

So far into 1951 the main limitation on Canadian exports of primary materials to overseas countries has been shortage of supply rather than shortage of exchange with which to pay for the goods. In the latter part of 1950, and in the first half of 1951, the United Kingdom drew up considerably increased contracts with Canadian producers for many commodities, particularly lumber, woodpulp, newsprint and metals. Shipments are now being made under these contracts so that this year Canadian exports to the United Kingdom and to other sterling area countries are higher than they were last year. This demand may abate somewhat as overseas stock-piles are built up. For example, quite a large proportion of the British purchases of Canadian lumber is going into stocks. Nevertheless as long as the world-wide shortage of Canadian raw materials continues we can expect the total demand for them to be considerably greater than it was in the first half of 1950, for example. On the other hand, we notice that Canadian exports of manufactured goods to the sterling area have shown no increase of any importance during this year as compared with last.

The British attitude towards imports from the dollar area depends primarily upon the state of the sterling area gold and dollar reserves, whether they are increasing or decreasing. At the time of the British balance of payments crisis in September 1949, sterling area gold and dollar reserves had declined very rapidly to \$1,425 million. This prompted a series of financial and economic discussions in Washington from which emerged the British decisions to devalue their currency by about 30 per cent relative to that of the United States, a step which made it easier to export and harder to import. Immediately the reserves started to climb and they rose by almost \$1,000 million to a level of \$2,422 million at the end of June 1950. This recovery was also assisted by increased economic activity in the United States with a resultant increased demand for sterling area products. In this period Canadian imports from both the United Kingdom and the rest of the sterling area increased substantially.

After the commencement of the war in Korea there was, as we all know, a tremendous upsurge in buying of raw materials, with a belief that many of them would come into very short supply. This, of course, led to large price increases, particularly for three main sterling area raw material dollar earners: wool, rubber and tin. In these circumstances, sterling area sales of raw materials, particularly to the United States, rose to unprecedented heights. The British reserves continued their climb at an even greater rate. By the end of March 1951, they amounted to \$3,758 million, an increase since the end of June 1950, of \$1,336 million. This increase in reserves was further stimulated by the intensified sterling area controls on dollar goods which were imposed in mid-1950.

During the second quarter of 1951, events occurred which arrested the rapid increase of sterling area reserves. It became apparent that there was not as great a shortage of some of these raw materials as was first contemplated. In the case of rubber and tin, the shortage was largely created by the rate of stock-piling. American buying of many raw materials was stopped or drastically reduced. Price declines occurred which were almost as great as the increases which had preceded them. In the case of wool, prices in June 1951 were at roughly the same level as they had been in June 1950. Sterling area sales in the dollar area declined both in quantity and value, and at the same time their purchases from