VI. WRAP UP

Canada marked its twelfth year of uninterrupted growth in 2003, though this growth decelerated significantly from previous years rates of growth. It was, nonetheless, a solid economic performance under difficult circumstances. At the start of the year, the case for global recovery was unclear as the pending war with Iraq was generating huge amounts of uncertainty in consumer and business circles. Then SARS hit, followed by mad-cow disease, summer forest fires, floods, power outages and, finally, a hurricane: a Canadian "*annus horribilis*". Fingers could easily be pointed at any one of these events as the cause for our subdued performance and the accuser would be right, or at least partially right. Truth be told, they all contributed, in one way or another, to reduced domestic Canadian economic activity.

On the trade front, these factors above certainly affected our ability to buy and sell our goods and services to foreigners. Their effects, however, were amplified by the rising value of the Canadian dollar *vis*-à-*vis* the US dollar, which rose some 21.7 per cent over 2003. Not only did the SARS briefly make Canada a less attractive place to visit, but the rising exchange rate made it a more expensive place to visit, thereby reinforcing the SARS effect. And the simple mathematics behind a rising exchange rate reinforces the tendency for trade performance to fall: when much of what we sell is priced in world or US markets (such as resources and automobiles), export values fall because the transactions are restated in Canadian dollars, which go further as the exchange rate rises. As well, fewer Canadian dollars are needed to purchase imported intermediate goods and services than before an exchange rate increase. When viewed in this light, it is not at all surprising that Canada's trade performance indicators, in Canadian dollar terms, were not as robust as in previous years.

It is, perhaps, too soon to tell what, if any, impact the rising exchange rate has had on Canadian economic performance. On the one side, with trade still representing a large share of gross domestic product, one can point to the continued strong job creation and argue that there has been little impact. Indeed, most economists had pegged an equilibrium exchange rate at about US 72¢ to US 74¢, and so we should have seen very little impact to date. On the other side, one can point to the disappointing inflows of foreign direct investment into Canada last year as an indicator of the impact of the rising dollar. Then again, with all the turmoil in international markets and given that direct investment is "lumpy" (i.e., investors usually buy "all", or "most", of the equity, or "none" of it, but rarely do they buy "some" of it), 2003 may have simply have been an off year for investment.

2003 saw the United States economy pick up momentum, reaching an annualized rate of growth of 8.2 per cent in the third quarter, before settling down to a more sustainable 4.1 per cent (annualized) growth in the final quarter. As the U.S. moved towards firmer recovery ground, Canada was knocked off the perch of fastest growing G7 nation. Nonetheless, Canada's performance within this group of industrialized nations is still relatively strong, we are sitting in fourth-overall spot in terms of growth, behind the U.S., Japan, and the U.K.

Looking forward to 2004, mediocre growth prospects throughout much of the Eurozone and the U.K. and Japanese growth very much dependent on their ability to export, suggest limited prospects for trade expansion to these areas. The recent relaxing of the monetary stance by the Bank of Canada should help stimulate domestic demand and, perhaps, influence exchange rate behaviour. Similarly, with the U.S. appearing headed for a sustainable recovery, U.S. consumer demand may pick up. These events will stimulate trade prospects over 2004. However, how much further and how quickly the U.S. currency moves as it seeks to re-balance against other major currencies, including the Canadian dollar, is uncertain at this time. The overall impact will likely have a dampening effect of Canadian trade. The net effect of these two opposing forces on Canada's trade for 2004 will play out during the year.