BANK OF CANADA

ANNUAL REPORT OF THE GOVERNOR TO THE MINISTER OF FINANCE

AND STATEMENT OF ACCOUNTS

FOR THE YEAR *1960*

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, . . ."

—Preamble to the Bank of Canada Act

BANK OF CANADA

February 28, 1961.

The Hon. Donald M. Fleming, Q.C.,
Minister of Finance,
Ottawa.

Dear Sir,

In accordance with the provisions of the Bank of Canada Act I am transmitting herewith my report for the year 1960, and a statement of the Bank's accounts for this period which is signed and certified in the prescribed manner.

Yours very truly,
J. E. COYNE,
Governor.

BANK OF CANADA
REPORT OF THE GOVERNOR
1960

The year 1960 began on a note of optimism regarding the rate of economic activity, with the cyclical upswing which began in 1958 still progressing amid numerous forecasts for its continuation throughout the year. During the first half of the year the combined volume of currency in circulation and total deposits of the chartered banks remained relatively constant at approximately the same level as during the previous year, which was some 10 per cent greater than that of early 1958. This monetary stability in the first half of 1960, as in 1959, was consistent with considerable variation in the distribution of bank credit among various categories of loans, investments and liquid assets and in levels of interest rates. Interest rates and bond yields showed a marked declining trend from levels reached around the end of 1959, until the end of the third quarter of 1960.

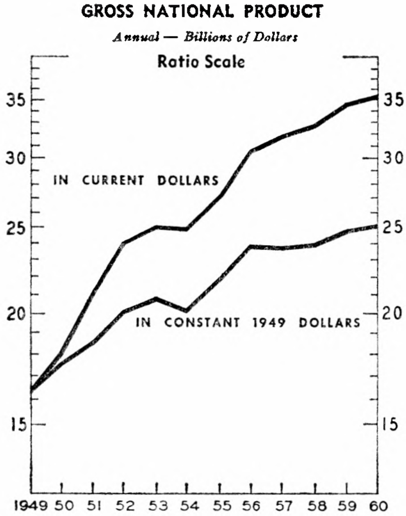
The total of bank deposits and currency in circulation began to increase in the third quarter, took a sharp upward movement at the beginning of October, and by the end of December was 5½ per cent higher than at the beginning of the year. The downward movement of interest rates on securities was partly reversed between late September and late December, but was then resumed and has continued through January and February 1961.

The early hopes of a strong upward movement in economic activity throughout the year were not fulfilled. The gross national product for the second quarter showed a decline in the seasonally adjusted annual rate of more than 1 per cent in physical volume from the first quarter, which had been 1 per cent above the rate in the fourth quarter of 1959. Figures for the third quarter and preliminary estimates for the fourth quarter of 1960 show only slight increases from the second quarter rate. Notwithstanding the decline in over-all output in the second quarter, total employment continued to rise on a seasonally adjusted basis, but more slowly as the year went on, and the increase in employment did not keep pace with the increase in the labour force – the number of persons desiring employment – with the result that the level of unemployment rose persistently after allowance for seasonal factors.

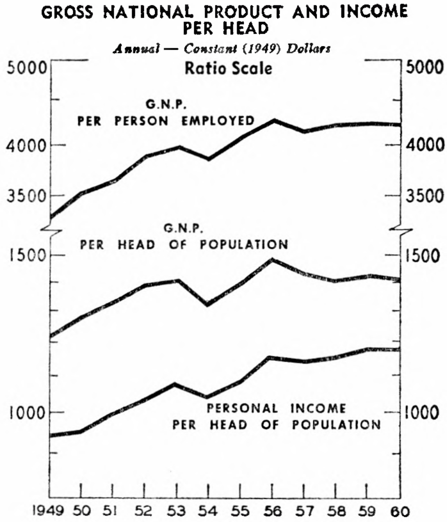
The upswing from 1958 thus lasted for about two years, as compared with about three years for the upswing of 1954-57 and nearly four years for the upswing of 1949-53. It clearly stopped some distance short of optimum levels of production and employment having regard to the growth in the labour force and in the physical capacity of some sectors of Canadian industry. Although the decline in activity in 1960 was less than in earlier postwar recessions, unemployment at the end of the year as a percentage of the labour force was greater on a seasonally adjusted basis than it had been at its highest point in 1958. It would seem that the conditions that developed in 1960 were only partly in the nature of another cyclical downswing. In part at least, developments in 1960 reflected more fundamental structural problems of a longer-term nature which have affected the level around which recent short-run cyclical movements have taken place.

The trend of unemployment in Canada has in fact been upward for the past eight or ten years, making allowance both for seasonal fluctuations and for the upswings and downswings of the business cycle. Unemployment in each such succeeding business cycle has been higher than in the preceding, at the peak and at the trough and on the average. Economic developments have not been of such a character as to raise employment in step with the increase in the labour force.

The chart on the next page shows the gross national product year by year from 1949 to 1960 both in current dollar value (which reflects the degree of price inflation over the period) and in physical volume, as measured in terms of constant (1949) dollars. The chart is drawn on a ratio scale, so that a straight line indicates a constant rate of change, and varying directions of the line indicate varying rates of change. A second chart shows the physical volume of gross national product per person employed and per head of population, and also personal income (before tax) per head of population. The charts on page 8 record changes in the major components of gross national expenditure.



1960 estimated.



1960 estimated.

It is evident that, except for brief spurts in the nature of over-expansion under boom conditions, the rate of increase in Canadian economic development has been slowing down for some years, and the inference must be that the underlying factors are also of long standing.

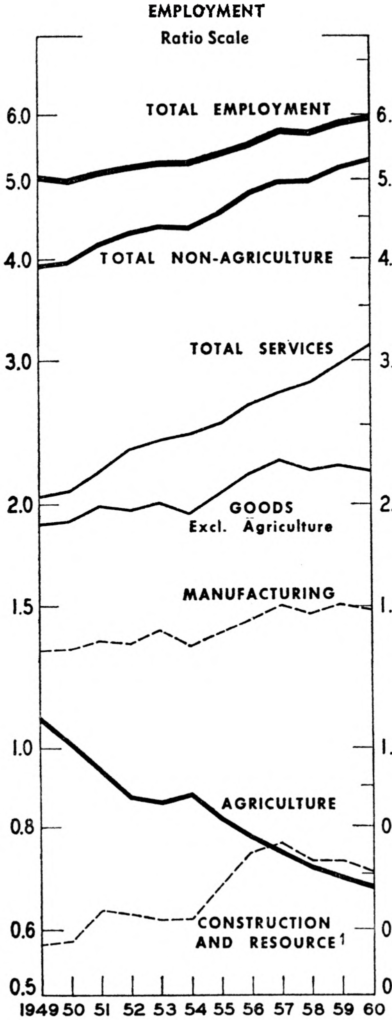
Certain trends in the labour force and employment are shown in the charts on page 6. One is the long-continuing shift from agricultural to non-agricultural pursuits, which has caused the non-farm labour force to grow faster than the total labour force. There were 1,080,000 persons employed in agriculture in 1949, or 21 per cent of the labour force. By 1960 the number was 675,000, or 10.5 per cent of the labour force. However, the absolute decrease in farm employment has been much less in recent years than earlier in the fifties, and it may not be of significant magnitude in future.

After some reduction in the early postwar years, the number of women in the labour force and the number of women employed have expanded since 1949 much more rapidly than in the case of men. Over the eleven years female employment rose by 510,000 or 47 per cent, while male employment rose by 435,000 or 11 per cent.

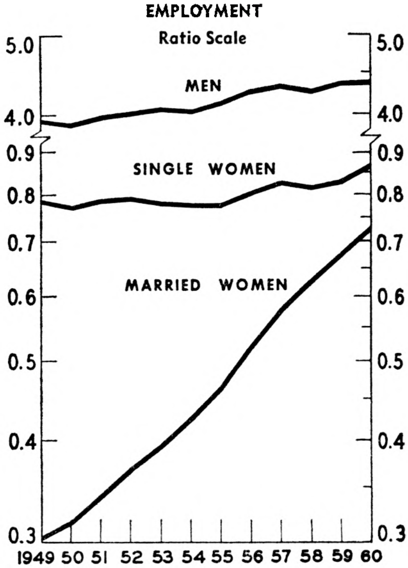
The unemployment ratio among women has been consistently lower than among men. Taking yearly averages, the number of

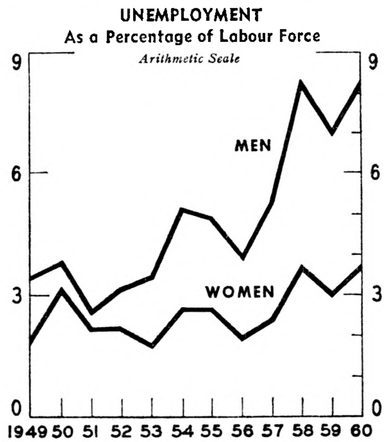
LABOUR FORCE DEVELOPMENTS

Annual Averages — Millions of Persons



1. Includes electric, gas and water utilities.





women unemployed rose from 1.8 per cent of the female labour force in 1949 to 3.6 per cent in 1960, while the number of men unemployed rose from 3.4 per cent of the male labour force in 1949 to 8.2 per cent in 1958 and 8.2 per cent again in 1960.

It is thus predominantly in jobs for men that employment opportunities have failed to increase sufficiently to match the increase in the labour force. From 1949 to 1960 the number of men employed increased by only 63 per cent of the increase in the male labour force. Male unemployment increased by 37 per cent of the increase in the male labour force. The number of women employed increased by 93 per cent, and female unemployment by 7 per cent, of the increase in the female labour force.

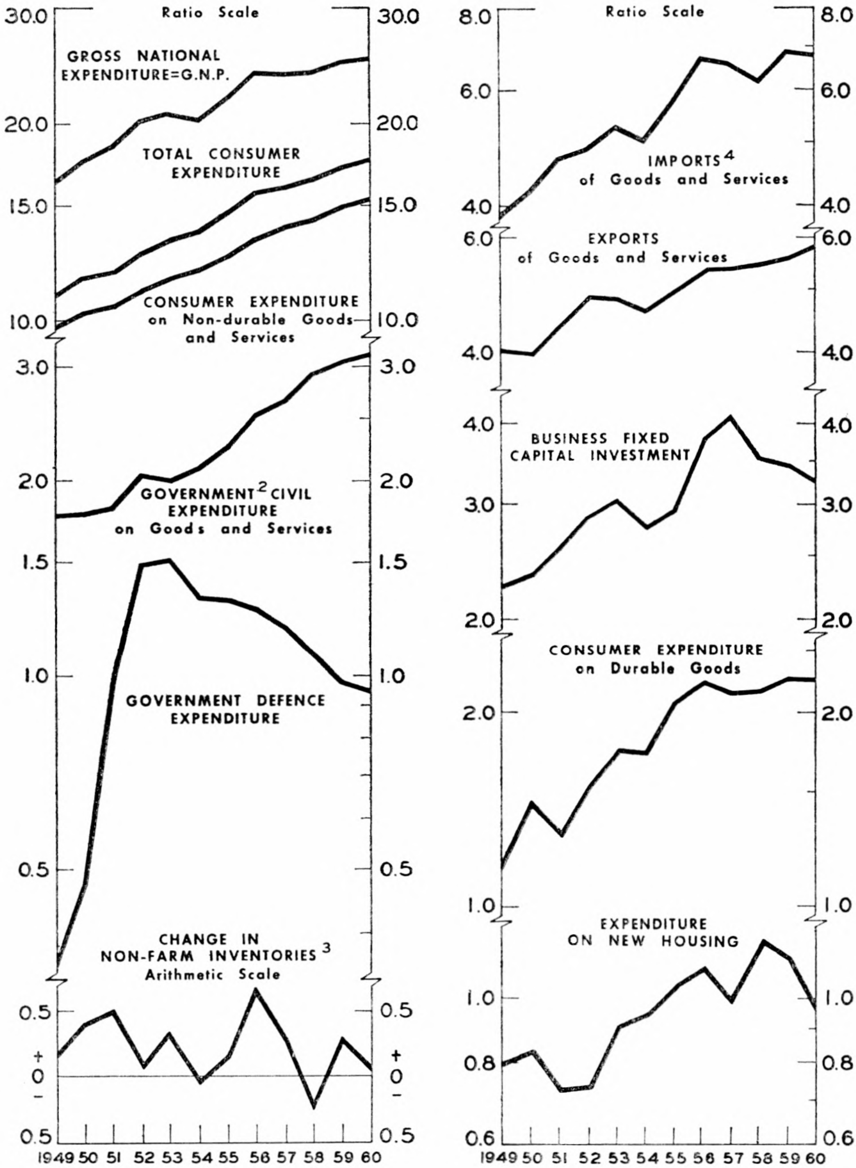
Another major feature of labour force developments has been the difference in trend between goods-producing industries with slowly rising or in some cases declining employment, and service industries where there has been rapidly rising employment (especially female employment) even in years of recession.

Including agriculture, the total number employed producing goods in Canada declined by 110,000 from 1949 to 1960 (yearly average figures). Excluding agriculture, employment in all non-farm goods-producing industries (a term which includes the construction industry) rose by 290,000 or 16 per cent. In manufacturing – which includes employment in predominantly export industries such as pulp and paper mills, lumber mills and mine concentrators and refineries, as well as employment in domestic industries competing with imports – total employment rose from 1,320,000 in 1949 to about 1,500,000 in 1957 and declined to 1,480,000 in 1960. The increase over the eleven years was 160,000 or 12 per cent.

By contrast, employment in the service industries rose by 1,070,000 or 53 per cent. Even in the recession years 1954 and 1958 employment in the service industries averaged 2 per cent above 1953 and 1957, respectively, and 1960 showed a rise of 5 per cent over 1959. Over the eleven years 1949-60 there were increases of 400,000 (50 per cent) in trade and finance, 70,000 (19 per cent) in transportation, storage and communications, and 600,000 (70 per cent) in all other services, which include the hotel,

COMPONENTS OF GROSS NATIONAL EXPENDITURE: 1949-1960

Annual[1] — Billions of Constant (1949) Dollars

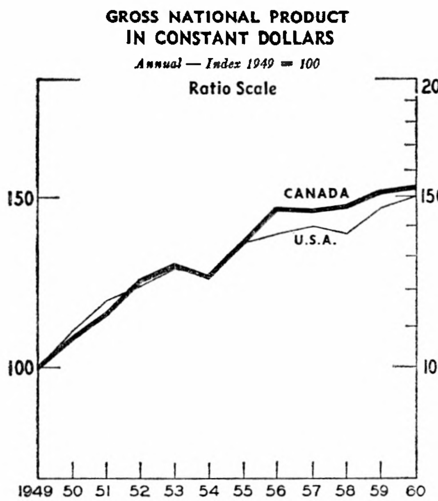


1. 1960 estimated.
2. All levels of government.
3. Change from year-end to year-end.
4. Deducted in arriving at G.N.E.

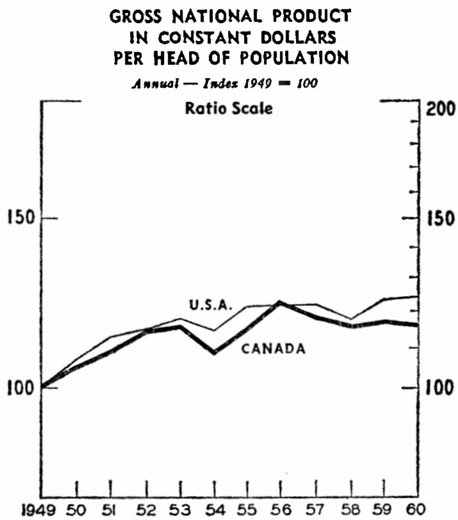
entertainment and catering trades, the professions, various personal services and business services, as well as education and health services and government services.

Undoubtedly one important reason for the slow rise of employment in goods-producing industries, and the decrease in the case of agriculture, has been the great input of capital in the form of machinery and equipment – mechanization and automation. Unfortunately for employment in Canada, a very high proportion of such machinery and equipment has been imported from other countries, instead of being researched, developed and produced in Canada and providing a "growth industry" for Canada in terms of employment and technological progress. The net import into Canada in 1959 of trucks, farm machinery, electrical machinery and other kinds of machinery and equipment and parts – the excess of imports over such limited exports as we can achieve in these fields – was valued at $1,020 million (at wholesale or manufacturer's prices and before addition of customs duties and excise and sales taxes where applicable). Of this total, net imports of such goods from the United States accounted for $890 million.

A comparison of Canadian developments with developments in the United States indicates that the growth of gross national



1960 estimated.



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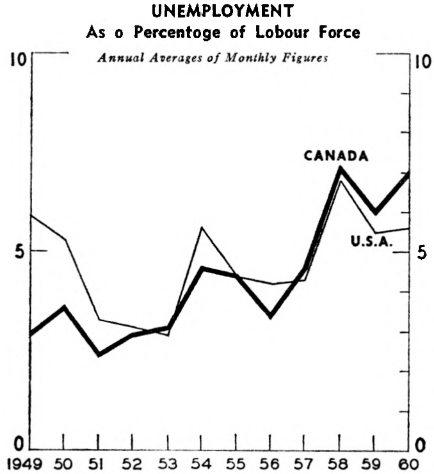
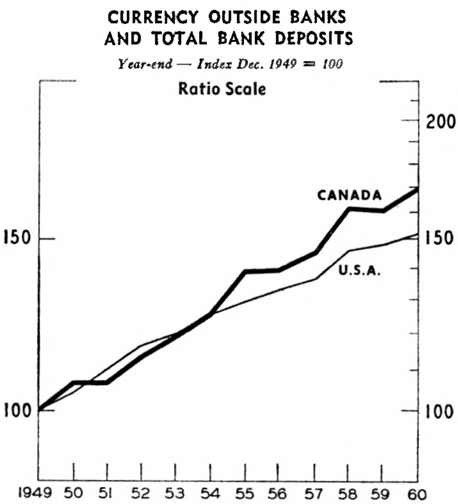


product in Canada slightly exceeded that of the United States for the period as a whole, although after 1956 the rate of growth slowed down more in Canada than in the United States. Throughout the decade the unemployment ratio trended upwards on a steeper slope in Canada than in the United States, as is shown in the inset chart.

These developments occurred in a period when (1) the rate of physical investment in new plant and equipment (including government works and facilities) was every year substantially higher in Canada than in the United States, (2) Canada drew heavily on the United States and other countries to augment its own supplies of goods and services, whereas the United States consistently made available to other countries by gift or loan a part of its own production, (3) Canada received a large inflow of capital, technical equipment and "know-how" from the United States and other countries, (4) Canada had a substantially greater expansion of its money supply than the expansion in the United States, and (5) in the second half of the decade Canada had a substantially greater degree of deficit finance by governments than the United States.

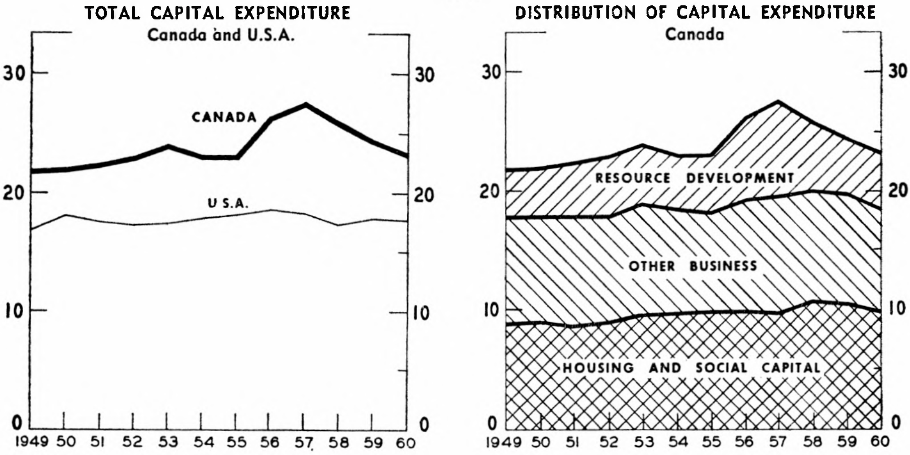


So far as capital expenditures are concerned the level in Canada relative to gross national product has been extraordinarily high.

The comparison with the United States is shown in the chart below, and the companion chart indicates the great intensity of expenditure on resource development during the 1955-57 boom.

CAPITAL EXPENDITURE AS A PERCENTAGE OF GROSS NATIONAL PRODUCT

Annual



1960 estimated.

The initiative for this wave of development of Canadian resources came in very large part from outside Canada and was based on a view, which was furthered by the Korean War and found expression, for example, in the Paley Report, that there would be a great increase in world demand for primary commodities of the kind produced in Canada, e.g., iron ore, uranium, non-ferrous metals, pulp and paper, oil and gas and various basic chemicals, and that other sources of supply would be inadequate, unreliable or vulnerable. It is now apparent that the assumptions on which the huge Canadian investment programme rested will be realized much more slowly than was then expected. Total world demand for the raw materials produced by Canada's primary industries is growing, at a moderate rate, but non-Canadian sources of supply have also been expanding. The capacity developed in Canada's major resource industries during the 1955-57 boom is not being fully utilized.

In addition, so much effort went into preparing for a massive increase in primary commodity exports, so much was thought to be promised by such development, that other lines of economic development suffered. Conditions in Canada were not very favourable to the growth of research, production skills and physical facilities for the more advanced types of industrial activity and the production in Canada of machinery and other manufactured goods of the kind and quality that Canadians want to buy, at appropriate prices. The extraordinarily high level of investment in resource development at that time, and in the ancillary construction industry, attracted capital, physical resources and manpower, and public interest and concern, away from other industries, raised domestic costs of production, and made it more difficult for secondary industries to face competition from imports. By the time the boom was over the ability of the Canadian economy to employ its labour force in meeting its own growing requirements for capital equipment, manufactured goods and various technical services, and to compete in export markets, was perceptibly weakened. It would appear that our present economic problems derive in part at least from excessive concentration on physical investment and unbalanced investment in earlier years.

The fact that very much larger capital investment in physical plant and equipment in Canada than in the United States did not produce a commensurately greater increase in production of goods and services in Canada illustrates a general point which I think should be taken into consideration in public discussion of these matters, which is that economic growth, in the sense of growth of total output, is not the same as, and does not necessarily accompany, "growth" in the sense of having a high level of physical capital investment. In principle, there could be just as much growth in total output with a lower capital investment in the economy as a whole, although the nature of production would presumably be somewhat different.

In particular, investment in human capital can at times do more for growth of output than investment in physical capital. Improved education in general, higher education for a larger proportion of those leaving high school, technological development and training, scientific research, and the development of skills and aptitudes of the widest diversity as required in modern industry, can produce very marked increases in productivity and in total production. Such an improvement in human capital can help to develop new forms of industry and rapid expansion in the advanced technologies more effectively than can be achieved merely by straining for more and more physical investment whether provided by foreign investors or otherwise.

It was during the period under consideration, from 1949 to 1960, that the net amount of foreign investment in Canada quadrupled. At the end of 1949 the value of all kinds of foreign investment in Canada, both in resources, in secondary industries and other forms of business enterprise, and in the securities of Canadian governments and corporations, exceeded total Canadian investments abroad by the amount of $4 billion. By the end of 1960 this sum had grown to about $17 billion. The view that Canada could not have enjoyed sufficient economic growth without this vast increase in foreign investment in Canada, and that the Canadian standard of living would have been much lower if we had not had this vast increase in foreign investment in Canada, appears to me very questionable. The nature of our development might have been somewhat different, but I believe a higher average rate of employment could have been maintained, and more growth of total employment and of production of goods and services in Canada could have been achieved with much less reliance on a net increase of foreign investment in Canada if Canadian policies had aimed at such a target in the past, and could be achieved by Canada in the future if Canadian policies are in future aimed at such a target.

One of the most significant differences between developments in Canada and the United States was in relation to the international balance of payments of the two countries. In every year but one since the war the United States has had a surplus of exports of goods and services over its payments for imports of goods and services, excluding capital transactions and foreign aid. Canada, on the other hand, has in every year since 1952 but particularly from 1956 on had a large net deficit on goods and services (including payments of interest and dividends on foreign investments in Canadian industries, resources and securities), accompanied by further large-scale imports of capital. No other country of comparable maturity has ever had anything like so large a deficit sustained over so many years.

In years of relatively high employment in Canada a large deficit in the balance of payments and the corresponding large increase in our foreign debt or in foreign investment in Canada should, I think, be regarded as an indication of excessive total spending on the part of Canadian business enterprises, individuals and governments combined, rather than (as some have urged) as a valuable and welcome addition to the total resources available for use in Canada in the year in question. Judgment in any specific situation must of course have regard to the particulars of that situation and one of the important tests must be whether the additional resources are in fact used in a way that will be followed by larger sustained increases in Canadian production and improvement of our balance of payments. Up to the present, the deficits in question do not appear to have been followed by commensurate increases in production or in our ability to pay our way in the world. At a time of relatively high unemployment in Canada, it is difficult to avoid the conclusion that the continuing very large deficit in the balance of payments is not only disadvantageous in itself but is indicative of an excessive capital inflow as well as structural weaknesses in the Canadian economy which result in excessive aggregate spending on goods and services provided from abroad to the detriment of the production of goods and services of a similar character in Canada.

It seems clear that the recent high levels of unemployment in Canada do not arise from a deficiency of total spending by Canadians, or of spending for capital purposes. A relatively very large fraction of our gross national expenditure has, however, been spent directly or indirectly on balance for imported goods and services, and has to that extent failed to provide employment in Canada.

In a sense there has been a diversion of purchasing power from domestic production to foreign production. During the last three years the average annual ratio of unemployment to the labour force has ranged between 6 per cent and 7 per cent, while the excess of our payments abroad on current account over our receipts from abroad on current account has in each of these years amounted to more than 3 per cent of gross national product. (The figure would average 4 per cent in these years if the gross national product were valued net of indirect taxes as in the case of imports and exports.) If appreciably more of the total spending by Canadians had on balance been on goods and services produced in Canada the level of unemployment would have been much less than that which has actually been experienced.

Analysis of our situation seems to me to indicate that the approach to higher employment and output should be through measures designed to reduce the large deficit in our current account balance of payments, and through increases in spending of a selective character likely to increase production in Canada, rather than through measures designed to raise the level of total spending by Canadians. I am sure that there are many more possible ways of setting up incentives directed towards these goals than is generally realized. One would hope for the most imaginative and thorough canvass of the possibilities and widespread discussion by those who are interested. Ultimate decisions must rest with the appropriate governmental authorities in accordance with their best assessment of what the national interest and welfare requires.

