

Monthly Trade Bulletin

Volume 2, Number 5

July 2000

Key Monthly Trade Indicators (May 2000)

Highlights

-  The overall trade balance was up considerably in May, increasing by \$791 million.
-  Export growth was generally strong, rising 4.6%. Imports did not perform as well, gaining only 2.4%.
-  Canada's trade surplus with the U.S. hit an all-time high of \$7.5 billion in May, led by strong export growth of 4.3%. Imports remained almost unchanged.
-  Export, import and commodity prices changed little in May.
-  The Canadian dollar softened in May, losing eight-tenths of a cent U.S.

	\$ millions	% change over	
		previous month	previous year
Exports	34,298	4.6	18.4
- Exports to U.S.	29,610	4.3	19.2
Imports	30,550	2.4	15.3
- Imports from U.S.	22,143	0.6	8.8
Trade Balance*	3,748	2,957	2,465
- Balance with U.S.*	7,467	6,381	4,489
Commodity Prices**	110.5	1.6	17.6
Canadian Dollar (US¢)*	66.8	67.6	67.8
Export Prices**	118.6	0.3	3.9
Import Prices**	112.8	2.5	1.7

* Data in levels only.

** Index (1992=100)

Source: Industry Canada compilations based on Statistics Canada data.

This Month's Feature Report: Trade Liberalization and Productivity



Team Canada Inc - Équipe Canada inc

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Canada 

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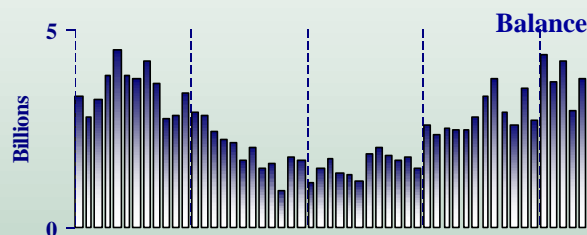
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Merchandise Trade

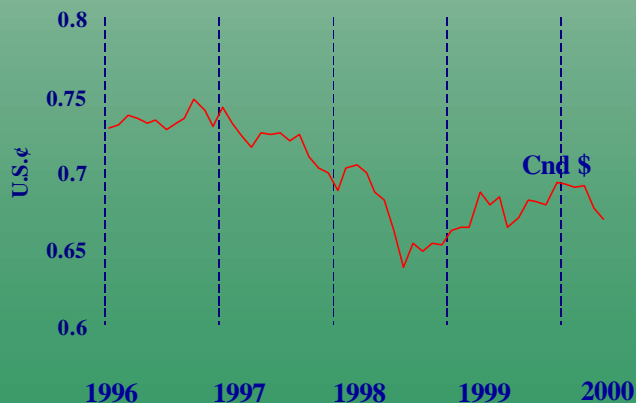
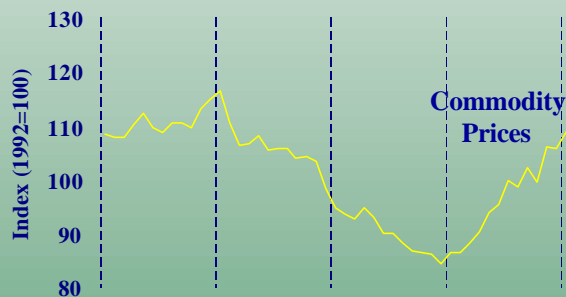
The trade balance increased considerably, bolstered by a record surplus with the U.S.

- Exports to the U.S. increased by 4.6% in May while imports rose only 0.6%. The trade surplus with the U.S. reached a record \$7.5 billion.
- The trade balance with all other major regions remained in deficit. A large increase in the trade deficit with the Asia-Pacific region (excluding Japan) somewhat offset the impact of the huge increase in the trade surplus with the U.S. on the overall trade balance.



The Canadian dollar continues to ease back

- The Canadian dollar fell for the second month in a row in May and was down 2 1/2 US¢ from its peak of 69.3 US¢ at the end of 1999.
- This was despite stronger commodity prices. Although not changing significantly in May, prices were still close to their peak level in March 2000.



