BANK OF CANADA

ANNUAL REPORT OF THE GOVERNOR TO THE MINISTER OF FINANCE

AND STATEMENT OF ACCOUNTS

FOR THE YEAR 1972

Bank of Canada · Banque du Canada Ottawa K1A 0G9

February 28th, 1973.

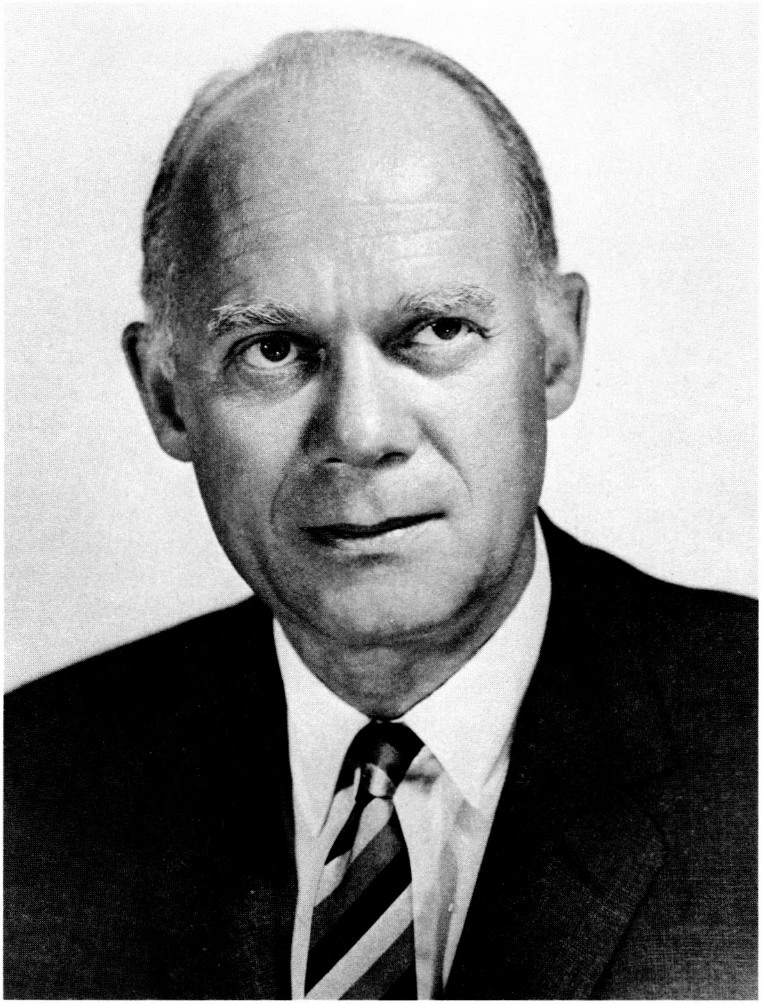
The Hon. John N. Turner, P.C.,
Minister of Finance,
Ottawa, Ontario.

Dear Sir,

In accordance with the provisions of the Bank of Canada Act I am transmitting herewith my report for the year 1972 and a statement of the Bank's accounts for this period, signed and certified in the manner prescribed in the by-laws of the Bank.

Yours very truly,

Governor



LOUIS RASMINSKY, C.C., C.B.E.
Governor of the Bank of Canada
1961 – 1973

Mr. Louis Rasminsky retired as Governor of the Bank of Canada on February 1, 1973. He was appointed Governor on July 24, 1961 and reappointed in 1968.

Over a period of thirty-three years of distinguished service with the Bank, including the last twelve as its Governor, Mr. Rasminsky's contributions in the field of Canadian economic policy and international monetary affairs have been of the highest order. Prior to joining the Bank in 1940 he served with the League of Nations, and his career as an outstanding international and Canadian public servant now spans a total of forty-three years.

BANK OF CANADA

Report of the Governor – 1972

The Annual Report of the Governor of the Bank of Canada is prepared pursuant to Section 26(2) of the Bank of Canada Act which requires that the Bank transmit to the Minister of Finance a statement of its accounts for the financial year "together with such summary or report by the Governor as he may deem desirable or as may be required by the Minister". In the past the Report has served not only to explain the policy that the Bank has followed and to communicate views of the Governor on current problems in the economy, but also to provide detailed reviews of economic and financial developments in Canada and abroad. For over a year now, however, articles on such developments have been published regularly in the monthly Bank of Canada Review under the direction of an Editorial Board, and it is the intention of the Bank to continue this practice. As a consequence, that part of the Report dealing with the economic background is less detailed than in recent years.

Some Highlights of the Year

The economic expansion that began just over two years ago continued during 1972, and output and employment again increased substantially. The performance of the economy was less satisfactory than had been hoped for, however, as unemployment remained high and prices rose more rapidly than in the previous year.

Official national accounts estimates for the full year 1972 are not yet available, but it would appear that the gain in Gross National Product in real terms approached the 5½ per cent increase recorded for 1971. At the time of writing this Report it is not possible to be more precise because 1972 was a year in which the problems of reconciling all of the information normally relied upon in making such estimates have been more than usually difficult.

The growth of output would have been greater had it not been for setbacks during the summer. In the third quarter, work stoppages had a particularly disruptive effect on production and trade, and bad weather reduced agricultural output. After August, however, industrial activity rebounded strongly and total output in the economy was growing very rapidly in the closing months of the year. External markets for the products of our basic resource industries, many of which had remained relatively weak during the earlier stages of the recovery, improved greatly over the course of the year in response to the strong rise in economic activity in progress in the United States and the resumption of more vigorous growth in Japan and Europe. Thus, a strong and broadly based expansion now appears to be under way in Canada, supported by stimulative demand management policies at home and by rising activity in the United States and overseas.

It is not clear at this time whether the gain in real output in 1972 was any greater than the normal growth of the economy's potential. In any event, the increase of just over 3 per cent in employment was matched by the continued rapid growth of the labour force and the unemployment rate averaged 6.3 per cent, almost as high as in the previous year. Indeed, on a seasonally adjusted basis unemployment reached a peak of 6.9 per cent of the labour force in September, though by January 1973 it had dropped back to 6.2 per cent.

Although there is undoubtedly too much slack in the economy, there is, at the same time, some reason to believe that unemployment rates may no longer reflect the same degree of ease in labour markets as they formerly did. It has always been the case that in the Canadian labour market bottlenecks and shortages tend to emerge in certain areas of the country and in certain industries while the average national level of unemployment is still relatively high. However, the numerous reports of employers finding difficulty in hiring workers in 1972 at a time when the reported unemployment figures were higher than at any time since the beginning of the sixties suggest that some new element has been affecting the situation. In particular, changing income maintenance arrangements may be tending to increase the number of those who are reported as remaining in the labour force but who want jobs only from time to time, and may be lessening the urgency with which others seek re-employment. This latter factor may also have had some effect on employment and output in industries that apparently had difficulty in filling vacancies in 1972.

In view of the implications of such questions for economic policy in general and for demand management policies in particular, there is an urgent need for additional information and analysis in this area. Demand management policies, including monetary policy, require that judgments be made about how much room there is for the economy to expand at above-normal rates of growth. Labour force statistics are normally relied on to provide some of the most relevant information for such judgments. I therefore welcome both the recently announced decision of Statistics Canada to devote increased resources to expanding the statistical information on the labour force and the intention of the Economic Council of Canada to undertake a special study of the labour market.

The more rapid rise of prices in Canada in 1972 was disquieting. To an important extent this trend reflected world-wide influences that were pushing up prices of many basic foodstuffs and a number of other primary products. These external developments contributed to unusually large increases in Canada in food prices and in the cost of residential building materials. On balance, however, prices of other goods and services in Canada also increased somewhat more rapidly than in the previous year, and this occurred despite the absence of any general pressure on productive capacity in the economy. While many other countries, especially in Europe, had even more serious cost and price problems of this kind in 1972, our most important trading partner, the United States, did considerably better than we did.

The major external influence on the Canadian economy over the past year was the marked acceleration of business activity in the United States. The rates of growth in the other major industrial countries also picked up during the year. These developments were reflected in our export trade. Despite rather sluggish markets overseas for primary industrial commodities until late in the year total exports increased by 12 per cent. However, the rise in imports of 20 per cent outpaced the rise in exports by a substantial margin, and the current account of

Canada's balance of payments moved back into deficit. The high rate of import growth lessened the impact of the strong gain in domestic demand on Canada's output and employment in 1972.

By January 1973 rapid economic expansion in the United States had reduced the unemployment rate in that country from 6 per cent of the labour force in January 1972 to 5 per cent. The U.S. economy has now developed so much momentum that the concern of the authorities has shifted towards containing the expansion and maintaining an improved price performance. The essence of their problem is to move smoothly and in good time from the recent very high rate of economic growth to a rate that can be sustained over the longer run.

