



**BANK OF CANADA**

**ANNUAL REPORT TO  
MINISTER OF FINANCE**

**AND STATEMENT OF ACCOUNTS**

**FOR THE YEAR 1949**

**HG  
2706  
.A1  
1949**





CANADA

**"WHEREAS** it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion: Therefore, His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows: . . ."

*—Preamble of the Bank of Canada Act*



**BANK OF CANADA**

Ottawa, February 11th, 1950.

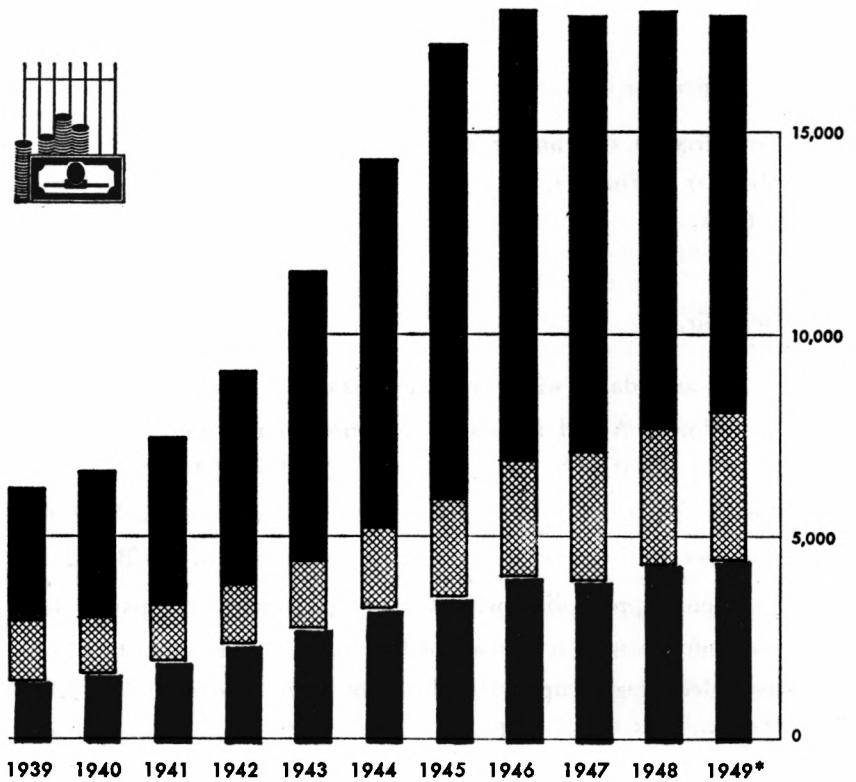
**THE HON. D. C. ABBOTT, K.C.,**  
Minister of Finance,  
Ottawa.

Dear Sir,

In accordance with the provisions of the Bank of Canada Act Amendment Act, I am enclosing herewith in duplicate a statement of the Bank's accounts for the fiscal year 1949, signed by the Governor and the Chief Accountant, and certified by the Auditors, in the form prescribed by the by-laws of the Bank.

Before proceeding with the report which accompanies this statement, I wish on behalf of the Board of Directors to record their deep regret upon the death of their colleague, Mr. J. L. Holman, which occurred in 1949. Mr. Holman, prominent in the business life of Prince Edward Island, was appointed a Director in 1936, and gave us valued advice and assistance throughout the period of his association with the Bank.

The major changes which took place in our accounts during the course of the year are referred to on pages 23 and 24 of this Report. Before dealing with the effect of these changes on the cash reserves of the chartered banks, I shall give a general review of monetary conditions during 1949.



**GENERAL PUBLIC HOLDINGS OF CERTAIN LIQUID ASSETS**  
*(As of December 31st in Millions of Dollars)*

- Government of Canada securities
- Inactive savings deposits
- Currency and active deposits (= Money Supply)

\*Approximate adjustments have been made to include chartered banks' Newfoundland operations in Canadian statistics during the whole of 1949.

**MONETARY CONDITIONS** • The most important liquid assets of the general public are the active categories of bank deposits and currency which make up Money Supply, inactive notice deposits, and Government securities. Each of these factors has a bearing on the monetary situation. The following table summarizing the figures shown in Appendix B of this Report, indicates that there was some decline in the aggregate of these liquid assets during 1949.

**Increase or Decrease in General Public<sup>①</sup> Holdings of  
Certain Liquid Assets**

*(Calendar Years, in Millions of Dollars)*

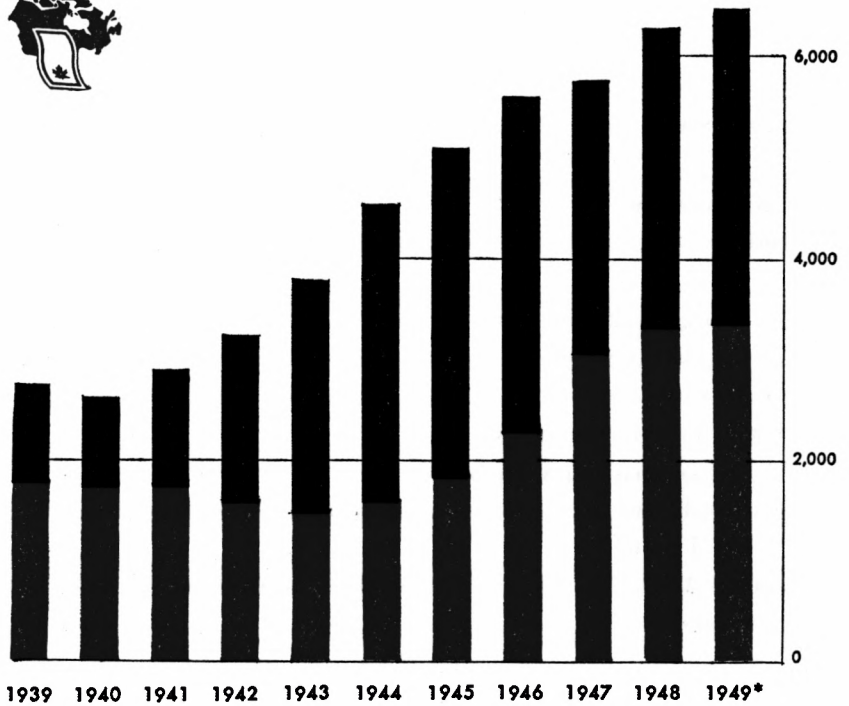
	<b>1948</b>	<b>1949<sup>②</sup></b>
Money Supply . . . . .	391	46
Inactive Notice Deposits . . . . .	265	296
Gov't. of Canada Securities . . . . .	471	196
Refundable Tax . . . . .	85	286
<b>Total</b> . . . . .	<b>100</b>	<b>140</b>

An over-all change in the above liquid assets is determined by the change in banks' loans and non-Government investments, by Government's over-all cash surplus or deficit and by any change in outstanding Government guaranteed securities.



In comparison with other post-war years, the increase in chartered bank loans and non-Government investments in 1949 exercised much less upward influence on the public's liquid assets. After making an approximate adjustment to include Newfoundland for the full year, the rise in total loans and non-Government securities during 1949 was \$49 millions as compared with \$257 millions in 1948 and \$777 millions in 1947. Of this increase during 1949, \$17 millions represented a net increase in securities of and loans to provincial and municipal governments.

① "General" public is here defined as all investors except banks and Government accounts. It includes life insurance companies and all other corporate as well as individual holders.

② Approximate adjustments have been made to include chartered banks' Newfoundland operations in Canadian statistics during the whole of 1949.



