

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 1956 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. In 1956 and 1957, as the result of continuing high levels of investment and consumption, the deficits rose to unprecedented peaks of \$1,366,000,000 and \$1,455,000,000; at the same time, inflows of capital in long-term forms rose very sharply. The figure for 1958, reflecting some moderation of economic activity in Canada, was substantially smaller than in the preceding years but nevertheless amounted to \$1,131,000,000. And in 1959 the deficit on current account again reached peak levels at \$1,429,000,000, considerably more than the net inflow of long-term capital.

Current Account Transactions.—There were significant changes in the underlying sources of the deficits on current account of around \$1,400,000,000 that occurred in 1956, 1957 and 1959. The balance on merchandise account† fell between 1956 and 1959 by \$348,000,000 and, at the same time, there was a rise of \$411,000,000 in the deficit from non-merchandise transactions. In 1959 non-merchandise transactions contributed \$1,049,000,000 to the deficit on current account and merchandise transactions contributed \$380,000,000, 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 three times that figure in 1959.

In recent years the relative importance of exports of materials for industry—in such broad areas as forest products, metals and minerals—has been increasing and the relative position of wheat and some other agricultural products has declined. In addition to new products for export—such as 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. Expansions in demand for industrial materials produced by leading primary industries were responsible for most of a gain of \$266,000,000 in 1959 in merchandise exports, which reached \$5,153,000,000. Merchandise imports rose at the same time by \$467,000,000 to a total of \$5,533,000,000. Imports have demonstrated much more flexibility than exports in recent years. The increases in 1959 were widely distributed as usually occurs in a period of rising economic activity. Details of Canada's foreign trade are covered in Parts I and II of this Chapter.

* Prepared in the Balance of Payments Section, International Trade Division, Dominion Bureau of Statistics. More detailed information is given in the annual publication *Canadian Balance of International Payments and International Investment Position* (Catalogue No. 67-201), and in *Quarterly Estimates of the Canadian Balance of International Payments* (Catalogue No. 67-001).

† The adjustments from commodity trade statistics to merchandise imports and exports for balance of payments purposes include some items covered elsewhere in the balance of payments, as well as other adjustments necessary to conform to international receipts and payments.