Foreign Affairs, Trade and Development Canada
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Canada

CANADA'S STATE OF TRADE

Trade and Investment Update

2014

Canada's
State of Trade

Trade and Investment
Update - 2014

ABOUT THIS DOCUMENT

Canada's State of Trade – 2014 was prepared under the direction of Rick Cameron of the Office of the Chief Economist of the Department of Foreign Affairs, Trade and Development. The report was written by Rick Cameron and Mykyta Vesselovsky. Statistical assistance was provided by Nancy Blanchet. Comments at the drafting stage were provided by Dr. André Downs, Chief Economist, Office of the Chief Economist.

Your comments concerning this year's report are welcome. Please direct them to Rick Cameron at: << Richard.Cameron@international.gc.ca >>.

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Message from the Honourable Ed Fast, Minister of International Trade

I am pleased to present the 2014 edition of Canada's State of Trade, the government's annual evaluation of Canadian and global trends in trade and investment over the past year. While real global output slowed in 2013, the good news is that Canada's real Gross Domestic Product accelerated. Employment also grew to the point where there are now more than a million new jobs in Canada since the economic downturn in 2009, pushing the unemployment rate down. This speaks to our sound fundamentals and strong stewardship of the economy. Moreover, there were signs in the second half of 2013 that the global recovery across the developed world is accelerating, which is having positive impacts for 2014.

Trade is equivalent to more than 60 per cent of our annual gross domestic product, and one in every five jobs is directly linked to exports. Let me put that another way. If the world suddenly stopped trading, 3.3 million jobs in Canada would vanish and the unemployment rate would jump to 25 percent. That is how important trade is to us.

In 2013, our government delivered on its ambitious pro-trade and investment plan. Let me highlight a few of our key initiatives.

In November I launched the Global Markets Action Plan, our blueprint for creating jobs and opportunities for Canadians through trade and investment. It reflects the changing global economic landscape, focuses on Canada's core strengths, and aligns Canada's diplomatic resources to advance the country's commercial interests in key foreign markets.

A key part of the Global Markets Action Plan is our free trade agenda. In 2013 and 2014, we reached historic agreements with Panama, Chile, Honduras, South Korea and, most importantly, the European Union, the world's largest economy with 500 million consumers and a GDP of almost $17-trillion. When the Canada-European Union Comprehensive Economic and Trade Agreement comes into force, it will translate into increased profits and market opportunities for Canadian businesses of all sizes, in every part of the country. In fact, a joint study conducted with the European Union, which supported the launch of negotiations, concluded that an agreement could boost Canada's income by $12 billion annually and bilateral trade by 20 per cent. That's equivalent to creating almost 80,000 new jobs or increasing the average Canadian family's annual income by $1,000.

"International Trade and Investment are important contributors to Canadian prosperity. Canadian firms access foreign markets to increase sales, and rely on global supply chains to maintain their competitiveness. Canadian consumers benefit from international trade through increased choice and lower prices." Budget 2014

In 2013, we announced an unprecedented 26 new or improved air agreements, and a record 10 foreign investment protection and promotion agreements. I personally had the privilege of leading 15 trade missions to most corners of the world. These accomplishments, and others, will do great things for Canada and make us the envy of the world.

Trade, investment and transportation agreements are tools to help Canadian businesses go abroad. To help Canadian business take advantage of them, we offer Canada's Trade Commissioner Service (TCS). Trade Commissioners, our trade professionals, serve 13,500 Canadian clients every year from their offices in 160 cities worldwide and in regional offices across Canada. TCS clients, 90 percent of whom are small- and medium-sized enterprises, export 18 percent more goods and services and access 36 percent more markets than non-clients. To be even more effective, we are re-deploying trade commissioners to emerging markets and we are embedding trade commissioners in industry associations across Canada. We are also aligning the functions of Export Development Canada and Canadian Commercial Corporation with the priorities of the Global Markets Action Plan.

These are a few of the ways that the Government of Canada is ensuring that Canada's trade and investment interests are secure in 2014 and beyond. As you read State of Trade 2014, you will find that the Global Markets Action Plan is bringing together all the Government's trade and investment assets so that they can be greater than the sum of their parts.

Executive Summary

Real global output slowed to 3.0 percent in 2013, the slowest growth since 2009, from 3.2 percent a year earlier. However, signs of recovery took hold during the course of the year, setting the foundations for expectations of faster growth over the next few years. There was a subtle shift in the geographical drivers of world growth over the course of 2013, as growth in the developed economies strengthened over the second half of the year, while challenges facing emerging markets intensified. Financial conditions in the developed economies remain highly supportive of economic growth, as central banks strive to eliminate excess supply and return production in the real economy to capacity levels. Most developed economies are characterized by weak rates of inflation, dampened by excess capacity. However, moving forward, as economic activity picks up and labour markets firm, inflation rates can be expected to gradually move up to target levels.

At the same time, China is liberalizing its financial system and overhauling its economic model, shifting away from exports and fixed investment towards consumption. These actions have served to slow growth in that country to more modest levels. Meanwhile, many non-Chinese developing economies are struggling with weaker currencies and higher interest rates. These are raising the costs of servicing their debts, which have swelled tremendously in recent years. Combined, these actions and challenges will dampen the pace of expansion in emerging markets.

Looking forward, U.S. economic activity is expected to pick up in 2014, supported by strengthening job growth, resurgent consumer spending, rebounding housing demand, and reduced fiscal drag. The eurozone, which contracted slightly in 2013, is projected to grow moderately this year. The pace of growth in China will abate, as it will for Central and South America, while economic activity in India and most of the Asian newly industrialized countries (NIEs) will accelerate modestly. Russia's growth is expected to be subdued as financial market turbulence and geopolitical tensions relating to Ukraine are headwinds on top of already weak activity.

Canada is right in the midst of these trends, performing along the lines sketched out above for the developed economies. Real gross domestic product (GDP) picked up to 2.0 percent in 2013, after increasing 1.7 percent in 2012, with slightly better performance in the second half of the year than in the first half. Output increased for all major industrial sectors, with the exception of manufacturing and fishing. Goods production expanded 1.7 percent, while services output grew 2.1 percent. Employment grew by 1.3 percent last year, up slightly from the 1.2 percent rate registered in 2012, and the unemployment rate edged down by 0.1 percentage point to 7.1 percent. Sectorally, employment in goods-producing industries increased 0.3 percent, as gains were held up by a 2.9-percent decline in manufacturing and a 0.5-percent decline in forestry and fishing. On the other hand, employment gains were widespread amongst services-producing industries, although there was a 1.1-percent decline in public administration. Price increases remained positive in 2013, at 0.9 percent, but well below the Bank of Canada's 2-percent target.

For the second year in a row, world merchandise trade was sluggish; in fact, in 2013 world trade slowed from the previous year. World trade expanded by 2.1 percent in real (or volume) terms, well below the 20-year average of 5.3 percent. For the developed economies that serve as Canada's principal trading partners, import demand was flat (down 0.2 percent in volume terms) while exports managed a small positive increase (up 1.5 percent in volume terms). Within this context, Canada's trade performance was a little more robust: real exports of goods expanded 2.2 percent and real imports increased by 1.7 percent. In value terms, Canadian exports of goods expanded faster than imports, and the goods trade deficit narrowed. For services, while exports expanded faster than the much larger imports, the services trade deficit widened slightly. Overall, the trade deficit for both goods and services declined from 2012 to 2013, leading to a narrowing of the current account deficit.

Drilling down into more detail, total Canadian merchandise exports increased $17.7 billion (3.9 percent) to $472.5 billion in 2013. At the same time, Canadian merchandise imports advanced $13.6 billion (2.9 percent) to $475.6 billion in 2013. With exports rising more than imports, the trade deficit narrowed to $3.1 billion. The economic recovery that is under way in the United States helped raise demand for Canadian products in that country as exports to that country increased by $19.1 billion. It was the fourth year in a row that Canadian exports to the United States increased. Amongst the top destinations for shipments abroad, there was a noticeable decline in exports to the United Kingdom. The bulk of the decline occurred mostly in gold, and it appears that there was a redistribution of gold exports away from the United Kingdom and toward other destinations, such as the U.S., Hong Kong, and Switzerland. In terms of products, energy and wood both posted notable increases in the level of their exports from 2012 to 2013. In both cases, the increased exports went primarily to the United States. On the imports side, imports from the United States outpaced overall imports, and the U.S. share of Canadian imports rose from 50.6 percent in 2012 to 52.1 percent in 2013. Over 70 percent of the overall $13.9-billion increase in imports from the United States occurred in energy products and vehicles.

Foreign investors expressed their growing confidence in Canada's economic performance by injecting $64.2 billion into the economy in 2013. It was the largest annual inflow since 2008, just before the global recession hit, and brought inflows back to near-parity with 2008 levels, but still roughly half of their previous peak level established in 2007. Inflows increased in all major sectors in 2013, however, relative to 2012, investors concentrated on finance and insurance, manufacturing, and energy and away from trade and transportation, management of companies and enterprises, and all other industries. The bulk of the increase was largely due to a sharp increase in intra-company loans to foreign affiliates. However, notwithstanding one of the larger transactions in 2013—that of the takeover of the oil and gas company, Nexen Inc., by CNOOC Ltd. (China) for US$19 billion—cross-border merger and acquisition (M&A) activity in Canada halved from 2012 to 2013.

On the other hand, Canadian outflows of direct investment slowed from 2012 to 2013, down 20.7 percent to $43.9 billion. Outflows were down in all major sectors, except manufacturing, when compared to 2012, and there was a $3.7-billion disinvestment in energy and mining. M&A activities, re-invested earnings and intra-company loans and other forms of direct investment were all down from 2012 levels, particularly in the United States.

Overall, the stock of foreign direct investment (FDI) in Canada increased by $59.5 billion, or 9.5 percent, to $686.3 billion in 2013. The manufacturing and the mining and oil and gas extraction sectors, already the two largest sectors for foreign investor interest, together accounted for almost 70 percent of the increased FDI in Canada last year, as holdings rose by $23.2 billion and $18.1 billion, respectively, in the two sectors. All other sectors had positive investment in 2013, with the exception of real estate and rental and leasing. The United States holds over half of all FDI in Canada and accounted for over half of the overall gain in FDI in Canada in 2013.

At the same time, the stock of Canadian direct investment holdings abroad rose by $66.7 billion (9.4 percent) to $779.3 billion in 2013. Finance and insurance is the primary sector for Canadian direct investment abroad, and in 2013 some 44 percent of the added stock of investment accrued to this sector. Holdings in the manufacturing and management of companies sectors also rose significantly, up $10.9 billion and $8.4 billion, respectively. There was a net disinvestment of $1 billion in mining and oil and gas, due to declines in oil and gas extraction.

Canada's net direct investment asset position surpassed $93.0 billion in 2013, a new record high.

CHAPTER 1

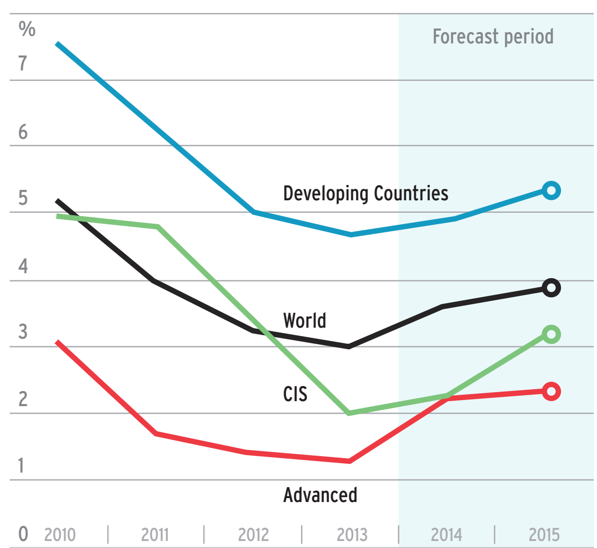
Global Economic and Trade Performance

Global Economic and Trade Performance[1]

Five years after the financial and economic crisis of 2008-09, its legacy continues to affect the world's economic growth. While in many areas recovery definitely took hold in 2013, and optimism was prevalent in the second half of the year as advanced economies strengthened, global economic growth was nevertheless the lowest since 2009. That means that the downward trend in global growth that started in 2010 has continued on, with expectations of improvement that have not yet been realized.

Real global GDP growth declined from 3.2 percent in 2012 to 3.0 percent in 2013, but is expected to rise to 3.6 percent in 2014 before reaching 3.9 percent in 2015. A weak start of 2.7-percent growth in the first half of 2013 was followed by a more active second half at 3.7 percent. Most of that acceleration was due to the pickup in the advanced economies. A similar pattern is expected to prevail in 2014, with growth weaker in the first half of the year and then accelerating in the second half.

Figure 1-1
GDP Growth by Major Regions, 2010-2013 and forecast 2014-2015



Growth in major advanced economies slowed from 1.4 percent in 2012 to 1.3 percent in 2013, as weakened growth in United States and Germany held back the advance. Most advanced economies improved on their performance: the rates of growth improved in Canada and Japan; growth turned positive in the Eurozone in the second half of 2013 in spite of the weakening in Germany, the United Kingdom turned in its best performance since the global economic crisis hit, and France returned to positive growth in 2013. This improvement is expected to translate into stronger growth in the advanced economies of 2.2 percent by 2014 and a similar mark of 2.3 percent in 2015.

Growth also slowed in the developing economies, but the decline was the smallest recorded since the crisis - from 5.0 percent in 2012 to 4.7 percent in 2013. Conditions for export growth were improving in the second half of 2013 as demand from advanced countries increased, driving up the rate of growth somewhat; nevertheless, weakness in investment and tight external and internal monetary conditions prevented significant expansion. The latter issues, as well as country-specific constraints (e.g. infrastructure issues among others) are expected to constrain the growth in developing economies to 4.9 percent in 2014 and 5.3 percent in 2015.

1 Statistics, estimations and projections in this chapter come from the International Monetary Fund's World Economic Outlook, April 2014, supplemented by statistics from the WTO, U.S. Bureau of Economic Analysis, Statistics Canada, the Japan Cabinet Office, the European Central Bank, and the World Economic Outlook April 2014 database.

Highly supportive monetary conditions, lessened fiscal drag, and lower political temperature translate into the United States being yet again the prospective leader of advanced economies' for 2014-15, with growth projected above trend by the IMF. Growth is expected to improve and approach trend in core European economies, while growth in Japan will moderate as that country faces fiscal consolidation. Economic stress continues to haunt European periphery, and developing markets are projected to make only modest improvements in 2014-15. As the result of these developments, global growth is expected to climb back to the 2011 levels by 2015. Finally, inflationary pressures are expected to remain low or non-existent in the developed world, with considerable output gaps still in evidence, and deflation a more realistic concern for several countries[2]. Inflation in developing economies is expected to decline as well, as commodity prices are expected to moderate further; and barring shocks, oil prices are projected to be flat or falling in 2014-15.

World trade volumes decelerated slightly in 2013, posting a growth of 2.1 percent following a 2.3-percent increase in 2012. This was the third year of slowing trade growth. The slowdown in trade growth in 2013 is a combination of flat imports by developed economies (down 0.2 percent) and a modest increase in imports by developing economies (up 4.4 percent). For the second straight year, world trade grew roughly as fast as the world output in 2013, instead of at double its rate, as is normally the case. Exports of developed economies grew 1.5 percent in 2013, while those of the developing economies grew by 3.3 percent. Asia led the world in export growth with a 4.6-percent increase; North America was second with 2.6 percent growth. Real exports of Africa declined 3.4 percent due to substantial reduction of shipments by oil exporters (Libya, Nigeria and Algeria). Projections call for real world trade growth to more than double to 4.7 percent in 2014, and to reach its 20-year average of 5.3 percent in 2015.

Nominal world exports (i.e. measured in U.S. dollars) grew at the same rate as real trade, rising 2.1 percent to US$18.8 trillion in 2013. China became the largest merchandise trader in the world, overtaking the United States.

World services exports rose 5.5 percent in value to US$4.6 trillion in 2013. This was more than twice the rate of expansion of merchandise exports.

2 As of April 2014, Sweden started experiencing deflation.

Overview and Prospects for the Global Economy

Growth is expected to pick up in both advanced and developing economies (to 2.3 percent and 5.3 percent, respectively, in 2015).

Advanced economies will lead the next stage of the recovery in 2014 and 2015, led by the United States, as projected increases are higher both in absolute and relative terms. Growth will be supported by continued monetary stimulus (particularly in the United States), reduced fiscal drag (Japan is an exception) and generally improving financial conditions. In developing countries, growth will be more subdued due to domestic policy issues, tight financial conditions and supply constraints.

