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QUARTERLY ESTIMATES OF  
THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
FIRST QUARTER, 1957

A larger increase in payments to other countries for goods and services than in receipts, led to a widening of the current account deficit in the first quarter of 1957. This arose both with transactions in commodities and in services and other items. The resulting deficit of \$409 million compares with \$363 million in the first quarter 1956 and has been exceeded only by the deficit of \$435 million in the second quarter of last year. While payments continued to rise more than receipts the rate of increase in both current receipts and expenditures has been more moderate than in any quarter last year. And the rise in the deficit of some 13 per cent compares with a doubling of the deficit in each of the first three quarters of 1956 over corresponding quarters of 1955. In relative terms, the 1957 deficit established a new record in the post-war years in representing almost 29 per cent of total receipts as compared to ratios of less than 27 per cent in the first and second quarters of last year.

The major factor contributing to the size of the deficit was once more the imbalance of merchandise trade which has been a prominent source since the final quarter of 1955. In absolute terms, the merchandise trade deficit this year, like the overall deficit, has been exceeded only by the imbalance in the second quarter of 1956. At the same time the imbalance in services and other current items continued to be greater relatively, and the deficit from these transactions showed a growth that has been consistent for a period of years.

The size of the current deficit served to indicate the continuation into the first three months of 1957 of those forces which underlaid the growing deficits in 1955 and 1956. The high rate of expansion in Canada and the accompanying levels of economic activity maintained the pressure of demand for imported goods and services, and external resources, both physical and financial, have been drawn upon. Canadian need of industrial machinery, and building and engineering materials was still providing the backbone of the recent extra-ordinary import demand. A continuation of high levels of economic activity, so evident in 1956 in the United States and overseas, has maintained demands for many Canadian exports, and led to further growth in exports of some commodities in which Canadian capacity is rising. But besides the decline in wheat sales there is evidence of some softening of the demand for certain other Canadian exports in some markets. And a moderating in the rate of increase for some imports has occurred, although many imports remained at record levels as has been the case with total imports of goods and services.

Continued rise in the merchandise deficit

The \$224 million deficit on merchandise transactions in the first quarter of 1957 was some \$33 million above the deficit in the same quarter of 1956. Imports (adjusted to balance of payments definitions) increased from \$1,242 million to \$1,327 million, almost 7 per cent, and exports (adjusted) increased from \$1,051 million to \$1,103 million, 5 per cent. With both export and import prices some 2 per cent above those current in the corresponding period of 1956, there was no significant change in the terms of trade, and increases in the volume of merchandise transactions were not much less than the comparable changes in values.

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

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The same general types of underlying demand appear to have been responsible for the continued expansion of Canadian imports in the first quarter of 1957 as were unusually prominent in 1956. The substantial proportions of imports relating to the high level of investment activity in Canada have continued to be an outstanding feature. From details so far available it would seem that these proportions may have increased in 1957 with almost all of the increase over the corresponding quarter last year being in metal products, most notable in machinery, electrical equipment, steel and pipes. In only a few cases were imports of major commodities less than in the previous year, and some of these instances were due to unusual non-recurring conditions last year. Most of the increase in imports in the first quarter this year was from the United States and the United Kingdom. The United States continued to supply some three-quarters of the total, but the rate of increase in imports from the United Kingdom was sharper. The total imported from other overseas countries was about the same with offsetting trends in different commodities.

While Canada's exports rose in total volume and value in the first quarter, this was not the result of as general an upward trend as has been typical of rises since 1954. The larger increases were concentrated in fewer commodities and in certain markets, and there were more instances of reductions or relative stability in value than in recent years. Commodities showing the most notable gains included petroleum, aluminum, uranium, steel, barley, seeds and used ships. Declines were most evident in lumber and other construction materials, wheat, copper and several other base metals and products, and some agricultural products, and in major exports of secondary industry like agricultural implements and aircraft.