In February of this year foreign exchange markets in a number of countries around the world were once again dominated by a sharp fall in confidence in exchange rates arising from the fact that the massive imbalance in world trade and payments that developed in the latter part of the 1960s has yet to be corrected. The United States continues to have a very large deficit in its balance of international payments on current account, while Japan, as well as the continental members of the European Economic Community taken as a group, continue to have very large current account surpluses. Strong forces in the direction of adjusting these imbalances were at work in 1972, including the realignment of exchange rates that followed the Smithsonian meeting in December 1971 and the much better recent trend of prices and costs in the United States than elsewhere. Their influence was, however, temporarily offset by other forces, including the perverse initial impact of exchange rate changes on the value of trade flows and the fact that the timing of the business cycle in the major trading countries was very unfavourable to the required adjustment. While the turbulence in world currency markets this year has been a matter of concern, the further major adjustment of exchange rates in February 1973 should help to restore more orderly conditions and in time can be expected to add substantial new strength to the forces operating to correct the underlying imbalance.

Improved arrangements for achieving and maintaining international payments equilibrium are now under study by an ad hoc Committee of the Board of Governors of the International Monetary Fund, known as the Committee of Twenty on International Monetary Reform and Related Matters. The Committee is composed of Finance Ministers, one of whom is the Minister of Finance for Canada. With the help of a Committee of Deputies it is examining all aspects of international monetary reform.

The prospects for a sustained and orderly expansion of world trade in the future are closely linked to the progress made towards an acceptable world structure of balances on current account. Canada's interest in encouraging such progress is clear. It is also clear that Canada's international balance on current account is not contributing to this problem. This may not seem evident if only trade in goods is considered, but trade in services is equally relevant, and a large deficit on service account is a predominant feature of Canada's balance of international payments. Our balance on all current account transactions did move into appreciable surplus in 1970, but it has since weakened and is again in deficit.

While an acceptable world structure of balances on current account is the goal of present initiatives to adjust countries' payments positions, that structure will not be viable unless it is matched by appropriate international flows of capital. It is mainly in this area, that of achieving a balance on capital account appropriate to the balance on current account, that Canada has had a problem in recent years.

Both internal and external considerations influenced the monetary policy followed during 1972. It was apparent that large increases in demand, output and employment would be needed for a time in Canada if the economy was to regain more satisfactory operating levels. This was the dominant consideration underlying the expansionary policy followed, but in seeking to maintain relatively easy conditions in Canadian financial markets the Bank also had in mind the potentially dampening effects on economic expansion of an undue appreciation of the foreign exchange value of the Canadian dollar that would arise from an excessive inflow of capital from abroad. While giving priority to the immediate objective of reducing the margin of slack in the economy, the Bank remained aware of the time-lags involved in the operation of monetary policy, and for this reason it kept the liquidity of the banking system under close control.

The forward thrust of the economy now appears to be strong and expansionary demand policies are being pursued to try to ensure that excess slack is taken up. A situation of this character inevitably involves a risk that at a later stage of the expansion aggregate demand may grow too strongly and cause general demand pressure on prices and costs to develop. As the expansion proceeds it will be important to guard against this danger. In Canada, as in other countries, there is already a certain amount of "built-in" inflation and this will not be easy to reduce even over a considerable period of time. It would be unfortunate indeed if instead the underlying rate of inflation were to be ratcheted up yet another notch.

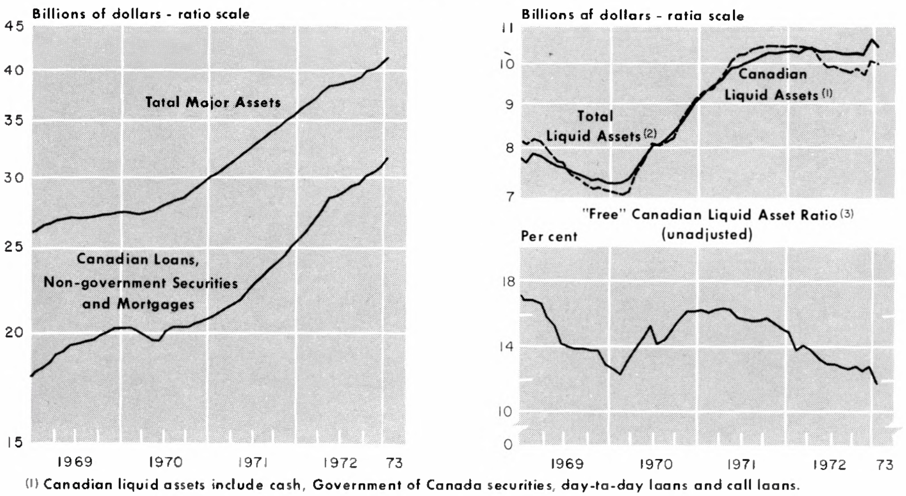
Monetary Policy and Financial Developments

The general character of the monetary policy followed in 1972 is readily apparent from the behaviour of most monetary aggregates and indicators of credit conditions.

There was a further large increase of 15 per cent in chartered bank major assets during 1972, following the 19 per cent increase recorded in the previous year. The asset growth of the banking system was again particularly striking in areas such as term loans to business and mortgage lending, where the banks have continued to increase their share of the market. Even apart from these competitive gains, however, it is apparent that bank lending activity has been in a phase of rapid and sustained growth for almost three years.

By contrast, the chartered banks' total holdings of Canadian earning liquid assets were no higher at the end of 1972 than a year earlier. This reflected the continuation through 1972 of the policy of close control of chartered bank liquidity adopted by the Bank of Canada in mid-1971. As a result, bank holdings of Canadian dollar liquid assets in excess of their primary and secondary reserve requirements—their "free" Canadian liquid assets—declined as a proportion of their total assets from 15.2 per cent in December 1971 to 12.8 per

CHARTERED BANK ASSETS AND LIQUIDITY
Average of Wednesdays, Seasonally Adjusted

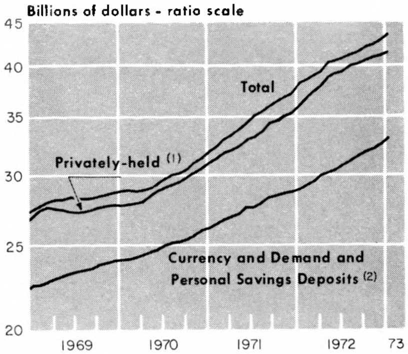


(1) Canadian liquid assets include cash, Government of Canada securities, day-to-day loans and call loans.

(2) Total liquid assets include Canadian liquid assets and net foreign assets.

(3) Ratio of Canadian liquid assets in excess of primary and secondary reserve requirements to total major assets.

CURRENCY OUTSIDE BANKS
AND CHARTERED BANK DEPOSITS
Average of Wednesdays, Seasonally Adjusted



(1) Excludes Government of Canada deposits.
(2) Excludes non-personal term and notice deposits.

cent a year later. The net foreign currency assets of the banks also declined substantially during 1972, mainly in the first half of the year.

There was a further substantial increase of 16 per cent in aggregate holdings of currency and chartered bank Canadian dollar deposits by the general public over the course of the year. This increase in the public's liquidity was an important factor in the ready accommodation by financial institutions and markets of the large credit demands associated with rising economic activity.

The total amount of funds raised by Canadian non-financial borrowers in 1972 is estimated to have reached a slightly higher level than in 1971. There were further sizeable increases in consumer and mortgage borrowing and in funds raised by provincial and municipal governments and their enterprises. Non-financial business borrowed less than in 1971 when this sector appears to have added to its holdings of financial assets on a particularly large scale. Borrowing by the Government of Canada also declined in 1972. Although the Government's financial requirements, excluding foreign exchange financing, were of roughly the same order in each calendar year, the use of Canadian dollars to finance purchases of foreign exchange was considerably smaller in 1972. There was also a much smaller increase in the Government's cash balances in 1972 than in the previous year.

FUNDS RAISED BY MAJOR NON-FINANCIAL BORROWERS

(billions of dollars)

	1969	1970	1971	1972
Consumers	1.3	0.7	1.4	2.1
Mortgage borrowers(1)	1.7	1.5	2.5	3.8
Provinces and municipalities(2)	2.2	2.3	2.9	3.3
Non-financial business	4.2	3.2	5.3	4.5
Sub-total	9.4	7.7	12.1	13.7
Government of Canada	0.3	2.0	3.0	1.6
Total	9.7	9.7	15.1	15.3

(1) Excludes net mortgage lending by governments and their agencies, notably CMHC, which is reflected in the financing requirements of the respective governments.
(2) Includes government enterprises. Loans from the Government of Canada are excluded.

The financing of these total borrowings in 1972 involved somewhat smaller net sales of marketable securities than in 1971, and there was also a substantial decline in the net sale of Canada Savings Bonds from the unusually high level reached in 1971. On the other hand, the strong growth of loans and mortgages was reflected in rapid expansion of the assets of all major types of financial institutions; in total their assets increased at the same rate as in 1971.

