INSIGHTS ON...
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Canada-EU trade

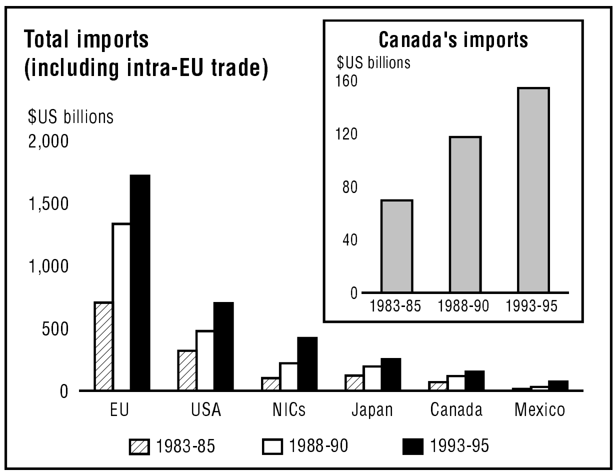
*By Marlene Sterparn and Jacob Ryten**

How well are Canadian exports doing in the EU? Answers to this question are provided in the following charts showing Canada's exports in the context of Europe's imports.

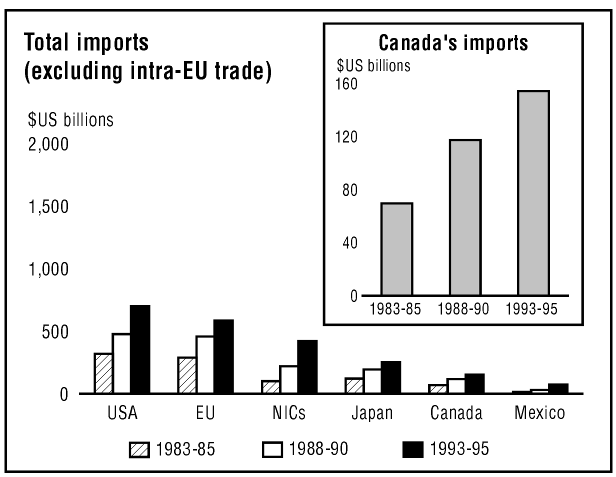
1. How does the EU rank compared to the U.S.?

- the EU, on the basis of the combined imports of all its member countries, is the world's largest importer

  (Note: While the membership of the EU has grown over the past decade, the data used for all the charts consist of the current 15 member countries)



- most of the EU's imports consist of trade between member countries (intra-EU trade). Excluding such trade, the EU is not as large an importer as the U.S.



INSIGHTS ON...

In this issue…

- *Canada-EU trade: a comparison of Canada's exports to the EU in light of EU import trends.*
- *Recent trends in Canada's forest products sector: salient factors contributing to divergent trends in the wood products and paper and allied industries.*

Aussi disponible en français

** Marlene Sterparn is a senior economist with the Services Division of Statistics Canada. Jacob Ryten is the Assistant Chief Statistician for Business and Trade Statistics.*

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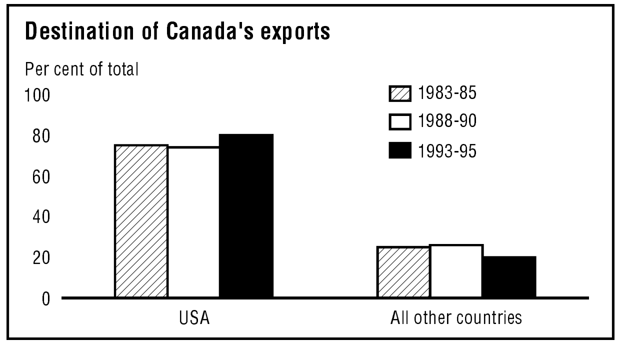
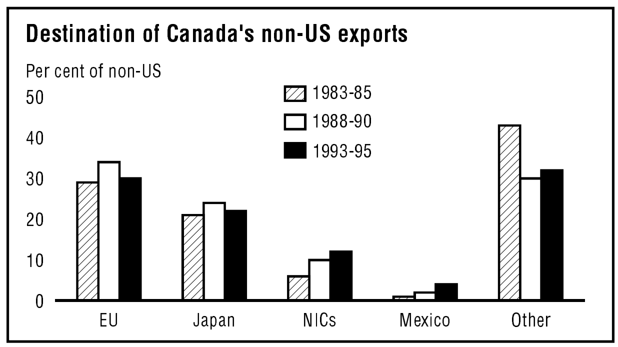
Canada

– most of Canada's exports go to the U.S...