Variability in trends was characteristic of exports to the United States with the result that there was virtual stability in the total value of shipments to that country. Growing exports to the United States of commodities like petroleum and other fuels, uranium and aluminum were partly offset by some contractions most notable of which were in lumber and other construction materials and in some manufactured goods. Exports to the United Kingdom were down in total with the larger declines being in wheat, lumber and newsprint, but there were gains in certain other agricultural commodities and in some industrial materials to that country. In contrast, exports to other areas overseas were at exceptionally high levels for the first quarter. There were marked gains to each of Europe, Latin America, and Asia, but Commonwealth countries were an exception with declines to most areas. Forest products and metals were generally higher to overseas countries other than the United Kingdom. Clearances of wheat to the same group of countries were down. But there were rises in exports of barley and seeds to Western Europe, the area which continued to be a strong source of demands for industrial materials. Substantial sales of used ships to Latin America were a special contributor to the rise overseas, and more agricultural products and metals led to a large increase in exports to Japan.

#### Deficit from transactions in services and other non-merchandise items

While the deficit in non-merchandise transactions declined in the first quarter of 1957 from the peak reached in the final quarter of last year, it remained, nevertheless, well above the level of earlier quarters. The increase over the first quarter of 1956 was some \$13 million. The outstanding net change in relation to the same quarter last year resulted from a decline in receipts and a rise in payments of investment income. Several Canadian controlled companies in the United States and overseas remitted smaller amounts to Canada. At the same time, there was a substantial increase in income payments to non-residents, which may be attributed to some extent to higher dividend rates and increasing foreign ownership of Canadian securities. Largely as a result of increased shipping rates and a record volume of imports, there was a change from a small balance of net receipts on freight and shipping in the first quarter of 1956 to a larger balance of net payments in 1957. In addition there was a small increase in the large deficit on travel account which normally occurs in the first quarter. The effect of these larger net payments was somewhat offset by opposite movements in the rest of the "invisible" items. During the first three months of 1957, migration to Canada rose to some 62,500 from 19,000 in the same period last year. This influx resulted in extra-ordinary receipts of migrants' funds. There was a small increase in gold available for export, and a decline in official contributions, primarily expenditures in connection with the Colombo Plan program. Other miscellaneous items showed a smaller net deficit, mainly as a result of relatively lower government expenditures and fiscal year-end settlements abroad.

#### Transactions by areas

The most prominent feature of the geographical distribution of the large first quarter deficit was the continued growth of the deficit with the United States, and the decline in the surplus with overseas countries. At \$475 million, the deficit with the United States was \$61 million above the first quarter of 1956. This increase was more than accounted for by the rise in merchandise imports which were almost 8 per cent above last year. Both in total and for goods alone, the deficit with the United States has been exceeded only once in recent years. The overall balance on non-merchandise items remained relatively unchanged, with higher net payments of income and for shipping partially offset by small declines elsewhere.

The first quarter surplus with the United Kingdom fell to \$29 million, the smallest in several years.



This resulted from rising imports, reduced exports, and an enlarged deficit on "invisibles". Imports rose with the need for equipment for the Canadian investment program and other demands continuing strong; at the same time there was some falling off in demand for Canadian grain, lumber, and newsprint in the United Kingdom, although exports of some commodities to that market rose. The largest change in receipts and expenditures for invisible items was related to the inflow of migrants' funds mentioned above. The surplus with the rest of the sterling area remained relatively unchanged from the end of last year, but was down from the first quarter.

For the first time in two years, the surplus with the OEEC countries rose to moderate proportions. As compared to the same quarter of 1956 the largest change was in exports which were up some \$30 million, with rises generally distributed to a number of countries. The deficit with all other countries continued into 1957, but at a lower level. Again the principal change was in exports to these countries, which have increased particularly to Japan and Latin America. In contrast imports from these groups of overseas countries and the balance on "invisibles" did not change much in total in the first quarter.

Summary of Current Transactions with the  
United States, United Kingdom, and Other Countries

First Quarter 1956 and 1957

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1956	1957	1956	1957	1956	1957	1956	1957
Exports (adjusted)	1,051	1,103	639	654	180	163	232	286
Imports (adjusted)	1,242	1,327	932	1,002	97	111	213	214
Balance on trade	-191	-224	-293	-348	+ 83	+ 52	+ 19	+ 72
Balance on "invisibles"	-172	-185	-121	-127	- 15	- 23	- 36	- 35
Current account balance	-363	-409	-414	-475	+ 68	+ 29	- 17	+ 37

