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Annual Review

2008

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...	figures not appropriate
0	True zero or value rounded to zero

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Table of Contents

Highlights 6

Key trends in 2008

Overview 7
Figure 1 Foreign exchange rates in Canadian dollars, monthly 7
Figure 2 Exports up for fifth year in a row 8
Exports: Energy led all sectors 8
Figure 3 Prices push imports up 9
Imports: Most sectors recorded increases 9
Figure 4 Trade balance with the world contracts for fourth straight year 9
Trade surplus continues to contract 10
Table 1 Summary of Canada's trade with US and non-US partners, 2003 to 2008 10
Exports 10
Table 2 Canada's merchandise exports, 2003 to 2008 10
Energy products key force behind export growth 11
Industrial goods and materials remained strong 11
Agriculture and fish products thrived on record high prices 11
Automotive products continued to weaken 11
Imports 12
Table 3 Canada's merchandise imports, 2003 to 2008 12
Energy imports continued upward trend 12
Industrial goods and materials rose on prices 13
Machinery and equipment continued to grow 13
Automotive products down following four-year rise 13
Canada's trading partners: 14
United States 14
Mexico 14
Brazil 15
Europe 15
Asia Pacific 16

Data concepts and methods

Concepts: Understanding export and import values, volumes and prices 17
Methods: Analyzing international merchandise trade data 17

Highlights

- In 2008, the United States accounted for less than two-thirds (65.7%) of Canada's total merchandise trade on a customs basis, that is exports and imports combined, down from 67.2% in 2007 and 74.0% in 2003.

- Exports to countries other than the United States have been growing for the past six years. In 2008, they represented 22.3% of total exports, up from 14.3% in 2003. Leading the gain for our exports were the Asia Pacific countries - mainly Japan - and Brazil.

- Imports from countries other than the United States rose 10.7% in 2008, led by continued growth from China, our number two trading partner for imports behind the United States. Chinese companies sold $42.6 billion worth of merchandise to Canada last year, up 11.3% from 2007.

- Canada exported $489.5 billion of merchandise to the world, on a balance of payments basis, in 2008, up 5.7%. At the same time, imports rose 6.7% to $442.8 billion.

- Canada's annual trade surplus with the world narrowed to $46.7 billion from $48.0 billion in 2007, continuing a decline that started in 2005.

Key trends in 2008

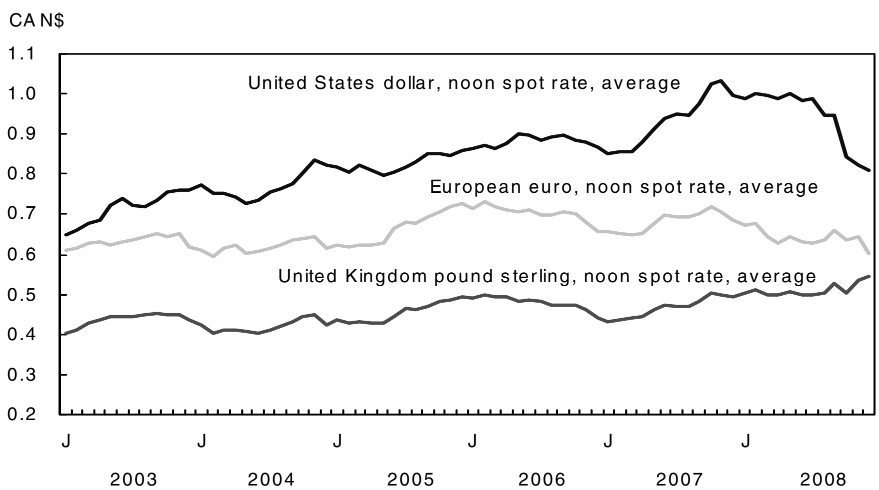
The year of two halves

Canada's international merchandise trade in 2008 was characterized by strong expansion at the beginning of the year, before the global economic downturn took much of the wind out of the trading sails.

Overview

The first half of 2008 saw the Canadian dollar hovering near par with the U.S. dollar, making Canada's exports more expensive in relation to imports. In the first six months of the year, trade was greatly influenced by rising commodity prices, as items such as gold and oil reached record levels in the global marketplace. Prices for oil surged to nearly $150 a barrel in July, causing a ripple effect throughout the economy.