**CHARTERED BANK LOANS AND INVESTMENTS**  
(As of December 31st in Millions of Dollars)

-  Government of Canada securities
-  Loans and non-Government investments

\*Approximate adjustments have been made to include chartered banks' Newfoundland operations in Canadian statistics during the whole of 1949.



and about \$31 millions was in call loans to brokers and dealers in securities; since there was also some increase in the categories of personal loans and advances to farmers, there appears to have been some decline in loans and securities of industrial and commercial borrowers in 1949.

" The Bank suggested to the chartered banks in February, 1948, that conditions prevailing at that time made it undesirable for capital expenditures to be financed through expansion of bank credit. In February, 1949, the Bank withdrew this suggestion to the banks on the grounds that a somewhat smaller physical volume of business capital expenditure was in prospect." During 1949 there was a decline of \$68 millions in chartered banks holdings of corporate securities. I believe that this decline has been chiefly the result of serial repayments by borrowers who sold securities to the banks in earlier years.

In the Annual Report for the year 1947, I referred to the important extent of the chartered banks' participation in the market for non-Government securities in 1945, 1946 and 1947. The situation has been quite different in 1948 and 1949, when other investors have absorbed almost all the large net issue of non-Government securities.

Type of Security	Net Issue or Retirement of Canadian Bonds and Stocks <sup>③</sup>					Net Increase or Decrease in Security Portfolios of Chartered Banks				
	1945	1946	1947	1948	1949	1945	1946	1947	1948	1949
Provincial .	28	18	65	199	339	22	2	151	8	30
Municipal .	43	5	31	71	89	15	24	18	7	21
Corporation .	25	68	231	260	211	23	88	147	98	68
Total .	46	45	327	530	639	60	114	316	113	77

③ Source: Appendix A, page 29. The table understates the total volume of net new issues of these securities in the Canadian market by the amount of the net reduction of foreign holdings of such securities through retirement or refunding.

The increase in bank loans and non-Government investments had an upward influence on the public's total liquid asset holdings, but this was more than offset by the Government's overall cash surplus during 1949. The budgetary surplus of the Government amounted to \$284 millions during the calendar year 1949, a decline of \$356 millions as compared with 1948. But, as a result of the smaller amount of non-budgetary funds required, the Government's overall surplus in 1949 was \$288 millions as compared with \$205 millions in 1948. The chief reason for the smaller non-budgetary requirements in 1949 was the decline in the amount of funds needed to finance the accumulation of foreign exchange by Foreign Exchange Control Board, partly owing to the decrease in Canada's export trade balance. The following table summarizes the principal budgetary and non-budgetary items in the Government's financial operations during the past three calendar years.

### Government of Canada Receipts and Payments

*(Calendar Years, in Millions of Dollars)*

	1947	1948	1949
<b>Budgetary Items</b>			
Ordinary Revenue . . . . .	2,620	2,585	2,574
Special Revenue . . . . .	386	183	77
Budgetary Expenditure . . . . .	2,255	2,128	2,367
<b>Budgetary Surplus . . . . .</b>	<b>751</b>	<b>640</b>	<b>284</b>
<b>Non-Budgetary Items</b>			
Post-War Loans to Foreign Governments (net) . . . . .	563	126	107
Loans to Foreign Exchange Control Board . . . . .	770	520	125
Other Items (net) . . . . .	5	211	236
<b>Over-All Surplus Available for Domestic Debt Retirement (net) . . . . .</b>	<b>963</b>	<b>205</b>	<b>288</b>

The figures in the foregoing table are shown on a calendar year basis rather than for Government fiscal years which end on March 31st, because related statistics in this Report refer to the calendar year. It is expected that the budgetary surplus for the fiscal year 1949/50 will be considerably less than the amount of \$284 millions shown above for the calendar year 1949.

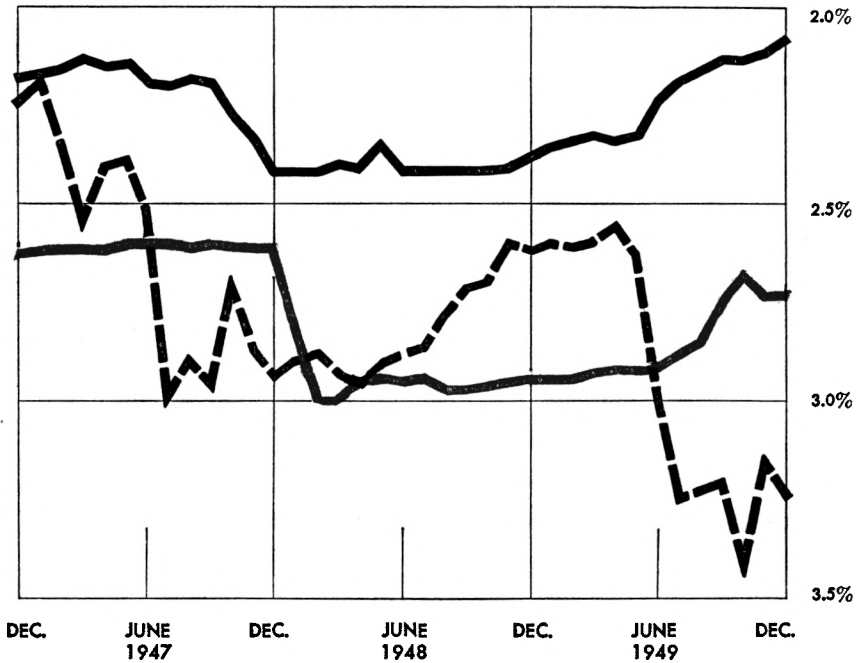
In addition to the overall surplus amounting to \$288 millions as shown in the above table, Government had other sources of cash for the retirement of domestic debt in 1949. These were the sales of securities by Securities Investment Account which declined \$487 millions during the year and a reduction in the Government's cash balances. As a result, the Government was able to reduce the outstanding direct domestic funded debt by approximately \$900 millions, of which \$286 millions represented the repayment of refundable taxes.

The amount of Government securities available for banks and public investors did not decline to anything like the same extent as the reduction in outstanding security issues because the sales by Securities Investment Account referred to in the preceding paragraph put securities into the market.

So far as public investors were concerned, life insurance companies' holdings of all Government direct and guaranteed securities declined by \$127 millions while "all other" investors holdings declined by \$68 millions in 1949 as compared with \$438 millions during 1948.

The banking system (Bank of Canada and chartered banks) purchased somewhat more Government securities during 1949 than the amount of its own holdings of maturing issues with the result that there was an increase of \$149 millions in total banking system holdings of Government direct and guaranteed securities during 1949. In the case of the Bank of Canada there was a decrease of \$4 millions while chartered bank portfolios rose \$153 millions.

After making an adjustment to include Newfoundland deposits for the full year, total Canadian deposits of the chartered banks increased by \$161 millions during 1949. This expansion was considerably more than accounted for by the rise of \$296 millions in the inactive notice deposits, active deposits of the public and Government balances being down about \$135 millions on the year. Chartered banks' cash reserves increased by \$15



**LONG TERM GOVERNMENT BOND YIELDS**  
(Month-end Figures)

- Canada: 3% issue due September 1st, 1961-66
- United States: 2½% issue due December 15th, 1963-68
- United Kingdom: 3% issue due April 15th, 1959-69

millions during 1949 as shown in the following table and the December 31st, 1949 ratio of cash reserves to total Canadian deposits at 10.3 percent was the same as at the previous year-end. On a daily average basis, however, the cash ratio was lower in 1949 than in 1948 being 9.9 percent in December as against 10.3 percent in the same month of 1948 and 10.4 percent for the year 1949 as compared with 10.7 percent on the average in 1948.

