



CANADA

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THE CANADIAN BALANCE OF PAYMENTS

The first quarter of 1965 was a period of continued rising levels of economic activity in both Canada and the United States and in some other countries, and this was reflected in record levels of international trade for the winter period. Among events of special significance for the balance of payments was the announcement by the Administration of the United States of a series of measures designed to reduce the imbalance in the United States balance of payments. The more discernible effects of these policies during the quarter on the Canadian balance of payments were in certain groups of capital flows.

At \$408 million, Canada's current-account deficit in the first quarter of 1965 widened \$65 million over the first three months of 1964. The latest deficit was higher than for any first quarter so far in the Sixties.

Capital movements in long-term forms brought in \$148 million in the first quarter and those in short-term forms brought in \$188 million. Canada's official holdings of gold, foreign exchange and International Monetary Fund balance fell by \$72 million.

CAUSE OF DEFICIT

The increase in the current-account deficit was attributable wholly to the worsening in the trade balance. When adjusted for balance-of-payments purposes, this registered a change of \$90 million from a surplus of \$33 million to a deficit of \$57 million in the March quarter of 1965. This trade deficit is the first since the second quarter of 1962, when the import balance stood at \$40 million.

Despite a drop of nearly \$60 million in the shipments of wheat and flour on Russian account between the first quarters of 1964 and 1965, merchandise exports increased \$95 million, or 5 per cent, to \$1,825 million, while merchandise imports expanded \$185 million, or 11 per cent, to \$1,882 million.

The deficit on non-merchandise transactions declined \$25 million to \$351 million, a level about midway between \$376 million for the first quarter of 1964 and the average for the same period of the three preceding years. The decline originated from improvements in the balances of travel, income, migrants' funds, government defence expenditures and gold production available for export. As an offset, official contributions increased, and the deficit on freight and shipping account widened slightly.

More than 30 per cent of Canada's substantial deficit on current transactions with the United States in the first quarter of 1965 was covered by the surplus with overseas countries.

Canada's net payments on current account exceeded the net inflow of capital in long-term forms by \$260 million in the first quarter of 1965. This balance was smaller than the corresponding figure of \$379 million in the comparable period of 1964. Inflows in long-term forms included \$248 million from the sale of new issues of Canadian securities but other security transactions involved outflows aggregating \$182 million. Other inflows in long-term forms included direct investment flows and bank borrowing.