

## 1956. CAPITAL INFLOWS

The Dominion Bureau of Statistics' annual report on the Canadian Balance of Payments in 1956 and International Investment Position shows that there were capital inflows to Canada of unprecedented size in 1956 and these contributed to a sharp increase in Canada's indebtedness abroad. The net capital inflow was \$1,372 million compared with \$698 million in 1955 and for the seven years from 1950 has amounted to more than \$3½ billion.

This high degree of imbalance in Canada's international accounts was, of course, closely related to the exceptional rate of growth in the Canadian economy and to the strong pressures of demand for goods, services, and capital from non-resident sources accompanying the high levels of economic activity. The need for external resources has been particularly evident in the demands arising from investment activity which have contributed directly and indirectly to a rise in imports; this rise outpaced the large expansion in Canada's export capacity which has been underway at the same time. The rapid development of Canada's natural resources, much of it by capital from outside Canada, has been a leading stimulus to the sustained high levels of investment in the Canadian economy.

In 1956 over three-quarters of the increased current account deficit was related to a larger imbalance on merchandise trade, the deficit on which rose to \$734 million from \$211 million in 1955. At the same time the deficit from non-merchandise transactions established a new peak of \$638 million, up from \$487 million, as almost every group of transaction showed a larger deficit, particularly those arising from interest and dividend remittances and travel expenditures.

Almost all of the current deficit in 1956 was financed by inflows of capital in long-term forms. The sharpest rise occurred in net new issues of Canadian securities outside of Canada. This borrowing linked with further enlarged inflows of capital for direct investment by foreign firms and for outstanding Canadian stocks helped to bring about an unprecedented rise in non-resident investment in Canada.

The United States continued to be the major source of long-term external capital for Canada in 1956. Indeed, the net movements in long-term forms were somewhat more than two-thirds from the United States amounting to more than \$900 million. Inflows of capital from the United Kingdom and from other overseas countries also rose sharply, with inflows in long-term forms from these countries amounting to more than \$425 million in 1956, more than double the figure for 1955, and far in excess of any year in recent decades. The principal source of the inflows from overseas was the demand for Canadian portfolio equities

together with some major direct investments in Canada and the placing of some new Canadian issues in European markets.

## RISE IN NON-RESIDENT INVESTMENTS

Outstanding features of recent changes in non-resident investments in Canada have been the amount of their rapid sustained rise over an extended period and their concentration in equities in Canadian industry and resource development. In the interval since 1945 the total value has more than doubled. The rate of increase has been unusually high each year since 1949 with a total increase of some 93 per cent in the seven years between then and 1956. The increase in value of some \$7.4 billion since then is much larger than in any earlier corresponding period and the high rate of increase has been sustained for an unusually long period. And by far the largest part of this increase has been in direct investments and other equities in Canadian industry and business, which at the end of 1956 were more than twice as large as in 1949.

In 1956 the rate of increase in indebtedness abroad accelerated to almost 15 per cent with an unprecedentedly large rise of almost \$2 billion in external indebtedness. This brought the total value of non-resident long-term investment in Canada to \$15,400 million compared with \$13,468 million in the preceding year, and a total of \$7,963 million as recently as in 1949. Some three-quarters of this increase was in the rise in direct investments and other equities in Canadian industry. But in 1956 this was accompanied by a considerable increase in Canadian bonded indebtedness abroad as Canadian financial resources were supplemented in this way.

The total of investments owned in the United States rose to \$11,651 million from \$10,289 million - close to twice the value in 1949 - and continued to represent more than three-quarters of all non-resident investment in Canada. This rise in United States investments has also made up more than three-quarters of the increase in this seven-year period. While the main rise has been in United States direct investments, portfolio investments in Canada owned in that country were in 1956 about one-half as high again as in 1949.

British investments in Canada at \$2,675 million in 1956 were at a new post-war peak and not far below the earlier maximum levels which were maintained for several decades following 1914. But these investments now only account for 17 per cent of the total non-resident investment in Canada compared with 36 per cent at the end of 1939 before most of the wartime repatriations. The rise in British investments in Canada from the low point in 1948 has been more than \$1 billion and this rise has been particularly concentrated in