

# Trade and Investment Highlights

## Both Exports and Imports Decline in the Fourth Quarter

Exports of Canadian goods and services declined to \$435.4 billion in the fourth quarter from \$452.6 billion in the third quarter. Merchandise exports totalled \$382.1 billion in the fourth quarter compared to \$398.4 billion in the previous quarter—down 14.4% at an annual rate.

The largest decline in merchandise exports was experienced by natural gas exports in the energy sector accompanied by reduced shipments of forestry products and industrial goods. Although exports to the United States and the United Kingdom fell in the fourth from the third quarter, exports to all other markets increased—most notably exports to non-OECD countries.

Imports also decreased in the fourth quarter, at an accelerated rate, compared to the decrease recorded in the third quarter. Imports of goods and services declined from \$411.4 billion in the third quarter to \$394.9 billion in the fourth quarter. Similarly, merchandise imports fell from \$350.5 billion in the third quarter to \$336.2 billion in the fourth quarter—a 15.1% annualized decline.

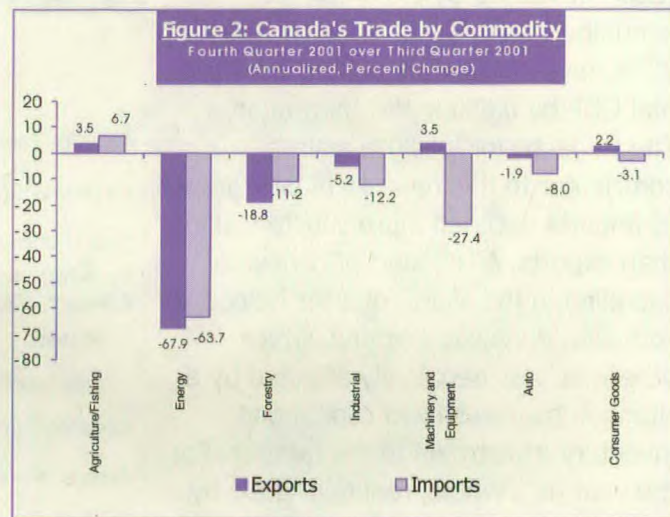
The largest quarterly decline in imports, measured in percentage terms, was recorded for imports of energy due to falling international prices. In terms of dollar value, the largest quarterly declines in imports were recorded for machinery and industrial goods. In the fourth quarter, merchandise imports from all trading partners, with the exception of European Union (EU) countries other than the United Kingdom, declined. In particular, imports from the United States declined by \$9.1 billion in the fourth over the third quarter, and imports from non-OECD partners decreased by \$4.4 billion.

The merchandise trade surplus thus declined from \$47.9 billion in the third quarter to \$45.9 billion. While the trade balance for energy and industrial goods fell due to a reduction in exports, the trade balance for machinery, industrial goods and automobiles improved due to a decrease in imports.

As most Canadian exports in energy and forestry products are destined for the United States, the decline in exports of these commodities negatively affected the merchandise trade surplus with the United States, which declined by \$10.3 billion in the fourth over the previous quarter. However, while



Source: Statistics Canada



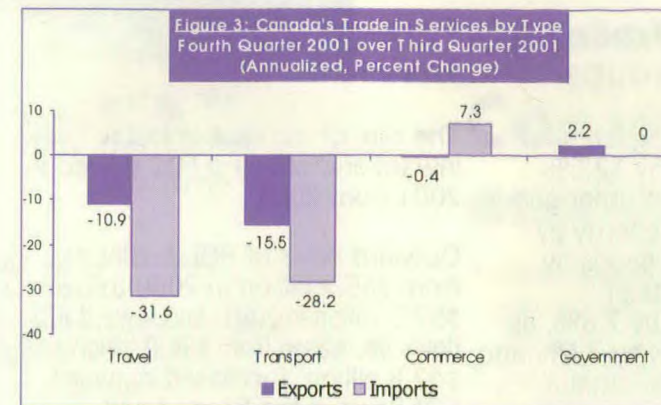
Source: Statistics Canada

the merchandise trade balance with the United Kingdom also deteriorated somewhat in the fourth quarter, the trade balance with all other partners improved.

