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Canada's current deficit of $\$ 450$ million in godds and services with other countries in the
 sulted from a trebling of the import balance on merchand se accquat to $\$ 180$ minfien and a rise of about one-fifth to $\$ 262$ million in the deficit from non-merchandise thedABRAR.Y

The larger import balance between 1958 and 1959 has resulted from a rise int the value of imports while the greater imbalance in non-merchandise transactions resulted mainly from larger net payments by Canada on travel abroad, larger net remittances of interest and dividends to non-resident investors, and a temporary reduction in gold production available for export.

The rise in the deficit from non-merchandise transactions has been underway for some years with a consistent and substantial rise in imbalance from non-merchandise sources in each year since 1952. Payments have risen more than receipts reflecting a great variety of influences. These influences are associated for the most part with the rise in Canadian indebtedness to other countries which has led to increased interest, dividends, head office charges and other payments for business sorvices and the rises in population and consumers' incomes which have induced much heavier personal mutlays on travel and other services and remittances abroad.

As a result of the rise in net payments for non-merchandise transactions the current deficit of $\$ 450$ million in the first quarter of 1959 was greater than the deficit of $\$ 427$ million in the first quarter of 1957, which was the highest for that period of the year up to then. In 1959 the imbalance from non-merchandise transactions was up by almost one-third from the 1957 level, although the import balance on merchandise trade was less.

## Sharp rise in deficit on merchandise trade

In the first quarter of 1959 there was a rise of 9 per cent in the value of merchandise imports which along with a slight drop in the export total had the effect of producing an import balance of $\$ 188$ million compared with $\$ 63$ million in 1958 , and $\$ 226$ miliion in 1957 . This rise in imports contrasts with a decline of 13 per cent between the first quarters of 1957 and 1958. Fluctuations in Canadian imports are closely related to levels of incomes and business activity in Canada, and normally substantial rises accompany general upturns in economic activity of the kind that has been evident.

The increase in the volume of imports in 1959 was somewhat more than in value, import prices being on average appreciably less than one year earlier. As export prices were slightly higher than in the previous year a favourable change in the terms of trade is indicated.

The rise in the value of imports of 9 per cent was due to a few increases of significant size in a small number of comodities along with relative stability in the value of most items and only a few decreases. Increases occurred in such comodities as automobiles and parts, farm implements, some chemicals and rubber. Included among conmodities showing relative stability were such large groups, which have shown considerable flexibility in recent years, as industrial machinery and rolling mill products, and also fuel. Among the few instances of declines were coffee, pipes and tubes, mining machinery, aircraft and electrical apparatus.

[^0]Most of the increase which occurred between 1958 and 1959 was from the United States and other non-Commonwealth countries. In comparison with 1956, however, when the total was not dissimilar, the principal change has been less concentration in imports from the United States, with more of the purchases from the United Kingdom and other overseas countries and less from the United States than in that earlier period of rising demands.

While exports from Canada in the first quarter were not greatly different in total value from the previous year, there was considerable change in composition. The drop of less than 2 per cent in total reflects a variety of diverse changes. Several commodities which had been unusually high in the previous year, like cattle and aircraft, were sharply lower. There were also reductions in exports of such metals as aluminum, copper, and nickel more than offsetting a further sharp rise in uranium. On the other hand forest products were higher in total, particularly in the case of lumber and pulp which more than offset a drop in newsprint exports. There was also a small gain in exports of vegetable products including grains and in non-metallic mineral exports in total, although a further decline occurred in petroleum. Gains also occurred in exports of fish and products and agricultural implements.

Changes in the direction of trade were not pronounced. While there were moderate rises in shipments to the United States and United Kingdom, there were declines to other overseas destinations. These were most notable in the case of exports to India and to Europe and Latin America. In the previous year there had been large shipments of govermment-financed wheat to India and shipments of military aircraft sold to Germany.

Further rise in deficit from services and other non-merchandise items
The deficit from non-merchandise transactions continued to rise in the first quarter. At $\$ 262 \mathrm{million}$ the deficit from this source compares with $\$ 219$ million in the first quarter of 1958 , and $\$ 201 \mathrm{millon}$ in that part of $1957, \$ 176$ milion in 1956 , and $\$ 181$ million in l955. At this level thie imbalance was slightly wider even than in peak quarters in recent years which have usually occurred in the fourth or second quarters. In only one year in the post-war period (in 1955) has maximum imbalance from these transactions occurred in the first quatter.

The increased deficit originated in larger net payments on travel and income accounts and is transfers of migrants' funds. And gold production available for export was considerably less than i: the previous year, and a small surplus on freight and shipping account disappeared. Changes in the opposite direction occurred, however, in smaller payments on account of official contributions and for all other current transactions.