Among the problems that would have to be faced would be that of moderating the rate of net capital inflow into Canada. The deficit in the current account of the balance of payments and the net capital inflow (including changes in official exchange reserves) are necessarily equal, and the one cannot fall without the other declining equally. An important factor in the problem is the strength of the pressure for foreign capital to flow into Canada. Inflows for direct investment in Canada and from the net sales of stocks to non-residents have been large and persistent. If account is also taken of the volume of profits from investment that accrue to non-residents but that are retained and re-invested in Canada – an item which is not included in the net capital inflow in the official Canadian balance of payments statistics but which increases non-resident owned investment in Canada – the total of equity-type capital inflow into Canada appears recently to have approached a rate of $1,000 million a year. The volume of this type of capital inflow is relatively insensitive to differences in the levels of interest rates between Canada and other countries or changes in the foreign exchange value of the Canadian dollar, and would, if anything, be greater with increased economic prosperity in Canada.

Examination of past developments and of possible causes of present difficulties is only of value as an aid to deciding on what measures might seem most effective to deal with present difficulties. I have urged on a number of occasions that there are serious structural distortions and inadequacies in the Canadian economy which have been developing for many years and which can only be corrected by utilizing various tools of economic policy on a broad front. Monetary policy cannot have much effect on such basic economic problems. On the other hand, the objectives of monetary policy are the same as the objectives of general economic policy and are not in conflict with them.

The goals of full employment, sustained economic growth, stable prices and a sound currency must all be pursued simultaneously. It should not be necessary – were it not for rather extreme statements that have appeared in some public discussion of these matters – to remark that the Bank of Canada is not in any way opposed to the idea of full employment, and does not operate with a view to restricting economic growth or preventing increased employment in the supposed interests of monetary policy or of anti-inflationary endeavours.

The seeking of full employment, the overcoming of unemployment by non-inflationary means, must be for all of us an economic objective of the very highest priority. We should not allow exaggerated ideas about the influence of monetary policy to distract us from pursuing outside the monetary field the most practical and effective measures to ensure the restoration of a high level of employment and the reduction of unemployment to the minimum level. Equally, we should not let the sound administration of monetary policy and public acceptance of a sound monetary policy be jeopardized by natural concern about a high level of unemployment which has not been caused by monetary policy and is not curable by monetary policy.

Large-scale unemployment is an indication of failure on the part of all of us collectively to make the most effective use of the resources of modern technology and social organization. When the economy as a whole operates at less than full capacity, we are not producing the maximum possible supply of goods and services for use today, either for consumption or for increasing our capacity to provide a higher rate of production and a higher standard of living tomorrow. The nation as a whole suffers real economic loss, and it is avoidable economic loss, in addition to the personal loss and frustration of those particular persons who are seeking work and unable to find it. It seems to me only common sense, when considering the economic, social and personal problems of unemployment, that no price is too great for the community as a whole to pay in order to achieve full production and reduce unemployment to the lowest possible level. (It should be unnecessary to explain that I am speaking of an economic price.) The practical question is, what are the best measures to take, and how is the cost of those measures to be shared by the various groups and individuals that make up the community.

A central bank must be opposed to inflationary methods which involve excessive monetary expansion. But the adoption of any policy or any combination of policies directed towards establishing and maintaining full employment, and maintaining a high rate of steadily continuing economic growth without inflation, is not in any way prevented or limited by the central bank or by a sound money policy. There is no financial obstacle to the carrying out in a non-inflationary way of any programme which is physically possible, if the community is willing to make the appropriate arrangements and put into effect whatever changes in the use of physical resources and changes in the distribution of real incomes may be involved in such programmes. These are the real factors involved, which cannot be avoided, whatever method be favoured to deal with them. Inflation itself is one method of inducing changes and adjustments in the use of physical resources and in the distribution of real incomes — but there must be more equitable and efficient ways, better ways of sharing the real costs and ultimate benefits of full employment policy and other constructive economic and social policies.

Role of Monetary Policy

The primary function of the central bank is to provide the chartered banks with a volume of cash reserves adequate to support an appropriate level of bank credit and deposits. The volume of cash reserves and of related bank assets and deposits will vary in the short run, mainly for seasonal reasons, and also in the long run, where the trend is upward. The rate of expansion of credit and the timing of such expansion will always be matters of judgment, both for the central bank and for the chartered banks. At no time since the Bank of Canada was established in 1935 have the total lending resources of the chartered banks, or the stock of money as defined to include both currency and bank deposits, decreased by any significant amount for any significant period. There have been times when the rate of increase was moderate or negligible, and other times when it was rapid.

The stock of money or the corresponding factor of the size of the total assets of the banking system is not the only element affecting the level of interest rates or changes in various interest rates from time to time. With any given level of the total stock of money interest rates may rise or fall depending upon the relative strength of the demand for funds on the part of borrowers and the willingness of lenders to make loans and investments. For present purposes I will leave aside the controversial question as to whether a change in the rate of interest will induce a change in the proportion of their income which people will save, although I find it difficult to agree with the assertion of those who say there is no such effect. Of greater immediate importance is the effect of changes in the rate of interest on the willingness of people presently holding deposit balances to lend them to others who wish to carry on enlarged spending programmes.

Economists have often differed in their views as to the influence which changes in interest rates have on the plans of borrowers and spenders; whether, for example, lower interest rates encourage major increases in inventories or make a major contribution to business decisions to expand programmes for new investment in physical plant and equipment. There is by no means a clear consensus on this subject. Some commentators have, however, proposed that a substantial further reduction of interest rates, particularly yields on long-term bonds, should be the over-riding objective of financial policy in Canada at the present time. In some cases the proposal may involve keeping interest rates low in times of boom as well as recession but it seems usually to be related to a view that larger swings in interest rates both down and up at appropriate times would be desirable as a means of moderating recessions or booms in economic activity. Variation of interest rates has been urged both as a means of changing conditions in domestic financial markets, and as a means of moving the exchange rate, at least to parity with the United States dollar. One published proposal is that Canadian interest rates be put at the same level as United States interest rates. All sincere proposals should receive careful appraisal along with the other considerations which may be relevant and important.

The basic reason why interest rates are lower in the United States than in Canada is that the total level of borrowing, the aggregate demand for funds by governments, business and individuals combined, is less (proportionately) in the United States than in Canada. Reducing Canadian interest rates, particularly on government securities, nearer to or all the way to the same level as in the United States would be intended among other things to prevent pressure on the Canadian exchange rate which results when large-scale inflows of capital take place. For provinces and municipalities to borrow abroad is hazardous to themselves and undesirable in the national interest. In so far as capital inflows are due to borrowing abroad by Canadians, it would be preferable to deal with the problem by encouraging Canadian entities to borrow at home rather than abroad, with the effort more proportionate to the desired result, rather than attempting to make a substantial reduction in the entire interest rate structure in Canada in order to change the source of what is only a small part of total borrowing by Canadians. Moreover, the other large element in the capital inflow, that is, the inflow of foreign capital for direct investment or equity investment in Canada would not be materially affected by lower interest rates in Canada. There are ways to influence the inflow of capital for direct investment outside the monetary field and in the direction of providing relatively more favourable incentives, opportunities and facilities for Canadians to invest in Canadian stocks and Canadian industrial development.

The arguments advanced for larger swings in long-term interest rates at rather short intervals, whatever their theoretical justification, ignore very important practical effects on the market for government bonds and other debt instruments. The fluctuations in bond prices which we have experienced since the war at relatively short intervals as the business cycle changed from upswing to downswing to upswing again, have been large enough to be seriously disturbing, and it is much to be desired that such fluctuations be moderated, not aggravated, in future. If fluctuations in interest rates and bond prices were to be even larger, investors would see little attraction in purchasing in times of low interest rates, bonds which could be bought much cheaper a year or two later, and the operation of the free market investment mechanism would be seriously impaired.

A lower level of interest rates at the present time is being urged in current discussion with a view to encouraging the desire to borrow — to increase total borrowing and induce more of such borrowing to be attempted in Canada rather than abroad. It will not, of course, encourage the desire to lend, at least on the part of non-bank lenders, but if anything the reverse. (As already stated, I am speaking of changes in willingness to lend funds already in existence or coming into the hands of savers through normal rates of saving — not changes in the rate of new saving itself.) As a practical matter, the level and structure of interest rates, and prospects for some degree of stability, must be such as to induce non-bank investors to use their funds to buy Government bonds and other securities in large volume every year and over a period of years, including the large amounts required to be raised to pay off maturing issues, as well as new issues. The size of the public debt in the post-war world and its continuing annual increase, are so great that monetary management must take account of the practical problems of maintaining a sufficient market among non-bank investors for the annual maturing amounts of such a debt and further additions to the debt.

If reducing interest rates is intended to encourage an increased volume of borrowing in Canada, there must be an equivalent increase in lending. If, however, lower interest rates would reduce the willingness of non-bank lenders to lend existing funds, the desired increase in the flow of loanable funds would have to come from the banking system, which would also have to make up for the reduction in the flow of loanable funds from other lenders discouraged by reduced returns and the expectation of large fluctuations in bond prices to be induced from time to time by a more aggressive official policy with regard to variations in interest rates.

The question is whether it would be desirable to reduce the area of private lending and subordinate the operations of the banking system to such a purpose, involving larger increases of chartered bank assets and deposits in some periods than have occurred before (and presumably also in some periods appreciable contractions, which have not occurred before). The answer is surely, No – the objective of a satisfactory flow of funds in the Canadian capital market can be achieved in other, less disruptive ways.

Serious trouble has developed on several occasions since the war, when expansion of the money supply became so great as to cause a very large increase in the more liquid assets of the banks. The banks are naturally desirous of replacing such low-yielding assets with other loans and investments as opportunity offers. Within reasonable limits, this is a desirable way of keeping the banking system flexible and dynamic. Beyond reasonable limits, however, it leads to excessive credit expansion during periods of strong economic activity, heavy sales of government securities by the banks, and serious disturbance of the market for all kinds of bonds.

On balance, I do not believe it is desirable for reasons of interest-rate policy to expand the assets of the banking system beyond the size needed to ensure an adequate flow of credit of the kind normally expected to be provided by banks, with a reasonable margin for flexibility and growth. If borrowing requirements of a capital nature are not excessive in total but tend to exceed the flow of funds available from non-bank lenders at existing levels of interest rates, plus a reasonable expansion of bank assets, the soundest solution is for borrowers to pay such rates of interest and offer such kinds of securities as will attract additional funds out of inactive deposits, and for all concerned to encourage the growth of institutions which will assist the process of moving into desirable fields of longer-term investment funds now held by potential investors (in very large sums in the aggregate) which are not presently invested by them but held in idle bank deposits. There is scope for large-scale expansion in the market open to credit-worthy borrowers if suitable means can be adopted for achieving through the free market mechanism more effective utilization of the existing stock of money.

To recapitulate, I am convinced that to engage in further large over-all monetary expansion in an attempt to drive down interest rates generally, with or without the motive of thereby reducing the inflow of capital from abroad, is an unsound and dangerous approach and would prove to be an ineffective approach, to the problems of the exchange rate, of the recession, and of achieving more consistent economic growth. Ensuring an adequate flow of capital funds to borrowers can under the circumstances which exist best be achieved by measures which do not require the whole level of interest rates to be further reduced by a substantial amount through the medium of large-scale over-all monetary expansion. It is not necessary, and is not desirable, to swing the whole apparatus of monetary policy with a view to overcoming a deficiency from time to time which amounts to only a fraction of the total borrowings of these entities, and a still smaller fraction of the entire flow of capital funds in the economy. More lending and investment of private funds by non-bank investors is the sound and desirable approach to problems of the supply of capital funds in Canada.

Many requirements other than having an appropriate level of bank cash reserves, and of total bank deposits and assets, and an appropriate level of interest rates, must be met in order that the economic system may work satisfactorily. As a practical matter, one must recognize that serious harm could be done by attempting to offset, by means of general monetary action, economic maladjustments requiring other types of remedial action, public or private. Monetary expansion may play a part when it occurs in conjunction with a broad sweep of other programmes of a more specific kind directed towards solving the problems in question. By itself, however, the creation of more and more money could do little toward achieving the objective. Moreover, while the central bank can stimulate an increase in the total of bank deposits and bank assets it cannot usually influence the allocation of the increase towards any particular industry or sector of the economy, to local governments or to particular regions; the actual distribution of the increase will depend on many factors which are outside the field of the central bank.

The emphasis which is placed from time to time on the limitations of monetary management by those who are engaged in central banking is based on concern for the healthy vigour of the economy; it is not a sign of an uncooperative spirit or a desire to create difficulties. The danger these days is not that the positive and constructive possibilities of money creation will go inadequately recognized or inadequately exploited, but that excessive faith in its curative powers will lead to its unrestrained use while more searching diagnoses will be delayed and more effective remedial measures outside the field of central bank action will go untried in the easy-going belief that they are not necessary.

Central bankers throughout the world are, I think, unanimous in feeling that people have come to expect far too much of monetary manipulation both in counteracting strong inflationary forces and in promoting sound economic growth and overcoming recession. The provision of money and credit and capital is not enough. In addition to the many important factors in the field of private business and the activities of private individuals, it is the whole field of public policy which must be utilized, not just the narrow field of monetary policy, in order to achieve desirable economic and social goals. If I may quote from a recent speech by the Governor of the Bank of England, ". . . A theme which I have myself argued for many years past (is) that monetary policy cannot cure all ills, and that it is a great mistake to expect it to carry loads which should be carried in other fields of Government policy." Lord Cobbold was speaking in this context about the problems of restraining the excesses of a boom, but his theme applies with even greater force to the problems of overcoming recession and promoting a satisfactory rate of sustained economic growth.

The External Economic Environment

By the beginning of 1960, economic activity in the world as a whole had reached a very high level. Some increase in production occurred in the first half of the year, but the rate of increase was less than in 1959. By mid-year, industrial production in the industrial countries reached a peak about 25 per cent above the low point of April 1958.

The recovery from the recession of 1957-58 began somewhat earlier in North America than in the overseas countries and ceased at a time when economic activity overseas was continuing to expand. Overseas, the first signs of a levelling-off became apparent in the United Kingdom where industrial production stopped rising in April. Elsewhere production continued to grow, although the rate of increase tended to slacken in Western Europe as one country after another approached the full utilization of its productive potential.

The expansion of 1958-60 was larger and produced more evidence of pressure on resources in the overseas industrial countries than in North America. In Europe and Japan, a shortage of labour developed, industrial capacity was fully utilized, investment programmes were greatly expanded and large backlogs of orders for capital goods built up. In North America, these symptoms of boom have been either absent or much less pronounced and the upward trend in prices and costs appears to have moderated. Wage rates rose quite rapidly in 1960 in the overseas countries and expectations of price increases appeared to be more commonly held there than in North America. These contrasts have been reflected in the patterns of external trade, and trends of interest rates, to which I shall refer later.

In the United States the normal processes of expansion, which were checked by the steel strike in 1959, did not succeed in reasserting themselves to the extent that most observers had expected a year ago. The upsurge in business activity following the four-month strike carried industrial production and total real output to peak levels in the early months of 1960, but much of this increase in output was directed to filling depleted stocks and by mid-year the expansion of over-all activity had come to an end. Inventory accumulation reached a seasonally adjusted annual rate of $11.4 billion in the first quarter but slackened thereafter, and by the fourth quarter inventories were being liquidated at a $3 billion annual rate. A decline in outlays on new housing and in business fixed investment, the latter associated with a fairly sharp decline in corporation profits, added to the contractionary forces during the latter half of 1960. However, final demand rose throughout the year in contrast to the declines which occurred in the 1957-58 recession; in both periods, governments increased their expenditures on goods and services, but business fixed investment declined much less in 1960 than in the previous recession, exports and the balance of payments on goods and services improved and consumer expenditures held up better. Even so, the rate of increase of final demand was insufficient to offset the effect on output of the substantial inventory adjustment, and total output declined by one per cent from the second quarter to the fourth. Unemployment, which did not fall below 4.8 per cent of the civilian labour force in the expansion phase of the cycle, began to rise on a seasonally adjusted basis in the second quarter of 1960 and reached a rate of 6.8 per cent in December.

The Federal Government's cash budgetary position shifted from a deficit of $8 billion in 1959 to a surplus of $3 billion in 1960. Commercial bank loans increased by about half the increase in 1959 and the banks added to their holdings of Government securities. Interest rates fell in the first half of the year and showed relatively little change in the second.

As the year 1960 opened in the United Kingdom, the earlier rise in exports and the upsurge in consumer spending on cars and other durables were stimulating a large build-up of inventories and a boom in fixed investment. Following the increases in production and employment, the labour market became distinctly tight early in 1960 and a number of industries in a number of important regions encountered considerable difficulty in expanding their labour force. Some physical shortages developed, unfilled orders increased and as prices began to move upwards concern was widely expressed lest wage increases should exceed the increases in productivity. The balance of economic policy shifted in the direction of restraint, and financial conditions tightened. In April, hire-purchase controls which had been lifted in 1958 were reimposed, and the Bank of England used for the first time the new technique of calling for Special Deposits from the banks with the purpose of reducing their liquidity.

After April, production held steady, neither rising further in the aggregate, nor falling significantly until late in the year. Operations had reached capacity in a number of industries, and as the year went on difficulties were encountered in the export and home markets by producers of cars and other consumer durables.

The trade balance of the United Kingdom deteriorated in 1960 as imports rose and exports declined. The very high levels of activity in the economy contributed to this development, the rise in imports being undoubtedly due in part to the build-up of material stocks, and to the investment boom, while supply difficulties and lengthening delivery dates influenced the performance of exports. Other factors have also been present including the removal of discriminatory restrictions on imports from North America both in the United Kingdom and in third markets, and the competitive impact in the United States market of compact cars produced in the United States. The over-all current account balance swung from a surplus of £139 million in 1959 to a deficit of more than £100 million in 1960. Even though the normal outflow of long-term capital from the United Kingdom continued, and substantial repayments were made to the International Monetary Fund, exchange reserves increased as a result of the massive inflow of short-term capital attracted by higher short-term interest rates than those in the United States, Canada, and some other countries.

Production in the principal countries of Continental Europe has grown rapidly in recent years and the expansion continued in 1960. With the demand for both consumer and investment goods insistent, production rose in most instances as rapidly as growing capacity permitted. The pressure on resources has been particularly evident in Germany where unemployment dropped far below the level of unfilled job vacancies in spite of a large influx of workers from other countries, and orders for capital goods outstripped the capacity of manufacturers to supply them. The German trade surplus continued at a high level, and rising interest rates and at times speculation on the possibility of an increase in the exchange value of the deutsche mark attracted very large amounts of foreign capital in spite of efforts to check the inflow. German foreign exchange reserves rose by more than $2 billion in the year to a level in excess of $7 billion.

High world production of primary commodities kept their prices weak in 1960 in spite of the high level of industrial production in the world economy, and by year-end commodity price indexes had reached levels lower than at any time since the Korean War. A pattern of declines in 1960 following advances in 1959 is evident over a wide range of industrial materials such as textile fibres, base metals, hides and rubber. Further reductions occurred in petroleum prices during the year and some foodstuffs including butter and cocoa have also been weak, while cereals and coffee remained in surplus. In general the weakness in commodity prices can be attributed to the expansion of supplies, due in some cases to favourable weather conditions but more fundamentally to the growth of productive capacity both for natural products and their manufactured substitutes.

While the industrial countries benefited from the decline in commodity prices which contributed to the stability of their internal price levels as well as favouring their international terms of trade, the high level of industrial activity in 1960 affected primary producers by enabling them to secure a larger volume of sales even if at somewhat lower prices. There has of course been enough diversity in the commodity markets for the various producing areas to have been affected differently. Latin America, which is heavily dependent on coffee and oil, has suffered a continued decline in export prices for some years, and in 1960 a number of important countries in this part of the world restricted imports severely. Australia and New Zealand experienced a sharp decline in export prices in 1960, as wool, butter and base metals moved down from their earlier highs. Their exchange reserves which were high in 1959 tended to decline in 1960 as the growth of imports, stimulated by rising domestic incomes and measures of trade liberalization, outstripped the more static level of export earnings. Such products as tea, jute and tin which are important to the newer Commonwealth countries of Asia were stronger in price than most other commodities and rubber prices were unusually high prior to their sharp fall in the second half of 1960.

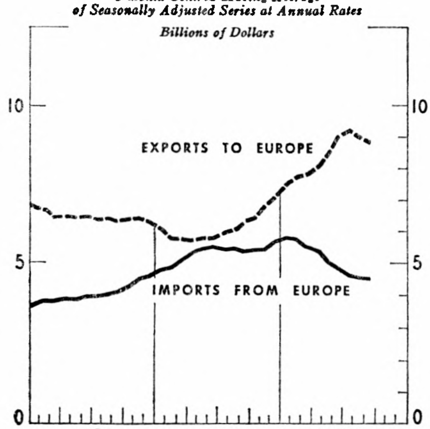
The value of goods entering the channels of world trade was more than 10 per cent above the record 1959 level, but as in the case of industrial activity the rate of growth slowed down in the course of the year and may indeed have levelled off. There was a continued and massive growth in trade among the countries of Europe including the United Kingdom. During the first ten months of 1960, the value of intra-European trade was more than 20 per cent above the same period of 1959 and an even larger increase, amounting to more than 30 per cent, occurred in trade among the six member countries of the European Economic Community.

No significant gains were recorded in North American trade with Latin America or in trade between Canada and the United States; Canadian exports to the United States were lower in 1960 than in 1959 and Canadian imports from the United States were about the same.

TRADE BETWEEN NORTH AMERICA AND EUROPE†

3-month Centred Moving Average of Seasonally Adjusted Series at Annual Rates

Billions of Dollars



†Statistics prepared by O.E.E.C. relating to trade of member countries.

On the other hand, there was a large improvement in the balance of North America's trade with Europe and an increase in North America's share of other markets outside the Western Hemisphere. As the inset chart shows, the improvement began in the second quarter of 1959 when North American exports to Europe turned upwards and continued strongly during 1960 while imports from Europe were falling.

The improvement in North America's balance of trade with Europe between the second quarter of 1959 and the third quarter of 1960 amounted to about $4 billion at annual rates. In the same span of time, North America's balance of trade with other countries improved by $1 billion, very much more than Europe's improvement with these countries; large increases occurred in North America's exports to Sterling Area countries and Japan. These developments have provided support to the North American economies and reduced the size of the contractions in output which might otherwise have taken place.

United States merchandise exports rose 20 per cent between 1959 and 1960, while Canadian exports rose only 5 per cent over-all due to the decline in Canadian exports to the United States, which constitute more than half the total. Thus, the United States trade balance improved much more than that of Canada in 1960, and the total balance of United States transactions in goods and services including military expenditures abroad changed from a negligible figure in 1959 to a surplus of nearly $4 billion in 1960. The continued loss of gold and the increase in foreign holdings of United States dollar assets — together amounting in 1960 as in 1959 to $3.8 billion — was in 1960 more than matched by increased American holdings of foreign assets. The so-called "deficit" in the United States balance of payments (shown in the table on the next page as Decline in recorded "reserves") would indeed have been relatively small had it not been for the large outflow of private short-term capital, both foreign and domestic, attracted by higher interest rates abroad or influenced by speculation on possible changes in the relative values of different currencies and gold.

In contrast, Canada continued to run a trade deficit and a large deficit on the over-all current account financed mainly by an inflow of long-term capital.

The developments of 1960 provided further encouragement to international co-operation in an environment of convertibility and liberalized trade. In December, Canada and the United States as well as the European member countries of the O.E.E.C. signed the convention of the new Organization for Economic Co-operation and Development. This new international organization is expected to play a useful role in the fields of economic policy and trade, and of aid to underdeveloped countries. Little progress has been made, however, in the solution of the problems arising from the creation of regional groupings in Europe.

The Balance of Payments of Canada and the United States Compared : 1960*

(billions of Canadian or United States dollars)

	Canada		U.S.A.	
CURRENT RECEIPTS (+) OR PAYMENTS (−)				
Merchandise exports	+5.4		+19.4	
Merchandise imports	−5.5		−14.7	
Merchandise balance		−.1		+4.7
Non-merchandise receipts	+1.6		+7.7	
Non-merchandise payments	−2.5		−8.6	
Non-merchandise balance		−.9		−.9
BALANCE ON GOODS AND SERVICES		−1.1		+3.8
Government grants and private remittances, net		−.2		−2.4
TOTAL CURRENT ACCOUNT BALANCE		−1.3		+1.4
CAPITAL INFLOWS (+) OR OUTFLOWS (−)				
Government long-term capital, net	—		−1.1	
Private long-term capital, net	+.8		−2.0	
Total long-term capital, net		+.8		−3.1
All other capital movements, net		+.4		−2.1
TOTAL CAPITAL INFLOW (+) OR OUTFLOW (−)		+1.2		−5.2
Decline in recorded "reserves" (+)		—		+3.8
TOTAL CAPITAL ACCOUNT BALANCE		+1.3		−1.4

* As far as possible, the above table presents the balance of payments for the two countries on a comparable basis. Estimates for the United States are based on the initial summary release by the United States Department of Commerce. This source does not separate Government grants and capital transfers, and Government grants have been estimated at $1.6 billion for 1960 on the basis of their level in 1958, 1959 and the first three quarters of the year. For the United States all other capital movements consist of a net short-term outflow of $1.1 billion plus an outflow of $1.0 billion arising from errors and omissions but believed to consist largely of unrecorded capital movements. In both countries, merchandise transactions exclude transfers under military grants and non-merchandise transactions exclude official contributions, grants and private remittances. In Canada, private long-term capital includes net direct investment and all transactions in bonds and stocks. Declines in recorded "reserves" are, for Canada, declines in official holdings of gold and foreign exchange and, for the United States, increases in foreign gold and liquid dollar assets through transactions with the United States.

International short-term capital movements assumed large proportions in 1960. Some money moved for speculative or non-economic reasons, e.g., from the Union of South Africa, the Belgian Congo, Venezuela and Cuba. The gold parity of the United States dollar came under question in some quarters in 1960 and speculative movements resulted in the price of gold in the London free gold market being temporarily bid up to more than $39 an ounce in October. By the early months of 1961, however, it appeared that the improvement in the basic balance of international payments position of the United States and the clearly expressed intention of that country to maintain the par value of its currency had arrested the speculation against the United States dollar.

To a considerable extent the short-term movements of capital which took place in 1960 were not speculative in character but a response to the emergence of large differentials especially in short-term interest rates reflecting the differences in domestic and external economic developments. The experience of 1960 has caused many observers to raise the question whether the present international financial machinery is adequate to cope with the strains which may arise if large interest rate differentials lead to a very large movement of short-term funds between important industrial countries, and proposals for changes in international arrangements have been under discussion in a number of countries.

