

- Purchases of computer equipment increased by nearly 40 percent and of software by 13 percent. On the other hand, spending on industrial machinery rose only moderately by 2 percent.

The strong U.S. domestic demand growth boosted exports to the U.S. by 14.9 percent in 1999. With exports to Canada's other major markets expanding more moderately, or declining as they did in some instances, the U.S. share of Canadian merchandise exports, based on Canada's export data, rose to 86 percent in 1999 from 83.6 percent a year earlier. Box 2 takes a closer look at the U.S. share of Canada's trade, based on other trading partners' import statistics.

Box 2: Canada's Merchandise Exports: The Transshipment Issue

Bilateral trade statistics are often distorted by transshipment of goods from the initial export destination to third countries. The extensive use of U.S.-based transportation facilities for Canadian trade with third countries makes the transshipment issue of broad relevance in the analysis of our bilateral trade data. For example, the very substantial discrepancies between Canadian and Mexican statistics on Canada-Mexico trade undoubtedly reflect the passage of goods through the United States. Other trading partners' import data also suggest greater diversification in Canada's exports than our own export statistics indicate.

The analysis of this issue is complicated by the fact that Canada does not independently compile data on exports to the United States. Pursuant to a 1990 bilateral agreement, Canada agreed to use U.S. import data on shipments from Canada as our source of information on exports to the United States; at the same time, the U.S. agreed to use Statistics Canada data on imports from the U.S. as its export data.

The panel below draws on the International Monetary Fund's, *The Direction of Trade Statistics* to give a sense of the possible order of magnitude of the discrepancy. As can be seen, there has been a growing discrepancy between Canada's recorded exports to the rest of the world (i.e. excluding the U.S.) and the reported imports of the rest of the world from Canada. While it is emphasized that no specific meaning can be attached to the levels of the gaps or ratios (which include the effects of different valuation — imports include the value of insurance and freight, whereas export data do not), the changes over the course of the 1990s suggest that either (a) the growth in Canada's exports has been even higher than our export data would suggest, or (b) some portion of the export growth in the 1990s reported as going to the U.S. has actually continued on to third countries. A rough estimate of this latter figure would be up to about US\$11 billion or 5 percent of Canada's exports, as suggested by the change between 1991 and 1998 in the gap between ROW imports from Canada vs. Canada's exports to the ROW.