The deficit on travel account rose from $\$ 69$ million to $\$ 84$ million. This was the result of larger Canadian expenditures on travel in both the United States and overseas. Although the largest part of the rise was in winter travel in the United States compared with the previous year, there was a particularly sharp increase in Canadian travel overseas as well. At the same time nonresident expenditures on travel in Canada during the winter were only slightly larger than in the previous year.

The deficit of $\$ 110$ million on income account compares with $\$ 94$ million in the sawe quarter last year. This was the result of reduced receipts and increased payments. Receipts of dividends by Canadian companies from direct investments abroad were less, while payments of both interest and dividends to non-resident investors were higher. The larger interest payments by Canadian debtors reflected Canadian borrowing in the United States through the sale of new issues in the previous year. The rise in dividends was chiefly the result of larger transfers by subsidiaries to parent companies in the United States, although a small rise also occurred in dividend payments by public companies to non-residents. The increased transfers by subsidiaries were most prominent among industries producing for consumer markets in Canada.

With a reduction in immigration there was a decline in impigrants transfers, while pre11minary indications are that outward transfers were higher. Gold available for export appears to have been temporarily reduced.

In the quarter expenditures by the Canadian Government on official contributions amounted to $\$ 8$ milion compared with $\$ 11 \mathrm{million}$ in the same quarter of 1958. All other current transactions gave rise to a deficit of $\$ 73$ million in 1959 compared with $\$ 79$ milifon in the same quarter of $3 s, 8$. This was partly because payments had been unusually high in this quarter last year due to some nenrecurring government settlements. But while some other official transactions were also laas chtin year, there were general increases in transactions in services by business and individuals.

## Transactions by areas

The current account deficit with all countries rose even more sharply than with the United States where the rise was about one-third from $\$ 320 \mathrm{million}$ in the first quarter 1958 to $\$ 428$ million in the first quarter 1959. This was because of an abrupt change in the account with overseas countries from a surplus of $\$ 38$ million in 1958 to a deficit of $\$ 22$ million in 1959. This latter change was distributed among transactions with the Rest of the Sterling Area, OEEC countries, and other foreign countries. The surplus with the United Kingdom continued at $\$ 12$ million.

With the United States the increased deficit came from both comodity trade and nonmerchandise transactions. Imports from the United States rose considerably more than exports and most groups of "invisible" items with that country contributed to an enlarged deficit.

With the United Kingdom the current balance remained at $\$ 12$ million as a large export balance on merchandise account was offset by a larger deficit from a variety of non-merchandise transactions.

With overseas countries other than the United Kingdom there was a change from a current surplus of $\$ 26$ million in the first quarter of 1958 to a deficit of $\$ 34$ million in the first quarter of 1959 due to a contraction in merchandise surplus as exports fell and imports rose. This was the case to a varying extent with each of the groups of countries included. In the case of the Rest of the Sterling Area a decline occurred in the current account surplus as the value of exports was smaller mainly due to less wheat exported to countries in Asia compared with 1958 when some large shipments were financed by credit from the Canadian Government. The balance from non-merchandise transactions with this group was the same apart from a lower level of official contributions during the quarter. With OEEC countries the export balance was reduced by about one-half. Exports were considerably lower to many European countries, including Genmany, while imports rose. The resulting export balance was more than offset by net payments for non-merchandise transactions. In the case of all other countries the greatest change was a rise in imports.

Summar of Current Iransactions with the
United States, United Kingdom, and Other Countries
First Quarter 1958 and 1959
(millions of dollars)

|  | All Countries |  | United States |  | United Kingdom |  | Other Countries |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 1958 | 1959 | 1958 | 1959 | 1958 | 1959 | 1958 | 1959 |
| Merchandise exports (adjusted) | 1,088 | 1,071 | 650 | 660 | 157 | 163 | 281 | 248 |
| Merchandise imports (adjusted) | 1,151 | 1,259 | 828 | 905 | 113 | 112 | 210 | 242 |
| Balance on merchandise trade | - 63 | - 188 | -178 | -245 | $+44$ | + 51 | $+71$ | + 6 |
| Balance on non-merchandise trade | - 219 | - 262 | -142 | -183 | - 32 | - 39 | - 45 | - 40 |
| Current account balance | - 282 | - 450 | -320 | -428 | + 12 | + 12 | + 26 | - 34 |

## Capital movements

Capital movements in such long-term forms as direct investment, portfolio security transactions, and official loans led to a net capital inflow of $\$ 235$ million in the first quarter equivalent to slighly more than half the deficit on current account in this period. Other capital movements, mainly in short-term forms, totalled $\$ 215$ million. It should be noted that the inflow in longterm forms in the first quarter of the year customarily falls short of the current account deficit, and that on three earlier occasions in the fifties the shortfall was relatively greater than in the current year.

