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Canada

CANADA'S STATE OF TRADE

Trade and Investment Update

2015

Canada's
State of Trade

Trade and Investment
Update – 2015

ABOUT THIS DOCUMENT

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Executive Summary

Real global output growth held steady at 3.4 percent in 2014, the same pace as recorded in 2013 and 2012. The shift in the sources of world growth continued, however, as growth in the developed economies strengthened, while growth in the developing economies weakened. In absolute terms, the latter still contributed three-quarters of overall economic growth for the year. The overall economic conditions were shaped by many complex forces in 2014. There were global shocks, such as the drastic decline of oil prices in the second half of the year; long-term trends, such as the aging population and labour force in developed countries; and various regional issues, such as corruption scandals and military conflicts.

The strong post-recession growth of the developing economies was founded in large part on China's demand, whose investment growth was a source of support for commodity prices worldwide. As China's investment growth moderates, and its development paradigm shifts gears, the growth of many commodity exporters in the developing world is slowing down. Many of these economies are also in need of structural reforms, and the speed and success of these reforms will be uneven. In addition, high local and geopolitical tensions also contributed to weakening output in the Middle East and the Commonwealth of Independent States (CIS). Hence, the medium-term expectations for the developing economies have weakened; gross domestic product (GDP) growth is expected to decelerate for the fifth straight year in 2015 before picking up in 2016 as these headwinds weaken.

Practically all large developed economies grew faster in 2014, with the exception of Japan. The eurozone is finding its feet, with the monetary authority ranged strongly behind its members. The United Kingdom, Canada and the United States were the growth leaders, with the latter expected to fuel the recovery of the advanced world in the medium term. Lessened fiscal drag, continued monetary policy support, lower oil prices and a strong housing market are expected to propel it into the growth lead once again in 2015 and 2016, accelerating to over 3 percent, implying an advance to 2.4-percent growth for the developed economies as a whole in both of those years.

Canada was in an unusual situation for a developed economy in two ways in 2014. The unquestionable benefits of lower oil prices common throughout its peer group did not apply to Canada, as the large energy industry was hit hard by the sudden price declines. On the upside, the generally weak prospects for the developed economies due to weakening productivity growth, aging populations and fiscal challenges applied to Canada even less, as its performance in labour force growth and fiscal matters has been markedly better than those of its peers. Real GDP growth picked up to 2.5 percent in 2014, after increasing 2.0 percent in 2013. Output grew slowly in the first quarter of the year due to inclement weather, but rebounded in the second quarter and grew faster on average in the second half of the year than in the first half. Output increased for all major industrial sectors, with the exception of agriculture, forestry, fishing and hunting. Goods production expanded 2.6 percent, while services output grew 2.3 percent. Employment grew by just 0.6 percent last year, yet the unemployment rate declined by 0.2 percentage point to 6.9 percent. Employment in goods-producing industries decreased 0.3 percent, but fared better in the services-producing industries, increasing 0.9 percent. Inflation recovered to 2.0 percent after a slow year in 2013, matching the Bank of Canada's 2-percent target.

World trade volume accelerated in 2014 for the second straight year, posting a growth of 2.8 percent in real terms following a 2.4-percent expansion in 2013. The pickup in trade growth was largely due to increased activity in the developed economies that serve as Canada's principal trading partners. Import growth soared from negative

0.2 percent in 2013 to positive 3.2 percent in 2014, while export growth rose from 1.6 percent in 2013 to 2.2 percent in 2014. By contrast, imports declined sharply in the developing economies, and exports declined slightly. Overall, global trade growth remains abnormally low compared to the annual average of 5.1 percent since 1990.

Canada's trade performance was strong in 2014: real exports of goods expanded 6.0 percent and real imports increased by 2.4 percent. In value terms, Canada's exports of goods expanded 10.3 percent while imports grew 7.6 percent, and thus the goods trade deficit became a surplus in 2014. For services, exports also expanded faster than imports, and the services trade deficit narrowed slightly. Overall, the trade deficit for both goods and services declined from 2013 to 2014, leading to an improvement of $12.8 billion in the current account balance.

Looking at trade in detail, Canada's merchandise exports increased $53.0 billion (up 11.2 percent) to exceed $500 billion for the first time in 2014, while Canada's merchandise imports advanced $35.9 billion (up 7.5 percent) to also pass the $500-billion mark. With exports rising more than imports, the merchandise trade deficit was eliminated and transformed into a $13.4-billion surplus. As the economic recovery in the United States finally gathered steam, U.S. demand for Canadian products ramped up, and exports to the United States increased by $45.0 billion (mostly due to energy and vehicles). 2014 was the third year in a row in which the share of Canadian exports to the United States increased. Exports to China, meanwhile, declined for the first time since 2002. Although growth in exports of energy products accounted for one-third of all export growth, that growth was broad-based with double-digit increases in 7 out of the top 10 exported products. Conversely, on the imports side, energy showed very little growth, and the overall growth of the top 10 product imports was less than the average. Imports from the United States, China and Mexico all showed above-average growth in 2014. Over a third of the overall $30.2-billion increase in imports from the United States occurred in energy products, while the rest of the increase was broad-based.

Global foreign direct investment (FDI) flows declined to US$1.26 trillion in 2014, below the pre-crisis average. FDI inflows into developing economies continued increasing, while those into developed economies declined to near-historic lows. North America, in particular, posted a sharp 54-percent drop in inflows. The majority of the outward flows originated from developed countries, but their level of investment was virtually on par with that of the previous year. Meanwhile, FDI from developing countries continued to rise, gaining almost 30 percent in 2014.

FDI inflows into Canada dropped by 18 percent in 2014, to $59.6 billion, roughly half of the 2007 peak. A sharp fall in intra-company loans was largely responsible, reversing a large increase during the previous year. In 2014, inflows decreased in energy and mining, as well as in manufacturing, finance and insurance, and trade and transportation. Inflows into management of companies and enterprises, however, increased significantly, with that sector's share almost quadrupling in a year. On the other hand, the stock of FDI in Canada increased by $40.3 billion, or 5.8 percent. The manufacturing sector and the mining and oil and gas sector, already the two largest sectors for foreign investment, together accounted for almost 55 percent of the increased FDI in Canada last year. The United States holds nearly half of all FDI in Canada and accounted for nearly half of the increase.

Canada's outflows of direct investment increased 11.8 percent in 2014 to $58.2 billion. Investment in energy and mining nearly quintupled (up 383.0 percent) and more than doubled in management of companies and enterprises (up 134.3 percent). The stock of Canadian direct investment abroad (CDIA) rose by $67.3 billion (up 8.8 percent) in 2014, most of it located in North America. Finance and insurance remained the primary sector for CDIA, with over a third of the added stock of investment accruing to this sector in 2014. Canada has been a net exporter of FDI since 1997 and its net direct investment asset position surpassed $96.0 billion in 2014, a record high.

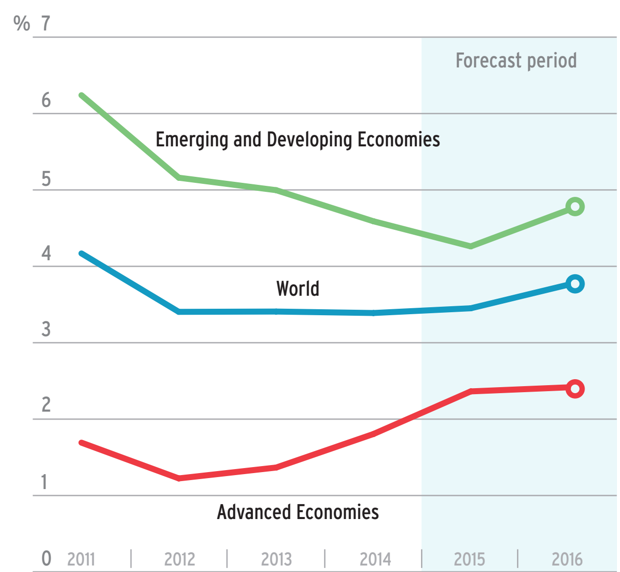
CHAPTER 1

Global Economic and Trade Performance

Global Economic and Trade Performance[1]

Economic growth after the global economic crisis of 2008-09 was expected to be slow, but six years after the crisis erupted, it may be said, in all fairness, that these predictions were understated. The global economy is going through a process of realignment and adjustment to the new economic realities; meanwhile, year after year, economic forecasts overstate the expected growth. Many complex forces, which differ from region to region, are responsible for the failure of global output to do better. Yet overall, there is a surprising stability in the world's economic performance—the rate of growth of the global real GDP was the same in 2014 as it was in 2012 and 2013. One might wonder if this performance represents the new reality of diminished expectations, ushered in during the Great Recession, but not necessarily caused by it. As the export-based development paradigm sputters, the receding flood of liquidity exposes the hidden structural issues in many developing countries, like a withdrawing ocean wave bares the rocky ribs of the sea floor. Had Leo Tolstoy been an economist, he might have noted that, like happy families, all booming economies are alike; every struggling economy is struggling in its own way. Meanwhile, the advanced economies contend with their own problems of aging population, high indebtedness and weak investment.

FIGURE 1-1
GDP Growth by Major Regions, 2011-2014 and forecast 2015-2016



Real global GDP growth remained stable at 3.4 percent in 2014, and the records of the previous two years have been revised to the same figure. But this seemingly stable overall growth is hiding an unusual degree of turbulence. The two key processes are diminished medium-term expectations for the growth of developing economies, and the slow strengthening of the recovery in the advanced economies, albeit with weaker long-term prospects. The International Monetary Fund (IMF) forecasts growth to rise marginally in 2015 to 3.5 percent before reaching 3.8 percent in 2016 as downward pressures on several countries' economies, particularly those of Russia and Brazil, are expected to ease; these projections represent downward revisions from last year. The increase in growth will be primarily driven by the advanced economies, led by the United States.

Growth in the major advanced economies picked up from 1.4 percent in 2013 to 1.8 percent in 2014, as practically all advanced countries (with the significant exception of Japan) experienced faster growth. Growth in the United States was stronger than expected, driven by strong consumption; U.S. GDP growth rose to 2.4 percent in 2014

1 Statistics, estimations and projections in this chapter come from the International Monetary Fund's *World Economic Outlook*, April 2015, supplemented by statistics from the WTO, U.S. Bureau of Economic Analysis, Statistics Canada, Japan's Cabinet Office, the European Central Bank, and the *World Economic Outlook* April 2015 database.

from 2.2 percent in 2013. The eurozone as a whole was back to positive growth in 2014, with a strong pickup in Germany and Spain. The United Kingdom led the G-7 in growth last year, with 2.6 percent, up from 1.7 percent in 2013, and Canada picked up speed with a 2.5-percent performance in 2014, up from 2.0 percent the year before. Japan had a poor second half of the year caused by weak consumption and decreasing residential investment, causing its growth to tip into negative territory. Nevertheless, this overall improvement in growth among the advanced economies is expected to continue in the medium term; with the United States at the head, and most of them aided by lower oil prices, the advanced economies are projected to produce growth of 2.4 percent on average in both 2015 and 2016.

The developing economies slowed down from 5.0-percent growth in 2013 to 4.6 percent in 2014. The post-recession strength of these economies was founded in large part on strong growth of China, whose investment was in particular a mainstay of the commodity prices worldwide. That investment growth moderated in the second half of 2014, and, in tandem with a considerable supply response, reined in the commodity prices, slowing the growth of many commodity exporters. High local and geopolitical tensions also contributed to weakening output in the Middle East and the Commonwealth of Independent States (CIS). GDP growth in developing economies is expected to decline further—to 4.3 percent in 2015—for the fifth year in a row, but then pick up to 4.7 percent in 2016 as the headwinds wane.

The United States remains on track for another impressive economic performance in 2015. On the heels of about 4-percent average growth in the last three quarters of 2014, the current year's growth will be supported by a lessened fiscal drag, continued monetary policy support, much lower energy prices, and a strong housing market. Growth is expected to improve in the eurozone, with a boost from lower oil prices, lower interest rates, more neutral fiscal policy and the depreciation of the euro. These factors will also support Japan in its return to small positive growth, as the effects of its consumption-tax hike wear off. The United Kingdom, Canada and Australia are all expected to turn in fairly strong performances. In developing economies, the biggest news is the slowing down of China and the acceleration of India, with the latter expected to grow faster than the former in 2015. Both movements involve their governments to a great degree; while China's government is managing the unwinding of the recent credit and investment boom, India's is making considerable reforms and investments, particularly in infrastructure, to support its growth aspirations. Brazil is headed for a mild contraction, and Russia for a substantial one, spilling their weaknesses into the regions they dominate. Inflation is projected to decline across the globe as oil prices weaken. As far as oil prices are concerned, they remain a source of uncertainty, with downside as well as upside risks.

World trade volumes accelerated in 2014 for the second straight year, posting a growth of 2.8 percent following a 2.4-percent increase in 2013. The pickup in trade growth in 2014 was due largely to increased activity in the developed economies, primarily due to imports growth, which rose from negative 0.2 percent in 2013 to positive 3.2 percent in 2014 while their exports growth rose from 1.6 percent in 2013 to 2.2 percent in 2014. By contrast, among developing economies, imports declined sharply, while exports declined slightly. Overall, global trade growth remains abnormally low compared to the annual average of 5.1 percent since 1990: instead of trade growth following the traditional "double the GDP growth rate" pace, in 2014, it was actually slower than the world GDP growth. IMF analysis indicates structural changes in the global supply chains are at least partly responsible for that phenomenon.

Asia continued to lead the world in export growth, with a 4.9-percent increase, while North America came in a close second, with 4.3-percent growth. But North America led growth in imports, with a 4.4-percent pace, with Asia next at 3.6-percent growth. Projections call for real world trade growth to increase to 3.3 percent in 2015—a full two percentage points below last year's forecast—and to reach 4.0 percent by 2016.

Nominal world exports (i.e. measured in U.S. dollars) grew more slowly than real trade, rising 0.7 percent to US$18.95 trillion in 2014. That difference reflects the weakening of export and import prices during the year, particularly commodity prices. China remained the largest merchandise trader in the world, ahead of the United States.

World services exports rose 4 percent in value to US$4.85 trillion in 2014, much faster than the rate of expansion of merchandise exports.

Overview and Prospects for the Global Economy

A slightly higher global GDP growth of 3.5 percent is expected for 2015, with improvement in advanced economies to 2.4 percent, but a further slowdown in developing economies to 4.3 percent. The latter should show better growth in 2016, with acceleration to 4.7 percent, as the advanced economies maintain a steady course.

The increase in growth in 2015 will be driven by advanced economies, with the United States conspicuously in the lead. Growth will be supported by generally low oil prices, as well as lower prices for other commodities—with Canada the one exception among the advanced economies: lower oil prices will slow its growth, at least in the short run. Fiscal policy is expected to remain at least neutral in most advanced economies, and monetary stimulus conditions will continue in the short term. In developing economies, a number of diverse domestic issues will restrain short-term growth, including corruption scandals, geopolitical adventures and commodities dependence.

TABLE 1-1
Real GDP Growth (%) in Selected Economies (2014 and forecast 2015-2016)

	2014	2015	2016
World	3.4	3.5	3.8
Advanced Economies	1.8	2.4	2.4
Canada	2.5	2.2	2.0
United States	2.4	3.1	3.1
United Kingdom	2.6	2.7	2.3
Japan	-0.1	1.0	1.2
Eurozone	0.9	1.5	1.6
of which France	0.4	1.2	1.5
of which Germany	1.6	1.6	1.7
of which Italy	-0.4	0.5	1.1
Developing Economies	4.6	4.3	4.7
Developing Asia	6.8	6.6	6.4
of which China	7.4	6.8	6.3
of which India	7.2	7.5	7.5
CIS	1.0	-2.6	0.3
of which Russia	0.6	-3.8	-1.1
Emerging Europe	2.8	2.9	3.2
Latin America and Caribbean	1.3	0.9	2.0
of which Brazil	0.1	-1.0	1.0
of which Mexico	2.1	3.0	3.3
Middle East and North Africa	2.6	2.9	3.8
Sub-Saharan Africa	5.0	4.5	5.1

The underperformance of the emerging and developing economies for the past few years led the IMF to re-evaluate their medium-term outlook. Growth in Asia will continue to decelerate as China cools down some excesses of its domestic investment boom. India is projected to accelerate to 7.5 percent, driven by its reform-minded government and considerable investment. Low commodity prices will weigh heavily on Latin American countries, and with no help expected from Brazil mired in its economic and political turmoil, the region's growth will slow to a crawl in 2015. Mexico, however, is on the way to a quick recovery. Russia's aggressive stance will cast a shadow on the CIS region, increasing uncertainty and reducing growth—particularly within Russia itself. Growth in the Middle East and North Africa region will remain tepid in 2015, but should strengthen by 2016 as the effects of the lower oil prices are digested. Sub-Saharan Africa is showing some of its best growth ever, despite the Ebola epidemic and lower oil prices. That growth will be pegged back somewhat through the influence of lower commodity prices in 2015, but it should be back to its current 5-percent pace by 2016.

Overview and Prospects for World Trade

Merchandise Exports

Real exports of developed economies grew 2.2 percent in 2014, while the exports of developing economies grew 3.3 percent. Asia was the foremost region in export growth, with a 4.9-percent increase, while North America was a close second, with 4.3-percent growth. Real exports of South and Central America declined 2.5 percent, due to the recessionary conditions in the leading economies and to the demand-induced fall in commodity prices across the board.

Nominal world exports (i.e. measured in U.S. dollars) stagnated in 2014, rising just 0.7 percent to US$18.9 trillion. This was due to a decline in export and import prices, particularly for primary commodities.

Among the large economies, last year's growth deflated in the United Kingdom whose exports were down 6 percent; in Russia and Brazil, declines in exports dragged down the overall exports of the CIS and South and Central America, respectively. China's exports growth still led the world at 6 percent, while Japan's exports contracted 4 percent. A growth rate of 3 percent was recorded in North America, while Africa and the Middle East saw their exports reduced due to falling prices for oil and other commodities.

