	0.5	0.3	0.9	2.9	5.8	11.3
Miscellaneous	0.6	1.9	6.9	0.1	0.1	0.1	0.1	—	—	0.8	2.0	7.0
Total above	**126.0**	**141.2**	**315.8**	**26.5**	**29.9**	**37.6**	**6.0**	**3.6**	**4.7**	**158.5**	**174.7**	**358.1**
Unclassified[1]	8.0	7.8	6.0	0.5	3.1	1.0	1.0	1.4	1.0	9.5	12.3	8.0
Total payments	**134.0**	**149.0**	**321.8**	**27.0**	**33.0**	**38.6**	**7.0**	**5.0**	**5.7**	**168.0**	**187.0**	**366.1**

1. Includes some remittances of profits by unincorporated branches.

STATEMENT 31. Analysis of Dividend Payments[1] to the United States by Companies Controlled in the United States

(Millions of dollars)

Type of Business	1938	1946	1950
Manufacturing	69.1	80.3	202.5
Mining and smelting	27.3	23.9	45.6
Railways and public utilities	3.5	7.8	6.0
All other	5.3	8.0	25.3
	105.2	120.0	279.4

1. Excluding "unclassified" amounts appearing in statement 30.

Receipts of interest on Canadian holdings of foreign bonds have been mainly computed from estimates of holdings of bonds. New sources of information on holdings became available in 1939 when declarations of holdings of foreign securities were required of residents of Canada by the Foreign Exchange Control Board. An analysis of receipts of exchange which show a large part of the interest received from these bonds was used to supplement this source. Exchange receipts did not give an exact record of interest receipts as no analysis of sundry or small receipts was available.

Payments of interest to other countries are computed from the records of bonds originally sold abroad which are maintained in the Balance of Payments Section. These have been adjusted for retirements and refinancing. Important adjustments are also made, according to the chief groups of issues, to account for the effects of the trade in outstanding securities upon these records. Account is also taken of defaults and payments of arrears. Information on these is supplied by a special schedule when not available from public sources. Since these are estimates of payments rather than remittances, the figures include a small amount of income which will be held by nominees in Canada, or reinvested, or transferred irregularly. During exchange control the analysis of conversions of interest payments into United States dollars and sterling supplemented the above source. In periods when investors generally took advantage of the privilege of converting their income into foreign currencies, the exchange control was a useful current source.

At the present time the methods of arriving at interest receipts and payments correspond to the above description except that the supplementary information from exchange control is no longer available. Information built up in previous years on total holdings, and continuing data collected from many public sources on new issues and retirements are used to arrive at interest payments and receipts. Data collected by the Section on transactions in outstanding securities is also used in this connection.

Data from exchange control gave a fairly complete coverage of dividend receipts from direct investments abroad, as well as dividend receipts on portfolio holdings. Receipts on portfolio holdings which were below the reporting limits of the exchange control had to be estimated from an analysis of the total of such sundry receipts. Additional information on dividend receipts was prepared each year on the basis of dividends declared on stocks held by Canadians in 1939, when adjusted for the effects of changes in ownership. The latter figures also furnished a check on the completeness of the data derived directly from exchange control sources. Since the end of exchange control the annual questionnaire to direct investment companies includes a question on dividend receipts. For quarterly data on direct investment receipts, returns are available from a small number of large companies which dominate the totals. Receipts on portfolio holdings were estimated in 1952 on the basis of receipts in 1951 and the 1939 data on ownership of stocks by Canadians adjusted for a number of companies for changes in ownership, dividend rates, and the exchange rate. Sales and purchases of outstanding stocks are also used in this connection. More recently a new survey of Canadian holdings of United States stocks has been made with information obtained directly from many of the principal corporations in the United States.

The Bureau has maintained for many years a record of companies in which foreign ownership is significant. These companies report their dividend payments annually and the distribution of the payments to various countries or areas is calculated by information supplied currently or available from corporation records as to the distribution of the ownership of the company. These data are classified by industries, kinds of business, and nationality of control. During the period of exchange control another current source of dividend payments was available from monthly statistics of approvals of dividend transfers. The sources used at the present time include the annual questionnaire to all companies with a significant foreign ownership. This provides a comprehensive record, but for quarterly information a quarterly sample is used along with an analysis of the withholding tax applicable to certain payments to non-residents. Because there are large fluctuations in dividend payments by subsidiaries, a quarterly questionnaire is sent to the larger direct investment companies. In the case of quarterly dividends on portfolio holdings of Canadian stocks the distribution of ownership of stock as reported by Canadian companies or available from corporation records is analyzed in the case of large holdings; adjustment is made for dividend rates, exchange rates, and changes in outstanding securities. The various quarterly sources used supply about 75% of all dividend payments. To check the above estimates and to measure the remaining companies, the withholding tax on payments to non-residents is analyzed. By separating the dividend portions of this tax, and comparing it with the results of the methods described above, total dividend payments are estimated.

Freight and Shipping Transactions

This item includes international transportation services on freight and shipping account. The principal Canadian payments are those by Canadian importers for services performed by foreign ships and railways carrying imports to Canada, and the expenditures on account of Canadian ships in foreign ports. The principal receipts are the earnings of Canadian ships and railways carrying exports, and earnings of Canadian railways on intransit traffic in Canada on traffic between foreign points. Also included in this account are Canadian receipts from the operation of non-resident owned railways in Canada and earnings of Canadian ships operating between foreign ports. Transportation expenses of tourists are included in the travel account.

Since Canadian import valuations exclude the cost of freight and other services of carrying merchandise from the countries of purchase to the Canadian border or port of entry, these costs are included in the freight account when the services are supplied by non-residents. Similarly, because Canadian exports are generally valued at the point of shipment in Canada it is necessary to include in the freight account the earnings of Canadian railways and other transportation agencies from the carriage of Canadian exports to the Canadian border.

Most of the information required is obtained by questionnaires to railways and ship operators. This is supplemented in the case of some inland freight by information from customs export forms, and by tonnage statistics and other information from public sources. The exchange control data were not of use in covering most parts of this field because different amounts of freight were included in the exchange data on trade, depending on the terms of sale. Since merchandise trade in the balance of payments is valued on a consistent basis the method of dealing with transportation is to cover services rendered on traffic quite apart from the terms of sale which vary greatly.

Inland freight and express earnings received on exports via the United States border are obtained from information supplied annually by the Canadian railways. Freight earned by Canadian railways carrying exports from the point of shipment in Canada to the Canadian border is covered, whether on a collect or prepaid basis and whether paid in Canadian dollars or United States dollars. Inland freight on exports via Canadian ports is obtained from a separate item on the customs schedule used to record exports. Samples taken for the chief ports at different periods supply this information, supplemented by a special study of inland freight on wheat. Distribution by countries is made by an analysis of the value of exports to various countries. Receipts from intransit traffic include earnings of Canadian railways carrying goods through parts of Canada between two points in the United States. For some periods, reports on the earnings of this traffic were made to the exchange control. For other periods, earnings have been estimated on the basis of the tonnages involved and the rates applicable to the principal commodities. Canada receives certain income in addition to this from the intransit traffic across south western Ontario on United States owned or operated railways. This arises mainly from the outlays for operations in Canada. The receipts include wages to Canadian employees, rentals, taxes and so on. The companies concerned supply this information annually.

Payments on imports via rail are obtained from the Canadian railways. These include freight and express earned by railways in the United States and Mexico carrying goods to the Canadian border. Freight payments for imports such as coal which enter Canada mainly by water are obtained on the basis of statistics of tonnages and a study of freight rates from the places of origin in the United States to the lake and river ports. Freight and charges on imports by pipeline are reported by petroleum companies on a schedule covering the transportation of petroleum products. International transportation by truck and air which is still relatively small has been covered from an analysis of exchange payments and from data obtained from various Bureau sources.

Receipts and payments on shipping account are obtained from annual questionnaires to Canadian shipping operators and to the Canadian agencies acting for foreign vessels in Canadian ports. Selected items covering transactions affecting the balance of payments are included. These include on the receipts side the tonnage and earnings of Canadian ships carrying Canadian exports, earnings of Canadian ships carrying goods between foreign ports, expenditures in Canadian ports on account of foreign operated vessels, and revenue from the charter of Canadian vessels to foreign operators. Information is also gathered by the questionnaire on the tonnage and earnings of Canadian ships carrying inward cargoes to Canada. Although not used in the regularly published balance of payments statements this is used in calculating the c.i.f. value of Canadian imports which is required for special purposes. On the payments side of shipping transactions are payments to foreign operators of ships for freight on commodity imports to Canada. Payments to foreign owners of vessels covering the time charter of foreign ships is another large group of debits. Important parts of these two groups of payments arise from imports of petroleum and are reported on a special schedule designed to cover petroleum transportation. The other important group of payments is the expenditures of Canadian ships and crews in foreign ports.

Ocean freight paid to foreign vessels on Canadian imports entering via United States seaports is chiefly made up of transportation on petroleum which is reported on the special schedule sent to petroleum companies. Ocean freight on the other commodities from overseas via United States ocean ports is a comparatively small total as the volume of this traffic is not large.

The level of freight and shipping transactions is primarily determined by the volume of imports and exports, the level of transportation rates after exchange conversions, and the merchant shipping available to a country. Growing trade volume and successive increases in freight rates have raised the receipts and payments in the post-war period. In every year of the six year period Canada had a large deficit on freight and shipping account with the United States and large surpluses with each of the overseas areas or countries shown in the balance of payments. This pattern has been influenced basically by the predominent direction of trade and by the varying extent of the activities of Canada's merchant fleet.

An important factor raising receipts from overseas after the war was the increase in Canadian owned and operated ships as a result of construction during the war. The Canadian merchant fleet was at its peak at the beginning of the post-war period. Since then a number of vessels have been sold, particularly in 1948 and 1949. Later in 1950 when shipping competition became intensified following the currency devaluations, many of the remaining ships were transferred to United Kingdom registry by Canadian owners to be operated by British managers. Following that, the receipts in the balance of payments from that group of vessels are covered by the transfer of surplus funds to Canada by the British managers.

In the early post-war years large parts of revenues came from carrying Canadian exports to destinations throughout the world. Revenue on traffic to Commonwealth countries other than the United Kingdom and to continental European ports were important parts of the total. Declining exports to overseas countries after 1947 contributed to the falling off in revenues. In addition the recovery in the merchant marines of European countries also added to the competition, particularly after the currency devaluations. A greater volume of imports in foreign ships has made for larger payments by Canada. In 1950 receipts from the United States became substantial temporarily with the large movement of lumber from British Columbia to that country. By 1951, services to many countries had been curtailed or discontinued and the receipts from exports to the United Kingdom were a relatively larger source of receipts than had been the case in some earlier years. In addition, there were the surplus revenues received from British managers.

Receipts and payments with the United States chiefly arise from inland freight. These have risen with a growing volume of trade and higher freight rates. An exception is the year 1949 when a readjustment in economic activity occurred in the United States and when coal imports were much lower.

Inheritances and Migrants' Funds

These transactions are shown as a group because of their unilateral character. The item includes the transfer of the principal of estates, money in possession of migrants at the time of migration, and subsequent transfers by migrants. Transfers of income from estates are included in the "All other current transactions" item, while transfers of settlers' effects are excluded from the balance of payments. Changes in international ownership of securities or property arising from inheritances or migration are also excluded from the balance of payments when no sale is involved.

During the period of exchange control, both receipts and payments were covered by an analysis of exchange transfers and of applications for change of residential status. To arrive at area breakdowns and supplement the exchange data, analysis was

STATEMENT 32. Freight and Shipping Transactions Between Canada and Other Countries 1946-1952
(Millions of dollars)

	1946	1947	1948	1949	1950	1951	1952
Receipts by Canada							
1. Ocean shipping							
(1) Canadian ships gross earnings on exports	94	85	67	57	48	54	45
Charter receipts	17	13	12	8	6	12	38
Inter-port revenues	14	23	26	28	16	34	
Sub-total	**125**	**121**	**105**	**93**	**70**	**100**	**83**
(2) Expenditures of foreign ships in Canada	40	49	48	40	38	40	43
Gross shipping receipts	**165**	**170**	**153**	**133**	**108**	**140**	**126**
2. Inland freight on exports	116	120	149	140	142	177	201
3. Intransit revenues	27	27	29	26	28	28	25
4. Other receipts	3	5	5	4	6	6	8
Gross receipts	**311**	**322**	**336**	**303**	**284**	**351**	**360**
Payments by Canada							
1. Ocean shipping							
(1) Expenditures abroad of Canadian shipping companies	36	34	36	24	20	33	52
(2) Charter payments	4	18	15	20	18	27	
(3) Freight on imports via Canadian ports	30	38	46	50	66	76	70
Gross shipping payments	**70**	**90**	**97**	**94**	**104**	**136**	**122**
2. Inland Rail Freight in United States on imports							
Coal via vessel	28	39	45	32	53	49	48
Coal via rail	32	37	38	28	40	38	33
Other rail freight	66	88	81	80	80	97	115
Sub-total	126	164	164	140	173	184	196
3. Miscellaneous payments	23	24	18	19	24	34	40
Gross payments	**219**	**278**	**279**	**253**	**301**	**354**	**358**

made of Canadian statistics on volume of immigration, money in the possession of immigrants at the time of immigration, and statistics published by the United States Department of Justice on emigration from Canada to the United States. Since exchange data did not show separately the migrant transfers below certain reporting limits, the sundry transfers settled in bulk were analysed to classify migrants' funds and other items. The various sources described above were then combined, after allowance for duplication.

Present sources of information on estate transfers include the questionnaires to insurance companies and trust companies, and information on large transfers appearing in public sources. These give only a limited coverage, but help to indicate the trend of the totals built up during exchange control. Statistics on the volume of immigration and money transferred or to be transferred by immigrants are available for immigrants' receipts. For emigration, only volume figures are now available; the sources are the statistics of immigration published by other countries, as statistics on emigration from Canada are not compiled.

In the early post-war years, receipts from the United Kingdom dominated the total of receipts. A large and growing volume of immigration, combined with the easing of exchange controls on transfers of emigrants' funds and estates by the United Kingdom authorities, were responsible for the growth of these totals. The sharp declines in receipts from the United Kingdom in 1949 and 1950 were due to a reduction in the volume of immigration and the tightening of British restrictions on transfers by emigrants and the transfer of estates. Increased volume of immigration from the United Kingdom in 1951 and particularly 1952 have not sufficed to offset the effects of the restrictions on the total of funds transferred. Greater immigration from Europe and larger receipts from the United States have offset part of the decrease in receipts from the United Kingdom since the peak of 1948. It should be noted that the volume of migration cannot be correlated with the transfer of funds since the totals include transfers on an installment basis subsequent to migration.

On the payments side, most of these transfers are to the United States. Both the volume of emigration and exchange control have affected the level

STATEMENT 33. Transfers of Inheritances and Migrants' Funds Between Canada and All Countries
(Millions of dollars)

	Receipts		Payments		Net Transfers Inheritances and Migrants' Funds
	Inheritances	Immigrants' funds	Inheritances	Emigrants' funds	
1946	31	34	11	24	+ 30
1947	28	41	14	35	+ 20
1948	26	58	14	36	+ 34
1949	28	40	21	38	+ 9
1950	18	39	22	39	- 4
1951	17	60	25	45	+ 7
1952	17	64	27	67	- 13

of these transfers. In 1947 the amount which could be transferred from Canada by an emigrant during the first year was halved to $12,500. Relaxations in the restrictions were introduced in 1950, including the restoration of the former amount which might be transferred. With the end of exchange control no restrictions on the transfer of emigrants' funds remained. Although the number of emigrants has been much less than the number of immigrants in the post-war years, average transfers are much higher in the case of emigrants. The total transferred by emigrants has, accordingly, been close to total immigrants' funds in a few years.

Official Contributions

Official contributions by the Canadian Government from 1946 to 1948 represent contributions to UNRRA and Post-UNRRA, military relief, and a small carryover of wartime Mutual Aid. The contributions were used chiefly to finance exports from Canada, and are in addition to exports financed by Canadian government loans. These shipments are part of the item of merchandise exports on the credit side of the current account and are offset by the entry of debits. Exports financed in this way were almost solely to European countries including the U.S.S.R., and to China. This group of contributions was concentrated in the earlier years. Contributions to the International Refugee Organization, which first appeared in 1948, formed a significant part of the total until 1952; also included in recent years are contributions to Palestine and Greece, United Nations Korean Relief Agency, the United Nations International Childrens' Emergency Fund and other organizations. In 1952 the expenditures under the Colombo Plan dominate this item. Mutual Aid to NATO Countries is shown as a separate item each year from 1950 on.

Not included in official contributions or in the balance of payments are private shipments of goods overseas as gifts or for relief purposes. If these private contributions take the form of cash remittances, they are included in "all other current payments". Official contributions in kind are included in both current receipts and payments. Contributions in cash are included in payments, but are entered in receipts only to the extent that they are spent in Canada. The cash transfers are allocated to the "all other countries" group, while transfers in kind and cash contributions to international agencies are allocated to the recipient country or area.

These items are secured from the Public Accounts, from an analysis of government foreign currency accounts, from information supplied by various government departments, and from analysis of exchange transfers during exchange control.

Mutual Aid to NATO Countries

Included in this account are the contributions by the Canadian Government to North Atlantic Treaty countries under the Defence Appropriation Act. The contributions include shipments of equipment and supplies and the provision of air training to European aircrews. The shipments are excluded from the detailed export statistics published by the Bureau. They are included in total current receipts in order to show the total of goods and services supplied to other countries. Since they are unilateral transactions, however, in the form of a contribution, they are offset in current payments. They do not affect the current account balance, which is a measure of the net capital movement.

Mutual Aid to NATO Countries is not distributed by areas, nor is it shown on a quarterly basis. Timing problems and other practical difficulties in the distribution of air training have necessitated the measurement of this item on an annual basis. For security reasons data for all countries are combined.

