

## SMALLER TRADE DEFICIT IN YEAR'S FIRST HALF

**INVESTMENT MAINTAINED:** Canada's transactions in goods and services with other countries in the first half of 1954 resulted in a current account deficit of \$357,000,000, down \$18,000,000 from last year's first-half deficit of \$375,000,000. There were deficits of \$178,000,000 in the second quarter this year and \$179,000,000 in the first quarter, both of which were moderately lower than in the comparable 1953 periods.

In the first half this year adjusted export and import values were both some 8% lower than a year earlier, while receipts and payments for invisibles each fell 6%. The deficit on trade decreased \$6,000,000 to \$126,000,000 and that on invisibles by \$12,000,000 to \$231,000,000 in the half-year period. The second quarter deficit would have been significantly smaller if a technical statistical change had not affected the trade figures.

## MOVEMENTS OF CAPITAL

Although the current deficit in the second quarter was little changed from the first quarter, the movements of capital which financed it differed considerably. Portfolio security transactions, which in the first quarter led to net inflows of capital sufficiently large to cover practically all Canada's current deficit, were virtually in balance in the second quarter. Direct investment inflows were maintained at about the same rate as the first quarter. Total official holdings of gold and foreign exchange rose by \$37,000,000 over the quarter.

The decline in exports and imports which has continued since the fourth quarter of 1953 reflects a variety of influences. The most important factor on the export side has been the decline in wheat exports to overseas countries. The fall in Canadian imports reflects in particular the slowing down and reversal of the inventory growth so conspicuous for much of 1953. In some industries, such as textiles and some durable manufactures, activity has been reduced and imports affected.

Adjusted merchandise exports fell \$166,000,000 in the first half of 1954 relative to the first half of 1953. About two-thirds of this decrease was in the second quarter. Imports fell by \$172,000,000, a decrease more evenly distributed over the two quarters. Export prices were about 2 to 3% lower in each quarter than in the previous year, while import prices were about 1% higher. The terms of trade accordingly deteriorated by some 3% relative to the same quarters of 1953, but were still considerably more favourable than in the period before 1952.

Net payments for invisibles in the first half of 1954 were \$231,000,000, \$12,000,000 less than in the first half of 1953 when the deficit had exceeded that of any half-year period since the war.

There were very sharp declines in receipts and payments on freight and shipping account in the second quarter. The reduced volume of trade in certain commodities was primarily responsible for these changes. Reduced exports of wheat, which has a high freight content, were of major importance on the receipts side.

In the second quarter part of the first quarter decline was offset. Travel receipts and payments were almost unchanged from the first half of 1953. Receipts and payments both declined slightly in the first quarter of 1954 and rose in the second. Net payments for interest and dividends were reduced in the first half of 1954. While dividend receipts were about the same in the half-year, those from the United States were lower and from the other sterling area countries rose. Dividend payments fell in the half-year but part of this decline was offset by larger interest payments associated with the net new issues of recent quarters.

## U. S. AND U. K.

While the current deficit with all countries was not greatly changed there were important changes by areas. The deficit with the United States was decreased and the surplus with the United Kingdom increased in the half-year period, thus tending to decrease the overall deficit in the accounts. But the surplus with other countries was sharply reduced by the contraction in grain shipments and this offset much of the change with the United States and United Kingdom.

Net inflows of foreign capital for direct investment in Canadian industry are tentatively estimated to have totalled \$70,000,000 in the second quarter, about the same rate as in the first three months of the year. Capital imports for petroleum exploration and development accounted for about seven-tenths of the net inflow, continuing at the high levels of 1953. Inflows for mining brought the share of resource development as a whole to more than nine-tenths in contrast to about three-quarters of the total in 1952 and 1953. Other inflows for direct investment were smaller than last year and the net movement in the first half of the year was reduced by more than 25% from 1953. Portfolio security transactions in the second quarter of 1954 led to a capital inflow of only \$3,000,000 in contrast with \$169,000,000 in the first quarter.