

attributable to a sharp contraction in the merchandise trade balance, the surplus on which declined by more than a billion dollars.

During 1974 the total value of merchandise exports rose to nearly \$32.5 billion, an increase of 27% over 1973. Merchandise imports, however, advanced at a more rapid pace, rising by 35% to almost \$31.5 billion. The resultant trade surplus of \$1,020 million was less than half the \$2,231 million surplus recorded in 1973. Excluding trade in crude petroleum, the balance was in surplus by only \$100 million, compared with a \$1.6 billion surplus a year earlier. The rise in the value of exports was the result of price increases as the physical volume of exports declined. While there was some increase in the physical volume of imports, price increases were the major factor in the substantial increase in total value.

Crude petroleum was a major contributor to the rise in the exports and imports, accounting for 29% of the advance in exports and 21% in imports with the balance on trade amounting to a surplus of \$920 million in 1974, up from \$616 million a year earlier.

Substantial increases were also recorded for exports of wheat, wood pulp, newsprint, and petroleum and coal products. While the volume of wheat shipments declined in 1974, a substantial rise in prices resulted in an export gain of almost \$900 million for this commodity. An advance of about \$250 million was recorded on automotive exports. Partially offsetting these increases, there was a substantial reduction in lumber exports of more than \$300 million.

Apart from crude petroleum, the advance in imports was paced by higher purchases of automotive products, fabricated steel, raw sugar, plastics, organic chemicals and other transportation equipment. Imports of automobiles and automotive products increased by more than \$850 million. This strong rise in automotive imports led to an enlarged deficit on automotive trade of about \$1.3 billion, almost twice as large as the deficit of the previous year.

The non-merchandise deficit of \$2,897 million was \$241 million higher than in 1973. Net payments in respect of service transactions rose by \$489 million to \$3,505 million, partly offset by a \$248 million increase in net transfer receipts of \$608 million. The expansion in the services deficit was largely due to the enlarged deficits recorded on "other services" and interest and dividends. "Other service" transactions, which is composed of government transactions, miscellaneous income and business services, resulted in a deficit of \$1,097 million, up \$213 million from 1973. Net payments of miscellaneous income accounted for the larger part of this increase. The deficit balance on interest and dividends, which is the major contributor to the over-all services deficit, rose by \$148 million to \$1,492 million. A substantial increase in receipts of immigrants' funds, in line with the sharp rise in the number of immigrants entering Canada during 1974, was the major factor accounting for the enlarged surplus on unilateral transfers. Official contributions to developing countries rose by 30% to \$332 million.

#### 21.4.2 Capital movements

Capital movements between Canada and other countries resulted in 1974 in a substantial net inflow of \$1,901 million, following a small net outflow of \$42 million in 1973. Inflows of capital in long-term forms rose, on balance, by almost \$300 million to \$944 million while the net short-term capital inflow was \$957 million, a swing of \$1,650 million from the net outflow recorded in 1973. The net capital inflow together with the current account deficit of \$1,877 million accounted for a net increase of \$24 million in Canada's net official monetary assets.

**Direct investment.** Net inflows for foreign direct investment in Canada amounted to some \$435 million in 1974 of which more than 95% came from the United States. The annual inflow was down sharply from \$720 million in the previous year, and constituted the lowest annual inflow since 1964. Although broad-based, the decline in direct investment inflows was especially marked in the petroleum and natural gas sector.

Takeovers of foreign concerns by Canadian-based enterprises had a substantial impact on Canadian direct investment abroad in 1974, playing a significant role in boosting net outflows to a record \$645 million. Slightly more than 55% of direct investment outflows were to the United States, and almost 40% to overseas countries outside Europe and Japan. Canadian mining concerns were responsible for somewhat less than half of all Canadian direct investment outflows, with financial enterprises next with almost 20% of the total.

**Security transactions.** Portfolio transactions gave rise to a net inflow of \$1,905 million, the largest annual inflow recorded by this series which has been compiled since 1927. Sales to non-