Prices used in the indexes are, for the most part, selling prices reported monthly by manufacturers, although in some cases distributors' prices are used. Prices of imported machinery and equipment are included in the index, represented either by commodity price indexes of the United States Bureau of Labor Statistics or by prices collected directly from foreign manufacturers. All prices have been adjusted as relevant to include duty, exchange and federal sales tax.

21.3.6 Security price indexes

Security price indexes measure, through time, the effect of price change on the value of a portfolio of stocks bought and held by a hypothetical investor (as opposed to the more speculative trader). The portfolio represents stocks of Canadian companies listed on the Toronto, Montreal and Canadian stock exchanges. In the case of the mining index, eligible issues are for producing mines only. The indexes in Table 21.29 express current prices as a percentage of prices in 1961.

21.4 Balance of international payments

The Canadian balance of international payments summarizes transactions between residents of Canada and those of the rest of the world. Current account transactions, which measure the flow of goods and services between Canada and other countries, are included, with minor adjustments, as a component of gross national expenditure. Capital account transactions between residents and non-residents are included in the financial flow accounts. Current account transactions are summarized in Tables 21.30 and 21.31. The Canadian balance of international payments for 1970-72 is presented in Table 21.32.

Analysis of 1971 flows. Canada recorded a reduced current account surplus of $401 million in 1971 – a substantial decline from $1,082 million in 1970, which had been the first surplus recorded since 1952. The size of the 1970 surplus was, however, produced mainly by a combination of several special factors which resulted in an extremely large merchandise trade surplus.

With the economy gaining strength in 1971, as evidenced by the 9.1% rise in gross national product in current dollar terms, the growth in imports outpaced that of exports. The merchandise trade surplus in 1971 therefore fell to $2,397 million from $3,048 million in 1970. The deficit on non-merchandise transactions continued to rise and reached $1,996 million in 1971, up $30 million from the previous year. On a seasonally adjusted basis, the current account balance declined throughout 1971 going from a surplus of $343 million in the first quarter to reach a deficit of $216 million in the last three months of the year.

Inflows of capital in long-term forms declined to $394 million from $742 million in 1970 and over $2,000 million in 1969 (abstracting deliveries of securities contracted for in earlier years, the 1971 figure was only $113 million). The main feature in this decline has been the reduction in new issues of Canadian securities sold abroad to $1,162 million in 1971 from levels of around $2,000 million in both 1968 and 1969 and $1,227 million in 1970. A greater proportion of new Canadian issues was raised on the Canadian markets in both 1971 and 1970 than in 1969, reflecting the easing monetary situation in Canada and the general availability of funds at comparable cost. During this period outflows for Canadian direct investment abroad were at levels much above those prevailing prior to 1969. In addition, there were sharp increases in government loans and advances to developing countries and international investment agencies and in export credits financed directly or indirectly at risk of the Government of Canada. Factors tending to increase the long-term inflow were the continued movement of foreign direct investment into Canada at substantial rates, climbing from $590 million in 1968 to $885 million in 1971, and the continued disinvestment by Canadians (particularly financial institutions) of their foreign portfolio investments which led to an inflow of $191 million in 1971. The bulk of this reduction was in US equities and coincided with a protracted decline in North American stock exchange prices.

Short-term capital movements in 1971 led to a net capital outflow of $18 million. The principal factor accounting for the change from successive outflows was the influx of $874 million resulting from the reduction in Canadian holdings of foreign bank balances and other short-term funds abroad, following five successive annual outflows totalling over $3,000 million. The build-up of these balances was accelerated during periods of very high interest rates abroad, particularly Eurodollar rates. The category "other short-term capital transactions" led to a net outflow of $1,082 million of which about 85% was accounted for by