Besner

BANK OF CANADA

ANNUAL REPORT OF THE GOVERNOR TO THE MINISTER OF FINANCE

AND STATEMENT OF ACCOUNTS

FOR THE YEAR *1964*

BANK OF CANADA *Ottawa 4*

February 26th, 1965.

The Hon. Walter L. Gordon, P.C.,
Minister of Finance,
Ottawa, Ontario.

Dear Sir,

In accordance with the provisions of the Bank of Canada Act I am transmitting herewith my report for the year 1964 and a statement of the Bank's accounts for this period which is signed and certified in the manner prescribed in the by-laws of the Bank.

Yours very truly,

L. Rasminsky

Governor

BANK OF CANADA

Report of the Governor — 1964

The Canadian economy moved vigorously ahead in 1964. Real output of goods and services rose by more than 6 per cent and non-farm production by over 7 per cent. Employment increased substantially more than the labour force and unemployment was reduced. There was an unusually large rise in productivity and a considerable increase in private investment. The deficit in our current account balance of payments again declined.

The monetary policy of the Bank in 1964 helped to maintain stability in Canada's external financial position and to enable the rising demand for credit associated with the growth of the economy to be satisfied without any tightening of credit conditions. There was in fact little change in the conditions of access to credit in the course of the year; long-term interest rates were slightly lower at the end of the year than at the beginning. Private money holdings rose by 7½ per cent; including Government deposits, the total money supply rose by 6 per cent.

The rapid expansion of economic activity resulted in a strong pressure of loan demand on the chartered banks. The Bank of Canada managed the growth of the chartered banks' cash reserves in such a way that a part of the resources needed to accommodate the 15 per cent increase in bank loans was obtained through a reduction in the chartered banks' holdings of Government securities and other liquid assets. The reduction in liquidity was not such as to prevent the banks from continuing to follow strong lending policies, but it brought them to a position where their lending policies could be expected to be sensitive to any appreciable further decline in liquidity.

The stability of credit conditions in Canada in 1964 in the face of the large private demand for credit was due in important measure to the improvement of $500 million in the budgetary position of the Government of Canada and the substantial reduction in its borrowing. Moreover, the maintenance by the Government of large cash balances during most of the year helped a great deal in the task of monetary management.

There was little change in interest rates in the United States in 1964, and although Canadian access to the capital market in that country was subject to some uncertainties while the United States Interest Equalization Tax was before Congress these did not have any major disturbing influence on credit conditions in Canada. During this period Canada received large amounts of foreign exchange from exceptional sales of grain to the Soviet Union and from inflows of capital in short-term forms. Moreover, it was generally expected that an exemption from the tax would in due course be provided for new issues of Canadian securities on the American capital market and this helped to maintain confidence in Canadian financial markets. The proclamation of the exemption in September resulted in a spurt of Canadian issues, but in the fourth quarter of the year there was a narrowing in the differentials between long-term interest rates in Canada and the United States and new placements by Canadians on the American market had fallen off by the end of the year.

Large-scale market intervention by the Bank of Canada to maintain relatively stable credit conditions was required only rarely in 1964. The principal occasion was on November 23, when the Bank of England announced an increase in its lending rate from 5 to 7 per cent. This action was taken prior to the opening of financial markets in North America and inevitably led to widespread speculation as to the nature of the response of the monetary authorities in the United States and Canada. In the Canadian market, where interest rates had been declining moderately since the summer, it was widely expected that the Federal Reserve rates would be increased, and the confidence of securities dealers and investors that current market levels in Canada could be sustained was severely shaken. Heavy selling of Government securities developed as soon as the market opened and the Bank of Canada intervened strongly to help stabilize the market and prevent an unduly sharp rise in interest rates. By 11 a.m. the Bank's purchases of Government securities amounted to $110 million and by the end of the day it had bought $159 million. An increase in the Federal Reserve rate from 3½ per cent to 4 per cent was announced as the market closed, and later that evening the Bank of Canada raised its own rate from 4 per cent to 4¼ per cent. Our action was designed to eliminate uncertainty in the market by giving a clear and immediate indication of the Bank's intentions, and to indicate that the narrowing of interest rate differentials between Canada and the United States which had been taking place was in accordance with the Bank's views. Market confidence was restored to the point where prices stabilized without further Bank of Canada support, and the moderate downward trend in Canadian interest rates was soon resumed.

*   *   *

We are now completing the fourth successive year of economic expansion in Canada. The gains over the period have been impressive. At the end of 1964 the real output of goods and services in Canada was running at a rate nearly 25 per cent higher than early in 1961 just before the expansion began. The increase in employment has been sufficient to absorb a considerable growth in the labour force and to reduce the seasonally adjusted unemployment rate from 7.7 per cent in the first quarter of 1961 to 4.4 per cent in the last quarter of 1964 (4 per cent in December). The deficit in our international current account has been reduced from about $1,250 million in 1960 to $450 million in 1964; even if one excludes the exceptional sales of grain to the Soviet Union, it is noteworthy that our current account deficit has not followed its historical tendency to expand during periods of rapid economic growth. The reduction in the current account deficit has made an important contribution to our economic expansion.

In appraising the performance of the Canadian economy during the past few years we should recognize that the international economic environment has been singularly favourable to us. The economics of nearly all of our principal trading partners, including the United States, Continental Europe and Japan, have been growing rapidly. The demand for many of our export products has been very strong—in the case of wheat exceptionally so. While the international economic situation still looks reasonably favourable, some of the main countries with which we do business are in balance of payments difficulties or are concerned with the "over-heating" of their economies and have taken steps to limit the expansion of demand. This suggests that gains from external factors may be more difficult to come by than has been the case during the past few years.

We should also recall that when the current expansion began early in 1961 there was a great deal of slack in the Canadian economy. The absorption of some of this slack helped to make possible the large growth in output which we have experienced and at the same time to moderate the upward pressure on costs and prices resulting from the substantial increases in demand. The margin of unused capacity in the Canadian economy has been considerably reduced as a result of the expansion of the last few years. In certain major industries there is for practical purposes no unused capacity, and in some geographical areas shortages of certain types of labour skill have appeared. It seems clear that the absorption of the remaining amounts of unused resources in the economy will be more difficult, and that we shall have to rely to an increasing extent on improving the adaptability of our growing resources in order to avoid serious bottleneck problems and price pressures. Even in 1964, when we were absorbing slack in the economy and when unemployment averaged 4.7 per cent of the labour force, the Consumer Price Index in Canada rose by nearly 2 per cent. While it is true that this increase was a relatively modest one by current international standards, it underlines the need to do everything we can to improve the performance of the Canadian economy in the years ahead.

Some important insights into the problems which the Canadian economy is likely to face over the balance of this decade are provided in the recently published *First Annual Review* of the Economic Council of Canada. The Council emphasizes that in the next five years Canada will experience a very rapid growth in its labour force—a growth more rapid than that of any other advanced country in the western world—and that the Canadian economy will have to grow very rapidly to provide employment opportunities for the large number of new entrants into the labour market and make the fullest use of its productive potential. It is clear that if the growth is to be sustained a special effort will have to be made to maintain price stability and to avoid balance of payments difficulties.

The mixture of economic policies most likely to achieve the kind of economic performance we want is complex and not easy to prescribe. Many things must work well at the same time. The main general instruments of public policy —fiscal policy, monetary policy and public debt management—must be used effectively. But these are by no means sufficient in themselves; indeed, excessive reliance on these general policies and the resulting neglect of the other policies that are required to encourage sustainable economic expansion has in many countries caused serious increases in prices and costs, critical problems in the balance of payments and periodic retardation of growth. In addition, therefore, to being concerned with the appropriate management of the level of over-all demand we must also be concerned with the efficiency with which our productive resources are used. The performance of the economy and our ability to attain our economic goals depend to a major degree on the levels of education and skill of our people, the flexibility and mobility of our resources, our eagerness to encourage research and apply modern technology to production, and the imagination and dynamism of our business enterprise.

In its Review, the Economic Council elaborates a particular pattern of growth which results, on the external side of the economy, in a projection involving a current account deficit in 1970 "in the order of $1.5 billion to $2.0 billion". Commenting on this projection for 1970, the Council says:

> ". . . . we consider a possible current account balance of payments deficit, and a corresponding net capital inflow, of this magnitude to be inappropriate as a standard of performance for the Canadian economy on a long-term, sustainable basis. In fact, we need policies, consistent with the attainment of other basic economic objectives, designed to achieve a more competitive economy, and hence a considerably lower current account deficit. Such a strengthening

> of the country's international payments position would also be appropriate in relation to certain other important ends—increased maturity of Canada as an industrial nation; the avoidance of vulnerabilities implicit in continued reliance on foreign capital inflows of very sizeable dimensions for balance of payments reasons; and the maintenance of assured national and international confidence in the management of our economic affairs."

I agree with this view. I would not regard a current account deficit of $1.5 billion to $2 billion in 1970 as acceptable. It is, to be sure, the case that to accommodate the expected growth of the labour force the Canadian economy will have to grow faster than the economies of the United States and most other industrial countries, and that if historical relationships were to prevail this rapid growth of output and income in Canada would be accompanied by a rapid growth of imports. If at the same time Canada's exports were to do little more than keep pace with the general growth of the markets to which they were being shipped, our current account deficit would indeed widen considerably. But in this respect the Canadian economy must do better than it has in the past. This means that we have to make continuous headway in achieving a greater penetration of export markets and in bettering our capacity to meet import competition. To improve the competitiveness of the Canadian economy we have to aim at large improvements in our productivity and at a performance in respect of price and cost stability that compares favourably with that of our principal trading partners.

A rapid increase in productivity and competitiveness requires the participation of all members of the community, and the willingness to accept the need for change and to respond to it in constructive ways. Governments must give a lead: they have to be concerned with the effects of all their policies on productivity, prices, and the country's international position. The rest of the community also has an important responsibility. Business must have the foresight, imagination and initiative to seek out and seize the opportunities that arise in a growing economy and to abandon old methods in favour of new rather than look for increased shelter for traditional methods that have ceased to be competitive. The whole community—Government, employers and employees alike—needs to recognize that the level of real income we can enjoy depends on our productivity and that the only way real incomes can be increased is through the more effective utilization of our resources. Unless we act in a way that takes full account of these facts there is danger that the efforts made to obtain the high levels of employment that we need will be frustrated by serious price instability and balance of payments difficulties.

The goals of high employment of a growing labour force, a strong external position, and price stability constitute an ambitious combination of objectives, but in my judgment they are not irreconcilable. In the short run, to be sure, conflict may arise: it is not difficult to think of situations in which, for a time, policies that stimulate the economy may weaken its external position, or conversely of situations in which the restoration of an impaired external balance requires policies that have a short-term braking effect on the domestic economy. But looking at the matter in a longer-term perspective one finds that the broad objectives we seek can be achieved together in a sufficiently dynamic and competitive economy. In our planning for the years ahead we need not, then, lower our sights by being prepared to accept inadequate growth, or erosion of the value of money, or high current account deficits. If our economy is productive and competitive enough we can achieve all our major objectives.

* * *

In my Report last year I commented at some length on the financial relations between Canada and the United States. During the past year and a half these have been greatly influenced by the Interest Equalization Tax and the exemption for new issues of Canadian securities agreed to by the United States. It will be recalled that in the Agreement of July 21, 1963 which provided for this exemption the Canadian authorities said that "it would not be the desire or intention of Canada to increase her foreign exchange reserves through the proceeds of borrowing in the United States".

It seems appropriate to summarize the experience to date with the operation of the Agreement. Before doing so, I wish to recall the basic rationale of the Canadian exemption.

Canada has a large current account deficit with the United States which exceeds our imports of capital from that country. When all of Canada's borrowings and other imports of capital from the United States have been used to pay for our net imports of American goods and services, there remains a balance owing to the United States. This is paid for out of our net earnings from trade with other countries, out of the proceeds of our current gold production, and out of our capital imports from other countries. If the United States took steps to cut its exports of capital to Canada sharply below the level needed to finance the deficit which remained after we had used all the non-American sources of finance referred to, we would be faced with a severe loss of reserves and with the inevitable need to cut our current account deficit. Since the whole of this deficit is with the United States and about 70 per cent of our imports come from that country, the impact of whatever steps we took would necessarily fall very largely on the United States, and that country would not have succeeded in improving its payments position. This is the basic rationale of the exemption.

