exchange rates in which the Canadian dollar was depreciated by about 9 p.c. relative to the United States dollar, and sterling was reduced in value by 30 p.c. relative to the same standard.

These changes in exchange rates caused a sharp increase in export and import prices in the following months. Since the value of the Canadian dollar was lower, world prices in Canadian dollar terms were higher. The increase in import prices resulting from the exchange rate readjustments was greater than that in export prices. This was caused mainly by the greater share in imports than in exports of commodities, prices of which were determined in currencies with respect to which the Canadian dollar had been depreciated. In the first half of 1950, the business recovery in the United States led to some further increase in trade prices but this was not pronounced.

The outbreak of the Korean war was followed by renewed increases in export and import prices, especially of such important strategic raw materials as wool, rubber and tin. In 1950, the effect of increases in world prices was mitigated by the appreciation of the Canadian dollar following the abandonment of the fixed exchange rate policy in October, but the continuation of the price rise soon absorbed the effects of this change. Import prices rose very steeply in the last part of 1950 and the early months of 1951; export prices followed the upward trend at a slower rate. A pronounced deterioration in the terms of trade resulted and contributed heavily to the import balance on commodity trade in the first six months of 1951.

3.—Price of the United States Dollar in Canada, by Month, 1946-52

NOTE.—Rates published by Bank of Canada. To Oct. 1, 1950, average, for business days in period, of mid-rate between official buying and selling rates; from Oct. 2, 1950, noon average market rate for business days in period.

(Canadian cents per U.S. dollar)

Month	1946	1947	1948	1949	1950	1951	1952
January	110·25	100·25	100·25	100·25	110·25	105·17	100·48
February	110·25	100·25	100·25	100·25	110·25	104·92	100·10
March	110·25	100·25	100·25	100·25	110·25	104·73	99·59
April	110·25	100·25	100·25	100·25	110·25	105·99	98·09
May	110·25	100·25	100·25	100·25	110·25	106·37	98·38
June	110·25	100·25	100·25	100·25	110·25	106·94	97·92
July	101·61	100·25	100·25	100·25	110·25	106·05	96·91
August	100·25	100·25	100·25	100·25	110·25	105·56	96·11
September	100·25	100·25	100·25	104·75	110·25	105·56	95·98
October	100·25	100·25	100·25	110·25	105·34	105·08	96·43
November	100·25	100·25	100·25	110·25	104·03	104·35	97·66
December	100·25	100·25	100·25	110·25	105·31	102·56	97·06
Annual Average	**105·75**	**100·25**	**100·25**	**103·08**	**108·92**	**105·28**	**97·89**

The terms-of-trade ratio is calculated by expressing an export price index as a percentage of an import price index. It expresses the import purchasing power of a unit of Canadian exports. When import prices rise more rapidly than export prices, then the quantity of imports obtained in return for any given quantity of Canadian exports falls, and either exports must be increased to pay for imports or other means of payment must be found (unless the volume of imports is artificially restricted). This was the situation late in 1950 and in the first half of 1951.