**Effect on Chartered Banks' Cash Reserves  
of Changes in Bank of Canada Accounts**  
*(Millions of Dollars)*

Changes during Calendar Year 1949	<b>Changes Producing a Decrease in Cash Reserves</b>	<b>Changes Producing an Increase in Cash Reserves</b>
	<u>          </u>	<u>          </u>
Decrease in holdings of Gov't. of Canada and Prov. Gov't. Securities . . . . .	3.5	
Decrease in Notes Held by the Public . . . . .		2.6
Decrease in Gov't. of Canada Deposits . . . . .		66.1
Increase in Other Deposits . . . . .	45.9	
Increase in Liabilities payable in Sterling, U.S.A. and Other Foreign Currencies . . . . .	79.2	
Increase in holdings of Foreign Exchange & Invest- ments . . . . .		79.2
Increase in Other Assets less Other Liabilities . . . . .	3.9	
	<u>132.5</u>	<u>147.9</u>
<b>Deduct</b>		<u>132.5</u>
<b>Increase in Chartered Banks' Cash Reserve</b> . . . . .		<u><u>15.4</u></u>

**SECURITY MARKETS** • The accompanying chart shows the change in yields on long term bonds of the Governments of Canada, United States and United Kingdom. In the case of Canadian and United States markets, the change in yields over the year as a whole was of approximately the same degree. The United Kingdom market, however, followed a very different pattern.

After showing little change in the first half of 1949, prices of Government of Canada long term bonds began to rise in July. The movement reached a peak in late October when the price of the longest fixed term issue (maturing in 1966) had moved up

about  $2\frac{1}{2}$  points from the mid-year level. During the last two months of the year there was a decline of about  $\frac{1}{2}$  point in price and the yield on the issue referred to was 2.72% at the year-end compared with 2.93% at December 31st, 1948. In the United States the yield on the  $2\frac{1}{2}$ % U.S. Government issue due December 15th, 1967/72 declined by .23% during 1949, i.e. from 2.47% to 2.24%. In the course of 1949, the spread in yield between long and short term maturities became narrower than for many years both in Canada and the United States.

United Kingdom gilt-edged issues declined substantially in the second quarter of the year, yields on long dated issues increasing as much as  $\frac{3}{4}$ %. Wide price swings continued from mid-August to the year-end with closing prices considerably above the lows for the year. Savings Loan 3's due 1965/75 yielded 3.39% at December 31st, 1949, more than  $\frac{1}{2}$ % higher than at December 31st, 1948.

In the first half of 1949 the chartered banks were substantial net buyers of Government bonds. However, during this period the available supply of such securities for banks and other investors increased by about the same amount through net sales by Securities Investment Account. In the third quarter of the year bank buying continued although their average cash ratio was declining, and net sales by Securities Investment Account dropped off. In October and November there was the maturity and call of three bond issues totalling about \$882 millions which was met to the extent of only \$300 millions by the proceeds of a short term bond issue sold to Bank of Canada and the chartered banks, the balance of funds required being provided by Government cash resources and sale of Canada Savings Bonds. During the final quarter of the year there was no appreciable net buying or selling by the chartered banks or Securities Investment Account.

Sharply increased net borrowing by provincial authorities and to a lesser extent by municipalities was successful. Private

corporations raised a somewhat smaller amount than in 1948 through bond and stock issues. In the corporation field an outstanding feature in 1949 was the volume of new financing undertaken by those interested in the development of the western oil fields.

The third series of Canada Savings Bonds remained on sale until the end of August, 1949. Sales during 1949 totalled \$21 millions, making total sales of this issue \$260 millions. The fourth series was offered in October and by the end of December about 950,000 individuals had subscribed for a total of \$293 millions. Total sales of Canada Savings Bonds during the year, less redemptions, were \$142 millions and at the end of the year the total outstanding of the four series of Canada Savings Bonds was \$919 millions.

It is evident that more and more Canadians are using this method of saving. Sales under the Payroll Savings Plan totalling \$140 millions exceeded by 20 percent the new post-war record established a year ago. Those who have been regular buyers each year are steadily increasing the amount of their purchase.

This year an even greater number of employers than previously made the facilities of the Payroll Savings Plan available to their employees, and took a personal interest in ensuring that all their employees were given full opportunity to take advantage of the Plan. Such wholehearted support by employers is of great value. I also wish to record again our appreciation of the energetic, determined effort contributed by the members of the investment industry who constitute the field service organization for the Payroll Savings Plan.

DOMESTIC ECONOMIC CONDITIONS ④ • In 1949 external influences did not add as much to the pressure of demand on Canadian resources as had been the case in 1948. The physical volume of our exports declined about 3 percent in 1949 as

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④ Newfoundland figures have not been included in 1949 statistics unless there is a specific reference to that effect.



compared with 1948. Imports on the other hand were about the same in physical volume as compared with 1948.

The export price factor on the average appears to have been about 3 percent higher than in 1948 and the import price factor also about 3 percent higher. The dollar values of our exports, imports and trade balances with various groups of countries in 1948 and 1949 were as follows:

**Canadian Merchandise Trade<sup>Ⓒ</sup>**  
(Calendar Years, in Millions of Dollars)

	<u>United States</u>		<u>U.K. &amp; £ Area</u>		<u>Other Countries</u>		<u>Total</u>	
	<u>1948</u>	<u>1949</u>	<u>1948</u>	<u>1949</u>	<u>1948</u>	<u>1949</u>	<u>1948</u>	<u>1949</u>
Exports to <sup>Ⓒ</sup>	1,522	1,524	979	1,012	609	487	3,110	3,023
Imports from	1,806	1,952	494	495	337	314	2,637	2,761
Balance with	<u>284</u>	<u>428</u>	<u>485</u>	<u>517</u>	<u>272</u>	<u>173</u>	<u>473</u>	<u>262</u>

Changes in exports and imports, and the other categories of expenditure on Canadian resources are shown in the following table. Estimates of changes from 1948 to 1949 in terms of average price factors and physical volume should be regarded as approximate only.



<sup>Ⓒ</sup> Includes trade with Newfoundland in 1948 and first three months of 1949.

<sup>Ⓒ</sup> Includes re-exports.



