## **Executive Overview**

he global economy continued to perform well in 2006 with growth improving to 3.9 per cent up from 3.4 per cent the year before, led by strengthened performance in Europe and Japan. The U.S. also posted strong GDP growth in 2006 although signs of weakness were beginning to appear towards the end of the year and have carried over into 2007. China also made an important contribution to strong global performance in 2006 with that country's growth continuing to surprise on the upside while India and much of the rest of South-East Asia also maintained their strong performance.

Canada's economic performance continued to be strong in 2006 with GDP growth slowing only slightly to 2.7 per cent and unemployment rates falling further to an average of 6.3 per cent in 2006 – a rate not seen in more than 30 years. Provinces with a heavy share of their economies based on natural resources did best. Alberta and British Columbia witnessed the fastest growth with rates of 6.8 per cent and 3.6 per cent respectively. Manitoba and Newfoundland and Labrador also performed above the national average.

For Canada's international commercial performance, 2006 was, to a large extent, a resource story. Strong global growth in 2006 contributed to further gains for resource prices and contributed to an appreciation of the Canadian dollar by 6.8 per cent against the US\$ for the year, a trend which has carried over into 2007. Although Canadian exports were up by 1.1 per cent in 2006 to a record \$523.7 billion, Canada would have seen a decline in over-all exports in 2006 if it were not for exports of resources and resource-based products, particularly industrial materials (up 11.9%). Exports of forestry

products were down for the year (down 8.6%), in large part due to the slowing U.S. housing market and lower prices. Agricultural exports witnessed a gain (up 4.3%) while energy exports remained flat. Non-resource-based goods exports were also flat with a gain in consumer goods (up 5.0%) and machinery and equipment (up 1.3%) but were offset by a decline in automotive exports (down 6.0%). Service exports were almost unchanged, gaining only 0.3%. The expansion of resource exports were also largely responsible for Canadian exports diversifying away from the U.S. in 2006 as the U.S. is a relatively more important market for nonresourced-based exports, particularly automotive exports. The U.S. share of Canadian merchandise exports fell from a peak of 87.1 per cent in 2002, to 81.6 per cent in 2006.

Resources and resource-based products were also responsible for much of the gain in imports which grew by 4.2 per cent to reach \$486.5 billion in 2006. The two fastest growing import sectors, were industrial materials (up 6.9%) and Agriculture (up 6.3%); However, consumer products also witnessed strong growth (up 5.2%) as did services (up 4.1%) driven by strong consumer demand in Canada. China continued to grow in importance as a source of Canadian imports, rising to 8.7 per cent of Canada's total merchandise imports in 2006, up from 3.2 per cent as recently as 2000. As with exports, the importance of the U.S. has also declined for imports, dropping from 64.3 per cent in 2000 to 54.9 per cent in 2006. As a result of the stronger growth in imports, compared to exports, Canada's trade surplus narrowed to \$37.2 billion in 2006. Canada's trade surplus in resources and resourcebased products is now equivalent to the country's entire global trade surplus.