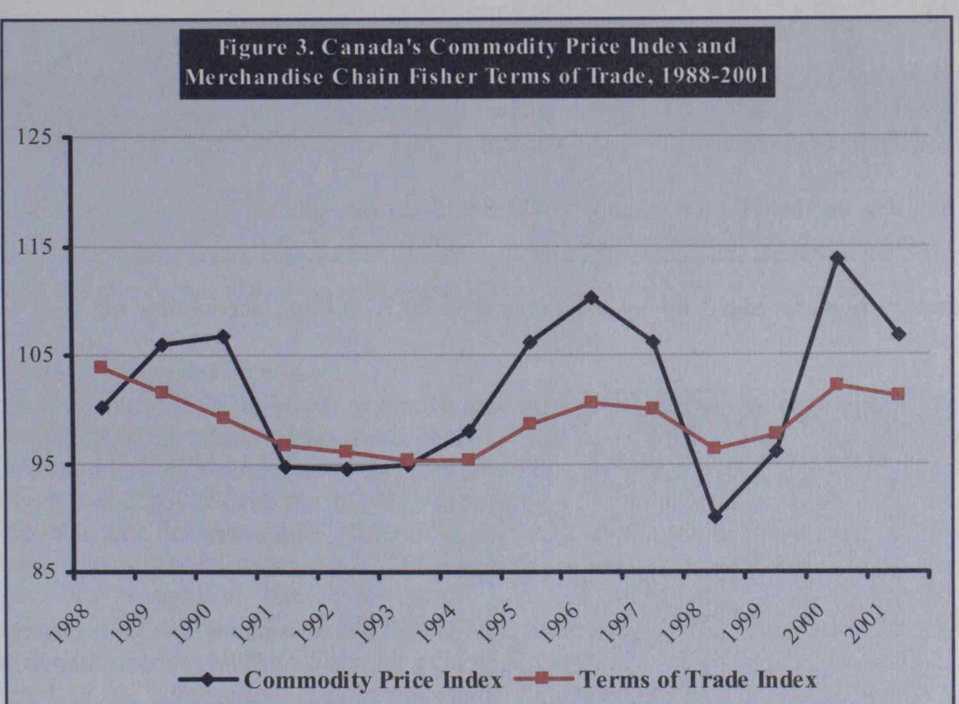
Merchandise Trade Balance

In 2001, the merchandise trade surplus increased to a record high of $61.5 billion from $59.3 billion in the previous year (Table 12). The overall surplus in agriculture and fishing and energy products trade continued to expand sharply, while the deficit in trade in industrial products and machinery and equipment fell substantially. The surplus on trade in automotive and forestry products dropped in 2001, while the deficit on trade in consumer goods increased.

In terms of trading partners, the merchandise trade surplus with the United States grew to a record $95.4 billion in 2001, up from $91.9 billion in 2000. The merchandise trade deficit with Japan improved to $1.3 billion in 2001, from $1.4 billion in 2000. However, the deficit in merchandise trade with the EU widened, to $13.3 billion in 2001 from $11.3 billion in 2000. The balance on trade with countries other than the U.S., the EU and Japan improved slightly in 2001, to a deficit of $19.3 billion from $19.9 billion in 2000.

Developments with respect to the Terms of Trade[10]

Canada is a net exporter with respect to commodity trade: in 2001, exports of food, energy, forestry products and industrial materials totalled $190.1 billion, while imports amounted to $109.4 billion, generating a surplus of $81.6 billion. The price of all merchandise exports rose by 1.6 percent in 2001, moderated by a decline in commodity prices. At the same time, merchandise import prices rose by 2.5 percent, resulting in a 0.9 percent decline in the terms of trade. Although Canada's dependence on commodity trade has been declining steadily, commodity prices continued to affect Canada's terms of trade. The direction of movement in the terms of trade followed closely 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, machinery and equipment and consumer goods that dominate Canada's trade do not fluctuate sharply over time.



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

[10]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, 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 chain Fisher series is used, since it is more indicative of pure price movements than other price indices.