The source of this item is information supplied by government departments and the Public Accounts. It should be noted that Canadian military expenditures in North Atlantic Treaty Countries are included elsewhere in the current account, for example in miscellaneous current payments and imports.

War Expenditures

The item of war expenditures, which is shown only in 1946, covers receipts and expenditures of the Canadian Government related to World War II. A variety of expenditures is involved, ranging from pay and allowances and other expenses of Canadian personnel overseas to a special payment of $21 million to the United States Treasury to cover the purchase of immoveable assets left in Canada and certain military equipment. Defence expenditures in later years are included in various parts of the current account. Payments for goods to be imported into Canada, for example, are included in the item of merchandise trade. Other expenses such as those connected with maintenance of Canadian Armed Services abroad and on infrastructures are in the government portion of all other current transactions. Mutual Aid to NATO Countries is shown separately.

All Other Current Transactions

This group has been the second largest contributor to net payments in the period under review. The deficit was as high as $174 million in 1951, but fell in 1952 as receipts in connection with defence activities rose. In 1950 and 1951 payments rose more rapidly than receipts, almost doubling the deficit on this account and contributing to the current deficits in those years.

The bulk of these transactions have been with the United States. In some specific cases, such as insurance transfers, transactions with the United Kingdom are also large. Personal remittances make up a substantial part of the payments figures for the non-sterling O.E.E.C. countries and the "all other countries" group.

A wealth of detail on many widely scattered transactions was made available for the first time by an analysis of foreign exchange material. Two main groups of data emerged from exchange control. The first group was composed of service items settled by individual exchange transactions. In many transactions the individual amounts paid or received were large enough to require an exchange form on which the purpose of the transaction was recorded. With these the chief problems were connected with the classification of transactions into meaningful groups. Many transactions of precisely the same types, however, were too small to require a separate exchange form and were, accordingly, reported in bulk as sundries. To eliminate from these sundries the transactions which were duplicated elsewhere in the current account, and to classify the remaining service element, samples were obtained on several occasions of the composition of this sundry group and studies of specific items were made from other sources. In spite of complications, such as those arising from changes at different times in the size of amounts exempt from the use of forms, the combination of large items and sundry transactions is believed to have been a generally reliable measure of the broad groups shown and reasonably accurate for the aggregates covered.

The second group of data emerged through analysis of the international business transactions of permit holders of the Foreign Exchange Control Board. These were firms which were allowed to employ foreign currency accounts and inter-company accounts. The analysis of the transactions involved could be made only on a broad functional basis because of their diversity even though they were under continual observation for administrative purposes. In using the data constant selectivity had to be applied for some types of transactions in order to ensure that they were correctly integrated with figures from other sources.

It should be clear from the above that the exchange data, while yielding information on many items which are widely dispersed in origin and therefore difficult to collect otherwise, permitted only a very broad classification in most cases. It is particularly difficult to subdivide business services satisfactorily because of their variable and heterogeneous character.

STATEMENT 34. Miscellaneous Current Transactions with All Countries 1946, 1951 and 1952

(Millions of dollars)

	1946		1951		1952	
	Receipts	Payments	Receipts	Payments	Receipts	Payments
Government transactions, n.o.p.[1]	14	19	61	46	120	71
Personal and institutional remittances	26	38	18	44	20	50
Miscellaneous income[2]	22	33	29	27	30	40
Business services and other transactions[3]	123	165	141	306	143	287
Total	**185**	**255**	**249**	**423**	**313**	**448**

1. Excluding official contributions in all three years.
2. Including transfers of branch profits by insurance companies and banks.
3. Including net Newfoundland transactions in 1946. In 1951 and 1952 Newfoundland transactions are in the appropriate parts of the current account.

The government transactions shown above are exclusive of payments for defence imports and exports, Mutual Aid to NATO countries, and official contributions. They include such items as pensions, diplomatic expenses, and military expenditures of a service nature. During the war the totals grew with the inclusion of such items as the expenditures of Canadian forces in the United Kingdom, Commonwealth Air training in Canada, and the construction by the United States of airfields, highways, and pipelines in Northern Canada. In 1946 there continued to be some expenditures arising out of the war, which are shown separately as items A-B8 in the Tables. Since the middle of 1950 transactions in connection with Canadian forces in Europe and Korea, and defence expenditures in the United States and by that country in Canada have once more raised the totals.

Data on government transaction have been obtained by an analysis of official accounts. Official receipts and expenditures in foreign currencies have been obtained from an analysis of the foreign currency accounts of the Canadian Government. This information has been supplemented by the use of the Public Accounts and by special arrangements with individual departments.

Personal and institutional remittances were also derived from an analysis of exchange transactions as reported by banks, express companies, and the Post Office. Since the end of exchange control, it has been difficult to measure these transactions because of the number of individuals and institutions involved. Transfers through the Post Office and some large institutional transfers are available however as partial indicators.

Miscellaneous income includes such items as rentals, interest on loans and mortgages, income from estates and trusts and branch profits of insurance companies and banks. Since the end of exchange control the sources for this have changed greatly. These now include questionnaires to insurance and trust companies and direct investment companies, analysis of taxes on non-resident income, studies of mortgage holdings and other sources.

Business services and other transactions form much the largest part of the miscellaneous account. These have grown rapidly, particularly on the payments side. A large part of the "other transactions" in this group consist of payments by railways for various services. Since the end of exchange control the Bureau's annual questionnaire to railways has served as the main source for the railway receipts and payments.

Another important item in the "other transactions" is insurance transactions including premiums, claims, and head office expenses. These items were derived from exchange control data until the end of 1951. Since then, questionnaires to insurance companies are being used generally similar to those employed in earlier periods before the exchange analysis was used. The largest part of this sector of the miscellaneous account however, is made up of business services, accounting for over four-fifths of the receipts and about three quarters of the payments in this sector in 1951. These services are very heterogeneous and cannot be classified readily, but cover such items as royalties, patents and copyrights, administration and management and professional services, advertising and publicity, services on imports, commissions, and similar items. A large part of the business services are associated with United States direct investments in Canada and Canadian direct investments abroad. The high rate of investment activity in recent years has led to particularly large payments to the United States for engineering and other services in connection with these development projects. High levels of economic activity and trade have also played a part.

The exchange control data on permit holders, large individual transactions, and samples of unclassified small transactions were the sources for business services until the end of 1951. At present an important source is the annual movement of funds questionnaire which includes questions on business services. This is sent to direct investment companies, and to some other large companies with international business. This is generally similar to questionnaires used before the exchange sources were available. It is supplemented by studies of some specific services, such as rental payments for moving pictures, where related data are available or the sources are not too widely scattered.

An important change has taken place in the treatment of transactions on Newfoundland account. From 1940 to Confederation, Newfoundland's net United States dollar receipts were included in the miscellaneous receipts from the United States. In effect, Newfoundland transactions were treated as part of the Canadian dollar area. Since Confederation, Newfoundland transactions with other countries have been included in the appropriate parts of the balance of payments along with other Canadian transactions.

Current Account Balance

The current account balance is a measure of the net movement of capital. Total current account receipts reflect all goods and services supplied to non-residents. The current account balance, however, does not reflect exports of goods and services financed by official contributions, or Mutual Aid to NATO Countries, because of the treatment of these items as described above. Both total receipts and the current account balance include goods and services financed by loans from the Canadian Government.

An exception to the above principle is that in 1951 and 1952 government payments on defence contracts are included in the adjusted merchandise items rather than the physical movements of military goods. This treatment has a relatively small effect on the total current account figures, but does have an important effect on the adjusted trade surplus and the current account balance in 1951 and 1952. It should also be noted that the current balance does not show the net of all capital supplied to or by Canada, since retained earnings are excluded from the balance of payments.

International Capital Movements

The capital account records transactions affecting Canada's international creditor—debtor position. These transactions are the financial counterpart of the international provision of goods and services measured in the current account, and the two accounts accordingly balance out.

The nature and characteristics of capital movements between Canada and other countries have been described in some detail in Chapter 6. In the material which follows will be found some comment on the scope and sources of the statistics used.

Direct Investment In Canada

This item represents the net additional resources provided to Canadian enterprises through actual transfers of funds, merchandise or services from a foreign owner or controlling interest. Generally speaking it does not include such transactions as the purchase of bonds and debentures by institutions and companies not playing a direct management role, although exceptions have been made in the case of pipelines and some other enterprises. It does not include undistributed profits contributing to the growth of the owner's equity in the enterprise. It should be noted that the term "direct investment" as used in the capital account differs from that used in statistics of international indebtedness. In the latter series direct investment represents the value of all bonds and equity securities held by all residents of the country in which control lies.

During the period of exchange control this item of capital movements was derived from tabulated exchange transactions to which were added imports of commodities and services representing capital investment. Since that time it has been compiled through the use of questionnaires sent to the Canadian companies or branches concerned.

Direct Investment Abroad

This item is the counterpart of the preceding item and is derived from similar sources.

Trade in Outstanding Canadian Securities

This item was derived from tabulated exchange transactions, adjusted for trading of Canadian and foreign securities reflected in reports of security dealers to the Bureau. Since the end of exchange control the item has been derived from monthly reports of members of the Canadian Bankers' Association, the Investment Dealers' Association of Canada, Canadian stock exchanges, and others. These figures have been adjusted to include transactions through the Bank of Canada and other channels not covered in the monthly reports.

New Issues of Canadian Securities

This item represents the net proceeds arising from new issues of Canadian securities sold to non-residents. It was derived from tabulated exchange transactions adjusted to include refunding operations abroad. Since the end of exchange control the data have been compiled from published announcements, financial services, corporation records, and questionnaires and correspondence.

Retirements of Canadian Securities

This item was derived from tabulated exchange transactions adjusted to include refunding operations abroad. Since the end of exchange control the data have been derived from estimates of non-resident ownership of called or matured issues, supplemented by data of specific issues compiled by Canadian banks.

Trade in Outstanding Foreign Securities

This item was derived in the same manner as trade in outstanding Canadian securities.

Retirements of Foreign Securities

This item was derived in the same manner as retirements of Canadian securities.

Loans and Advances by Government of Canada and Subscriptions to IMF and IBRD

These transactions of the Government of Canada are obtained from official sources.

Drawings on loans and advances by the Government of Canada includes, in the case of non-sterling area countries, advances under War Appropriations Acts (interim advances) net of repayments, together with drawings under Export Credits Insurance Act loans.

Change in Canadian Dollar Holdings of Foreigners

This item reflects the change in Canadian dollar bank deposits and short-term investments of non-residents other than the International Monetary Fund and International Bank for Reconstruction and Development. It is derived from a census of Canadian dollar balances of non-residents compiled by Canadian banks adjusted to reflect other short-term investments.

Refunding Loan Proceeds set aside for Retirements

This item represents the balance of a 1949 refunding loan set aside for retirements in 1950. Both the use of the balance and the related retirements in 1950 have been recorded at the rate of exchange in effect at the time of refunding, viz $1.00 U.S. = $1.00 Canadian. The item was obtained from official sources.

Other Capital Movements

This item reflects changes in loans and advances outstanding, in intercompany accounts and accounts receivable and payable, and in private, commercial and banking balances and short-term investments abroad. It includes the net change in short-term holdings of Canadian funds by the International Monetary Fund and the International Bank for Reconstruction and Development, and also the residual item of the balance of payments. This residual represents the amount by which the current account balance differed from recorded capital movements. For reasons outlined in Chapter 6 this balancing item is allocated to other capital movements. It was possible under conditions of exchange control to calculate directly from banking and other sources multilateral settlements for the sterling area. This permitted the calculation of residuals on account of all countries and of the sterling area. The non-sterling area residual was then applied to the United States account. In 1952 the global residual in the balance of payments was applied arbitrarily between the United States and the United Kingdom on the basis of previous behaviour of the item and study of the background influences. Further discussion of the item will be found in Chapter 6.

Balance settled by Exchange Transfers

During the period of exchange control, multilateral settlements were calculated directly for the sterling area from banking and exchange control sources. Figures for "other O.E.E.C." and "other" countries were residuals in those bilateral accounts. The sum of these was then applied against the United States account. In 1952 after allocation of the global residual item, the bilateral residuals were taken as the measure of multilateral settlements. Further discussion of the item will be found in Chapter 6.

Change in Official Holdings of Gold and Foreign Exchange

This item represents the Canadian dollar value at the current rate of exchange of changes in the official gold and foreign exchange holdings of the Exchange Fund, other Government of Canada accounts, and the Bank of Canada.

Statistics of International Indebtedness

Canadian statistics of international indebtedness are compiled mainly from an extensive set of records covering all companies in which there is significant ownership by non-residents, supplemented by other sources. These records are based primarily on information collected on special questionnaires, supplemented by other published material.

The book values which are used in the records are generally indicative of the capital invested and the retention of net earnings by the companies concerned. While there are other possible bases of valuation, it appears that book values are most useful. A series based on the nominal value of issued capital would not, for example, show the tremendous internal financing through the retention of corporate earnings; on the other hand it would overstate the investment in many petroleum and mining companies which have issued stock to realize only a small fraction of the nominal or par value. A series based on market values would present difficulties because of private or closely held companies for which quotations are not available and would in any event fluctuate violently with investors' expectations. A value based on the capitalization of yields would not reflect on a current basis the great surge of expansion, and would vary over the trade cycle with the proportion of the capacity in use and general profit conditions.

The book value figures used in the tables measure the net assets which reflect both:

1. the shareholders' equity as valued in the capital and surplus accounts of the companies concerned, and
2. long-term indebtedness (outstanding for a year or longer) at nominal values converted into Canadian dollars, where necessary, at the pre-war pars of exchange.

In the case of Canadian enterprises there has been deducted the proportionate interest of the shareholders in operations outside Canada, in order that figures of non-resident owned investment may cover only investment in the Canadian economy. As figures of Canadian investment abroad do not include a deduction in respect of any foreign ownership of a Canadian parent company, it is necessary to add back to the liability data the equity of non-residents in operations outside Canada of Canadian companies before striking a balance of net indebtedness.

It will be noted that book value series reflect the net growth of undistributed earnings and such other revaluation entries as the writing off of exploration and development expense which is a particularly important factor in the petroleum industry. These factors are not reflected in transactions recorded in the capital account of the balance of payments which cover only actual international transfers of funds, merchandise, or services altering Canadian assets or liabilities abroad. Moreover either the offering of additional stock or international portfolio trading at prices differing from the underlying book value may give rise to changes in the indebtedness data disproportionate to the capital movement itself.

In the indebtedness data, in contrast to the capital account, the term direct investment is in general applied to holdings of equity capital, and of funded debt and other long-term indebtedness, by all residents of a country other than Canada in which 50% or more of the voting stock is owned. Where affiliations and important minority holdings are believed to constitute control, the enterprise is similarly treated. Other holdings are regarded as portfolio investments. The most typical instances of foreign direct investments in Canada are the branches and subsidiaries of foreign companies operating in this country. It should be noted that the investment data exclude commercial and other short term indebtedness.

In addition to the investments covered in the corporation records described above there are non-resident investments in Canadian government and municipal bonds. As most of these are bearer securities it is not possible to obtain as much information from the debtor as is the case with corporation securities. Generally the records of issues of government bonds held abroad which are maintained are based on the bonds originally sold outside of Canada. These are the basis of statistics of investments in these securities after adjustment is made for retirements and subsequent changes in ownership through trading in the bonds and other factors. The latter adjustments are usually applied to groups of bonds such as Government of Canada, direct and indirect, provincials and municipals. Information on transactions in outstanding securities is for the most part available by groups of securities rather than individual issues. The valuation basis employed in the case of non-resident holdings of Canadian bonds and debentures is the par value with liabilities in foreign currency being converted into Canadian dollars at the original par of exchange. In most cases these values are more representative of the capital originally invested and the series is not disturbed by changes in market values, or in currency rates.

Information on direct investments abroad by Canadian businesses is obtained from the companies or other residents concerned. These investments also are reported on a book value basis as shown in the accounts of the issuing companies abroad and are converted generally at prevailing rates of exchange.

Data on Canadian portfolio holdings of foreign securities have been built up from a variety of sources. The most comprehensive record resulted from the declarations of holdings by residents of Canada to the Foreign Exchange Control Board. Changes since then have been based on data on subsequent transactions and alterations in book values. A new survey of holdings was taken in 1952 by corresponding with some of the larger corporations in the United States.

Changes in the book value of investment cannot be related directly to statistical series on current physical investment published in the National Accounts. Book values reflect all assets represented by long-term indebtedness and the shareholders' equity (as valued in the accounts of the companies concerned). They consequently include holdings of land and mineral rights and of working capital. With the exception of net inventory accumulation these particular assets do not represent gross capital formation in the Canadian economy. On the other hand physical investment may be financed through reserves for depreciation, depletion, or amortization, or through other charges against income, and may not be reflected in book values.

