S U P P L E M E N T
CanadExport

Canadian Trade Review

A Quarterly Review of Canada's Trade Performance

First Quarter 2003

This quarterly review reports on Canada's economic growth in the first quarter of 2003, and highlights our trade and investment performance in key sectors and markets.

Energy Fuels Export Expansion while Imports Decline

The Canadian economy continued to expand in the first quarter of 2003, with real gross domestic product (GDP) increasing by 2.4% on an annualized basis.[1] The economy thus showed more robust growth than the 1.6% expansion registered in the fourth quarter of 2002; the Canadian rate was also ahead of the preliminary 1.9% rate registered in the U.S. for the same period. Strong inventory build-up was the primary factor sustaining Canadian economic growth for the quarter, supported by sustained consumer spending. Expenditure on housing and related renovations continued to expand, while spending on durable goods—in particular motor vehicles—levelled off in comparison to the previous quarter. Nevertheless, with respect to production, performance in the manufacturing sector was mixed. Although manufacturers of motor vehicles and parts expanded their production in the quarter, weaknesses in other sectors were evident; slowing sales in the weaker sectors contributed to the inventory build-up.

Table 1: Canada's Economic and Trade Indicators

Percent Change at Annual Rates
First Quarter 2003 over Fourth Quarter 2002

Real GDP *(annualized)*	2.4
Employment *(quarterly increase, level)*	67,300
Rate of Unemployment *(quarterly average)*	7.4
Consumer Price Index *(first quarter 2003 over first quarter 2002)*	
All Items	4.5
Core *(excludes food and energy)*	3.1
Canadian $ in U.S. funds *(average for quarter, level)*	0.6624
Exports of Goods and Services *(annualized, current dollars)*	0.5
Imports of Goods and Services *(annualized, current dollars)*	-5.4

Source: Statistics Canada

In current dollar terms, exports of goods and services grew by 0.5% in the quarter, compared to a 0.4% decline in the previous quarter. A steep rise in energy exports was offset by declining exports in other goods sectors and in services exports. Imports declined by 5.4% in the quarter—the result of falling goods and services imports in most sectors.

Canada's current account improved in the first quarter. In addition to the improvement in the trade balance, reduced (net) interest payments to owners of inward Foreign Direct Investment (FDI) in Canada also contributed to the improvement.

Strong job creation continued in the first quarter of 2003, with a net quarterly increase of 67,300 jobs. Although full-time positions continued its strong expansion at 84,600 jobs, part-time positions declined. The average unemployment rate for the first quarter was 7.5%, comparable to the 7.6% rate recorded in the third quarter of 2002, but up somewhat from the 7.0% registered in the previous quarter.

The average twelve-month increase in the overall Consumer Price Index (CPI) was 4.5% during the first quarter of 2003, up from 3.8% in the last quarter of 2002. Similarly, the average core items CPI rate (excluding food and energy) reached 3.1% over the quarter, up from 2.8% recorded in the previous quarter.

The average U.S dollar value of the Canadian dollar over the first quarter of 2003 was US$ 0.6624– a 4.0% appreciation from the US$ 0.6370 average for the fourth quarter of 2002.

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)

Department of Foreign Affairs and International Trade **Ministère des Affaires étrangères et du Commerce international**

Trade and Investment Highlights

Energy Sector Exports Rise, Mediocre Performance Elsewhere

Exports of Canadian goods and services expanded by 0.5% in the first quarter (Figure 1). A 2.4% increase in merchandise exports was offset by a 11.9% drop in services exports. Imports of goods and services fell by 5.4%, reflecting declines in both commodity and services imports.