Growth in Asia picked up in the second half of 2013 on stronger export and domestic demand. China grew at 7.7 percent in 2013, but growth is expected to slow down mildly. India's growth decelerated to 4.4 percent, but is expected to pick up to more usual growth levels in the next few years. Russia's growth dropped sharply from 3.4 percent in 2012 to 1.3 percent in 2013, with expectations of a slow recovery moving forward—if recent geopolitical events do not cloud prospects even further. Growth slowed in Latin America due to weak investment and low consumer demand, with medium-term growth prospects remaining clouded. Brazil's economic growth improved from 1.0 percent in 2012 to a modest 2.3 percent in 2013. Mexico posted an unexpectedly low growth of just 1.1 percent in 2013, but is expected to bounce back quickly. The Middle East and North Africa region experienced declines in oil production and continuing political uncertainty in 2013, with growth dropping to 2.4 percent. Sub-Saharan Africa grew steadily at 4.9 percent in 2013, the same as in 2012, supported by improved agricultural production and investment.

TABLE 1-1
Real GDP Growth (%) in Selected Economies, 2013 and forecast 2014-2015

	2013	2014*	2015*
World	3.0	3.6	3.9
Advanced Economies	1.3	2.2	2.3
Canada	2.0	2.3	2.4
United States	1.9	2.8	3.0
United Kingdom	1.8	2.9	2.5
Japan	1.5	1.4	1.0
Eurozone	-0.5	1.2	1.5
of which France	0.3	1.0	1.5
of which Germany	0.5	1.7	1.6
of which Italy	-1.9	0.6	1.1
Developing Economies	4.7	4.9	5.3
Developing Asia	6.5	6.7	6.8
of which China	7.7	7.5	7.3
of which India	4.4	5.4	6.4
CIS	2.1	2.3	3.1
of which Russia	1.3	1.3	2.3
Emerging Europe	2.8	2.4	2.9
Latin America and Caribbean	2.7	2.5	3.0
of which Brazil	2.3	1.8	2.7
of which Mexico	1.1	3.0	3.5
Middle East and North Africa	2.4	3.2	4.4
Sub-Saharan Africa	4.9	5.4	5.5

*: Blue-coloured figures are IMF forecasts.
Source: IMF World Economic Outlook database, April 2014

Overview and Prospects for World Trade

Merchandise Exports

Real exports of developed economies grew 1.5 percent in 2013, while those for developing economies grew 3.3 percent. Asia led the world in export growth with a 4.6-percent increase; North America was second with 2.6 percent growth. Real exports of Africa declined 3.4 percent due to substantial reduction of shipments by oil exporters (Libya, Nigeria and Algeria).

Nominal world exports (i.e. measured in U.S. dollars) grew at the same rate as real trade, rising 2.1 percent to US$18.8 trillion[3] in 2013. There was a small overall decline in export prices for the year.

Among the large economies, the United Kingdom was the runaway leader with 15-percent export growth, helping propel Europe to 4-percent growth—surprisingly, the fastest of any region. China repeated its 2012 export performance, posting 8-percent export growth; however, the 10-percent decline in Japanese exports pulled Asia's export growth down to 2 percent. A growth rate of 2 percent was also recorded in North America. Exports of South and Central America declined 2 percent and those of Africa by 6 percent.

TABLE 1-2
World Merchandise Exports, 2013, by Regions

	Value US$B	Share (%)	Growth (%)
World	18,270	100.0	2
North America	2,417	13.2	2
United States	1,579	8.6	2
Canada	458	2.5	1
Mexico	380	2.1	3
South & Central America	737	4.0	-2
Brazil	242	1.3	0
Europe	6,636	36.3	4
EU-28	6,068	33.2	4
Germany	1,453	8.0	3
France	580	3.2	2
United Kingdom	541	3.0	15
Italy	518	2.8	3
CIS	778	4.3	-3
Russia	523	2.9	-1
Africa	599	3.3	-6
Middle East	1,332	7.3	-1
Asia	5,769	31.6	2
China	2,210	12.1	8
Japan	715	3.9	-10
India	312	1.7	5
NIEs	1,295	7.1	1

Source: WTO Secretariat

3 This figure is expressed on a Balance of Payments (BOP) basis, while Table 1-2 presents data on a Customs basis.

Merchandise Imports

The slowdown in real world imports in 2013 was due to a combination of flat imports by developed economies (down 0.2 percent) and a modest increase in imports by developing economies (up 4.4 percent).

In nominal terms, imports had a quiet year—flat in North America and up by 1 percent in Europe, Asia, and the CIS. Import growth reached 2 percent in South and Central America and 4 percent in the Middle East—a world-leading performance among the regions.

Brazil and China led import growth in 2013, with each recording a 7-percent increase. Mexico and Russia both increased their imports by 3 percent. Imports by the United States and Canada were flat.

Several large economies recorded decreases in imports. Japanese imports fell by 6 percent, and the imports of India and the United Kingdom each declined by 5 percent. Italy also reported fewer imports, which shrank 2 percent.

Europe continues to be the world's leading importer, accounting for over one third of the global total with US$6.6 trillion in imports. Asian imports, at US$5.9 trillion, amounted to just under one third of the total.

TABLE 1-3
World Merchandise Imports, 2013, by Regions

	Value US$B	Share (%)	Growth (%)
World	18,395	100.0	1
North America	3,198	17.4	0
United States	2,331	12.7	0
Canada	474	2.6	0
Mexico	391	2.1	3
South & Central America	773	4.2	2
Brazil	250	1.4	7
Europe	6,595	35.9	1
EU-28	6,000	32.6	1
Germany	1,187	6.5	2
France	681	3.7	1
United Kingdom	654	3.6	-5
Italy	477	2.6	-2
CIS	575	3.1	1
Russia	344	1.9	3
Africa	628	3.4	2
Middle East	770	4.2	4
Asia	5,855	31.8	1
China	1,950	10.6	7
Japan	833	4.5	-6
India	466	2.5	-5
NIEs	1,300	7.1	0

Source: WTO Secretariat

Services Exports

The value of world services exports rose 5.5 percent to US$4.6 trillion in 2013. Travel services grew the fastest at 7 percent, followed by commercial services at 6 percent, while transport services increased by only 2 percent.

The CIS was the fastest-growing region for services exports in 2013, at 11 percent, driven by a 13-percent expansion in Russia. This was followed by 6-percent growth in services exports from Europe, Asia, and the Middle East. North America experienced a 5-percent growth in services exports, but exports from South and Central America stagnated at 1 percent. Africa's services exports contracted by 2 percent during 2013.

Among large economies, Mexico's services export performance was the strongest, with a 21-percent gain during the year. Russia's 13-percent export growth was second, and China's export expansion was not far behind, at 9 percent. Exports of services from Germany, France, and the Netherlands all grew by 8 percent each, while the United Kingdom's exports only expanded by 1 percent, and Canada's stayed flat.

Europe maintained the lead in world services exports, accounting for just under half of their global value, at US$2.2 trillion. Asia was second, with just over half of that amount (US$1.2 trillion), while North America was third, with US$0.8 trillion—accounting for 16.5 percent of the global services exports in 2013.

TABLE 1-4
World Services Exports, 2013, by Regions

	Value US$B	Share (%)	Growth (%)
World	4,625	100.0	6
North America	761	16.5	5
United States	662	14.3	5
Canada	78	1.7	0
Mexico	20	0.4	21
South & Central America	142	3.1	1
Brazil	37	0.8	-2
Europe	2,174	47.0	6
EU-28	1,984	42.9	6
Germany	287	6.2	8
United Kingdom	290	6.3	1
France	233	5.0	8
Netherlands	142	3.1	8
CIS	115	2.5	11
Russia	66	1.4	13
Africa	91	2.0	-2
Middle East	128	2.8	6
Asia	1,212	26.2	6
China	207	4.5	9
Japan	144	3.1	1
India	153	3.3	5
NIEs	415	9.0	4
Exports by Category			
Transportation	900	19.5	2
Travel	1,175	25.4	7
Commercial Services	2,545	55.0	6

Source: WTO Secretariat and author's calculations

Services Imports

World services imports expanded 4 percent to just over US$4.3 trillion in 2013.

Europe was the largest importer of services in 2013, with 41 percent of the world's total, with the bulk of the imports entering the EU. Growth was particularly strong for France (8 percent) and Germany (7 percent), as well as for non-EU countries.

Asian imports of services grew at the pace of world imports, led by strong growth from China (17 percent). Gains were held back by contractions in imports from Japan, India, and the NIEs. Overall, Asia accounted for 28.3 percent of world services imports in 2013.

In North America, services imports advanced 2 percent, led by the United States (up 3 percent) and Mexico (up 4 percent), while imports into Canada were flat.

Russia had the fastest-growing import performance of any of the major services importing countries in 2013, at 19 percent. The growth posted by Russia helped lead services imports into the CIS region to an overall 16-percent growth last year.

TABLE 1-5
World Services Imports, 2013, by Regions

	Value US$B	Share (%)	Growth (%)
World	4,340	100.0	4
North America	561	12.9	2
United States	427	9.8	3
Canada	105	2.4	0
Mexico	28	0.6	4
South & Central America	195	4.5	6
Brazil	84	1.9	7
Europe	1,780	41.0	5
EU-28	1,651	38.0	4
Germany	315	7.3	7
United Kingdom	173	4.0	-1
France	188	4.3	8
Netherlands	121	2.8	1
CIS	175	4.0	16
Russia	123	2.8	19
Africa	161	3.7	0
Middle East	240	5.5	3
Asia	1,229	28.3	4
China	329	7.6	17
Japan	161	3.7	-8
India	127	2.9	-1
NIEs	329	7.6	2

Source: WTO Secretariat and author's calculations

CHAPTER 2

Economic and Trade Developments: Regional and Country Overview

Economic and Trade Developments: Regional and Country Overview

The global economy continued to slow down in 2013, but there was a definite promise in the performance of many economies, particularly advanced economies, that creates a more optimistic outlook for 2014 and beyond. However, while the economic and financial crisis of 2008-2009 affected most countries in similar ways, the recoveries of different regions and countries are very nuanced and differ in many ways. Out of the recession, a new global economy is arising, with advantages going to the economies that are quicker to adapt themselves better to the new environment; for the emerging economies, this frequently implies undertaking the necessary structural reforms quickly and efficiently, shoring up the domestic market demand, and progressing beyond being export platforms to Western markets.

Prospects and opportunities for economic growth in the world's regions abound; regions of particular importance to Canada are emerging Asia, the eurozone, and Latin America and the Caribbean. On the country level, the evolution of the global economy means that out of Canada's top three commercial partners only one—the United States—is an advanced economy; the other two, China and Mexico, are developing economies. This chapter provides a brief overview of the most important facets of economic and trade developments in these countries and regions.

The United States was the leading engine of growth for the advanced economies in 2013, even though its growth slowed from 2012. Nevertheless, the troubles in most other advanced economies, and the immense potential strength of the U.S. consumer market, imply that, in the near future, the United States will lead the economic performance of the advanced economies. With fiscal drag decreasing, and the housing market in revival, the United States retains its potential to deliver on those expectations, particularly if business fixed investment finally picks up and the U.S. energy boom propels the revival of manufacturing. Since economic geography dictates that well over half of Canada's total trade in the foreseeable future will be conducted with the United States, all of these hopes and expectations apply even more heavily for Canada. As before—given the modern global economy is interconnected perhaps more than before—Canada's economy will largely depend on the well-being of its southern neighbour. For the past two years, the share of the United States in Canada's trade, both exports and imports—that hitherto had been declining for over a decade—has increased, reinforcing the strength of the economic relationship between the two countries. Overall, the short-term outlook is positive—growth in the United States is expected to hit 2.8 percent in 2014 and 3.0 percent in 2015.

China has continued to show strength throughout the global recession and recovery; its growth has remained stable in 2013, and the fears of a hard landing are now past. Growth is expected to decelerate gently in the short term, but become more reliant on consumer spending and, therefore, more stable. A set of major economic reforms is expected in the period spanning 2014-2018, along with monetary tightening to rein in credit growth. Inflation should not be an issue, but the legendary current account surplus may come to an end within the next few years, leading to the depreciation of the Chinese currency against the U.S. dollar. Continued movement up the value chain and strong investment should keep new commercial opportunities coming and ensure China's special status in Canada's commercial policy for the near future. This is confirmed by strong growth in two-way trade between Canada and China in 2013.

Mexico had a slow year in 2013, but expectations are for a strong recovery. With the advent of NAFTA, Mexico's role as supplier for the North American supply chains has grown by leaps and bounds. In particular, its role is very strong in the automotive and machinery markets, on the strength of which it has become the third-highest import supplier to Canada. Continued development and an ambitious structural reform agenda passed by President Enrique Peña Nieto, which includes fiscal reform, should open further opportunities for Canadian businesses in Mexico, and the country's geographical advantage with regard to Canada should ensure that these opportunities are long-lasting. Reforms in the telecom and energy sectors are expected to boost foreign investment, and fiscal policy is also expected to go into effect soon, boosting government spending in 2014-2018 to stimulate the economy, while inflation is expected to remain under control.

Regionally, emerging Asia is an important area for Canada's commercial activities. Although China comprises a large part of the region, the region's advantages extend beyond China's strength and include strong, independent export platforms in such areas as electrical and electronic machinery (Malaysia and Thailand), services (India), and apparel (Vietnam and Bangladesh). For several years, this has been the world's fastest-growing region, with excellent prospects for the future. Itself a large economic region, emerging Asia does not include many large economies and its potential for extensive growth and moving up the value chain is becoming limited. However, the region has shown great adaptability and resilience during the crisis, and having avoided a hard landing, remains one of the top destinations for trade and investment.

The eurozone finally seems to be emerging from its lethargic period of recovery, its unity having withstood so far the threat of breakup and the pressures of economic hardship in the periphery. Growth is expected to pick up with consumer demand reviving as the fiscal drag eases up; while vulnerable to financial and trade disruptions, recovery seems to be just around the corner. A large portion of Canada's trade and investment is historically tied to this region, with different countries specializing in multiple top-of-the-line commodities (e.g. high-end machinery, scientific instruments, agri-food products, beverages, luxury goods, services). Canada's trade with the eurozone is highly localized, disaggregated and rooted in shared norms, values, and history. Its importance is underscored by the recent signing of the Canada-EU Comprehensive and Economic Trade Agreement (CETA), and it will remain a key part of Canada's commerce for decades to come.

Countries in Latin America and the Caribbean are Canada's hemispheric neighbours, and a priority in their own right due to that proximity. A concerted effort has led to the signing of several investment protection and free trade agreements in the past decade, and many countries in that area have become important suppliers to Canadian businesses (e.g. Chile, Peru, and Colombia). Growth in this region has slowed, and things will get worse before they get better, but with Brazil and Mexico on the road to recovery, prospects for the region are favourable overall. Alternative economic policies persist in Argentina and Venezuela, and overall dependence on resource prices is a key weakness.

Country Overview

United States

Growth in the U.S. economy slowed somewhat in 2013, to 1.9 percent. The growth primarily reflected positive contributions from household expenditures, exports, residential investment, business fixed investment and private inventory investment that were partly offset by a negative contribution from federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.

The decline in real GDP growth in 2013 primarily reflected a deceleration in business fixed investment, a larger reduction in federal government spending, and decelerations in household expenditures and in exports that were partly offset by slower growth in imports and a smaller decrease in state and local government spending.

Both exports and imports slowed by 0.8 percentage point in real terms in 2013. However, this impacted imports relatively more, hence the contribution of net exports to the U.S. GDP increased from 0.10 percentage point to 0.12 percentage point.

Canada's export growth to the United States was 5.6 percent, exceeding its overall growth rate of 3.9 percent for all exports. Import growth from the United States increased by 6.0 percent, also growing faster than the overall import growth rate of 2.9 percent. The share of the United States in Canada's exports and imports has grown for two consecutive years, reaching 75.8 percent for exports and 52.1 percent for imports. The top five export commodities were mineral fuels and oil, automotive products, mechanical machinery, plastics, and electrical or electronic machinery.

