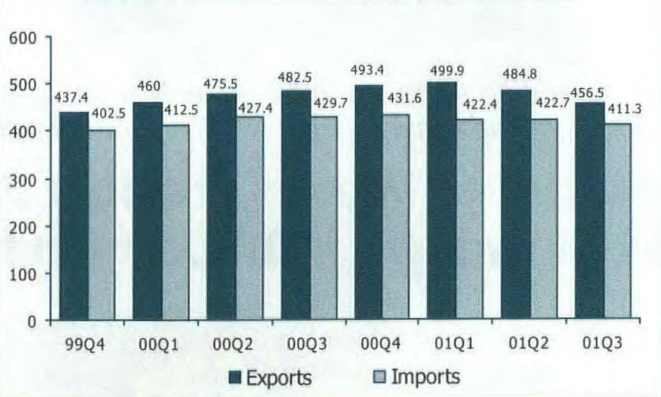
Trade and Investment Highlights

The broader-based current account surplus for the third quarter was $22.1 billion—down from $36.0 billion in the second quarter. The nine months' surplus this year still exceeds the record high of $26.9 billion for 2000 as a whole. The drop in the current account surplus in the third quarter can be explained by a substantial decline in the merchandise trade surplus (down $16.7 billion), a marginal increase in the persistent services trade deficit (increased by $328 million) and a small increase in the portfolio investment income deficit (increased $254 million). On the other hand, a reduction in the deficit for income generated from direct investments contributed to improve the current account balance by $3.1 billion.

Both inward and outward direct investments declined in the third quarter. Outward direct investment flows declined by 18.8% from the previous quarter, whereas inward direct investment flows declined by 37.5%. Outward direct investment exceeded inward direct investment by $6.3 billion in the third quarter, up from $4.7 billion in the second quarter.

On the portfolio side, outward investments saw a dramatic decline in the third quarter, led by a 70.9% drop in Canadian purchases of foreign stock, but were somewhat offset by a more limited increase in Canadian purchases of foreign bonds. For inward portfolio investments, foreign purchases of Canadian stocks and bonds declined, but were more than offset by increases in foreign-held loans and deposits in Canada.

Figure 1: Canada's Trade in Goods and Services
(Billions of Dollars, Annualized)



Source: Statistics Canada

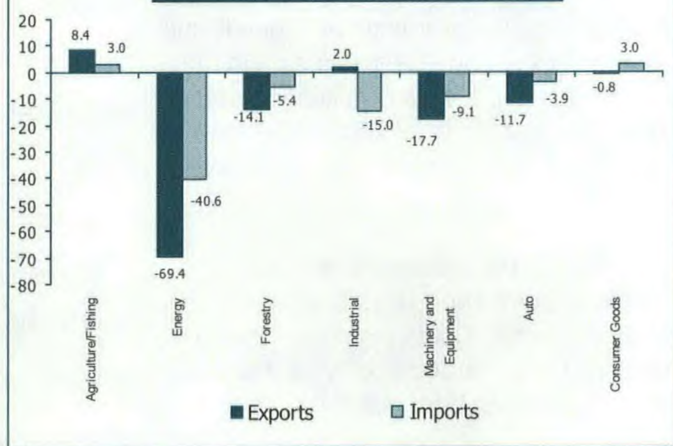
The Slowdown in U.S. and Other Economies Limited Canada's Exports

Exports of goods and services declined to $456.5 billion in the third quarter from $484.8 billion in the second quarter. Merchandise exports totalled $403.0 billion in the third quarter compared to $428.4 billion in the previous quarter—down 21.7%.

The largest decline in exports was experienced by energy exports (down 69.4%), but machinery and equipment, forestry products and automotives also experienced declines. Exports to all countries declined. Exports to the United States fell by 21%, while exports to all other countries, with the exception of exports to the United Kingdom (down 4.4%) and Japan (down 20.0%), experienced larger rates of declines.

Imports also decreased in the third quarter, in contrast to the modest increase recorded in the second quarter. Imports of goods and services declined from $422.7 billion in the second quarter to $411.3 billion in the third quarter. Similarly, merchandise imports fell from $360.5 billion in the second quarter to $351.8 billion in the third quarter.

Figure 2: Canada's Trade by Commodity
Third Quarter 2001 over Second Quarter 2001
(Annualized, Percent Change)

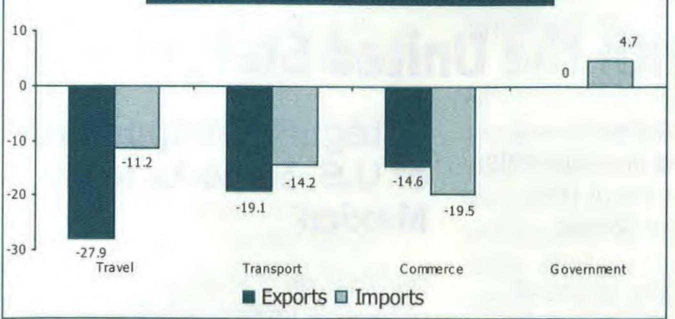


Source: Statistics Canada

Although imports of services declined at a faster pace than merchandise imports, the largest decline in merchandise imports occurred in imports of energy (down 40.6%) and industrial goods. Although imports from the United States and the United Kingdom declined in the third quarter, imports from Japan and European Union (EU) countries other than the United Kingdom increased in the third quarter.