Although merchandise exports did expand in the first quarter, increased energy exports masked deteriorating export performances in the other goods sectors. Price increases in the energy sector, particularly in the price of natural gas, resulted in the highest level of quarterly energy exports in the last two years (Figure 2). Elsewhere in the economy, export declines were especially pronounced for forestry products (down 19.5% or $1.9 billion) and industrial goods (down 11.2% or $2.0 billion). Merchandise imports of energy products also expanded (up 27.9% or $1.2 billion) and were up for agricultural products (9.0% or $0.5 billion), but these gains were more than offset by steep declines in imports of machinery and equipment (down 14.1% or $4.0 billion) and automotive products (down 7.7% or $1.7 billion).

Merchandise exports to the US increased slightly, up by 1.0% or $0.9 billion, in the quarter. Increased merchandise exports to the European Union (up $2.4 billion) and non-OECD countries (up $1.2 billion) were the major factors contributing to the regional gains for merchandise exports in the quarter, while goods exports to Japan fell by $0.3 billion and those to Other OECD countries declined by $1.7 billion.

Merchandise imports from the US experienced a substantial decline in the quarter , down 6.4% or $4.2 billion. Further abroad, a $0.7 billion increase in imports from the EU was insufficient to offset substantive declines in all other major markets.

With exports growing and imports falling, the Canadian merchandise trade balance expanded by $7.6 billion in the quarter. At $5.0 billion the merchandise trade balance with the US registered the largest increase. The merchandise trade balance with the EU improved by $1.7 billion—entirely due to an improvement in the trade balance with the UK. A decline in the merchandise trade balance with Other OECD countries (down $1.2 billion) was more than offset by improvements in the trade balance with Japan and non-OECD countries.

Services Trade Deficit Worsened

As noted above, services exports fell by 11.9% in the first quarter, primarily due to declines in travel (down 19.5% or $900 million), transport services (down 20.2% or $644 million) and commercial services. Advances in government services exports limited the overall losses (Figure 3). Services exports to the US and Japan fell in particular. Services imports also fell in the first quarter, but, at 4.7%, the decline in services imports was more moderate than the rate of decline in services exports. The most pronounced declines were for imports of transport services (down 16.8% or $660 million) and for travel services imports (down 5.8% or 276 million). A $140 million increase in imports of commercial services was insufficient to offset the declines in imports in all other services sectors.

Because services exports declined at a more rapid rate than services imports, the deficit on services trade widened to $8.1 billion in the first quarter—up from $7.1 billion in the previous quarter.

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

Canadian Direct Foreign Investment Abroad (CDIA) was $5.6 billion in the first quarter of 2003 - down from $6.7 billion recorded in the first quarter in 2002. Although the energy and machinery & transport sectors registered increases in quarterly flows compared to the same quarter a year earlier, declining quarterly flows in the finance & insurance and in the services & retailing sectors more than offset these gains. In terms of destination, outward flows to the US and the EU increased, but were down for all other major markets.

Foreign Direct Investment (FDI) flows into Canada amounted to $3.1 billion in the first quarter of 2003 - less than one fifth of the $16.8 billion registered in the same quarter a year earlier. Most of the decrease in FDI flows occurred in the energy and machinery & transport sectors, which were down some 90% over the same quarter last year. The reduction in FDI flows stemmed from a decline in FDI from the US, which lowered its inflows to $1.5 billion in the first quarter of 2003 from $15.5 billion in the same quarter the previous year. Only partially offsetting this decline was the re-establishment of $0.4 billion in FDI from the UK, which was absent in the first quarter of 2002. Overall, outward flows exceeded inward flows in the first quarter by $2.6 billion, a reversal of the situation in the same quarter the previous year when FDI exceeded CDIA by some $10.1 billion.