It follows from this rationale that the actual amount of Canadian new-issue borrowing in the United States which is "appropriate" to achieve the intentions of the Agreement as quoted above cannot be fixed in advance. The "appropriate" amount of such borrowing can only be determined when taken in conjunction with all the other transactions that enter into our balance of international payments and affect our exchange reserves. These other transactions—imports and exports of goods and services, trade in outstanding securities, bond redemptions, direct investment inflows and outflows, short-term capital flows, etc.—vary considerably both seasonally and from year to year, and so therefore will the amount of new-issue borrowing that is consistent with reasonable stability in Canada's foreign exchange reserves.

I believe that the Agreement entered into 18 months ago has accomplished what the two governments had in mind. On the one hand, the existence of the Agreement enabled Canada to avoid disruptive adjustments, including reductions of its imports, which would necessarily have followed from a sharp curtailment of capital inflow and which would have seriously affected the United States. On the other hand we have not borrowed in the United States on a scale which has resulted in an increase in our foreign exchange reserves. These have developed as follows since just before the announcement of the Interest Equalization Tax:

June 30, 1963	—	U.S. $2,692 million
January 31, 1965	—	U.S. $2,668 million

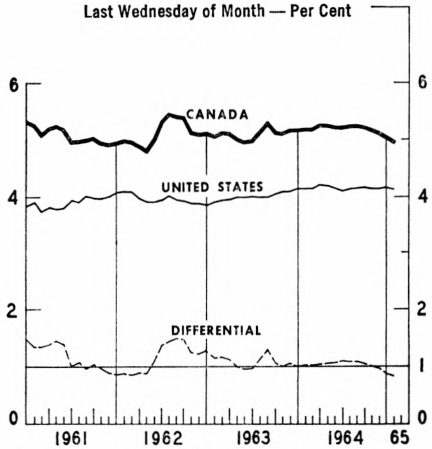
During this period, Canada paid off the indebtedness of U.S. $276 million to the International Monetary Fund which was incurred at the time of the exchange crisis of 1962. The repayment of this obligation was a necessary use of reserves. In addition, we extended $60 million of credit through the Fund at the time of the British drawing on the Fund last December and aequired an equivalent net creditor position in the Fund. From some points of view this creditor position can properly be regarded as an addition to our own official reserves of gold and U.S. dollars as shown above, but even taking this into account it is obvious that there has been no significant net change in Canada's foreign exchange reserves since mid-1963.

There have, of course, been some month-to-month variations in reserves. In general, they were below the June 1963 level until the autumn of 1964 when the implementation of the partial exemption from the Interest Equalization Tax was accompanied by a spurt of new Canadian issues in the New York market. This spurt of new issues was to be expected as access to the market by foreign borrowers had been uncertain for more than a year.

One of the important factors which influences the extent to which Canadians borrow in the United States is the difference between interest rate levels in the two countries. The relevant consideration is the difference in the rate of interest that the same borrower would have to pay in the two markets. There is no continuous series of quotations which provides a measure over time of the changes in this differential, but the inset diagram shows the changes in recent years in the spread between the average yields on long-term Canadian Government bonds in Canada and on long-term U.S. Government bonds in the United States. While this spread is larger than the difference between the rates of interest that any particular borrower having reasonably good access to both capital markets would have to pay, the changes in it provide an indication of the changes in the interest-rate inducement to Canadian borrowers to seek their funds abroad. It will be seen that the spread was less at the end of 1964 and early in 1965 than it had been for some years. No doubt this narrowing in the differential between interest rates in Canada and the United States was responsible in part for the falling off in new placements by Canadian borrowers in the United States capital market at the end of 1964.

LONG-TERM GOVERNMENT BOND YIELD AVERAGES[1]

Last Wednesday of Month — Per Cent



1. Average of yields on all outstanding direct issues due or callable in 10 years or more.

In February 1965 the President of the United States sent a message to Congress outlining a programme to reduce the balance of payments deficit of the United States. This programme is aimed mainly at reducing United States capital exports to levels which are more in line with her continuing large surplus on current transactions. The programme includes some extension of the area to which the Interest Equalization Tax applies but relies heavily on the voluntary co-operation of American corporations and financial institutions to produce the desired reduction in capital outflows. Detailed implementation of the programme has not as yet been worked out; no doubt this will be done in a way that reflects the basic economic arithmetic of the payments relations between Canada and the United States outlined above.

*   *   *

The international payments system was severely tested in the course of 1964 by the crisis in sterling, and short-term credits granted by a number of central banks to the Bank of England played an important part in meeting the situation.

A weakness in the British balance of payments which had been developing since the latter part of 1963 gave rise to heavy exchange losses after the summer of 1964. To help the British authorities defend sterling against speculation a number of central banks, including the Bank of Canada, collaborated in placing large lines of credit at the disposal of the Bank of England in September. The Bank of England already had a U.S. $500 million swap arrangement with the Federal Reserve System and another U.S. $500 million in central bank credits was arranged, of which U.S. $50 million was from the Bank of Canada and U.S. $450 million from European central banks. In November, when speculation against sterling intensified, we again joined with other central banks in bringing massive additional short-term assistance to the British authorities: the total commitments undertaken on this occasion amounted to U.S. $3,000 million, of which U.S. $1,000 million was from the United States and U.S. $200 million from the Bank of Canada.

The U.S. $50 million credit we made available in September had been entirely availed of by November. Along with the other special central bank credits arranged in September it was repaid and lapsed in December after the British drew U.S. $1,000 million from the International Monetary Fund. The U.S. $200 million credit made available by the Bank of Canada in November had been drawn on to the extent of U.S. $50 million at the end of the year. Amounts drawn bear interest based on short-term market rates.

I am pleased that Canada's circumstances were such that the Bank of Canada was able to participate in these impressive acts of international collaboration. We ourselves were the beneficiary of such co-operation at the time of our exchange crisis in 1962, when our reserve position was bolstered by short-term credits of U.S. $250 million from the Federal Reserve System and U.S. $100 million from the Bank of England. One of the most encouraging features of the development of the international monetary system over the past several years has been the close working relationship among central banks and their ability and willingness to provide financial support to each other in appropriate circumstances.

The central banks which have participated in these special credit arrangements are fully aware that they must be short-term in character. Their purpose is to help allay speculation against a currency by providing the country in question with time to initiate changes in policy which will bring its international accounts back into balance and time to arrange other credits, where necessary, to cover the period until these policy changes can exert their full effect. The International Monetary Fund is the international agency for the provision of medium-term credits and in this connection has developed facilities for judging the appropriateness of the policies being followed by the borrowing country.

* * *

In 1964 important reports on the international monetary system and the probable future need for liquidity were made by the International Monetary Fund and by the Group of Ten, i.e., the Ministers of Finance and Central Bank Governors of the ten countries (including Canada) which participated in the 1962 arrangement to supplement the resources of the Fund. These reports did not attempt to state final conclusions regarding the future evolution of the world payments and reserve system, but they provided a valuable appraisal of the existing system and directed attention to some problems requiring additional study. Both reports conclude that there is at present no general shortage of international liquidity and that the present international payments system provides a secure foundation on which to build. They recognize, however, that in the longer run the supply of gold and foreign exchange reserves might become inadequate in relation to the needs of the expanding world economy.

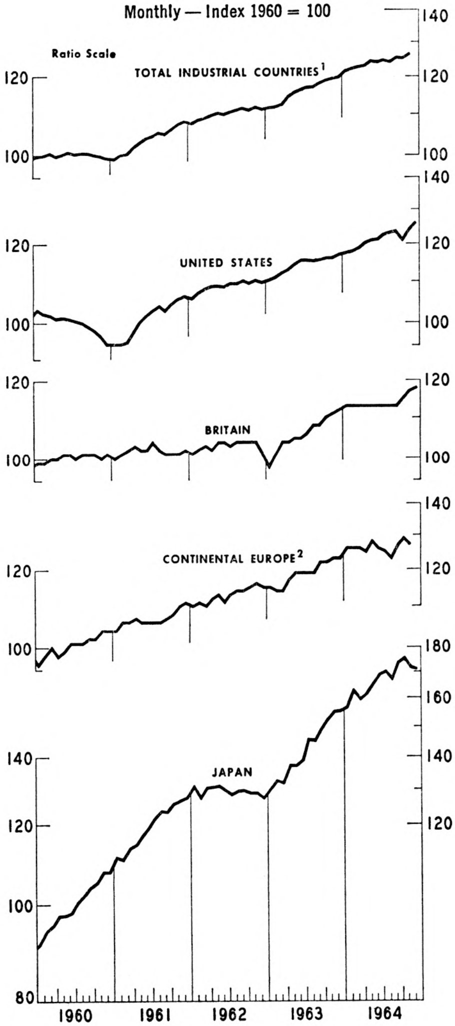
In these circumstances the International Monetary Fund has been examining various techniques by which it can make a further significant contribution toward meeting any such inadequacy. As an immediate step, the Fund, acting on a resolution of its Governors passed at the Annual Meeting in Tokyo last September, has decided to recommend a general 25 per cent increase in members' quotas and special increases in the quotas of a number of countries, including Canada, whose relative economic size has increased since the last revision of quotas. This increase in the resources of the Fund will significantly strengthen the international payments system.

In addition to the important contribution being made by the Fund, there is a continuous process of international consultation in other forums regarding the operation of the international monetary system. Officers of the Bank of Canada are participating, along with those of the Department of Finance, in these discussions. I have no doubt that further improvements in the international monetary system will continue to be made and that this will be done in an evolutionary way. We are unlikely to move at one step to a completely new system for determining the nature and amount of international liquidity nor are we likely to give up the progress we have achieved and revert to arrangements which have not worked satisfactorily in the past. Continuous attention will have to be given to the methods and conditions of supplying international liquidity, including the development in suitable amount and form of the reserve assets required to supplement gold, to ensure that the evolution of the international monetary system is orderly and appropriate. In the final analysis, of course, the satisfactory functioning of the system will continue to depend on the skill with which national authorities respond to changes in their international position by appropriate changes in their domestic policies.

The External Economic Environment

INDUSTRIAL PRODUCTION

Monthly — Index 1960 = 100



Seasonally adjusted.

1. Weights: United States 56, Canada 4, Britain 12, Continental Europe 25, Japan 3.

2. O.E.C.D. countries.

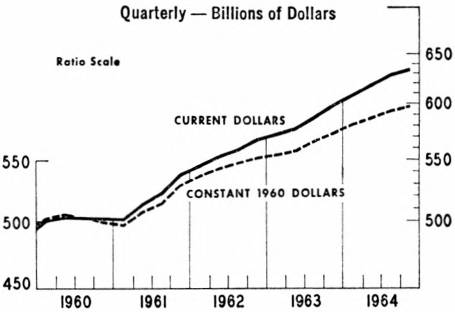
Canada has benefited from a highly favourable external economic environment in recent years. This continued to be the case in 1964, but the situation became somewhat more mixed in the course of the year. A number of industrial countries adopted measures to moderate the expansion of demand in order to deal with serious price increases; there were renewed pressures on the international payments positions of some major primary producing countries; and Britain encountered serious foreign exchange problems. On the other hand, vigorous expansion continued to be well sustained in some important industrial economies, notably the United States, Germany and Japan.

Of particular importance to Canada, the expansion in the United States continued through its fourth year. In 1964 total output rose by 6½ per cent in value and 4¾ per cent in real terms, somewhat greater increases than in the previous year. With the exception of residential construction, which weakened after the first quarter, all the major components of final demand contributed to the expansion over the course of the year. There was less accumulation of business inventories than in 1963 and inventories were lower in relation to sales at the end of

1964 than a year earlier. Employment increased by 2½ per cent during the course of the year and unemployment declined, averaging 5.0 per cent of the civilian labour force in the fourth quarter compared with 5.6 per cent in the corresponding period of 1963. Labour costs per unit of output remained virtually unchanged. The Consumer Price Index in December was 1.1 per cent higher than a year before and the general wholesale price index 0.5 per cent higher.

GROSS NATIONAL PRODUCT : U.S.A.

Quarterly — Billions of Dollars

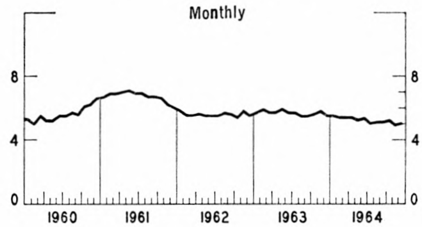


Seasonally adjusted at annual rates.

UNEMPLOYMENT : U.S.A.

As % of Labour Force

Monthly



Seasonally adjusted.

On the monetary side, the increase in currency and total bank deposits amounted to 8 per cent, slightly more than during 1963. After rising in the previous year, interest rates were relatively stable through most of 1964, though short-term rates rose further at thc time of the increase in the Federal Reserve discount rates in November. The major reductions in personal and corporate tax rates proposed by the Administration late in 1962 received final Congressional approval early in 1964. Government expenditures rose further in 1964 and the Federal Government deficit for the calendar year was substantially larger than in 1963.

