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International Merchandise Trade

Annual Review

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Table of contents

Highlights

- In 2006, the value and volume of both our imports and exports reached record highs.

- The combination of strong demand and rising prices for Canada's natural resource products, specifically metals, crude petroleum and grains, led to the record export performance of 2006.

- Exports of natural gas, autos and lumber all reported lower export values for the year as US demand for these products declined. As a result of the drop in these exports, exports to the United States fell for the first time in three years.

- Exports to countries other than the United States were on the rise, on the strength of higher-priced metals and agricultural products, as well as increased shipments of aircraft.

- The United Kingdom edged out Japan for second largest export destination after the United States. Export values for gold, uranium, nickel and aircraft to the United Kingdom pushed up the UK total.

- The value of exports of aircraft and parts increased in 2006 thanks to an 80% surge in exports to countries outside the United States offsetting the 20% decline in sales to the United States. The increase in sales outside the United States was due to the renewed demand from the European Union, particularly Germany and the United Kingdom, after cooling off in 2004 and 2005. As well, there was an emergence of new customers in Australia and South Korea.

- Imports from the United States increased in 2006; however, imports from China, Mexico, and countries from which the Eastern provinces import oil, such as Algeria, Iraq and Nigeria, outpaced those from the United States.

- The boom in the Western provinces made headlines as oilsands construction expanded and people flooded in to capitalize on the higher wages brought about by a tight labour market. Higher profits for businesses and incomes for individuals brought about a rapid expansion in investment and consumer purchases. Consequently, 2006 was a year of record-high imports, pushed up by strong imports of machinery, electronics, cars and trucks, home furnishings and clothing.

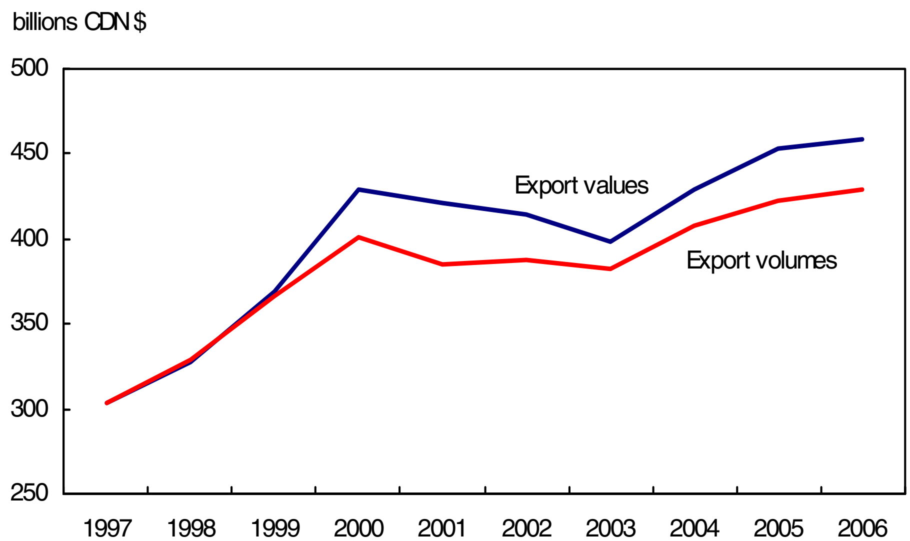
Key trends in 2006

2006: Era of higher commodity prices yields big gains for Canada's merchandise trade

Overview

The combination of strong demand and rising prices for Canada's natural resource products, specifically metals, crude petroleum and grains, led to a record export performance in 2006. Export values rose 1.1% above 2005 levels to $458.2 billion. Export volumes, which are values adjusted for price movements,[1] were up 1.6%, also to a record high. Export prices fell slightly, despite the appreciation of the Canadian dollar. This price drop was due to downward pressure on lumber and natural gas prices offsetting record prices for metals and crude petroleum.