TABLE 1-2
World Merchandise Exports, 2014, by Regions

	Value US$B	Share (%)	Growth (%)
World	18,427	100.0	1
North America	2,495	13.5	3
United States	1,623	8.8	3
Canada	474	2.6	3
Mexico	398	2.2	5
South & Central America	695	3.8	-6
Brazil	225	1.2	-7
Europe	6,736	36.6	1
EU-28	6,161	33.4	1
Germany	1,511	8.2	4
France	583	3.2	0
United Kingdom	507	2.8	-6
Italy	529	2.9	2
CIS	735	4.0	-6
Russia	497	2.7	-5
Africa	557	3.0	-8
Middle East	1,293	7.0	-4
Asia	5,916	32.1	2
China	2,343	12.7	6
Japan	684	3.7	-4
India	317	1.7	1
NIEs	1,312	7.1	1

Merchandise Imports

In contrast to the export picture, and to the previous year's performance, the real imports of the developing economies grew more slowly (up 2.0 percent) than the real imports of developed economies (up 3.2 percent) in 2014. North America led all regions with 4.4-percent growth, while Asia's imports grew 3.6 percent. The decline in South and Central America's exports was matched by a 3.0-percent fall in its real imports, while the collective real imports of Africa, the CIS and the Middle East stagnated.

In nominal terms, the strongest region for imports growth was North America, with 3-percent growth. Imports were also up by 2 percent in Europe and in Africa. Asia's imports stagnated, while the imports of South and Central America declined by 4 percent. A sharp 12-percent import decline occurred in the CIS, due to falling oil prices and regional conflict.

Mexico led import growth in 2014, with a 5-percent increase, followed by the United Kingdom with 4 percent and the United States with 3 percent. Brazil and Russia experienced substantial import declines, which may be exaggerated due to evaluation of trade flows in terms of the strengthened U.S. dollar.

Europe remains the world's leading importer and its current economic weakness is one of the most important factors accounting for the recent travails of global trade. Asia's import performance follows closely behind, by a margin of less than $1 trillion.

TABLE 1-3
World Merchandise Imports, 2014, By Regions

	Value US$B	Share (%)	Growth (%)
World	18,574	100.0	1
North America	3,297	17.8	3
United States	2,409	13.0	3
Canada	475	2.6	0
Mexico	412	2.2	5
South & Central America	742	4.0	-4
Brazil	239	1.3	-5
Europe	6,717	36.2	2
EU-28	6,129	33.0	2
Germany	1,217	6.6	2
France	679	3.7	0
United Kingdom	683	3.7	4
Italy	472	2.5	-2
CIS	506	2.7	-12
Russia	308	1.7	-10
Africa	647	3.5	2
Middle East	790	4.3	1
Asia	5,874	31.6	0
China	1,960	10.6	1
Japan	822	4.4	-1
India	460	2.5	-1
NIEs	1,316	7.1	1

Services Exports

The overall value of world services exports rose 4 percent to US$4.9 trillion. Commercial services grew the fastest, at 5 percent, followed by travel services, at 4 percent, while transport services increased only by 2 percent. In contrast to merchandise exports, services exports increased by small amounts across all regions in 2014—with the exception of the CIS, whose services exports fell by 8 percent after rising 11 percent in 2013.

The Middle East was the fastest-growing region for services exports in 2014, at 6 percent. This was followed by 5-percent growth in services exports from Europe and Asia. South and Central America saw 4-percent growth in services exports, while North America and Africa recorded a 3-percent increase.

Among large economies, Japan's services export performance was outstanding, with a 19-percent increase during the year. The Netherlands' 11-percent export growth was second, while China recorded an 8-percent increase. Canada's exports denominated in U.S. dollars fell 4 percent due to the currency effect, but grew 3 percent in Canadian dollar terms.

Europe continued to be the world's leading provider of services, accounting for just under half of the global value of services, at US$2.3 trillion, due largely to intra-EU trade in services. Asia ranked second, with just over half of that amount (US$1.2 trillion), while North America was third, with US$0.8 trillion—accounting for 16.3 percent of the global services exports in 2014.

TABLE 1-4
World Services Exports, 2014, By Regions

	Value US$B	Share (%)	Growth (%)
World	4,862	100.0	4
North America	793	16.3	3
United States	686	14.1	3
Canada	85	1.7	-4
Mexico	21	0.4	5
South & Central America	156	3.2	4
Brazil	40	0.8	6
Europe	2,349	48.3	5
EU-28	2,153	44.3	5
Germany	267	5.5	5
United Kingdom	329	6.8	4
France	263	5.4	4
Netherlands	156	3.2	11
CIS	110	2.3	-8
Russia	66	1.4	-5
Africa	94	1.9	3
Middle East	124	2.6	6
Asia	1,236	25.4	5
China	222	4.6	8
Japan	158	3.2	19
India	154	3.2	4
NIEs	403	8.3	4
Exports by Category			
Transportation	941	19.4	2
Travel	1,234	25.4	4
Commercial & Other Services	2,686	55.2	5

Services Imports

World services imports expanded 5 percent to US$4.7 trillion in 2014. Like exports, all regions showed growth, with the exception of the CIS, whose imports declined by 4 percent.

Just as in services exports, the Middle East was the fastest-growing region for imports of services, at 9 percent. Asia's imports followed, with 6-percent growth, driven by strong growth from China (up 16 percent) and Japan (up 12 percent), while India's imports declined by 1 percent. Overall, Asia accounted for 28.5 percent of world services imports in 2014.

Europe was the largest importer of services in 2014, with 41.9 percent of the world's total and 5-percent growth. Among European countries, the Netherlands and France led import growth, while the United Kingdom's imports declined. Africa's imports grew at the same 5-percent rate, continuing to account for 3.6 percent of the world's total.

In North America, services imports advanced 3 percent, led by Mexico (up 9 percent) and the United States (up 4 percent). Canada's imports showed a 5-percent decline expressed in U.S. dollars, but a 2-percent increase expressed in Canadian dollars.

TABLE 1-5
World Services Imports, 2014, By Regions

	Value US$B	Share (%)	Growth (%)
World	4,741	100.0	5
North America	593	12.5	3
United States	454	9.6	4
Canada	106	2.2	-5
Mexico	32	0.7	9
South & Central America	202	4.3	1
Brazil	87	1.8	5
Europe	1,988	41.9	5
EU-28	1,810	38.2	5
Germany	327	6.9	1
United Kingdom	189	4.0	-1
France	244	5.1	6
Netherlands	165	3.5	8
CIS	169	3.6	-4
Russia	119	2.5	-5
Africa	169	3.6	5
Middle East	271	5.7	9
Asia	1,349	28.5	6
China	382	8.1	16
Japan	190	4.0	12
India	124	2.6	-1
NIEs	368	7.8	3

CHAPTER 2

Economic and Trade Developments: Regional and Country Overview

Economic and Trade Developments: Regional and Country Overview

The global economy remained poised at the stable growth level of 3.4 percent for the third straight year, balanced between the declining pace of growth in developing economies and the long-expected recovery in the developed economies. Although growth picked up in the developed world, the developed economies still accounted for just one-quarter of overall economic growth. In many ways, each country is still attempting to find its own way out of the consequences of the economic and financial crisis of 2008-2009, and advantages will accrue to those economies that are quicker to adapt to the new environment. Among the developing economies, China and India seem to be clear leaders in these undertakings, shaping the post-crisis world in the image of their success or failure. But the need for reforms is not limited to the developing world: the developed world must also master the challenge of shoring up domestic market demand and progressing beyond traditional channels in production and trade to break out of the constraints imposed by the gloomy realities of aging populations and shrinking labour force. A strong boost to private demand from lower oil prices, and many commodities in general, is welcome news for most economies, whereas rising geopolitical tensions are not. Many advanced economies must also overcome the insidious problem of low inflation, with a fairly clear case for activist fiscal and monetary policy.

The overwhelming influence of the United States on Canada's economy and commerce notwithstanding, three regions remain of particular importance to Canada in 2014. Emerging Asia is continuing to be an exemplary region for global growth, and opportunities arising there every year are peerless. There is always opportunity in the sophisticated consumer markets of Europe, and proximity with closer engagement than ever has made Latin America and the Caribbean a trade priority. On the country level, the evolution of the global economy means that out of Canada's top three commercial partners, only one—the United States—is an advanced economy; the other two, China and Mexico, are developing economies. This chapter provides a brief overview of the most important facets of economic and trade developments in these countries and regions.

Although the United States ranked third in economic growth in 2014 in the G-7, after the United Kingdom and Canada, it continues to be an immensely important growth reserve for the advanced economies. It is expected to be the growth leader among these once again in 2015 and 2016, accelerating above 3 percent with the immense strength of its consumer demand finally recovered. The fiscal drag decreased considerably in 2014, the housing market continued its revival, and non-residential investment also showed up strong, with investment in structures leading the way. The United States will experience more stimulus from increased consumer confidence and lower oil prices, although the latter will not be as significant as in the past due to the United States' increased oil output in the past few years. For the third straight year, the share of the United States in Canada's trade, both exports and imports, has increased, reinforcing the strength of the economic relationship between the two countries.

China's economic strength is no less clearly shown in its commitment to the smooth transition from export-based growth to domestically driven growth than in the double-digit growth rates of yesteryear. Its controlled deceleration to 7.4 percent in 2014 largely put paid to the fears of a hard landing, and the projections of 6.8-percent growth in 2015 and 6.3 percent in 2016 are associated with fewer risks as growth is expected to be more reliant on consumer spending and, therefore, more stable. The current slowdown is primarily due to the unwinding investment correction, with monetary policy deployed in support of the transition. Inflation, unemployment and current account surplus remain in good territory, and continued movement up the value chain is expected to generate new commercial opportunities.

Mexico rebounded from a 2013 slowdown, and projections are for better performance in the medium term. Business investment recorded a healthy growth, and trade made a strong contribution as well. Mexico's role within NAFTA continues to be important in the automotive and machinery markets, on the strength of which it has become the third-highest import supplier to Canada. Continued development and structural reform are expected to open further opportunities for Canadian businesses in Mexico, and its geographical proximity should ensure that these opportunities are long-lasting. Reforms in the telecom and energy sectors are expected to boost foreign investment.

Regionally, emerging Asia—whose importance extends beyond China's strengths—is one of the key areas for Canada's commercial activities. Large export platforms in such areas as electrical and electronic machinery (Malaysia and Thailand), services (India), and apparel (Vietnam and Bangladesh) continue to develop and evolve. Emerging Asia has been the world's fastest-growing region, with excellent prospects for the future. However, emerging Asia's potential is not as large as it appears: extensive growth is finite and its limits might already have been reached for the apparel platforms in particular. The future of the region depends on how successful these countries are in shifting their economic paradigms away from export-led development, but early indications in the case of China are quite encouraging.

The eurozone is doing better and appears able to hold together through its post-crisis travails. A firm monetary intervention from the European Central Bank has quieted the bond markets, and though the difficult negotiations with Greece are continuing, they are no longer an existential threat. Growth is picking up as the fiscal drag eases up, with positive growth in Germany, France and Spain; even so, geopolitical risks and trade sanctions are now afflicting this region. A large portion of Canada's trade and investment is historically tied to the eurozone, and rooted in shared norms, values and history. The importance of the eurozone is underscored by the recent conclusion of negotiations for the Canada-EU Comprehensive and Economic Trade Agreement (CETA), and it will remain a key part of Canada's commerce for decades to come.

Countries in Latin America and the Caribbean are Canada's hemispheric neighbours and a priority in their own right due to that proximity. A concerted effort has led to the signing of several investment protection and free trade agreements in the past decade, and many countries in that area have become important suppliers to Canadian businesses (e.g. Chile, Peru and Colombia). Growth in this region slowed considerably; Mexico is the best prospect as it is heading for recovery, but Brazil is on the way to negative growth. Yet long-term prospects for the region are still favourable.

Country Overview

United States

Economic growth in the United States picked up slightly in 2014, to 2.4 percent. This growth primarily reflected positive contributions from household expenditures, with services leading the way. Business fixed investment also made an important contribution to the growth, with a sizeable increase in non-residential investment led by structures. These effects were partly offset by a negative contribution from net exports, a reversal from the previous year due to increased imports: although exports accelerated slightly in 2014, this acceleration was eclipsed by a large increase in imports, particularly imports of goods. The drag on real GDP from imports was 0.65 percentage point, larger than the positive contribution from exports of 0.43 percentage point. The considerable drag from reduced federal government spending was substantially decreased, and state and local government spending picked up somewhat.

Weak first quarter growth in both 2013 and 2014, and again in 2015, which was partly due to the effects of inclement weather, substantially affected real GDP growth. In the last three quarters of 2014, GDP growth ran close to 4 percent. In the final analysis, the two largest component changes in the real GDP mostly offset each other, as the decrease in the contribution from net exports was nearly matched by the decrease in the drag from government spending, which allowed the increases in household expenditures and business fixed investment to translate into an increase in economic growth.

Overall, the U.S. recovery appears to be on firm ground, with stimulus from lower oil prices and improved consumer confidence. The unemployment rate reached 5.6 percent by the end of 2014 (and 5.5 percent by May 2015), and inflationary expectations remained low, indicating further room for expansion.

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

	Share in current dollars (%)	Growth from previous year (%)		Contributions to percent change in real GDP (percentage points)	
	2014	2013	2014	2013	2014
Gross domestic product	100	2.2	2.4	2.2	2.4
Household expenditures	68.5	2.4	2.5	1.64	1.73
Goods	22.8	3.4	3.4	0.78	0.78
Durable goods	7.5	6.7	6.9	0.49	0.50
Non-durable goods	15.3	1.9	1.8	0.29	0.28
Services	45.7	1.9	2.1	0.86	0.94
Business fixed investment	15.9	4.7	5.3	0.70	0.83
Residential	3.2	11.9	1.6	0.33	0.05
Non-residential	12.7	3.0	6.3	0.37	0.78
Structures	2.9	-0.5	8.2	-0.01	0.23
Machinery & equipment	5.8	4.6	6.4	0.26	0.36
Intellectual property products	3.9	3.4	4.8	0.13	0.19
Investment in inventories	0.5	-	-	0.06	0.09
Net exports of goods and services	-3.1	-	-	0.22	-0.22
Exports	13.4	3.0	3.2	0.41	0.43
Goods	9.3	2.8	4.0	0.26	0.37
Services	4.1	3.6	1.4	0.15	0.06
Less imports	16.5	1.1	4.0	-0.19	-0.65
Goods	13.7	0.9	4.1	-0.13	-0.55
Services	2.8	2.2	3.6	-0.06	-0.10
Government expenditures and gross investment	18.2	-2.0	-0.2	-0.39	-0.03
Federal	7.0	-5.7	-1.9	-0.45	-0.14
State and Local	11.2	0.5	1.0	0.06	0.11

Canada's goods exports to the United States increased by 11.6 percent in 2014, exceeding its overall growth rate of 10.3 percent for all exports. Import growth from the United States increased even faster, by 11.9 percent, also growing faster than the overall import growth rate of 7.6 percent. Growth was much more restrained for services, with 2.4 percent for Canada's exports and 0.3 percent for Canada's imports. The share of the United States in Canada's merchandise exports and imports has grown for the third consecutive year. The top five categories of export commodities were mineral fuels and oil, automotive products, mechanical machinery, plastics, and electrical and electronic machinery.

China

China's economy slowed down slightly to 7.4 percent in 2014, in what is partly a managed shift to a more sustainable pace from investment-fueled to consumption-based growth. There is definitely room for private consumption (as household expenditures are termed in China's statistics) to grow, as it constituted just 36.3 percent of GDP in 2014.[1] However, growth in private consumption slowed down as well last year: from 7.5 percent in 2013 to 6.8 percent in 2014. Investment was the main factor contributing to the slowdown, as correction in real estate gathered speed; growth fell from 9.4 percent in 2013 to just 5.6 percent in 2014.

With investment and consumption falling, trade was largely responsible for keeping the slowdown to a minimum. While growth in exports decreased substantially, from 8.7 percent in 2013 to 5.9 percent in 2014, a much more severe cut took place in imports growth, which was down from 10.8 percent in 2013 to just 4.9 percent in 2014. This implies that a considerable positive contribution from net exports (precise numbers are not available at the time of writing) helped offset the negative impacts of investment and consumption on the annual GDP growth.

According to the IMF, China's economy is expected to continue to slow down in the medium term—to 6.8 percent in 2015 and to 6.3 percent in 2016. Lower commodity prices coupled with reforms aimed at supporting consumption as the new driver of growth are projected to make the landing soft. Inflation is projected to remain below 2 percent, and the current balance to improve above 3 percent of GDP, while reported unemployment will remain stable around 4 percent.

Canada's goods exports to China fell 5.9 percent in 2014, the first decline since 2002. In contrast, Canada's imports from China grew 11.2 percent to $35.6 billion, or over 10 times their value in 1999. China remains Canada's second-largest merchandise export and import partner. Canada's main export commodities to China are wood pulp, canola seeds, ores, wood and energy; Canada's main import commodities from China are electrical and electronic machinery, mechanical machinery, furniture, and toys and sporting equipment.

1 This and other figures for 2014 for China are IHS Global Insight estimates.

Mexico

After a sharp slowdown in 2013 to 1.4-percent growth, Mexico's economic performance was better in 2014. Real GDP growth picked up to 2.1 percent, with household expenditures growing at 2.0 percent. Business investment stopped shrinking and recorded a healthy 4.8-percent growth, contributing 0.5 percentage point to real GDP growth. Net exports made an equal contribution, on the strength of the strong exports expansion; real imports grew as well, but more slowly. After a deficit of 2.4 percent of GDP in 2013, the current account balance improved to a 2.1-percent deficit in 2014, while inflation accelerated from 3.8 percent in 2013 to 4.0 percent in 2014. Unemployment increased to 4.8 percent in 2014.

Projections for Mexico's economy in the medium term call for solid growth of 3.0 percent in 2015 and 3.3 percent in 2016, although lower than previously expected. Consumer demand is slow to pick up, while the IMF considers Mexico's tight fiscal stance to be growth-limiting, considering the potential spillovers from the U.S. recovery. Nevertheless, both inflation and unemployment are projected to decrease in the medium run, and the current account deficit to remain mostly stable.

The increase in the rate of growth of Mexico's real exports was as sharp in 2014 as its reduction in 2013; growth went from 2.2 percent in 2013 to 7.3 percent in 2014, fueling the recorded GDP growth. Imports expanded 5.7 percent in 2014, also an increase from 2.5-percent growth in 2013.

Canada's goods imports from Mexico grew 5.0 percent, with Mexico remaining Canada's third-largest import supplier, predominantly in the automotive sector and the electrical and electronic machinery sector. In contrast, Canada's goods exports to Mexico grew only 1.0 percent. The corresponding movements in merchandise trade on a customs basis were even more pronounced: Canada's merchandise imports from Mexico expanded 7.9 percent, while exports only rose 2.3 percent. As a result, Canada's merchandise trade deficit with Mexico expanded to $23.3 billion in 2014, second only to the deficit with China. However, this deficit is largely an artefact of the automotive industry's preference for Mexico as a location for automotive parts production, whose facilities supply Canada's domestic automotive industry.

