

Canadian Trade Review

CanadExport

A Quarterly Review of Canada's Trade Performance

First Quarter 2004

This review reports on Canada's continued economic growth in the first quarter of 2004, and highlights our trade and investment performance in key sectors and markets.

Export Expansion and Consumer Spending Underpin Economic Growth in the First Quarter

The Canadian economy continued to grow in the first quarter of 2004, as real gross domestic product (GDP) expanded by 2.4% (annualized)¹—somewhat less than the 3.3% growth the previous quarter.

South of the border, preliminary estimates indicate that US GDP expanded by 4.4% in the first quarter, up from 4.1% in the previous quarter.

Growth in Canada's other major markets in the first quarter varied: in the EU it was 2.4%, while in Asia both Japan and China registered very high growth rates of 5.6% and 9.8%, respectively (the latter comparing first quarter GDP with the same quarter a year earlier).

Canadian growth in the quarter was boosted by surging consumer spending - including continued strength in new private housing investments - assisted by recoveries in exports and business investments.

Growth performance was, however, uneven over the quarter - after remaining essentially flat in January and February, most of the economic gain was recorded in March.

Output in manufacturing registered its second consecutive quarterly expansion, following a four-quarter slump. These gains helped bring manufacturing back to levels comparable to those registered at their peak at the height of the technology boom in the fall of 2000. Corporate profits reached a record high in the first quarter, based on improved results in energy, manufacturing, and public utilities.

Exports of goods and services expanded by 14.9% in the first quarter. The strong export performance was largely underpinned by surging energy exports, as energy prices recovered in the quarter, and also by increased exports of industrial goods and machinery and equipment.

Similarly, imports of industrial goods, as well as machinery and equipment, expanded in the first quarter. However, a decline in imports of automobile vehicles and components helped to limit overall import growth to 2.6%.

Table 1: Canada's Economic and Trade Indicators

Percent Change at Annual Rates First Quarter 2004 over Fourth Quarter 2003	
Real GDP (<i>annualized</i>)	2.4
Employment (<i>quarterly increase, level</i>)	-10,300
Rate of Unemployment (<i>quarterly average</i>)	7.4
Consumer Price Index (<i>first quarter 2004 over first quarter 2003</i>)	
All Items	0.9
Core (<i>excludes food and energy</i>)	1.3
Canadian \$ in U.S. funds (<i>average for quarter, level</i>)	0.7589
Exports of Goods and Services (<i>annualized, current dollars</i>)	14.9
Imports of Goods and Services (<i>annualized, current dollars</i>)	2.6

Source: Statistics Canada

Overall, a substantive improvement in the goods trade balance overshadowed smaller deteriorations in the services trade balance and the balance on investment incomes to improve the current account balance by \$11.3 billion in the first quarter.

Although the creation of full-time jobs in Canada continued in the first quarter of 2004 (up 39,800), this job expansion was more than offset by a reduction of 50,100 part-time jobs, for a net loss of 10,300 jobs in the quarter. Nevertheless, the average unemployment rate for the quarter fell to 7.4% from 7.5% the previous quarter.

Inflation continued to decline over the quarter, falling to 0.9% from 1.7%. Similarly, core inflation declined from 1.9% to 1.3%.

The Canadian dollar broke the previous upward trend vis-à-vis the American dollar and registered a modest 0.1% decline in the first quarter—the quarterly average value of the "Loonie" was 75.89 US¢.

1 To make quarterly data comparable to annual data, the quarterly figures for trade in goods and services are adjusted for seasonality and are expressed at annual rates by raising them four times, i.e. seasonally adjusted annual rates - s.a.a.r. All figures, with the exception of investment figures, are expressed on an s.a.a.r. basis, unless otherwise noted.

Prepared by the Trade and Economic Analysis Division (EET)



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Trade and Investment Highlights

Goods Exports Expand More Rapidly Than Goods Imports

With reduced exchange rate volatility, exports of Canadian goods and services increased strongly (14.9%) in the first quarter (Figure 1). A 17.3% quarterly increase in goods exports was accompanied by a 0.7% expansion in services exports.

