

1952 CURRENT ACCOUNT SURPLUS \$100,000,000

NINE-MONTH ANALYSIS: Canada had a surplus on current account with all countries amounting to more than \$100,000,000 during the first nine months of 1952, according to an article on balance of payments trends in the latest issue of the Canadian Statistical Review. This compares with a current account deficit of over \$500,000,000 for the twelve months of 1951.

Several factors have been of outstanding importance in this marked change in the balance of payments in 1952, states the Review article. One is the great increase in the volume and value of exports to overseas countries, which began in the second half of 1951 and continued throughout 1952. Another is the great improvement in the year in Canada's terms of trade -- the ratio of export prices to import prices. These changes were mainly responsible for the appearance of a current account surplus in the first three quarters of last year.

INFLOW OF FUNDS

Another dominating factor in the balance of payments was a continued large inflow of funds for direct investment and from the sale of new Canadian issues abroad. Combined with the small current surplus, these inflows exerted strong pressure on the exchange rate, sending the Canadian dollar to a premium in relation to the United States dollar. The movement in the exchange rate, however, led to equilibrating capital outflows through liquidations of holdings of outstanding Canadian securities by non-residents, and by short-term capital movements.

The current account deficit in 1951, it is pointed out, was mainly concentrated in the first half of that year. In the fourth quarter a large surplus on current account was recorded, and this was followed by smaller surpluses in the first three quarters of 1952.

As regards the merchandise trade balance -- the marked change in which was largely responsible for the improvement in the current account balance -- the value of exports in the first ten months last year was more than 11 per cent above their record 1951 level and their volume 12 per cent greater. On the other hand, the value of imports in the first nine months was about six per cent below that of the 1951 period, while their volume rose about six per cent. The export balance on this trade to the end of October approximated \$235,000,000 as compared to an import balance of some \$292,000,000 for the same period of 1951.

When adjusted for balance of payments purposes, however, the figures on merchandise trade show a much larger trade surplus than \$235,000,000, the major reason being that payments for defence purchases have been substituted for the actual imports. While the

net result of this adjustment on total imports is small, the trade surplus is increased by this and other adjustments by more than one-half.

As in most other postwar years, the deficit on non-merchandise transactions in 1952 continued to be substantial, but any change in it will have a relatively small effect on the current account balance. The unusual deficit on travel account, which appeared in 1951, increased in 1952 as receipts were relatively constant while travel expenditures of Canadians outside Canada were much higher. Miscellaneous payments, including increased defence expenditure and gifts to the Colombo Plan, rose faster than receipts during the year. Partly offsetting these larger payments were increased receipts on freight and shipping account and lower dividend payments.

The current account deficit with the United States in 1952 may be comparable in size to the large deficit in 1951. A marked improvement occurred in the surplus with the United Kingdom and in the balance with other sterling area countries, and a large increase in the surplus with other overseas countries. The surplus with overseas countries has been large enough to offset the large deficit with the United States and show a small surplus in transactions with all countries. This contrasts with 1951, when the surplus with overseas countries offset less than half of the deficit with the United States.

CAPITAL MOVEMENTS

As for capital movements, the inflow of direct investment in Canadian branches and subsidiaries by foreign concerns during the first nine months of 1952 exceeded that for the same period of 1951 and was near the rate prevailing over the whole of 1951 when it reached over \$300,000,000. Proceeds of new issues of Canadian securities sold in the United States totalled \$275,000,000 in the nine months. Retirements of Canadian securities owned abroad were considerably lower than in 1951 and net new issues of about \$220,000,000 about equalled the total for the whole of 1951. In the third quarter new issues fell to only \$22,000,000 and while the fourth quarter total probably was considerably higher there were also heavy retirements. Non-residents were also substantial purchasers of stocks of Canadian corporations, the capital inflow for this purpose totalling \$64,000,000 to the end of September.

Demands for Canadian funds arising from these substantial capital inflows aggregated \$500,000,000 in the first nine months of 1952 and were reinforced by demands arising from the current account surplus. Increased official holdings of gold and U.S. dollars supplied only \$75,000,000 of these funds. Pressures