TABLE 2-1
U.S. Real GDP and Related Measures

	Share in current dollars (%)	Growth from previous year (%)		Contributions to percent change in real GDP (percentage points)	
	2013	2012	2013	2012	2013
Gross domestic product	100	2.8	1.9	2.8	1.9
Household expenditures	68.5	2.2	2.0	1.52	1.37
Goods	23.1	3.3	3.5	0.77	0.81
Durable goods	7.5	7.7	6.9	0.56	0.51
Non-durable goods	15.6	1.4	2.0	0.22	0.31
Services	45.3	1.6	1.2	0.74	0.55
Business fixed investment	15.3	8.3	4.5	1.17	0.66
Residential	3.1	12.9	12.2	0.32	0.33
Non-residential	12.2	7.3	2.7	0.85	0.33
Structures	2.7	12.7	1.3	0.31	0.03
Machinery & equipment	5.6	7.6	3.1	0.41	0.17
Intellectual property products	3.9	3.4	3.1	0.13	0.12
Investment in inventories	0.6	-	-	0.20	0.16
Net exports of goods and services	-3.0	-	-	0.10	0.12
Exports	13.5	3.5	2.7	0.48	0.36
Goods	9.3	3.8	2.4	0.36	0.22
Services	4.1	3.0	3.5	0.12	0.14
Less imports	16.4	2.2	1.4	-0.38	-0.24
Goods	13.7	2.1	1.2	-0.30	-0.17
Services	2.7	2.7	2.5	-0.07	-0.07
Government expenditures and gross investment	18.6	-1.0	-2.2	-0.20	-0.43
Federal	7.4	-1.4	-5.2	-0.12	-0.41
State and Local	11.2	-0.7	-0.2	-0.08	-0.02

China

China's economy grew steadily at 7.7 percent in 2013, the same rate as the previous year. Growth in household consumption rose from 7.8 percent in 2012 to 8.2 percent in 2013 as the contribution of this item to GDP growth reached 3.0 percentage points in 2013. Inventory investment went from being a 0.5-percentage point drag on growth in 2012 to a 0.3-percentage point contribution to GDP growth in 2013. The contribution of net exports of goods and services to growth was neutral; data for business investment are not available, but a considerable decline in growth may be presumed.

According to the Economist Intelligence Unit (EIU), expectations are for a continued slowdown to 7.3 percent in 2014 and to an average of 6.6 percent over the next five years.

Growth in China's real exports accelerated from 5.2 percent in 2012 to 8.6 percent in 2013, helping raise the contribution of exports to GDP growth from 1.3 percentage point to 1.5 percentage point. Real imports also expanded.

Canada's exports to China were the second-fastest growing exports to a major country, at 6.1 percent, raising China's share in Canada's exports to 4.3 percent. Canada's imports from China also increased, growing 4.0 percent in 2013. China remains the second-largest import supplier to Canada with 11.1 percent of the market. Main import commodities for Canada are electronics, machinery, furniture, and toys, while main exports are ores, wood pulp, oilseeds, and wood.

TABLE 2-2
China Real GDP and Related Measures

	Share in current dollars (%)	Growth from previous year (%)		Contributions to percent change in real GDP (percentage points)	
	2013	2012	2013	2012	2013
Gross domestic product	100	7.7	7.7	7.7	7.7
Household expenditures	36.1	7.8	8.2	2.9	3.0
Goods	-	-	-	-	-
Durable goods	-	-	-	-	-
Non-durable goods	-	-	-	-	-
Services	-	-	-	-	-
Business fixed investment	-	-	-	-	-
Residential	-	-	-	-	-
Non-residential	-	-	-	-	-
Structures	-	-	-	-	-
Machinery & equipment	-	-	-	-	-
Intellectual property products	-	-	-	-	-
Investment in inventories	-	-	-	-0.5	0.3
Net exports of goods and services	2.6	-	-	0.1	0.0
Exports	26.2	5.2	8.6	1.3	1.5
Goods	-	-	-	-	-
Services	-	-	-	-	-
Less imports	23.7	6.2	10.6	-1.2	-1.5
Goods	-	-	-	-	-
Services	-	-	-	-	-
Government expenditures and gross investment	-	-	-	-	-
Federal	-	-	-	-	-
State and Local	-	-	-	-	-

Mexico

Growth in Mexico slowed sharply in 2013, to 1.3 percent from 3.9 percent the previous year. This was due to sluggish domestic and external demand. Household spending slowed sharply from 4.7 percent growth in 2012 to 2.6 percent in 2013, thereby lowering its contribution to GDP growth from 3.1 to 1.7 percentage points. Higher inventories prevented a more serious GDP slowdown, with its contribution expanding from 0.3 percentage point in 2012 to 1.0 percentage point in 2013. Business fixed investment slowed from 8.0 percent in 2012 to 6.1 percent in 2013, but its impact on the GDP is not yet available.

The EIU expects growth to expand to 3.7 percent per year over the next five years as benefits of structural reforms materialize.

Mexico's real exports were down from 3.5 percent growth in 2012 to 2.0 percent in 2013; their contribution to GDP growth thus fell from 1.8 percentage points to 0.6 percentage point. However, imports also slowed, from 4.3 percent in 2012 to 1.6 percent in 2013, reducing the import drag on the GDP. Overall, net exports went from a 0.2-percentage point contribution in 2012 to being growth-neutral in 2013.

Canada's imports from Mexico grew faster than average at 4.7 percent; Mexico remains the third-largest import supplier, predominantly in the automotive sector and the electrical or electronic machinery sector. In contrast, Canada's export to Mexico grew only 0.8 percent. As a result, Canada's trade deficit with Mexico expanded to $21.3 billion in 2013, which largely reflects the automotive industry's preference for Mexico as a location of operations.

TABLE 2-3
Mexico Real GDP and Related Measures

	Share in current dollars (%)	Growth from previous year (%)		Contributions to percent change in real GDP (percentage points)	
	2013	2012	2013	2012	2013
Gross domestic product	100	3.9	1.1	3.9	1.3
Household expenditures	68.5	4.7	2.6	3.1	1.7
Goods	-	-	-	-	-
Durable goods	-	-	-	-	-
Non-durable goods	-	-	-	-	-
Services	-	-	-	-	-
Business fixed investment	-	8.0	6.1	-	-
Residential	-	-	-	-	-
Non-residential	-	-	-	-	-
Structures	-	-	-	-	-
Machinery & equipment	-	-	-	-	-
Intellectual property products	-	-	-	-	-
Investment in inventories	-	-	-	0.3	1.0
Net exports of goods and services	-0.8	-	-	0.2	0.0
Exports	31.5	3.5	2.0	1.8	0.6
Goods	-	-	-	-	-
Services	-	-	-	-	-
Less imports	32.3	4.3	1.6	-1.7	-0.6
Goods	-	-	-	-	-
Services	-	-	-	-	-
Government expenditures and gross investment	-	-	-	-	-
Federal	-	-	-	-	-
State and Local	-	-	-	-	-

Regional Overview

Emerging Asia

In 2013, emerging Asia continued to grow the fastest among all the world regions, at 6.5 percent, down from 6.7 percent in 2012. China led the group while most other major countries grew at below the regional average. India remains one of the poorest countries among this group, with a per capita income less than one quarter that of China and one seventh that of Malaysia.

Inflation was low in most of the region, but moderate in Indonesia, at 6.4 percent, and high in India, at 9.5 percent. Unemployment was kept largely under control. Malaysia's export strength resulted in a current account balance of 3.8 percent of GDP, despite a 1.3-percent decline in real exports. China and India showed strong real export growth, at 8.6 percent and 5.0 percent, respectively; China's real import growth was even higher, at 10.6 percent, while the imports of other countries grew slightly or declined.

China remains Canada's most important trade partner by far in this region, although imports from Malaysia and Thailand are significant in key areas, such as electrical machinery. Trade with all three is skewed heavily in favour of imports, as these countries represent export platforms for assembled goods. Overall annual trade with India now exceeds US$5-billion and is roughly balanced, while trade with Indonesia shows a US$0.5-billion surplus. The region accounts for 14.2 percent of Canada's imports and 6.1 percent of Canada's exports.

TABLE 2-4
Emerging Asia Overview, 2013

2013	Emerging Asia	China	India	Indonesia	Malaysia
GDP Growth (%)	6.5	7.7	4.4	5.8	4.7
GDP per capita (US$)	-	6,747.2	1,504.5	3,509.8	10,548.0
Inflation (%)	4.5	2.6	9.5	6.4	2.1
Unemployment (%)	-	4.1	-	6.3	3.1
Current Account Balance, (% of GDP)	0.8	2.1	-2.0	-3.3	3.8
Real Exports Growth, Goods & Services (%)	6.8	8.6	5.0	2.2	-1.3
Real Imports Growth, Goods & Services (%)	6.3	10.6	-2.1	-0.4	1.4
Canada's exports to (US$M)		19,954.5	2,777.0	1,858.0	760.5
Canada's imports from (US$M)		51,199.4	2,895.9	1,333.8	2,116.5
Canada's Trade Balance with (US$M)		-31,245.0	-118.9	524.0	-1,356.0

Eurozone

The economic crisis in Europe showed signs of abating in 2013. Real GDP growth improved somewhat: from -0.7 percent in 2012 to -0.5 percent in 2013. France returned to positive growth, posting a 0.3-percent rate. Germany was marginally better, at 0.5-percent growth. However, the economies of the Netherlands, Spain, and Italy contracted during the year. Inflation remained low, with room for fiscal and monetary policy; unemployment was high overall, ranging from 5.3 percent in Germany to 26.4 percent in Spain.

Current account balances as a share of GDP were mostly healthy, with the Netherlands at 10.4 percent, Germany at 7.5 percent, and Spain at 0.7 percent, with only France at negative 1.6 percent. Modest growth in real exports took hold in all of those countries with the exception of Italy, accompanied by a slight recovery in imports. Average eurozone growth is expected to be above 1 percent for the next two years, ushering in some long-awaited recovery for many countries.

Canada conducts much two-way trade with this region, particularly with Germany, France and the Netherlands. Total imports by Canada from the eurozone amount to US$37.8 billion, or 8.2 percent of the world total; imports from Germany—mainly automotive products and machinery—account for almost 40 percent of this amount.

Trade with the eurozone countries is much broader in scope than with most other regions. Yet, despite the importance of Germany in the region, that country does not dominate Canada's trade with our European partners. Many countries are of importance to Canada's commerce, particularly in commodities at a higher level of detail.

TABLE 2-5
Eurozone Overview, 2013

2013	Eurozone	France	Germany	Italy	Spain
GDP Growth (%)	-0.5	0.3	0.5	-1.9	-1.2
GDP per capita (US$)	-	43,000.0	44,999.5	34,714.7	29,150.3
Inflation (%)	1.3	1.0	1.6	1.3	1.5
Unemployment (%)	12.1	10.8	5.3	12.2	26.4
Current Account Balance, (% of GDP)	2.9	-1.6	7.5	0.8	0.7
Real Exports Growth, Goods & Services (%)	1.4	0.6	0.8	0.1	4.9
Real Imports Growth, Goods & Services (%)	0.3	0.8	0.9	-2.8	0.4
Canada's exports to (US$M)		2,966.5	3,396.1	1,903.6	906.5
Canada's imports from (US$M)		5,230.8	14,951.5	5,646.8	1,632.0
Canada's Trade Balance with (US$M)		-2,264.2	-11,555.3	-3,743.3	-725.5

Latin America and the Caribbean (LAC)

LAC's regional economy slowed to 2.7 percent in 2013 from 3.1 percent in 2012. Commodity prices were largely flat in 2013, constraining growth for many resource-based economies in the LAC region. Economic activity in Brazil accelerated to 2.3-percent growth from 1.0 percent in 2012. However, growth in Mexico faltered, slowing to 1.1 percent in 2013. Growth in Chile, Colombia, and Peru did relatively well, in the 4 to 5 percent range. Growth is expected to slow in 2014 before rebounding in 2015 to 3.0 percent.

Inflation was an issue in Brazil, Argentina, Uruguay, and Venezuela, but remained subdued for the other major countries. Unemployment was high in Colombia and Peru. The current account balance was at -2.7 percent of GDP for the region, and most major countries had higher deficit ratios. Most countries posted higher growth in real exports than for real imports, except Brazil and Peru.

TABLE 2-6
Latin America and the Caribbean Overview, 2013

2013	Latin America & the Caribbean	Brazil	Chile	Mexico	Peru
GDP Growth (%)	2.7	2.3	4.2	1.1	5.0
GDP per capita (US$)	-	11,310.9	15,775.9	10,629.9	6,674.3
Inflation (%)	6.8	6.2	1.8	3.8	2.8
Unemployment (%)	-	5.4	5.9	4.9	7.5
Current Account Balance, (% of GDP)	-2.7	-3.6	-3.4	-1.8	-4.9
Real Exports Growth, Goods & Services (%)	2.4	3.1	4.5	2.0	-1.8
Real Imports Growth, Goods & Services (%)	3.5	8.6	2.4	1.6	5.5
Canada's exports to (US$M)		2,400.6	784.7	5,271.1	590.6
Canada's imports from (US$M)		3,520.6	1,701.8	25,951.0	2 986.4
Canada's Trade Balance with (US$M)		-1,120.0	-917.1	-20,679.9	-2,395.8

Canada's links with this region continued to grow - imports from LAC were 11 percent higher than the value of imports from the eurozone in 2013. Mexico accounts for over 60 percent of Canada's imports from this region, at US$26.0 billion in total; Brazil was next at US$3.5 billion. Peru remained an important supplier, at US$3.0 billion in imports, and Chile followed, at US$1.7 billion. Canada ran trade deficits with all of these countries in 2013.

As the region is of particular interest to Canada's trade policy, with a number of trade and investment protection agreements signed in recent years, Canadian businesses are likely to explore the numerous opportunities given by these agreements in the coming years, and the Trans-Pacific Partnership (TPP) negotiations may provide an additional push in the LAC direction.

World Merchandise Trade Value Rankings

For the fifth year running, China was the world's top merchandise exporter, at US$2.2 trillion, or 11.8 percent of the world total. This was nearly a third higher than the second-place United States, which registered exports of nearly US$1.6 trillion. Next was Germany, at almost US$1.5 trillion, or 7.7 percent of the world total. Japan was a distant fourth, with US$715 billion in exports, or less than half the value of Germany's exports.

Exports from the Netherlands were essentially unchanged, at US$664 billion in fifth place; France remained sixth at US$580 billion; and South Korea retained the seventh place position that it won in 2010, with exports of US$560 billion. The United Kingdom jumped up four places in the export rankings, from 11th to 8th, at US$541 billion; Hong Kong moved up one spot to 9th, at US$536 billion, and Russia placed 10th, down from 8th in 2012, at US$523 billion in exports. Canada slipped from 12th to 13th, with US$458 billion in exports and a 2.4-percent share of the world total.

On the import side, the United States remained in first place, with US$2.3 trillion and a 12.4-percent share in imports, followed by China at US$2.0 trillion in imports. Germany was a distant third, at US$1.2 trillion, followed by Japan. France overtook the United Kingdom to take fifth place in 2013, and Hong Kong changed places with the Netherlands to gain seventh place. South Korea remained in ninth, with US$516 billion in imports. Italy moved up to the 10th spot, with US$477 billion in imports, with Canada marginally behind in the 11th position, at US$474 billion. Both countries held a 2.5-percent share of the world import market in 2013. India fell out of the top 10, moving from 10th place in 2012 to 12th place in 2013.

TABLE 2-7
Leading Exporters and Importers, 2013 World Merchandise Trade (US$B and %)

2013 Rank	2012 Rank	Exporters	2013 US$B Value	2013 % Share
1	1	China	2,210	11.8
2	2	United States	1,579	8.4
3	3	Germany	1,453	7.7
4	4	Japan	715	3.8
5	5	Netherlands	664	3.5
6	6	France	580	3.1
7	7	South Korea	560	3.0
8	11	United Kingdom	541	2.9
9	10	Hong Kong	536	2.9
10	8	Russia	523	2.8
13	**12**	**Canada**	**458**	**2.4**
2013 Rank	**2012 Rank**	**Importers**	**2013 US$B Value**	**2013 % Share**
1	1	United States	2,331	12.4
2	2	China	1,950	10.3
3	3	Germany	1,187	6.3
4	4	Japan	833	4.4
5	6	France	681	3.6
6	5	United Kingdom	654	3.5
7	8	Hong Kong	622	3.3
8	7	Netherlands	590	3.1
9	9	South Korea	516	2.7
10	11	Italy	477	2.5
11	**12**	**Canada**	**474**	**2.5**

Source: WTO Secretariat

World Services Trade Value Rankings

The United States was the world's leading services trader on both the export and import sides in 2013, though particularly dominant on the export side. U.S. service exports were worth US$662 billion in 2013, or 14.3 percent of the world total. The United Kingdom kept the second spot in export rankings that it took from Germany in 2011, but only marginally, at US$290 billion in exports and a 6.3-percent world share. Germany was third, at US$287 billion in exports. France moved into the fourth place at US$233 billion in services exports (5.0-percent share) surpassing China, which dropped to fifth place in the rankings, with exports of US$207 billion (4.5-percent share). India remained in 6th, and was followed by an essentially three-way tie for 7th, 8th and 9th spot, narrowly won by Spain (at US$144 billion in services exports) over Japan and the Netherlands. Hong Kong closed out the top ten, with US$135 billion in services exports; Canada slipped down a spot from 17th to 18th, with US$78 billion in service exports and a 1.7-percent share of the global market.