MAJOR ASSETS OF FINANCIAL INSTITUTIONS[1]

	Billions of dollars Dec. 1972	Percentage increase Dec. 1970 to Dec. 1971	Percentage increase Dec. 1971 to Dec. 1972
Deposit-taking institutions			
Chartered banks	41.4	19	15
Quebec savings bank	0.7	13	10
Trust and mortgage loan companies	12.6	13	15
Credit unions and caisses populaires	6.7	22	28
Sub-total	61.4	18	16
Contractual savings institutions			
Life insurance companies	16.8	7	7
Pension funds	13.7	12	11
Sub-total	30.5	9	9
Sales finance and consumer loan companies	6.0	5	13
Total	97.9	14	14

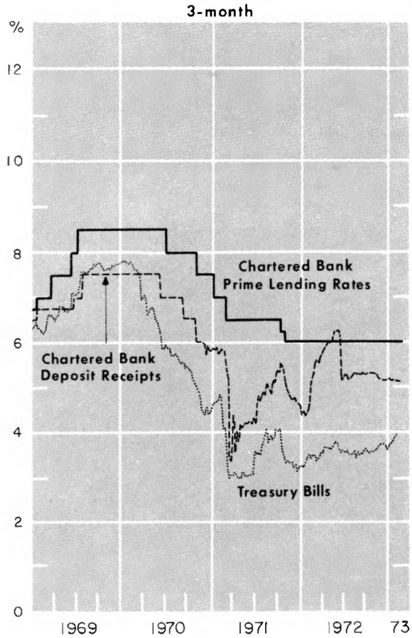
(1) Figures for December 1972 are estimated except for banks.

On the whole, credit demands in 1972 were accommodated without any major, sustained upward movement in Canadian interest rate levels. Although most long-term interest rates rose appreciably in the course of the first half of 1972, these increases were not fully maintained. By year-end, for example, mortgage rates had receded somewhat from the levels reached several months earlier. The upward movement of short-term interest rates in Canada was more pronounced, but was reversed abruptly around mid-year. These rates have since tended to remain relatively low while comparable short-term rates in the United States have moved sharply higher.

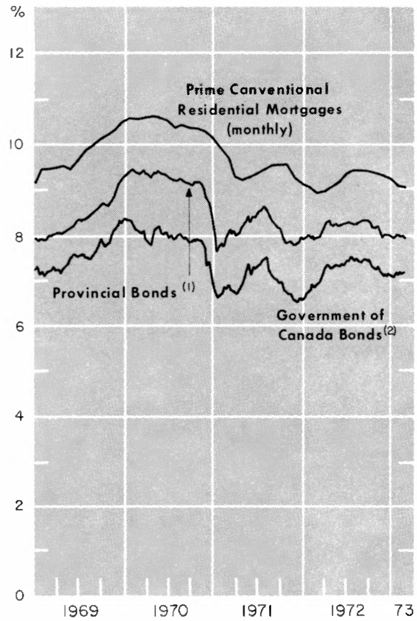
For a time during 1972 the risk of heavy capital inflows from abroad putting undue upward pressure on the exchange rate for the Canadian dollar was a source of concern. With Canadian borrowers continuing to issue a high volume of long-term debt and with terms of access to funds in foreign financial markets

INTEREST RATES
CANADA

SHORT-TERM
3-month

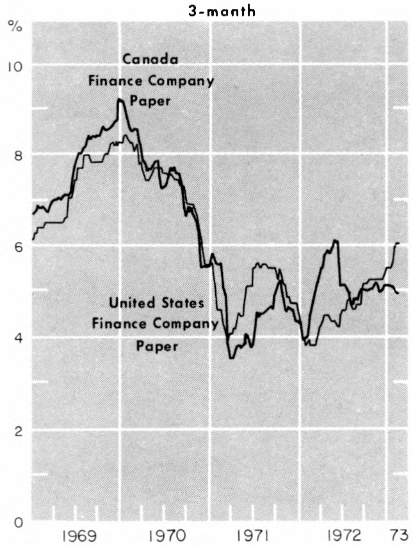


LONG-TERM

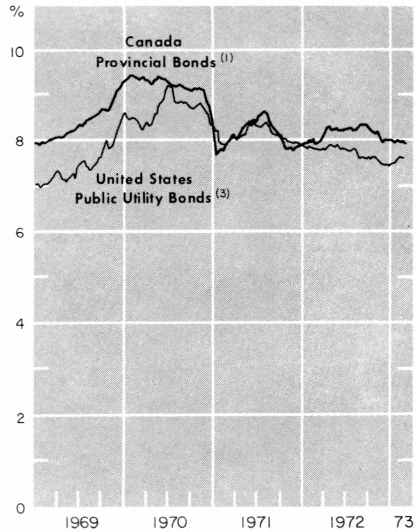


CANADA - UNITED STATES COMPARISONS

SHORT-TERM
3-month



LONG-TERM



(1) Wednesday average yield on the 10 provincials included in the monthly series published by McLeod, Young, Weir and Co. Ltd.

(2) Wednesday average yield on bonds with a maturity of 10 years or over.

(3) Wednesday average yield on 40 public utility bonds, published by Moody's Investors Services.

being relatively attractive, there was a substantial increase in net new issues of bonds sold to non-residents. A particularly heavy concentration of such sales occurred during a brief period in the spring. In conjunction with other influences including the rather unusual developments described below, this led to a further temporary appreciation of the Canadian dollar in foreign exchange markets. The easing of these pressures on the Canadian dollar in June was most welcome. The Bank continues to support the Minister of Finance's request to Canadian borrowers that they explore the domestic market carefully before offering issues for sale abroad.

Although there was little change in the broad objectives of monetary policy in Canada during the course of 1972, the situation that developed in financial markets in the first half of the year presented difficulties of a rather unusual kind which were subsequently resolved by the so-called "Winnipeg agreement" in June.

At the beginning of the year when bank loans were rising very rapidly, the Bank of Canada held the cash reserves of the chartered banks at levels intended to reduce bank liquidity and thus to moderate the pace of monetary expansion. The banks' holdings of liquid assets declined in the course of January and February and, given the strength of bank credit demands, the banks began to bid aggressively for deposit funds. Increases in the rates offered by banks on short-term deposits contributed to the upward movement of short-term interest rates that began in February. Although cash reserves were eased at times of particular pressure on markets and the Bank of Canada also moderated the decline in security prices through open market purchases, interest rates continued to rise in succeeding months. In the United States, short-term interest rates also rose during the period but, because the increase began later than in Canada and was much less pronounced, the differentials in rates widened quite sharply and there was upward pressure on the Canadian dollar in exchange markets.

In the spring the process of escalation of Canadian short-term interest rates began to feed on itself and to distort financing patterns. Short-term interest rates—including those offered on bank deposits—rose further, while the banks' prime lending rates remained unchanged at 6 per cent. Thus it became increasingly attractive for those with funds to invest to place them on short-term deposit with the banks, and correspondingly attractive for large borrowers to use bank credit rather than to issue short-term paper in the market. The increase in bank loans accelerated to an extraordinarily high rate in May when the banks' deposit rates on large blocks of short-term funds actually rose above their prime lending rates. The banks' fixed-term deposits (and those measures of the "money supply" that include such deposits) also rose dramatically, while the outstanding amount of short-term paper declined.

These distortions in financial markets were discussed in May and June during regular meetings with representatives of the chartered banks. In June the banks requested and received the concurrence of the Minister of Finance, in accordance with Section 138 of the Bank Act, to an agreement that rates of interest offered on deposits of $100,000 or more for terms up to 364 days would be limited to a maximum of 5½ per cent.

When the agreement came into effect on June 12 the whole structure of short-term interest rates in Canada declined, and there was also some reversal of the previous appreciation of the Canadian dollar in exchange markets.

For a time the Bank of Canada maintained relatively easy levels of cash reserves in order to facilitate the necessary readjustments in financial markets. By August, the distortions that had developed prior to the June agreement had been pretty well removed. As can be seen in the accompanying table, the annual rate of growth of bank loans, mortgages and similar investments returned to around 20 per cent, following a transitional period of slow growth during which short-term paper business was moving back into the market. The Bank of Canada also re-established more conservative levels of bank cash reserves in order to maintain close control of bank liquidity while permitting the underlying demand for bank credit to be accommodated without strain.

The extent to which the distortions discussed above affected the trend of total bank deposits is also shown in the table. Fixed-term deposits rose very sharply during the first part of the year and then declined, although remaining well above their level in 1971. These deposits are the dominant component of "non-personal term and notice deposits". The total of other privately-held Canadian dollar bank deposits and currency rose at a fairly steady annual rate of about 13 per cent during 1972.

SELECTED BANKING AND MONETARY STATISTICS

(percentage increase at annual rates, average of Wednesdays)

	Dec. 1970 to Dec. 1971	Dec. 1971 to Dec. 1972	Dec. 1971 to May 1972(1)	May 1972 to July 1972(1)	July 1972 to Jan. 1973(1)
Canadian liquid assets	14	4	–	3	2
Loans, mortgages and other investments	21	23	37	8	20
Total assets	19	15	23	3	15
Currency and Canadian dollar deposits					
Total	18	15	22	5	14
Privately-held	15	16	26	10	11
Non-personal term and notice deposits	39	30	90	– 1	– 2
Other(2)	11	13	13	13	15

(1) Based on seasonally adjusted data.
(2) Currency, demand deposits and personal savings deposits.