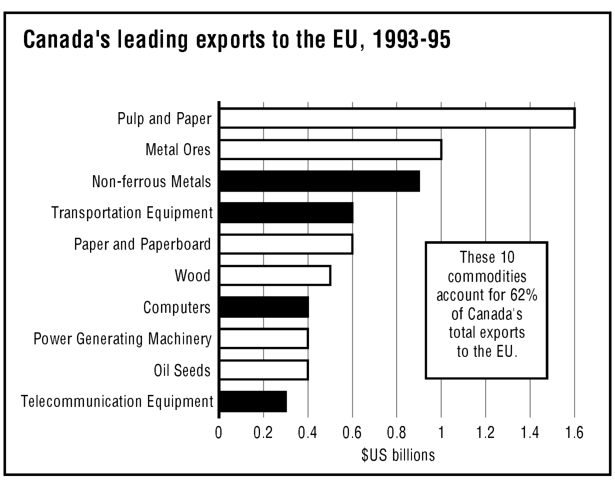


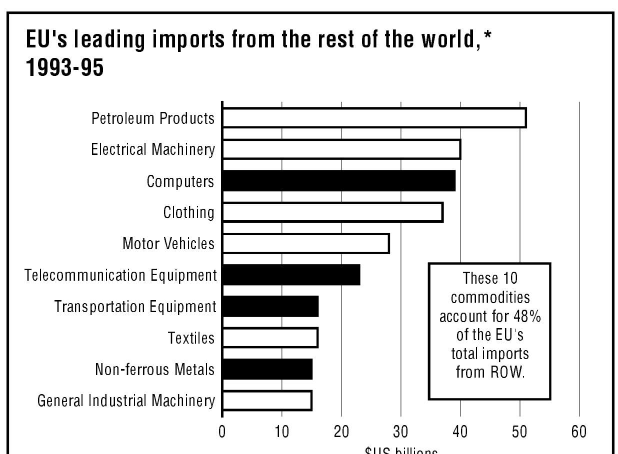
... but the EU is Canada's next largest market.



2. A number of our leading export categories are also leading import categories for the EU

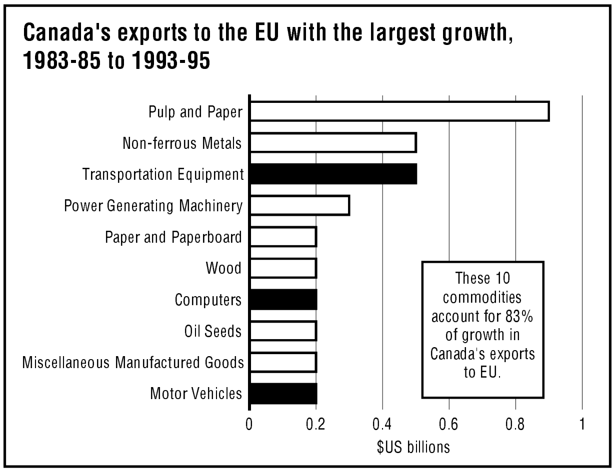
– top-10 commodities: *Non-ferrous metals, transportation equipment, computers and telecommunications equipment are among the leading exports for Canada and among the leading imports for the EU.*