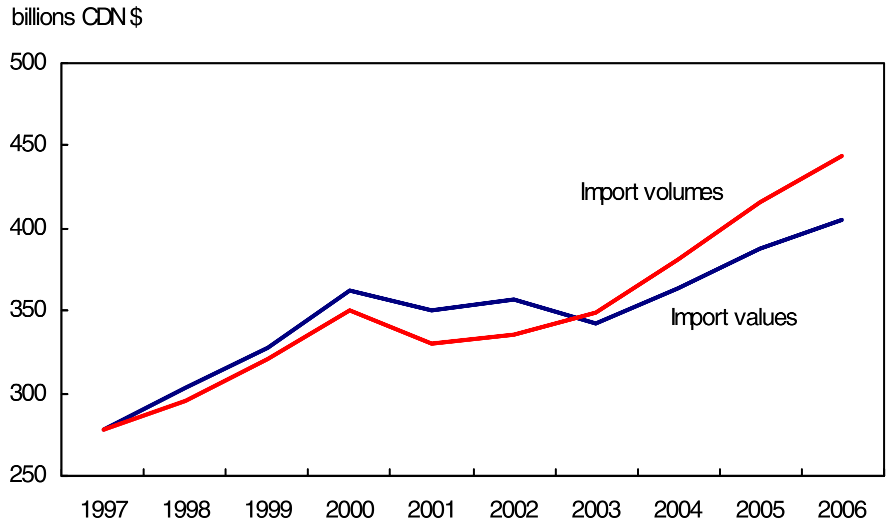
Figure 1
Export values and volumes hit record highs in 2006
Balance of payment basis



Import values and volumes also registered record highs for the year, with the former advancing 4.2% to hit $404.5 billion while the latter was 6.7% higher than in 2005. Import prices continued to follow their downward trend, falling 2.4% in 2006, pushed down in part by the fourth consecutive appreciation of the Canadian dollar.

1. See the Data concepts and methods section for more information on the relationship between export values, volumes and prices.

Figure 2
Imports values and volumes reach new heights in 2006



Price declines were most pronounced for imports of machinery and equipment and consumer goods. These lower prices encouraged record import volumes for machinery in the resource and construction industries, particularly in the Western provinces. Demand for electronics equipment such as high definition televisions and cell phones, as well as for home furnishings and clothing also increased.

As a result of imports growing nearly four times as fast as exports in 2006, Canada's annual merchandise trade balance with the world slipped by more than $11.2 billion to $53.6 billion. This was its lowest level since 1999.

Natural resource sector generates gains in 2006

Metals register largest gains in 2006

Exports of industrial goods and materials led the gain in exports in 2006. The export value of industrial goods and materials surged to reach a new record of $94.7 billion in 2006 on the strength of metal ores and alloys, which rose 25.5% to reach $45.2 billion. Rising export receipts for metal ores and alloys accounted for over ninety percent of the gain in industrial good exports. The export value of metal ores and alloys has surged since 2003 from $26.0 billion, as increased demand from China, in particular, sent prices skyrocketing.

Table 1 Industrial good exports, primarily metals, lead export gain in 2006

	2000	2001	2002	2003	2004	2005	2006	Difference from 2005 to 2006	Difference from 2005 to 2006
	export values[1] in billions of current Canadian dollars								percentage
Industrial goods and materials	68.0	67.8	70.2	66.6	77.7	84.6	94.7	10.1	11.9
Agricultural and fishing products	27.6	31.1	30.9	29.2	30.7	30.2	31.5	1.3	4.3
Machinery and equipment	110.1	102.6	97.1	88.7	91.3	94.6	95.9	1.2	1.3
Other consumer goods	15.2	16.3	17.7	17.2	17.3	17.3	18.2	0.9	5
Energy products	53.2	55.8	49.3	60.5	68.0	86.9	86.5	-0.4	-0.4
Forestry products	42.8	40.3	37.2	34.4	39.3	36.6	33.5	-3.1	-8.6
Automotive products	97.9	92.5	96.7	87.4	90.3	88.3	82.9	-5.3	-6
Total export values	**429.4**	**420.7**	**414.1**	**400.2**	**429.1**	**453.3**	**458.2**	**5.1**	**1.1**

1. On a balance-of-payments basis.
Data source: Statistics Canada, International Trade Division.
Table source: Statistics Canada, 2007, International Merchandise Trade Annual Review reference year: 2006, catalogue number 65-208-XIE.

As an exporter, Canada has benefited directly and indirectly from China's industrial revolution. Indirectly, China's demand for all sorts of industrial raw materials, especially energy and metals, has pushed up world prices. As a major raw materials producer, Canadian companies have received these higher prices for their products, whether those commodities were sold to China or to another nation.

