

Monthly Trade Bulletin

Volume 3 Number 5

May 2001

Key Monthly Trade Indicators (March 2001)

Highlights

-  **In March, merchandise exports grew at a faster pace than imports, leading to an overall increase in Canada's trade surplus with the world.**
-  **However, exports to the U.S. grew more slowly than did imports from the U.S. in March — resulting in a slight decline in Canada's trade surplus with the U.S. for the month.**
-  **The Canadian dollar dropped sharply over the month, falling 1.7 US cents. The dollar is four-tenths of a cent below the previous low of 63.8 US¢ registered in August 1998.**

	\$ millions	% change over	
		previous month	previous year
Exports	36,037	2.3	5.5
- Exports to U.S.	30,786	0.5	5.5
Imports	29,873	1.7	0.1
- Imports from U.S.	21,817	1.1	-2.0
Trade Balance*	6,164	5,838	4,337
- Balance with U.S.*	8,969	9,050	6,919
Commodity Prices**	110.7	-1.9	-1.3
Canadian Dollar (US¢)*	63.4	65.1	69.0
Export Prices***	126.0	-0.9	6.3
Import Prices***	107.0	-4.3	1.0

* Data in levels only.

** Index (1982-90 = 100)

*** Index 1992 = 100

Source: DFAIT compilations based on Statistics Canada data.

This Month's Feature Report: Patterns in Canada's Services Trade

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Feature report prepared by Aaron Sydor of the Micro-Economic Policy Analysis Branch, Industry Canada under the direction of Someshwar Rao.

ISSN 1496-192X



Department of Foreign Affairs
and International Trade

Ministère des Affaires étrangères
et du Commerce international



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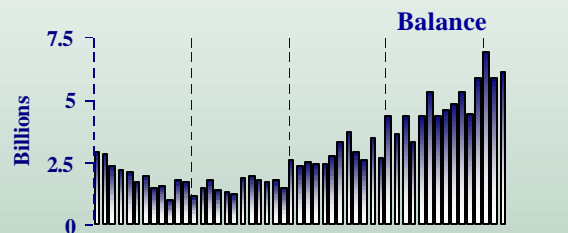
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Merchandise Trade

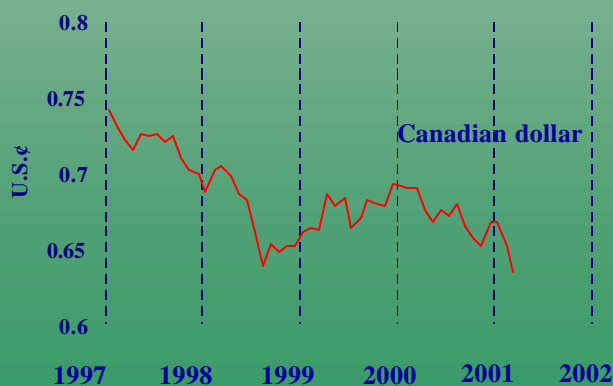
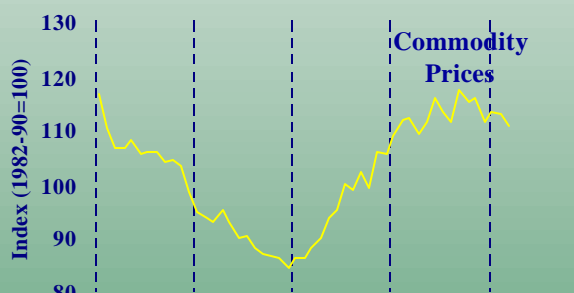
Trade balances remain strong

- The overall trade surplus recovered to \$6.2 billion in March, up from February's \$5.8 billion.
 - ▶ The monthly surplus with the U.S., however, declined \$81 million to \$9.0 billion last month.
- The trade deficit with the EU narrowed by \$86 million to just under \$1.0 billion for March, while the trade account with Japan registered a \$57 million surplus.



The Canadian dollar records a new low

- The Canadian dollar tumbled to a new low of 63.4 US¢, down 1.7 US¢ in value in March after having lost a similar amount in February. The dollar was 5.6 US¢ lower over March 2000 and four-tenths of a cent below the previous low of 63.8 US¢ registered in August 1998.
- Hand-in-hand with the drop in the dollar, prices fell across the board as export prices, import prices and commodity prices were all down over the month.