TABLE I. Cumulative Totals of the Canadian Balance of International Payments with Principal Countries and Areas 1946-1952 Inclusive

(Millions of dollars)

			All Countries	United States	United Kingdom	Other Sterling Area	Other O.E.E.C. Countries	All Other Countries
A		**Current Receipts:**						
	1	Merchandise exports (adjusted)	22,560	11,755	4,611	1,987	2,234	1,973
	2	Mutual Aid to NATO Countries	399	—	—	—	—	—
	3	Gold production available for export	916	916	—	—	—	—
	4	Travel expenditures	1,861	1,767	55	14	20	5
	5	Interest and dividends	639	354	98	35	65	87
	6	Freight and shipping	2,267	946	662	198	250	211
	7	Inheritances and immigrants' funds	501	174	226	11	72	18
	8	War services	24	6	18	—	—	—
	11	All other current receipts	1,649	1,223	284	24	45	73
	12	**Total Current Receipts**	**30,816**	**17,141**	**5,954**	**2,269**	**2,686**	**2,367**
B		**Current Payments:**						
	1	Merchandise imports (adjusted)	20,723	14,773	2,073	1,407	691	1,779
	4	Travel expenditures	1,471	1,293	105	27	39	7
	5	Interest and dividends	2,702	2,253	379	4	52	14
	6	Freight and shipping	2,042	1,600	249	35	108	50
	7	Inheritances and emigrants' fund	418	328	60	6	14	10
	8	War expenditures	127	23	73	—	31	—
	9	Official contributions	194	—	—	20	58	116
	10	Mutual Aid to NATO Countries	399	—	—	—	—	—
	11	All other current payments	2,400	1,810	326	32	92	140
	12	**Total Current Payments**	**30,476**	**22,080**	**3,265**	**1,531**	**1,085**	**2,116**
		Balance on Merchandise Trade	+ 1,837	- 3,018	+ 2,538	+ 580	+ 1,543	+ 194
		Balance on Other Current Transactions, excluding B9	- 1,303	- 1,921	+ 151	+ 178	+ 116	+ 173
		Official Contributions	- 194	—	—	- 20	- 58	- 116
C		**Current Account Balance**	**+ 340**	**- 4,939**	**+ 2,689**	**+ 738**	**+ 1,601**	**+ 251**
D		**Capital Account:**						
		Direct Investment:						
	1	Direct investment in Canada	+ 1,129	+ 1,017	+ 91		+ 21	—
	2	Direct investment abroad	- 28	+ 25	- 34		- 11	- 8
		Canadian Securities:						
	3	Trade in outstanding issues	+ 464	+ 545	- 133		+ 43	+ 9
	4	New issues	+ 1,508	+ 1,499	+ 8		+ 1	—
	5	Retirements	- 1,721	- 1,502	- 195		- 24	—
		Foreign Securities:						
	6	Trade in outstanding issues	+ 136	+ 122	+ 12		—	+ 2
	7	New issues	- 39	- 24	—		—	- 15
	8	Retirements	+ 35	+ 20	+ 10		—	+ 5
		Loans and Advances by Government of Canada:						
	9	Drawings	- 1,627	—	- 1,185		- 373	- 69
	10	Repayment of post-war loans	+ 121	—	+ 28		+ 74	+ 19
	11	Repayment of war loans	+ 380	—	+ 370		—	+ 10
	12	British Financial Settlement and Interim Advances (net)	+ 38	—	+ 38		—	—
	13	Canadian gold and U.S. dollar subscription to International Monetary Fund and International Bank for Reconstruction and Development	- 82	- 82	—		—	—
	14	Change in Canadian dollar holdings of foreigners	+ 38	+ 2	+ 35		- 4	+ 5
	17	Other capital movements	- 266	- 165	+ 3		- 19	- 85
E		**Net Capital Movement** exclusive of change in official holdings of gold, U.S. dollars and sterling	**+ 86**	**+ 1,457**	**- 952**		**- 292**	**- 127**
F		**Balance to be Settled (C+E)**	**+ 426**	**- 3,482**	**+ 2,475**		**+ 1,309**	**+ 124**
G		**Balance settled by exchange transfers**	—	**+ 3,931**	**- 2,498**		**- 1,309**	**- 124**
H		**Change in Official Holdings:**						
	1	Gold and U.S. dollars	+ 449	+ 449	—		—	—
	2	Sterling	- 23	—	- 23		—	—

Notes. Other Sterling Area includes the countries of the Commonwealth, United Kingdom dependencies, and Ireland, Iraq, and Iceland. In addition, Burma became a member of the sterling area in 1948, Jordan in 1950, and Libya in 1952. Other O.E.E.C. countries include all the countries participating in the Organization for European Economic Co-operation which are not also members of the sterling area, namely Austria, Belgium, Luxembourg, Denmark, France, West Germany, Greece, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland and Turkey, and their overseas territories. These are the non-sterling area countries which participated in the European Recovery Programme. The figures for 1946 are given for the sake of comparability. The All Other Countries group is made up primarily of Latin America, non-sterling area countries in Asia, and continental European countries other than those in the O.E.E.C. group.

A 2, B 10 Mutual Aid to NATO Countries is not included in figures for countries or areas, but is included in total receipts and total payments with all countries. It is not included in the quarterly estimates.

D A minus sign indicates an outflow of capital from Canada. Some capital transactions with other sterling area and with other overseas countries are included under the United Kingdom and United States respectively. All other countries include the I.M.F. and I.B.R.D.

D 1, 2 Exclusive of undistributed profits.

9 Includes, in case of non-sterling area countries, advances under War Appropriations Acts (interim advances) net of repayments, together with drawings under Export Credits Insurance Act loans.

13 Excludes holdings of International Monetary Fund and International Bank for Reconstruction and Development (D17).

17 Also includes balancing item representing unrecorded capital movements and errors and omissions.

H 2 Excludes changes in accounts established by special arrangement with the United Kingdom under which sterling was acquired for codfish sold in European markets and was available for the repurchase of certain funded obligations (entries included under D5, D17, and G).

TABLE II. Comparison of International Transactions with Principal Countries and Areas by Years 1946-1952

(Millions of dollars)

A. BETWEEN CANADA AND ALL COUNTRIES

		1946	1947	1948	1949	1950	1951	1952	Total 1946-52
A	**Current Receipts:**								
1	Merchandise exports (adjusted)	2,393	2,723	3,030	2,989	3,139	3,950	4,336	22,560
2	Mutual Aid to NATO Countries	—	—	—	—	57	145	197	399
3	Gold production available for export	96	99	119	139	163	150	150	916
4	Travel expenditures	221	251	279	285	275	274	276	1,861
5	Interest and dividends	70	64	70	83	91	115	146	639
6	Freight and shipping	311	322	336	303	284	351	360	2,267
7	Inheritances and immigrants' funds	65	69	84	68	57	77	81	501
8	War services	24	—	—	—	—	—	—	24
11	All other current receipts	185	220	229	222	231	249	313	1,649
12	**Total Current Receipts**	**3,365**	**3,748**	**4,147**	**4,089**	**4,297**	**5,311**	**5,859**	**30,816**
B	**Current Payments:**								
1	Merchandise imports (adjusted)	1,822	2,535	2,598	2,696	3,129	4,097	3,846	20,723
4	Travel expenditures	135	167	134	193	226	280	336	1,471
5	Interest and dividends	312	337	325	390	475	450	413	2,702
6	Freight and shipping	219	278	279	253	301	354	358	2,042
7	Inheritances and emigrants' funds	35	49	50	59	61	70	94	418
8	War expenditures	127	—	—	—	—	—	—	127
9	Official contributions	97	38	23	6	5	9	16	194
10	Mutual Aid to NATO Countries	—	—	—	—	57	145	197	399
11	All other current payments	255	295	287	315	377	423	448	2,400
12	**Total Current Payments**	**3,002**	**3,699**	**3,696**	**3,912**	**4,631**	**5,828**	**5,708**	**30,476**
	Balance on Merchandise Trade	+571	+188	+432	+293	+ 10	- 147	+490	+1,837
	Balance on Other Transactions, excluding B9	- 111	- 101	+ 42	- 110	- 339	- 361	-323	-1,303
	Official Contributions	- 97	- 38	- 23	- 6	- 5	- 9	- 16	- 194
C	**Current Account Balance**	**+363**	**+ 49**	**+451**	**+177**	**- 334**	**- 517**	**+151**	**+ 340**
D	**Capital Account:**								
	Direct Investment								
1	Direct investment in Canada	+ 40	+ 61	+ 71	+ 94	+ 222	+309	+332	+1,129
2	Direct investment abroad	- 14	+ 6	+ 15	+ 13	+ 36	- 20	- 64	- 28
	Canadian Securities								
3	Trade in outstanding issues	+194	- 13	+ 3	+ 8	+ 329	+ 38	- 95	+ 464
4	New issues	+218	+ 95	+150	+105	+ 210	+411	+319	+1,508
5	Retirements	- 539	-364	- 114	-147	- 284	- 184	- 89	- 1,721
	Foreigh Securities								
6	Trade in outstanding issues	+ 25	+ 1	- 7	+ 22	+ 70	+ 15	+ 10	+ 136
7	New issues	- 4	- 3	- 3	- 4	- 2	- 3	- 20	- 39
8	Retirements	+ 13	+ 7	+ 2	+ 2	+ 8	+ 3	—	+ 35
	Loans and Advances by Government of Canada								
9	Drawings	- 750	- 565	- 142	- 120	- 50	—	—	- 1,627
10	Repayment of post-war loans	—	+ 2	+ 16	+ 13	+ 23	+ 34	+ 33	+ 121
11	Repayment of war loans	+ 94	+109	+ 64	+ 5	+ 51	+ 34	+ 23	+ 380
12	British Financial Settlement and Interim Advances (net)	+ 38	—	—	—	—	—	—	+ 38
13	Canadian gold and U.S. dollar subscription to International Monetary Fund and International Bank for Reconstruction and Development	- 8	- 74	—	—	—	—	—	- 82
14	Change in Canadian dollar holdings of foreigners	+ 70	- 26	- 21	+ 40	+ 233	192	- 66	+ 38
15	Refunding loan proceeds set aside for retirements	—	—	—	- 18	+ 18	—	—	—
17	Other capital movements	- 7	- 27	+ 7	- 62	+ 192	+ 128	- 497	- 266
E	**Net Capital Movement** exclusive of change in official holdings of gold, U.S. dollars and sterling	**- 630**	**- 791**	**+ 41**	**- 49**	**+ 1,056**	**+ 573**	**- 114**	**+ 86**
F	**Balance to be Settled (C + E = II)**	**- 267**	**- 742**	**+492**	**+128**	**+ 722**	**+ 56**	**+ 37**	**+ 426**
II	**Change in Official Holdings**								
1	Gold and U.S. dollars	- 251	- 743	+496	+134	+ 694	+ 39	+ 80	+ 449
2	Sterling	- 16	+ 1	- 4	- 6	+ 28	+ 17	- 43	- 23

A 1 The totals for the United States in 1946 and 1947 include receipts by War Supplies, Limited of $55 million and $13 million respectively. These arose from the sale of war material and equipment to the United States Government. About two-thirds of the $55 million in 1946 was in the first half of the year.

AB 8 Military expenditures after 1946 are in the trade figures, in Mutual Aid to NATO Countries, and in all other current receipts and payments.

D 15 Both this item and the related retirement (D5) have been recorded at the rate of exchange in effect at the time of refunding, viz. $1.00 U.S. = $1.00 Canadian.

A-H For other notes applicable to this Table see notes to Table I.

TABLE II. Comparison of International Transactions with Principal Countries and Areas by Years 1946-1952

(Millions of dollars)

B. BETWEEN CANADA AND THE UNITED STATES

		1946	1947	1948	1949	1950	1951	1952	Total 1946-52
A	**Current Receipts:**								
1	Merchandise exports (adjusted)	948	1,061	1,508	1,521	2,046	2,326	2,345	11,755
3	Gold production available for export	96	99	119	139	163	150	150	916
4	Travel expenditures	216	241	267	267	260	258	258	1,767
5	Interest and dividends	47	36	37	40	50	57	87	354
6	Freight and shipping	101	104	131	126	157	164	163	946
7	Inheritances and immigrants' funds	19	18	18	18	31	32	38	174
8	War services	6	—	—	—	—	—	—	6
11	All other current receipts	134	153	167	158	170	191	250	1,223
12	**Total Current Receipts**	**1,567**	**1,712**	**2,247**	**2,269**	**2,877**	**3,178**	**3,291**	**17,141**
B	**Current Payments:**								
1	Merchandise imports (adjusted)	1,378	1,951	1,797	1,899	2,093	2,842	2,813	14,773
4	Travel expenditures	130	152	113	165	193	246	294	1,293
5	Interest and dividends	250	274	267	325	411	382	344	2,253
6	Freight and shipping	169	221	213	193	240	276	288	1,600
7	Inheritances and emigrants' funds	31	37	37	44	47	55	77	328
8	War expenditures	23	—	—	—	—	—	—	23
11	All other current payments	193	211	213	244	293	328	328	1,810
12	**Total Current Payments**	**2,174**	**2,846**	**2,640**	**2,870**	**3,277**	**4,129**	**4,144**	**22,080**
	Balance on Merchandise Trade	- 430	- 890	- 289	- 378	- 47	- 516	- 468	- 3,018
	Balance on Other Transactions	- 177	- 244	- 104	- 223	- 353	- 435	- 385	- 1,921
C	**Current Account Balance**	**- 607**	**- 1,134**	**- 393**	**- 601**	**- 400**	**- 951**	**- 853**	**- 4,939**
D	**Capital Account:**								
	Direct Investment								
1	Direct investment in Canada	+ 38	+ 58	+ 61	+ 84	+ 200	+ 270	+ 306	+ 1,017
2	Direct investment abroad	- 7	+ 6	+ 15	+ 16	+ 41	- 4	- 42	+ 25
	Canadian Securities								
	Trade in outstanding issues	+ 241	- 3	+ 5	+ 25	+ 362	+ 20	- 105	+ 545
4	New issues	+ 218	+ 95	+ 150	+ 105	+ 210	+ 404	+ 317	+ 1,499
5	Retirements	- 460	- 313	- 96	- 136	- 263	- 159	- 75	- 1,502
	Foreign Securities								
6	Trade in outstanding issues	+ 21	- 2	- 9	+ 19	+ 68	+ 18	+ 7	+ 122
7	New issues	- 4	- 3	- 3	- 4	- 2	- 3	- 5	- 24
8	Retirements	+ 6	+ 3	+ 1	+ 1	+ 7	+ 2	—	+ 20
13	Canadian gold and U.S. dollar subscriptions to International Monetary Fund and International Bank for Reconstruction and Development	- 8	- 74	—	—	—	—	—	- 82
14	Change in Canadian dollar holdings of foreigners	+ 27	- 3	- 14	- 8	+ 89	- 53	- 36	+ 2
15	Refunding loan proceeds set aside for retirements	—	—	—	- 18	+ 18	—	—	—
17	Other capital movements	+ 8	- 2	+ 1	- 20	+ 231	+ 59	- 442	- 165
E	**Net Capital Movement** exclusive of change in official holdings of gold and U.S. dollars	**+ 80**	**- 238**	**+ 111**	**+ 64**	**+ 961**	**+ 554**	**- 75**	**+ 1,457**
F	**Balance to be Settled (C+E)**	**- 527**	**- 1,372**	**- 282**	**- 537**	**+ 561**	**- 397**	**- 928**	**- 3,482**
G	**Balance Settled by Exchange Transfers**	**+ 276**	**+ 629**	**+ 778**	**+ 671**	**+ 133**	**+ 436**	**+ 1,008**	**+ 3,931**
H	**Change in Official Holdings of Gold and U.S. Dollars (F+G)**	**- 251**	**- 743**	**+ 496**	**+ 134**	**+ 694**	**+ 39**	**+ 80**	**+ 449**

TABLE II. Comparison of International Transactions with Principal Countries and Areas by Years 1946-1952

(Millions of dollars)

	—	1946	1947	1948	1949	1950	1951	1952	Total 1946-52
	C. BETWEEN CANADA AND THE UNITED KINGDOM								
A	**Current Receipts**:								
1	Merchandise exports (adjusted)	626	749	703	701	469	636	727	4,611
4	Travel expenditures	3	7	9	11	7	8	10	55
5	Interest and dividends	7	8	9	9	6	30	29	98
6	Freight and shipping	107	114	105	89	81	91	95	662
7	Inheritances and immigrants' funds	45	47	52	38	12	14	18	226
8	War services	18	—	—	—	—	—	—	18
11	All other current receipts	34	42	44	49	35	42	38	284
12	**Total Current Receipts**	**840**	**967**	**922**	**897**	**590**	**821**	**917**	**5,954**
B	**Current Payments**:								
1	Merchandise imports (adjusted)	138	182	287	300	399	417	350	2,073
4	Travel expenditures	3	9	12	17	19	20	25	105
5	Interest and dividends	54	53	50	55	54	57	56	379
6	Freight and shipping	32	32	34	32	36	43	40	249
7	Inheritances and emigrants' funds	3	8	7	10	10	10	12	60
8	War expenditures	73	—	—	—	—	—	—	73
11	All other current payments	37	50	46	37	48	51	57	326
12	**Total Current Payments**	**340**	**334**	**436**	**451**	**566**	**598**	**540**	**3,265**
	Balance on Merchandise Trade	+ 488	+ 567	+ 416	+ 401	+ 70	+ 219	+ 377	+ 2,538
	Balance on Other Transactions	+ 12	+ 66	+ 70	+ 45	- 46	+ 4	—	+ 151
C	**Current Account Balance**	**+ 500**	**+ 633**	**+ 486**	**+ 446**	**+ 24**	**+ 223**	**+ 377**	**+ 2,689**

D. BETWEEN CANADA AND THE REST OF THE STERLING AREA

		1946	1947	1948	1949	1950	1951	1952	Total 1946-52
A	**Current Receipts**:								
1	Merchandise exports (adjusted)	269	366	293	300	201	265	293	1,987
4	Travel expenditures	1	1	1	2	3	3	3	14
5	Interest and dividends	2	6	4	4	8	4	7	35
6	Freight and shipping	34	39	34	30	18	23	20	198
7	Inheritances and immigrants' funds	—	1	2	1	1	3	3	11
11	All other current receipts	3	3	4	3	3	3	5	24
12	**Total Current Receipts**	**309**	**416**	**338**	**340**	**234**	**301**	**331**	**2,269**
B	**Current Payments**:								
1	Merchandise imports (adjusted)	129	160	192	187	244	310	185	1,407
4	Travel expenditures	1	3	4	4	5	5	5	27
5	Interest and dividends	1	1	1	1	—	—	—	4
6	Freight and shipping	6	5	7	5	3	5	4	35
7	Inheritances and emigrants' funds	—	—	1	2	1	1	1	6
9	Official contributions	5	—	—	—	—	—	15	20
11	All other current payments	3	5	4	6	4	4	6	32
12	**Total Current Payments**	**145**	**174**	**209**	**205**	**257**	**325**	**216**	**1,531**
	Balance on Merchandise Trade	+ 140	+ 206	+ 101	+ 113	- 43	- 45	+ 108	+ 580
	Balance on Other Transactions, Excluding B9	+ 29	+ 36	+ 28	+ 22	+ 20	+ 21	+ 22	+ 178
	Official Contributions	- 5	—	—	—	—	—	- 15	- 20
C	**Current Account Balance**	**+ 164**	**+ 242**	**+ 129**	**+ 135**	**23**	**- 24**	**+ 115**	**+ 738**