Imports of goods and services grew a more modest 2.6% in the quarter, reflecting a 2.5% increase in commodity imports and a 2.8% expansion in services imports.

Over half of the \$15.8 billion quarter-over-quarter increase in merchandise exports was accounted for by increased energy exports (up \$8.4 billion, or 78.9%), as energy prices rebounded in the first quarter. In addition, expanded exports of machinery and equipment (up \$4.6 billion, or 23.9%), industrial goods (up \$3.6 billion, or 22.9%), forestry (up \$1.0 billion, or 11.9%), and consumer goods (up \$0.2 billion, or 5.9%) also contributed to the advance (Figure 2). On the other hand, there was a slight reduction in agricultural exports, while automo-

tive exports fell by \$0.5 billion, or by 1.9%. The gains this quarter came on the heels of a 1.8% decline the previous quarter.

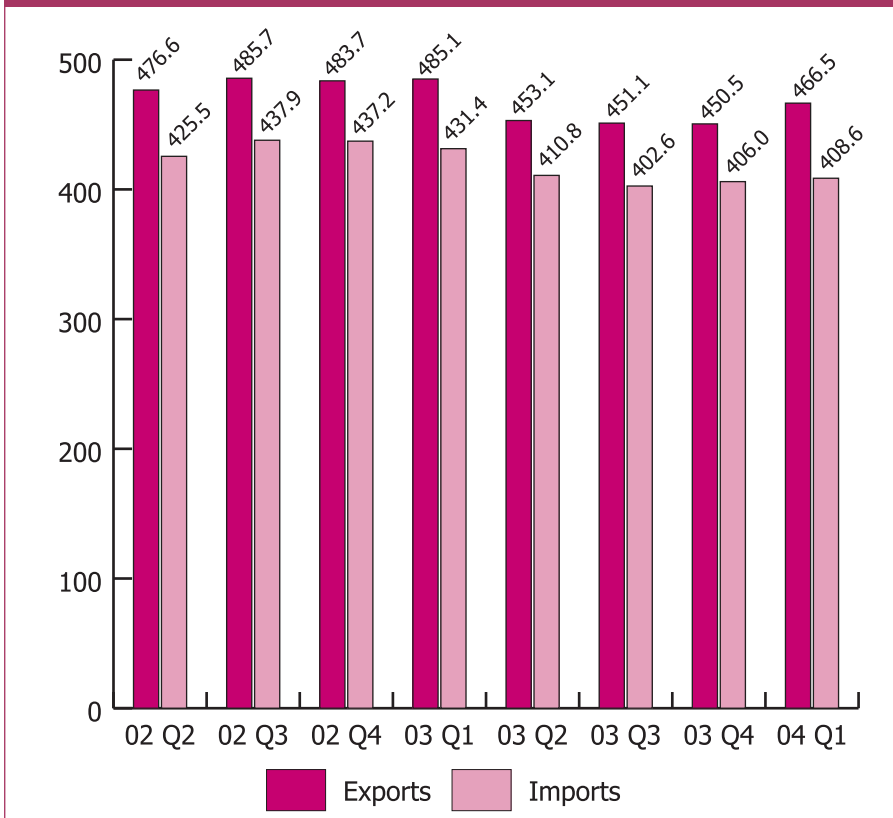
Merchandise imports increased by \$2.1 billion (up 2.5%) in the first quarter. Machinery and equipment led the gains (up \$2.3 billion, or 10.0%), followed by industrial goods (up \$2.0 billion, or 13.1%), energy (up \$0.6 billion, or 12.6%), and a small increase in agricultural goods. Imports of automotive products fell by 10.6%, or \$2.1 billion (after rising \$2.8 billion the previous quarter) and those of consumer goods declined by \$0.7 billion, or 6.3%.

