

for machinery and equipment was among the third largest this decade.

Services

Although services exports increased to \$65.1 billion in 2006, the services deficit rose to a record of \$17.1 billion, up from \$13.7 billion in 2005 as imports rose to a record \$82.2 billion. The \$3.4 billion increase in the deficit was largely due to higher transportation fares and other trip expenses for Canadians travelling abroad. Both travel and transportation deficits for the year were also the highest ever recorded, at \$7.2 billion and \$7.0 billion, respectively.

In terms of growth, total service imports (4.5 per cent) outpaced total service exports (0.3 per cent). By major categories, transportation service exports posted a strong growth (4.7 per cent); all other service exports declined, with government services experiencing the steepest drop (3.5 per cent). Within commercial service exports, while audio-visual services (7.5 per cent), research and development (5.5 per cent), construction services (4.8 per cent) and other financial services (4.1 per cent)

showed a robust growth, computer and information services (-8.6 per cent), and architectural, engineering and other technical services (-2.8 per cent) saw a decline in exports. On the import side, travel and transportation services grew by 6.2 per cent and 9.5 per cent, respectively, during the year. Commercial services imports advanced by 1.2 per cent in 2006, on the back of research and development (24.6 per cent), architectural, engineering and other technical services (17.6 per cent), other financial services (17.1 per cent) and audio-visual services (3.9 per cent). However, imports of construction services (-46.3 per cent), computer and information services (-9.2 per cent), and royalties and licence fees (-1.4 per cent) declined during the course of the year.

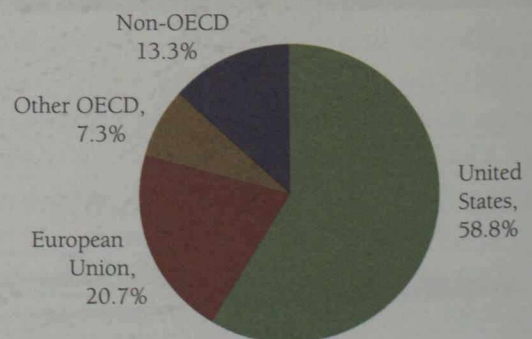
By geographical destination, the service trade deficit with the US widened from \$9.4 billion to \$10.7 billion. The increase in the deficit with non-US trading partners was even faster, advancing by 49.0 per cent from \$4.3 billion to \$6.4 billion. This reflected a surge in service imports from the EU-25 and from Others (e.g. other than the U.S., Japan and the EU).

Foreign Affiliate Trade Statistics (FATS)

As a complement to traditional exports, Canadian companies are also integrated into the world economy through overseas sales by Canadian owned foreign affiliates abroad. On a global level, foreign affiliate sales of Canadian companies increased from \$316.4 billion in 1999 to \$372.4 billion in 2004.

The geographic distribution of the value of foreign affiliate sales in 2004 is shown in Figure 1. Foreign affiliate sales in the United States (58.8%) dominated overall sales in 2004, followed by sales in the European Union (20.7%). However, compared to 1999, the share for the United States declined from 64.3%, with gains registered for all the other regions – the share for the EU increased by 1.1 percentage points, the share for Other OECD (i.e. other

FIGURE 1
Foreign Affiliate Sales, Geographic Distribution, 2004



than the US and the EU) countries expanded by 2.7 percentage points and the share for Non-OECD countries by 1.8 percentage points.