Source: Statistics Canada, Bank of Canada

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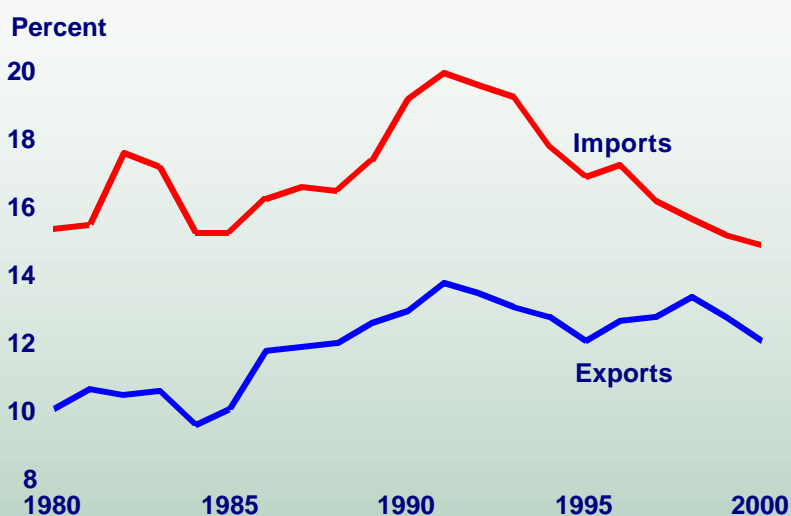
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Patterns in Canada's Services Trade

In the 1990s, trade in services has not grown as fast as trade in goods

- Service exports rose \$33.8 billion over the 1990s - an increase of 151%, to reach \$56.2 billion in 2000. Likewise, service imports increased \$29.8 billion to reach \$62.8 billion in 2000.
- The share of services in total exports and imports peaked in 1992 at 13.6% and 19.8% respectively. Services' shares have fallen considerably since, to 11.9% of total exports and 14.7% of total imports, in 2000.

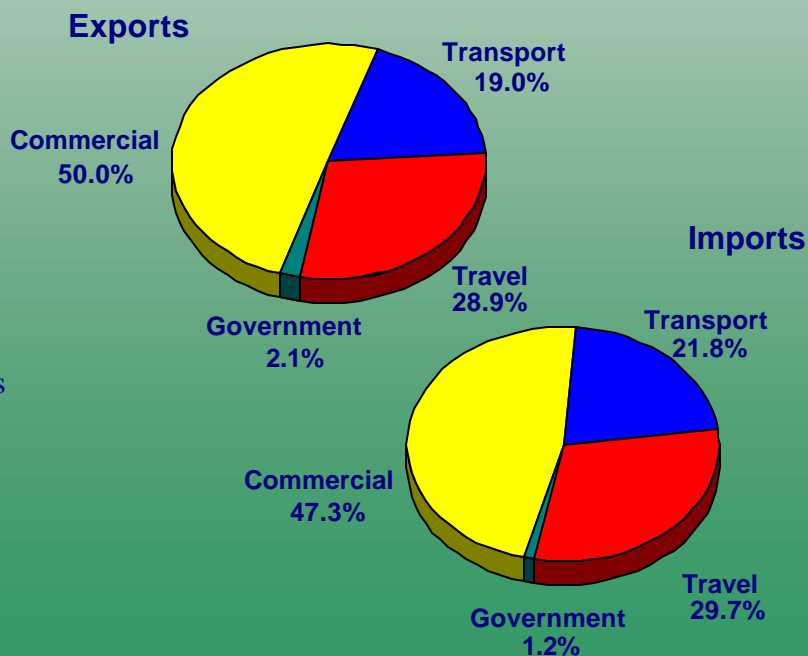
Share of Services Trade in Total Trade



Commercial services account for the largest share of both exports and imports

- The composition of Canada's services exports and imports are very similar.
- Over the 1990s, the share of commercial services in both exports and imports has increased while the shares of all other service components have declined.