The United States balance of payments situation continued to be a source of concern. Instead of improving substantially as was expected, the deficit on "regular" transactions, as financed by changes in official reserve assets[1] and in liquid liabilities to foreigners, and by receipts from certain special government transactions, was $3.0 billion, only $0.3 billion less than in 1963.[2] On the one hand, the commercial surplus on goods and services was running at a seasonally adjusted annual rate of $4.7 billion in the first three quarters of 1964, $2.4 billion higher than in the previous calendar year. On the other hand, there was a greatly expanded outflow of private capital, particularly in the fourth quarter. To improve the payments position, the Administration proposed early in 1965 a prolongation and broadening of the Interest Equalization Tax, voluntary restraints on capital outflows, and a reduction in duty-free tourist allowances.

---

[1] United States holdings of gold and convertible currencies and net I.M.F. position.

[2] It should be noted, however, that if one excludes liquid liabilities to non-official foreign holders, the deficit would be $1.3 billion, compared with $2.3 billion in 1963.

In Britain output had been growing at an unsustainably high rate in the closing months of 1963 and some mildly restraining measures were adopted early in 1964 to moderate the expansion of demand. Private investment outlays, however, continued to rise strongly and inventory accumulation, which had increased sharply during the second half of 1963, continued at a very high level. At the same time unemployment declined further and a shortage of skilled labour emerged in some highly industrialized areas. Delivery dates for both home and overseas orders tended to lengthen. Exports stopped growing while imports rose further from the high levels already reached at the end of 1963. The balance of payments, which had been deteriorating since mid-1963, was further strained by unusually large long-term capital outflows in 1964.

The impact of these adverse developments on Britain's foreign exchange reserves was largely offset through the early months of the year by a further rise in the sterling balances held by other Sterling Area countries and by short-term capital inflows. In addition, the existence of two external lines of credit—the U.S. $1,000 million stand-by with the International Monetary Fund and the U.S. $500 million currency swap arrangement with the Federal Reserve System —helped to sustain confidence in sterling.

By September, however, the weak external position was being reflected in declining reserves. In an effort to counter this development and to forestall potential speculative movements, the Bank of England activated the swap arrangement with the Federal Reserve System and in addition arranged further lines of credit with seven other central banks, including the Bank of Canada. In late October the newly elected Government issued a White Paper which contained an estimate for 1964 of a balance of payments deficit on current transactions and long-term capital movements combined of £700-£800 million. A 15 per cent surcharge was imposed on all imports except foodstuffs, basic raw materials and unmanufactured tobacco, and a system of tax rebates was announced to stimulate exports; in addition proposals were outlined for longer-term measures designed to increase the competitiveness of the British economy. A special Budget introduced on November 11 raised taxes on motor fuels effective immediately; in addition a number of adjustments in the taxes and benefits associated with various social welfare arrangements were announced and notice was given of more substantive changes in taxation and expenditure to take effect in the spring of 1965.

In the next few days sterling came under increased pressure and on November 23 Bank Rate was increased from 5 per cent to 7 per cent. When it became apparent that confidence had not been restored and that speculation against sterling was increasing, massive international assistance in the form of short-term credit facilities amounting to the equivalent of U.S. $3,000 million was made available by a number of central banks, including the Bank of Canada, together with the Export-Import Bank in Washington and the Bank for International Settlements.

Early in December Britain utilized its stand-by with the International Monetary Fund equivalent to U.S. $1,000 million and retired the drawings made under the September lines of credit with central banks. Towards the end of the year a "declaration of intent" was signed by the Government and representatives of business and labour with respect to the formulation of a prices and incomes policy; the machinery for implementing this policy was subsequently agreed upon and progress is being made towards setting appropriate guidelines. In announcing a three-month extension of the U.S. $3,000 million credit facilities in February 1965, the British authorities also referred to their intention during this period to seek an appropriate drawing from the International Monetary Fund. On February 22 it was announced that the import surcharges would be reduced from 15 per cent to 10 per cent effective April 27, 1965.

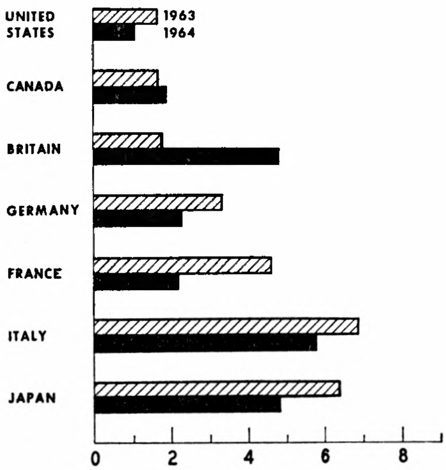
In most Continental European countries the economic scene during 1964 continued to be dominated by concern over unfavourable price and wage-cost developments, accompanied in some cases by balance of payments problems. Policies adopted to deal with these difficulties included measures to improve budgetary balances, reductions in import duties on selected items, price controls, tax rebates to stimulate exports and monetary restraints. In Italy measures were taken to contain inflationary pressures and restore the balance of payments position; there was a slowing down of output and an increase in unemployment in the course of the year. In France the comprehensive stabilization programme, which was put into effect late in 1963, was maintained in 1964 and there was a slackening in the growth of demand and output.

In Germany the momentum of expansion was well maintained, being stimulated in the early months of 1964 by exports and later by renewed strength in private investment.

The strong expansion of the Japanese economy which began in early 1963 continued throughout 1964. Various monetary measures were adopted early in the year to check a deterioration in the balance of payments, but towards year-end as the balance of payments position improved there was some relaxation of these measures.

CONSUMER PRICE INDICES

Percentage Increase : 12 Months Ending December

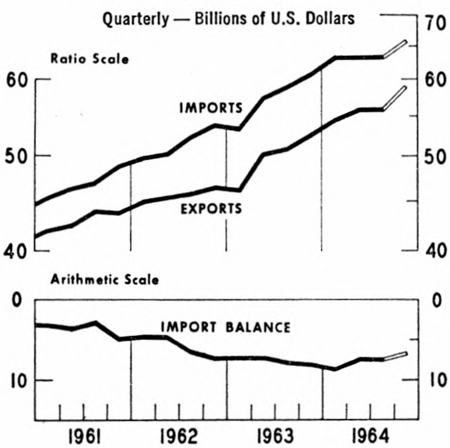


There were again marked differences in the behaviour of prices and costs among the industrial countries. In the United States, price and wage increases continued to be less than in the other main overseas industrial countries; they were also slightly less than in Canada during 1964. In Britain price and wage increases accelerated rapidly. A number of Continental European countries had a considerable measure of success in moderating increases in prices. Nevertheless, and notwithstanding increased efforts to implement incomes policies, wages continued to increase much more rapidly than productivity in most of these countries.

Price movements of internationally traded primary commodities, which had been generally upward from the latter part of 1962, became more mixed in 1964. Under the pressure of increased supplies the prices of a number of primary foodstuffs and natural fibres, notably sugar, coffee, cocoa and wool declined during the year. On the other hand, there was a strong rise in spot market prices of non-ferrous metals, occasioned by vigorous demand and uncertainties about the developing supply situation. By the end of 1964 spot metal prices had receded somewhat from their peak levels. The more varied price behaviour in 1964 inevitably led to a greater variation in balance of payments trends among individual primary producing countries than in 1963.

TRADE OF CONTINENTAL EUROPE[1] WITH ALL COUNTRIES

Quarterly — Billions of U.S. Dollars



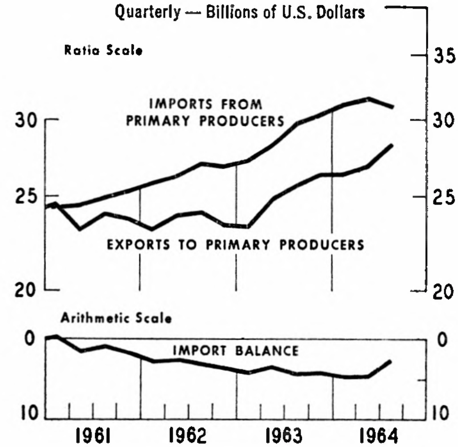
Seasonally adjusted at annual rates.
1. O.E.C.D. countries. Imports (c.i.f.), Exports (f.o.b.).

World trade grew more slowly during 1964 than during 1963. The trade balance of Continental Europe as a whole remained in deficit but the tendency of recent years for the deficit to widen was reversed as exports rose more than imports. During 1964 Italy achieved a substantial improvement in its trade balance as exports continued to rise while imports fell sharply;

France's imports and exports both stopped rising; Germany's exports, in contrast to 1963, rose only moderately and a strong upsurge in imports substantially reduced but did not eliminate the trade surplus. The United States achieved a further substantial increase in its already large commercial trade surplus while Britain's trade balance showed a marked deterioration over the year. As the inset chart shows, the tendency during the last two or three years for the industrial countries' imports from primary producing countries to rise more rapidly than their exports to these countries appears to have been reversed in the course of 1964, and after mid-year there was a pronounced adverse movement in the balance of trade of the primary producing countries.

TRADE OF INDUSTRIAL COUNTRIES[1] WITH PRIMARY PRODUCING COUNTRIES

Quarterly — Billions of U.S. Dollars



Seasonally adjusted at annual rates.
1. O.E.C.D. countries. Imports (c.i.f.), Exports (f.o.b.).

Against the background of a moderate reduction in their deficit on merchandise trade account in 1964 and a continued large net inflow of private capital, Continental European countries' official holdings of gold and foreign exchange rose by approximately U.S. $2 billion, about the same increase as in 1963. In addition, their net creditor position in the International Monetary Fund rose during 1964, reflecting in large measure the use of their currencies in the drawing by Britain. As previously noted, the decline in the United States reserve position, as measured by changes in official reserve assets plus changes in United States liabilities to official foreign institutions, was U.S. $1.3 billion. During 1964 Britain's gold and foreign currency holdings fell by more than U.S. $300 million, her indebtedness to the International Monetary Fund increased by U.S. $1,000 million and recourse was had as well to the short-term central bank credit facilities described. The increase in the reserves of the primary producing countries which had been so prominent a feature of reserve movements over the previous two years appears to have come to an end early in 1964. Reflecting in part the more mixed pattern of commodity prices, the reserve position of certain countries, including Australia and some of the other Sterling Area countries, remained strong until mid-year, but in the second half of 1964 most of the principal primary producers experienced reserve losses. In some of these countries, including India and Pakistan, the balance of payments position had become extremely difficult by the beginning of 1965.

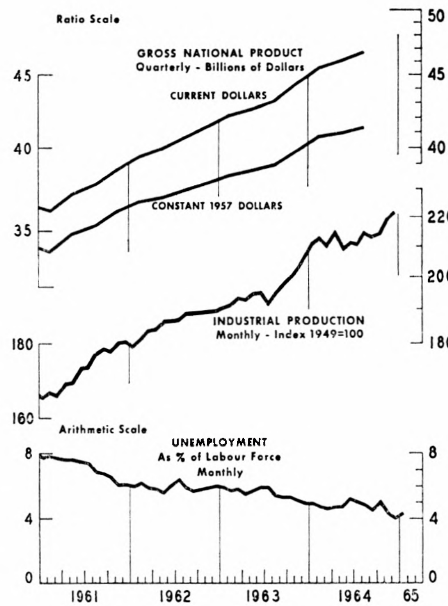
Economic Developments in Canada

The Canadian economy achieved large gains in 1964, though the rate of expansion varied considerably from quarter to quarter. There was an unusually large year-over-year increase in productivity, a further reduction of slack in manpower and plant capacity, and a major rise in private investment. For 1964 as a whole the Gross National Product was more than 8 per cent higher in current dollars or over 6 per cent higher after allowing for price change. A reduction in western grain crops from the record 1963 level resulted in a decline in farm output, but the volume of non-agricultural production rose by more than 7 per cent. This increase, the largest in any calendar-year since 1956, was associated with a rise of 4.4 per cent in non-farm employment and a gain of between 2½ and 3 per cent in non-farm output per person employed. Total unemployment fell from 5.5 per cent of the labour force in 1963 to an average of 4.7 per cent in 1964, and at the close of the year the seasonally adjusted unemployment rate touched 4.0 per cent for the first time since the spring of 1957. Consumer prices moved up a little more than in 1963 although increases in prices and costs in Canada continued to run below those occurring in most overseas industrial countries.