## Canada: Estimated Expenditure on Goods and Services

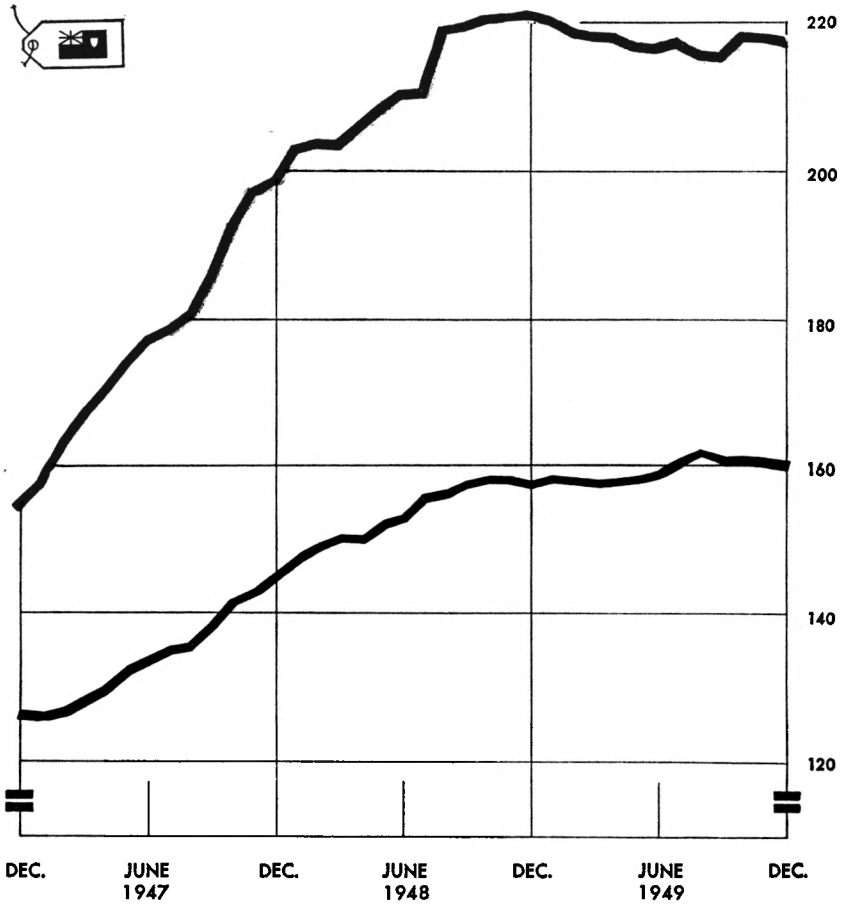
	Billions of Dollars		Per Cent Increase 1948 to 1949	
	1948 <sup>②</sup>	1949	Average Price Factor	Physical Volume
Exports of Goods . . . . .	\$ 3.1	\$ 3.1	3%	3%
Investment in Inventories . . . . .	.5	.1		
Other Gross Private Capital Investment . . . . .	2.6	2.9	5	9
Combined Federal, Provincial and Municipal Purchases of Goods and Services . . . . .	1.8	2.1	6	9
Personal Consumption Expenditures	10.1	10.8	4	2
<b>Sub-Total</b> . . . . .	18.1	19.0		
Imports of Goods <sup>③</sup> . . . . .	-2.6	-2.7	3	—
Net International Balance on Invisible Items . . . . .	-.1	-.2		
<b>Gross National Expenditure (Gross National Product)</b>	\$15.4	\$16.1		

During 1949 it would appear that the physical volume of consumer purchases of goods and services increased about 2 per cent over 1948, gross private capital investment by 9 per cent and governments' expenditures on goods and services by 9 per cent. Consumer demand was stimulated during the first part of 1949 by reason of certain special cash receipts in the form of the repayment of refundable taxes and distribution of grain participation payments and by the reduction in income taxes. As in 1948 the emphasis in private capital investment tended to shift towards housing and utilities and away from industrial plant and equipment.

The increase in the physical output of all goods and services in 1949 seems to have been nearly 3 percent. Industrial produc-

<sup>②</sup> Based on National Accounts: Income and Expenditure; 1941-1948, published by the Dominion Bureau of Statistics. Minor adjustments have been made in the process of rounding off the figures.

<sup>③</sup> The imported goods content of the expenditure components shown in the first part of the table must be deducted in order to arrive at a figure of expenditure on Canadian resources.



**CANADIAN PRICE INDEXES**  
*(August 1939 = 100)*

■ General wholesale price index  
 ■ Cost of living index

tion rose slightly less than 2 percent, agricultural output was down about 9 percent but it would appear on the basis of the number of persons employed that there was a fairly sharp increase in the output of service industries. The labour force again increased by about 2 percent during 1949.

During 1949 acute shortages of labour were not nearly so apparent as in recent years. Unemployment increased somewhat from the very low level of 1948 but the general employment situation was good by peace-time standards, although there were undoubtedly some difficult situations in particular localities and industries.

Changes in the principal Canadian price and earnings indexes over the past year are shown in the following table. The statistics indicate that on the whole the price level at the end of 1949 was not much changed from the previous year-end and that there was a relatively small further increase in the rate of earnings. However, because of the increases which took place in prices and earnings during 1948, both series show an appreciable increase in 1949 compared with the average for 1948.

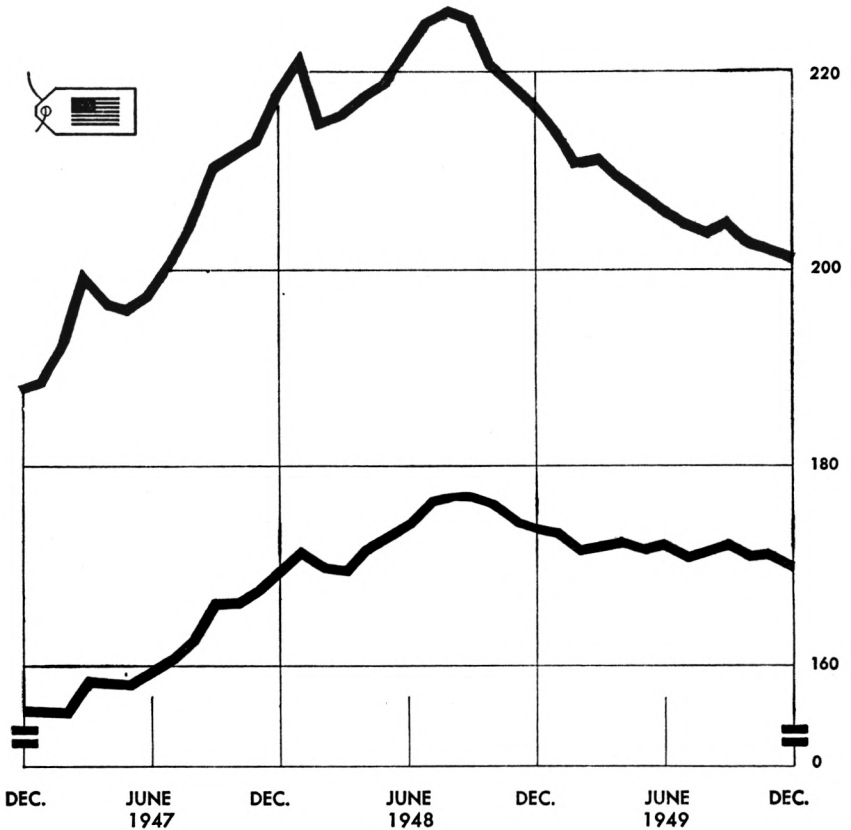
**Canadian Price and Earnings Indexes<sup>Ⓐ</sup>**  
(1948 Average = 100)

	<u>Dec.</u> <u>1948</u>	<u>Average</u> <u>1949</u>	<u>Dec.</u> <u>1949</u>
<b>Wholesale Price Index</b>			
All Items . . . . .	104	102	102
Food Products . . . . .	102	101	100
Raw Materials . . . . .	105	103	103
Manufactures . . . . .	103	101	102
<b>Cost of Living index</b>			
All Items . . . . .	103	104	104
Food . . . . .	103	104	103
<b>Average Earnings in Manufacturing<sup>Ⓑ</sup></b>			
Hourly . . . . .	105	108	109
Weekly . . . . .	108	108	111

Ⓐ Official Dominion Bureau of Statistics figures converted to the base 1948 Average = 100.

Ⓑ Covers hourly rated wage-earners in manufacturing establishments with 15 or more employees.

**UNITED STATES CONDITIONS** • In the final quarter of 1948 the aggregate demand for U. S. goods and services had appeared to be levelling-off, industrial activity had ceased to rise and some decline in price levels took place. Purchases by business were running at a rate well in excess of their sales, leading to a considerable growth in inventories, but in the first half of 1949 there was a sharp decline in the level of such purchases. By June the industrial production index had declined 12 percent



**UNITED STATES PRICE INDEXES**  
(August 1939 = 100)

- General wholesale price index
- Consumers' price index

from December 1948, wholesale prices were down 5 percent and consumer prices down 1 percent.