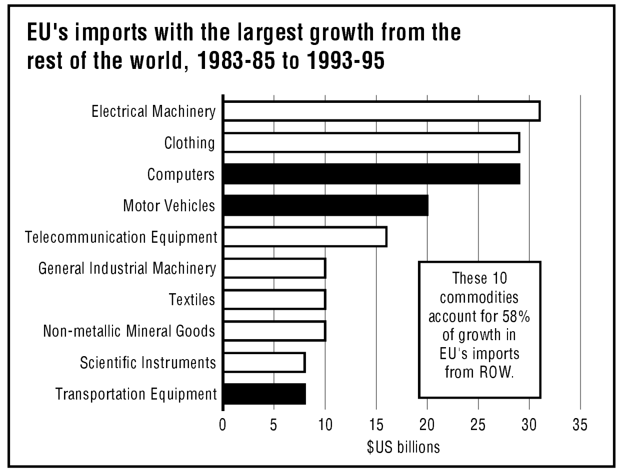




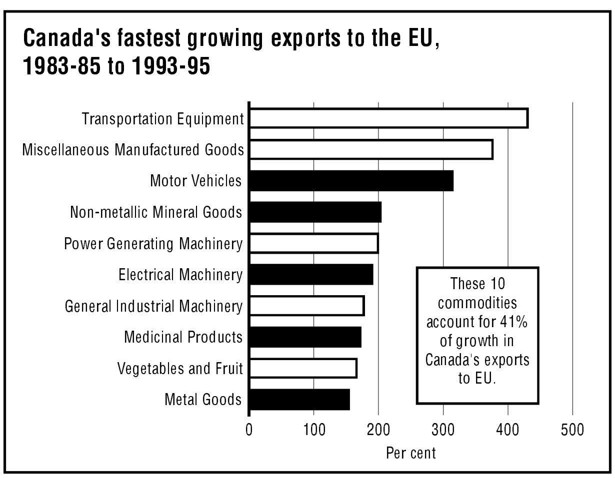
* *EU imports from the rest of the world in this and all other charts, consist of total EU imports excluding intra-EU trade.*

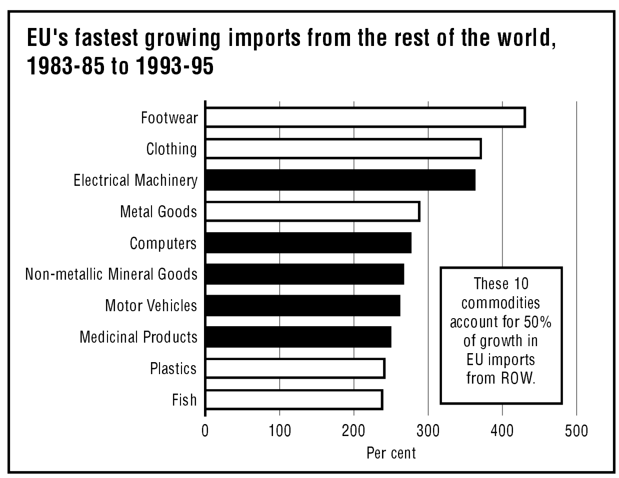
– commodities with the *largest* growth (in dollar terms): *Motor vehicles, transportation equipment, telecommunications equipment and computers showed the largest growth (in dollar terms) both as exports for Canada and as imports for the EU.*





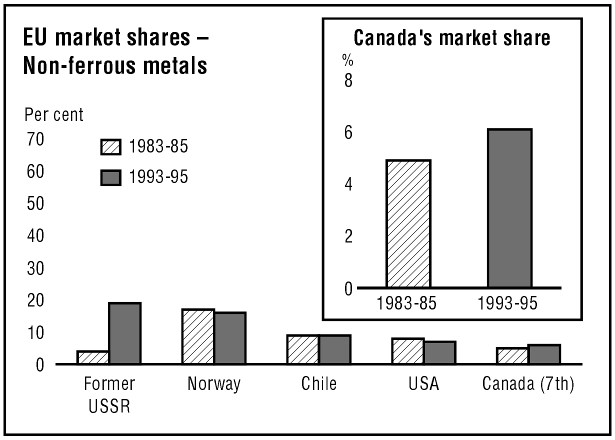
– commodities with the *fastest* growth (in %): *Motor vehicles, non-metallic mineral goods, electrical machinery, medicinal products and metal goods showed the fastest growth (in percentage terms) both as exports for Canada and as imports for the EU.*

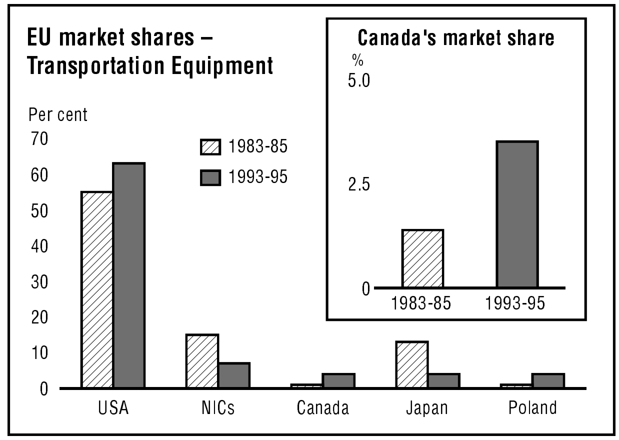




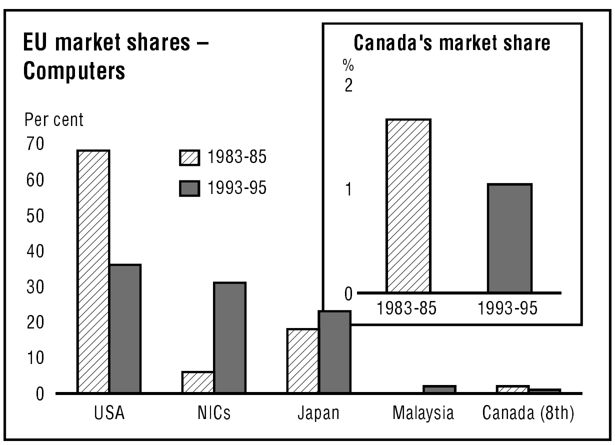
3. Shares of EU imports – Canada's top-10 exports that rank among the EU's top-10 imports