TABLE II. Comparison of International Transactions with Principal Countries and Areas by Years 1946-1952

(Millions of dollars)

E. BETWEEN CANADA AND THE UNITED KINGDOM AND OTHER STERLING AREA COUNTRIES

			1946	1947	1948	1949	1950	1951	1952	Total 1946-52
A		**Current Receipts**:								
	1	Merchandise exports (adjusted)	895	1,115	996	1,001	670	901	1,020	6,598
	4	Travel expenditures	4	8	10	13	10	11	13	69
	5	Interest and dividends	9	14	13	13	14	34	36	133
	6	Freight and shipping	141	153	139	119	79	114	115	860
	7	Inheritances and immigrants' funds	45	48	54	39	13	17	21	237
	8	War services	18	—	—	—	—	—	—	18
	11	All other current receipts	37	45	48	52	38	45	43	308
	12	**Total Current Receipts**	**1,149**	**1,383**	**1,260**	**1,237**	**824**	**1,122**	**1,248**	**8,223**
B		**Current Payments**:								
	1	Merchandise imports (adjusted)	267	342	479	487	643	727	535	3,480
	4	Travel expenditures	4	12	16	21	24	25	30	132
	5	Interest and dividends	55	54	51	56	54	57	56	383
	6	Freight and shipping	38	37	41	37	39	48	44	284
	7	Inheritances and emigrants' funds	3	8	8	12	11	11	13	66
	8	War expenditures	73	—	—	—	—	—	—	73
	9	Official contributions	5	—	—	—	—	—	15	20
	11	All other current payments	40	55	50	43	52	55	63	358
	12	**Total Current Payments**	**485**	**508**	**645**	**656**	**823**	**923**	**756**	**4,796**
		Balance on Merchandise Trade	+628	+773	+517	+514	+ 27	+174	+485	+3,118
		Balance on Other Transactions, excluding B9	+ 41	+102	+ 98	+ 67	- 26	+ 25	+ 22	+ 329
		Official Contributions	- 5	—	—	—	—	—	- 15	- 20
C		**Current Account Balance**	**+664**	**+875**	**+615**	**+581**	**+ 1**	**+199**	**+492**	**+3,427**
D		**Capital Account**:								
		Direct Investment:								
	1	Direct investment in Canada	+ 2	+ 3	+ 10	+ 13	+ 19	+ 30	+ 14	+ 91
		Direct investment abroad	- 10	- 3	- 2	- 3	- 4	- 6	- 6	- 34
		Canadian Securities:								
	3	Trade in outstanding issues	- 48	- 11	- 4	- 16	- 35	- 16	- 3	- 133
	4	New issues	—	—	—	—	—	+ 7	+ 1	+ 8
	5	Retirements	- 77	- 42	- 14	- 10	- 19	- 24	- 9	- 195
		Foreign Securities:								
	6	Trade in outstanding issues	+ 1	+ 3	+ 2	+ 2	+ 1	—	+ 3	+ 12
	8	Retirements	+ 5	+ 1	+ 1	+ 1	+ 1	+ 1	—	+ 10
		Loans and Advances by Government of Canada:								
	9	Drawings	-540	-423	- 52	-120	- 50	—	—	-1,185
	10	Repayment of post-war loans	—	—	—	—	—	+ 14	+ 14	+ 28
	11	Repayment of war loans	+ 89	+104	+ 64	+ 5	+ 51	+ 34	+ 23	+ 370
	12	British Financial Settlement and Interim Advances (net)	+ 38	—	—	—	—	—	—	+ 38
	14	Change in Canadian dollar holdings of foreigners	+ 32	- 4	- 20	+ 62	+ 116	- 128	- 23	+ 35
	17	Other capital movements	+ 1	+ 16	+ 18	- 27	- 39	+ 82	- 48	+ 3
E		**Net Capital Movement** exclusive of change in official holdings of sterling	**-507**	**-356**	**+ 3**	**- 93**	**+ 41**	**- 6**	**- 34**	**- 952**
F		**Balance to be Settled (C+E)**	**+157**	**+519**	**+618**	**+488**	**+ 42**	**+193**	**+458**	**+2,475**
G		**Balance Settled by Exchange Transfers**:								
	1	Official settlements	- 150	- 505	- 597	- 466	+ 4	- 165	- 501	- 2,498
	2	Private settlements	- 23	- 13	- 25	- 28	- 18	- 11		
H	2	**Change in Official Holdings of Sterling (F+G)**	**- 16**	**+ 1**	**- 4**	**- 6**	**+ 28**	**+ 17**	**- 43**	**- 23**

TABLE II. Comparison of International Transactions with Principal Countries and Areas by Years 1946-1952

(Millions of dollars)

F. BETWEEN CANADA AND OTHER O.E.E.C. COUNTRIES

		1946	1947	1948	1949	1050	1951	1952	Total 1946-52
A	**Current Receipts:**								
1	Merchandise exports (adjusted)	321	333	296	246	200	366	472	2.234
4	Travel expenditures	1	1	2	4	4	4	4	20
5	Interest and dividends	2	2	6	14	14	14	13	65
6	Freight and shipping	45	38	32	28	24	40	43	250
7	Inheritances and immigrants' funds	1	2	8	8	11	22	20	72
11	All other current receipts	4	7	4	4	12	5	9	45
12	**Total Current Receipts**	**374**	**383**	**348**	**304**	**265**	**451**	**561**	**2,686**
B	**Current Payments:**								
1	Merchandise imports (adjusted)	38	64	75	79	113	173	149	691
4	Travel expenditures	1	2	4	6	8	8	10	39
5	Interest and dividends	5	7	5	7	8	9	11	52
6	Freight and shipping	9	14	15	16	14	21	19	108
7	Inheritances and emigrants' funds	1	2	1	2	2	3	3	14
8	War expenditures	31	—	—	—	—	—	—	31
9	Official contributions	34	7	13	1	2	—	1	58
11	All other current payments	7	11	9	8	10	14	33	92
12	**Total Current Payments**	**126**	**107**	**122**	**119**	**157**	**228**	**226**	**1,085**
	Balance on Merchandise Trade	+283	+269	+221	+167	+ 87	+193	+323	+1.543
	Balance on Other Transactions, excluding B9	- 1	+ 14	+ 18	+ 19	+ 23	+ 30	+ 13	+ 116
	Official Contributions	- 34	- 7	- 13	- 1	- 2	—	- 1	- 58
C	**Current Account Balance**	**+248**	**+276**	**+226**	**+185**	**+108**	**+223**	**+335**	**+1,601**
D	**Capital Account:**								
	Direct Investment:								
1	Direct investment in Canada	—	—	—	- 3	+ 3	+ 9	+ 12	+ 21
2	Direct investment abroad	—	—	—	- 2	- 2	- 5	- 2	- 11
	Canadian Securities:								
3	Trade in outstanding issues	+ 1	—	- 1	- 1	+ 2	+ 34	+ 8	+ 43
4	New issues	—	—	—	—	—	—	+ 1	+ 1
5	Retirements	- 2	- 9	- 4	- 1	- 2	- 1	- 5	- 24
	Loans and Advances by Government of Canada								
9	Drawings	-188	-118	- 67	—	—	—	—	- 373
10	Repayment of post-war loans	—	+ 2	+ 16	+ 11	+ 16	+ 13	+ 16	+ 74
14	Change in Canadian dollar holdings of foreigners	+ 13	- 20	+ 10	- 12	+ 21	- 11	- 5	- 4
17	Other capital movements	- 1	- 9	- 5	- 5	- 2	- 2	+ 5	- 19
E	**Net Capital Movement**	**-177**	**-154**	**- 51**	**- 13**	**+ 36**	**+ 37**	**+ 30**	**- 292**
F	**Balance to be Settled (C+E)**	**+ 71**	**+122**	**+175**	**+172**	**+144**	**+260**	**+365**	**+1,309**
G	**Balance Settled by Exchange Transfers**	**- 71**	**-122**	**-175**	**-172**	**-144**	**-260**	**-365**	**-1,309**

TABLE II. Comparison of International Transactions With Principal Countries and Areas by Years 1946-1952

(Millions of dollars)

G. BETWEEN CANADA AND ALL OTHER COUNTRIES

	—	1946	1947	1948	1949	1950	1951	1952	Total 1946-52
A	**Current Receipts:**								
1	Merchandise exports (adjusted)	229	214	230	221	223	357	499	1,973
4	Travel expenditures	—	1	—	1	1	1	1	5
5	Interest and dividends	12	12	14	16	13	10	10	87
6	Freight and shipping	24	27	34	30	24	33	39	211
7	Inheritances and immigrants' funds	—	1	4	3	2	6	2	18
11	All other current receipts	10	15	10	8	11	8	11	73
12	**Total Current Receipts**	**275**	**270**	**292**	**279**	**274**	**415**	**562**	**2,367**
B	**Current Payments:**								
1	Merchandise imports (adjusted)	139	178	247	231	280	355	349	1,779
4	Travel expenditures	—	1	1	1	1	1	2	7
5	Interest and dividends	2	2	2	2	2	2	2	14
6	Freight and shipping	3	6	10	7	8	9	7	50
7	Inheritances and emigrants' funds	—	2	4	1	1	1	1	10
9	Official contributions	58	31	10	5	3	9	—	116
11	All other current payments	15	18	15	20	22	26	24	140
12	**Total Current Payments**	**217**	**238**	**289**	**267**	**317**	**403**	**385**	**2,116**
	Balance on Merchandise Trade	+ 90	+ 36	- 17	- 10	- 57	+ 2	+150	+ 194
	Balance on Other Transactions, excluding B9	+ 26	+ 27	+ 30	+ 27	+ 17	+ 19	+ 27	+ 173
	Official Contributions	- 58	- 31	- 10	- 5	- 3	- 9	—	- 116
C	**Current Account Balance**	**+ 58**	**+ 32**	**+ 3**	**+ 12**	**- 43**	**+ 12**	**+177**	**+ 251**
D	**Capital Account:**								
2	Direct investment abroad	+ 3	+ 3	+ 2	+ 2	+ 1	- 5	- 14	- 8
3	Trade in outstanding Canadian securities	—	+ 1	+ 3	—	—	—	+ 5	+ 9
	Foreign Securities:								
6	Trade in outstanding issues	+ 3	—	—	+ 1	+ 1	- 3	—	+ 2
7	New issues	—	—	—	—	—	—	- 15	- 15
8	Retirements	+ 2	+ 3	—	—	—	—	—	+ 5
	Loans and Advances by Government of Canada:								
9	Drawings	- 22	- 24	- 23	—	—	—	—	- 69
10	Repayment of post-war loans	—	—	—	+ 2	+ 7	+ 7	+ 3	+ 19
11	Repayment of war loans	+ 5	+ 5	—	—	—	—	—	+ 10
14	Change in Canadian dollar holdings of foreigners	- 2	+ 1	+ 3	- 2	+ 7	—	- 2	+ 5
17	Other capital movements	- 15	- 32	- 7	- 10	+ 2	- 11	- 12	- 85
E	**Net Capital Movement**	**- 26**	**- 43**	**- 22**	**- 7**	**+ 18**	**- 12**	**- 35**	**- 127**
F	**Balance to be Settled (C + E)**	**+ 32**	**- 11**	**- 19**	**+ 5**	**- 25**	**—**	**+142**	**+ 124**
G	**Balance Settled by Exchange Transfers**	**- 32**	**+ 11**	**+ 19**	**- 5**	**+ 25**	**—**	**-142**	**- 124**

TABLE III. Annual Statements of the Canadian Balance of International Payments with Principal Countries and Areas 1946-1952

(Millions of dollars)

		1946						1947					
		All Countries	United States	United Kingdom	Other Sterling Area	Other O.E.E.C. Countries	All Other Countries	All Countries	United States	United Kingdom	Other Sterling Area	Other O.E.E.C. Countries	All Other Countries
A.	**Current Receipts:**												
1	Merchandise exports (adjusted)	2,393	948	626	269	321	229	2,723	1,061	749	366	333	214
2	Mutual Aid to NATO Countries	—	—	—	—	—	—	—	—	—	—	—	—
3	Gold production available for export	96	96	—	—	—	—	99	99	—	—	—	—
4	Travel expenditures	221	216	3	1	1	—	251	241	7	1	1	1
5	Interest and dividends	70	47	7	2	2	12	64	36	8	6	2	12
6	Freight and shipping	311	101	107	34	45	24	322	104	114	39	38	27
7	Inheritances and immigrants' funds	65	19	45	—	1	—	69	18	47	1	2	1
8	War services	24	6	18	—	—	—	—	—	—	—	—	—
11	All other current receipts	185	134	34	3	4	10	220	153	42	3	7	15
12	**Total Current Receipts**	**3,365**	**1,567**	**840**	**309**	**374**	**275**	**3,748**	**1,712**	**967**	**416**	**383**	**270**
B	**Current Payments:**												
1	Merchandise imports (adjusted)	1,822	1,378	138	129	38	139	2,535	1,951	182	160	64	178
4	Travel expenditures	135	130	3	1	1	—	167	152	9	3	2	1
5	Interest and dividends	312	250	54	1	5	2	337	274	53	1	7	2
6	Freight and shipping	219	169	32	6	9	3	278	221	32	5	14	6
7	Inheritances and emigrants' funds	35	31	3	—	1	—	49	37	8	—	2	2
8	War expenditures	127	23	73	—	31	—	—	—	—	—	—	—
9	Official contributions	97	—	—	5	34	58	38	—	—	—	7	31
10	Mutual Aid to NATO Countries	—	—	—	—	—	—	—	—	—	—	—	—
11	All other current payments	255	193	37	3	7	15	295	211	50	5	11	18
12	**Total Current Payments**	**3,002**	**2,174**	**340**	**145**	**126**	**217**	**3,699**	**2,846**	**334**	**174**	**107**	**238**
	Balance on Merchandise Trade	+ 571	- 430	+488	+140	+283	+ 90	+ 188	- 890	+567	+206	+269	+ 36
	Balance on Other Transactions, excluding B9	- 111	- 177	+ 12	+ 29	- 1	+ 26	- 101	- 244	+ 66	+ 36	+ 14	+ 27
	Official Contributions	- 97	—	—	- 5	- 34	- 58	- 38	—	—	—	- 7	- 31
C	**Current Account Balance**	**+ 363**	**- 607**	**+500**	**+164**	**+248**	**+ 58**	**+ 49**	**- 1,134**	**+633**	**+242**	**+276**	**+ 32**
D	**Capital Account:**												
	Direct Investment:												
1	Direct investment in Canada	+ 40	+ 38	+ 2		—	—	+ 61	+ 58	+ 3		—	—
2	Direct investment abroad	- 14	- 7	- 10		—	+ 3	+ 6	+ 6	- 3		—	+ 3
	Canadian Securities:												
3	Trade in outstanding issues	+ 194	+ 241	- 48		+ 1	—	- 13	- 3	- 11		—	+ 1
4	New issues	+ 218	+ 218	—		—	—	+ 95	+ 95	—		—	—
5	Retirements	- 539	- 460	- 77		- 2	—	- 364	- 313	- 42		- 9	—
	Foreign Securities:												
6	Trade in outstanding issues	+ 25	+ 21	+ 1		—	+ 3	+ 1	- 2	+ 3		—	—
7	New issues	- 4	- 4	—		—	—	- 3	- 3	—		—	—
8	Retirements	+ 13	+ 6	+ 5		—	+ 2	+ 7	+ 3	+ 1		—	+ 3
	Loans and Advances by Government of Canada:												
9	Drawings	- 750	—	- 540		-188	- 22	- 565	—	- 423		- 118	- 24
10	Repayment of post-war loans	—	—	—		—	—	+ 2	—	—		+ 2	—
11	Repayment of war loans	+ 94	—	+ 89		—	+ 5	+ 109	—	+ 104		—	+ 5
12	British Financial Settlement and Interim Advances (net)	+ 38	—	+ 38		—	—	—	—	—		—	—
13	Canadian Gold and U.S. dollar subscriptions to International Monetary Fund and International Bank for Reconstruction and Development	- 8	- 8	—		—	—	- 74	- 74	—		—	—
14	Change in Canadian dollar holdings of foreigners	+ 70	+ 27	+ 32		+ 13	- 2	- 26	- 3	- 4		- 20	+ 1
15	Refunding loan proceeds set aside for retirements	—	—	—		—	—	—	—	—		—	—
17	Other capital movements	- 7	+ 8	+ 1		- 1	- 15	- 27	- 2	+ 16		- 9	- 32
E	**Net Capital Movement** exclusive of change in official holdings of gold, U.S. dollars and sterling	**- 630**	**+ 80**	**- 507**		**-177**	**- 26**	**- 791**	**- 238**	**- 356**		**- 154**	**- 43**
F	**Balance to be Settled (C + E)**	**- 267**	**- 527**	**+ 157**		**+ 71**	**+ 32**	**- 742**	**-1,372**	**+519**		**+ 122**	**- 11**
G	**Balance Settled by Exchange Transfers**	**—**	**+ 276**	**- 173**		**- 71**	**- 32**	**—**	**+ 629**	**- 518**		**- 122**	**+ 11**
H	**Change in Official Holdings:**												
1	Gold and U.S. dollars	- 251	- 251	—		—	—	- 743	- 743	—		—	—
2	Sterling	- 16	—	- 16		—	—	+ 1	—	+ 1		—	—

A-H For notes applicable to this Table see notes to Tables I and II.