Composition of Services Trade, 1995-1998 (percent)



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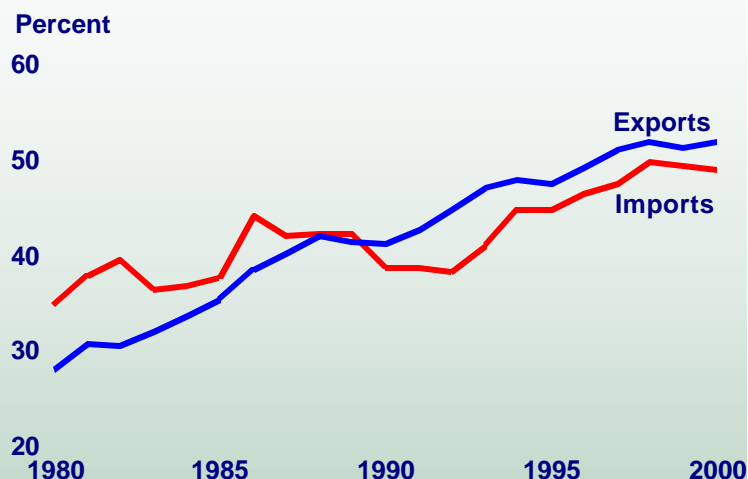
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Patterns in Canada's Services Trade

The importance of commercial services trade has increased significantly

- The share of commercial service exports in total service exports has increased steadily over the past two decades, rising from 27.3% in 1980 to 51.2% in 2000.
- Similarly, the share of commercial services in total service imports has also increased from 34.0% in 1980 to 48.3% in 2000.

Share of Commercial Services in Canada's Total Services Trade



Architect & Engineering Services and Royalties & License Fees greatly increased in importance in exports over the 1990s

- Architect & Engineering Services increased as a share of total Commercial service exports from 9.4% average over the 1990-94 period to 13.4% over the 1995-98 period. As did Royalties & License fees from 2.4% to 6.1%.
- The structure of commercial service imports remained fairly stable.

Composition of Commercial Services, (percent)

	Exports		Imports	
	1990-94	1995-98	1990-94	1995-98
Communication	11.6	8.9	8.5	8.1
Insurance	21.8	16	18.9	18
Other financial	5.9	5.2	6.9	7.2
Computer and information	7.1	6.3	3.4	3.7
Royalties and license fees	2.4	6.1	14	12.8
Management	9	9.2	11.2	13.6
R&D	7.8	9.5	3.8	3.7
Architect & Engineering	9.4	13.4	4.4	4.9
Miscellaneous	13.1	13.2	15.6	14.4
Audio-Visual	4.1	5.5	5.1	6.1
Other	7.8	6.7	8.2	7.5

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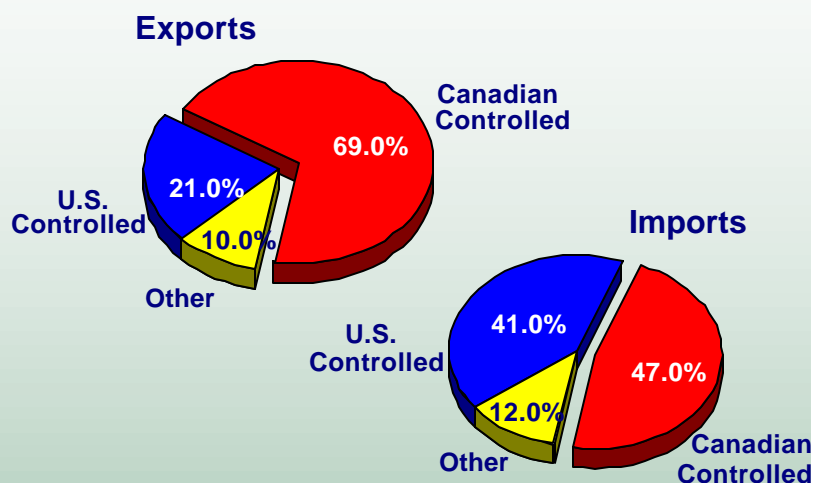
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Patterns in Canada's Services Trade

More than two-thirds of Canada's commercial service exports are carried out by Canadian-controlled firms...

