Merchandise Trade Balance

In 1999, the merchandise trade surplus increased to $33.8 billion from $19.1 billion in 1998. This compares to a recent peak surplus of almost $42 billion in 1996. The sectors with surpluses (agriculture and fishing, energy products, forestry, and automotive) widened their surpluses, while deficit sectors (industrial products, M&E and consumer goods) experienced a deepening of their deficits. The expansion of the surplus on automotive products to $20.2 billion in 1999 from $10.7 billion a year earlier accounted for most of the increase in the overall surplus.

In terms of trading partners, the merchandise trade surplus with the U.S. grew to a record $60.1 billion in 1999, up from $35.7 billion in 1998 and easily surpassing the previous record of $42.5 billion in 1996. Elsewhere, the deficit in merchandise trade with the U.K. rose to $2.3 billion (1998: $1.2 billion); with other EU countries it rose to $7.9 billion (1998: $6.3 billion); while with Japan, the deficit widened to $1.4 billion in 1999.[3]

Developments with Respect to the Terms of Trade[4]

Canada is a net commodity exporter: in 1999, exports of food, energy and other non-chemical industrial materials totalled $133.2 billion, while imports amounted to $70.5 billion, generating a surplus of $62.7 billion. The rise in commodity prices in 1999[5] contributed to an increase in Canada's merchandise export prices.[6] At the same time, merchandise import prices remained flat. This resulted in the terms of trade improving by 1.6 percent. This accounted for much of the improvement in the trade balance since, in volume terms, merchandise export growth (10.5 percent) barely outpaced import growth (10.4 percent). Figure 2 compares movements in an index of global commodity prices to movements in Canada's terms of trade. As can be seen, the direction of movement in the terms of trade follows closely the movement of commodity prices, although fluctuations in the terms of trade are smaller than those in commodity prices, since Canada is also a major exporter of manufactured goods.

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[3] The balances with individual trading partners are based on Canada's export data; again, the picture would look somewhat different using partner country import data.

[4] Movements in the price of exports relative to the price of imports are referred to as changes in a country's "terms of trade." An improvement in the terms of trade (i.e. a rise in export prices relative to import prices) means that a country's purchasing power has increased. In other words, the earnings from a given quantity of exports purchase a greater quantity of imports. Conversely, a decline in the terms of trade requires a country to export more to pay for a given quantity of imports. The terms of trade are normally measured as the index of average export prices, divided by the index of average import prices. The terms of trade are influenced by many factors, including commodity price changes, exchange rate movements, domestic and international supply and demand conditions, changes in the mix of products exported and imported, and domestic cost and productivity trends; accordingly, care must be exercised in interpreting changes in this indicator.

[5] The Bank of Canada's energy price index recovered from a low of 64.6 in 1998 to average 78.8 in 1999. The industrial materials price index (which includes metals, minerals, forest products and other non-energy raw materials) rose from 108.0 in 1998 to 112.0 in 1999.

[6] The direction of movement of average export prices in 1999 depends on the measure used. The implicit deflator for exports (derived by dividing the value of exports by the volume) rose from 1.15 to 1.16, an increase of 1.2 percent. However, the fixed-weight index of export prices that Statistics Canada uses in calculating Canada's reported terms of trade rose by 1.6 percent. The choice of index does not materially affect the conclusions, although the numbers do change somewhat; in this analysis, the fixed-weight index is used.