On the import side of services trade, the United States was first, with US$427 billion and a 9.8-percent share of the global imports. China surpassed Germany to capture the second place, with US$329 billion in imports; Germany was third, at US$315 billion. France moved up two spots into the fourth place, with US$188 billion in imports; the United Kingdom slipped to fifth, at US$173 billion, and Japan to sixth, at US$161 billion. India stayed in seventh, at US$127 billion, and Russia leaped from 14th to 8th place, with US$123 billion in services imports. Singapore and the Netherlands closed out the top ten with US$122 billion and US$121 billion, respectively, in imports. Canada went down three ranks from 11th to 14th place, with services imports of US$105 billion and a 2.4-percent world import share.

TABLE 2-8
Leading Exporters and Importers, 2013 World Services Trade (US$B and %)

2013 Rank	2012 Rank	Exporters	2013 US$B Value	2013 % Share
1	1	United States	662	14.3
2	2	United Kingdom	290	6.3
3	3	Germany	287	6.2
4	5	France	233	5.0
5	4	China	207	4.5
6	6	India	153	3.3
7	8	Spain	144	3.1
8	7	Japan	144	3.1
9	10	Netherlands	142	3.1
10	11	Hong Kong	135	2.9
18	**17**	**Canada**	**78**	**1.7**

2013 Rank	2012 Rank	Importers	2013 US$B Value	2013 % Share
1	1	United States	427	9.8
2	3	China	329	7.6
3	2	Germany	315	7.2
4	6	France	188	4.3
5	4	United Kingdom	173	4.0
6	5	Japan	161	3.7
7	7	India	127	2.9
8	14	Russia	123	2.8
9	8	Singapore	122	2.8
10	9	Netherlands	121	2.8
14	**11**	**Canada**	**105**	**2.4**

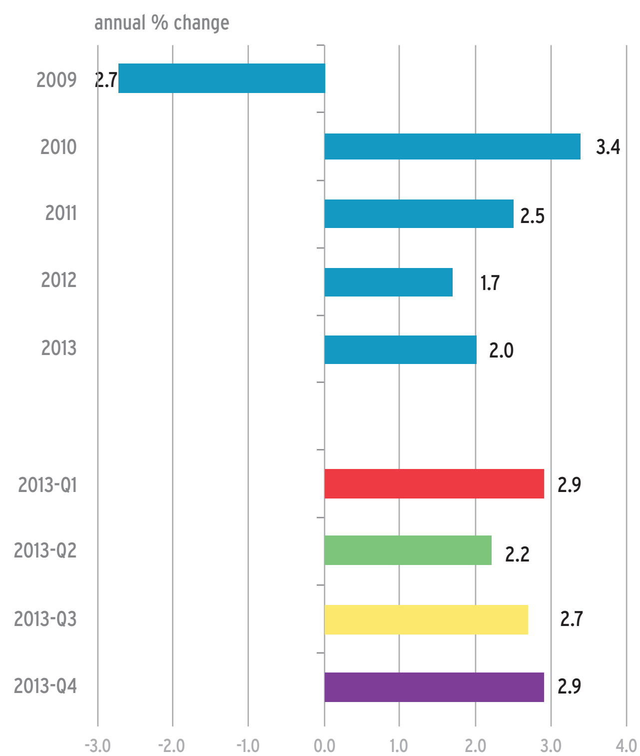
Source: WTO Secretariat

CHAPTER 3 | Canada's Economic Performance

Canada's Economic Performance

As mentioned earlier, growth in the developed economies strengthened over the second half of the year, while challenges facing emerging markets intensified. The broad conduct of Canada's economy followed along the lines sketched out earlier for the developed economies. Real gross domestic product (GDP) picked up to 2.0 percent in 2013, after increasing 1.7 percent in 2012, with slightly better performance in the second half of the year than in the first half (Figure 3-1). Consumer spending again was the major contributor to growth, led by a notable pickup in spending on goods while inventory accumulation and net exports also contributed to the advance. For net exports, it was the first positive contribution to growth in more than a decade. The depreciation of the Canadian dollar, from above parity at the start of the year to about US 94¢ at the end of the year, likely helped boost exports and dampen imports at the same time. Business investment, however, slowed for the third consecutive year: business investment in residential structures contracted while investments in plant and equipment slowed dramatically. Output increased for all major industrial sectors, with the exception of manufacturing and fishing. Goods production expanded 1.7 percent, while services output grew 2.1 percent. Employment grew by 1.3 percent last year, up slightly from the 1.2-percent rate registered in 2012, and the unemployment rate edged down by 0.1 percentage point to 7.1 percent. Sectorally, employment in goods-producing industries increased 0.3 percent, as gains were held up by a 2.9-percent decline in manufacturing and a 0.5-percent decline in forestry and fishing. On the other hand, employment gains were widespread amongst services-producing industries, although there was a 1.1-percent decline in public administration. Price increases remained positive in 2013, but well below the Bank of Canada's 2-percent target, at 0.9 percent.

Figure 3-1
Canadian Real GDP Growth, 2009-2013



Source: Statistics Canada

Gross Domestic Product

Following two years of slowing growth, real GDP accelerated in 2013, to 2.0 percent. Output in all major industrial sectors advanced, with the exception of manufacturing. A build-up in inventories and a positive contribution from net exports contributed to the growth.

TABLE 3-1
Real Gross Domestic Product (GDP) and Related Measures

	Share in current dollars (%)	Growth from previous year (%)		Contributions to percent change in real GDP (percentage points)	
	2013	2012	2013	2012	2013
Gross domestic product	100.0	1.7	2.0	1.71	2.01
Household expenditures	54.3	1.9	2.2	1.05	1.21
Goods	24.1	1.5	2.3	0.37	0.56
Durable goods	6.7	2.6	3.3	0.17	0.22
Semi-durable goods	3.8	2.1	2.5	0.08	0.10
Non-durable goods	13.6	0.7	1.8	0.11	0.24
Services	30.2	2.2	2.2	0.68	0.66
Business investment	19.5	5.3	0.4	1.02	0.08
Residential	6.8	6.1	-0.2	0.41	-0.02
Non-residential	10.7	6.2	1.4	0.64	0.15
Structures	6.6	6.9	2.1	0.43	0.14
Machinery & equipment	4.1	5.2	0.2	0.22	0.01
Intellectual property products	2.0	-1.5	-2.6	-0.03	-0.06
Investment in inventories	0.6	-	-	-0.05	0.34
Non-farm	0.4	-	-	0.02	-0.05
Farm	0.2	-	-	-0.07	0.39
Net exports of goods and services	-1.7	-	-	-0.58	0.28
Exports	30.1	1.5	2.1	0.43	0.63
Goods	25.5	2.1	2.2	0.52	0.55
Services	4.6	-1.9	1.8	-0.09	0.09
Less imports	31.8	3.1	1.1	1.01	0.35
Goods	25.9	3.3	1.7	0.87	0.44
Services	5.9	2.3	-1.5	0.14	-0.09
Government expenditures and gross investment	4.1	0.5	-1.5	0.02	-0.06
Non-profit institutions serving households expenditures and gross investment	0.1	-14.5	-3.0	-0.02	-0.00

Household expenditures rose 2.2 percent, led by increased spending on durables, semi-durables, and services. Notable increases were registered for insurance and financial services (up 4.4 percent) and housing and utilities (up 3.3 percent). Increased consumer spending contributed over 1.2 percentage point to overall growth in 2013.

Business investment slowed for the third consecutive year, advancing by 0.4 percent. Business investment in residential structures declined 0.2 percent, as new home construction fell by 2.6 percent. Reduced expenditures on industrial machinery and equipment (down 2.1 percent) and computers (down 1.1 percent) helped slow total investment in machinery and equipment to a 0.2-percent gain in 2013. Overall, business investment contributed very little to growth in 2013.

A buildup in farm inventories (mostly grains) of $4.4 billion was partially offset by a $2.3-billion depletion of non-farm inventories (mostly in manufacturing), as the overall inventory accumulation contributed to over 0.3 percentage point in growth last year.

Net exports, or the difference between exports and imports, contributed 0.3 percentage point in growth in 2013. It was the first positive contribution of net exports to growth since 2001. Growth in real exports accelerated to 2.1 percent, led by goods, while growth in real imports slowed to 1.1 percent, as services imports contracted last year.

GDP by Industrial Activity

Real GDP increased 2.0 percent in 2013, compared to 1.8 percent the previous year. Both services-producing industries (up 2.1 percent) and goods-producing industries (up 1.7 percent) contributed to the advance.

Strong advances in agriculture, mining, oil and gas extraction, and utilities were partially offset by declines in fishing and manufacturing to account for the gains in the goods-producing sectors.

For manufacturing, losses were widespread as output in both durables (down 2.3 percent) and non-durables (down 0.6 percent) contracted in 2013.

Only chemicals posted a solid gain for non-durable manufactures, advancing by 1.9 percent. Beverages and tobacco and printing also posted marginal increases, while all other sectors contracted.

Wood and miscellaneous manufacturing posted strong gains, but many other durables posted reductions in output in 2013, most notably computers and electronic products, and non-metallic minerals.

Gains were reported for all major services industries, led by finance and insurance, arts and entertainment, and accommodation and food services.

TABLE 3-2
Percent changes in real GDP by industrial sector

	2011	2012	2013
All industries	2.7	1.8	2.0
Goods-producing industries	3.7	1.9	1.7
Agriculture	2.9	1.4	14.2
Forestry and logging	6.5	-1.7	3.7
Fishing and hunting	-6.4	6.3	-2.3
Oil and gas extraction	3.7	3.9	4.9
Mining and quarrying	3.5	-3.6	7.7
Utilities	2.4	0.4	4.0
Construction	3.2	5.2	0.7
Manufacturing	3.4	1.4	-1.6
Non-durable manufacturing	0.3	-1.0	-0.6
Food	0.1	-0.5	-1.2
Beverages and tobacco	2.6	1.2	0.4
Textiles	4.6	-2.3	-8.9
Clothing and leather	4.1	-5.6	-8.4
Pulp and paper	-0.0	-5.2	-2.0
Printing	-1.1	0.8	0.2
Petroleum	-3.5	2.3	-1.6
Chemicals	-2.6	-2.5	1.9
Plastics and rubber	8.3	0.1	-0.1
Durable manufacturing	5.9	3.2	-2.3
Wood	2.1	6.1	7.3
Non-metallic minerals	3.2	-0.8	-9.1
Primary metals	4.0	1.6	-0.6
Fabricated metal products	7.8	4.8	-3.5
Machinery manufacturing	17.1	3.2	-2.8
Computers and electronic products	4.2	-13.1	-10.1
Electrical equipment, etc.	6.5	0.2	-0.7
Transportation equipment	4.8	10.9	-3.8
Furniture	-4.5	0.3	2.6
Miscellaneous manufacturing	3.9	-2.4	7.6
Service-producing industries	2.3	1.8	2.1
Wholesale trade	5.3	1.7	1.3
Retail trade	1.9	1.7	2.8
Transportation and warehousing	3.0	1.9	1.2
Information and culture	1.8	1.6	1.0
Finance and insurance	1.6	2.4	4.1
Real estate	3.7	2.6	2.8
Professional and technical	2.9	2.2	1.5
Management of companies	2.9	-0.2	3.0
Administrative and support	1.1	1.6	1.2
Education	0.8	1.5	2.5
Health and social assistance	1.9	1.8	1.8
Arts and entertainment	-1.2	-1.8	3.4
Hotels and restaurants	0.5	3.6	3.4
Other	1.8	1.4	2.6
Public administration	1.5	0.1	0.1

Employment

Employment in Canada expanded by 223,500 jobs (1.3 percent), reaching 17.7 million in 2013. This was slightly up from the 201,500 jobs created a year earlier. As a result, the unemployment rate edged down 0.1 percentage point to 7.1 percent. Since the trough of the global downturn in July 2009, Canada has added 1,024,100 jobs to the payroll to December 2013.

Employment growth lagged in the goods sector, held back by declines in forestry and fishing, and manufacturing. However, construction posted the highest rate of growth of all major sectors, at 4.4 percent in 2013. Some 21.9 percent of all jobs were in goods producing sectors, down from 22.1 percent a year ago.

More than three of every four jobs are in the services sector. Job gains were fairly widespread across services, although public administration, information, culture and recreation, and miscellaneous services posted declines. Overall, services employment expanded by 1.6 percent in 2013.

Alberta, Saskatchewan, and Ontario all posted faster-growing job gains than the national average, while Quebec fell just short of the national average. Nunavut and the Yukon also posted strong gains in employment. However, the Northwest Territories, Nova Scotia, British Columbia, and New Brunswick experienced job losses in 2013.

TABLE 3-3
Employment and Related Measures

Number of Employees	2013 (000's)	Share (%)	Growth (%)
Total, all industries	17,731.2	100	1.3
Canada unemployment rate	7.1	-	-0.1
Canada participation rate	66.5	-	-0.2
Industrial Employment			
Goods-producing sector	3,883.4	21.9	0.3
Agriculture	314.6	1.8	1.7
Forestry & fishing	66.7	0.4	-5.0
Mining, oil and gas extraction	300.7	1.7	0.6
Utilities	143.5	0.8	2.0
Construction	1,323.7	7.5	4.4
Manufacturing	1,734.2	9.8	-2.9
Services-producing sector	13,847.7	78.1	1.6
Trade	2,705.2	15.3	2.3
Transportation/warehousing	863.2	4.9	1.6
Finance, insurance, real estate	1,122.3	6.3	2.7
Professional/technical	1,347.7	7.6	3.7
Business and support	713.9	4.0	3.4
Educational services	1,289.0	7.3	0.1
Health care/social assistance	2,176.5	12.3	2.3
Information, culture & recreation	782.8	4.4	-1.0
Accommodation & food	1,131.8	6.4	2.7
Other	769.5	4.3	-3.2
Public administration	945.8	5.3	-1.1
Provincial Employment			
Alberta	2,211.0	12.5	2.9
British Columbia	2,308.1	13.0	-0.2
Manitoba	633.2	3.6	0.5
New Brunswick	351.2	2.0	-0.1
Newfoundland and Labrador	232.8	1.3	1.0
Northwest Territories	22.5	0.1	-0.9
Nova Scotia	453.8	2.6	-0.4
Nunavut	12.5	0.1	5.9
Ontario	6,879.4	38.8	1.4
Prince Edward Island	74.1	0.4	1.8
Quebec	4,032.2	22.7	1.2
Saskatchewan	555.3	3.1	3.4
Yukon	19.3	0.1	2.1

Inflation

Canada's annual rate of inflation slowed for the second consecutive year to 0.9 percent. At this level, inflation is less than half the Bank of Canada's target of 2 percent.

Core inflation, which excludes eight of the most volatile components [1] and the effect of changes in indirect taxes on the remaining components, dipped to 1.3 percent, after five years in the 1.6-1.8 percent range.

Half of the major components posted price changes below the average rate of inflation. Health and personal care was the only major category to see prices fall, while clothing and footwear, recreation, education and reading, and transportation registered price increases below the rate of inflation. On the other hand, food, household operations, furnishings and equipment, shelter, and alcohol and tobacco posted price changes above the average rate of inflation.

In line with the excess production capacity in the economy, goods prices have increased at a slower pace than prices for services.

Regionally, Manitoba had the highest level of inflation, up 2.2 percent, while British Columbia experienced a marginal decline in overall prices, down 0.1 percent. The two central provinces—Quebec and Ontario—posted rates of inflation near the national average, at 0.7 percent and 1.0 percent, respectively.

TABLE 3-4
Percent Changes in Consumer Prices

	2011	2012	2013
All-items CPI	2.9	1.5	0.9
Food	3.7	2.4	1.2
Shelter	1.9	1.2	1.3
Household operations	1.9	1.9	1.2
Clothing and footwear	0.3	0.1	0.1
Transportation	6.4	2.0	0.7
Health and personal care	1.7	1.4	-0.3
Recreation, education and reading	1.3	0.6	0.3
Alcohol and tobacco	1.9	1.5	2.0
Core CPI	1.6	1.7	1.3
Durable goods	-1.1	-0.6	-0.2
Semi-durable goods	0.2	-0.1	0.2
Non-durable goods	6.1	1.8	0.9
Services	2.4	2.1	1.3
Provincial CPI			
Newfoundland and Labrador	3.4	2.1	1.7
Prince Edward Island	2.9	2.0	2.0
Nova Scotia	3.8	2.0	1.2
New Brunswick	3.5	1.7	0.8
Quebec	3.0	2.1	0.7
Ontario	3.1	1.4	1.0
Manitoba	3.0	1.6	2.2
Saskatchewan	2.8	1.6	1.5
Alberta	2.4	1.1	1.4
British Columbia	2.4	1.1	-0.1
Yukon [Whitehorse]	3.0	2.3	1.7
Northwest Territories [Yellowknife]	3.1	2.2	1.5
Nunavut [Iqaluit]	1.4	1.7	1.1

1 The eight components are: fruit, vegetables, gasoline, fuel oil, natural gas, mortgage interest, inter-city transportation and tobacco products.