Regional Overview

Emerging Asia

According to the IMF's revised estimates, growth in emerging Asia was 7.0 percent on average in 2013, and decelerated thence to 6.8 percent in 2014. In spite of that deceleration, emerging Asia remained by far the world's fastest-growing economic region. With 7.4-percent growth, China's leadership of this group was poised to expire, as India accelerated to 7.2 percent and is expected to take over as the emerging world's growth leader. The ASEAN-5 economies (Indonesia, Malaysia, the Philippines, Thailand and Vietnam) slowed down from 5.2 percent growth in 2013 to 4.6 percent in 2014, in what is expected to be a temporary slackening. Sharp differences between the regional economies are obvious at a glance: Indonesia's inflation is three times that of China, India's per capita income is less than one quarter that of China, and while Malaysia, like China, runs a current account surplus, the opposite is true of India and Indonesia.

TABLE 2-2
Emerging Asia Overview, 2014

2014	Emerging Asia	China	India	Indonesia	Malaysia
GDP Growth (%)	6.8	7.4	7.2	5.0	6.0
GDP per capita ($US)	-	7,589	1,627	3,534	10,804
Inflation (%)	3.5	2.0	6.0	6.4	3.1
Unemployment (%)	-	4.1	-	6.1	2.9
Current Account Balance (% of GDP)	1.3	2.0	-1.4	-3.0	4.6
Real Exports Growth, Goods and Services (%)	6.0	6.4	6.6	2.0	5.3
Real Imports Growth, Goods and Services (%)	6.2	7.1	9.6	-1.0	4.2
Canada's exports to (M$US)	25,619.4	17,550.4	2,923.5	1,833.5	718.9
Canada's imports from (M$US)	67,963.2	53,093.5	2,878.6	1,369.6	2,190.6
Canada's Trade Balance with (M$US)	-42,343.8	-35,543.1	44.9	463.9	-1,471.7

With lower commodity prices, inflation has moderated in most of the region and now averages 3.5 percent. Indonesia's inflation was higher at 6.4 percent, and India's was 6.0 percent—both significantly down from the previous year. Unemployment was fairly low across the region, with Indonesia's 6.1 percent the highest among large economies, although data for India were not available. Malaysia's real exports of goods and services growth of 5.3 percent pushed the boundaries of its current account surplus further, to 4.6 percent of GDP. China's surplus was a rather modest 2.0 percent, as its real imports of goods grew faster than real exports. India opened up a small current account deficit of 1.4 percent of GDP, as its real imports of goods and services grew 9.6 percent, far surpassing the real exports growth of 6.6 percent. Indonesia's current account deficit slightly improved to 3.0 percent of GDP, as its real exports rose and real imports declined.

China remains Canada's most important trade partner in emerging Asia, accounting for about two thirds of Canada's exports and nearly four fifths of Canada's imports. Of key importance in Canada's trade with the region is electrical and electronic machinery, and trade with key international export platforms—China, Malaysia and Thailand are good examples—for these goods is heavily skewed in favor of imports. On the other hand, Canada's trade with other countries in emerging Asia, such as India and Indonesia, is balanced or in surplus, demonstrating that trade deficit is not necessarily a key feature of Canada's involvement in the region. Emerging Asia now accounts for 14.7 percent of Canada's imports and 5.4 percent of Canada's exports, both representing a decline from the previous year.

Eurozone

While news from the eurozone improved in 2014, uncertainty in the region lies just beneath the surface. In 2014, most of the risks turned out on the positive side, causing the eurozone's economic growth to pick up to 0.9 percent, from a negative 0.5 percent in 2013. The decline in commodity prices was broadly supportive of growth across the region, as was the more supportive monetary stance from the European Central Bank. Additionally, the movement of the fiscal policy into a more neutral stance allowed growth to pick up in some countries, though the IMF recommends more effective use of the available fiscal space to boost growth further, particularly through investment. Low inflation persisted, dipping into negative territory in December 2014, despite the European Central Bank's asset purchase program, though the latter succeeded in pushing the euro exchange rate down significantly and made eurozone's exports more attractive. But conflict in Ukraine and the rising shadow of resurgent Russia dampened the economic prospects somewhat, particularly through reciprocal sanctions against Russia.

TABLE 2-3
Eurozone Overview, 2014

2014	Eurozone	France	Germany	Italy	Spain
GDP Growth (%)	0.9	0.4	1.6	-0.4	1.4
GDP per capita ($US)	-	44,538	47,590	35,823	30,278
Inflation (%)	0.4	0.6	0.8	0.2	-0.2
Unemployment (%)	11.6	10.2	5.0	12.8	24.5
Current Account Balance (% of GDP)	2.3	-1.1	7.5	1.8	0.1
Real Exports Growth, Goods and Services (%)	4.2	2.7	3.8	2.4	4.2
Real Imports Growth, Goods and Services (%)	4.3	3.8	3.3	1.6	7.6
Canada's exports to (M$US)	19,936.1	3,003.5	2,844.2	3,785.5	1,018.4
Canada's imports from (M$US)	38,317.6	5,362.8	14,464.8	5,813.7	1,998.3
Canada's Trade Balance with (M$US)	-18,381.5	-2,359.3	-11,620.6	-2,028.2	-979.9

Growth in Germany improved from a stagnant 0.2 percent in 2013 to 1.6 percent in 2014, but in France progress remained tepid, with 0.3-percent growth in 2013 improving to 0.4 percent in 2014. There was a considerable improvement in Spain's economy, which went from contracting 1.2 percent in 2013 to growing 1.4 percent in 2014. Italy's progress was less pronounced, with its economy contracting at a slower pace of 0.4 percent in 2014 after a contraction of 1.7 percent in 2013. Inflation remains below 1 percent in all large economies and is negative in Spain, carrying the risk of prolonged deflation combined with low growth—partly due to its inability to quickly devalue its currency. The biggest economic problem remains unemployment, in double-digits on average through the eurozone—from the staggering 24.5 percent in Spain to 5.0 percent in Germany.

Current account balances as a share of GDP were rather healthy, due in no small part to the German export juggernaut. Germany's current account surplus reached 7.5 percent of its GDP in 2014. Italy's was at 1.8 percent and Spain at 0.1 percent, with France at negative 1.1 percent. Real exports picked up in all of these countries, though real imports grew even faster in France and Spain. Average growth in the eurozone is expected to improve in the medium term, to 1.5 percent in 2015 and to 1.7 percent in 2016.

Canada conducts considerable two-way trade with this region, though less than with emerging Asia. Total imports by Canada from the eurozone amount to US$38.3 billion, or 8.3 percent of the world's total; imports from Germany—mainly automotive products and machinery—account for over a third of this amount. Exports to the eurozone are smaller in scope, amounting to 4.2 percent of Canada's total exports to the world. Trade with the eurozone countries is much broader in scope than with most other regions. While Germany is very important in the region, it does not dominate Canada's trade with its eurozone partners. Many countries occupy key positions in Canada's global supply chains, particularly in commodities at a higher level of detail.

Latin America and the Caribbean (LAC)

After a slight deceleration in 2013, LAC's regional economy slowed down considerably in 2014. Growth fell from 3.1 percent in 2012 to 2.9 percent in 2013 and thence to 1.3 percent last year. Most of the explanation lies in commodity prices, which stayed largely flat in 2013 and then declined in 2014, reducing investment demand and hence growth for many resource-based economies in the LAC region. But the region's economy would not look as weak without a substantial contribution from Brazil, whose weak consumption and political uncertainty related to the Petrobras investigation resulted in a weak 0.1-percent growth in 2014. The news for Brazil's economy is expected to get worse in 2015 with a 1.0-percent contraction. Growth in Mexico, however, recovered from the 2013 slowdown, taking advantage of the proximity to the strengthening United States economy, to reach 2.1 percent in 2014. Bolivia led the region with 5.4-percent growth in 2014, while Venezuela's economy contracted 4.0 percent, reeling from low oil prices. Overall LAC growth is expected to dip to 0.9 percent in 2015 before rebounding in 2016 to 2.0 percent.

TABLE 2-4
Latin America and the Caribbean Overview, 2014

2014	Latin America & the Caribbean	Brazil	Chile	Mexico	Peru
GGDP Growth (%)	1.3	0.1	1.9	2.1	2.4
GDP per capita ($US)	-	11,605	14,477	10,715	6,458
Inflation (%)	-	6.3	4.4	4.0	3.2
Unemployment (%)	-	4.8	6.4	4.8	6.0
Current Account Balance (% of GDP)	-2.8	-3.9	-1.2	-2.1	-4.1
Real Exports Growth, Goods and Services (%)	1.3	-1.9	0.2	7.3	-0.3
Real Imports Growth, Goods and Services (%)	0.1	-2.5	-7.4	5.7	-1.8
Canada's exports to (M$US)	12,336.8	1,972.4	1,031.0	4,979.7	722.5
Canada's imports from (M$US)	41,191.0	3,141.1	1,562.5	26,087.7	2,742.5
Canada'sTrade Balance with (M$US)	-28,854.2	-1,168.7	-531.5	-21,108.0	-2,020.0

Whereas in Venezuela inflation was runaway and remained an issue in Brazil and Uruguay, in most other major economies inflation moderated.[2] Unemployment was elevated in Argentina, Colombia and Venezuela. The current account balance was at negative 2.8 percent of GDP for the region, with a particularly acute negative 4.1-percent ratio in Peru and negative 3.9-percent ratio in Brazil. Both real exports and real imports fell in Brazil and Peru; in Chile, real exports stagnated while real imports declined sharply. Mexico was the exception in the trade picture with strong growth in both real exports and imports.

Canada's links with this region are growing in importance. Imports from LAC amounted to US$41.2 billion in 2014. Mexico accounts for over half of Canada's imports from this region, at US$26.1 billion in total; Brazil was next, at US$3.1 billion, and Peru was not far behind, at US$2.7 billion in imports. Canada ran substantial trade deficits with all three countries in 2014.

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

2 Data for inflation in Argentina were not available as of the writing of this report.

World Merchandise Trade Value Rankings

For the sixth consecutive year, China was the world-leading merchandise exporter at US$2.3 trillion, accounting for 12.4 percent of the global exports. This was nearly 50 percent higher than the exports of the United States in second place, which equalled US$1.6 trillion. Germany was a close third, with US$1.5 trillion in exports and 8.0 percent of the global market.

These top three exporters were followed, at a considerable distance, by Japan, with US$684 billion in exports, and the Netherlands, with US$672 billion in exports. France was in sixth place, with exports of US$583 billion, and South Korea ranked seventh, with exports of US$573 billion. The rankings of these top seven exporters remained unchanged from 2013.

Italy vaulted into eighth place in 2014 with exports of US$529 billion. Hong Kong was a close ninth, with exports of US$524 billion, of which US$508 billion were re-exported to China and thus not accounted in the world total. Closing out the top ten was the United Kingdom whose exports slowed to US$507 billion last year. Canada regained 12th place after losing it in 2013, with exports of US$474 billion—which translates to a 2.5-percent share of the world's exports.

On the import side, there were no changes in the top nine ranked sources of global imports, but Canada became the newcomer to the top ten, with US$475 billion in imports, also accounting for 2.5 percent of the global market.

TABLE 2-5
Leading Exporters and Importers, 2014 World Merchandise Trade (US$B and %)

2014 Rank	2013 Rank	Exporters	2014 US$B Value	2014 % Share
1	1	China	2,343	12.4
2	2	United States	1,623	8.6
3	3	Germany	1,511	8.0
4	4	Japan	684	3.6
5	5	Netherlands	672	3.6
6	6	France	583	3.1
7	7	South Korea	573	3.0
8	11	Italy	529	2.8
9	9	Hong Kong	524	2.8
10	8	United Kingdom	507	2.7
12	**13**	**Canada**	**474**	**2.5**

2014 Rank	2013 Rank	Importers	2014 US$B Value	2014 % Share
1	1	United States	2,409	12.7
2	2	China	1,960	10.3
3	3	Germany	1,217	6.4
4	4	Japan	822	4.3
5	6	United Kingdom	683	3.6
6	5	France	679	3.6
7	7	Hong Kong	601	3.2
8	8	Netherlands	587	3.1
9	9	South Korea	526	2.8
10	**11**	**Canada**	**475**	**2.5**

World Services Trade Value Rankings

In 2014, the United States was again the world's foremost supplier and importer of services. Its US$686 billion in services exports accounted for 14.1 percent of global exports, with the United Kingdom a distant second, at US$329 billion, or 6.8 percent of the global share of exports. Germany and France were close together, ranking third and fourth, respectively, and China remained in fifth place, with US$222 billion in services exports; all those positions were unchanged from 2013.

TABLE 2-6
Leading Exporters and Importers, 2014 World Services Trade (US$B and %)

2014 Rank	2013 Rank	Exporters	2014 US$B Value	2014 % Share
1	1	United States	686	14.1
2	2	United Kingdom	329	6.8
3	3	Germany	267	5.5
4	4	France	263	5.4
5	5	China	222	4.6
6	8	Japan	158	3.3
7	9	Netherlands	156	3.2
8	6	India	154	3.2
9	7	Spain	135	2.8
10	11	Ireland	133	2.7
18	**18**	**Canada**	**85**	**1.7**

2014 Rank	2013 Rank	Importers	2014 US$B Value	2014 % Share
1	1	United States	454	9.6
2	2	China	382	8.1
3	3	Germany	327	6.9
4	4	France	244	5.1
5	6	Japan	190	4.0
6	5	United Kingdom	189	4.0
7	10	Netherlands	165	3.5
8	11	Ireland	142	3.0
9	9	Singapore	130	2.7
10	7	India	124	2.6
15	**14**	**Canada**	**106**	**2.2**

Japan rose up the ranks two places in 2014 to sixth place, though it is now in a virtual three-way tie with the Netherlands and India. Spain slipped from seventh to ninth place, and Ireland rose to claim the tenth spot, with US$133 billion in services exports. Canada remained in 18th place, with exports of US$85 billion, accounting for 1.7 percent of the world's services exports.

The United States' imports of services led the world as well, though in a less dominant fashion. With US$454 billion in imports and a 9.6-percent share, it was less than US$100 billion ahead of China, which was in second place. Germany, with imports of US$327 billion, stood in third; France was ranked fourth, with US$244 billion in services imports. Japan displaced the United Kingdom as the world's fifth-largest importer by the smallest of margins, while behind them the Netherlands rose from tenth to seventh in the rankings. Ireland's imports of US$142 billion pushed it into eighth place in the world, while Singapore remained ninth. India slipped from seventh to tenth, having imported US$124 billion worth of services. Canada's services imports were US$106 billion, which put it in 15th place, with 2.2 percent of the global services imports market.

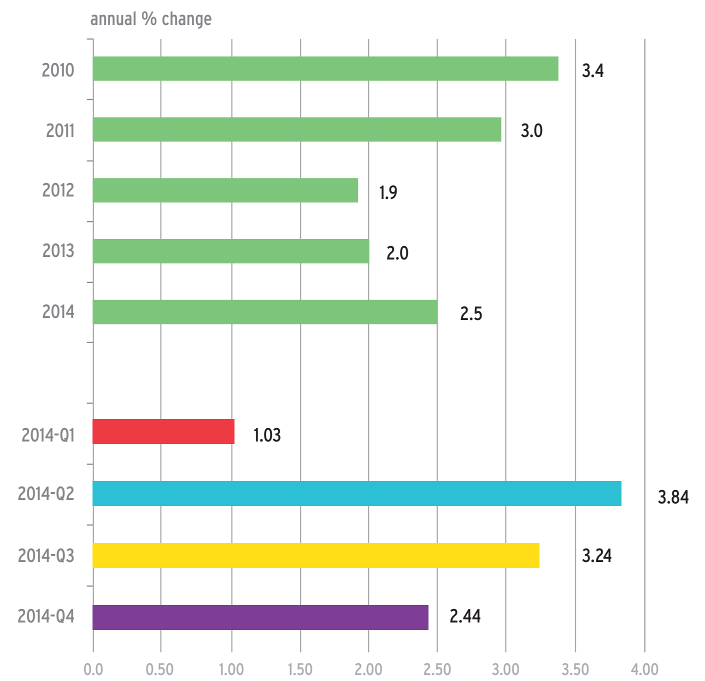
CHAPTER 3

Canada's Economic Performance

Canada's Economic Performance

As the previous chapters have shown, the paths of different economies were influenced by a number of different factors in 2014. Canada's economy—buffeted by multiple headwinds and stimuli—was no exception. First and foremost, the generally weak prospects for the developed economies due to weakening productivity growth, aging populations and fiscal challenges have less relevance to Canada, whose performance on labour force growth and fiscal matters has been markedly better than those of its peers. Secondly, the legacy of the 2008-09 economic and financial crisis was arguably the weakest among developed countries, and left little trace behind at the present stage. Third, the plunge in oil prices may inflict less damage than feared—not only has this plunge been partially reversed in the early months of 2015, but the falling Canadian dollar and the shrinking price spread for Canadian heavy oil are acting as automatic stabilizers on Canadian businesses' oil revenues so far. Lastly, the continuing strength of the United States' economy, combined with the weak loonie, provides new stimulus to Canada's export industries.

FIGURE 3-1
Canadian Real GDP Growth, 2010-2014



The broad course of Canada's economy in 2014 was largely determined by the above considerations. Growth in real gross domestic product (GDP) accelerated to 2.5 percent in 2014, after a growth of 2.0 percent in 2013. Performance was weak in the first quarter of the year due to unseasonably harsh winter conditions, rebounded strongly in the second quarter and then slowed down throughout the second half of the year—nevertheless, producing better average performance in the second half of the year than in the first half (Figure 3-1). Consumer spending was again the main contributor to growth, led by increases in spending on all goods, but particularly on durables. But the biggest surprise contributor to GDP growth was net exports, which in 2013 had the first positive contribution to growth in more than a decade and added a whole percentage point to that performance in 2014. The depreciation of the Canadian dollar by about US 8¢ during the year helped net exports, as well as domestic exporters' revenues. Output increased in all major industrial sectors, with the exception of agriculture, forestry, fishing and hunting. Goods production expanded 2.6 percent, while services output grew 2.3 percent. Employment increased by just 0.6 percent last year, down from the 1.5-percent growth recorded in 2013, yet the unemployment rate declined by the same 0.2 percentage point as in 2013, to reach 6.9 percent. Viewed by sector, employment in goods-producing industries decreased 0.3 percent, with a 2.8-percent decline in agriculture, a 4.1-percent decline in forestry and fishing and a 0.7-percent decline in manufacturing. Employment fared better in the services-producing industries, increasing 0.9 percent. Inflation recovered to 2.0 percent after a slow year in 2013, which exactly matched the Bank of Canada's 2-percent target.

