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International Merchandise Trade

Annual Review

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- . not available for any reference period
- .. not available for a specific reference period
- … not applicable
- 0 true zero or a value rounded to zero
- 0^s value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded
- ^{p} preliminary
- ^{r} revised
- x suppressed to meet the confidentiality requirements of the Statistics Act
- ^{E} use with caution
- F too unreliable to be published

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Introduction:

The Canadian economy faced a series of shocks in 2003, including SARS, mad cow disease, a massive power blackout in August, and in British Columbia, fires and continued pine beetle infestation.

The Canadian dollar drew much of the spotlight through 2003 as it rose steadily from 64 cents US to nearly 77 cents. This appreciation of more than 20% against the US dollar made Canadian goods more expensive to American buyers while imports from the United States became relatively less expensive. Some exports, such as lumber, energy and capital equipment are priced internationally in American dollars which leaves Canadian producers with the dilemma of accepting less for their goods or raising prices to maintain their Canadian dollar revenues.

Table 1. Year-to-year change in principal economic indicators, 1995 to 2003

	1995	1996	1997	1998	1999	2000	2001	2002	2003
	percentage								
Exports	16.3	5.6	8.3	7.8	12.8	16.5	-2.0	-1.7	-3.2
Imports	10.6	3.4	16.8	9.2	7.8	10.8	-3.2	1.7	-4.2
Shipments	12.3	2.6	6.6	3.4	11.5	9.1	-4.9	1.6	-0.9
Retail sales	2.9	3.3	7.7	3.7	5.7	6.2	4.4	6.0	3.1
Gross domestic products	5.1	3.3	5.5	3.7	7.4	9.5	3.0	4.3	5.2

Notes:
i) Exports and imports are reported on a balance of payments basis.
ii) Monthly data was annualized by summation.
Source: Statistics Canada, CANSIM matrices 228-0001, 304-0014, 080-000.

Total exports, imports and trade balance

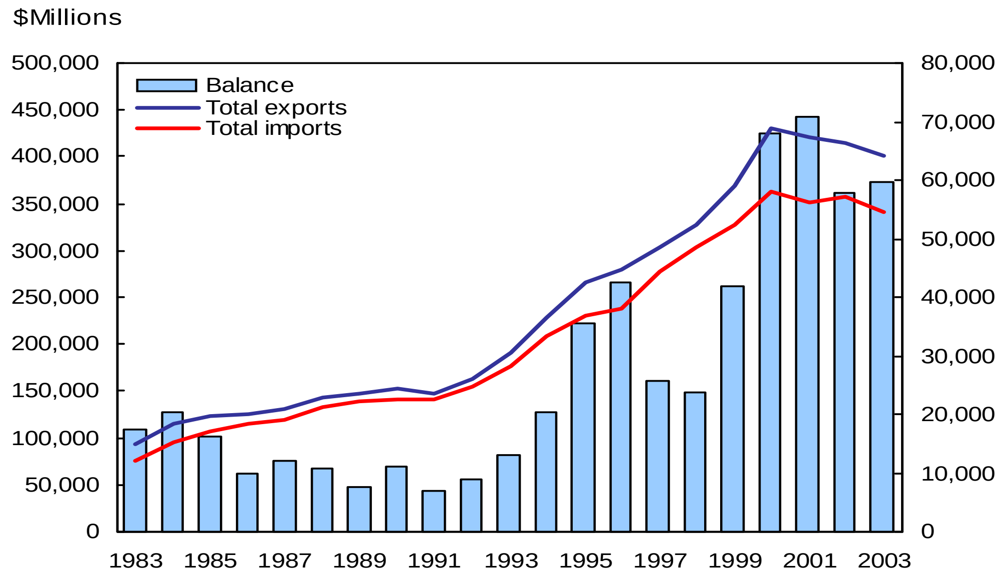
Balance of payments basis

Canada's exports of merchandise fell by 3.2% in 2003 to $401.2 billion and imports fell by 4.2% to $341.4 billion. This resulted in an increase in Canada's annual trade balance of trade of $2.0 billion to $59.8 billion.

Canada - U.S. trade relations also went through another year of challenges. The world's largest two-way traders continued to dispute softwood lumber trade and fresh challenges were made to the Canadian Wheat Board's role in wheat marketing.

Exports to the United States fell by 4.6% to $331.1 billion in 2003, the third annual decline from their peak level of 2000. At the same time, imports dropped by 6.2% to $239.2 billion leaving a trade surplus with the United States of $91.9 billion, a relatively minor drop of $198 million from 2002.

