S U P P L E M E N T
CanadExport

# Canadian Trade Review

## A Quarterly Review of Canada's Trade Performance

**Fourth Quarter 2001**

***This trade and investment quarterly reports on Canada's economic growth in the fourth quarter of 2001, and highlights our trade and investment performance in key sectors and markets.***

# Trade Sector Is Essential for Economic Turnaround in the Fourth Quarter

Canada's real gross domestic product (GDP) increased by 2.0% (on an annualized basis[1]) in the fourth quarter of 2001, reversing an annualized decline in real GDP by 0.6% in the third quarter. The trade sector was the main contributor to this reversal of GDP growth, as imports declined more substantially than exports. A rebound of consumer spending in the fourth quarter helped to stimulate domestic demand, which otherwise was negatively affected by a slump in business fixed capital and inventory investment in the quarter. For the year as a whole, real GDP grew by 1.5% in 2001 over 2000.

**Table 1: Canada's Economic and Trade Indicators**

| Percent Change at Annual Rates<br>Fourth Quarter 2001 over Third Quarter 2001 | |
|---|---|
| Real GDP (*annualized*) | 2.0 |
| Employment (*quarterly increase, level*) | 40,000 |
| Rate of Unemployment (*fourth quarter average in percent*) | 7.6 |
| Consumer Price Index (*January 2002, year-over-year percent change*) | |
| All Items | 1.3 |
| Core (*excludes food and energy*) | 1.7 |
| Canadian $ in U.S. funds (*average for 2001*) | 0.6458 |
| Exports of Goods and Services (*based on current dollars*) | -14.4 |
| Imports of Goods and Services (*based on current dollars*) | -15.1 |

*Source: Statistics Canada*

Job creation increased during the quarter—a net increase of 40,000 jobs was reported, up from 12,300 in the third quarter, although a large share of the jobs created in the fourth quarter were part-time jobs. The average unemployment rate rose to 7.6% from 7.1% in the previous quarter.

The twelve-month overall inflation was 1.3% in January 2002, and core inflation (excluding food and energy) was 1.7%, down from 3.1% and 2.0% respectively a year ago. Thus, year-over-year inflation in January 2002 remained comfortably within the target range of 1% to 3% that has been established by the Bank of Canada.

The average U.S. dollar value of the Canadian dollar in 2001 was US$0.6458—a 4.1% depreciation from US$0.6734 in 2000.

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 a 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

Canada

# Trade and Investment Highlights

## Both Exports and Imports Decline in the Fourth Quarter

Exports of Canadian goods and services declined to $435.4 billion in the fourth quarter from $452.6 billion in the third quarter. Merchandise exports totalled $382.1 billion in the fourth quarter compared to $398.4 billion in the previous quarter—down 14.4% at an annual rate.

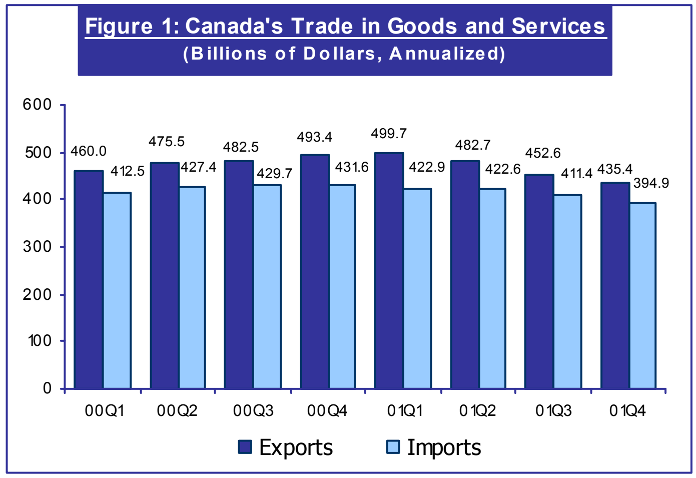
The largest decline in merchandise exports was experienced by natural gas exports in the energy sector accompanied by reduced shipments of forestry products and industrial goods. Although exports to the United States and the United Kingdom fell in the fourth from the third quarter, exports to all other markets increased—most notably exports to non-OECD countries.