Figure 1
Foreign exchange rates in Canadian dollars, monthly



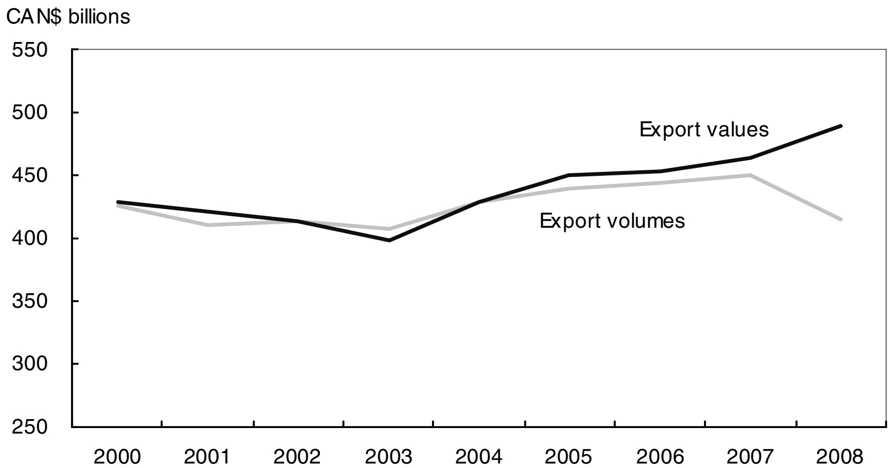
Data source: Statistics Canada, International Trade Division.

In August, the dollar began its descent. By the end of the year, it had dropped 19% to $0.81 (based on the noon spot rate monthly average). This included the largest monthly decline in the value of the loonie on record in October (-10.7%). The price of a barrel of oil fell to $30 in December, in the face of the global economic crisis. Other commodities like primary metals (nickel, copper, zinc and iron ore) and non-metallic minerals (potash, uranium and diamonds) also experienced price changes that greatly affected Canada's trade.

Also making headlines and affecting global trade in the second half of the year was the continued fallout of the sub-prime mortgage situation in the United States, which lead to the crippling of many of the world's largest financial firms. In the wake of the fallout, access to credit became restricted for much of the world's companies, leading to a decline in spending.

The drop in spending took a toll on the world's economic giants, as gross domestic product (GDP) in the United States contracted in both the third and fourth quarters. In addition, output in Japan contracted for the final three quarters of 2008, as exports and industrial production fell off considerably at the end of the year. GDP growth in China slowed to its lowest level in seven years, in part because of slowing global demand for Chinese products that was reflected in export declines—the first in seven years—in November and December.

Figure 2
Exports up for fifth year in a row



Data source: Statistics Canada, International Trade Division.

Exports: Energy led all sectors

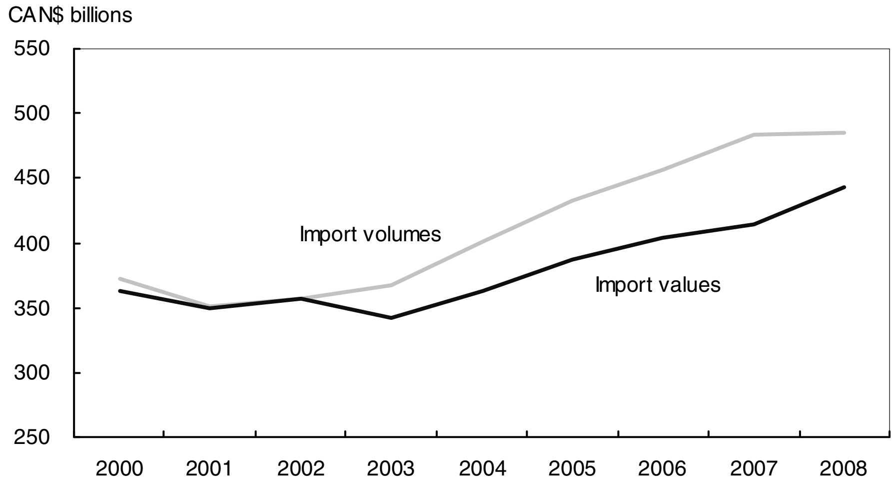
Canada exported a record $489.5 billion of merchandise in 2008 compared to $463.1 billion in 2007, as gains in energy products, industrial goods and materials and agricultural and fishing products outweighed losses for automotive products, forestry products and other consumer goods. The gain was the result of surging prices, as volumes fell 7.8%.