Figure 1
Total imports, total exports, balance of trade
Balance of payment base



In the ten years since the North American Free Trade Agreement (NAFTA) came into effect in 1994 the removal of tariffs and increased cross-border cooperation paved the way for the doubling of Canadian exports to the United States while imports from south of the border jumped by 83.7%. Over this time, the trade surplus increased by $73 billion. Improved pipeline infrastructure has meant greater access for Canada's natural gas and crude petroleum to American markets, the largest rise of any commodity export.

The European Union, Canada's second largest trading partner in 2003, purchased $24.2 billion worth of goods, an increase of 6.2% over 2002. Canadians imported $34.9 billion (-3.5%) worth of goods produced by EU members reducing the trade deficit by $2.7 billion to $10.8 billion.
In recent years Canada has made headway in exporting wood pulp and high tech machinery to the EU countries. Wheat exports to the EU soared in 2003 to nearly three times the value of drought-stricken 2002. Imports of crude oil from the North Sea more than doubled in 2003 while imports of light crude and fuels increased by two-thirds.

Table 2. Year-to-year change in Canada's exports[1] to the United States, the European Union, Japan and other countries, 1996 to 2003

	1996	1997	1998	1999	2000	2001	2002	2003
				percentage				
United States	5.6	8.3	7.8	12.8	16.5	-2.0	-1.7	-3.2
EU	8.2	9.0	11.0	14.8	16.1	-1.9	-1.4	-4.6
Japan	-4.7	3.1	7.7	5.5	19.2	-1.8	-4.8	6.2
Other Countries	-6.5	-4.0	-18.3	3.9	12.4	-10.2	0.6	-3.7

Share of total exports[1] to the United States, the European Union, Japan, and other countries, Canada, 1996 to 2003

	1996	1997	1998	1999	2000	2001	2002	2003
				percentage				
United States	77.5	79.4	79.9	82.3	83.8	83.5	83.5	83.8
EU	6.9	6.2	5.9	5.9	5.5	5.7	5.7	5.5
Japan	5.0	4.4	3.9	3.0	2.7	2.6	2.4	2.5
Other Countries	10.6	9.9	10.2	8.8	8.0	8.2	8.4	8.3

Notes
1. Balance of payments basis
Source: Statistics Canada, International Trade Division

Table 3: Year-to-year change in imports[1] to the United States, the European Union, Japan and other countries, 1996 to 2003

	1996	1997	1998	1999	2000	2001	2002	2003
				percentage				
United States	4.3	17.5	10.6	6.7	6.8	-4.3	0.0	-6.2
EU	1.4	17.8	4.1	12.8	17.6	5.1	2.0	-3.5
Japan	-14.2	20.5	11.0	9.5	10.7	-9.9	11.0	-9.1
Other Countries	4.1	11.5	4.2	10.9	31.2	-1.1	7.4	5.6

Share of total imports1 to Canada from the United States, the European Union, Japan and other countries, 1996 to 2003

	1996	1997	1998	1999	2000	2001	2002	2003
				percentage				
United States	75.7	76.1	77.1	76.3	73.6	72.7	71.5	70.1
EU	8.7	8.7	8.3	8.7	9.2	10.0	10.1	10.2
Japan	3.0	3.1	3.2	3.2	3.2	3.0	3.3	3.1
Other Countries	12.6	12.0	11.4	11.8	13.9	14.2	15.0	16.6

Notes
1. Balance of payments basis
Source: Statistics Canada, International Trade Division

Canada's exports to Japan, especially coal, lumber, wheat and fertilizer, fell by 3.7% to just under $10.0 billion in 2003 while imports declined by 9.1% to $10.7 billion leaving a trade deficit of three-quarters of a billion dollars, an improvement over 2002's deficit of $1.4 billion.