In the external accounts, a strong resurgence of merchandise imports was more than offset by a combination of heavy wheat exports to the Soviet Union and one of the largest gains in non-farm exports for some years. The net result was the fifth consecutive annual reduction in the deficit on current account; the deficit was $453 million in 1964 compared with $557 million in 1963.

The growth of total output and spending during the course of the year was uneven. Through the winter of 1963-64, the economy advanced rapidly under the impetus provided by a number of temporary stimuli. These included the federal Government's programme of winter house-building incentives, the initial impact of the large wheat sale to the Soviet Union, heavy rebuilding of depleted automobile inventories, and anticipatory buying of investment goods in advance of the rise in some federal sales taxes on April 1, 1964. With the waning or disappearance of these special factors in the spring, there was a levelling off in industrial production, retail sales, and other sensitive indicators of economic activity. In the late summer, expansion became more rapid again. Beginning in October a series of strikes in the North American automobile industry exerted some depressing influence on production and sales. The stoppages occurred first in the United States and led to interruptions in the flow of parts required for automobile assembly operations in Canada. Then in December a strike took place at the plants of one of the large Canadian producers. However, the effect of the automobile situation on total consumer purchasing was offset to a considerable extent by a strongly rising trend in other retail sales, and at the same time a renewed programme of winter housing incentives met with a good reception from builders.

OUTPUT AND UNEMPLOYMENT



Seasonally adjusted (G.N.P. at annual rates).

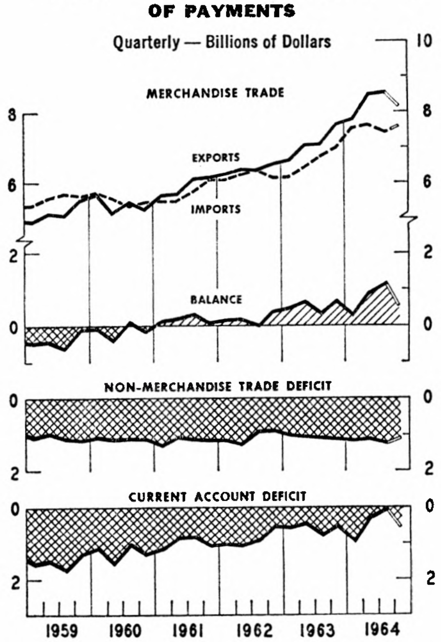
For the year 1964 as a whole, one of the notable features of the growth in the main types of spending was the increased relative importance of business investment in plant and equipment. From the upturn of activity in early 1961 until about mid-1963, this type of expenditure had made a relatively small contribution to the economic expansion. The most dynamic sectors had been merchandise exports, consumer expenditures on automobiles, housing construction, and provincial-municipal government expenditures on goods and services. In 1964 all of these types of spending were again substantially higher—for example, unit sales of new automobiles increased by 11 per cent in spite of supply interruptions, and housing starts rose by a roughly equivalent percentage to a total of 166 thousand units, largely reflecting the continuing boom in the construction of apartments and row housing. In addition, however, business investment in plant and equipment showed its first major rise in seven years. The increase amounted to about 18 per cent in current dollars and perhaps 14 or 15 per cent in volume terms, with part of the difference accounted for by higher sales taxes. Particularly large gains occurred in the forest products, metal mining, and iron and steel industries, in a number of branches of secondary manufacturing industry including textiles and transportation equipment, in the railway industry, and in urban transit enterprises and some other utilities. Of the various forces which helped to produce these increases, two of the strongest and most pervasive appear to have been the optimism of businessmen regarding future sales levels in domestic and export markets and the growing pressure of output on the available supply of efficient plant capacity. Among other things, the size of the 1964 investment programme appears to have reflected a considerable shrinkage in the relatively large amount of unused plant capacity which had characterized the Canadian economy for some years. As in 1963, investment in 1964 was facilitated by the continued ease of borrowing and a high level of corporate profits and internal cash flow. After-tax profits showed an increase between 1963 and 1964 of more than 10 per cent and the rise in business depreciation allowances was of roughly the same order.

Investment in non-farm business inventories also rose in 1964. The net accumulation amounted to more than $500 million, and was both larger and more continuous than in the three preceding years. Even so, the ratio of stocks to final sales showed no significant change.

In addition to the large year-over-year gains in purchases of automobiles already noted, there was a continued steady increase in consumer expenditures on other goods and services during 1964. Total consumer expenditures were nearly 7 per cent higher than in 1963.

The total revenue of the federal Government grew more rapidly than its expenditure in 1964, and the Government's net position, computed on the National Accounts basis, swung by about $600 million from a deficit in 1963 to a surplus in 1964.* The revenues of provincial and municipal governments also rose considerably, but in their case the accompanying increase in expenditure was of much the same magnitude, and their net deficit position did not greatly change.

CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS



Balance of payments basis; seasonally adjusted at annual rates.

In the balance of international payments the current account deficit declined by $104 million to $453 million in 1964. The table on the facing page shows that there was an increase in the surplus on merchandise trade in 1964 of almost $200 million. This was partly offset by a widening of nearly $100 million in the deficit on non-merchandise transactions. The current account deficit with the United States increased by about $475 million to more than $1,650 million, while the surplus with other countries rose by $580 million to $1,200 million.

---

* Details of federal Government finances are shown on page 39.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS ON CURRENT ACCOUNT

(millions of dollars)

	1963	1964
Merchandise trade: exports	7,082	8,238
imports	−6,579	−7,538
balance	+ 503	+ 700
Non-merchandise trade balance	−1,060	−1,153
Current account balance	− 557	− 453
of which: with the United States	−1,183	−1,659
with all other countries	+ 626	+1,206

There were unusually large annual increases in merchandise trade in 1964. On both the export and the import sides, however, the phases of faster growth had begun well back in 1963 and gave way to more irregular movements during the course of 1964.

Merchandise exports were 16 per cent higher in 1964 than in 1963. As the following table shows, exports of wheat and flour to the Soviet Union contributed substantially to the over-all increase, but other exports also rose impressively.

MERCHANDISE EXPORTS*

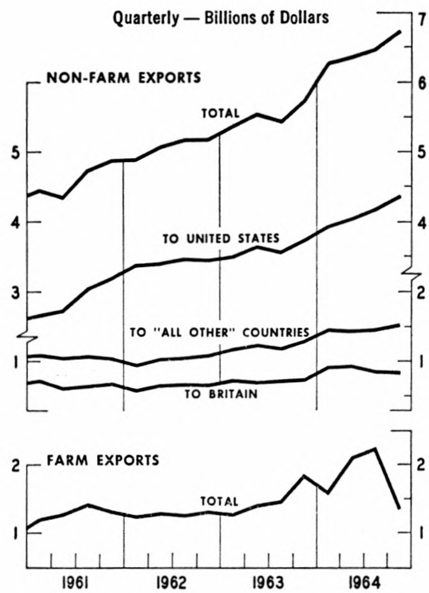
(millions of dollars)

	1962	1963	1964	Change 1963 to 1964
Farm exports:				
Wheat and flour to Soviet Union	—	192	305	+ 113
Other	1,270	1,305	1,513	+ 208
Non-farm exports	5,110	5,585	6,420	+ 835
Total	6,380	7,082	8,238	+1,156

*Balance of payments basis.

The increase in non-farm exports, which amounted to 15 per cent, was much the largest since 1955. As noted in the preceding section of this Report, some important overseas markets for Canadian non-farm products experienced slower economic growth in 1964, but this influence was far outweighed by several other factors, including faster expansion in the United States, strong world

MERCHANDISE EXPORTS



Trade of Canada basis; seasonally adjusted at annual rates.

demand and higher prices for a number of base metals, and further penetration of external markets by Canadian manufacturers. Exports of fully manufactured goods continued to increase very rapidly, rising by 34 per cent to a figure twice the 1961 level. At over $1.4 billion, they accounted for 22 per cent of non-farm exports in 1964. Shipments of uranium continued to fall off, but the increase in exports of other non-ferrous metals was the largest in some years. Another notable increase was in exports of iron ore to exceptionally buoyant markets in the United States.

Merchandise imports were 15 per cent above their 1963 total. In its initial stages, the rapid rise in imports which began in early 1963 contained a large element of rebound following the lifting of the temporary import surcharges imposed in 1962, but by the early months of 1964 it was drawing more of its strength from the faster growth of the domestic economy. Imports of industrial materials and consumer goods rose steeply. An even sharper increase occurred in imports of machinery and some other investment goods, reflecting both the particularly marked rise in this kind of domestic spending, to which reference has already been made, and its high import content. The slower growth of the economy following its winter spurt and a temporary dip in machinery and equipment spending were at least partly responsible for the levelling out in imports which became apparent in the late spring. In the fourth quarter of 1964, imports tended to be restrained by the reduced inflow of automobile parts.

The widening of the deficit on non-merchandise transactions from $1,060 million in 1963 to $1,153 million in 1964 largely reflected a swing back to a deficit of $52 million in the travel account following a small surplus in 1963. Net payments of interest to non-residents continued to rise in 1964. Dividend transfers were affected by a number of unusual factors, including some large non-recurring transactions, and on balance there was a slight decline in net dividend payments.

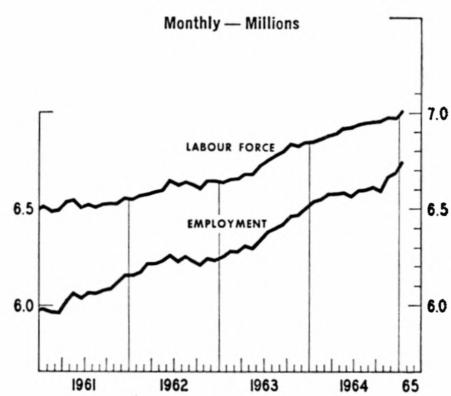
The pattern of growth in individual industries in 1964 reflected the increases in exports and in investment outlays which have already been summarized. The output of the mining industry and the more export-oriented branches of manufacturing rose considerably. Strong gains were general through nearly the whole range of investment-goods industries, although in some cases there were considerable fluctuations from quarter to quarter. Growth in the construction industry was also strong but irregular. The output of steel ingots rose by 11 per cent to an annual total of just under 9 million tons, and would have gone higher had more capacity been available. Shortages of reinforcing bars and some other steel items developed during the year. Production of passenger automobiles was nearly 5 per cent greater than in 1963, despite the interruptions to output in the latter part of the year. Production of synthetic textiles, cotton goods and chemicals continued to follow strongly rising trends, and there were notable increases also in the output of pulp and paper, processed foods, and trade and transportation services.

The 1964 wheat crop of 600 million bushels, though down from the record 723 million bushels harvested in 1963, was well above the long-term average. Total farm output and accrued farm income were lower than in 1963, but farm cash income was higher. This reflected heavy cash receipts from farmers' marketings of wheat, which included large amounts grown in the previous year, and substantial final payments on 1962 crops.

After a temporary flattening out in the previous year, farm employment resumed its long-term declining trend in 1964. The rising course of non-farm employment was quite closely related to the short-term changes of pace in the economy generally, with the rate of increase subsiding in the spring and picking up later in the year. In December 1964 non-farm employment was 4.2 per cent higher than a year earlier and total employment was 2.9 per cent higher. The labour force rose much less during the same period; the increase amounted to only 1.8 per cent compared with a rise of 3.0 per cent over the preceding 12 months. The change in the growth of the labour force occurred among women, and may have reflected, at least in part, a temporary pause following the unusually large absorption of women into paid employment in the summer and autumn of 1963.

LABOUR FORCE

Monthly — Millions



Seasonally adjusted by Bank of Canada.

The seasonally adjusted unemployment rate declined from 4.9 per cent of the labour force at the end of 1963 to 4.6 per cent in March 1964. It subsequently rose to 5.2 per cent in June, then moved fairly steadily downward to

4.0 per cent in December. As usually happens, the main changes in unemployment took place among men, whose rate of participation in the labour force is much less closely keyed than that of women to short-term fluctuations in available job opportunities. Most of the principal age groups in the male labour force, including the particularly fast growing categories of teen-agers and men in their early twenties, showed net declines in their unemployment rates over the course of 1964. A substantial difference persisted, however, between the relatively high unemployment rate for teen-agers and the rate for adult men.

As the following table shows, the five main economic regions of Canada all shared significantly in the firming of the labour market and the decline in unemployment.

