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CANADA'S STATE OF TRADE

Trade and Investment Update

2016

Canada's
State of Trade

Trade and Investment
Update – 2016

ABOUT THIS DOCUMENT

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Executive Summary

Revised global growth estimates indicate that real world output slowed down from a 2.7-percent rate of growth in 2014 to 2.4 percent in 2015.[1] In PPP-adjusted terms, the slowdown was similar: from 3.4 percent in 2014 to 3.1 percent in 2015. These dynamics were due to the combination of two long-term trends and two short-term shocks. Prior to 2014, developed economies trended toward stable long-term average growth, just above 1 percent, while developing economies were on a gently declining growth path, expected to stabilize between 4 and 5 percent. These trends combined for a fairly stable global output, between 3 and 4 percent. In 2014, there was a positive shock as growth in developed economies strengthened rapidly—primarily due to lower commodity prices and a firmer European recovery—and shifted to a higher long-term trend, generating growth around 2 percent per year; this caused an uptick in global growth from 3.3 percent to 3.4 percent (PPP-adjusted). But in 2015, the slowdown in the developing world accelerated, thus reversing the gains of 2014 and producing the slowest global growth rate since the Great Recession in 2009.

The overall economic conditions were characterized by low commodity prices (particularly oil prices), benefiting resource importers in general and most of the advanced economies in particular. Likewise, supportive monetary policies and, on average, an approximately neutral fiscal stance further encouraged growth in developed countries. Other long-term issues, such as the aging population and relatively smaller labour force, remained a drag; meanwhile, migration and political balance between right and left became fresh issues, whose solution will affect economic policy and growth prospects in the developed world. The performance of the developing economies worsened primarily for two reasons: recessions in Russia and, particularly, in Brazil, were more severe than expected; and the decline in resource prices severely affected many developing economies. In the latter case, several suboptimal policy responses aggravated the economic damage. The moderation in China's investment growth and the tremors in its financial system evidenced during 2015 spread further uncertainty and weakness in resource demand, slowing down the growth of many commodity exporters. In spite of these handicaps, the IMF medium-term expectations for both developed and developing economies are optimistic, with stable growth around 2 percent in the former and a considerable pickup in 2017 in the latter, after a marginal increase in growth in 2016.

Global trade volumes grew at an unimpressive rate of 2.8 percent in 2015 (the same pace as in 2014), while nominal world imports measured in U.S. dollars declined by double digits. Trade expansion has been slowing down since the turn of the century, and research in recent years highlighted some of the causes, cyclical as well as structural, for its slowdown. The expectations at this point are for global trade to revert to a pace similar to GDP growth as opposed to roughly double the GDP growth (as has been the case in the 1980s and 1990s). The World Trade Slowdown box in Chapter 1 explores this issue further.

1 Based on market exchange rates. A PPP-adjusted growth estimate is used later in the summary to compare growth among regional and other aggregates, as exchange rate data are not available from the IMF for any aggregate other than the world.

Against this background, Canada's economy did not follow the script for a developed economy in 2015. Its labour force and population age situation was better than in most advanced countries and so was its fiscal situation. But among developed nations, the impact of lower oil prices was perhaps the worst for Canada, as its sizeable energy industry and the associated investment were severely affected by sliding oil prices. Likewise, Canada's trade behaved differently from the global trend, with real exports growing faster than the world's for the last few years, while nominal exports were nearly unchanged and nominal imports increased nearly 5 percent. As a result, though growth of real GDP roughly halved in 2015 to 1.2 percent (after increasing 2.5 percent in 2014), net exports made a strong positive contribution to output growth for the second successive year. Output growth was negative in the first half of the year due to the weakness in the mining, quarrying, oil and gas extraction industry. Growth rebounded strongly in the third quarter as international demand for Canadian goods and services rose, but then slowed down again in the fourth quarter due to lower investment and exports. Output of goods declined 1.5 percent, while output of services grew 2.0 percent. The employment picture weakened as the number of jobs grew by just 0.8 percent in 2015, and the unemployment rate rose by 0.4 percentage point to 7.1 percent. Employment in goods-producing industries declined 0.7 percent, but grew at 1.2 percent in the services-producing industries. Inflation dropped to 2.0 percent, driven by declining gasoline prices, but the core inflation rose to 2.2 percent as food, alcohol and tobacco prices increased substantially.

Canada's trade performance was strong in 2015, with the country's export engine working hard to counteract the external challenges. While nominal exports of goods fell marginally, real goods exports expanded 3.4 percent, in particular through energy exports, which rose 5.7 percent; volume-wise, Canada has never exported as much oil as it did last year. The opposite situation occurred for imports: nominal imports of goods grew 4.4 percent while real imports increased by just 0.2 percent. In account balance terms, the goods trade surplus of 2014 reverted to a deficit in 2015. For services, exports grew faster than imports, but not enough to narrow the services trade deficit, which widened slightly. Overall, the trade deficit for both goods and services expanded in 2015, leading to a widening in the current account deficit from $44.9 billion in 2014 to $65.7 billion in 2015.

Canada's trade strength was especially apparent under detailed examination. Overall, Canada's merchandise exports declined marginally by $1.7 billion (down 0.3 percent) to $523.4 billion, and Canada's merchandise imports advanced $23.5 billion (up 4.6 percent) to reach $535.6 billion. But the apparent stability of exports concealed a major realignment of Canada's merchandise export profile, driven by the weaker Canadian dollar, lower oil prices and strong U.S. demand. The composition of Canadian exports has quickly shifted toward more manufactured products as the economic recovery in the United States ramped up; in fact, the growth in Canada's exports over the past two years has come entirely from non-resource sectors, whose exports grew by double digits in 2015. For a discussion of the major features of this shift, see the Non-Resource Exports box in Chapter 4. On a related note, some results of the updated assessment of the effectiveness of the Trade Commissioner Service are presented in the Canada's Trade Commissioner Service box in Chapter 5.

Global foreign direct investment (FDI) flows jumped to US$1.7 trillion in 2015, the highest level since the Great Recession began in 2008, fueled by a resurgence in M&A activities. FDI inflows into developed economies were the main driver of the rebound, increasing almost 90 percent on the year. Inflows into developing economies rose slowly. FDI inflows into Canada dropped by 3.9 percent in 2015, to $62.2 billion. Inflows from the United States more than doubled, while inflows from the rest of the world dropped by two-thirds. Inflows decreased in energy and mining, oil and gas extraction as well as in manufacturing, finance and insurance, and management of companies and enterprises, but rose in other industries, trade and transportation.

The stock of foreign investment in Canada rose 6.8 percent, over half of which originated in the United States. The manufacturing sector and the mining, oil and gas extraction sector remained the largest targets for foreign investors. Meanwhile, Canada's direct investment outflows increased 39.5 percent in 2015 to $85.9 billion. Investment in finance and insurance was up fivefold, and more than doubled in manufacturing. Canada's stock of investments abroad grew 21.8 percent, passing $1 trillion; as a result, Canada's direct investment position jumped to $236.8 billion, a record high.

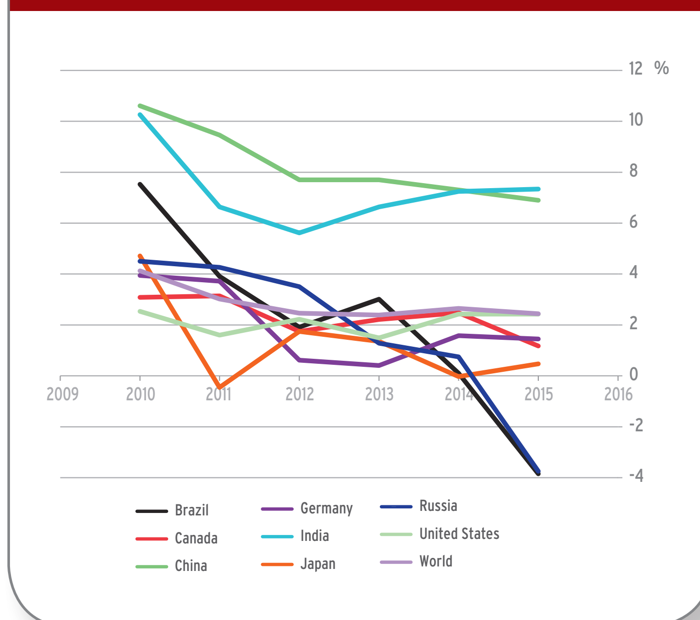
CHAPTER 1 | Global Economic and Trade Performance

Global Economic and Trade Performance[1]

The global economy has had seven lean years after the start of the global economic and financial crisis of 2008-09 and is only now finally emerging from its shadow. This emergence does not mean full economic recovery from the crisis, as most analysts seem resigned to a permanent loss of a portion of output and welfare to the Great Recession. Neither does it necessarily signify—though it may—the start of a new business cycle. Rather, the emancipation from the crisis takes the form of less and less attention paid to the past, as with the new challenges piling up that past increasingly loses its ability to define the terms of the economy's future. These multiple pressures of the post-crisis economic reality manifest themselves in new commodity price swings, "creative destruction" processes across many goods and services industries brought on by technological change, and shifts in the political landscapes in many developed and developing economies potentially creating new conflicts and new risks. The superficial stability in the world's economic growth between 2 and 3 percent for the past five years obscures this complexity; meanwhile, as the waters that the global economy enters begin to look rather uncharted, downside risks grow. Challenges to financial stability in emerging markets increase, with China's transition in the forefront. Global trade growth is slower than normal by about half, signifying that the extensive period of trade expansion may be over (a box in this chapter explores this issue in more detail).

The world economy grew 2.4 percent in real terms in 2015 using market-based exchange rates (or 3.1 percent using PPP-adjusted growth).[2] This represented the same pace as in 2013 and a slowdown from the 2.7-percent rate of growth in 2014. While some key economies still did well (e.g. the United States, India), the most they could do was match their last year's performance. Some other economies (e.g. the United Kingdom, Canada) slowed down slightly, while yet others (e.g. Russia, Brazil) fell into deep recessions. The International Monetary Fund (IMF) forecasts growth to rise marginally in 2016 to 2.5 percent before reaching 2.9 percent in 2017; these projections represent considerable downward revisions from last year. Growth in emerging and developed

FIGURE 1-1
Real GDP Growth in Major Economies, 2010-15

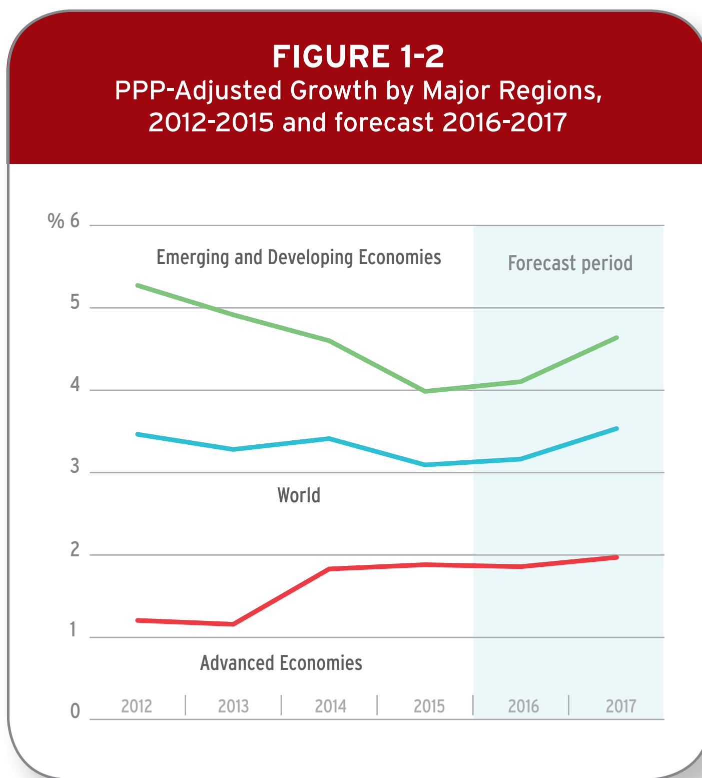


1 Statistics, estimations and projections in this chapter come from the International Monetary Fund's World Economic Outlook, April 2016, supplemented by statistics from the WTO, U.S. Bureau of Economic Analysis, Statistics Canada, Japan's Cabinet Office, the European Central Bank, and the World Economic Outlook April 2016 database.

2 Previous reports used the IMF's PPP-adjusted growth as the flagship figure. However, for trade and investment purposes, the aggregation based on market exchange rates is more appropriate and is adopted for world growth beginning with this report.

economies is expected to be 2 percentage points below the average of the past decade in 2016, but will pick up in 2017 with macroeconomic conditions in Latin America and Russia projected to improve. Growth in the advanced economies is expected to increase marginally, led by the United States.

In PPP-adjusted terms, world growth slowed likewise last year: from 3.4 percent in 2014 to 3.1 percent in 2015. Growth in the major advanced economies held its 2014 gains and even accelerated marginally from 1.8 percent in 2014 to 1.9 percent in 2015. Most of these economies were characterized by low inflation, highly accommodative monetary policy and strengthening currencies, as well as some tightening of financial conditions and softening growth figures toward the end of 2015. Growth in the United States remained at 2014 levels, thwarting expectations of a stronger rebound; meanwhile, growth in the eurozone strengthened in 2015, with a strong pickup in Ireland, Italy and Spain. After leading the G7 in growth in 2014, the United Kingdom fell back to 2.2-percent growth, down from 2.9 percent in the previous year. Japan had a poor fourth quarter, caused by a sharp drop in private consumption; its 0.5-percent growth, while an improvement on the 2014 recession, was marginal. Expectations for growth among the advanced economies are roughly in line with their present performance in the medium term.



For the fifth straight year growth in the developing economies slowed down, from 4.6-percent growth in 2014 to 4.0 percent in 2015. While that average was affected to a considerable degree by the ongoing recessions in Brazil and Russia, performance has been weakening due to the dual pressures of lower resource revenues and declining demand from China. As investment growth in China continues to moderate, the growth rates of many commodity exporters, as well as their currencies, have been affected substantially. Tensions and conflicts in the Middle East and the Commonwealth of Independent States (CIS) have also taken their toll. The IMF estimates as much as 0.1 percentage point of global GDP was lost from those sources in just three countries—Ukraine, Libya and Yemen.

The United States remains on track for another 2.4-percent economic performance in 2016, after turning in that growth twice in a row. Fiscal drag should be gone in 2016 and monetary policy support will continue, coupled with lower energy prices and a stronger housing market. Balancing those strengths, the strong U.S. dollar is creating a drag on net exports, energy investment is weakening and most trading partners are growing slowly. Growth is also expected to stay at present levels in the eurozone, with lower oil prices, supportive financial conditions and a modest fiscal expansion competing against high indebtedness, low investment and slow productivity growth. Likewise,

Japan is expected to stay the course at 0.5 percent in 2016. In the newly industrialized economies (NIEs) of Asia, growth will slow down in Singapore (to 1.8 percent) and Hong Kong (to 2.2 percent), while rising in South Korea (to 2.7 percent) and Taiwan (to 1.5 percent). In developing economies, China is expected to slow down to 6.5 percent in 2016 and to 6.2 percent in 2017. Support from structural reforms and from policy stimulus is facilitating the unwinding of excess capacity in the weakening industrial and real estate sectors. India continues to target 7.5-percent growth, driven by private consumption. Brazil is projected to repeat its 3.8-percent output contraction in 2016 before the growth turns positive in 2017, while Russia is due for a 1.8-percent fall in output in 2016. Both of these countries' weaknesses affect their surrounding regions. Considerable weakening of growth against earlier projections will occur in both Middle East and North African countries (MENA) and sub-Saharan African countries (SSA) due to the decline in commodity prices. Growth in both areas is expected to be about 3 percent in 2016 before picking up in 2017. Main risks to the outlook include: dangers to financial stability in emerging market economies; oil prices; developments in China; more protracted recessions in emerging markets; and geopolitical risks.

