Trade and Investment Highlights

Goods Exports Growth Outpaces Goods Imports Expansion

Exports of Canadian goods and services expanded by 41.0% in the second quarter (Figure 1). Goods exports expanded by 46.7%, while services exports increased by a much more modest 7.3%.

Imports of goods and services expanded by 29.1% in the quarter, reflecting a 35.0% increase in commodity imports and an 4.3% expansion in services imports.

Merchandise exports increased $40.7 billion (up 46.7%), as all major sectors experienced advances (Figure 2). Automotive sector exports advanced $8.2 billion (or 43.8%), industrial goods $8.1 billion (or 52.7%), the energy sector $7.9 billion (or 62.6%), the machinery and equipment sector $6.4 billion (or 32.1%), the forestry sector $5.6 billion (or 76.6%), agriculture products $3.5 billion (or 56.3%) and consumer goods $1.2 billion (or 29.7%).

Merchandise imports advanced by $26.4 billion —led by the machinery and equipment sector (up $8.3 billion or 38.2%), industrial goods (up $6.6 billion or 46.1%), the automotive sector (up $3.6 billion or 21.3%), the energy sector (up $3.3 billion or 80.7%) and consumer goods (up $2.4 billion or 23.1%).

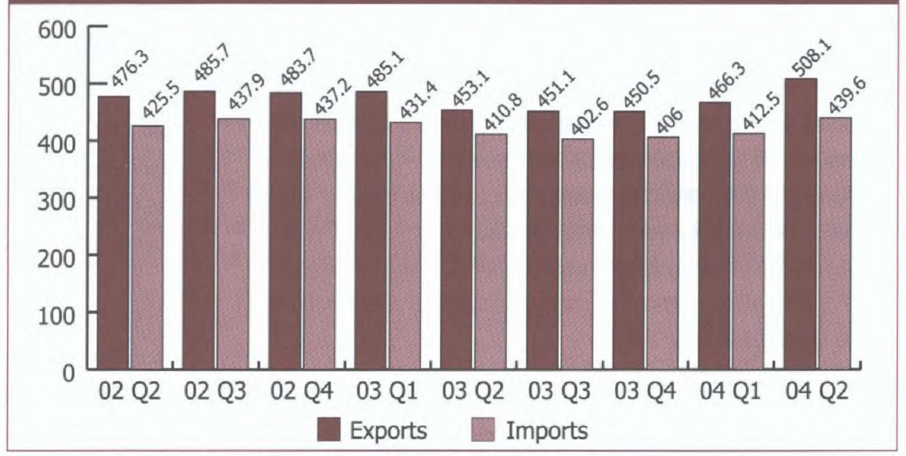
On a destination basis, merchandise exports to the US increased by $33.1 billion, or 46.4%, and accounted for just over 80% of the increase in overall quarterly exports. Shipments to non-OECD countries advanced by $3.1 billion (up 57.0%), and were up by $2.2 billion to Other OECD countries (up 77.9%), by $1.5 billion to the EU (up 26.4%), and by $0.9 billion to Japan (up 38.5%).

Merchandise imports from the US expanded by $15.5 billion (up 29.0%). Imports from Other OECD countries increased by $4.0 billion (or 101.9%), were up by $3.8 billion (or 45.3%) from non-OECD countries, advanced by $2.8 billion (or 37.6%) from the EU, and grew by $0.4 billion (or 15.0%) from Japan.

With goods exports expanding at a faster pace than goods imports, the merchandise trade balance increased by $14.3 billion in the quarter, to $80.2 billion on an annualized basis. A $17.5 billion increase in the merchandise trade balance with the US combined with an $0.5 billion improvement in the trade balance with Japan were partially offset by deteriorating trade balances with Other OECD countries (down $1.8 billion), with the EU (down $1.3 billion), and with non-OECD countries (down $0.7 billion).

Figure 1: Canada's Trade in Goods and Services

(Billions of Dollars, Annualized)