Capital movements

Capital movements in long-term forms between Canada and other countries in the first quarter were almost double the size of these net inflows in the corresponding quarter of 1956. New issues of securities in particular were much greater than they were earlier. But comparing the first quarter of 1957 with the final quarter of 1956, the principal change has been a sharp reduction in net direct investment inflows to which further reference will be made below. Proceeds of transactions in Canadian portfolio securities were somewhat larger than in the earlier period, but there were significant outflows from transactions in foreign securities. Repayments of principal falling due on Canadian government loans to overseas governments were, as usual in the first quarter, much smaller than in the fourth quarter. All in all, net inflows in the foregoing forms fell to \$319 million in the first quarter of 1957 compared with \$427 million in the preceding quarter, in a period with an enlarged deficit from current account transactions. Major changes also took place in the other capital movements which served to finance the balance of the deficit in the first quarter and which will be discussed below.

A sharp contraction occurred during the first quarter of 1957 in the rate of capital inflow for long-term direct investment in foreign-controlled enterprises in Canada. The net movement is tentatively placed at \$100 million, which is the lowest level recorded since the first quarter of 1955. But, as much of this change may be attributed to several special transactions, the significance of the decline from a record level of \$185 million in the fourth quarter of 1956 should not be over-emphasized. For example in the final quarter of 1956 there was an extraordinarily large receipt representing the subscription of a parent company to an offering of shares to existing shareholders of a Canadian petroleum company as well as the acquisition by United States interest of a controlling interest in a major Canadian food-processing company. On the other hand the net inward movement in the first quarter of 1957 was reduced by the purchase by a Canadian company of a significant minority interest in a manufacturer of electrical materials. These

three transactions alone accounted for some \$80 million of the difference between the two quarters. Although, of course, in absolute terms by far the largest part of the decline was attributable to the inflow of United States capital, a particularly sharp reduction appears to have occurred in the net movement from the United Kingdom.

The net outflow of Canadian capital for direct investment abroad is tentatively placed at \$20 million or somewhat more than in the final quarter of 1956.

Transactions in Canadian portfolio securities led to a capital inflow of \$246 million or an increase of \$40 million over the preceding quarter. There was a substantially increased sales balance from trading in outstanding Canadian stocks, while net repurchases of outstanding bonds were reduced. United Kingdom investors accounted for \$34 million out of \$41 million net sales of outstanding securities. Most of the capital inflow took the form of new issues of Canadian securities sold to non-residents; the proceeds of these transactions amounted to \$248 million. Included were \$133 million of corporation bonds, \$64 million of provincial direct and guaranteed issues, \$34 million of municipals, and \$17 million of stocks. Retirements of foreign-held Canadian securities totalled \$43 million, of which \$17 million represented Canadian bonds and debentures, and the balance Canadian stocks.

Transactions in foreign portfolio securities resulted in a capital outflow of \$14 million in contrast to the inflow of \$17 million recorded in the final quarter of 1956. The largest part of this change occurred as Canadian investors became net purchasers of \$3 million of foreign stocks; in the preceding quarter there had been net sales of \$25 million.

Repayments on Canadian government loans to overseas countries were limited as usual during the first quarter to receipt of \$7.5 million from the United Kingdom.

Among capital movements of a generally more short-term nature was an outflow of \$31 million reflecting reductions in holdings of Canadian dollars by non-residents. Holdings by United States residents remained practically unchanged, and the reduction was divided about equally between accounts of residents of the United Kingdom and of other overseas countries. A capital inflow of \$13 million occurred from changes in official holdings of gold and foreign exchange. Official holdings of gold and United States dollars, expressed in terms of United States funds, were reduced in the course of the operations of the Exchange Fund account, and the other exchange transactions of the Government from \$1,936.2 million at the turn of the year, the record month-end holding, to \$1,923.6 million at the end of March.

All other capital movements appear to have resulted in a net capital inflow of \$108 million during the quarter. As readers of these reports will know, this category of international capital movements embraces a wide and varied group of transactions, both inward and outward in direction. Among those recorded in the quarter currently under review were progress payments on industrial contracts, bank loans, changes in inter-company account balances, and in Canadian dollars held by the International Bank for Reconstruction and Development, borrowings and repayments by Canadian finance companies, transfers by insurance companies, a Canadian Government loan to the United Nations, outflows of capital arising from the disposal of Canada's wartime merchant fleet, and changes in private and banking holdings of foreign exchange. In this quarter the measured movements in these categories totalled several hundreds of millions of dollars, although their net balance was relatively small. There seems little doubt that the remainder of the other capital movements, which is not susceptible of direct quarterly measurement, covers significant changes in international accounts receivable and payable which are themselves greatly influenced by short-run changes in the trade balance.