Merchandise exports expanded to all major markets in the quarter: to the US by \$10.8 billion (or 14.2%); to Other countries by \$2.7 billion (or 54.7%); to Japan by \$1.1 billion (or 62.4%); to Other OECD countries by \$1.1 billion (or 35.9%); and, modestly, to the EU (up \$0.1 billion, or 1.8%).

Similarly, merchandise imports from all major markets also expanded in the quarter, with the exception of imports from Japan. Imports from the EU were up by \$1.0 billion (or 12.8%), those from Other OECD countries by \$0.5 billion (or 11.7%), those from the US by \$0.3 billion (or 0.6%), and those from Other countries by \$0.3 billion (or 2.8%). The decline in imports from Japan was \$0.1 billion, or 3.5%.

Figure 1: Canada's Trade in Goods and Services

(Billions of Dollars, Annualized)



Source: Statistics Canada

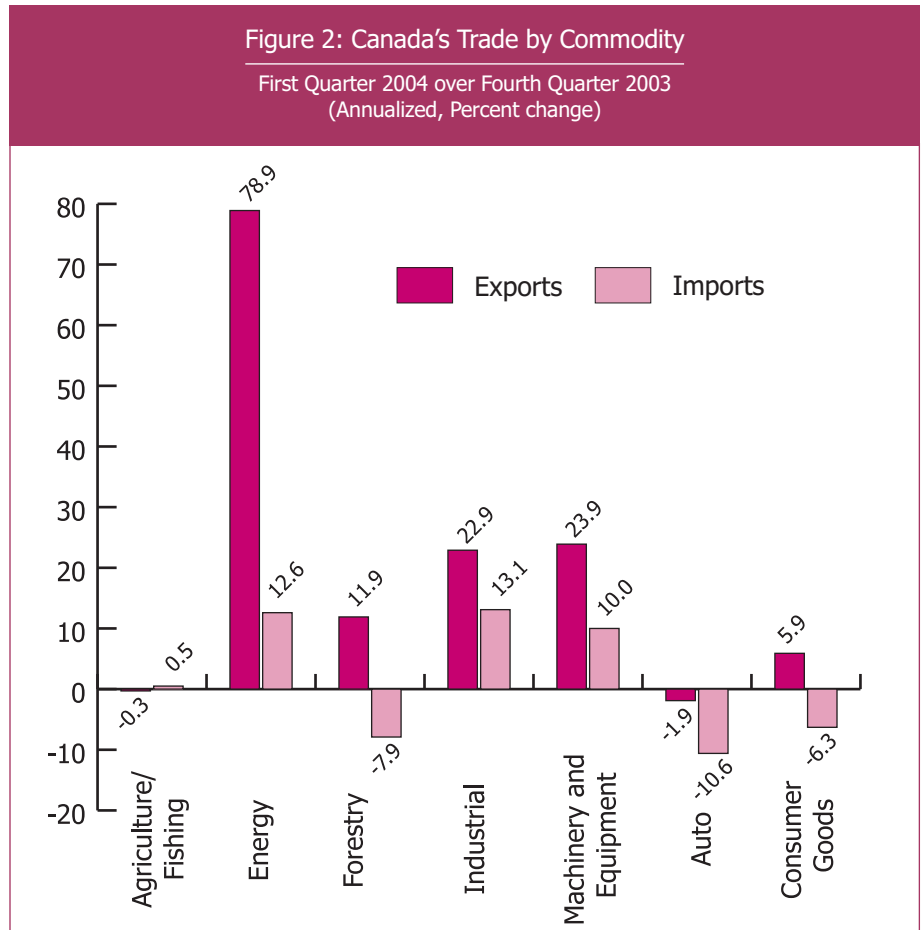
With goods exports expanding faster than imports, the merchandise trade balance improved by \$13.7 billion in the quarter, to \$70.0 billion on an annualized basis. The merchandise trade balance improved for all major markets, with the exception of the EU. It was up by \$10.4 billion with the US, up by \$2.5 billion with Other countries, up by \$1.3 billion with Japan, up by \$0.5 billion with Other OECD countries, but down \$0.9 billion with the EU.