The price increases were limited to the first three quarters of 2008. Prices fell in the final quarter, as the economic crisis began to take hold in Canada. The decrease was not enough to offset the gains realized in the first three quarters of 2008, but it limited the amount of the yearly increase.

The overall gain in exports in 2008 was bolstered by energy products, where much of the increase was experienced in the first six months of the year, when export prices rose 51.1%. The value of energy products also benefited from volume gains, as increased demand from the United States has pushed the value of energy exports up for the past two years.

While the United States continues to be the leading consumer of Canada's energy products, growing demand for coal in Asia boosted energy exports to that area. The supply of coal in the Asia Pacific region was disrupted early in the year because of snow storms and flash floods in the region's principal supply areas.

Figure 3
Prices push imports up



Data source: Statistics Canada, International Trade Division.

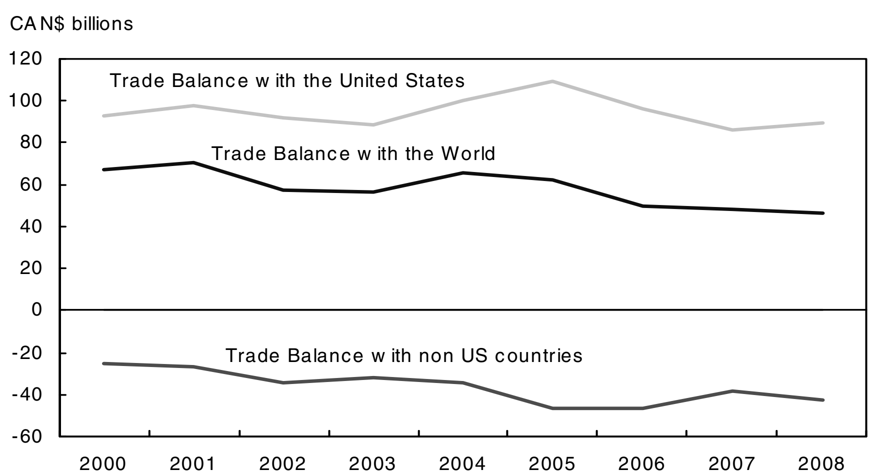
Imports: Most sectors recorded increases

Canada's imports topped $442.8 billion in 2008, an increase from $415 billion in 2007. Imports of energy products, agricultural and fishing products, industrial goods and materials, machinery and equipment and other consumer goods increased, while imports of automotive and forestry products declined. The growth was attributed to a combination of higher prices and volumes.

However, the growth in imports was confined to the first three quarters of the year. Imports decreased in the fourth quarter because of volume declines. Meanwhile, import prices, which had been on the rise during the first three quarters, in part because of rising commodity prices, continued to climb in the fourth quarter, aided by the rapid depreciation of the Canadian dollar.

Energy products led the gain in imports because of higher prices and volumes. Crude petroleum demand remained stable, and refinery maintenance and infrastructure problems led to increased demand for refined petroleum products from abroad.

Figure 4
Trade balance with the world contracts for fourth straight year



Data source: Statistics Canada, International Trade Division.

Trade surplus continues to contract

Canada’s annual merchandise trade balance with the world shrank to $46.7 billion in 2008, continuing the drop that began in 2005. Imports increased 6.7% to $442.8 billion, while exports increased 5.7% billion to $489.5 billion, resulting in a lower trade surplus.

Canada’s trade surplus with the United States expanded to $89.1 billion in 2008 on the strength of crude petroleum exports. Even though, Canada’s exports to countries other than the United States grew at a faster rate than Canada’s imports from these countries, Canada’s trade deficit with these countries expanded to $42.4 billion from $38.3 billion in 2007.

