

Trade and Investment Highlights

Exports Expand Faster than Imports in the Third Quarter

Exports of Canadian goods and services increased by 10.8% in the third quarter, with merchandise exports expanding by 12.0% (Figure 1). Imports of goods and services increased by 9.5%, with merchandise imports rising by 11.4%. However, imports of services declined from the previous quarter.

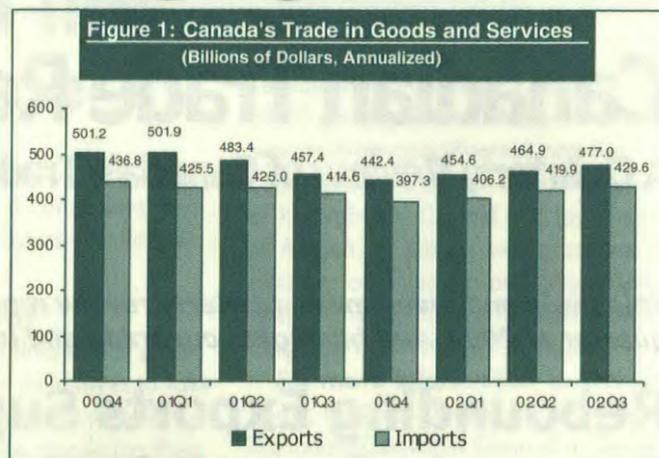
Merchandise exports expanded across all sectors, with the exception of forestry (Figure 2). Export growth was particularly strong for autos, consumer goods and energy. Similarly, the expansion of imports was evident for all commodities, and particularly strong for energy, agriculture and fishing, and autos. Merchandise exports expanded to all markets, with the exception of the EU, where shipments to the United Kingdom underwent a substantial decline. Export growth was especially strong to the U.S. and to non-OECD countries. Merchandise imports from all major markets expanded, with the exception of imports from the EU and Japan. Similar to the decline in exports to the U.K., a decline in imports from the U.K. contributed to the slump in imports from the EU as a whole. Imports from non-OECD countries recorded rapid growth at 36.4% over the quarter. As a result of exports expanding more rapidly than imports, the trade balance in the third quarter improved to \$47.4 billion from \$45.0 billion in the previous quarter. Regionally, a substantial improvement in the trade balance with the United States and small improvements in the trade balances with the EU and Japan were partly offset by declines in the trade balance with other markets.

Services Trade Deficit Improves

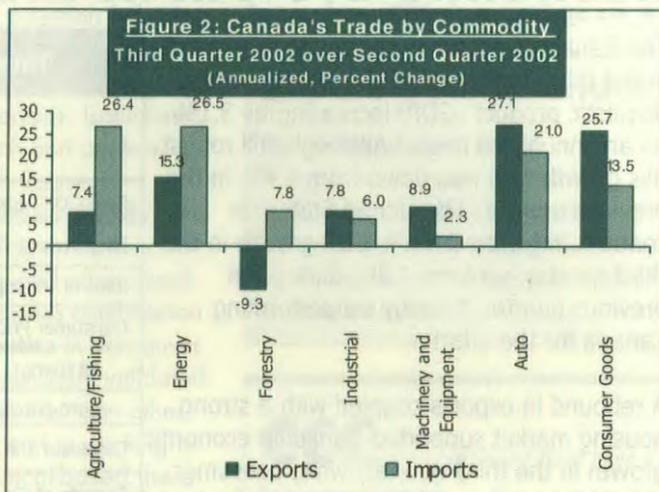
Services exports increased by 2.5% in the third quarter—led by transport and travel services, while commercial services exports declined. Overall services imports recorded a 0.3% decline during the quarter—as growth in imports of transport services (20.7%) and travel (2.9%) was insufficient to offset the 10.1% decline in commercial services imports. As a result, the services trade deficit fell by \$400 million to \$8.6 billion. For details by type of services, see Figure 3.

Both Inward and Outward Foreign Direct Investment Decline

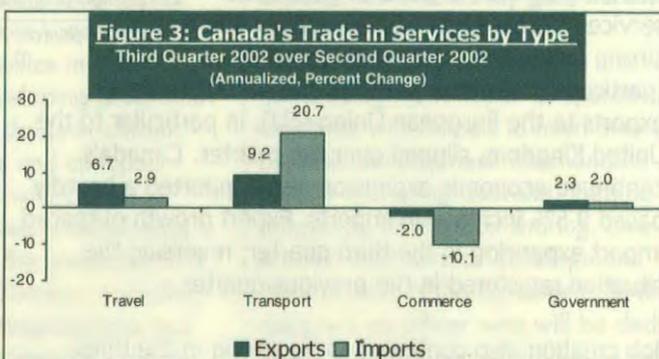
The third quarter of 2002 recorded \$1.57 billion in inward foreign direct investment (FDI) flows, just over a fifth of the \$7.27 billion in FDI recorded in the same quarter in 2001. The drop in FDI was caused by disinvestment by the U.S., particularly in the energy sector, though this was partially offset by increased inflows from the EU and other major areas. Outward Canadian direct investment abroad (CDIA) flows, however, were maintained at \$12.8 billion in the third quarter—comparable with the level in the same quarter one year earlier. Nevertheless, the destination of CDIA has changed over the last year; there was a steep decline in CDIA to the U.S. in favour of all other major areas, with the exception of Japan.