Both exports and imports of industrial goods advanced in 2006, however, exports (+11.9%) outpaced imports, which rose 6.9% to $84.0 billion. Industrial goods and materials, which posted a sectoral trade deficit as recently as 2001, was the sole sector to register a rising trade surplus in 2006, hitting a record-high of $10.7 billion.[2]

Export volumes were stable while export prices for industrial goods jumped 11.8% for the year to explain the entire increase in values for the sector. Import prices increased by only 3.9%. The rise in import prices was tempered by the composition of imports, which included gains in chemicals and plastics as well as raw copper, zinc and gold for refining. Downward pressure on import prices as a result of the further appreciation of the Canadian dollar in 2006 also contributed.

Copper, nickel and zinc post largest gains within metals

Copper, nickel and zinc posted the largest gains among the metals in 2006. Demand from emerging economies, particularly China, continued to put pressure on global supply, pushing up prices. Aluminum, iron ore, gold and uranium also experienced robust export increases.

Copper ores and alloys increased 63.3% to $6.2 billion in 2006, with copper wire exports showing the largest increase. Soaring prices accounted for the increase in export values as volumes remained stable. Quebec's exports of refined copper were double their value in 2005, equaling $3.0 billion, while exports of copper ore, nearly all from British Columbia, were up from $1.0 billion to $1.7 billion. Toward the end of 2006, as the US housing market weakened, so too did US demand for Canadian copper, commonly used in plumbing and wiring for new homes. Increased demand from the Netherlands and Switzerland in the latter months of 2006 combined with strong demand from the United States for the majority of the year ensured the overall strong performance.

Nickel exports to China doubled in 2006, reaching a value of over $600 million, as our top Asian trading partner continued to expand its infrastructure, using the nickel in its production of stainless steel. Overall, nickel ores and alloys increased 72.6% from the previous year, reaching $5.9 billion in 2006, as prices surged. About two-thirds of nickel exports in 2006 hailed from Ontario. Much of Canadian nickel flows to the United States and Norway, where in many cases, it is further refined and then makes it way to a variety of countries, in particular, emerging economies such as China.

Zinc ore and alloy export values doubled to reach $2.2 billion in 2006, almost entirely as a result of price increases. Quebec and British Columbia exporters accounted for the majority of Canada's zinc shipments in 2006 while the United States remained the dominant market for zinc. Zinc is used in manufacturing galvanized steel, which is rust resistant and used in the manufacturing of automobiles.

Aluminum exports advanced 25.9% to $9.6 billion in 2006 as a result of export prices rising over 20%. The vast majority of Canada's aluminum exports are shipped from Quebec to the United States.

2. For a discussion on sectoral trade balances, see Cross, Philip et al., "The changing composition of the merchandise trade surplus." Canadian Economic Observer, November 2006, Statistics Canada Publication. Available at http://dissemination.statcan.ca/english/ads/11-010-XPB/pdf/nov06.pdf.

Precious metal exports were up 14.8% to $6.5 billion for the year. Canadian gold refineries utilize gold from Canadian gold mines, which are concentrated in Ontario, Quebec and British Columbia, as well as from imports from all over the world. Canada's imports of gold, which stood at $3.7 billion in 2006, tend to be lower valued than exports as Canadian refineries import a product with lower gold content and then export a more refined gold to clients primarily in the United Kingdom and United States.

Export receipts for iron ore, primarily mined in and exported from Newfoundland and Labrador and Quebec, rose 22.6% to $3.3 billion for the year, with about two-thirds of the rise accounted for by price increase with the remainder by production growth. The top destination for iron ore exports was Germany, followed by the United States, China and the United Kingdom.

Exports of uranium grew 27.3% to $1.9 billion in 2006, as customers, primarily in the United Kingdom and the Netherlands, paid higher prices. Climbing prices made further headway upward following a flooding in a new development in Saskatchewan, which was hoped to substantially expand world supply. Uranium exports originate primarily in Ontario and Saskatchewan.

Crude petroleum and grains also advance in 2006

Energy exports last year remained stable at 2005's high levels of about $87 billion in 2006, but the picture within the sector was mixed. Crude petroleum exporters had a stellar year, but that strong performance was offset by a year of falling prices for natural gas exporters.

