

The surplus with countries included in the Organization for European Economic Cooperation was smaller than in any other postwar year and that with other sterling area countries was about one-half the size of the previous year, while the surplus with the remaining group of other countries almost disappeared in 1954. Exports to each of these groups of countries declined in 1954. A considerable decline in wheat exports was primarily responsible but motor vehicle exports also contributed. Exports of some industrial materials however were higher, particularly to western Europe. In contrast to the decline in exports, imports from these areas were either well maintained or higher. A sharp rise in the deficit on invisibles with western European countries can be traced primarily to increased freight and shipping payments.

Capital Movements.—The longterm capital inflows which have been a prominent feature of Canada's capital account in recent years are closely related to the financing of Canadian development. Many of these inflows are for the direct development of Canadian resources by non-resident firms. Some have taken the form of Canadian borrowing in the United States through the sale of new issues of Canadian securities while others have arisen from international trading in securities and other means. Although in some areas of development capital inflows have been the predominant source of financing, this is not so with all types of new investment in Canada. Consequently foreign capital has been only a minority contributor to the total investment in Canada although a relatively large contributor to some spheres of industrial development.

The outstanding feature of capital movements in 1954 was again the predominance of inflows of a longterm character, and inflows for direct investment were once again the largest group of net inflows. However total inflows for direct investment at \$392,000,000 were less than the \$426,000,000 recorded in the preceding year in contrast to a rising trend up until 1953. Inflows of new capital for direct investment in the petroleum industry continued to rise to a new peak of \$177,000,000 but declines occurred in inflows for direct investment in other mining industries and in manufacturing. United States capital constituted about three-quarters of the net inflow in 1954 but made up a somewhat lower proportion of total direct investment inflow than in recent years. The inflow from the United Kingdom at \$75,000,000 was at a new peak but that from other countries was less than in 1953.

The net inflow of capital for longterm investment through the sale of new issues of Canadian securities abroad amounted to \$128,000,000 in 1954, somewhat less than in 1953. Sales of new issues at \$331,000,000 were only moderately less than in 1953 but retirements at \$203,000,000 were considerably higher. New issues were concentrated in the early months of the year and the volume declined as the margin between interest rates in Canada and the United States narrowed.

For the first time since 1951 trade in outstanding Canadian securities led to a capital inflow in 1954 of \$63,000,000 a result of widely divergent capital movements. Canadians repurchased government bonds mainly from the United States but sold corporation bonds and stock to the United States, United Kingdom and other countries. While the rate of repatriation was considerably higher than in 1953 there was a marked growth in sales to non-residents of securities of Canadian corporations. These included net sales of \$121,000,000 worth of stocks of Canadian companies. Contributing to this development was a change in administrative arrangements in the United States which facilitated the formation of Canadian diversified management investment companies with important tax advantages to United States investors.

Among other capital inflows were repayments of \$72,000,000 on Canada's war and postwar loans to overseas governments, a rise of \$34,000,000 in non-resident holdings of Canadian dollars and a small balance of \$7,000,000 from liquidations of Canadian holdings of outstanding foreign securities.