Trade with the United States declined in 2003. Exports fell $17.7 billion (or 5.1%) to $328 billion, while imports declined by $15.2 billion (or 7%) to $203 billion. As a result, Canada's annual trade surplus with the United States fell by $2.5 billion to $124.5 billion. For the year, the United States accounted for 86% of Canadian merchandise exports and 61% of total merchandise imports. It should be pointed out, however, that these figures may be overstated due to transshipments. The U.S. economy is showing encouraging signs of a recovery, which should bode well for Canadian exports. Although fourth quarter GDP growth decelerated to 4.1% (annualized) from 8.2% the previous quarter, annual GDP expanded 3.1% in 2003 compared with 2.2% a year earlier.

Elsewhere, Canada reduced its trade deficit with the European Union by $1.6 billion in 2003, as merchandise exports increased by 7.6% to $18.8 billion and total imports fell by 0.6% to $38.7 billion. Canada also reduced its merchandise trade deficit with Japan in 2003, as the $1.6 billion decline in total imports exceeded the $278 million drop in total exports. Finally, in 2003, merchandise imports from China were $18.6 billion, which made it Canada's third largest supplier of goods imports to Canada, after the United States and the European Union.

In 2003, Canada recorded a deficit on its trade in services of $11.5 billion, up $3.2 billion from a year earlier. Services receipts declined by $2 billion, or 3.4%, while services payments increased by $1.2 billion, or 1.7%. Services exports to the United States and Japan declined by, respectively, $1.8 billion and $362 million, while receipts from the EU increased by $225 million. The United States accounts for 59.2% of Canada's services receipts, with the EU contributing almost 17% and Japan a further 2.5%. These countries account for roughly the same shares of Canada's services imports.

The uncertainty and general weakness that characterized global markets in 2003 made its impact felt on the investment front: both outflows and inflows of foreign direct investment in 2003 were down substantially for the year—outflows by 33.6% and inflows by 74.5%. For 2003, FDI inflows into Canada totalled $8.3 billion, down $24.1 billion from the previous year's level while outflows of direct investment, at $30 billion, were off by $15.2 billion from the levels recorded the previous year. Nearly half of the inflows came from U.S. investors while just over one-fifth of the outflows were to the United States.

The Canadian economy is poised for continued growth in 2004. First, the robust growth in the U.S. economy is expected to boost Canadian exports to the United States. Second, consumer and business demand remain positive in Canada. Third, employment growth is picking up again. In 2003, the Canadian economy added 334,200 new jobs. Finally, inflation is below the mid-point of the 1 to 3% target range set by the Bank of Canada. As a result, interest rates remain low. Private sector forecasters predict that Canada is likely to achieve economic growth of close to 3% this year. In short, this suggests that the fundamentals of the Canadian economy are strong, which will help Canadians to continue to perform well in international markets such as the United States.

For a complete picture of Canada's trade performance, see the "Annual Report on Canada's State of Trade", prepared by the Economic and Trade Analysis Division of the Department of Foreign Affairs and International Trade. The edition covering Canada's trade performance in 2003 was released March 30, 2004 and is available on-line at *www.eet/trade/state-of-trade-en.asp*

Focus on the Engineering Services Sector

The focus on the engineering services sector is the latest in a series of sectoral focuses. Previous editions looked at the minerals and metals sector, financial services and biotechnology.