

Monthly Trade Bulletin

Volume 1, Number 3

February 2000

Highlights

- December's exports were up 1.4% over the previous month and 12.9% over the previous year. Exports to the U.S. experienced a somewhat smaller increase over the previous month (1.3%) but a larger increase over the previous year (13.3%).
- Imports increased at a significantly faster pace than exports at 3.2% over the previous month, with imports from the U.S. showing a 3.5% increase. Nevertheless imports increased at a considerably slower pace than exports over the previous year.
- Canada's trade balance declined significantly compared to November, falling some \$400 million to \$2.7 billion in December, mostly due to the decline in the trade balance with the United States.
- Commodity prices increased 0.9% over December while the Canadian dollar gained a full cent and a half. Over the past year, commodity prices increased by over 26 percent, and the value of the Canadian dollar increased by more than 4 cents.
- Export prices changed little over the previous month, up only 0.1%. Import prices, however, declined by 0.6%.

Key Monthly Trade Indicators (December 1999)

	\$ millions	% change over	
		previous month	previous year
Exports	31,446	1.4	12.9
- Exports to U.S.	26,940	1.3	13.3
Imports	28,239	3.2	8.9
- Imports from U.S.	21,140	3.5	4.8
Trade Balance*	2,742	3,207	1,492
- Balance with U.S.*	5,410	5,800	3,211
Commodity Prices**	106.3	0.9	26.1
Canadian Dollar (US¢)*	69.3	67.8	65.2
Export Prices**	117.7	0.1	2.3
Import Prices**	108.1	-0.6	-5.0

* Data in levels only.

** Index (1992=100)

Source: Industry Canada compilations based on Statistics Canada data.

This Month's Feature Report: Canada's Automotive Trade



Team Canada Inc. - Équipe Canada inc.

Produced by the Micro-Economic Policy Analysis Branch, Industry Canada by Aaron Sydor and Jennifer Brill, under the direction of Rick Cameron and Someshwar Rao.

Canada 

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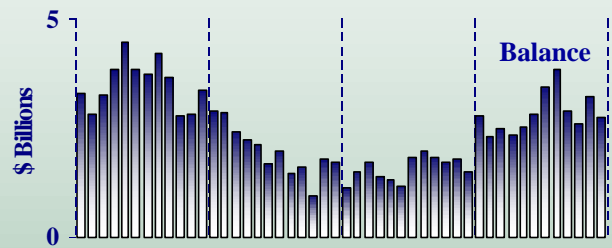
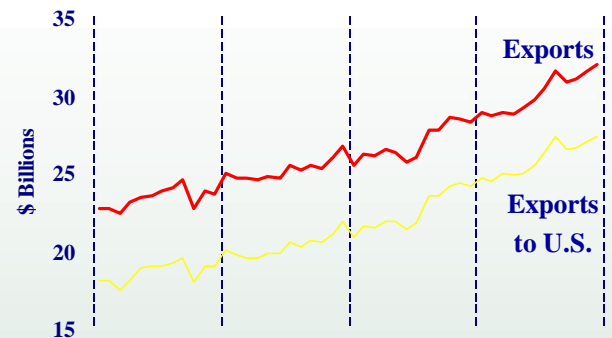
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Merchandise Trade

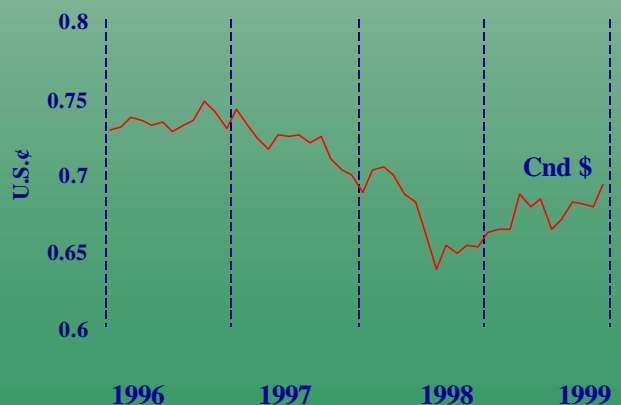
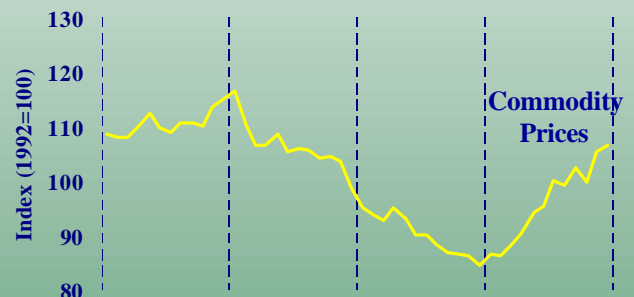
Exports reach a record level