The pace of expansion of world trade volumes in 2015 was unchanged from 2014, posting a growth of 2.8 percent and marking the fourth consecutive year of trade growth below 3 percent. Considerable volatility was shown over the course of 2015, with trade declines occurring in the second quarter before a pickup in the second half of the year. Exports from North America performed worse than expected, while European imports outperformed as the recovery in intra-European trade took hold. Overall, developed economies' imports surged 4.5 percent last year, while developing economies' imports stagnated. Exports from oil-producing regions were stronger than forecast, even as their imports softened. Global trade growth remains abnormally low, tracking GDP growth instead of doubling it; for a more detailed discussion of this slowdown, see a box in this chapter.

Asia, the erstwhile engine of the world trade growth, only contributed less than a quarter of the global increase in imports in 2015. Its place as the foremost contributor to world imports growth was taken by Europe, whose internal trade underwent a recovery. As a result Europe accounted for 59 percent of global imports growth in 2015. North America also made a positive contribution, while the Latin America, MENA and SSA regions recorded negative contributions to world imports' growth. On the export side, Asia's contribution accounted for 35 percent of world's export growth, also surpassed by Europe's contribution of 44 percent. Projections call for real world trade growth to stay at the same level of 2.8 percent in 2016 (with Asia leading the pack) and to reach 3.6 percent by 2017.

Nominal world imports measured in U.S. dollars declined sharply in 2015, losing 12.4 percent of their value to end up at US$16.3 trillion. Fluctuations in commodity prices and the strengthening of the U.S. dollar versus many currencies contributed the most to the observed decline. China remained the largest merchandise trader in the world, ahead of the United States. World imports of commercial services also declined in value (volume statistics for services are not available), but less drastically—down 5.4 percent to US$4.6 trillion, showing the usual resilience of services vis- à-vis goods to the business cycle.

Overview and Prospects for the Global Economy

A slightly higher global GDP growth of 3.2 percent (PPP-adjusted) is expected for 2016, with steady performance in advanced economies at 1.9 percent and a slight improvement in developing economies to 4.1 percent. The latter are expected to accelerate to 4.6 percent in 2017, as the advanced economies make a small improvement to 2.0 percent in that year. The overall outlook is weaker than at any time during the past year, with downward growth revisions averaging around 0.5 percent.

In the advanced economies, growth will continue to be supported by generally low oil prices, as well as supportive monetary policies. Fiscal policy is expected to remain neutral overall, with some countries (the United States, Canada, Germany, Italy) experiencing stimulus conditions while others (Japan, the United Kingdom, Spain) under some contractionary pressure.

The emerging and developing economies have been decelerating since 2010, but are expected to break this trend next year and will still account for the large majority of world growth in 2016. The combination of China's slowdown and weaknesses in commodity prices and external demand will soften the outlook in the short term. Growth in developing Asia will continue on a downward trend as China's rebalancing continues; however, India and other developing Asian nations will continue to deliver strong performances, supported by domestic demand. Latin America and the Caribbean will again experience negative growth in 2016. While low commodity prices will weigh down South American countries, and Brazil's crisis will continue to act as a damper on growth, Mexico and Central America will benefit from the strength of the U.S. recovery. Russia's economic decline is expected to moderate, though the CIS will remain in negative growth territory in 2016. Growth in emerging Europe will remain stable, while MENA's economies have their prospects weakened by declines in oil prices and increasing conflict across the region. Growth in sub-Saharan Africa will weaken in the short term, as the effects of lower commodity prices are compounded by exchange rate restrictions in Nigeria and policy uncertainty in South Africa. Acceleration is projected for 2017, assuming policy action and a rebound in commodity prices.

TABLE 1-1
Real GDP Growth (%) in Selected Regions and Economies

Regions (PPP aggregates)	2015	2016	2017
World	3.1	3.2	3.5
Advanced Economies	1.9	1.9	2.0
Eurozone	1.6	1.5	1.6
Developing Economies	4.0	4.1	4.6
Developing Asia	6.6	6.4	6.3
Emerging Europe	3.5	3.5	3.3
CIS	-2.8	-1.1	1.3
Latin America and Caribbean	-0.1	-0.5	1.5
Middle East and North Africa	2.5	3.1	3.5
Sub-Saharan Africa	3.4	3.0	4.0
Countries (market-based aggregates)	**2015**	**2016**	**2017**
World	2.4	2.5	2.9
Canada	1.2	1.5	1.9
United States	2.4	2.4	2.5
United Kingdom	2.2	1.9	2.2
Japan	0.5	0.5	-0.1
France	1.1	1.1	1.3
Germany	1.5	1.5	1.6
Italy	0.8	1.0	1.1
Spain	3.2	2.6	2.3
China	6.9	6.5	6.2
India	7.3	7.5	7.5
Russia	-3.7	-1.8	0.8
Brazil	-3.8	-3.8	0.0
Mexico	2.5	2.4	2.6
Nigeria	2.7	2.3	3.5
South Africa	1.3	0.6	1.2

Overview and Prospects for World Trade

Merchandise Exports

Real merchandise exports of developed economies grew 2.6 percent in 2015, while the exports of developing economies grew 3.3 percent. Unlike in the past several years, Europe was one of the export growth leaders in 2015 with a 3.7-percent increase, second only to an aggregate of Africa, the CIS and the Middle East, which grew 3.9 percent. Asia was third with 3.1-percent real exports growth, while North America disappointed with last-place 0.8-percent growth. WTO forecasts project export growth in the developed economies to pull ahead of the developing world in 2016 and 2017; overall growth is expected to remain at 2.8 percent in 2016 and then pick up to 3.6 percent in 2017.

Nominal world merchandise exports (measured in U.S. dollars) plummeted 13.5 percent in 2015 to US$16.0 trillion. Substantial declines in prices for primary commodities and fluctuations in exchange rates were chiefly responsible, although volatility and confidence issues may have also reduced global demand for some durable goods.

On a regional basis, the Middle East recorded the largest decline in nominal exports, which fell by over one-third, while Africa was not far behind. Nominal exports were the least affected in Asia and North America, at about 8 percent. Among the large economies, the decline in Russia's export revenues stands out at 31.6 percent. Export declines were just above 10 percent for the major EU countries and higher for Brazil and India, at over 15 percent. In contrast, export declines in China and Mexico were minimal, at 2.9 percent and 4.1 percent, respectively, reflecting the low share of primary commodities and favourable exchange rates vis-à-vis the U.S. dollar.

TABLE 1-2
World Merchandise Exports, 2015, By Regions

	Value US$B	Share (%)	Growth (%)
World	15,985	100.0	-13.5
North America	2,294	14.4	-8.0
United States	1,505	9.4	-7.1
Canada	408	2.6	-14.0
Mexico	381	2.4	-4.1
South & Central America	540	3.4	-21.2
Brazil	191	1.2	-15.1
Europe	5,958	37.3	-12.4
EU-28	5,387	33.7	-12.5
Germany	1,329	8.3	-11.0
France	506	3.2	-12.8
United Kingdom	460	2.9	-8.9
Italy	459	2.9	-13.4
CIS	500	3.1	-32.0
Russia	340	2.1	-31.6
Africa	388	2.4	-29.6
Middle East	841	5.3	-34.7
Asia	5,464	34.2	-7.9
China	2,275	14.2	-2.9
Japan	625	3.9	-9.5
India	267	1.7	-17.2
NIEs	1,176	7.4	-10.8

Merchandise Imports

In 2015, real merchandise imports of the developing economies grew hardly at all (up 0.2 percent). The two primary causes are the downturn in the investment boom in Asia, which reduced its import growth to 1.8 percent last year, and the shoring up of the balances of commodity exporters whose export revenues were squeezed recently. Meanwhile, real imports of developed economies accelerated to 4.5 percent in 2015. North America led all regions with 6.5-percent growth, while Europe's imports grew 4.3 percent. The decline in South and Central America's real imports was the largest, at 5.8 percent, while the collective real imports of Africa, the CIS and the Middle East fell 3.7 percent. These declines are expected to ease by 2016 and reverse in 2017.

TABLE 1-3
World Merchandise Imports, 2015, By Regions

	Value US$B	Share (%)	Growth (%)
World	16,340	100.0	-12.4
North America	3,151	19.3	-4.7
United States	2,308	14.1	-4.3
Canada	436	2.7	-9.1
Mexico	405	2.5	-1.5
South & Central America	622	3.8	-15.9
Brazil	179	1.1	-25.2
Europe	5,899	36.1	-13.2
EU-28	5,316	32.5	-13.4
Germany	1,050	6.4	-13.0
France	573	3.5	-15.4
United Kingdom	626	3.8	-9.4
Italy	409	2.5	-13.8
CIS	345	2.1	-31.9
Russia	194	1.2	-37.0
Africa	559	3.4	-13.8
Middle East	747	4.6	-4.5
Asia	5,018	30.7	-14.6
China	1,682	10.3	-14.2
Japan	648	4.0	-20.2
India	392	2.4	-15.3
NIEs	1,105	6.8	-16.5

In nominal terms, merchandise imports fell 12.4 percent on the year to US$16.3 trillion. The Middle East, with only a 4.5-percent decline, was the strongest-performing region, closely followed by North America's 4.7-percent decline. Imports were also down by 13.2 percent in Europe and by 13.8 percent in Africa. Asia's imports declined even more (down 14.6 percent), while the imports of South and Central America fell by 15.9 percent. A sharp 31.9-percent import decline occurred in the CIS, due to declining export revenues and exchange rates, as well as regional conflict.

Among the large economies, Mexico was the most resilient, with only a 1.5-percent drop in its nominal imports. The United States suffered a 4.5-percent drop in imports, and the United Kingdom's imports declined 9.4 percent. Declines were between 13 percent and 15 percent in the largest EU economies, 14.2 percent in China and 20.2 percent in Japan. Brazil's imports dropped by over a quarter (down 25.2 percent) and Russia's by over one-third (down 37.0 percent), though these figures may be exaggerated due to the evaluation of trade flows in terms of the strengthened U.S. dollar.

Europe remains the world's leading importer, at 36.1 percent of the global share. Asia's imports account for 30.7 percent; together these two regions import two-thirds of the world's merchandise. North America's share is just under 20 percent, while Africa, the CIS and the Middle East together account for about 10 percent of global imports.

Services Exports

Total nominal world services exports (measured in U.S. dollars) declined 6.4 percent to US$4.7 trillion in 2015. Transport services registered the largest decline of all categories as their value dropped nearly 10 percent (due to prices for sea shipment of bulk cargo falling to record lows). Commercial services declined at a rate of 5.5 percent, while travel exports declined 5.4 percent. Declines in services exports occurred across all regions in 2015, but were spread unevenly.

North America was the most resilient region with regard to services exports, registering only a small 0.9-percent decline, which was due to the 10.4-percent fall in Canada's services exports.[3] Asia's services exports were next, having declined by a margin of 3.4 percent. While China and Japan registered minimal declines, and India's services exports actually grew, the declines in exports from NIEs exacerbated the overall decline in services exports from this region. South Korea suffered a particularly large decline at 12.7 percent.

South and Central America saw a modest 4.3-percent reduction in services exports, in spite of Brazil's large 15.5-percent decline. Exports of services from Europe dropped 9.8 percent, with France's exports leading the decline (down 13.1 percent.) while the United Kingdom's exports were the most resilient (down 4.7 percent). The collective exports of Africa, the Middle East and the CIS recorded a 5.9-percent decrease.

Among large economies, India was alone in registering growth in exported services during the year (up 1.2 percent).[4] Exports from the United States remained stable at US$690 billion, accounting for 14.8 percent of the world's total. In other regions, Egypt's declines in services exports amounted to just 4.6 percent, while South Africa lost over one-tenth of its export value, and Russia nearly a quarter.

TABLE 1-4
World Services Exports, 2015, By Regions

	Value US$B	Share (%)	Growth (%)
World	4,675	100.0	-6.4
North America	790	16.9	-0.9
United States	690	14.8	0.0
Canada	76	1.6	-10.4
Mexico	23	0.5	7.2
South & Central America	140	3.0	-4.3
Brazil	33	0.7	-15.5
Europe	2,205	47.2	-9.8
EU-28	1,958	41.9	-9.8
Germany	246	5.3	-9.8
United Kingdom	341	7.3	-4.7
France	239	5.1	-13.1
Netherlands	176	3.8	-9.5
Asia	1,220	26.1	-3.4
China	229	4.9	-0.7
Japan	158	3.4	-0.2
India	158	3.4	1.2
NIEs	397	8.5	-5.9
Other Regions	320	6.8	-5.9
Russia	49	1.0	-24.5
Egypt	19	0.4	-4.6
South Africa	15	0.3	-10.5
United Arab Emirates	19	0.4	-

Europe continued to be the world's leading provider of services, accounting for just under half of the global value of services, at US$2.2 trillion, due largely to intra-EU trade in services. Asia ranked second, with just over a quarter of the global exports (US$1.2 trillion), while North America was third, with US$0.8 trillion—accounting for 16.9 percent of the global services exports in 2015.

3 When measured in U.S. dollars. Measured in Canadian dollars, Canada's services exports grew 3.6 percent.

4 Mexico achieved growth of 7.2 percent, but its services exports were only US$23 billion.

Services Imports

Total nominal world services imports declined 5.4 percent to US$4.6 trillion in 2015. Unlike for exports, most but not all regions showed declines. Services imports expanded 0.6 percent in North America and 0.3 percent in Asia. These results were driven by the strong performance of the United States registering a 3.5-percent increase in services imports, on one hand, and a prodigious region-carrying performance by China on the other. Indeed, China's expansion of 14.7-percent in services imports is one of the most impressive and unlikely commercial performances of the year. This brought it within striking distance of the United States as the world's top importer of services—a distinction it could challenge for next year.

TABLE 1-5
World Services Imports, 2015, By Regions

	Value US$B	Share (%)	Growth (%)
World	4,570	100.0	-5.4
North America	595	13.0	0.6
United States	469	10.3	3.5
Canada	95	2.1	-10.6
Mexico	29	0.6	-3.8
South & Central America	170	3.7	-12.9
Brazil	69	1.5	-19.8
Europe	1,880	41.1	-8.7
EU-28	1,707	37.4	-8.6
Germany	292	6.4	-11.5
United Kingdom	205	4.5	-1.8
France	224	4.9	-11.0
Netherlands	166	3.6	-4.1
Asia	1,380	30.2	0.3
China	437	9.6	14.7
Japan	174	3.8	-8.8
India	126	2.8	-1.1
NIEs	377	8.2	-2.9
Other Regions	550	11.8	-10.9
Russia	85	1.8	-28.3
Egypt	18	0.4	5.7
South Africa	15	0.3	-8.7
United Arab Emirates	68	1.5	-

South and Central America was the region with the fastest-falling services imports, at 12.9 percent. Behind this performance was the nearly 20-percent decline in imports by Brazil. The combined imports of Africa, the Middle East and the CIS followed the trend with a 10.9-percent fall. Much of this was due to Russia's 28.3-percent drop in services imports, while Egypt's services imports bucked the trend and increased 5.7 percent.

Europe's imports of services declined 8.7 percent in 2015, driven by double-digit declines in both France and Germany. By contrast, the United Kingdom's imports declined only 1.8 percent. Europe was the largest regional importer of services in 2015, with 41.1 percent of the world's total. Asia's import share was just over 30 percent while North America's equalled 13.0 percent.

