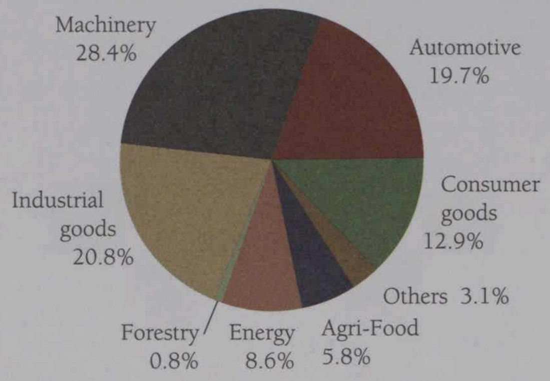
Figure 4-6
Composition of Goods Imports in 2006



Source: Statistics Canada

Composition of goods and trade surplus

The composition of Canadian goods trade has evolved over the past several years and this has had an impact on the size of the trade surplus. After peaking at $70.7 billion in 2001, Canada's goods surplus has decreased, reaching $54.3 billion in 2006. Meanwhile, structural changes have taken place in Canada's trading relationship with the world. As of 2006, the goods surplus was being sustained by gains in industrial goods and materials counterbalancing declines for consumer goods, machinery and equipment, automotive products, forestry products and energy products.

It is important to recall that the benefits of trade come from increased specialization and productivity arising from more exports and imports, not from sectoral surpluses per se. Clearly, the surge of Canada's energy exports in recent years has boosted Canada's standard of living. But Canadians have also benefited from

rising consumer purchasing power as import prices have fallen. Similarly, increased spending by firms on imported machinery and equipment enhances their ability to compete both in Canada and abroad. The changes in sectoral trade balances show how the Canadian economy is reallocating resources as the global economic landscape shifts.

Trade balances by sector are a reflection of a country's industrial structure and spending patterns. As factors underpinning these patterns take a long time to change, sectoral trends in the trade balance typically persist for long periods. Canada is no exception. Of the seven major categories of goods, three have consistently posted a trade surplus since 1971. These are rooted in Canada's traditional resources: agricultural and fish products, forestry, and energy products. In nominal dollars, the surplus in agricultural and fish products was largest in 2001, at $10.7 billion. The surplus for forestry products reached a plateau in 2005 at $53.3 billion whereas the surplus for energy products reached a peak in 2000 at $39.7 billion. Similarly, Canada has always run trade deficits for machinery and equipment and consumer goods.

Automotive products and industrial goods and materials are the only sectors that have posted both surpluses and deficits over the course of past 35 years. Even these reversals of trend were the exception rather than the rule, and were limited to short periods. The auto sector posted chronic deficits from 1972 to 1981. Since then, it has consistently posted surpluses, with the exception of 1986 and 1987. Industrial goods and materials (which include metals and chemicals) posted surpluses in 31 of the last 35 years, with deficits occurring on four occasions consecutively from 1998 to 2001 when metal prices were low and steel and chemical imports high.

Canada's overall goods trade surplus is increasingly relying on growing surpluses in energy and industrial goods and materials. The trade balance in the other five sectors has been affected by falling exports and/or rising imports. The strong appreciation of the Canadian dollar after 2002 had a major impact on prices outside of energy products and industrial goods and materials. Meanwhile, prices have fallen across the board for all non-energy imports since 2002, a reflection of the dollar appreciation and of low inflation in most of our major trading partners.

Along with the rising dollar, the integration of China into the world economy has played a key role in changing international trade patterns in recent years.