TABLE III. Annual Statements of the Canadian Balance of International Payments with Principal Countries and Areas 1946-1952

(Millions of dollars)

1948						1949						
All Countries	United States	United Kingdom	Other Sterling Area	Other O.E.E.C. Countries	All Other Countries	All Countries	United States	United Kingdom	Other Sterling Area	Other O.E.E.C. Countries	All Other Countries	
3,030	1,508	703	293	296	230	2,989	1,521	701	300	246	221	A 1
—	—	—	—	—	—	—	—	—	—	—	—	2
119	119	—	—	—	—	139	139	—	—	—	—	3
279	267	9	1	2	—	285	267	11	2	4	1	4
70	37	9	4	6	14	83	40	9	4	14	16	5
336	131	105	34	32	34	303	126	89	30	28	30	6
84	18	52	2	8	4	68	18	38	1	8	3	7
—	—	—	—	—	—	—	—	—	—	—	—	8
229	167	44	4	4	10	222	158	49	3	4	8	11
4,147	**2,247**	**922**	**338**	**348**	**292**	**4,089**	**2,269**	**897**	**340**	**304**	**279**	12
2,598	1,797	287	192	75	247	2,696	1,899	300	187	79	231	B 1
134	113	12	4	4	1	193	165	17	4	6	1	4
325	267	50	1	5	2	390	325	55	1	7	2	5
279	213	34	7	15	10	253	193	32	5	16	7	6
50	37	7	1	1	4	59	44	10	2	2	1	7
—	—	—	—	—	—	—	—	—	—	—	—	8
23	—	—	—	13	10	6	—	—	—	1	5	9
—	—	—	—	—	—	—	—	—	—	—	—	10
287	213	46	4	9	15	315	244	37	6	8	20	11
3,696	**2,640**	**436**	**209**	**122**	**3,912**	**3,912**	**2,870**	**451**	**205**	**119**	**267**	12
+ 432	- 289	+ 416	+ 101	+ 221	+ 293	+ 293	- 376	+ 401	+ 113	+ 167	- 10	
+ 42	- 104	+ 70	+ 28	+ 18	- 110	- 110	- 223	+ 45	+ 22	+ 19	+ 27	
- 23	—	—	—	- 13	- 6	- 6	—	—	—	- 1	- 5	
+ 451	**- 393**	**+ 486**	**+ 129**	**+ 226**	**+ 3**	**+ 177**	**+ 601**	**+ 446**	**+ 135**	**+ 185**	**+ 12**	C
+ 71	+ 61	+ 10		—	—	+ 94	+ 84	+ 13		- 3	—	D 1
+ 15	+ 15	- 2		—	+ 2	+ 13	+ 16	- 3		- 2	+ 2	2
+ 3	+ 5	- 4		- 1	+ 3	+ 8	+ 25	- 16		- 1	—	3
+ 150	+ 150	—		—	—	+ 105	+ 105	—		—	—	4
- 114	- 96	- 14		- 4	—	- 147	- 136	- 10		- 1	—	5
- 7	- 9	+ 2		—	—	+ 22	+ 19	+ 2		—	+ 1	6
- 3	- 3	—		—	—	- 4	- 4	—		—	—	7
+ 2	+ 1	+ 1		—	—	+ 2	+ 1	+ 1		—	—	8
- 142	—	- 52		- 67	- 23	- 120	—	- 120		—	—	9
+ 16	—	—		+ 16	—	+ 13	—	—		+ 11	+ 2	10
+ 64	—	+ 64		—	—	+ 5	—	+ 5		—	—	11
—	—	—		—	—	—	—	—		—	—	12
—	—	—		—	—	—	—	—		—	—	13
- 21	- 14	- 20		+ 10	+ 3	+ 40	- 8	+ 62		- 12	- 2	14
—	—	—		—	—	- 13	- 18	—		—	—	15
+ 7	+ 1	+ 18		- 5	- 7	- 62	- 20	- 27		- 5	- 10	17
+ 41	**+ 111**	**+ 3**		**- 51**	**- 22**	**- 49**	**+ 64**	**- 93**		**- 13**	**- 7**	E
+ 492	**- 282**	**+ 618**		**+ 175**	**- 19**	**+ 128**	**- 537**	**+ 488**		**+ 172**	**+ 5**	F
—	**+ 778**	**- 622**		**- 175**	**+ 19**	**—**	**+ 671**	**- 494**		**- 172**	**- 5**	G
+ 496	+ 496	—		—	—	+ 134	+ 134	—		—	—	H 1
- 4	—	4		—	—	- 6	—	6		—	—	2

TABLE III. Annual Statements of the Canadian Balance of International Payments with Principal Countries and Areas 1946-1952

(Millions of dollars)

		1950					
		All Countries	United States	United Kingdom	Other Sterling Area	Other O.E.E.C. Countries	All Other Countries
A	**Current Receipts:**						
1	Merchandise exports (adjusted)	3,139	2,046	469	201	200	223
2	Mutual Aid to NATO Countries	57	—	—	—	—	—
3	Gold production available for export	163	163	—	—	—	—
4	Travel expenditures	275	260	7	3	4	1
5	Interest and dividends	91	50	6	8	14	13
6	Freight and shipping	284	157	61	18	24	24
7	Inheritances and immigrants' funds	57	31	12	1	11	2
8	War services	—	—	—	—	—	—
11	All other current receipts	231	170	35	3	12	11
12	**Total Current Receipts**	**4,297**	**2,877**	**590**	**234**	**265**	**274**
B	**Current Payments:**						
1	Merchandise imports (adjusted)	3,129	2,093	399	244	113	280
4	Travel expenditures	226	193	19	5	8	1
5	Interest and dividends	475	411	54	—	8	2
6	Freight and shipping	301	240	36	3	14	8
7	Inheritances and emigrants' funds	61	47	10	1	2	1
8	War expenditures	—	—	—	—	—	—
9	Official contributions	5	—	—	—	2	3
10	Mutual Aid to NATO Countries	57	—	—	—	—	—
11	All other current payments	377	293	48	4	10	22
12	**Total Current Payments**	**4,631**	**3,277**	**566**	**257**	**157**	**317**
	Balance on Merchandise Trade	+ 10	- 47	+ 70	- 43	+ 87	- 57
	Balance on Other Transactions, excluding B9	- 339	- 353	- 46	+ 20	+ 23	+ 17
	Official Contributions	- 5	—	—	—	- 2	- 3
C	**Current Account Balance**	**- 334**	**- 400**	**+ 24**	**- 23**	**+ 108**	**- 43**
D	**Capital Account:**						
	Direct Investment:						
1	Direct investment in Canada	+ 222	+ 200	+ 19		+ 3	—
2	Direct investment abroad	+ 36	+ 41	- 4		- 2	+ 1
	Canadian Securities:						
3	Trade in outstanding issues	+ 329	+ 362	- 35		+ 2	—
4	New issues	+ 210	+ 210	—		—	—
5	Retirements	- 284	- 263	- 19		2	—
	Foreign Securities:						
6	Trade in outstanding issues	+ 70	+ 68	+ 1		—	+ 1
7	New issues	- 2	- 2	—		—	—
8	Retirements	+ 8	+ 7	+ 1		—	—
	Loans and Advances by Government of Canada:						
9	Drawings	- 50	—	- 50		—	—
10	Repayment of post-war loans	+ 23	—	—		+ 16	+ 7
11	Repayment of war loans	+ 51	—	+ 51		—	—
14	Change in Canadian dollar holdings of foreigners	+ 233	+ 89	+ 116		+ 21	+ 7
15	Refunding loan proceeds set aside for retirements	+ 18	+ 18	—		—	—
17	Other capital movements	+ 192	+ 231	- 39		- 2	+ 2
E	**Net Capital Movement** exclusive of change in official holdings of gold, U.S. dollars, and sterling	**+ 1,056**	**+ 961**	**+ 41**		**+ 36**	**+ 18**
F	**Balance to be Settled (C+E)**	**+ 722**	**+ 561**	**+ 42**		**+ 144**	**- 25**
G	**Balance Settled by Exchange Transfers**	**—**	**+ 133**	**- 14**		**- 144**	**+ 25**
H	**Change in Official Holdings**						
1	Gold and U.S. dollars	+ 694	+ 694	—		—	—
2	Sterling	+ 28	—	+ 28		—	—

TABLE III. Annual Statement of the Canadian Balance of International Payments with Principal Countries and Areas 1946-1952

(Millions of dollars)

1951						1952							
All Countries	United States	United Kingdom	Other Sterling Area	Other O.E.E.C. Countries	All Other Countries	All Countries	United States	United Kingdom	Other Sterling Area	Other O.E.E.C. Countries	All Other Countries		
3,950	2,326	636	265	366	357	4,336	2,345	727	293	472	499	A	1
145	—	—	—	—	—	197	—	—	—	—	—		2
150	150	—	—	—	—	150	150	—	—	—	—		3
274	258	8	3	4	1	276	258	10	3	4	1		4
115	57	30	4	14	10	146	87	29	7	13	10		5
351	164	91	23	40	33	360	163	95	20	43	39		6
77	32	14	3	22	6	81	38	18	3	20	2		7
—	—	—	—	—	—	—	—	—	—	—	—		8
249	191	42	3	5	8	313	250	38	5	9	11		11
5,311	**3,178**	**821**	**301**	**451**	**415**	**5,859**	**3,291**	**917**	**331**	**561**	**562**		12
4,097	2,842	417	310	173	355	3,846	2,813	350	185	149	349	B	1
280	246	20	5	8	1	336	294	25	5	10	2		4
450	382	57	—	9	2	413	344	56	—	11	2		5
354	276	43	5	21	9	358	288	40	4	19	7		6
70	55	10	1	3	1	94	77	12	1	3	1		7
—	—	—	—	—	—	—	—	—	—	—	—		8
9	—	—	—	—	9	16	—	—	15	1	—		9
145	—	—	—	—	—	197	—	—	—	—	—		10
423	328	51	4	14	26	448	328	57	6	33	24		11
5,828	**4,129**	**598**	**325**	**228**	**403**	**5,708**	**4,144**	**540**	**216**	**226**	**385**		12
- 147	- 516	+ 219	- 45	+ 193	+ 2	+ 490	- 468	+ 377	+ 108	+ 323	+ 150		
- 361	- 435	+ 4	+ 21	+ 30	+ 19	- 323	- 385	—	+ 22	+ 13	+ 27		
- 9	—	—	—	—	- 9	- 16	—	—	- 15	- 1	—		
- 517	**- 951**	**+ 223**	**- 24**	**+ 223**	**+ 12**	**+ 151**	**- 853**	**+ 377**	**+ 115**	**+ 335**	**+ 177**	C	
+ 309	+ 270	+ 30		+ 9	—	+ 332	+ 306	+ 14		+ 12	—	D	1
- 20	- 4	- 6		- 5	- 5	- 64	- 42	- 6		- 2	- 14		2
+ 38	+ 20	- 16		+ 34	—	- 95	- 105	- 3		+ 8	+ 5		3
+ 411	+ 404	+ 7		—	—	+ 319	+ 317	+ 1		+ 1	—		4
- 184	- 159	- 24		- 1	—	- 89	- 75	- 9		- 5	—		5
+ 15	+ 18	—		—	- 3	+ 10	+ 7	+ 3		—	—		6
- 3	- 3	—		—	—	- 20	- 5	—		—	- 15		7
+ 3	+ 2	+ 1		—	—	—	—	—		—	—		8
—	—	—		—	—	—	—	—		—	—		9
+ 34	—	+ 14		+ 13	+ 7	+ 33	—	+ 14		+ 16	+ 3		10
+ 34	—	+ 34		—	—	+ 23	—	+ 23		—	—		11
- 192	- 53	- 128		- 11	—	- 66	- 36	- 23		- 5	- 2		14
—	—	—		—	—	—	—	—		—	—		15
+ 128	+ 59	+ 82		- 2	- 11	- 497	- 442	- 48		+ 5	- 12		17
+ 573	**+ 554**	**- 6**		**+ 37**	**- 12**	**- 114**	**- 75**	**- 34**		**+ 30**	**- 35**	E	
+ 56	**- 397**	**+ 193**		**+ 260**	**—**	**+ 37**	**- 928**	**+ 458**		**+ 365**	**+ 142**	F	
—	**+ 436**	**- 176**		**- 260**	**—**	**—**	**+ 1,008**	**- 501**		**- 365**	**- 142**	G	
+ 39	+ 39	—		—	—	+ 80	+ 80	—		—	—	H	1
+ 17	—	+ 17		—	—	- 43	—	- 43		—	—		2

TABLE IV. Quarterly Estimates of Current Account Transactions with Principal Countries and Areas, 1946-1952

(Millions of dollars)

No.		1946 I	1946 II	1946 III	1946 IV	1947 I	1947 II	1947 III	1947 IV	1948 I	1948 II	1948 III	1948 IV
	A. BETWEEN CANADA AND ALL COUNTRIES												
A	**Current Receipts:**												
1	Merchandise exports (adjusted)	557	577	604	655	598	735	669	721	681	731	743	875
3	Gold production available for export	28	25	21	22	23	23	26	27	27	28	32	32
4	Travel expenditures	27	49	105	40	21	46	143	41	23	50	160	46
5	Interest and dividends	12	19	19	20	18	15	10	21	15	17	15	23
6	Freight and shipping	75	75	80	81	74	81	84	83	81	83	82	90
7	Inheritances and immigrants' funds	11	19	21	14	12	16	20	21	20	24	21	19
8	War services	12	4	6	2	—	—	—	—	—	—	—	—
11	All other current receipts	49	43	45	48	57	40	48	75	53	58	60	58
12	**Total Current Receipts**	**771**	**811**	**901**	**882**	**803**	**956**	**1,000**	**989**	**900**	**991**	**1,113**	**1,143**
B	**Current Payments:**												
1	Merchandise imports (adjusted)	363	450	463	546	542	688	636	669	555	676	653	714
4	Travel expenditures	27	31	40	37	30	47	60	30	24	36	45	29
5	Interest and dividends	69	60	79	104	99	90	60	88	60	111	56	98
6	Freight and shipping	42	51	63	63	56	73	75	74	54	69	83	73
7	Inheritances and emigrants' funds	6	7	10	12	11	12	13	13	10	13	13	14
8	War expenditures	66	40	15	6	—	—	—	—	—	—	—	—
9	Official contributions	47	20	18	12	15	10	6	7	14	7	1	1
11	All other current payments	50	59	67	79	74	72	71	78	65	75	71	76
12	**Total Current Payments**	**670**	**718**	**755**	**859**	**827**	**992**	**921**	**959**	**782**	**987**	**922**	**1,005**
	Balance on Merchandise Trade	+194	+127	+141	+109	+56	+47	+33	+52	+126	+55	+ 90	+161
	Balance on Other Transactions, excluding B9.	- 46	- 14	+ 23	- 74	- 65	- 73	+ 52	- 15	+ 6	- 44	+102	- 22
	Official Contributions	- 47	- 20	- 18	- 12	- 15	- 10	- 6	- 7	- 14	- 7	- 1	- 1
C	**Current Account Balance**	**+101**	**+ 93**	**+146**	**+ 23**	**- 24**	**- 36**	**+79**	**+30**	**+118**	**+ 4**	**+191**	**+138**
	B. BETWEEN CANADA AND THE UNITED STATES												
A	**Current Receipts:**												
1	Merchandise exports (adjusted)	216	234	236	262	237	267	253	304	316	337	398	457
3	Gold production available for export	28	25	21	22	23	23	26	27	27	28	32	32
4	Travel expenditures	27	47	103	39	19	43	140	39	22	47	156	42
5	Interest and dividends	9	11	17	10	12	6	7	11	10	7	9	11
6	Freight and shipping	24	25	25	27	25	25	26	26	31	30	34	36
7	Inheritances and immigrants' funds	4	5	6	4	4	4	6	4	4	5	5	4
8	War services	4	1	1	—	—	—	—	—	—	—	—	—
11	All other current receipts	36	29	33	36	33	27	33	60	39	42	45	41
12	**Total Current Receipts**	**348**	**377**	**442**	**400**	**353**	**395**	**491**	**473**	**449**	**496**	**679**	**623**
B	**Current Payments:**												
1	Merchandise imports (adjusted)	273	333	350	422	428	537	489	497	402	458	446	491
4	Travel expenditures	26	30	38	36	28	43	53	28	21	31	37	24
5	Interest and dividends	51	46	67	86	80	77	48	69	42	97	45	83
6	Freight and shipping	32	38	50	49	44	59	60	58	40	53	65	55
7	Inheritances and emigrants' funds	6	7	8	10	8	9	10	10	7	10	10	10
8	War expenditures	—	22	—	1	—	—	—	—	—	—	—	—
11	All other current payments	37	42	52	62	55	48	51	57	47	55	55	56
12	**Total Current Payments**	**425**	**518**	**565**	**666**	**643**	**773**	**711**	**719**	**559**	**704**	**658**	**719**
C	**Current Account Balance**	**- 77**	**- 141**	**- 123**	**-266**	**- 290**	**- 378**	**- 220**	**- 246**	**- 110**	**-208**	**+21**	**- 96**

A11 The fourth quarter of 1947 includes a special refund of $30 million by the United States Treasury of war expenditures.
B12 In 1950, 1951 and 1952, quarterly totals in the account with all countries will not add to annual totals since Mutual Aid to NATO countries is not distributed by quarters.
A-C For other notes appliable to this Table see notes to Tables I and II.

