impressive gains were Energy products (up 13.9%, or $8.4 billion) and Forestry products (up 13.8%, or $4.7 billion).

On the import side, gains were also broadly based, with only Agricultural and fishing products recording a small decline (of 0.7%, or $0.1 billion). Energy products imports grew at a sizzling 26% pace last year, up $5.1 billion over their levels a year earlier, while Industrial goods advanced 12.7% (or $8.3 billion) and Machinery and equipment increased 5.6% (or $5.5 billion).

Overall economic activity in Canada's largest foreign market, the United States (U.S.), rose as GDP expanded 4.4% last year compared to 3% the year before. As a consequence, Canada's trade with the United States picked up substantially in 2004. Exports rose $21.5 billion (or 6.5%) to $351.9 billion, while imports advanced $10.2 billion (or 4.2%) to just over $250 billion. Thus, the annual merchandise trade surplus with the United States expanded by some $11.3 billion to $101.8 billion. For the year, the United States accounted for 81.8% of Canadian merchandise exports (down from 82.6% in 2003) and 68.9% of total merchandise imports (down from 70.2%). It should be pointed out, however, that these figures are likely overstated due to transshipments.

Exports to the European Union vaulted 12.3% (or $3 billion), to $27.1 billion last year. For the same period, imports were up 4.4% (or $1.5 billion), to $36.3 billion. Thus Canada's trade deficit with the European Union narrowed by $1.5 billion to stand at $9.2 billion in 2004. Most of the gains came from the United Kingdom, where Canada managed to change a $1.1 billion merchandise trade deficit into a slight ($115 million) trade surplus between 2003 and 2004. The Canadian trade deficit with Japan was almost eliminated last year, as it was reduced from $859 million to just $64 million. Our merchandise exports to that country edged up 1.8% (to just below $10 billion) last year, while our imports from that country retracted 5.8% (to just above $10 billion). Elsewhere, Canada's merchandise trade deficit with the other Organization for Economic Cooperation and Development (OECD) nations not already mentioned grew by almost $1 billion, from $7 billion to $8 billion, while the deficit with all other non-OECD nations widened by $3.4 billion, to $17.2 billion.

In 2004, Canada recorded a trade deficit on its trade in services of $11.2 billion, up $300 million from the year before. Services receipts expanded by $2.4 billion (or 4%), while payments grew by $2.7 billion (or 3.8%). Services exports were up across the board, most notably to the European Union (up $0.9 billion), to Japan and to the other OECD nations (up $0.5 billion, each), and to the U.S. (up $0.4 billion). Services imports were up from most major trading regions, with the exception of the United States where they edged down 1.1% (or $0.4 billion). Gains were led by the non-OECD countries (up $1.3 billion), Japan (up $1 billion), and the European Union (up $0.7 billion).

In terms of services sectors, exports were up by $1.8 billion (12.3%) for travel and by $1.6 billion (15.3%) for transportation services, but were down by $1.2 billion (3.5%) for commercial services. The same pattern holds on the import side, travel services were up by $2.1 billion (11.3%) and transportation services up by $1.5 billion (10.9%), while commercial services imports were lower by almost $1 billion (2.7%). As a result of these movements, Canada's travel services deficit widened by $0.3 billion to $4.1 billion and the commercial services deficit expanded by $0.2 billion to $3.7 billion, while the transportation services deficit marginally narrowed ($23 million) to $3.9 billion for the year.

Canadian direct investors injected $57.5 billion abroad over 2004. This amount went in roughly equal measures to acquisitions and to increases in the working capital of foreign affiliates. Geographically, just over 70% of the year's direct investment went to the United States, while four-fifths was invested in just two broad industry groups: finance and insurance and energy and metallic minerals.

Canadians have been active recently buying back foreign owned or foreign controlled firms in Canada. Foreign acquisitions have been negative in four of the past five quarters (negative acquisitions result when Canadians on balance repatriate companies from foreign investors). With these re-purchases, total foreign direct investment into Canada in 2004 amounted to a modest $8.5 billion. Most of the investment came from reinvested earnings. Geographically, foreign direct investment rose from U.S. and Asian investors,