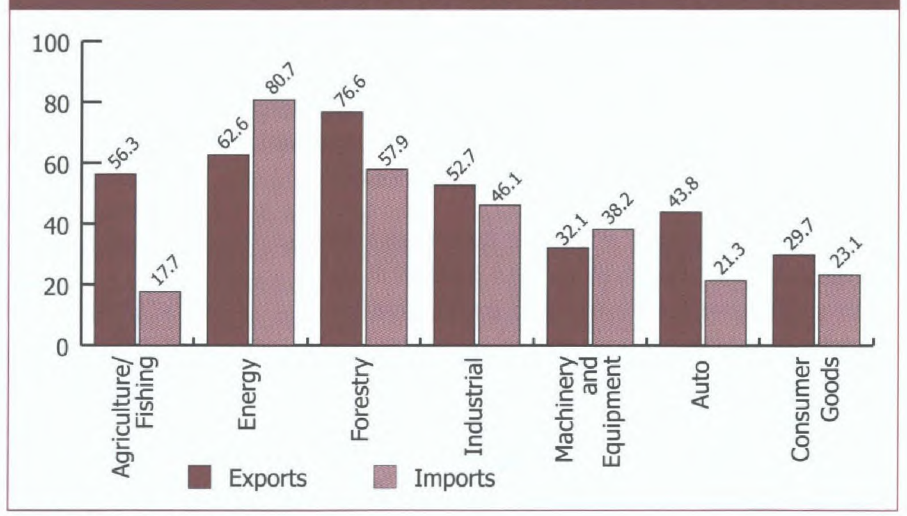


Source: Statistics Canada

Figure 2: Canada's Trade by Commodity

Second Quarter 2004 over First Quater 2004

(Annualized, Percent Change)



Source: Statistics Canada

Both Services Exports and Imports Expand

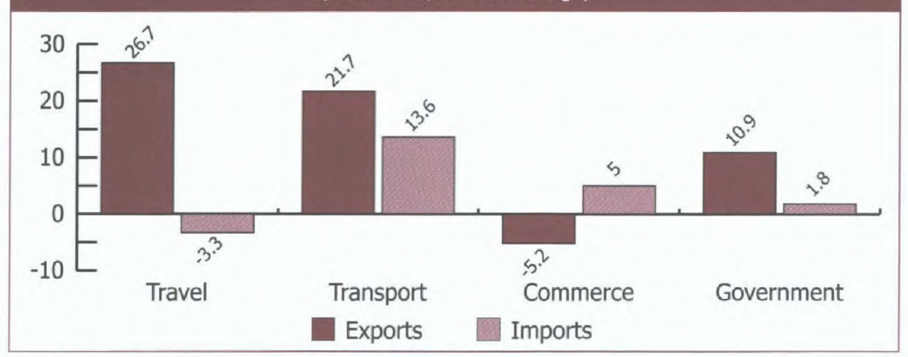
Services exports also increased by $1.1 billion in the second quarter. Gains were particularly strong in the travel sector (up 26.7% or $0.9 billion) and the transport sector (up 21.7% or $0.5 billion), while exports of government services increased more modestly (Figure 3). Offsetting these increases was a $0.4 billion decline in commercial services exports (down 5.2%).

Services imports advanced $0.8 billion. Imports of transport and commercial services each increased by $0.5 billion, while government services imports stayed flat and travel services imports fell by $0.2 billion. Overall, the quarterly services trade deficit narrowed to $11.7 billion on an annualized basis from $12.0 billion the previous quarter.

Figure 3: Canada's Trade in Services by Type

Second Quarter 2004 over First Quater 2004

(Annualized, Percent Change)



Source: Statistics Canada

Outward Foreign Direct Investment (FDI) Flows Exceed Inward FDI Flows

Flows of Canadian Foreign Direct Investment Abroad (CDIA) were $33.0 billion in the second quarter of 2004 - substantially up from the $2.7 billion recorded in the same quarter in 2003. Increased CDIA flows in the finance & insurance sector accounted for some $22.0 billion of the increase, accompanied by smaller advances in the energy & mineral sector (up $3.8 billion), the wood & paper sector and the services & retail sector (up $2.9 billion each). Only machinery & transport recorded a slight decline in CDIA flows—down $0.9 billion over the same quarter a year earlier.

Regionally, outward flows to the US were up substantially (up $26.8 billion) together with enhanced flows to the EU (up $3.5 billion) and Japan (up $0.3 billion). These advances were only marginally offset by declining CDIA flows to Other OECD countries (down $39 million) and non-OECD countries (down $299 million).

Foreign Direct Investment (FDI) flows into Canada were $3.3 billion in the second quarter of 2004, down from $5.7 billion in the same period a year earlier. The largest decline in inflows was in machinery & transport (down 2.0 billion), followed by energy & minerals (down $585 million), services & retail (down $164 million) and finance & insurance (down $131 million). Only wood & paper registered an increase in the second quarter (up $429 million).

From an origin perspective, inflows fell as a result of a drop in US investments (down $2.6 billion), which were only partially offset by increased inflows from Japan (up $118 million) and the EU (up $105 million).

Canada's Official International Reserves Remains Unchanged

Canada reduced its official reserves holdings by $243 million in the second quarter of 2004, compared with a $229 million reduction in the same quarter in 2003.