Gross Domestic Product

Canada's real GDP growth accelerated for the second straight year in 2014, to 2.5 percent. Output in all major industrial sectors advanced, with the exception of agriculture, forestry, fishing and hunting. Continued strength in consumer spending and a large positive contribution from net exports effected the economic growth.

Household expenditures accelerated to 2.8-percent growth after the 2.5-percent increase of 2013, led by increased spending on durables. Spending on both semi-durables and non-durables increased slightly, while spending on services marginally slowed down. Increased consumer spending contributed nearly 1.5 percentage points to overall growth in 2014.

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

	Share in current dollars (%)	Growth from previous year (%)		Contributions to percent change in real GDP (percentage points)	
	2014	2013	2014	2013	2014
Gross domestic product	100.0	2.0	2.5	2.00	2.53
Household expenditures	54.3	2.5	2.8	1.37	1.48
Goods	24.1	2.8	3.4	0.67	0.81
Durable goods	6.7	3.8	5.3	0.25	0.35
Semi-durable goods	3.9	2.8	3.6	0.11	0.14
Non-durable goods	13.5	2.3	2.4	0.31	0.33
Services	30.2	2.3	2.2	0.70	0.67
Business investment	19.8	0.8	0.9	0.17	0.17
Residential	6.8	-0.4	2.8	-0.02	0.19
Non-residential	11.1	2.6	0.1	0.29	0.01
Structures	7.2	5.0	-0.1	0.36	-0.01
Machinery & equipment	3.8	-1.7	0.7	-0.07	0.03
Intellectual property products	1.9	-4.6	-1.4	-0.10	-0.03
Investment in inventories	0.4	66.3	-39.9	0.29	-0.28
Non-farm	0.5	-8.4	20.1	-0.05	0.10
Farm	-0.1	-	-	0.35	-0.37
Net exports of goods and services	-0.9	-	-	0.19	1.16
Exports	31.6	2.0	5.4	0.61	1.67
Goods	26.7	2.1	6.0	0.52	1.56
Services	4.8	1.7	2.3	0.08	0.11
Less imports	32.5	1.3	1.7	0.42	0.51
Goods	26.5	1.9	2.4	0.49	0.59
Services	6.0	-1.3	-1.3	-0.08	-0.09
Government expenditures and gross investment	24.9	0.1	-0.1	0.03	-0.04
Non-profit institutions serving households expenditures and gross investment	1.5	1.5	1.2	0.03	0.02

Business investment grew at a rate of 0.9 percent, marginally faster than the 0.8-percent growth the year before. Business investment in residential structures rebounded to 2.8-percent growth after the 2013 decline. A 0.1-percent reduction in expenditures on structures slowed non-residential investment growth to a gain of just 0.1 percent in 2014. Overall, the contribution of business investment to growth in 2014 was thus very small—under 0.2 percent, the same as in 2013.

A build up in 2013 of farm inventories led to a 66.3-percent expansion and contributed 0.3 percentage point to the economic growth that same year. The situation was reversed in 2014; farm inventories (mostly grains) were drastically reduced, falling by nearly $6 billion. This drop could not be offset by a 20-percent growth in non-farm inventories, and as a result the overall inventory investment fell by nearly 40 percent, subtracting 0.3 percentage point from growth in 2014.

Net exports, the difference between exports and imports, contributed 1.2 percentage points in growth last year, their highest contribution this century. Growth in real exports jumped to 5.4 percent, led by goods, while growth in real imports continued to be slowed by the continuing contraction in services imports.

GDP by Industrial Activity

Real GDP increased 2.4 percent in 2014, speeding up from 2.1 percent the previous year. Goods-producing industries grew the fastest (up 2.6 percent), but services-producing industries (up 2.3 percent) were not far behind.

Strong advances in mining and quarrying led the growth in the goods-producing sectors, as oil and gas extraction and manufacturing also advanced substantially. Utilities and construction stagnated, while agriculture, forestry, fishing and hunting declined.

Within manufacturing, output in durables was up 3.5 percent with automotive, non-metallic minerals and wood industries leading the way. Most other sectors also grew; there were two declining sectors as electrical equipment contracted 1.8 percent, and miscellaneous manufacturing was down 2.1 percent.

In non-durables, output grew by 2.5 percent in 2014, with solid gains in food as well as textiles, clothing and leather industries. Pulp and paper industries grew 2.8 percent, their first increase since 2010. Other sectors grew as well with the exception of printing (down 0.9 percent) and petroleum and coal products (down 1.0 percent).

Gains were reported for all major services industries. Transportation and warehousing was the fastest-growing sector, with 4.4-percent growth, followed by wholesale trade with 4.2 percent. Retail trade and finance and insurance services also grew strongly.

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

	2012	2013	2014
All industries	2.0	2.1	2.4
Goods-producing industries	2.6	2.4	2.6
Agriculture, forestry, fishing and hunting	2.0	12.6	-6.8
Oil and gas extraction	3.7	4.1	6.3
Mining and quarrying	-2.0	6.1	6.7
Utilities	0.4	3.4	0.3
Construction	6.5	1.9	0.6
Manufacturing	1.9	-0.3	3.0
Non-durable manufacturing	-0.5	0.6	2.5
Food	-1.2	1.0	5.1
Beverages and tobacco	2.3	-1.2	2.7
Textiles, clothing and leather	-4.1	-9.0	7.0
Pulp and paper	-5.7	-1.4	2.8
Printing	-0.5	0.4	-0.9
Petroleum and coal products	1.9	-0.7	-1.0
Chemicals	-0.5	3.4	1.1
Plastics and rubber	3.1	1.8	2.4
Durable manufacturing	3.8	-1.1	3.5
Wood	7.6	7.3	4.1
Non-metallic minerals	-0.2	-4.8	4.5
Primary metals	2.2	0.6	2.8
Fabricated metal products	6.0	-2.9	1.7
Machinery manufacturing	3.0	-3.4	2.7
Computers and electronic products	-12.0	-6.7	2.8
Electrical equipment etc.	0.3	1.2	-1.8
Transportation equipment	11.7	-2.6	7.0
Furniture	-0.4	4.6	2.9
Miscellaneous manufacturing	-3.6	9.9	-2.1
Service-producing industries	1.8	2.0	2.3
Wholesale trade	1.6	1.4	4.2
Retail trade	1.8	2.8	3.5
Transportation and warehousing	1.4	1.3	4.4
Information and culture	1.7	1.2	0.0
Finance and insurance	2.2	3.9	3.2
Real estate	2.6	2.9	2.8
Professional and technical	2.3	1.4	2.1
Management of companies	0.4	1.6	1.6
Administrative and support	1.8	1.4	1.9
Education	1.8	1.8	0.3
Health care and social assistance	1.9	1.6	1.6
Arts and entertainment	-1.4	2.8	0.5
Hotels and restaurants	3.1	3.0	2.9
Other	0.6	2.8	2.5
Public administration	0.2	0.0	0.8

Employment

Employment in Canada expanded by 111,100 jobs (up 0.6 percent), reaching 17.8 million in 2014. That was enough to reduce the unemployment rate by another 0.2 percentage point to 6.9 percent. Since the trough of the global downturn in July 2009, Canada has added 1,176,900 jobs to the payroll by December 2014.

Employment declined in the goods industries (down 0.3 percent) due to the declines in forestry and fishing, agriculture, and manufacturing. Employment grew marginally in construction, faster in utilities, and fastest of all in goods-producing sectors in mining, oil and gas extraction.

More than three of every four Canadian jobs are in the services industries. The leader in job gains there was the hotels and restaurants sector, with a 3.2-percent increase. Employment grew in most other services sectors, with the exception of public administration (down 0.9 percent) and business and support services (down 0.8 percent). Overall, services employment expanded by 0.9 percent in 2014.

In Alberta and Yukon, increases of 2.2 percent and 2.6 percent, respectively, led the gains in employment growth among Canada's provinces and territories. Ontario's growth was also faster than average, while employment growth in British Columbia was in line with the national average. Employment remained unchanged in Quebec, and declines were observed in the Northwest Territories, Nunavut, Newfoundland and Labrador, Nova Scotia, New Brunswick and Prince Edward Island in 2014.

TABLE 3-3
Employment and Related Measures

Number of Employees	2014 (000's)	Share (%)	Growth (%)
Total, all industries	17802.2	100.0	0.6
Industrial Employment			
Goods-producing sector	3897.1	21.9	-0.3
Agriculture	305.1	1.7	-2.8
Forestry and fishing	65.0	0.4	-4.1
Mining, oil and gas extraction	307.5	1.7	2.4
Utilities	136.9	0.8	1.4
Construction	1371.5	7.7	0.1
Manufacturing	1711.0	9.6	-0.7
Services-producing sector	13905.1	78.1	0.9
Trade	2729.3	15.3	0.7
Transportation and warehousing	896.8	5.0	1.6
Finance, insurance and real estate	1083.8	6.1	0.5
Professional/technical	1333.3	7.5	1.7
Business and support	734.8	4.1	-0.8
Education	1236.8	6.9	0.8
Health care/social assistance	2219.7	12.5	1.4
Information, culture and recreation	757.2	4.3	0.1
Hotels and restaurants	1207.5	6.8	3.2
Other	795.1	4.5	0.0
Public administration	910.7	5.1	-0.9
Provincial Employment			
Alberta	2274.6	12.8	2.2
British Columbia	2278.4	12.8	0.6
Manitoba	626.5	3.5	0.1
New Brunswick	353.9	2.0	-0.2
Newfoundland and Labrador	238.6	1.3	-1.7
Northwest Territories	22.1	0.1	-4.7
Nova Scotia	447.6	2.5	-1.1
Nunavut	12.3	0.1	-3.1
Ontario	6877.9	38.6	0.8
Prince Edward Island	74	0.4	-0.1
Quebec	4059.7	22.8	0.0
Saskatchewan	570.9	3.2	1.0
Yukon	19.8	0.1	2.6

Inflation

Canada's annual rate of inflation picked up from 0.9 percent in 2013 to 2.0 percent in 2014, which is in the middle of the Bank of Canada's target band. Core inflation, which excludes eight of the most volatile components[1] and the effect of changes in indirect taxes on the remaining components, also rose to 1.8 percent, after the unusually low 1.3 percent in 2013. With that exception, core inflation has been stable since the Great Recession.

Food and shelter prices grew faster than the average rate of inflation in 2014, while alcohol and tobacco led all items, with 4.4-percent growth. Prices in all the other categories grew slower than the average. Unusually, the slowest growth for the year was recorded in prices of gasoline (up 0.2 percent).

Services prices grew faster (up 2.1 percent) than goods prices (up 1.7 percent), as the excess production capacity in the economy persisted. Durable goods prices stopped sliding, semi-durable goods prices increased 1.1 percent and non-durable prices rose the most (up 2.5 percent).

By jurisdiction, Alberta had the highest level of inflation at 2.6 percent, while Ontario and Saskatchewan were not far behind with 2.4 percent each. British Columbia had the most stable price levels, with inflation running at 1.0 percent for the year.

TABLE 3-4
Percent Changes in Consumer Prices

	2012	2013	2014
All-items CPI	1.5	0.9	2.0
Food	2.4	1.2	2.3
Shelter	1.2	1.3	2.7
Household operations	1.9	1.2	1.9
Clothing and footwear	0.1	0.1	1.2
Transportation	2.0	0.7	1.1
Gasoline	2.5	0.6	0.2
Health and personal care	1.4	-0.3	0.6
Recreation and education	0.6	0.3	1.1
Alcohol and tobacco	1.5	2.0	4.4
Core CPI	1.7	1.3	1.8
Durable goods	-0.6	-0.2	0.2
Semi-durable goods	0.0	0.1	1.1
Non-durable goods	1.8	0.9	2.5
Services	2.1	1.3	2.1
Provincial CPI			
Alberta	1.1	1.4	2.6
British Columbia	1.1	-0.1	1.0
Manitoba	1.6	2.2	1.9
New Brunswick	1.7	0.8	1.5
Newfoundland and Labrador	2.1	1.7	1.9
Northwest Territories [Yellowknife]	2.2	1.5	1.7
Nova Scotia	2.0	1.2	1.7
Nunavut [Iqaluit]	1.7	1.1	1.3
Ontario	1.4	1.0	2.4
Prince Edward Island	2.0	2.0	1.6
Quebec	2.1	0.7	1.4
Saskatchewan	1.6	1.5	2.4
Yukon [Whitehorse]	2.3	1.7	1.3

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

The Canadian Dollar

In 2014, the Canadian dollar continued to depreciate against the U.S. dollar for the third year running. After falling 2.9 percent against the U.S. dollar in 2013, the Canadian dollar declined a further 6.8 percent in value in 2014 vis-à-vis the greenback. Relative to the other major currencies, the average yearly value of the Canadian dollar fell similarly against the European euro (down 6.7 percent), rose slightly against the Japanese yen (up 1.1 percent), but fell substantially against the British pound (down 11.4 percent).

After a decline from parity in 2013, the Canadian dollar opened the year 2014 just above US 94¢, from where it quickly fell below US 90¢ before the end of January. This, however, proved the floor for a long while, and from February to April the Canadian dollar was stable. By May, the exchange rate began to recover and reached US 94¢ again briefly in early July. At that point, the tumbling oil prices started pulling the loonie down. A downward trend that lasted unbroken until December carried the Canadian dollar down US 8¢ in the second half of the year. The dollar hit its lowest level of the year at US 85.89¢ on December 22, before closing out the year at just over US 86¢ on December 31.

FIGURE 3-2
C$-US$ Daily Exchange Rate (2014)

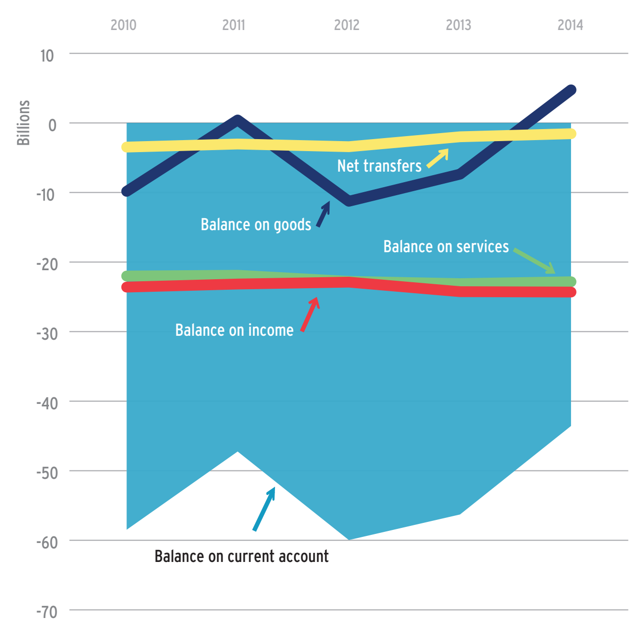
CHAPTER 4 | Canada's International Transactions

Canada's International Transactions

All of Canada's international transactions are reflected in its balance of payments (BoP), which records all the exchanges and transfers of economic value between Canadian residents and non-residents, viewed from the Canadian perspective. The BoP consists of two main accounts: the financial account and the current account. Transactions that involve financial assets are recorded in the financial account;[1] these include direct investment, portfolio investment, official reserves and other investments such as loans, currency and deposits.

Transactions that involve movements of goods and services, investment income or transfers are recorded in the current account. The value of exports of goods and services is recorded as receipts in the current account. The value of the imports of goods and services is recorded as payments. When receipts and payments do not match, the result is a trade account imbalance—a trade surplus if receipts exceed payments, and a trade deficit otherwise.

FIGURE 4-1
Canada's Current Account Balance and Components, 2010-2014



Canada's current account deficit—a net measure of the flow of goods, services, income, and transfers—improved by $12.8 billion last year, moving from a deficit of $56.3 billion in 2013 to a deficit of $43.5 billion in 2014. As a share of GDP, the deficit fell to 2.2 percent last year from 3.0 percent in 2013. The decline in the current account deficit was almost entirely due to the improvement of the trade balance on goods—from a deficit of $7.2 billion in 2013 to a surplus of $4.9 billion in 2014—as other items experienced relatively small changes. The deficit in trade balance on services narrowed by $0.3 billion, the deficit in net transfers narrowed by $0.5 billion, and the deficit in primary income (which includes investment income) did not change significantly. Both the services and primary income deficits were large, comparable and stable in recent years.

Net borrowing, alternatively termed net financial inflows, measures the net transactions between the acquisition and disposition of Canadian assets abroad and foreign acquisition and disposition of assets in Canada. In Canada's financial account, net borrowing of Canadians fell to $36.6 billion in 2014 from $55.7 billion in the previous year, due to a large rebound in net acquisitions by Canadians abroad and lower net inflows of foreign direct investment into Canada.

1 With the new revisions to the Balance of Payments Manual, the *financial account is now the name for the capital and financial account* (which was formerly abbreviated to the *capital account*). At present, the capital account itself still exists as a small item in the current account, but no longer plays an important role.

The Balance of Payments

Canada's current account balance improved by $12.8 billion last year, moving from a deficit of $56.3 billion in 2013 to a deficit of $43.5 billion in 2014. As a share of GDP, the deficit fell to 2.2 percent last year from 3.0 percent in 2013. The decline in the current account deficit was almost entirely due to the improvement of the trade balance on goods—from a deficit of $7.2 billion in 2013 to a surplus of $4.9 billion in 2014—as other items experienced relatively small changes. The deficit in the trade balance on services narrowed by $0.3 billion, the deficit in net transfers narrowed by $0.5 billion, and the deficit in primary income (which includes investment income) did not change significantly. Both the services and primary income deficits were large, comparable and stable in recent years.