Figure 1: Canada's Trade in Goods and Services
(Billions of Dollars, Annualized)

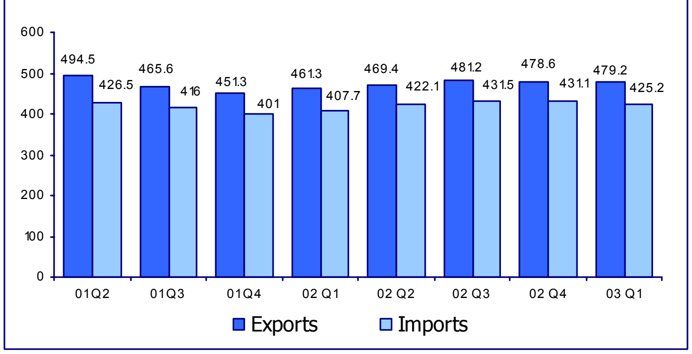


Figure 2: Canada's Trade by Commodity
First Quarter 2003 over Fourth Quarter 2002
(Annualized, Percent Change)

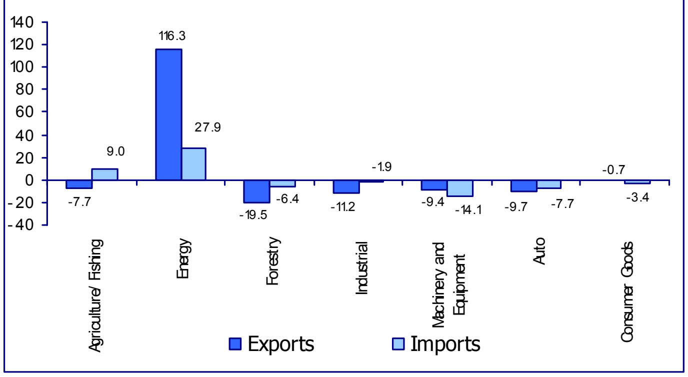
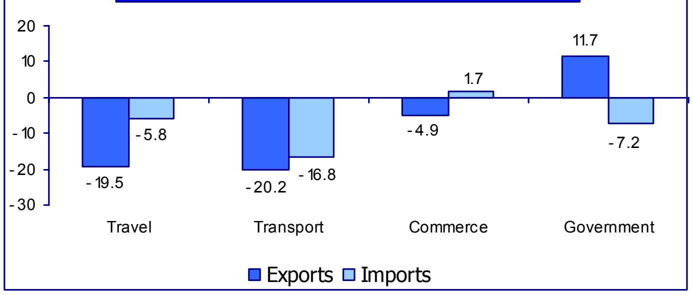


Figure 3: Canada's Trade in Services by Type
First Quarter 2003 over Fourth Quarter 2002
(Annualized, Percent Change)



Source: Statistics Canada

Canada Draws Down on Its Official International Reserves

Canada reduced its official reserves of assets in the first quarter of 2003 by $2.7 billion, compared with an $696 million increase recorded in the same quarter in 2002.

Canada's Exports to the United States by Province of Origin

This special feature reviews Canada's merchandise exports to the United States on a provincial basis to determine to what extent the provincial origin of exports to the US corresponds with the province of clearance, i.e. the geographic location where the exported goods are deemed to have left Canada to enter into the US. The data used provides information on three distinct modes of transport for exports to the US; road, rail and other modes (the latter thus includes mail, air, sea and pipeline).

Canadian Exports to the US by Province

Table 1 shows total Canadian merchandise exports to the United States by province for the year 2002. The table presents provincial export shares by Province of Origin and by Province of Clearance, where Province of Origin denotes the province in which the good was extracted, manufactured, or grown, while Province of Clearance represents the province where the border crossing took place and the good physically crossed the border into the US.

From Table 1, it is clear that Ontario and Québec account for the bulk of merchandise exports to the US — accounting for roughly three-quarters of the total exports by either measure. In terms of provinces producing goods for export to the US, Ontario produced 55.8% of the total Canadian exports to the US and Québec for another 16.6%. By the gauge of where the goods left Canada and entered the United States, 65.8% of Canadian merchandise exports to the US traversed the border from an Ontario border crossing and a further 11.0% from a Québec border crossing.