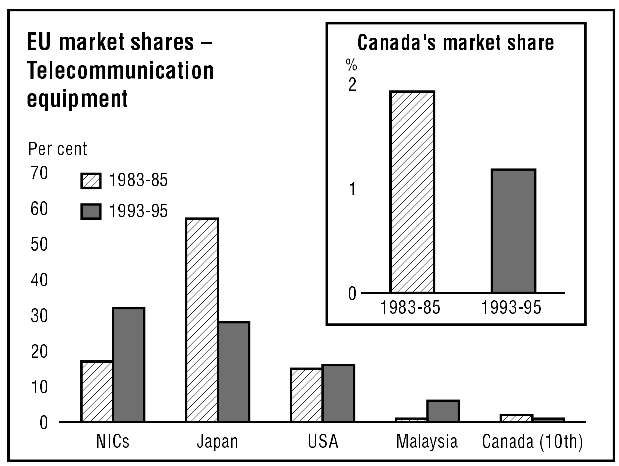
Canada gained EU market share in the case of non-ferrous metals and transportation equipment...





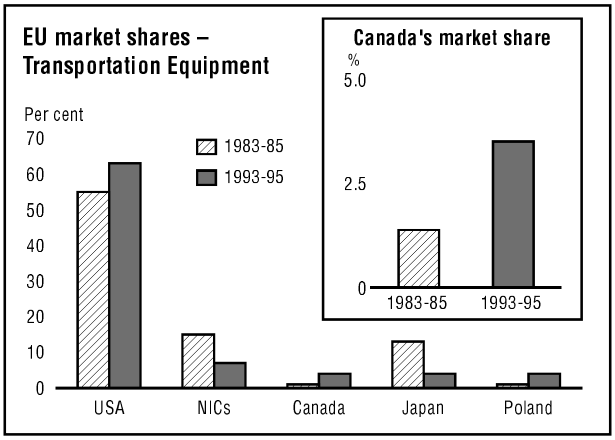
...but Canada lost EU market share in the case of computers and telecommunication equipment.

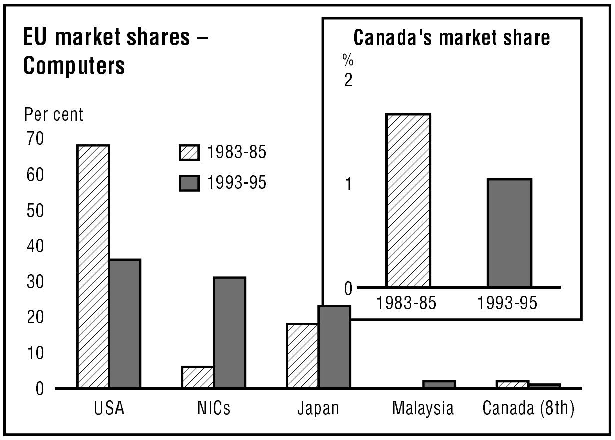


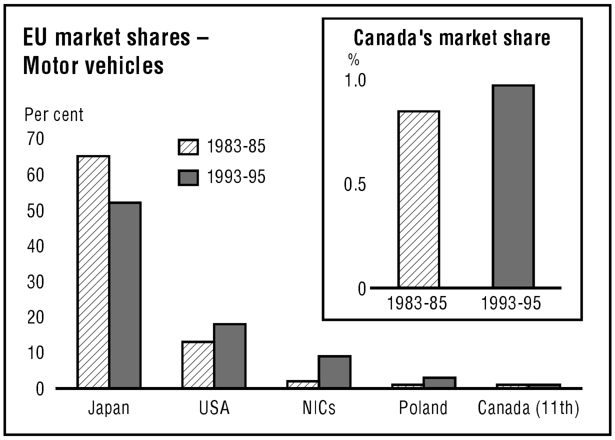


4. Shares of EU imports – Canada's largest-growing exports (in dollar terms) that rank among the EU's largest-growing imports

Transportation equipment, computers and motor vehicles produced the largest increase in Canadian exports to the EU in absolute (dollar-value) terms, but Canada's share of the EU market for these goods remains small.

