

PART III.—EXTERNAL TRANSACTIONS*

Section 1.—Canadian Balance of International Payments

Canada's total commercial and financial transactions with other countries are presented in summary form in statements of the Canadian balance of international payments. The current account statement, covering all current exchanges of goods and services, indicates the main categories of transactions giving rise to receipts from and expenditures abroad, and the extent to which these are out of balance. The capital account presents an analysis of the movements of short-term and long-term capital that have occurred during a comparable period.

Each year since 1950, with the exception of 1952, Canada's current expenditures abroad exceeded external current receipts. The current account deficits that resulted in this period of rapid Canadian development were financed by inflows of capital. Current account deficits have customarily been associated with periods of Canadian prosperity, and the rate of recent Canadian growth with the development of new resources has been once again the underlying element in the strength of Canadian demands for imported goods and services. High levels of investment at a time when defence expenditures were also very heavy, together with rising levels of consumption, contributed to the deficits. Until 1955 the deficits in recent years were not large in proportion to the high levels of total current transactions and capital inflows of a long-term type were large enough to finance the deficits in most periods. But in 1955 the current deficit rose to \$698,000,000, substantially more than the net inflow of long-term capital. In 1956, as the result of continuing high levels of investment and consumption, the deficit rose to the unprecedented peak of \$1,366,000,000; at the same time, inflows of capital in long-term forms more than tripled those of the previous year and were more than sufficient to finance the record deficit. In 1957 the deficit rose even further to \$1,400,000,000 and inflows of capital in long-term forms were almost sufficient to finance it. But, in contrast to 1956, the trend over 1957 was towards a reduced deficit and the figure for 1958, reflecting a moderation of economic activity, was substantially smaller than in the preceding years.

Current Account Transactions.—Exceptional imbalances on current account of nearly \$1,400,000,000 occurred in both 1956 and 1957. But there were significant changes in the underlying sources of the deficits, for the balance on merchandise account† fell by \$149,000,000 between the two years while at the same time there was a rise of \$183,000,000 in the deficit from non-merchandise transactions. In 1957 non-merchandise transactions contributed \$821,000,000 to the deficit on current account and merchandise transactions contributed \$579,000,000, whereas in 1956 the merchandise deficit had accounted for more than one-half of the total deficit. While the merchandise deficit has varied widely, the deficit on non-merchandise transactions has risen year by year from \$325,000,000 in 1952 to more than two and one-half times that figure in 1957.

In recent years the relative importance of exports of materials for industry, such as forest products, metals and minerals, has been increasing while the relative position of wheat and some other agricultural products has declined. In addition to new products for export, like iron ore, petroleum and uranium, there have been general increases in the productive capacity of more traditional staples like pulp and paper, nickel, aluminum and copper. While demands for some of these industrial materials weakened in 1957, demands for others increased and for the year as a whole merchandise exports rose \$72,000,000 to total \$4,909,000,000. At the same time merchandise imports fell \$77,000,000 from the levels of 1956 to total \$5,488,000,000. Exceptionally high levels of all types of imports were characteristic of both years with special emphasis on imports of investment goods and industrial materials. But general similarity between the two years conceals the

* Prepared in the Balance of Payments Section, International Trade Division, Dominion Bureau of Statistics. More detailed information is given in the annual publication *The Canadian Balance of International Payments, and International Investment Position*, and in *Quarterly Estimates of the Canadian Balance of International Payments*.

† 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.