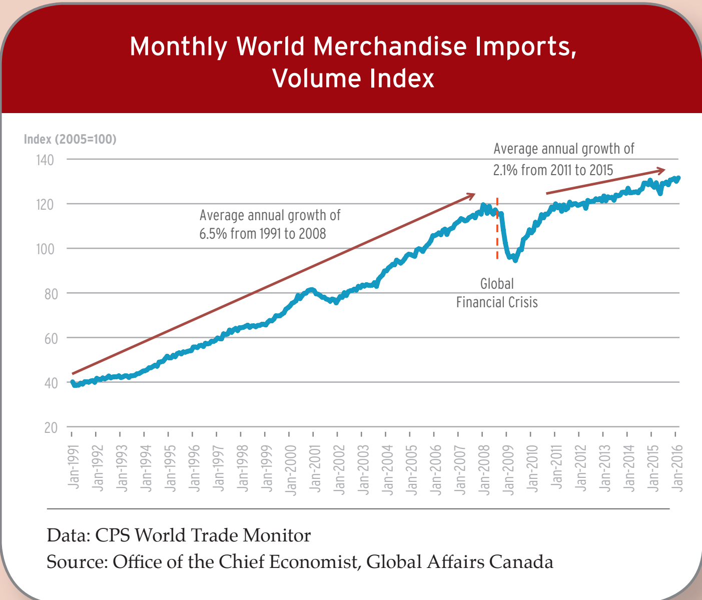
Canada's imports of services showed a 10.6-percent decline expressed in U.S. dollars, but a 3.2-percent increase expressed in Canadian dollars.

World Trade Slowdown

World trade recovered strongly following the global economic crisis, but in more recent years this recovery has slowed, with world trade growth decelerating significantly to become more in line with growth in world GDP.

Evidence for the slowdown

Between 1990 and 2015, the value of world merchandise imports (a proxy for world trade) more than quadrupled, from US$3.6 trillion to over US$16.8 trillion. Its relative importance also increased during those 25 years, from 15.5 percent of world GDP to 22.9 percent. However, the growth in world trade has slowed significantly in more recent years of that period—from an annual average of 8.5 percent in the 17 years before the global crisis took hold (1990 to 2007) to an average of 1.1 percent from 2011 to 2014. The value of global merchandise imports reached US$19.1 trillion in 2014 but fell to US$16.8 trillion in 2015, a 12.2-percent decline that was mainly due to falling commodity prices and an appreciation of the U.S. dollar, as import volumes actually increased slightly that year.



Data: CPS World Trade Monitor
Source: Office of the Chief Economist, Global Affairs Canada

Looking at the volume of world trade (i.e. after adjusting nominal trade for price changes), this long-run slowdown is still pronounced: world import volumes grew at an annual average rate of 6.5 percent from 1991 to 2008 but from 2011 to 2015 that growth slowed to just 2.1 percent.[1]

Reasons for the slowdown

Although the slowdown in world trade has become evident in recent years and led to much discussion and research, the phenomenon, according to the IMF, actually began before the Great Recession.[2] Indeed, the global trade slowdown is driven by several structural and cyclical factors that have come into play since the turn of the 21st century. Broadly speaking, the structural slowdown began as far back as 2000, when the falling trade-income elasticity (trade growth relative to GDP growth) foretold that the former empirical regularity with which trade grew at double the rate of global GDP would eventually no longer hold true. Attention did not focus on this, however, until the cyclical effects in the aftermath of the Great Recession exacerbated the trend. Meanwhile, structural headwinds were coming into effect that negatively affected world trade growth.

1 According to data on the monthly volume of world imports tracked by the CPB Netherlands Bureau for Economic Policy Analysis.

2 Box 1.2 in IMF *World Economic Outlook*, April 2015. The income elasticity of trade was slightly above 2 in 1986–2000 but stood at only 1.3 for 2001–2014.

Two major long-term structural factors that were boosting trade toward the end of last century began to run out of steam after 2000. First, the integration of the post-Communist world into the global economic system (including not only Central and Eastern Europe, but also countries such as China and Vietnam) was responsible for a protracted boost to global trade, which grew faster than normal for most of the 1990s, before running out of steam. Second, the rise of the global value chains (GVCs), which adopted new production models predicated on outsourcing, trade in tasks and the consequent fragmentation of production across several countries,[3] is also thought to have spurred trade growth beyond historically normal levels. However, as GVCs matured and production techniques stabilized, trade growth reverted back to normal, roughly in line with growth of output.

Two additional structural factors have recently come into play. First, a structural shift in China wherein growth has moved away from investment and export-led growth (trade-intensive activities) toward domestic-led growth and services (less trade-intensive activities) has put the brakes on China's trade and in so doing has affected many resource-exporting emerging economies that supported themselves as suppliers of raw materials to China, which by reducing output, demand, and trade levels, put an end to the commodity boom.

Second, it has been argued that there is a greater tendency for national governments to look for domestic sources of growth and to engage in protectionism in the aftermath of the Great Recession.[4] Despite the majority opinion that this is not protectionism but a rather a slowdown in liberalization, protectionism continues to be a serious and active threat, lurking in tax codes and benign-looking industrial policies and continuously undermining world trade.

The structural underpinnings of the slowdown leading to the recent flattening in trade are accompanied by many short-term, cyclical factors. These include:[5]

- protracted weakness in the EU, whose members' internal trade in normal conditions accounts for roughly one-third of global trade;
- the recent slowdown in the emerging markets for the fifth straight year, particularly in China;
- weakened trade finance, including government support for trade finance, following the Great Recession;
- the change in composition of demand for some countries away from import-intensive investment spending toward domestic-led drivers of growth (private consumption and government spending).

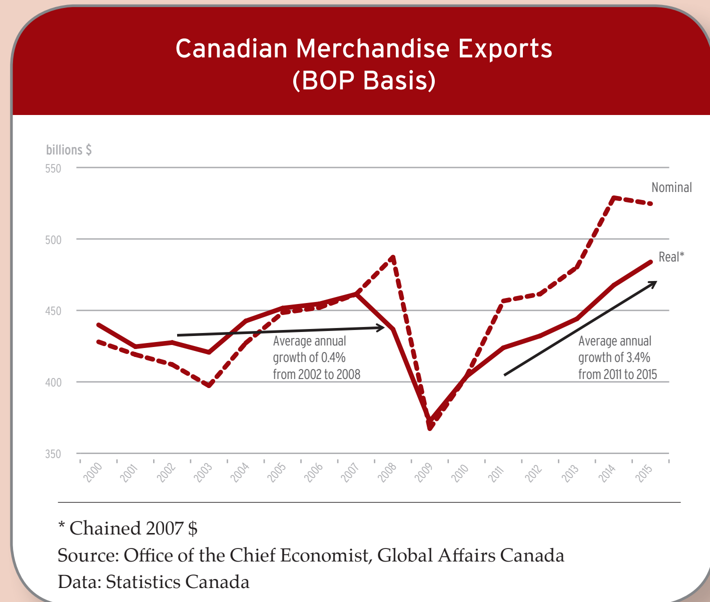
3 While China was a key player in both processes, the two should not be confused. Part of what made China's rise so phenomenal was its simultaneous transition away from a planned economy and into the GVCs, with multiplicative effects on growth and trade.

4 In its 2015 annual report, the WTO reports that 2,557 trade restrictions have been put in place by G20 countries since the 2008 crisis and only 642 have since been removed, leaving 1,915 still in place. Further, the stock of these restrictive trade measures (tariffs, quotas, taxes, duties and others) increased by 17 percent from the WTO's previous annual report.

5 The decline in commodity prices is arguably a cyclical factor, but this decline is more of an effect than a cause. While the decline impacted the value of world trade, trade volumes fell even more steeply. Likewise, the overall appreciation of the U.S. dollar (in terms of which world trade is measured), which has an effect on the valuation of nominal trade, did not directly affect trade volumes.

Overall, while cyclical factors played a major role in the trade slowdown, the relative weights of the structural and cyclical factors identified above have yet to be determined in a trade model capable of accounting for these factors.

Canada's perspective



Canadian Merchandise Exports (BOP Basis)

* Chained 2007 $
Source: Office of the Chief Economist, Global Affairs Canada
Data: Statistics Canada

Trade plays a predictably key role in an open economy like that of Canada whose nearest neighbour to the south also happens to be the largest economy in the world, a market where even minor protectionist initiatives have the potential to drastically impact entire sectors of Canada's economy. Canada is also unusual among developed economies in that it has a strong natural resources industry that produces the bulk of the country's exports, so it comes as no surprise that falling commodity prices spelled a difficult year for Canada's economy in 2015. All of this serves to make Canada a natural champion for trade liberalization.

After spectacular growth in the 1990s, Canada's export volumes slowed to a crawl between 2002 and 2008, growing an average 0.4 percent per year. This was during a period when the Canadian dollar appreciated 47 percent versus the U.S. dollar, making Canadian goods relatively less competitive in the U.S. market. However, Canada is bucking the recent global trade slowdown trend. During the 2011-2015 period, the Canadian dollar depreciated 23 percent versus the U.S dollar, and the pace of Canada's export volume picked up to 3.4 percent per year. Along with the weakening loonie, the impact of the strong economic recovery in the United States and relatively lower exposure to the trade slowdowns in Europe and in Asia also played a role in Canada's improved trade performance.

CHAPTER 2 | Economic and Trade Developments: Regional and Country Overview

Economic and Trade Developments: Regional and Country Overview

According to revised data, global economic growth on the PPP-adjusted basis[1] improved from 3.3 percent in 2013 to 3.4 percent in 2014, before dropping to 3.1 percent in 2015. The uptick in 2014 was due to the long-expected recovery in the developed economies, which as a group moved from 1.2 percent growth in 2012-13 to a more dynamic 1.8 percent in 2014. A further marginal improvement occurred in 2015, with developed countries averaging 1.9 percent growth; they are expected to reach 2.0 percent by 2017. Although growth picked up, the developed economies slowed down towards the end of 2015, increasing uncertainties for the future.

Against the background of the economic strengthening in the developed world, growth in the developing and emerging economies continued to disappoint. While the 2014 uptick in the developed world was enough to counteract the secular trend of decline in the developing world and increase global growth during that year, one year later the secular decline trend took a turn for the worse. After a fairly steady slowdown from 5.3 percent in 2012, through 4.9 percent in 2013 and to 4.6 percent in 2014, developing and emerging economies decelerated at double speed during 2015, recording 4.0 percent growth. Added to the moderate slowdown of China, the deep recessions in Brazil and Russia are primarily responsible; but weakness is widespread in the commodity-exporting part of the developing world as commodity prices sag worldwide through the decline in investment demand. Thus in the medium term, countries with strong ties to the developed markets' demand and with less reliance on commodities (e.g. Mexico, India) can expect more stability and security in their growth. All economies, however, will benefit from forward-looking economic reforms, no matter the level of development, to resolve the challenges that cloud their economic outlook. Every economy is faced with the task of ensuring domestic market demand, finding secure and promising investment areas, and progressing towards new solutions in production, distribution and trade to counteract the dampening influence of the aging populations, financial and political instability, uncertainty about resource prices etc. on economic growth. Lastly, GDP growth projections incorporate the fact that, starting in 2016, the developed world will enjoy a real GDP increase of over 1 percent a year due to the boost to private demand from lower oil prices. Any disruptions in oil supply and price may affect that advantage.

Considering the above picture, the key regions for Canada's commercial policy may become more fluid in the coming years. While some constants will remain, such as the paramount importance of the United States to Canada's economy and commerce, other regions and countries may come into greater focus according to their ability to take advantage of the opportunities that the modern global economy offers. Presently, Emerging Asia continues to be a leader in global growth, with China and India still the lands of peerless opportunities; but well-established and similarly structured consumer markets of the Eurozone will also command attention of the Canadian exporters. Proximity and engagement with Latin America and the Caribbean (particularly Mexico) also make that region a priority. This chapter provides a brief overview of the most important facets of economic and trade developments in these countries and regions.

1 All the aggregate growth figures for groups and regions in this chapter are provided on the PPP-adjusted basis, as GDP data based on market exchange rates are not available from the IMF.

The United States returned to the leading position in economic growth in the G7 last year, as both the United Kingdom and Canada slowed down. It continues to be the crucial driver of GDP growth for the advanced economies, and doubly so for Canada, which relies on its immense market for roughly three-quarters of its exports of goods and services. The United States will continue to lead the large advanced economies in growth in 2016 and 2017, supported by improving consumer balance sheets and the strengthening housing market. The fiscal drag is expected to disappear by 2016, counteracting the drag to net exports from a strong dollar and the declines in energy investment. Canada's relationship with the United States will evolve while staying strong: a dramatic increase in Canada's non-resource exports to the U.S. this year, substituting for the shrinking export value of resource exports, illustrates this point well. While the share of the United States in Canada's trade, both exports and imports, has decreased for the first time in four years, the strength of the economic relationship between the two countries remains formidable.

China's economic power has sustained some weather damage to its façade, but its substance remains arguably undiminished. Chinese leadership's commitment to the economy and its smooth transition from investment-based growth to domestically driven growth continues to be strong, and the considerable arsenal of measures in their power has yet to be tested. While concerns about the small devaluation of the yuan and the roller-coaster ride of the Shanghai stock market created some waves among the investors last year, these were largely superficial issues for the economy; of more concern was the fact that China's final consumption growth continued to decelerate since 2012, and the decline in its real exports of goods and services in 2015.

Mexico rebounded from its 2013 slowdown, with renewed consumer strength and booming trade volumes, and is projected to generate stable growth tied closely to that of the United States over the medium term. Mexico's commercial role within NAFTA continues to increase, and it is a key supplier for Canada in the automotive, electric and electronic machinery, and mechanical machinery sectors. Mexico is the third-highest import supplier to Canada, providing as much merchandise as Germany and japan combined. Development and structural reforms are expected to open further opportunities for Canadian businesses in Mexico, and its geographical proximity should ensure that these opportunities are long-lasting. Canada's exports to Mexico rose significantly in 2015.

Regionally, emerging Asia is one of the key potential areas for expansion in 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. 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.

Economic growth in the eurozone improved considerably last year, with its trade doing better and its territorial integrity still intact. Although continuing to face financial and political risks in the future, the union so far has shown considerable resilience in face of the challenges on the migration and security front. A strong position of the European Central Bank prevents the re-emergence of sovereign risks and uncertainty prevalent in

earlier years. While the third Greek bailout eased tensions, the economic issues related to Greece have not yet been fundamentally addressed and will have to be dealt with in the future. Growth is picking up as the fiscal drag disappears, but the influence of external events and risks will continue to exert considerable influence on the path of this region. Historically, a large portion of Canada's trade and investment is tied to the eurozone, rooted in shared norms, values and history. Its importance is underscored by the recent signing of the Canada-EU Comprehensive and Economic Trade Agreement (CETA), and the region will remain a key part of Canada's commerce for decades to come.

Countries in Latin America and the Caribbean (LAC) are Canada's hemispheric neighbours and a priority in their own right due to that proximity. Mexico looms large among them, with its economy aligning ever closer to its NAFTA partners and integrating into their value chains. An effort to improve the Canada-Mexico side of NAFTA is expected to lead to stronger economic relations between the two countries, to mutual benefit. Several investment protection and free trade agreements have been signed with LAC countries in the past decade, and countries such as Chile, Peru and Colombia have become important suppliers to Canadian businesses). Growth in this region dipped into negative territory due to Brazil's crisis and lower commodity prices, but several countries are bucking the trend and remain on track for strong growth. Long-term prospects for the region are still favorable.

Country Overview

United States

Economic growth in the United States was unchanged in 2015 at 2.4 percent. The increase in real GDP primarily reflected positive contributions from household expenditures, non-residential investment and residential investment. Inventory investment, exports and state and local government spending also contributed positively. Compared with the previous year, household expenditures and residential fixed investment did better, offsetting both decelerations in non-residential fixed investment and exports, and an acceleration in imports.