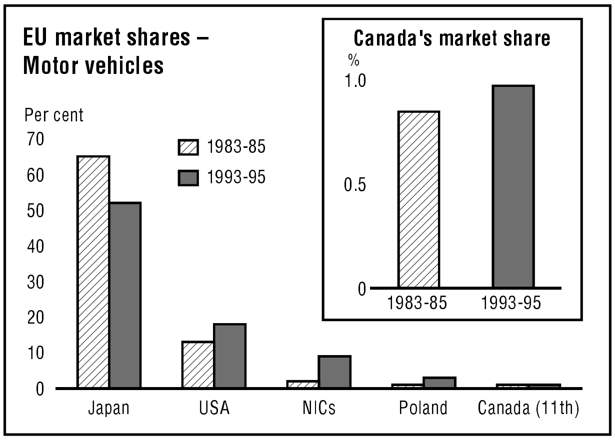


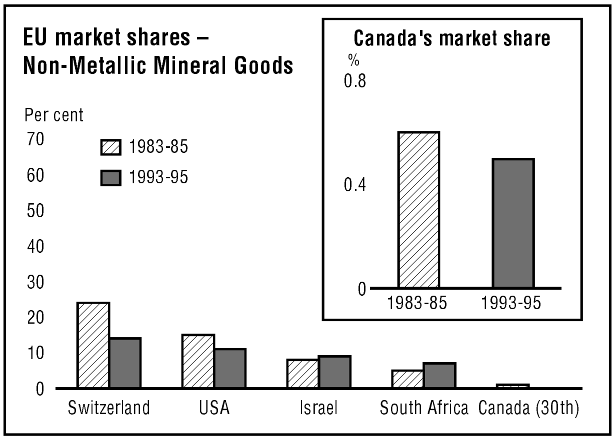


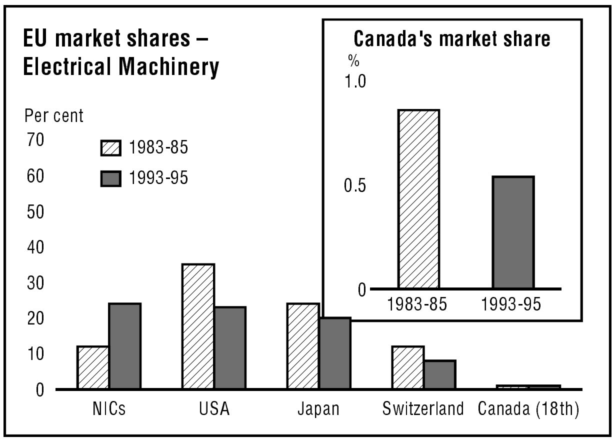


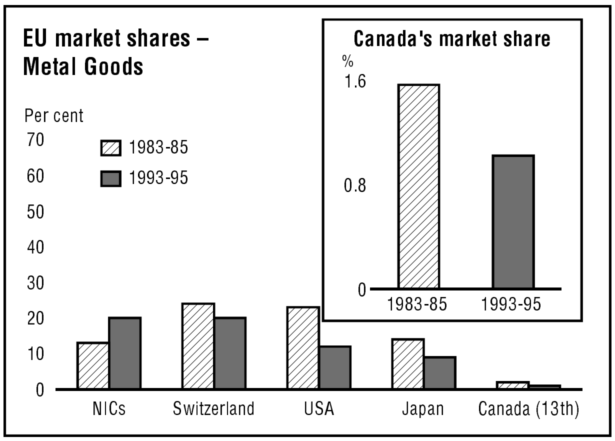
5. Shares of EU imports – Canada's fastest-growing exports (in percentage terms) that rank among the EU's fastest-growing imports

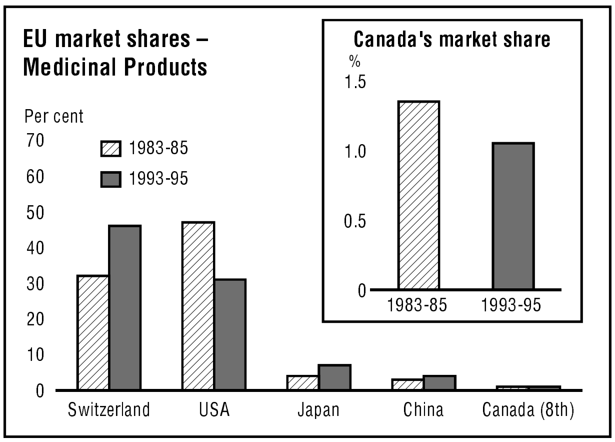
Motor vehicles, non-metallic mineral goods, electrical machinery, metal goods and medicinal products were Canada's fastest-growing exports to the EU (in percentage terms), but their market share remains small.