The net movement of foreign capital into Canada for direct investment in foreign-controlled enterprises during the first quarter is tentatively placed at $\$ 70$ million which is close to the lowest level recorded since 1951. It represents a sharp drop from the movement of $\$ 130$ million in the final quarter of 1958 , but that quarter was influenced by transfers in anticipation of 1959 capital requirements. The first quarter inflow has customarily been lower than average and the figure for 1959 may be compared with $\$ 85$ million for the corresponding quarter of 1958.

Inflows for the development of petroleum and mineral resources although at a reduced level compared with a year earlier, continued to represent by far the largest part of the net movement. The outline of the geographical origin of the inflows was broadly similar with some indication that a slightly higher proportion of the movement came from the United States.

It is tentatively estimated that no net balance resulted from movements of Canadian capital for direct investment abroad during the quarter, outflows having been offset by roughly equivalent returns of capital. This result compared with outflows of $\$ 5$ million in the final quarter of 1958 and $\$ 15$ million in the first quarter of that year.

Transactions in Canadian portfolio securities led to a net capital inflow of $\$ 163$ million. This compared with $\$ 124$ million in the final quarter of 1958 and $\$ 154$ million in the first quarter of that year. The total of $\$ 163$ million included net sales to non-residents of $\$ 35$ million outstanding Canadian bonds and debentures, $\$ 33$ million outstanding Canadian common and preference stocks and $\$ 133$ million of new issues of Canadian securities, offset to the extent of $\$ 38$ million by retirements of foreign-held Canadian securities.

The substantial net asles of outstanding Canadian bonds and debentures, made up largely of Government of Canada direct and guaranteed issues represented a further growth over the fourth quarter, when net sales occurred for the first time since the first quarter of 1956. The sale to non-residents of $\$ 133$ million of new Canadian issues comprised $\$ 112$ million of government issues chiefly made up of provincial, and $\$ 21$ million of corporate bonds and stocks. More than half of the $\$ 38 \mathrm{mfllion}$ of foreign-held bonds retired during the quarter were issues of the Government of Canada.

Comparing transactions in all Canadian securities during the first quarters of 1958 and 1959 the principal changes were greatly increased net sales to non-residents of outstanding issues of both stocks and bonds, a more moderate reduction in sales of new issues, and increased retirements (due primarily to the prepayment of a Government of Canada issue). The net inflow arising from transactions in securities of governments of all levels as a group rose, while the net inflow from transactions in corporate bonds and stocks fell.

Tramsactions in foreign portfolio securities led to a net capital inflow of $\$ 3$ million in the quarter.

The impact on Canada's balance of payments of intergovernmental loan transactions was smaller than in any earlier quarter covered by official balance of payments statistics. There were no repayments made to Canada, the finsl quarterly instalment on the 1942 losn to the United Kingdam having been made in 1958. A further advance of $\$ 1$ million was made to Ceylon for the purchase of wheat $f$ lour.

Ther was a capital outflow of $\$ 14$ million during the quarter arising from reductions in Camadian dollar holdings of foreigners. Outflows of $\$ 9$ million and $\$ 16$ million occurred respectively in the final and first quarters of 1958 , but in the intervening quarters Canadian dollar holdings of foreigners rose by $\$ 130 \mathrm{million}$. A part of this increase reflected funds held by the Government of Canada in a trust account for the United States Government to facilitate the placing of contracts in respect of Strategic Atr Comand hases; the balance of this account at March 31, 1959 was estimated in the Budget Papeat at $\$ 65.5$ anilien.

A capital inflow of $\$ 49$ million occurred from the exchange transactions of the Goverment of Canada, including the operations of the Exchange Fund Account. Official holdings of gold and United States dollars, expressed in terms of United States currency, were decreased from $\$ 1,939.1$ milion at December 31, 1958, to $\$ 1,888.3$ million at March 31, 1959.

Other capital movements appear on balance to have resulted in an inflow of $\$ 180$ million; large inflows in this item are characteristic of the first quarter.

The exchange value of the Canadian dollar fell slightly during the first quarter. The noon average price of the United States dollar in Canada, 97.05 cents, compared with 96.79 cents in the preceding quarter and 97.06 cents for 1958 as a whole. The trading range was 2.03 cents; the low of 96.16 cents was recorded at the beginning of January and the high of 98.19 cents in mid-February. The closing quotation was 96.78 cents.