- Merchandise exports reached a record \$31.8 billion in December, as exports to non-U.S. destinations picked up. Exports to the U.S. also increased to reach \$27.2 billion, but remained slightly off the peak of \$27.3 billion achieved in August.
- Merchandise imports from all destinations increased significantly. Imports from the U.S. increased 4.8% over the last year to \$21.1 billion but much less than the 8.9% rise in merchandise imports from the world which rose to \$28.2 billion.



Despite only a small rise in commodity prices, the Canadian dollar registers significant gains

- Commodity prices in December reached their highest point, 106.3, since May 1997 recovering significantly from the low of 84.3 in December 1998.
- ▶ This increase was driven primarily by significant increases in energy prices over the past year.
- Similarly, the Canadian dollar closed 1999 at 69.3 cents, its highest since April 1998. The dollar is up 5.6 cents from the low of 63.8 cents in August 1998.



Source: Statistics Canada, Bank of Canada

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Mixed Performance for Team Canada Sectors

- Two Team Canada sectors showed exceptional rates of growth, greater than 20% over the first 11 months of 1999, compared to the same period in 1998. Automotive exports grew at a tremendous 24.7% and Environmental Products at 22.8%.
 - Building Products, growing 12.8% was the only other sector to outperform growth in total merchandise exports at 11.2%.
- Only Agri-food experienced a decline in exports during this period, losing 4.7% compared to the same period last year.
- The industrial structure of trade balances remained more or less the same in 1999 as in 1998 (with the exception of the automotive sector) reflecting Canada's comparative advantage (disadvantage) position.
- In the automotive sector, Canada's trade balance in the first 11 months was close to \$8 billion compared to a small deficit in the first 11 months of 1998.

Merchandise Trade, (Team Canada Sectors)

Team Canada Sectors	Exports			Imports			Balance	
	Millions		Growth	Millions		Growth	Millions	
	1998 YTD*	1999 YTD*	1998-1999	1998 YTD*	1999 YTD*	1998-1999	1998	1999
Aerospace & Defence	12,202	13,060	7.0%	12,987	14,822	14.1%	-785	-1,762
Agri-Food	21,036	20,038	-4.7%	14,971	15,082	0.7%	6,065	4,956
AMT**	3,111	3,192	2.6%	3,685	3,859	4.7%	-574	-667
Automotive	68,511	85,416	24.7%	68,671	77,458	12.8%	-159	7,958
Building Products	14,798	16,698	12.8%	12,348	13,446	8.9%	2,450	3,253
Electrical Power Equipment	4,987	5,377	7.8%	8,185	9,777	19.5%	-3,198	-4,401
Environmental Products	645	792	22.8%	1,142	1,370	20.0%	-497	-578
Health	3,018	3,355	11.2%	5,539	6,233	12.5%	-2,521	-2,878
ICT***	23,194	24,975	7.7%	42,087	46,778	11.1%	-18,893	-21,803
Plastics	6,934	7,517	8.4%	6,358	6,953	9.4%	576	564
Total Merchandise Exports	291,109.3	323,602.0	11.2%	273,858.3	293,250.5	7.1%	17,251.0	30,351.6

