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substantial additions to capacity for the production of pulp and paper, non-ferrous metals, chemicals, cement, steel, and electric power.

Residential construction, which accounted for one-quarter of total investment outlays in 1955, declined somewhat in relative importance this past year. Housing completions slightly exceeded the previous year's record of 128,000 dwelling units but starts were down considerably. Consequently, the present carry-over of uncompleted houses is well below that of a year ago.

FOREIGN TRADE

Canada's unparalleled expansion has been taking place against a background of sustained prosperity in other parts of the Western World and expanding international trade. Production levels in the United States and in Western Europe rose less rapidly in 1956 than in the preceding year, but international trade in these areas and elsewhere moved steadily upward. In these circumstances external markets for Canada's goods have continued to grow.

On the basis of ten month figures, it now appears that merchandise exports approximated \$4.85 billion for the full year, 12 per cent higher than in 1955. Larger shipments of wheat accounted for more than one-third of this increase. Wheat shipments were the highest since the banner sales of 1952, despite difficulties arising from the United States surplus disposal programme. Crude petroleum exports now exceed \$100 million annually, a four-fold increase from the preceding year, and foreign sales of iron ore have risen from \$100 million to approximately \$160 million. Other items which have contributed significantly to the increase in total sales include newsprint, copper, chemicals and aircraft. Lumber has been the only major export commodity to show a significant decline.

Merchandise imports increased from \$4.7 billion in 1955 to approximately \$5.8 billion in 1956, nearly twice as much as exports. This heavy influx of goods from abroad reflected the tremendous upsurge in demand, particularly for expansion purposes. Accordingly, most of the increase in imports consisted of machinery and equipment, steel and other industrial materials needed for the production of capital goods. Imports of consumer items rose also but on a more moderate scale. By and large the increase in imports did not prevent an expansion in the business handled by domestic producers. A major portion of the increase in shipments from abroad consisted of items not made in Canada or of requirements in excess of the productive capacities of domestic industries. In those lines most subject to foreign competition, such as textiles, electric appliances and industrial machinery, shipments from Cana-

dian factories in most cases kept pace with upward trend of imports.

As regards the geographic pattern of Canada's foreign trade in 1956, sales to and purchases from the United States both increased roughly in proportion with the change in overall exports and imports. In the United Kingdom, the measures designed to restrain excessive internal demands had the intended effect of holding down imports, and Canada's sales to that country remained at about the level of the previous year. On the other hand sales of British goods in Canada rose by more than one-fifth, thus providing a significant measure of support to the foreign balance position of the United Kingdom. Elsewhere in the Commonwealth, intensified import controls in Australia and New Zealand reduced Canada's exports in these markets. A notable development in Canada's trade with other overseas countries was the substantial increase in sales to and purchases from Germany and Japan. Canada retains a large favourable balance with each of these countries. Canada's trade with Iron Curtain countries, for the first time, assumed significant proportions with the sale in 1956 of nearly 40 million bushels of wheat in this area.

BALANCE OF PAYMENTS

The sharper increase in imports than in exports resulted in a much greater imbalance in Canada's commodity trade. In addition, higher costs for shipping, travel and various other items added to the non-merchandise deficit. Canada's deficit on all current transactions for the first three-quarters of 1956 rose to an annual rate of more than \$1½ billion. This was more than one-fifth of total current receipts. This current deficit was met by an inflow of capital funds of about the same magnitude, while there was little change in official holdings of gold and United States dollar reserves. The capital inflow in the latter half of the year in fact tended to exceed the deficit on current account causing a firming in the external value of the Canadian dollar which toward the end of the year had been selling at a premium of close to 4 per cent on the United States dollar.

The imbalance in Canada's current external account is directly attributable to the stepped-up pace of industrial expansion. This growth is being achieved through increased reliance on financial and physical resources from abroad. The inflow of capital funds on the one hand and larger imports on the other provides the means whereby this foreign participation in Canada's growth is brought about.

Notwithstanding the size of the current deficit, the underlying soundness of Canada's external financial position is evidenced by the high cost to non-residents of Canadian dollars for investment in Canada. This position is further re-inforced by the current expansion in export industries and in other capacity which will provide domestic sources for goods now imported.