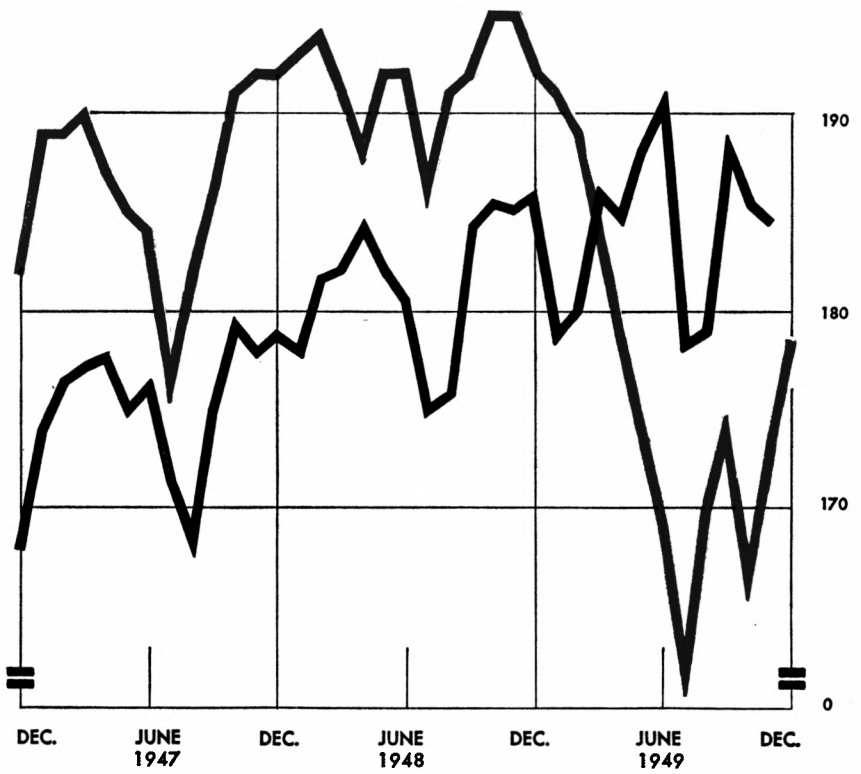
During this period, however, demand for finished goods and services was well maintained. Investment in plant, equipment and housing declined only slightly. Exports which had been falling through 1948, levelled off in the first half of 1949, and government expenditures on goods and services continued to rise. The decline in national income associated with the fall in production and prices was largely confined to the net income of business; personal incomes and consumer expenditures declined relatively little.

Since the level of consumption of finished goods and services had remained high, inventories were reduced fairly quickly. Business purchases of materials then increased, the industrial production index rose 5 percent between June and December and the decline in the price level slowed down. An increase in housing investment in the last half of the year, offset the continued reduction in capital investment in machinery and equipment. Indexes of prices and average earnings showed the following changes during 1949.

**United States Price and Earnings Indexes<sup>®</sup>**  
(1948 Average = 100)

	Dec. 1948	Average 1949	Dec. 1949
<b>Wholesale Price Index</b>			
All Items . . . . .	98	94	92
Farm Products . . . . .	94	88	82
Other than Farm Products and Foods . . . . .	101	98	96
<b>Consumers' Price Index</b>			
All Items . . . . .	100	99	98
Foods . . . . .	98	96	94
<b>Average Earnings in Manufacturing</b>			
Hourly . . . . .	104	104	105
Weekly . . . . .	104	101	104

<sup>®</sup> Official U.S. Bureau of Labour Statistics figures converted to the base 1948 Average = 100.



**INDUSTRIAL PRODUCTION**  
(Index 1935-39 = 100)

■ United States  
■ Canada

**COMPARISON OF CANADIAN AND UNITED STATES ECONOMIC CONDITIONS** • Changes in United States business conditions normally exercise a very strong influence on the Canadian situation. It is a matter of some interest, therefore, that there should have been such a sharp contrast between the trends evident in the two economies during 1949. Broadly speaking, Canada did not show any serious effects from the rather sharp recession which took place in the United States during the first half of 1949. During this period the seasonally adjusted index of industrial production declined 12 percent in the United States while the Canadian index rose slightly. Retail trade in Canada during the first half of 1949 continued to show appreciable gains over 1948 while United States retail sales were no more than holding their own in relation to the previous year. During the first half of 1949 United States wholesale prices and cost of living declined 5 percent and 1 percent respectively while the comparable Canadian indexes declined only 2 percent in the case of wholesale prices and the cost of living index rose 1 percent. Partly associated with the decline taking place in the level of inventories, United States banks' commercial loans declined 8 percent in the first half of 1949—a period in which Canadian banks' current loans rose slightly.

It would seem that part of the explanation for the difference in business trends during the first half of 1949 was the fact that the United States recession appeared to originate largely as an inventory adjustment and more or less remained confined to this sphere thanks to the well-maintained aggregate demand for goods and services in finished form to which reference has already been made in the United States section of this Report.

The continued high level of economic activity in Canada throughout 1949 can be attributed in part also to certain special factors in the domestic situation. The accumulation of war-time demands was worked off somewhat more slowly in Canada, partly because of the extent of our assistance to overseas countries, particularly in 1946 and 1947, and the limitations on imports

in 1948 and 1949 which this has involved. The more gradual process of decontrol after the war period had the effect of spreading the upward pressures on prices over a longer period of time. Also the special additions to consumer purchasing power that occurred in Canada in the early months of 1949 and which have already been described, must have had a buoyant effect on the demand for goods and services. In addition to these more or less temporary factors, there has been the strength imparted to the Canadian economy by the resource discoveries of recent years.

The pick-up in the level of United States economic activity during the latter months of the year, which was particularly evident in the level of industrial production, also had no counterpart in Canada. The result therefore, was to erase a considerable part of the divergence which appeared during the first half of the year.

**PHYSICAL PRODUCTION AND CONSUMPTION: 1928-9 AND 1948-9** • In last year's Annual Report I referred to the research work being carried on in Government departments in compiling statistics of changes in the physical volume of production and consumption. At that time we presented only the figures related to capital investment in 1947-8 as compared with 1928-9. In the following table we have brought this comparison up to date by comparing the average of the latest years now available—namely 1948-9—with 1928-9 and also included comparisons for other major categories of expenditure on goods and services.

**Estimated Increase in Physical Volume of Expenditure on Goods and Services in 1948-9 as compared with 1928-9**

Personal Consumption . . . . .	82%
Gross Capital Investment (ex inventories) . . . . .	42
Government Expenditure . . . . .	92
Exports . . . . .	53
Imports . . . . .	20
	<hr/>
<b>Gross National Product or Expenditure . . . . .</b>	<b>80%</b>
	<hr/> <hr/>



It will be noted in the foregoing table that imports have risen less than the other categories of expenditure. As a result, the domestic content of these expenditures has increased on the average while the average import content has declined. The increase in Canada's Gross National Product, therefore, reflects not only the increase in total expenditure on goods and services but also the higher domestic content of such expenditure in 1948-9 as compared with 1928-9.

The increase in the physical volume of consumption was of course associated with the increase in production which was about 80 percent between 1928-9 and 1948-9 in spite of the fact that average hours worked per week must have declined over this period. Since there was an increase of 31 percent in Canada's population, the rise in physical consumption per capita has been about 39 percent. This increase over a twenty-year period was equivalent to a cumulative annual increase per capita of 1.66 percent.

The statistics indicate that the rate of gross capital investment per capita did not increase more than 9 percent between 1928-9 and 1948-9. To the extent that the stock of capital goods has increased, a larger annual amount of depreciation has been incurred so that net capital investment in 1948-9 may well have been less per capita than in 1928-9. On the whole, the record suggests—as one would expect—that an appreciable part of the increase in physical output per capita in 1948-9 as compared with 1928-9 has been the result of increasing productive efficiency and more intensive use of plant and equipment.