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)	
	2015	2014	2015	2014	2015
Gross domestic product	**100**	**2.4**	**2.4**	**2.4**	**2.4**
Household expenditures	68.6	2.7	3.1	1.84	2.11
Goods	23.7	3.3	3.7	0.75	0.83
Durable goods	9.0	5.9	6.0	0.43	0.43
Non-durable goods	14.9	2.1	2.6	0.32	0.39
Services	44.9	2.4	2.8	1.09	1.28
Business fixed investment	16.8	5.3	4.0	0.82	0.64
Residential	3.2	1.8	8.9	0.05	0.28
Non-residential	13.5	6.2	2.8	0.77	0.36
Structures	2.8	8.1	-1.5	0.23	-0.04
Machinery & equipment	6.5	5.8	3.1	0.34	0.18
Intellectual property products	4.3	5.2	5.7	0.20	0.22
Investment in inventories	0.6	10.7	43.4	0.05	0.17
Net exports of goods and services	-3.3	-	-	-0.18	-0.64
Exports	12.9	3.4	1.1	0.46	0.15
Goods	8.8	4.4	-0.2	0.41	-0.01
Services	4.1	1.2	4.0	0.05	0.17
Less imports	16.2	3.8	4.9	-0.63	-0.79
Goods	13.3	4.3	4.8	-0.59	-0.64
Services	2.9	1.6	5.5	-0.05	-0.15
Government expenditures and gross investment	17.5	-0.6	0.7	-0.11	0.13
Federal	6.8	-2.4	-0.3	-0.18	-0.02
State and Local	10.7	0.6	1.4	0.07	0.15

Household spending expanded 3.1 percent in 2015, faster than 2.7 percent in the previous year, and contributed 2.1 percentage points to the total growth of 2.4 percent. Spending on both goods and services grew faster than last year, with non-durable goods leading the way. Growth in business investment slowed from 5.3 percent in 2014 to 4.0 percent in 2015 despite a strong pickup in residential investment (up 8.9 percent), as falling investment in structures (down 1.5 percent) and slowing investment in machinery (up 3.1 percent) drove this category's performance. Contribution to GDP growth from net exports was negative again (-0.6 percentage point) as the exports decelerated to 1.1-percent growth due to strong dollar, and imports growth accelerated to 4.9 percent. The drag from reduced federal government was nearly eliminated, and a positive contribution from state and local government spending ensured a 0.1-percentage point positive overall government contribution to GDP growth.

Weakness in first quarter struck again in 2015, with growth at 0.6 percent; it jumped to 3.9 percent in the second quarter, and then decelerated in the second half of the year. Overall, the U.S. recovery continued with some signs of weakness toward the end of the year in final domestic demand and non-residential investment. Labor market indications remained strong, however, with strong employment growth figures, the unemployment rate down to 5.0 percent by the end of 2015, and participation rate rebounding after the Great Recession-induced dip.

Canada's goods exports to the United States decreased by 1.0 percent in 2015, in line with the overall decrease for all goods exports. Import growth from the United States was 3.5 percent, slower than the overall import growth rate of 4.4 percent.[2] In services, growth was at 3.4 percent for Canada's exports and 1.7 percent for Canada's imports. The top five categories of export commodities were mineral fuels and oil, automotive products, mechanical machinery, plastics, and electrical and electronic machinery.

China

In 2015, China's economy continued its managed slowdown, decelerating to 6.9-percent growth (down 0.4 percent from 2014 and 0.8 percent from 2013). While the overall dimensions of this downshifting are in line with the proclaimed intention to achieve a more sustainable consumption-based growth as opposed to investment-fueled one, the details of the process were less predictable and produced some China-generated concerns in the markets during 2015. The slight devaluation of the renminbi early in 2015 sent shock waves through global markets; the stock market climbed in defiance of fundamentals and then crashed, prompting some warnings for investors. Private consumption (as household expenditures are termed in China's statistics) as a share of GDP decreased substantially from 38.2 percent in 2014 to 36.4 percent in 2015; growth in private consumption slowed down from 9.1 percent in 2014 to 8.4 percent in 2015.[3] Investment deceleration, the main factor behind the slowdown, continued apace as growth fell from 7.3 percent in 2014 to 5.2 percent in 2015.

IMF data shows that China's real exports of goods and services contracted by 2.1 percent in 2015 (down from 4.8-percent expansion in 2014). A substantial slowdown also took place in real imports growth, which already slowed from 10.6 percent in 2013 to 5.4 percent in 2014 and then to just 2.0 percent in 2015. Meanwhile, government expenditure rose from 29.3 percent in 2014 to 31.9 percent in 2015. Inflation was subdued at 1.4 percent, with reported unemployment at 4.1 percent.

According to the IMF, China's economy is expected to continue to slow down in the medium term—to 6.5 percent in 2016 and to 6.2 percent in 2017. Growth is expected to slow further in the manufacturing sector and real estate, which are suffering from excess capacity. Strong performance is expected in the services sector, with the government policy stimulus supporting the continued transition to a consumption-based economy. Oil demand remained stable in 2015 reflecting inventory accumulation, but demand for metals declined, dampening global prices further. Inflation is projected to pick up to 1.8 percent by 2016, and the current account balance to decrease to 2.1 percent of GDP by 2017. Reported unemployment will remain stable just above 4 percent.

2 All growth in this paragraph is calculated in Canadian dollar terms.
3 These and other figures for 2015 for China are IHS Global Insight estimates.

Canada's goods exports to China rose 4.2 percent in 2015, bouncing back from the 2014 decline. Canada's goods imports from China grew 9.4 percent; China remains Canada's second-largest trade partner. Canada's main export commodities to China in 2015 were wood pulp, canola seeds, wood and articles of wood, ores and mineral fuels and oil; Canada's main import commodities from China were electrical and electronic machinery, mechanical machinery, furniture, toys and sporting equipment and apparel.

Mexico

After a growth recovery in 2014 to 2.3 percent, Mexico's economic performance continued to improve in 2015. Real GDP growth picked up to 2.5 percent, with private consumption growing at 3.0 percent. IHS indicates that this consumer spending growth represents some pent-up demand that was released after years of global and domestic uncertainties. Business investment continued to improve, its growth rising to 4.4 percent. A strong expansion of 9.0 percent in real exports took place in 2015; real imports increased 5.0 percent. The current account deficit stood at 2.8 percent of GDP, while inflation decelerated to 2.7 percent. Unemployment decreased to 4.3 percent in 2015. A real effective exchange rate depreciation of nearly 10 percent took place in the second half of the year, favouring demand for tourism in Mexico. Public investment, however, decreased about 10 percent in the second half of the year as public revenues declined with oil prices.

Projections for Mexico's economy in the medium term call for stable growth of 2.4 percent in 2016 and 2.6 percent in 2017, in the line with the growth of the U.S. economy from which it benefits with regard to demand and spillovers. While Mexico used to grow at a higher speed than the U.S., since 2013 the gap has been almost imperceptible. Consumer demand is expected to be healthy, although lower oil revenues will cause some government spending cuts, particularly in investment infrastructure. Lately, economy was showing the two-speed pattern, with sluggish growth in the industry sector and stronger expansion in the services sector; part of the issue is that the industrial output is constrained by underinvestment in the oil sector, whose production cannot be expanded as a result.

Canada's goods imports from Mexico grew 6.4 percent in 2015, 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 much faster – up 15.6 percent. The corresponding movements in merchandise trade on a customs basis were even more pronounced: Canada's merchandise imports from Mexico expanded 8.2 percent, while exports rose a whopping 18.6 percent. As a result, Canada's merchandise trade deficit with Mexico expanded to $24.6 billion in 2015, second only to the deficit with China. This deficit is largely generated by three sectors: automotive, electric and electronic machinery, and mechanical machinery, which together account for over three-quarters of it.

Regional Overview

Emerging Asia

According to the IMF's estimates, growth in emerging Asia averaged 6.8 percent in 2014, before slowing down to 6.6 percent in 2015. This region remains by far the world's fastest-growing in spite of the deceleration, which is projected to continue on its measured course in the medium term. India took over the lead among the large economies in this group with reported 7.3 percent growth in 2015, while China's economy fell behind it with 6.9 percent growth. The ASEAN-5 economies (Indonesia, Malaysia, the Philippines, Thailand and Vietnam) picked up speed; growth went from 4.6 percent in 2014 up to 4.8 percent in 2015. Strong domestic demand and a gradual resumption of export growth are expected to support economic growth in the region in the next two years. There remain significant differences between the regional economies: inflation is modest in China and Malaysia, but pronounced in Indonesia and India; 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, 2015

2015	Emerging Asia	China	India	Indonesia	Malaysia
GDP Growth (%)	6.6	6.9	7.3	4.8	5.0
GDP per capita ($US)	-	7,990	1,617	3,362	9,557
Inflation (%)	2.7	1.4	4.9	6.4	2.1
Unemployment (%)	-	4.1	-	6.2	3.2
Current Account Balance (% of GDP)	1.9	2.7	-1.3	-2.1	2.9
Real Exports Growth, Goods and Services (%)	0.2	-2.1	2.4	-1.3	4.5
Real Imports Growth, Goods and Services (%)	4.3	2.0	10.9	-4.9	2.0
Canadian exports (merchandise, $US M)	24,099	15,810	3,355	1,425	622
Canadian imports (merchandise, $US M)	66,768	51,273	3,085	1,308	2,066
Canada's trade balance (merchandise, $US M)	-42,670	-35,463	270	116	-1,443

Inflation continues to be low or moderate in most of the region, due to lower commodity prices and reduced investment demand, and now averages 2.7 percent. Unemployment was also low across the region, with Indonesia's 6.2 percent the highest among large economies, although data for India were not available. Real exports of goods and services ground nearly to a halt with 0.2 percent growth across the region, with China's and Indonesia's real exports actually declining. Real imports still registered healthy growth of 4.3 percent, largely on the strength of the double-digit growth in India's imports, while Indonesia's real imports dropped nearly 5 percent. Current account balances were a modest 1.9 percent of GDP on average; that figure belied stronger surplus in China of 2.7 percent (though not nearly as high as in the past) and a deficit of 2.1 percent in Indonesia.

China is and will remain Canada's most important trade partner in emerging Asia, accounting for nearly two-thirds of Canada's exports and over three-quarters of Canada's imports. Of key importance in Canada's trade with the region is electrical and electronic machinery, conducted through the key international export platforms (e.g. China, Malaysia and Thailand) and 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 commercial activities in the region. Emerging Asia now accounts for 15.9 percent of Canada's imports and 5.9 percent of Canada's exports, both representing an increase from the previous year.

Eurozone

Stronger domestic demand supported better growth results in the eurozone in 2015, manifesting particularly in the resumption of internal trade growth. After exiting the 2013 recession and posting 0.9-percent growth in 2014, economic growth picked up to 1.6 percent in 2015. It is expected to remain stable around that figure in the next two years. Supportive environment for growth across the region will continue to persist in the shape of lower commodity prices, supportive monetary stance from the European Central Bank and a modest fiscal stimulus. Headwinds to expansion will include weaker external demand, high indebtedness and lower investment.

Low inflation continued to persist, averaging 0.0 percent for the year; not far from zero in France, Germany and Italy, inflation was negative at -0.5 percent in Spain. Though slowly improving to 10.9 percent in 2015, the double-digit unemployment rate remains the biggest problem, varying across the region from double the average in Spain to half the average in Germany. The current balance as a proportion of GDP in the region was strongly positive at 3.0 percent, rising as high as 8.5 percent in Germany but dipping into negative 0.1 percent for France.

TABLE 2-3
Eurozone Overview, 2015

2015	Eurozone	France	Germany	Italy	Spain
GDP Growth (%)	1.6	1.1	1.5	0.8	3.2
GDP per capita ($US)	-	37,675	40,997	29,867	25,865
Inflation (%)	0.0	0.1	0.1	0.1	-0.5
Unemployment (%)	10.9	10.4	4.6	11.9	22.1
Current Account Balance (% of GDP)	3.0	-0.1	8.5	2.1	1.4
Real Exports Growth, Goods and Services (%)	5.1	6.1	5.4	4.3	5.4
Real Imports Growth, Goods and Services (%)	5.9	6.5	5.8	6.0	7.5
Canadian exports (merchandise, $US M)	15,695	2,448	2,823	1,764	880
Canadian imports (merchandise, $US M)	35,967	5,314	13,574	5,767	1,839
Canada's trade balance (merchandise, $US M)	-20,272	-2,866	-10,571	-4,004	-959

Growth in Germany slowed down marginally from 1.6 percent in 2014 to 1.5 percent in 2015, while France made good progress during the year, with 0.2-percent growth in 2014 picking up to 1.1 percent in 2015. The strong improvement in Spain's economy continued which went from a recession in 2013 to growing 1.4 percent in 2014, and to 3.2-percent growth in 2015. Italy's progress was also well pronounced, with its economy recovering from a 0.3-percent contraction in 2014 to grow 0.8 percent in 2015. This progress is expected to persist and slowly expand in most countries, although the output gain in Spain will moderate by 2017. Real exports picked up strongly at 5.5 percent in the Eurozone, with balanced growth across all the major countries; real

imports followed suit with an even faster growth at 5.9 percent, with particular strength in Spain and France. Average growth in the eurozone is expected to slow to 1.5 percent in 2016 and to return to 1.6 percent in 2017.

Canada two-way trade with this region is about half the size of trade with emerging Asia. Total imports by Canada from the eurozone amount to 8.6 percent of Canada's total imports; imports from Germany—mainly automotive products and machinery—account for over a third of this amount. Exports to the eurozone are smaller, amounting to just 3.8 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 eurozone 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)

The third year of the slowdown of LAC's regional economy ushered in a recession as growth turned to negative 0.1 percent in 2015 from 1.3 percent in 2014. This was primarily due to the downturn in Brazil being worse than expected, compounded by political crisis and uncertainty. The country's economy contracted by 3.8 percent in 2015, confounding the forecast of a 1-percent decline; another 3.8-percent contraction is projected for 2016 by the IMF. Low commodity prices are the other big growth-dampening factor operating primarily in the South American part of this region, with Colombia and Venezuela particularly affected. But while Colombia is expected to slow to 2.5 percent in 2016 from 3.1 percent in 2015, Venezuela's recession will deepen from a 5.7-percent decline in 2015 to a staggering 8.0-percent contraction in 2016. Declines in copper price restricted economic growth in Chile to 2.1 percent this year, and a decline to 1.5 percent is projected for 2016; meanwhile, strong activity in Peru's resource sector will put it on a higher growth trajectory. Central America, the Caribbean and Mexico will benefit from the proximity to the robust economic growth in the United States. Mexico recovered from its 2013 slowdown to reach 2.5 percent in 2015 with stable growth prospects. Reforms in Argentina are expected to restore macroeconomic stability and correct

TABLE 2-4
Latin America and the Caribbean Overview, 2015

2015	Latin America & the Caribbean	Brazil	Chile	Mexico	Peru
GDP Growth (%)	-0.1	-3.8	2.1	2.5	3.3
GDP per capita ($US)	-	8,670	13,341	9,009	6,021
Inflation (%)	5.5	9.0	4.3	2.7	3.5
Unemployment (%)	-	6.8	6.2	4.3	6.0
Current Account Balance (% of GDP)	-3.6	-3.3	-2.0	-2.8	-4.4
Real Exports Growth, Goods and Services (%)	3.7	8.1	-1.9	9.0	1.5
Real Imports Growth, Goods and Services (%)	-2.0	-13.5	-2.8	5.0	0.5
Canadian exports (merchandise, $US M)	11,122	1,770	619	5,151	669
Canadian imports (merchandise, $US M)	37,084	2,922	1,454	24,403	2,553
Canada's trade balance (merchandise, $US M)	-25,962	-1,152	-835	-19,252	-1,883

economic distortions, but in the short term the price of a mild recession will have to be paid. Overall LAC growth is expected to undergo another decline of 0.5 percent in 2016 before rebounding in 2017 to 1.5 percent.