UNEMPLOYMENT BY REGIONS
(per cent of Labour Force)

Years	Atlantic	Quebec	Ontario	Prairies	B.C.	Canada	
1961	11.1	9.3	5.5	4.6	8.5	7.2	
1962	10.7	7.5	4.3	3.9	6.8	5.9	
1963	9.5	7.4	3.8	3.6	6.3	5.5	
1964	7.8	6.3	3.3	3.1	5.3	4.7	
Fourth Quarters	**Not Seasonally Adjusted**						**Seasonally Adjusted**
1963	7.5	5.9	3.1	2.8	5.8	4.5	5.1
1964	6.4	5.1	2.8	2.4	4.5	3.8	4.4

The Consumer Price Index rose by 1.9 per cent during the course of 1964, compared with an increase of 1.7 per cent over the previous twelve-month period. There was a particularly marked increase in the prices of services other than shelter, notably automobile insurance and prepaid medical care. Divergent tendencies were apparent in the retail market for foods, where the price of sugar fell sharply but where prices of vegetables and some other foods increased more than during 1963. There were further declines in the prices of consumer durable goods.

Among non-consumer goods, there were above-average increases in the prices of some investment goods, partly due to higher sales taxes. There were also considerable rises in the prices of non-ferrous metal products, reflecting developments in world commodity markets. At the same time, however, stable or even declining prices continued to be in evidence over a fairly wide range of primary and intermediate products.

PRICE INDICES

	Percent change, 12 months ending:		
	Dec. 1962	Dec. 1963	Dec. 1964
Consumer prices:			
Food	2.6	2.8	1.4
Other non-durable goods	0.8	1.4	1.6
Durable goods	−0.3	−0.6	−0.2
Shelter	1.8	2.0	2.6
Services other than shelter	2.1	2.1	5.0
Total	1.6	1.7	1.9
Non-farm wholesale prices	1.7	1.5	1.4

Wages and salaries per man-hour in manufacturing industries were a little more than 3 per cent higher on average in 1964 than in 1963. The rise in output per man-hour between the two years was also about 3 per cent, so that there was little change in average labour cost per unit of output.

OUTPUT, WAGES AND SALARIES IN MANUFACTURING

	Indices, 1961 = 100			Percent increases	
	1962	1963	1964	1962/3	1963/4
Output per man-hour	103.4	105.9	109.1	2.4	3.0
Wages and salaries per man-hour	103.2	106.2	109.7	2.9	3.3
Wages and salaries per unit of output	99.8	100.3	100.5	0.5	0.2

A number of important collective bargaining agreements, the majority of them scheduled to run for two years or more, were signed during 1964. On average, the increases in basic wage rates provided for in such agreements were noticeably above the level of recent years.

Monetary and Financial Developments

Continued strong expansion of aggregate spending and income in Canada in 1964 was accompanied by a sharply rising demand for credit on the part of private business firms and households. There was a marked decline in government borrowing, however, and the increased demand for funds by private borrowers was met at about the same levels of domestic interest rates as in 1963. The growth in private money holdings which proved to be consistent with the maintenance of substantially unchanged credit conditions in 1964 was about 7½ per cent. Canadians drew somewhat less on the savings of non-residents than in the previous year.

Households and business firms in Canada borrowed substantially larger amounts from financial institutions and markets in 1964 than in 1963. With expenditure on new housing, automobiles and other durables rising strongly, there was an appreciably larger growth both in mortgage credit and in consumer credit than in the previous year. The expansion of business borrowing was particularly striking, and was related to sharply higher business spending on investment in plant and equipment and inventory accumulation. In total, the amount of new funds raised by private business in 1964 through net new issues of securities and borrowing from financial institutions was about $700 million larger than in 1963.

Provincial and municipal governments and their enterprises continued to expand their outlays rapidly in such fields as education, health, highways, urban transit, and hydro-electric power facilities, but their revenues were also rising strongly and their total borrowing in 1964 was somewhat less than in the previous year. The increase in the federal Government's revenues in 1964 exceeded the increase in its expenditures by about $600 million on a National Accounts basis, so that its net demands on private savings declined correspondingly and provided an approximate offset to the increased demands of private business and households.

The relatively stable credit conditions experienced in Canada in 1964 were reflected in the behaviour of market interest rates. The 91-day treasury bill rate continued to move within a range of 3.5 to 3.9 per cent during 1964 and was at about the same level at the beginning of 1965 as it had been a year earlier. The comparable U.S. treasury bill rate moved within an even narrower range until November, when it rose sharply following the increase in the Federal Reserve

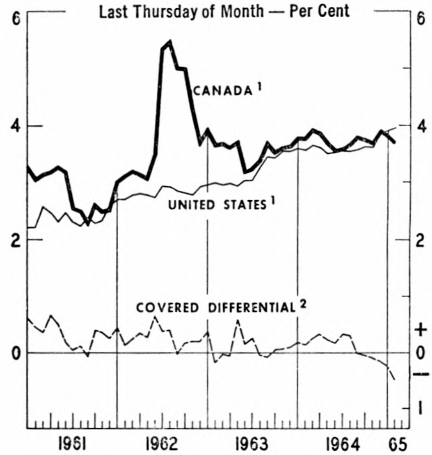
Banks' discount rate. It was appreciably higher in early 1965 than a year earlier. The consequent disappearance of the yield advantage of Canadian over U.S. treasury bills, in conjunction with a marked change in the forward rate of the U.S. dollar in Canada from a discount prior to August 1964 to a premium thereafter, made it possible for investors to obtain an appreciably higher return on short-term hedged investment in U.S. treasury bills than they could obtain on Canadian bills. There was also a reduction in the rates of return available on hedged investment in Canadian commercial and finance company paper compared with the yields obtainable on comparable U.S. paper.

Long-term Government bond yields in Canada moved within a narrow range of 5.15 to 5.25 per cent until late in the year and then declined to a level of just over 5 per cent at year-end. Comparable U.S. Government long-term bond yields moved within a range of 4.10 to 4.20 per cent and showed no decline on the year. By early 1965 the long-term interest rate spread between the two markets was as low as it had been at any time in recent years.

The assets and liabilities of Canadian financial and banking institutions continued to grow rapidly in 1964. The comparatively steady inflows of savings into life insurance companies and trusteed pension plans, which in recent years have enabled them to increase their assets at annual rates of roughly 8 per cent and 13 per cent respectively, appear to have continued at substantially unchanged rates in 1964. In the twelve months ending September 1964, the assets of trust companies increased by 17 per cent, those of mortgage loan companies by 24 per cent, and those of sales finance and consumer loan companies by 20 per cent.

TREASURY BILL YIELDS

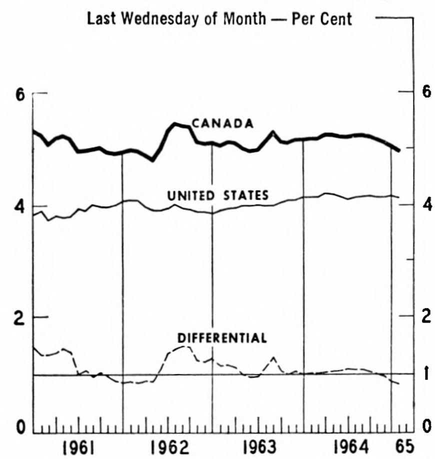
Last Thursday of Month — Per Cent



1. Thursday closing mid-market quotations; true yield calculated on a 365-day basis.
2. Yield differential adjusted to include cost of forward exchange cover.

LONG-TERM GOVERNMENT BOND YIELD AVERAGES[1]

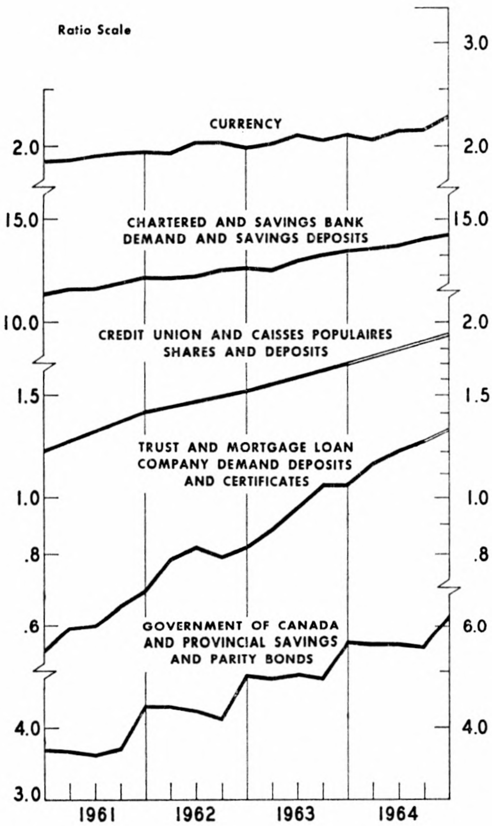
Last Wednesday of Month — Per Cent

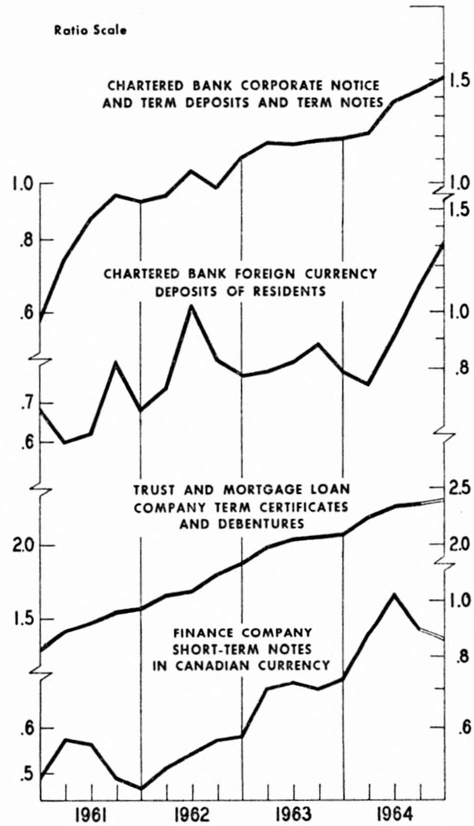


1. Average of yields on all outstanding direct issues due or callable in 10 years or more.

GENERAL PUBLIC HOLDINGS OF CERTAIN FINANCIAL ASSETS

Billions of Dollars





The size of the savings inflows into these and other institutions in 1964 helped to ensure an ample supply of funds for mortgage lending and real estate development, business and consumer loans, and substantial acquisitions of provincial, municipal and corporate securities.

Vigorous competition among Canadian financial institutions in 1964 for term funds from corporations, institutions, and other holders of large balances was reflected in a particularly rapid increase in their liabilities to Canadians in forms such as term deposits and notes, deposit certificates and debentures. A smaller increase occurred in their demand and personal savings deposit liabilities to Canadians, which rose by 7½ per cent in 1964 as they did in 1963.

GENERAL PUBLIC HOLDINGS OF CERTAIN FINANCIAL ASSETS

(billions of dollars)

	End-1963	End-1964*	Percentage Increase 1963	Percentage Increase 1964
Currency, demand and savings deposits				
Currency outside banks	2.1	2.3		
Chartered bank demand deposits	4.4	4.7		
Chartered bank personal savings deposits	8.4	8.9		
Quebec savings bank deposits	0.3	0.4		
Government savings institutions' deposits	0.2	0.2		
Credit unions and caisses populaires shares and deposits	1.7	1.9		
Trust company demand deposits and certificates	0.8	1.0		
Mortgage loan company demand deposits and certificates	0.3	0.3		
Sub-total	18.3	19.7	7.6	7.6
Other financial assets				
Chartered bank corporate notice and term deposits and term notes	1.2	1.5		
Chartered bank foreign currency deposits of residents	0.8	1.3		
Finance company short-term notes in Canadian currency	0.7	0.9		
Trust company investment certificates	1.2	1.4		
Mortgage loan company debentures	0.8	1.0		
Canada Savings Bonds	5.1	5.6		
Provincial savings and parity bonds	0.5	0.6		
Government of Canada treasury bills	0.4	0.3		
Government of Canada market bonds under 3 years to maturity	1.8	1.4		
Total (currency, deposits and other financial assets)	30.9	33.6	8.1	8.9

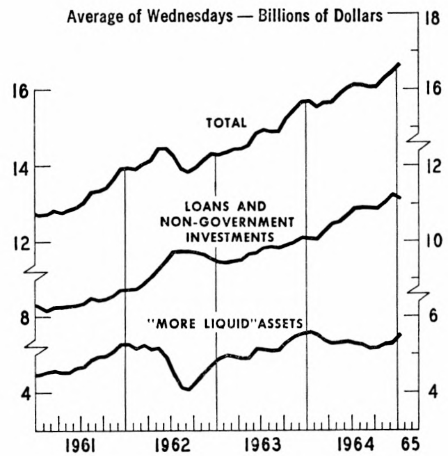
*Partly estimated.