**CHANGES IN BANK OF CANADA ACCOUNTS** • I turn now to the changes which took place in the Bank of Canada's accounts during 1949, on which it is customary to comment in this Report.

**FORM OF STATEMENT OF ASSETS AND LIABILITIES** • Under an agreement between the Bank of Canada and the Foreign Exchange Control Board which had been entered into with the approval of the Minister of Finance in 1941, the Bank had been

acting for the Board in the capacity of an agent in holding the foreign exchange reserves of Canada. In March, 1949, the Bank began to act for the Board in its normal capacity as banker. The Board continued to hold the bulk of its reserves in the form of gold and securities as provided under the Foreign Exchange Control Act and to carry working balances with the chartered banks as in the past. But balances of foreign currency carried with the Bank of Canada were included in the Bank's statement of assets and liabilities under appropriate headings approved by the Governor in Council. This revision explains the increase of \$79.2 millions which took place on both the asset and liability sides of our statement in 1949 under the headings of Foreign Exchange and Other Securities in Assets and foreign currency liabilities in the Liabilities.

**NOTES IN CIRCULATION** • The Bank of Canada note issue at December 31st, 1949, was \$1,307,424,146, an increase over the year of \$18,343,813, as compared with the increase of \$77,729,948 during 1948. Of the total amount of our notes outstanding, \$1,095.7 millions were held by the public and \$211.8 millions by the chartered banks. The decrease in notes held by the public was \$2.6 millions in 1949. During the year chartered bank notes outstanding declined about \$2.3 millions.

**INVESTMENTS** • The Bank's holdings of Government of Canada and Provincial government securities were \$2,009,231,066 at December 31st, 1949, having decreased by \$3,515,089 during the year.

**PROFIT AND LOSS** • The net profit from our operations in 1949, after providing for contingencies and reserves, was \$20,667,378.11. Payment of a dividend of \$225,000 on capital stock held by the Minister of Finance left \$20,442,378.11 available as compared with \$19,107,147.20 in 1948. Under Section 31(c) of the Bank of Canada Act, the whole of this surplus was paid to the Receiver General and placed to the credit of the Consolidated Revenue Fund.

**BANK RATE** • The Bank rate remained unchanged during 1949 at  $1\frac{1}{2}$  per cent. As in previous years, banks had little occasion to borrow from us.

**STAFF** • Mr. Donald Gordon, who had been Deputy Governor since 1938, left the service of the Bank on December 31st last to become Chairman of the Board and President of the Canadian National Railways. In regretfully accepting his resignation the Board recorded their appreciation of the great services rendered by Mr. Gordon. He joined the Bank when it was in the process of being organized, and from that time on made an invaluable contribution to our activities. I would like to take this opportunity to express my deep personal appreciation of Mr. Gordon's support and co-operation during the years that we were colleagues in the Bank.

The Board of Directors appointed Mr. J. E. Coyne to the office of Deputy Governor for a period of seven years, commencing January 1st, 1950. This appointment was approved by the Governor in Council. Since joining the Bank in 1938, Mr. Coyne has had a wide variety of experience in our service. In recent years he has acted as Executive Assistant to the Governors, and Securities Advisor. I welcome him as a colleague in the position of Deputy Governor.

The staff of the Bank numbered 1,396 on December 31st, 1949, compared with 1,382 on the same date a year ago. Small increases in some departments were almost fully offset by decreases in others.

I would like to express my appreciation to the staff for the high quality of service and co-operation throughout the year.

Yours very truly,

G. F. TOWERS, *Governor.*

# BANK OF CANADA • STATEMENT

## LIABILITIES

<b>Capital Paid Up: Authorized and issued —</b>	
100,000 shares, par value \$50.00 each . \$	5,000,000.00
<b>Rest Fund . . . . .</b>	10,050,366.82
<b>Notes in Circulation . . . . .</b>	1,307,424,145.96
<b>Deposits:</b>	
Government of Canada . \$	51,098,502.05
Chartered banks . . . . .	541,714,004.90
Other . . . . .	126,933,227.64
	719,745,734.59
<b>Liabilities payable in pounds sterling, U.S.A. dollars and other foreign currencies:</b>	
To Government of Canada \$	79,608,763.86
To Others . . . . .	26,777.29
	79,635,541.15
<b>Dividend Declared: Payable January 3, 1950</b>	112,500.00
<b>All Other Liabilities . . . . .</b>	3,913,338.09
	\$ 2,125,881,626.61

**AUDITORS' REPORT** • We have made an examination of the above statement of assets and liabilities of the Bank of Canada as at December 31st, 1949 and have received all the information and explanations we have required. We report that, in our opinion, it correctly sets forth the position of the Bank at December 31st, 1949 according to the best of our information and as shown by the books of the Bank.

FRANK E. H. GATES, C.A.,  
of P. S. Ross & Sons.

MAURICE SAMSON, C.A.,  
of Chartré, Samson, Beauvais, Gauthier & Co.

Ottawa, Canada, January 26th, 1950.

# OF ASSETS AND LIABILITIES

• AS AT DECEMBER 31st 1949

## ASSETS

<b>Foreign Exchange:</b> Pounds Sterling and U.S.A. dollars—at market value	\$ 74,135,541.15	
Other currencies— at market value . . .	45,380.04	\$ 74,180,921.19
<b>Subsidiary Coin</b> . . . . .		131,324.51
<b>Investments</b> at values not exceeding market:		
Short term securities issued or guaranteed by Government of Canada or any Provincial Government . . .	\$1,781,412,576.16	
Other securities issued or guaranteed by Government of Canada or any Provincial Government	227,818,489.61	
Other securities . . .	5,500,000.00	2,014,731,065.77
<b>Industrial Development Bank:</b> Total share capital, at cost . . . . .		25,000,000.00
<b>Bank Premises:</b> Land, buildings and equipment—at cost less amounts written off . . .		3,649,273.34
<b>All Other Assets</b> . . . . .		8,189,041.80
		<u>\$ 2,125,881,626.61</u>

G. F. TOWERS, *Governor*

H. R. EXTENCE, *Chief Accountant*

**PROFIT AND LOSS ACCOUNT**

*for the year ended December 31, 1949*

•

PROFIT FOR THE YEAR ENDED DECEMBER 31,  
1949, after making provision for contingencies  
and reserves . . . . . \$ 20,667,378.11

APPROPRIATED AS FOLLOWS: Dividends for the  
year ended December 31, 1949, at the rate of  
 $4\frac{1}{2}\%$  per annum —

*No. 30 paid July 2, 1949* . \$112,500.00  
*No. 31 payable January 3, 1950*     112,500.00     225,000.00

BALANCE, TRANSFERRED TO THE RECEIVER  
GENERAL OF CANADA for credit to the Con-  
solidated Revenue Fund . . . . . \$ 20,442,378.11

APPENDIX A

**Estimated Net New Issues or Retirements**

(Par Value in Millions of Canadian Dollars)