Crude oil export values were up 27.0% over 2005, reaching a new record of $38.6 billion. The increase was shared equally by rising export prices, the fifth consecutive advance in crude petroleum export prices, and volumes. This gain over 2005 prices was no small feat given the spike in prices in the fourth quarter of 2005 following the hurricanes in the Gulf of Mexico.

A rise in exports of coal and refined petroleum, partly as a result of increased demand for both from the Netherlands offset a drop in electricity exports. Refined petroleum prices continued their climb in 2006, which meant large gains in export receipts, specifically for exporters in Newfoundland and Ontario, which posted sales of $2.4 billion and $2.2 billion respectively.

Grain exports, specifically wheat and canola, also registered large gains for the year. This was due primarily to exporters receiving higher prices and finding new markets for these products.

Perfect storm for lumber industry

In contrast to the stellar performance of metals, crude oil, wheat and canola was the perfect storm that hit the lumber industry. Just before the softwood lumber duties imposed by the United States came to an end as a result of the 2006 Canada-US softwood lumber agreement in October, the bottom fell out of the US housing market. Demand for lumber plummeted and prices followed. This price decline meant that lumber prices were below the price floor at which an export duty would be applied. As a result of this combination of price and demand declines, lumber and sawmill exports fell 13.3% to 16.4 billion in 2006.

Other forestry products, such as newsprint and other paper products, also faced weakening demand. In particular, the media continue to move away from newspapers and toward the internet as a reporting medium. Newsprint exports have followed a downward trend since 1995 and fell 6.8% from its 2005 value to settle at $11.4 billion in 2006.

Woodpulp exports managed a small increase, up 3.2% to an even $6.0 billion, as demand from China offset a loss in the United States.

Automotive and natural gas also suffer from lower US demand

Exports of automotive products and natural gas also reported lower export values for the year. Similar to forestry, demand for autos from the United States was down in 2006. This combined with the ongoing restructuring among the Big 3 manufacturers in Canada resulted in automotive exports falling by 6.0% to $82.9 billion.

Following the hurricanes in 2005, which affected the natural gas plants along the Gulf of Mexico, natural gas prices spiked as supply concerns emerged and then crashed as these concerns dissipated. Given the warm temperatures, natural gas inventories remained high, which lowered demand and placed additional downward pressure on prices. Natural gas export values fell 23.6% in 2006 to $27.5 billion, down from $36.0 billion the year before. Over 20% of this drop was due to lower prices; this followed a 30% increase in prices in hurricane-riddled 2005.

Trade with countries other than the United States on the rise

Exports to countries other than United States soar in 2006

Declines in forestry, natural gas and autos were behind Canada's exports to the United States falling 2.0% last year to $361.3 billion in 2006.

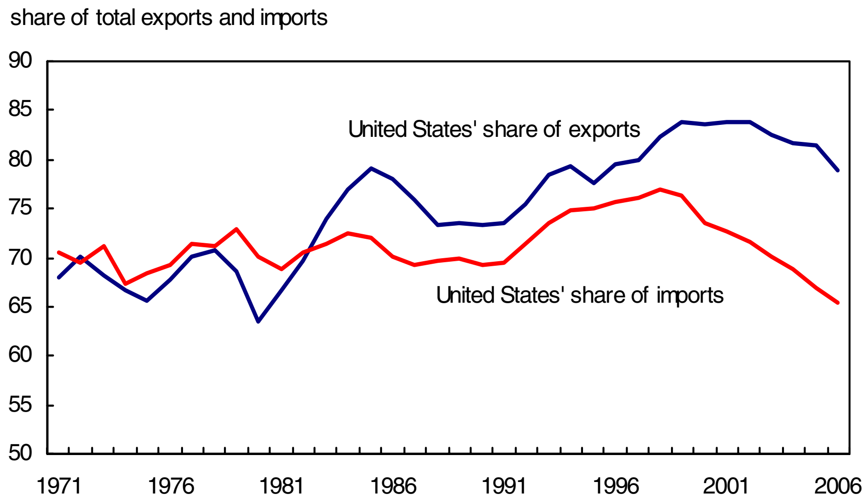
Table 2 Exports to the countries other than the United States drive overall gain in exports

	2000	2001	2002	2003	2004	2005	2006	Difference from 2004 to 2005	Share of total exports
	export values[1] in billions of current Canadian dollars							percentage	
Total exports	429.4	420.7	414.0	399.0	429.1	453.1	458.2	1.1	...
Exports to the United States	359.0	352.2	347.1	329.0	350.8	368.6	361.3	-2.0	79
Exports to countries other than the United States	70.4	68.6	67.0	70.0	78.4	84.5	96.9	14.6	21

1. On a balance-of-payments basis.
Data source: Statistics Canada, International Trade Division.
Table source: Statistics Canada, 2007, *International Merchandise Trade Annual Review* reference year: 2006, catalogue number 65-208-XIE.

