exceptional strength of these demands is also indicated by the ratio of gross home investment to gross national expenditure which was over 21 p.c. in 1947 compared with about 15 p.c. in 1946 and about 11 p.c. immediately before the Second World War. Investments in industrial plants and equipment have a particularly high United States dollar content giving rise to imports of machinery and industrial equipment and steel and other materials purchased in the United States. The general rise in Canadian inventories also had a substantial United States dollar content. The combined effect of these exceptionally heavy demands was to increase the ratio which Canadian imports of merchandise represent of the gross national product of Canada to a new high of 19·4 p.c. in 1947 compared with 15·6 p.c. in 1946.

Canadian imports from the United States rose from close to $1,400,000,000 in 1946 to just under $2,000,000,000 in 1947. The increase was distributed among all the principal groups of commodities. Approximately one-half of the increase in value occurred in imports of metal products which made up 43 p.c. of the total imports from the United States. Many of the direct demands arising from Canadian investment activities are reflected in this group of imports which includes machinery of all kinds and industrial materials such as steel. Other important gains in imports of fuels such as coal and petroleum also arose from the exceptional level of economic activity in Canada. The principal gain in imports of consumer goods was in textiles, particularly in cotton products. Other types of commodities imported from the United States also increased appreciably but gains were not as marked as in the case of the groups already noted.

Although the largest single contributor to the increased current deficit with the United States was the rise in the merchandise deficit there were also other important contributory factors. Larger outlays on both income and transportation account were outstanding among the changes in non-commodity transactions. The increase in payments on income account was due mainly to the great increase in dividends paid by Canadian subsidiaries to United States parent companies, reflecting larger earnings as well as some withdrawals of income accumulation in earlier years. Increases in dividend payments were only slightly offset by the decline in payments of interest on Canadian bonds and debentures held in the United States. The increased deficit on transportation account was a result of the greater volume of Canadian imports from the United States combined with higher freight rates in the United States. In addition to these increased payments there was a decline in non-recurring receipts of dollars through War Supplies Limited, although some substantial refunds by the United States of war expenditures, in 1947, tended to offset part of this decline in receipts. At the same time receipts from gold production remained relatively stable and the balance of receipts from the tourist trade was less than in 1946 because of the large rise in Canadian travel expenditures in the United States which was even greater than the appreciable increase in United States travel expenditures.

Capital Movements with the United States Dollar Area and Changes in Official Reserves.—The current deficit with the United States of $1,138,000,000 exceeded receipts of convertible exchange from other countries by $500,000,000.