- 69% of Canada's commercial service exports are carried out by Canadian-controlled firms although only accounting for 47% of imports.
- ▶ U.S.-controlled firms, on the other hand, account for only 21% of Canada's commercial service exports but represent 41% of imports.

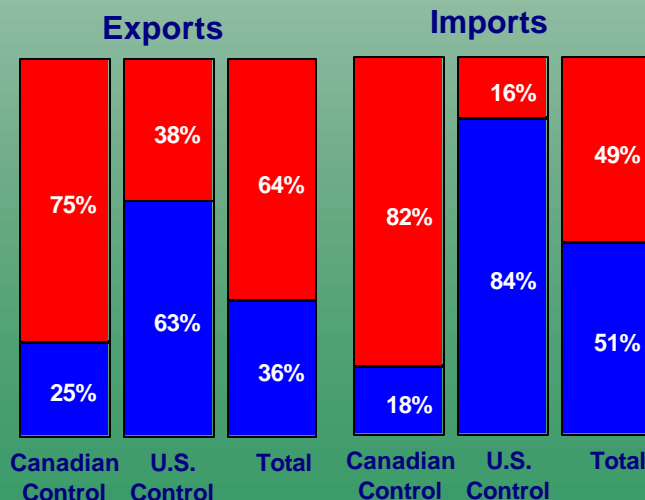
Share of Commercial Services Trade by Country of Control, 1995-1998 (percent)



...but largely with non-affiliated firms

- Most of the transactions by Canadian-controlled firms are at arms length or non-affiliated. On the other hand, the transactions of U.S. controlled firms are of an intra-corporate nature.
- ▶ Only 25% of the commercial service exports and 18% of imports by Canadian-controlled firm is done with affiliated companies.
- ▶ For U.S.-controlled firms in Canada, the number are 63% and 84% respectively.

Share of Commercial Services by Country of Control, 1995-1998 (percent)



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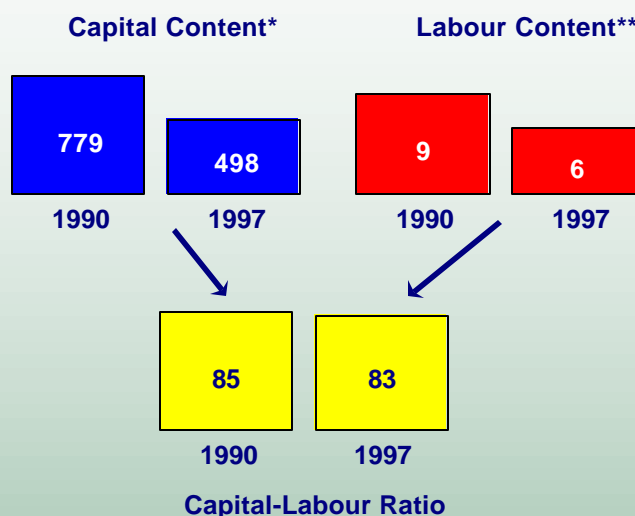
Patterns in Canada's Services Trade

Service exports have a significantly higher value-added content than goods exports

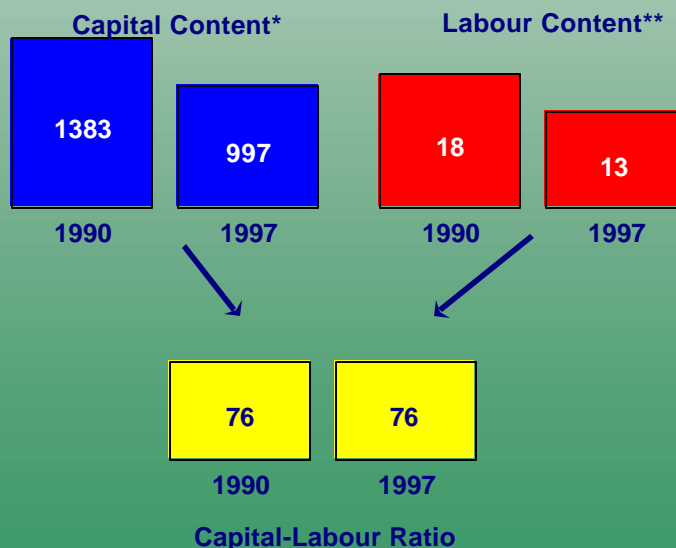
- Service exports have nearly double the value-added content (use, more capital and labour per unit of exports) as do goods exports.
- However, the value-added content of both goods and service exports has fallen over the 1990s.
 - ▶ This is consistent with increases in product specialization and productivity.
- As expected, the capital to labour ratio is significantly lower for service exports than for goods exports.

