Portfolio investment

In 2003, the flow of Canadian portfolio investment, or Canada's international transactions in foreign stocks and bonds, fell for the third consecutive year — from $63.8 billion in 2000, to $37.6 billion in 2001, to $25.0 billion in 2002, to $12.5 billion last year. Over this period, a major restructuring in the portfolio mix of Canadian investors abroad has taken place. From 2000 to 2001, investors withdrew from the stock and bond markets in equal proportions, while maintaining the 1:19 ratio between bonds and stocks that was in place in the year 2000. That is, for every 5 dollars of new foreign bonds held there were new holdings of 95 dollars of foreign equities. Over the course of the year 2002, the investment pattern started to shift towards bonds and out of stocks. This was hardly surprising given the several prominent disclosures of corporate malfeasance and the ongoing correction to stock market prices, particularly in the technology sector. The mix of new foreign holdings of bonds to stocks fell to a 1:3 ratio (i.e., for every 5 dollars of new foreign bonds held there were 15 dollars of foreign stocks held). The shift continued to pick up momentum in 2003 and last year two-thirds of the flow of portfolio investment was directed into the bond market, or a 2:1 ratio (in other words, for every 5 dollars of new bond holdings there was 2 dollars and 50 cents of new investment in foreign equities). Thus, in an overall situation of shrinking portfolio investment, Canadian purchases of foreign stocks were lower by $14.4 billion compared to 2002, while bond holdings increased by $2.0 billion.

The flow of foreign portfolio investment into Canada dropped $5.9 billion to $15.2 billion in 2003. Foreign investors, who had added $3.8 billion in money market instruments in 2002, sold off $8.2 billion of these securities last year. These investors also cut their new bond holdings from $18.7 billion to $6.7 billion between 2002 and 2003. However, they made significant additions (of $14.3 billion) to their equity holdings last year, after having sold off these investments by an amount of $1.4 billion only one year earlier.

Overall, after four consecutive years where the flow of Canadian outward portfolio investment exceeded the flows of foreign portfolio investment into Canada, the situation reversed itself in 2003 and inflows exceeded outflows. The amount of this difference was $2.7 billion last year, compared with outflows exceeding inflows by $3.9 billion in 2002, a $6.6 billion turnaround.

International investment position

Since Statistics Canada's reporting on this data have been delayed this year, we are unable to set out Canada's performance in this area for 2003. The reader is advised to check the electronic version of this Report at << www.dfait-maeci.gc.ca/eet/trade/state-of-trade-en.asp >> later this year for an update to this section.

[1] Derivatives are financial instruments providing payoffs that depend or are contingent on the values of other assets, such as commodity prices, bond and stock prices, or market index values. The coverage of derivatives in Canadian statistics is currently limited to options and traded financial futures.