* YTD - Year-to-date

** AMT - Advanced Manufacturing Technologies

*** ICT - Information and Communication Technologies

Source: Industry Canada compilations based on Statistics Canada Data

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Canada's Automotive Trade

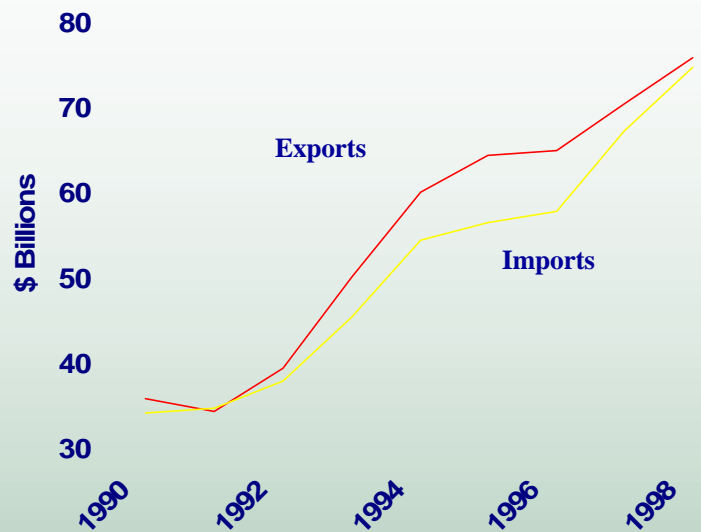
In the 1990's, automotive trade more than doubled...

- Over 1990-98, automotive trade more than doubled with exports increasing from \$36 billion to \$76 billion and imports from \$34 billion to \$75 billion.
- During the 1990s, automotive exports grew 11.8% annually — nearly two full percentage points higher than merchandise trade as a whole.
 - ▶ For the first 11 months of 1999, automotive exports have been growing at a pace of 20% per year.
- Canada's automotive import growth during 1990-98 was even stronger, averaging 12.1%.

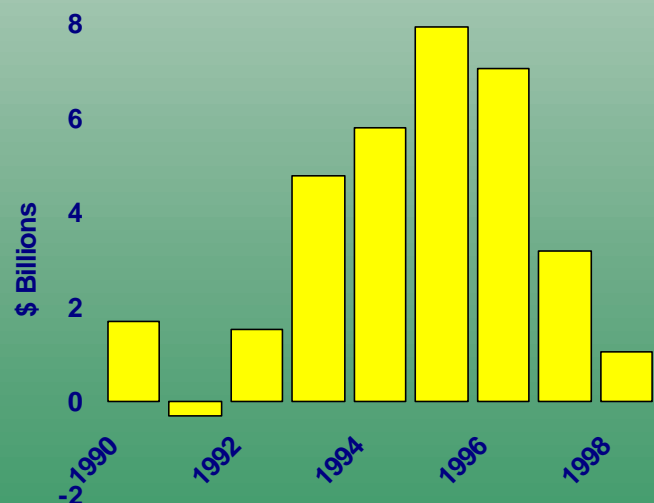
...but the trade balance has been shrinking since the mid 1990s

- Canada's has maintained a positive trade balance in automobiles throughout the nineties, with the exception of 1991.
- From 1991 to 1995, the trade balance increased steadily, rising to \$8 billion, but has declined continuously since then, falling to \$1 billion in 1998.
- For the first 11 months of 1999, export growth has outpaced that of imports by a considerable margin, leading to a trade surplus of more than \$6 billion, comparable to the 1996 level.

Automotive Trade



Automotive Trade Balance



Source: Industry Canada compilations based on Statistics Canada Data

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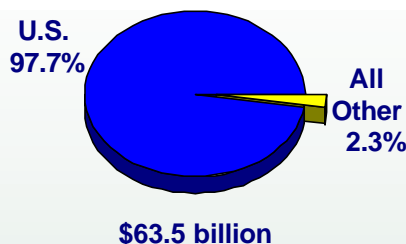
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Canada's Automotive Trade

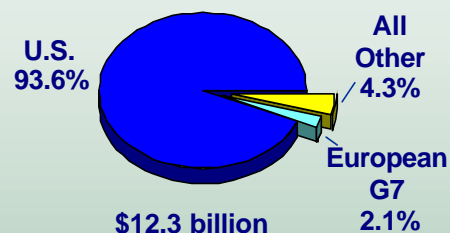
Nearly all of our automotive exports go to the U.S.

- More than 97% of our vehicle exports and 93% of parts exports go to the U.S. — \$62.0 billion worth of vehicle exports and \$11.5 billion in parts.
- ▶ The importance of the U.S. as an export destination may be somewhat overstated however, as some exports, particularly assembled vehicles, may first be exported to the U.S. parent and then re-exported to their final destination.