The merchandise trade surplus declined from $67.9 billion in the second quarter to $51.2 billion, led by a steep decline in the merchandise trade balance in energy products. As most of the Canadian exports in energy products are destined for the United States, the merchandise trade balance with the United States experienced a severe decline over the previous quarter. However, the merchandise trade balance with all major trading partners deteriorated in the third quarter, with the exception of the United Kingdom.

Figure 3: Canada's Trade in Services by Type
Third Quarter 2001 over Second Quarter 2001
(Annualized, Percent Change)



Source: Statistics Canada

Services Trade Deficit Reverses Its Previous Decline

In the third quarter, Canada's services exports declined to $53.5 billion compared to $56.4 billion in the second quarter, while services imports declined to $59.5 billion from $62.1 billion in the previous quarter. The more rapid decline in services exports than services imports led to an increase in the services trade deficit of $328 million.

Canada's international travel deficit worsened in the July to September quarter after reaching the lowest deficit recorded since the third quarter of 1986 in the previous quarter. The increase in the deficit was primarily a result of a sharp drop in the spending in Canada by foreign visitors (down 28.0% over the previous quarter), which overshadowed a more modest decline in Canadian travel expenditures abroad (down 11.2%). On the other hand, Canadian travel expenditures in the United States declined at a faster rate than the decline in U.S. travel expenditures in Canada. This led to a further decline in the travel deficit with the United States, which reached its lowest level in more than 10 years.

Trade in commercial services, which account for about half of all imports and exports of services, experienced declines in both exports and imports in the third quarter. However, as the decline was larger in imports than in exports, the commercial services trade deficit fell by $500 million.

Inward and Outward Foreign Direct Investment Declined

Both inward and outward direct investment flows declined in the third quarter from the second quarter. Outward flows in the form of Canadian direct investment abroad (CDIA) declined from $19.1 billion in the second quarter to $15.5 billion in the third quarter, and inflows of foreign direct investment (FDI) similarly declined from $14.7 billion to $9.2 billion in the same period.

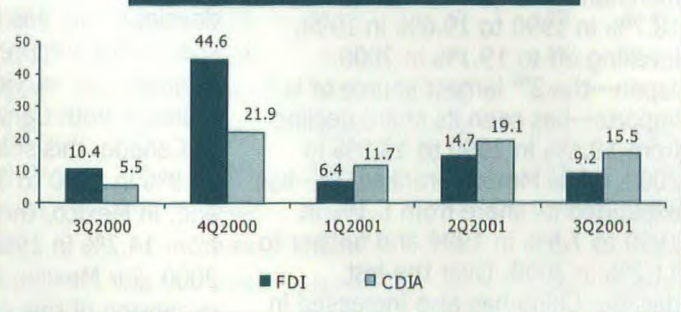
For CDIA, the wood and paper sector experienced an almost tenfold increase in the third quarter from the second quarter. On the other hand, CDIA declined in both the machinery and transport sector, and the finance and insurance sector. CDIA in the energy sector, which surged in the second quarter, eased off in the third quarter. The decline in CDIA occurred predominantly in the investment that was directed to countries that are not members of the Organization for Economic Co-operation and Development and to EU countries other than the United Kingdom.

FDI experienced a dramatic drop in the other industries sector—down $5.6 billion (or 80%) in the third quarter from the second quarter. Although FDI in the machinery and transport sector was also down in the third quarter, this was offset by increases in the wood and paper, and energy sectors. FDI from the United States registered an increase in the third quarter over the second quarter, but this was more than offset by a large decline in FDI from the United Kingdom and by escalating disinvestments from the EU countries other than the United Kingdom.

As mentioned, the sharp reduction in Canadian purchases of foreign stocks in the third quarter over the second quarter was the main contributing factor to the decline in the flow of portfolio investments abroad from a rate of $12.3 billion in the second quarter to $5.0 billion in the third quarter. The sharp decline in the flow of Canadian equity investments abroad overshadowed a $1.5-billion increase in Canadian purchases of foreign bonds in the third quarter compared to the second quarter.

Similarly, the flow of foreign portfolio investments in Canada also declined in the third quarter from the second quarter—a combination of declining purchases of Canadian bonds and disinvestments in Canadian stocks among foreign investors.

Figure 4: Foreign Direct Investment in Canada (FDI) and Canadian Direct Investment Abroad (CDIA)
(Third Quarter 2001, Billions of Dollars)



Source: Statistics Canada

Canada's Official International Reserves Record a Marginal Decline

Canada's official reserve assets were reduced by a marginal $130 million in the third quarter—comparable to the decline in the second quarter. This reversed a trend of substantial additions to the reserves in the prior three quarters.