Source: Statistics Canada, Bank of Canada

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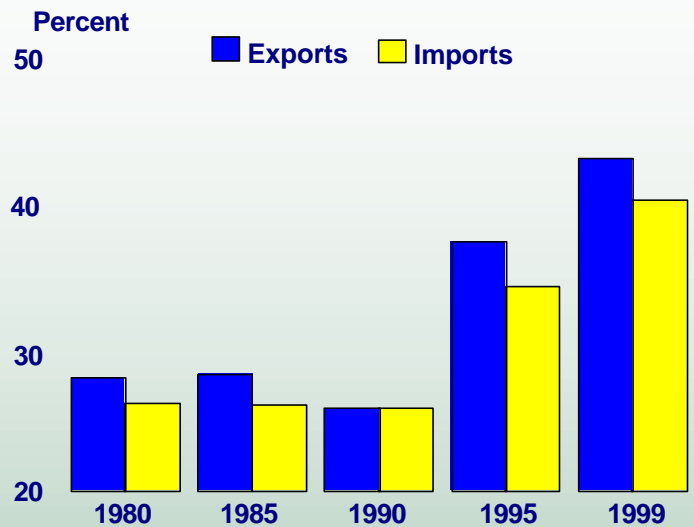
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Trade Liberalization and Productivity

International trade increased dramatically since the FTA

- Growth of Canadian exports and imports increased dramatically over the 1990-1999 period, following the implementation of the Canada-U.S. Free Trade Agreement (FTA) in 1989 and NAFTA in 1994.
 - ▶ The share of exports in GDP increased from 25.7% to 43.2% between 1990 and 1999. Similarly, the share of imports rose from 25.7% to 40.3%.
- In comparison, in the decade leading up to the FTA, exports and imports as a share of gross domestic product were virtually unchanged.

Exports and Imports as a Share of GDP

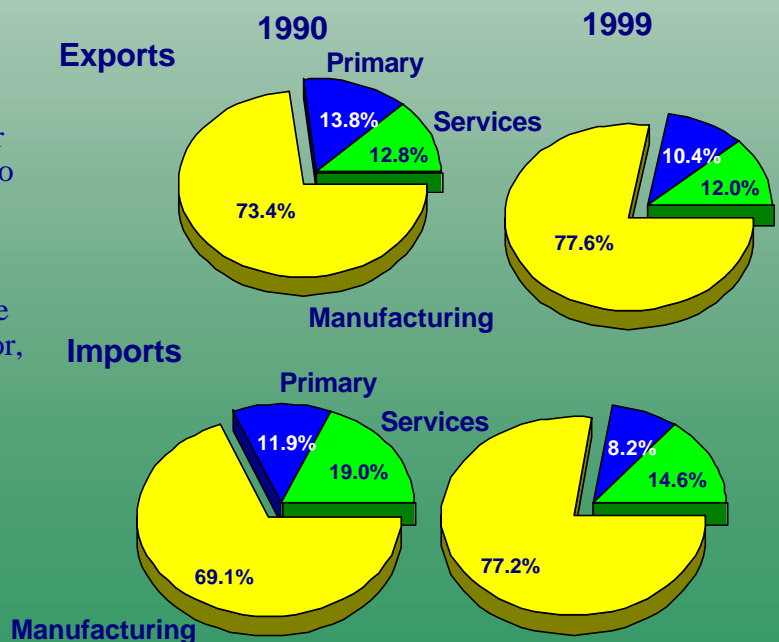


Source: Statistics Canada

Manufacturing share of exports and imports increased

- Despite sharp increases in international trade in services, the manufacturing sector is the only one of the three broad sectors to increase its trade share between 1990 and 1999.
- Services accounted for a fairly stable share of exports. The share of the primary sector, on the other hand, declined during this period.

Distribution of Exports and Imports by Major Sector



Source: Statistics Canada

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Trade Liberalization and Productivity

Since the FTA, the export sector had relatively faster labour productivity growth...

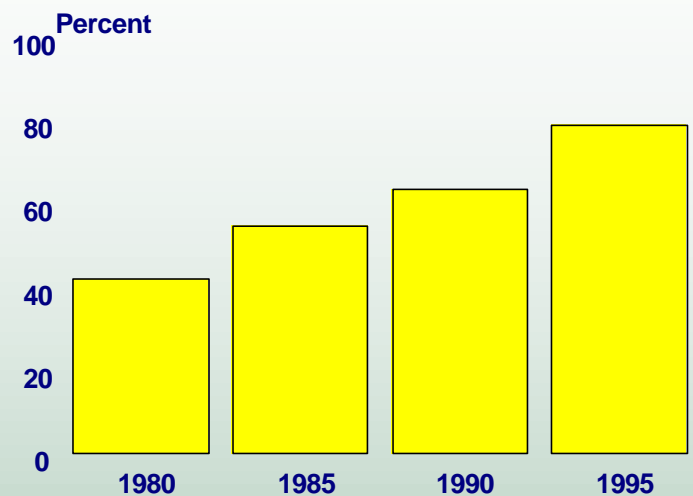
- The labour productivity level gap between the export and non-export sectors increased during the 1980-1995 period, particularly after the implementation of the FTA.[†] This could be due to increased product specialization in the export sector.
- In 1995, labour productivity was 80 % higher in the export sector than in the non-export sector, compared to only about a 40% advantage in 1980.