The introduction of the chartered bank agreement on deposit rates of interest proved to be a useful initiative. The situation of overly aggressive competition for deposits among banks had resulted in an abnormal structure of interest rates and distortions in credit flows, and had contributed to an undesirable appreciation of the Canadian dollar. The agreement arrested the process and helped to restore a calmer atmosphere.

This is not the first occasion when competition among banks for large blocks of short-term funds has been pushed to extremes and some limitation has seemed desirable. Nor has the phenomenon been peculiar to Canada. It may well be that the banking industry is particularly vulnerable to this type of extreme competition. Because funds in a money market are so highly mobile, a bank that fails to compete on deposit rates will very quickly lose funds on a large scale.

Arrangements to control undue competition for deposits are not uncommon in other countries and it appears to be the case that in Canada an arrangement of the kind we now have can be useful at least on occasion. However, agreements on interest rates that are rigid over time are not an ideal feature of financial markets for they can obstruct normal market forces and inhibit adjustments to changing circumstances. Care must be taken to ensure that they serve to prevent undesirable distortions, not to create them.

Since the end of the summer both the banks' general loans and a somewhat broader measure of credit extended that includes short-term market paper as well as bank loans (and which, therefore, is not distorted by shifts in the sources of credit of the kind that occurred last year) have been rising at an annual rate of around 18 per cent. Although this is lower than the 25 per cent rate of increase in this broader measure during the year or so prior to mid-1972 when borrowing demands seem to have been particularly strong, it is still high. At the same time the banks have been adding rapidly to their other loans and mortgage holdings. Other credit flows have also been substantial and have been readily accommodated.

During October and November some decline occurred in rates of interest on long-term bonds and mortgages, a decline encouraged by foreign interest in such investments and by the success of the 1972 Canada Savings Bond campaign. To some extent this easing of interest rates may also have reflected market reactions to evidence of earlier weakness in the economy. The result was some narrowing of long-term interest rate differentials between Canada and the United States. Meanwhile, at the short end of the market there has been a greater change in international differentials resulting from recent sharp increases in U.S. and Euro-dollar short-term interest rates. Some upward adjustment of rates of interest on Government of Canada treasury bills and short-term bonds has occurred, but on the whole these have not been large and Canadian short-term interest rates remain at comparatively low levels.

Review of the Economy

The record of the performance of the economy in 1972 is not complete as this Report is being written. In particular, preliminary official estimates of the National Accounts for the fourth quarter together with any revisions to earlier quarters are not yet available. However, the information at hand suggests that the Gross National Product expanded by some 10 per cent in value terms following an increase of about 9 per cent in the previous year. The increase in the over-all price deflator was apparently somewhat greater than 4½ per cent compared with 3¼ per cent in 1971. Thus the estimated gain in GNP in volume terms would appear to have approached the 5½ per cent increase registered in 1971.

One of the important and rather special influences on both output and prices in 1972 was a fairly sharp decline in agricultural production, after a very strong increase in the preceding year. The decline of about 10 per cent was attributable to a number of factors. The wheat crop was of lower average quality than in the previous year, other western grain crops were generally smaller, there were generally unfavourable growing conditions in eastern Canada, and hog production was at a cyclical low. These developments, occurring at a time of general imbalance between supply and demand in world markets for many basic agricultural products, contributed to a sharp rise in agricultural prices in Canada, a drawing down of farm inventories, and an appreciable rise in farm income on a cash basis.

The pattern of activity in the rest of the economy during the year was quite uneven, mainly because of major work stoppages which dislocated production and trade at various times, particularly during the summer. The number of man-days lost through labour disputes was in excess of 8 million, a new record and over 2½ times the figure for 1971. Beginning early in the year, strikes disrupted air transportation for a time and in the spring there was a brief strike involving most Quebec public servants including teachers and hospital employees. In the summer, severe dislocations of the normal flow of foreign trade were caused by maritime strikes here and abroad. Other important strikes occurred in construction, forest industries and iron mining—the latter contributing to a sharp decline in mining output in the third quarter. The final quarter of the year was relatively free of work stoppages.

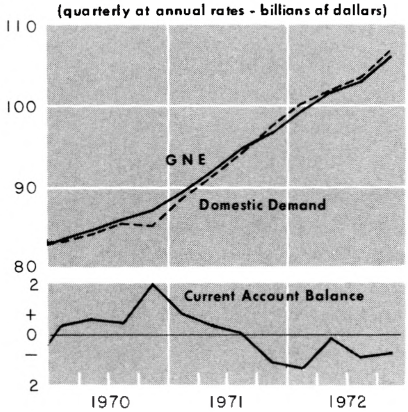
SELECTED INDICATORS

Seasonally Adjusted

GROSS NATIONAL EXPENDITURE

Current Prices

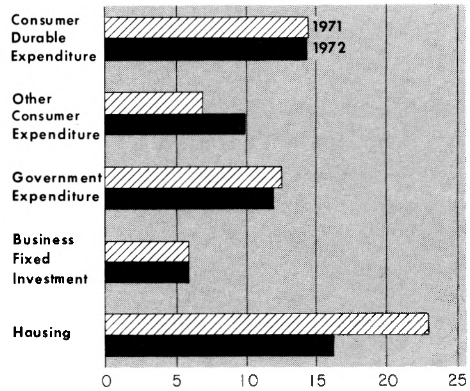
(quarterly at annual rates - billions of dollars)



INCREASES IN DOMESTIC DEMAND

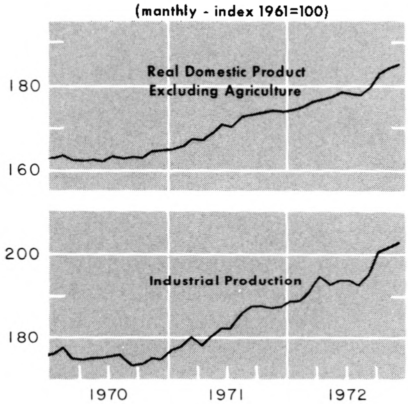
Current Prices

(annual percentage change)



REAL OUTPUT

(monthly - index 1961=100)

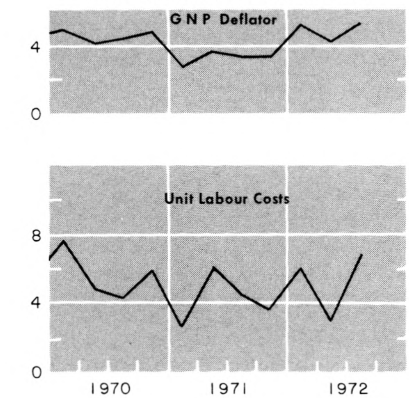


LABOUR MARKET

(monthly - millions of persons)

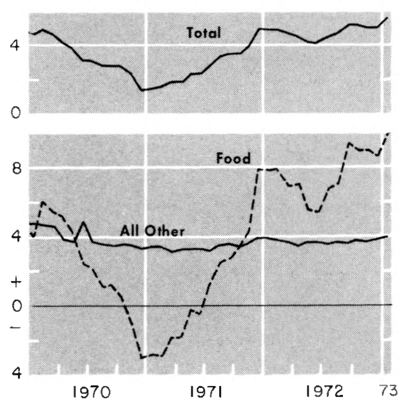
PRICES AND COSTS

(percentage change 4 quarters ending)



CONSUMER PRICES

(percentage change 12 months ending)



Developments of this kind contributed to a temporary interruption of the expansion of the economy during the summer. The first official national accounts estimates actually showed a decline in real GNP during the third quarter, although subsequent revisions to balance of payments data now suggest that the decline may have been very slight. In any event, this hesitation was followed by a strong rebound in output in the closing months of the year. The gain in real GNP in the fourth quarter was undoubtedly very strong. An alternative measure of output, the index of real domestic product, rose by about 3 per cent from the third to the fourth quarter. Industrial production rose by 4 per cent over the same period and in December was more than 8 per cent higher than a year earlier. While the very large rise in industrial output after August owed something to post-strike recoveries, it is noteworthy that the gains were widely dispersed among industries.

For the year as a whole domestic demand, that is the combined outlays of consumers, governments and business, is estimated to have risen by nearly 11 per cent in money terms, about one per cent more than in the previous year. After allowing for the greater rise in prices in 1972 the increase in the volume of domestic demand was close to 6 per cent, about the same as in 1971.

Most sectors of domestic demand, with the notable exceptions of non-residential construction and inventories, were quite buoyant during the year. Personal consumption expenditures, particularly on new cars and other durables, registered a very strong gain. Sales of new cars, both North American and overseas models, reached a new record, while sales of colour television sets approximately doubled.