The Canadian Dollar

The Canadian dollar continued to depreciate against the U.S. dollar in 2013. After falling 1.1 percent against the U.S. dollar in 2012, the Canadian dollar declined a further 2.9 percent in value in 2013 vis-à-vis the greenback. Relative to the other major currencies, the average yearly value of the Canadian dollar rose sharply against the Japanese yen (18.6 percent), but fell 6.1 percent against the European euro and 1.7 percent against the British pound sterling.

The Canadian dollar opened the year above parity against the U.S. dollar, but trended down over January through March. In April the exchange rate recovered modestly, then resumed its downward trend over the next few months. The exchange rate rebounded somewhat over the summer, and just as quickly reversed the gains. In September, there was again a rebound after which the Canadian dollar trended down over the remainder of the year. The dollar hit its lowest level of the year at US 93.48¢ on December 27, before closing out the year at just over US 94¢ on December 31.

Figure 3-2
C$-US$ Daily Exchange Rate (2013)

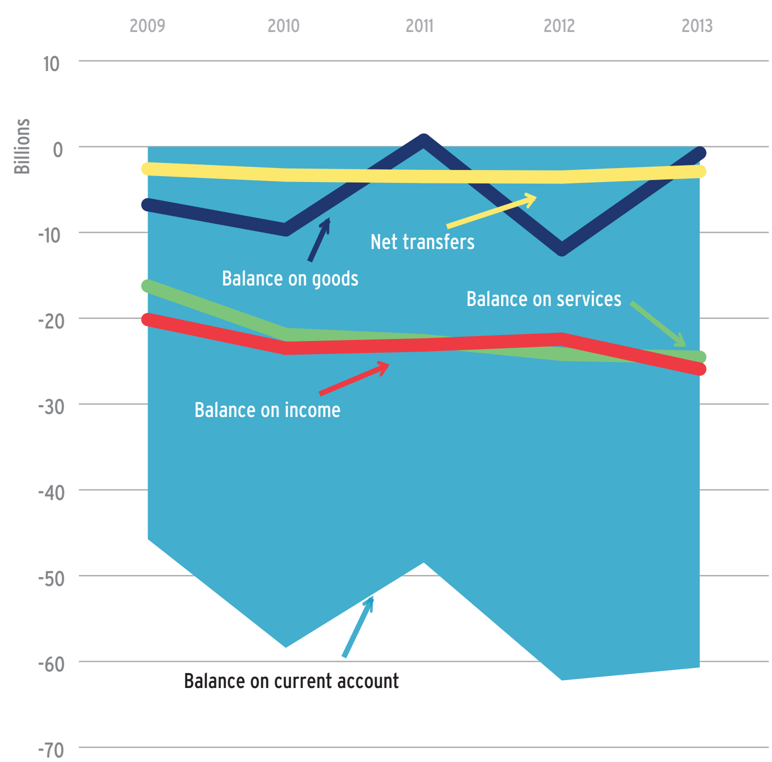
CHAPTER 4 | Canada's International Transactions

Canada's International Transactions

The balance of payments is the broadest measure of transactions between Canada and the rest of the world. It records the payments and receipts of Canadians in their transactions with residents of other countries. If all transactions are included, the payments and receipts of each country are, and must be, equal. However, while the totals of payments and receipts are necessarily equal, there will be inequalities—excesses of payments or receipts, called deficits or surpluses—in particular kinds of transactions. Thus, there can be a deficit or surplus in any of the following: goods trade, services trade, foreign investment income, unilateral transfers (foreign aid), private investment, the flow of financial assets between central banks and treasuries, or any combination of these or other international transactions.

Canada's current account deficit—a net measure of the flow of goods, services, income, and transfers—narrowed to $60.7 billion in 2013 from $62.2 billion a year earlier. As a share of GDP, the deficit fell to 3.2 percent last year from 3.4 percent in 2012. The decline in the current account deficit was more than accounted for by a narrowing in the goods trade deficit, but was partly offset by a widening of the deficit on investment income.

Figure 4-1
Canada's Current Account Balance and Components, 2009-2013



In the financial account, net financial inflows to Canada fell to $58.3 billion in 2013, from $63.8 billion in 2012. Net financial flows measure the net transactions between the acquisition and disposition of Canadian assets abroad and foreign acquisitions and dispositions of assets in Canada. Compared to 2012, Canadian investors lowered their net acquisitions of foreign assets by almost $55.0 billion to $65.9 billion in 2013, while foreign investors lowered their net acquisitions of Canadian assets by over $60.4 billion to $124.2 billion.

The Balance of Payments

Notwithstanding that Canada's current account deficit narrowed by $1.5 billion to $60.7 billion in 2013, it was the fifth consecutive deficit. The bulk of the change came from a $4.7-billion decline in the trade deficit for goods that was partially offset by a $3.4 billion widening of the deficit on investment income.

TABLE 4-1
Balance of payments, balances ($M)

	2012	2013
Current account balance	**-62,215**	**-60,698**
Goods and services	-36,221	-31,879
Goods	-12,016	-7,331
Services	-24,205	-24,547
Primary income	-22,448	-25,930
Compensation of employees	-2,037	-2,145
Investment income	-20,411	-23,785
Direct investment	260	-1,577
Portfolio investment	-19,172	-19,740
Other investment	-1,500	-2,468
Secondary income	-3,546	-2,889
Capital account balance	-139	-53
Net borrowing, from current and capital accounts	**-62,354**	**-60,751**
Financial account		
Net lending, from financial account	**-63,807**	**-58,328**
Net acquisition of financial assets	120,839	65,875
CDIA	55,401	43,907
Canadian portfolio investment	35,141	27,188
Foreign debt securities	11,933	23,028
Money market instruments	-1,615	1,586
Bonds	13,548	21,442
Equity and investment fund shares	23,208	4,159
Official international reserves	1,697	4,868
Other Canadian investment	28,600	-10,089
Loans	23,856	-1,007
Currency and deposits	-402	-62
Other assets	5,146	-9,019
Net incurrence of liabilities	184,646	124,203
FDI in Canada	42,990	64,182
Foreign portfolio investment	83,205	42,789
Debt securities	82,237	23,903
Money market instruments	13,255	-2,521
Bonds	68,982	26,423
Equity and investment fund shares	968	18,886
Other foreign investment	58,452	17,232
Loans	5,731	4,922
Currency and deposits	52,279	12,880
Other liabilities	442	-570
Discrepancy	**-1,453**	**2,423**

Canadian direct investors invested $43.9 billion abroad in 2013 while foreign direct investors injected $64.2 billion into the Canadian economy. It was the largest annual inflow since 2008 and the first time in six years that inward flows exceeded outward flows. Foreign investors drew down their Canadian money market instruments, slowed their holdings of Canadian bonds, and increased their investment in Canadian equities. At the same time, Canadian investors shifted the focus of their portfolio investments in 2013, moving toward bonds and money market instruments, and away from stocks. However, Canadian portfolio investment assets remain heavily weighted toward equities. Foreign investors also increased their assets in the form of loans, and currency and deposits, while Canadian investors were divesting themselves of these assets.

The statistical discrepancy, or the amount that balances the net borrowing and net lending of the country between the current and capital accounts and the financial account, was $2.4 billion.

Goods Exports

Exports of goods advanced $16.4 billion (3.6 percent) in 2013, to almost $479.0 billion. It was the fourth consecutive annual increase. Both volumes and prices contributed to the overall increase. Nevertheless, goods exports remain 1.7 percent below their peak value established in 2008, just before the global economic recession.

Energy exports rose 7.2 percent, mainly due to increased prices, to account for almost half the overall increase in goods exports. Export gains were significant for crude oil and natural gas; however, refined petroleum and miscellaneous energy products posted declines.

A slower global economy weakened demand for key commodities, including many metals and their downstream products. As a result, prices for metal ores and metal products fell, resulting in lower export values for these products.

A pickup in the U.S. housing sector likely helped forestry products exports to advance by $3.2 billion (10.4 percent), as building and packaging materials accounted for over three quarters of the increase.

TABLE 4-2
Goods Exports, 2013

	Value of Exports ($B)	Growth in Values (%)	Change in Volumes (%)	Change in Prices (%)
Total exports of goods	**478,975**	**3.6**	**2.2**	**1.4**
Agri-food and fish	27,902	2.5	2.0	0.4
Energy	112,659	7.2	0.9	6.2
Metals ores and minerals	17,921	-3.2	2.8	-5.9
Metals & minerals products	53,956	-0.8	6.8	-7.1
Chemicals, plastics and rubber	34,899	5.8	9.0	-2.9
Forestry	33,791	10.4	4.3	5.8
Industrial machinery & equipment	26,910	0.3	-1.1	1.4
Electronic/electrical equipment	22,608	-1.3	-3.8	2.5
Motor vehicles	68,191	-0.4	-3.4	3.1
Other transportation equipment	17,350	0.1	-2.4	2.6
Consumer goods	52,224	7.6	6.2	1.3
By Region				
U.S.	358,044	5.8		
EU	35,086	-14.4		
Japan	11,000	1.6		
ROW	74,845	3.5		

After three consecutive annual increases, motor vehicle exports declined 0.4 percent in 2013, as the decline in volumes outweighed increased prices. The decrease primarily reflects lower exports of cars and light trucks.

Consumer goods exports increased by $3.7 billion (7.6 percent), led by food and beverages, appliances and cleaning products, and pharmaceutical products.

Regionally, exports to the United States led the gains for goods exports, while the EU was the only major trading partner to which Canada's exports fell last year.

Goods Imports

Like exports, goods imports have increased for the past four years and are now 9.6 percent above their pre-recessionary peak. Overall, goods imports increased by 2.5 percent, or $11.8 billion, to $486.3 billion in 2013. Gains were widespread as 9 of the 11 major categories posted increases.

TABLE 4-3
Goods Imports, 2013

	Value of Imports ($B)	Growth in Values (%)	Change in Volumes (%)	Change in Prices (%)
Total imports of goods	**486,308**	**2.5**	**1.7**	**0.8**
Agri-food and fish	13,146	6.8	1.3	5.4
Energy	43,821	-4.3	-4.4	0.2
Metals ores and minerals	11,532	14.9	25.6	-8.5
Metals & minerals products	40,037	-7.9	-4.5	-3.6
Chemicals, plastics and rubber	40,756	7.0	7.2	-0.2
Forestry	21,021	2.7	-2.3	5.1
Industrial machinery & equipment	45,349	0.3	-2.7	3.1
Electronic/electrical equipment	56,499	1.8	5.5	-3.5
Motor vehicles	84,956	2.6	2.4	0.2
Other transportation equipment	14,892	17.0	13.1	3.5
Consumer goods	97,740	5.1	1.3	3.8
By Region				
U.S.	313,247	5.7		
EU	45,045	1.0		
Japan	9,558	-11.4		
ROW	118,455	-3.4		

An unusually warm spring in 2013 reduced heating requirements and helped lower imports of crude oil, bringing energy imports down from 2012 levels.

Metal and non-metallic mineral imports fell on weaker global demand for these commodities. Both volumes and prices were down last year. The bulk of the decline occurred in intermediate metal products, although waste and scrap imports also declined somewhat.

Imports of motor vehicles and parts rose by 2.6 percent last year. Imports of trucks and buses fell 1.1 percent while those for cars and light trucks advanced 6.5 percent.

Airplanes (16.2 percent) and other transportation equipment (19.1 percent) both contributed equally to the overall 17.0-percent increase in non-automotive transportation imports.

Consumer imports advanced more than twice as fast as overall imports, rising by 5.1 percent in 2013. Gains were particularly noteworthy for clothing and footwear (up 7.5 percent), food and beverages (up 6.6 percent), and appliances and cleaning products (up 5.8 percent).

The bulk of the gain in imports in 2013 came from the United States and, to a lesser extent, the European Union, while imports from Japan and the rest of the world (ROW) fell last year.

Services Exports and Imports, 2013

Exports of services increased for the fourth straight year, almost reaching $85.8 billion, an increase of 3.2 percent, or $2.7 billion over 2012.

Travel exports, or the purchases of goods and services by foreign travelers in Canada, rose by $814 million (4.7 percent) in 2013. The bulk of the increase (over 90 percent) came from personal travel.

Transportation services exports rose by $376 million (2.8 percent) to $13.9 billion in 2013. All the gains were accounted for by air transport as land and water transport services posted declines of 0.6 percent and 1.5 percent, respectively.

Commercial services exports posted a $1.7-billion increase (3.2 percent) to $53.3 billion in 2013. The majority of the gain ($1.4 billion) came from professional and managerial consulting. Most other sectors posted solid gains, although information and communications technologies (ICT) (down $735 million) and personal, cultural and recreational services (down $352 million) posted notable declines.

Services exports to the ROW have been driving the expansion of Canadian services exports in recent years. In 2013, the ROW accounted for almost three quarters of the total increase in services exports.

Imports of services rose at a slower pace than exports (2.8 percent versus 3.2 percent) in 2013, as they reached $111.3 billion. Gains were led by the United States, which accounted for almost 70 percent of the overall $3.0-billion increase.

TABLE 4-4
Services Exports and Imports, 2013

	Value of Exports ($B)	Growth in Values (%)	Change in Volumes (%)	Change in Prices (%)
Services exports	**86,760**	**3.2**	**1.8**	**1.3**
Travel	18,201	4.7	1.5	3.2
Transportation	13,885	2.8	-4.9	8.1
Commercial	53,264	3.2	4.3	-1.0
Government	1,410	-11.5	-12.4	1.0
By Region				
U.S.	45,970	0.8		
EU	14,490	1.5		
Japan	1,354	7.8		
ROW	24,947	8.7		
	Value of Imports ($B)	**Growth in Values (%)**	**Change in Volumes (%)**	**Change in Prices (%)**
Services exports	**111,309**	**2.8**	**-1.5**	**4.4**
Travel	36,161	3.2	-1.0	4.3
Transportation	24,018	1.4	-1.3	2.7
Commercial	49,811	3.2	-2.0	5.3
Government	1,319	0.2	-4.2	4.5
By Region				
U.S.	64,067	3.4		
EU	17,601	1.6		
Japan	1,667	5.7		
ROW	27,973	2.1		

Travel expenditures by Canadians abroad, or travel imports, rose by $1.1 billion (3.2 percent) to $36.2 billion in 2013. Almost 90 percent of the increase, or over $1.0 billion, came from personal travel.

Commercial services imports rose by $1.6 billion to $49.8 billion last year. Over 95 percent of the increase came from professional and managerial consulting services.

Gains in services imports in 2013 were led by the United States and Japan.

CHAPTER 5

Key Developments in Canadian Merchandise Trade in 2013

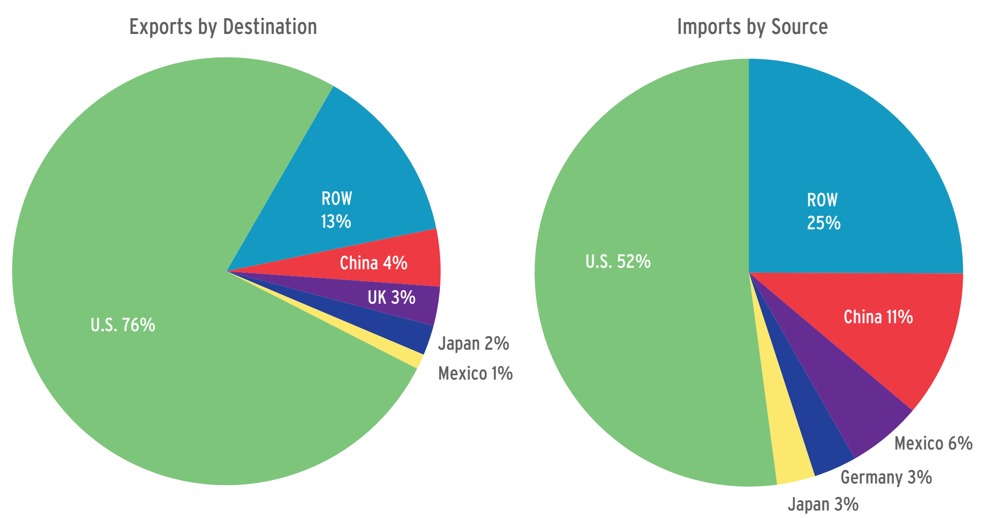
Key Developments in Canadian Merchandise Trade in 2013

The previous chapters have presented the global economic situation and how Canadian economic performance fared in that context. They have also presented an overarching view of Canada's international trade and its contribution to Canadian economic growth in 2013. In essence, exports expanded faster than imports which, in real terms, led net exports to a positive contribution to economic growth and, in nominal terms, helped narrow the current account deficit.