Factor Content of Canadian Exports

Goods Producing Industries



Service Producing Industries



* Capital content embodied in \$1 million exports (\$ thousands).

** Labour embodied in \$1 million exports (persons)

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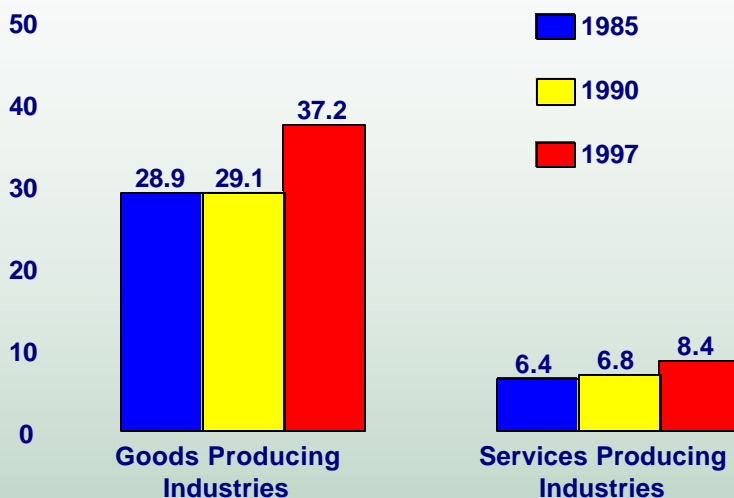
Patterns in Canada's Services Trade

Import Content Share of Canadian Exports

Service exports have a much higher domestic content than goods exports...

- Merchandise exports, on average, use more than four times the value of imported inputs as does service exports.
- However, the share of imported inputs has increased significantly in the 1990s for both goods and service exports,.

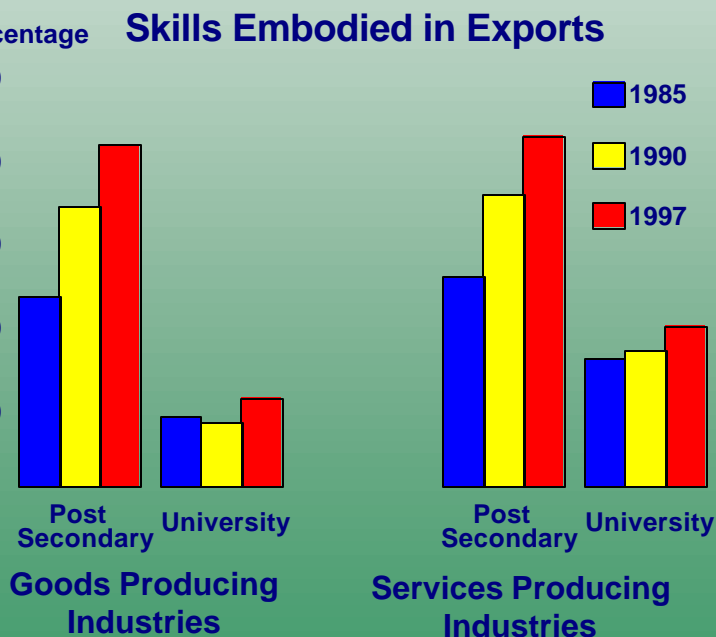
Percentage



...and have a substantially higher proportion of workers with university degrees

- The skill content of both goods and service exports increased considerably in the 1990s.
- A much higher share of workers in service exporting industries have a university degree compared to the goods exporting industries.

Percentage



This special report was prepared in collaboration with Ram Acharya and is based on the paper "Canada's Trade and Foreign Direct Investment Patterns with the United States" by Acharya, Sharma and Rao, all of the Micro-economic Policy Analysis Branch at Industry Canada.