Table 4. Year-to-year change in exports[1], by commodity group, Canada, 1995 to 2003

	1995	1996	1997	1998	1999	2000	2001	2002	2003
					percentage				
Total exports	16.2	5.5	8.3	7.9	12.7	16.6	-2.0	-1.7	-3.1
Agricultural and fishing products	11.1	10.4	7.0	1.0	2.3	8.1	12.5	-0.9	-5.1
Energy products	6.2	28.1	4.4	-12.8	25.8	78.5	4.7	-11.4	23.0
Forestry products	26.1	-6.1	1.7	0.9	13.1	6.7	-5.9	-7.5	-7.3
Industrial poods	19.9	2.9	8.2	4.5	1.0	14.0	-0.2	3.2	-5.2
Machinery and equipment	22.5	10.5	11.4	17.0	9.9	24.5	-6.7	-5.5	-8.2
Automotive products	9.4	0.3	9.4	13.8	23.5	0.9	-5.4	4.4	-9.4
Consumer goods	16.9	14.1	13.0	17.2	11.0	9.0	6.9	8.6	-3.2
Special transactions, trade	11.6	10.2	29.1	36.8	31.7	8.6	1.7	-2.1	-4.4
Other balance of payments adjustments	11.9	-2.6	7.3	-1.2	-1.4	6.5	-7.2	3.9	29.0

Share of total exports[1], by commodity group, Canada, 1995 to 2003

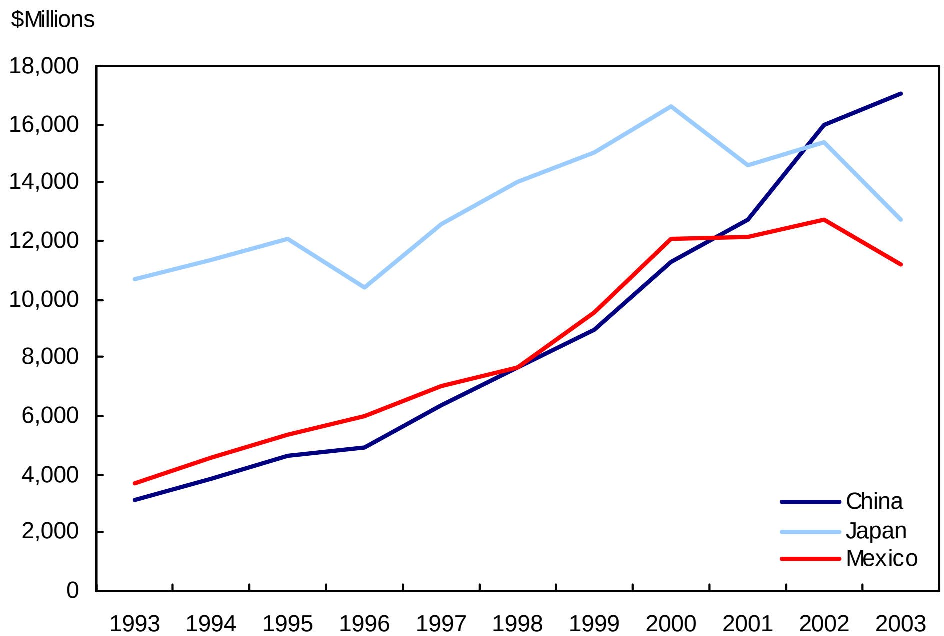
	1995	1996	1997	1998	1999	2000	2001	2002	2003
					percentage				
Agricultural and fishing products	8.3	7.9	8.3	8.2	7.7	6.9	6.4	7.4	7.5
Energy products	8.4	7.7	9.3	9.0	7.3	8.1	12.4	13.3	12.0
Forestry products	12.8	13.8	12.3	11.6	10.8	10.9	9.9	9.5	9.0
Industrial goods	18.6	19.2	18.7	18.7	18.1	16.2	15.8	16.1	16.9
Machinery and equipment	20.0	21.1	22.1	22.7	24.7	24.0	25.7	24.4	23.5
Automotive products	25.3	23.8	22.6	22.8	24.1	26.4	22.8	22.0	23.4
Consumer goods	3.1	3.1	3.4	3.5	3.8	3.8	3.5	3.9	4.3
Special transactions, trade	1.1	1.1	1.1	1.3	1.7	2.0	1.9	1.9	1.9
Other balance of payments adjustments	2.4	2.3	2.2	2.1	2.0	1.7	1.6	1.5	1.6

Notes
1. Balance of payments basis
Source: Statistics Canada, International Trade Division

Emerging trade partners
(Customs basis)
Trade with China has increased in each of the past ten years with imports growing at an accelerated rate. China has become the second largest source of imported goods from any single country apart from the United States. In the past year imports from China, mainly electronic equipment and consumer goods, jumped by 16.1% to $18.6 billion, by 142.7% over the past five years and increased five-fold in the past ten years.