Economic Developments

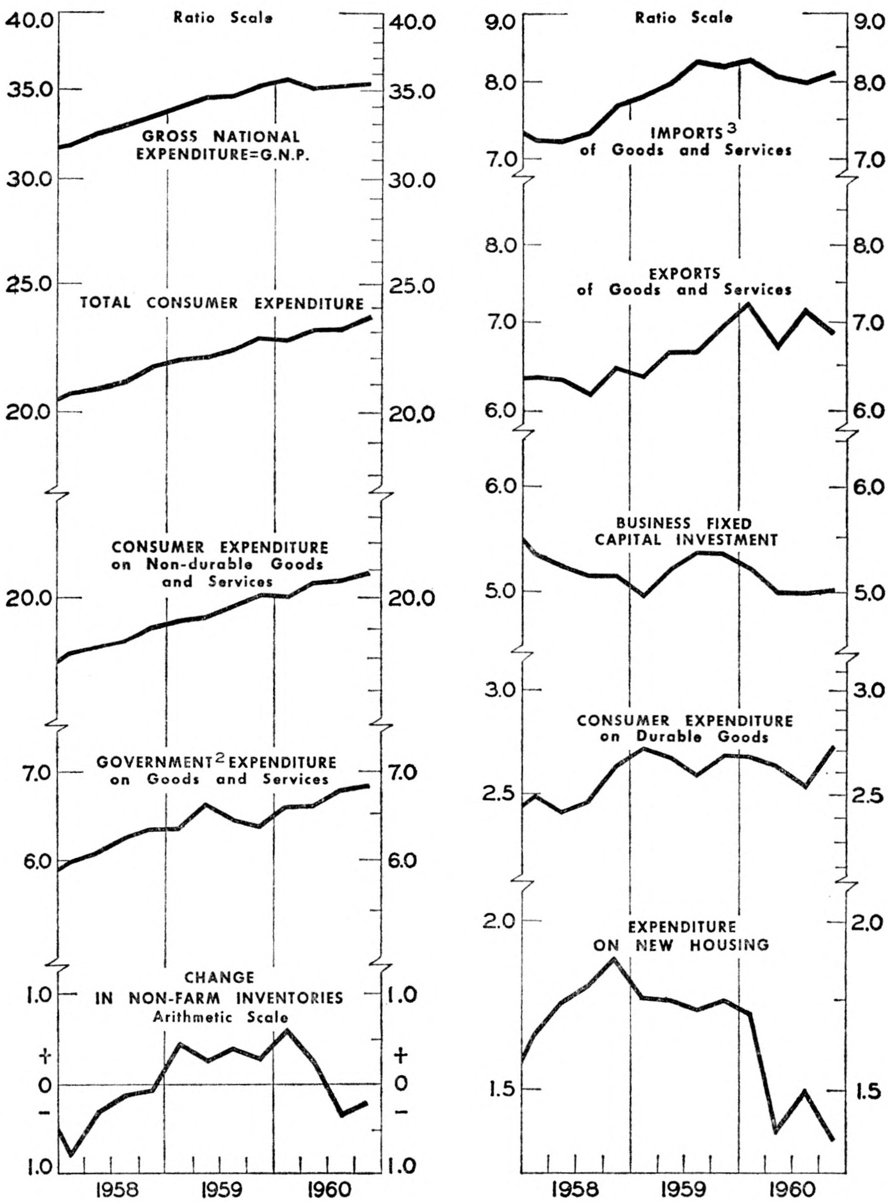
The expansion in over-all output in Canada which began early in 1958 continued in the first quarter of 1960. The volume of total production was 8 per cent above its level two years previously and total employment was 5 per cent higher. Unemployment, seasonally adjusted, was 6 per cent of the labour force. Prospects for increased investment as indicated by the survey of business intentions, and prospects for higher exports which were based both on the optimistic views then current about the United States economic scene, and also on the strong growth taking place in the major countries overseas, gave rise to optimistic expectations for developments in 1960.

In the event, the first quarter proved to be the high-water mark of the cyclical expansion. Total output fell by more than one per cent in the second quarter. Actual outlays by business in 1960 for new capital projects fell below expectations, including those reflected in the mid-year review of investment intentions, although they continued to be high in relation to pre-1956 levels or to levels in most other countries. Exports to the United States fell sharply from the unusually high levels reached after the

COMPONENTS OF GROSS NATIONAL EXPENDITURE: 1958-60

Seasonally Adjusted at Annual Rates

Quarterly[1] — *Billions of Current Dollars*



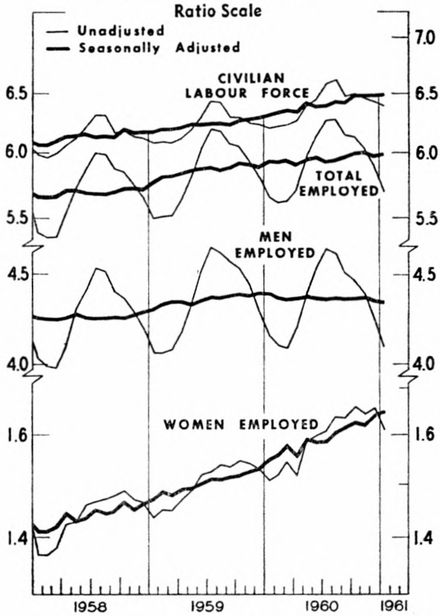
1. Fourth quarter 1960 estimated
2. All levels of government
3. Deducted in arriving at G.N.E.

settlement of the steel strike, and there was a marked decline in residential construction. During the second half of the year there developed a general liquidation of business inventories in both Canada and the United States which acted as a check to total output. A further rise in exports to overseas countries was accompanied by a continued decline in exports to the United States. Despite such influences, final domestic demand increased in the second half of the year, being supported by further growth in consumer spending and in government purchases of goods and services. The level of total output remained fairly steady after mid-year. In the fourth quarter, the seasonally adjusted annual rate of gross national product in current dollars was about one-half of one per cent higher than in the fourth quarter of 1959 and, making allowance for an estimated price increase of close to one per cent, the level of physical output was fractionally less than a year before.

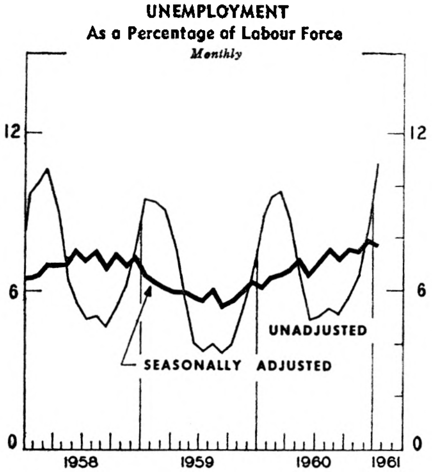
Employment and Unemployment. The Canadian labour force expanded by 3.2 per cent from December 1959 to December 1960, while total employment increased by 1.3 per cent. There was a sharp rise in the proportion of women of working age in the labour force, and the number of women with jobs increased by 8 per cent. Male employment, on the other hand, declined slightly during 1960; in December the number of men with jobs was 1 per cent less than a year before.

LABOUR FORCE AND EMPLOYMENT

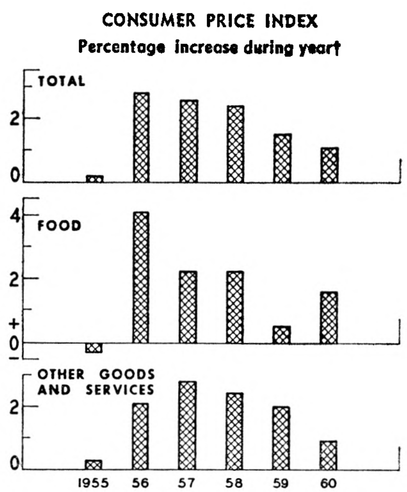
Monthly — Millions of Persons



Non-farm employment increased by 1.6 per cent while employment in agriculture declined slightly. Employment in the service industries, which are large employers of women, rose by 5 per cent in the course of the year while employment in non-farm goods-producing industries declined by 3 per cent.



On a seasonally adjusted basis, the growth in the total labour force steadily outpaced the rise in employment through 1960 and unemployment increased. The decline in male employment caused the male unemployment ratio to rise more than the increase in the total unemployment ratio. From December 1959 to December 1960 total unemployment rose from 6.5 per cent of the total labour force to 8.2 per cent, the number of men unemployed rose from 7.7 per cent of the male labour force to 9.9 per cent and the unemployment ratio for women rose from 3.2 per cent to 3.7 per cent. A further feature of the unemployment situation is the age distribution of unemployed men. Among men of age 20-24 in the labour force, the unemployment ratio in December 1960 was 13.1 per cent.

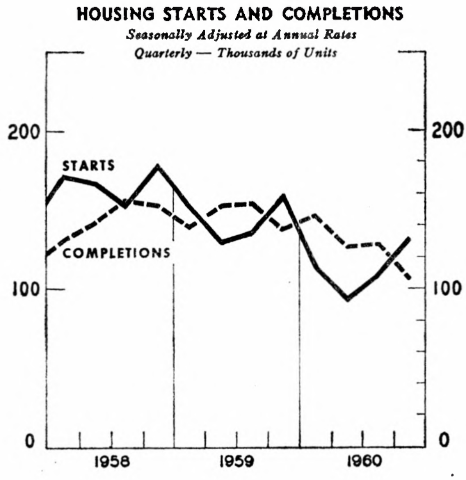


† Fourth quarter to fourth quarter

Price Changes. Prices continued to rise. The composite price index of all goods and services measured in the gross national product is estimated to have risen nearly 1 per cent from fourth quarter to fourth quarter. The consumer price index in December 1960 was 1.3 per cent higher than a year before. The food sub-index rose by 2.4 per cent, accounting for more than half the increase in the total index. Prices of consumer goods other than food declined slightly for the first time in five years. Prices of consumer services increased by 1.8 per cent during 1960, which was the smallest rate of increase in this area for some years. Among the service costs, there was a continued slowing-down in the rate of increase in rents to less than one-half of one per cent during 1960. The composite index of construction costs continued to move up rather more rapidly than consumer prices in general. Prices of building materials were about level in 1960. Canadian dollar prices of Canadian primary industrial materials were mostly steady to slightly lower in 1960, despite the effect of some decline in the foreign exchange value of Canadian currency in the course of the year.

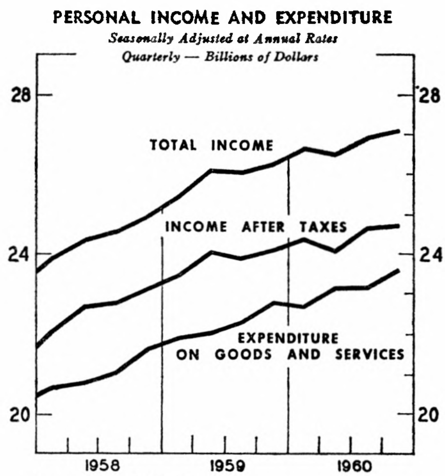
Capital Expenditures — New Investment. Total outlays on private and public investment in Canada in 1960 amounted to $8,200 million compared with $8,417 million the year before, although both the first survey and the mid-year survey of intentions forecast a higher level for 1960 than in 1959. The major decline in capital expenditure occurred in residential construction, where outlays were down $263 million. Direct government outlays were $70 million higher of which about half represented increased expenditure on schools. The total of business fixed capital investment was virtually unchanged from the year before, although on a quarterly seasonally-adjusted basis it was lower at the end of 1960 than at the end of 1959. Major declines occurred in the case of railways, electric and gas utilities, petroleum refining, non-metallic mineral processing and transportation equipment. Major increases occurred in the case of pipeline construction, air transportation, mining, and in pulp and paper, iron and steel and chemical manufacturing. The first survey of 1961 investment intentions indicates a moderate increase (about 2 per cent) from the year before. Significant increases are forecast in the case of housing, government departments, institutions, pipelines and electric utilities, with all other sectors, on balance, somewhat lower than in 1960.

Expenditure on housing construction was about 15 per cent below the 1959 level. The number of housing units completed in 1960 fell to 124,000 from 146,000 in the previous year, while the



number of units started dropped to 109,000 from 141,000 in 1959. Most of the latter decline was in starts financed under the National Housing Act. The rate of completions tended to move steadily lower in the course of 1960 but the rate of starts, seasonally adjusted, recovered substantially in the latter part of the year, partly as a result of changes in the National Housing Act and Regulations.

Consumer Expenditures. Consumer spending continued to rise during 1960. For the year as a whole, personal expenditure on consumer goods and services was nearly 4 per cent higher than in 1959, a rate of increase which was fairly well maintained through the year. Expenditure on most non-durable goods and on services grew almost as rapidly as in the previous year but consumer purchases of durable goods were no higher in 1960 than in 1959. Sales of new automobiles were 4 per cent higher while purchases of appliances and some other household durables were down quite sharply from a year earlier. The over-all increase of nearly 4 per cent in personal expenditure in 1960 was appreciably more than the rise in personal income after taxes, so that the rate of net personal saving was lower than in either 1959 or 1958. The amount of consumer

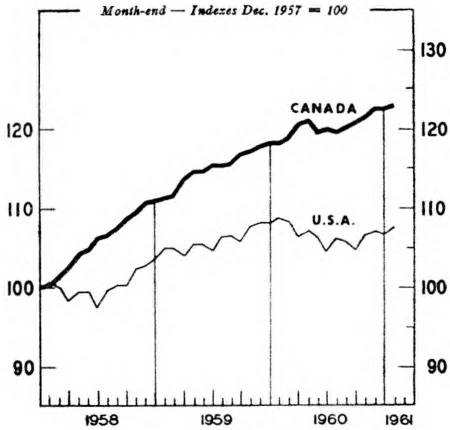


Fourth quarter 1960 estimated.

credit outstanding rose during 1960; at year-end it was an estimated 9 per cent higher than a year before.

Government Expenditures. The total of expenditures by federal, provincial and municipal governments for all purposes including transfer payments continued to rise during 1960. Total revenues did not increase as much, so that the over-all deficit of all governments on a national accounts basis was larger than in 1959. The available evidence of quarter-to-quarter changes suggests a sharp widening in the over-all deficit in the second half of the year, and it is probable that by year-end on a seasonally adjusted basis the annual rate of the combined deficit for all levels of government was not much below the 1958 level. The increase in the Government of Canada's direct and guaranteed outstanding debt in 1960 was again appreciable, although somewhat smaller than in 1959 and substantially less than in 1958.

OUTSTANDING DEBT† OF NATIONAL GOVERNMENT AND ITS AGENCIES

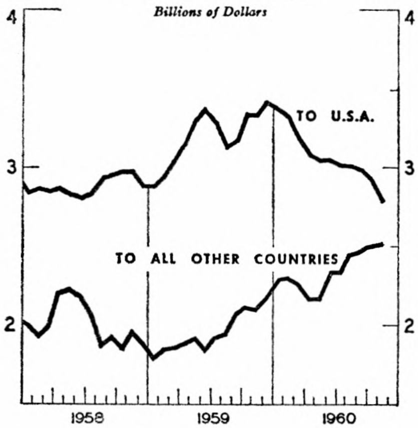


†Total debt of Government (including Government agencies) held outside Government accounts less Government bank balances.

Inventories. Swings in inventory investment had a major effect on economic activity in Canada during 1960. In the first half of the year there were substantial net additions to inventory at all levels. After mid-year, manufacturers began to reduce their over-all level of stocks and there was also some liquidation at later stages of distribution. In the final quarter of the year, preliminary figures suggest there was some slowing down in the rate at which manufacturers' inventories were being reduced.

International Trade and Payments. Total Canadian merchandise exports in 1960 followed an irregular pattern, reaching a very high rate in the first quarter, falling quite sharply in the second quarter, recovering much of this loss in the third and easing off again in the final quarter. The net change for the year as a whole was an increase of some 5 per cent over 1959. Two markedly divergent trends in external markets underlay these changes. Exports to the United States reached their peak in the opening months of the year. Thereafter they declined quite steadily, at first in response to the return to more normal trade patterns as shortages in the United States arising from its steel strike wore off, but later in the year in response to the decline of activity and reduced demand for Canadian materials on the part of United States industry. Exports to countries other than the United States by contrast rose strongly through the year and were 20 per cent higher in 1960 than in 1959. Substantial gains were made in sales to the United Kingdom, Europe, Japan, Australia and New Zealand.

MERCHANDISE EXPORTS
3-month Centred Moving Average of Seasonally Adjusted Series at Annual Rates

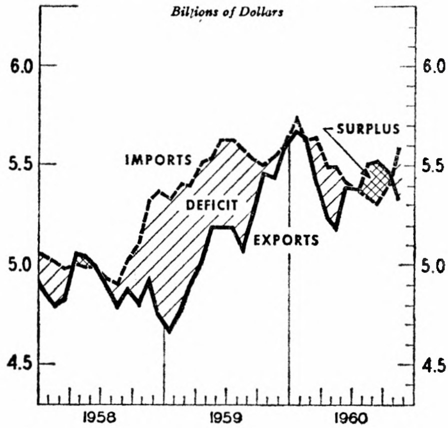


By commodities, exports of metals and minerals were 10 per cent higher in 1960 than in 1959, although there was a 15 per cent decline in uranium shipments; exports of primary iron and steel, aluminum, copper and nickel and petroleum rose substantially. Forest products were higher by 5 per cent and chemicals by 18 per cent. Exports of manufactured goods other than agricultural implements rose by 15 per cent. On the other hand, exports of agricultural products declined in 1960, and exports of agricultural implements fell back from the relatively high levels of 1959.

Canadian merchandise imports declined slightly during 1960 until the final quarter when a slight increase occurred. For the year as a whole, there were larger imports of industrial materials and aircraft and lower purchases of machinery and construction materials; imports of consumer goods showed little change. As a result total imports were about the same as in 1959. The merchandise trade deficit which amounted to $423 million in 1959 was reduced by the extent of the increase in exports, or by $275 million to about $148 million in 1960. Owing to the divergent trends in export markets, there was an appreciable increase during the year in our trade surplus with the United Kingdom and other overseas countries, and a fairly sharp increase in our trade deficit with the United States.

MERCHANDISE EXPORTS AND IMPORTS

3-month Centred Moving Average of Seasonally Adjusted Series at Annual Rates



Canada's large adverse balance of payments on non-merchandise transactions continued to increase although at a slower rate than in recent years, and reached a new record level of $1,122 million in 1960 compared to $1,071 million in 1959. While Canadian gold production available for export rose somewhat, there were small increases in the deficits on freight, travel, and interest and dividends and the deficit on other non-merchandise items (business services, Government transactions, migrants' funds, and personal and institutional remittances) rose from $433 million to $477 million.

The over-all current account deficit in 1960 amounted to $1,270 million, a reduction of $224 million from the previous year.

The aggregate inflow of long-term capital fell by about $250 million in 1960, and a very marked shift occurred in its composition.

Foreign direct investment in Canada in 1960 was substantially higher than in 1959, particularly in the first half of the year. It amounted to $690 million in 1960, or $140 million more than in 1959, and surpassed the previous record reached in 1956. The increase in direct investment in 1960 was largely accounted for by higher investment in petroleum, natural gas and mining. The take-over of existing Canadian firms by non-residents again made up an appreciable part of total direct investment in Canada.

On the other hand, the inflow of capital arising from security transactions declined by nearly $400 million, from $617 million in 1959 to $218 million in 1960. While net sales of new and outstanding Canadian stocks to non-residents fell from $140 million in 1959 to $62 million in 1960, the principal decline occurred in net sales of bonds. Net sales of new issues of Canadian bonds to non-residents fell from $419 million to $158 million with the largest decline occurring in the issues of provincial governments and their agencies. Net sales of outstanding Canadian bonds to foreigners fell from $91 million to $7 million.

Sales of New Issues of Canadian Bonds to Non-Residents*

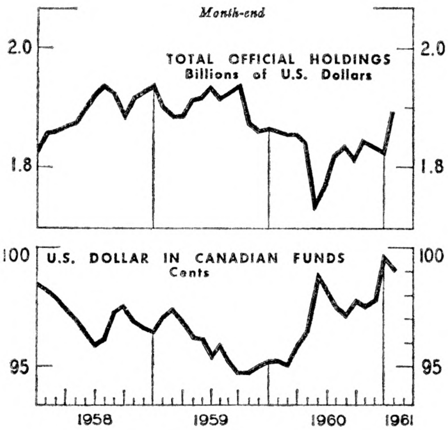
(millions of dollars)

	Sales		Retirements		Net Sales	
	1959	1960	1959	1960	1959	1960
Government of Canada	56	31	101	57	−45	−26
Provincial	334	102	41	47	+293	+55
Municipal	158	122	34	35	+124	+87
Corporate	112	120	65	78	+47	+42
Total	660	375	241	217	+419	+158

* Includes issues payable in Canadian funds as well as in foreign currencies.

The net inflow of short-term capital remained about the same in 1960 as in 1959. The aggregate movement of funds (for the most part private short-term funds) in respect of changes in Canadian dollar holdings of non-residents and the balance of payments item "Other capital movements" amounted to $379 million in 1960 compared with $363 million in 1959 and was concentrated in the fourth quarter of the year when the preceding build-up of foreign currency deposits by Canadians was sharply reversed. Official holdings of gold and foreign exchange fell by $70 million in 1959 (including a gold payment of $62.5 million to the International Monetary Fund) and by $39 million in 1960. Canada's official holdings of gold and United States dollars amounted to U.S. $1,829 million at the end of 1960.

OFFICIAL HOLDINGS
OF GOLD AND UNITED STATES DOLLARS
AND EXCHANGE RATE



The value of the United States dollar in Canada moved within rather wider limits in 1960 than in 1959. The United States dollar declined slightly from 95 7/32 at the end of 1959 to a low of 94 15/16 in March 1960, climbed sharply to a peak of 99 in May, fell back to 96 5/8 in August, and rose again to almost 98 by the end of September; it fluctuated somewhat unevenly near the 98 level from then until the last ten days of the year when it rose after the supplementary budget and closed the year at 99 21/32.

Canadian Balance of International Payments

(millions of dollars)

Current Account	1958	1959	1960
1. With the United States			
Merchandise exports	2,908	3,189	3,039
Merchandise imports	3,443	3,727	3,718
Trade balance	−535	−538	−679
Non-merchandise receipts	1,102	1,179	1,213
Non-merchandise payments	1,743	1,882	1,911
Non-merchandise balance	−641	−703	−698
Current account balance	−1,176	−1,241	−1,377
2. With Other Countries			
Merchandise exports	1,979	1,960	2,361
Merchandise imports	1,623	1,845	1,830
Trade balance	+356	+115	+531
Non-merchandise receipts	448	457	446
Non-merchandise payments	759	825	870
Non-merchandise balance	−311	−368	−424
Current account balance	+45	−253	+107
3. With All Countries			
Merchandise exports	4,887	5,149	5,400
Merchandise imports	5,066	5,572	5,548
Trade balance	−179	−423	−148
Non-merchandise receipts	1,550	1,636	1,659
Non-merchandise payments	2,502	2,707	2,781
Non-merchandise balance	−952	−1,071	−1,122
Current account balance	−1,131	−1,494	−1,270

Source: Dominion Bureau of Statistics

Capital Account [inflows (+) outflows (—)]	**1958**	**1959**	**1960**
Foreign direct investment in Canada . . .	+420	+550	+690
Net sales of Canadian stocks to non-residents .	+115	+140	+62
Net sales of new Can. bond issues to non-residents			
Government of Canada	+51	−45	−26
Provincial	+123	+293	+55
Municipal	+118	+124	+87
Corporate	+200	+47	+42
Total	+492	+419	+158
Net sales of outstanding Canadian bonds . .	—	+91	+7
Canadian direct investment abroad . . .	−48	−80	−85
Net new issues of foreign securities in Canada .	−10	−1	−1
Trade in outstanding foreign securities . .	+13	−32	−8
Net loan repayments to Govt. of Canada . .	+30	+33	+32
Subscriptions in gold & U.S. $ to international financial agencies. . . .	—	−59	−3
Changes in Canadian $ holdings of foreigners .	+106	+13	+115
Official holdings of gold & foreign exchange (inc. —)	−109	+70	+39
Other capital movements	+122	+350	+264
Net capital movement	+1,131	+1,494	+1,270

Balance of Payments Trends: 1948-1960

(millions of dollars)

Balance of Payments on Current Account

	Exports	Imports	Balance	Non-Merchandise Transactions (net)	Current Account Balance	Physical Volume Indexes 1948 = 100: Merchandise Exports	Physical Volume Indexes 1948 = 100: Merchandise Imports
1948	3,030	2,598	+432	+19	+451	100.0	100.0
1949	2,989	2,696	+293	−116	+177	94.2	102.0
1950	3,139	3,129	+10	−344	−334	93.6	109.2
1951	3,950	4,097	−147	−370	−517	103.5	122.7
1952	4,339	3,850	+489	−325	+164	114.9	138.0
1953	4,152	4,210	−58	−385	−443	113.2	151.0
1954	3,929	3,916	+13	−445	−432	109.6	141.0
1955	4,332	4,543	−211	−487	−698	118.5	157.9
1956	4,837	5,565	−728	−638	−1,366	128.5	187.5
1957	4,894	5,488	−594	−861	−1,455	129.3	179.6
1958	4,887	5,066	−179	−952	−1,131	130.4	165.6
1959	5,149	5,572	−423	−1,071	−1,494	134.2	183.9
1960	5,400	5,548	−148	−1,122	−1,270	140.2	180.7*

*Estimated

Non-Merchandise Transactions in the Balance of International Payments on Current Account

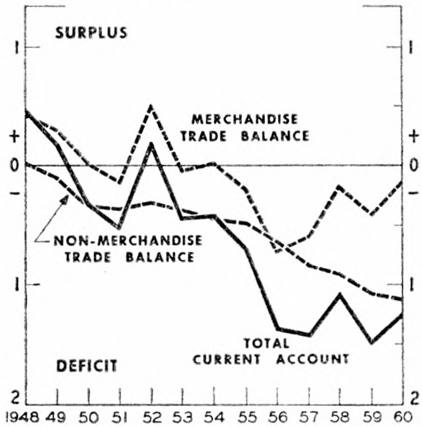
	Gold Production Available for Export	Freight and Shipping (net)	Travel (net)	Interest and Dividends (net)	Other Non-Merchandise Items (net)	Total Non-Merchandise Items (net)	Estimated Annual Unremitted Profits on Foreign Direct Investment in Canada
1948	119	+57	+145	−255	−47	+19	160
1949	139	+50	+92	−307	−90	−116	155
1950	163	−17	+49	−384	−155	−344	155
1951	150	−3	−6	−335	−176	−370	200
1952	150	+8	−66	−268	−149	−325	290
1953	144	−56	−63	−239	−171	−385	340
1954	155	−43	−84	−276	−197	−445	300
1955	155	−17	−121	−323	−181	−487	370
1956	150	−45	−161	−381	−201	−638	480
1957	147	−70	−162	−435	−341	−861	475
1958	160	−59	−193	−444	−416	−952	250
1959	148	−105	−207	−474	−433	−1,071	n.a.
1960	161	−111	−215	−480	−477	−1,122	n.a.