Services Imports Expand More Rapidly Than Services Exports

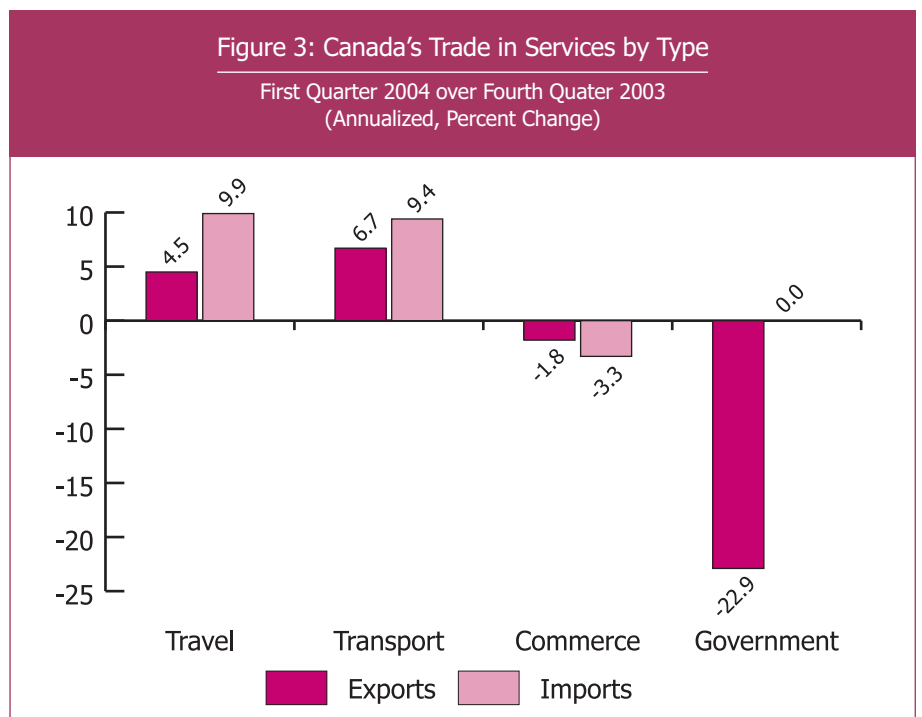
Canadian services exports grew a modest 0.7% in the first quarter, as gains in transport services (up \$172 million, or 6.7%) and travel services (up \$164 million, or 4.5%) were largely offset by a declines in commercial services (down \$152 million, or 1.8%) and government services (down \$88 million, or 22.9%), see Figure 3.

Services imports advanced \$496 million or 2.8%. Similar to services exports, increases in travel services (up \$480 million, or 9.9%) and transport services (up \$328 million, or 9.4%) were partially offset by reduced commercial services (down \$312 million, or 3.3%). Government services imports remained flat over the previous quarter.

Overall, the services trade deficit widened to \$12.2 billion on an annualized basis in the first quarter from \$11.8 billion in the previous quarter.



Source: Statistics Canada



Source: Statistics Canada

Inward Foreign Direct Investment (FDI) Flows Exceed Outward FDI Flows

Flows of Canadian Direct Foreign Investment Abroad (CDIA) were \$4.7 billion in the first quarter of 2004 - equivalent to the outflows recorded in the first quarter in 2003. From an industrial sector perspective, outflows increased in the machinery & transport and services & retail sectors over year-earlier flows. However, these increases were offset by a substantial drop in the finance & insurance sector. Regionally, CDIA flows declined to the EU (down

\$2.4 billion) and the US (down \$0.5 billion), whereas they increased to Other OECD countries (up \$2.0 billion), non-OECD countries (up \$0.7 billion), and to Japan (up \$0.3 billion).