## Services Trade Deficit Records an Improvement

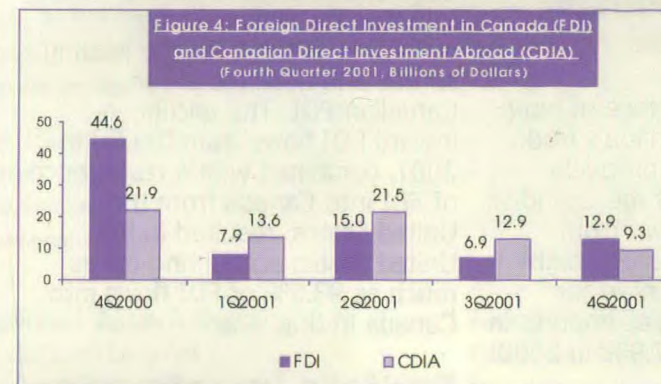
In the fourth quarter, Canada's services exports declined to \$53.3 billion from \$54.2 billion in the third quarter, largely due to lower levels of foreign travel spending in Canada and to exports of transport services.

Similarly, services imports declined in the fourth quarter to \$58.7 billion from \$60.8 billion in the previous quarter. The more rapid decline in services imports than services exports led to a reduction in



Source: Statistics Canada

the services trade deficit of \$1.3 billion. A reduction in Canada's international travel deficit by \$1.1 billion in the fourth quarter was the primary factor behind the quarter-over-quarter improvement in the overall services trade balance. In particular, a drop in Canadian outbound travel to the United States in the fourth quarter, following the September attack on the United States, was not countered by a comparable



Source: Statistics Canada

decline in U.S. visits to and spending in Canada. The quarterly decline in the travel services deficit was also accompanied by an improvement in the transport services balance, which resulted from a more rapid decline in imports than in exports. Trade in commercial services, which account for about half of all imports and exports of services, experienced a marginal decline in exports combined with a 7.3% increase in quarterly imports. Thus, the commercial services trade deficit increased by \$660 million.

## Inward and Outward Foreign Direct Investment Declined

Both inward and outward Foreign Direct Investment (FDI) flows declined in the fourth quarter of 2001 from the same quarter in 2000; inward quarterly FDI flows only reached 29.1% of its 2000 equivalent, and outward FDI flows reached 42.3% of its 2000 level. Most notable is the reversal of the FDI flows in the energy sector—whereas the energy sector saw net outward FDI flows in the fourth quarter of 2000 of \$5.2 billion, this had been reversed to net inward FDI flows of \$6.3 billion in the same quarter of 2001. As a result of the decline in both inward and outward FDI flows to and from the EU countries other than the United Kingdom, the United States was re-established as an even more prominent leader as both a source and destination of Canadian FDI flows in the fourth quarter of 2001.

## Canada Adds to its Official International Reserves

Canada added \$1.1 billion to its official reserve assets in the fourth quarter of 2001, slightly less than the \$1.3 billion added in the same quarter in 2000.

## Key Trade and Investment Highlights for Year 2001

Canada's two-way trade in 2001 eased to \$2.41 billion per day from \$2.47 billion in 2000. Whereas two-way merchandise trade in 2001 declined by 2.8% over 2000, the decline in two-way services trade was limited to 0.2%, with two-way trade in goods and services declining by 2.5%.

### Current Account Surplus Increased

In 2001, imports of goods and services were down 2.9% from

2000, while exports fell by 2.1%. Consequently, the balance on goods and services improved by \$2.1 billion to \$54.7 billion. This was the major factor contributing to the increase in the current account surplus from \$26.9 billion in 2000 to \$29.1 billion in 2001.

### Both Merchandise Exports and Imports Fell in 2001

Merchandise exports declined by 2.4% in 2001 due to reduced

shipments to the United States, Japan and the EU. On the other hand, merchandise imports declined at an even steeper rate of 3.4%. Thus, the merchandise trade balance reached a record \$61.5 billion in 2001, up from the previous record high of \$59.3 billion in 2000. The increasingly large cumulative trade surplus with the United States was accompanied by a slight improvement in the trade deficit with Japan, but countered by an increasing trade deficit with the EU.