

While the deficit with the United States was declining the current surplus with overseas countries was reduced sharply from \$1,220,000,000 in 1947 to \$774,000,000 in 1949. Part of this reduction occurred in the current account with the United Kingdom where the surplus declined from the post-war peak of \$633,000,000 in 1947 to \$486,000,000 in 1948 and \$443,000,000 in 1949. When the deficit with the United States was reduced in the first half of 1950, a basic change took place in commodity trade with the United Kingdom: exports to that country declined while imports rose. The same trend was in evidence to a marked degree in trade with other Sterling Area countries and also in trade with the rest of the world. But the decline in exports overseas was made up generally by the rise in exports to the United States in the first half of 1950.

While these variations in the current account surplus have had direct effects on the size of Canada's official reserves of gold and United States dollars, capital movements between Canada and other countries have also been a major influence. There was a decrease of \$743,000,000 in the official reserves in 1947 and gains of \$496,000,000 and 119,000,000 United States dollars, respectively, in 1948 and 1949.\* The official reserves of gold and United States dollars, which had been only \$501,700,000 at the end of 1947, had risen to \$1,117,100,000 by the end of 1949. The major influence on the decline in 1947 originating in the capital account was the large total of export credits extended by the Canadian Government to other governments, the net drawings on which in that year amounted to \$563,000,000. There were also heavy redemptions of Canadian securities owned abroad and Canada's contribution to the International Monetary Fund during 1947. In 1948, on the other hand, capital inflows contributed to the reserves, together with the sale of the Canadian Government issue of \$150,000,000 in the United States. The principal factor contributing to the small capital outflow in 1949 was the drawings of \$120,000,000 on the Canadian loan to the United Kingdom. The net outward movement of capital in 1949, apart from the rise in official reserves, was \$43,000,000 and compares with a net inward movement of \$40,000,000 in 1948.

**Transactions with the Sterling Area.**—The current surplus from Canadian exports of goods and services to the Sterling Area was only moderately lower in 1949 than in 1948 but substantially lower than in the post-war peak in 1947. The declines from the peak occurred in the surplus with the United Kingdom and with other Sterling Area countries. The drop between 1948 and 1949 was all in the surplus with the United Kingdom as a slight increase appeared in the surplus with the rest of the Sterling Area. The current account surplus of \$578,000,000 which Canada had with the Sterling Area in 1949 compares with \$874,000,000 in 1947. The distribution between the accounts with the United Kingdom and the rest of the Sterling Area was \$443,000,000 and \$135,000,000, respectively, in 1949, and compares with \$633,000,000 and \$241,000,000 in the same accounts in 1947.

The comparative stability between the years 1948 and 1949 was due to a number of special factors that operated to maintain the surplus in 1949. Thus, the value of exports in 1949 included a larger volume of wheat sold at a higher price than in 1948 and larger exports of aluminum, nickel and aircraft. At the same time substantial declines occurred in other significant exports such as bacon, eggs, flour and lumber. Total exports to the rest of the Sterling Area actually increased as there were extraordinarily heavy shipments of wheat, locomotives and railway equipment to

\* The figures in Table 5, p. 934, are Canadian dollar equivalents. In 1947 and 1948 the Canadian dollar was at par with the United States dollar.