Foreign Direct Investment (FDI) into Canada remained flat at \$5.3 billion in the first quarter of 2004, roughly comparable to the \$5.2 billion the same quarter the previous year. Although FDI flows declined in machinery & transport (down 2.2 billion), energy (down \$2.0 billion), and finance & insurance (down \$1.7 billion), a \$5.8 billion increase in FDI flows to Other (unspecified) sectors largely offset

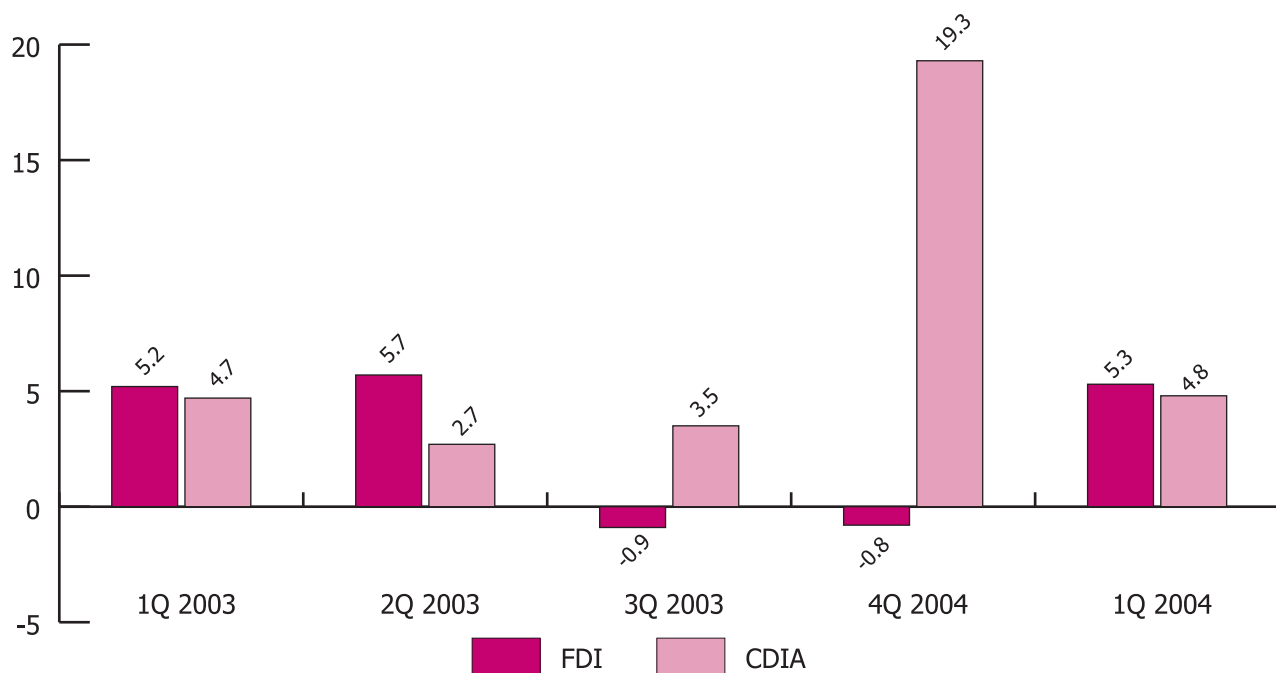
these declines. The remaining sectors (services & retailing plus wood & paper) managed to record small increases.

Regionally, declining FDI flows from the US (down \$0.8 billion) and Japan (down \$0.2 billion) were offset by increased FDI flows from the EU (up \$1.1 billion).

Canada Adds to Its Official International Reserves

Canada added \$236 million to its official reserves holdings in the first quarter of 2004, compared with a \$2.7 billion reduction in the same quarter in 2003.

Figure 4: Foreign Direct Investment in Canada (FDI) and Canadian Direct Investment Abroad (CDIA)
(Quartely Flows, Billions of Dollars)



Source: Statistics Canada