YEAR	Gov't. of Canada (Direct & Gteed.)		Provincial (Direct & Gteed.) Bonds	Municipal (Direct & Gteed.) Bonds	Private Corporation		TOTAL	
	Bonds Incl. all C.N.R. ①	Banking Issues ②			Bonds	Stocks ③		
<i>Payable in Canadian Dollars Only</i>	1939....	74	200	51	26	96	14	409
	1940....	444	315	75	13	22	5	804
	1941....	730	290	..	32	33	..	955
	1942....	1,830	633	7	39	11	3	2,417
	1943....	2,676	535	7	38	26	..	3,154
	1944....	2,847	248	40	21	18	..	3,016
	1945....	3,769	695	14	35	54	25	3,104
	1946....	272	250	18	3	135	75	253
	1947....	212	346	131 <sup>ab</sup>	103 <sup>b</sup>	276	123 <sup>a</sup>	75
	1948....	442	100	237	80	213	55	243
	1949....	719	100	361	95	168	53	142
<i>Payable Only or Optionally in Foreign Currencies</i>	1939....	96	..	29	15	129	..	211
	1940....	144	..	15	16	35	..	210
	1941....	193	..	18	14	31	..	256
	1942....	292	..	42	12	64	..	410
	1943....	148	..	25	11	36	..	220
	1944....	68	..	27	5	20	..	120
	1945....	46	..	14	8	54	..	122
	1946....	154	..	36	8	134	8	340
	1947....	31	..	66	72	155	13	337
	1948....	147	..	38	9	8	..	92
	1949....	14	..	22	6	10	..	24
<i>Total</i>	1939....	22	200	80	41	33	14	198
	1940....	300	315	60	29	57	5	594
	1941....	537	290	18	46	64	..	699
	1942....	1,538	633	35	51	75	3	2,007
	1943....	2,528	535	18	49	62	..	2,934
	1944....	2,779	248	67	26	38	..	2,896
	1945....	3,723	695	28	43	..	25	2,982
	1946....	118	250	18	5	1	67	87
	1947....	243	346	65 <sup>ab</sup>	31 <sup>b</sup>	121	110 <sup>a</sup>	262
	1948....	295	100	199	71	205	55	335
	1949....	705	100	339	89	158	53	166

① Includes refundable taxes of 70, 155, 219, 70, 27, 85 and 287 in the years 1943 to 1949 respectively.

② Treasury Bills, Deposit Certificates and other short-term issues sold directly to banks.

③ At selling and retirement values rather than par.

<sup>a</sup> Before giving effect to the issue of Quebec Hydro bonds and the retirement of Montreal Light, Heat and Power stock, each in the amount of \$112 millions.

<sup>b</sup> Before giving effect to the issue of \$63 millions of provincially guaranteed Quebec Municipal Commission bonds and the transfer to the Commission of the debt of certain school corporations.

## Money Supply, Inactive Notice Deposits and Government

LIQUID ASSETS	1938	1939	1940	1941
<b>Money Supply*</b> . . . . .	1,088	1,370	1,563	1,901
<b>Inactive Notice Deposits</b> <sup>①</sup> . . . . .	1,472	1,544	1,438	1,433
<b>Government of Canada Securities</b> <sup>②</sup>	<u>3,293</u>	<u>3,295</u>	<u>3,603</u>	<u>4,071</u>
<i>Total</i> . . . . .	<u>5,853</u>	<u>6,209</u>	<u>6,604</u>	<u>7,405</u>
<b>RELATED FACTORS</b>				
<b>Government of Canada Funded Debt</b> . . . . .	4,401	4,611	5,171	5,975
<i>Deduct: Government of Canada Deposits at Banks</i> <sup>③</sup> . . . . .	79	145	32	148
<i>Securities Held by All Govern- ment Accounts</i> . . . . .	<u>159</u>	<u>138</u>	<u>89</u>	<u>133</u>
<i>Net Total</i> . . . . .	<u>4,163</u>	<u>4,328</u>	<u>5,050</u>	<u>5,694</u>
<b>Banks' Loans and Non-Government Invest- ments</b> <sup>④</sup> . . . . .	<u>1,628</u>	<u>1,767</u>	<u>1,720</u>	<u>1,719</u>
<i>Total Related Factors</i> . . . . .	<u>6,005</u> <sup>⑤</sup>	<u>6,385</u> <sup>⑤</sup>	<u>6,808</u> <sup>⑤</sup>	<u>7,614</u> <sup>⑤</sup>
<b>*Money Supply consists of:</b>				
<b>Currency Outside Banks</b>				
Notes <sup>⑥</sup> . . . . .	207	247	341	450
Coin <sup>⑦</sup> . . . . .	<u>31</u>	<u>34</u>	<u>38</u>	<u>42</u>
<i>Total Currency</i> . . . . .	<u>238</u>	<u>281</u>	<u>379</u>	<u>492</u>
<b>Bank Deposits</b>				
<b>Chartered Banks:</b>				
Demand <sup>⑧</sup> . . . . .	734	853	1,031	1,268
Active Notice <sup>⑨</sup> . . . . .	187	197	203	236
Other (excl. Government of Canada) <sup>⑩</sup>	<u>42</u>	<u>157</u>	<u>112</u>	<u>97</u>
<i>Total</i> . . . . .	<u>963</u>	<u>1,207</u>	<u>1,346</u>	<u>1,601</u>
<i>Deduct Float</i> <sup>⑪</sup> . . . . .	116	136	172	198
<i>Net Total</i> . . . . .	<u>847</u>	<u>1,071</u>	<u>1,174</u>	<u>1,403</u>
Bank of Canada "Other" Deposits <sup>⑫</sup>	<u>3</u>	<u>18</u>	<u>10</u>	<u>6</u>
<i>Total Bank Deposits</i> . . . . .	<u>850</u>	<u>1,089</u>	<u>1,184</u>	<u>1,409</u>
<b>Money Supply</b> . . . . .	<u>1,088</u>	<u>1,370</u>	<u>1,563</u>	<u>1,901</u>

① Estimated aggregate of minimum quarterly balances in chartered banks' personal savings deposits in Canada plus non-personal notice deposits in Canada.

② Direct and guaranteed securities including refundable taxes held by life insurance companies and "all other investors" as shown in Appendix C.

③ Canadian dollar deposits of the Government of Canada at chartered banks and Bank of Canada.

④ All loans in Canada of the chartered banks other than temporary advances in connection with Victory Loan issues, plus chartered banks' holdings of provincial, municipal and "other" securities, and Bank of Canada holdings of Industrial Development Bank capital stock.

⑤ Including Bank of Canada gold and exchange holdings in the years 1938-1943 amounting to 214, 290, 38, 201, nil and 1 respectively.

⑥ Note circulation of Bank of Canada and chartered banks, excluding notes held by chartered banks.



**Holdings of Certain Liquid Assets  
of Canada Securities** • (As at December 31st, in Millions of Dollars)

1942	1943	1944	1945	1946	1947	1948	1949
2,349	2,726	3,153	3,514	3,996	3,944	4,335	4,422
1,436	1,654	2,060	2,391	2,856	3,143	3,408	3,751
<u>5,251</u>	<u>7,089</u>	<u>9,052</u>	<u>11,257</u>	<u>11,167</u>	<u>10,783</u>	<u>10,227</u>	<u>9,745</u>
9,036	11,469	14,265	17,162	18,019	17,870	17,970	17,918
8,255	11,352	14,392	17,426	17,306	16,728	16,456	15,662
366	597	720	1,002	366	272	320	181
210	499	742	821	918	1,415	1,257	796
<u>7,679</u>	<u>10,256</u>	<u>12,930</u>	<u>15,603</u>	<u>16,022</u>	<u>15,041</u>	<u>14,879</u>	<u>14,685</u>
1,570	1,459	1,593	1,827	2,297	3,084	3,341	3,419
<u>9,249</u>	<u>11,716</u> <sup>⑥</sup>	<u>14,523</u>	<u>17,430</u>	<u>18,319</u>	<u>18,125</u>	<u>18,220</u>	<u>18,104</u>
633	794	930	992	1,031	1,046	1,115	1,110
<u>49</u>	<u>55</u>	<u>60</u>	<u>63</u>	<u>65</u>	<u>66</u>	<u>70</u>	<u>74</u>
682	849	990	1,055	1,096	1,112	1,185	1,184
1,499	1,697	1,862	2,063	2,291	2,296	2,544	2,426
238	294	363	474	614	597	649	682
121	134	153	172	229	233	276	338
<u>1,858</u>	<u>2,125</u>	<u>2,378</u>	<u>2,709</u>	<u>3,134</u>	<u>3,126</u>	<u>3,469</u>	<u>3,446</u>
210	266	243	280	328	362	400	335
<u>1,648</u>	<u>1,859</u>	<u>2,135</u>	<u>2,429</u>	<u>2,806</u>	<u>2,764</u>	<u>3,069</u>	<u>3,111</u>
19	18	28	30	94	68	81	127
<u>1,667</u>	<u>1,877</u>	<u>2,163</u>	<u>2,459</u>	<u>2,900</u>	<u>2,832</u>	<u>3,150</u>	<u>3,238</u>
<u>2,349</u>	<u>2,726</u>	<u>3,153</u>	<u>3,514</u>	<u>3,996</u>	<u>3,944</u>	<u>4,335</u>	<u>4,422</u>

