communication services. These contributed $0.7 billion, $0.6 billion and $0.5 billion, respectively, to the surplus. An opposite effect was produced by an increase in imports and a drop in exports of architectural, engineering, and other technical services, resulting in a reduction of the trade surplus by $0.8 billion in that category, thereby limiting the overall improvement in Canada's services trade balance.

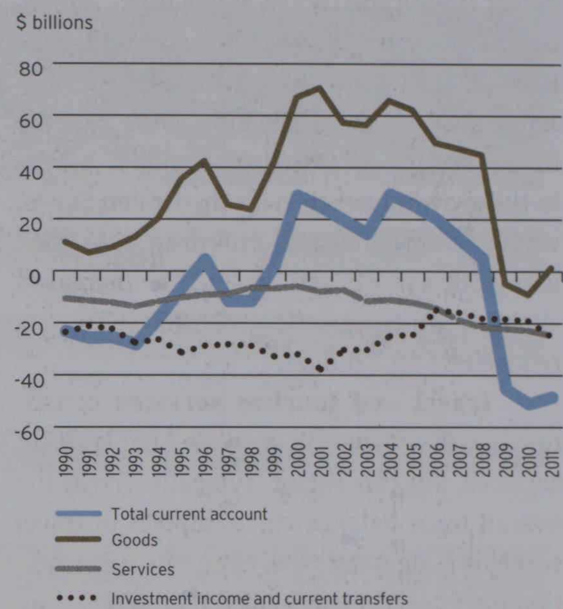
The Current Account

The current account records the flow of all within-the-year transactions between Canada and its commercial partners. The goods trade is the dominant component of these transactions, with the services trade a distant second. As these two were discussed at length in this chapter, the other two components of the current account will be explained briefly in this section: investment income and current transfers. Receipts on those items can be thought of as exports and payments as imports.

Investment income flows consist of receipts and payments on direct investments, portfolio investments and other investments. This has usually been a deficit item for Canada, and 2011 was no exception. Receipts of Canadian investors grew $4.8 billion, with direct investment receipts responsible for this increase; however, payments to foreign investors increased $9.5 billion. This was largely due to direct investment payments, which grew $8.8 billion; portfolio investment payments increased $2.4 billion, while amounts paid to other investors dropped $1.7 billion. The outcome of these movements was a $4.6-billion increase in Canada's deficit in investment income flows. Overall, direct investment flows typically account for the greatest proportion of short-term financial flows in this category, and are largely evenly balanced between receipts and payments. Nearly all of Canada's deficit in investment income had its source in the portfolio investments deficit in 2011.

FIGURE 4-5

Components of Canada's Current Account, 1990-2011



Current transfers are the smallest component of the current account, but the deficit associated with them widened considerably in 2011. The $4.0-billion deficit was nearly 20 times as great as the 2003 level and twice the 2007 level. Receipts were down $1.3 billion, with official transfers accounting for two thirds of the decline and the rest coming from private transfers. Transfer payments to foreigners did not move substantially, and therefore did not contribute significantly to the increase in the trade deficit for this item.

Taken as the sum of all of its components, Canada's **current account** deficit shrank by $2.6 billion in 2011, as a result of a strong $10.4-billion improvement in the goods trade balance. The deficit for every