While the inflation spiral raised consumer prices in Venezuela over a 100 percent in 2015, and rose to 9.0 percent in Brazil, overall price growth in the LAC region averaged 5.5 percent. Unemployment was hovering above 6 percent in the major economies, with the exception of Mexico at 4.3 percent. The current account balance for the region as a whole declined further to negative 3.6 percent of GDP, with every major economy in the red. LAC's real exports rose 3.7 percent while real imports declined 2.0 percent; in Brazil, exports rose 8.1 percent while imports plummeted 13.5 percent. Mexico was the exception with strong growth in both real exports and imports.

Canada's links with this region have been strengthened in the recent years, though the current crisis reduced the trade values somewhat in 2015. Imports from LAC amounted to 8.8 percent of Canada's total imports in 2015, with Mexico accounting for well over half of Canada's imports from the region, more than eight times the value of imports from Brazil. Canada ran substantial trade deficits with Mexico, brazil and Peru in 2015.

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 signing of the Trans-Pacific Partnership (TPP) agreement may provide an additional push for commercial activities in the LAC region.

TABLE 2-5
Leading Exporters and Importers, 2015 World Merchandise Trade (US$B and %)

2015 Rank	2014 Rank	Exporters	2015 US $B Value	2015 % Share
1	1	China	2,275	13.8
2	2	United States	1,505	9.1
3	3	Germany	1,329	8.1
4	4	Japan	625	3.8
5	5	Netherlands	567	3.4
6	7	South Korea	527	3.2
7	9	Hong Kong	511	3.1
8	6	France	506	3.1
9	10	United Kingdom	460	2.8
10	8	Italy	459	2.8
11	**12**	**Canada**	**408**	**2.5**

2015 Rank	2014 Rank	Importers	2015 US $B Value	2015 % Share
1	1	United States	2,308	13.8
2	2	China	1,682	10
3	3	Germany	1,050	6.3
4	4	Japan	648	3.9
5	5	United Kingdom	626	3.7
6	6	France	573	3.4
7	7	Hong Kong	559	3.3
8	8	Netherlands	506	3.0
9	9	South Korea	436	2.6
10	**10**	**Canada**	**436**	**2.6**

World Merchandise Trade Value Rankings

For the seventh consecutive year, China was the world-leading merchandise exporter at US$2.3 trillion, accounting for 13.8 percent of the global exports. This was over 50 percent higher than the exports of the United States in second place, which equalled US$1.5 trillion. Germany was third with US$1.3 trillion in exports and 8.1 percent of the global market.

These top three exporters were followed, at a considerable distance, by Japan, with US$625 billion in exports, and the Netherlands, with US$567 billion in exports. South Korea rose from the seventh to sixth place with exports of US$527 billion, and Hong Kong gained two spots to rank seventh, exporting US$511 billion worth of merchandise. France slipped to eighth place with exports of US$506 and 3.1 percent of the global market.

The United Kingdom, with exports of US$460 billion, became the world's ninth top exporter, narrowly passing Italy which slipped to tenth on exports of US$459 billion. Canada gained another spot to claim 11th place with exports of US$408 billion—which translates to a 2.5-percent share of the world's exports, unchanged from 2014.

On the import side, there were no changes in the top ten ranked sources of global imports. Canada retained its tenth spot among global importers with US$436 billion in imports, narrowly failing to overtake South Korea for the ninth place and accounting for 2.6 percent of the global imports market.

World Services Trade Value Rankings

In 2015, the United States was again the world's foremost supplier and importer of services. Its US$690 billion in services exports accounted for 14.8 percent of global exports, while the United Kingdom was a distant second, at US$341 billion, or 7.3 percent of the global exports. Germany and France remained third and fourth, respectively, with very similar export numbers. China remained in fifth place, with US$229 billion in services exports; all those positions were unchanged since 2013.

The Netherlands rose above Japan in 2015 to claim sixth rank, exporting US$176 billion worth of services; Japan and India stood close together at US$158 billion in the seventh and eighth spot, respectively. Singapore rose two places to claim the ninth rank, and Ireland closed out the top 10 with US$128 billion in services exports. Canada remained in 18th place, with exports of US$76 billion, accounting for 1.6 percent of the world's services exports.

The United States' imports of services were still top with US$469 billion in imports and a 10.3-percent share, but China's increases in services imports in 2015 brought it within US$32 billion of taking over the top spot. Germany, with imports of US$292 billion, was a distant third; France was ranked fourth, with US$224 billion in services imports. The United Kingdom reclaimed the fifth spot which it lost to Japan in 2014, while the Netherlands retained its seventh spot in the rankings behind them. Ireland's imports of US$151 billion kept it in the eighth place, while Singapore remained ninth. India rounded out the top ten service importers, having imported US$126 billion worth of services. Canada's services imports were US$95 billion, which put it in 14th place, a gain of one spot over 2014, with 2.1 percent of the global services imports market.

TABLE 2-6
Leading Exporters and Importers, 2015 World Services Trade (US$B and %)

2015 Rank	2014 Rank	Exporters	2015 US $B Value	2015 % Share
1	1	United States	690	14.8
2	2	United Kingdom	341	7.3
3	3	Germany	246	5.3
4	4	France	239	5.1
5	5	China	229	4.9
6	7	Netherlands	176	3.8
7	6	Japan	158	3.4
8	8	India	158	3.4
9	11	Singapore	140	3.0
10	10	Ireland	128	2.7
18	**18**	**Canada**	**76**	**1.6**

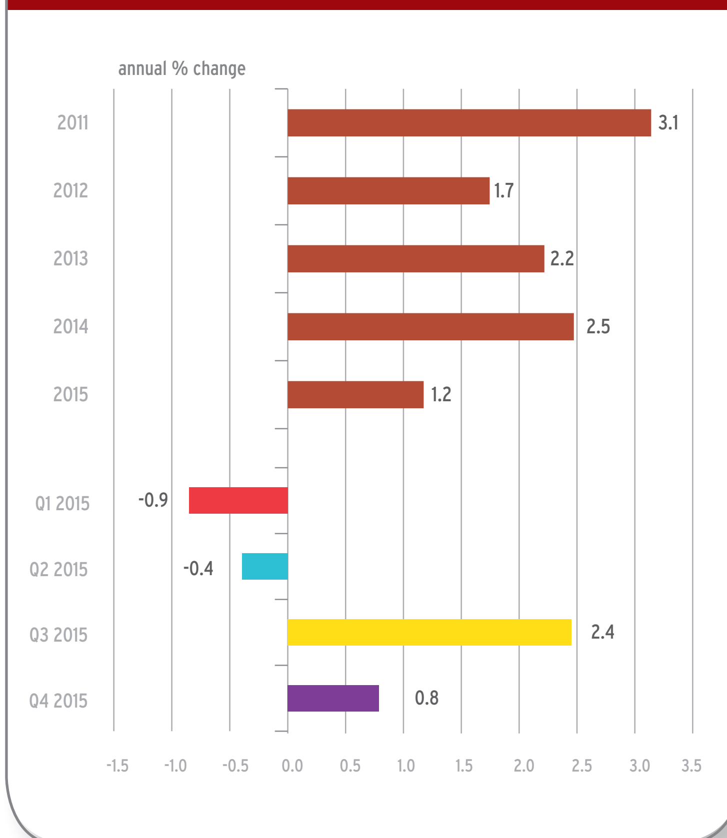
2015 Rank	2014 Rank	Importers	2015 US $B Value	2015 % Share
1	1	United States	469	10.3
2	2	China	437	9.6
3	3	Germany	292	6.4
4	4	France	224	4.9
5	6	United Kingdom	205	4.5
6	5	Japan	174	3.8
7	7	Netherlands	166	3.6
8	8	Ireland	151	3.3
9	9	Singapore	144	3.1
10	10	India	126	2.7
14	**15**	**Canada**	**95**	**2.1**

CHAPTER 3

Canada's Economic Performance

Canada's Economic Performance

Canada's economy continued to chart its own path amidst the global challenges and developments described in the previous chapters. Although affected by most of these events, Canada frequently experienced the impact differently than most other developed countries. As a result, Canada's economy and trade were defined by a mix of unique circumstances, which blended international and domestic factors. Five major differences between Canada's economy and that of a "typical" OECD member can be identified; these differences are crucial to any discussion of Canada's economic and commercial prospects in the coming years.



First, Canada's prospects with regard to labour force growth and the economic impact of an aging population are better than for most developed countries—partly a consequence of Canada's relative openness to immigration. Second, its fiscal situation is vastly better than that of many OECD members, with relatively low debt and ample room for government action. Third, lower oil prices are far from a blessing to the Canadian economy due to the country's large and investment-heavy oil sector, unlike for a typical net-energy importing OECD country. Fourth, Canada has also bucked the world trade slowdown trend. While Canada's trade volume slowed to a crawl between 2002 and 2008—growing an average 0.4 percent per year—that pace picked up to 3.3 percent per year between 2011 and 2014. Even in 2015, real exports grew 3.0 percent. Lastly, no advanced country's economic and trade performance is so strongly tied to the economy of another—and therefore so quick to experience change—as is Canada's. The events of 2015 illustrate this point well: strength south of the border, combined with the weak loonie, dramatically changed Canada's export composition that year.

Canada's economy in 2015 felt the pressure of low oil prices, primarily through a decrease in business investment. Growth in real gross domestic product (GDP) slowed to 1.2 percent, after a growth of 2.5 percent in 2014. Performance was weak in the first half of the year, mostly due to declines in activity in the mining, quarrying, oil and gas extraction industry as the country entered a technical recession. Growth rebounded strongly in the third quarter due to increased international demand for Canadian goods and services, but then slowed again in the last quarter due to lower business non-residential

investment and lower exports. Despite weakening relative to 2014, consumer spending was still the strongest contributor to growth, led by increases in spending on services and durables. The positive contribution of net exports to growth—for the second year in a row after a decade of drag—was almost as high as that of consumer spending. A substantial depreciation of the Canadian dollar by about US 13¢ during the year helped net exports, especially non-resource exports. Output grew by 2.0 percent in service sectors, but declined 1.5 percent in goods sectors, with manufacturing activity almost flat (up 0.3 percent). Employment increased by just 0.8 percent last year, yet the unemployment rate rose by 0.4 percentage point as the participation rate increased. Inflation decelerated to 1.1 percent after 2.0-percent growth in 2014, but the drop in fuel prices masked growth in several sectors; the Bank of Canada's core inflation index actually rose to 2.2 percent, with signs of sustained price growth in several sectors.

Gross Domestic Product

Canada's real GDP growth slowed to 1.2 percent in 2015, less than half of its 2014 pace of 2.5 percent and the slowest since the Great Recession. Output grew in service industries, but declined in goods-producing industries, with manufacturing output stagnant. Weaker consumer spending and a severe cutback in business investment limited the economic growth during the year.

Growth in household expenditures (i.e. private consumption) slowed to 1.9 percent after growing 2.6 percent in 2014. This was due primarily to lower spending on goods, where growth nearly halved. While all goods were affected, the cutback was particularly severe for non-durable goods, where growth fell to under 1 percent. As a result, household spending on goods contributed only 0.4 percentage point to GDP growth in 2015, down from 0.7 percentage point in 2014. Spending on services slowed down marginally, contributing 0.7 percentage point to GDP growth, unchanged from the previous year.

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)	
	2015	2014	2015	2014	2015
Gross domestic product	**100.0**	**2.5**	**1.2**	**2.5**	**1.2**
Household expenditures	56.0	2.6	1.9	1.4	1.1
Goods	24.4	3.0	1.7	0.7	0.4
Durable goods	7.0	4.3	3.3	0.3	0.2
Semi-durable goods	4.0	3.1	2.4	0.1	0.1
Non-durable goods	13.4	2.4	0.7	0.3	0.1
Services	31.6	2.3	2.1	0.7	0.7
Business investment	19.3	0.4	-4.8	0.1	-1.0
Residential	7.3	2.5	3.9	0.2	0.3
Non-residential	10.3	0.0	-8.8	0.0	-1.0
Structures	6.4	-0.4	-12.7	0.0	-0.9
Machinery & equipment	3.9	1.0	-1.3	0.0	0.0
Intellectual property products	1.7	-4.2	-12.6	-0.1	-0.2
Investment in inventories	0.3	-36.2	-53.9	-0.4	-0.3
Non-farm	0.4	17.0	-51.7	0.1	-0.4
Farm	-0.1	-	-	-0.4	0.1
Net exports of goods and services	-2.4	-	-	1.1	0.9
Exports	31.4	5.3	3.0	1.6	1.0
Goods	26.4	5.7	3.4	1.5	0.9
Services	5.0	3.2	0.9	0.2	0.0
Less imports	33.8	1.8	0.1	0.5	0.1
Goods	27.6	2.4	0.2	0.6	0.1
Services	6.2	-0.8	0.0	-0.1	0.0
Government expenditures and gross investment	25.1	0.6	1.6	0.1	0.4
Non-profit institutions serving households expenditures and gross investment	1.6	0.6	1.1	0.0	0.0

After barely growing in 2014 (up 0.4 percent), business investment declined 4.8 percent in 2015. Although business investment in residential structures accelerated to 3.9 percent, a 12.7-percent decline in investment in non-residential structures was the main influence in this category, which in part reflects constrained opportunities in the oil sector in the short term. Overall, the contribution of business investment to growth in 2015 was a negative 1.0 percent, after two years of near-zero contributions.

Investment in inventories continued to shrink, falling to under one-third of 2013 levels. Both 2014 and 2015 were marked by declines in excess of $5 billion, subtracting 0.3 percentage point from growth in 2015. While the 2014 decline was mostly in grain inventories, non-farm inventories were responsible for the investment slowdown in 2015—mostly durable goods in the wholesale and retail trade sectors.

Net exports, the difference between exports and imports, continued to contribute positively to growth, with a 0.9-percentage point boost to the economy last year. Growth in real exports decelerated but was still strong at 3.0 percent, led by goods. By contrast, growth in real imports ground to a halt as growth in goods slowed down, though services imports stopped contracting.

GDP by Industrial Activity

Real GDP at basic prices, by industry, increased 0.9 percent in 2015, slowing down from the 2.5-percent pace recorded in the previous year. A contraction in goods-producing industries was responsible, as that segment of the economy shrank by 1.5 percent, a sharp departure from the 2.5-percent growth in 2014. Growth in services-producing industries slowed to 2.0 percent last year, from 2.4 percent in 2014.

Two sizeable industries drove the decline for goods. Construction activities declined 3.4 percent during the year, while the mining, quarrying and oil and gas sector declined 3.2 percent. The latter decline was due to sharply lower support activities, since production in the oil and gas sub-sector and in the mining and quarrying sub-sector actually grew by 2.1 percent and 3.3 percent, respectively. The agriculture, forestry, fishing and hunting sector recovered from its 2014 decline with 2.8-percent growth in 2015.

Manufacturing grew marginally (up 0.3 percent) as output in durables was down 1.2 percent on the year. Primary metals, machinery manufacturing and fabricated metal products led the declines, somewhat mitigated by robust growth in the miscellaneous manufacturing and wood sectors. Activity in transportation equipment manufacturing was down 0.8 percent in 2015.

In non-durables, output grew by 2.2 percent, faster than in the previous year. Gains in the pulp and paper, chemicals, and plastics and rubber sectors led the way with growth of 4.8 percent, 4.6 percent and 3.2 percent, respectively, while activity declined in the printing, textiles, clothing and leather, and petroleum and coal products sectors.

