Merchandise Trade Balance

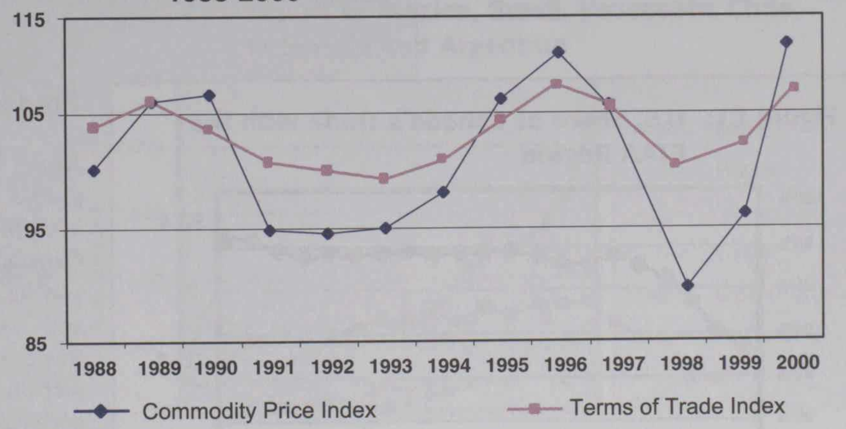
In 2000, the merchandise trade surplus increased to a record high of $54.5 billion from $33.8 billion in 1999 (Table 12). The overall surplus in trade in agriculture and fishing, energy, forestry, and automotive products rose sharply, while the deficit in trade in industrial products, M&E and consumer goods fell by $2 billion. The energy sector accounted for 76 percent of the $20.7 billion increase in the overall merchandise trade surplus in 2000.

In terms of trading partners, the merchandise trade surplus with the U.S. grew to a record $92.1 billion in 2000, up from $60.1 billion the previous year. Elsewhere, the deficit in merchandise trade widened, to $12.6 billion with the EU in 2000 (from $10.2 billion in 1999); to $1.8 billion with Japan (from $1.4 billion in 1999); and to $23.2 billion with countries other than the U.S., the EU and Japan (from $14.7 billion).

Developments with respect to the Terms of Trade[13]

Canada is a net exporter in commodity trade: in 2000, exports of food, energy, forestry products and industrial materials totalled $186.1 billion, while imports amounted to $109.8 billion, generating a surplus of $76.3 billion. The further rise in commodity prices in 2000[14] contributed to an 8.9 percent increase in Canada's merchandise export prices. At the same time, merchandise import prices rose by 2.5 percent. This resulted in the terms of trade increasing by 6.4 percent, accounting for much of the improvement in the trade surplus in 2000. Although Canada's dependence on commodity trade has been declining steadily, commodity prices continued to significantly affect Canada's terms of trade. The direction of movement in the terms of trade closely followed the movement of commodity prices (Figure 3). In general, fluctuations in the terms of trade are smaller than those in commodity prices, since the prices of non-commodity products such as automotive products, M&E and consumer goods do not fluctuate sharply over time.

Figure 3: Canada's Commodity Price Index and Merchandise Laspeyres Terms of Trade, 1988-2000



Source: Bank of Canada, *Banking and Financial Statistics*

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[13] 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 commonly measured as the index of average export prices, divided by the index of average import prices. This measure of the terms of trade is 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. In this analysis, the Laspeyres counterpart series are used, as they are more indicative of pure price movements because they exclude the price effect associated with changes in the product mix of exports and imports.

[14] The Bank of Canada's US$ energy price index (1982-1990=100) almost doubled from a low of 64.6 in 1998 to average 120.8 in 2000. The corresponding price index for industrial materials (which includes metals, minerals, forest products and other non-energy raw materials) rose from 108.0 in 1998 to 115.0 in 2000.