...and it caught up to the non-export sector in terms of capital productivity

- Similarly, capital productivity increased much faster in the export sector than in the non-export sector during the 1980-1995 period.
- In 1995, the capital productivity of the export sector was slightly higher than that of the non-export sector, compared to a nearly 30% deficit in 1980.

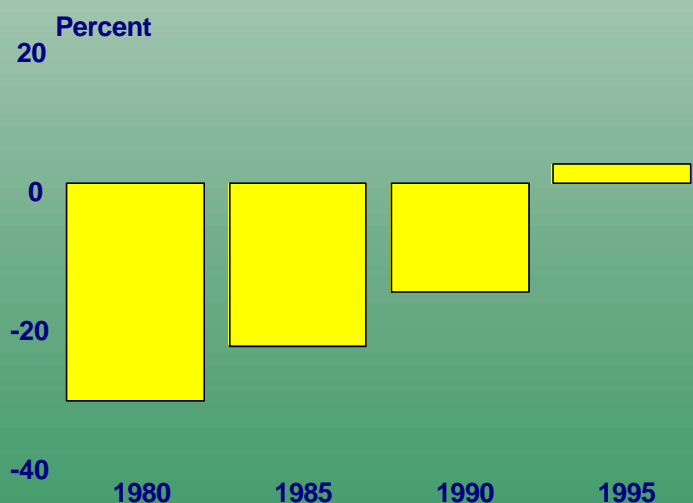
[†] The export sector is defined as industries either directly or indirectly involved in the production of exports. The non-export sector are those industries neither directly nor indirectly involved in the production of exports.

Labour Productivity* Advantage in Export Relative to Non-Export Sectors



* Gross output in 1992 dollar per hour worked.
Source: Statistics Canada

Capital Productivity* Advantage in Export Relative to Non-Export Sectors



* Ratio of gross output in 1992 dollars to net capital stock in 1992 dollars.
Source: Statistics Canada

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Trade Liberalization and Productivity

The faster labour productivity growth in the export sector was not due to faster growth in capital intensity...

- In comparison to the total business sector, exports and imports were both more capital intensive (amount of capital per unit of labour) during the 1980-1995 period. However, the gap in capital intensity declined over the period.

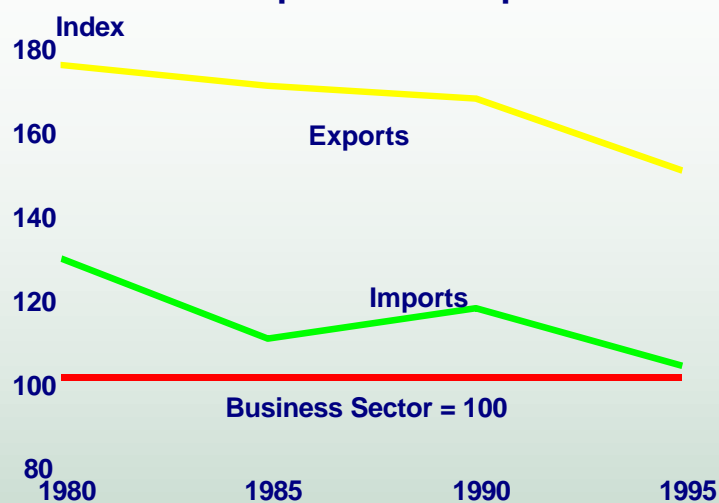
...and not because of faster growth in skill intensity...

- There is no evidence that the composition of exports shifted towards industries with more skilled workers.
 - ▶ The share of skilled workers in the export sector increased at a rate similar to the total business sector over the 1980 to 1995 period.