Vehicle Exports, 1998



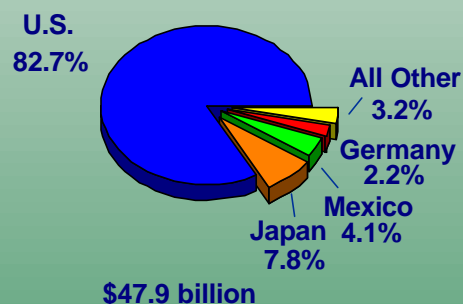
Parts Exports, 1998



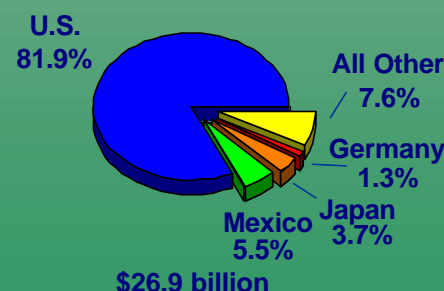
Imports, however, tend to be more diversified

- The U.S. also accounts for the vast majority of automotive imports — 83% of vehicles and 82% of parts in 1998, and its shares have increased substantially since 1990.
- Japan accounted for 7.8% of vehicle imports and 3.7% of parts imports in 1998. Both of these shares, however, are down considerably from the 1990 levels, due to increased imports from the U.S. and Mexico.
- In 1998, Mexico moved to the number two position behind the U.S. in parts imports and third after Japan in assembled vehicles.

Vehicle Imports, 1998



Parts Imports, 1998



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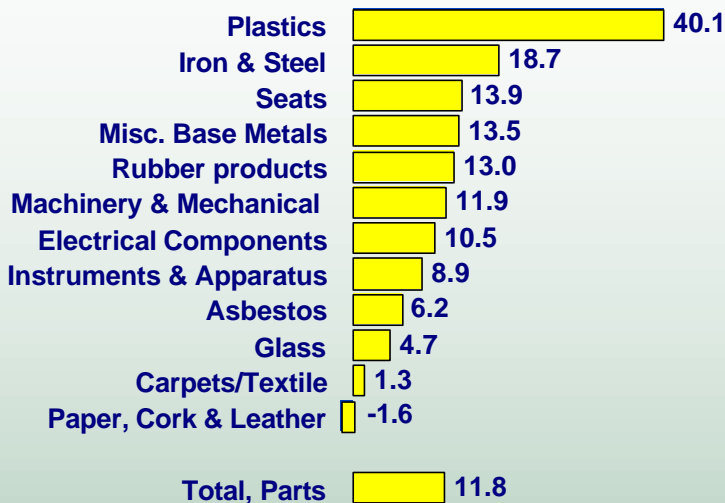
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Canada's Automotive Trade

Export growth in motor vehicle parts has been strong...

- Export growth of automotive parts in total outpaced export growth of vehicles between 1990 and 1998, 11.8% vs. 9.7% per year.
- This was lead by growth in Plastics (40%), Iron & Steel (18.7%) and Seats (13.9%).

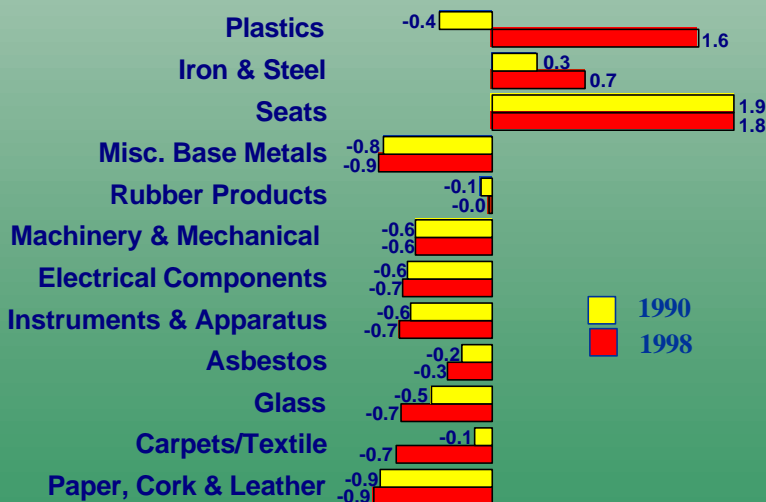
Growth in Exports — Auto Parts (Annual Average, Percent, 1990-98)



...especially in areas where we have a strong comparative advantage

- Trade balances by product give an indication of Canada's comparative advantage and disadvantage position.
- Canada has a strong comparative advantage in Plastics, Iron & Steel and Seats, as shown by the large trade balances.
- ▶ In all other products, Canada registered negative and growing trade balances in both 1990 and 1998.