House building also continued at a very fast pace, though the amount of new stimulus coming from this sector had tapered off before the end of the year; 250,000 new housing units were started in 1972 compared with the previous year's record of 234,000 units. Individual houses rather than apartments again accounted for an unusually high proportion of this construction activity. A record level of housing completions in 1972 undoubtedly stimulated consumer purchases of furniture and other household durables.

As in the previous year spending by governments continued to rise strongly. Direct demand for goods and services apparently increased by about 12 per cent at both the federal and provincial-municipal levels. In addition federal Government transfer payments to persons, particularly unemployment insurance payments, rose much faster.

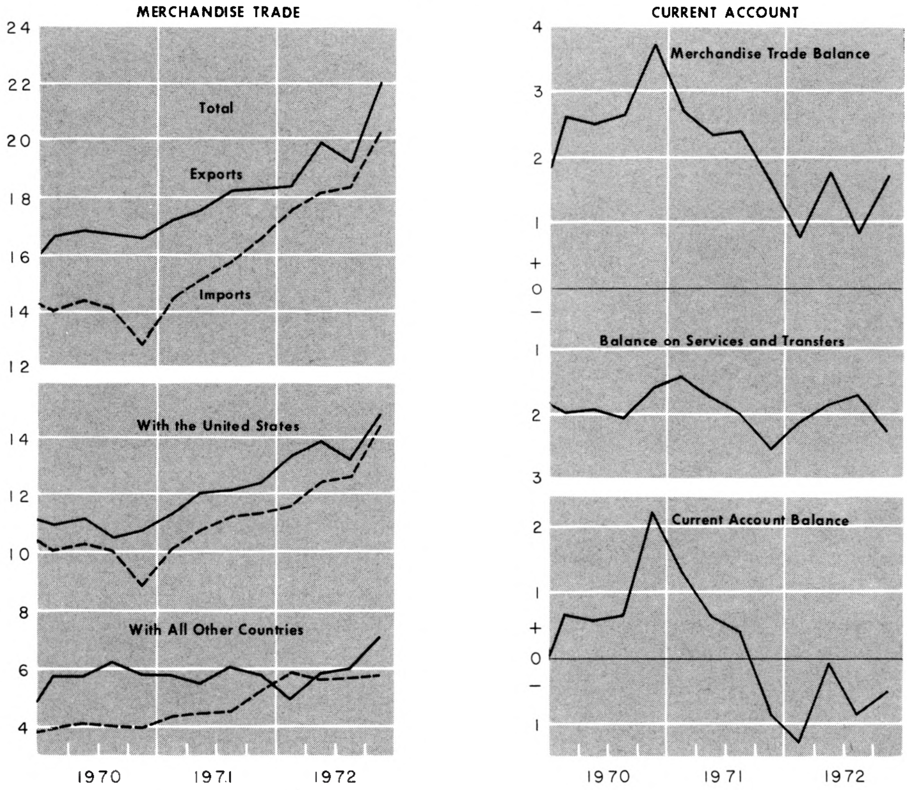
Business investment in fixed capital is one of the more difficult elements of the picture for 1972 to assess at the present time, but it seems that the total of such outlays may have increased no more than in 1971. Non-residential construction may have declined slightly in volume terms, partly because of delays due to labour disputes. In the case of machinery and equipment there were sizeable increases in imports and in shipments by domestic manufacturers, and outlays must have exceeded the fairly modest gain anticipated at the beginning of the year. In any event, such leading indicators of investment as contract awards and orders for capital equipment suggest that prospects for business investment in the current year are quite strong.

Although there were signs that business inventories, particularly in manufacturing, were being accumulated at a faster rate than in the previous year, they seem to have remained very low in relation to sales. This may have been due in part to underestimation of demand and to work stoppages.

Between 1971 and 1972 the current account of the balance of payments swung from a surplus of about $400 million (balance of payments basis) to a deficit of about $670 million, a negative movement equivalent to a one per cent reduction in GNP. This swing was almost entirely attributable to a reduction in our surplus on merchandise trade. Merchandise exports rose by 12 per cent,

CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS

Quarterly - Billions of Dollars



Seasonally adjusted at annual rates.

more strongly than in 1971, but imports rose by 20 per cent. The gain in exports was due mainly to an increase of nearly 16 per cent in exports to the United States. Exports to overseas countries rose only modestly from a year earlier, but wheat shipments picked up strongly in the second half and towards year-end other exports were also rising vigorously in response to cyclical upturns in the major overseas countries. In volume terms the rise in imports was about 16 per cent compared with the rise of some 6 per cent in domestic demand, and this strength of demand for imports was reflected across a broad range of goods. It is noteworthy that this increase in the market share of imports occurred at a time when few domestic industries appear to have been operating at capacity levels.

The growth of more than 5 per cent in real GNP in 1972 was accompanied by an increase in total employment of 250,000 or just over 3 per cent—implying a gain in productivity roughly equal to the longer-term average. Non-farm employment increased by 3¾ per cent, but this gain was partly offset by a decline of almost 6 per cent in farm employment. As usual, employment of young people aged 14-24 grew relatively rapidly (by over 5 per cent) as did that of adult women (by 3¾ per cent). Employment of men 25 years of age and over grew strongly in the early months of the year but for the year as a whole it averaged less than 2 per cent higher than in 1971.

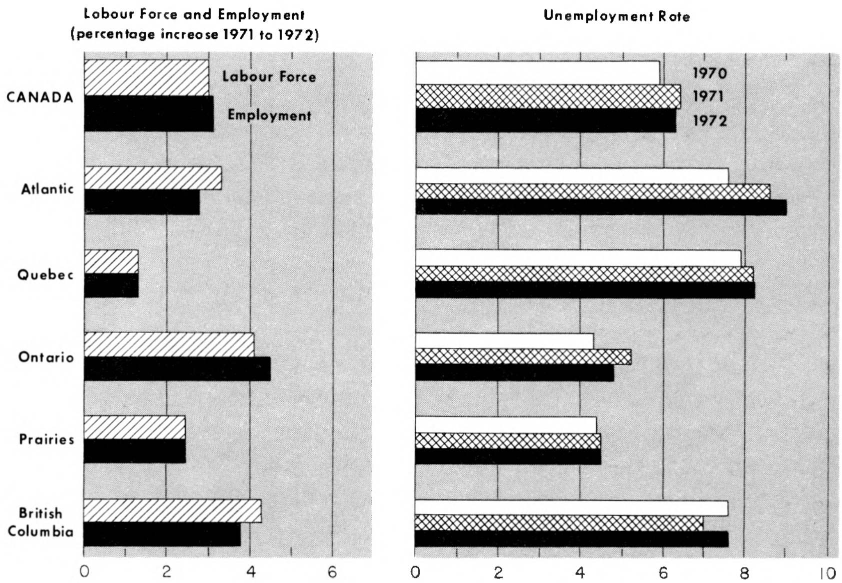
The increase in the population of labour force age was slightly lower than in the previous year, but the proportion participating in the labour force rose from just over 56 per cent to 56½ per cent. Consequently the rise in the labour force was again about 3 per cent, a little more than might have been anticipated on the basis of projected trends for the first half of this decade. As in the case of employment, the rate of increase of the labour force recorded for women and young people was appreciably faster than for men.

With similar rates of increase in employment and in the labour force, the unemployment rate in 1972 averaged 6.3 per cent, almost as high as in 1971. In the early months of the year the seasonally adjusted rate was around 6 per cent but it rose to a peak of 6.9 per cent at the end of the summer; it was still close to this level at year-end but then dropped back to 6.2 per cent in January 1973, the same as a year earlier.

The only region to show a reduction in the average unemployment rate in 1972 was Ontario, where, despite a substantial increase in the labour force, an unusually large gain in employment of 4½ per cent was sufficient to reduce the unemployment rate from an average of 5¼ per cent in 1971 to an average of 4¾ per cent in 1972. In Quebec, where increases in the labour force and employment were again below the national average, the unemployment rate in 1972 was close to 8¼ per cent for the second year running. In the Prairie region the increase in employment in 1972 was matched by the increase in the

REGIONAL LABOUR MARKET INDICATORS

Annual Averages



labour force, and the unemployment rate averaged 4½ per cent, the same as in 1971. Although employment in the Atlantic region showed the strongest gain since the mid-1960s, an even larger increase in the labour force resulted in the unemployment rate rising to 9 per cent. In British Columbia, which has typically had much higher rates of labour force growth than other parts of the country, the increase in the labour force in 1972 was again somewhat less than normal for the second consecutive year; however, at less than 4 per cent the gain in employment was also relatively moderate and the unemployment rate moved up to 7½ per cent.

As pointed out earlier, the interpretation of the unemployment statistics has become more difficult, particularly over the past year or so since the introduction of unemployment insurance benefits that are substantially larger and available for more extended periods than before. It seems paradoxical that there should be at one and the same time persistently high unemployment figures and evidence of growing difficulties in finding many kinds of labour to fill available jobs. Such evidence not only takes the form of widespread reports from employers but also is reflected in the relatively new data on job vacancies, which show that in the third quarter of 1972 total vacancies were almost twice as high as a year earlier.