Current Account Balance of Payments by Regions

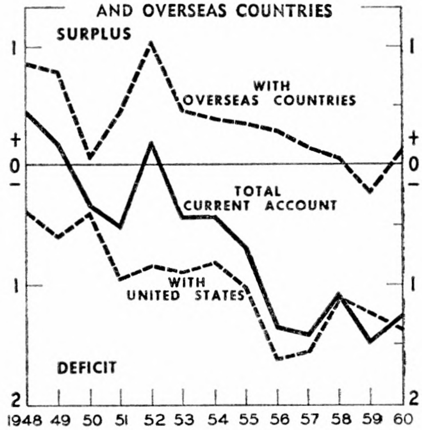
	Merchandise Balance with			Non-Merchandise Balance with			Total Balance with		
	U.S.A.	Overseas Countries	All Countries	U.S.A.	Overseas Countries	All Countries	U.S.A.	Overseas Countries	All Countries
1948	−289	+721	+432	−104	+123	+19	−393	+844	+451
1949	−378	+671	+293	−223	+107	−116	−601	+778	+177
1950	−47	+57	+10	−353	+9	−344	−400	+66	−334
1951	−516	+369	−147	−435	+65	−370	−951	+434	−517
1952	−471	+960	+489	−378	+53	−325	−849	+1,013	+164
1953	−588	+530	−58	−316	−69	−385	−904	+461	−443
1954	−445	+458	+13	−362	−83	−445	−807	+375	−432
1955	−685	+474	−211	−350	−137	−487	−1,035	+337	−698
1956	−1,167	+439	−728	−472	−166	−638	−1,639	+273	−1,366
1957	−947	+353	−594	−632	−229	−861	−1,579	+124	−1,455
1958	−535	+356	−179	−641	−311	−952	−1,176	+45	−1,131
1959	−538	+115	−423	−703	−368	−1,071	−1,241	−253	−1,494
1960	−679	+531	−148	−698	−424	−1,122	−1,377	+107	−1,270

Source: Dominion Bureau of Statistics.

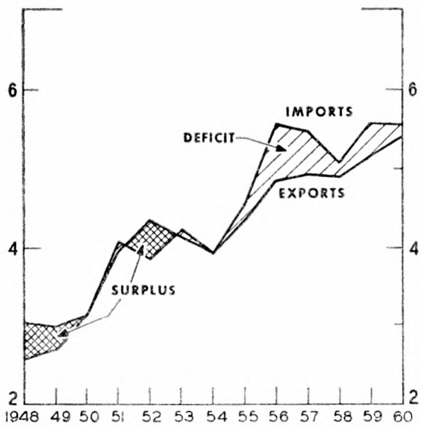
BALANCE OF PAYMENTS ON CURRENT ACCOUNT



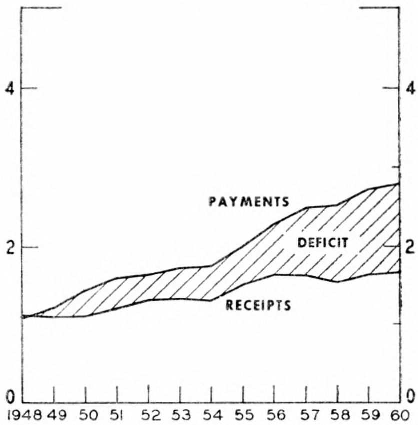
BALANCE OF PAYMENTS ON CURRENT ACCOUNT WITH THE UNITED STATES AND OVERSEAS COUNTRIES



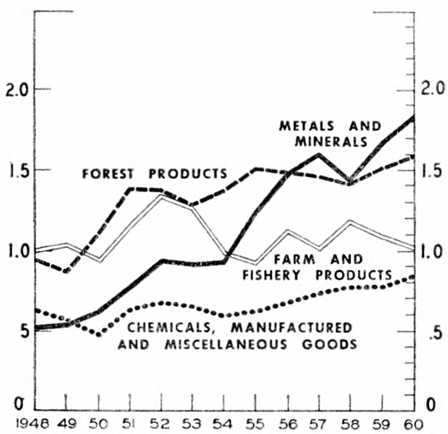
MERCHANDISE EXPORTS AND IMPORTS



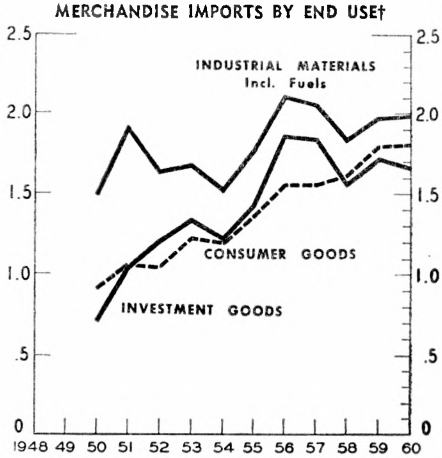
NON-MERCHANDISE TRANSACTIONS



MERCHANDISE EXPORTS : MAIN GROUPINGS



MERCHANDISE IMPORTS BY END USE†



† Figures for 1948 and 1949 are not available.
1960 estimated.

Balance of International Payments on Capital Account

(millions of dollars)

	Foreign Direct Investment in Canada	Canadian Direct Investment Abroad	Net Sales of New Issues of Can. Stocks	Trade in Outstanding Can. Stocks	Net Sales of New Issues of Can. Bonds
1948	+71	+15			
1949	+94	+13			
1950	+222	+36			(not available)
1951	+309	−20			
1952	+346	−77	+22	+72	+205
1953	+426	−63	+40	+21	+149
1954	+392	−81	+11	+129	+117
1955	+417	−74	+57	+138	−75
1956	+583	−104	+65	+188	+461
1957	+514	−68	+36	+137	+629
1958	+420	−48	+27	+88	+492
1959	+550	−80	+30	+110	+419
1960	+690	−85	+14	+48	+158

Source: Dominion Bureau of Statistics.

The Canadian Balance of International Indebtedness

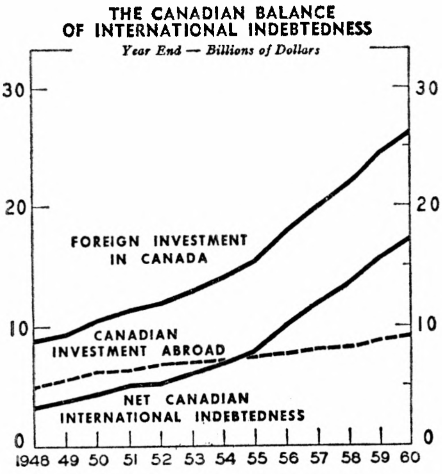
(billions of dollars)

	Canadian Liabilities				Canadian Assets	
Dec. 31	Foreign Direct Investment in Canada	Foreign Portfolio Investment in Canada	Other Canadian Liabilities to Foreigners	Total	Government Loans and Subscriptions	Canadian Official Exchange Holdings
1948	3.3	4.2	1.3	8.8	2.3	1.0
1949	3.6	4.4	1.3	9.3	2.4	1.2
1950	4.0	4.7	1.8	10.5	2.4	1.9
1951	4.5	4.9	1.9	11.3	2.3	1.8
1952	5.2	5.1	1.6	11.9	2.3	1.8
1953	6.0	5.5	1.4	12.9	2.2	1.8
1954	6.8	5.9	1.4	14.1	2.1	1.9
1955	7.7	5.8	1.8	15.3	2.0	1.9
1956	8.9	6.6	2.2	17.7	2.0	1.9
1957	10.1	7.4	2.4	19.9	1.9	1.8
1958	10.9	8.0	2.9	21.8	1.9	1.9
1959	11.8	9.0	3.6	24.4	2.1	1.8
1960*	12.8	9.5	3.8	26.1	2.0	1.8

Source: Dominion Bureau of Statistics.
*Preliminary.

Trade in Outstanding Can. Bonds	Transactions in Foreign Bonds & Stocks	All Transactions in Bonds & Stocks	All Other Items	Over-all Capital Receipts (+) or Payments (−)
		+31	−568	−451
		−14	−270	−177
		+331	−255	+334
		+280	−52	+517
−166	−8	+125	−558	−164
−52	—	+158	−78	+443
−66	−24	+167	−46	+432
−165	−6	−51	+406	+698
+11	+2	+727	+160	+1,366
−45	+6	+763	+246	+1,455
—	+3	+610	+149	+1,131
+91	−33	+617	+407	+1,494
+7	−9	+218	+447	+1,270

Other Canadian External Assets	Total	Net Canadian International Indebtedness
1.6	4.9	3.9
1.9	5.5	3.8
1.9	6.2	4.3
2.2	6.3	5.0
2.6	6.7	5.1
2.9	6.9	6.0
3.2	7.2	6.8
3.5	7.4	7.9
3.8	7.7	10.0
4.4	8.1	11.8
4.6	8.4	13.4
4.9	8.8	15.5
5.3	9.1	17.0

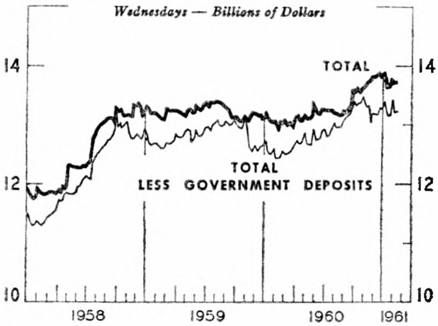


Monetary and Financial Developments

Developments in the monetary and financial field during 1960 showed marked changes of trend towards the end of the third quarter, some of which are illustrated in the charts below. Through the first three quarters of the year the total stock of money remained fairly constant, the volume of Government and other market financ-

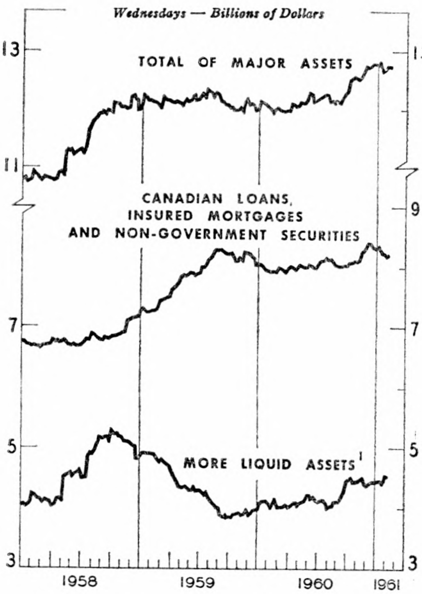
CURRENCY OUTSIDE BANKS
AND CHARTERED BANK DEPOSITS

Wednesdays — Billions of Dollars



CHARTERED BANK ASSETS

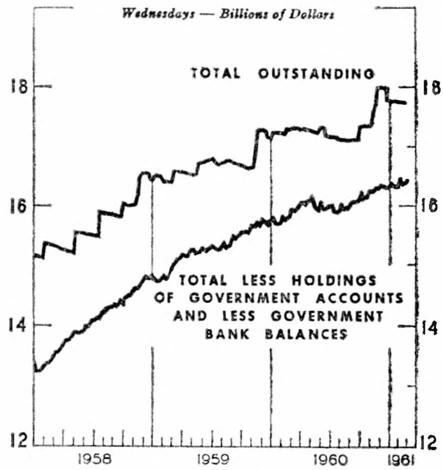
Wednesdays — Billions of Dollars



1. Bank of Canada notes and deposits, day-to-day loans, government securities, net foreign assets and call loans. (See footnote on page 49).

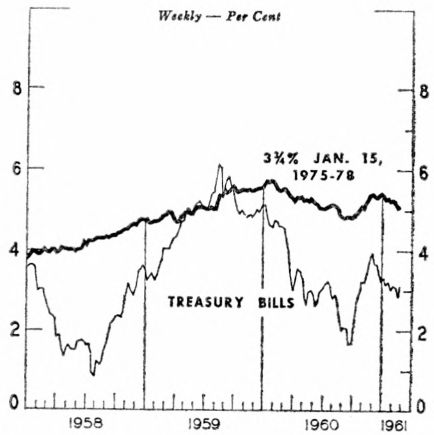
GOVERNMENT DEBT OUTSTANDING

Wednesdays — Billions of Dollars



GOVERNMENT SECURITY YIELDS

Weekly — Per Cent



ing declined and total Government debt outstanding was reduced somewhat, bank loans increased moderately and security yields declined substantially. In the latter part of the year the total stock of money rose rapidly, as did the chartered banks' holdings of more liquid assets.* At the same time bank loans increased and Government financing took place on a larger scale. Security yields were rising through most of the fourth quarter but since late December (to late February) have declined appreciably.

The marked upward movement in interest rates at the end of September occurred when it became apparent that investors in the aggregate were not prepared to purchase medium-term and long-term bonds in quantity at the level of interest rates that prevailed at that time. On September 12th, a new issue of $250 million of Government-guaranteed C.N.R. bonds had been offered for cash, consisting of $75 million of 4½ per cent bonds due April 1, 1967 and $175 million of 5 per cent bonds due October 1, 1987. To all appearances the issue was extremely well received in the market, and during the week following allotment both maturities were traded at prices up to one per cent above the original offering price to investors. It became apparent after delivery took place on October 3rd, however, that only a small part of the issue had in fact been taken up by net cash sales to the public. Chartered bank holdings of Government securities, together with chartered bank financing of dealer inventories in the form of day-to-day loans and call loans, were more than $200 million higher on Wednesday, October 5th, than a week earlier. It was clear that a substantial amount of the issue either was still in the hands of primary distributors or had been sold to investors against trade-outs of other securities which in turn were financed by bank credit. The money supply rose $250 million in that week; over the fourth quarter the increase amounted to $552 million.

This was not the first occasion when the immediate and apparent demand for a new Government issue turned out to be much larger than the effective demand of those who really wished to invest in

*There are theoretical considerations both for and against the inclusion of call loans in "more liquid assets". Since sharp increases in this asset item have normally been reversed within a few weeks it seems preferable to include them.

Government securities when the new issue was delivered. The $350 million net increase in Government of Canada debt associated with the delivery of new issues dated May 1, 1958 was accompanied in that week by an expansion of $287 million in the combined total of chartered banks' holdings of Government securities, call loans and day-to-day loans. There have been a number of similar occurrences on a somewhat smaller scale.

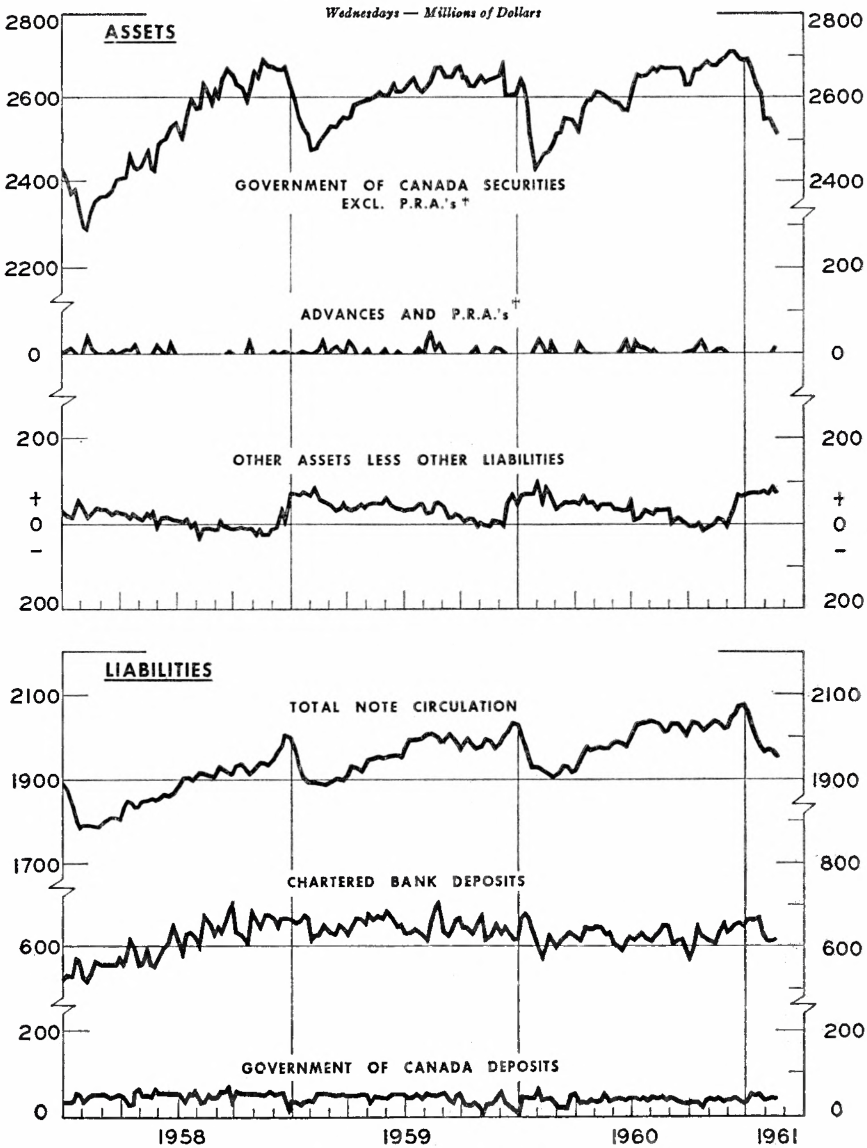
Market yields on all issues of Government securities increased substantially during October and November but turned downward again late in December. Yields on Government securities were lower at the end of 1960 than at the beginning of the year and have declined in January and February 1961.

The total amount of Government securities outstanding increased by $612 million in 1960. General public holdings rose by $355 million, the net result of increases of $382 million in holdings of Canada Savings Bonds and $179 million in holdings of market bonds, and a decrease of $206 million in holdings of treasury bills.

Over 1960 as a whole, chartered bank assets increased by $753 million, or more than 6 per cent, of which $414 million was accounted for by the more liquid assets. The increase in the total money supply was $721 million, or 5.5 per cent. Excluding Government deposits, the increase was $615 million, or 4.8 per cent. In both cases the percentage increases were considerably larger than in the United States. The total United States money supply increased by 2.6 per cent during the year and the total excluding Government deposits increased by 2.3 per cent.

Bank of Canada Operations. The substantial growth in the money supply during 1960 involved an increase of $76 million on the year in the liabilities of the Bank of Canada, mainly in the amount of its notes circulating among the public as currency and the amount of its notes and deposit liabilities serving the chartered banks as cash reserves. The increase on the year in the public's holdings of Bank of Canada notes was $27 million, while the chartered banks' holdings of Bank of Canada notes in their vaults and tills rose by $14 million and their balances on deposit at the Bank of Canada rose by $26 million. The provision of these in-

BANK OF CANADA ACCOUNTS



†Securities purchased from money market dealers under resale agreements.

Currency Outside Banks and Chartered Bank Deposits, Statutory Deposits and Cash Reserves

(millions of dollars)

	Currency Outside Banks and Chartered Bank Deposits — Monthly Averages of Wednesday Figures		
	Total	Currency Outside Banks	Chartered Bank Deposits (excluding float)
Annual Averages			
1957	11,486	1,568	9,918
1958	12,550	1,655	10,894
1959	13,209	1,730	11,480
1960	13,293	1,762	11,531
Monthly			
1959—Jan.	13,234	1,668	11,566
Feb.	13,130	1,665	11,465
Mar.	13,228	1,688	11,540
Apr.	13,185	1,713	11,472
May	13,218	1,707	11,511
June	13,261	1,721	11,540
July	13,342	1,762	11,579
Aug.	13,357	1,758	11,598
Sept.	13,184	1,766	11,418
Oct.	13,079	1,742	11,337
Nov.	13,139	1,746	11,393
Dec.	13,148	1,789	11,360
1960—Jan.	13,113	1,699	11,414
Feb.	13,000	1,690	11,310
Mar.	13,012	1,715	11,297
Apr.	13,110	1,732	11,378
May	13,140	1,738	11,402
June	13,255	1,767	11,488
July	13,269	1,788	11,481
Aug.	13,195	1,798	11,397
Sept.	13,280	1,784	11,496
Oct.	13,594	1,791	11,802
Nov.	13,717	1,809	11,908
Dec.	13,829	1,818	12,012

(1) Statutory basis, i.e., the average Canadian dollar deposit liabilities for each month are based on the four consecutive Wednesdays ending with the second last Wednesday of the previous month.
(2) 8 per cent of gross statutory deposits as shown in preceding column.

Statutory Deposits(1) Averages of Statutory Wednesdays: Chartered Bank Deposits (excluding float)	Float	Total Statutory Deposits	Minimum Cash Reserve Requirement(2)	Actual Cash Reserves(3)	Average Cash Reserve Ratio (%)
9,893	708	10,601	848	870	8.21
10,763	687	11,452	916	943	8.23
11,486	701	12,187	975	999	8.20
11,465	587	12,052	964	985	8.17
11,479	775	12,254	980	1,008	8.23
11,539	782	12,320	986	998	8.10
11,496	605	12,102	968	983	8.12
11,514	648	12,162	973	991	8.14
11,478	760	12,238	979	1,002	8.20
11,492	773	12,265	981	1,003	8.18
11,536	714	12,250	980	991	8.09
11,559	830	12,389	991	1,017	8.21
11,613	585	12,197	976	1,009	8.28
11,434	618	12,053	964	1,001	8.31
11,334	690	12,023	962	995	8.27
11,359	636	11,994	960	990	8.25
11,367	707	12,073	966	1,001	8.29
11,404	581	11,985	959	981	8.18
11,319	548	11,867	949	967	8.15
11,295	552	11,847	948	962	8.12
11,364	547	11,910	953	975	8.19
11,381	576	11,957	957	971	8.12
11,492	602	12,094	967	978	8.08
11,478	639	12,117	969	1,000	8.26
11,392	591	11,983	959	981	8.19
11,453	580	12,033	963	984	8.18
11,742	560	12,303	984	999	8.12
11,891	560	12,452	996	1,019	8.18

(3) For each month the cash reserves are equal to the monthly average of the daily figures for chartered bank deposits at the Bank of Canada and the average of chartered bank holdings of Bank of Canada notes for the four consecutive Wednesdays ending with the second last Wednesday of the previous month.

creased levels of currency and cash reserves involved a corresponding increase in the Bank's holdings of Government securities, which constitute its principal assets. The total amount of these holdings rose by $69 million on the year; treasury bill holdings increased by $99 million and bond holdings declined by $29 million.

Bank of Canada Assets and Liabilities

(millions of dollars)

	As at Dec. 31, 1960	Change During 1960
Assets		
Treasury bills	404	+ 99
Gov't. of Canada bonds[1]	2,285	− 29
All other assets	355	+ 7
Total	3,044	+ 76
Liabilities		
Notes in active circulation	1,732	+ 27
Notes held by chartered banks	330	+ 14
Deposits of chartered banks	663	+ 26
All other liabilities	320	+ 10
Total	3,044	+ 76

(1) Includes Government-guaranteed issues.

The average cash reserve ratio during 1960 was 8.17 per cent compared with 8.20 per cent in the previous year, and the average liquid asset ratio was 17.3 per cent compared with 16.4 per cent in 1959. Bank of Canada advances to chartered banks were outstanding on 25 days during 1960 as against 53 days in 1959; the maximum amount outstanding on any one day was $27 million and the daily average for the year was $1½ million. The Bank of Canada held securities purchased from money market dealers under resale agreements on 75 days during the year as compared with 64 days in the previous year; the maximum amount outstanding on any one day was $66 million and the daily average for the year was $5 million. The minimum rate at which the Bank makes advances to banks and provides funds to money market dealers through purchase and resale agreements was maintained at a level of one quarter of one per cent above the average rate of treasury bills at each weekly tender. It was 5.37 per cent at the beginning of the year, reached a low of 1.93 per cent in mid-September, and stood at 3.50 per cent at the end of the year.

Transactions in Government securities are the Bank's principal field of operations. Such transactions may be aimed either at altering the level of cash reserves or at offsetting in whole or in part the effect on the level of cash reserves from other influences, such as seasonal swings in note circulation. At times cash reserve considerations will require a reduction in the Bank's holdings of securities and at other times an increase.

Changes in the Bank's holdings of securities may also represent the outcome of a wide variety of other transactions undertaken for a variety of reasons both in the open market and with Government investment accounts, certain Government funds and agencies, and foreign central banks. In conducting its securities transactions, the Bank must take many considerations into account – the borrowing, refunding and investment requirements of the Government, the requirements of its other clients, the desirability of its transactions being carried out in such a way as to minimize any disturbing effect on conditions in securities markets and, in pursuit of these objectives, the need to give priority to its basic function of maintaining cash reserves at an appropriate level.

During 1960 the Bank's transactions in Government securities on a gross basis, exclusive of purchase and resale agreements and transactions undertaken as agent only, totalled $5,775 million. Of this total $3,605 million represented Bank of Canada purchases and maturities at the time of new issues and retirements (and advance refundings) of Government bonds and treasury bills and $555 million represented direct transactions with Government accounts and other clients' accounts. Transactions in the market totalled $1,520 million with dealers and $95 million with banks.

On November 28th two new short-term bond issues were offered to the market in a total amount of $200 million, the proceeds to be used to provide part of the funds required to meet a maturity of $609 million on December 15th. At this time approximately $296 million of the maturing issue was held outside the Bank of Canada and Government accounts, so that the net effect of the public offering and the maturity was an outflow of funds from the Government to the market of $96 million. At the same time the Bank of Canada exchanged $200 million of its holdings of the maturing issue for bonds of the new issue, and a further $200 million of its holdings of the December 1, 1961 maturity also for bonds of the new issue. Market demand proved very strong, and the Bank of Canada, immediately after dealers were notified of their allotments, adopted with modifications a procedure similar in essentials to the practice sometimes followed by the larger investment houses when supervising the placement of new bond issues of provincial governments, municipalities and corporations. The practice in their case consists in quoting both buying and selling prices for the new issue before delivery at levels between the net cost of original allotments to participating dealers and the authorized public offering price on sales by dealers to investors.