The present chapter takes a closer look at the developments in Canada's merchandise trade over the course of 2013. The use of Customs data on merchandise trade—as opposed to the balance of payments (BOP) data used in the previous chapter [1]—allows for a more detailed analysis to the trade statistics—by partner country, by commodity, by province of origin, and by mode of transport.

Total Canadian merchandise exports increased $17.7 billion (3.9 percent) to $472.5 billion in 2013. At the same time, Canadian merchandise imports advanced $13.6 billion (2.9 percent) to $475.6 billion in 2013. With exports rising more than imports, but still lower than imports, the trade deficit narrowed to $3.1 billion. The economic recovery that is underway in the United States helped raise demand for Canadian products in that country as exports to that country increased by $19.1 billion. It was the fourth year in a row that Canadian exports to the United States increased. Amongst the top destinations for shipments abroad, there was a noticeable decline in exports to the United Kingdom.

FIGURE 5-1
Merchandise Trade by Major Partners, 2013



1 Canadian trade statistics are provided in two basic forms: Customs basis and Balance of Payments basis. In Chapter Four, the analysis of trade with "major partners" used trade data prepared on the Balance of Payments basis. More detailed trade statistics—at the individual country levels and by detailed commodity—are available on a Customs basis only. As Chapter Five examines trade developments in detail, the data in this chapter are provided on a Customs basis.

The bulk of the decline occurred mostly in gold: it appears that there was a redistribution of gold exports away from the United Kingdom and toward other destinations (such as the United States, Hong Kong, and Switzerland). In terms of products, energy and wood both posted notable increases in the level of their exports from 2012 to 2013. In both cases, the increased exports went primarily to the United States. On the imports side, imports from the United States outpaced overall imports, and the U.S. share of Canadian imports rose from 50.6 percent in 2012 to 52.1 percent in 2013. Over 70 percent of the overall $13.6-billion increase occurred in energy and automotive products.

Regionally, the bulk of the gains in exports came from Alberta, Ontario, and Quebec, although both Nova Scotia and Manitoba posted double-digit growth rates. For imports, Ontario, Quebec, and British Columbia accounted for over 82 percent of total imports and nearly 85 percent of the overall increase in merchandise imports.

Trade by Top Products

Merchandise Exports

Canada's merchandise exports rose for the fourth consecutive year, increasing $17.7 billion (3.9 percent) to $472.5 billion in 2013.

The top exports are a mix of end products and natural resources. The ten largest products by value jointly account for almost two thirds of all merchandise exports ($309.8 billion) and over two thirds of the overall increase in exports.

Exports of energy products were led by a $9.7-billion increase to the United States (mainly crude oil and natural gas) that was partially offset by declines to the Netherlands, China, and Japan.

Automotive exports stalled in 2013 after three years of increases. Over 95 percent of Canada's automotive exports go to the United States. Exports of parts to the United States increased by $0.5 billion while exports of cars fell by a similar value. Armoured vehicles exports also fell, to account for the decline of these exports to the United States.

Wood exports climbed $2.7 billion to $12.7 billion in 2013, led by lumber. The recovery in the U.S. housing sector likely spurred demand for Canadian wood products, as some two thirds of the overall gain accrued to the United States. The remainder of the gains were mostly picked up by China and Japan.

Lower sales of internal combustion piston engines to the United States accounted for most of the decline in machinery exports, as increases and decreases in other categories mostly balanced out.

TABLE 5-1
Top Canadian Exported Merchandise Products, 2013*

	Value ($B)	Change in Value ($B)	Share (%)	Growth (%)
All Products	**472.5**	**17.7**	**100**	**3.9**
Energy	123.9	7.7	26.2	6.6
Motor Vehicles	61.1	-0.2	12.9	-0.3
Machinery And Parts	32.1	-0.7	6.8	-2.1
Precious Stones And Metals	24.1	1.0	5.1	4.2
Electric Equipment	14.5	-0.4	3.1	-3.0
Plastics	13.0	0.9	2.7	7.5
Wood	12.7	2.7	2.7	27.1
Aircraft And Parts	10.8	0.6	2.3	5.9
Paper & Paperboard	8.9	0.4	1.9	4.6
Aluminum	8.8	0.2	1.9	2.4
Top 10 Products	**309.8**	**12.2**	**65.6**	**4.1**
All Other Products	**162.7**	**5.5**	**34.4**	**3.5**

* Special Provisions Chapter 99, which would have been ranked sixth, is included with All Other Products.

Merchandise Imports

Canadian merchandise imports advanced $13.6 billion (2.9 percent) to $475.6 billion in 2013, $3.1 billion higher than merchandise exports.

As with exports, the 10 largest products by value accounted for about two thirds of total imports, or $317.6 billion, and contain a mix of natural resources and end products.

TABLE 5-2
Top Canadian Imported Merchandise Products, 2013*

	Value ($B)	Change in Value ($B)	Share (%)	Growth (%)
All Products	**475.6**	**13.6**	**100**	**2.9**
Motor Vehicles	73.8	3.1	15.5	4.4
Machinery And Parts	67.7	0.3	14.2	0.4
Energy	51.8	0.4	10.9	0.8
Electric Equipment	46.7	1.4	9.8	3.0
Plastics	15.8	0.7	3.3	4.9
Precious Stones And Metals	14.3	-1.1	3.0	-7.2
Scientific And Technical Instruments	13.6	0.2	2.9	1.3
Pharmaceuticals	12.5	0.2	2.6	1.8
Iron Or Steel Articles	12.0	-0.2	2.5	-1.5
Furniture And Bedding	9.3	0.3	2.0	3.3
Top 10 Products	**317.6**	**5.3**	**66.8**	**1.7**
All Other Products	**158.0**	**8.3**	**33.2**	**5.5**

The United States accounted for 94 percent of the $3.1 billion (4.4 percent) increase in automotive imports, led by cars, trucks and parts. China, South Korea, Belgium, and Mexico also posted notable increases, while imports from Japan were off by $0.7 billion in 2013.

Canada realigned its energy imports toward the United States (up 39.8 percent to nearly half of all energy imports) and away from Kazakhstan, Iraq, Azerbaijan, and Nigeria (all down between $0.6 billion and $0.8 billion) and Algeria (down $2.6 billion).

Imports of precious metals and stones fell $1.1 billion (7.2 percent) as gold imports from Peru and Argentina fell $0.6 billion and $0.3 billion, respectively, while imports of silver and precious metals scrap from the United States also fell, by $0.2 billion and $0.6 billion, respectively. On the other hand, gold imports from the Dominican Republic advanced $0.9 billion.

Aircraft and parts (up $1.1 billion, or 19.0 percent) and apparel (up $0.8 billion, or 9.7 percent) were leaders among all other imported products.

Trade by Top Destinations

Merchandise Exports

Canadian merchandise exports by destination are even more concentrated than exports by product. The top 10 export destinations account for nearly 90.5 percent of all exports, with the top 5 accounting for 86.5 percent of the total.

The United States accounted for 75.8 percent of exports in 2013, up from 74.3 percent a year earlier. The overall $19.1-billion increase in exports to the United States accounted for all of the increase in exports last year as gains to most other regional partners were offset by a notable decline in exports to the United Kingdom. Energy, wood, and precious metals and stones accounted for two thirds of the overall increase.

TABLE 5-3
Canadian Exports to Partner Regions, 2013

	Value ($B)	Change in Value ($B)	Growth (%)	Share (%)
World	**472.5**	**17.7**	**3.9**	**100**
United States	358.2	19.1	5.6	75.8
China	20.6	1.2	6.1	4.3
UK	14.0	-4.7	-25.2	3.0
Japan	10.7	0.3	3.2	2.3
Mexico	5.4	0.0	0.8	1.1
Top 5	**408.9**	**16.0**	**4.1**	**86.5**
Next 5	**18.5**	**1.0**	**5.9**	**3.9**
Next 15	**25.5**	**1.0**	**3.9**	**5.4**
Next 75	**18.4**	**0.1**	**0.4**	**3.9**
Last 120	**1.2**	**-0.3**	**-22.2**	**0.3**

Although exports to China grew faster than total exports, the share of exports to China remained statistically unchanged at 4.3 percent between 2012 and 2013. A $0.5-billion increase in wood exports was largely offset by a $0.4-billion decline in energy exports.

Despite a reduction by one quarter in exports to the United Kingdom ($4.7 billion), that country remained the third-largest destination for merchandise exports in 2013. A $4.9-billion decline in precious metals and stones (mostly gold, but also diamonds and silver) was behind the decline.

Exports to NAFTA-partner Mexico advanced 0.8 percent; gains in electronics, plastics, and automobiles were largely offset by a decline in oil seeds.

In terms of top destinations, Canadian exports to Hong Kong vaulted 99.4 percent as Hong Kong moved from 11th place in 2012 to 6th place in 2013,. Most of the gain occurred in precious metals and stones.

Merchandise Imports

Canada's largest import partners were responsible for the growth in Canadian merchandise imports in 2013, as those partners not in the top 10 experienced losses in the aggregate. In particular, those ranked below 100th collectively saw their shipments to Canada halved between 2012 and 2013.

Imports from the United States outpaced overall imports, and the U.S. share of Canadian imports rose from 50.6 percent in 2012 to 52.1 percent in 2013. Over 70 percent of the increase in imports from the United States occurred in energy and automotive products.

TABLE 5-4
Canadian Imports from Partner Regions, 2013

	Value ($B)	Change in Value ($B)	Growth (%)	Share (%)
World	**475.6**	**13.6**	**2.9**	**100**
United States	247.8	13.9	6.0	52.1
China	52.7	2.0	4.0	11.1
Mexico	26.7	1.2	4.7	5.6
Germany	15.4	1.1	7.7	3.2
Japan	13.7	-1.3	-8.6	2.9
Top 5	**356.4**	**16.9**	**5.0**	**74.9**
Next 5	**31.7**	**2.0**	**6.6**	**6.7**
Next 15	**45.0**	**-4.3**	**-8.7**	**9.5**
Next 75	**41.8**	**-0.3**	**-0.7**	**8.8**
Last 120	**0.7**	**-0.7**	**-49.6**	**0.2**

Imports from China have slowed for four straight years, but still have outpaced aggregate imports. As a result, the share of China in total imports reached a record high of 11.1 percent in 2013. Machinery, automotive products, plastics and knitted apparel led the advances, while imports of iron and steel products fell by 9.5 percent.

Imports of energy products rose by about a third over 2012 and imports of aircraft and parts jumped by almost a half to help imports from Mexico increase by 4.7 percent ($1.2 billion) in 2013. Automotive products and electrical machinery and equipment, the two largest import categories, also contributed to the increase.

Imports from Germany posted strong advances in machinery, pharmaceuticals and electronics as overall imports increased by 7.7 percent ($1.1 billion). However, automotive products posted one of its periodic declines. Imports of ships and boats were up $107 million but were largely offset by a $111-million decline in railway stock.

Japan was the only top-5 import source that posted a decline in 2013 (down $1.3 billion, or 8.6 percent). Fewer imports of vehicles and machinery accounted for over three quarters of the decline.

Merchandise Trade by Provinces and Territories

Merchandise Exports

Three provinces—Alberta, Ontario, and Quebec—account for three quarters of Canada's merchandise exports and were responsible for three quarters of the increase in exports in 2013.

Alberta led the gains in exports by provinces and territories in 2013, up $7.9 billion (8.2 percent) to $104.3 billion. Energy products led the advances, up $7.6 billion.

In Ontario, gains in precious metals, inorganic chemicals and pharmaceuticals were partially offset by declines in machinery, aircraft and parts, and automotive exports, as Ontario's exports advanced $3.1 billion (1.7 percent) to $190.1 billion. Ontario's exports to the United Kingdom fell $4.2 billion in 2013.

In Quebec, as total provincial exports rose $2.2 billion (3.4 percent) to $65.8 billion. The province posted strong gains in aircraft and parts ($1.3 billion, 20.6 percent) and wood ($0.5 billion, 30.4 percent), but declines in mineral ores ($0.6 billion, 19.7 percent) and oilseeds ($0.5 billion, 49.4 percent) capped the provinces gains.

In British Columbia, exports of wood jumped 25.7 percent ($1.6 billion) to lead that province's exports higher in 2013.

Overall exports from Nunavut and the Northwest Territories were lower as a result of declines in precious metals and stones exports. Exports from the Yukon fell, due to lower international shipments of mineral ores.

TABLE 5-5
Provincial Merchandise Exports to the World, 2013

	Value ($B)	Change in Value ($B)	Share (%)	Growth (%)
Ontario	190.1	3.1	40.2	1.7
Alberta	104.3	7.9	22.1	8.2
Quebec	65.8	2.2	13.9	3.4
British Columbia	34.0	2.1	7.2	6.6
Saskatchewan	32.3	0.7	6.8	2.3
New Brunswick	14.5	-0.3	3.1	-2.2
Manitoba	12.7	1.2	2.7	10.4
Newfoundland and Labrador	11.9	0.6	2.5	5.1
Nova Scotia	4.3	0.4	0.9	11.4
Northwest Territories	1.6	-0.2	0.3	-13.3
Prince Edward Island	0.9	0.1	0.2	6.3
Yukon	0.1	-0.1	0.0	-34.2
Nunavut	0.0	0.0	0.0	-16.6
All Provinces	**472.5**	**17.7**	**100**	**3.9**

Merchandise Imports

Imports at the provincial and territorial level are even more concentrated than exports, with the top three provinces (Ontario, Quebec, and British Columbia) accounting for over 82 percent of total imports and nearly 86 percent of the increase in imports in 2013.

Vehicle imports (up 4.7 percent) climbed almost twice as fast as overall imports in Ontario, and helped lead Ontario's imports up by $6.2 billion.

Just as aircraft and parts led Quebec's exports, they also led Quebec's imports (up $1.1 billion, or 43.7 percent). Energy (up $0.6 billion) and copper (up $0.3 billion) also posted notable gains, while iron and steel imports slipped by $0.3 billion.

Energy imports were up 22.2 percent ($0.7 billion) to lead the increase in British Columbia's imports. Machinery, apparel, and vehicles also contributed to the increase.

TABLE 5-6
Provincial Merchandise Imports from the World, 2013

	Value ($B)	Change in Value ($B)	Share (%)	Growth (%)
Ontario	268.0	6.2	56.4	2.4
Quebec	77.9	3.1	16.4	4.2
British Columbia	45.1	2.3	9.5	5.4
Alberta	29.8	2.5	6.3	9.1
Manitoba	19.1	-0.1	4.0	-0.3
New Brunswick	13.4	0.4	2.8	3.3
Saskatchewan	11.2	0.1	2.4	1.0
Nova Scotia	6.0	-0.6	1.3	-9.2
Newfoundland and Labrador	4.9	-0.5	1.0	-8.6
Yukon	0.1	0.0	0.0	8.7
Nunavut	0.0	0.0	0.0	47.4
Prince Edward Island	0.0	0.0	0.0	3.9
Northwest Territories	0.0	0.0	0.0	-65.4
All Provinces	**475.6**	**13.6**	**100**	**2.9**

Energy also accounted for a significant portion of the increase in Alberta's imports, accounting for nearly half the overall $2.5-billion increase. Energy was an even more important factor in the rise of New Brunswick's imports in 2013, rising $0.5 billion while overall imports were up by only $0.4 billion.

In contrast, a $0.4-billion decline in energy imports helped limit the increase in Saskatchewan's overall imports to only $0.1 billion. Energy imports in Nova Scotia fell by $0.5 billion, making a significant contribution to the overall $0.6-billion decline in imports into Nova Scotia in 2013. Energy imports in Newfoundland and Labrador also fell by $0.5 billion, and were responsible for the overall $0.5-billion decline in imports in that province.

Trade by Mode of Transport

Merchandise Exports

Slightly more than one third of merchandise exports are shipped by truck, and two thirds of all exports shipped by truck leave Canada through Ontario. The United States is the destination for almost all of the exports by truck.

Exports transported by water accounted for one fifth of all exports in 2013, or $95 billion. The United States and China are the two leading destinations for exports travelling by water, at 24.8 percent and 19.0 percent, respectively.

Some $88.4 billion of exports were shipped by "other" means, principally by pipeline or by electrical transmission wire. The bulk of these exports left via Alberta, and almost all of the exports shipped by these means were destined for the United States.