CHARTERED BANKS. The total of the chartered banks' Canadian assets plus their net foreign assets increased by $825 million or 5.3 per cent during 1964. Their "more liquid" assets* declined by about $300 million. As a proportion of total chartered bank assets they fell from 35.4 per cent in December 1963 to 31.9 per cent in December 1964, with most of the decline occurring in the first part of the year. There was no indication that this decline inhibited the banks from continuing to compete aggressively for loans during 1964, although it brought them to a position where their lending policies could be expected to be sensitive to any appreciable further decline in their liquidity. In 1964 the chartered banks' total Canadian dollar loans increased by $1,135 million or 14 per cent, with sharp increases of 25 per cent in unsecured personal loans and 13 per cent in business loans.

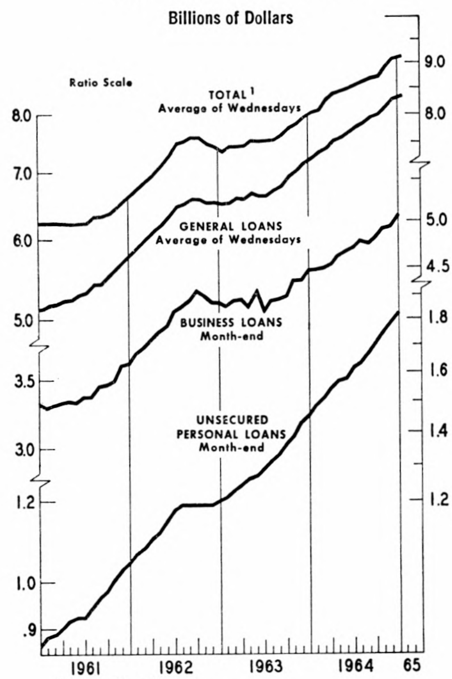
---

* Government securities, loans to securities dealers, net foreign assets and cash reserves.

CHARTERED BANK ASSETS

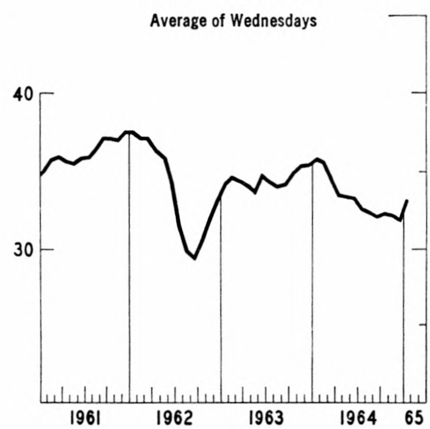


CHARTERED BANK LOANS



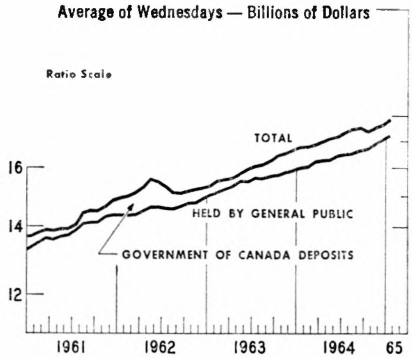
Seasonally adjusted.
1. Excludes day-to-day, call and C.S.B. loans.

CHARTERED BANK "MORE LIQUID" ASSETS As % of Total Assets



The total amount of currency outside banks and Canadian dollar chartered bank deposits increased by $980 million, or 5.8 per cent, during 1964. Within this total, there was a decline of $185 million in Government of Canada bank balances and an increase of $1,165 million, or 7.3 per cent, in the general public's money holdings.

CURRENCY OUTSIDE BANKS AND CHARTERED BANK DEPOSITS



Seasonally adjusted.

The total foreign currency assets and liabilities of the chartered banks increased sharply during 1964 and amounted to $5.2 billion at the end of the year compared with $4.2 billion a year earlier. There was a particularly striking growth in the banks' foreign currency business conducted with residents of Canada. Foreign currency deposits of residents increased from $800 million at end-1963 to $1,300 million at end-1964. During the previous year they had shown virtually no change.

The banks' foreign currency assets showed large increases in all categories other than call loans. The bulk of these assets—loans, securities and deposit balances with banks abroad—reflect the re-investment in the United States and other countries of the foreign currency balances attracted by the chartered banks. Foreign currency loans to residents of Canada on the books of Canadian branches increased by $150 million in 1964 and amounted to $550 million at the end of the year.

Details of chartered bank assets and of currency and chartered bank deposits are given in Appendix Tables I and II.

BANK OF CANADA OPERATIONS. As 1964 opened, an acceleration of the economic expansion was occurring in Canada and the outlook for the remainder of the year seemed strong. There was much discussion of the possible need for higher interest rates in the United States depending on the course of its balance of payments and domestic economic developments. In Canada a strong expansion of chartered bank loans was continuing, and the cash reserve policy followed by the Bank of Canada resulted in this loan increase being financed in part by a reduction in chartered bank holdings of Government securities and other liquid assets. The latter had been increasing in the closing months of 1963. From the end of December 1963 to the end of March 1964 the ratio of the chartered banks' "more liquid" assets to their total assets declined from 35.4

per cent to 33.8 per cent. The treasury bill rate moved up from 3.74 per cent to 3.88 per cent, and long-term yields also rose a little in Canada, as they did in the United States.

In early April a moderate decline occurred in the U.S. treasury bill rate, while on the domestic economic front in Canada the summer months were expected to bring some slackening in the rapid pace of expansion. In view of the decline in chartered bank liquidity which had occurred earlier in the year, the Bank managed its cash reserve policy in such a way that the banks found themselves able to accommodate the continuing strong loan expansion without further reductions in the amount of their liquid asset holdings, and short-term interest rates in the Canadian market declined from early April to early June.

By mid-year it appeared that rapid economic expansion would soon be resumed and the continued rapid increase in chartered bank loans was again accompanied by some reduction in their holdings of money market assets. By mid-August the bill rate was back up to 3.82 per cent from its mid-June low point of 3.53 per cent, and the Bank took steps to keep this movement from going further than was considered desirable.

The passage of the U.S. Interest Equalization Tax Act and the proclamation of the exemption for new Canadian bond issues was accompanied by a spurt of Canadian borrowing in the New York market in late summer and early autumn which raised the possibility that excessive capital inflows might develop. While the outlook for domestic economic activity was strong, it did not seem to call for restraining action, and cash reserve management permitted the chartered banks' money market assets to rise moderately in the last quarter of 1964. There was also an appreciable narrowing of interest rate differentials between the Canadian and United States markets.

On the morning of November 23 following the overnight announcement of a 2 per cent increase in the British Bank Rate a wave of selling hit the Canadian securities market, in the expectation, correct as it turned out, of a ½ per cent increase in the Federal Reserve discount rate that afternoon. To help stabilize the market the Bank of Canada purchased securities during the day amounting in total to $159 million. That night the Bank Rate was increased by ¼ per cent, and a statement was issued as follows:

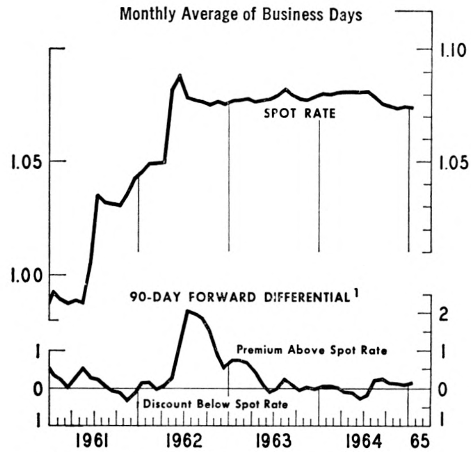
> "The Bank of Canada announced tonight that the Bank Rate, which had been 4 per cent since August 1963, has been increased to 4¼ per cent effective immediately.
>
> In announcing the change, the Governor, Mr. Louis Rasminsky, said the Bank wished to eliminate uncertainty in Canadian financial markets following changes in Bank Rates in the United Kingdom and United States and described the new rate as one which was appropriate to the needs of the domestic Canadian economy and Canada's international financial position."

Market confidence was restored following these actions and by year-end the prices of long-term Government bonds in Canada had risen to the highest levels of the year.

* * *

From September 1963 to July 1964, the period covered by the Russian wheat contract, the forward exchange rate for the U.S. dollar in Canada had tended to decline below the spot rate, an unusual rate relationship by the standards of past experience and one which reinforced any tendency for the spread between Canadian and U.S. short-term interest rates to attract capital inflows. On occasion during this period the Bank of Canada, acting as agent for the Exchange Fund, conducted operations in the swap and forward exchange market designed to provide some support for the forward rate on U.S. funds in Canada, and thus to reduce the return on hedged short-term investment inflows of U.S. funds into Canada. In August 1964 the U.S. dollar forward rate returned to a premium, and there was little intervention in the forward market thereafter.

U.S. DOLLAR IN CANADIAN FUNDS



1. Expressed as a percent per annum.

* * *

The credit facilities made available by the Bank of Canada to the Bank of England from September onward are mentioned earlier in the Report. When the Bank of England drew on these facilities the Bank of Canada purchased United States dollars from the Exchange Fund Account and deposited them with the Bank of England. The Government used the Canadian dollars received from its sale of U.S. dollars to the Bank of Canada to purchase Government securities from the Bank for its Securities Investment Account. Thus the drawings by the Bank of England involved an increase in the Bank of Canada's holdings of foreign assets and a reduction in its holdings of Government securities, with no net effect on the cash reserves of the chartered banks.

* * *

A summary of the Bank of Canada's transactions in Government of Canada securities during 1964 is given in the table on pages 36 and 37. It will be seen that most of the Bank's net purchases from the market consisted of treasury bills and near-by bond maturities. A substantial proportion of the bonds purchased

BANK OF CANADA NET TRANSACTIONS IN GOVERNMENT SECURITIES IN 1964

(delivered basis — par values in millions of dollars)

Net purchases from (+) or net sales to (−) Investment dealers and banks

	Treasury bills	Bonds[1] 2 & Under	2 to 5	5 to 10	Over 10	Sub-total: bills and bonds	Securities under PRA
Jan.	− 16	− 27	− 13	−2	− 1	− 59	− 45[2]
Feb.	+ 47	+ 26	− 36	−	−	+ 37	−
Mar.	+ 16	+ 21	−	+1	+ 9	+ 47	−
Apr.	− 3	+ 19	−	−	−	+ 16	+ 5
May	− 1	+ 26	− 2	−3	−	+ 20	− 5
June	+ 5	+ 36	− 10	−6	−	+ 25	−
July	+ 96	+ 30	−	−	−	+126	+ 13
Aug.	+ 46	+ 46	−	−	−	+ 92	− 13
Sept.	− 12	−	−	−	−	− 12	−
Oct.	− 22	+ 85	− 51	−	−	+ 12	−
Nov.	+ 55	−	−	−	+ 45	+100	−
Dec.	+ 15	+ 71	− 5	+6	−	+ 87	+100[2]
Total	+226	+333	−117	−4	+ 53	+491	+ 55

(1) Classified by years to maturity at time of transaction.
(2) Special PRA's.
(3) These net purchases of new issues dated December 1 were offset by sales to Securities Investment Account in November and early December of the issue maturing December 15.

were acquired in exchange for issues of somewhat longer maturity supplied out of the Bank of Canada's allotment of new issues and its holdings of existing issues. The Bank's transactions in the long-term market were small in total and consisted mainly of purchases in support of the market on November 23. Large purchases of shorter-term bonds and bills also occurred at the same time, including purchases of newly issued bonds not scheduled for delivery until December. It will be noted that on balance the Bank's substantial net purchases from the market during 1964 and its net purchases of new issues from the Government were very largely offset by net sales to Government and other client accounts. The fact that the Government had relatively large cash balances available for short-term investment during 1964 was an important factor in enabling the Bank to resist substantial market disturbances without creating serious difficulties in its cash reserve management.

* * *

A technical innovation introduced in December 1963 to minimize the scale of the open market operations required to offset seasonal currency movements during December and January—namely, the use of one-month purchase and resale agreements with money market dealers—was developed further in December

Net transactions with Government and other accounts				
Purchases (+) of new issues less matured holdings		Net sales (−) to Securities Investment Acct.	Net sales (−) to other Govt. and client accounts	Net change in total holdings
Bills	Bonds			
− 1	–	− 40	− 37	−181
+ 22	− 30	+ 20	− 15	+ 35
+ 71	–	− 25	− 24	+ 69
+ 29	–	− 40	− 18	− 9
− 10	− 25	–	− 14	− 34
+ 5	–	–	− 23	+ 6
+ 19	+ 23	–	− 20	+160
+ 19	–	−110	− 29	− 40
+ 32	–	− 20	− 29	− 29
+ 23	− 3	− 20	− 43	− 31
+ 40	–	−100	− 19	+ 21
− 13	+113(3)	−209	− 21	+ 56
+237	+ 78	−544	−292	+ 25

1964, when a total of $100 million was placed by competitive tender. A related change was made in the procedure for transferring the Bank's net earnings to the account of the Receiver General: such transfers were made at various times through the last nine months of 1964 instead of in several large instalments during the month of December as in recent years.