Trade Balances — Auto Parts (Percent of Exports, 1990 and 1998)



Source: Industry Canada compilations based on Statistics Canada Data

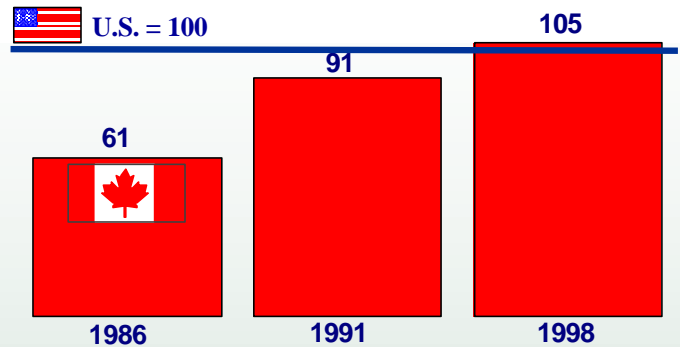
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Canada's Automotive Trade

Labour Productivity* in Automotive Assembly and Parts



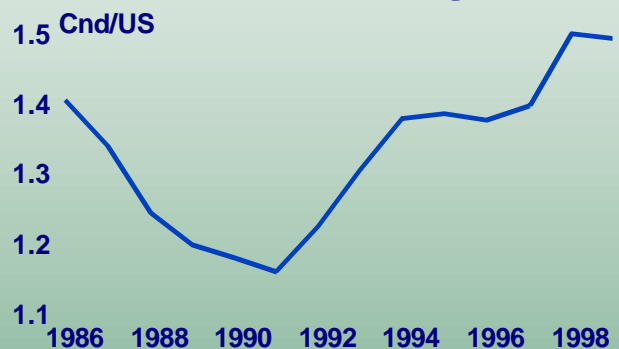
* Real GDP per hour, 1992 PPP

Source: Stanford, Jim "A Success Story: Canadian Productivity Performance in Auto Assembly", 2000.

Canadian labour productivity exceeds the U.S. level...

- In 1998, Canadian labour productivity in the automotive industry surpassed the U.S. level by 5%, compared to a productivity disadvantage of about 40% in 1986.

Canada-US Exchange Rate

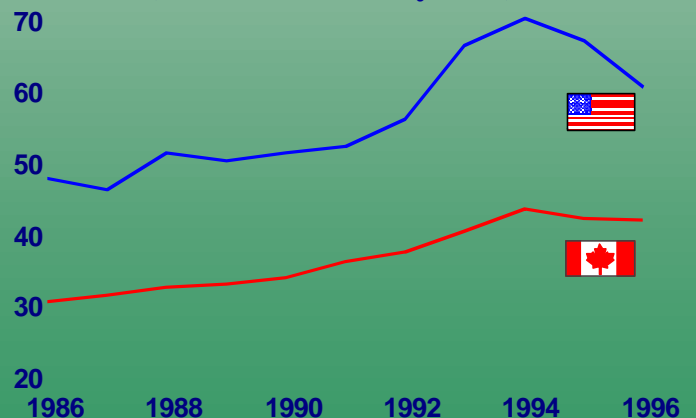


Source: Statistics Canada

...contributing to a huge cost advantage for Canada

- The low value of the Canadian dollar lower wages and salaries and higher productivity give Canada a huge cost advantage.
- For instance, in 1996, Canadian wages in the motor vehicle industry were on average one-third lower than the U.S. (measured in terms of purchasing power parities).

Average Wages in Motor Vehicle Industry (Thousands US\$/year*)



* Converted using 1990 PPPs

Source: Industry Canada compilations from OECD STAN Database