

CANADA'S BALANCE OF PAYMENTS

Canada had a current deficit of \$837 million in transactions in goods and services with other countries in the first half of this year, more than a third larger than the corresponding deficit of \$590 million in 1958. This is a larger deficit than in any other year except 1957 when the imbalance amounted to \$970 million in the half year. In the second quarter, the current deficit was \$430 million, about one-third greater than the deficit of \$323 million in the corresponding quarter of 1958.

The deficit on merchandise account in this year's first half amounted to \$355 million, considerably more than double that in the first six months of 1958 (\$140 million) but still well under the peak import balance of \$474 million in 1956 and \$529 million in 1957. The big change between 1958 and 1959 was brought about by a sharp rise of 10 per cent in imports in contrast to a 2 per cent rise in exports. In the second quarter the deficit on merchandise account rose to \$195 million from \$77 million a year earlier.

Deficit on non-merchandise transactions in this year's first half was larger than ever before at \$482 million versus \$450 million last year, all groups contributing to the increase with the exception of miscellaneous transactions on government account which in the earlier year contained some non-recurring payments.

Remittances of interest and dividends to non-resident investors continued to be the largest contributor to the non-merchandise deficit, Canada's net payments rising in the first half to \$213 million from \$184 million a year ago and in the second quarter to \$110 million from \$99 million.

The deficit on travel account in this year's first half rose to \$138 million from \$132 million in the same period of 1958. Affected by the date of Easter the deficit on travel in the second quarter this year fell to \$54 million from \$64 million. First-half deficit on freight and shipping was larger this year at \$14 million versus \$9 million, and in the second quarter at \$14 million versus \$12 million.

TRANSACTIONS BY AREAS

The emergence of a current account deficit in Canadian trade with overseas countries has been an exceptional development in 1959. This amounted to \$80 million in contrast to a surplus of \$90 million in the first half of 1958 and arises from a substantial deficit of \$140 million from non-merchandise transactions which more than offset the greatly reduced merchandise surplus of \$60 million. Transactions with the United States resulted in a rise of some 10 per cent in the deficit to \$757 million from \$686 million last year. This

increase occurred entirely in the first quarter.

CAPITAL MOVEMENTS

The net inflow of capital into Canada in such long-term forms as direct investment, portfolio security transactions, and official loans, amounted to \$311 million in the second quarter of 1959 compared with \$247 million in the first quarter. At these rates it was equivalent to 72 per cent of the current account deficit in the second quarter and to 61 per cent in the first. The second quarter was influenced by larger than usual movements for the acquisition of existing investments in Canada, which more than accounted for the higher proportion of the current account deficit covered by capital movements in the long-term forms. However, the proportion of annual capital inflows in long-term forms occurring in the first half of the year is normally smaller than the proportion of the current account deficit incurred in this period.

The other capital movements, mainly in short-term forms, totalled \$119 million in the second quarter of 1959 and \$160 million in the first. There are many types of movements included within these inflows. Important in the second quarter was a sharp growth in Canadian dollar holdings of foreigners. This was mainly the result of conditions in the short-term money market which led to the acquisition by non-residents of some \$60 million of Canadian treasury bills. There was at the same time, however, a substantial outward movement reflecting increased official holdings of gold and foreign exchange. Amongst the other movements in the second quarter were a substantial reduction in Canadian holdings of foreign exchange by other than official accounts, and increases in Canadian payables. During the first quarter there was an important inflow reflecting a reduction of official holdings of gold and foreign exchange, but the largest part of the net movement appeared to reflect increased payables on commercial account.

Geographically, during both the first and second quarters of 1959, 80 per cent of the net movement of capital in the long-term forms mentioned above came from the United States. This was roughly the same proportion as for 1958 as a whole. In absolute amounts, the inflow from the United States, estimated at some \$445 million in the first half of 1959, was at just about the 1958 annual rate. During the first quarter of 1959, these inflows from the United States were equivalent to slightly more than one-half the current account deficit with that country, and in the second quarter to slightly more than two-thirds. These proportions were lower than for any quarter in 1958 and compare with nearly four-fifths for the