While exports to our largest trading partner faltered, exports to countries other than the United States amounted to a record $96.9 billion, up 14.6% over 2005. As a result of the decline in exports to the United States and the flourishing sales to the rest of the world, the share of exports accounted for by countries outside the United States reached 21% in 2006, up from 19% in 2005.

Figure 3
United States share of exports and imports on the decline



Export values to countries other than the United States were buoyed by higher-priced metals and agricultural products, as well as increased shipments of aircraft. These products were destined to the European Union, as well as to Mexico and Asia.

Metals, grains and aircraft push up exports to countries other than United States

Exports of metal ores and alloys registered gains of over $9.0 billion in 2006 with exporters receiving $45.2 billion for these commodities across the year. Of this increase, exports to countries other than the United States accounted for 40% or more than $4.0 billion. The United Kingdom was the largest market for Canadian metals, followed by China, Japan, Norway, South Korea and the Netherlands.

Increased export receipts for uranium, flowing primarily to the United Kingdom and the Netherlands, also contributed to the rise in exports to countries other than the United States.

As world wheat output took a hit in 2006, the result of drought conditions and increased winterkill in major producers such as the United States, Russia and Ukraine, wheat prices were bid up. Wheat export values were up 34.1% for the year, reaching a total export value of $3.6 billion. While wheat exports to the United States increased by $150 million, the gain in wheat exports to countries other than the United States drove the gain, rising by nearly six times that value. This was primarily as a result of increased demand and higher prices paid by Mexico, Indonesia, and Sri Lanka. As well, India, Iraq and Iran all imported wheat from Canada for the first time.

Canola exports were also on the rise, increasing by more than one-third to $1.8 billion. Higher exports to Pakistan and China and the entrance of the United Arab Emirates as a buyer accounted for most of the gain. This new customer is importing canola to be crushed and then exported to be used in biodiesel fuel in Europe.[3]

The value of exports of aircraft and parts increased 5.7% to $10.2 billion in 2006, thanks to an 80% surge in exports to countries other than the United States offsetting a 20% drop in exports to the United States.

3. White, Ed. “Canola moving overseas.” The Western Producer, December 22nd , 2005.

The increase in sales outside the United States was due to the renewed growth from the European Union, particularly Germany and the United Kingdom, after cooling off in 2004 and 2005. As well, the emergence of new customers in Australia and South Korea contributed. Although the United States remains the top destination for these exports, over 40% of Canada's aircraft exports were shipped to other countries in 2006, up from one-quarter in 2005.

United Kingdom edges out Japan for second largest export destination

In 2006, the United Kingdom edged out Japan for second largest export destination after the United States. In 2006, exports to the United Kingdom were up 21.9% over 2005 to $10.1 billion, compared to a 3.0% increase to $9.4 billion for Japan. Increased exports for gold, uranium, and nickel as well as aircraft to the United Kingdom pushed up the total value. In 2002, exports to the United Kingdom were half of the value of exports to Japan; however, rising metal prices in recent years have bolstered export values to the United Kingdom.

Table 3 United Kingdom tops list of top 5 export destinations outside the United States

Country	2003	2004	2005	2006	Difference from 2005 to 2006
	export values[1] in billions of current Canadian dollars				percentage
United Kingdom	6.1	7.7	8.3	10.1	21.9
Japan	8.2	8.6	9.2	9.4	3.0
China	4.8	6.8	7.1	7.7	7.8
Mexico	2.2	3.1	3.4	4.4	30.1
Germany	2.9	2.7	3.2	3.9	19.8

1. On a customs basis.
Data source: Statistics Canada, International Trade Division.
Table source: Statistics Canada, 2007, *International Merchandise Trade Annual Review* reference year: 2006, catalogue number 65-208-XIE.