Summary of Capital Movements, by quarters, 1957-1959
(millions of dollars)

| 1957 | 1958 |  |  |  | 1959 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Fourth Quarter | First Quarter | Second Quarter | Third Quarter | Fourth <br> Quarter | First |
| + 129 | + 85 | + 95 | + 90 | + 130 | + 70 |
| - 5 | - 15 | - 10 | + 15 | - 5 | - |
| - 15 | - 1 | - 10 | - 5 | + 22 | + 35 |
| + 7 | + 3 | + 13 | + 35 | + 32 | + 33 |
| + 88 | + 168 | + 290 | + 96 | + 112 | + 133 |
| - 28 | - 16 | - 38 | - 8 | - 42 | - 38 |
| + 5 | + 8 | - | + 8 | + 13 | + 3 |
| - | - 16 | - 8 | - | - 10 | - |
| + 17 | + 7 | + 17 | $+7$ | + 33 | - |
| + 18 | - 16 | $+40$ | + 90 | - 9 | - 14 |
| + 61 | - 39 | - 52 | + 32 | - 50 | + 49 |
| - 27 | + 114 | - 6 | - 165 | + 78 | + 180 |
| + 250 | $+282$ | + 331 | + 195 | + 304 | $+450$ |


|  |  | 1957 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | I | II | III | IV |
| $\wedge$ | Current Receipts |  |  |  |  |
| 1 | Merchandise exports (adjusted) | 1,102 | 1,215 | 1,308 | 1,284 |
| 3 | Gold production available for export | 39 | 31 | 27 | 50 |
| 4 | Travel expenditures ........................ | 31 | 76 | 197 | 59 |
| 5 | Interest and dividends | 25 | 37 | 31 | 56 |
| 6 | Freight and shipping | 104 | $11_{4}$ | 113 | 100 |
| 7 | Inheritances and immigrants' funds | 25 | 42 | 34 | 23 |
| 11 | All other current receipts | 111 | 106 | 91 | 87 |
| 12 | Total Current Receipts | 1,437 | 1,621 | 1,801 | 1,659 |
| B | Current Payments |  |  |  |  |
| 1 | Merchandise imports (adjusted) | 1,328 | 1,518 | 1,350 | 1,292 |
| 4 | Travel expenditures | 100 | 142 | 178 | 105 |
| 5 | Interest and dividends | 129 | $1 / 2$ | 141 | 181 |
| 6 | Freight and shipping | 109 | 143 | 135 | 119 |
| 7 | Inheritances and emigrants' funds | 27 | 30 | 32 | 33 |
| 9 | Official contributions | 5 | 8 | 7 | 17 |
| 11 | All other current payments | 166 | 166 | 153 | 162 |
| 12 | Total Current Payments | 1,864 | 2,149 | 1,996 | 1,909 |
|  | Balance on Merchandise Trade. | - 226 | - 303 | - 42 | - 8 |
|  | Balance on Other Transactions, excluding B 9 | - 196 | - 217 | - 146 | - 225 |
|  | Official Contributions | - 5 | - 8 |  | - 17 |
| c | Current Account Ralance | - 427 | - 528 | - 195 | - 250 |
| D | Capital Account |  |  |  |  |
|  | Direct Investment |  |  |  |  |
| 1 | Direct investment in Canada | + 91 | + 163 | + 137 | + 129 |
| 2 | Difect investment abroad | - 20 | - 22 | - 18 | - 5 |
|  | Canadian Securities |  |  |  |  |
| 3 a | Trade in outstanding bonds and dehentures | - 10 | - 3 | - 15 | - 15 |
| 3 b | Trade in outstanding common and preference stocks | $+\quad 40$ +86 | +47 $+\quad 96$ | + 43 | $+\quad 7$ $+\quad 8$ |
| 5 | New issues | + 264 | + 296 | + 142 | + 88 |
| 5 | Retirements | - 41 | - 23 | - 45 | - 28 |
|  | Foreign Securities |  |  |  |  |
| 7 | New issues | - 4 | - 4 | - 8 | - 7 |
| 8 | Ketirements. |  | + 2 | $+1$ | + 1 |
|  | Loans by Government of Canada |  |  |  |  |
| , | Drawings | 7 | + 19 | $\overline{7}$ | + 17 |
| 10,11 | Repayments | + 7 | + 19 <br> +26 | 7 $+\quad 7$ | +17 $+\quad 18$ |
| 14 | Change in Canadian dollar holdings of foreigners | - 33 | - 26 | + 7 | $+18$ |
| 16 | Change in official holdings of gold and foreign exchange (increase, minus) | +13 | - 22 | + 53 | + 61 |
| 17 | Other capital movements ....... | + 129 | + 82 | - 126 | - 27 |
| E | Net Capital Movement | + 427 | + 528 | + 195 | + 250 |

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.
A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Camadion Balance of International Payments".
A 11) This item includes government tansactions n.o.p. personal and institutional remittances, miscellaneous income, insurance transB11) actions, and business services.
data for 1957 are subject to revision.


## NOTES:

D A minus sign indicates an outnow of capital from Canada.
D1. 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 lioldings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.


[^0]:    Prepared in the Balance of Payments Section, International Trade Division.