...but, to other factors

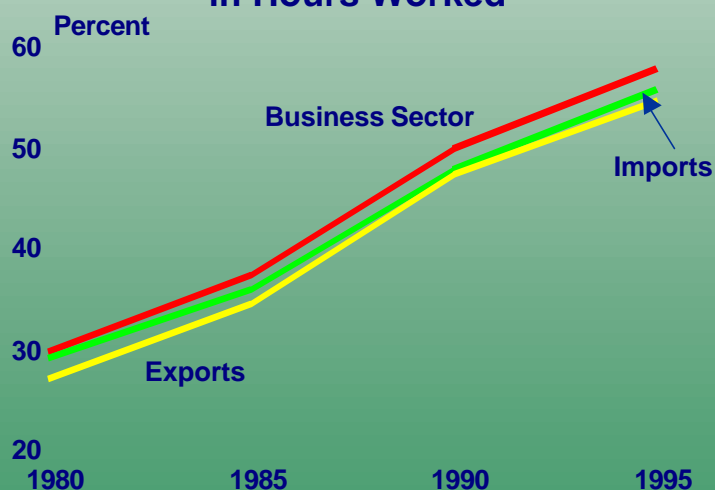
- These trends imply that faster growth in labour productivity in the export sector was due to faster improvements in the efficiency of capital and labour inputs due to increased product specialization, scale economies, and better allocation and utilization of productive inputs.

Capital/Labor Ratio* in Exports and Imports



* Net capital stock in 1992 dollars per hour worked.
Source: Statistics Canada

The Share of Skilled Workers* in Hours Worked



* Workers with a minimum of post-secondary education
Source: Statistics Canada

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Trade Liberalization and Productivity

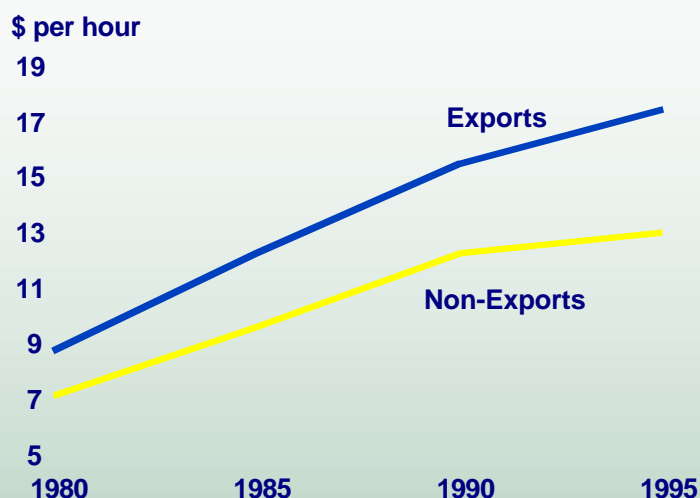
The export sector paid increasingly higher wages to workers in the post-FTA period...

- In comparison to the non-export sector, the export sector had faster growth in worker income, particularly after 1990.
 - ▶ Hourly wage rates were 35% higher in the export sector than in the non-export sector in 1995, compared to only 23% higher in 1980.

...and realized greater returns on investment than the non-export sector by 1995

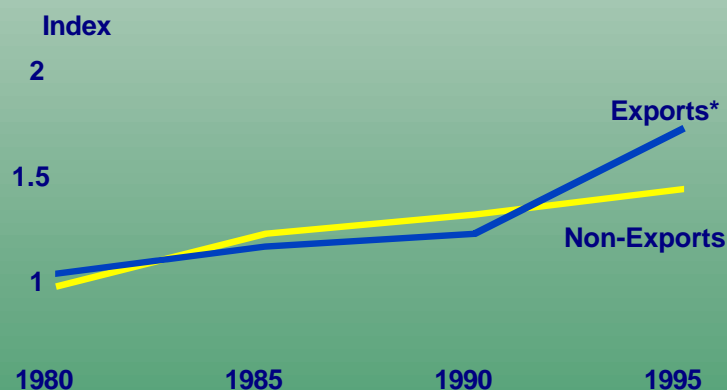
- During the 1980s, return on investment was similar in both the export and non-export sectors.
- However, following trade liberalization, return on investment grew significantly faster in the export sector.
 - ▶ By 1995, return on investment was 20% higher than in the non-export sector.

Nominal Worker Income in the Export and Non-Export Sectors



Source: Statistics Canada

Nominal Capital Income in the Export and Non-Export Sectors



* 1980=1 for the export sector.
Source: Statistics Canada

This special report was prepared in collaboration with Wulong Gu and Lori Whewell of the Micro-Economic Policy Analysis Branch, Industry Canada and is based on the paper "Trade Liberalization, Patterns of Trade and Productivity" by Wulong Gu and Lori Whewell, May 2000.