

BALANCE OF PAYMENTS

Canada had a current deficit of \$450 million in goods and services with other countries in the first quarter of 1959 compared with \$282 million in the same period of 1958. The change from 1958 resulted from a trebling of the import balance on merchandise account from \$63 million to \$188 million and a rise of about one-fifth from \$219 million in the deficit from non-merchandise transactions to \$262 million.

The larger import balance between 1958 and 1959 has resulted from a rise in the value of imports, while the greater imbalance in non-merchandise transactions resulted mainly from larger net payments by Canada on travel abroad, larger net remittances of interest and dividends to non-resident investors, and a temporary reduction in gold production available for export.

The rise in the deficit from non-merchandise transactions has been underway for some years with a consistent and substantial rise in imbalance from non-merchandise sources in each year since 1952. Payments have risen more than receipts, reflecting a great variety of influences. These influences are associated for the most part with the rise in Canadian indebtedness to other countries which has led to increased interest, dividends, head office charges and other payments for business services and the rises in population and consumers' incomes which have induced much heavier personal outlays on travel and other services and remittances abroad.

As a result of the rise in net payments for non-merchandise transactions the current deficit of \$450 million in the first quarter of 1959 was greater than the deficit of \$427 million in the first quarter of 1957, which was the highest for that period of the year up to then. In 1959 the imbalance from non-merchandise transactions was up by almost one-third from the 1957 level, although the import balance on merchandise trade was less.

DEFICIT ON MERCHANDISE TRADE

In the first quarter of 1959 there was a rise of 9 per cent in the value of merchandise imports which along with a slight drop in the export total had the effect of producing an import balance of \$188 million compared to \$63 million in 1958, and \$226 million in 1957. This rise in imports contrasts with a decline of 13 per cent between the first quarters of 1957 and 1958. Fluctuations in Canadian imports are closely related to levels of incomes and business activity in Canada, and normally substantial rises accompany general upturns in economic activity of the kind that has been evident.

Changes in the direction of trade were not pronounced. While there were moderate rises in shipments to the United States and United

Kingdom, there were declines to other overseas destinations. These were most notable in the case of exports to India and to Europe and Latin America. In the previous year there had been large shipments of government-financed wheat to India and shipments of military aircraft sold to Germany.

SERVICES & NON-MERCHANDISE ITEMS

The deficit from non-merchandise transactions continued to rise in the first quarter. At \$262 million the deficit from this source compares with \$219 million in the first quarter of 1958, and \$201 million in that part of 1957, \$176 million in 1956, and \$181 million in 1955. This imbalance was slightly wider even than in peak quarters in recent years which have usually occurred in the fourth or second quarters. In only one year in the post-war period (1955) has the maximum imbalance from these transactions occurred in the first quarter.

The increased deficit originated in larger net payments on travel and income accounts and in transfers of migrants' funds. Gold production available for export was considerably less than in the previous year, and a small surplus on freight and shipping account disappeared. Changes in the opposite direction occurred, however, in smaller payments on account of official contributions and for all other current transactions.

The deficit on travel account rose from \$69 million to \$84 million, as the result of larger Canadian expenditures on travel in both the United States and overseas. Although the largest part of the rise was in winter travel in the United States compared with the previous year, there was a particularly sharp increase in Canadian travel overseas as well. At the same time non-resident expenditures on travel in Canada during the winter were only slightly larger than in the previous year.

The deficit on income account amounted to \$110 million compared to \$94 million in the same quarter last year. This was the result of reduced receipts and increased payments. Receipts of dividends by Canadian companies from direct investments abroad were less, while payments of both interest and dividends to non-resident investors were higher. The larger interest payments by Canadian debtors reflected Canadian borrowing in the United States through the sale of new issues in the previous year. The rise in dividends was chiefly the result of larger transfers by subsidiaries to parent companies in the United States, although a small rise also occurred in dividend payments by public companies to non-residents. The increased transfers by subsidiaries were most prominent among industries producing for consumer markets in Canada.

Expenditures by the Canadian Government on