

**Current Account Transactions.**—The relatively stable current account deficits of some \$400,000,000 in 1953 and 1954, were followed by a widening of such deficits to \$698,000,000 in 1955 and \$1,372,000,000 in 1956. The growth in the deficit over these two years of rapid expansion in the Canadian economy was primarily related to a larger imbalance on merchandise trade. Of the \$940,000,000 rise in the deficit between 1954 and 1956, almost \$750,000,000 was the result of larger net payments for imported commodities, and the remainder reflected growth in the non-merchandise or 'invisible' items. From the end of the War until 1955, there was a relatively consistent pattern of surpluses on adjusted merchandise trade transactions,\* and some of these surpluses were substantial. The pattern was broken only in 1951 and 1953, and the 1953 deficit of \$58,000,000 was replaced by a small surplus in 1954, with exports contracting relatively less than imports as economic activity slackened in that year. Towards the end of 1954, however, the slow-down came to an end, and a period of unprecedented growth and development began.

The deficit on merchandise transactions grew to \$211,000,000 in 1955 and \$734,000,000 in 1956, largely as a result of \$2,200,000,000 additional imports. The expansionary forces that were evident throughout the two years permeated almost every area of economic activity but the major area of expansion and development was investment. During 1955 and 1956, public and private domestic investment increased by 13 p.c. and 24 p.c., respectively. This rise included utility and resource development, machinery and equipment for manufacturing and service industries, including government investment expenditures on highways, and services incidental to the growth in house building. In recent years a large part of the equipment and supplies for Canada's investment program has been obtained from the United States. In 1955 and 1956 the record levels of expenditure in this sector resulted in tremendous growth of imports of machinery, equipment and construction materials, and of raw materials for the Canadian capital goods industries. At the same time, high levels of personal income and consumption resulted in larger imports of consumer goods, and materials and supplies for Canadian industry producing consumer goods. Gains in almost every phase of the economy in 1955 and 1956 exerted heavy pressure on Canadian productive capacity, and shortfalls in the face of these demands were met for the most part with imported goods, largely from the United States.

At the same time, economic activity over these two years grew apace in most countries, including such important markets for Canadian production as the United States, the United Kingdom and Western Europe. In the two years Canadian exports increased by about \$400,000,000 and \$900,000,000 respectively; gains in a large number of traditional export categories were accompanied by some extraordinary increases. Exports of grain in 1956 were exceptionally large as a result of shortages in local supplies in Western Europe. In addition, there were marked advances in exports of some raw materials following increased productive capacity.

Export and import prices rose almost 7 and 4 p.c., respectively, during 1955 and 1956 and, as a result, the terms of trade became slightly more favourable.

There was also a significant and persistent advance in the deficit on non-merchandise account although this was smaller than on commodity trade. From \$445,000,000 in 1954 this deficit, from a wide range of transactions in services with other countries, rose to \$487,000,000 in 1955 and to \$638,000,000 in 1956. The over-all expansionary influences of a fast-growing economy were evinced by increased payments abroad in 1955 and 1956 for the whole range of invisible imports; the most notable of these were for travel by Canadians outside of Canada, interest and dividend payments on the growing amount of foreign capital invested in Canada, freight and shipping, and business and other miscellaneous services. Another group of rising expenditures abroad included the cost to the

\* The adjustments from commodity trade statistics to merchandise imports and exports for balance of payments purposes include a variety of non-commercial items such as settlers' effects, and bequests and donations in kind, items covered elsewhere in the balance of payments such as tourists' imports and exports, and a variety of special items including defence imports for the account of governments of other countries.