The Canadian dollar showed great strength on the international exchange markets during the first quarter. The noon average price of the United States dollar expressed in Canadian currency was 95.84 cents, compared with 96.62 cents in the preceding quarter, setting a new post-war low. The low quotation of 95.50 reached in March was also a post-war record. There was remarkable stability in the exchange rate throughout the quarter, and the spread between the high and low quotations amounted to only 0.84 cents.

It will be noted that revised figures for 1955 and 1956 have been incorporated in the statements and table in this report. Additional details will be made available in the forthcoming annual report "The Canadian Balance of International Payments, 1956, and International Investment Position".

Summary of Capital Movements, by quarters, 1955 - 1957

(millions of dollars)

	1955	1956				1957
	IV	I	II	III	IV	I
Direct investment in Canada	+113	+121	+169	+120	+185	+100
Direct investment abroad	- 39	- 66	- 5	- 24	- 15	- 20
Canadian securities						
Trade in outstanding stocks	+ 10	+ 31	+ 57	+ 78	+ 29	+ 43
Trade in outstanding bonds	+ 15	+ 46	- 14	- 8	- 12	- 2
New issues	+ 13	+111	+181	+178	+211	+248
Retirements	- 18	- 71	- 23	- 24	- 22	- 43
Foreign securities	- 11	- 17	+ 5	+ 7	+ 17	- 14
Official loan repayments	+ 35	+ 7	+ 21	+ 7	+ 34	+ 7
Canadian dollar holdings of foreigners	+ 14	- 23	- 5	- 3	+ 5	- 31
Official holdings of gold and foreign exchange (increase, -)	+ 36	+ 29	- 30	- 5	- 27	+ 13
Other capital movements	+ 97	+195	+ 79	-122	- 35	+108
Net capital movement financing current account deficit	+265	+363	+435	+204	+370	+409



QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1957 are preliminary and

		1954	1955			
		IV	I	II	III	IV
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	1,062	967	1,098	1,127	1,140
3	Gold production available for export .....	38	39	39	37	40
4	Travel expenditures .....	50	26	66	182	54
5	Interest and dividends .....	67	26	32	27	75
6	Freight and shipping.....	82	82	100	108	108
7	Inheritances and immigrants' funds .....	19	16	25	24	21
11	All other current receipts .....	80	77	105	105	104
12	<b>Total Current Receipts</b> .....	<b>1,398</b>	<b>1,233</b>	<b>1,465</b>	<b>1,610</b>	<b>1,542</b>
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	984	971	1,150	1,163	1,259
4	Travel expenditures .....	88	78	119	156	96
5	Interest and dividends .....	156	131	99	91	162
6	Freight and shipping.....	94	78	108	113	116
7	Inheritances and emigrants' funds .....	25	21	23	30	31
9	Official contributions .....	3	5	4	8	7
11	All other current payments.....	128	134	125	134	136
12	<b>Total Current Payments</b> .....	<b>1,478</b>	<b>1,418</b>	<b>1,628</b>	<b>1,695</b>	<b>1,807</b>
	Balance on Merchandise Trade .....	+ 78	- 4	- 52	- 36	- 119
	Balance on Other Transactions, excluding B 9 .....	- 155	- 176	- 107	- 41	- 139
	Official Contributions.....	- 3	- 5	- 4	- 8	- 7
<b>C</b>	<b>Current Account Balance</b> .....	<b>- 80</b>	<b>- 185</b>	<b>- 163</b>	<b>- 85</b>	<b>- 265</b>
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada .....	+ 124	+ 85	+ 115	+ 104	+ 113
2	Direct investment abroad .....	- 22	- 11	- 12	- 12	- 39
	Canadian Securities					
3	Trade in outstanding issues .....	+ 18	- 33	+ 5	- 24	+ 25
4	New issues.....	+ 25	+ 109	+ 27	+ 17	+ 13
5	Retirements .....	- 54	- 86	- 61	- 19	- 18
	Foreign Securities					
6	Trade in outstanding issues .....	- 5	+ 14	- 6	+ 6	+ 11
7	New issues.....	- 2	- 5	- 17	- 4	- 22
8	Retirements .....	+ 2	+ 3	-	+ 14	-
	Loans by Government of Canada					
10	Repayment of post-war loans .....	+ 26	-	+ 10	+ 2	+ 27
11	Repayment of war loans.....	+ 8	+ 7	+ 8	+ 7	+ 8
14	Change in Canadian dollar holdings of foreigners..	+ 28	+ 30	+ 39	+ 6	+ 14
16	Change in official holdings of gold and foreign exchange (increase, minus).....	- 45	+ 71	- 56	- 7	+ 36
17	Other capital movements .....	- 23	+ 1	+ 111	- 5	+ 97
<b>E</b>	<b>Net Capital Movement</b> .....	<b>+ 80</b>	<b>+ 185</b>	<b>+ 163</b>	<b>+ 85</b>	<b>+ 265</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income, B 11) insurance transactions, and business services.