Imports also decreased in the fourth quarter, at an accelerated rate, compared to the decrease recorded in the third quarter. Imports of goods and services declined from $411.4 billion in the third quarter to $394.9 billion in the fourth quarter. Similarly, merchandise imports fell from $350.5 billion in the third quarter to $336.2 billion in the fourth quarter—a 15.1% annualized decline.

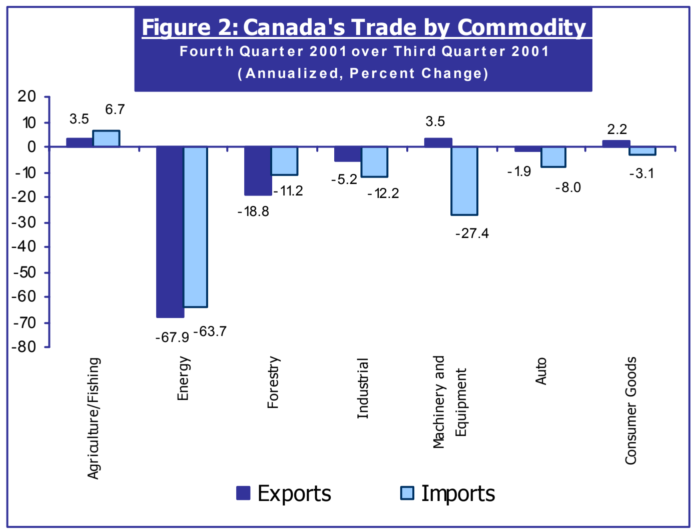
The largest quarterly decline in imports, measured in percentage terms, was recorded for imports of energy due to falling international prices. In terms of dollar value, the largest quarterly declines in imports were recorded for machinery and industrial goods. In the fourth quarter, merchandise imports from all trading partners, with the exception of European Union (EU) countries other than the United Kingdom, declined. In particular, imports from the United States declined by $9.1 billion in the fourth over the third quarter, and imports from non-OECD partners decreased by $4.4 billion.

The merchandise trade surplus thus declined from $47.9 billion in the third quarter to $45.9 billion. While the trade balance for energy and industrial goods fell due to a reduction in exports, the trade balance for machinery, industrial goods and automotives improved due to a decrease in imports.

As most Canadian exports in energy and forestry products are destined for the United States, the decline in exports of these commodities negatively affected the merchandise trade surplus with the United States, which declined by $10.3 billion in the fourth over the previous quarter. However, while the merchandise trade balance with the United Kingdom also deteriorated somewhat in the fourth quarter, the trade balance with all other partners improved.




Source: Statistics Canada



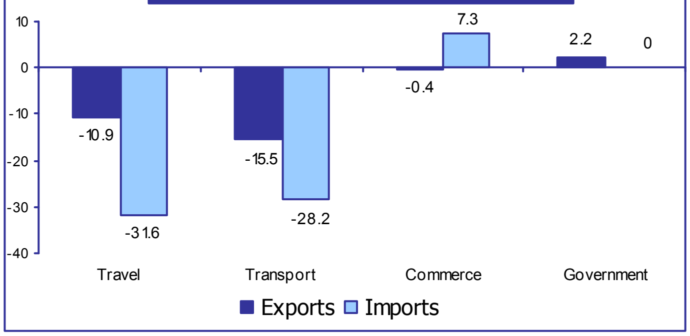

Source: Statistics Canada

## Services Trade Deficit Records an Improvement

In the fourth quarter, Canada's services exports declined to $53.3 billion from $54.2 billion in the third quarter, largely due to lower levels of foreign travel spending in Canada and to exports of transport services.