Imports from China, Mexico and oil-exporting countries outpace those from United States

Imports from the United States increased in 2006, up 1.9% to $264.8 billion. However, imports from countries such as China, Mexico, and countries from which Central and Eastern Canada import oil, such as Algeria, Iraq and Nigeria, outpaced those from the United States. Overall, imports from countries other than the United States increased by 8.8% to $139.8 billion, and their share of total imports increased from 33% to 35%.

Table 4 Imports from countries other than the United States outpace those from the United States

	2000	2001	2002	2003	2004	2005	2006	Difference from 2005 to 2006	Share of total exports
	import values[1] in billions of current Canadian dollars							percentage	
Total imports	362.3	350.1	356.7	342.7	363.6	388.2	404.5	4.2	...
Imports from the United States	266.5	254.3	255.2	240.3	250.5	259.8	264.8	1.9	65
Imports from countries other than United States	95.8	95.7	101.5	102.4	113.1	128.4	139.8	8.8	35

1. On a balance-of-payments basis.
Data source: Statistics Canada, International Trade Division.
Table source: Statistics Canada, 2007, *International Merchandise Trade Annual Review* reference year: 2005, catalogue number 65-208-XIE.

China remained our second largest source for imports, posting gains of 16.8% to reach $34.5 billion. The gain for imported products from China was widespread, led by consumer goods such as home furnishings and clothing, as well as electronics and telecommunication products. Imports from third-place Mexico remained stronger than those from Japan for the second consecutive year, climbing a further 9.5% in 2006 to $16.0 billion, compared to a 3.6% rise to $15.3 billion from Japan.

Table 5 China tops list of top 5 sources for imports outside the United States

Country	2003	2004	2005	2006	Difference from 2005 to 2006
	import values[1] in billions of current Canadian dollars				percentage
China	18.6	24.1	29.5	34.5	16.8
Mexico	12.2	13.4	14.6	16.0	9.5
Japan	13.8	13.5	14.8	15.3	3.6
Germany	8.6	9.4	10.3	11.1	8.3
United Kingdom	9.2	9.7	10.4	10.8	4.0

1. On a customs basis.
Data source: Statistics Canada, International Trade Division.
Table source: Statistics Canada, 2006, *International Merchandise Trade Annual Review* reference year: 2006, catalogue number 65-208-XIE.

Strong demand for machinery and consumer goods leads to record-high imports

Imports of industrial machinery helps fuel Western boom

The boom in the Western provinces made headlines as oilsands construction expanded and people flooded in to capitalize on the higher wages brought about by a tight labour market. Higher profits for businesses and incomes for individuals brought about a rapid expansion in investment and consumer purchases. Consequently, 2006 was a year of record-high imports, pushed up by strong imports of machinery, electronics, cars and trucks, home furnishings and clothing.

Table 6 Imports of industrial goods lead the pack but also surge in machinery and consumer purchases

	2000	2001	2002	2003	2004	2005	2006	Difference from 2005 to 2006	Difference from 2005 to 2006
	import values[1] in billions of Canadian dollars								percentage
Industrial goods and materials	69.2	68.4	68.9	65.3	73.5	78.6	84.0	5.4	6.9
Machinery and equipment	122.9	111.9	105.9	98.6	104.1	110.9	114.7	3.8	3.4
Other consumer goods	40.1	42.9	46.5	46.3	47.7	49.5	52.0	2.6	5.2
Agricultural and fishing products	18.6	20.4	21.8	21.5	21.4	22.1	23.4	1.4	6.3
Automotive products	77.4	72.6	81.5	76.5	77.3	78.4	79.8	1.4	1.8
Energy products	17.9	17.7	16.6	19.8	24.8	33.7	34.8	1.2	3.5
Forestry products	3.0	2.8	3.1	3.2	3.3	3.4	3.9	0.4	12.4
Total import values	**362.3**	**350.1**	**356.7**	**342.7**	**363.6**	**388.2**	**404.5**	**16.3**	**4.2**

1. On a balance-of-payments basis.
Data source: Statistics Canada, International Trade Division.
Table source: Statistics Canada, 2007, International Merchandise Trade Annual Review reference year: 2006 catalogue number 65-208-XIE.

Imports of industrial machinery poured into the Western provinces in 2006, contributing to the 3.4% gain in machinery and equipment imports to $114.7 billion. A stronger dollar spelled lower import prices for the year. This combined with high crude and metal prices, which drove profits up and heightened incentives to expand production encouraged the rise in machinery imports. Given the lower import prices, import volumes give a clearer indication of the strength of business investment in 2006, up 10.5% to $164.3 billion.