Gains were reported for most major services industries. Arts and entertainment was the fastest-growing sector, with 5.7-percent growth, followed by finance and insurance at 4.5 percent. Transportation and warehousing and real estate services also grew strongly.

TABLE 3-2
Percent Changes in Real GDP by Industrial Sector

	2013	2014	2015
All industries	2.2	2.5	0.9
Goods-producing industries	2.9	2.5	-1.5
Agriculture, forestry, fishing and hunting	14.5	-7.2	2.8
Mining, quarrying and oil and gas extraction	4.6	6.8	-3.2
Utilities	3.7	0.1	-0.6
Construction	2.2	1.3	-3.4
Manufacturing	**0.1**	**2.8**	**0.3**
Non-durable manufacturing	**1.0**	**2.1**	**2.2**
Food	1.1	4.4	2.1
Beverages and tobacco	0.3	2.0	3.0
Textiles, clothing and leather	-9.7	6.9	-3.4
Pulp and paper	-1.7	4.3	4.8
Printing	0.9	-2.3	-3.9
Petroleum and coal products	-1.5	-1.7	-1.2
Chemicals	4.1	1.6	4.6
Plastics and rubber	3.9	2.6	3.2
Durable manufacturing	-0.7	3.3	-1.2
Wood	7.7	3.3	5.3
Non-metallic minerals	-6.2	5.8	-2.4
Primary metals	-2.0	3.4	-4.7
Fabricated metal products	-3.7	2.2	-4.5
Machinery manufacturing	-1.0	2.1	-4.6
Computers and electronic products	-8.3	2.4	1.5
Electrical equipment etc.	2.7	-1.9	-2.6
Transportation equipment	-1.3	6.6	-0.8
Furniture	6.0	3.0	3.0
Miscellaneous manufacturing	15.9	-3.5	8.2
Service-producing industries	2.0	2.4	2.0
Wholesale trade	1.6	5.1	1.6
Retail trade	3.2	3.5	2.2
Transportation and warehousing	1.1	4.4	3.5
Information and culture	0.5	0.0	-0.9
Finance and insurance	3.9	3.7	4.5
Real estate	2.9	2.8	3.2
Professional and technical	1.6	2.1	1.3
Management of companies	4.3	0.2	1.7
Administrative and support	1.5	1.8	-0.3
Education	1.2	0.0	1.5
Health care and social assistance	1.7	1.7	1.6
Arts and entertainment	3.4	0.3	5.7
Hotels and restaurants	2.9	3.1	0.6
Other	2.8	2.3	0.7
Public administration	-0.3	0.9	0.5

Employment

In 2015, employment in Canada expanded by 144,400 jobs (up 0.8 percent), reaching 17.9 million. However, the unemployment rate that stood at 6.7 percent in December 2014 rose 0.4 percentage point to 7.1 percent at the end of 2015 (and remained at that level in April 2016). This apparent discrepancy is partly due to the fact that the participation rate rose 0.2 percentage point during the year to reach 65.9 percent in December 2015.

For the second straight year, employment declined in the goods industries (down 0.7 percent). This drop was led by the decline in mining, oil and gas extraction (down 5.7 percent); employment in agriculture also fell substantially (down 3.3 percent). Employment grew marginally in manufacturing and utilities and stagnated in the forestry and fishing, and construction industries.

Employment in the services-producing industries showed overall positive growth at 1.2 percent; their combined share of Canadian jobs reached 78.4 percent. Jobs grew strongly in the business and support sector (up 3.5 percent), the health care/social assistance sector (up 3.3 percent) and the education sector (up 3.0 percent). In particular, growth in the last two sectors added nearly 110,000 jobs to the economy. Most other services sectors added jobs as well, with one significant exception of other services (down 4.2 percent).

Regionally, jobs gains and losses diverged less than usual. Aside from Nunavut's country-leading employment growth (up 3.3 percent), jobs grew at the fastest rate in Manitoba (up 1.5 percent) and declined the most in Yukon (down 2.0 percent). Ontario's growth was 0.7 percent, quite close to the national average, as was Quebec's growth of 0.9 percent. With 1.2-percent growth, British Columbia added jobs at a faster rate than the national average; perhaps surprisingly, given the situation in the oil and gas sector, employment in Alberta grew at the same rate. Employment declines were observed in five jurisdictions: Yukon, Prince Edward Island, Newfoundland and Labrador, the Northwest Territories and New Brunswick.

TABLE 3-3
Employment and Related Measures

Number of Employees	2015 (000's)	Share (%)	Growth (%)
Total, all industries	17946.6	100.0	0.8
Industrial Employment			
Goods-producing industries	3870.4	21.6	-0.7
Agriculture	294.9	1.6	-3.3
Forestry and fishing	65.0	0.4	0.0
Mining, oil and gas extraction	289.9	1.6	-5.7
Utilities	137.0	0.8	0.1
Construction	1371.2	7.6	0.0
Manufacturing	1712.5	9.5	0.1
Services-producing industries	13905.1	78.1	0.9
Trade	2732.7	15.2	0.1
Transportation and warehousing	917.2	5.1	2.3
Finance, insurance and real estate	1102.9	6.1	1.8
Professional/technical	1365.8	7.6	2.4
Business and support	760.6	4.2	3.5
Education	1274.1	7.1	3.0
Health care/social assistance	2292.3	12.8	3.3
Information, culture and recreation	750.6	4.2	-0.9
Hotels and restaurants	1210.6	6.7	0.3
Other	761.8	4.2	-4.2
Public administration	907.4	5.1	-0.4
Provincial Employment			
Alberta	2301.1	12.8	1.2
British Columbia	2306.2	12.9	1.2
Manitoba	636.2	3.5	1.5
New Brunswick	351.8	2.0	-0.6
Newfoundland and Labrador	236.2	1.3	-1.0
Northwest Territories	21.9	0.1	-0.9
Nova Scotia	448.1	2.5	0.1
Nunavut	12.7	0.1	3.3
Ontario	6923.2	38.6	0.7
Prince Edward Island	73.2	0.4	-1.1
Quebec	4097	22.8	0.9
Saskatchewan	573.7	3.2	0.5
Yukon	19.4	0.1	-2.0

Inflation

Canada's annual rate of inflation dropped from 2.0 percent in 2014 to 1.1 percent in 2015, which is at the lower end of the Bank of Canada's target band. The Bank of Canada's core inflation index, which excludes eight of the most volatile components[1] of CPI and the effect of changes in indirect taxes on the remaining components, rose to 2.2 percent, following a 1.8-percent increase in 2014. While this is the first occasion that core inflation is showing signs of sustained increase since the Great Recession, it is well within the monetary policy target area, with monetary policy support running at high levels.

Growth in food prices accelerated to 3.7 percent in 2015, matched by increases in alcohol and tobacco prices. Prices of household operations, recreation and education, and clothing and footwear also grew faster than the average. However, growth in these categories was partially masked by a large drop in the price of gasoline (down 16.5 percent) and the associated decline in transportation costs (down 3.0 percent).

Services prices grew considerably faster (up 2.0 percent) than goods prices (up 0.3 percent), as the excess production capacity in the economy persisted. Both durable and semi-durable goods prices grew 1.5 percent, while the prices of non-durable goods declined (down 0.7 percent).

Regionally, Nunavut had the highest level of inflation at 1.9 percent, while the Northwest Territories and Saskatchewan were not far behind, with 1.6 percent each. Inflation ran under 1 percent in Atlantic Canada, and price levels actually declined in Prince Edward Island and Yukon.

TABLE 3-4
Percent Changes in Consumer Prices

	2013	2014	2015
All-items CPI	0.9	2.0	1.1
Food	1.2	2.3	3.7
Shelter	1.3	2.7	1.1
Household operations	1.2	1.9	2.7
Clothing and footwear	0.1	1.2	1.5
Transportation	0.7	1.1	-3.0
Gasoline	0.6	0.2	-16.5
Health and personal care	-0.3	0.6	1.3
Recreation and education	0.3	1.1	1.9
Alcohol and tobacco	2.0	4.4	3.7
Core CPI	1.3	1.8	2.2
Durable goods	-0.2	0.2	1.5
Semi-durable goods	0.1	1.1	1.5
Non-durable goods	0.9	2.5	-0.7
Services	1.3	2.1	2.0
Provincial CPI			
Alberta	1.4	2.6	1.1
British Columbia	-0.1	1.0	1.1
Manitoba	2.2	1.9	1.2
New Brunswick	0.8	1.5	0.5
Newfoundland and Labrador	1.7	1.9	0.5
Northwest Territories [Yellowknife]	1.5	1.7	1.6
Nova Scotia	1.2	1.7	0.4
Nunavut [Iqaluit]	1.1	1.3	1.9
Ontario	1.0	2.4	1.2
Prince Edward Island	2.0	1.6	-0.6
Quebec	0.7	1.4	1.1
Saskatchewan	1.5	2.4	1.6
Yukon [Whitehorse]	1.7	1.3	-0.2

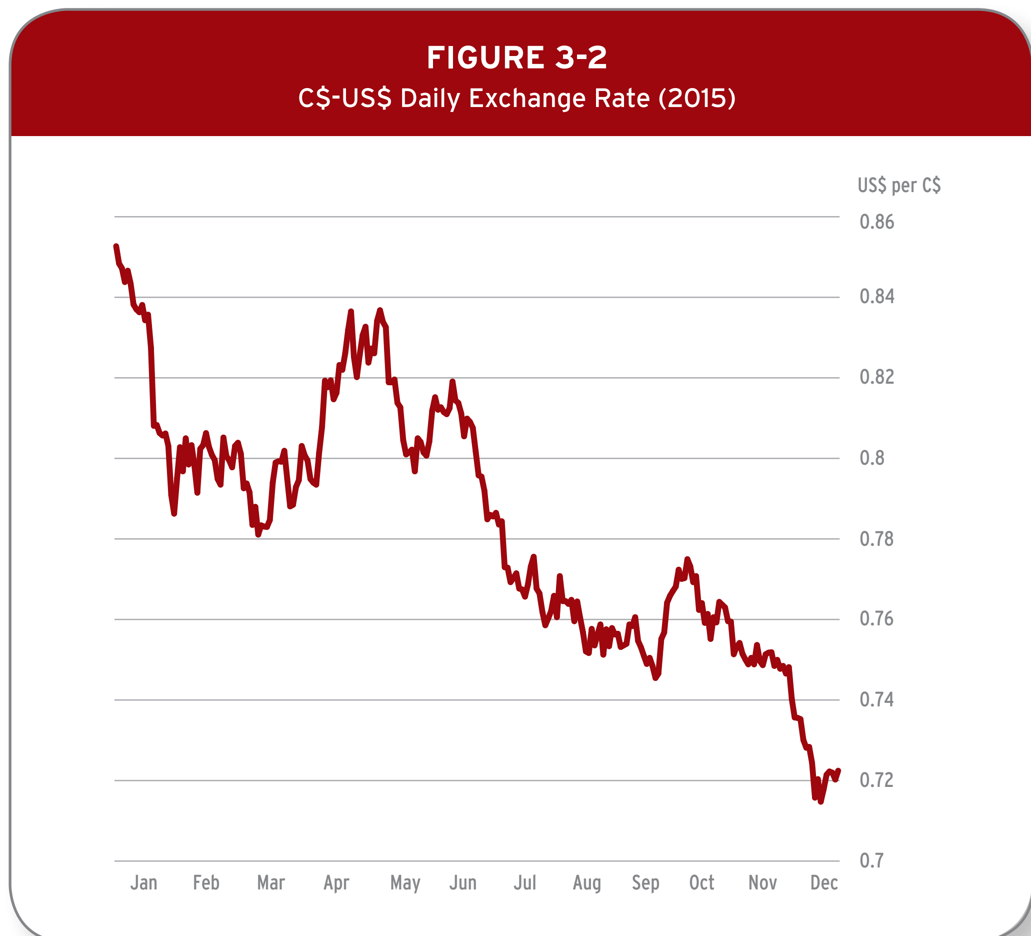
1 The eight components are: fruit, vegetables, gasoline, fuel oil, natural gas, mortgage interest, inter-city transportation and tobacco products.

The Canadian Dollar

The year 2015 marked the fourth consecutive annual depreciation of the Canadian dollar against its U.S. counterpart, with the rate of decline increasing each successive year. After falling 2.9 percent against the U.S. currency in 2013 and 6.8 percent in 2014, the Canadian dollar lost a further 13.6 percent in value in 2015 vis-à-vis the U.S. dollar. It is important to note that the loonie's significant decline relative to the U.S. dollar does not translate to its performance relative to the other major global currencies. The average yearly value of the Canadian dollar increased against the European euro (up 3.4 percent), declined only slightly against the Japanese yen (down 0.9 percent) and fell substantially only against the British pound (down 6.9 percent).

After opening just above US 85¢ in 2015, the Canadian dollar fell rapidly to US 79¢ by the end of January. As in 2014, the currency then held stable from February to April, when it staged a rally and hit US 84¢ in mid-May. This, however, proved the high point for the year, and the rest of the year was characterized by mostly steady decline. The US 75-cent mark was reached in September, when another brief rally carried the loonie to US 78¢ by mid-October. It was all downhill from there, with the Canadian dollar losing over US 5¢ to close at US 72.25¢ on December 31, 2015, just US 1¢ above its lowest level for the year.

FIGURE 3-2
C$-US$ Daily Exchange Rate (2015)



CHAPTER 4

Canada's International Transactions

Canada’s International Transactions

In 2015, the Canadian economy experienced particularly strong economic headwinds, centering on the declines in commodity prices. The impact of these declines was strongly felt by Canada’s resource-based exporters, with the overall price index of Canada’s exports falling by 4.2 percent. Most of the impact was felt in the energy sector, where prices plunged by 38.3 percent from 2014 levels. At the same time, the price index of Canada’s imports grew by 4.2 percent. As a result, Canada’s overall terms of trade have deteriorated significantly in 2015, falling by 7.0 percent.

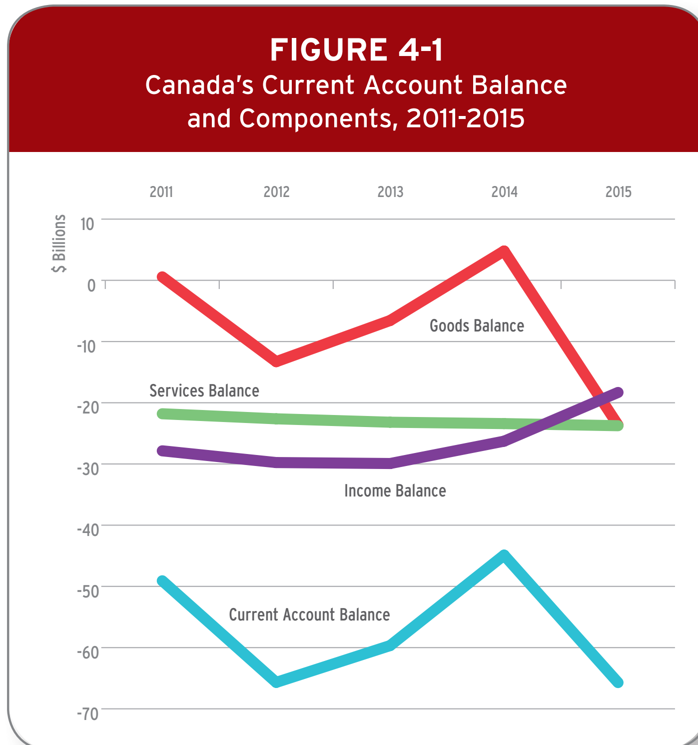
The two main dynamics behind the price changes for Canada’s trade in 2015 were the lower energy prices (which decreased export prices more than import prices, since Canada’s exports are more energy-intensive than its imports) and the lower value of the Canadian dollar (which increased both export and import prices, particularly vis-à-vis the United States). Since the energy prices and the value of the Canadian dollar are strongly related, the adjustment process in Canada’s trade began automatically. Imports became relatively more expensive, discouraging growth in volumes, while exports became relatively more attractive to foreigners, stimulating volume growth. This led to large increases in exports of non-resource-based goods, which consist of industrial and electrical machinery and equipment, motor vehicles, aircraft and other transportation equipment, and consumer goods. Each of these sectors grew by double digits in 2015, buoyed by volume and price increases. The consequent adjustments limited the damage from the falling energy revenues, though they did not entirely eliminate it.