TABLE IV. Quarterly Estimates of Current Account Transactions with Principal Countries and Areas, 1946-1952
(Millions of dollars)

1949				1950				1951				1952				
I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	No.
A. BETWEEN CANADA AND ALL COUNTRIES																
669	773	716	831	663	788	796	892	815	952	1,044	1,139	1,009	1,123	1,049	1,155	A 1
31	32	35	41	41	42	39	41	37	43	35	35	41	35	37	37	3
23	60	157	45	23	51	152	49	23	51	157	43	24	53	156	43	4
17	26	14	26	13	25	16	37	16	25	19	55	17	31	22	76	5
74	82	73	74	63	74	69	78	68	81	96	106	81	93	89	97	6
18	18	18	14	11	14	18	14	14	19	22	22	17	25	22	17	7
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8
65	52	51	54	49	65	52	65	65	57	65	62	66	76	75	96	11
897	**1,043**	**1,064**	**1,085**	**863**	**1,059**	**1,142**	**1,176**	**1,038**	**1,228**	**1,438**	**1,462**	**1,255**	**1,436**	**1,450**	**1,521**	12
641	**740**	**645**	**670**	**630**	**795**	**796**	**908**	**946**	**1,193**	**1,082**	**876**	**889**	**984**	**936**	**1,037**	B 1
30	54	69	40	36	58	79	53	54	74	96	56	62	96	106	70	4
75	143	79	93	94	120	77	184	100	96	91	163	82	88	95	148	5
48	76	65	64	48	80	91	82	59	93	102	100	61	94	101	102	6
13	15	16	15	13	15	15	18	15	17	19	19	21	24	24	25	7
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8
—	4	—	2	1	3	—	1	1	5	—	3	11	—	—	5	9
70	82	80	83	86	93	94	104	99	102	113	109	100	110	117	121	11
877	**1,114**	**954**	**967**	**908**	**1,164**	**1,152**	**1,350**	**1,274**	**1,580**	**1,503**	**1,326**	**1,226**	**1,396**	**1,381**	**1,508**	12
+28	+ 33	+ 71	+161	+33	- 7	—	- 16	-131	-241	-38	+263	+120	+139	+113	+118	
- 8	-100	+ 39	- 41	-77	- 95	-10	-157	-104	-106	-27	-124	- 80	- 99	- 44	-100	
—	- 4	—	- 2	- 1	- 3	—	- 1	- 1	- 5	—	- 3	- 11	—	—	- 5	
+20	**- 71**	**+110**	**+118**	**-45**	**-105**	**- 10**	**-174**	**-236**	**-352**	**-65**	**+136**	**+ 29**	**+ 40**	**+ 69**	**+13**	C
B. BETWEEN CANADA AND THE UNITED STATES																
352	356	338	475	429	496	531	590	538	588	583	617	554	575	562	654	A 1
31	32	35	41	41	42	39	41	37	43	35	35	41	35	37	37	3
21	53	151	42	21	47	147	45	21	47	151	39	22	49	149	38	4
12	8	7	13	10	9	10	21	11	11	14	21	13	17	18	39	5
31	29	30	36	35	41	39	42	35	41	43	45	36	41	41	45	8
4	4	4	6	6	7	10	8	7	8	9	8	7	11	11	9	7
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8
49	35	34	40	37	45	39	49	51	43	50	47	52	59	60	79	11
500	**517**	**599**	**653**	**579**	**687**	**815**	**796**	**700**	**781**	**885**	**812**	**725**	**787**	**878**	**901**	12
459	526	448	466	436	541	517	599	787	827	723	605	672	719	662	760	B 1
27	45	59	34	31	49	68	45	48	64	85	49	56	84	95	59	4
58	128	65	74	76	107	63	165	79	83	74	146	62	74	77	131	5
34	58	52	49	35	65	75	65	43	74	82	77	46	76	83	83	6
9	12	12	11	11	11	11	14	12	13	15	15	18	19	20	20	7
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8
54	65	66	59	66	69	75	83	76	79	88	85	73	81	85	89	11
641	**834**	**702**	**693**	**655**	**842**	**809**	**971**	**945**	**1,140**	**1,067**	**977**	**927**	**1,053**	**1,022**	**1,142**	12
-141	**-317**	**-103**	**-40**	**-76**	**-155**	**+6**	**-175**	**-245**	**-359**	**-182**	**-165**	**-202**	**-266**	**-144**	**-241**	C

TABLE IV. Quarterly Estimates of Current Account Transactions with Principal Countries and Areas 1946-1952

(Millions of dollars)

		1946				1947				1948			
		I	II	III	IV	I	II	III	IV	I	II	III	IV
	C. BETWEEN CANADA AND THE UNITED KINGDOM												
A	**Current Receipts:**												
1	Merchandise exports (adjusted)	150	133	157	186	154	216	188	191	187	194	154	168
4	Travel expenditures	—	1	1	1	1	2	2	2	1	3	3	2
5	Interest and dividends	2	1	1	3	4	1	1	2	3	2	3	1
6	Freight and shipping	26	24	28	29	26	30	30	28	27	27	25	26
7	Inheritances and immigrants' funds	7	14	14	10	8	11	13	15	14	16	12	10
8	War services	8	3	5	2	—	—	—	—	—	—	—	—
11	All other current receipts	10	9	8	7	12	9	11	10	11	12	11	10
12	**Total Current Receipts**	**203**	**185**	**214**	**238**	**205**	**269**	**245**	**248**	**243**	**254**	**208**	**217**
B	**Current Payments:**												
1	Merchandise imports (adjusted)	26	37	35	40	38	45	46	53	55	75	76	81
4	Travel expenditures	—	1	1	1	1	3	4	1	1	3	5	3
5	Interest and dividends	17	12	11	14	17	11	10	15	16	11	10	13
6	Freight and shipping	7	8	8	9	7	8	8	9	8	8	9	9
7	Inheritances and emigrants' funds	—	—	1	2	2	2	2	2	1	2	2	2
8	War expenditures	45	16	8	4	—	—	—	—	—	—	—	—
11	All other current payments	8	10	9	10	12	16	11	11	10	16	9	11
12	**Total Current Payments**	**103**	**84**	**73**	**80**	**77**	**85**	**81**	**91**	**91**	**115**	**111**	**119**
C	**Current Account Balance**	**+100**	**+101**	**+141**	**+158**	**+128**	**+184**	**+164**	**+157**	**+152**	**+139**	**+97**	**+98**
	D. BETWEEN CANADA AND THE REST OF THE STERLING AREA												
A	**Current Receipts:**												
1	Merchandise exports (adjusted)	49	69	76	75	72	108	91	95	54	74	67	98
4	Travel expenditures	—	—	1	—	—	1	—	—	—	—	—	1
5	Interest and dividends	—	1	—	1	1	2	1	2	1	—	2	1
6	Freight and shipping	7	8	10	9	8	10	11	10	7	9	7	11
7	Inheritances and immigrants' funds	—	—	—	—	—	—	—	1	—	—	1	1
11	All other current receipts	—	1	1	1	—	1	1	1	1	1	1	1
12	**Total Current Receipts**	**56**	**79**	**88**	**86**	**81**	**122**	**104**	**109**	**63**	**84**	**78**	**113**
B	**Current Payments:**												
1	Merchandise imports (adjusted)	28	32	34	35	31	46	38	45	30	58	50	54
4	Travel expenditures	1	—	—	—	1	1	1	—	1	2	—	1
5	Interest and dividends	—	—	—	1	—	—	—	1	—	—	—	1
6	Freight and shipping	1	1	2	2	1	1	2	1	1	2	2	2
7	Inheritances and emigrants' funds	—	—	—	—	—	—	—	—	1	—	—	—
9	Official contributions	5	—	—	—	—	—	—	—	—	—	—	—
11	All other current payments	—	1	1	1	1	1	1	2	1	1	1	1
12	**Total Current Payments**	**35**	**34**	**37**	**39**	**34**	**49**	**42**	**49**	**34**	**63**	**53**	**59**
C	**Current Account Balance**	**+21**	**+45**	**+51**	**+47**	**+47**	**+73**	**+62**	**+60**	**+29**	**+21**	**+25**	**+54**
	E. BETWEEN CANADA AND COUNTRIES OTHER THAN THE UNITED STATES, UNITED KINGDOM, AND OTHER STERLING AREA												
A	**Current Receipts:**												
1	Merchandise exports (adjusted)	142	141	135	132	135	144	137	131	124	126	124	152
4	Travel expenditures	—	1	—	—	1	—	1	—	—	—	1	1
5	Interest and dividends	1	6	1	6	1	6	1	6	1	8	1	10
6	Freight and shipping	18	18	17	16	15	16	17	17	16	17	16	17
7	Inheritances and immigrants' funds	—	—	1	—	—	1	1	1	2	3	3	4
11	All other current receipts	3	4	3	4	12	3	3	4	2	3	3	6
12	**Total Current Receipts**	**164**	**170**	**157**	**158**	**164**	**170**	**160**	**159**	**145**	**157**	**148**	**190**
B	**Current Payments:**												
1	Merchandise imports (adjusted)	36	48	44	49	45	60	63	74	68	85	81	88
4	Travel expenditures	—	—	1	—	—	—	2	1	1	—	3	1
5	Interest and dividends	1	2	1	3	2	2	2	3	2	3	1	1
6	Freight and shipping	2	4	3	3	4	5	5	6	5	6	7	7
7	Inheritances and emigrants' funds	—	—	1	—	1	1	1	1	1	1	1	2
8	War expenditures	21	2	7	1	—	—	—	—	—	—	—	—
9	Official contributions	42	20	18	12	15	10	6	7	14	7	1	1
11	All other current payments	5	6	5	6	6	7	8	8	7	3	6	8
12	**Total Current Payments**	**107**	**82**	**80**	**74**	**73**	**85**	**87**	**100**	**98**	**105**	**100**	**108**
C	**Current Account Balance**	**+57**	**+88**	**+77**	**+84**	**+91**	**+85**	**+73**	**+59**	**+47**	**+52**	**+48**	**+82**

Table IVE includes the non-sterling OEEC Countries. In this Table the first quarter of 1947 includes a special receipt of $9 million from the sale of Canadian equipment overseas to UNRRA. The second quarter of 1950 includes military relief refunds from OEEC Countries of approximately $8 million.

TABLE IV. Quarterly Estimates of Current Account Transactions with Principal Countries and Areas 1946-1952

(Millions of dollars)

1949				1950				1951				1952				
I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	
C. BETWEEN CANADA AND THE UNITED KINGDOM																
147	191	190	173	109	131	107	122	112	147	189	188	158	246	169	154	A 1
1	5	3	2	1	2	2	2	1	2	3	2	1	2	4	3	4
2	2	4	1	2	1	2	1	2	1	2	25	2	1	2	24	5
22	25	20	22	14	16	15	16	16	19	26	30	22	28	23	22	6
10	11	12	5	3	3	3	3	3	3	4	4	4	6	4	4	7
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8
12	13	13	11	9	8	9	9	11	10	10	11	9	11	9	9	11
194	**247**	**242**	**214**	**138**	**161**	**138**	**153**	**145**	**182**	**234**	**260**	**196**	**294**	**211**	**216**	12
75	86	74	65	84	102	100	113	90	133	110	84	66	91	95	98	B 1
1	6	7	3	2	6	6	5	3	7	6	4	3	8	7	7	4
15	12	12	16	16	11	12	15	18	11	14	14	17	11	15	13	5
8	10	6	8	8	9	9	10	10	11	10	12	9	11	10	10	6
2	3	3	2	2	3	2	3	2	3	3	2	2	4	3	3	7
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8
9	12	8	8	12	17	9	10	14	13	12	12	14	13	15	15	11
110	**129**	**110**	**102**	**124**	**148**	**138**	**156**	**137**	**178**	**155**	**128**	**111**	**138**	**145**	**146**	12
+84	**+118**	**+132**	**+112**	**+14**	**+13**	**—**	**-3**	**+8**	**+4**	**+79**	**+132**	**+85**	**+156**	**+66**	**+70**	C
D. BETWEEN CANADA AND THE REST OF THE STERLING AREA																
70	92	72	66	43	59	47	52	55	60	68	82	88	78	64	63	A 1
—	1	1	—	—	1	1	1	—	1	1	1	—	1	1	1	4
1	1	1	1	—	1	2	5	1	1	2	—	1	1	1	4	5
7	11	7	5	3	5	4	6	6	5	6	6	6	5	4	5	6
1	—	—	—	—	—	1	—	—	1	1	1	—	1	1	1	7
1	1	1	—	—	1	1	1	—	1	1	1	1	1	1	2	11
80	**106**	**82**	**72**	**46**	**67**	**56**	**65**	**62**	**69**	**79**	**91**	**96**	**87**	**72**	**76**	12
39	53	46	49	39	60	66	79	62	87	107	54	42	50	50	43	B 1
1	1	—	2	2	1	1	1	2	1	1	1	2	1	1	1	4
—	—	—	1	—	—	—	—	—	—	—	—	—	—	—	—	5
1	2	1	1	—	1	1	1	1	1	2	1	1	1	1	1	6
1	—	—	1	—	—	1	—	—	—	—	1	—	—	—	1	7
—	—	—	—	—	—	—	—	—	—	—	—	10	—	—	5	9
1	1	1	3	1	1	1	1	1	1	1	1	2	1	1	2	11
43	**57**	**48**	**57**	**42**	**63**	**70**	**82**	**66**	**90**	**111**	**58**	**57**	**53**	**53**	**53**	12
+37	**+49**	**+34**	**+15**	**+4**	**+4**	**+14**	**-17**	**-4**	**-21**	**-32**	**+33**	**+39**	**+34**	**+19**	**+23**	C
E. BETWEEN CANADA AND COUNTRIES OTHER THAN THE UNITED STATES, UNITED KINGDOM, AND OTHER STERLING AREA																
100	134	116	117	82	102	111	128	110	157	204	252	209	224	254	284	A 1
1	1	2	1	1	1	2	1	1	1	2	1	1	1	2	1	4
2	15	2	11	1	14	2	10	2	12	1	9	1	12	1	9	5
14	17	16	11	11	12	11	14	11	16	21	25	17	19	21	25	6
3	3	2	3	2	4	4	3	4	7	8	9	6	7	6	3	7
3	3	3	3	3	11	3	6	3	3	4	3	4	5	5	6	11
123	**173**	**141**	**146**	**100**	**144**	**133**	**162**	**131**	**196**	**240**	**299**	**238**	**268**	**289**	**328**	12
68	75	77	90	71	92	113	117	107	146	142	133	109	124	129	136	B 1
1	2	3	1	1	2	4	2	1	2	4	2	1	3	5	3	4
2	3	2	2	2	2	2	4	3	2	3	3	3	3	3	4	5
5	6	6	6	5	5	6	6	5	7	8	10	5	6	7	8	6
1	—	1	1	—	1	1	1	1	1	1	1	1	1	1	1	7
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8
—	4	—	2	1	3	—	1	1	5	—	3	1	—	—	—	9
6	4	5	13	7	6	9	10	8	9	12	11	11	15	16	15	11
83	**94**	**94**	**115**	**87**	**111**	**135**	**141**	**126**	**172**	**170**	**163**	**131**	**152**	**161**	**167**	12
+40	**+79**	**+47**	**+31**	**+13**	**+33**	**-2**	**+21**	**+5**	**+24**	**+70**	**+136**	**+107**	**+116**	**+128**	**+161**	C

TABLE V. Quarterly Estimates of Capital Account Transactions with Principal Countries and Areas 1950-1952

(Millions of dollars)