Table 1 Summary of Canada’s trade with US and non-US partners, 2003 to 2008

	2003	2004	2005	2006	2007	2008	Difference from 2007 to 2008	Share of total exports	Share of total imports
	values[1] in billions of current Canadian dollars						percentage		
Total exports	399.1	429.0	450.1	453.7	463.1	489.5	5.7	100.0	...
Exports to the United States	329.0	350.6	368.4	361.4	356.1	369.7	3.8	75.5	…
Exports to countries other than the United States	70.1	78.4	81.7	92.3	107.0	119.8	12.0	24.5	…
Total Imports	342.7	363.2	387.8	404.3	415.0	442.8	6.7	…	100.0
Imports from the Unites States	240.4	250.0	259.3	265.0	269.8	280.7	4.1	…	63.4
Imports from countries other than United States	102.4	113.1	128.5	139.2	145.3	162.1	11.6	…	36.6

1 On a balance-of-payments basis.
Data source: Statistics Canada, International Trade Division.
Table source: Statistics Canada, 2008, *International Merchandise Trade Annual Review* reference year: 2008, catalogue number 65-208-XIE.

Exports

Table 2 Canada's merchandise exports, 2003 to 2008

	2003	2004	2005	2006	2007	2008	Difference from 2007 to 2008	Share of total exports
	values[1] in billions of current Canadian dollars						percentage	
Agricultural and fishing products	29.2	30.7	30.1	31.2	34.4	40.8	18.8	8.3
Energy products	60.5	68.1	87.0	86.8	91.6	126.1	37.6	25.8
Forestry products	34.5	39.4	36.4	33.3	29.3	25.6	-12.4	5.2
Industrial goods and materials	66.8	78.0	84.0	93.9	104.4	111.0	6.3	22.7
Machinery and equipment	88.7	91.1	93.0	93.3	93.4	92.8	-0.6	19.0
Automotive products	87.4	90.4	88.0	82.3	77.3	61.1	-21.0	12.5
Other consumer goods	17.2	17.3	17.1	17.8	18.7	18.2	-2.8	3.7
Total exports	**399.1**	**429.0**	**450.1**	**453.7**	**463.1**	**489.5**	**5.7**	**100.0**

1 On a balance-of-payments basis.
Data source: Statistics Canada, International Trade Division.
Table source: Statistics Canada, 2008, *International Merchandise Trade Annual Review* reference year: 2008, catalogue number 65-208-XIE.

Energy products key force behind export growth

Accounting for the largest gain in exports, energy products rose 37.6% to $126.1 billion. As a result, energy products became the top export sector for the first time on record, followed closely by industrial goods and machinery and equipment. Together, these three sectors accounted for more than two thirds of the value of total exports.

Exports of crude petroleum posted the strongest annual growth in 2008, increasing 48.6% to $60.9 billion. Export prices drove up the value of crude petroleum exports in the first half of the year before falling 55.2% in the second half, while export volumes increased for the year.

In addition, exports of natural gas increased 17. 7% to $33.4 billion, as prices increased for the first time since 2005 and volumes declined. Most of the price gains were made in the first half of the year, as export prices fell nearly 45.0% after July.

Industrial goods and materials remained strong

Increasing 6.3%, Canadian exports of industrial goods and materials totalled $111.0 billion in 2008, the fifth consecutive annual increase. Within the sector, metal ores increased 3.2% to $14.9 billion. This rise was driven entirely by a 9.9% volume increase, as prices dropped for the first time since 2003.

Nearly two-thirds of the industrial goods and material sector's increase can be attributed to exports of chemicals, plastics and fertilizers as well as metals and alloys. Chemicals, plastics and fertilizers grew 8.2% to $35.9 billion, driven by increases in uranium and potash. A combination of low inventories and increased demand from power plants led to the gains of uranium exports. Meanwhile the increase in Canadian potash exports was the result of rising demand from the United States, as well as from China and Brazil, where deficient soil requires large amounts of fertilizers to stimulate crop growth.

Metals and alloys exports remained strong in 2008, rising 3.9% to $39.7 billion on both price and volume increases. Exports of precious metals flourished because of the high demand and rising price of gold on the global market.

