

experienced robust growth (at 12.7 percent) limiting the overall decline.

By geographical destination, the service trade deficit with the U.S. widened from \$9.8 billion to \$13.5 billion, while those with the EU and Japan reached \$2.3 billion and \$2.0 billion, respectively (Table 4-1). The increase in the deficit with the U.S. was mainly due to the increase of imports in both travel and transportation services, while the increase in travel imports from the EU was responsible for the widening deficit with that region.

The current account

In addition to goods and services trade discussed above, the current account also includes payments and receipts of investment income and current

transfers. Last year, the current account balance fell to \$14.2 billion from \$23.6 billion in 2006, a reduction of about 40 percent. About two-thirds of the fall in the current account balance was accounted for by the nearly \$6.0 billion decline in the balance on goods and services trade. The remainder of the decline came in net investment income flows as the difference between the profits earned by foreign direct investors versus those earned by Canadian foreign direct investors widened by \$5.9 billion and was only partially offset by a net \$3.8 billion improvement in portfolio investment income flows. The goods trade balance only weakened over the second half of 2007 and Canada's current account posted its first deficit in nine years in the fourth quarter.

Goods and Services Trade in the Economy

Ratios of trade to GDP are used as a measure of openness of economies to trade, or alternatively as a measure of the importance of trade to an economy (these measures should not be misinterpreted as indicating that these percentages of GDP are accounted for by trade: the contribution of trade to GDP in an accounting sense is exports minus imports). Canadian exports of goods and services were equivalent to 34.8 percent of GDP in 2007, and total trade (exports plus imports) was equivalent to 67.6 percent, the second highest ratio in the G8. These ratios have been declining for Canada in recent years, illustrating the limitations of these ratios as a measure of openness to or importance of trade. Their decline in Canada does not indicate that Canada is less open or even less reliant on trade: it is simply the result of the appreciating Canadian dollar and Canada's improving terms of trade. Prices of tradeable goods have declined relative to non-tradeable goods, with the effect that the value of trade is smaller relative to Canada's GDP.

EXPORTS OF GOODS AND SERVICES AS A PROPORTION OF GDP (PERCENT)

	2005	2006	2007
Canada	37.7	36.2	34.8
France	26.0	26.9	26.7
Germany	40.9	45.1	46.8
Italy	26.0	27.8	n.a.
Japan	14.3	16.1	n.a.
U.K.	26.5	28.5	25.9
U.S.	10.5	11.1	11.9
Russia	35.2	33.8	30.3
Mexico	30.0	31.9	n.a.

TOTAL TRADE OF GOODS AND SERVICES AS A PROPORTION OF GDP (PERCENT)

	2005	2006	2007
Canada	71.7	69.8	67.6
France	53.0	55.1	55.2
Germany	76.7	84.7	86.5
Italy	52.0	56.5	n.a.
Japan	27.3	30.9	n.a.
U.K.	56.5	60.6	55.4
U.S.	26.8	28.0	28.8
Russia	56.7	54.9	52.2
Mexico	61.5	65.1	n.a.