

CANADA-U.S. TRADE EXPANDED IN 1995

The volume of goods, services and investment income flowing between Canada and the United States increased by 13 per cent in 1995 over the previous year, totalling more than U.S. \$334 billion, according to preliminary figures from the U.S. Department of Commerce. This was the largest two-way trade in the world, exceeding by 23 per cent U.S. trade with Japan, its second most important trading partner.

The U.S. exported \$164 billion worth of merchandise and non-merchandise to Canada, 17 per cent of U.S. exports to the entire world. U.S. imports from Canada totalled \$171 billion. The U.S. sold \$128 billion worth of merchandise to Canada, more than twice as much as it sold to Japan and more than it sold to the 15 countries of the European Union combined. The U.S. exported \$18 billion worth of services to Canada in 1995 and received \$18 billion in income from its Canadian assets.

Canada exported \$148 billion worth of merchandise and \$13 billion in services to the U.S. in 1995, and received \$10 billion in income from its U.S. assets.

In 1995, motor vehicles and parts accounted for 28 per cent of U.S. merchandise exports to Canada and 31 per cent of imports. The second largest category of U.S. exports to Canada was electronic and telecommunications equipment, including \$6 billion worth

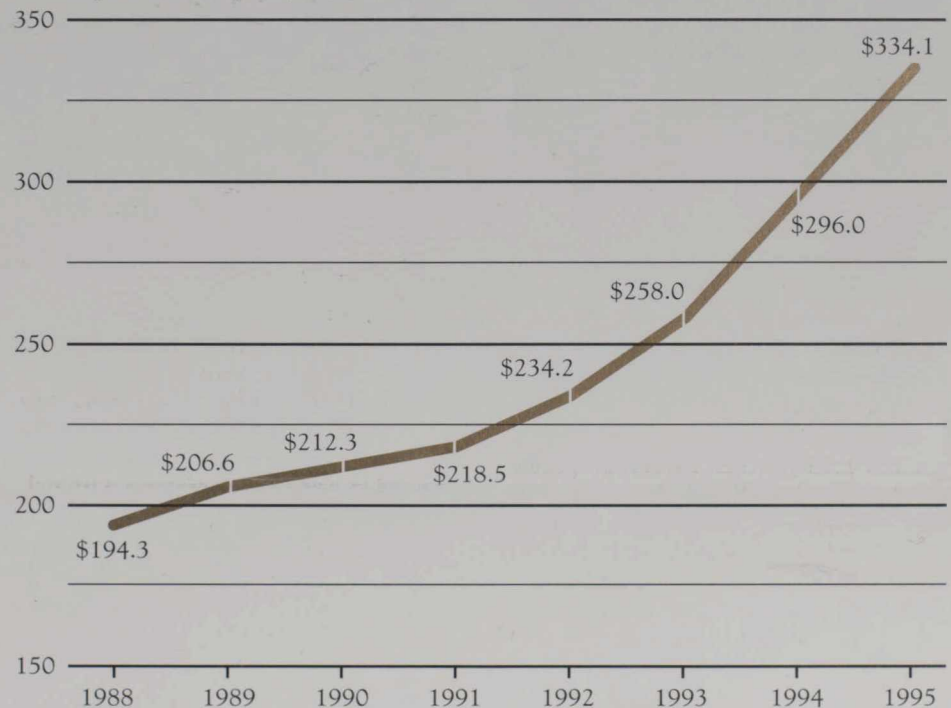
of computers and \$2 billion worth of tubes and semi-conductors. Canada sold the U.S. \$15 billion worth of energy products, including \$7 billion worth of crude petroleum, \$4 billion worth of

natural gas, \$3 billion worth of petroleum and coal products, \$864 million worth of electricity and \$113 million worth of coal.

(All figures are in U.S. dollars.)

U.S. TRADE WITH CANADA

1988-1995, in billions of U.S. dollars
Exports and Imports, Merchandise and Non-Merchandise



Source: U.S. Department of Commerce

ECONOMIC AND TRADE UPDATE

Recent government efforts at the federal and provincial level to curb deficits are paying off.

The federal government bettered its deficit reduction target for 1994-95 and is on its way to coming under the 1995-96 target. Six of Canada's 10 provinces posted balanced budgets or surpluses for 1995-96, and the two largest provinces, Ontario and Quebec, have announced balanced budget plans.

Inflation as measured by the consumer price index averaged 1.4 per cent over the first four months of 1996, about half the U.S. rate, as a result of declining unit labour costs and lower wage settlements, which have risen by less than 1 per cent since 1993. Inflation inched higher in June, to 1.5 per cent, largely

due to an increase in gasoline prices.

Restructuring and low inflation have boosted Canada's international competitiveness over the last two years, and exports have grown by 41 per cent. The strong export performance has led to a narrowing of the current account deficit from 4 per cent of GDP in 1993 to 1.4 per cent in 1995.

Success in reducing deficits and keeping inflation low has resulted in declines in short-term interest rates, which have come down about three percentage points since last year and, for the first time for a sustained period since 1980, are lower than U.S. rates.

The unemployment rate rose sharply in June to 10 per cent, up from 9.4 per cent in May, after remaining relatively stable since 1994. The rise was attributed to government cutbacks and an increase

in job-seekers. Before the job losses in June, which totalled 56,000, employment growth over the past year had averaged 19,000 jobs a month.

Despite a slowdown in 1995 that continued into the first quarter of 1996, growth is expected to pick up in 1996 and beyond. Real GDP grew at an annual rate of 1.2 per cent in the first quarter of 1996, up only slightly from 0.9 per cent in the previous quarter. The International Monetary Fund forecasts a 2.9 per cent growth rate for Canada in 1997, compared with a G-7 average of 2.6 per cent.

On July 10, the noon exchange rate was
US\$1 = C\$1.3689.