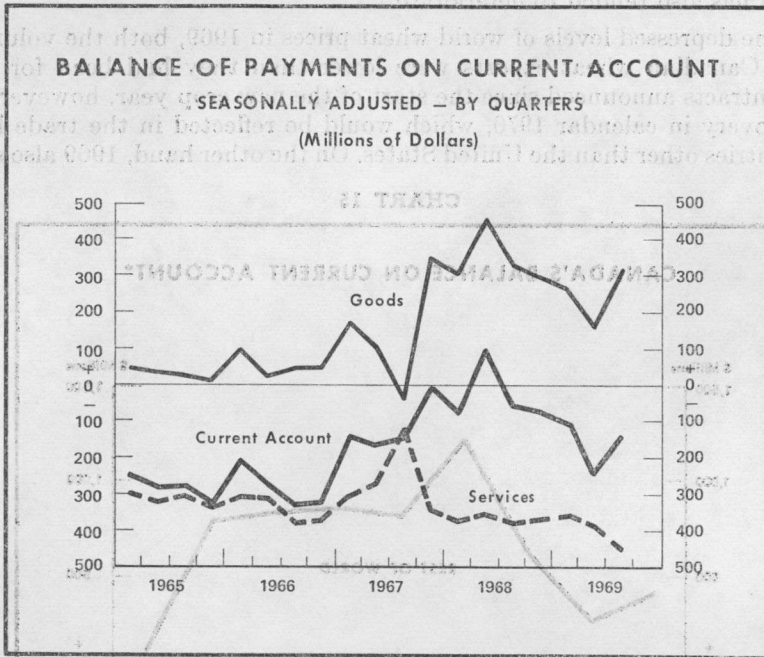


due to a sizeable increase in the deficit on travel. The inflows of long-term capital remained substantially in excess of the current account deficit. As in 1968, however, this was offset by a large outflow of short-term funds, and the official reserves increased by only \$65 million.

CHART 14



Canada's current account balance with the United States has shown a considerable improvement since 1966, reversing the earlier deterioration. This occurred during a period in which the current surplus of the United States with all countries was disappearing. Canadian costs rose slightly less rapidly after 1967 than those in the United States, and Canadian goods continued to share in the growth of U.S. imports through 1969, partly as a result of special factors such as the rapid expansion of bilateral trade in autos and parts, but also because of the general composition and sheer pressure of U.S. demand. Until the second half of 1968, on the other hand, Canadian demand (and more particularly investment demand, with its high import content) lagged sufficiently far behind that in the United States to retard the growth of imports by comparison with that of exports. These were the major causes of the reduction in Canada's own total current account deficit to only \$111 million in 1968. Despite the more rapid increase of imports after 1968, there was some further slight improvement in Canada's current account with the United States in 1969, so that the whole of the deterioration in Canada's current account took place in its transactions with other countries. Particularly since mid-1968, Canada's balance with the rest of the world has been showing much more clearly the effects of the cyclical pressures within its own economy, and the effects also of the increase in costs which has been taking place in both Canada and the United States. The current account