

Trade and Investment Highlights

Goods Exports Decline while Goods Imports Expand

Exports of Canadian goods and services fell a modest 0.2% in the fourth quarter (Figure 1). An 11.3% quarterly increase in services exports was not sufficient to offset a 1.8% decline in merchandise exports, which were adversely affected by the rising dollar and slumping energy prices.

Imports of goods and services expanded by 2.0% in the quarter, reflecting a 0.8% increase in commodity imports and an 8.1% expansion in services imports.

A \$1.8 billion quarter-over-quarter decline in merchandise exports was largely concentrated in the energy sector (down \$6.6 billion, or 37.0%) as prices fell, and the machinery and equipment sector (down \$2.3 billion, or 10.2%). Also contributing to the reduction in exports were declines in forestry products and in consumer goods (Figure 2). Capping the losses were increases in industrial goods (up 28.7%, or \$4.2 billion), agriculture products (up 8.6%, or \$0.6 billion), and automotive shipments (up 5.0%, or \$1.1 billion). Without the negative effect of falling energy prices, aggregate export performance in the quarter would have shown a healthy recovery.

Merchandise imports experienced a modest increase of \$0.6 billion (up 0.8%) in the fourth quarter. The machinery and equipment sector registered the largest quarterly drop in imports (down \$3.0 billion or 11.7%), while agricultural and forestry products experienced more limited declines. On the other hand, imports of automotive products increased by 16.4% (\$2.8 billion), while energy imports expanded by 14.6% (up \$0.6 billion), despite lower energy prices.

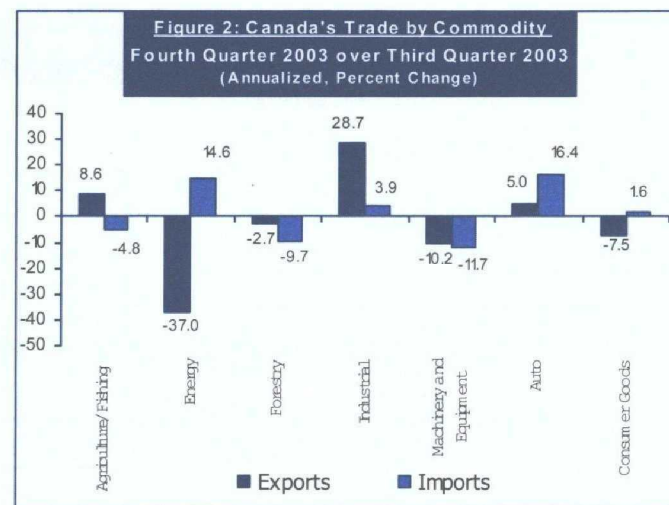
Merchandise exports to the US fell by 7.8% or \$6.5 billion, in the quarter, while those to Japan were down 12.5%, or \$0.3 billion. These declines were only partially offset by increases to the EU (up 71.5%, or \$3.2 billion) and to Other OECD countries (up 75.4%, or \$1.8 billion).

Merchandise imports from the EU were down 19.3% or \$1.8 billion, whereas imports from the US declined more modestly in the quarter, down 0.5%, or \$0.3 billion, on an annualized basis. These declines were, however, more than offset by a small increase in imports from Japan (up 4.0%) and, more substantially, expanded goods imports from Other OECD countries (up 20.7% or \$0.9 billion) and from non-OECD countries (up 21.3% or \$1.8 billion).

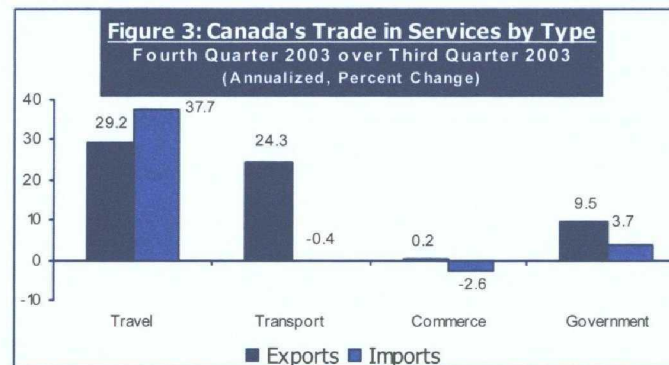
With goods imports expanding and goods exports declining, the merchandise trade balance fell by \$2.4 billion in the quarter, to \$60.3 billion on an annualized basis. A \$6.2 billion decline in the



Source: Statistics Canada



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merchandise trade balance with the US, combined with declines in the trade balance with Japan (down \$0.4 billion) and with non-OECD countries (down \$1.8 billion), were only partially offset by increases in the merchandise trade balance with the EU (up \$5.1 billion) and with Other OECD countries (up \$0.9 billion).