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

	2013	2014
Current account balance	**-56,254**	**-43,500**
Goods	-7,221	4,894
Services	-22,997	-22,746
Primary income	-24,165	-24,241
Secondary income	-1,870	-1,407
Financial account balance	**55,693**	**36,639**
Net acquisition of financial assets	76,845	135,564
Canadian direct investment abroad	52,042	58,203
Canadian portfolio investment	29,310	56,359
Official international reserves	4,868	5,854
Other Canadian investment	-9,376	15,147
Net incurrence of liabilities	132,537	172,203
Foreign direct investment in Canada	72,668	59,579
Foreign portfolio investment	43,087	59,793
Other foreign investment	16,782	52,830
Discrepancy (net errors and omissions)	**614**	**6,886**
BALANCE OF PAYMENTS	**0**	**0**

In Canada's financial account, net borrowing by Canadians fell to $36.6 billion in 2014 from $55.7 billion in the previous year. After a 37-percent slowdown of net acquisitions abroad—these fell to $76.8 billion in 2013—net acquisitions rebounded to $135.6 billion in 2014. About half of the increase was accounted for by increased Canadian portfolio investment in foreign equities; two-fifths of the increase came from growth in other Canadian investment (primarily loans and other assets), while one-tenth was due to the net increase in Canadian direct investment abroad. The latter increased from $52.0 billion in 2013 to $58.2 billion in 2014. Canadians' net liabilities also grew, but at a slower pace—from $132.5 billion in 2013 to $172.2 billion in 2014. This occurred in spite of the $13.1-billion reduction in net flows of foreign direct investment into Canada, which decreased from $72.7 billion in 2013 to $59.6 billion in 2014. Foreign investors, however, increased their holdings of portfolio investments (up $16.7 billion), largely through acquisitions of Canadian bonds (up $10.6 billion), as well as their holdings of other investments (up $36.0 billion), primarily currency and deposits (up $34.6 billion).

There was a significant statistical discrepancy of $6.9 billion in 2014, balancing the net borrowing and net lending of Canada between the current account and the financial account.

Goods Exports

Canada's exports of goods on a BoP basis rose by $49.3 billion in 2014 (an increase of 10.3 percent) to $528.6 billion, with growth in all 11 sectors. This represented the fifth consecutive annual increase. Prices contributed 40.0 percent to the overall growth, while the change in volumes accounted for 60.0 percent and was also individually responsible for growth in most sectors.

The increase in energy exports was the largest, at $15.3 billion, or 13.5 percent. Growth in prices played a major role, despite their sharp fall in the second half of the year, but close to half of the increase came from a rise in volumes. Consumer goods showed the second-largest growth in exports at $6.7 billion—a 12.8-percent increase. Motor vehicles followed close behind with growth of $6.4 billion—a 9.3-percent increase. Growth in consumer goods' exports occurred mostly due to volumes, while, in the case of vehicles, prices were largely responsible for growth. Exports of metals and mineral products grew $4.0 billion—a 7.4-percent increase, primarily through volumes; sizeable increases in forestry exports and industrial machinery and equipment exports were also driven mostly by volumes, with the U.S. recovery a positive driver of growth. Prices in resource sectors tended to decline—both agri-food and metals ores and minerals experienced price drops—but these exports grew overall as volume increases more than offset the price decreases. Growth of 15.9 percent in the volume of agri-food exports counteracted the 3.6-percent decline in their prices to help the sector post an 11.7-percent increase in value; likewise, growth of 12.2 percent in the volume of metals ores and minerals exports offset the 8.9-percent fall in prices, with the result being a 2.3-percent increase in value. Other transportation equipment (mostly aircraft) posted the largest percentage growth at 23.9 percent, mainly through volumes.

TABLE 4-2
Goods Exports, 2014

	Value of Exports ($B)	Growth in Values (%)	Change in Volumes (%)	Change in Prices (%)
Total exports of goods	**528,574**	**10.3**	**6.0**	**4.0**
Agri-food and fish	31,105	11.7	15.9	-3.6
Energy	128,686	13.5	6.0	7.1
Metals ores and minerals	18,353	2.3	12.2	-8.9
Metals & minerals products	57,639	7.4	4.5	2.7
Chemicals, plastics and rubber	35,766	1.8	-4.0	6.0
Forestry	36,884	9.3	6.2	2.9
Industrial machinery & equipment	29,430	9.9	7.2	2.5
Electronic/electrical equipment	24,376	8.3	4.4	3.8
Motor vehicles	74,548	9.3	2.4	6.8
Other transportation equipment	21,544	23.9	17.6	5.3
Consumer goods	58,748	12.8	6.8	5.6
By Region				
U.S.	400,006	11.6		
EU	40,468	14.7		
Japan	11,084	1.3		
China	20,497	-5.9		
India	3,331	11.9		
Mexico	6,829	1.0		
South Korea	4,357	18.8		
ROW	42,001	6.8		

Regionally, exports grew to all major partners except China. Growth was above average for exports to the EU, South Korea, India and the United States, but tepid for exports to Japan and Mexico. Increased exports to the United States were responsible for nearly 85 percent of the total export growth in 2014.

Goods Imports

Canada's imports of goods also grew for the fifth straight year in 2014, adding $37.2 billion to their total, an increase of 7.6 percent. Growth was observed in 9 out of 11 sectors. Growth in import prices contributed about two-thirds, and growth in import volumes the remaining one-third of the increase. Import prices rose in all sectors, while import volumes rose in 8 out of 11 sectors.

Imports of consumer goods, the largest category, grew 8.8 percent and passed the $100-billion mark in 2014, with most of that increase due to rising prices. Imports of metals and mineral products had the second-biggest increase at $6.2 billion, up 15.4 percent, mostly due to higher import volumes.

Significant increases also occurred in imports of industrial machinery and equipment (up $5.5 billion, price-driven) and motor vehicles (up $5.4 billion, volume-driven). Imports of energy declined for the third consecutive year, with volumes falling 4.1 percent to offset the 3.9-percent increase in prices. Regionally, imports from United States, China and the EU grew at above-average speed, imports from Mexico grew slower, imports from South Korea stagnated while imports from Japan declined. Imports from the rest of the world, meanwhile, declined sharply. Considerable reduction in crude oil imports from Africa and the Middle East was partly responsible for that decline.

TABLE 4-3
Goods Imports, 2014

	Value of Imports ($B)	Growth in Values (%)	Change in Volumes (%)	Change in Prices (%)
Total imports of goods	**523,680**	**7.6**	**2.4**	**5.1**
Agri-food and fish	15,109	14.9	5.0	9.4
Energy	43,551	-0.4	-4.1	3.9
Metals ores and minerals	10,845	-5.9	-6.3	0.3
Metals & minerals products	46,211	15.4	10.5	4.5
Chemicals, plastics and rubber	44,653	9.4	5.6	3.6
Forestry	22,826	8.5	2.8	5.5
Industrial machinery & equipment	50,916	12.2	3.6	8.3
Electronic/electrical equipment	58,631	3.6	-0.2	3.8
Motor vehicles	90,400	6.3	5.1	1.2
Other transportation equipment	16,893	13.1	4.7	8.0
Consumer goods	106,154	8.8	1.6	7.1
By Region				
U.S.	350,289	11.9		
EU	49,240	8.7		
Japan	9,174	-4.3		
China	35,550	11.2		
India	2,392	4.6		
Mexico	17,173	5.0		
South Korea	5,599	0.1		
ROW	54,262	-12.8		

Services Exports and Imports

In 2014, total Canadian exports of services increased for the sixth straight year, gaining $2.6 billion to reach $95.2 billion, for a growth of 2.9 percent. Travel exports, which represent the purchase of goods and services by foreign travellers in Canada, rose 6.0 percent in 2014, reaching $19.3 billion, up from $18.2 billion in 2013. Personal travel, accounting for 84.1 percent of total travel exports, added $1.0 billion to the total, while the increase in business travel was relatively small ($0.1 billion).

Exports of transportation services increased by $0.5 billion in 2014 to end up at $14.7 billion, a 3.4-percent increase. All three sub-sectors (water, land, and air transportation) increased their exports in 2014. The largest increase in transportation services exports, both on a dollar and on a percentage basis, was accounted for by water transport, with an increase of $188 million (up 6.4 percent). Although commercial services as an aggregate are responsible for more than 60 percent of total service exports, they grew at the slowest pace of all the major categories in 2014. Exports of commercial services increased 1.7 percent (up $1.0 billion) to reach $59.7 billion. Growth varied across sub-sectors, with exports increasing in five sub-sectors and declining in the other five. Exports of both management and financial services increased significantly, with growth of $570 million and $421 million, respectively. Personal, cultural, and recreational activities exports experienced the largest decline on a dollar basis, falling by $298 million. Government services, the smallest category, grew by 5.1 percent, or $72 million, in 2014.

TABLE 4-4
Services Exports and Imports by Region, $ millions

2014	Exports	% change	Imports	% change	Balance
TOTAL	**95,190**	**2.9**	**117,937**	**2.1**	**-22,747**
United States	52,691	2.4	66,593	0.3	-13,902
Travel	7,502	2.2	22,083	-1.5	-14,582
Transportation	7,080	4.7	8,857	-0.9	-1,777
Commercial	37,735	1.8	35,195	1.8	2,540
Government	374	18.7	458	0.0	-84
EU	15,453	6.7	20,017	4.8	-4,564
Travel	3,419	12.1	5,379	10.2	-1,960
Transportation	2,979	6.1	4,971	4.7	-1,992
Commercial	8,830	5.1	9,408	2.1	-578
Government	225	0.9	258	0.0	-33
Japan	1,534	8.4	2,011	16.4	-477
Travel	449	22.7	250	10.1	199
Transportation	606	-1.3	706	7.8	-100
Commercial	449	10.6	1,034	25.5	-585
Government	29	0.0	21	-4.5	7
ROW	25,512	1.4	29,314	3.6	-3,802
Travel	7,926	6.4	9,488	10.0	-1,562
Transportation	4,006	0.0	10,189	5.1	-6,184
Commercial	12,684	-1.1	9,202	-3.7	3,483
Government	896	1.2	435	0.9	461

Imports of services rose at a slower rate than exports, gaining 2.1 percent. In 2014, service imports were valued at $117.9 billion, $2.4 billion above their 2013 levels. Travel imports, or spending by Canadians while abroad, increased by $1.0 billion in 2014 to total $37.2 billion. Growth in the business sector was faster, but imports of personal travel services increased by more (up $904 million) and are now responsible for 87.8 percent of total travel imports. Transportation service imports increased by $689 million, or 2.9 percent, in 2014. Both water and land transportation imports increased, rising $863 million (up 8.3 percent) and $73 million (up 2.2 percent) respectively. Air transport service exports declined by $248 million (down 2.4 percent) on the year.

Commercial service imports experienced 1.2-percent growth in 2014, increasing by $664 million. On a percentage basis, imports of maintenance and repair services experienced the largest growth, rising 19.7 percent above their 2013 level. The largest increase on a dollar basis came from a $506-million increase in imports of computer and information services. Of the four sub-sectors with declining imports, the $439-million decline in insurance services imports (down 8.0 percent) and the 14.1-percent decline in construction service imports (down $44 million) were the most notable. Imports of government services stayed relatively stable last year, increasing by only 0.3 percent.

As a result of faster growth in exports compared to the imports of services, the deficit in the balance of services trade narrowed slightly from $23.0 billion to $22.7 billion in 2014. The services trade deficit is traditionally due to deficits in travel and transportation services, and 2014 was no exception. Spending by Canadians abroad was approximately twice the spending of foreigners in Canada last year, so even though the latter grew twice as fast as the former in 2014, the travel deficit was almost unchanged at $17.9 billion. The transportation deficit expanded slightly, from $9.8 billion to $10.1 billion, due to strong growth of water transport services imports.

Commercial services have now run a surplus for 12 years, all the way back to 2003 and throughout the Great Recession. Strong performance of management services and financial services has expanded this surplus further in 2014 to $4.9 billion, from $4.5 billion in 2013. In addition to those two categories, research and development services, computer and information services, and technical, trade-related, and other business services were in strong surplus positions. Canada historically runs a deficit in insurance services as well as in royalties and licence fees ($3.3 billion and $6.8 billion, respectively, in 2014).

Canada's trade in services with the United States was more balanced than in goods, with 55.4 percent of our exports going to the United States and 56.5 percent of our imports coming from there in 2014. Exports grew 2.4 percent last year while imports barely budged (up 0.3 percent), resulting in a smaller services trade deficit of $13.9 billion. Most of the deficit was due to travel services, as Canadians travelling in the United States spent three times the amount that the Americans spent travelling in Canada. The only category to run a trade surplus with the United States was commercial services, which accounted for more than half of both exports and imports.

Trade with the EU was less dominated by commercial services, with travel and transportation playing relatively larger roles. Travel services trade grew at double-digit rates on both the export and the import sides, perhaps due to the greater interest of Canada and the EU in each other due to the Canada-European Union Comprehensive Economic and Trade Agreement. All categories of services trade were in deficit for Canada, for the total deficit of $4.6 billion. Japan was the only region where Canada had a surplus on the travel account. Overall services trade with Japan was still in deficit, owing to the deficit in commercial services.

Services trade with the rest of the world (ROW) was the most travel-intensive, with up to 30 percent of both exports and imports consisting of travel services, both of which grew robustly in 2014. Transportation service imports from ROW were also important and growing; the deficit of $6.2 billion in this category drove the overall deficit of $3.8 billion, though commercial services trade with ROW produced a surplus of $3.5 billion.

CHAPTER 5

Key Developments in Canadian Merchandise Trade in 2014

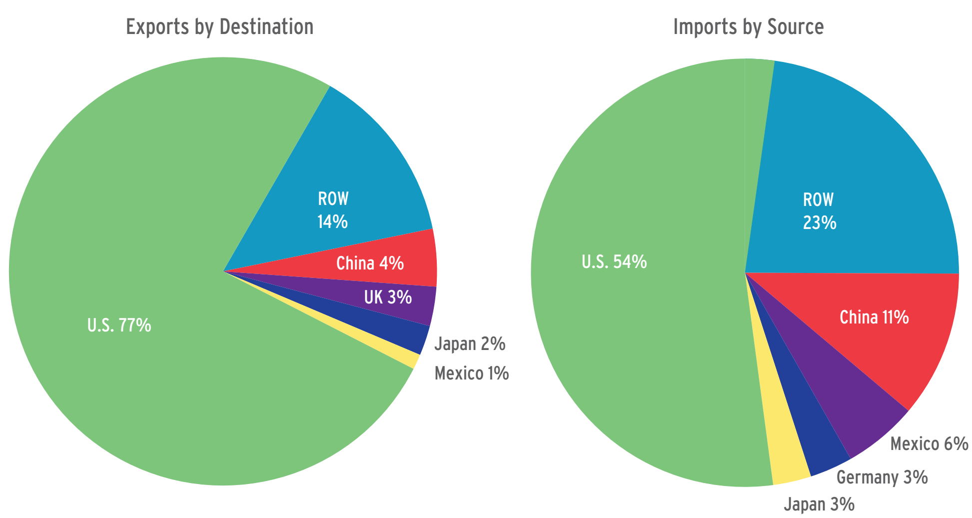
Key Developments in Canadian Merchandise Trade in 2014

The previous chapters discuss the global economic situation and Canada's economic performance in that context. Those chapters also present a general view of Canada's international trade and its contribution to Canada's economic growth in 2014. This chapter takes a closer look at the developments in Canada's merchandise trade over the course of last year. The use of Customs data on merchandise trade—as opposed to the balance of payments (BOP) 1 data used in the previous chapter—allows for a more detailed analysis of the trade statistics: by partner country, by commodity, by province of origin, and by mode of transport.

Total Canadian merchandise exports roared back into double-digit growth in 2014, gaining 11.2 percent to reach $524.9 billion, a $53.0-billion increase over the 2013 level. This rate of growth was three times as fast as the rate in 2013, recalling the post-recession export recoveries of 10.9 percent in 2010 and 12.0 percent in 2011. Total exports easily surpassed their previous peak of $483.5 billion set in 2008 and exceeded the $500-billion mark for the first time. Canadian merchandise imports rose 7.4 percent to $511.5 billion, for a $35.9-billion increase over 2013. This was two and a half times as large as the 2.9-percent import growth in 2013. Nevertheless, imports have also passed the historic milestone of $500 billion for the first time and are now 17.9 percent above their pre-recession peak of $434.0 billion.

With exports increasing more than imports, the merchandise trade deficit, which was a recurring feature of the post-recession years, was eliminated and transformed into a $13.4-billion merchandise trade surplus in 2014. As the economic recovery in the

FIGURE 5-1
Merchandise Trade by Major Partners, 2014



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

United States finally gathered steam, U.S. demand for Canadian products ramped up, with exports to the United States increasing by $45.0 billion—86.9 percent of the overall export growth. It was the third year in a row in which the share of Canadian exports to the United States in total Canadian exports increased. Exports to China, meanwhile, declined for the first time since 2002. Import increases were led by the United States and China, who as import suppliers both outpaced the average import growth considerably. Imports from the 200 countries lowest on the list declined considerably, as Canada's continued realignment in crude oil sourcing towards the Americas greatly reduced its overall imports from many smaller countries.

Although growth in exports of energy products accounted for one-third of all export growth, the latter was broad-based with double-digit increases in 7 out of the top 10 exported products. Top 10 imports, on the other hand, showed slower growth than the average.

Regionally, the bulk of the gains in exports came from Alberta, Ontario and Quebec, although three other jurisdictions posted double-digit growth rates: Northwest Territories, Nova Scotia and Prince Edward Island. For imports, Ontario, Quebec, and British Columbia accounted for over 82 percent of total imports. The 2014 import growth was channeled primarily through Ontario, with over 75 percent of the overall increase in merchandise imports.

Trade by Top Products

Merchandise Exports

Canada's merchandise exports rose for the fifth consecutive year, up $53.0 billion (or 11.2 percent) to exceed $500 billion for the first time in 2014.

Exports of energy products grew $18.6 billion (over a third of the total growth in 2014) and were led by a $17.8-billion increase to the United States (mainly crude oil and natural gas) that was partially offset by declines to China, Japan and South Korea. A large batch of crude oil worth $1.5 billion was sent to Europe for test refining through Italy, propelling that country to second place in Canada's energy exports.

Automotive exports, second largest overall, resumed growth in 2014 after a small drop the year before. The gain of $5.0 billion (up 8.2 percent) was mostly due to the exports of passenger cars and car parts to the United States.

Exports of machinery and parts, after declining in 2013, experienced a strong growth of $4.0 billion (up 12.5 percent) in 2014. Increased exports of aircraft engines, motor vehicle engines and pumps, mainly to the United States, contributed the most to that increase. Precious stones and metals were the only product category where exports declined in 2014, albeit slightly, as prices of gold, diamonds and silver declined across the board. Combined with the decrease in quantity of silver exported, these factors were responsible for the decline.