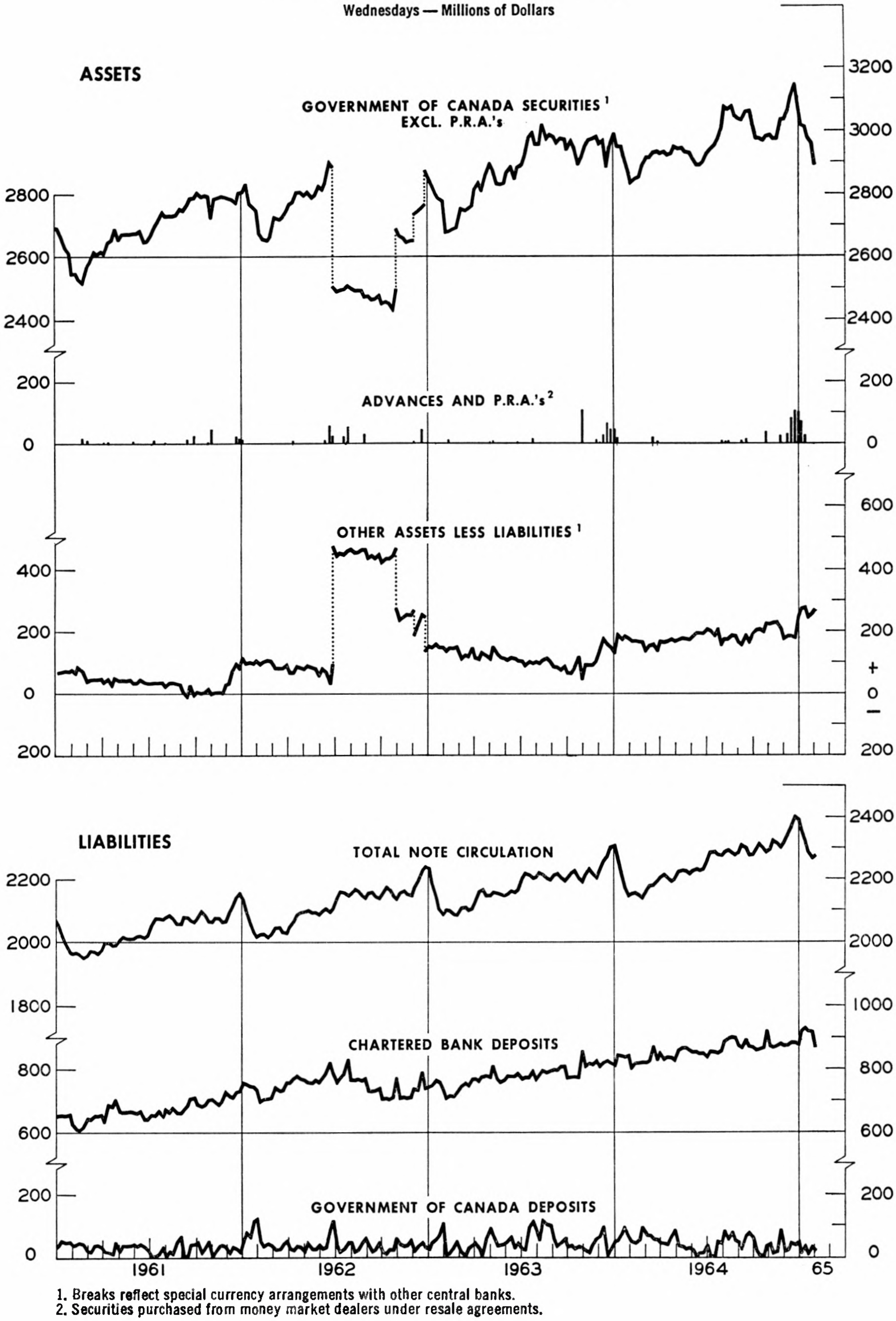
* * *

Bank of Canada advances to banks were outstanding on fifteen business days during 1964 compared with twenty business days in 1963. The maximum amount outstanding on any one day was $0.4 million. Excluding the special purchase and resale agreements mentioned earlier, the Bank of Canada held securities purchased from money market dealers under resale agreements on forty-nine business days in 1964 compared with thirty-seven days in the previous year. The maximum amount outstanding on any one day was $55 million and the daily average for the year was $2.4 million, the same as in 1963.

The assets and liabilities of the Bank of Canada at December 31, 1964, together with comparative figures for December 31, 1963, are set forth in the balance sheet at the end of this Report. Week-to-week changes in the main balance sheet items are shown in the chart on page 38.

BANK OF CANADA ACCOUNTS

Wednesdays — Millions of Dollars



1. Breaks reflect special currency arrangements with other central banks.
2. Securities purchased from money market dealers under resale agreements.

GOVERNMENT OF CANADA FINANCE. The following table shows the Government's budgetary balance on revenue and expenditure account, the main adjustments made in deriving its balance as calculated in the National Accounts, and the changes in its financial assets and liabilities which reflect the Government's net saving or dis-saving as calculated on this basis.

GOVERNMENT OF CANADA FINANCIAL ACCOUNTS

(millions of dollars)

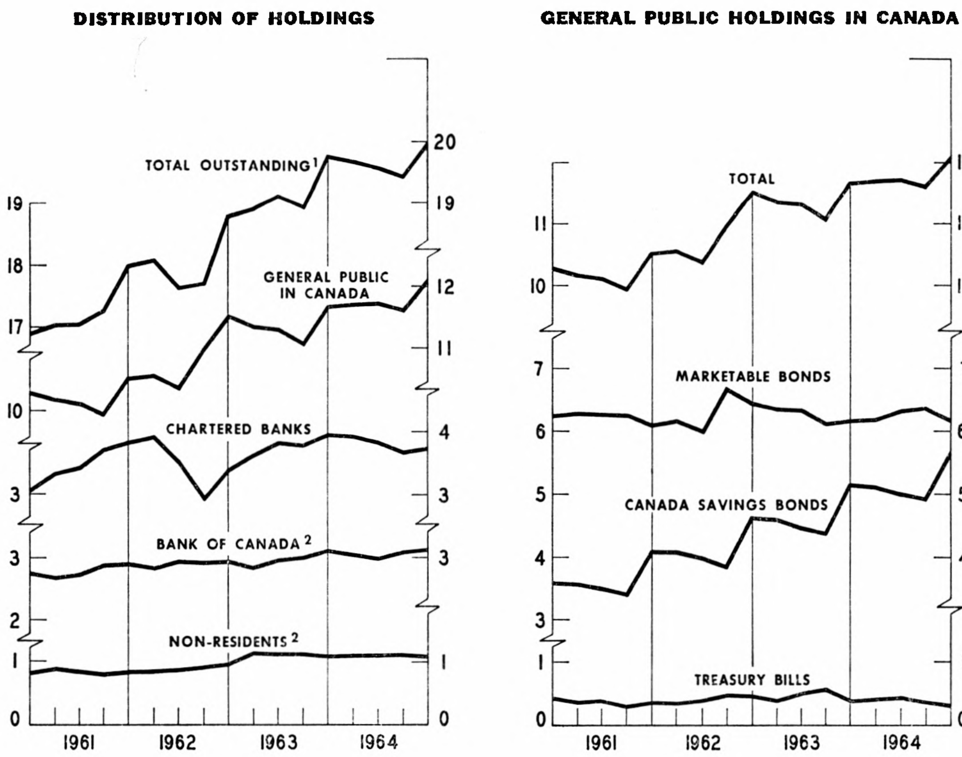
	Calendar 1963	Calendar 1964
Budgetary balance	−633	−153
Adjustments from budgetary to National Accounts basis: (plus sign indicates items added to budgetary revenue or deducted from expenditure, minus sign the reverse)		
Government employee pension fund contributions and interest earnings, less pension payments	+295	+316
Unemployment insurance and old age security fund receipts, less disbursements	−142	− 47
Capital assistance to non-defence industry	+ 56	+ 80
Increase in corporate tax liabilities, less collections	+ 25	−104
Disbursements of other government funds and agencies, less receipts under budgetary appropriations	+ 1	+109
Reserves and write-offs	+ 85	+118
All other adjustments (net)	+ 35	+ 10
National Accounts balance	−278	+329
Financing: uses (+) and sources (−) of funds		
Funds advanced to Government lending agencies(1)	+150	+325
Funds from sale of Northern Ontario Pipelines	−108	-
Funds repaid or lent to International Monetary Fund	+ 85	+265
Investment of Columbia River funds in U.S. securities	-	+219
Change in accrued corporate tax liabilities less collections	+ 25	−104
Funds advanced to Exchange Fund	+ 35	+ 48
Increase (−) in direct and guaranteed debt held outside Government accounts	−976	−195
Change in Canadian dollar bank balances	+470	−307
Change in all other assets and liabilities (net)	+ 41	+ 78
Total	−278	+329

(1) Central Mortgage and Housing, Export Credits Insurance and Farm Credit Corporations.
Source: Canada Gazette, "Monthly Statement of the Government's Financial Operations". Adjustments to National Accounts basis are Bank of Canada estimates.

Government of Canada direct and guaranteed securities outstanding (excluding Government account holdings) increased by only $200 million in 1964 compared with an increase of close to $1,000 million in the previous year. Chartered bank holdings, which had risen by $560 million in 1963, declined by $230 million in 1964. Holdings of the non-bank public in Canada, which had risen by $150 million in the previous year, showed a further increase of $410 million in 1964. The public's holdings of Canada Savings Bonds increased by $480 million, but there was a decline of $80 million in its treasury bill holdings and virtually no change in its holdings of market bonds.

GOVERNMENT OF CANADA SECURITIES

Quarterly — Billions of Dollars



1. Excludes holdings of Government accounts.
2. Excludes the effects of security transactions involved in special currency arrangements between the Bank of Canade end other central banks.

FINANCIAL TRANSACTIONS OF CANADIANS WITH NON-RESIDENTS. Earlier sections of this Report have commented in some detail on the behaviour of particular capital account items in our balance of payments in 1964. Details of the main items in the capital account are given in Appendix Table III. In the aggregate, the net use of non-resident savings by Canadians declined from $557 million in 1963 to $453 million in 1964.

Long-term capital inflows increased from $613 million in 1963 to $727 million in 1964. Sales of new and outstanding Canadian bonds to non-residents rose, as did retirements of maturing issues held by non-residents; the net inflow from these transactions increased by about $70 million. There was also a smaller net repatriation of Canadian stocks. Foreign direct investment in Canada, which had been declining since 1961, was further reduced in 1964. Transactions connected with the Columbia River financing had offsetting effects on the balance of payments in 1964; the total payment by the United States authorities amounted to $274 million but the Government of Canada invested $220 million of this in medium-term non-marketable United States Government securities and the remainder was used by the province of British Columbia to repay outstanding U.S. debt. The net inflow of short-term capital remained unchanged at about $90 million; sales of Canadian finance company paper to non-residents increased, but there was an offsetting accumulation by Canadian residents of foreign bank balances and other short-term funds.

Official holdings of gold and United States dollars rose by U.S. $79 million in 1964. Canada discharged her obligation to the International Monetary Fund which had amounted to U.S. $196 million at the beginning of the year and in December acquired a net creditor position of U.S. $60 million with the I.M.F. through our participation in the British drawing. Of this amount, the equivalent of U.S. $45 million came from the Fund's holdings of Canadian dollars, and the equivalent of U.S. $15 million was Canada's contribution under the first activation of the General Arrangements to Borrow concluded in 1962 between the I.M.F. and the Group of Ten countries to supplement the resources of the Fund in case of need.