Both sides of the financial account expanded considerably in 2015, as Canadians and foreigners accumulated assets abroad at a rapid pace. Canadians acquired an additional $61.2 billion of net financial assets abroad (primarily through direct investment), while foreigners expanded their net holdings of Canadian financial assets by $73.2 billion (primarily through currency deposits, loans and portfolio investment). The increase in the latter was necessary to finance Canada’s growing current account deficit.

Exports and imports of services continued to expand despite the economic challenges, with the former approaching closely the $100-billion mark. While Canada continues to run an aggregate services trade deficit, it is principally due to two causes that bear little relation to trade policy: first, Canadians spend much more abroad than do visitors to Canada; and second, all Canadian overseas trade conducted by water transport involves paying for deliveries to the international shipping industry (both for exports and imports). Commercial services, on the other hand, have now run a surplus for 13 years, all the way back to 2003 and throughout the Great Recession.

The Balance of Payments

Canada's international transactions are recorded in its Balance of Payments (BoP). BoP entries keep track of 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 assets and liabilities, 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.

Canada's current account balance—a net measure of the flow of goods, services, income, and transfers—deteriorated by $20.8 billion last year, widening the current account deficit from $44.9 billion in 2014 to $65.7 billion in 2015. This reversed the improvements to the balance that occurred during the two preceding years almost exactly, as the 2012 deficit level was also $65.7 billion. That deficit narrowed to $59.7 billion in 2013 and then to $44.9 billion in 2014 before widening again in 2015. However, as a share of GDP, the deficit of 2015 amounted to 3.3 percent—up from 2.3 percent of GDP in 2014, but down from the 2012 share of 3.6 percent of GDP.

The widening of the deficit was due entirely to the worsening of the trade balance on goods, which underwent a $28.4-billion downward swing—from a surplus of $4.8 billion in 2014 to a deficit of $23.6 billion in 2015. That, in turn, was caused by the dramatic deterioration in Canada's terms of trade index from 100.3 in 2014 to 93.3 in 2015, a drop of 7.0 percent. The scale of this decline was only exceeded once before, in 2009, when the Great Recession-induced price collapse drove Canada's terms of trade down 9.1 percent. But on that occasion, a near-full recovery in terms of trade occurred by 2011; this time, relief does not promise to be either speedy or certain, and the new terms of trade may persist in the medium term.

1 With the revisions to the Balance of Payments Manual, the *financial account* is now the name for the *capital and financial account* (which wa s formerly abbreviated to *capital account*). At present, the capital account itself still exists as a small entry within the current account, but neither its name nor its magnitude is of much importance.

The impact of the deteriorating goods balance was somewhat mitigated by the narrowing of the deficit on income balance (which includes investment income, compensation of employees and transfers) by $8.0 billion in 2015. This change represents a net increase in the income of Canadians from foreign sources. Meanwhile, Canada's deficit in services changed only slightly, widening by $0.3 billion. Both the income and the services deficits were large, comparable and relatively stable for several years prior to 2015.

Turning now to Canada's financial account, which has undergone some conceptual revision in 2015, we examine the balance between the transactions involving the acquisition and disposition of Canadian assets abroad, on one side, and foreign acquisition and disposition of assets in Canada, on the other. The sum of the former transactions is termed net acquisition of financial assets, while the sum of the latter is labelled as net incurrence of liabilities. Their sum, the financial account balance, represents the balance of all transactions involving financial assets, and is referred to as net borrowing (or lending). In Canada's financial account, net borrowing of Canadians rose from $43.2 billion in 2014 to $55.2 billion in 2015. This increase of $12.0 billion was a combination of large growth in net incurrence of liabilities (up $73.2 billion), which exceeded the (also substantial) growth in net acquisition of financial assets (up $61.2 billion).

TABLE 4-1
Balance of Payments, key items ($M)

	2014	2015
Current account balance	**-44,893**	**-65,714**
Goods	4,791	-23,646
Services	-23,407	-23,753
Primary income	-23,664	-15,046
Secondary income	-2,614	-3,270
Financial account balance	**43,195**	**55,215**
Net acquisition of financial assets	147,881	209,055
Canadian direct investment assets	69,424	104,319
Canadian portfolio investment	56,428	60,302
Official international reserves	5,854	10,911
Other Canadian investment	16,175	33,522
Net incurrence of liabilities	191,075	264,270
Foreign direct investment liabilities	72,542	80,607
Foreign portfolio investment	75,388	95,522
Other foreign investment	43,146	88,141
Discrepancy (net errors and omissions)	**1,300**	**10,605**
BALANCE OF PAYMENTS	**0**	**0**

The principal factors in the rise of net incurrence of liabilities, i.e. Canadian financial assets acquired by foreigners, was the net increase in other foreign investment in Canada (up $45.0 billion), particularly in currency and deposits, but also loans. Foreign portfolio investment also rose substantially (up $20.1 billion), with the primary target being Canadian bonds and to a lesser degree Canadian money market instruments, while Canadian equity and investment funds were subject to a net selloff of over $10 billion. The increase in foreign direct investment (up $8.1 billion) was the smallest component of the rise in net incurrence of labilities, accounting for just 11.0 percent of the total increase in that item.

Large net increases also took place in net acquisition of financial assets (i.e. Canadian investment abroad), and these were primarily concentrated in direct investment assets (up $34.9 billion, with acquisitions of equity responsible for just under half and acquisition of debt instruments for just over half of the increase). Net increase in direct investment assets accounted for 57.0 percent of the total growth in net investment.

The other important component of that growth was an increase in currency and deposits investments abroad, accounting for nearly a third of the total growth in net investment; and official international reserves nearly doubled (up $5.1 billion). Canadian portfolio investment abroad grew marginally, while net investment in foreign equity and loans actually declined.

There was also a significant statistical discrepancy of $10.6 billion in 2015, which balanced the net borrowing on the financial account with the balance of receipts and payments on the current account. The size of the discrepancy, which represents net errors and omissions, indicates that there may be significant adjustments to the quoted figures with the passage of time, particularly in the financial account.

Goods Exports

Canada's exports of goods on a BoP basis fell by $5.2 billion in 2015 (down 1.0 percent from the 2014 level) to $523.6 billion, despite growth in 9 out of 11 sectors. This was the first decrease in goods exports after five consecutive annual increases. The decline was due to export prices falling 4.2 percent during the year, which swamped the 3.4-percent growth in volumes of exports. Export prices rose in 8 out of 11 sectors, while export volumes rose in 9 out of 11 sectors, including the energy sector.

The key statistic for 2015 goods exports was the dramatic decline of 38.3 percent in energy products prices. Consequently, notwithstanding a 5.7-percent increase in volume of energy exports, their value declined 34.8 percent in 2015 (down $44.8 billion). A similar situation occurred in the chemicals, plastics and rubber products sector, where prices declined 4.9 percent, overmatching the 4.2-percent increase in volumes and leading to a 1.0-percent decrease in exports (down $0.3 billion). Exports in the other 9 sectors, however, showed growth. Metal ores and minerals exports overcame a price decline of 4.1 percent to post 1.9-percent growth through a 6.3-percent increase in volumes. The opposite experience in the case of agri-food and fish exports led to 3.3-percent growth in value due to a 4.7-percent increase in prices, notwithstanding the decline in volumes by 1.3 percent.

TABLE 4-2
Goods Exports, 2015

Products	Value of Exports ($B)	Change, Values (%)	Change, Volumes (%)	Change, Prices (%)
Total, all sectors	**523,631**	**-1.0**	**3.4**	**-4.2**
Agri-food and fish	32,120	3.3	-1.3	4.7
Energy	83,898	-34.8	5.7	-38.3
Metal ores and minerals	19,003	1.9	6.3	-4.1
Metal & mineral products	57,841	0.3	-0.9	1.3
Chemicals, plastics and rubber	35,431	-1.0	4.2	-4.9
Forestry, building & packaging	39,751	7.9	5.7	2.0
Industrial machinery & equipment	32,806	11.4	6.1	5.1
Electronical & electrical equipment	27,650	13.4	4.3	8.8
Motor vehicles	87,061	16.8	1.3	15.3
Aircraft & other transport equipment	24,879	15.4	2.5	12.6
Consumer goods	69,645	18.5	7.0	10.7
By Region				
U.S.	395,458	-1.0		
EU	39,444	-3.6		
Japan	10,107	-8.9		
China	21,452	4.2		
India	4,498	32.9		
Mexico	7,911	15.6		
South Korea	4,219	-3.4		
Rest of World	40,542	-3.9		

However, the most notable growth (and arguably as important as the decline in energy exports) occurred in several export sectors that can be loosely termed "non-resource-based", or "advanced manufacturing" sectors. These include industrial and electrical machinery and equipment, motor vehicles, aircraft and other transportation equipment, and consumer goods. Each of those sectors experienced double-digit export growth, ranging from 11.4 percent for industrial machinery and equipment to 18.5 for consumer goods. All of those increases were a combination of price and volume increases working together, with higher prices exercising primary influence in all but one sector. This is early evidence that the lower value of Canadian dollar is increasing foreign demand for Canadian manufacturing exports, and may have significant implications for Canada's economic landscape in the next few years. The combined increase in exports in the advanced manufacturing sectors raised Canada's exports by $33.3 billion, thus compensating for about three-quarters of the decline in energy exports.

Regionally, exports to several major partners declined. Exports to the U.S. were down 1.0 percent, reflecting the balance between lower energy exports and higher motor vehicles and other advanced manufacturing exports. Exports to the EU were down 3.6 percent, and exports to Japan down 8.9 percent, as the economic situation remained fragile and currencies relatively low in both regions. On the other hand, exports to China increased 4.2 percent, and double-digit growth was registered in exports to India (up 32.9 percent) and Mexico (up 15.6 percent).

Goods Imports

Canada's imports of goods on a BoP basis continued their growth for the sixth straight year in 2015, increasing $23.2 billion, or 4.4 percent. Growth occurred in 8 out of 11 sectors. Growth in import prices chiefly contributed to the increase, as overall growth in import volumes was marginal. Import prices rose in 9 out of 11 sectors, while import volumes rose in just 4 out of 11 sectors, including the energy sector.

Imports of consumer goods, the largest import category, grew 10.6 percent in 2015 (up $11.3 billion). This was the result of a price increase of 11.1 percent, combined with a volume decrease of 0.5 percent. The second-largest import sector, motor vehicles, grew by 11.0 percent (up $10.0 billion) to cross the $100-billion threshold for the first time, with strong contributions from both prices and volumes. The largest proportional increase in imports occurred in the aircraft and transport equipment sector, whose value rose 25.1 percent (up $4.3 billion); this was due to the largest proportional increases both in terms of prices (up 17.6 percent) and volumes (up 6.4 percent). A large increase was also observed in imports of electronical and electrical equipment (up $4.5 billion), with a large price increase overcoming the effect of lower volumes.

TABLE 4-3
Goods Imports, 2015

Products	Value of Imports ($B)	Change, Values (%)	Change, Volumes (%)	Change, Prices (%)
Total, all sectors	**547,277**	**4.4**	**0.2**	**4.2**
Agri-food and fish	16,409	8.5	-3.5	12.4
Energy	30,746	-28.7	6.2	-32.8
Metal ores and minerals	10,302	-5.1	-10.9	6.6
Metal & mineral products	46,602	0.8	-6.3	7.6
Chemicals, plastics and rubber	44,713	-0.2	3.3	-3.3
Forestry, building & packaging	24,598	7.6	-1.5	9.2
Industrial machinery & equipment	53,655	5.4	-7.8	14.3
Electronical & electrical equipment	63,152	7.6	-2.8	10.7
Motor vehicles	100,420	11.0	5.1	5.7
Aircraft & other transport equipment	21,277	25.1	6.4	17.6
Consumer goods	117,466	10.6	-0.5	11.1
By Region				
U.S.	362,716	3.5		
EU	52,942	7.4		
Japan	10,894	18.6		
China	38,898	9.4		
India	2,929	18.3		
Mexico	18,344	6.4		
South Korea	6,153	10.0		
Rest of World	54,401	0.3		

Imports of energy products declined 28.7 percent from their 2014 level (down $12.4 billion), driven by a 32.8-percent price decrease, while import volumes rose 6.2 percent. Conversely, imports of metals ores and minerals declined by 5.1 percent (down $0.6 billion) due to a 10.9-percent drop in volume, and in spite of a price increase of 6.6 percent.

Regionally, imports from all key destinations increased, though those from the United States grew slower than the average. Imports from Japan (up 18.6 percent), India (up 18.3 percent) and South Korea (up 10.0 percent) grew at double-digit rates, while growth in imports from China (up 9.4 percent) and the EU (up 7.4 percent) were not far behind. Imports from the rest of the world increased marginally, thus ending the decline registered in the previous year.

Trade in Services

In 2015, Canada's services exports increased for the sixth consecutive year, growing by $3.5 billion to reach $99.2 billion, an increase of 3.6 percent. Just over half of that increase was destined to the United States as services exports to that destination increased by $1.8 billion. Travel exports, which represent the purchase of goods and services by foreign travellers in Canada, rose 6.2 percent in 2015 to reach $20.5 billion, up from $19.3 billion in 2014. Personal travel, which accounted for over 85 percent of total travel exports, was responsible for all of the increase.

Exports of transportation services increased $0.2 billion in 2015, reaching $15.2 billion, a 1.6-percent increase. Land (up 5.9 percent) and air (up 1.7 percent) transportation services exports increased, while water (down 4.9 percent) transportation services declined.

Commercial services exports grew at the 3.3-percent pace in 2015, slightly below the average of 3.6 percent. Exports of commercial services increased $2.0 billion to reach $61.9 billion. As usual, growth varied considerably across sub-sectors, with exports increasing in six sub-sectors and declining in the other four. Exports of financial services grew $1.3 billion, accounting for more than two-thirds of the overall growth. Strong growth was also recorded in business services and intellectual property charges (formerly known as royalties and license fees), with growth of $798 million and $557 million, respectively. Research and development services experienced the largest decline in value, falling by $590 million (down 11.0 percent), while construction services saw the largest proportional decline of 37.4 percent (down $240 million).

Canada's imports of services grew slightly slower than exports, increasing 3.2 percent. In 2015, the value of service imports reached $123.0 billion, $3.8 billion over the 2014 level. Only 30 percent ($1.2 billion) of the increase in services imports was due to the United States. Travel imports, or spending by Canadians while abroad, increased by just $119 million in 2015 to reach $37.5 billion; business travel declined while personal travel grew modestly. Transportation service imports increased by $850 million, or 3.4 percent, in 2015. Imports rose across all three modes of transportation services (land, air and water), with water transport contributing the bulk of the increase (up $662 million, or 5.9 percent).

Commercial service imports grew the fastest out of all major categories, recording 5.1-percent growth in 2015 and adding $2.8 billion to their value to reach $58.8 billion. Over three-quarters of this growth was due to increased imports of financial services, which rose 33.1 percent above their 2014 level (up $2.2 billion). Proportionally, that growth was followed closely by maintenance and repair services, which increased 29.6 percent in 2015 (up $259 million). Other growing sectors included a $524-million increase in imports of professional and management consulting services and a $492-million increase in imports of telecommunications, computer and information services; imports of charges for the use of intellectual property declined by $446 million, and imports of research and development services fell by $305 million (down 20.0 percent).