# BALANCE OF INTERNATIONAL PAYMENTS

data for 1956 are subject to revision.

1956				1957	Annual Totals			Four Quarters ending March 31, 1957	
I	II	III	IV	I	1954	1955	1956		
(millions of dollars)									
1,051	1,263	1,246	1,273	1,103	3,929	4,332	4,833	4,885	A 1
37	40	38	35	39	155	155	150	152	3
26	65	191	54	30	305	328	336	340	4
35	39	25	41	24	147	160	140	129	5
102	115	117	116	104	313	398	450	452	6
17	28	26	27	29	89	86	98	110	7
91	112	108	119	98	298	391	430	437	11
1,359	1,662	1,751	1,665	1,427	5,236	5,850	6,437	6,505	12
1,242	1,541	1,350	1,434	1,327	3,916	4,543	5,567	5,652	B 1
93	133	169	103	99	389	449	498	504	4
112	116	121	181	126	423	483	530	544	5
99	134	131	134	109	356	415	498	508	6
25	28	29	30	25	94	105	112	112	7
9	10	5	6	7	11	24	30	28	9
142	135	150	147	143	479	529	574	575	11
1,722	2,097	1,955	2,035	1,836	5,668	6,548	7,809	7,923	12
- 191	- 278	- 104	- 161	- 224	+ 13	- 211	- 734	- 767	
- 163	- 147	- 95	- 203	- 178	- 434	- 463	- 608	- 623	
- 9	- 10	- 5	- 6	- 7	- 11	- 24	- 30	- 28	
- 363	- 435	- 204	- 370	- 409	- 432	- 698	-1,372	-1,418	C
									D
+ 121	+ 169	+ 120	+ 185	+ 100	+ 392	+ 417	+ 595	+ 574	1
- 66	- 5	- 24	- 15	- 20	- 81	- 74	- 110	- 64	2
+ 77	+ 43	+ 70	+ 17	+ 41	+ 63	- 27	+ 207	+ 171	3
+ 111	+ 181	+ 178	+ 211	+ 248	+ 331	+ 166	+ 681	+ 818	4
- 71	- 23	- 24	- 22	- 43	- 203	- 184	- 140	- 112	5
- 16	+ 10	+ 10	+ 23	- 11	+ 7	+ 25	+ 27	+ 32	6
- 1	- 5	- 3	- 6	- 4	- 33	- 48	- 15	- 18	7
-	-	-	-	+ 1	+ 2	+ 17	-	+ 1	8
-	+ 13	-	+ 26	-	+ 42	+ 39	+ 39	+ 39	10
+ 7	+ 8	+ 7	+ 8	+ 7	+ 30	+ 30	+ 30	+ 30	11
- 23	- 5	- 3	+ 5	- 31	+ 34	+ 89	- 26	- 34	14
+ 29	- 30	- 5	- 27	+ 13	- 124	+ 44	- 33	- 49	16
+ 195	+ 79	- 122	- 35	+ 108	- 28	+ 204	+ 117	+ 30	17
+ 363	+ 435	+ 204	+ 370	+ 409	+ 432	+ 698	+1,372	+1,418	E

## NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.

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