currencies, Canadian exporters have demonstrated strength and flexibility by posting positive growth in difficult conditions.

The downturn in the U.S. went hand-in-hand with a slight 1.6 percent decline in Canadian exports of goods to that country. In turn, Canadian exporters found new opportunities in Europe and elsewhere abroad (excluding Japan). Goods exports to the EU vaulted some 20.6 percent in 2007, while those to destinations outside the US, the EU, and Japan jumped 17.1 percent. For Japan, Canadian exports of goods fell by 3.4 percent last year. Clearly, Canadian exporters are shifting to a more global focus from a regional one.

Further evidence for this trend to diversification is found in the pattern of trade at the firm level and the activities of foreign affiliates of Canadian firms. Throughout the early to middle part of this decade, there was a significant decline in the number of firms exporting only to the United States and an almost as large increase in the number of firms exporting globally. Canadian firms are also offering more of their goods and services directly in markets abroad, particularly in overseas markets — with growth in sales by foreign subsidiaries outstripping the pace of exports in recent years.

Nonetheless, the United States is still far and away our largest trading partner and our economies are highly integrated. For example, Canada is a safe and reliable partner for trade in energy products. Many U.S. builders and renovators continue to rely on high quality Canadian lumber to meet their needs. Then there are integrated supply chains, particularly in the auto sector, where inputs travel back and forth across the border before the final product is assembled. Fully thirty percent of our trade with the U.S. is between related companies — slightly more than one-third of our exports and about one-quarter of our imports. The share of intra-firm trade has declined over the past two decades, but that should be seen as evidence of growing ease of trade and diminishing need for cross-border commercial presence to facilitate trade.

The trends and events unfolding across the globe also help to explain the sectoral pattern of Canada's trade. All major categories of exports increased, with the exception of forestry and automotive products. The U.S. accounted for 71.5 percent of Canadian exports of forestry products and 95.3 percent of exports of automotive products, so conditions in that country have affected our exports of these products. Specifically, the deep and ongoing correction in the U.S. housing market has led to a sharp fall in Canadian exports of forestry products (down 12.8 percent). Likewise, falling wealth, tighter credit conditions, and moderating labour market conditions along with rising gasoline costs and a weaker U.S. dollar are all factors reducing U.S. demand for Canadian automobiles and trucks, resulting in a 6.5 percent decline in Canadian exports of automotive products.

Industrial goods and materials led the advances in Canadian exports last year, as they increased by 11.1 percent. This category of goods includes products like metal ores, chemicals, plastics, and fertilizers, and metals and alloys. Growth in industrial goods exports was fuelled by the continued strength in prices for metal ores and alloys, brought about by the strong demand for primary metals emanating from the Asian emerging economies and the EU.

Exports of agricultural and fishing products grew by 10.0 percent in 2007. The resumption of cattle exports to the United States and new markets for wheat and canola helped push exports up. Exports of energy products have continued to benefit from rising prices for crude petroleum. While the United States remained the largest consumer of Canada's energy products, new demand for crude oil from China and Singapore helped to raise Canada's energy exports by 6.8 percent last year. Two remaining categories — consumer goods and machinery and equipment — also posted positive export growth rates, at 5.9 percent and 0.6 percent, respectively.