TABLE 5-1
Top Canadian Exported Merchandise Products, 2014*

	2014 ($B)	Δ2014/2013 ($B)	% Share 2014	% Change 2014/2013
All Products	**524.9**	**53.0**	**100**	**11.2**
Energy	142.5	18.6	27.1	15.0
Motor Vehicles	66.0	5.0	12.6	8.2
Machinery And Parts	36.0	4.0	6.9	12.5
Precious Stones And Metals	24.0	-0.0	4.6	-0.2
Electric Equipment	15.1	0.6	2.9	4.0
Plastics	14.6	1.6	2.8	12.5
Wood	14.0	1.3	2.7	10.2
Aircraft And Parts	13.7	2.9	2.6	27.1
Aluminum	9.8	1.1	1.9	12.0
Cereals	9.7	1.4	1.8	16.5
Top 10 Products	**345.4**	**36.4**	**65.8**	**11.8**
All Other Products	**179.5**	**16.6**	**34.2**	**10.2**

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

Strong growth took place in the countries lower down in the top 10 as exports of plastics, wood, aircraft, aluminum and cereals all grew by double digits. Aircraft and parts exports led the top 10 with the largest proportional increase of 27.1 percent (up $2.9 billion). Wood exports, led by lumber, continued to do well against the background of the recovery in the U.S. housing sector, with $1.3-billion growth. Cereals exports were vaulted into the top 10 by ground-breaking performance in several markets such as Italy, Peru, Colombia, Algeria and Saudi Arabia.

Merchandise Imports

Canada's merchandise imports grew $35.9 billion (7.5 percent) to pass the $500-billion mark in 2014. As with exports, the top 10 products accounted for about two-thirds of total imports ($336.9 billion). Unlike the situation with exports, the growth rate for all other imported products exceeded the growth from the top 10 products in 2014. The combined import share of the "big 4" imported products (motor vehicles, machinery and parts, energy, electric equipment) dipped below half of total imports for the first time since 2010.

TABLE 5-2
Top Canadian Imported Merchandise Products, 2014*

	Value ($B)	Change in Value ($B)	Share (%)	Growth (%)
All Products	**511.5**	**35.9**	**100**	**7.5**
Motor Vehicles	78.0	4.2	15.3	5.6
Machinery And Parts	74.7	6.9	14.6	10.2
Energy	52.3	0.5	10.2	1.0
Electric Equipment	48.8	2.1	9.6	4.5
Plastics	17.8	2.0	3.5	12.5
Scientific And Technical Instruments	14.2	0.5	2.8	4.0
Precious Stones and Metals	14.1	-0.2	2.8	-1.1
Pharmaceuticals	13.8	1.3	2.7	10.4
Iron Or Steel Articles	13.0	1.0	2.5	8.0
Furniture And Bedding	10.2	1.0	2.0	10.3
Top 10 Products	**336.9**	**19.3**	**65.9**	**6.1**
All Other Products	**174.6**	**16.5**	**34.1**	**10.5**

Automotive imports grew $4.2 billion, led by the imports of cars and parts from the United States and cars and trucks from Mexico. Automotive imports from Japan fell by $1.0 billion in 2014, and by $1.7 billion in the past two years.

Machinery imports grew the most in value, gaining $6.9 billion, or 10.2 percent. Nearly half of the increase came from the United States, and most of the remainder from China, Mexico and Japan. Imports of mineral fuels and oils rose by $0.5 billion and continued their rapid sourcing shift—over two-thirds ($35.3 billion) was imported from the United States, compared to just over one-third ($17.5 billion) in 2012. Imports from the United States increased by 44.4 percent overall, with crude oil accounting for most of the increase: crude imports more than doubled in value. Imports of energy from several countries declined sharply; the list of those reduced by over one-third includes Kazakhstan, Russia, Nigeria, Algeria, Brazil, Norway, the United Kingdom and Iraq. Electrical and electronic machinery and equipment rounds off the four major import categories for Canada: with growth of 4.5 percent in 2014, imports in this category reached $48.8 billion (up $2.1 billion). Imports from the United States and China were responsible for the growth in this category.

Trade by Top Destinations

Merchandise Exports

Canadian merchandise exports are very concentrated among the leading destinations. The top five export destinations account for 86.5 percent of all exports, while the top 10 account for 90.3 percent of the total. Canada's merchandise exports to the United States increased faster than overall exports for the third year running, reaching 76.8 percent of the total in 2014. However, the next top five export destinations all saw their shares reduced, resulting in little yearly change in diversification of Canada's exports. Exports to China actually decreased, while exports to Japan and Mexico grew much slower than the average.

TABLE 5-3
Canadian Exports to Partner Regions, 2014

	Value ($B)	Change in Value ($B)	Growth (%)	Share (%)
World	**524.9**	**53.0**	**11.2**	**100**
United States	403.1	45.0	12.6	76.8
China	19.4	-1.1	-5.5	3.7
UK	15.2	1.3	9.0	2.9
Japan	10.7	0.1	0.9	2.0
Mexico	5.5	0.1	2.0	1.0
Top 5	**453.9**	**45.4**	**11.1**	**86.5**
Next 5	**20.3**	**3.9**	**23.7**	**3.9**
Next 25	**36.3**	**3.0**	**9.0**	**6.9**
Next 75	**13.4**	**0.8**	**6.5**	**2.5**
Last 120	**1.0**	**-0.1**	**-9.9**	**0.2**

The overall $45.0-billion increase in exports to the United States accounted for 85 percent of the increase in total exports last year. The top two products—energy and vehicles—accounted for half of the overall increase, while exports of machinery, aircraft, plastics and wood also grew sizeably.

Exports to China declined $1.1 billion, or 5.5 percent, the first year they failed to expand since 2002. Three factors played a role in the decline: a 43-percent drop in iron ore exports, a 38-percent drop in coal exports and a 53-percent drop in canola oil exports.

Exports to the United Kingdom grew just below the average rate, at 9.0 percent, reflecting a $1.2-billion pickup in gold exports. Exports to Italy grew 113.6 percent, doubling Italy's share of Canada's exports to 0.8 percent in 2014 (mainly due to crude oil shipments, but also with increases in medicines and wheat exports). Exports to South Korea grew faster than the average at 19.3 percent, while exports to Belgium increased even faster at 41.4 percent (all diamonds exports).

Merchandise Imports

Imports from Canada's top suppliers have been reasonably stable in recent years, and there was no change in import performance among the top 10 in 2014. Canada's largest import partners were responsible for the growth in Canadian merchandise imports in 2014, as imports from all other partners declined on aggregate. These declines are largely explained by the shifting of Canada's crude oil imports from a variety of countries to the suppliers in the Americas—the United States, Trinidad and Tobago, and Colombia.

Imports from the United States outpaced overall imports, and the U.S. share of Canadian imports rose from 52.1 percent in 2013 to 54.3 percent in 2014. Over a third of the increase in imports from the United States occurred in energy products; the rest of the increase was broad-based, with large increases in automotive products, mechanical machinery and aircraft and parts imports.

TABLE 5-4
Canadian Imports from Partner Regions, 2014

	Value ($B)	Change in Value ($B)	Growth (%)	Share (%)
World	511.5	35.9	7.5	100
United States	278.0	30.2	12.2	54.3
China	58.6	5.9	11.2	11.5
Mexico	28.8	2.1	7.9	5.6
Germany	16.0	0.6	3.7	3.1
Japan	13.3	-0.4	-3.2	2.6
Top 5	394.7	38.3	10.7	77.2
Next 5	33.4	1.7	5.4	6.5
Next 25	57.5	0.1	0.2	11.2
Next 75	25.5	-3.7	-12.7	5.0
Last 120	0.4	-0.5	-59.2	0.1

After slowing down for four straight years, imports from China have accelerated once again, showing 11.2-percent growth. A broad-based increase was led by imports of mobile phones.

Mexico's share of Canada's imports remained stable at 5.6 percent, as imports from Mexico grew 7.9 percent. Imports from Germany grew at half the pace of the total imports, while imports from Japan declined by 3.2 percent. Imports from other major European economies increased significantly: imports from Italy grew 10.1 percent, imports from France grew 10.0 percent and imports from the United Kingdom grew 8.9 percent. Among the largest import-supplying countries, South Africa registered the largest growth rate at 61.0 percent; imports from eight other large countries registered double-digit growth rates (Vietnam, Malaysia, Spain, Belgium, Austria, Dominican Republic, Poland and Indonesia).

Merchandise Trade by Provinces and Territories

Merchandise Exports

The three biggest exporting provinces, which account for 77 percent of Canada's exports—Alberta, Ontario and Quebec—were also responsible for the 2014 surge in exports, with over 85 percent of the increase coming from these three provinces. Alberta once again led the gains in exports by provinces and territories in 2014, up $18.4 billion (17.7 percent) to $121.9 billion. Crude oil and petroleum gases exports were behind this increase.

Ontario's export gains were not far behind at $17.1 billion, although lower in percentage terms (up 9.0 percent). Increases in automotive exports (up $4.1 billion), mechanical machinery (up $2.4 billion) and pharmaceutical products (up $2.2 billion) were particularly important, while the list of export declines included inorganic chemicals (down $0.5 billion) and precious stones and metals (down $0.3 billion).

TABLE 5-5
Provincial Merchandise Exports to the World, 2014

	Value ($B)	Change in Value ($B)	Share (%)	Growth (%)
Ontario	207.0	17.1	39.4	9.0
Alberta	121.9	18.4	23.2	17.7
Quebec	75.9	9.8	14.5	14.8
British Columbia	36.4	2.5	6.9	7.3
Saskatchewan	35.3	2.9	6.7	9.1
Manitoba	13.6	0.9	2.6	7.2
Newfoundland and Labrador	13.1	1.1	2.5	9.5
New Brunswick	13.0	-1.5	2.5	-10.0
Nova Scotia	5.4	1.1	1.0	24.9
Northwest Territories	2.1	0.5	0.4	31.3
Prince Edward Island	1.1	0.2	0.2	22.1
Yukon	0.1	0.0	0.0	-20.5
Nunavut	0.0	0.0	0.0	4.7
All Provinces	**524.9**	**53.0**	**100.0**	**11.2**

In Quebec, total provincial exports increased $9.8 billion (up 14.8 percent) to $75.9 billion. Strong export gains in aircraft and parts (up $2.4 billion), ores and ash (up $1.3 billion), mechanical machinery (up $1.0 billion) and aluminum (up $0.7 billion) were the drivers of Quebec's performance; the only decline of note was in silver exports (down $0.3 billion).

Exports of copper ores (up $0.6 billion) and lumber (up $0.4 billion) drove the export performance in British Columbia, with total exports increasing $2.5 billion in 2014.

Nova Scotia experienced the largest proportional increase in exports, with a 24.9-percent gain (up $1.1 billion). This was due to increased exports of oil and gas (up $0.6 billion), crustaceans and mollusks (up $0.2 billion) and a broad-based growth in most other export products. Saskatchewan's export growth of $2.9 billion was driven by exports of crude oil (up $1.3 billion) and cereals (up $1.0 billion), while decreased exports of refined oil from New Brunswick (down $1.7 billion) occasioned the decline in that province's total exports.

Merchandise Imports

On the import side, the three great gateways to Canada are Ontario, Quebec and British Columbia, providing access to the United States, Atlantic shipping and Pacific shipping, respectively. Those provinces are responsible for receiving 82.3 percent of Canada's imports.

The 2014 import gains were channeled primarily through Ontario, which accounted for three-quarters of the total increase (up $26.9 billion). These were primarily accounted for by mechanical machinery imports (up $5.2 billion), automotive imports (up $3.4 billion), energy imports (up $2.7 billion, mainly gases) and pharmaceutical imports (up $1.6 billion).

TABLE 5-6
Provincial Merchandise Imports from the World, 2014

	Value ($B)	Change in Value ($B)	Share (%)	Growth (%)
Ontario	295.0	26.9	57.7	10.0
Quebec	79.1	1.2	15.5	1.5
British Columbia	46.7	1.6	9.1	3.7
Alberta	32.3	2.5	6.3	8.2
Manitoba	20.4	1.3	4.0	6.8
New Brunswick	13.4	-0.1	2.6	-0.4
Saskatchewan	12.1	1.0	2.4	8.5
Nova Scotia	7.8	1.8	1.5	29.7
Newfoundland and Labrador	4.4	-0.4	0.9	-9.0
Nunavut	0.1	0.1	0.0	209.8
Yukon	0.1	0.0	0.0	-3.4
Prince Edward Island	0.1	0.0	0.0	93.5
Northwest Territories	N/A	N/A	N/A	N/A
All Provinces	**511.5**	**35.9**	**100.0**	**7.5**

Energy imports decreased $2.4 billion in Quebec (mainly crude oil), as well as pharmaceutical products (down $0.3 billion), dampening the overall import performance. Growth of just 1.5 percent was led by imports of mechanical and electrical machinery, automotive goods, plastics and furniture.

In British Columbia, imports of refined oil contracted $0.8 billion, and cellphone imports fell $0.3 billion. Offsetting those decreases was the growth in iron and steel, articles of iron and steel, apparel, and plastics, for a 3.7-percent increase in imports for 2014.

Alberta's imports of petroleum gases fell over 90 percent, down $1.7 billion, but higher imports of both crude and refined oil more than offset this decrease, for an overall rise of $0.4 billion in energy imports. Similar increases of $0.3 billion were observed in the other major import item, mechanical machinery, and in aircraft and parts imports; also, imports of railway cars doubled to reach $0.3 billion.

Manitoba's crude oil imports more than tripled to reach $0.4 billion; imports of mechanical machinery, plastics, and iron and steel also increased for an overall provincial gain of $1.3 billion. In contrast, a $0.9-billion decrease in crude oil imports drove New Brunswick imports down $0.1 billion on the year. Saskatchewan's $1.0-billion import increase was driven by machinery exports, and Nova Scotia's $1.8-billion import increase was due to refined oil and automotive imports. Energy imports in Newfoundland and Labrador fell by $0.4 billion (mostly crude oil), which was equal to the overall decline in imports in that province.

Trade by Mode of Transport

Merchandise Exports

Over a third of Canada's exports left this country by road in 2014, with over 60 percent of those shipped through Ontario. Most of these exports are by truck and are destined for the United States.

"Other" means of transportation (primarily pipelines and electrical wiring) have taken over as the second most used means of transporting Canada's exports in 2014 with $107.1 billion in value. Not surprisingly, these exports are overwhelmingly directed to the United States. Alberta exported about 78.3 percent of that total.

Exports transported by water accounted for less than 20 percent of all exports in 2014. Five provinces contributed over 10 percent of the water exports, while the United States and China were the two primary destinations for these, at 22.8 percent and 16.9 percent, respectively.

$80.4-billion worth of exports were transported by rail, almost half of which left Canada through Ontario. Alberta and Quebec were the other two big exit points. Again, overwhelmingly these were shipped to the United States, and most of the remainder to Mexico.

Only 10 percent of exported products were transported by air. Ontario and Quebec dominated this transportation channel, with shares of 59.4 percent and 26.6 percent, respectively. The United States and the United Kingdom were the primary destinations, but accounted for just over half of the total; the rest of these small, valuable exports were spread widely between different destinations.

TABLE 5-7
Exports to the World, by Mode of Transport, 2014

	Value ($B)	Change in Value ($B)	Share (%)	Growth (%)
All Transport Modes	**524.9**	**53.0**	**100.0**	**11.2**
Road	**184.0**	**22.0**	**35.1**	**13.6**
- Ontario	117.8	13.8	64.0	13.3
- Quebec	33.9	3.7	18.4	12.1
- United States	179.1	21.8	97.3	13.9
Other	**107.1**	**18.6**	**20.4**	**21.1**
- Alberta	83.8	14.0	78.3	20.1
- United States	106.4	18.6	99.4	21.2
Water	**98.6**	**3.8**	**18.8**	**4.0**
- British Columbia	17.9	0.1	18.2	0.3
- Quebec	15.4	2.1	15.7	15.9
- Ontario	14.1	1.0	14.3	7.7
- Saskatchewan	13.3	0.6	13.5	4.5
- Newfoundland and Labrador	12.5	1.3	12.7	11.2
- United States	22.5	-1.1	22.8	-4.5
- China	16.7	-1.4	16.9	-7.6
- Japan	9.0	-0.3	9.1	-3.0
- United Kingdom	4.0	0.1	4.1	2.5
- Korea, South	3.6	0.7	3.7	23.5
- Netherlands	3.2	0.3	3.3	8.5
- Italy	3.0	1.9	3.0	182.8
Rail	**80.4**	**3.2**	**15.3**	**4.2**
- Ontario	38.6	-0.1	48.0	-0.2
- Alberta	16.4	2.7	20.4	19.4
- Quebec	10.2	0.5	12.7	5.1
- United States	78.3	3.3	97.4	4.4
- Mexico	1.6	0.1	2.0	2.5
Air	**54.9**	**5.3**	**10.5**	**10.7**
- Ontario	32.6	1.1	59.4	3.3
- Quebec	14.6	3.2	26.6	28.4
- United States	16.7	2.4	30.7	16.6
- United Kingdom	11.1	1.1	20.3	11.2
- Hong Kong	3.4	-0.6	6.3	-14.3

Merchandise Imports

Unlike exports, which are widely differentiated between the modes of transport, most of Canada's imports enter the country by road. In 2014, the vast majority entered via Ontario (69.0 percent), followed by British Columbia and Quebec. Nearly 70 percent of the goods arriving in this way originated in the United States. Additionally, over 9 percent of all Canadian imports arriving by road were imports from China that had landed elsewhere in the Americas before entering Canada.

