## VI. Wrap Up

The global economic recovery from the downturn earlier this decade is well underway. In fact, global growth was strong last year — the fastest in more than 30 years, according to the IMF. This has clearly been of benefit to an open economy such as Canada's, as evidenced by the record or near-record levels of trade in goods and services. For 2004 as a whole, Canadian economic growth accelerated — the thirteenth year of uninterrupted growth, trade increased, and employment was up. Inflation in Canada came in close to target, at 1.9%, and there was a budgetary surplus for the eighth time in a row. A relatively strong economic performance to be sure, although GDP growth tailed off over the second half of the year.

Looking forward into the current year, concerns about U.S. fiscal sustainability and current account imbalances remain unresolved, so further appreciation of the euro, the yen, the Canadian dollar and other key trading currencies is a possibility. The Canada-U.S. exchange rate closed out the year 2004 at US 83.19¢, up 7.9 per cent from its level at the end of 2003. This follows on the heels of a 21.7 per cent increase one year ago. Although there was only a US 5.6¢ difference between the noon exchange rate of January 2 and December 31, 2004, there was a US 13.3¢ difference between the peak (or highest value) exchange rate and the trough (or lowest value) exchange rate last year. This suggests that there is much volatility in exchange rates, potentially to the harm of cross-border and, to a lesser extent, to overseas trade. Thus, any further appreciation of the Canadian dollar — either as part of the structural adjustment to the U.S. current account situation or as part of an upward run on the Canadian dollar because of volatility in exchange markets — could put downward pressure on exports.

Oil prices have the ability to shave off a few tenths of a percentage point from growth in the U.S. With that country still the locomotive of world growth, the negative consequences of higher oil prices on the U.S. economy — slowing growth, removing purchasing power from consumers (via higher gasoline and home heating costs), thereby reducing demand and lowering imports, both direct and indirect — could have negative repercussions on Canadian exports to that country, although increased energy exports might go some way to offsetting the overall effect.

Overall, it is likely that growth prospects for Canadian trade will continue to be led by the United States and, to a lesser extent, China and the non-OECD rest of the world. However, oil prices and exchange rate movements are thus significant factors that could influence Canadian trade performance as the year evolves.