I am giving details of this procedure at some length, as it appears there was some misunderstanding of the situation on the part of a minority of dealers on November 30th. Immediately after dealers received their allotments on their subscriptions to the new issue at 8.30 that morning, a large number of bids were received by the Bank of Canada from dealers desiring additional supplies. In order to deal as quickly as possible with the large volume of business being pressed upon the Bank by the market the Bank commenced trading at 9.00 a.m. on that day, the usual hour for the market as a whole but an hour earlier than the Bank's usual opening time for market transactions. The Bank made bonds of the new issue available to all dealers in exchange for the May 1961 or December 1961 maturities until the demand had been satisfied for the time being.

During the period between the offering of the new issue and the delivery date the Bank did not itself quote prices or make any statement of intentions to buy or sell, but stood ready to respond to bids from primary distributors (against the exchange of other bonds, not by way of selling for cash) at prices between the net cost to the distributors of the bonds originally allotted to them, and the selling price at which distributors were permitted to sell the new bonds to the general public. This had the effect of enabling distributors to make a profit on additional bonds obtained from the Bank for resale to the public during the main selling period of the new issue, although less than the commission payable to them by the Government in connection with the original amount made available to the market for cash. At the same time the Bank stood prepared to buy bonds of this issue, in case any condition of over-supply should develop, if and when dealers might offer them at prices slightly below the original net cost of the bonds to the primary distributors, and a few small purchases were made on one day. When renewed demand developed for these bonds the Bank sold to the market a very large proportion of its original holdings, mainly in exchange for other bonds of more nearby maturities.

The selling of bonds by the Bank of Canada in exchange for shorter bonds which will have to be refunded by the Government makes an important contribution to the task of debt management. In this way a continuous process is carried on by which as bond issues approach closer to maturity date a larger proportion comes into the hands of the Bank of Canada or of the Government's Securities Investment Account, and a smaller proportion remains outstanding in the hands of the general public for redemption or refunding on the actual maturity date.

The procedure adopted at the end of November worked out well. The issue achieved a large placement with investors in general, and prices in the after-market remained reasonably stable. A similar practice was followed on the occasion of another new Government short-term issue which was offered on January 18, 1961. It should be emphasized that the Bank does not sell bonds of a new issue during the period between the offering and the delivery except in response to bids from primary distributors and at prices higher than the original net price paid by primary distributors to the Government. In addition to meeting any legitimate surplus demand for a bond issue, this practice would seem to have value in tending to chill off speculators, who otherwise – as has been seen on earlier occasions – may acquire bonds of a new issue bidding up the price with a view to resale before the time comes to accept delivery and pay for the securities. This is done not with any intention of holding the bonds as an investment but with a view to taking a "free ride" for a few days or a few weeks in the hope of selling out at a profit to genuine investors, who for the time being would have been shouldered aside and in the end (if they were still interested) would have to pay higher prices than those intended by the Government. There can be little doubt that such speculative activity – on the part of some dealers and some other buyers – has had most damaging effects on several issues of Government of Canada securities in the last few years. The actual result in several cases has been that genuine investor interest is not met at the appropriate time and disappears thereafter, leading to some distress selling by weak holders when delivery (and payment) date arrives, an increase in bank credit, falling bond prices and a general state of disorder and pessimism in the market.

The Bank Rate. The Bank of Canada has continued since November 1956 setting its Bank rate each Thursday at a level of one quarter of one per cent above the average rate on accepted tenders at the weekly Government of Canada auction of three-month treasury bills. During the past year there has been some public discussion suggesting it would be desirable to keep the rate unchanged for longer periods and use changes in the rate as a means of giving a signal to the financial community and the public at large.

Over the first eighteen years of the Bank's operations chartered banks rarely applied to the Bank of Canada for advances. There was no money market, and no mechanism by which potential dealers in the money market could obtain short-term credit by transactions with the central bank. The Bank rate therefore had little significance. It was fixed at 2½ per cent in March 1935, and did not change until February 1944 when it was reduced to 1½ per cent, at which time a public statement was made that the Bank intended to continue after the war the kind of monetary policy which was reflected in the current level of interest rates. The rate was next changed (to 2 per cent) in October 1950 following the outbreak of the Korean War in June of that year; the Bank issued a press release containing the following statement:—

> "At the time the reduction in Bank Rate took place in 1944, the Bank expressed the view that it did not then see any prospect of an economic situation in the post-war period of a character which would call for a policy of raising interest rates. The change to a 2 per cent Bank Rate is an indication that the earlier view no longer holds good under today's conditions when Canada faces the prospect of substantially increased defence expenditures adding to the pressure on the country's resources at a time of virtually full employment."

The next change was in February 1955 when the rate was reduced to 1½ per cent and a statement was issued saying that with the development of a short-term money market in Canada over the preceding twelve months, and with the growth of arrangements whereby money market dealers could obtain short-term credit from the central bank by means of sale and repurchase agreements affecting Government of Canada securities with a term of less than three years, it seemed desirable for the Bank rate of the Bank of Canada to be brought into closer relationship with market yields. From August 1955 to October 1956 the rate was changed six times in order to keep the rate in line with market rates as they changed from time to time. This practice was carried to its logical conclusion in November 1956 with the adoption of the present method by which the Bank rate is one quarter of one per cent above the average tender rate on three-month treasury bills and changes as this treasury bill rate changes. The public statement issued at that time is reprinted on pages 63 and 64.

It will be apparent that there is no past history in Canada of having changes in the Bank rate made with a view to influencing other interest rates, or as a means of indicating the views of the central bank with regard to changes in economic conditions or monetary policy. The Bank's view has been that moving the Bank rate would not be the best method of giving such indications, which if they were to be given at all, would be the subject of public statements. The requests to the chartered banks to limit term loans in 1948 and to adopt an over-all ceiling on loans in 1951 were not accompanied by changes in the Bank rate.

Reference to practices in other countries with respect to Bank rate is not of much help in relation to Canadian problems because of the very different conditions applicable to such matters in other countries. Some information respecting the relevant factors in the United Kingdom and the United States may be of interest.

In the United Kingdom, the Bank rate has had a long history as an important factor in the operations of the Bank of England, with related effects both on domestic financial conditions and movements of international funds, and changes in the Bank rate receive the prior approval of the Chancellor of the Exchequer. Although the Bank of England has been a lender of last resort for the dealers in the money market only and does not make loans to the commercial banks, the interest rates charged by the banks on their loans and paid on their various categories of deposits are by convention linked to the Bank rate of the Bank of England and changed when it changes, with a specified minimum. Such a condition, of course, does not exist in Canada. I do not suggest that such a close connection between Bank rate and the rates of the commercial banks would necessarily be desirable in Canada, but I mention it to show that the Bank rate in the United Kingdom is intended to have and does have a direct impact on other rates and a more far-reaching influence than it could have in Canada.

In addition, the United Kingdom is an international financial centre where huge sums of money are normally kept on deposit or in short-term investments by the governments, central banks and other institutions of many other countries. There can be very large movements of short-term funds into or out of the United Kingdom at any time. One of the factors which has for at least 100 years been regarded as exerting an important influence on such movements and capable in time of need of protecting the value of the pound sterling is the power to make variations in the Bank rate of the Bank of England, and therefore in the rates of interest available to foreign-owned short-term funds in London. In this respect also there has been no parallel in Canadian conditions to those in the United Kingdom.

Although the Bank rate in the United Kingdom has important operational aspects, a review of the timing and the circumstances in which changes have been made, suggests that, whether related to domestic or external considerations, such changes have not usually been made in anticipation of changes in economic conditions or developments in the supply of money and credit. Rather it seems that movements in the rate have usually been made by way of adjustment to changes in economic and financial conditions which have already occurred.

Conditions in the United States are considerably different from those in the United Kingdom as well as those in Canada. The United States has no large nation-wide banking chains, but instead has a large number of separate banks throughout the various states, cities and towns. There are twelve Federal Reserve Banks situated in the twelve regions into which the country is divided for this purpose, and the various local member banks of the System frequently have resort to their regional Federal Reserve Bank for short-term credit. In Canada, practically all of such inter-bank and inter-regional requirements for funds are offset within the branch system of each of the chartered banks, and variations in the over-all cash requirements of each of the banks can normally be taken care of in the short-term money market (in which the Bank of Canada is a participant) on a day-to-day basis without the need for direct resort by any chartered bank to the Bank of Canada. In the United States, however, the Bank rates of the various Federal Reserve Banks — normally all at the same level, although at times differentials exist for short periods — are important operating factors in the regular business of the commercial banks of the country, and variations in the rate may have an important influence on the way in which the 6,200 individual banks which are members of the Federal Reserve System conduct their affairs, and particularly in the way in which adjustments are worked out in the relative positions of the individual banks, adjustments which would be settled by inter-branch accounting under the Canadian branch banking system. Access to Federal Reserve credit is not automatic or a matter of right; the "discount window" can be and on occasion is operated on a discretionary or selective basis. As an indication of the extent to which the discount mechanism is used, there were 26,000 advances made by Federal Reserve Banks in 1959.

In addition, the United States is an important international financial centre and the level of the Federal Reserve Bank rate might in principle be thought to have some influence on the international movement of short-term funds. In practice, however, the Federal Reserve Bank rate has tended to follow the market rather than to lead it. The lending and deposit rates of the commercial banks are not tied to the Federal Reserve Bank rate and generally move independently of and frequently before any moves in the Federal Reserve Bank rate.

From time to time statements are made by the Board of Governors of the Federal Reserve System, or unofficial indications are given, in explanation of moves in the Bank rate, and such explanations have often specifically stated that the rate change is being made in order to adjust the Bank rate to changes in market rates. Generally the Bank rate is moved so as to be slightly higher than the rate on federal Government treasury bills, although there have been periods when the Bank rate has been slow to follow the market and has remained for some weeks or months lower than the rate on treasury bills. In general, cases where the Bank rate has been slow to follow market rates appear to be the result of stickiness or rigidity in the system rather than of a desire to exert a specific influence on the market or give a specific signal as to the state of the economy or as to Federal Reserve policy.

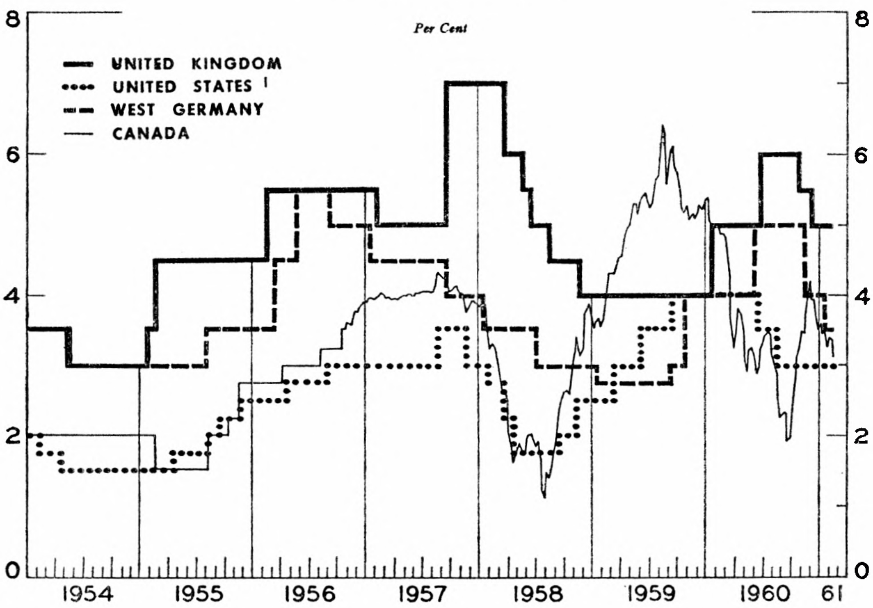
It is evident that conditions in different countries vary considerably and that endeavours to use the Bank rate to anticipate changes in economic conditions are not often made.

If a central bank made a practice of issuing statements or giving signals which were intended to change expectations in the market, so that everyone rushed to adjust his position accordingly, there would be sharper fluctuations and greater instability from time to time than under the more usual practice of keeping more or less in step with market developments. There would also be periods of doldrums while everyone waited for decisions by the central bank. Action of this character by a central bank in the context of a free economy would be more appropriate under very special conditions rather than as a normal working practice.

Experience with the present system of establishing the Bank rate in Canada is considered from time to time, and changes will be made if specific proposals can be developed from which definite improvements can be expected. In general, the Bank's feeling is that the Bank rate system in Canada should be such as to make a maximum contribution to the smooth and efficient functioning of the money market and should not be expected to perform functions sometimes attributed to it in other countries.

The chart below compares movements in Bank rates over the past few years in Canada, the United States, the United Kingdom and West Germany.

CENTRAL BANK DISCOUNT RATES



1. Federal Reserve Bank of New York.

Text of Press Release Issued November 1, 1956

Ottawa, November 1, 1956. The Bank of Canada announced today that it was carrying a step further the policy announced in February 1955 of making its Bank Rate more flexible and responsive to changing conditions in the short-term money market. Henceforth and until further notice the Bank Rate, which is the minimum rate at which the central bank is prepared as a lender of last resort to make very short term loans to chartered banks and money market dealers, will be at a fixed margin of ¼ of 1% above the latest weekly average tender rate for 91-day Treasury Bills. The average tender rate on Treasury Bills today was 3.34%, a decline of .03% as compared with a week ago. Accordingly the Bank Rate until next Thursday will be 3.59%.

As indicated on several occasions by the Bank, the Bank Rate is not changed arbitrarily or with a view to bringing about other interest rate changes. On the contrary, it has been desired since the development of the money market in Canada in late 1954 and early 1955 that the Bank Rate should be kept in line with other interest rates and should move when they do, but usually not otherwise. The present technical change in the method of setting the Bank Rate from week to week is intended to clarify this relationship and remove what has evidently been a source of some public misunderstanding.

Interest rates are determined in the market by the interplay between the supply of and the demand for loanable funds. Transactions take place every day in considerable volume; yields on marketable securities may change by small amounts from day to day, according to changes in the views of holders and of prospective buyers of various categories of securities as to the prices at which they are prepared to sell or buy. In general, interest rates have been rising for nearly two years because of a great growth in demand to borrow money, or to raise money by selling securities. The supply of money has increased, but the demand for it has grown even faster.

The Bank Rate has been increased from time to time in Canada as in other countries in line with this movement in market rates of interest. It would be clearly undesirable that banks and dealers should be able to borrow from the central bank at a lower cost than the yield on the most liquid form of Government securities. Such an encouragement to borrowing from the central bank would be apt to induce an inflationary increase in the volume of money.

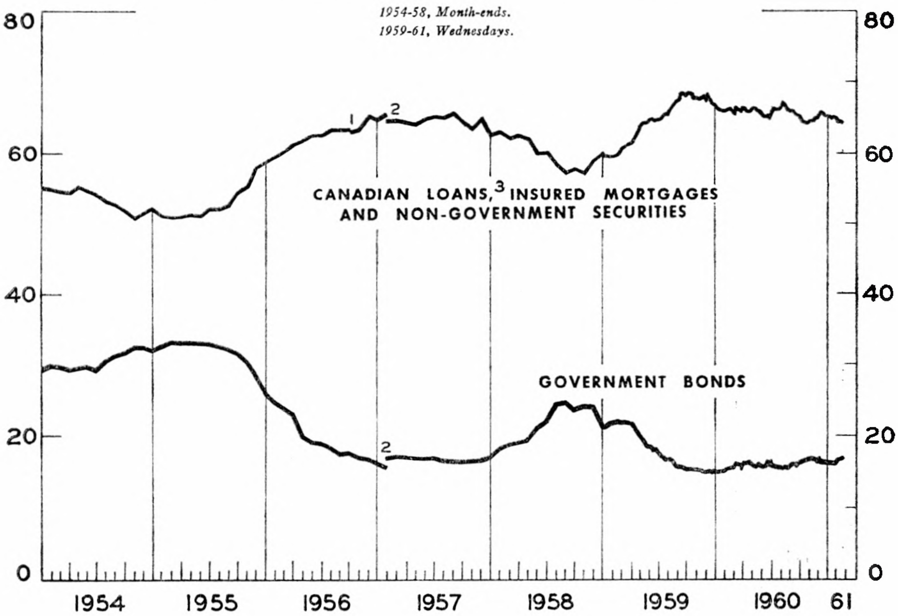
Changes in Bank Rate in the past two years have taken place in steps of ¼% or ½%. One result of having the Bank Rate change by smaller amounts each week in closer touch with other short-term interest rates is that it will direct public attention more to the basic factors in the monetary situation, that is, changes in the supply of and demand for money.

In the short-term money market the best indicator of current monetary conditions, as they may change from week to week, appears to be the average rate at the weekly tender for 91-day Treasury Bills. It is for this reason that the Bank Rate has followed fairly closely, though at varying intervals, changes in the Treasury Bill rate during 1955 and 1956. The relationship will be made more clear from now on with Bank Rate automatically changing by whatever fraction of 1% (very often less than 1/20 of 1%) the average rate on Treasury Bills may vary up or down from week to week. It will, of course, be possible for Bank Rate to decline, since at times Treasury Bill rates may decline, without any implication that the central bank is expressing a view that a period of "easy money" has begun, or that economic conditions have deteriorated.

If at any time it appears that the Treasury Bill rate is not the best indicator of market conditions or if it is found that a different margin between market rates and Bank Rate would be more suitable, or that a change in monetary conditions should be more strikingly signalized, a change in the practice will be made and announced. For the time being, however, it is proposed, as indicated, to keep the Bank Rate at a fixed margin of ¼ of 1% above the average rate at the most recent weekly tender for Government of Canada Treasury Bills, the rate which is made public at approximately 1.00 p.m. each Thursday immediately following the tender.

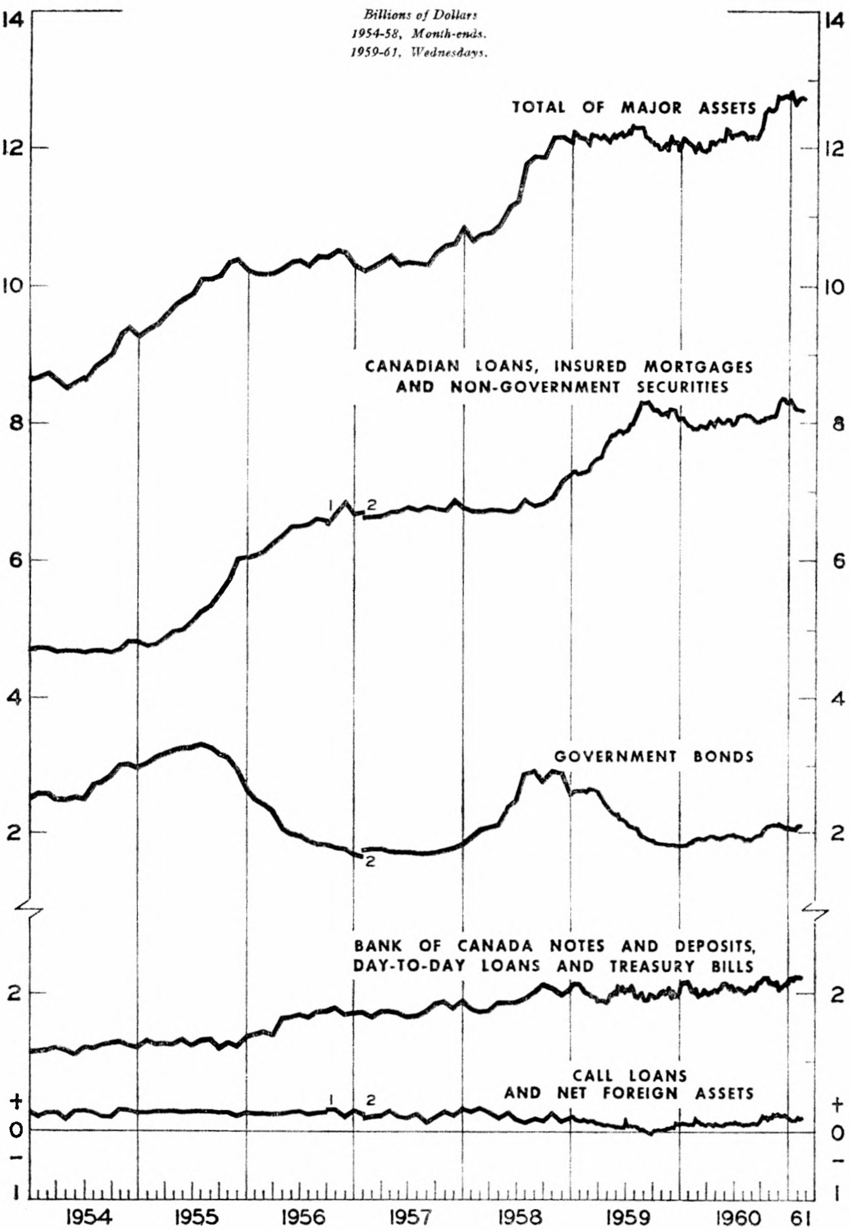
Chartered Banks. Total chartered bank assets fluctuated within a comparatively narrow range until September 1960 and thereafter rose to a level at year-end of $12,800 million, which was $753 million or more than 6 per cent higher than at the close of 1959. The banks increased their loans (other than day-to-day loans and call loans) by $393 million on the year and their holdings of Government bonds and other relatively liquid assets by $414 million. Their holdings of insured mortgages were virtually unchanged, increasing by only $3 million, while their holdings of provincial, municipal and corporate securities were reduced by $58 million. At the close of the year 65.4 per cent of the chartered bank assets were in the form of loans, insured mortgages and non-Government securities, compared with 66.7 per cent a year earlier and 68.2 per cent in September 1959 which was the peak post-war ratio.

CHARTERED BANKS : CERTAIN ASSETS
AS A PERCENTAGE OF TOTAL REPORTED ASSETS



1. Break reflects exclusion of certain foreign currency loans previously included in Canadian loans.
2. Breaks reflect reallocation of inner reserves consequent upon securities revaluation.
3. Excludes call loans.

CHARTERED BANK ASSETS



1. Breaks reflect transfer of certain loans from Canadian loans to net foreign assets.
2. Breaks reflect reallocation of inner reserves consequent upon securities revaluation.

Chartered Banks: Assets and Deposit Liabilities

(millions of dollars)

	As at Dec. 31 1960	Increase or decrease (–) during: 1Q	2Q	3Q	4Q	Year 1960
Assets						
Bank of Canada notes and deposits	992	−58	−64	7	155	40
Day-to-day loans	172	−13	69	9	6	71
Treasury bills	967	−6	−9	117	−109	−7
Government bonds	2,088	102	40	14	105	261
Net foreign assets	71	−20	23	—	47	50
Call loans	138	−36	41	−43	37	−1
Sub-total	4,428	−31	101	104	240	414
Loans to provinces	128	−21	2	10	99	89
Loans to municipalities	217	54	−81	13	—	−14
Loans to grain dealers	463	−26	−28	47	35	28
Canada Savings Bond loans	186	−61	−57	−48	164	−2
Loans to instalment finance companies	371	−6	−18	−66	52	−38
General loans	5,032	12	243	65	10	331
Insured mortgages	971	13	3	−4	−9	3
Provincial securities	324	4	−1	−23	−2	−22
Municipal securities	208	−3	−2	3	6	4
Corporate securities	473	−7	−4	−16	−12	−39
Sub-total	8,372	−40	56	−20	342	338
Total of foregoing assets	12,800	−70	157	84	582	753
Deposit Liabilities						
Personal savings deposits	7,215	169	72	169	−95	315
Government deposits	510	−43	−6	−314	469	106
Other deposits (less float)	4,313	−213	49	227	193	255
Total deposits (less float)	12,037	−88	116	81	567	677

A decline in bank loans of greater than normal seasonal proportions which had begun in September 1959 (following the sharp rise in the spring and summer of that year) continued during the early months of 1960, and was accompanied by an increase of over $100 million in the chartered banks' holdings of Government bonds during the first quarter of the year; on balance their total assets declined during this period. The trend of bank loans turned upward again during the second quarter and the loan increase over the remainder of the year was appreciably greater than seasonal, especially in the fourth quarter. The banks also continued to add to their holdings of Government bonds and other relatively liquid assets. The increase in this class of assets was particularly large in the fourth quarter; as mentioned earlier, the banks added substantially to their Government bond holdings and loans to investment dealers following delivery of a new $250 million issue of Government-guaranteed C.N.R. bonds on October 3, 1960.

The bulk of the increase in bank loans during 1960 was absorbed by personal borrowers, smaller businesses, farmers, grain dealers, provincial governments and non-business institutions. Personal loans against marketable securities and Government-guaranteed home improvement loans showed little change on the year, but all other personal loans — largely instalment-type loans in the nature of consumer credit under personal loan schemes, either unsecured or against chattel mortgages — increased by $138 million. Loans of this type, which had expanded rapidly from early in 1958 to August 1959 but declined appreciably during the following six months, had regained their previous peak by mid-1960 and continued to grow strongly during the remainder of the year.

Business loans rose by $137 million during 1960, with the whole of the increase (on balance) occurring in the aggregate amount of loans to business enterprises with authorized borrowing limits of less than $1 million. Amounts outstanding in the category of largest business loans — those to businesses with authorized limits of $5 million or more — were in the aggregate down from $521 million to $482 million over the year.

Loans to provincial governments increased by $89 million on the year; most of this increase occurred during the fourth quarter in which borrowings in the securities markets by provinces were unusually low. Loans to instalment finance companies declined by $38 million during 1960, and loans to municipalities also showed a decrease of $14 million.

