provincial government bonds and new issues of corporate bonds placed in the United States, payments of interest on funded debt rose to $783 million. Irregularly large dividends in the fourth quarter of 1971 caused an annual increase of $39 million over 1970, despite a significant decline in profit remittances of unincorporated Canadian branches of US corporations and smaller disbursements of dividends of Canadian publicly listed companies.

Receipts for travel and freight and shipping both rose by approximately 5%. Travel receipts neared the $1,300 million mark while receipts on freight and shipping, buoyed somewhat by the longshoremen strike in the United States, amounted to $1,184 million. On the other hand, other service receipts declined to $1,340 million due to lower receipts from foreign governments and a reduction in miscellaneous income.

With the United States the current account deficit remained relatively unchanged at $193 million during 1971 (Table 21.31). On merchandise trade the surplus increased by $58 million to $1,192 million following approximately 10% increases in both exports and imports over the previous year. With the raising of the US import quotas, sales of crude petroleum increased. Exports of natural gas also rose and shipments of lumber surged ahead with the boom in residential construction in the United States. More motor vehicles, engines and parts and aluminum were also exported while there was a decrease in deliveries of iron ore and nickel. On the imports side, motor vehicles, engines and parts led the way with a 25% increase. More agricultural machinery, communication and office equipment were imported while purchases of aircraft, engines and parts fell sharply.

The current account surplus with the United Kingdom dropped by 30% to $502 million resulting largely from a decline in the commodity trade surplus to $568 million. Merchandise exports at $1,400 million were down from the previous year, while imports advanced by 13% to $832 million. All of the service and transfer items except other service transactions contributed to the increase in the non-merchandise deficit to $66 million.

21.4.2 Capital movements

Capital movements between Canada and other countries in 1971 produced a net inflow of $376 million, a decrease of $72 million from 1970. Inflows of capital in long-term forms declined $348 million from 1970 levels to $394 million while short-term capital movements led to an outflow of $18 million, a change of $276 million from a 1970 net outflow. The net capital inflow, together with a current account surplus of $401 million and a $119 million allocation of Special Drawing Rights, produced an increase in Canada's net official monetary assets of $896 million.

Direct investment. Initial estimates indicate that, for the year 1971, the direct investment net inflow amounted to $885 million and resulted in the largest net inflow ever recorded. US investors contributed about 68% of the total and directed the largest part of this capital to the petroleum and natural gas and the mining industries. In contrast, the bulk of the net inflows of capital from continental Europe and Japan was for the manufacturing sector of the economy.

The net capital outflow for Canadian direct investment abroad during 1971 amounted to $305 million, about 60% of it directed to the United States, 19% to the United Kingdom and continental Europe, and the remainder approximately equally divided between the rest of the sterling area and all other countries. By far the largest part of the net outflows originated with the mining sector although the petroleum and natural gas and the transportation sectors contributed significant amounts.

Security transactions. Portfolio transactions during 1971 gave rise to net inflows of $311 million, marking a continuation of the decline in 1970 to $565 million from the 1969 level of $1,806 million. Inflows from sales of new Canadian issues abroad at $1,162 million were down from already low 1970 inflows of $1,227 million, while retirements for 1971 of $804 million were at record high levels. This combination of moderate foreign sales of new issues and high security retirements gave effect to the lowest net new financing from abroad since 1962. Trade in outstanding Canadian securities also contributed to the decline in portfolio inflows with a $54 million increase in net outflows to $238 million from $184 million in 1970. Transactions in foreign securities, however, gave rise to substantially increased net inflows as Canadians reduced their holdings of outstanding foreign securities by $244 million, an increase of $146 million from net sales in 1970 of $98 million. This inflow was offset to some extent by an increase in sales in Canada of new foreign securities to $63 million from $34 million in 1970, while retirements of foreign securities held by Canadians were estimated at $10 million.