

The increase in the merchandise deficit was due entirely to the rise in the value of imports as the value of exports was slightly higher. The divergence of economic conditions in Canada and the United States was the principal factor influencing this trend. There was a reduction in United States demand in the first part of the year while Canadian demand was maintained throughout most of the year.

The total volume of exports to the United States was maintained in 1949 as a whole but showed divergent trends in different groups of commodities and in different parts of the year. Among the groups that were higher in value were metals, agricultural implements, agricultural and vegetable products and newsprint. Notable declines occurred in wood-pulp and certain types of lumber. For the year, exports to the United States amounted to slightly more than one-half of the total value of all Canadian exports, the highest ratio on record.

The increase in the volume of imports from the United States for 1949 was influenced by relaxation of certain restrictions, by higher prices, and by improving supplies of commodities. Demand was strong in the early part of the year but in the later months strikes in the steel and coal industries in the United States led to interruptions in supply which affected the volume of Canadian imports.

More than one-half of the increased current deficit with the United States in 1949 was due to non-merchandise transactions, the deficit from which increased by \$112,000,000 to \$216,000,000. The most important contributing factors to this deterioration were the decline of \$48,000,000 in net receipts from international tourist expenditures, an increase of \$55,000,000 in net payments on income account, and an increase of \$38,000,000 in net payments for all other types of miscellaneous current transactions. The only favourable trends in major groups were the increase in the value of gold production of \$20,000,000 and a drop of \$9,000,000 in net payments on freight and shipping account.

The decline in the net receipts on international travel account was due to a 45 p.c. rise in the expenditures of Canadians in the United States, more than one-half of which was spent on purchases facilitated by relaxations of import prohibitions. At the same time expenditures of United States travellers in Canada showed little change as compared with 1948. An increase in the number of motorists from the United States in the longer-term category was mainly offset by reduced expenditures by local short-term visitors. The principal change affecting the increase in the deficit on income account was the growth in the total of dividends paid by United States companies to the United States which rose to a new peak of \$242,000,000 in 1949, mainly due to the large dividends paid by Canadian subsidiaries to parent companies in the United States. The larger deficit on account of miscellaneous current transactions was affected particularly by a change in statistical practice following the entry of Newfoundland into Confederation. Part of the increase in the value of gold available for export followed the higher price accompanying the devaluation of the Canadian dollar in September, although a larger production throughout the year also contributed to the increase. Most of the improvement on freight and shipping account can be traced to the smaller payments to United States railroads because of the reduced volume of imports of coal during the year.

Transactions with Other Countries.—The principal change during 1949 in the current account between Canada and other countries belonging to the Organization for European Economic Co-operation was a decline of \$40,000,000,