

THE CANADIAN DOLLAR

The strength of the Canadian dollar in terms of United States funds, resulting from a phenomenal inflow of capital from abroad and despite a record deficit in the balance of Canada's international transactions on current account, is analysed by the Bank of Montreal in its April Business Review.

Pointing out that the dollar had risen to a premium of 4.71 per cent in March of this year--surpassing all previous peaks since 1933--the review says the recent publication of the preliminary survey of the Canadian balance of international payments in 1956 has now made it possible to appraise adequately the strength of the opposing forces affecting the Canadian dollar.

Commenting on the nation's rising current account deficit for 1956, which amounted to \$1.4 billion, the Bank of Montreal says that, while it would probably be considered an adverse development of critical importance for most countries, and should not be viewed with equanimity here, it has produced no suggestion of a crisis or of any deterioration in the economic position of the country.

"On the contrary," the review continues, "it has been accompanied by a marked buoyancy in domestic business activity, and the foreign-exchange necessary to finance the current-account deficit was readily forthcoming from the inward movement of capital funds, some of which were obtained by provincial, municipal and corporate borrowers, but a good part of which arose at the initiative of non-resident investors."

Prominent in the latter category was the capital inflow from abroad for direct investment in Canadian subsidiaries, the review observes, pointing out, that the latter category expanded by 25 per cent over 1955, to reach a record figure of \$525 million.

NEW TRADE OFFICE: The Right Hon. C.D. Howe, Minister of Trade and Commerce, announced April 23 that an office of the Canadian Trade Commissioner Service has been opened in Vienna, Austria. Mr. R.K. Thomson, of Vancouver, has been appointed Commercial Secretary of this new office following his transfer from Karachi, Pakistan. This brings to fifty-five the number of trade offices maintained by Canada in forty-four countries.

Although Canada's trade with Austria has never been large, an effort has been made in the postwar years to stimulate interest in Canada as a source of supply. Canadian exports in 1956 had a value of \$5.2 million, the principal items being wheat and other grains, base metals, asbestos and chemicals. As Austria extended her list of liberalized dollar imports recently, that country may offer a

LARGEST SINGLE FACTOR

"However," the Bank of Montreal adds, "the largest single change in the capital account was an inward movement of funds arising from net sales of new issues of securities to non-residents. In contrast to 1955, when retirements of Canadian securities held abroad exceeded sales of new issues by \$18 million, there was a net sale balance of \$541 million in 1956, most of it being with residents of the United States."

For large borrowers with well-established credit ratings, capital was more readily available and interest rates somewhat lower in New York than in Canada, says the Bank of Montreal, which points out that these attractions were sufficient to offset the deterrent effect of the decline in the Canadian dollar equivalent of the United States funds borrowed.

CAPITAL INVESTMENT IMPACT

"Taking a broad view of Canada's balance of international payments during the past year," the review continues, "it is evident that most of the major changes that occurred can be traced directly to the impact of Canada's heavy programme of capital investment." On the basis of the official survey of capital investment intentions for 1957, these same influences can be expected to be at work in the year ahead.

"Certainly," concludes the Bank of Montreal, "this view is supported by the fragmentary information available for the early months of the year, when the deficit in merchandise trade was significantly larger than a year earlier and flotations of new security issues in the United States continued in undiminished volume, attracted by a differential in interest rates that was even larger than in the final quarter of 1956."

better market for Canadian products. Canadian imports from Austria, on the other hand, had a value of \$3.9 million in 1956.

Czechoslovakia, which will comprise part of the area for which the Vienna office will be responsible, occupies an important position among the East European group of states. The postwar shift in her economy involves the importation of large quantities of wheat, grain and other foodstuffs, which can be supplied by Canada. Canadian exports to Czechoslovakia in 1956 had a value of \$12.1 million, a large proportion of which consisted of wheat and barley. Canada's purchases from that country in 1956 had a value of \$5.7 million, compared with \$2.9 million in 1955.

The territory of the Vienna office has a population of approximately 20,000,000.