Despite the degree of underutilization of resources, the rate of price increase showed unmistakable signs of acceleration in 1972. The sharpest rise occurred in food prices, which are always subject to the vagaries of weather and other factors affecting world supply and demand. This development poses a serious threat to wage and price behaviour generally, because of its marked impact on the cost of living, particularly of lower income groups. Many foodstuffs, including fruits, vegetables, eggs, sugar and coffee, registered sharp price increases but much of the pressure was centred on meat. A world-wide shortage of beef contributed to an increase in retail beef prices of close to 10 per cent for the second year running, while the price of pork rose by more than 25 per cent. In January 1973 the food component of the Consumer Price Index was 10 per cent higher than a year earlier, the largest increase for many years. Other consumer prices rose about 4 per cent and the annual rate of increase in recent months, after allowance for seasonal factors, has been close to 4½ per cent.

There has also been substantial upward pressure on the prices of a number of other important internationally-traded commodities, including lumber, petroleum products, wool, and hides. This has contributed to a more rapid rate of increase in Canadian wholesale and industry selling prices. In particular, the sharply higher cost of lumber was mainly responsible for an increase in the index of residential building materials of about 15 per cent during 1972.

The GNP deflator for the whole economy apparently averaged at least 4½ per cent higher in 1972 than in 1971. Profits per unit of output averaged considerably higher than in 1971, and the increase in unit labour costs was also substantial; productivity gains appear to have been moderate, while income per worker continued to rise strongly. New wage settlements under collective bargaining (excluding construction) again provided for average annual increases in earnings of over 7½ per cent and in manufacturing the figure was closer to 9 per cent. Thus increases in incomes have continued to exceed the average gain in productivity by a margin that is inconsistent with what has generally been regarded in the past as a satisfactory price performance.

Bank of Canada Operations

The broad lines of monetary policy in 1972 have been discussed earlier in this Report. This section provides additional details on the cash management and securities market operations of the Bank of Canada and on the activities of the Bank as agent for the Government on behalf of the Exchange Fund Account and in the management of the public debt.

CASH MANAGEMENT AND OPERATIONS IN THE SECURITIES MARKET. During 1972 Bank of Canada cash reserve management was designed to provide the banking system with reserves sufficient to accommodate a rapid expansion of credit while not encouraging the banks to add to their holdings of liquid assets. In the course of the year, particularly during the first half, cash management was adjusted from time to time with a view to dampening the impact of pressures that developed in financial markets.

The secondary reserve requirement, which had been reduced on December 1, 1971 from 9 per cent to 8½ per cent, was further reduced to 8 per cent on January 1, 1972. There have been no subsequent changes in the secondary reserve requirement. Bank Rate has remained at 4¾ per cent as established on October 25, 1971.

The record of the chartered banks' cash reserve position during 1972 is presented in Appendix Table I. It should be noted that the short-run impact of a particular level of total cash reserves on the banking system, and on financial markets generally, depends on a variety of factors, including such rather technical considerations as the distribution of reserves among banks as well as more pervasive forces such as the strength of credit demands and the state of expectations about the economy and financial markets. Since these factors change, sometimes quite abruptly, a particular level of cash reserves will not always be associated with the same response in financial markets.

In late 1971 and early 1972 relatively low excess cash reserves were made available to the banks and, with loans rising very rapidly, their holdings of liquid assets declined from early December until the latter part of February. The two reductions in the secondary reserve requirements mentioned above were not intended to release bank liquidity and the size of the decline in the banks' total holdings of earning liquid assets over this period was such that the amount held in excess of reserve requirements, that is, the "free" Canadian earning liquid assets, also declined.[1]

In December 1971, when bond yields had started to rise, the Bank of Canada bought securities in the market both to provide some support for security prices and to assist in providing cash reserves in connection with the seasonal increase in the note circulation. The Bank continued to buy securities during January and February with the principal objective of moderating the upward movement of interest rates. The bonds purchased during this period were of relatively short maturity and at the same time the Bank bought a substantial amount of treasury bills in connection with the reductions in the chartered bank secondary reserve requirement. As interest rates rose further during the spring and early summer the Bank continued to buy securities. Although these later purchases were mostly of short-term issues, they included some long-term bonds acquired at times when the market was under particularly strong downward pressure.

By the spring of 1972 the pressures in Canadian financial markets reflecting a strong underlying demand for credit were being heightened by the very aggressive competition for funds among the chartered banks. In addition to running off domestic liquid assets and drawing substantially on foreign sources of funds, the banks were bidding up the rates paid on their short-term deposits; by mid-May they were offering rates on large deposits in excess of their prime lending rates. The Bank of Canada had eased the cash reserves of the banking system in order to alleviate these pressures and, following the implementation on June 12 of the agreement among banks to limit the rates paid on large short-term deposits, the Bank maintained relatively easy cash reserve levels for a time and purchased bonds in the market in order to facilitate the adjustment to the new situation. The Bank was particularly concerned that banks might respond to the impending maturity of large amounts of short-term deposits by drawing further on foreign sources of funds. In the event, interest rates in the money market came down in line with the newly agreed structure of bank deposit rates and the reallocation of business between the banks and other parts of the financial system was accomplished smoothly. By the end of July the Bank of Canada had gradually returned to tighter cash settings in line with the continuing policy of keeping firm control over bank liquidity, and this posture has since been maintained. There was an increase in chartered bank liquidity during the autumn, but since early December bank holdings of liquid assets have declined again to roughly the level that prevailed during the summer of 1972.

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[1] In addition to the traditional earning liquid assets included in these measures (that is, treasury bills, day-to-day loans, call loans and Government of Canada bonds) banks hold a relatively small amount of other short-term assets as part of the liquid portion of their total portfolio of assets. Data on these holdings of commercial paper and similar instruments are now published regularly by the Bank of Canada.

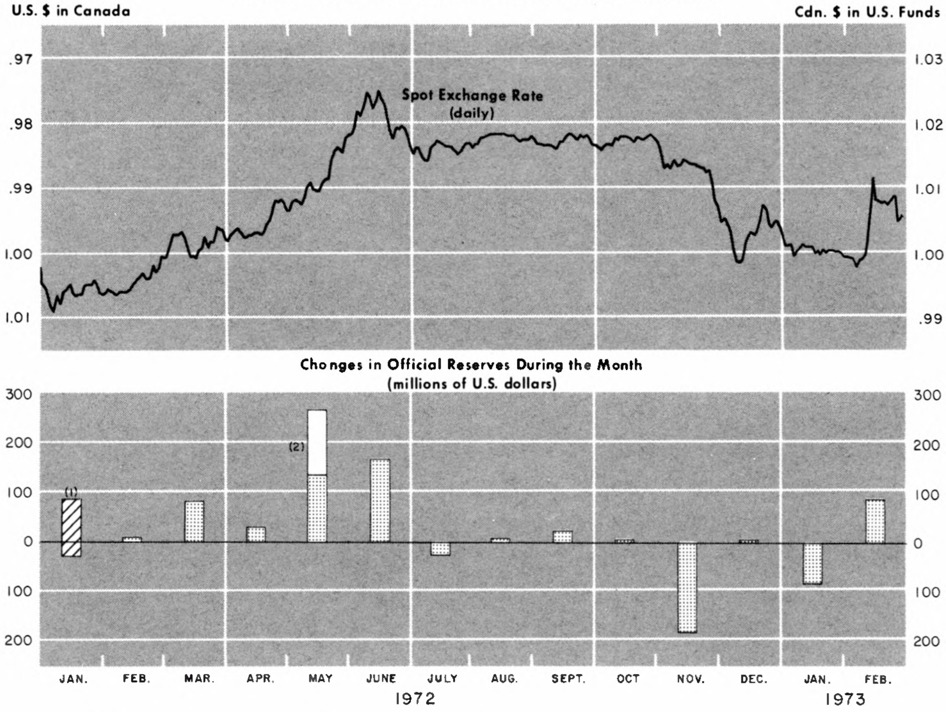
The monthly record of Bank of Canada transactions in Government of Canada securities during 1972 is presented in Appendix Table II. In the course of the year, the par value of the Bank's holdings of Government of Canada securities rose by $588 million, reflecting net transactions with Government and other client accounts, changes associated with new issues of treasury bills and bonds and open market operations. In its open market operations, the Bank made net treasury bill purchases of $337 million and Government of Canada bond purchases of $543 million. As already noted, these purchases served on occasion to moderate pressures in securities markets, as well as contributing to the management of chartered bank cash reserves. The purchases of relatively short-term bonds also assisted in the management of the public debt by reducing the amount of issues held outside the Bank of Canada at the time of their maturity. During the first part of the year this debt management objective was reflected particularly in acquisitions of the 4¼ per cent bonds that matured on September 1, 1972. In the latter part of the year the acquisition from the market of bonds due to mature early in 1973 in exchange for somewhat longer-term issues also assisted debt management.