APPENDIX TABLE I

CHARTERED BANK ASSETS

(monthly average of Wednesdays — millions of dollars)

	Dec. 1964	Increase or decrease (−) during: 1 Q	2 Q	3 Q	4 Q	Year 1964	Year 1963
Bank of Canada notes and deposits	1,284	2	30	26	5	62	71
Day-to-day loans	216	−75	64	30	−10	9	3
Treasury bills	1,218	−79	18	−109	68	−102	155
Government bonds	2,473	72	−160	−55	−33	−177	493
Net foreign assets	−84	−44	−30	−45	22	−98	99
Call loans	149	−24	16	−17	45	20	−13
Sub-total: "more liquid" assets	5,256	−149	−62	−170	96	−286	808
Loans to provinces	33	−10	−5	15	−11	−11	2
Loans to municipalities	349	44	−44	−5	49	44	57
Loans to grain dealers	143	76	−18	−108	7	−44	−132
Canada Savings Bonds loans	208	−64	−58	−55	179	2	−3
Loans to instalment finance companies	274	−19	7	19	17	25	−15
General loans	8,204	108	546	355	109	1,118	608
(Sub-total: loans)	(9,210)	(136)	(427)	(222)	(350)	(1,135)	(517)
Insured mortgages	850	−15	−12	−8	−7	−42	−15
Provincial securities	369	−6	−12	−11	6	−23	−8
Municipal securities	310	13	11	2	−4	23	33
Corporate securities	478	1	29	9	−21	17	11
Sub-total: "less liquid" assets	11,217	130	443	214	323	1,111	537
Total assets	16,473	−19	381	44	420	825	1,345
SEASONALLY ADJUSTED							
Total loans(1)	9,075	319	235	206	383		
General loans	8,271	251	277	250	350		
Business loans(2)	5,061	62	173	125	231		

(1) Excludes day-to-day, call and C.S.B. loans.
(2) Month-end figures.

APPENDIX TABLE II

CURRENCY OUTSIDE BANKS AND CHARTERED BANK DEPOSITS

(monthly average of Wednesdays — millions of dollars)

	Dec. 1964	Increase or decrease (–) during: 1 Q	2 Q	3 Q	4 Q	Year 1964	Year 1963
Held by general public							
Currency outside banks							
Notes	1,958	–71	34	62	74	99	53
Coin	225	3	8	9	10	30	21
Chartered bank deposits							
Personal savings	8,846	284	78	255	–128	489	520
Corporate notice and term	1,444	19	144	10	57	229	221
Demand(1)(2)	4,560	–106	154	13	258	319	145
Total	17,033	129	418	348	271	1,166	960
Government of Canada deposits at chartered banks	806	–193	14	–234	226	–188	421
Total currency and chartered bank deposits(2)	17,839	–65	432	114	497	978	1,380
SEASONALLY ADJUSTED							
Currency outside banks and chartered bank deposits(2)							
Total	17,610	218	313	341	93		
Held by general public	17,050	324	207	198	438		

(1) Includes public demand deposits, deposits of provincial governments and deposits of foreign banks.
(2) Less Canadian dollar items in transit.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS WITH ALL COUNTRIES

(millions of Canadian dollars)

			1964			
	1963	1964	1 Q	2 Q	3 Q	4 Q
Current account balance	−557	−453	−343	−156	215	−169
Capital account transactions						
Capital in long-term forms						
Direct investment						
foreign investment in Canada(1)	240	165	50	10	30	75
Canadian investment abroad(1)	−110	−90	−40	−45	–	−5
Canadian stocks						
net transactions	−229	−125	−77	−5	−5	−38
Canadian bonds						
new issues	952	1,036	139	307	98	492
retirements	−259	−312	−73	−93	−56	−90
net trade in outstandings	39	77	4	14	37	22
Foreign securities						
net transactions	23	−57	−6	−36	−5	−10
Columbia River Treaty						
receipts under Treaty	–	274	–	–	274	–
official holdings of special U.S. Government securities	–	−220	–	–	−220	–
Other long-term capital	−43	−21	−34	−36	18	31
Total capital in long-term forms	613	727	−37	116	171	477
Capital in short-term forms						
Non-resident holdings of Canadian assets						
Canadian commercial and finance company paper, etc.	98	225	126	99	−14	14
Canadian dollar deposits and treasury bills	14	9	23	2	−53	37
Resident holdings of foreign assets						
bank balances and other short-term funds	−255	−499	154	−125	−160	−368
Other short-term capital(2)	233	354	35	132	−3	190
Total capital in short-term forms	90	89	338	108	−230	−127
Net capital movements	703	816	301	224	−59	350
Changes in reserves and I.M.F. position						
Official holdings of gold and foreign exchange	60	86	−127	62	97	54
Net position with International Monetary Fund	86	277	85	6	59	127

Source: Dominion Bureau of Statistics.
Note: A positive figure indicates en inflow of capital into Canada, and thus an increase in Canadian liabilities or a decrease in Canadian assets. A negative figure indicates the reverse.
(1) Exclusive of undistributed earnings.
(2) Includes changes in receivables and payables and a balancing item representing errors and omissions.

BANK OF CANADA STATEMENT OF INCOME AND EXPENSES

(thousands of dollars)

	1964	1963
Income		
On investments	$140,126	$127,407
All other income	354	444
Total income	$140,480	$127,851
Operating Expenses		
Salaries[1]	$ 4,142	$ 4,034
Contributions to pension and insurance funds	365	352
Other staff expenses[2]	208	196
Directors' fees	23	22
Auditors' fees and expenses	75	77
Taxes (inc. municipal and business)	904	838
RCMP guards and electric protection	128	125
Insurance	100	93
Bank notes — production and shipment	3,895	3,637
Premises and equipment (net)	509	441
Stationery and printing	180	151
Publications[3]	69	73
Postage and express	151	128
Telephones and telegrams	163	157
Travel and transfer expense	154	154
Interest paid on unclaimed balances	63	58
All other expenses	173	95
Total operating expenses	$ 11,302	$ 10,631
Depreciation on Buildings and Equipment	941	834
Net Income Paid to Receiver General of Canada	128,237	116,386
	$140,480	$127,851

(1) The number of staff averaged 896 in 1964 and 893 in 1963.
(2) Includes overtime pay, medical services and cafeteria expense.
(3) Printing of Statistical Summary and Annual Report.

ASSETS

	1964	1963
Foreign exchange		
Pounds sterling and U.S.A. dollars	$ 97,345,863	$ 42,163,637
Other currencies	237,058	192,717
	97,582,921	42,356,354
Cheques on other banks	190,553,152	114,983,733
Accrued interest on investments	37,135,600	34,255,603
Investments — at amortized values		
Treasury bills of Canada	478,687,089	465,569,888
Other securities issued or guaranteed by Canada maturing within two years	349,198,716	687,994,239
Other securities issued or guaranteed by Canada not maturing within two years	2,236,452,654	1,881,661,679
Debentures issued by Industrial Development Bank	176,500,390	150,629,672
Other securities — U.S.A. Government	13,447,904	21,512,813
	3,254,286,753	3,207,368,291
Industrial Development Bank		
Total issued share capital at cost	36,000,000	33,000,000
Bank premises		
Land, buildings and equipment Cost less accumulated depreciation	13,223,342	11,804,192
Net balance of Government of Canada collections and payments in process of settlement	10,865,572	—
Other assets	2,203,118	1,153,311
	$3,641,850,458	$3,444,921,484

L. RASMINSKY, Governor
Ottawa, January 29, 1965.

A. J. NORTON, Chief Accountant

AS AT DECEMBER 31, 1964
(with comparative figures as at December 31, 1963)

LIABILITIES

	1964	1963
Capital paid up	$ 5,000,000	$ 5,000,000
Rest fund	25,000,000	25,000,000
Notes in circulation	2,380,559,300	2,304,643,792
Deposits		
Government of Canada	68,912,508	49,397,853
Chartered banks	882,106,056	811,410,482
Other	35,632,245	38,925,892
	986,650,809	899,734,227
Liabilities payable in pounds sterling, U.S.A. dollars and other foreign currencies		
To Government of Canada	38,446,788	43,271,091
To others	6,420,049	9,549,181
	44,866,837	52,820,272
Bank of Canada cheques outstanding	197,914,086	132,291,008
Net balance of Government of Canada collections and payments in process of settlement	—	23,764,349
Other liabilities	1,859,426	1,667,836
	$3,641,850,458	$3,444,921,484

Auditors' Report • We have made an examination of the statement of assets and liabilities of the Bank of Canada as at December 31, 1964 and have received all the information and explanations we have required. We report that, in our opinion, the statement correctly sets forth the position of the Bank at December 31, 1964 according to the best of our information and as shown by the books of the Bank.

T. C. KINNEAR, F.C.A.
of Price Waterhouse & Co.

H. MARCEL CARON, C.A.
of Clarkson, Gordon & Cie.

Board of Directors

L. Rasminsky, C.B.E.	*OTTAWA* *Governor* *Member of the Executive Committee*
J. R. Beattie	*OTTAWA* *Deputy Governor* *Member of the Executive Committee*
H. Baribeau	*LEVIS, QUE.*
A. I. Barrow, C.A.	*HALIFAX, N.S.*
N. H. DeBlois	*CHARLOTTETOWN, P.E.I.*
Frederick Field, F.C.A.	*VANCOUVER, B.C.*
C. Hedley Forbes	*FREDERICTON, N.B.*
S. N. MacEachern	*SASKATOON, SASK.*
A. J. MacIntosh, Q.C.	*TORONTO, ONT.*
W. A. Mackintosh	*KINGSTON, ONT.* *Member of the Executive Committee*
J. R. Ouimet	*MONTREAL, QUE.*
L. Patrick, C.B.E.	*CALGARY, ALTA.*
W. S. Perlin	*ST. JOHN'S, NFLD.*
D. Sprague, C.A.	*WINNIPEG, MAN.*

EX-OFFICIO

R. B. Bryce	*OTTAWA* *Deputy Minister of Finance* *Member of the Executive Committee*

Officers

L. Rasminsky, C.B.E., *Governor*
J. R. Beattie, *Deputy Governor*
R. B. McKibbin, *Deputy Governor* — L. Hébert, *Deputy Governor*
R. W. Lawson, *Deputy Governor*
Wm. C. Hood, *Adviser*
L. F. Mundy, *Secretary*
A. J. Norton, *Chief Accountant* — E. Metcalfe, *Auditor*

SECRETARY'S DEPARTMENT

L. F. Mundy, *Secretary*
P. D. Smith, *Deputy Secretary* — C. H. Richardson, *Deputy Secretary*
A. J. Bawden, *Assistant Secretary*
R. F. Archambault, *Administrative Assistant*
S. V. Suggett, *Special Assistant*
E. L. Johnson, *Personnel Officer* — Miss M. K. Rowland, *Personnel Officer*
Currency Division: H. F. Butler, *Chief*
T. D. MacKay, *Deputy Chief*
Public Debt Division: H. W. Thompson, *Chief*
H. S. Holloway, *Deputy Chief*
A. Rousseau, *Assistant Chief*

RESEARCH DEPARTMENT

G. K. Bouey, *Chief*
B. J. Drabble, *Deputy Chief* — G. E. Freeman, *Adviser*
S. J. Handfield-Jones, *Assistant Chief* — D. L. McQueen, *Assistant Chief*
R. Johnstone, *Assistant Chief* — G. S. Watts, *Special Assistant*
D. B. Bain, *Research Officer* — P. M. Cornell, *Research Officer*
W. A. McKay, *Research Officer* — T. I. Norton, *Research Officer*
G. R. Post, *Research Officer* — Miss E. M. Whyte, *Research Officer*
J. N. R. Wilson, *Research Officer* — L. E. Barclay, *Industrial Research Assistant*
Miss H. Costello, *Librarian*

SECURITIES DEPARTMENT

J. B. MacFarlane, *Chief*
D. J. R. Humphreys, *Assistant Chief* — A. Clark, *Assistant Chief*
J. R. Ferguson, *Special Assistant* — G. Brunelle, *Special Assistant*
J. M. Andrews, *Securities Officer* — A. W. Noble, *Securities Officer*
J. T. Baxter, *Toronto Representative* — T. G. Boland, *Montreal Representative*

FOREIGN EXCHANGE DEPARTMENT

A. M. Jubinville, *Chief*
P. Watt, *Deputy Chief* — A. C. Lord, *Assistant Chief*

Agencies

CALGARY	W. H. PYATT, *Agent*
HALIFAX	G. R. BONNER, *Agent*
MONTREAL	J. E. R. ROCHEFORT, *Agent* R. MARCOTTE, *Assistant Agent*
OTTAWA	J. K. FERGUSON, *Agent*
REGINA	J. F. SMITH, *Agent*
SAINT JOHN, N.B.	L. G. ROWE, *Agent*
TORONTO	R. J. LILLIE, *Agent* D. D. NORWICH, *Assistant Agent* J. C. FRASER, *Assistant Agent*
VANCOUVER	J. C. NESBITT, *Agent*
WINNIPEG	E. T. W. DAVIES, *Agent*