TABLE 5-8
Imports from the World, by Mode of Transport, 2014

	Value ($B)	Change in Value ($B)	Share (%)	Growth (%)
All Transport Modes	**511.5**	**35.9**	**100.0**	**7.5**
Road	**275.9**	**25.0**	**53.9**	**10.0**
- Ontario	190.4	19.0	69.0	11.1
- British Columbia	23.0	1.6	8.3	7.5
- Quebec	22.4	1.8	8.1	8.8
- United States	192.0	14.1	69.6	7.9
- China	25.1	5.3	9.1	26.8
- Mexico	19.6	1.4	7.1	7.6
Water	**111.4**	**5.1**	**21.8**	**4.8**
- Quebec	36.1	0.5	32.4	1.3
- Ontario	31.6	2.3	28.3	8.0
- British Columbia	17.3	0.6	15.5	3.5
- New Brunswick	9.6	-0.2	8.6	-1.6
- Nova Scotia	7.3	1.7	6.5	30.7
- China	25.3	2.6	22.7	11.3
- United States	19.5	6.4	17.5	49.1
- Germany	7.8	-0.2	7.0	-2.2
- Japan	5.8	-0.9	5.2	-13.1
Air	**61.8**	**-0.1**	**12.1**	**-0.2**
- Ontario	40.3	-0.9	65.2	-2.1
- Quebec	11.4	0.3	18.5	2.4
- United States	17.3	2.2	27.9	14.5
- China	7.7	-2.0	12.4	-20.6
- Germany	4.1	0.3	6.6	7.9
- Switzerland	2.8	-0.1	4.6	-2.9
- United Kingdom	2.6	-0.1	4.2	-3.6
Rail	**45.8**	**5.3**	**9.0**	**13.1**
- Ontario	27.3	3.8	59.5	16.1
- Alberta	6.4	-0.2	13.9	-3.1
- Quebec	5.9	1.8	12.9	44.5
- United States	36.3	3.4	79.3	10.4
- Mexico	5.2	1.4	11.3	35.3
Other	**16.5**	**0.5**	**3.2**	**3.1**
- Alberta	6.1	0.5	36.8	9.8
- Ontario	5.5	2.6	33.0	92.4
- Quebec	3.2	-3.2	19.6	-49.5
- United States	12.9	4.0	78.1	45.7
- Mexico	1.1	-0.6	6.6	-33.7
- Norway	1.0	-1.4	5.8	-59.0

Quebec leads all provinces in imports by water, accounting for 32.4 percent of the 2014 total of $111.4 billion in imports via water. Ontario is close behind with a 28.3-percent share. China is the number one source of imports arriving in Canada by water, with the United States, Germany and Japan also important.

The value of imports arriving by air fell in 2014 to 12.1 percent of the total; nearly two-thirds arrived through Ontario, and half of the rest through Quebec. The origins, just as for exports, are more diversified, with the United States holding a 27.9 percent share, and China at 12.4 percent.

Imports arriving by rail grew the fastest in 2014, gaining 13.1 percent (up $5.3 billion) to $45.8 billion. Most of the increased imports by rail came via Ontario (up $3.8 billion) and Quebec (up $1.8 billion). The products associated with these increases came mainly from the United States and Mexico (accounting for over 90 percent of all imports arriving by rail).

Imports arriving by other means (mainly pipeline or electrical wiring) constituted just 3.1 percent of the total, led by imports from the United States.

Merchandise Trade by Top Drivers

Canada's trade performance can be examined in greater detail using a commodity breakdown comprising over 1,200 items.[1] However, only a few of these items account for a sufficient trade value to decisively influence Canada's trade balance. The table below lists 20 commodities that drove Canada's trade balance performance in 2014, expressed at the HS 4-digit level.

These 20 commodities accounted for $257.2 billion (49.0 percent) of Canada's $524.9 billion in exports in 2014. This was $34.8 billion more in exports than posted by these commodities a year earlier. At the same time, these products also represented 30.6 percent of overall imports, or $156.3 billion, which was $7.6 billion more than their import value in 2013. These 20 commodities yielded a $100.7-billion trade surplus that was $27.0 billion higher than the previous year, and contributed to the reversal of the merchandise trade deficit in 2014. Canada posted an overall $13.4-billion merchandise trade surplus, an improvement of $17.1 billion from the $3.7-billion deficit registered in 2013.

A closer inspection of the trade performance of these commodities shows that Canada specializes in a relatively small number of products, natural resources as well as manufactured goods, to produce a sizeable trade surplus. It then uses this trade surplus to finance imports of a large variety of products—mostly varieties of manufactured goods that are not produced in Canada because of a small domestic market (e.g., smart phones, medicine, vehicles and vehicle engines). Canada also seems to completely supply its domestic market in a range of natural resource products (wheat, lumber, canola seeds, aluminum, potash etc.). Overall, this picture of more concentrated exports and more varied imports is consistent with the economic trade theories that derive trade from comparative advantage, resource endowment, and demand for variety, as well as firm-based theory of trade.

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

TABLE A
Key Commodities Driving Canada's Trade Performance in 2014

	Exports 2014 ($B)	Change in Exports 2014/13 ($B)	Imports 2014 ($B)	Change in Imports 2014/13 ($B)	Balance 2014 ($B)	Change in Balance 2014/13 ($B)
Large Exports, Large Imports, Surplus						
Crude Oil	97.4	15.7	24.0	-3.0	73.4	18.7
Petroleum Gases	18.8	5.5	6.1	1.2	12.8	4.2
Cars	49.6	3.1	29.9	2.7	19.7	0.3
Aircraft	9.0	2.3	3.5	1.3	5.5	1.0
Gold	16.6	0.4	8.8	-0.7	7.7	1.1
Sub-total	**191.4**	**27.0**	**72.3**	**1.5**	**119.1**	**25.3**
Large Exports, Small Imports, Surplus						
Wheat	8.0	1.3	0.0	0.0	7.9	1.3
Lumber	8.7	1.0	0.6	0.1	8.1	0.9
Canola Seeds	5.2	0.9	0.1	0.0	5.1	0.9
Aluminum	6.4	0.5	0.4	0.0	6.0	0.5
Chemical Woodpulp	5.2	0.5	0.2	0.0	5.0	0.5
Potash	5.2	-0.6	0.0	0.0	5.2	-0.6
Sub-total	**38.7**	**3.6**	**1.3**	**0.1**	**37.3**	**3.5**
Small Exports, Large Imports, Deficit						
Wire and Cable	0.8	0.1	4.1	0.2	-3.3	-0.1
Tractors	0.5	0.0	4.5	0.5	-3.9	-0.4
Bulldozers, Graders, Scrapers Etc	0.2	0.0	3.5	0.3	-3.4	-0.3
Sub-total	**1.5**	**0.1**	**12.1**	**1.0**	**-10.6**	**-0.8**
Large Exports, Large Imports, Deficit						
Medicaments In Dosage Form	6.6	2.1	9.5	0.8	-2.9	1.3
Motor Vehicle Parts	11.9	1.2	22.7	0.5	-10.8	0.7
Trucks	1.5	0.4	14.1	0.5	-12.6	-0.2
Computers	1.6	0.2	9.8	0.6	-8.3	-0.4
Transmission Shafts, Bearings and Gears	1.5	0.2	4.4	2.2	-2.9	-2.0
Telephones and Parts	2.5	0.0	10.1	0.4	-7.6	-0.4
Sub-total	**25.6**	**4.1**	**70.6**	**5.0**	**-45.1**	**-1.0**
20-Commodity Total	**257.2**	**34.8**	**156.3**	**7.6**	**100.7**	**27.0**

CHAPTER 6 | Global and Canadian Foreign Investment Performance

Global and Canadian Foreign Investment Performance

Preliminary estimates indicate that global inward foreign direct investment (FDI) flows[1] declined to US$1.26 trillion in 2014. FDI inflows continued increasing to developing economies, while inflows to developed economies declined.[2] In 2014, FDI inflows to developed economies, at 40.6 percent of total FDI inflows, remained near their historical low (38.8 percent in 2012), with North America posting a sharp 54-percent drop in inflows. In contrast, developing economies accounted for more than half (55.9 percent) of global FDI inflows in 2014, as inflows to these economies reached a new high of US$704 billion. FDI inflows to so-called transition economies (comprising the Commonwealth of Independent States and South-East Europe) more than halved, to US$45 billion.

The majority of the outward flows originated from developed countries, accounting for 59.1 percent of global outflows. However, the level of investment from developed economies was virtually on par with investment activity in the previous year, decreasing 0.6 percent to reach US$792 billion—58 percent off its peak in 2007. Investments from North America and from Europe posted modest increases of 2.9 percent and 2.1 percent, respectively, in 2014. Investments from developing countries continued to rise, by nearly 30 percent in 2014, holding a share of more than one third of global outflows. Strong advances in developing Asia (up 33.7 percent) positioned the region for the first time as the world's largest investor region, with FDI outflows totalling US$440 billion in 2014. Investments from Latin America and the Caribbean were up 12.9 percent while those from Africa were down 21.4 percent. Together, the two regions accounted for just 3.4 percent of global outflows. Investment outflows from the transition economies dropped by 30.8 percent to US$63 billion.

FDI inflows into Canada dropped by 12.8 percent in 2014, to $63.4 billion, roughly half of the previous peak level established in 2007. The overall decline was largely due to a sharp fall in intra-company loans, in spite of mergers and acquisitions (M&A) inflows more than doubling in 2014. By sector, foreign investors decreased their investments in energy and mining (24.6 percent of total FDI inflows) in 2014, as well as in manufacturing, and finance and insurance. However, they increased their investments significantly in management of companies and enterprises. That sector increased its share from about 6 percent in 2013 to 25 percent in 2014.

Foreign investors increased their cumulative holdings of direct investment (stock) in Canada by $40.3 billion, or 5.8 percent, to $732.3 billion in 2014. The United States holds almost half of all FDI stock in Canada and accounted for 48.3 percent of the overall gain in FDI in Canada in 2014, whereas China, which continues to make strong inroads, accounted for 11.5 percent of the overall gain. By sector, the manufacturing sector and the mining and oil and gas extraction sector, already the two largest targets for foreign investor interest, accounted for almost 55 percent of the increased FDI in Canada last year, as holdings rose in these two sectors by $11.2 billion and $10.9 billion, respectively.

Canadian direct investment abroad (CDIA) outflows increased by 21.1 percent in 2014, to $63.0 billion. By sector, CDIA was up significantly in energy and mining (529.3 percent) and management of companies and enterprises (118.0 percent), but down in all other sectors. M&A activities and re-invested earnings were up from 2013 levels, but intra-company flows and other forms of direct investment decreased.

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

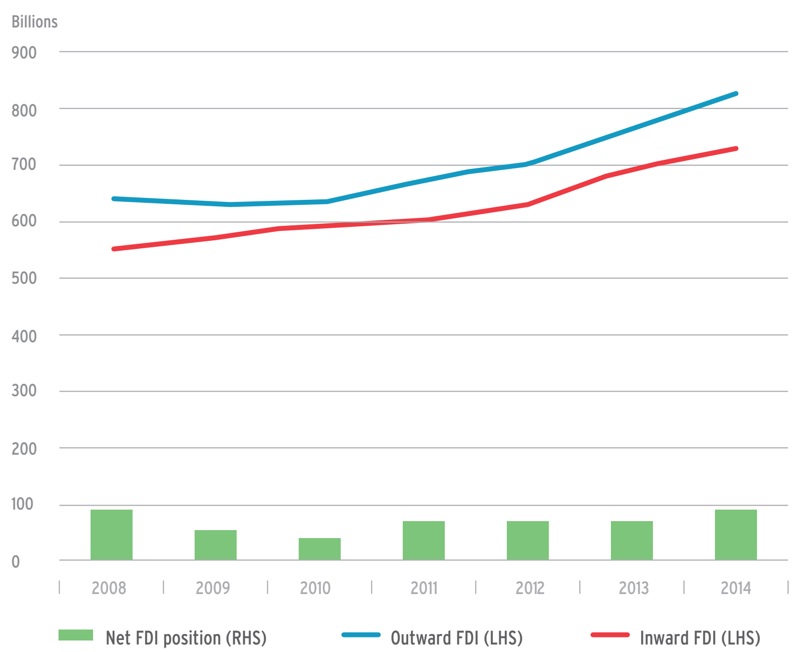
2 See UNCTADStat for the country composition of these classifications.

At the same time, Canadian investors added $67.3 billion (8.8 percent) to their direct investment holdings abroad (CDIA stock), to reach $828.8 billion in 2014. North America captured 62.5 percent of CDIA stock and accounted for almost 85 percent of the overall gain in this stock. In 2014, three low-tax jurisdictions (Barbados, the Cayman Islands and Bermuda) were among the top 10 destinations for CDIA. Collectively, these three were responsible for almost 18 percent of the growth of CDIA in 2014. Finance and insurance remained the primary sector for CDIA, and some 34 percent of the added CDIA stock accrued to this sector in 2014. Holdings in the management of companies and enterprises sector and the manufacturing sector also rose significantly, up $19.4 billion and $8.3 billion, respectively.

Canada's net direct investment asset position surpassed $96.0 billion in 2014 to establish a new record high. As a result of these developments, Canada continues to be a net exporter of direct investment vis-à-vis the world—a position it attained for the first time in 1997.

FIGURE 6-1

Canada's Net Direct Investment Position



Global Foreign Direct Investment Flows

Global Inflows

According to preliminary estimates from the United Nations Conference on Trade and Development (UNCTAD), global FDI inflows declined by 7.6 percent in 2014 to US$1.26 trillion. This is a level that continues to be lower than the pre-crisis average of US$1.49 trillion during the 2005-2007 period. With the exception of a slight increase of 2.5 percent in 2013, world FDI inflows have been on a generally downward trend since 2011 when they were US$1.7 trillion. The fragility of the global economy and a large divestment in the United States contributed to the lower level of global FDI inflows in 2014.

TABLE 6-1
World FDI Inflows by Major Region, 2013 and Estimated 2014

	2013 US$B	2014 US$B	Growth %	Share %
World	**1,363**	**1,260**	**-7.6**	**100.0**
Developed	**594**	**511**	**-14.0**	**40.6**
Europe	225	305	35.6	24.2
EU	235	267	13.6	21.2
North America	302	139	-54.0	11.0
Developing	**677**	**704**	**4.0**	**55.9**
Africa	56	55	-1.8	4.4
Latin America & Caribbean	190	153	-19.5	12.1
South America	133	118	-11.3	9.4
Developing Asia	427	492	15.2	39.0
West Asia	46	44	-4.3	3.5
East Asia	220	254	15.5	20.2
South Asia	35	43	22.9	3.4
South-East Asia	127	151	18.9	12.0
Transition	**92**	**45**	**-51.1**	**3.6**

FDI inflows to ***developed economies*** dropped by 14 percent, to an estimated US$511 billion, accounting for a 40.6-percent share of world inflows, but remaining at less than half their peak value in 2007 (US$1.3 trillion). While FDI inflows to North America dropped sharply by 54 percent to US$139 billion, those to the European Union rose by 13.6 percent to reach US$267 billion. The United States' rank fell to the third-largest recipient of global FDI inflows in 2014 (US$86 billion)—almost a third of the level attained in 2013. Canada ranked as seventh-largest FDI recipient in 2014, with FDI inflows totaling US$53 billion, down 26 percent from the previous year.

FDI inflows to ***developing economies*** reached a new high of US$704 billion, or 55.9 percent of global inflows in 2014. This marks the third consecutive year that developing countries have attracted the majority of global FDI inflows. In fact, among the top five FDI recipients in the world, four are developing economies, with China and Hong Kong as the two largest recipients of global FDI inflows in 2014. The estimated 3-percent increase in FDI inflows to China in 2014 (US$128 billion in total) was driven by an increase in FDI in the services sector, while FDI in the manufacturing sector fell. Flows to developing Asia as a whole increased by 15.2 percent, reaching almost half a trillion, while those to Latin America and the Caribbean decreased by almost 20 percent, after four years of consecutive increases.

FDI inflows to ***transition economies*** more than halved, reaching US$45 billion and representing 3.6 percent of global FDI inflows in 2014. Investors were deterred from investing in the region because of regional conflicts, sanctions on the Russian Federation, and negative growth prospects.

In 2014, cross-border M&As rose by 19 percent to US$384 billion, reaching their highest level since 2011. Developing Asia and Europe saw the highest growth in M&A sales, while the Latin America and Caribbean region posted the biggest decline.

Global Outflows

According to preliminary estimates from UNCTAD, world FDI outflows rose by an estimated 6.2 percent to US$1.34 trillion in 2014.

Investments from the ***developed economies*** were down slightly over 2013 levels to US$792 billion, 58 percent off their peak in 2007. Developed economies accounted for 59.1 percent of the global outward investments in 2014, slightly down from over 60 percent last year. Investments from North America and Europe were up 2.9 and 2.1 percent, respectively, with France becoming the largest investor country in Europe. The United States remained the top investor in the world, with a 25.1-percent share of global FDI outflows in 2014. Canada was ranked eighth, with FDI outflows totaling US$53 billion.

TABLE 6-2
World FDI Outflows by Major Region, 2013 and Estimated 2014

	2013 US$B	2014 US$B	Growth %	Share %
World	**1,263**	**1,341**	**6.2**	**100.0**
Developed	**797**	**792**	**-0.6**	**59.1**
Europe	280	286	2.1	21.3
EU	248	250	0.8	18.6
North America	379	390	2.9	29.1
United States	328	337	2.7	25.1
Japan	136	114	-16.2	8.5
Developing	**374**	**486**	**29.9**	**36.2**
Africa	14	11	-21.4	0.8
Latin America & Caribbean	31	35	12.9	2.6
Developing Asia	329	440	33.7	32.8
West Asia	33	38	15.2	2.8
East Asia	227	311	37.0	23.2
South Asia	2	12	500.0	0.9
South-East Asia	67	79	17.9	5.9
Transition	**91**	**63**	**-30.8**	**4.7**

FDI outflows from ***developing economies*** continued to rise in 2014, reaching another record level of US$486 billion, growing at around 30 percent—nearly five times the rate of growth of global FDI outflows. FDI outflows from developing Asia grew 33.7 percent to reach US$440 billion, and as such positioned it for the first time as the world's largest investor region. The growth was widespread across all the major Asian economies and sub-regions. In 2014, Hong Kong and China were the second- and third-largest investors in the world, after the United States. In fact, among the 20 largest sources of global FDI outflows, eight were from developing economies.

FDI outflows from the Latin America and Caribbean region grew at 12.9 percent, driven by Chile's direct investments abroad. Investments from Africa decreased by 21.4 percent in 2014 to US$11 billion. Overall, developing economies accounted for more than one third of global FDI outflows.

Investments from the ***transition economies*** declined by almost 31 percent in 2014 to US$63 billion, after jumping 69 percent last year. Russian natural resource-based companies reduced their investments abroad as a result of constraints in international financial markets, low commodity prices and the strong depreciation of the ruble.

Canadian Foreign Direct Investment Performance

FDI Inflows

In 2014, total inflows of FDI into Canada dropped by 12.8 percent, to $63.4 billion. Other miscellaneous flows (mainly intra-company flows), which more than halved, accounted for much of the reduced investment. M&A inflows from the world more than doubled in 2014.

