

Trade and Investment Highlights

A Small Export Contraction Accompanied by Limited Growth in Imports in the Fourth Quarter

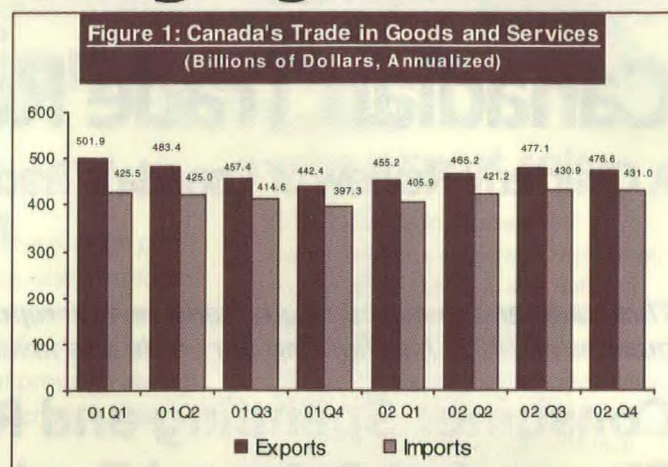
Exports of Canadian goods and services fell by 0.4% in the fourth quarter (Figure 1). The \$1.9 billion decline in merchandise exports was offset by a strong \$1.4 billion expansion in services exports. Imports of goods and services increased by 0.2%—entirely due to growing services imports—as merchandise imports registered a 0.1% decline in the fourth quarter. The \$1.9 billion or 1.8% decline in merchandise exports in the fourth quarter was characterized by mixed performance among the sectors (Figure 2). Strong gains in energy (up 91.5% or \$9.0 billion) were offset by declines in the auto sector (down 31.8% or \$9.4 billion), in agriculture and fishing and in industrial goods. On the imports side, a \$1.0 billion (26.3%) increase in energy imports was offset by a \$1.0 billion (4.7%) decline in auto imports, while a strong advance in consumer goods was sufficient to offset declines in the remaining sectors.

A decrease in merchandise exports to the U.S. (down 3.0% or \$2.7 billion) was the major contributor to the decline in overall exports in the fourth quarter. Merchandise exports to non-OECD countries and the EU also declined, although this was almost entirely offset by increased shipments to Japan and other OECD countries. Similarly, merchandise imports from the U.S. experienced a substantial decline, down 5.0% or \$3.3 billion. However, increased imports from all other major markets, in particular from non-OECD countries, limited the overall decline in imports.

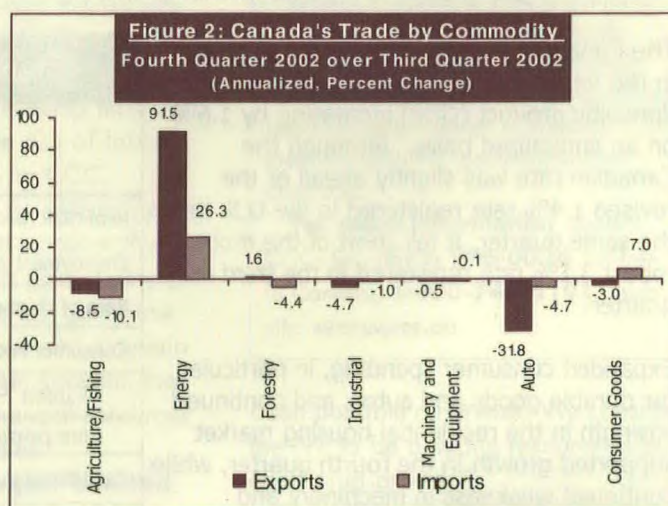
Because of the decline in exports and the rise in imports of goods, the merchandise trade balance with non-OECD countries deteriorated rapidly in the fourth quarter. The merchandise trade balance with the EU also deteriorated, principally as a result of increased goods imports from and declining goods exports to the U.K. The improvement in the merchandise trade balances with all other major markets was not sufficient to offset the losses noted above. As a result, the merchandise trade balance fell by \$1.8 billion in the fourth quarter.

Services Trade Deficit Continues to Decline

Canadian services exports increased by 10.0% in the fourth quarter. Exports increased for all types of services—led by travel and commercial services. With the exception of transport, services imports also rose, as



Source: Statistics Canada



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overall services imports expanded by 1.4% (Figure 3). Because services exports increased more than services imports, the services trade balance narrowed to \$7.1 billion in the fourth quarter—down from \$8.3 billion in the previous quarter.

Outward Foreign Direct Investment Flows Exceed Inward Flows

Canadian direct investment abroad (CDIA) was \$16 billion in the fourth quarter of 2002—more than double the amount recorded in the last quarter of 2001. The increase in quarterly flows was particularly strong in the finance and insurance sector and in other industries, while CDIA in the services and retailing and energy sectors declined compared with the same quarter the previous year. Outward flows were predominantly directed to the U.S. and the EU (other than the U.K.), while non-OECD countries experienced a decline in CDIA flows in the fourth quarter.

Foreign direct investment (FDI) flows into Canada stood at \$5.7 billion in the fourth quarter of 2002—about half the level recorded in the same quarter a year earlier. Most of the decrease in FDI flows occurred in energy, which experienced a drastic 90% reduction in FDI over the same quarter the previous year. The decline in FDI flows stemmed from a decline in FDI from the U.S.,

which decreased its flow of direct investment to \$3.8 billion in the fourth quarter of 2002 from \$15.6 billion in the same quarter the previous year. Partially offsetting this decline were increases in FDI from the EU (other than the U.K.) and non-OECD countries. Overall, outward flows exceeded inward flows in the fourth quarter by \$10.3 billion, a reversal of the situation in the same quarter the previous year, when FDI exceeded CDIA by \$4.1 billion.

Canada Draws Down on Its Official International Reserves

Canada reduced its official reserves of assets in the fourth quarter of 2002 by \$559 million, compared with a \$1.1 billion increase recorded in the same quarter in 2001.

Key Trade and Investment Highlights for 2002

Canada's two-way trade in 2002 increased to \$2.44 billion per day, up from \$2.43 billion in 2001. Two-way merchandise trade advanced marginally (0.2%), while two-way services trade expanded by a more robust 2.3%.

Lower Current Account Surplus

The current account surplus contracted from \$30.0 billion in 2001 to \$17.3 billion in 2002, led downwards by a reduced balance in goods and services, which declined by \$9.3 billion. For the year as a whole, exports of goods and services were down by 0.6%, while imports expanded by 1.6%.

Merchandise Imports Expand while Exports Decline

Merchandise exports fell by 1.0% in 2002—led lower by reduced shipments to the U.S. On the other hand, merchandise imports expanded by 1.6%. Although merchandise imports from the U.K. and U.S. declined, increased imports from all other markets underpinned the expansion in imports. As a result, the overall merchandise trade balance decreased by \$9.8 billion to \$54.2 billion in 2002—down from a record high of \$64.0 billion in 2001. Separately, the merchandise trade balance with the U.K. improved in 2002, while the trade balance with all other major markets declined.

Merchandise Imports and Exports to the U.S. Decline

Canada's annual merchandise exports to the U.S. declined by 0.8% and imports by 0.1% in 2002. Consequently, the record high bilateral merchandise trade surplus of 2001 declined in 2002—from \$95.9 billion to \$93.3 billion.

Bilateral Merchandise Trade with Japan, the EU, Mexico and China

In 2002, both merchandise exports and imports from Japan expanded over 2001. Exports to Japan were up by 2.4%—it was the only major