

**Current Account Transactions.**—The current deficit in 1954 of \$432,000,000 was only slightly less than that of \$443,000,000 in 1953, although there was some slowing down in Canadian economic activity late in 1953 and also in 1954. The size of the deficit in 1954 was not greatly reduced as there was some decline in current external receipts and also in expenditures abroad and by the second half of the year upward trends in economic activity had reappeared in North America. The relative stability in the balance was also partly caused by opposite movements in the balances of merchandise trade and of other current transactions. A change from an import balance on merchandise trade to an export balance was partly offset by a larger deficit on non-merchandise account.

The change in 1954 from an import balance to a small export balance in the balance on merchandise trade, when adjusted for use in balance of payments statements, was not as large as occurred in the merchandise account in immediately preceding years. There was however a considerable contraction in the value of both exports and imports. Prominent among influences on Canadian trade in 1954 were the divergent trends in industrial activity in North America and western Europe. Declines occurred in exports to the United States and to overseas countries but the latter decline was concentrated in a few commodities, such as wheat and automobiles, subject to special influences. Other exports overseas were greater, reflecting the high level in economic activity in western Europe particularly. Although there were general declines in Canadian imports in 1954 influenced by the interruption in Canadian expansion, the value was still higher than in any year prior to 1953. The decline in value of imports was probably greater than shown but a change in the procedure of coding imports increased the value of imports in June 1954 by an estimated \$40,000,000. Import prices remained stable in contrast to export prices which fell by 2.7 p.c.

The deficit on non-merchandise account of \$445,000,000 was at a new high level in 1954, accounted for to a great extent by larger deficits on income and travel account. These two items, along with a deficit on all other current transactions, were responsible for most of the current deficit. The large deficit on income account was attributable to larger payments of both interest and dividends to investors abroad at a time when receipts of interest and dividends were lower. The increase in the deficit on travel account resulted mainly from a rise in Canadian travel expenditures in overseas countries. The travel account with the United States showed comparative stability in the face of the recession in business in North America. The deficit on freight and shipping account was less in 1954 than in 1953 but it remained high in comparison with earlier years. The deficit on miscellaneous current transactions was higher mainly because of a larger reduction in receipts than in payments.

Although only a small reduction occurred in the size of the current deficit with all countries, there were larger changes in the bilateral imbalance in Canada's accounts. The current deficit with the United States fell by \$97,000,000 to \$807,000,000 and the surplus with the United Kingdom rose by a slightly larger amount to \$229,000,000. At the same time considerable contractions occurred in the current surplus with the rest of the overseas world.

The reduction in the deficit with the United States was caused by a greater fall in imports than in exports. The reduction in the deficit on commodity account however was partly offset by a considerable increase in the deficit on invisibles arising mainly from a sharp advance in net payments of interest and dividends.

The enlarged surplus with the United Kingdom was still considerably less than in other postwar years except for 1950, 1951 and 1953. The increase in 1954 was the result of changes in both trade and non-merchandise items. In response to strong increases in industrial activity in the United Kingdom, Canadian exports of industrial materials rose and offset the decline in wheat exports. At the same time Canadian imports from the United Kingdom fell, particularly imports of textiles and automobiles. The smaller deficit on invisibles reflects mainly some large non-recurring defence payments for services in 1953.