Roughly one of every six dollars' worth of exported product was shipped by rail to other North American destinations. Strong gains in rail exports were posted by Alberta (up 32.3 percent) and Quebec (up 18.1 percent), but these advances were capped by a $2.0-billion (4.9 percent) decline in rail exports from Ontario.

Merchandise exports that are shipped via air transport accounted for roughly 10 percent of all exports in 2013, with most exports by air passing through Ontario and Quebec. In terms of the change in exports over 2012 values by destination, strong increases were posted for Hong Kong ($2.5 billion), Switzerland ($0.9 billion), and Japan ($0.5 billion), while exports to the United Kingdom were off by $4.8 billion. These values largely coincide with the rise and fall in exports of precious metals to these countries.

TABLE 5-7
Exports to the World, by Mode of Transport, 2013

	Value ($B)	Change in Value ($B)	Share (%)	Growth (%)
All Transport Modes	**472.5**	**17.7**	**100**	**3.9**
Road	**162.1**	**4.7**	**34.3**	**3.0**
- Ontario	104.0	4.2	64.2	4.2
- Quebec	30.3	0.9	18.7	3.2
- Alberta	7.6	-1.9	4.7	-20.2
- United States	157.3	4.6	97.1	3.0
Water	**95.0**	**-2.8**	**20.1**	**-2.9**
- British Columbia	17.9	0.6	18.9	3.3
- Ontario	13.1	-1.1	13.8	-7.5
- Quebec	12.9	-1.7	13.6	-11.8
- Alberta	11.4	-1.1	12.0	-8.9
- Newfoundland and Labrador	11.2	0.6	11.8	5.5
- China	18.1	0.8	19.0	4.6
- India	2.2	0.6	2.3	35.3
- Indonesia	1.5	0.2	1.5	16.9
- United States	23.6	0,2	24.8	0.7
- Russia	1.0	-0.3	1.0	-23.4
- Korea, South	2.9	-0.3	3.0	-9.5
- Bahamas	0.2	-0.3	0.2	-63.3
- Saudi Arabia	0.6	-0.5	0.6	-47.5
- Netherlands	3.0	-1.2	3.1	-28.1
Other	**88.4**	**8.8**	**18.7**	**11.0**
- Alberta	69.7	7.5	78.9	12.0
- United States	87.8	9.0	99.3	11.5
Rail	**77.2**	**4.1**	**16.3**	**5.6**
- Alberta	13.7	3.4	17.8	32.3
- Quebec	9.7	1.5	12.5	18.1
- Ontario	38.7	-2.0	50.1	-4.9
- United States	75.1	3.9	97.2	5.5
- Mexico	1.6	0.1	2.1	7.1
Air	**49.8**	**2.9**	**10.5**	**6.2**
- Ontario	31.6	1.7	63.6	5.7
- Quebec	11.4	1.2	23.0	12.1
- Hong Kong	4.0	2.5	8.1	165.9
- United States	14.5	1.4	29.0	11.0
- Switzerland	1.7	0.9	3.4	129.5
- Japan	1.3	0.5	2.6	59.2
- United Kingdom	10.1	-4.8	20.2	-32.2

Merchandise Imports

Most of the overall $13.6-billion increase in imports came from the $11.0-billion increase in products that were trucked in. Just over half (52.8 percent) of merchandise imports are trucked in, with the vast majority entering Ontario, Quebec, and British Columbia. Over 70 percent of the goods that are trucked in originate from the United States. Almost $20 billion in imports from China are landed elsewhere in North or South America before being trucked into Canada.

Some $106.3 billion in Imports arrived by water, down $0.4 billion from 2012. The declines in oil imports from Algeria, Nigeria, Azerbaijan, Iraq, and Kazakhstan are reflected in the declines in imports by water from these countries.

Imports arriving by air transport increased by 0.5 percent ($0.3 billion) to $61.9 billion, mainly on the strength of increases from South Korea, Germany, and Switzerland that were partially offset by declines from Peru and China.

Imports arriving by rail advanced 2.7 percent ($1.1 billion) to $40.5 billion. Most of the increased imports by rail came via Alberta (up $1.1 billion), as increases and decreases in other provinces largely balanced out. The gains came mainly from the United States, and were partially offset by a decline in imports by rail from Mexico. Over 90 percent of imports arriving by rail originate from the United States and Mexico.

Imports arriving by other modes of transport (mainly by pipeline or electricity transmission wire) expanded by 10.8 percent to $16.0 billion, led by imports from the United States.

TABLE 5-8
Imports from the World, by Mode of Transport, 2013

	Value ($B)	Change in Value ($B)	Share (%)	Growth (%)
All Transport Modes	**475.6**	**13.6**	**100**	**2.9**
Road	**250.9**	**11.0**	**52.8**	**4.6**
- Ontario	171.3	9.1	68.3	5.6
- British Columbia	21.3	1.1	8.5	5.2
- Quebec	20.6	0.9	8.2	4.7
- United States	177.9	5.7	70.9	3.3
- China	19.8	1.8	7.9	9.8
- Mexico	18.2	1.3	7.3	7.5
Water	**106.3**	**-0.4**	**22.3**	**-0.4**
- British Columbia	16.7	0.9	15.8	5.8
- New Brunswick	9.8	0.4	9.2	3.7
- Newfoundland and Labrador	4.8	-0.5	4.5	-8.8
- Ontario	29.2	-0.5	27.5	-1.7
- Nova Scotia	5.6	-0.6	5.3	-9.8
- United States	13.1	5.0	12.4	6.4
- Kazakhstan	2.4	-0.6	2.2	-21.4
- Iraq	3.2	-0.7	3.0	-18.5
- Azerbaijan	0.0	-0.8	0.0	-100
- Nigeria	0.9	-0.9	0.9	-48.9
- Japan	6.7	-1.0	6.3	-13.1
- Algeria	2.8	-1.7	2.6	-37.6
Air	**61.9**	**0.3**	**13.0**	**0.5**
- Ontario	41.2	-1.0	66.5	-2.4
- Quebec	11.2	1.0	18.0	10.1
- Korea, South	1.5	0.8	2.5	100.7
- Germany	3.8	0.5	6.1	14.0
- Switzerland	2.9	0.3	4.7	12.6
- Argentina	1.4	-0.3	2.2	-19.3
- United Kingdom	2.7	-0.3	4.4	-11.5
- China	9.6	-0.4	15.6	-3.7
- Peru	2.2	-0.6	3.5	-21.5
Rail	**40.5**	**1.1**	**8.5**	**2.7**
- Alberta	6.6	1.1	16.3	19.6
- United States	32.9	1.8	81.3	6.0
- Mexico	3.8	-0.4	9.5	-10.1
Air	**49.8**	**2.9**	**10.5**	**6.2**
- Quebec	6.4	1.3	39.9	24.7
- Alberta	5.5	1.1	34.5	25.9
- Ontario	2.8	-1.0	17.7	-26.2
- United States	8.9	1.2	55.2	16.3
- Norway	2.3	0.7	14.5	40.5
- United Kingdom	0.9	0.5	5.9	112.2
- Algeria	0.6	-1.0	3.6	-62.6

Merchandise Trade by Top Drivers

Canada's trade performance can be examined in greater detail using a commodity breakdown comprising over 1,200 items.[1] However, among these items, only a few account for a sufficient trade value to decisively influence Canada's trade balance. Table A below lists 22 commodities that drove Canada's trade performance in 2013 at the HS 4-digit level.

These 22 commodities accounted for $216.5 billion (45.8 percent) of Canada's $472.5 billion in exports in 2013. This was $8.2 billion more in exports than posted by these commodities a year earlier. At the same time, these products also represented 28.5 percent of overall imports, or $135.4 billion, which was $0.2 billion less than their import value in 2012. Thus, these 22 commodities yielded an $81.5-billion trade surplus that was $8.5 billion higher than the previous year, and contributed to a narrowing of the trade deficit: Canada posted an overall $3.1-billion deficit, which was down $4.1 billion from the $7.2-billion deficit registered in 2012.

A closer inspection of the trade performance of these commodities reveals that, in terms of trade balances and with a few exceptions, Canada does rather well trading in homogenous products, mostly natural resources, where product variety is not a significant issue. Canada also produces and exports many high-value-added products. But, because of a small domestic market, Canadian producers cannot meet all of the demands for variety and we import a wide range of differing varieties of these goods at the same time as we export those varieties that we produce (e.g., smart phones, medicine, vehicles and engines that go into specific models of vehicles). For these products, Canada runs mostly trade deficits, while exploiting trade niches wherever possible.

1 Canada's merchandise trade is most commonly reported using the Harmonized System (HS) of Trade Classification, an international system for codifying traded commodities. Within the HS system, trade is classified into 99 chapters, also known as the 2-digit HS level. Commodities in each chapter are further subdivided into 4-, 6- and 8- digit HS levels, with international comparisons possible down to the 6-digit HS level. This section examines those commodities, expressed at the 4-digit HS level that drove the change in Canada's trade balance during the past year.

TABLE A

Key Commodities Driving Canada's Trade Performance in 2013

	Exports 2013 ($B)	Change in Exports 2013/12 ($B)	Imports 2013 ($B)	Change in Imports 2013/12 ($B)	Balance 2013 ($B)	Change in Balance 2013/12 ($B)
Large Exports, Large Imports, Surplus						
Crude Oil	81.7	7.0	27.0	-2.7	54.7	9.7
Gold	16.2	0.9	9.6	-0.2	6.6	1.1
Ethylene Polymers	4.5	0.7	1.4	0.0	3.2	0.6
Silver	2.3	0.1	1.0	-0.4	1.3	0.5
Radioactive Elements & Isotopes	2.3	0.6	1.0	0.1	1.3	0.5
Cars	46.6	-0.3	27.1	1.2	19.5	-1.5
Non-Crude Oil	18.9	-0.8	17.7	2.4	1.1	-3.2
Sub-total	**172.5**	**8.0**	**84.8**	**0.3**	**87.7**	**7.8**
Large Exports, Small Imports, Surplus						
Lumber	7.7	1.7	0.5	0.1	7.1	1.7
Dried Legumes	2.8	0.9	0.1	0.0	2.7	0.9
Wheat	6.7	0.6	0.0	0.0	6.7	0.6
Canola Oil	2.8	-0.5	0.1	-0.1	2.7	-0.5
Coal	5.4	-0.9	0.7	-0.3	4.7	-0.6
Canola Seeds	4.3	-0.9	0.1	0.0	4.2	-0.9
Sub-total	**29.8**	**0.9**	**1.6**	**-0.3**	**28.1**	**1.2**
Small Exports, Large Imports, Deficit						
Bulldozers, Graders, Scrapers Etc	0.1	0.0	3.2	-0.9	-3.1	0.9
TVs, Video Monitors & Projectors	0.5	0.0	2.7	-0.4	-2.3	0.4
Sub-total	**0.6**	**0.0**	**6.0**	**-1.2**	**-5.3**	**1.2**
Large Exports, Large Imports, Deficit						
Medicaments In Dosage Form	4.5	0.5	8.8	-0.2	-4.3	0.7
Parts For Piston Engines	1.2	0.0	2.0	-0.5	-0.8	0.5
Trucks for Goods Transport	1.2	0.0	13.6	0.5	-12.4	-0.4
Telephones and Parts	2.5	-0.2	9.7	0.3	-7.2	-0.5
Internal Combustion Piston Engines	2.0	-0.7	4.8	0.0	-2.8	-0.7
Integrated Circuits, etc.	1.7	0.0	3.6	0.7	-1.9	-0.7
Sub-total	**13.1**	**-0.3**	**42.5**	**0.9**	**-29.3**	**-1.2**
Small Exports, Small Imports, Deficit						
Armored Vehicles And Parts	0.5	-0.5	0.5	0.2	-0.1	-0.7
Sub-total	**0.5**	**-0.5**	**0.5**	**0.2**	**-0.1**	**-0.7**
22 Commodity Total	**216.5**	**8.2**	**135.4**	**-0.2**	**81.2**	**8.4**

CHAPTER 6

Overview of Canada's Investment Performance

Overview of Canada's Investment Performance

Preliminary estimates indicate that global foreign direct investment (FDI) flows[1] increased by 10.9 percent in 2013 to US$1.46 trillion, up from a revised US$1.32 trillion in 2012. FDI inflows advanced in all major economic groupings—developed, developing, and transition economies. [2] However, FDI inflows to developed countries, at 39.4 percent of total inflows, remain near their historical low (of 39.2 percent, registered in 2012). In contrast, developing economies accounted for more than half of global FDI again in 2013 (52.0 percent), as their inflows reached a new high of US$759 billion. At the same time, transition economies posted a significant 45-percent jump in FDI inflows, reaching a record level US$126 billion. FDI inflows to Russia climbed 83 percent to US$94 billion, making it the world's third-largest recipient of FDI for the first time ever.

On the outward side, the data suggest that global outflows rose by 5.1 percent to US$1.42 trillion in 2013. While the majority of the flows originate from developed countries, the level of developed country investment was virtually on par with investment activity of the previous year—US$858 billion—remaining 55 percent off its peak in 2007. Investments from North America fell by 10 percent, while those from Europe gained 10 percent in 2013. Japanese investments abroad grew for the third successive year to reach a record level, retaining Japan's position as the second-largest investor in the world. Investments from developing countries grew by 4 percent, a slower rate than the world average. Strong advances in Africa (57 percent) and West and East Asia (65 percent and 7 percent, respectively) were partially offset by declines from Latin America and the Caribbean (down 10 percent) and South Asia (down 74 percent). Investments from the transition economies jumped 85 percent to US$100 billion to account for two thirds of the increase in outflows last year.

The bulk of the increased FDI activity in 2013 appears to have been in the form of cash reserves as part of reinvested earnings in the foreign affiliates of developed countries, as cross-border mergers and acquisitions (M&As) rose by 5 percent last year and announced greenfield investments were down by 1.7 percent. However, almost half of the FDI from developing and transition economy investors was in equity.

Inflows into Canada surged in 2013, rising 49.3 percent to $64.2 billion from $43.0 billion a year earlier. This brought inflows back to near-parity with 2008 levels, but still roughly half of their previous peak level established in 2007. All major sectors registered net inflows in 2013, however, relative to 2012, investors concentrated on finance and insurance, manufacturing, and energy and away from trade and transportation, management of companies and enterprises, and all other industries. Much of the increase was largely due to a sharp increase in intra-company loans to foreign affiliates. Notwithstanding one of the larger transactions in 2013—that of the takeover of the oil and gas company, Nexen Inc., by CNOOC Ltd. (China) for US$19 billion—cross-border M&A activity in Canada halved from 2012 to 2013.

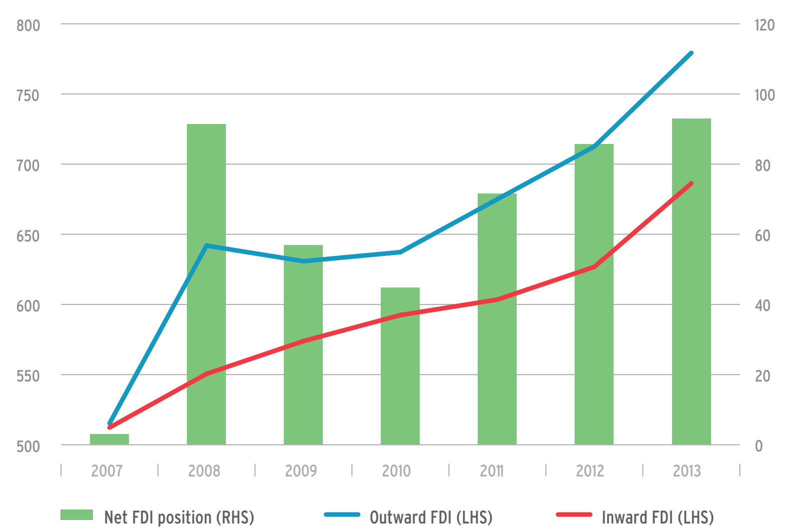
1 Foreign direct investment (FDI) flows represent yearly movements of capital across national borders that are invested into domestic structures, equipment and organizations, or in equity if the result is a resident entity in one country obtaining a lasting interest in an enterprise resident in another country. In practice, direct investment is deemed to occur when a company owns at least 10 percent of the voting equity in a foreign enterprise. FDI stock is the total accumulated worth of all such investment held abroad by a country's nationals. Due to constant changes in valuation and different methods of data collection, summing FDI flows does not provide accurate FDI stock information.

2 See UNCTADStat for the country composition of these classifications.

On the other hand, Canadian outflows of direct investment slowed from 2012 to 2013, down 20.7 percent to $43.9 billion. Sectorally, outflows were down in all major sectors, except manufacturing, when compared to 2012, and there was a $3.7-billion disinvestment in energy and mining. M&A activities, re-invested earnings, and intra-company loans and other forms of direct investment were all down from 2012 levels, particularly in the United States.