The Bank of Canada added $191 million to its net holdings of foreign currency assets in 1972. The changes during the year in the Bank's net foreign currency position, shown in Appendix Table III, were largely a reflection of swap transactions with the Exchange Fund Account under which the Bank of Canada temporarily acquired foreign exchange assets subject to commitments for their resale to the Exchange Fund Account. The use of such swap arrangements assists the Bank of Canada in the management of chartered bank cash reserves by providing increased flexibility in the timing of Bank of Canada transactions in Government of Canada securities.

FOREIGN EXCHANGE OPERATIONS. In 1972 a deficit was recorded in the current account of the balance of payments after two years of surplus, but capital inflows were large enough to finance the deficit and produce a small over-all surplus. The external value of the Canadian dollar rose in the first half of the year, levelled out from late June to late October, and then declined. At year-end it was about ¾ of one per cent higher than at the beginning of the year. In January 1972 an allocation of Special Drawing Rights increased the U.S. dollar value of Canada's official international reserves by $117 million and, over the year as a whole, other transactions led to an increase of $229 million. In addition the revaluation of gold-based reserves in May added a further $134 million to the U.S. dollar value of reserves. There was no allocation of SDRs at the beginning of 1973.

Over the course of 1972 the Bank of Canada operated on behalf of the Exehange Fund Aeeount to maintain orderly eonditions in the exehange market. During the first two months of the year the exehange rate for the Canadian dollar fluetuated very little and there was no signifieant ehange in international reserves apart from the alloeation of SDRs in January. In March there was a brief flurry in international exehange markets as the value of the U.S. dollar weakened against most major eurreneies and the exehange reserves rose. The Canadian dollar began to move upward again in late April, a trend that continued until mid-June, and reserves rose further. Both domestie and external forees eontributed to this strength in the Canadian dollar. As mentioned earlier there was a sharp inerease in Canadian long-term borrowing in foreign markets, and short-term foreign investment in Canada was attraeted by the high level of short-term rates prior to the agreement among banks to limit the rates offered on their deposits. For a brief period in June, the Canadian dollar felt some of the repercussions of the unsettled eonditions in international exehange markets when sterling eame under severe pressure before it was allowed to float.

EXCHANGE RATE AND OFFICIAL RESERVES



(1) Includes an allocation of 117 million SDRs in January 1972.
(2) Includes an increase of U.S. $134 million resulting from the revaluation of gold-based assets.

For the next four months there was little change in the Canadian exchange rate and in official reserves. From late October to the first part of December the value of the Canadian dollar declined and the Bank of Canada again intervened in the market on behalf of the Exchange Fund Account, this time selling U.S. dollars and reducing reserves. The Canadian dollar rose in mid-December, declined over the year-end, and then remained relatively close to parity with the U.S. dollar until the U.S. dollar was devalued by 10 per cent on February 12. For two days thereafter the Canadian dollar was very strong, but by the end of February both the exchange rate and the reserves were again about where they had been at the end of 1972.

DEBT MANAGEMENT OPERATIONS. The federal Government's net financing requirement, as measured by changes in the amount of Canadian dollar securities outside Government accounts less changes in the Government's cash balances, decreased from $2.2 billion in 1971 to $1.4 billion in 1972. As in the previous year, the sale of Canada Savings Bonds accounted for most of the net borrowing undertaken in 1972. The outstanding amount of treasury bills increased by $330 million. Net sales of Government marketable bonds played only a minor role in financing as the outstanding amount increased by only $57 million compared with just under $300 million in 1971. Appendix Table IV summarizes details of the financing operations of the Government of Canada in 1972, excluding the regular weekly issues of three-month and six-month treasury bills.

The 1972/73 series of Canada Savings Bonds offered investors an average yield of 7.30 per cent over a twelve-year term and included an interest compounding option. Net sales during the fourth quarter of 1972 amounted to $1.7 billion and at the end of the year the outstanding amount of Canada Savings Bonds was $1.2 billion higher than a year earlier.

The outstanding amount of treasury bills did not change during the first three months of 1972. At each of the weekly auctions from April 6 to June 22 there was an addition of $5 million to the issue of treasury bills and from June 29 until the end of the year $10 million was added at each weekly auction.

The Government of Canada borrowed in the domestic bond market on four occasions in 1972, mainly to refund maturing issues. Offerings of Canadian dollar direct marketable bonds were $1,450 million while retirements and cancellations amounted to $1,393 million. The new loans were of short- and medium-term maturity, and the average term of outstanding unmatured marketable direct and guaranteed bonds shortened over the year by eight months to five years and nine months.

An advance refunding of the 4¼ per cent bonds due September 1, 1972 was included as an option in the July 1, 1972 debt operation. The new bonds were offered to investors for cash or in exchange for the approaching September 1, 1972 maturity. Of the $717 million 4¼ per cent September 1, 1972 bonds then outstanding, $263 million were exchanged leaving $455 million for retirement on September 1.

Bonds with extendible options were offered in both the July pre-refunding and the September redemption of the 4¼ per cent bonds. On each of these occasions the offering included a 7 per cent bond maturing July 1, 1977, convertible into a 7½ per cent bond maturing July 1, 1982. In total $650 million of these extendible bonds were issued.

Appendix Tables I to IV ▶

APPENDIX TABLE I

CHARTERED BANK CASH RESERVES — 1972

(millions of dollars, unless otherwise indicated)

		Requirements						
		Total cash requirements	Average Bank of Canada notes	Required Bank of Canada deposits	Average holdings of Bank of Canada deposits	Excess cash reserve ratio	Cumulative excess reserves for the period	Number of statutory days
Jan.	1-15	2,266	624	1,642	1,669	0.08	242	9
	16-31				1,664	0.07	248	11
Feb.	1-15	2,281	709	1,572	1,597	0.07	270	11
	16-29				1,609	0.10	363	10
Mar.	1-15	2,217	633	1,584	1,619	0.10	383	11
	16-31				1,619	0.10	374	11
Apr.	1-15	2,214	615	1,599	1,635	0.10	356	10
	16-30				1,636	0.10	362	10
May	1-15	2,212	638	1,574	1,605	0.09	343	11
	16-31				1,607	0.09	363	11
June	1-15	2,262	676	1,586	1,624	0.10	413	11
	16-30				1,621	0.09	385	11
July	1-15	2,251	722	1,529	1,567	0.10	341	9
	16-31				1,560	0.08	337	11
Aug.	1-15	2,285	741	1,544	1,572	0.08	314	11
	16-31				1,566	0.06	265	12
Sept.	1-15	2,271	725	1,546	1,575	0.08	291	10
	16-30				1,574	0.07	275	10
Oct.	1-15	2,285	715	1,570	1,600	0.08	268	9
	16-31				1,604	0.09	401	12
Nov.	1-15	2,300	719	1,581	1,607	0.07	260	10
	16-30				1,609	0.07	300	11
Dec.	1-15	2,404	721	1,683	1,705	0.06	242	11
	16-31				1,718	0.09	275	8

APPENDIX TABLE II

BANK OF CANADA NET TRANSACTIONS IN GOVERNMENT OF CANADA SECURITIES IN 1972

(delivered basis — par value in millions of dollars)

	Net purchases from (+) or net sales to (−) investment dealers and banks[1]						
		Bonds[2]					
	Treasury bills	3 years & under	3 years to 5	5 years to 10	Over 10 years	Sub-total bills and bonds	Securities under PRA
Jan.	+102	+ 76	+ 1	−1	−	+177	+121
Feb.	+ 62	+ 44	+17	−	−	+122	−121
Mar.	− 2	+ 23	−	−	+ 5	+ 26	−
Apr.	+ 37	+ 21	+27	−	+26	+110	−
May	+ 15	+116	−	−	+ 1	+132	+ 11
June	−	+ 26	+25	−	+ 3	+ 54	− 12
July	+ 41	+ 22	− 6	−	+ 4	+ 61	+ 9
Aug.	+ 41	−	−	−	−	+ 41	+ 16
Sept.	+ 24	+ 65	−	−	−	+ 89	− 26
Oct.	−	−	−	−	−	−	−
Nov.	+ 11	−	−	−	−	+ 11	+223
Dec.	+ 6	+ 52	− 3	−	−	+ 56	−223
Total	+337	+444	+61	−1	+39	+880	−

(1) Advances by the Bank of Canada to the chartered banks were outstanding on 19 business days. Purchase and resale agreements with money market dealers were outstanding on 115 business days. Over the year as a whole, the average daily amount of advances outstanding was $706,000. The average daily amount of securities held by the Bank of Canada under PRA was $17.1 million. A one-day high of $259.3 million in PRA outstanding was recorded on November 30.
(2) Classified by years to maturity at time of transactions.