6. Manufactured goods

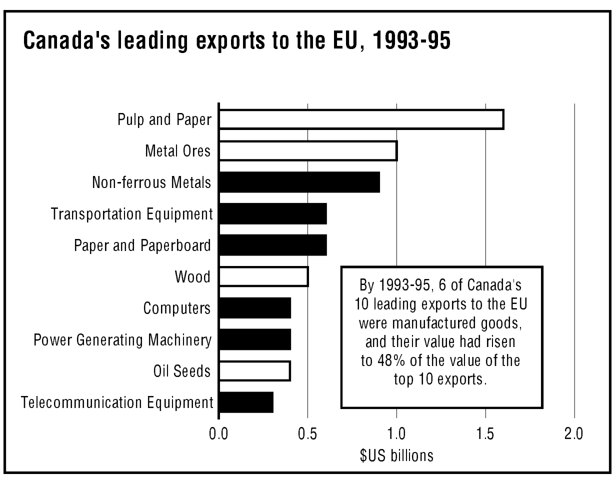
Canada exports more manufactured goods to the EU in both absolute and relative terms than it did a decade ago

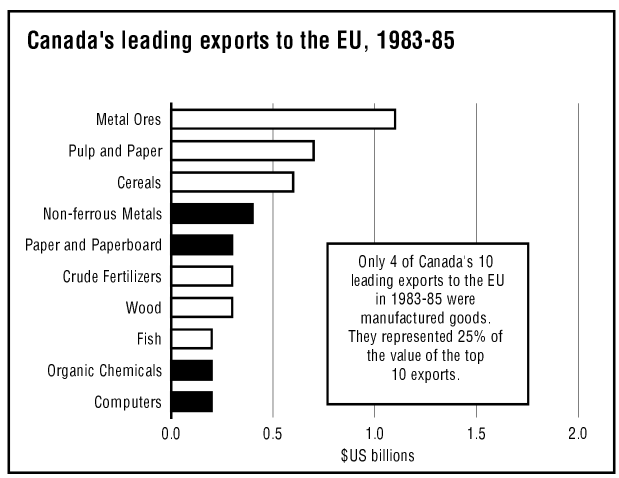
– manufactured goods increased as a proportion of Canada's exports to the EU...

...but the increase did not keep pace with EU manufacturing imports.

– manufactured goods comprised six of the top-10 export categories over the 1993-95 period...

...compared to only four a decade earlier.

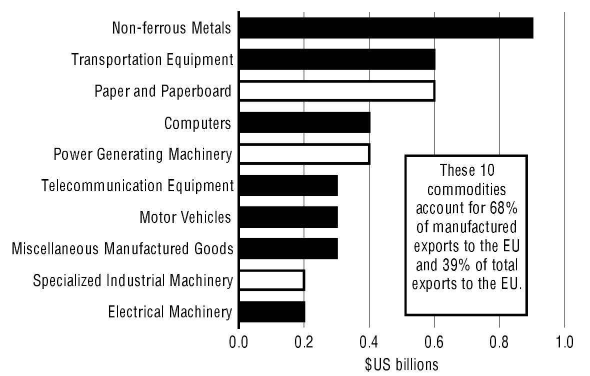




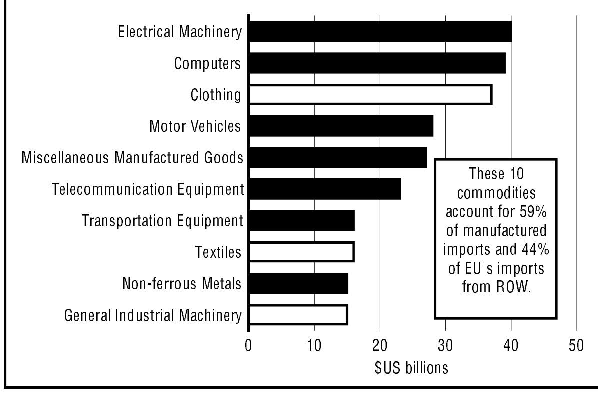
6. Manufactured goods

– for manufactured goods, 7 of Canada’s 10 leading exports rank among the EU’s top-10 imports...