		1950				1951				1952			
		I	II	III	IV	I	II	III	IV	I	II	III	IV
		A. BETWEEN CANADA AND ALL COUNTRIES											
D	**Capital Account:**												
	Direct Investment:												
1	Direct investment in Canada	+ 35	+ 53	+ 89	+ 45	+ 46	+ 75	+ 53	+ 135	+ 68	+ 75	+ 103	+ 86
2	Direct investment abroad	+ 5	+ 17	+ 16	- 2	- 3	- 4	- 4	- 9	- 6	- 15	- 15	- 28
	Canadian Securities:												
3	Trade in outstanding issues	+ 8	+ 11	+ 295	+ 15	+ 63	+ 1	+ 11	- 37	—	- 19	- 51	- 25
4	New issues	+ 17	+ 101	+ 88	+ 4	+ 26	+ 155	+ 76	+ 154	+ 89	+ 161	+ 23	+ 46
5	Retirements	- 47	- 97	- 120	- 20	- 25	- 37	- 67	- 55	- 12	- 41	- 7	- 29
	Foreign Securities:												
6	Trade in outstanding issues	+ 11	+ 12	+ 37	+ 10	+ 1	+ 5	+ 5	+ 4	+ 6	+ 2	+ 2	—
7	New issues	- 1	—	—	- 1	—	- 1	- 1	- 1	- 19	- 1	—	—
8	Retirements	+ 2	+ 1	+ 4	+ 1	+ 1	—	+ 1	+ 1	—	—	—	—
	Loans by Government of Canada:												
9	Drawings	- 30	- 20	—	—	—	—	—	—	—	—	—	—
10	Repayment of post-war loans	—	+ 5	+ 3	+ 15	—	+ 7	—	+ 27	—	+ 9	—	+ 24
11	Repayment of war loans	+ 16	+ 9	+ 10	+ 16	+ 5	+ 14	+ 8	+ 7	+ 2	+ 6	+ 8	+ 7
14	Change in Canadian dollar holdings of foreigners	+ 67	+ 66	+ 131	- 31	- 20	- 13	- 77	- 82	- 5	+ 3	+ 2	- 66
15	Refunding loan proceeds set aside for retirements	+ 18	—	—	—	—	—	—	—	—	—	—	—
17	Other capital movements	+ 29	+ 19	+ 153	- 9	+ 32	+ 195	- 4	- 95	- 176	- 188	- 109	- 24
E	**Net Capital Movement** exclusive of change in official holdings of gold, U.S. dollars and sterling	**+ 130**	**+ 177**	**+ 706**	**+ 43**	**+ 126**	**+ 397**	**+ 1**	**+ 49**	**- 53**	**- 8**	**- 44**	**- 9**
C	**Current Account Balance**	**- 45**	**- 105**	**- 10**	**- 174**	**- 236**	**- 352**	**- 65**	**+ 136**	**+ 29**	**+ 40**	**+ 69**	**+ 13**
H	**Change in Official Holdings:**												
1	Gold and U.S. dollars	+ 83	+ 69	+ 700	- 158	- 92	+ 31	- 77	+ 177	+ 9	+ 40	+ 27	+ 4
2	Sterling	+ 2	+ 3	- 4	+ 27	- 18	+ 14	+ 13	+ 8	- 33	- 8	- 2	—
		B. BETWEEN CANADA AND THE UNITED STATES											
D	**Capital Account:**												
	Direct Investment:												
1	Direct investment in Canada	+ 32	+ 48	+ 83	+ 37	+ 33	+ 68	+ 45	+ 124	+ 62	+ 70	+ 97	+ 77
2	Direct investment abroad	+ 3	+ 18	+ 19	+ 1	- 1	—	- 1	- 2	- 4	- 8	- 8	- 22
	Canadian Securities:												
3	Trade in outstanding issues	+ 15	+ 21	+ 300	+ 26	+ 58	- 6	+ 9	- 41	- 1	- 18	- 56	- 30
4	New issues	+ 17	+ 101	+ 88	+ 4	+ 26	+ 155	+ 76	+ 147	+ 88	+ 161	+ 23	+ 45
5	Retirements	- 43	- 85	- 118	- 17	- 16	- 29	- 64	- 50	- 8	- 39	- 5	- 23
	Foreign Securities:												
6	Trade in outstanding issues	+ 10	+ 12	+ 36	+ 10	+ 1	+ 8	+ 5	+ 4	+ 6	+ 1	+ 1	- 1
7	New issues	- 1	—	—	- 1	—	- 1	- 1	- 1	- 4	- 1	—	—
8	Retirements	+ 1	+ 1	+ 4	+ 1	+ 1	—	+ 1	—	—	—	—	—
14	Change in Canadian dollar holdings of foreigners	+ 3	+ 3	+ 71	+ 12	- 25	- 19	- 6	- 3	- 11	+ 13	- 12	- 26
15	Refunding loan proceeds set aside for retirements	+ 18	—	—	—	—	—	—	—	—	—	—	—
17	Other capital movements	+ 13	+ 38	+ 161	+ 19	+ 48	+ 178	- 43	- 124	- 161	- 176	- 99	- 6
E	**Net Capital Movement** exclusive of change in official holdings of gold, and U.S. dollars	**+ 68**	**+ 157**	**+ 644**	**+ 92**	**+ 125**	**+ 354**	**+ 21**	**+ 54**	**- 33**	**+ 3**	**- 59**	**+ 14**
G	**Balance Settled by Exchange Transfers**	**+ 91**	**+ 67**	**+ 50**	**- 75**	**+ 28**	**+ 36**	**+ 84**	**+ 288**	**+ 244**	**+ 303**	**+ 230**	**+ 231**
C	**Current Account Balance**	**- 76**	**- 155**	**+ 6**	**- 175**	**- 245**	**- 359**	**- 182**	**- 165**	**- 202**	**- 266**	**- 144**	**- 241**
H1	**Change in Official Holdings of Gold and U.S. Dollars**	**+ 83**	**+ 69**	**+ 700**	**- 158**	**- 92**	**+ 31**	**- 77**	**+ 177**	**+ 9**	**+ 40**	**+ 27**	**+ 4**

H1 At September 30, 1950 there were abnormally large amounts of exchange in transit to the Exchange Fund Account which were not included in official holdings of gold and U.S. dollars on that date but are included in item H1 for the purpose of this Table.

A-H For other notes applicable to this Table see notes to Tables I and II.

TABLE V. Quarterly Estimates of Capital Account Transactions With Principal Countries and Areas 1950-1952

(Millions of dollars)

		—	1950				1951				1952			
			I	II	III	IV	I	II	III	IV	I	II	III	IV
		C. BETWEEN CANADA AND THE UNITED KINGDOM AND OTHER STERLING AREA COUNTRIES												
D		**Capital Account:**												
		Direct Investment:												
	1	Direct investment in Canada	+ 3	+ 5	+ 5	+ 6	+ 9	+ 6	+ 6	+ 9	+ 3	+ 2	+ 3	+ 6
	2	Direct investment abroad	- 1	—	- 2	- 1	- 1	- 2	- 2	- 1	- 1	- 3	- 1	- 1
		Canadian Securities:												
	3	Trade in outstanding issues	- 7	- 10	- 6	- 12	- 6	- 3	- 4	- 3	- 3	- 3	+ 2	+ 1
	4	New issues	—	—	—	—	—	—	—	+ 7	—	—	—	+ 1
	5	Retirements	- 4	- 11	- 1	- 3	- 9	- 8	- 3	- 4	- 4	- 2	- 2	- 1
		Foreign Securities:												
	6	Trade in outstanding issues	—	—	+ 1	—	—	—	—	—	—	+ 1	+ 1	+ 1
	8	Retirements	+ 1	—	—	—	—	—	—	+ 1	—	—	—	—
		Loans by Government of Canada:												
	9	Drawings	- 30	- 20	—	—	—	—	—	—	—	—	—	—
	10	Repayment of post-war loans	—	—	—	—	—	—	—	+ 14	—	—	—	+ 14
	11	Repayment of war loans	+ 16	+ 9	+ 10	+ 16	+ 5	+ 14	+ 8	+ 7	+ 2	+ 6	+ 8	+ 7
	14	Change in Canadian dollar holdings of foreigners	+ 57	+ 53	+ 40	- 34	- 1	+ 1	- 71	- 57	+ 4	- 3	—	- 24
	17	Other capital movements	+ 22	- 20	- 20	- 21	- 12	+ 20	+ 44	+ 30	- 23	- 5	- 6	- 14
E		**Net Capital Movement** exclusive of change in official holdings of sterling	+ 57	+ 6	+ 27	- 49	- 15	+ 28	- 22	+ 3	- 22	- 7	+ 5	- 10
G		**Balance Settled by Exchange Transfers:**												
	1	Official settlements	- 66	- 18	- 12	+ 100	- 4	+ 8	- 10	- 159	- 135	- 191	- 92	- 83
	2	Private settlements	- 7	- 2	- 5	- 4	- 3	- 5	- 2	- 1				
C		**Current Account Balance**	+ 18	+ 17	- 14	- 20	+ 4	- 17	+ 47	+ 165	+ 124	+ 190	+ 85	+ 93
H		**Change in Official Holdings of Sterling**	+ 2	+ 3	- 4	+ 27	- 18	+ 14	+ 13	+ 8	- 33	- 8	- 2	—

D. BETWEEN CANADA AND NON-STERLING AREA OVERSEAS COUNTRIES, IMF and IBRD

			1950				1951				1952			
			I	II	III	IV	I	II	III	IV	I	II	III	IV
D		**Capital Account:**												
		Direct investment:												
	1	Direct investment in Canada	—	—	+ 1	+ 2	+ 4	+ 1	+ 2	+ 2	+ 3	+ 3	+ 3	+ 3
	2	Direct investment abroad	+ 3	- 1	- 1	- 2	- 1	- 2	- 1	- 6	- 1	- 4	- 6	- 5
		Canadian Securities:												
	3	Trade in outstanding issues	—	—	+ 1	+ 1	+ 11	+ 10	+ 6	+ 7	+ 4	+ 2	+ 3	+ 4
	4	New issues	—	—	—	—	—	—	—	—	+ 1	—	—	—
	5	Retirements	—	- 1	- 1	—	—	—	—	- 1	—	—	—	- 5
		Foreign Securities:												
	6	Trade in outstanding issues	+ 1	—	—	—	—	- 3	—	—	—	—	—	—
	7	New issues	—	—	—	—	—	—	—	—	- 15	—	—	—
	10	Repayment of post-war loans by Government of Canada	—	+ 5	+ 3	+ 15	—	+ 7	—	+ 13	—	+ 9	—	+ 10
	14	Change in Canadian dollar holdings of foreigners	+ 7	+ 10	+ 20	- 9	+ 6	+ 5	—	- 22	+ 2	- 7	+ 14	- 16
	17	Other capital movements	- 6	+ 1	+ 12	- 7	- 4	- 3	- 5	- 1	+ 8	- 7	- 4	- 4
E		**Net Capital Movement**	+ 5	+ 14	+ 35	—	+ 16	+ 15	+ 2	- 8	+ 2	- 4	+ 10	- 13
G		**Balance Settled by Exchange Transfers**	- 18	- 47	- 33	- 21	- 21	- 39	- 72	- 128	- 109	- 112	- 138	- 148
C		**Current Account Balance**	+ 13	+ 33	- 2	+ 21	+ 5	+ 24	+ 70	+ 136	+ 107	+ 116	+ 128	+ 161

TABLE VI. Prices, Physical Volume and Terms of Trade of Domestic Exports and Imports, by Quarters, 1945-1952

Interim Indexes, 1948 = 100

Year and Quarter		Price Indexes		Terms of Trade	Volume Indexes	
		Exports	Imports		Exports	Imports
1946		79.9	76.5	104.4	94.1	95.4
1947		91.6	88.0	104.1	98.5	110.9
1948		100.0	100.0	100.0	100.0	100.0
1949		103.3	102.6	100.7	94.2	102.0
1950		108.3	110.3	98.2	93.6	109.2
1951		123.0	126.2	97.5	103.5	122.7
1952		121.8	110.3	110.4	114.9	138.1
1945	3Q	75.5	74.4	101.5	137.6	78.1
	4Q	76.8	73.7	104.2	118.8	79.2
1946	1Q	77.8	74.5	104.4	87.1	80.8
	2Q	79.7	77.0	103.5	88.4	94.8
	3Q	80.4	77.1	104.3	97.3	94.6
	4Q	84.1	78.2	107.5	100.3	109.8
1947	1Q	87.8	82.4	106.6	88.5	102.9
	2Q	91.8	87.9	104.4	103.5	120.4
	3Q	93.4	88.3	105.8	94.2	109.9
	4Q	94.6	92.7	102.0	105.8	111.2
1948	1Q	98.3	97.7	100.6	89.0	90.9
	2Q	98.2	99.6	98.6	96.2	104.2
	3Q	100.4	99.5	100.9	98.2	99.6
	4Q	104.9	102.4	102.4	113.7	105.8
1949	1Q	106.3	103.7	102.5	80.6	97.4
	2Q	104.2	103.0	101.2	95.6	109.6
	3Q	101.0	100.9	100.1	93.1	99.6
	4Q	103.5	104.4	99.1	106.4	100.0
1950	1Q	104.7	107.8	97.1	80.6	91.4
	2Q	106.3	108.8	97.7	95.6	112.2
	3Q	110.3	110.8	99.5	93.2	110.4
	4Q	111.8	114.8	97.4	104.5	121.1
1951	1Q	118.0	122.6	96.2	89.2	116.9
	2Q	122.5	129.4	94.7	98.9	135.8
	3Q	125.5	127.9	98.1	108.2	123.1
	4Q	126.0	122.1	103.2	116.7	116.8
1952	1Q	124.8	117.2	106.5	103.0	118.2
	2Q	122.2	111.0	110.1	117.9	140.8
	3Q	120.7	107.1	112.7	113.6	140.6
	4Q	119.9	108.1	110.9	124.8	151.4

TABLE VII. Balances of Individual Items in Current Account Transactions With All Countries 1946-1952

(Millions of dollars)

	—	1946	1947	1948	1949	1950	1951	1952	Total 1946-52
AB 1	Merchandise exports (adjusted)[2]	+571	+188	+432	+293	+ 10	-147	+490	+1,837
2	Mutual Aid to NATO Countries	—	—	—	—	+ 57	+145	+197	+ 399
3	Gold production available for export	+ 96	+ 99	+119	+139	+163	+150	+150	+ 916
4	Travel expenditures	+ 86	+ 84	+145	+ 92	+ 49	- 6	- 60	+ 390
5	Interest and dividends	-242	-273	-255	-307	-384	-335	-267	-2,063
6	Freight and shipping	+ 92	+ 44	+ 57	+ 50	- 17	- 3	+ 2	+ 225
7	Inheritances and migrants' funds	+ 30	+ 20	+ 34	+ 9	- 4	+ 7	- 13	+ 83
8	War services	-103	—	—	—	—	—	—	- 103
9	Official contributions	- 97	- 38	- 23	- 6	- 5	- 9	- 16	- 194
10	Mutual Aid to NATO Countries	—	—	—	—	- 57	-145	-197	- 399
11	All other current transactions	- 70	- 75	- 58	- 93	-146	-174	-135	- 751
C	**Current Account Balance**	+363	+ 49	+451	+177	-334	-517	+151	+ 340

TABLE VIII. Percentage Relationship of Individual Items to Total Current Transactions With All Countries 1946-1952

	—	1946	1947	1948	1949	1950	1951	1952	Total 1946-52
A	**Current Receipts:**								
1	Merchandise exports (adjusted)	71.1	72.7	73.1	73.1	73.1	74.4	74.0	73.2
2	Mutual Aid to NATO Countries	—	—	—	—	1.3	2.7	3.4	1.3
3	Gold production available for export	2.9	2.6	2.9	3.4	3.8	2.8	2.6	3.0
4	Travel expenditures	6.6	6.7	6.7	7.0	6.4	5.2	4.7	6.0
5	Interest and dividends	2.1	1.7	1.7	2.0	2.1	2.2	2.5	2.1
6	Freight and shipping	9.2	8.6	8.1	7.4	6.6	6.6	6.1	7.4
7	Inheritances and immigrants' funds	1.9	1.8	2.0	1.7	1.3	1.4	1.4	1.6
8	War services	0.7	—	—	—	—	—	—	0.1
11	All other current receipts	5.5	5.9	5.5	5.4	5.4	4.7	5.3	5.3
12	**Total Current Receipts**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
B	**Current Payments:**								
1	Merchandise imports (adjusted)	60.7	68.6	70.3	68.9	67.6	70.3	67.4	68.0
4	Travel expenditures	4.5	4.5	3.6	4.9	4.9	4.8	5.9	4.8
5	Interest and dividends	10.4	9.1	8.8	10.0	10.3	7.7	7.2	8.9
6	Freight and shipping	7.3	7.5	7.5	6.5	6.5	6.1	6.3	6.7
7	Inheritances and emigrants' funds	1.2	1.3	1.4	1.5	1.3	1.2	1.6	1.4
8	War expenditures	4.2	—	—	—	—	—	—	0.4
9	Official contributions	3.2	1.0	0.6	0.2	0.1	0.1	0.3	0.6
10	Mutual Aid to NATO Countries	—	—	—	—	1.2	2.5	3.5	1.3
11	All other current payments	8.5	8.0	7.8	8.0	8.1	7.3	7.8	7.9
12	**Total Current Payments**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

TABLE IX. Current Account Between Canada and All Countries, 1926-1952

(Millions of dollars)

Year	Current Receipts[1]	Current Payments[2]	Net Balance Including Mutual Aid Exports	Wartime Grants and Mutual Aid	Net Balance on Current Account Indicating Net Movement of Capital
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	3,748	3,699	+ 49	—	+ 49
1948	4,147	3,696	+ 451	—	+451
1949	4,089	3,912	+ 177	—	+177
1950	4,297	4,574	- 277	- 57	-334
1951	5,311	5,683	- 372	- 145	-517
1952	5,859	5,511	+ 348	- 197	+151

1. Including Mutual Aid exports.
2. Excluding Mutual Aid offsets.

TABLE X. Estimate of the Canadian Balance of International Indebtedness 1939, 1945-1952

(exclusive of short-term commercial indebtedness and blocked currencies)

(thousands of millions of dollars)

—	1939	1945	1946	1947	1948	1949	1950	1951	1952
A Canadian Liabilities (Foreign Capital Invested in Canada):									
United States investment in Canada (Table XIIIB)	4.2	5.0	5.2	5.2	5.6	5.9	6.6	7.3	8.0
United Kingdom investment in Canada (Table XIIIC)	2.5	1.7	1.6	1.6	1.6	1.7	1.7	1.8	1.8
Other countries' investment in Canada (Table XIIID)	0.3	0.4	0.4	0.3	0.3	0.3	0.4	0.4	0.4
Total — Non-resident long-term investment in Canada	**6.9**	**7.1**	**7.2**	**7.2**	**7.5**	**8.0**	**8.7**	**9.5**	**10.2**
Equity of non-residents in Canadian assets abroad	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Canadian dollar holdings of non-residents	0.3	0.3	0.4	0.3	0.3	0.4	0.6	0.4	0.3
Canadian short-term assets of IMF and IBRD	—	—	—	0.3	0.3	0.3	0.3	0.3	0.3
Gross Liabilities	**7.4**	**7.6**	**7.8**	**8.1**	**8.4**	**8.9**	**9.9**	**10.5**	**11.1**
B Canadian Assets (Canadian Capital Invested Abroad):									
Direct investments abroad (Table XI)	0.7	0.7	0.8	0.8	0.8	0.9	1.0	1.2	1.3
Portfolio holdings of foreign securities (Table XI)	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Government of Canada credits (Table XI)	—	0.7	1.4	1.8	1.9	2.0	2.0	1.9	1.9
Government of Canada subscriptions to IMF and IBRD	—	—	—	0.4	0.4	0.4	0.4	0.4	0.4
Total — Canadian long-term investment abroad	**1.4**	**2.0**	**2.7**	**3.6**	**3.6**	**3.9**	**4.0**	**4.1**	**4.2**
Government of Canada official holdings of gold and foreign exchange	0.5	1.7	1.3	0.5	1.0	1.2	1.9	1.8	1.8
Other Canadian short-term assets abroad	—	0.1	—	—	—	0.1	0.1	0.1	0.3
Gross Assets	**1.9**	**3.8**	**4.0**	**4.1**	**4.7**	**5.2**	**5.9**	**5.9**	**6.4**
Canadian Net Indebtedness	5.5	3.9	3.8	4.0	3.7	3.7	4.0	4.6	4.7

Note: Because of rounding totals may not represent sums of components.