Chartered Banks

Classification of Loans by Category of Borrower

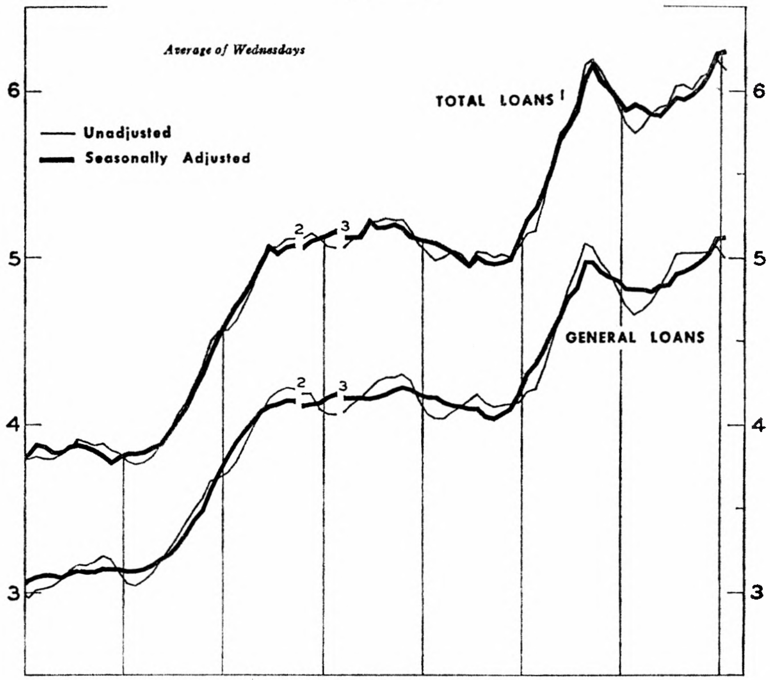
(millions of dollars)

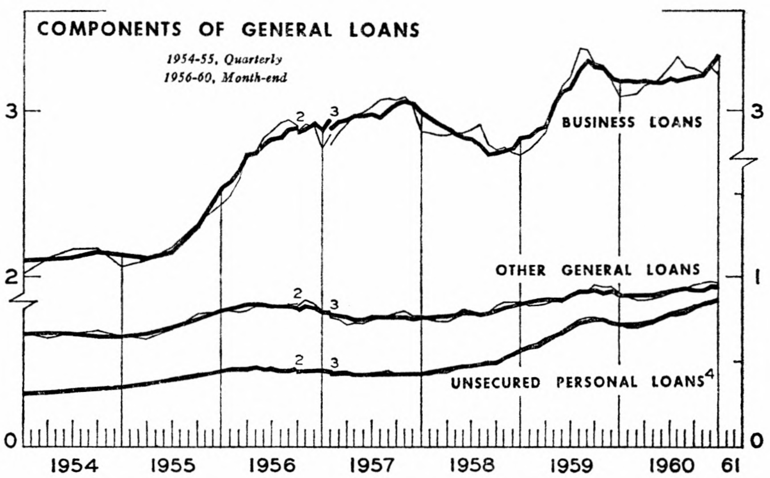
	As at Dec. 31	Increase or decrease (–) during year:					
	1960	1955	1956(1)	1957(1)	1958	1959	1960
General loans—							
Natural resource industries(2)	382	30	146	52	−96	−16	9
Other manufacturing industry	859	46	105	68	−48	82	—
Construction contractors	309	91	35	−51	8	46	1
Public utilities, transportation and communication	217	73	11	24	−39	36	47
Merchandisers	858	73	28	50	−25	122	37
Other business	594	61	36	26	59	80	42
Total business loans	3,220	374	360	168	−141	351	137
Personal loans, fully secured	286	86	−13	−50	30	−5	4
Home improvement loans	56	24	14	10	10	2	−4
Other personal loans	857	90	−5	−4	133	166	138
Total personal loans	1,199	199	−4	−44	173	163	138
Loans to farmers	420	28	−9	—	19	22	31
Loans to non-business institutions	194	13	19	27	25	28	26
Total general loans	5,032	614	366	150	75	564	331
Call loans to stockbrokers	65	44	−23	−29	−4	18	−7
Call loans to investment dealers	73	−8	3	64	−71	5	6
Loans to provinces	128	22	12	−6	−20	−30	89
Loans to municipalities	217	21	53	20	24	14	−14
Loans to grain dealers	463	−43	11	47	−61	83	29
Canada Savings Bond loans	186	16	6	7	−7	19	−2
Loans to instalment finance companies	371	129	84	−104	71	57	−38
Total loans	6,534	795	512	149	6	731	392

(1) Changes are adjusted to exclude effect of discontinuities in loan series.
(2) Mining, petroleum and forest products.

CHARTED BANK LOANS

Billions of Dollars

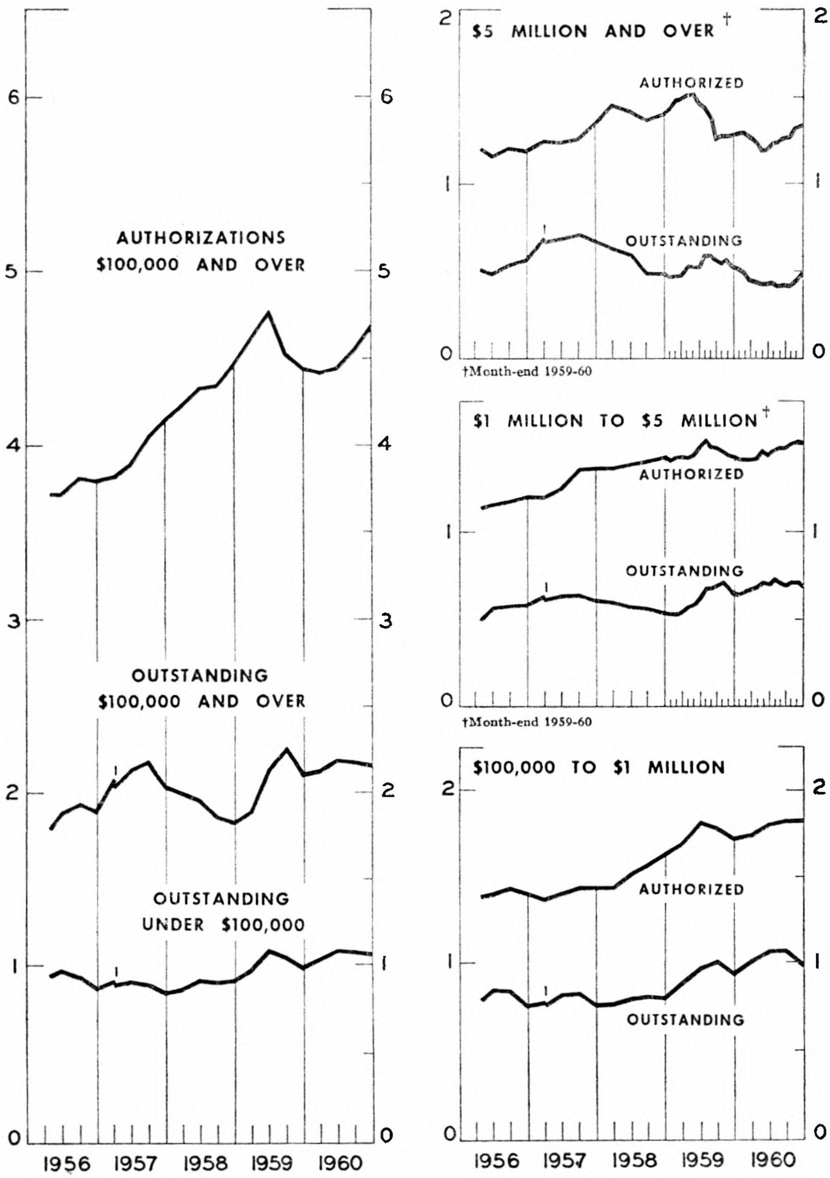




1. Excludes call loans and loans for the purchase of Canada Savings Bonds.
2. Breaks reflect exclusion of certain foreign currency loans previously included in these series.
3. Breaks reflect reallocation of inner reserves consequent upon securities revaluation.
4. Excludes home improvement loans.

BUSINESS LOANS, CLASSIFIED BY SIZE OF AUTHORIZED LINES OF CREDIT

Quarterly — Billions of Dollars



1. Breaks reflect reallocation of inner reserves consequent upon securities revaluation.

Business Loans Classified by Size of Authorized Lines of Credit

(millions of dollars)

End of	Amounts Outstanding Under Authorized Lines of Credit of: Less than $100,000	$100,000-$999,999	$1,000,000-$4,999,999	$5,000,000 and over	Total
1956-Apr.	940	794	498	501	2,733
June	969	845	559	477	2,849
Sept.	933	841	574	527	2,874
Dec.	869	752	580	564	2,765
1957-Mar.(1)	885	758	613	663	2,919
June	901	817	634	680	3,032
Sept.	888	824	639	708	3,059
Dec.	841	760	604	668	2,874
1958-Mar.	862	765	599	626	2,853
June	914	798	573	594	2,878
Sept.	904	812	563	481	2,759
Dec.	911	802	536	483	2,732
1959-Mar.	973	879	541	473	2,865
June	1,080	970	628	526	3,205
Sept.	1,037	1,001	698	553	3,288
Dec.	978	934	650	521	3,083
1960-Mar.	1,028	1,007	670	446	3,150
June	1,084	1,063	700	419	3,267
Sept.	1,074	1,065	698	408	3,245
Dec.	1,064	986	689	482	3,220

End of	Authorized Lines of Credit: $100,000-$999,999	$1,000,000-$4,999,999	$5,000,000 and over	Total $100,000 and over
1956-Apr.	1,386	1,135	1,196	3,717
June	1,409	1,156	1,151	3,716
Sept.	1,434	1,174	1,198	3,805
Dec.	1,408	1,201	1,179	3,788
1957-Mar.	1,370	1,202	1,240	3,812
June	1,402	1,247	1,229	3,878
Sept.	1,438	1,355	1,256	4,048
Dec.	1,440	1,361	1,347	4,148
1958-Mar.	1,438	1,361	1,427	4,226
June	1,518	1,390	1,413	4,320
Sept.	1,571	1,409	1,359	4,339
Dec.	1,629	1,432	1,396	4,457
1959-Mar.	1,699	1,431	1,486	4,616
June	1,811	1,498	1,455	4,763
Sept.	1,777	1,491	1,251	4,518
Dec.	1,719	1,442	1,278	4,438
1960-Mar.	1,740	1,416	1,257	4,413
June	1,797	1,446	1,187	4,430
Sept.	1,820	1,478	1,251	4,549
Dec.	1,824	1,519	1,333	4,677

(1) Continuity of the series is affected by reallocation of reserves consequent upon securities revaluation.

Business loan authorizations which are reported only for amounts of $100,000 or more, and which in total had amounted to $4,763 million at mid-1959, declined to $4,413 million by March 31, 1960 and rose again thereafter to reach a total of $4,677 million by year-end. The increase was particularly sharp in the second half of 1960 and was concentrated in the category of loan accounts in excess of $5 million.

Currency and Chartered Bank Deposits. The total of currency outside banks and chartered bank deposits rose by $721 million or by 5.5 per cent during 1960 to a level of $13,914 million on December 31st. Personal savings deposits, which showed little growth during 1959, renewed their expansion in 1960 and were $315 million higher at year-end than twelve months previously.

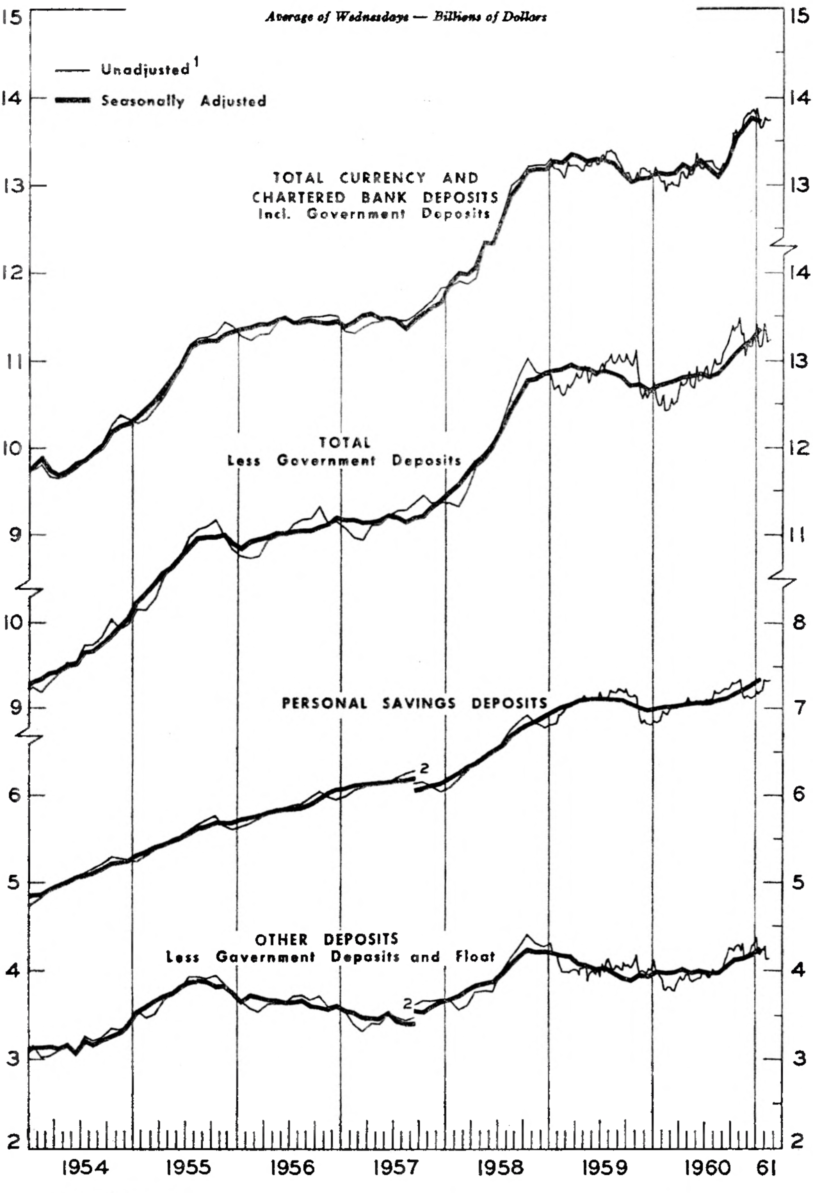
Currency Outside Banks and Chartered Bank Deposits

(millions of dollars)

	As at Dec. 31 1960	Increase or decrease (–) during:				
		1Q	2Q	3Q	4Q	1960 Year
Held by general public						
Currency outside banks						
Notes	1,732	–60	113	–6	–20	27
Coin	144	–1	10	3	5	17
Personal savings deposits	7,215	169	72	169	–95	315
Other deposits[1]	4,313	–213	49	227	193	255
Total	13,404	–105	244	394	82	615
Government deposits	510	–43	–6	–314	469	106
Total currency and chartered bank deposits[1]	13,914	–148	238	79	552	721

(1) Less total float.

CURRENCY OUTSIDE BANKS AND CHARTERED BANK DEPOSITS



1. Plotted weekly 1959-61.
2. Breaks reflect reclassification at Sept. 30, 1957, of certain deposits from "Personal Savings Deposits" to "Other Deposits".

Bank of Canada Note Liabilities

(as at December 31st—thousands of dollars)

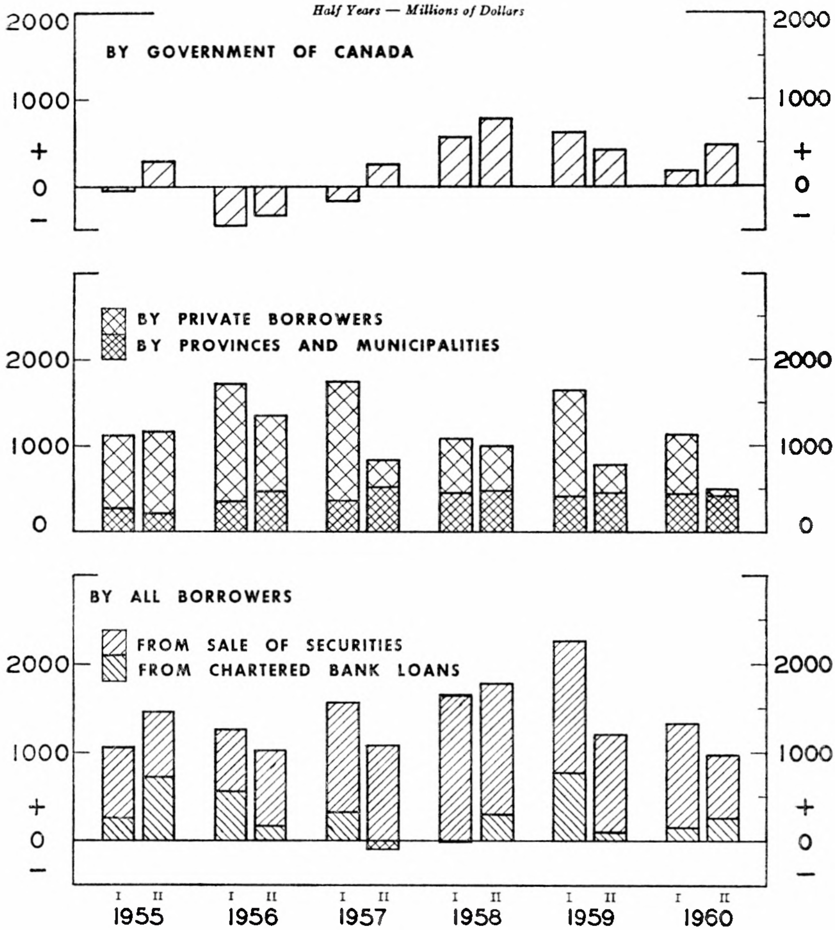
Notes issued by the Bank of Canada	1950	1957	1958	1959	1960
$1 . . .	50,273	72,589	75,873	78,402	81,733
2 . . .	37,279	51,952	53,597	55,076	57,622
5 . . .	111,731	139,839	143,010	144,702	149,545
10 . . .	429,886	528,575	533,078	521,309	519,559
20 . . .	346,060	582,163	627,814	647,276	676,549
25 . . .	47	46	46	46	46
50 . . .	108,735	134,803	143,606	145,461	147,596
100 . . .	254,457	365,479	391,629	395,383	396,328
500 . . .	160	51	49	46	41
1,000 . . .	11,489	14,661	15,928	19,549	19,547
Total . . .	1,350,117	1,890,159	1,984,630	2,007,250	2,048,567
Chartered banks' notes* .	12,487	8,799	8,655	8,519	8,423
Dominion of Canada notes*.	4,702	4,648	4,645	4,641	4,638
Provincial notes* . . .	28	28	28	28	28
Defunct banks' notes* . .	88	88	88	88	88
Total Bank of Canada note liabilities	1,367,422	1,903,721	1,998,046	2,020,525	2,061,743
Held by:					
Chartered banks . .	231,306	348,606	338,176	315,703	329,841
Others	1,136,116	1,555,115	1,659,870	1,704,822	1,731,902

*These are note issues which are in the process of being retired and the liability for them has been taken over by the Bank of Canada from the original issuers.

Capital Market. The tables and charts which follow provide a rough measure of some of the major flows of funds through capital and credit markets, as reflected in net new issues of securities and changes in chartered bank loans including their insured mortgage loans.

The chart below and the table on pages 78 and 79 show that the total amount of funds raised through the sale of net new issues of securities and from chartered bank loans, which had increased each year from 1957 to 1959, declined substantially in 1960. A large

FUNDS RAISED BY CANADIAN BORROWERS FROM SECURITIES MARKETS AND CHARTERED BANKS



part of this decline occurred in funds raised by private borrowers who borrowed less in 1960 than in any year since 1954. Funds raised in these markets by the Government of Canada were considerably lower than a year ago, while provincial borrowing increased slightly from 1959 to 1960 and municipalities raised somewhat less than in 1959. The natural resource industries, which had been heavy borrowers in the period from 1955 to 1957, on balance repaid debt in 1960 as they had in 1959, while other manufacturing and business concerns raised a considerably smaller volume of funds in 1960 than in 1959. The total amount of funds absorbed by the personal sector (including mortgage borrowing from chartered banks) was also considerably lower than in 1959. The decline in the total amount of funds raised in 1960 was evident both in the securities markets and in borrowings from the chartered banks.

This tabulation does not include mortgage borrowing from financial institutions other than the chartered banks, which is summarized below, nor does it include mortgage borrowing from other lenders, trade credit, or borrowing from non-institutional sources other than through new issues of securities. It excludes transfers of funds within the general public sector through the sale of existing securities, and the funds that flow from retained earnings directly into physical investment without entering the capital market at all.

Mortgage Lending by Financial Institutions Other Than Chartered Banks*

(millions of dollars)

	1955	1956	1957	1958	1959	1960
Life insurance companies in Canada						
Estimated gross mortgage disbursements	470	510	450	400	510	530
Less estimated mortgage repayments	175	200	205	240	250	275
Net increase in mortgage holdings	295	310	245	160	260	255
Net increase in mortgage holdings of:						
Trust and loan companies	86	82	24	106	112	n.a.
Credit unions	40	25	26	33	43	n.a.
Quebec savings banks	7	10	11	10	7	3
Trusteed pension funds	n.a.	n.a.	n.a.	51	49	n.a.

*Other loans to individuals by life insurance companies, credit unions and Quebec savings banks which are not covered in the tabulation on pages 78 and 79, are shown in the table on page 91.

Funds Raised by Canadian Borrowers From Securities Markets and Chartered Banks

(millions of dollars)

	Funds Raised from			Government of Canada		
	Securities Markets(1)	Chartered Bank Loans(2)	Grand Total	Net New Issues of Securities	Net Dis-investment(+) by Govt. Accts.	Total
Calendar Years						
1955	1,558	962	2,520	535	−287	248
1956	1,553	724	2,277	−766	−27	−793
1957	2,466	201	2,667	−70	+151	82
1958	3,161	292	3,453	1,252	+109	1,360
1959	2,619	867	3,486	723	+335	1,058
1960	1,918	398	2,316	612	+57	669
Half-Years						
1955—I	802	256	1,058	−48	−6	−54
II	756	706	1,463	582	−281	301
1956—I	694	572	1,266	−341	−116	−457
II	860	152	1,011	−424	+89	−336
1957—I	1,258	317	1,575	−333	+157	−176
II	1,208	−116	1,092	263	−6	258
1958—I	1,673	−12	1,661	338	+237	575
II	1,488	304	1,792	914	−129	785
1959—I	1,514	764	2,277	379	+251	630
II	1,106	103	1,209	344	+84	428
1960—I	1,178	148	1,326	40	+144	184
II	739	251	990	573	−87	485

(1) Net new issues of securities plus disinvestment by Government accounts.
(2) Increase in loans to provincial and municipal governments, instalment finance companies, grain dealers, general loans and insured mortgage loans.
(3) Classified by ultimate borrower.

Funds Raised by					
		Private Borrowers[3]			
Provincial Govts.	Municipal Govts.	Natural Resource Industries[4]	Other Mfg. and Business	Personal[5]	Total
232	255	406	724	656	1,786
552	277	716	1,050	476	2,242
582	300	515	1,081	107	1,703
592	347	195	520	439	1,154
540	340	−42	1,074	516	1,548
554	301	−65	586	270	791
112	160	222	413	204	839
120	94	184	311	452	947
195	151	283	838	256	1,377
357	125	433	212	220	865
185	178	399	998	−10	1,387
397	121	116	82	117	315
270	177	115	412	112	639
322	170	80	108	327	515
262	149	14	981	242	1,237
279	191	−56	93	274	311
281	169	39	549	104	692
273	132	−104	37	166	99

(4) Uranium, non-ferrous metals and non-metallic mining, petroleum and forest products.

(5) Increase in chartered bank personal loans and insured mortgage loans, and finance company and retail dealer credit extended to consumers.

Increases in Holdings of Certain Financial Assets by the General Public*

(millions of dollars)

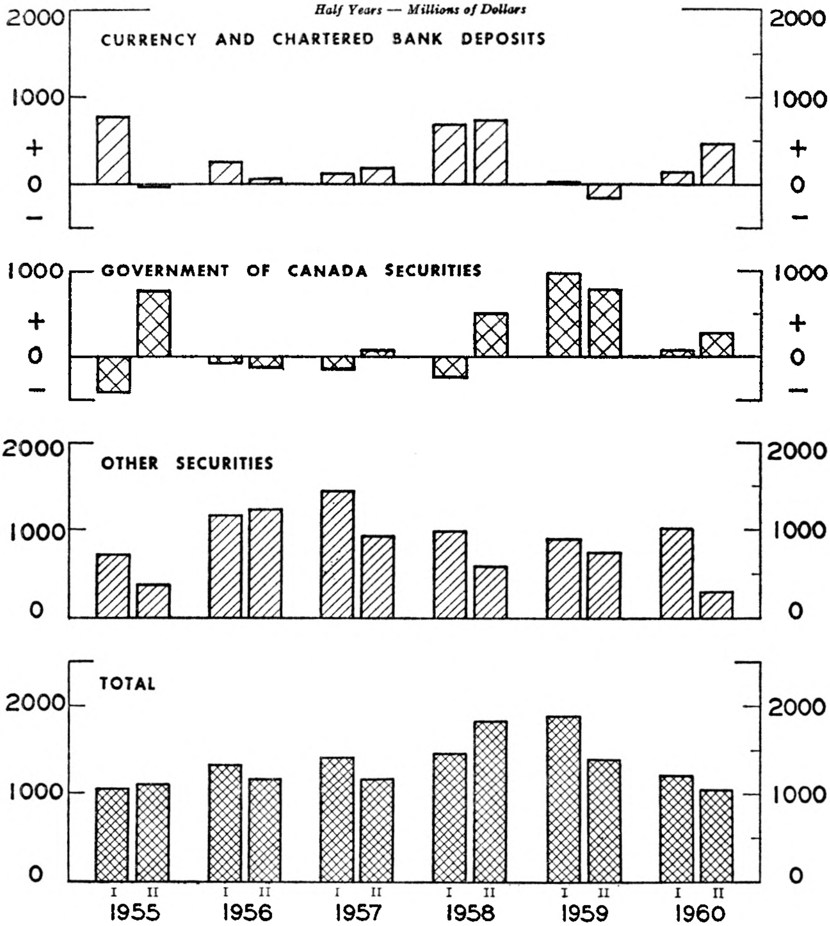
Calendar Year	Securities: Government of Canada Securities: Treasury Bills	Other Market Issues	Canada Savings Bonds	Sub-Total	Provincial Bonds
1955	286	−289	343	340	151
1956	−209	−102	108	−203	593
1957	4	−185	108	−73	591
1958	125	−97	246	274	482
1959	341	1,100	317	1,757	639
1960	−206	179	382	355	487
Half Years					
1955—I	144	−431	−130	−417	102
II	142	142	473	757	49
1956—I	−41	102	−140	−79	282
II	−168	−204	248	−124	311
1957—I	19	57	−226	−151	284
II	−15	−241	334	78	307
1958—I	−50	5	−178	−223	279
II	175	−102	424	498	203
1959—I	256	838	−128	966	312
II	85	262	444	791	328
1960—I	−164	392	−153	75	297
II	−43	−213	535	280	190

*General public is defined to include all holders other than the Bank of Canada, chartered banks and Government accounts. It includes, for example, corporations, financial institutions other than chartered banks, provincial and municipal government accounts and non-residents, as well as resident persons.