Both Services Exports and Imports Expand

Canadian services exports increased by 11.3% in the fourth quarter, as all sub-sectors expanded (Figure 3). The expansion was particularly strong in the travel sector (up 29.2% or \$0.9 billion) and the transport sector (up 24.3% or \$0.5 billion).

Services imports advanced \$1.3 billion or 8.1%. Increased travel by Canadians during the quarter pushed travel services imports up \$1.6 billion or 37.7%. Transport services imports declined slightly and imports of commercial services fell by \$220 million or 2.6%, while government services imports remained flat. Overall, the services trade deficit narrowed to \$11.7 billion on an annualized basis in the fourth quarter from \$11.9 billion in the previous quarter.

Outward Foreign Direct Investment (FDI) Flows Exceed Inward FDI Flows

Flows of Canadian Direct Foreign Investment Abroad (CDIA) were \$17.1 billion in the fourth quarter of 2003 - slightly up from \$16.2 billion recorded in the fourth quarter in 2002. Increased CDIA flows in the energy, machinery & transport,

and services & retail sectors were offset by a substantial drop in the finance & insurance sector.

Regionally, CDIA flows to the US declined (down \$9.7 billion), whereas flows to the EU (up \$8.3 billion) and non-OECD countries (up \$2.9 billion) expanded.

Foreign Direct Investment (FDI) in Canada experienced a net outflow of \$1.3 billion in the fourth quarter of 2003. This compares unfavourably with inflows of \$5.6 billion over the same quarter a year earlier—a \$6.9 billion turnaround. All sectors, with the exception of finance & insurance, registered net outflows over the fourth quarter—most notably for the machinery and transport (-\$1.1 billion) and energy (-\$0.7 billion) sectors. Substantial FDI outflows back to US investors (\$2.1 billion) were only partially offset by more limited FDI inflows from the EU (\$0.4 billion), non-OECD countries (\$0.2 billion) and Japan (\$0.1 billion).

Canada's Official International Reserves Remain Unchanged

Canada reduced its official reserves holdings by \$1.7 billion in the fourth quarter of 2003, compared with a \$0.6 billion reduction in the same quarter in 2002.

Key Trade and Investment Highlights for Year 2003

Merchandise Trade

Merchandise exports fell by 3.1% (\$12.8 billion) in 2003—led lower by reduced shipments to the US. Merchandise imports declined by 4.3% (\$15.1 billion), as reduced imports from the US, the EU, and Japan were only partially offset by increased imports from other markets.

As a result of goods imports declining more than exports, the overall merchandise trade surplus expanded by \$2.4 billion over 2002 to \$60.2 billion in 2003. Separately, the merchandise trade balance with the UK and Japan improved in 2003, while the trade balances with all other markets declined.

Merchandise Trade by Region

Canada's annual merchandise exports to the US declined by 4.5%, or \$15.6 billion, and imports fell by 6.2%, or \$15.7 billion in 2003. Consequently,

the bilateral merchandise trade surplus expanded by \$137 million in 2003—from \$92.1 billion to \$92.2 billion.

Both merchandise exports and imports from Japan declined over 2002. Exports to this region declined by 3.8%, or \$386 million, while imports fell by 9.1%, or \$1.0 billion. As a result, the bilateral trade deficit with Japan was reduced by \$688 million to \$753 million last year.

In 2003, merchandise trade relations with the EU were characterized by large swings in goods trade with the UK. Merchandise exports to the UK expanded by \$1.3 billion in 2003, as overall goods exports to the EU grew by \$1.4 billion, or 6.2%. At the same time, goods imported from the UK fell by \$1.4 billion as part of the overall \$1.3 billion, or 3.5%, decline in total goods imported from the EU.

China is Canada's fourth largest export market and the second largest source of imports. Last year, in a climate of

overall declining goods exports and imports, Canadian exports to China expanded by 12.9% while imports from China increased by 16.1%. With these developments, Canada's bilateral trade deficit with China widened to \$13.9 billion in 2003 from \$11.9 billion the previous year.

Lastly, goods shipped to Mexico declined by 9.0%, or \$218 million, over 2002, while imports from Mexico fell by 4.4%, or \$559 million. The bilateral trade deficit with Mexico thus narrowed by \$341 million in 2003, to \$10.0 billion.

Merchandise Trade by Commodity Group

In 2003, merchandise exports declined in all sectors, except for Energy. Exports of Automotives fell by 9.4% (or \$9.1 billion), those of Machinery were down 8.3% (or \$8.0 billion), Forestry goods were off by 7.2%