

It is important to notice that in each of the first six months of this year Canada has had unfavourable total trade balances. This has been due principally to the unfavourable balance with the United States. In July, however, the unfavourable balance with the United States was reduced. The result was that for the first time this year Canada had a favourable balance of total trade.

It is not easy to foresee the future of our balance of payments with the United States. Capital investment will certainly be maintained and this should maintain the imports of machinery and equipment. Consumer buying is not likely again this year to reach the very high levels prevailing in the early months. In fact, this buying declined during the summer and this is probably the main reason for the lower imports from the United States in June and July. Prices of some basic materials, particularly cotton, are likely to decline and this should lower the value of imports for these products. Defence buying will increase. Offsetting these imports are probable greater exports to the United States. Exports of raw materials in the second half of the year are likely to be greater than in the first half. Increased American defence expenditures may be made in this country. On the capital side of the account, there is no particular reason for believing that the rate of capital inflow will fall off to any substantial extent. Considering all the factors, I do not believe that Canada is faced with a balance of payments problem at present which warrants any direct government action.

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