The last column of Table 1 establishes a simple relationship between the shares by Province of Origin and by Province of Clearance. If the difference between the two is positive (that is, the share of the Province of Origin less the share of the Province of Clearance), then the province produces a greater share of goods for export to the US than actual goods are cleared through the province. Thus, Québec, the Atlantic provinces (with the exception of New Brunswick), and, particularly, Alberta, produce more for export to the US than crosses the border from their respective provinces. On the other hand, the Western provinces (except Alberta) and, especially, Ontario clear relatively more goods from their border crossings than they produce for export to the US.

Of course, there are many reasons why goods produced in one province are not exported from that province. For example, pipeline exports of oil and gas can only cross the border where the pipeline networks cross the border between the two countries. Further, exports that take place via mail may be routed to regional or national centres and then transported across the border from these depots. Simple geography also helps to influence the pattern of provincial export production and border crossing. In the next section, the cross-provincial reliance on other provinces for clearance of goods is examined.

Cross-provincial Clearance of Exports to the US

Table 2 presents a cross-tabulation of export to the US by Province of Origin and Province of Clearance for 2002. The diagonal (in bold) indicates the extent to which goods produced in a province are physically exported (i.e., cleared at the border) from that province. Of note from this table is the strong role Ontario plays in clearing goods from other provinces, especially for goods of Québec origin. This also helps to explain why Ontario's share in exports by Province of Clearance in Table 1 was 10 percentage points higher than its share in exports by Province of Origin.

In terms of self-importance of producing and exporting goods (i.e., the diagonal entries of Table 2), Ontario cleared some 94.4% of its exports to the US in 2002 followed by BC (72.7%) and Manitoba (71.1%), New Brunswick (56.8%) and Quebec (54.9%). The Atlantic provinces, with the exception of Newfoundland & Labrador, favour

Table 1: Canadian Exports to the United States, Year 2002

All Modes of Transport

	Province of Origin		Province of Clearance		Province of Origin compared to
	EX $ million	Share	EX $ million	Share	Clearance
Canada	$346,457	100.0%	$346,457	100.0%	
Newfoundland and Labrador	$4,160	1.2%	$1,162	0.3%	0.9%
Prince Edward Is.	$626	0.2%	$36	0.0%	0.2%
Nova Scotia	$4,507	1.3%	$3,558	1.0%	0.3%
New Brunswick	$7,383	2.1%	$8,719	2.5%	-0.4%
Quebec	$57,344	16.6%	$38,072	11.0%	5.6%
Ontario	$193,308	55.8%	$228,031	65.8%	-10.0%
Manitoba	$7,678	2.2%	$15,042	4.3%	-2.1%
Saskatchewan	$7,011	2.0%	$13,501	3.9%	-1.9%
Alberta	$43,877	12.7%	$12,382	3.6%	9.1%
British Columbia	$20,516	5.9%	$25,934	7.5%	-1.6%
Northern Territories	$48	0.0%	$20	0.0%	0.0%

Table 2: Provincial Origin of Exports to the US versus Province of Clearance

	Province of Origin										
	NFL & Labrador	P.E.I.	Nova Scotia	NB	Quebec	Ontario	Man.	Sask.	Alberta	B.C.	N.T.
Province of Clearance											
Newfoundland and Labrador	26.6%	N/A	0.0%	0.2%	0.0%	0.0%	N/A	0.0%	0.0%	0.0%	N/A
Prince Edward Is.	N/A	5.7%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nova Scotia	25.4%	0.1%	5.8%	19.1%	0.3%	0.3%	0.4%	0.1%	0.1%	0.2%	0.0%
New Brunswick	12.0%	81.0%	56.4%	56.8%	0.4%	0.3%	0.3%	0.1%	0.0%	0.2%	0.4%
Quebec	14.5%	1.4%	6.3%	5.4%	54.9%	2.0%	1.1%	0.5%	1.8%	3.0%	0.0%
Ontario	2.4%	11.4%	29.0%	13.8%	43.5%	94.4%	19.9%	23.1%	28.3%	12.1%	31.6%
Manitoba	0.0%	0.1%	0.0%	0.1%	0.1%	0.8%	71.1%	21.4%	13.6%	2.4%	0.8%
Saskatchewan	N/A	0.0%	0.0%	0.0%	0.0%	0.3%	1.3%	29.4%	20.4%	8.8%	0.3%
Alberta	0.0%	0.0%	0.0%	0.1%	0.1%	0.5%	1.6%	20.8%	21.8%	0.6%	34.2%
British Columbia	19.1%	0.3%	2.5%	4.6%	0.7%	1.3%	4.3%	4.7%	13.9%	72.7%	10.3%
Northern Territories	N/A	N/A	N/A	N/A	0.0%	0.0%	N/A	0.0%	0.0%	0.0%	22.4%