TABLE XI. Canadian Long-Term Investments Abroad[1], Selected Year Ends 1939-1951

(Millions of dollars)

Location and Year	Direct Investment in Branches, Subsidiaries and Controlled Companies					Portfolio Investments in Foreign Securities			Government of Canada Credits	Total
	Railways and Utilities	Industrial and Commercial	Mining and Petroleum	Other Concerns	Total Direct Investment	Stocks	Bonds	Total Portfolio Investment		
In all Countries:										
1939	249	289	123	10	671	511	208	719	31	1,421
1945	239	337	138	6	720	454	167	621	707	2,048
1947	246	414	155	7	822	426	153	579	1,816	3,217
1949	276	553	91	6	926	477	161	638	2,000	3,564
1951	330	707	117	6	1,160	467	142	609	1,922	3,691
In the United States:										
1939	211	176	21	4	412	380	121	501	—	913
1945	212	214	25	4	455	317	92	409	—	864
1947	217	272	37	5	531	283	83	366	—	897
1949	247	413	58	3	721	345	98	443	—	1,164
1951	298	533	71	4	906	289	87	376	—	1,282
In the United Kingdom:										
1939	[2]	53	—	6	59	22	21	43	—	102
1945	[2]	53	—	1	54	26	27	53	561	668
1947	[2]	64	—	[2]	64	26	26	52	1,331	1,447
1949	[2]	58	—	1	59	21	19	40	1,434	1,533
1951	1	73	—	[2]	74	17	17	34	1,394	1,502
In Other British Countries[3]										
1939	7	30	17	[2]	54	7	15	22	—	76
1945	7	34	28	[2]	69	7	12	19	—	88
1947	8	47	30	[2]	85	7	11	18	—	103
1949	6	51	19	[2]	76	6	8	14	—	90
1951	6	61	20	1	88	6	8	14	—	102
In Other Foreign Countries:										
1939	31	30	85	—	146	102	51	153	31	330
1945	20	36	85	1	142	104	36	140	146	428
1947	21	31	88	2	142	110	33	143	485	770
1949	23	31	14	2	70	105	36	141	566	777
1951	26	39	25	2	92	155	30	185	528	805

1. Excluding investments of insurance companies and banks, and subscriptions by the Government of Canada to IMF and IBRD.
2. Amounts are less than $500,000.
3. Including investments in Newfoundland prior to 1949.

TABLE XII. Foreign Capital Invested in Canada, End of 1951
Classification by Types of Security and Nature of National Ownership
(Millions of dollars)

	Total Non-Resident Investment	Country of Ownership		
		United States[1]	United Kingdom[1]	Other Foreign Countries
By Type of Assets				
Bonds and Debentures:				
Government of Canada	1,013	887	70	56
Provincial governments	771	732	38	1
Municipalities	319	279	38	2
Steam Railways	675	334	309	32
Other corporations	690	560	105	25
Sub-total	**3,468**	**2,792**	**560**	**116**
Capital Stock of Canadian Companies	4,736	3,497	1,036	203
Other corporation assets	957	819	109	29
Miscellaneous investments	328	195	65	68
Total Non-Resident Investments	**9,489**	**7,303**	**1,770**	**416**
By Nature of National Ownership				
A. **Direct Investments**				
(Controlled in country of ownership)				
Bonds and Debentures:				
Steam railways	36	29	7	—
Other corporations	357	333	13	11
Sub-total	**393**	**362**	**20**	**11**
Capital Stock of Canadian Companies	3,185	2,755	362	68
Other corporation assets[2]	940	805	108	27
Total Direct Investments	**4,518**	**3,922**	**490**	**106**
B. **Portfolio Investments**				
(Not controlled in country of ownership)				
Bonds and Debentures:				
Government of Canada	1,013	887	70	56
Provincial governments	771	732	38	1
Municipalities	319	279	38	2
Steam railways — controlled in Canada	637	305	300	32
controlled in other countries	2	—	2	—
Other corporations — controlled in Canada	242	215	13	14
controlled in other countries	91	12	79	—
Sub-total	**3,075**	**2,430**	**540**	**105**
Capital Stock of Canadian Companies:				
Companies controlled in Canada	1,434	724	601	109
Companies controlled in other countries	117	18	73	26
Other corporation assets[2]				
Companies controlled in Canada	11	10	1	—
Companies controlled in other countries	6	4	—	2
Total Portfolio Investments	**4,643**	**3,186**	**1,215**	**242**
C. **Miscellaneous Investments**				
Real estate, mortgages, assets administered for non-residents, private investment companies, etc.	328	195	65	68
A. **Total Direct Investments**	**4,518**	**3,922**	**490**	**106**
B. **Total Portfolio Investments**	**4,643**	**3,186**	**1,215**	**242**
C. **Total Miscellaneous Investments**	**328**	**195**	**65**	**68**
Total Non-Resident Investments	**9,489**	**7,303**	**1,770**	**416**

1. Includes some investments held by nominees for residents of other countries.
2. Includes net assets of unincorporated branches and other long-term investments.

TABLE XIII. Foreign Capital Invested in Canada at Selected Year Ends 1926-1951

Classification by Types of Investment

A. Total Non-Resident Long-Term Investment in Canada Owned by all Non-Residents

(Millions of dollars)

Types of Investment	1926	1930	1939	1945	1946	1947	1948	1949	1950	1951
GOVERNMENT SECURITIES:										
Dominion	638	682	823	726	750	713	823	975	1,141	1,013
Provincial	422	592	536	624	594	551	528	534	565	771
Municipal	374	432	344	312	267	264	248	246	256	319
Total	**1,434**	**1,706**	**1,703**	**1,662**	**1,611**	**1,528**	**1,599**	**1,755**	**1,962**	**2,103**
PUBLIC UTILITIES:										
Railways	1,938	2,244	1,871	1,599	1,583	1,586	1,504	1,445	1,456	1,467
Other	395	634	549	494	557	473	468	494	543	588
Total	**2,333**	**2,878**	**2,420**	**2,093**	**2,140**	**2,059**	**1,972**	**1,939**	**1,999**	**2,055**
Manufacturing	1,198	1,573	1,445	1,829	1,895	2,029	2,317	2,539	2,763	3,136
Mining and smelting	219	334	329	403	386	396	424	494	628	787
Merchandising	150	203	189	226	236	262	277	300	331	388
Financial institutions	344	543	473	525	557	553	541	548	566	572
Other enterprises	65	82	69	70	69	71	78	83	98	120
Miscellaneous assets	260	295	285	284	282	290	298	302	320	328
Total Investment	**6,003**	**7,614**	**6,913**	**7,092**	**7,178**	**7,188**	**7,506**	**7,960**	**8,667**	**9,489**

B. Long-Term Investments in Canada Owned by Residents of the United States

(Millions of dollars)

Types of Investment	1926	1930	1939	1945	1946	1947	1948	1949	1950	1951
GOVERNMENT SECURITIES:										
Dominion	382	440	567	682	701	665	775	844	1,009	887
Provincial	342	517	473	574	554	515	494	492	525	732
Municipal	185	248	181	194	183	207	198	198	212	279
Total	**909**	**1,205**	**1,221**	**1,450**	**1,438**	**1,387**	**1,467**	**1,534**	**1,746**	**1,898**
PUBLIC UTILITIES:										
Railways	510	832	588	720	717	724	718	664	685	687
Other	290	522	432	375	441	372	372	399	448	503
Total	**800**	**1,354**	**1,020**	**1,095**	**1,158**	**1,096**	**1,090**	**1,063**	**1,133**	**1,190**
Manufacturing	953	1,287	1,160	1,482	1,554	1,676	1,936	2,099	2,269	2,594
Mining and smelting	165	255	251	322	311	324	347	416	546	695
Merchandising	99	138	129	164	173	185	194	211	231	270
Financial institutions	125	251	201	285	321	312	297	338	362	355
Other enterprises	60	76	64	62	62	65	72	74	88	106
Miscellaneous assets	85	94	105	130	140	155	163	170	190	195
Total Investment	**3,196**	**4,660**	**4,151**	**4,990**	**5,157**	**5,200**	**5,566**	**5,905**	**6,565**	**7,303**

TABLE XIII. Foreign Capital Invested in Canada at Selected Year Ends 1926-1951 — Concluded

Classification by Types of Investment

C. Long-Term Investments in Canada Owned by Residents of the United Kingdom

(Millions of dollars)

Types of Investment	1926	1930	1939	1945	1946	1947	1948	1949	1950	1951
GOVERNMENT SECURITIES:										
Dominion	250	235	238	–	–	–	–	84	82	70
Provincial	73	69	58	45	37	35	33	41	39	38
Municipal	187	182	157	112	78	55	48	46	42	38
Total	**510**	**486**	**453**	**157**	**115**	**90**	**81**	**171**	**163**	**146**
PUBLIC UTILITIES:										
Railways	1,371	1,352	1,216	806	795	792	724	716	707	704
Other	97	100	89	90	85	72	69	66	65	56
Total	**1,468**	**1,452**	**1,305**	**896**	**880**	**864**	**793**	**782**	**772**	**760**
Manufacturing	234	274	257	301	295	307	340	396	444	484
Mining and smelting	51	74	61	62	56	52	56	54	55	60
Merchandising	49	61	55	57	60	71	76	83	90	103
Financial institutions	176	243	221	186	182	186	188	155	147	142
Other enterprises	4	5	4	6	5	5	5	7	8	10
Miscellaneous assets	145	171	120	65	75	70	69	67	65	65
Total Investment	**2,637**	**2,766**	**2,476**	**1,750**	**1,668**	**1,645**	**1,608**	**1,715**	**1,744**	**1,770**

D. Long-Term Investments in Canada Owned by Residents of All Other Countries

(Millions of dollars)

Types of Investment	1926	1930	1939	1945	1946	1947	1948	1949	1950	1951
GOVERNMENT SECURITIES:										
Dominion	6	7	18	44	49	48	48	47	50	56
Provincial	7	6	5	5	3	1	1	1	1	1
Municipal	2	2	6	6	6	2	2	2	2	2
Total	**15**	**15**	**29**	**55**	**58**	**51**	**51**	**50**	**53**	**59**
PUBLIC UTILITIES:										
Railways	57	60	67	73	71	70	62	65	64	76
Other	8	12	28	29	31	29	27	29	30	29
Total	**65**	**72**	**95**	**102**	**102**	**99**	**89**	**94**	**94**	**105**
Manufacturing	11	12	28	46	46	46	41	44	50	58
Mining and smelting	3	5	17	19	19	20	21	24	27	32
Merchandising	2	4	5	5	5	6	7	6	10	15
Financial institutions	43	49	51	54	54	55	56	55	57	75
Other enterprises	1	1	1	2	2	1	1	2	2	4
Miscellaneous assets	30	30	60	69	67	65	66	65	65	68
Total Investment	**170**	**188**	**286**	**352**	**353**	**343**	**332**	**340**	**358**	**416**

Common and preference stocks are shown at book (equity) values as shown in the balance sheets of the issuing companies, bonds and debentures are valued at par, liabilities in foreign currencies being converted into Canadian dollars at the original par of exchange.

Investments in Canadian companies have been classified according to principal activities in Canada. Investments in exploration and development of petroleum by companies engaged in refining and production of petroleum products are therefore included in the Manufacturing (non-metallic minerals) group.

Investments in Canada shown as owned by residents of the United States and the United Kingdom include some investments held for residents of other countries.

TABLE XIV. United States Direct Investments[1] in All Canadian Businesses at Selected Year Ends 1926-1951

Classification by Types of Business

(Millions of dollars)

Type of Business	Value of United States Direct Investment (Included in Totals in Table XIIIB.)									
	1926	1930	1939	1945	1946	1947	1948	1949	1950	1951
Manufacturing:										
Vegetable products	69	94	96	140	146	155	179	182	193	214
Animal products	18	38	47	44	42	46	49	55	58	60
Textiles	18	20	20	28	29	32	35	38	42	46
Wood and paper products	256	334	281	316	350	383	427	441	446	461
Iron and products	180	199	188	272	283	312	346	378	420	452
Non-ferrous metals	83	113	130	203	208	225	250	270	315	362
Non-metallic minerals[2]	109	126	112	133	138	152	229	279	312	428
Chemicals and allied products	60	86	88	118	134	147	167	185	194	219
Miscellaneous manufactures	25	31	22	31	36	41	47	52	53	56
Total	**818**	**1,041**	**984**	**1,285**	**1,366**	**1,493**	**1,729**	**1,880**	**2,033**	**2,298**
Mining and smelting[2]	141	210	198	255	245	254	275	331	450	575
Utilities	249	423	399	359	366	345	347	375	389	438
Merchandising	89	122	119	153	165	175	183	199	219	259
Financial institutions	58	136	126	198	232	222	208	241	267	253
Other enterprises	48	61	55	54	54	59	65	69	84	99
Total, All Companies	**1,403**	**1,993**	**1,881**	**2,304**	**2,428**	**2,548**	**2,807**	**3,095**	**3,442**	**3,922**

1. Direct investments include branches, subsidiaries and controlled companies.
2. Investments in exploration and development of petroleum by companies engaged principally in refining and production of petroleum products are included in the Non-metallic Minerals item of Manufacturing.

TABLE XV. Number of Canadian Concerns Controlled Abroad[1], End of 1951

Classification by Countries of Ownership and Types of Business

Type of Business	Controlled in United States			Controlled in United Kingdom			Controlled in Other Countries		
	Subsidiaries or Controlled Companies	Unincorporated branches	Total Number	Subsidiaries or Controlled Companies	Unincorporated branches	Total Number	Subsidiaries or Controlled Companies	Unincorporated branches	Total Number
Manufacturing:									
Vegetable products	104	7	111	46	2	48	2	—	2
Animal products	51	2	53	2	1	3	3	—	3
Textiles	68	1	69	22	2	24	3	—	3
Wood and paper products	141	11	152	23	1	24	2	—	2
Iron and products	263	19	282	28	—	28	3	—	3
Non-ferrous metals	163	6	171	16	—	16	1	—	1
Non-metallic minerals	73	2	75	12	—	12	—	—	—
Chemicals and allied products	256	36	294	33	3	36	6	1	7
Miscellaneous manufactures	79	3	82	9	—	9	1	—	1
Total	**1,200**	**89**	**1,289**	**191**	**9**	**200**	**21**	**1**	**22**
Mining and Smelting	**152**	**74**	**226**	**13**	**3**	**16**	**5**	—	**5**
Utilities:									
Railways	9	2	11	4	—	4	—	—	—
Other Utilities	91	17	108	10	2	12	10	—	10
Merchandising	**544**	**72**	**616**	**208**	**28**	**236**	**45**	**2**	**47**
Financial Institutions:									
Insurance	13	182	195	1	86	87	—	28	28
Investment trusts	15	—	15	4	—	4	3	—	3
Other financial institutions	76	9	85	47	7	54	26	—	26
Other Enterprises	**229**	**47**	**276**	**26**	**2**	**28**	**20**	—	**20**
Total, All Companies[2]	**2,329**	**492**	**2,821**	**504**	**137**	**641**	**130**	**31**	**161**

1. The book value of investment in Canada in these companies by residents of the country in which control lies is shown as direct investment in preceding tables.
2. Includes wholly-owned subsidiaries of Canadian Companies controlled in the U.S. 381; in the U.K. 116; in other countries, 4.

TABLE XVI. Canada's Official Holdings of Gold and United States Dollars[1], 1946-1952

(Millions of U.S. dollars)

At end of:	1946	1947	1948	1949	1950	1951	1952
March	1,638.7	811.3	607.5	1,067.2	1,192.2	1,653.4	1,787.2
June	1,624.2	665.9	741.9	976.9	1,255.4	1,683.0	1,827.7
September	1,517.4	615.4	854.9	985.3	1,789.6	1,610.1	1,855.6
December	1,244.9	501.7	997.8	1,117.1	1,741.5	1,778.6	1,860.2

1. Gold, United States exchange and short-term securities of the United States Government held by the Exchange Fund Account, the Bank of Canada, and other Government of Canada Accounts.

PUBLICATIONS OF THE INTERNATIONAL TRADE DIVISION

		Price
Balance of International Payments and Related Factors		
The Canadian Balance of International Payments, 1926 to 1948	Special	$1.00 (cloth bound) 75¢ (paper bound)
The Canadian Balance of International Payments and International Investment Position	Annual	25¢
The Canadian Balance of International Payments	Quarterly	$1.00 per year
Sales and Purchases of Securities Between Canada and Other Countries	Monthly and Annual	$1.00 " "
Canada's International Investment Position, 1926 to 1949	Special	50¢
United States Direct Investments in Canada	Special	25¢
International Distribution of the Ownership of the Petroleum Industry in Canada, Reference Paper No. 37	Special	25¢
Travel Between Canada and Other Countries	Annual	50¢
Travel Between Canada and the United States	Monthly	$2.00 per year.
Volume of Highway Traffic Entering Canada on Travellers' Vehicle Permits	Monthly Memorandum	*
Review of Foreign Trade	Semi-Annual	50¢
Review of Foreign Trade	Annual	75¢
Detailed Commodity Trade Statistics		
Trade of Canada, Volumes I, II and III	Annual	$2.00 each (Set of 3, $5.00)
Exports of Canadian Produce and Foreign Produce	Monthly	$5.00 per year
Imports Entered for Consumption	Monthly	$5.00 " "
Articles Exported to Each Country	Quarterly	$2.00 " "
Articles Imported from Each Country	Quarterly	$2.00 " "
Domestic Exports	Monthly	$2.00 " "
Imports for Consumption	Monthly	$2.00 " "
Monthly Summary of Foreign Trade	Monthly	$1.00 " "
Statistical Classification – Exports	Irregular	
Statistical Classification – Imports	Irregular	

* Preliminary to "Travel Between Canada and the United States", and included in subscription to that publication.

The Canadian Statistical Review, which appears monthly, includes tables on some of the above material and commentary from time to time on the balance of international payments.

N.B. Orders for the above publications should be addressed to the Dominion Bureau of Statistics with necessary remittances being made payable to the Receiver General of Canada.