

# Canada Weekly

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Canada's balance of international payments explained in report, 1

Negotiations resume on bilateral fisheries agreement, 2

Committee on disarmament begins its 1980 session, 3

Canadian-Spanish trade expected to surge ahead, 3

University completes ocean study, 3

System reduces radiation risk, 4

Record pork exports, 4

Canadian skaters compete at World Championships, 4

Tracking the north magnetic pole, 5

Canadian ski-jumper sets international marks, 6

Armed forces youth summer employment program, 6

Curlers take title, 6

Bypasses lessen heart attacks, 6

News of the arts — film, gift, theatre, arts briefs, 7

News briefs, 8

## Canada's balance of international payments explained in report

*Canada's underlying balance-of-payments position "is stronger than appears on surface", according to the Bank of Canada. Excerpts from the bank's 1979 annual report explaining Canada's balance of international payments follow:*

One of the most important questions in recent years about Canada's balance of international payments has been how the balance on current account would respond to the substantial improvement that has taken place since 1976 in the competitive position of Canadian suppliers of goods and services in relation to foreign suppliers both in Canadian markets and abroad.

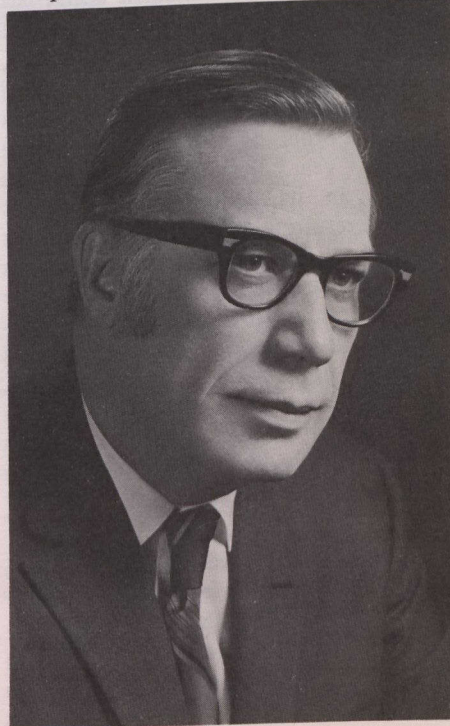
Since 1976 there does not appear to have been much difference in the trends of costs of production in Canada and the United States as measured in their own currencies, and therefore the substantial depreciation of the Canadian dollar in terms of the U.S. dollar has greatly improved the position of Canadian suppliers relative to U.S. suppliers. The Canadian competitive position has improved even

more relative to suppliers from a number of important trading nations overseas since there was also a substantial depreciation of the U.S. dollar against their currencies.

### Improved competitive position

There is considerable evidence that Canada's improved competitive position as an international supplier is, in fact, having a substantial effect on a wide part of our international trade. The impact on the total balance on current account has, however, so far been largely offset by other influences, some of them transitory, and [Canada's] underlying payments position is stronger than appears on the surface. This view is reinforced by the present prospects for Canada's international trade in oil and gas.

The improvement in 1979 in the balance on merchandise trade would have been considerably larger but for some developments of a rather special nature. Canada's net deficit on trade in automotive products with the United States grew from 1978 to 1979 by \$2.5 billion to a level of \$3 billion. This was due to a combination of a much weaker market for North American models in the United States than in Canada and a concentration of Canadian automobile production in larger models for which demand in the United States was particularly weak. Also, the physical volume of wheat exports was severely constrained by transportation and handling difficulties although the effect on the value of wheat exports was more than offset by an increase in the price of wheat. In another area of [Canadian] trade where the outcome is determined by special considerations, namely that of crude oil and natural gas, the value of Canada's net exports increased from \$0.3 billion in 1978 to \$1 billion in 1979. The balance of Canada's



Bank of Canada Governor Gerald Bouey.

One-hundred-and-five-years ago yesterday...  
The Northwest Territories Act established a  
Lieutenant-Governor and Territorial Council.