Similarly, services imports declined in the fourth quarter to $58.7 billion from $60.8 billion in the previous quarter. The more rapid decline in services imports than services exports led to a reduction in

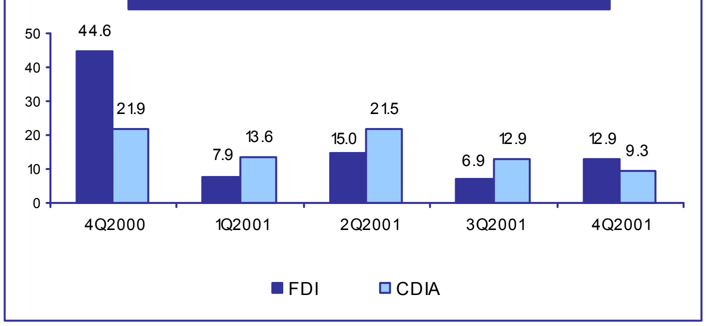
**Figure 3: Canada's Trade in Services by Type**
**Fourth Quarter 2001 over Third Quarter 2001**
**(Annualized, Percent Change)**




*Source: Statistics Canada*

the services trade deficit of $1.3 billion. A reduction in Canada's international travel deficit by $1.1 billion in the fourth quarter was the primary factor behind the quarter-over-quarter improvement in the overall services trade balance. In particular, a drop in Canadian outbound travel to the United States in the fourth quarter, following the September attack on the United States, was not countered by a comparable decline in U.S. visits to and spending in Canada. The quarterly decline in the travel services deficit was also accompanied by an improvement in the transport services balance, which resulted from a more rapid decline in imports than in exports. Trade in commercial services, which account for about half of all imports and exports of services, experienced a marginal decline in exports combined with a 7.3% increase in quarterly imports. Thus, the commercial services trade deficit increased by $660 million.

**Figure 4: Foreign Direct Investment in Canada (FDI) and Canadian Direct Investment Abroad (CDIA)**
**(Fourth Quarter 2001, Billions of Dollars)**




*Source: Statistics Canada*

## Inward and Outward Foreign Direct Investment Declined

Both inward and outward Foreign Direct Investment (FDI) flows declined in the fourth quarter of 2001 from the same quarter in 2000; inward quarterly FDI flows only reached 29.1% of its 2000 equivalent, and outward FDI flows reached 42.3% of its 2000 level. Most notable is the reversal of the FDI flows in the energy sector—whereas the energy sector saw net outward FDI flows in the fourth quarter of 2000 of $5.2 billion, this had been reversed to net inward FDI flows of $6.3 billion in the same quarter of 2001. As a result of the decline in both inward and outward FDI flows to and from the EU countries other than the United Kingdom, the United States was re-established as an even more prominent leader as both a source and destination of Canadian FDI flows in the fourth quarter of 2001.

## Canada Adds to it Official International Reserves

Canada added $1.1 billion to its official reserve assets in the fourth quarter of 2001, slightly less than the $1.3 billion added in the same quarter in 2000.

# Key Trade and Investment Highlights for Year 2001

Canada's two-way trade in 2001 eased to $2.41 billion per day from $2.47 billion in 2000. Whereas two-way merchandise trade in 2001 declined by 2.8% over 2000, the decline in two-way services trade was limited to 0.2%, with two-way trade in goods and services declining by 2.5%.

## Current Account Surplus Increased

In 2001, imports of goods and services were down 2.9% from 2000, while exports fell by 2.1%. Consequently, the balance on goods and services improved by $2.1 billion to $54.7 billion. This was the major factor contributing to the increase in the current account surplus from $26.9 billion in 2000 to $29.1 billion in 2001.

## Both Merchandise Exports and Imports Fell in 2001

Merchandise exports declined by 2.4% in 2001 due to reduced shipments to the United States, Japan and the EU. On the other hand, merchandise imports declined at an even steeper rate of 3.4%. Thus, the merchandise trade balance reached a record $61.5 billion in 2001, up from the previous record high of $59.3 billion in 2000. The increasingly large cumulative trade surplus with the United States was accompanied by a slight improvement in the trade deficit with Japan, but countered by an increasing trade deficit with the EU.

## United States

Canada’s annual merchandise exports to the United States declined by 2.4% in 2001 over 2000, while annual imports fell by 4.6%. This resulted in a new record annual trade surplus with the United States of $95.4 billion for 2001—up from $91.9 in 2000.