Table 3: Provincial Origin of Exports to the US by Mode of Transport, 2002

	Provincial share of Canadian Exports to the US, $		
	Road	Rail	Other
Newfoundland and Labrador	0.3%	0.0%	4.9%
Prince Edward Is.	0.3%	0.0%	0.1%
Nova Scotia	1.3%	0.9%	1.8%
New Brunswick	1.4%	1.3%	5.0%
Quebec	19.2%	11.7%	14.3%
Ontario	64.4%	67.9%	20.3%
Manitoba	2.6%	1.7%	1.8%
Saskatchewan	1.1%	2.8%	3.7%
Alberta	4.0%	6.2%	42.6%
British Columbia	5.6%	7.3%	5.4%
Northern Territories	0.0%	0.0%	0.0%

New Brunswick as their primary out-of -province point of clearance, followed by Ontario – i.e. Quebec played a limited role as a point of clearance for exports to the US from the Atlantic provinces in 2002. As much as 43.5% of Quebec exports to the US in 2002 were cleared through Ontario in 2002. Although Manitoba cleared over 70% of its exports to the US in the province in 2002 it also relied on Ontario to clear 19.9% of its US exports and on BC to clear 4.3%. Both Saskatchewan and Alberta have a fairly wide geographic spread of clearing their exports to the US, which incorporates Ontario, the Prairies and BC. Transportation of fossil based energy exports (oil and gas) from Saskatchewan and Alberta by pipeline, which largely enters the US in other provinces, is a major factor contributing to the wide geographic dispersion of province of clearance for exports originating from Alberta and Saskatchewan. Based on US data for imports from Canada by province[1] for goods transported by surface freight, which includes pipelines, Alberta accounted for 84.7% of US imports from Canada transported by pipeline in 2001 while US imports of energy products originating in Alberta accounted for 72.6% of total US imports from Alberta the same year. As noted, BC clears over 70% of its export production within the province, but also relied on Ontario to clear 12.1% and Saskatchewan to clear 8.8% of provincially-produced goods last year.

Provincial Exports to the US by Mode of Transport

As alluded to earlier, differences between provincial exports by Province of Origin and by Province of Clearance might be affected by the method, or mode, of transport (MoT) across the border. Table 3 shows exports to the US by Province of Origin for three types of transport — road, rail, and all other types of transportation (including air, sea, pipeline, and mail) — for last year. Exports to the US transported by road or rail in 2002 exhibit a similar pattern in respect of provincial origin; Ontario has an overwhelming lead accounting for about two thirds of the value of all shipments, followed by Quebec, BC and Alberta. However, for Other MoT, energy exports by pipeline plays an exceedingly important role and Alberta accounted for as much as 42.6% in 2002. Shipments to the US from Ontario and Quebec by Other MoT predominantly reflect exports to the US by air.

Canadian Exports to the US by Port of Clearance

With the bulk of merchandise exports crossing from Ontario, it comes as no surprise that the three customs stations that handle the most exports are all situated in this province (Table 4). The three border crossings — Windsor's Ambassador Bridge, Sarnia, and Fort Erie — accounted for almost $191 billion of bilateral goods exports, or just under one-half of total Canadian exports to the US in 2002. That is, these three customs clearance stations processed nearly two-thirds of all exports transported by road, and nearly three quarters of all exports shipped by rail. However, they accounted for only about one-eight of merchandise exports not sent by road or rail.