⑦ Subsidiary coin issued by the Mint less coin held by Bank of Canada and chartered banks in Canada.

⑧ Chartered banks' public demand deposits in Canada.

⑨ Chartered banks' public notice deposits in Canada other than estimated aggregate of minimum quarterly balances in personal savings accounts and non-personal notice deposits.

⑩ Chartered banks' Canadian dollar deposits of provincial governments, and of Canadian, United Kingdom, and foreign banks.

⑪ Cheques on other banks as shown in chartered bank month-end returns to the Minister of Finance.

⑫ Other Deposits with the Bank of Canada as shown in published month-end statements—i.e. excluding Government of Canada, chartered bank and foreign deposits.

APPENDIX C • Ownership of Government of Canada Direct

FUNDED DEBT	1938	1939	1940	1941
Banking Securities <sup>①</sup> . . . . .	270	470	785	1,075
<b>Bonds</b>				
Payable in Canadian Dollars only . . . . .	2,517	2,585	3,038	3,774
Payable in U.S. Dollars only . . . . .	473	493	493	483
Payable in Sterling only . . . . .	695	617	409	197
All other . . . . .	446	446	446	446
<b>Total Bonds</b> . . . . .	<u>4,131</u>	<u>4,141</u>	<u>4,386</u>	<u>4,900</u>
Refundable Taxes . . . . .	..	..	..	..
<b>Total Funded Debt</b> . . . . .	<b>4,401</b>	<b>4,611</b>	<b>5,171</b>	<b>5,975</b>

**OWNERSHIP OF FUNDED DEBT**

<b>Government of Canada Accounts:</b>				
Securities Investment Account . . . . .	..	..	22	9
Other Government Accounts <sup>②</sup> . . . . .	159	138	66	124
Bank of Canada . . . . .	182	229	572	605
Chartered Banks . . . . .	767	949	908	1,166
Life Insurance Companies . . . . .	522	548	626	753
All Other Investors . . . . .	2,771	2,747	2,977	3,318
<b>Total Holdings of Funded Debt</b> . . . . .	<b>4,401</b>	<b>4,611</b>	<b>5,171</b>	<b>5,975</b>

① Treasury Bills, Deposit Certificates, Treasury Notes and other short term issues sold direct to Bank of Canada and chartered banks.

② Includes any securities held by Unemployment Insurance Commission, Foreign Exchange Control Board, Custodian of Enemy Property, Export Credits Insurance Corporation, Industrial Development Bank, Canadian Sugar Stabilization Corporation, National Harbours Board, Canadian National Railways, Canadian Wheat Board, Central Mortgage and Housing Corporation and Canadian Broadcasting Corporation, Polymer Corporation and Canadian Patents and Development Ltd.

**and Guaranteed Funded Debt** • (As at December 31st in Millions of Dollars)

1942	1943	1944	1945	1946	1947	1948	1949 <sup>④</sup>
1,708	2,243	2,491	1,796	1,546	1,200	1,300	1,200
5,610	8,229	10,925	14,476	14,676	14,446	14,011	13,581
483	357	357	317	178	148	298	398
30	29	27	26	26	26	24	24
424	424	367	367	366	366	366	289
<u>6,547</u>	<u>9,039</u>	<u>11,676</u>	<u>15,186</u>	<u>15,246</u>	<u>14,986</u>	<u>14,699</u>	<u>14,292</u>
..	70	225	444	514	542	457	170
<b>8,255</b>	<b>11,352</b>	<b>14,392</b>	<b>17,426</b>	<b>17,306</b>	<b>16,728</b>	<b>16,456</b>	<b>15,662</b>

3	177	285	185	250	655	487	..
207	322	457	636	668	761	770	796
1,012	1,256	1,477	1,842	1,904	1,881	2,013	2,009
1,782 <sup>③</sup>	2,508 <sup>③</sup>	3,121 <sup>③</sup>	3,506 <sup>③</sup>	3,317	2,648	2,959	3,112
994	1,335	1,655	1,995	2,183	2,198	2,165	2,038
4,257	5,754	7,397	9,262	8,984	8,585	8,062	7,707
<b>8,255</b>	<b>11,352</b>	<b>14,392</b>	<b>17,426</b>	<b>17,306</b>	<b>16,728</b>	<b>16,456</b>	<b>15,662</b>

③Chartered banks' temporary advances to the general public in connection with the purchase of Victory Loan Bonds at time of issue amounting to 166 in 1942, 261 in 1943, 271 in 1944 and 411 in 1945 have been included in bank holdings of Government securities and deducted from holdings of the general public.

④In order to facilitate comparison with previous years, the Newfoundland funded debt assumed by the Government of Canada during 1949 has been omitted from this table. The amount involved was \$87 millions at £ = \$4.86<sup>2</sup>/<sub>3</sub>.

**BOARD OF DIRECTORS**

•

G. F. TOWERS, C.M.G., *Governor*

J. E. COYNE, *Deputy Governor*

E. G. BAKER, *Toronto, Ont.*

W. D. BLACK, *Waterdown, Ont.*  
*Member of the Executive Committee*

G. G. COOTE, *Nanton, Alta.*

N. A. HESLER, *Sackville, N.B.*

A. STEWART McNICHOLS, *Montreal, Que.*

R. H. MILLIKEN, K.C., *Regina, Sask.*

C. J. MORROW, *Lunenburg, N.S.*

A. C. PICARD, *Quebec, Que.*

A. PICKARD, *Charlottetown, P.E.I.*

H. A. RUSSELL, *St. John's, Nfld.*

E. J. TARR, K.C., *Winnipeg, Man.*

A. C. TAYLOR, C.B.E., *Vancouver, B.C.*

EX-OFFICIO

W. C. CLARK, C.M.G., *Deputy Minister of Finance, Ottawa, Ont.*



## AGENCIES

•

- Calgary, Alta. . . . J. PARRY, *Agent*
- Halifax, N.S. . . . W. D. FARRELL, *Agent*
- Montreal, Que. . . . J. H. C. DESMARAIS, *Agent*
- Ottawa, Ont. . . . J. K. FERGUSON, *Agent*
- Regina, Sask. . . . F. J. WILKS, *Agent*
- Saint John, N.B. . . . E. W. DAVIES, *Agent*
- Toronto, Ont. . . . E. FRICKER, *Agent*
- Vancouver, B.C. . . . P. B. WOOSTER, *Agent*
- Winnipeg, Man. . . . G. A. IVEY, *Agent*