Agriculture and fish products thrived on record high prices

Gains in barley, canola, and wheat pushed exports of agricultural and fishing products up 18.8% to $40.8 billion in 2008. Barley exports rose 42.8% to $693 million because of increased prices.

Canola, of which Canada is the world's largest exporter, has enjoyed a resurgence in demand thanks to the burgeoning biodiesel industry. A record canola harvest and rising prices led to a 71.3% increase in exports to $3.9 billion. Wheat exports rose 48.1% to $6.9 billion; the growth was based entirely on price increases, as volumes fell.

Automotive products continued to weaken

Automotive products fell 21.0% to $61.1 billion, continuing a downward trend that began in 2002. The decline can be attributed to a drop in volumes, as demand for passenger autos and trucks declined in the United States.

The economic crisis in the United States depressed car and light truck sales, leaving auto companies with unmovable inventories. This decline in sales pushed exports of passenger autos down 14.8% to $34.1 billion, as volumes declined in 2008.

As a result of these decreases, production at auto plants was sharply lower. Exports of trucks and other motor vehicles also dropped 44.4%, to $7.2 billion, but this was because of a large decline in volumes, as prices increased 10.4%.

Imports

Table 3 Canada's merchandise imports, 2003 to 2008

	2003	2004	2005	2006	2007	2008	Difference from 2007 to 2008	Share of total imports
	import value[1] in billions of current Canadian dollars						percentage	
Agricultural and fishing products	21.5	21.4	22.0	23.5	25.5	28.5	11.8	6.4
Energy products	19.8	24.8	33.7	34.6	36.6	53.0	44.9	12.0
Forestry products	3.0	3.2	3.1	3.1	3.0	2.9	-4.1	0.6
Industrial goods and materials	65.3	73.5	78.6	84.0	85.1	91.6	7.6	20.7
Machinery and equipment	98.7	104.1	110.9	114.7	116.6	122.5	5.1	27.7
Automotive products	76.5	77.4	78.4	79.8	80.0	72.0	-10.1	16.3
Other consumer goods	46.3	47.7	49.5	52.0	54.8	57.5	5.0	13.0
Total imports	**342.7**	**363.2**	**387.8**	**404.3**	**415.0**	**442.8**	**6.7**	**100.0**

1 On a balance-of-payments basis.
Data source: Statistics Canada, International Trade Division.
Table source: Statistics Canada, 2008, *International Merchandise Trade Annual Review* reference year: 2008, catalogue number 65-208-XIE.

Energy imports continued upward trend

Imports of energy products increased in 2008, gaining 44.9% to reach $53.0 billion mainly due to a 29.9% gain in prices. Prices of import energy products have been on the rise since 2002.

Imports of crude petroleum remained strong from Canada’s usual sources, such as Algeria, Norway, the United Kingdom, United States and Saudi Arabia. Representing a new supply source in 2008 was Azerbaijan, the ninth-largest source of Canadian crude petroleum imports. Behind the increase in imports from Azerbaijan is new production from the Caspian Sea, which helped this country become the largest contributor to non-OPEC supply growth in 2006 and 2007.

Also contributing to the rise in energy product imports was gasoline, diesel fuel and aviation fuel, as prices for refined petroleum products experienced a considerable increase during the first half of the year. Finally, natural gas imports from the United States also rose in 2008.

Industrial goods and materials rose on prices

Rising prices for most of the year were behind the 7.6% gain in industrial goods and materials in 2008, as the volume of goods imported declined. Contributing to the growth was the increased value of precious metals and alloys imports, which rose 30.6% to $5.5 billion, as the price of gold on the global market rose in the first half of the year. In addition, there was heightened demand for gold for investment purposes as the financial crisis continued.

Metals and metal ores benefited from high prices in 2008. Prices increased 12.5%, while volumes remained virtually unchanged from 2007. The increase in prices led to a 13.3% rise in the value of metals and metal ore imports.

Furthermore, the growth in imports of chemicals and plastics, which increased 4.6% to $31.6 billion, contributed to the gain in industrial goods and materials. Much of the increase can be attributed to the importation of active agents used in the production of various medications.