There was more M&A activity from U.S. investors as well, and slightly more reinvested earnings. However the level of intra-company flows by the U.S. investors dropped by nearly 90 percent in 2014.

Non-U.S. investors also decreased their levels of reinvested earnings and other miscellaneous flows by 4.6 percent and 25.1 percent, respectively, while M&A inflows jumped 156.1 percent in 2014.

Foreign investors decreased their investments in energy and mining, manufacturing, and finance and insurance, while they increased their investments in trade and transportation, management of companies and enterprises, and all other industries.

TABLE 6-3
Foreign Direct Investment in Canada: Inflows

	2013 C$M	2014 C$M	Growth %
Type of FDI infows			
From the world			
Total net flows	72,668	63,383	-12.8
Mergers and acquisitions	11,253	25,124	123.3
Reinvested earnings	22,435	22,766	1.5
Other flows	38,981	15,494	-60.3
From the U.S.			
Total net flows	39,570	23,307	-41.1
Mergers and acquisitions	3,744	5,896	57.5
Reinvested earnings	14,210	14,915	5.0
Other flows	21,615	2,496	-88.5
From the rest of the world			
Total net flows	33,098	40,076	21.1
Mergers and acquisitions	7,509	19,227	156.1
Reinvested earnings	8,226	7,851	-4.6
Other flows	17,364	12,998	-25.1
Sectors of FDI inflows			
Energy and mining	22,281	15,575	-30.1
Manufacturing	26,804	12,952	-51.7
Trade and transportation	6,447	7,247	12.4
Finance and insurance	10,380	2,577	-75.2
Management of companies and enterprises	4,119	15,537	277.2
Other industries	2,638	9,494	259.9

FDI Stock

The FDI stock in Canada rose by $40.3 billion (up 5.8 percent) to $732.3 billion in 2014. In fact, the growth rate of FDI stock was faster than the growth of nominal GDP (up 4.4 percent) in Canada in 2014. Consequently, the ratio of FDI stock to GDP—a measure of Canada's orientation toward FDI—rose from 36.5 percent in 2013 to 37.1 percent in 2014.

By region:

At 49.4 percent, the United States continues to hold nearly half of all FDI stock in Canada and accounted for nearly half of the overall gain in FDI in Canada in 2014. Although the United States continues to be the most important source of direct investment in Canada by far, its relative importance has slipped considerably over the last decade; it held 64.1 percent of Canada's FDI stock in 2004.

Most of the remaining increase in FDI stock in 2014 came from the traditionally important region of Europe, and the emergent region of Asia and Oceania. In particular, direct investors from Asia and Oceania continued to add to their position in Canada in 2014, advancing their investments by $7.9 billion to $85.9 billion (19.6 percent of the increase in FDI); Europe made an almost equal contribution (adding $7.7 billion or 19.1 percent of the FDI increase). Europe continued to be the second-largest source of FDI in Canada, with Luxembourg, the Netherlands and the United Kingdom responsible for

68 percent of Europe's FDI in Canada. Europe's gains were led by increases from the United Kingdom (27.8 percent of the overall gain in Europe) and the Netherlands (23.2 percent) and, to a lesser extent, by France (16.3 percent) and Germany (10.6 percent).

Among the major investors from the Asia and Oceania region, almost 60 percent of the increase in FDI stock from the region in 2014 was sourced from China alone, while an additional 20 percent came from Japan. South Korea and Singapore reduced their investments by $296 million and $93 million, respectively.

South and Central America increased its investment in Canada by $1.6 billion in 2014, mostly from Brazil. At the same time, Africa increased its holdings in Canada by $66 million last year.

From a long-term perspective, Canada's FDI landscape has undergone changes during the last decade with the rise of new sources of FDI. From a regional perspective,

TABLE 6-4
Foreign Direct Investment in Canada: Stock by Region

	2004 C$M	2013 C$M	2014 C$M	Share 2004 %	Share 2014 %	Change 2013-14 %
All countries	379,450	691,942	732,263	100.0	100.0	5.8
North America	247,990	347,841	370,771	65.4	50.6	6.6
Barbados	619	n/a	663	0.2	0.1	n/a
Bermuda	3,052	4,011	4,604	0.8	0.6	14.8
Mexico	287	90	884	0.1	0.1	882.2
United States	243,328	341,917	361,372	64.1	49.4	5.7
South & Central America	1,992	18,488	20,090	0.5	2.7	8.7
Brazil	1,863	18,325	19,948	0.5	2.7	8.9
Europe	109,981	243,473	251,246	29.0	34.3	3.2
France	33,419	10,474	11,738	8.8	1.6	12.1
Germany	7,575	13,069	13,894	2.0	1.9	6.3
Luxembourg	2,944	53,884	53,606	0.8	7.3	-0.5
Netherlands	19,968	67,355	69,158	5.3	9.4	2.7
United Kingdom	25,318	46,105	48,267	6.7	6.6	4.7
Africa	532	4,154	4,220	0.1	0.6	1.6
Asia/Oceania	18,954	77,988	85,935	5.0	11.7	10.2
Australia	2,225	5,170	5,569	0.6	0.8	7.7
Japan	9,939	15,847	17,479	2.6	2.4	10.3
China	113	20,424	25,080	0.0	3.4	22.8
Singapore	45	788	695	0.0	0.1	-11.8
South Korea	353	4,135	3,839	0.1	0.5	-7.2

the Asia and Oceania region has made considerable inroads in the last decade, with its relative share of FDI stock more than doubling from 5.0 percent in 2004 to 11.7 percent in 2014.

Among emerging economies, China and Brazil now rank among the top 10 sources of FDI in Canada, with 3.4 percent and 2.7 percent, respectively, of Canada's FDI stock in 2014. For the first time, China and Brazil ranked higher than Japan, Germany and France, the traditionally dominant foreign investors in Canada. These developments occurred in large part due to a number of major takeovers of Canadian businesses in the natural resources sector by Brazilian- and Chinese-owned corporations in the latter half of the last decade, coinciding with the global M&A boom that lasted until the global recession (2008).

By Sector:

The increase in FDI stock in the manufacturing sector (up $11.2 billion) and the mining and oil and gas extraction sector (up $10.9 billion) accounted for over half of the total increase in FDI stock in Canada in 2014. All other sectors posted positive investment results in 2014, with the exception of retail trade, which registered a $620-million decline in FDI between 2013 and 2014. The management of companies and enterprises sector posted the third-highest gains, contributing about 16 percent to the increase in FDI stock in 2014.

In terms of the relative importance of sectors in total FDI, the same sectors were dominant in 2014, with the highest concentration of FDI in manufacturing (29.5 percent), followed by mining and oil and gas (20.8 percent), and management of companies and

TABLE 6-5
Foreign Direct Investment in Canada: Stock by Industry

	2004 C$M	2013 C$M	2014 C$M	Share 2004 %	Share 2014 %	Change 2013-14 %
Total, all industries	379,450	691,942	732,263	100.0	100.0	5.8
Manufacturing	117,383	204,539	215,718	30.9	29.5	5.5
Mining and oil and gas extraction	51,673	141,171	152,071	13.6	20.8	7.7
Management of companies and enterprises	64,523	119,303	125,619	17.0	17.2	5.3
Finance and insurance	53,228	87,396	90,480	14.0	12.4	3.5
Wholesale trade	41,260	57,035	59,710	10.9	8.2	4.7
Retail trade	16,538	34,526	33,906	4.4	4.6	-1.8
Transportation and warehousing	2,621	11,242	13,324	0.7	1.8	18.5
Professional, scientific and technical services	9,221	9,619	10,543	2.4	1.4	9.6
All other industries	3,419	7,254	7,500	0.9	1.0	3.4
Information and cultural industries	5,339	4,185	6,079	1.4	0.8	45.3
Real estate and rental and leasing	4,572	5,167	6,116	1.2	0.8	18.4
Accommodation and food services	3,241	4,143	4,432	0.9	0.6	7.0
Construction	1,789	3,615	3,655	0.5	0.5	1.1
Utilities	3,360	2,448	n/a	0.9	n/a	n/a
Agriculture, forestry, fishing and hunting	1,284	n/a	n/a	0.3	n/a	n/a

enterprises (17.2 percent). Finance and insurance (12.4 percent) and wholesale trade (8.2 percent) were the next two sectors with the highest shares of FDI among the top five, which collectively accounted for nearly 90 percent of total FDI stock.

Among notable industry trends over the past decade, the share of mining and oil and gas extraction in FDI rose from 13.6 percent in 2004 to 20.8 percent in 2014—a gain of over seven percentage points. The sector witnessed a strong rebound in FDI due to the global boom in commodity prices, largely via significant cross-border acquisitions of major Canadian-owned mining, oil and gas companies. Conversely, several industries experienced a drop in relative shares over this period, including wholesale trade (down 2.7 percentage points), followed by finance and insurance (down 1.7 percentage points) and manufacturing (down 1.5 percentage points).

Outward investment

Flows of Canadian Direct Investment Abroad (CDIA)

In 2014, Canadian investors increased their outflows by 21.1 percent to $63.0 billion—virtually the same amount as what foreign direct investors invested in Canada. Almost two thirds of CDIA outflows in 2014 were driven by M&As (up $20.5 billion), with another 51 percent sourced from reinvested earnings (up $6.4 billion). Other miscellaneous flows (mainly intra-company flows) were negative (down $16.0 billion), implying that on a net basis, FDI flows from Canadian multinationals to their foreign affiliates fell short of reverse flows from affiliates to their Canadian parents by that amount.

TABLE 6-6
Canadian Direct Investment Abroad: Outflows

	2013 C$M	2014 C$M	Growth %
By region			
To the world			
Total net flows	52,042	63,015	21.1
Mergers and acquisitions	19,178	39,701	107.0
Reinvested earnings	25,716	32,117	24.9
Other flows	7,148	-8,803	-223.2
To the U.S.			
Total net flows	18,706	36,662	96.0
Mergers and acquisitions	10,109	25,642	153.7
Reinvested earnings	12,926	14,115	9.2
Other flows	-4,329	-3,095	28.5
To the rest of the world			
Total net flows	33,336	26,351	-21.0
Mergers and acquisitions	9,069	14,059	55.0
Reinvested earnings	12,790	18,000	40.7
Other flows	11,477	-5,709	-149.7
Sector of CDIA outflows			
Energy and mining	-2,535	10,882	529.3
Manufacturing	13,430	11,046	-17.8
Trade and transportation	7,341	2,164	-70.5
Finance and insurance	19,100	10,798	-43.5
Management of companies and enterprises	12,215	26,632	118.0
Other industries	2,491	1,493	-40.1

In 2014, Canadian investors more than doubled their M&A activity in the United States, with a 154-percent increase to $25.6 billion. Reinvested earnings in U.S. affiliates fell by 9.2 percent, to $14.1 billion, while intra-company flows were up 28.5 percent, but totalled negative $3.1 billion due to reverse FDI outflows.

M&A outflows increased by 55 percent in the rest of the world, and there was a disinvestment of over $17 billion in intra-company flows to non-U.S. affiliates.

Canadian investors increased their outflows of FDI in energy and mining and management of companies and enterprises significantly in 2014, but reduced their outflows of FDI across all other sectors. FDI outflows dropped the most in trade and transportation (down 70.5 percent), followed by finance and insurance (down 43.5 percent), other industries (down 40.1 percent), and manufacturing (down 17.8 percent).

Stock of CDIA

Canadian investors added $67.3 billion (8.8 percent) to their direct investment holdings abroad, to reach $828.8 billion in 2014. CDIA stock in 2014 grew faster than in 2013 (8.1 percent) and posted the fastest expansion in the past six years.

By Region:

Almost 85 percent of the increase in CDIA holdings were placed in North America, with more than 75 percent of that amount ($43.3 billion) placed in the United States. Investment flows as well as the revaluation effect of the depreciation of the Canadian dollar against the U.S. dollar contributed to the increase in the position.

TABLE 6-7
Canadian Direct Investment Abroad: Stock by Region

	2004 C$M	2013 C$M	2014 C$M	Share 2004 %	Share 2014 %	Change 2013-14 %
All countries	448,546	761,550	828,812	100.0	100.0	8.8
North America	260,189	460,963	518,018	58.0	62.5	12.4
Barbados	27,147	64,474	71,185	6.1	8.6	10.4
Bermuda	12,362	16,882	17,807	2.8	2.1	5.5
Cayman Islands	9,654	32,288	36,598	2.2	4.4	13.3
Mexico	2,649	12,326	13,046	0.6	1.6	5.8
United States	198,460	306,653	349,965	44.2	42.2	14.1
South & Central America	21,196	46,721	47,790	4.7	5.8	2.3
Argentina	4,386	3,594	3,453	1.0	0.4	-3.9
Brazil	7,293	10,381	10,318	1.6	1.2	-0.6
Chile	5,636	18,222	18,331	1.3	2.2	0.6
Colombia	393	2,654	2,228	0.1	0.3	-16.1
Peru	2,151	8,813	10,235	0.5	1.2	16.1
Europe	130,190	189,744	191,454	29.0	23.1	0.9
France	14,265	6,986	6,215	3.2	0.7	-11.0
Germany	8,111	4,545	4,547	1.8	0.5	0.0
Hungary	8,440	8,583	7,538	1.9	0.9	-12.2
Ireland	19,859	15,509	15,266	4.4	1.8	-1.6
Luxembourg	616	36,593	31,135	0.1	3.8	-14.9
Netherlands	12,367	17,548	17,505	2.8	2.1	-0.2
Spain	2,463	5,750	5,693	0.5	0.7	-1.0
Sweden	2,080	985	1,037	0.5	0.1	5.3
Switzerland	5,670	8,657	11,277	1.3	1.4	30.3
United Kingdom	44,358	63,340	68,773	9.9	8.3	8.6
Africa	3,277	1,030	1,799	0.7	0.2	74.7
Asia/Oceania	33,695	63,091	69,749	7.5	8.4	10.6
Australia	8,180	23,924	26,432	1.8	3.2	10.5
Hong Kong	3,086	4,411	6,136	0.7	0.7	39.1
Japan	8,367	6,364	6,052	2.9	0.7	-4.9
Kazakhstan	n/a	2,517	3,158	n/a	0.4	25.5
China	1,081	5,836	6,794	0.2	0.8	16.4
Singapore	3,580	2,841	2,963	0.8	0.4	4.3
South Korea	1,360	468	465	0.3	0.1	-0.6

Overall, additional investment in Europe, which is the second most popular destination for CDIA stock, accounted for 2.5 percent of the increased holdings, or a modest $1.7 billion. The expansion reflected the interplay of gains made by the United Kingdom and Switzerland on the one hand, and moderated by reductions, most notably in Luxembourg and France, on the other hand.

A further 9.9 percent of the increase in holdings were placed in Asia and Oceania, and nearly four fifths of the $6.7-billion expansion was accounted for by three destinations: Australia (38 percent), Hong Kong (26 percent) and China (14 percent). A $312-million disinvestment in Japan in 2014 moderated the overall growth of stocks in the region; the Canadian dollar appreciated against the Japanese yen in 2014, which had the effect of reducing the value of yen-denominated assets in Canadian dollar terms.

Holdings in South and Central America rose by $1.1 billion, mainly on increased investment in Peru once again. Finally, Canadian investment in Africa increased to $1.8 billion, a level that represents 41 percent of the 2011 value of investment in Africa.

A notable feature of CDIA stock is the dominant role played by several low-tax jurisdictions that continue to be popular destinations of direct investment stock. In 2014, three such offshore tax-havens in the Caribbean (Barbados, the Cayman Islands and Bermuda) were among the top 10 destinations of CDIA. Collectively, they were responsible for almost 18 percent of the growth of outward FDI stock in 2014. These three offshore centres together accounted for about 15 percent of Canada's outward stock at year-end 2014, up from 11 percent in 2004.

A parallel development in the last decade has been the increasing importance of Luxembourg, again driven by its attractiveness as a major financial centre in the European Union and as a low-tax jurisdiction from where multinationals find it lucrative to channel their investments to other destinations. Luxembourg's share of CDIA rose from a paltry 0.1 percent in 2004 to 3.8 percent in 2014—almost a 30-fold increase.

By Sector:

Finance and insurance remains the primary sector for CDIA, and in 2014 some 34 percent of the increased CDIA accrued to this sector. Investment in the management of companies and enterprises sector picked up, increasing $19.4 billion to $121.4 billion, followed by

TABLE 6-8
Canadian Direct Investment Abroad: Stock by Industry

	2004 C$M	2013 C$M	2014 C$M	Share 2004 %	Share 2014 %	Change 2013-14 %
Total, all industries	448,546	761,550	828,812	100.0	100.0	8.8
Finance and insurance	123,769	290,768	313,494	27.6	37.8	7.8
Mining and oil and gas extraction	63,139	148,690	152,813	14.1	18.4	2.8
Management of companies and enterprises	76,812	102,027	121,423	17.1	14.7	19.0
Manufacturing	109,915	60,573	68,836	24.5	8.3	13.6
Real estate and rental and leasing	4,981	30,963	33,868	1.1	4.1	9.4
Information and cultural industries	19,131	35,087	31,958	4.3	3.9	-8.9
Transportation and warehousing	15,209	25,341	27,970	3.4	3.4	10.4
Utilities	4,645	20,394	23,866	1.0	2.9	17.0
Professional, scientific and technical services	7,721	12,115	15,013	1.7	1.8	23.9
All other industries	2,279	11,258	13,813	0.5	1.7	22.7
Wholesale trade	4,798	9,962	10,790	1.1	1.3	8.3
Retail trade	10,902	7,776	7,756	2.4	0.9	-0.3
Agriculture, forestry, fishing and hunting	611	4,264	4,422	0.1	0.5	3.7
Accommodation and food services	3,606	1,729	1,749	0.8	0.2	1.2
Construction	1,027	603	1,041	0.2	0.1	72.6

manufacturing (up $8.3 billion to $68.8 billion) and mining and oil and gas extraction (up $4.1 billion to $152.8 billion). There was a net disinvestment of $3.1 billion in information and cultural industries.

One of the most noteworthy long-term developments has been the significant reduction in the share of manufacturing in total CDIA, which declined from 24.5 percent in 2004 to 8.3 percent in 2014—a drop of over 16 percentage points. Offsetting these declines were increases primarily in finance and insurance (up 10.2 percentage points) and to a lesser extent in mining and oil and gas extraction (up 4.4 percentage points) over this period.