III. CURRENT ACCOUNT

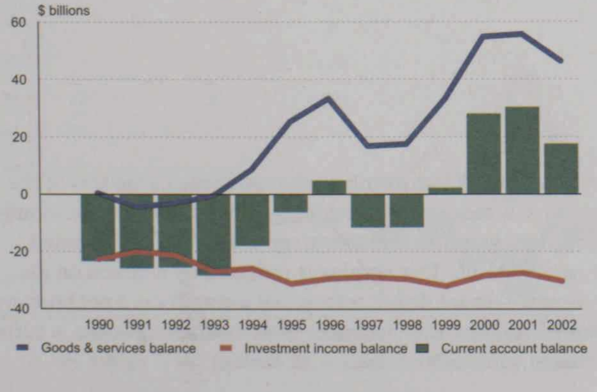
This chapter encapsulates the previous two chapters and serves to introduce the next chapter of this Report. That is, it bridges Canada's performance concerning the flow of goods and services with the transfer of funds.

The current account is one of two major accounts that comprise the balance of payments: the other is the capital account. The current account records the flow of goods and services between Canada and other countries — merchandise exports and imports and non-merchandise transactions such as travel and tourist spending, payments and receipts for shipping, freight, banking, and insurance, payments to corporate head offices for management fees and intellectual property rights, such as trademark and licensing fees. The capital and financial account, on the other hand, measures the short- and long-term capital flows between Canada and the rest of the world. Since the balance of payments must balance out at zero, the size of the surplus (deficit) in the current account is mirrored as a deficit (surplus) in the capital and financial account[1].

For 2002, the surplus in the Canadian current account fell to $17.3 billion from the record $30.0 billion registered in 2001. The decline in the surplus was due to the fact that the goods surplus, as reported in Chapter 1 above, declined $9.8 billion because of lower exports and higher imports of goods. The deficit on direct investment income also widened (by $3.2 billion) compared to 2001 (Figure 3-1).

Figure 3-1

Current account balance and key components, 1990-2002



Regional analysis

The United States

The current account balance between Canada and the United States fell $7.1 billion to $58.7 billion in 2002. The majority of the deterioration came via a $4.9 billion widening of the investment income deficit with the U.S. Profits accruing to Canadian direct investors in the U.S. tumbled $3.7 billion while those accruing to U.S. holders of direct investment in Canada rose $0.5 billion. Dividends and interest paid to U.S. portfolio investors were also up $1.1 billion while remittances to Canadian investors rose marginally (up $28 million).

The goods balance with the U.S. fell $2.5 billion as a $340 million decline in imports was not enough to offset a $2.9 billion decline in exports to the U.S. The services deficit narrowed $573 million on the year as improvements to the travel deficit ($735 million) and to the transportation balance ($301 million) were only partially offset by a $463 million decline in the deficit to commercial and all other services.

The European Union

The deficit in Canada's current account with the EU reached $17.0 billion in 2002, a $2.2 billion decline from the 2001 deficit level. The goods deficit widened by over $2.1 billion, accounting for most of the overall decline: exports fell and imports increased by almost $1.1 billion each. A $406 million narrowing in the services deficit (led by improvements of $228 million and $699 million to the transportation and the commercial and other services balances, respectively, and only partially offset by a $520 million decline in the travel balance) more than offset a $371 million widening of the deficit in investment income. An $85 million decline in current transfers accounted for the remainder of the difference.

Japan

The current account deficit with Japan widened $1.4 billion, to $4.9 billion, in 2002. All principal components and most sub-components experienced a deterioration in their balances over the year. The goods deficit surpassed $2.0 billion last year, a $925 million deterioration from the previous year, as a $226 million increase in goods exports to Japan was outweighed by a $1.2 billion increase in imports from Japan.