Machinery and equipment continued to grow

Rising for the fifth year in a row, imports of machinery and equipment grew 5.1%, totalling $122.5 billion in 2008. Contributing to the gain was industrial and agricultural machinery to support mining and exploration and farming activities in Western Canada. Imports of industrial and agricultural machinery rose 8.5% to $34.2 billion.

Higher imports of cellular phones contributed to the increase in “other communication and related equipment,” as many new phones hit the marketplace in 2008.

Automotive products down following four-year rise

Following four years of increases, imports of automotive products dropped 10.1% to $72.0 billion, the lowest level since 1998. The decrease was widespread, with passenger autos, trucks and motor vehicle parts all posting declines.

Passenger autos imports declined 1.1% to $26.0 billion, with sales in Canada dipping below 2007 levels. Prior to the third quarter fallout in the financial sector and decline in oil prices, there was a move toward fuel-efficient vehicles to combat the high gasoline prices seen in the first half of 2008. This led to a shift towards compact and sub-compact cars, as customers traded in their sport utility vehicles (SUVs) and pick-up trucks. However, in the final quarter, imports of passenger autos dropped off, as sales began to slow.

The decline in imports of motor vehicle parts reflected a strike at an American parts producer as well as a slowdown in Canadian automobile production resulting from declining sales. In addition, decreased demand for trucks in Canada, as evidenced through a downturn in sales, added to the decline. Truck imports decreased 13.5% to $15.1 billion.

Canada's trading partners[1]

Canada continued to diversify its trade portfolio, resulting in a diminished reliance on the United States as a trading partner. In 2008, trade with our southern neighbour accounted for 65.7% of total trade, down from 74.0% in 2003.

Exports to countries other than the United States have been growing for the past six years, representing 22.3% of total exports in 2008, compared with 14.3% in 2003. Leading the gain were increased exports to Brazil and the Asia Pacific countries.

Similarly, imports from countries other than the United States have also been on the rise for the past seven years, and now make up 47.6% of Canada's total imports. Most of the growth in non-U.S. imports in 2008 was with China and European countries.

United States

Following two years of decline, exports to the United States increased 5.6% to $375.8 billion in 2008, based largely on a 62.0% increase in crude petroleum. Other energy products, such as natural gas and petroleum and coal products, also contributed to the increase, rising 16.6% and 19.6%, respectively.

In addition, large gains in agricultural products were made as the value of exports of wheat and barley more than doubled from 2007. As well, companies in Canada helped their American neighbours grow their crops, supplying $4.8 billion worth of fertilizer, 71.6% above 2007 levels. Moderating these increases were decreased exports of passenger automobiles, trucks and motor vehicle parts.

Canada imported $226.9 billion worth of goods from the United States, an increase of 2.9% over 2007. The main contributors were energy and agricultural products, which more than offset the declines in passenger autos, trucks and motor vehicle parts.

Mexico

Exports to Mexico continued their five-year upward trend, gaining 17.9% in 2008 to reach $5.8 billion. Canola exports, which benefited from a record crop in 2008, accounted for the largest portion of exports to Mexico, increasing 80.3% from 2007 to reach $821.4 million. Motor vehicle parts and electric circuits were the next largest export contributors.

Imports from Mexico rose to $17.9 billion, an increase of 4.2%. 'Other communications and related equipment' was the largest contributor, increasing 15.1% to $3.4 billion, and it consisted mainly of imports of flat-panel, high-definition televisions, which have gained in popularity as the items have become more affordable.

In contrast to Canada's overall automotive imports, the value of passenger car imports from Mexico increased 29.6% to $1.8 billion. However, truck imports declined 16.9% and motor vehicle parts imports dropped 14.1% to $2.9 billion.

1. Customs based data were used in the analysis of Canada's trading partners.

Brazil

Canada's exports to Brazil totalled $2.6 billion in 2008—an increase of 70.7%. Fuelling this growth was Brazil's stature as an agricultural country with soil that lacks potassium and requires fertilizer. As one of the world's largest exporters of beef, chicken, ethanol, sugar, coffee, orange juice and soy products, fertilizer is a key ingredient in production and growth. In 2008, Canada exported $423.0 million worth of fertilizer to Brazil, 92.6% above 2007 levels.