Foreign investors increased their cumulative holdings of direct investment in Canada by $59.5 billion, or 9.5 percent, to $686.3 billion in 2013. Manufacturing, and mining and oil and gas extraction, already the two largest sectors for foreign investor interest, accounted for almost 70 percent of the increased FDI in Canada last year, as holdings rose by $23.2 billion and $18.1 billion, respectively, in the two sectors. All other sectors had positive investment in 2013, with the exception of real estate and rental and leasing, which registered a small $10-million decline in FDI between 2012 and 2013. The United States holds over half of all foreign direct investment in Canada and accounted for over half of the overall gain in FDI in Canada in 2013.

Figure 6-1
Canada's net direct investment asset position, $ billions



At the same time, Canadian investors added $66.7 billion (9.4 percent) to their direct investment holdings abroad, to reach $779.3 billion in 2013. Finance and insurance is the primary sector for Canadian direct investment abroad, and in 2013 some 44 percent of the added stock of investment accrued to this sector. Holdings in the manufacturing and management of companies sectors also rose significantly, up $10.9 billion and $8.4 billion, respectively. There was a net disinvestment of $1 billion in mining and oil and gas, due to declines in oil and gas extraction. Holdings in agriculture and other primary sectors fell for the third consecutive year while those in accommodation and food services fell for the second year in a row.

Canada's net direct investment asset position surpassed $93.0 billion in 2013, to establish a new record high.

Global Foreign Direct Investment Flows

Inflows

World FDI inflows advanced 10.9 percent in 2013 to an estimated US$1.46 trillion. This is a level that is comparable to the pre-crisis average of US$1.49 trillion during the period spanning 2005-2007.

At 39.4 percent, inflows to developed countries remain near their historically low level of 39.2 percent, set in 2012. While inflows to the developed countries increased by 11.6 percent to US$576 billion, they remained at less than half their peak value in 2007.

Estimates for North America show inflows grew by 5.8 percent, due to a turnaround in Canada (up 49 percent to US$64.1 billion). The advance was largely ascribed to a sharp increase in intra-company loans to foreign affiliates in Canada as cross-border M&A sales in Canada declined.

FDI inflows to developing economies reached a new high of US$759 billion, or 52 percent of global inflows in 2013. Flows to Latin America and the Caribbean, and Africa were up, while those to developing Asia edged down slightly from 2012 levels.

Notwithstanding the slight reduction in FDI flows to developing Asia, that region remained the world's top FDI spot in 2013. At the same time, the increase to Latin America and the Caribbean brought inflows to a level similar to that of Europe.

FDI inflows to transition economies also posted a record high of US$126 billion, up 45 percent from 2012 and representing 8.6 percent of global FDI inflows.

TABLE 6-1
World FDI inflows by major region, 2013
(US$B and %)

	2013	share	growth
World	**1,461**	**100**	**10.9**
Developed	**576**	**39.4**	**11.6**
Europe	296	20.3	25.2
EU	286	19.6	37.7
North America	223	15.3	5.8
Other	57	3.9	-17.4
Developing	**759**	**52.0**	**6.2**
Africa	56	3.8	6.8
North Africa	14	1.0	-1,8
Other Africa	42	2.9	10.0
LAC	294	20.1	17.5
South America	134	9.2	-6.8
Central America	48	3.3	92.7
Caribbean	112	7.7	37.8
Developing Asia	406	27.8	-0.8
West Asia	38	2.6	-19.6
East Asia	219	15.0	1.1
South Asia	33	2.3	3.2
South-East Asia	116	7.9	2.4
Transition	**126**	**8.6**	**45.1**

Outflows

World foreign direct investment (FDI) outflows rose by 5.1 percent to US$1.42 trillion in 2013.

Investments from the developed economies were up slightly over 2012 levels to US$858 billion, but still 55 percent off their peak in 2007. Investments from North America declined by 10 percent, while those from Europe and Japan each gained 10 percent in 2013. For Japan, outflows grew for the third successive year to reach a record level. Developed countries accounted for over 60 percent of the global outward investments in 2013, down from over 70 percent two years earlier.

FDI activity from developing economies continued to grow in 2013, reaching a record level of US$460 billion. However, outflows from these economies grew at a slower rate than the world average. Strong advances in Africa and West and East Asia were partially offset by declines from Latin America and the Caribbean, and South Asia. Developing economies accounted for nearly one third of global FDI outflows last year.

Investments from the transition economies jumped 85 percent to US$100 billion to account for two thirds of the increase in outflows last year.

Almost half of the FDI from developing and transition economies was in equity, while investors from developed countries continued to hold large amounts of cash reserves in their foreign affiliates as part of reinvested earnings. The latter were at a record 67-percent of total FDI outflows from developed countries.

In 2013, the value of cross-border M&A purchases increased by 5 percent to US$349 billion, largely owing to increased acquisitions by investors from developing and transition economies, which captured a 56-percent share of global cross-border M&A activity in 2013.

TABLE 6-2
World FDI outflows by major region, 2013
(US$B and %)

	2013	share	growth
World	**1,418**	**100**	**5.1**
Developed economies	**858**	**60.5**	**0.6**
Europe	330	23.3	10.3
European Union	252	17.8	5.9
United States	338	23.8	-7.8
Japan	135	9.5	10.3
Other Developed	55	3.9	-12.7
Developing economies	460	32.4	4.0
Africa	21	1.5	57.1
North Africa	6	0.4	76.5
Other Africa	15	1.1	50.7
Latin America and the Caribbean	112	7.9	-9.7
South America	18	1.3	-18.9
Central America	11	0.8	-52.9
Caribbean	83	5.9	5.3
Developing Asia	327	23.1	7.4
West Asia	32	2.3	64.6
East Asia	238	16.8	6.9
South Asia	2	0.1	-73.8
South-East Asia	55	3.9	2.1
Transition	**100**	**7.1**	**85.2**

Canadian Direct Investment Performance

Inward Investment

Inflows

Total inflows of FDI into Canada jumped some 49 percent in 2013, to $64.2 billion. Reinvested earnings and other miscellaneous inflows (mainly intra-company loans) accounted for much of the added investment while M&A activity halved.

Regionally, both U.S. and non-U.S. investors made greater use of intra-company loans to boost their FDI in Canada last year. There was slightly more M&A activity and slightly less reinvested earnings from U.S. investors, while non-U.S. investors upped their levels of reinvested earnings by over 80 percent and cut back on M&A activities.

All sectors experienced net inflows of FDI in 2013. However, compared to 2012 investments, foreign investors increased their investments in energy and mining, manufacturing, and finance and insurance and lowered their levels of investment in trade and transportation, management of companies, and all other industries.

TABLE 6-3
Foreign direct investment in Canada: inflows
($M)

		2012	2013	Growth (%)
Type of direct investment flows				
Total net flows	**World**	**42,991**	**64,182**	**49.3**
Mergers and acquisitions	World	23,144	11,202	-51.6
Reinvested earnings	World	18,274	21,645	18.4
Other flows	World	1,572	31,334	1893.3
Total net flows	**U.S.**	**16,484**	**33,220**	**101.5**
Mergers and acquisitions	U.S.	3,648	3,694	1.3
Reinvested earnings	U.S.	13,526	13,048	-3.5
Other flows	U.S.	-690	16,478	n.a.
Total net flows	**ROW**	**26,505**	**30,962**	**16.8**
Mergers and acquisitions	ROW	19,494	7,509	-61.5
Reinvested earnings	ROW	4,750	8,597	81.0
Other flows	ROW	2,263	14,857	556.5
Area of direct investment flows				
Energy and mining		6,877	17,526	154.8
Manufacturing		11,415	22,927	100.8
Trade and transportation		12,938	5,238	-59.5
Finance and Insurance		-1,452	11,063	n.a.
Management of companies and enterprises		8,591	4,895	-43.0
Other industries		4,620	2,531	-45.2

Inward FDI Stock

The stock of FDI in Canada rose by $59.5 billion (9.5 percent) to $686.3 billion in 2013.

At 51.3 percent, the United States holds over half of all FDI in Canada and accounted for over half of the overall gain in FDI in Canada in 2013.

Europe is the second-largest source of FDI in Canada, with the Netherlands and the United Kingdom responsible for nearly 57 percent of European FDI in Canada. Europe was also the second-leading source of the increase in investment in Canada in 2013, at $13.3 billion. The European gains were led by increases from the United Kingdom (60.8 percent of the overall gain) and France (11.6 percent), and to a lesser extent by Germany (6.9 percent), the Netherlands (6.2 percent), and Luxembourg (6.0 percent).

The bulk of the remaining increase in FDI in Canada in 2013 ($12.6 billion) originated from the Asia/Oceania region. Amongst the economies for which data are publically available, Japanese FDI in Canada increased by $1.1 billion and Chinese investment rose by $252 million, while Singapore and South Korea reduced their investments by $396 million and $219 million, respectively.

South and Central America increased its investment in Canada by $1.6 billion in 2013, essentially from Brazil. At the same time, Africa reduced its holdings in Canada by $66 million last year.

Manufacturing ($23.2 billion) and mining and oil and gas extraction ($18.1 billion) accounted for almost 70 percent of the increased FDI in Canada last year. All other sectors had positive investment in 2013, with the exception of real estate and rental and leasing, which registered a small $10-million decline in FDI between 2012 and 2013.

TABLE 6-4
Foreign direct investment in Canada: stock ($M and %)

	2013 Value	2013 change	2013 growth
By region			
All countries	**686,256**	**59,454**	**9.5**
North America	356,482	32,078	9.9
Barbados	771	390	102.4
Bermuda	2,631	-148	-5.3
United States	352,125	32,009	10.0
South and Central America	18,384	1,614	9.6
Brazil	18,321	1,667	10.0
Europe	219,019	13,258	6.4
France	11,016	1,537	16.2
Germany	10,114	919	10.0
Luxembourg	28,549	798	2.9
Netherlands	67,805	825	1.2
United Kingdom	56,745	8,067	16.6
Africa	2,338	-66	-2.7
Asia/Oceania	90,033	12,569	16.2
Australia	6,942	146	2.1
Japan	17,305	1,052	6.5
China	16,697	252	1.5
Singapore	683	-396	-36.7
South Korea	4,946	-219	-4.2
Area of investment			
Manufacturing	209,338	23,186	12.5
Mining and oil and gas extraction	139,379	18,087	14.9
Management of companies and enterprises	116,146	4,770	4.3
Finance and insurance	94,524	5,926	6.7
Wholesale trade	49,900	790	1.6
Retail trade	31,748	2,532	8.7
Professional, scientific and technical services	9,312	614	7.1
Transportation and warehousing	7,730	1,538	24.8
All other industries	7,074	313	4.6
Utilities	5,676	543	10.6
Real estate and rental and leasing	4,613	-10	-0.2
Accommodation and food services	4,096	215	5.5
Information and cultural industries	4,073	939	30.0
Construction	2,352	7	0.3
Agriculture, forestry, fishing and hunting	295	5	1.7

Outward Investment

Outflows

Consistent with the observation of lower North American outflows of FDI that was reported earlier, Canadian investors reduced their outflows by one fifth between 2012 and 2013.

Canadian investors lowered their M&A activities in the United States by 19.9 percent, and by 14.9 percent in the rest of the world. Reinvested earnings in U.S. affiliates were reduced by 3 percent and were down by over a third to non-U.S. affiliates. Finally, there was a disinvestment of over $ 10 billion in intra-corporate loans to U.S. affiliates and an increase of over $8 billion in intra-corporate loans to non-U.S. affiliates.

With the exception of manufacturing, Canadian investors reduced their outflows of FDI across all sectors between 2012 and 2013. There was a net disinvestment in energy and mining in 2013. Investment flows to management of companies fell some 60 percent between the two years and was down by over one third for miscellaneous industries, while the reductions were somewhat less for finance and insurance, and trade and transportation. However, outflows to the manufacturing sector increased nearly sixfold.

TABLE 6-5
Canadian direct investment abroad: outflows
($M)

		2012	2013	Growth (%)
Type of direct investment flows				
Total net flows	**World**	**55,402**	**43,907**	**-20.7**
Mergers and acquisitions	World	22,869	18,838	-17.6
Reinvested earnings	World	28,437	22,723	-20.1
Other flows	World	4,093	2,346	-42.7
Total net flows	**U.S.**	**29,785**	**16,422**	**-44.9**
Mergers and acquisitions	U.S.	12,487	9,999	-19.9
Reinvested earnings	U.S.	13,047	12,658	-3.0
Other flows	U.S.	4,249	-6,234	n.a.
Total net flows	**ROW**	**25,616**	**27,484**	**7.3**
Mergers and acquisitions	ROW	10,382	8,840	-14.9
Reinvested earnings	ROW	15,390	10,066	-34.6
Other flows	ROW	-156	8,579	n.a.
Area of direct investment flows				
Energy and mining		5,727	-3,700	n.a.
Manufacturing		2,251	13,305	491.1
Trade and transportation		8,703	7,967	-8.5
Finance and Insurance		18,608	16,882	-9.3
Management of companies and enterprises		13,909	5,477	-60.6
Other industries		6,203	3,975	-35.9

TABLE 6-6

Canadian direct investment abroad: stock ($M and %)

	2013 Value	2013 change	2013 growth
By region			
All countries	**779,292**	**66,730**	**9.4**
North America	464,909	33,275	7.7
Barbados	62,953	1,680	2.7
Bermuda	10,696	-2,469	-18.8
Mexico	12,289	1,781	16.9
United States	318,346	28,394	9.8
South and Central America	44,628	2,833	6.8
Argentina	3,401	826	32.1
Brazil	11,053	264	2.4
Chile	16,642	266	1.6
Colombia	2,362	-600	-20.3
Peru	8,120	2,155	36.1
Europe	207,971	29,664	16.6
Germany	8,230	2,040	33.0
Hungary	10,984	1,068	10.8
Ireland	15,976	4,009	33.5
Luxembourg	30,224	6,487	27.3
Netherlands	17,742	1,884	11.9
Spain	4,757	787	19.8
Sweden	2,178	-643	-22.8
Switzerland	6,913	3,758	119.1
United Kingdom	86,087	9,518	12.4
Africa	2,173	849	64.1
Asia/Oceania	59,610	108	0.2
Australia	23,444	-2,639	-10.1
Hong Kong	5,089	1,353	36.2
Japan	4,715	-1,827	-27.9
Kazakhstan	2,423	575	31.1
China	4,917	1,030	26.5
Singapore	2,154	591	37.8
Area of investment			
Finance and insurance	312,938	29,404	10.4
Mining and oil and gas extraction	138,459	-972	-0.7
Management of companies and enterprises	101,495	8,431	9.1
Manufacturing	72,753	10,887	17.6
Information and cultural industries	37,191	3,112	9.1
Transportation and warehousing	27,595	5,402	24.3
Real estate and rental and leasing	25,158	2,186	9.5
Utilities	18,786	2,071	12.4
Wholesale trade	11,120	1,824	19.6
Professional, scientific and technical services	10,169	1,577	18.4
All other industries	9,851	424	4.5
Retail trade	7,808	2,478	46.5
Agriculture, forestry, fishing and hunting	3,466	-92	-2.6
Accommodation and food services	1,940	-45	-2.3
Construction	563	44	8.5

Outward FDI Stock

Canadian investors added $66.7 billion (9.4 percent) to their direct investment holdings abroad, to reach $779.3 billion in 2013.

Roughly half of the increased holdings were placed in North America, with some 85 percent of that (or $28.4 billion) placed in the United States. A further 44 percent of the increased holdings were placed in Europe, principally in the United Kingdom, Luxembourg, and Ireland, though there was a $643-million disinvestment in Sweden in 2013. Overall additional investment in the Asia-Oceania region was minimal as additions to Hong Kong, China, Singapore, Kazakhstan and elsewhere were largely offset by declines in Australia and Japan. Holdings in South and Central America rose by $2.8 billion, mainly on increased investment in Peru. Finally, Canadian investment in Africa rebounded to $2.2 billion in 2013 following a 70-percent decline the year before. Despite this increase, the 2013 level remains at half the 2011 value for Africa.

Finance and insurance is the primary sector for Canadian direct investment abroad, and in 2013 some 44 percent of the added stock of investment accrued to this sector. Investment in the manufacturing sector picked up, increasing $10.9 billion to $72.8 billion, followed by management of companies (up $8.4 billion to $101.5 billion) and transportation and warehousing (up $5.4 billion to $27.6 billion). There was a net disinvestment of $1 billion in mining and oil and gas extraction as additions of $3.3 billion to mining and $1.1 billion to support services were more than offset by a $5.3-billion decline in oil and gas extraction. Holdings in agriculture and other primary sectors fell for the third consecutive year while those in accommodation and food services fell for the second year in a row.