Municipal Bonds	Corporate and Other Bonds	Finance Co. Short-term Paper	Corporate Stocks	All Securities	Currency and Chartered Bank Deposits	Total Increase in Period
193	218	59	462	1,423	743	2,166
257	758	94	689	2,188	312	2,500
291	934	48	516	2,306	308	2,614
297	603	−111	311	1,857	1,427	3,284
316	160	135	406	3,414	−138	3,276
312	303	10	189	1,656	615	2,270
103	152	30	322	292	765	1,057
90	65	29	140	1,131	−22	1,109
130	340	101	310	1,083	251	1,334
127	419	−7	379	1,105	61	1,166
125	737	91	218	1,304	120	1,424
166	197	−43	297	1,002	188	1,190
154	448	−9	120	768	692	1,460
143	155	−101	192	1,089	735	1,823
107	56	124	300	1,865	15	1,880
209	104	11	106	1,549	−153	1,396
201	311	52	143	1,080	139	1,219
110	−8	−43	46	576	476	1,051

The chart below and the table on pages 80 and 81 show that the rate of increase in the general public's combined holdings of currency, chartered bank deposits and securities continued the slowing down which started in mid-1959. In the second half of 1960 the general public added substantially to their holdings of currency and chartered bank deposits and Canada Savings Bonds, their holdings of provincial and municipal bonds and corporate stocks increased moderately, and their holdings of treasury bills and marketable Government bonds, corporate bonds and finance company short-term paper declined.

INCREASES IN HOLDINGS OF CERTAIN FINANCIAL ASSETS BY THE GENERAL PUBLIC



Securities Markets. The total amount of net new issues of securities declined to $1,861 million in 1960 from $2,284 million in 1959 and $3,053 million in 1958. New money raised by each of the three levels of government declined over this period; net new issues of Government of Canada securities declined from $723 million in 1959 to $612 million in 1960, of provincial bonds from $570 million to $465 million and of municipal bonds from $326 million to $315 million. Net new issues of corporate securities declined in total from 1959 to 1960 with an increase in net new issues of corporate bonds from $108 million in 1959 to $251 million in 1960 being more than offset by declines in net new issues of corporate stocks from $406 million to $189 million and in finance company short-term paper from $135 million to $10 million. Net new issues of securities payable both in Canadian dollars and in other currencies declined from 1959 to 1960; net new issues of provincial, municipal and corporate bonds payable in foreign currencies declined from $371 million to $117 million. A table showing the details of net new issues of securities for the years 1957 to 1960 appears on pages 84 and 85.

The industrial classification of net new issues of corporate securities which appears in the table on page 86 shows that there was a growing amount of net retirements of uranium securities in 1960 and smaller net retirements of securities of industries producing non-ferrous metals and their products and wood and paper and their products. The amount of net new issues of securities of utilities other than pipelines, instalment finance and small loan companies and other financial corporations declined from 1959 to 1960 while there were slight increases in net new issues of securities of pipeline companies and merchandisers.

Details of the distribution of holdings of Government of Canada securities are shown in the table on page 87 and the chart on page 88.

Net New Issues of Securities[1]

(millions of dollars)

	Payable in Canadian Dollars Only			
	1957	1958	1959	1960
Government of Canada securities[2]				
Bonds	−52	1,383	289	705
Treasury bills	50	−130	582	−92
Total	−2	1,253	871	613
Non-Government securities				
Provincial bonds[2]	545	469	331	445
Municipal bonds[2]	181	208	211	232
Corporate bonds	568	477	91	237
Other bonds[3]	3	4	17	19
Total bonds	1,297	1,157	649	933
Finance co. short-term paper[4]	48	−111	135	10
Total bonds & short-term paper	1,346	1,047	785	942
Corporate stocks[5]				
Preferred	121	25	71	35
Common	425	284	333	152
Total corporate stocks	546	309	404	188
Total non-Government securities	1,892	1,356	1,189	1,130
Total	1,890	2,609	2,060	1,743

(1) Gross new issues less retirements. 1960 figures are preliminary estimates.
(2) Includes guaranteed securities.
(3) Consists of bonds of religious and other institutions.
(4) Paper with an original term to maturity of one year or less.
(5) Canadian stock issues with dividends payable in U.S. dollars are shown under "Other Currencies".

Payable in Other Currencies				Total			
1957	1958	1959	1960	1957	1958	1959	1960
−68	−2	−149	−1	−120	1,382	141	704
—	—	—	—	50	−130	582	−92
−68	−2	−149	−1	−70	1,252	723	612
44	144	239	20	589	612	570	465
97	115	115	84	278	323	326	315
382	184	17	13	951	661	108	251
—	—	—	—	3	4	17	19
523	443	371	117	1,820	1,600	1,020	1,050
—	—	—	—	48	−111	135	10
523	443	371	117	1,869	1,489	1,155	1,060
−33	—	—	—	88	25	71	35
2	2	2	1	427	286	335	153
−31	2	2	1	516	311	406	189
492	445	372	118	2,384	1,801	1,561	1,248
425	444	224	118	2,315	3,053	2,284	1,861

Net New Issues of Corporate Securities(1)

Industrial Classification of Bonds, Stocks and Finance Company Short-Term Paper

(millions of dollars)

	1955	1956	1957	1958	1959	1960
Non-financial corporations						
Natural resource industries						
Uranium mines	68	122	65	44	−30	−68
Other non-ferrous metal mines and products	155	51	167	39	−15	−7
Non-metallic mines and products	27	70	11	19	6	1
Petroleum and products	165	203	177	153	28	14
Wood and paper and products	−40	123	43	36	−16	−14
Sub-total	375	570	463	291	−26	−74
Other manufacturing industries						
Iron and steel and products	45	89	25	30	32	2
Other manufactured products	32	78	41	41	1	46
Sub-total	77	168	66	71	33	48
Utilities						
Railways and telegraphs	−31	−21	−20	57	−25	−9
Telephones	80	146	168	130	166	134
Pipelines	8	137	267	105	−10	44
Other utilities	59	113	284	200	131	40
Sub-total	115	374	700	492	262	209
Merchandisers	70	96	35	25	44	56
Other	16	23	2	5	9	20
Total	653	1,229	1,266	884	322	258
Financial corporations						
Instalment finance and small loan companies	92	221	138	−115	192	108
Other finance, insurance and real estate	96	127	110	93	135	82
Total	188	348	249	−22	327	191
Total	840	1,577	1,514	862	649	449

(1) Does not include issues guaranteed by provincial governments (e.g., net new issues of provincial hydro commissions which amounted to $120 million in 1955, $261 million in 1956, $315 million in 1957, $276 million in 1958, $167 million in 1959, and $184 million in 1960.)

Government of Canada Direct and Guaranteed Securities
Distribution of Holdings

(par values, millions of dollars)

	As at Dec. 31/60	Increase or decrease (–) during: 1960 1Q	2Q	3Q	4Q	Year 1960	Year 1959
Bank of Canada							
Treasury bills	407	93	–6	–57	68	98	273
Other market issues	2,337	–172	71	71	–1	–31	–266
Total	2,744	–79	65	13	68	67	7
Chartered Banks							
Treasury bills	974	–8	–11	117	–108	–10	27
Other market issues	2,084	105	36	11	105	256	–737
Total	3,057	97	25	128	–4	247	–710
Government Accounts							
Unemployment Insurance Fund							
Treasury bills	52	–17	2	47	–2	29	–31
Other market issues	264	–95	–66	–16	–4	–181	–121
Total	316	–111	–65	31	–6	–151	–152
Securities Investment Account							
Treasury bills	—	—	—	—	—	—	–25
Other market issues	101	—	—	96	–45	51	–50
Total	101	—	—	96	–45	51	–75
Other Government Accounts							
Treasury bills	4	—	–2	–3	1	–3	–3
Other market issues	445	22	11	5	9	47	–106
Total	449	22	10	2	10	44	–109
General Public(1)							
Treasury bills	549	–21	–143	–104	61	–206	341
Other market issues	6,937	336	55	–173	–40	179	1,100
Total	7,485	316	–88	–277	22	–28	1,440
of which:							
non-residents(2)	803	32	–3	30	22	81	90
life insurance cos.(2) (3)	700	29	–11	11	54	83	60
all other holders(1) (2)	5,982	255	–74	–318	–54	–192	1,290
Canada Savings Bonds	3,594	–69	–84	–57	592	382	317
Total	11,080	247	–172	–334	614	355	1,757
Total Outstanding							
Treasury bills	1,985	48	–160	—	20	–92	582
Other market issues	12,168	197	108	–7	25	322	–181
Canada Savings Bonds	3,594	–69	–84	–57	592	382	317
Total	17,747	176	–136	–64	637	612	718

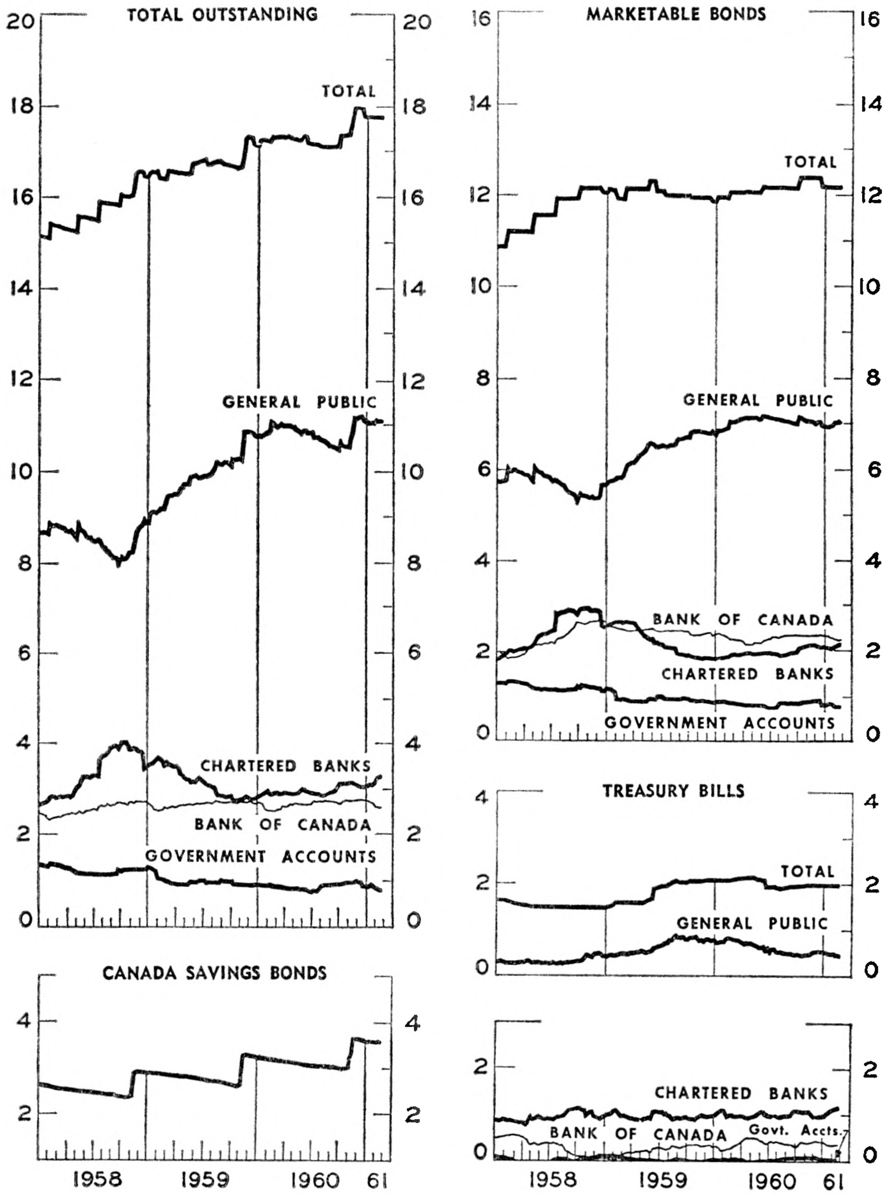
(1) Residual. Includes investment dealers.
(2) Preliminary estimates.
(3) Holdings in respect of Canadian operations.

GOVERNMENT OF CANADA DIRECT AND GUARANTEED SECURITIES

DISTRIBUTION OF HOLDINGS

par values, billions of dollars

Wednesdays



Consumer Credit and Finance Companies. The total outstanding amount of credit extended to consumers by finance companies and retail dealers and of chartered bank unsecured personal loans (that is, personal loans other than those fully secured by marketable securities and home improvement loans) increased by $267 million in 1960 or by 9 per cent. The increase was $341 million in 1959, $195 million in 1958 and $54 million in 1957.

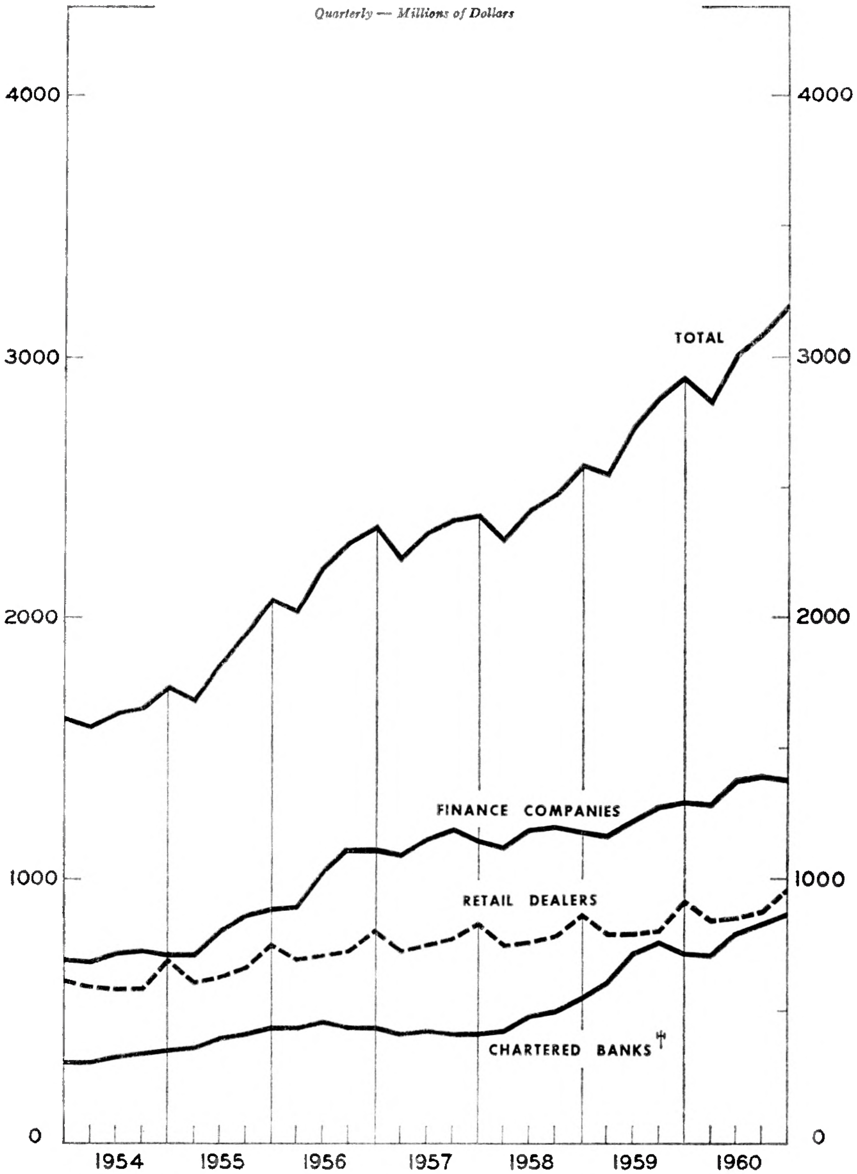
In 1960 the total of finance company credit and retail dealer credit increased by $129 million compared with $175 million in 1959, with small loan companies accounting for about half of the total increase in non-bank credit each year.

Chartered bank unsecured personal loans rose sharply during the last nine months of 1960, after declining seasonally in the first quarter of the year. The total increase in these loans in 1960 amounted to $138 million or 19 per cent and followed an increase of $166 million or 30 per cent in 1959.

In addition to the increase of $19 million in instalment finance companies' credit outstanding on consumers' goods in 1960 their outstanding loans to finance other retail sales (commercial and industrial goods) increased by $35 million and their holdings of wholesale paper increased by $37 million. Their total receivables thus rose by $92 million in 1960 compared with an increase of $130 million in 1959.

The chart on page 90 and the table on page 91 show the trends in the major components of consumer credit from 1954 to 1960.

FINANCE COMPANY AND RETAIL DEALER CREDIT EXTENDED TO CONSUMERS AND CHARTERED BANK UNSECURED PERSONAL LOANS†



†Excludes personal loans fully secured by marketable bonds and stocks and home improvement loans.

Consumer Credit and Other Loans to Individuals(1)

(millions of dollars)

	Balances Outstanding at Dec. 31/60	Increase or decrease (–) in balances outstanding					
		1955	1956	1957	1958	1959	1960
Finance company and retail dealer credit extended to consumers							
Instalment finance companies	825	107	157	24	–12	38	19
Small loan companies	549	64	77	6	39	83	65
Department stores	364	41	17	18	20	32	50
Other retail dealers	596	25	30	10	15	22	–5
Sub-total	2,334	237	281	58	62	175	129
Chartered bank unsecured personal loans(2)	857	90	–5(4)	–4(5)	133	166	138
Total	3,191	327	276	54	195	341	267
Other loans mainly to individuals for non-business purposes							
Chartered banks							
Secured personal loans(3)	286	86	–13(4)	–50(5)	30	–5	4
Government-guaranteed home improvement loans	56	24	14	10	10	2	–4
Life insurance co. policy loans	345	10	20	25	10	18	22
Quebec savings banks	14	1	3	2	–1	1	1
Credit unions	*	23	52	32	62	74	*

(1) Excludes mortgages.
(2) Excludes personal loans fully secured by marketable bonds and stocks and home improvement loans.
(3) Fully secured by marketable bonds and stocks.
(4) Changes are adjusted to exclude effect of reclassification of foreign currency loans at September 30, 1956.
(5) Changes are adjusted to exclude effect of reallocation of inner reserves at January 31, 1957.
*Not available. Credit unions' non-mortgage loans outstanding at December 31, 1959, amounted to $394 million.

Housing Finance. The total value of residential mortgage loans approved by lending institutions and Central Mortgage and Housing Corporation declined to an estimated $717 million in 1960, compared with $1,018 million in 1959 and $1,199 million in 1958. The chartered banks virtually withdrew from this field of lending late in 1959 and remained inactive in 1960. The level of direct lending by C.M.H.C. was substantially below that of 1959 until late in the year when a number of policy changes resulted in the easing of terms for direct loans from C.M.H.C. Loan approvals under the National Housing Act made by life insurance companies and trust and loan companies rose sharply in the late summer and continued at a high level to the end of the year. Life insurance company approvals of conventional mortgage loans declined in 1960 from the very high level of 1959, but total mortgage loan approvals by both life insurance companies and trust and loan companies were higher in 1960 than in 1959. No figures are available regarding the flow of mortgage approvals by lenders other than these institutions and C.M.H.C. (Changes in mortgage holdings of financial institutions other than chartered banks are summarized in a table on page 77).

Mortgage Loans Approved by Lending Institutions and Central Mortgage and Housing Corporation on New Non-Farm Residential Construction

(millions of dollars)

	1955	1956	1957	1958	1959	1960
Lending Institutions						
Chartered banks—NHA loans	326	158	173	300	175	1
Life insurance companies						
NHA loans	271	227	96	171	113	177
Other loans	157	190	155	181	239	201
Total	428	417	251	353	352	378
Trust, loan and other companies						
NHA loans	42	40	9	47	19	64
Other loans	78	65	84	109	104	106
Total	120	105	93	157	124	169
Total	874	680	517	810	651	549
Central Mortgage and Housing Corporation	18	20	235	389	367	168
Total-Lending Institutions and Central Mortgage and Housing Corporation	892	700	753	1,199	1,018	717

Interest Rates. Interest rates in the Canadian securities market declined from early in 1960 through to September apart from minor and short-lived interruptions and then rose again until late in the year. Yields on long-term Government bonds, which had reached a peak in the latter part of 1959 or early in 1960, declined until September 1960, and then rose again in the fourth quarter. Treasury bill yields, which had reached a peak of 6.16 per cent in August 1959, declined sharply during the first nine months of 1960 reaching a low point of 1.68 per cent in September, rose to 3.95 per cent at the beginning of December and declined to 3.25 per cent by the end of the year.

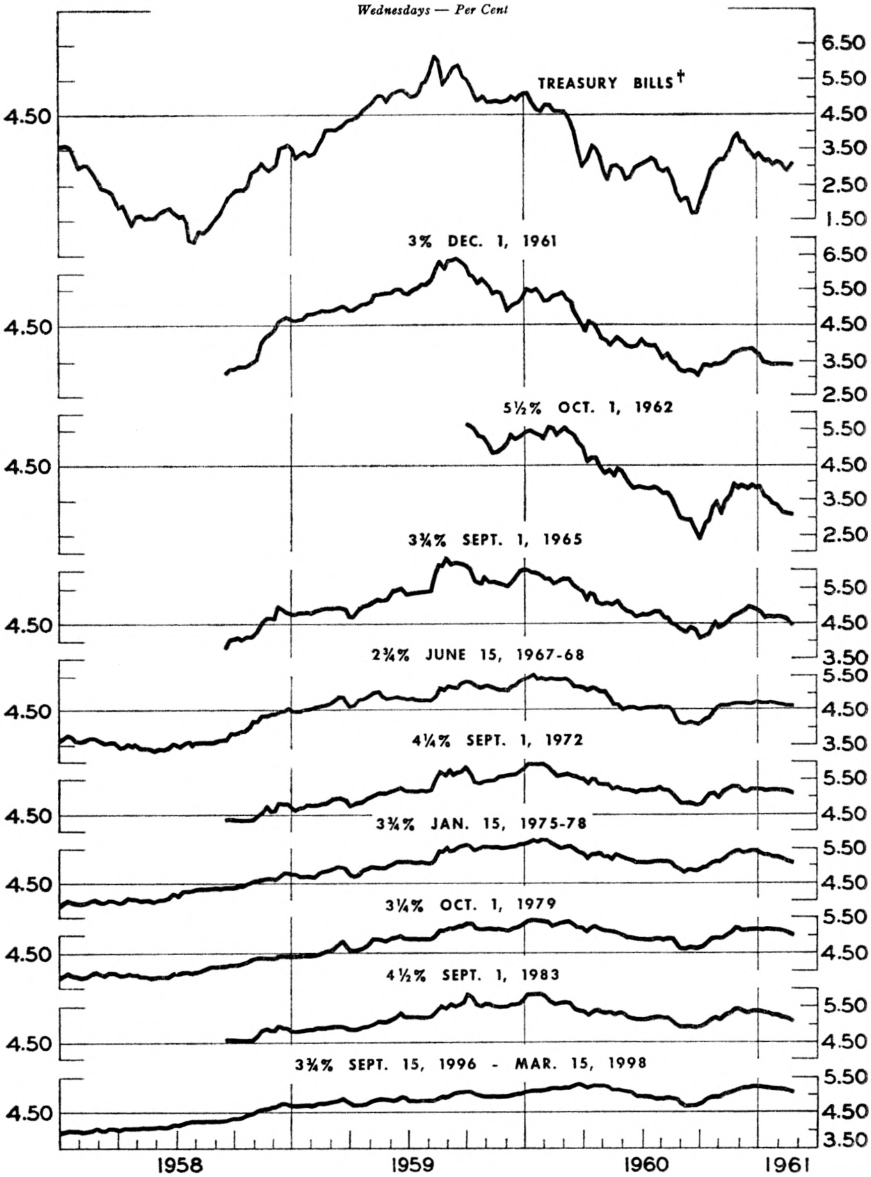
Yields on long-term provincial, municipal, public utility and industrial bonds, which had risen steadily from the second quarter of 1958 to late 1959 or early 1960, declined until the end of the third quarter and then rose again to the end of the year. Yields on common stocks rose irregularly from the end of July 1959 until early August 1960 and declined in the fourth quarter.

Interest rates in the United States also declined from early in 1960 until September and then rose gradually in the fourth quarter. The spread between yields on long-term Government bonds in Canada and the United States, which had increased in the latter part of 1959, tended to decline during the first nine months of 1960. In the fourth quarter yields on long-term Government bonds in Canada increased more than in the United States so that the spread in yields widened again.

The prime commercial loan rate charged by the chartered banks, which was raised from 5¼ per cent to 5½ per cent in March 1959 and again to 5¾ per cent in April 1959, has remained unchanged since that date. Interest rates paid by trust companies on guaranteed investment certificates, by loan companies on debentures, and by finance companies and other corporations on short-term paper declined from late 1959 to September 1960 and have levelled off or increased since that time.

Trends in interest rates during 1958, 1959 and 1960 are shown in the table on page 95 and the charts on the facing page and page 96.

GOVERNMENT SECURITY YIELDS



† 91-day bills. Average rate at weekly tender on Thursday following Wednesday date.

Interest Rates and Yields

(per cent)

	Dec. 31 1958	High in Aug.-Sept. 1959	Dec. 30 1959	High in Jan. 1960	Low in Sept. 1960	High in Nov.-Dec. 1960	Dec. 28 1960
Government security yields							
91-day treasury bills(1)	3.49	6.16	5.12	5.14	1.68	3.95	3.25
3% Dec. 1, 1961	4.69	6.42	5.27	5.51	3.06	3.83	3.75
3¾% Sept. 1, 1965	4.74	6.22	6.00	6.00	4.07	4.99	4.87
2¾% June 15, 1967-68	4.48	5.30	5.37	5.55	4.09	4.74	4.74
4¼% Sept. 1, 1972	4.70	5.82	5.77	5.91	4.76	5.27	5.22
3¾% Jan. 15, 1975-78	4.76	5.61	5.60	5.76	4.81	5.41	5.41
3¼% Oct. 1, 1979	4.42	5.30	5.30	5.42	4.63	5.21	5.19
4½% Sept. 1, 1983	4.81	5.81	5.71	5.80	4.88	5.46	5.37
Other long-term bond yields(2)							
10 provincials	5.14	6.19	6.12	6.19	5.28	5.68	5.68
10 municipals	5.38	6.60	6.60	6.60	5.61	5.97	5.97
10 public utilities	5.14	6.01	6.04	6.17	5.29	5.54	5.45
10 industrials	5.22	6.05	6.14	6.22	5.24	5.62	5.61
40 bond average	5.22	6.21	6.23	6.30	5.35	5.68	5.68
Common stock yields(3)							
64 industrials	3.79	3.98	3.95	4.46(4)	4.26	4.52	4.24
Chartered bank prime loan rate	5¼	5¾	5¾	5¾	5¾	5¾	5¾
Savings deposits							
Chartered banks	2¾	2¾	2¾	2¾	2¾	2¾	2¾
Trust companies (typical rate)	3¼	3½	3½	3½	3½	3½	3½
Trust companies investment certificates (typical 1 year rate)	4	5½-5¾	5½	5½	4½	4½	4½

(1) Average rate at tender closest to date shown.