Coal and newsprint also added to the increase in exports to Brazil, thanks to increased demand for these products from the South American country. Coal exports more than doubled to $342.1 million, while newsprint paper increased 74.5% to $271.8 million. Some of the demand for newsprint paper can be linked to the lower market penetration of computers and the Internet in Brazil, as compared with other developed countries.

On the other side of the equation, imports from Brazil decreased for the second year in a row, dropping 19.9% to $2.7 billion. The majority of the decline can be attributed to decreasing imports of aircraft, engines, and parts after three years of increase.

Europe

Exports to Europe increased 2.7% in 2008 to $42.1 billion, as declines to Norway and the Netherlands were more than offset by gains made in the United Kingdom, Germany, Turkey and Finland.

The largest declines in exports to Europe were shipments of nickel and inorganic chemicals to Norway and the United Kingdom. In Norway, exports of nickel ores, concentrates and scrap accounted for almost three-quarters of total exports, which declined 32.1%.

Canada's exports of petroleum and coal products to Europe increased dramatically in 2008, reflecting the growth in exports of diesel fuel to the Netherlands and France. The growth was the result of high demand and tight inventories in Europe, where the fuel commands a much higher share of the transportation fuel mix.

Crude petroleum from the North Sea was also the main driver behind the increase of imports from European countries to $64.1 billion. Imports of crude petroleum from the United Kingdom and Norway rose 18.6% and 18.2%, respectively, because of significant increases in prices.

Asia Pacific

Exports to the Asia Pacific region rose 17.5% in 2008 to $39.7 billion, on the strength of two of Canada's main trading partners: China and Japan. Much of this growth can be attributed to demand for Canada's vast natural resources, including coal, wheat and canola.

Coal exports to Asia were on the rise in 2008. The region's coal supply was affected by supply disruptions in countries such as China, where snowstorms halted transportation, reserves dropped to half of normal levels and the government suspended exports for two months. As well, flash floods and torrential rains in Australia halted shipments from production mines. As a result, the value of coal exports to countries such as China, Japan and South Korea more than doubled from 2007 levels. The result of this shortage was a dramatic increase in market prices, which included one of South Korea's largest steel companies paying an Australian supplier triple the price paid in 2007.

Exports of canola and wheat to Asia increased based on the bumper crops harvested in Canada in 2008 and tightened supplies from other countries because of their hot, dry weather conditions. Exports of canola to China increased for the fourth straight year, rising 134.9%, while exports to Japan increased 56.3%—the third consecutive annual increase. Exports of wheat to Japan rose 76.0% in 2008.

For the sixth consecutive year, imports from Asia grew, expanding 6.9% to $83.7 billion. As the dominant source, China was responsible for two-thirds of the imports from the region, increasing 11.3%. Imports from South Korea grew by 11.9%, while imports from Japan decreased 1.1%, the first such decrease since 2004.

'Other telecommunications and related equipment' imports continued their upward trend. China, South Korea and Japan dominated the area of products, which consists of items like cell phones and high-definition televisions.

Passenger cars also contributed to the rise in imports from Asia Pacific. Japan accounted for more than three-quarters of the total imports, followed by South Korea. The gain can be partially attributed to Canada's increasing demand for more energy-efficient vehicles.

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 refer to total exports, and are the dollar value of Canada's merchandise sales to other countries. Export values can be broken down into two components: export prices and export volumes.

Export prices are the prices charged for the merchandise sold. Export volumes are export values adjusted for price, also known as real exports or constant dollar exports. Constant dollar exports are calculated using the Paasche Price indices.

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.

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. Import volumes, or constant dollar imports, are import values adjusted for price. Constant dollar imports are calculated using the Paasche Price indices.

Methods: Analyzing international merchandise trade data

Statistics Canada derives import trade data primarily from administrative records compiled by the Canada Border Services Agency (CBSA). Canadian exports to the United States are compiled using United States import statistics while exports to other destinations are compiled by the International Trade Division from documents (Export Declaration - B13A) received via CBSA and from Summary Reports, Canadian Automated Export Declarations (CAED) and G7 Reports submitted directly to Statistics Canada.

This customs-based information undergoes certain adjustments 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.

Unless otherwise specified all trade values are on a balance of payment basis. Trade data for individual countries are available on a customs basis.