## Bilateral Merchandise Trade with Japan, the European Union, Mexico and China

In 2001, both annual exports to and annual imports from Japan declined over 2000. The more rapid decline in imports compared to exports reduced Canada’s annual trade deficit with Japan from $1.4 billion in 2000 to $1.3 billion in 2001. Annual exports to the EU in 2001 declined by 1.5% over 2000, while imports expanded by 5.0%. Consequently, Canada’s annual trade deficit with the EU increased from $11.3 billion in 2000 to $13.3 billion in 2001. Canadian exports to our major markets in the EU declined, with the exception of France, which recorded a 13.8% increase over 2000. Canadian imports from France also grew substantively by 32.4% in 2001, while imports from Italy grew by 9.9% and imports from Germany expanded by 2.3%. On the other hand, imports from the United Kingdom declined by 10.7% in 2001 over 2000. While Mexico maintained its ranking as Canada’s fourth most important source for imports in 2001, it moved from being ranked as the eighth-largest destination for Canadian exports in 2000 to the sixth most important in 2001. At the same time, China replaced the United Kingdom as the third-largest source of imports in 2001, while the United Kingdom lost in importance as a source of imports to rank fifth.

## Merchandise Trade by Commodity Groups

In 2001, exports of agricultural products expanded by 12.6% from 2000, while consumer goods increased by 6.7%, energy by 4.5% and industrial goods by 0.5%. Annual exports of machinery declined by 7.6%, as did forestry products by 7.5% and automotives by 5.3%. Annual imports of agricultural products increased by 9.7% from 2000, and imports of consumer goods expanded by 7.1%. On the other hand, annual imports of machinery declined by 8.4%, while automotive imports fell by 6.3%, forestry products by 5.8%, industrial goods by 2.9% and energy by 0.9%

## High-tech Products' Share in Trade

In 2001, the importance of high-tech products in Canada's trade declined. High-tech products accounted 11.5% of merchandise exports in 2001, down from 13.0% in 2000. Similarly, high-tech products accounted for 16.7% of merchandise imports in 2001, down from 17.9% in 2000.

## Services Trade

Canada's travel deficit with the rest of the world plummeted from $2.1 billion in 2000 to $1.3 billion in 2001—its lowest level since the World's Fair in Vancouver in 1986. The annual travel deficit was particularly affected by the decline in Canadian outward travel in the fourth quarter of 2001. The decline in the travel deficit was however offset by an increase in the deficit for transport services (up $632 million) and commercial services (up $365 million). Thus, the overall services trade deficit increased from $6.7 billion in 2000 to $6.8 billion in 2001.

## Foreign Direct Investments

The rate of increase in both inward and outward FDI slowed in 2001 from 2000.

Outward flows of FDI declined from $65.4 billion in 2000 to $57.3 billion in 2001, and inward FDI flows decreased from $94.0 billion to $42.8 billion. Increased outward FDI flows in the finance and insurance sector in 2001 could not counter reduced FDI flows in the machinery sector and other industries. For inward FDI flows in 2001, increased investments in the energy sector could not offset declining investments in all other sectors. Investment flows with EU countries other than the United Kingdom declined noticeably in 2001 and strengthened the leading role that the United States maintains as the both the leading source and destination for Canadian FDI. The decline in inward FDI flows from the EU in 2001, combined with a resurgence of FDI into Canada from the United States, resulted in the United States accounting for as much as 93.5% of FDI flows into Canada in that year.

## Portfolio Investments

Canadian net investments in foreign securities (bonds and stocks) reached $34.5 billion in 2001, down from $62.7 billion in 2000—in both years, the investments were predominantly directed toward foreign stocks, largely assisted by the legislative change to increase the limit on foreign content in Canadian pensions from 20% to 30%. On the other hand, foreign investments in Canadian securities increased to $30.1 billion in 2001, up from $19.6 billion in 2000. The focus for foreign security investments in 2001 was on Canadian corporate bonds, which set an annual record for new issues.