Net transactions with Government and other client accounts						Net change in holdings of Government of Canada securities		
Purchases (+) of new issues less matured holdings		Net purchases from (+) or net sales to (−)						
		Securities Investment Acct.		Other Government and client accounts				
bills	bonds	bills	bonds	bills	bonds	bills	bonds	total
+ 54	–	–	–	−102	–	+100	+150	+250
+ 17	–	–	–	− 24	–	+ 8	− 15	− 6
− 21	–	–	–	− 57	–	− 79	+ 28	− 51
− 38	+21	–	–	− 49	−27	− 50	+ 67	+ 18
+ 33	–	–	–	− 36	−20	+ 17	+103	+119
− 48	–	–	–	− 40	− 1	− 93	+ 46	− 47
+ 13	–	–	–	− 26	−11	+ 31	+ 15	+ 46
+ 29	–	–	–	− 27	− 5	+ 53	+ 2	+ 55
+ 36	+46	–	–	− 49	− 1	− 3	+ 98	+ 95
+ 52	–	–	–	− 18	− 2	+ 33	− 2	+ 31
+ 73	–	–	–	− 35	–	+151	+122	+272
+ 33	–	–	–	− 61	− 1	−122	− 73	−195
+233	+67	–	–	−523	−69	+ 47	+541	+588

APPENDIX TABLE III

BANK OF CANADA ASSETS AND LIABILITIES

(monthly changes — millions of dollars)

1972	Government of Canada securities at book value	Net foreign currency assets	Investment in IDB	All other assets (net)	Note circulation	Canadian dollar deposit liabilities: Chartered banks	Canadian dollar deposit liabilities: Government of Canada	Canadian dollar deposit liabilities: Other
Jan.......	+251	−100	+ 9	− 85	−200	+212	+ 66	− 3
Feb.......	− 8	− 50	+ 4	+ 1	+ 33	− 21	− 59	− 6
Mar.......	− 51	+ 48	−	− 13	+ 55	− 41	− 54	+26
Apr.......	+ 16	+ 34	+15	+172	+ 42	+ 62	+156	−22
May......	+120	− 34	−	−172	+122	− 74	−149	+14
June......	− 46	+182	+ 6	+ 26	+152	− 9	+ 21	+ 3
July......	+ 47	+ 54	+ 8	+ 69	+ 74	− 20	+117	+ 6
Aug.......	+ 56	− 90	+ 2	− 90	− 8	− 16	− 80	−18
Sept......	+ 97	− 99	+ 4	+104	− 8	+ 16	+100	− 2
Oct.......	+ 33	+ 49	+15	− 24	+ 88	+ 42	− 58	−
Nov.......	+270	− 22	+ 5	− 75	+ 45	+ 24	+107	+ 1
Dec.......	−194	+219	+ 6	+126	+307	+ 51	−209	+ 9
Total...	+591	+191	+72	+ 39	+703	+225	− 42	+ 8

APPENDIX TABLE IV

SUMMARY OF NEW ISSUES AND RETIREMENTS GOVERNMENT OF CANADA DIRECT AND GUARANTEED MARKETABLE SECURITIES*

Date	Issues offered	Amount delivered (millions of dollars par value)	Term to maturity	Yield to maturity	Amount retired (millions of dollars par value)
1972					
		(payable in Canadian dollars — direct)			
Feb. 11	Treasury bills	125	364 days	4.39	125
Apr. 1	5¼% Dec. 1, 1973(1)	150	1 yr. 8 mos.	5.56	
	6½% Apr. 1, 1977	225	5 yrs.	6.50	
		375			450
May 12	Treasury bills	125	364 days	4.72	125
July 1	5¾% Feb. 1, 1974	100	1 yr. 7 mos.	5.85	
	7% July 1, 1977(2)	300	5 yrs.	7.00	
		400(3)			263
Sept. 1	5¾% Feb. 1, 1974(4)	100	1 yr. 5 mos.	5.75	
	7% July 1, 1977 (5)(6)	350	4 yrs. 10 mos.	7.00	
		450			455
Nov. 24	Treasury bills	150	364 days	4.36	150
Dec. 15	6½% June 1, 1979(7)	225	6 yrs. 5½ mos.	6.55	225
	Total bonds	1,450			1,393
	Total treasury bills*	400			400
		(payable in Canadian dollars — guaranteed)			
Dec. 29					7(8)
		(payable in foreign currencies)			
Apr. 15					1(9)
Oct. 15					1(9)

* Excludes three-month and six-month treasury bills.
(1) In addition to $150 million 5¼% December 1, 1973 already outstanding.
(2) Convertible at option of holder from July 1, 1976 to December 31, 1976 into an equal par value of 5 year 7½% bonds dated July 1, 1977 and due July 1, 1982 giving a combined average yield of 7.21% for the full 10-year period commencing July 1, 1972.
(3) Offered in exchange for equal par value of Government of Canada 4¼% bonds due September 1, 1972, or for cash.
(4) In addition to $100 million 5¾% February 1, 1974 already outstanding.
(5) Convertible at option of holder from July 1, 1976 to December 31, 1976 into an equal par value of 5 year 7½% bonds dated July 1, 1977 and due July 1, 1982 giving a combined average yield of 7.21% for the full 9-year, 10-month period commencing September 1, 1972.
(6) In addition to $300 million 7% July 1, 1977 already outstanding.
(7) In addition to $100 million 6½% June 1, 1979 already outstanding.
(8) Cancellation by purchase funds of the following Canadian National Railway bonds: $1.4 million of 5% May 15, 1977; $2.0 million of 5¾% January 1, 1985; $3.4 million of 5% October 1, 1987.
(9) Partial redemption at par of U.S.-pay 5% October 15, 1987 for Sinking Fund.

BANK OF CANADA STATEMENT OF INCOME AND EXPENSE

YEAR ENDED DECEMBER 31, 1972
(with comparative figures for 1971)

(thousands of dollars)

	1972	1971
Income		
Revenue from investments and other income	$330,981	$292,583
Expense		
Salaries[1]	$ 10,301	$ 8,985
Contributions to pension and insurance funds	2,348	2,423
Other staff expenses[2]	908	624
Directors' fees	27	29
Auditors' fees and expenses	124	124
Taxes – municipal and business	1,767	1,579
Bank note costs	8,195	7,138
Data processing and computer costs	702	558
Maintenance of premises and equipment – net	1,674	2,260
Printing of publications	396	224
Other printing and stationery	333	301
Postage and express	325	316
Telecommunications	340	291
Travel and staff transfers	419	296
Interest on unclaimed balances	103	92
Other	496	466
	$ 28,458	$ 25,706
Depreciation of buildings and equipment	1,450	1,383
Net Income Paid to Receiver General for Canada	301,073	265,494
	$330,981	$292,583

(1) The number of staff averaged 1,169 in 1971 and 1,242 in 1972.
(2) Includes overtime pay, medical services and cafeteria expenses.

ASSETS

	1972	1971
Deposits in foreign currencies:		
Pounds sterling and U.S.A. dollars	$ 53,672	$ 42,904
Other currencies	322	232
	53,994	43,136
Cheques on other banks	395,886	306,802
Advances to chartered and savings banks	1,900	2,000
Accrued interest on investments	94,915	74,225
Bills bought in open market, not including treasury bills, at cost		997
Investments — at amortized values:		
Treasury bills of Canada	932,110	885,232
Other securities issued or guaranteed by Canada maturing within three years	2,053,310	1,769,770
Other securites issued or guaranteed by Canada not maturing within three years	2,421,515	2,160,511
Debentures issued by Industrial Development Bank	527,109	457,874
Securities issued by the United Kingdom and the United States of America	414,000	214,513
Other securities	2,633	2,633
	6,350,677	5,490,533
Industrial Development Bank:		
Total issued share capital, at cost (note)	59,000	56,000
Bank premises:		
Land, buildings and equipment Cost less accumulated depreciation	23,106	22,206
Net balance of Government of Canada collections and payments in process of settlement	75,500	21,376
Other assets	1,346	1,506
	$7,056,324	$6,018,781

AS AT DECEMBER 31, 1972
(with comparative figures as at December 31, 1971)
(thousands of dollars)

LIABILITIES

	1972	1971
Capital paid up	$ 5,000	$ 5,000
Rest fund	25,000	25,000
Notes in circulation	4,806,242	4,103,423
Deposits:		
Government of Canada	26,658	68,365
Chartered banks	1,697,893	1,472,816
Other	52,280	43,964
	1,776,831	1,585,145
Liabilities in foreign currencies:		
Government of Canada	57,760	38,750
Other	226	304
	57,986	39,054
Bank of Canada cheques outstanding	382,408	257,621
Other liabilities	2,857	3,538
	$7,056,324	$6,018,781

Note: The audited financial statements of the Industrial Development Bank as of September 30, 1972 show an equity of $84,830,549 at which date the Bank of Canada's investment in the share capital was $58,000,000.

G. K. BOUEY, Governor

A. ROUSSEAU, Chief Accountant

Auditors' Report ● We have examined the statement of assets and liabilities of the Bank of Canada as at December 31, 1972 and the statement of income and expense for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Bank as at December 31, 1972 and the results of its operations for the year then ended.

G. PRÉFONTAINE, C.A.
of Séguin, Ménard, Patenaude, Préfontaine & Cie.

A. J. LITTLE, F.C.A.
of Clarkson, Gordon & Co.

Ottawa, Canada, January 25, 1973.

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