Source: Statistics Canada



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Canada Draws Down on Its Official International Reserves

Canada reduced its official reserves of assets in the third quarter of 2002 by \$1.9 billion, compared with a smaller \$130 million reduction recorded in the same quarter in 2001.

EVOLUTION OF CANADA'S MERCHANDISE TRADE, 1988-2001

This special feature provides a broad outline of the pattern of Canadian merchandise trade over the period from 1988, when the harmonized system for commodity classification was introduced, to 2001, the last year for which full data are available. Particular emphasis is given to Canada-U.S. trade.

Overview

Over the period 1988-2001, Canadian merchandise exports expanded at an average annual rate of 8.5%, from \$138 billion to \$402 billion.¹ Over the same period, merchandise imports increased from \$131 billion to \$343 billion, an average annual growth rate of 7.7%. As a result of the more rapid growth in exports than imports, Canada widened its overall merchandise trade surplus from \$7 billion in 1988 to \$59 billion in 2001. Gains were especially notable with respect to the United States: the U.S. share of Canadian merchandise exports increased by 14.4 percentage points to 87.2% over the period (Table 2).

The offsetting share declines were evenly spread out, with drops of over 4 percentage points each for the EU, for Japan, and for all other non-OECD countries. On the other hand, the U.S. share of Canadian merchandise imports fell to 63.6% in 2001 from 65.6% in 1988. Canadian import shares for the EU and Japan also declined over this period, to the benefit of the other OECD countries and the other non-OECD countries.

Commodity-wise, Canada deepened its exports of its three dominant commodities—motor vehicles, mineral fuels and machinery—over the 1988-2001 period, possibly signalling a trend toward increased specialization in these areas. These three commodities accounted for 43.2% of total Canadian merchandise exports last year, up from 40.8% in 1988 (Table 3). However, widening the picture to the 10 or 20

Table 3: Commodity Concentration in Canada's Trade with Major Trading Partners

	Total Exports (%)					
	Top 3 Commodities		Top 10 Commodities		Top 20 Commodities	
	1988	2001	1988	2001	1988	2001
World	40.8	43.2	69.1	68.1	84.0	79.5
United States	50.8	46.8	75.6	71.6	88.2	81.1
EU-15	33.5	36.6	61.7	67.7	80.9	84.6
Japan	41.0	41.3	82.1	77.5	91.5	92.3
Other OECD	20.9	31.7	56.7	66.1	79.8	83.5
Non-OECD	42.7	34.7	71.2	65.8	84.4	83.0

	Total Imports (%)					
	Top 3 Commodities		Top 10 Commodities		Top 20 Commodities	
	1988	2001	1988	2001	1988	2001
World	51.2	47.0	68.5	67.6	79.9	79.8
United States	57.7	50.0	73.2	69.1	85.0	82.6
EU-15	39.4	40.9	66.2	74.3	79.7	84.8
Japan	76.3	75.6	90.7	93.2	96.3	97.3
Other OECD	35.1	53.1	59.4	79.6	76.5	88.9
Non-OECD	27.3	41.6	55.2	65.9	74.4	82.0

Source: Statistics Canada

largest export commodities, their share in total goods exports fell over 1988-2001, suggesting that Canadian producers have been diversifying their export sales.

With respect to the U.S., the trend toward diversification holds: the share of the top three, top 10 and top 20 merchandise exports to the U.S. all fell between 1988 and 2001. But for the EU, the opposite is true: the top products all expanded their export share during the period, suggesting increasing concentration in Canadian exports to the EU through time. The pattern for Japan is interesting: the top three Canadian exports maintained their share over

time, the share for the next seven largest exports declined, while the 11th through 20th largest export commodities to Japan increased their share.

The three largest Canadian imports (machinery, motor vehicles, and electrical machinery and electronics) saw their share of all Canadian imports slip from just over one-half of merchandise imports in 1988 to just under the halfway mark (47.0%) in 2001. The seven next largest products managed to capture most of the share lost by the top three, as the top 10 import commodities more or less managed to maintain their share.

As was the case for merchandise exports, the share of the top three, top 10 and top 20 merchandise imports from the U.S. fell over 1988-2001 but increased for imports from the EU. For Japan, the import share of the top three commodities edged down slightly, but the share of the top 10 and top 20 import commodities was up.

Table 2: Canadian Total Merchandise Trade by Major Trading Partners

	Total Exports (%)		Total Imports (%)	
	1988	2001	1988	2001
United States	72.8	87.2	65.6	63.6
EU-15	8.6	4.5	13.4	11.2
Japan	6.4	2.0	7.1	4.3
Other OECD	3.0	1.9	4.6	7.2
Non-OECD	9.2	4.3	9.4	13.7
World	100.0	100.0	100.0	100.0

Source: Statistics Canada

¹ Trade figures reflect merchandise exports and imports in current Canadian dollars, on a customs basis.