Canada's leading manufactured exports to the EU, 1993-95

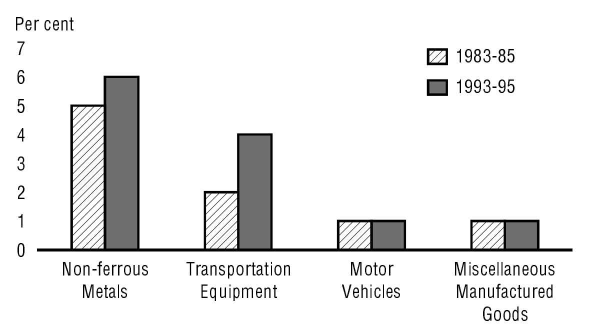


EU's leading manufactured imports from the rest of the world, 1993-95

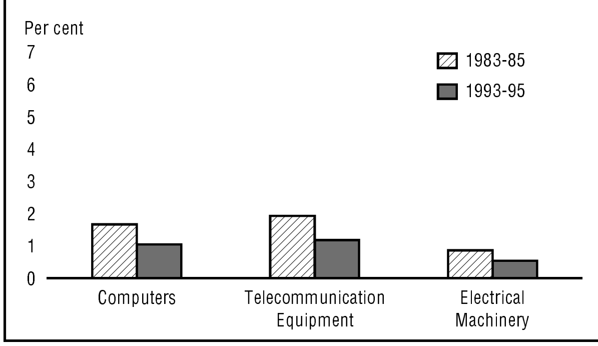


...but of these, Canada gained EU market share in 4 categories and lost market share in 3.

Gains in Canada's EU import market share



Losses in Canada's EU import market share



Summary

- Over the past decade, EU imports have grown enormously.
- Canada’s exports to the EU, our second-largest market, total $15 billion annually, but are dwarfed by our exports to the U.S. and the EU’s imports from the rest of the world.
- In relative terms, the EU is less important as an importer of Canadian goods than it was a decade ago, while the U.S. is more important to us now.
- A number of our leading export categories are also leading import categories for the EU: four of our ten *largest* export categories, three of our *largest-growing* export categories, and five of our *fastest-growing* export categories are among the corresponding categories for EU imports.
- Canada exports more manufactured goods to the EU now in both absolute and relative terms than it did a decade ago – almost half our leading export categories are now manufactures, compared to only one-quarter ten years ago. But the EU is also importing proportionately more manufactured goods from the rest of the world.

Recent trends in Canada's forest products sector

*By Roger Purdue and Fred Wong**

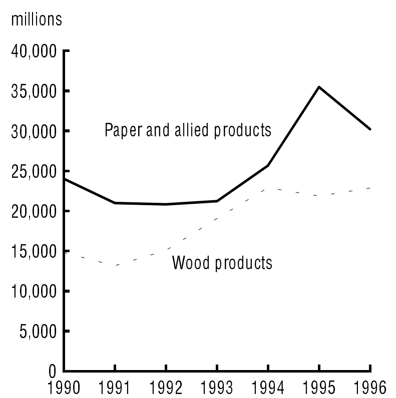
The forest products sector, comprising some of Canada's largest and most highly integrated enterprises, is one of the traditional staples of the Canadian economy. The sector is made up of two key industry groups – the wood industry (SIC 25) and the paper and allied products industry (SIC 27).

Because they serve different segments of domestic and export markets, these two industry groups are subject to somewhat different economic forces and, in a given business cycle, their performance may be out of phase or display divergent trends, as has recently been the case.

The wood industry is closely linked to the construction industry, supplying a substantial share of construction materials such as lumber, shakes and shingles, plywood, construction board, doors, and kitchen cabinets. The U.S. housing market is the main source of export demand, particularly for softwood lumber, although Japan is fast becoming an important market for Canadian wood products.

Chart 1

Forest products shipments



* *Roger Purdue is a Senior Adviser and Fred Wong is a Senior Research Associate in the Business and Trade Statistics Field.*

The paper and allied products industry, in contrast, mainly serves non-durable consumer goods industries, such as the printing, publishing and packaging industries. Pulp and newsprint production is oriented to foreign markets, and is subject to large price fluctuations.

Trends since the 1990-91 recession

Both the wood and paper and allied products industries registered strong recoveries following the 1990-91 recession. For the wood industries, the first to emerge from the recession, shipments increased 74% from 1991 to 1996.