Exports to China have grown at a more modest pace than imports, rising 9.6% between 2002 and 2003 to $4.5 billion. Canadian producers have made inroads into China's market for wood pulp, vehicles and machinery. Over the past ten years Canada has gone from nearly even trade with China to a large annual deficit.

Figure 2
International merchandise trade
Top non-U.S. import sources customs basis - annual



Imports from Canada's other NAFTA trade partner Mexico fell by 4.4% to $12.2 billion on lower import values for passenger vehicles, televisions and telecommunication equipment while exports to Mexico, mainly automotive products, fell by 10.2% to $2.2 billion in 2003.

South Korean products, especially automobiles, machinery and equipment, have shown increased presence in Canada. Imports from South Korea increased by 5.1% to $5.1 billion in 2003. Beef product shipments halted in May which contributed to a drop in Canadian exports to South Korea of 6.3% to $1.9 billion in 2003.

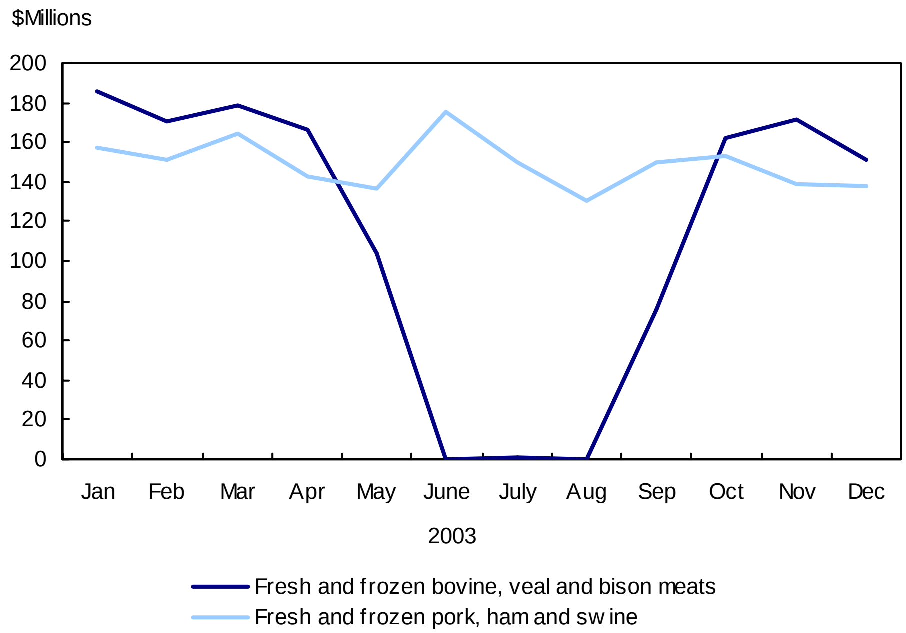
(Constant dollars trade data)
Deflated by price indices, constant dollar (K$) estimates look beyond price fluctuations to approximate real trade volumes. In 2003, K$ exports fell by 1.7% to $379.3 billion while K$ imports increased by 3.6% to $347.9 billion resulting in a price adjusted trade surplus drop of $18.7 billion to $31.5 billion, the smallest K$ surplus since 1997.

Shocks to the Canadian economy

SARS fall-out

Severe Acute Respiratory Syndrome (SARS) claimed the lives of forty-three individuals in 2003. The effect on the Canadian economy was felt mainly in reduced tourist and business travel which in turn hampered the Canadian airline industry, leading to a difficult business climate for this already beleaguered sector. Medications needed to treat the ill were, for the most part, produced domestically so little effect on trade was seen with the exception of surgical masks which were placed in sudden high demand by hospitals and other health care facilities throughout the country. In May, a typical year's worth of masks were imported from China, where ironically, the first cases of SARS were reported.

Figure 3
Domestic exports of meat and meat products, customs basis



Mad cow found in May

On May 20th, 2003 a single breeder cow from Northern Alberta was found to have had bovine spongiform encephalopathy (BSE), a brain wasting disease. This led to the outright ban on imports of Canadian live cattle and beef products by most countries, leading to a drop in exports of meat and meat products of 12.9% to $4.2 billion in 2003. In December, hopes were riding high among Canadian ranchers that the borders with Canada's NAFTA partners would be fully opened in the near future. Unfortunately, in late December, a case of BSE was discovered in Washington State whose origin was traced back to Alberta, further complicating the return of Canadian beef to the world market.