A few border crossings are dominated by exports shipped by road transportation in 2002: Lansdowne (ON) (100.0%), Philipsburg (QC) (87.0%), Lacolle (QC) (83.5%), the Ambassador Bridge (ON) (76.7%), Pacific Highway (BC) (76.6%), and Fort Erie (ON)(74.5%). Rail dominated goods cleared at Fort Frances (ON) (87.2%) and accounted for about half the value of goods cleared through Sarnia (ON) and North Portal (SK) last year. Exports to the US by other modes of transportation are dominated by air shipments and the transfer of fossil fuels by pipeline. Pearson Airport in Toronto and Mirabel Airport outside of Montreal combined to account for about one-quarter of all exports to the US by other modes of transport. Pipeline shipments accounted for an overwhelming share of exports to the US through Monchy (99.7%) and Gretna (98.5%) last year. Significant amounts of energy exports were also cleared through Huntington (B.C.), Coutts (Alberta), and Emerson (Manitoba). However, Sarnia cleared the greatest value of energy exports to the US by pipeline in 2002, although the large values of exports by road and rail also cleared through Sarnia masks this fact .

When totaled, the 16 customs clearing posts listed in Table 4 collectively accounted for over 85% of the total value of merchandise exports to the US in 2002. They cleared 92.3% of the value of all goods shipped by road last year, as much as 96.1% of all exports to the US shipped by rail, and over 60% of all exports by other modes of transport.

Table 4: Canadian exports to the US by Port of Clearance, 2001

			All Mode of Transport			Of which Exported by		
Rank	Port of Clearance	Province	Exports $ million	Share of Canadian Exports	Cumu-lative share	Road	Rail	Air, mail, pipeline, sea & other
1	Windsor - Ambassador Bridge	Ontario	$76,995	19.4%	19.4%	76.7%	19.0%	4.3%
2	Sarnia	Ontario	$63,778	16.1%	35.5%	44.2%	48.0%	7.7%
3	Fort Erie	Ontario	$50,016	12.6%	48.1%	74.5%	23.1%	2.4%
4	Lacolle	Quebec	$17,601	4.4%	52.6%	83.5%	6.4%	10.1%
5	Pacific Highway	British Columbia	$12,347	3.1%	55.7%	76.6%	19.9%	3.6%
6	Lansdowne	Ontario	$11,072	2.8%	58.5%	100.0%	0.0%	0.0%
7	Emerson	Manitoba	$10,755	2.7%	61.2%	63.3%	15.5%	21.2%
8	Coutts	Alberta	$9,519	2.4%	63.6%	63.0%	5.8%	31.2%
9	Toronto - Pearson Int. Airport	Ontario	$9,024	2.3%	65.9%	0.0%	0.0%	100.0%
10	Montréal - Mirabel Int. Airpor	Quebec	$7,733	2.0%	67.8%	0.0%	0.0%	100.0%
11	Fort Frances	Ontario	$7,520	1.9%	69.7%	6.2%	87.2%	6.6%
12	North Portal	Saskatchewan	$6,013	1.5%	71.3%	48.7%	48.0%	3.3%
13	Philipsburg	Quebec	$5,136	1.3%	72.5%	87.0%	12.3%	0.8%
14	Huntington	British Columbia	$4,473	1.1%	73.7%	34.2%	3.0%	62.8%
15	Monchy	Saskatchewan	$3,799	1.0%	74.6%	0.3%	0.0%	99.7%
16	Gretna	Manitoba	$3,461	0.9%	75.5%	1.5%	0.0%	98.5%
	All ports	CANADA	$346,457	100.0%	100.0%	56.9%	21.9%	21.2%

[1] US Department of Transportation, Transportation Statistics from the Transborder Surface Trade Database