The recovery for the paper and allied products industry started a year later, in 1993. With producer prices on the rise, shipments climbed 70% from 1992 to 1995. There was a turnaround in 1996, however: as prices fell, factory shipments slumped by almost 15%.

Volatile market conditions

In the paper and allied products industry, pulp production experienced the sharpest turnaround. From 1993 to 1995, steady increases in exports and successive price hikes boosted shipments by Canadian pulp producers, which more than doubled from $4.5 billion in 1993 to $9.7 billion in 1995. With demand pushing production to the limit, moreover, there was a substantial increase in investment outlays in 1995 and 1996.

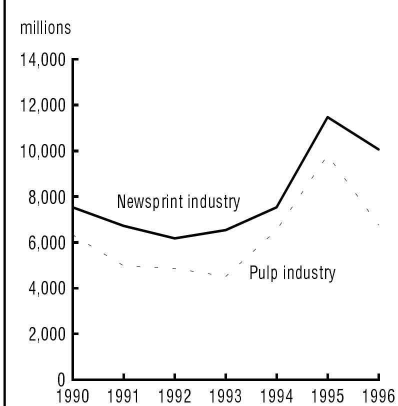
By 1996, additional capacity had come on stream while demand moderated slightly. As a result, Canadian pulp producers found themselves with excess capacity. Producer prices and the value of shipments both registered a 30% decline, while exports dropped by 35%.

Newsprint, of which Canada is the world's largest exporter and one of its leading producers, followed a similar but less precipitous decline. After rising by more than 50% in 1995, the value of factory shipments fell 12% in 1996, reflecting weak export markets and producer prices.

Not all segments of the paper and allied industries were similarly affected, however. Between 1990 and 1996, factory shipments of paper and building board rose by 42%, and paper boxes and bags by 29%.

Chart 2

Shipments - Newsprint, pulp



Note

In this article, the forest products sector is defined as *wood industries* (SIC 25) and *paper and allied industries* (SIC 27). The forest products sector is not an SIC category, but is used here as a convenient way of categorizing these two groups of industries. As employed here, the forest products sector does not include logging (SIC 04) or forestry services (SIC 05), which are not engaged in manufacturing activities.

Resurgent construction activity

Resurgent residential construction has been the major factor contributing to increased output by the wood industry. Although paper and allied products consume 11% of gross output of the wood industry, construction and export markets are much more significant, together accounting for some 70% of wood industry output.

After performing sluggishly for several years, construction activity has started to recover. Dwelling starts in major urban centres dropped 36% between 1992 and 1995, and remained weak through the first nine months of 1996. They started to pick up in the fourth quarter, before turning in a strong performance in the first three months of 1997. At 131 thousand during the first quarter (data seasonally adjusted and expressed at an annual rate), housing starts were up 48% from a year earlier.

Although subsequently moderating, housing starts continued at a much faster pace than in the previous year: in the first eight months of 1997, housing starts were 24% above the previous year's level.

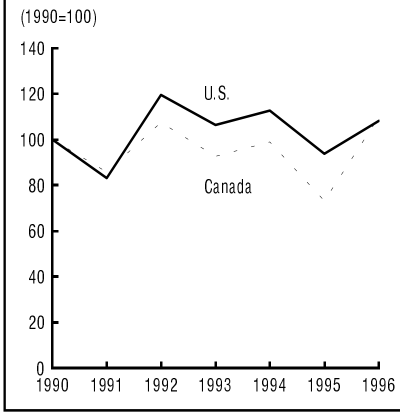
An additional source of strength for Canada's wood industry in recent years has been the U.S. housing market, which has been much stronger than Canada's. As a result of the strength of U.S. demand, increasing volumes of Canadian wood production have been channelled to the U.S. market. From 1992 to 1996, Canada's wood exports rose from 56% to 73% of factory shipments.

Because of the inroads made by Canadian producers in the U.S. market, U.S. authorities took steps to limit imports of Canadian softwood lumber. However, the effects of these restrictions have been lessened by the pick-up in Canadian construction activity and rising exports of more highly fabricated wood products.

Export demand has also benefited from the rapid growth in shipments to Japan, where tariff reductions on Canadian softwood lumber helped boost imports of Canadian wood products by 157% between 1990 and 1996. Canada has captured an increasingly important share of the growing Japanese market for prefabricated residential construction, where Canadian-made homes carry a certain cachet, making Japan the second-fastest growing market for Canadian wood products after the United States.

Chart 3

Housing starts



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