Figure 4-2

Inflows of direct investment by sector, 2000-2002

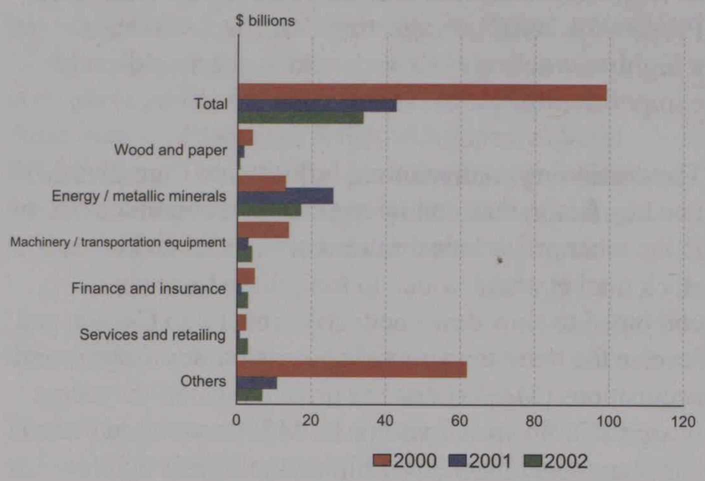
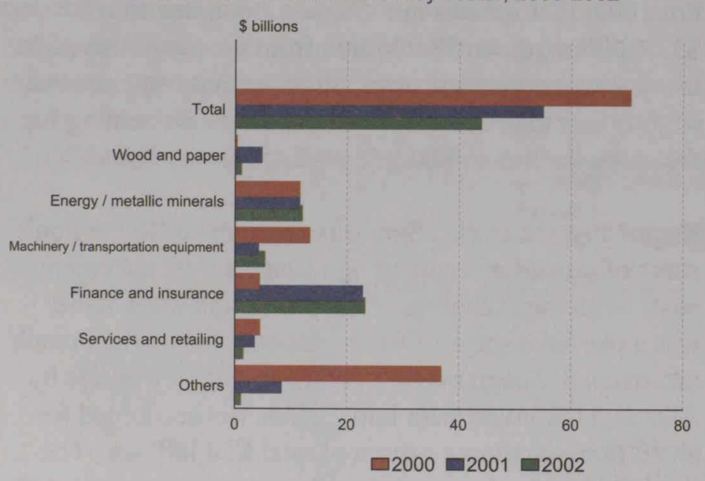


Figure 4-3

Outflows of direct investment by sector, 2000-2002



Outflows of direct investment, or Canadian direct investment abroad (CDIA), peaked in the year 2000 and have fallen by 22.1 per cent and 20.1 per cent in 2001 and 2002, respectively. At $43.9 billion, Canadian investment outflows remain the fourth highest on record, trailing only the levels registered for 2000, 2001, and 1998 in that order. Similar to the case for FDI in Canada, it was the level of mergers and acquisitions that led CDIA outflows lower in 2002: net outward M&A flows fell $16.9 billion between 2001 and 2002 while total outward investment flows declined by a more modest $11.1 billion over the same period.

Canadian outward investment for 2002 was widely spread geographically, much more so than in the previous four years. Last year, a little over a third of CDIA flows (35.2 per cent) were placed in the United States compared to well over a half (56.8 per cent) over the 1998-2001 period. A number of accounting/auditing irregularities, particularly with respect to U.S. corporations, along with disenchantment concerning new technology firms, many also U.S.-based, appeared to contribute to Canadian investors looking further abroad for investment opportunities. All other major regions gained at U.S. expense, most notably the EU, which captured 30.4 per cent of CDIA flows in 2002 compared to their average of 17.5 per cent over 1998-2001, and the other OECD region (12.1 per cent *vs.* 7.7 per cent and, the non-OECD rest of the world (18.7 per cent *vs.* 15.1 per cent).

Canadian direct investment abroad went largely to the financial and the energy/metallic minerals industries, at $23.2 billion and $11.9 billion, respectively; when combined, they accounted for about 80.0 per cent of total outflows. Machinery and transportation equipment was next in importance, accounting for a further 12.0 per cent of the total.

Portfolio investment

Portfolio investment typically refers to international transactions in stocks and bonds (both foreign and Canadian) in addition to transactions of Canadian money market instruments between residents of Canada and non-residents. Foreign money market instruments are included in other assets because of difficulties in their measurement.

In 2002, the flow of Canadian portfolio investment abroad declined for the second year running — from $62.3 billion in 2000 to $37.7 billion in 2001 to $24.7 billion last year. Not surprisingly, given the bearish market conditions, the mix of Canadian portfolio outflows shifted dramatically in 2002. In 2001, only one dollar of every twenty dollars invested abroad was placed in foreign bonds: last year it was one dollar of every four dollars invested offshore. In effect, Canadian purchases of foreign stocks were held in check, off some $17.3 billion (or down 48 per cent) from the previous year while bond holdings shot up 230 per cent (or $4.3 billion).

The skittishness caused by jittery markets also showed up in inward portfolio statistics. The flow of foreign portfolio investment into Canada tumbled $13.0 billion