Softwood lumber trade dispute with the United States

Housing starts in the United States continued to rise to record levels in 2003 adding fuel to the Canadian softwood lumber industry. Consolidation of lumber operations and heavy investment in state-of-the-art mills allowed the forestry sector to compete internationally in spite of continued anti-dumping and countervailing duties imposed by the U.S. Department of Commerce in May 2000. Exports of lumber products fell by 17.4% to $9.0 billion in 2003, mainly due to a corresponding price cut which kept export volumes relatively steady when compared to 2002. Exports of other wood fabricated materials, specifically oriented strand board, had a banner year, rising 12.0% to $6.6 billion in 2003.

Forest fires and pine beetles in British Columbia
Strong winds and tinder-dry conditions combined to spark wildfires in British Columbia where the equivalent of approximately 14 billion board feet or $5.6 billion of finished lumber burned, roughly three times the annual harvest for B.C.

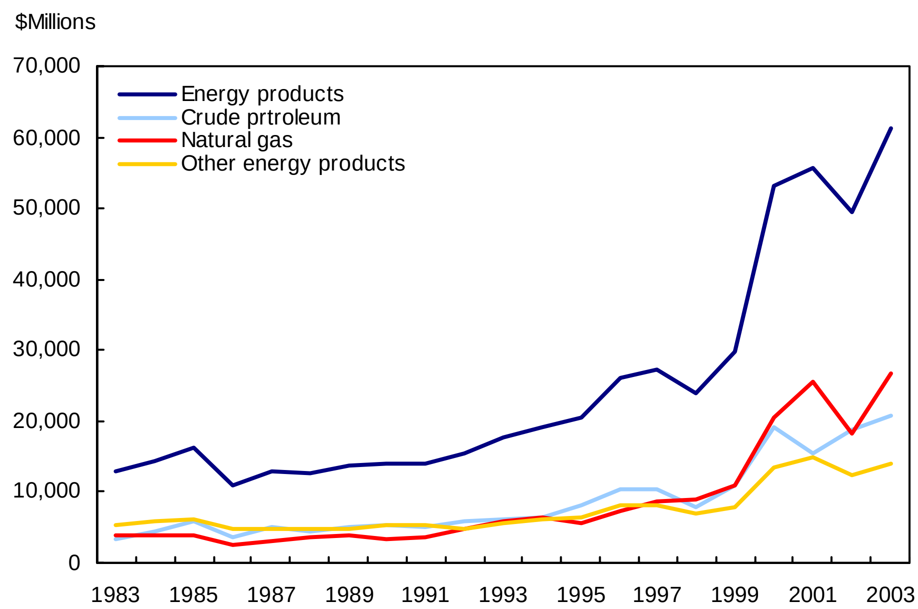
For 2003, however, the B.C. fires had no affect on lumber exports because the area affected by fire was not being logged. Away from the burned area, the allowable harvest area in B.C.'s southern Interior covers approximately 200,000 hectares of forest. Some trees which had been charred may still be processed to produce saleable lumber or wood chips for the pulp and paper industry.

The pine beetle infestation stains the wood which makes the lumber from affected trees less marketable. British Columbia allows the early harvest of these trees to be able to get the lumber to market before the staining becomes too severe. An infestation leaves the tree to dry out making it vulnerable to wild fires.

Major Trade Sectors

Energy products: Power failure shuts down manufacturing sector across Ontario, eastern U.S.
Near record energy prices and a week-long electricity black-out were two of the biggest news stories of 2003. Energy prices returned to near record levels in 2003. An electrical black-out in August left millions of customers without power for up to one week when the grid which supplies power to New York State, Ohio, parts of Michigan and Ontario failed.

Figure 4
International merchandise trade
Energy product exports



Governments requested that individuals and industry curtail their use of electricity in August. This led to the slow-down or shut-down of production of several affected industries during the month of August.

Exports of energy products soared by 23.7% to $61.3 billion in 2003 when prices and demand for natural gas peaked pushing exports up 44.8% to $26.6 billion, the highest annual amount on record. Crude petroleum exports enjoyed a banner year as well, soaring 10.1% to a record $20.7 billion. Other energy products, including coal and fuels, jumped 13.9% to $14.0 billion, the second highest annual level on record when secondary electricity power generators were brought on line to cope with demand brought on by the failure of the grid.

