

Merchandise trade can be measured on a *balance of payments* or a *customs* basis.⁴ Customs-based data are developed from declarations filed with Customs Canada. To obtain balance of payments-based data, customs-based data, which cover only the physical movement of goods, must be adjusted to cover all economic transactions between residents and non-residents to be consistent with the national accounts framework. Depending upon what type of information is required, using either basis might be appropriate. However, customs-based data are more readily broken down geographically and by commodity.

Total merchandise exports include both *domestic exports* and *re-exports*. Re-exports are goods of foreign origin exported from Canada but not produced or materially transformed in Canada.⁵ Essentially, they are goods that are imported into Canada and re-exported without any value being added. Domestic exports are goods grown, extracted or manufactured in Canada, including goods of foreign origin which are materially transformed in Canada. Domestic exports, therefore, better reflect the impact of exports on the Canadian economy. When calculating trade balances, however, total exports must be used since there is no measure of imports comparable to domestic exports, i.e., there are no "domestic imports". Therefore, the trade balance needs to be calculated using these two "total" numbers to avoid overstating the impact of imports.

The Balance of Merchandise Trade

The balance of merchandise trade is calculated by subtracting imports from total exports. On a balance of payments basis, Canada has recorded steadily increasing merchandise trade surpluses for most of the 1990s (Fig. 1).⁶ In particular, the merchandise trade surplus almost doubled to \$28 billion in 1995, from \$15 billion in 1994. These increases in the trade surplus were not due to sluggish import performance, but to high export growth which outpaced concurrent growth in imports. In real terms, (controlling for inflation) the balance of merchandise trade has also

⁴Because of the nature of customs, customs-based trade statistics are typically more accurate at measuring imports than exports. For a detailed explanation of the different bases for trade statistics see Statistics Canada, *Canadian International Merchandise Trade*, Catalogue no. 65-001, Technical Notes.

⁵For a complete definition of domestic exports and re-exports see, Statistics Canada, *Canadian International Merchandise Trade*, Catalogue no. 65-001, Technical Notes.

⁶The exception was 1991 which saw a \$5.1 billion fall in the trade surplus.