Demand for imported cars high in record sales year 2006

The rise in household incomes contributed to additional consumer spending in 2006, with Alberta, in particular, driving auto sales up to their highest level ever. The increase in sales was concentrated in Japanese and German models manufactured outside of North America, pushing automotive import values up 1.8% to $79.8 billion. Real imports of automotive products were stronger, up 5.2% for the year.

Imports of home furnishings and other consumer goods gain momentum

The renovation and design industry has become big business, and the imports tell the tale. In 2006, Canadians demanded a record high value of imports of home furnishings, totalling nearly $8.0 billion.

In addition to redecorating with fabric and furniture, high definition televisions were in high demand, to complete that high-end look. Over $1.3 billion worth of high definition televisions, imported primarily from Mexico, as well as from China, made their way into Canadian electronics stores in 2006.

In addition to dressing the home, clothing imports have been on the rise in recent years, as a result of there no longer being limitations on the quantities imported.[1] Despite the pull of lower clothing prices on import values, imports were up 6.5% to $8.3 billion. In real terms, clothing imports were up the much more pronounced 11.0%.

There was also increased demand for personal electronics equipment, mostly originating in China, South Korea and Malaysia, with large advances made in particular for cellular phones ensuring music, photos, e-mail and internet were at our fingertips.

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4. For further information on recent trends in the clothing industry, see Wyman, Diana, “Trade liberalization and the Canadian clothing market, Canadian Economic Observer, December 2006, Statistics Canada publication. Available at http://dissemination.statcan.ca/english/ads/11-010-XPB/pdf/dec06.pdf.

Data concepts and methods

Concepts: Understanding export and import values, volumes and prices

Throughout this article, export and import values, volumes, and prices are discussed and thus, it is important to make clear the relationship between these three concepts.

Export values are the dollar value of Canada's merchandise sales abroad. Export values can be broken down into two components: export prices and export volumes.

Export prices are the prices charged for the merchandise sold abroad. Export volumes are export values adjusted for price, also known as real exports or constant dollar exports. While export values offer an indication of whether Canadian companies received more dollars or fewer dollars for their goods, export volumes offer an indication of quantity. For example, metal export values were higher in 2006 than in 2005. But export volumes were roughly the same in 2006 as in 2005. So the reason that metal export values were higher in 2006 was not that 'more' metals were exported but rather that Canadian metal exporters received higher prices for their products.

Similarly, import values are the dollar value of Canada's merchandise purchases from companies located in other countries. Import prices are the prices that Canadian companies pay to import these products and import volumes, or real imports, are import values adjusted for price. Import volumes in 2006 for products such as machinery and equipment grew at a faster pace than import values. This is because import prices fell, primarily the result of the appreciation of the Canadian dollar vis-à-vis the US dollar. When import prices fall, import values may 'underestimate' the strength of imports as they indicate the lower value that Canadians paid to purchase these products. However, when the price decline is factored out, as it is in export volumes, the tremendous growth in imports is evident.

Methods: Analyzing international merchandise trade data

Statistics Canada derives import trade data primarily from administrative records compiled by the Canada Border Services Agency. Canadian exports to the United States are compiled using United States import statistics and export to other destinations are compiled by the International Trade Division from forms received via the CBSA and from Summary Reports and Canadian Automated Export Declarations (CAED) submitted directly to Statistics Canada. This data is customs-based data.

Customs-based information undergoes certain adjusted in order to conform to the concepts and definitions of the Canadian System of National Accounts. The adjustments to derive balance of payments based trade data include valuation, residency, timing and coverage.

The principal difference between the two trade concepts is that customs-based merchandise trade statistics cover the physical movement of goods as they are reflected on customs documents, while balance of payments adjusted data are intended to cover all economic transactions between residents and non-residents which involve merchandise trade. While balance of payments-based data, which make up part of the current account, are more useful for those interested in macroeconomic issues, customs data provide a wealth of detail on specific commodities and trading partners.

All data in this paper that reference a trading partner are customs-based with the exception of the United States and the 'countries other than the United States' group, which are balance-of-payments based. All trade values by sector are also balance of payments based. All data that reference products at a detailed levels or exports by province are customs-based.