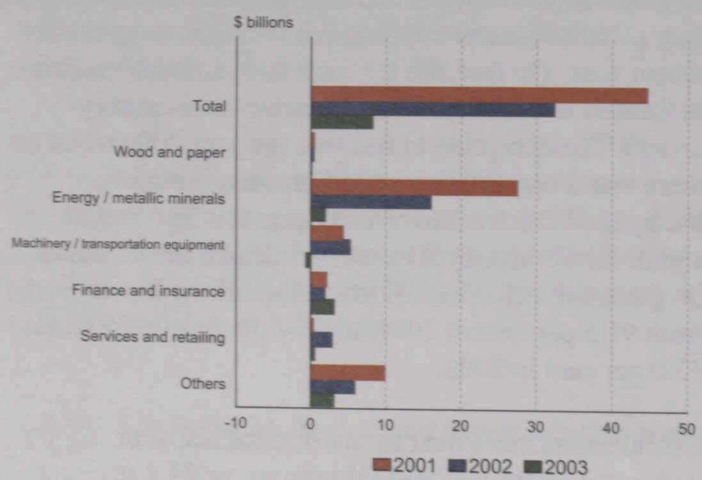
Foreign direct investment flows into Canada were down in all sectors, with the exception of the *finance and insurance* sector where investment was up by $1.2 billion to $3.1 billion (Figure 4-2). About 60 per cent of the reduction in FDI inflows came in the *energy/metallic minerals* sector (down $14.1 billion to $1.9 billion). There was a net withdrawal of investment in *machinery and equipment* of $0.6 billion as foreign investors reduced investment by $5.9 billion in the sector from the $5.3 billion level observed last year. Elsewhere, investment flows to *miscellaneous* industries were reduced $2.8 billion to $3.1 billion, those to *services and retailing* declined $2.3 billion to $0.5 billion, and those to *wood and paper* were down $0.3 billion to just $94 million.

Figure 4-2

Inflows of direct investment by sector, 2001-2003



Developments on the Canadian FDI outflow side, or Canadian Direct Investment Abroad (CDIA), were a little less pronounced than on the FDI inflows side, but, nonetheless, quite dramatic. Outward Canadian investment flows fell by a third, or $15.2 billion, to just over $30.0 billion in 2003. These direct investment outflows were down to most major partners, except for the U.K. Half of the decline came from reduced CDIA flows to the U.S. These investment outflows fell by $7.6 billion, slightly more than halving the investment level observed for 2002 ($14.0 billion). Investment outflows to the other OECD countries plunged $5.9 billion, completely erasing the $5.7 billion investment that flowed into that region in 2002; thus, there was a net withdrawal of CDIA of about $236 million from that region over the course of the past two years. CDIA flows to Japan also fell noticeably in 2003, down from about $1.5 billion to a bit over $0.3 billion, or a decline of 78.2 per cent.

Corporate malfeasance, weak consumer confidence, and a multitude of corrections that have been taking place on the U.S. economic front have been reflected in decisions concerning Canadian direct investment abroad. Canadian outward investment has increasingly shifted to Europe, much more so than in the recent past. Just two short years ago, more than half of all CDIA flows were destined to the U.S.; in 2002, the share had fallen to around 31 per cent; by last year, just slightly over 21 per cent of all investment flows found their way to the U.S. The EU has been the prime beneficiary of the shift of CDIA flows away from the U.S., notwithstanding weak economic growth performance in that region. The EU share in direct investment outflows has vaulted from 13.8 per cent in 2001, to 32.4 per cent in 2002, to 50.3 per cent last year.

The bulk of the decline in CDIA outflows occurred in the *finance and insurance* sector, where investment levels plunged 55.5 per cent, or $14.2 billion, to $11.3 billion last year (Figure 4-3). At this level of investment, *finance and insurance* slipped from the largest to second-largest sector for outward investment. The largest sector to receive Canadian outward investment in 2003 was the *energy/ metallic minerals* sector, where direct investment outflows expanded 10.5 per cent to $12.3 billion. Thus, *energy/ metallic minerals* and *finance and insurance* accounted for 40.8 per cent and 37.8 per cent of total CDIA outflows last year. Investment flows to the third largest CDIA recipient sector — *machinery and equipment* — were halved in 2003, from $4.6 billion to $2.2 billion. For the remainder of the sectors, $2.0 billion in foreign investment flows were directed to *miscellaneous* or "other" sectors (up $0.8 billion), $1.5 billion went to the *services and retailing* segment of the market (down $0.2 billion), and $0.7 billion went to *wood and paper* industries (down $0.4 billion).

Figure 4-3

Outflows of direct investment by sector, 2000-2003