Machinery and equipment

Machinery and equipment exports continued their three year slide down to pre-high tech boom levels in 2000, falling 8.3% to $89.2 billion. Aircraft and other transportation equipment declined by 7.2% to $21.2 billion, industrial and agricultural machinery slipped 7.0% to $18.9 billion. Other machinery and equipment slumped 9.3% to $49.2 billion led by declines in television and telecommunication equipment exports of 12.4% to $10.8 billion.

At the same time, imports of machinery and equipment fell by 7.2% to $98.2 billion. Surging fuel costs and tepid air traffic put a strain on the Canadian airline industry. Imports of aircraft and other transportation equipment fell by 18.3% to $12.0 billion in 2003.

Automotive products

More than ninety-five percent of automobiles produced in Canada are destined for export markets, mainly the United States. While sales of automobiles in the U.S. continued at a record pace, overcapacity continued to plague the automotive industry. In 2003, exports of automotive products declined by 9.4% to $87.9 billion. Passenger automobile exports fell 12.6% to $43.6 billion while motor vehicle parts dropped by 3.9% to $28.2 billion and trucks and other motor vehicles declined by 9.4% to $16.2 billion.

Table 5. Year-to-year change in imports[1], by commodity group, Canada, 1995 to 2003

	1995	1996	1997	1998	1999	2000	2001	2002	2003
	percentage								
Total imports	10.6	3.3	16.9	9.3	7.7	10.8	-3.2	1.6	-4.3
Agricultural and fishing products	6.0	5.8	10.8	10.2	2.2	5.2	9.8	6.8	-1.3
Energy products	3.4	33.2	10.4	-19.0	25.1	66.0	-0.8	-6.4	17.2
Forestry products	12.9	-6.2	24.7	4.8	9.7	11.8	-5.7	8.5	-3.5
Industrial goods	16.6	1.8	17.4	10.6	3.0	11.5	-1.0	0.4	-5.4
Machinery and equipment	15.2	0.8	19.6	10.7	7.0	13.4	-8.5	-5.8	-7.3
Automotive products	4.5	1.8	18.9	10.8	12.8	2.3	-6.3	12.0	-6.0
Consumer goods	8.9	1.2	15.2	16.2	7.0	8.4	7.0	8.2	-0.6
Special transactions, trade	11.5	30.2	-1.9	-9.0	0.5	4.8	2.9	-13.4	-12.0
Other balance of payments adjustments	-9.4	4.1	9.2	4.9	5.7	4.4	-2.1	1.5	-4.4

Share of total imports[1], by commodity groups, Canada, 1995 to 2003

	1995	1996	1997	1998	1999	2000	2001	2002	2003
	percentage								
Agricultural and fishing products	5.8	6.0	5.6	5.7	5.4	5.1	5.8	6.1	6.3
Energy products	3.1	4.1	3.8	2.8	3.3	4.9	5.1	4.7	5.7
Forestry products	0.9	0.8	0.9	0.8	0.8	0.8	0.8	0.9	0.9
Industrial goods	19.8	19.5	19.6	19.9	19.0	19.1	19.5	19.3	19.1
Machinery and equipment	32.9	32.2	32.9	33.3	33.1	33.9	32.1	29.7	28.8
Automotive products	21.8	21.5	21.8	22.1	23.2	21.4	20.7	22.8	22.4
Consumer goods	11.1	10.9	10.7	11.4	11.3	11.1	12.2	13.0	13.5
Special transactions, trade	2.4	3.0	2.5	2.1	1.9	1.8	2.0	1.7	1.5
Other balance of payments adjustments	2.1	2.2	2.0	1.9	1.9	1.8	1.8	1.8	1.8

Notes
1. Balance of payments basis
Source: Statistics Canada, International Trade Division

Imports of automotive products in Canada fell 6.3% to $76.4 billion with domestic sales faltering. Motor vehicle parts imported to supply Canadian auto plants dropped by 10.7% to $38.8 billion. Automobile and chassis imports declined by 6.8% to $24.5 billion while imports of trucks and other motor vehicles partially off-set these declines with an 11.3% increase to $13.2 billion in 2003.

Consumer goods imports

Canadians continued to snap up imported consumer goods at near record levels in 2003. Imports of consumer goods fell only slightly from record levels to $46.2 billion as imports of all major groupings of consumer goods remained strong. House furnishings imports were down marginally from the record in 2002 of $6.8 billion watches, sporting goods and toys declined slightly to $4.6 billion. Miscellaneous consumer goods, mainly pharmaceuticals in dosages, increased slightly to a new record level of $18.0 billion in 2003.