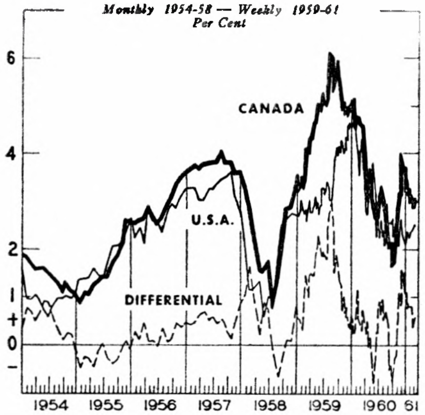
(2) Source: McLeod, Young, Weir & Company Limited. Figures shown refer to the first business day of the month closest to the date shown.

(3) Source: Moss, Lawson & Company Limited in conjunction with the Toronto Stock Exchange. Figures shown refer to the Friday dates closest to the date shown.

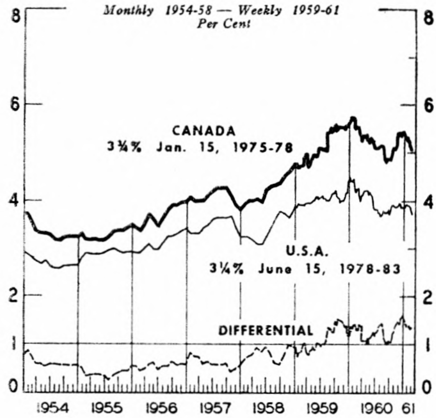
(4) High yield reached on March 11, 1960. A second high of 4.54% was reached on Aug. 5, 1960.

INTEREST RATES - CANADA AND UNITED STATES

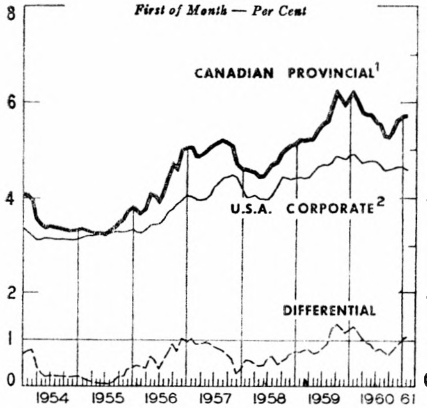
TREASURY BILLS



LONG-TERM GOVERNMENT BONDS

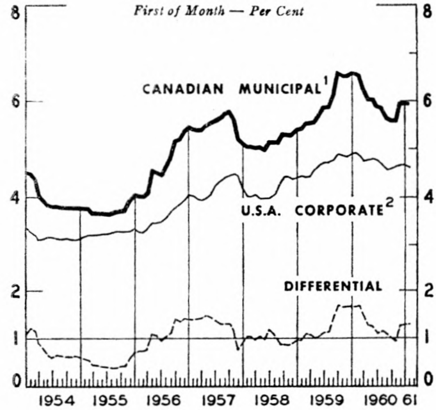


CANADIAN PROVINCIAL AND U.S.A. CORPORATE BONDS



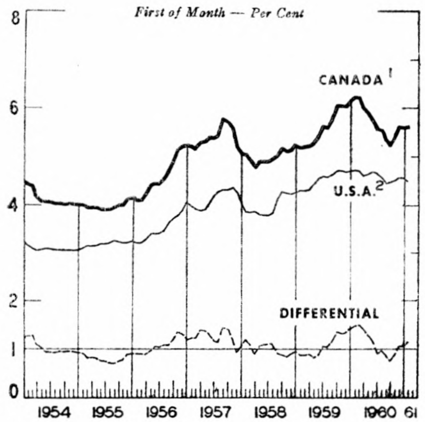
1. Source: McLeod, Young, Weir & Co. Ltd.
2. Source: Moody's Investors Service.

CANADIAN MUNICIPAL AND U.S.A. CORPORATE BONDS



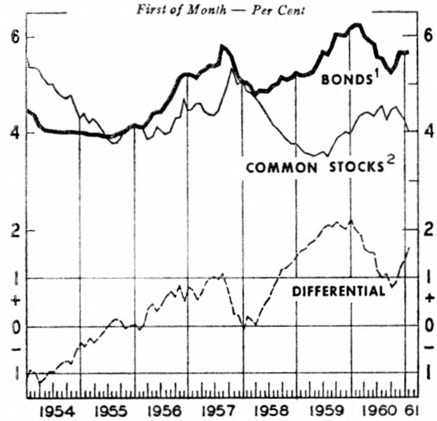
1. Source: McLeod, Young, Weir & Co. Ltd.
2. Source: Moody's Investors Service.

INDUSTRIAL BONDS



1. Source: McLeod, Young, Weir & Co. Ltd.
2. Source: Moody's Investors Service.

CANADIAN INDUSTRIAL BONDS AND COMMON STOCKS



1. Source: McLeod, Young, Weir & Co. Ltd.
2. Source: Moss, Lawson & Co. Ltd. in conjunction with the Toronto Stock Exchange.

Public Debt Operations. A summary of the changes in Government of Canada direct and guaranteed securities outstanding during 1960 is shown in the table below. The details of new issues and retirements of Government bonds in 1960 are summarized in the table on pages 100 and 101.

On Jan. 4, 1960 a new issue of $100 million of 5¾ per cent Government-guaranteed C.N.R. bonds maturing Jan. 1, 1985 and yielding 5.86 per cent was delivered. This issue was offered on Nov. 30, 1959 together with a $200 million issue of 5½ per cent Government-guaranteed C.N.R. bonds maturing Dec. 15, 1964 which was delivered on Dec. 15, 1959. The C.N.R. applied the cash proceeds of these issues to the repayment of interest-bearing capital advances from the Government.

On Feb. 1 the Government offered two new issues of 5½ per cent short-term bonds dated Feb. 15 which were optionally exchangeable into long-term bonds. The first was a cash offering of

Summary of Changes in Government of Canada Direct and Guaranteed Securities Outstanding

(par values, millions of dollars)

	As at Dec. 31, 1960	Increase or decrease (–) during: 1960 1Q	2Q	3Q	4Q	Year 1960	Year 1959
Treasury bills							
91 day bills	1,235	—	–75	–65	—	–140	–120
182 day bills	650	48	55	65	20	188	462
Special issues(1)	100	—	–140	—	—	–140	240
Total	1,985	48	–160	—	20	–92	582
Market bonds							
Direct issues payable in							
Canadian dollars	10,297	100	93	—	–223	–30	–344
United States dollars	150	—	—	—	—	—	–150
£ sterling	19	—	—	—	—	—	–3
Guaranteed issues	1,676	100	—	—	242	342	311
Total	12,142	200	93	—	19	312	–186
Canada Savings Bonds	3,594	–69	–84	–57	592	382	317
Matured and outstanding market issues	25	–3	15	–7	5	10	5
Total	17,747	176	–136	–64	637	612	718

(1) Issues maturing June 10, 1960 or June 2, 1961.

\$100 million of bonds maturing Oct. 1, 1962, with an option to the holder to be exercised on or before June 30, 1962 to exchange into an equal par value of 5½ per cent bonds maturing Oct. 1, 1975, priced to yield 5.70 per cent to Oct. 1, 1962 or 5.55 per cent if exchanged and held to Oct. 1, 1975. This offering was an addition to an outstanding issue and brought the total amount of this maturity to \$350 million. The cash proceeds were to be used for general purposes of the Government. The second part of the offering was \$200 million of Government bonds due Apr. 1, 1963 with an option to the holder to be exercised on or before Dec. 31, 1962 to exchange into an equal par value of 5½ per cent bonds maturing Apr. 1, 1976, priced to yield 5.76 per cent to Apr. 1, 1963 or 5.57 per cent if exchanged and held to Apr. 1, 1976. This maturity was offered only in exchange for an equal par value of 2¾ per cent bonds due Apr. 1, 1960 valued for exchange purposes at \$101.00 including all accrued interest to Feb. 15, 1960.

On Mar. 14 plans were announced for the refunding of the outstanding balance of \$329 million of the 2¾ per cent bonds maturing Apr. 1, 1960. The Bank of Canada agreed to acquire, in partial refunding of its holdings of the maturing issue, \$129 million of 5½ per cent bonds due Apr. 1, 1963 optionally convertible into 5½ per cent bonds due Apr. 1, 1976, and \$200 million of new bonds dated Apr. 1 were offered for public distribution. These new bonds consisted of two maturities. The first, allotted in an amount of \$80 million, consisted of 5½ per cent bonds due Apr. 1, 1969. The second, allotted in an amount of \$120 million, consisted of 5½ per cent bonds due Apr. 1, 1963 exchangeable at the option of the holder, on or before Dec. 31, 1962, into an equal par value of 5½ per cent bonds due Apr. 1, 1976. This latter offering was an addition to the \$129 million of bonds of this maturity acquired by the Bank of Canada, and the \$200 million issue dated Feb. 15, 1960, bringing the total outstanding to \$449 million. A feature of this offering was the sale of a portion of the new issues to primary distributors at competitive tender. Firm offerings totalling \$75 million in each maturity were made to primary distributors at an issue price of 97.75 per cent for the 1969 maturity to yield 5.82 per cent and at an issue price of 99.75 per cent for the 1963 maturity to yield 5.59 per cent for three years, or 5.52 per cent if exchanged into the 1976 maturity. In addition to the firm offerings accepted by primary distributors and sales to Government investment accounts, $5 million of the 1969 maturity was sold to primary distributors at an average tender price of 98.25 per cent and $44 million of the 1963 maturity was sold at an average tender price of 100.23 per cent.

On May 16 plans were announced for the advance refunding of $240 million of treasury bills maturing June 10 through the sale of new issues of Government bonds and treasury bills. The new issues dated June 1 consisted of $90 million of 4¼ per cent Government bonds maturing Dec. 1, 1962 and $50 million of 366 day treasury bills maturing June 2, 1961, both offered to primary distributors at competitive tender. The Bank of Canada agreed to acquire an additional amount of $50 million of each issue at the average prices of accepted tenders from primary distributors. Payment for both issues could be made either in cash or by surrender of treasury bills maturing June 10 and valued for this purpose at 99.95 per cent. The average price of successful tenders on the 4¼ per cent bonds was 99.91 per cent to yield 4.29 per cent and on the treasury bills was 96.71 per cent to yield 3.39 per cent. The cash proceeds of $112 million from this issue were used for redemption of treasury bills maturing June 10 which had not been presented in payment for the new issue. On June 1 the residual amount of outstanding Sixth Victory Loan bonds, amounting to $47 million, matured.

One of the features of the 5½ per cent Government bonds dated Oct. 1, 1959 and maturing Oct. 1, 1960 was an option to the holder, up to June 30, 1960, of exchanging these bonds for an equal par value of 5½ per cent bonds due Oct. 1, 1975. By June 30 $121 million of the total issue of $135 million had been exchanged. The remaining $14 million matured on Oct. 1.

On Sept. 12 a new issue of $250 million of Government-guaranteed C.N.R. bonds dated Oct. 1 was offered. The issue consisted of $75 million of 4½ per cent bonds due Apr. 1, 1967 priced to yield 4.68 per cent and $175 million of 5 per cent bonds due Oct. 1, 1987 priced to yield 5.17 per cent. The cash proceeds were used by the C.N.R. to repay interest-bearing capital advances from the Government of Canada and for capital expenditures of the Company.

On Nov. 28 the Government announced a new issue of $600 million of short-term Government bonds dated Dec. 15, 1960 to provide for the refinancing of $400 million of the $609 million of 3 per cent Government bonds maturing Dec. 15, 1960 and the partial advance refunding of $200 million of 3 per cent Government bonds due Dec. 1, 1961. The Government announced that

New Issues, Retirements and Conversions of Government of Canada Direct and Guaranteed Bonds, 1960

Date of Issue or Redemption	Type of Security	Amount (millions of dollars) New Issue	Retirement
Jan. 1	C.N.R.—Govt. Gtd.	100	
Feb. 15	Govt. Loan(1)(2)	100	
Feb. 15	Govt. Loan(3)	200	
Feb. 15	Govt. Loan(4)		200
Apr. 1	Govt. Loan(1)(6)	249	
Apr. 1	Govt. Loan	80	
Apr. 1	Govt. Loan		329
June 1	Govt. Loan(9)	140	
June 1	Sixth Victory Loan		47
June 30(11)	Govt. Loan	121	
June 30(11)	Govt. Loan(4)		121
Oct. 1	Govt. Loan		14
Oct. 1	C.N.R.—Govt. Gtd.	75	
Oct. 1	C.N.R.—Govt. Gtd.	175	
Dec. 15	Govt. Loan	300	
Dec. 15	Govt. Loan	300	
Dec. 15	Govt. Loan		609
Dec. 15	Govt. Conversion Loan(4)		200
	Canada Savings Bonds	947	564
	Other retirements		8
		2,787	2,092

(1) An addition to an outstanding bond issue.
(2) Exchangeable at the option of the holder on or before June 30, 1962 into an equal par value of 5½% non-callable bonds due Oct. 1, 1975, yielding about 5.55% for 15 years, 7½ months.
(3) Exchangeable at the option of the holder on or before Dec. 31, 1962 into an equal par value of 5½% non-callable bonds due Apr. 1, 1976, yielding about 5.57% for 16 years, 1½ months.
(4) Conversion of part of issue.
(5) Includes accrued interest.
(6) Exchangeable at the option of the holder on or before Dec. 31, 1962 into an equal par value of 5½% non-callable bonds due Apr. 1, 1976, yielding about 5.52% for 16 years.

it would retire $209 million of the maturing issue, of which $100 million was already held by its Securities Investment Account and $109 million would be paid off out of cash balances. An amount of $200 million of the new issue was offered to primary distributors. The Bank of Canada agreed to exchange $200 million of its holdings of the maturing issue for bonds of the new issue, and also $200 million of its holdings of the Dec. 1, 1961 maturity for bonds of the new issue. The new issue consisted of two maturities: $300 million of 3 per cent bonds due June 15, 1962 yielding 3.86

Currency of Payment	Coupon Rate %	Date of Maturity	Earliest Call Date	Issue or Conversion Price	Yield %
C	5¾	Jan. 1/85	NC	98.50	5.86
C	5½	Oct. 1/62	NC	99.50	5.70
C	5½	Apr. 1/63	NC	99.25	5.76
C	2¾	Apr. 1/60	NC	101.00(5)	
C	5½	Apr. 1/63	NC	99.75(7)	5.59
C	5½	Apr. 1/69	NC	97.75(8)	5.82
C	2¾	Apr. 1/60	NC		
C	4¼	Dec. 1/62	NC	99.91(10)	4.29
C	3	June 1/60	June 1/57		
C	5½	Oct. 1/75	NC		
C	5½	Oct. 1/60	NC		
C	5½	Oct. 1/60	NC		
C	4½	Apr. 1/67	NC	99.00	4.68
C	5	Oct. 1/87	NC	97.50	5.17
C	3	June 15/62	NC	98.75	3.86
C	4	Dec. 15/63	NC	98.75	4.45
C	3	Dec. 15/60	NC		
C	3	Dec. 1/61	NC		

(7) $205 million was sold at this price. The remaining $44 million was sold to primary distributors at competitive tender at an average price of 100.23%.
(8) $75 million was sold at this price. The remaining $5 million was sold to primary distributors at competitive tender at an average price of 98.25%.
(9) Advance refunding of part of $240 million of treasury bills maturing June 10, 1960. The remainder was refunded by a new issue of $100 million of 366 day bills maturing June 2, 1961.
(10) Average price of successful tenders.
(11) On or before June 30, 1960.

per cent, of which $120 million went to primary distributors and $180 million was taken by the Bank of Canada, and $300 million of 4 per cent bonds due Dec. 15, 1963 yielding 4.45 per cent of which $80 million went to primary distributors and $220 million was taken by the Bank of Canada.

The terms of the 1960 series of Canada Savings Bonds were announced on Sept. 19. The new bonds, dated Nov. 1, 1960, will mature in 10 years and provide an average yield of 4.71 per cent if held to maturity. Interest payable annually is graduated to provide 4 per cent the first year, 4¼ per cent the second year, 4½ per cent the third, 4¾ per cent the fourth, and 5 per cent for each of the remaining six years. The limit for holdings in any one name was set at $10,000. On Dec. 31 total sales of this issue amounted to $826 million compared with sales of $1,416 million of the 1959 series and $844 million of the 1958 series during the comparable periods each year. However redemptions of outstanding Canada Savings Bonds were much lower in 1960 than in recent years so that the net increase in Canada Savings Bonds outstanding during the fourth quarter of 1960 was $592 million compared with $550 million in 1959 and $508 million in 1958. Total sales during the year 1960 amounted to $947 million while total redemptions and maturities of all series amounted to $564 million so that the net increase during the year was $382 million. In 1959 the net increase during the year was $317 million and in 1958 was $246 million. Payroll sales of the 1960 series were $216 million compared to $219 million of the 1959 series and $207 million of the 1958 series. The total amount of Canada Savings Bonds outstanding at the end of 1960 was $3,594 million or 20.3 per cent of the Government's total direct and guaranteed securities outstanding and 32.4 per cent of that part of the debt which was held by the general public.

During the year the average term to maturity of market issues of Government securities outstanding shortened by one month and stood at 9 years 5 months at Dec. 31. The average term to maturity of the general public's holdings of market issues increased by 8 months and stood at 11 years 6 months at the end of the year. A table showing the classification by term to maturity of the total of Government securities oustanding and of the general public's holdings appears on the facing page.

Government of Canada Direct and Guaranteed Securities Classified by Term to Maturity

(par values, millions of dollars)

	As at Dec. 31, 1960	Increase or decrease (–) during: 1960 1Q	2Q	3Q	4Q	Year 1960	Year 1959
Total Amount Outstanding							
Treasury bills	1,985	48	−160	—	20	−92	582
Other market issues							
2 years and under	2,251	−115	−482	−7	−28	−632	549
Over 2 and up to 5 years	2,806	212	388	1,267	−191	1,676	−876
Over 5 and up to 10 years	1,160	—	280	−1,267	72	−914	128
Over 10 years	5,950	100	−78	—	171	193	18
Total market issues (bonds and treasury bills)	14,153	245	−52	−7	45	230	401
Canada Savings Bonds	3,594	−69	−84	−57	592	382	317
Total	17,747	176	−136	−64	637	612	718
Average maturity of market issues	9 yr. 5 mo.	−2 mo.	+1 mo.	−3 mo.	+2 mo.	−1 mo.	−9 mo.
Amount Held by General Public							
Treasury bills	549	−21	−143	−104	61	−206	341
Other market issues							
2 years and under	1,172	44	−430	−172	105	−454	606
Over 2 and up to 5 years	1,200	153	234	465	−323	530	258
Over 5 and up to 10 years	559	42	147	−482	14	−279	172
Over 10 years	4,005	97	105	17	164	382	64
Total market issues (bonds and treasury bills)	7,485	316	−88	−277	22	−28	1,440
Canada Savings Bonds	3,594	−69	−84	−57	592	382	317
Total	11,080	247	−172	−334	614	355	1,757
Average maturity of market issues	11 yr. 6 mo.	−3 mo.	+4 mo.	+2 mo.	+4 mo.	+8 mo.	−2yr. 6 mo.

ASSETS

		1960		1959
Foreign exchange*				
Pounds sterling and U.S.A. dollars . . .	$	54,325,052	$	41,030,477
Other currencies . .		165,209		146,420
	$	54,490,261	$	41,176,897
Cheques on other banks	$	149,945,973	$	145,547,390
Accrued interest on investments	$	24,598,760	$	25,995,824
Investments — at amortized values				
Treasury bills of Canada .	$	404,354,058	$	305,853,111
Other securities issued or guaranteed by Canada maturing within two years . .		353,433,782		514,536,500
Other securities issued or guaranteed by Canada not maturing within two years .		1,931,943,841		1,800,242,047
Debentures issued by Industrial Development Bank .		64,378,939		58,607,742
Other securities — U.S.A. Government* . .		24,357,001		18,522,311
	$	2,778,467,621	$	2,697,761,711
Industrial Development Bank				
Total share capital at cost	$	25,000,000	$	25,000,000
Bank premises				
Land, buildings and equipment—at cost less accumulated depreciation . . .	$	11,470,473	$	10,878,656
Net balance of Government of Canada payments and collections in process of settlement			$	21,238,081
Other assets	$	471,031	$	493,308
	$	3,044,444,119	$	2,968,091,867

*Foreign currencies converted to Canadian dollars at year-end closing rates.

J. E. Coyne, *Governor*
Ottawa, January 30, 1961

A. J. Norton, *Chief Accountant*

OF ASSETS AND LIABILITIES

AS AT DECEMBER 31, 1960

(with comparative figures at December 31, 1959)

LIABILITIES

		1960		1959
Capital paid up	$	5,000,000	$	5,000,000
Rest fund	$	25,000,000	$	25,000,000
Notes in circulation	$	2,061,743,386	$	2,020,525,198
Deposits				
Government of Canada	$	35,721,014	$	45,587,773
Chartered banks		662,584,610		636,981,802
Other		33,278,175		34,789,621
	$	731,583,799	$	717,359,196
Liabilities payable in pounds sterling, U.S.A. dollars and other foreign currencies*				
To Government of Canada	$	59,573,053	$	42,251,227
To Others		9,036,950		7,768,089
	$	68,610,003	$	50,019,316
Bank of Canada cheques outstanding	$	149,194,297	$	149,191,317
Net balance of Government of Canada collections and payments in process of settlement	$	2,026,977		
Other liabilities	$	1,285,657	$	996,840
	$	3,044,444,119	$	2,968,091,867

Auditors' Report • We have made an examination of the statement of assets and liabilities of the Bank of Canada as at December 31, 1960 and have received all the information and explanations we have required. We report that, in our opinion, the above statement correctly sets forth the position of the Bank at December 31, 1960 according to the best of our information and as shown by the books of the Bank.

ROSAIRE COURTOIS, C.A.
of Courtois, Fredette & Co.

W. R. KAY, C.A.
of Fred Page Higgins & Company

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 1960

(with comparative figures for the year ended December 31, 1959)

	1960	1959
Profit for the year . . .	$90,175,489	$74,011,728
Paid to the Receiver General of Canada for credit of the consolidated revenue fund	$90,175,489	$74,011,728

BOARD OF DIRECTORS

J. E. Coyne	*OTTAWA* *Governor* *Member of the Executive Committee*
J. R. Beattie	*OTTAWA* *Deputy Governor* *Member of the Executive Committee*
H. Baribeau	*LEVIS, QUE.*
J. T. Bryden	*TORONTO, ONT.* *Member of the Executive Committee*
G. G. Crosbie	*ST. JOHN'S, NFLD.*
N. H. DeBlois	*CHARLOTTETOWN, P.E.I.*
Frederick Field, F.C.A.	*VANCOUVER, B.C.*
C. Hedley Forbes	*FREDERICTON, N.B.*
C. Bruce Hill, M.C.	*ST. CATHARINES, ONT.*
J. H. Mowbray Jones	*LIVERPOOL, N.S.*
S. N. MacEachern	*SASKATOON, SASK.*
J. R. Ouimet	*MONTREAL, QUE.*
L. Patrick, C.B.E.	*CALGARY, ALTA.*
D. Sprague, C.A.	*WINNIPEG, MAN.*

EX-OFFICIO

K. W. Taylor, C.B.E.	*OTTAWA* *Deputy Minister of Finance* *Member of the Executive Committee*

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J. R. Beattie, *Deputy Governor*
L. P. Saint-Amour, *Deputy Governor*
L. Rasminsky, C.B.E., *Deputy Governor*
R. B. McKibbin, *Deputy Governor*
W. E. Scott, *Executive Assistant to the Governors*
L. F. Mundy, *Secretary*
A. J. Norton, *Chief Accountant*
E. Metcalfe, *Auditor*

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P. D. Smith, *Deputy Secretary*
C. H. Richardson, *Deputy Secretary*
A. J. Bawden, *Assistant Secretary*
R. F. Archambault, *Administrative Assistant*
J. C. Nesbitt, *Personnel Officer*
Miss M. K. Rowland, *Personnel Officer*

Currency Division: P. B. Wooster, *Chief*
R. O. Blyth, *Deputy Chief*

Public Debt Division: H. W. Thompson, *Chief*
H. S. Holloway, *Assistant Chief*

RESEARCH DEPARTMENT

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G. K. Bouey, *Deputy Chief*
B. J. Drabble, *Assistant Chief*
G. E. Freeman, *Assistant Chief*
G. S. Watts, *Special Assistant*
S. V. Suggett, *Industrial Research Assistant*
S. J. Handfield-Jones, *Research Officer*
D. L. McQueen, *Research Officer*
Miss H. Costello, *Librarian*

SECURITIES DEPARTMENT

J. B. MacFarlane, *Chief*
A. Clark, *Assistant Chief*
D. J. R. Humphreys, *Assistant Chief*
J. T. Baxter, *Acting Toronto Representative*
T. G. Boland, *Montreal Representative*

FOREIGN EXCHANGE DEPARTMENT

W. A. Cameron, *Chief*
A. C. Lord, *Special Assistant*
P. Watt, *Montreal Representative*
W. G. Jones, *Toronto Representative*

AGENCIES

CALGARY	F. J. WILKS, *Agent*
HALIFAX	G. R. BONNER, *Agent*
MONTREAL	A. HUBERDEAU, *Agent*
	J. E. R. ROCHEFORT, *Assistant Agent*
OTTAWA	J. K. FERGUSON, *Agent*
REGINA	W. D. T. SHORTREED, *Agent*
SAINT JOHN, N.B.	E. L. JOHNSON, *Agent*
TORONTO	R. J. LILLIE, *Agent*
	D. D. NORWICH, *Assistant Agent*
VANCOUVER	W. D. FARRELL, *Agent*
WINNIPEG	E. T. W. DAVIES, *Agent*