Though exports grew faster than the imports of services, greater value of the latter meant that the deficit in the balance of services trade widened slightly from $23.4 billion to $23.8 billion in 2014. Canada continued to run a services deficit with every key region, though over 70 percent of its total deficit stemmed from its travel services deficit (which

amounted to $17.0 billion in 2015). The balance of the services deficit can be traced to the large and growing deficits in water transportation services ($8.7 billion in 2015), which represents the international shipping industry services provided to Canada.[2]

Commercial services, on the other hand, have now run a surplus for 13 years, all the way back to 2003 and throughout the Great Recession. Strong increases in imports of financial services; professional and management consulting services; and telecommunications, computer and information services contributed to reducing this surplus from $4.0 billion in 2014 to $3.2 billion in 2015. Meanwhile, strong growth of exports in business services and charges for the use of intellectual property helped maintain the surplus position. Canada historically runs a deficit in insurance services as well as in charges for the use of intellectual property ($2.9 billion and $6.5 billion, respectively, in 2015).

Trade in Services by Region

Canada's trade in services with the United States was more balanced than in goods, with 54.9 percent of its exports going to the United States and 55.6 percent of its imports coming from there in 2015. Exports to the U.S. grew 3.6 percent last year with imports growing at half that pace (up 1.7 percent), resulting in a smaller services trade deficit of $13.9 billion (down from $14.5 billion in 2014). Most of this deficit was due to travel services, as Canadians travelling in the United States spent much more than the Americans spent travelling in Canada; however, the travel deficit with the U.S. shrunk by 10.3 percent in 2015 as the lower Canadian dollar made the trips more expensive. Meanwhile, commercial services (over half of all transactions) and government services recorded trade surpluses with the United States.

In trade with the EU, travel grew considerably on both sides, as the Canadian dollar held its value relative to the Euro much better than to the U.S. dollar. Moderate growth occurred in all other items. All categories of services trade were in deficit for Canada, for the total deficit

TABLE 4-4
Services Exports and Imports by Region ($M)

2015	Exports	% change	Imports	% change	Balance
TOTAL	**99,201**	**3.6**	**122,954**	**3.2**	**-23,753**
United States	54,442	3.4	68,323	1.7	-13,881
Travel	8,128	8.3	21,270	-4.0	-13,142
Transportation	7,429	3.2	8,845	0.5	-1,417
Commercial	38,423	2.3	37,840	5.6	583
Government	463	16.9	368	0.8	95
EU	16,434	5.4	21,817	3.6	-5,384
Travel	3,700	8.2	5,812	7.5	-2,113
Transportation	3,213	3.7	5,330	5.0	-2,117
Commercial	9,292	5.0	10,395	1.0	-1,102
Government	227	0.4	281	0.0	-53
Japan	1,497	-1.6	2,131	9.1	-635
Travel	460	2.2	300	19.0	160
Transportation	552	-10.0	781	7.1	-229
Commercial	456	6.0	1,029	8.1	-573
Government	29	0.0	21	0.0	8
ROW	26,828	3.3	30,681	5.9	-3,853
Travel	8,196	3.4	10,087	5.8	-1,891
Transportation	3,984	-1.1	10,630	5.0	-6,645
Commercial	13,773	4.9	9,528	7.4	4,245
Government	875	0.1	436	-0.5	439

2 Canada only has a small share in the international shipping industry, thus the vast majority of Canada's shipments not destined to the United States involve paying foreign companies for transoceanic water transportation services.

of $5.4 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 mostly to the deficit in commercial services.

Services trade with the rest of the world (ROW) was the most travel-intensive, with more than 30 percent of both exports and imports consisting of travel services; both of these grew in 2015. Transportation service imports from ROW were also important and grew 5.0 percent; the deficit of $6.6 billion in this category drove the overall deficit of $3.9 billion, and was likely due mostly to water transportation services charges by international shipping. Commercial services trade with ROW increased its surplus to $4.2 billion.

Looking to individual countries, the EU accounted for nearly a quarter of the increase in services exports with a $0.8-billion growth as exports to Germany, France and the U.K. increased by $0.2 billion each. Other notable increases in services exports went to Australia (up $157 million) and Mexico (up $122 million), while services exports to Switzerland experienced a sharp decline (down $426 million). On the import side, the EU accounted for 20 percent of growth with $0.8 billion in extra imports (primarily from France and the U.K.). Significant increases also took place in services imports from Switzerland (up $256 million), Hong Kong (up $213 million), Japan (up $179 million) and Mexico (up $176 million), while imports from India declined (down $121 million).

Canadian Exports: Shifting Away from Resources?

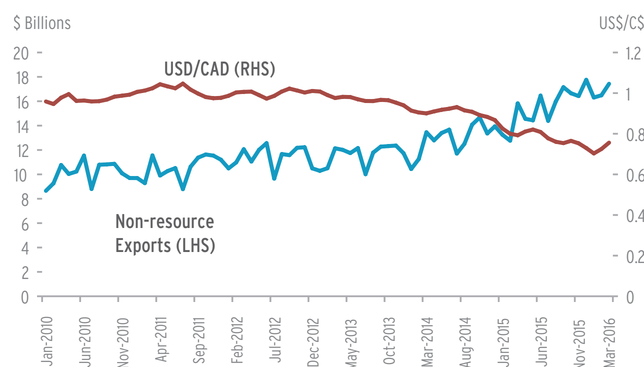
Resource and resource-based exports (henceforth "resources")[1] increasingly dominated Canadian exports for much of the past decade and a half. Resources accounted for 45.5 percent of Canadian exports to the world[2] in 2002, rising to a peak of 65.1 percent in 2011. However, since then, the importance of resources in Canada's exports overall has fallen off. In particular, over the past two years, the composition of Canadian exports has quickly shifted toward more manufactured products, which represents a significant turning point in the country's traditional resource-dominated story.

This transformation has been the result of both push and pull factors—the push of lower resource prices and the pull of a lower US$/C$ exchange rate and increased demand from the United States. Indeed, the growth in Canada's exports over the past two years has come entirely from non-resource sectors. From 2013 to 2015, Canada's non-resource exports to the world grew $52.5 billion (14.5 percent annually), while resource exports declined by $1.1 billion (down 0.2 percent annually). The net result was that total Canadian merchandise exports to the world grew $51.3 billion to $520.9 billion.

In the mid-2000s, strong demand from China for resources fueled a resource boom, and the share of resources in Canadian exports began to rise. At the same time, Canada's manufacturing sector struggled with competitive pressures stemming from low-cost producers (e.g. China, Mexico) as well as the high-valued Canadian dollar. But more recently, demand from China for resources has softened and resource prices have plunged. The decline in resource prices has subsequently contributed to a depreciation of the Canadian dollar, which fell from US 0.97¢ in 2013 to US 0.78¢ in 2015. As of late, this depreciation has boosted the cost competitiveness of Canada's non-resource exports (Figure 1), alleviating some of the cost-competitiveness issues associated with an over-valued currency during the last decade.[3]

In light of the recent decline in resource prices, the value of Canadian resource exports has fallen (Figure 2). This has been led by the sharp drop in the price of oil: the price of Western Canadian Select fell from an average of US$72.77/bbl in 2013 to an average of US$35.28/bbl in 2015. Given

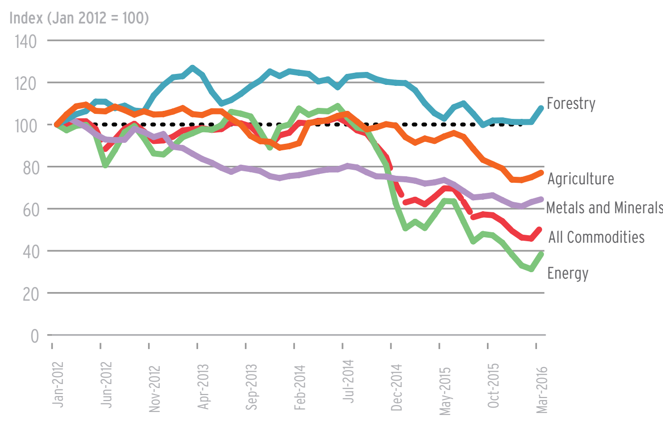
FIGURE 1
Canada's Resource and Non-resource Exports to the U.S. vs US$/C$ Exchange Rate



Data: Statistics Canada
Source: Office of the Chief Economist, Global Affairs Canada

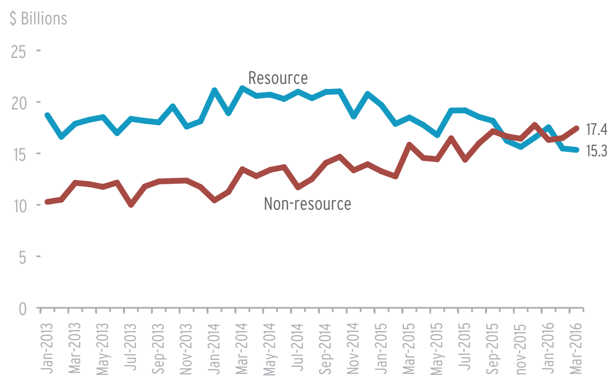
1 Resources are defined here as the aggregate of chemicals, crude petroleum, lumber, metal ores, metals and alloys, natural gas, newsprint, other agriculture, other energy, other industrial products, wheat, and wood pulp.
2 These are Customs-based data aggregated according to the nearest Balance of Payments equivalent.
3 The Conference Board of Canada. (2016, February). *Canada's Next Trade Era: Which Industries Are Prepared to Take on U.S. Demand?*

FIGURE 2
Commodity Price Index



Data: Bank of Canada
Source: Office of the Chief Economist, Global Affairs Canada

FIGURE 3
Canada's Monthly Merchandise Exports to the U.S.: Resources vs Non-resources



Data: Statistics Canada
Source: Office of the Chief Economist, Global Affairs Canada

that oil represents 12.3 percent of Canada's total exports, the oil price squeeze has been a significant contributor to the fall in the value of Canadian resource exports. On the non-resource side, however, heavy energy-consuming industries (particularly those within the manufacturing sector) have benefitted from lower energy prices.

Canada's global export performance is driven by economic activity south of the border, given that more than three-quarters of Canadian merchandise exports are destined for the United States. From 2013 to 2015, the United States accounted for $43.5 billion (83.0 percent) of the expansion in Canada's non-resource exports. At the same time, the United States was the main driver behind Canada's decline in resource exports, which fell $2.8 billion, while resource exports to the rest of the world rose to partially offset the decline. Notably, on a monthly basis, non-resource exports have recently overtaken resource exports as the predominant export to the United States (Figure 3).

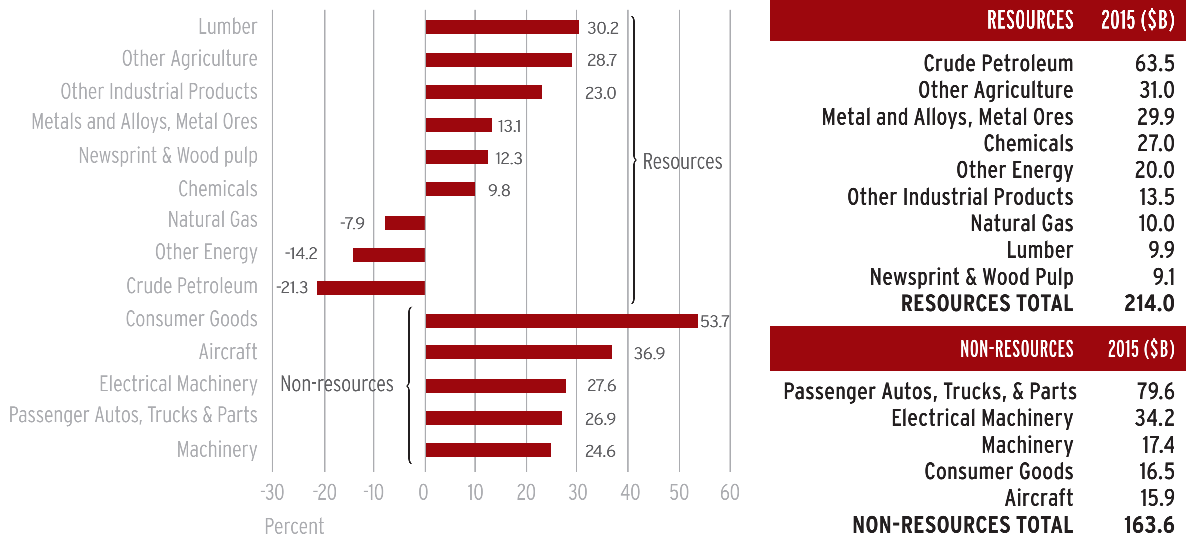
The decline in Canada's resource exports to the United States from 2013 to 2015 was due solely to a fall in energy-related exports (Figure 4). Although volumes of most energy-related exports to the United States grew over this period, the growth in volumes was not enough to offset the steep drop in prices for many of these commodities (Table 1). Meanwhile, other non-energy-based resource exports to the United States underwent solid growth over this period. Specifically, lumber exports have grown substantially, driven largely by an improving U.S. housing market.

In fact, healthy demand from the United States has been a key contributor to Canada's growing non-resource exports to that market, and this demand is expected to continue expanding at a solid pace.[4] Moving forward, the services sector is also projected to be the main beneficiary of the burgeoning economic activity south of the border.

4 The Bank of Canada, *Monetary Policy Report – April 2016*.

FIGURE 4

Changes in Canadian Resource* and Non-resource** Exports to the U.S., 2013 to 2015



RESOURCES	2015 ($B)
Crude Petroleum	63.5
Other Agriculture	31.0
Metal and Alloys, Metal Ores	29.9
Chemicals	27.0
Other Energy	20.0
Other Industrial Products	13.5
Natural Gas	10.0
Lumber	9.9
Newsprint & Wood Pulp	9.1
RESOURCES TOTAL	**214.0**

NON-RESOURCES	2015 ($B)
Passenger Autos, Trucks, & Parts	79.6
Electrical Machinery	34.2
Machinery	17.4
Consumer Goods	16.5
Aircraft	15.9
NON-RESOURCES TOTAL	**163.6**

*For simplicity of the graph, some categories of resource exports have been aggregated

**Excludes Special Transactions, which was $22 billion in 2015

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

TABLE 1

Some of Canada's Top Energy Exports to the U.S., Change in Components, 2013 to 2015

HS Code	Description	2015 ($M)	Change in Values (%)	Change in Volumes (%)	Change in Prices (%)
2709	Crude oil	63,501.3	-21.3	19.0	-33.9
2710	Oil (not crude)	13,811.0	-20.2	7.7	-25.9
271121	Natural gas, gaseous	9,997.4	-7.9	-5.5	-2.5
2716	Electrical energy	3,136.8	28.4	10.4	16.3
271112	Propane, liquefied	1,261.4	-23.2	11.6	-31.2
271320	Petroleum bitumen	820.6	-20.4	-8.1	-13.4
2714	Bitumen & asphalt, natural; shale & tar sands etc.	189.4	67.2	166.6	-37.3
2712	Petroleum jelly; mineral waxes & similar products	170.1	7.2	-5.2	13.1
2701	Coal; briquettes, ovoids etc. mfr from coal	163.7	3.7	7.5	-3.5
271113	Butanes, liquefied	98.8	-55.8	-49.9	-11.7

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

The current economic environment has been conducive to a pickup in Canada's non-resource exports and a slowdown in its resource exports. However, in contrast to its situation with the United States, Canada's non-resource exports globally have yet to surpass those of resources. Nevertheless, the recent shift in the composition of trade with the United States provides a glimpse into future chapters of Canada's export story.

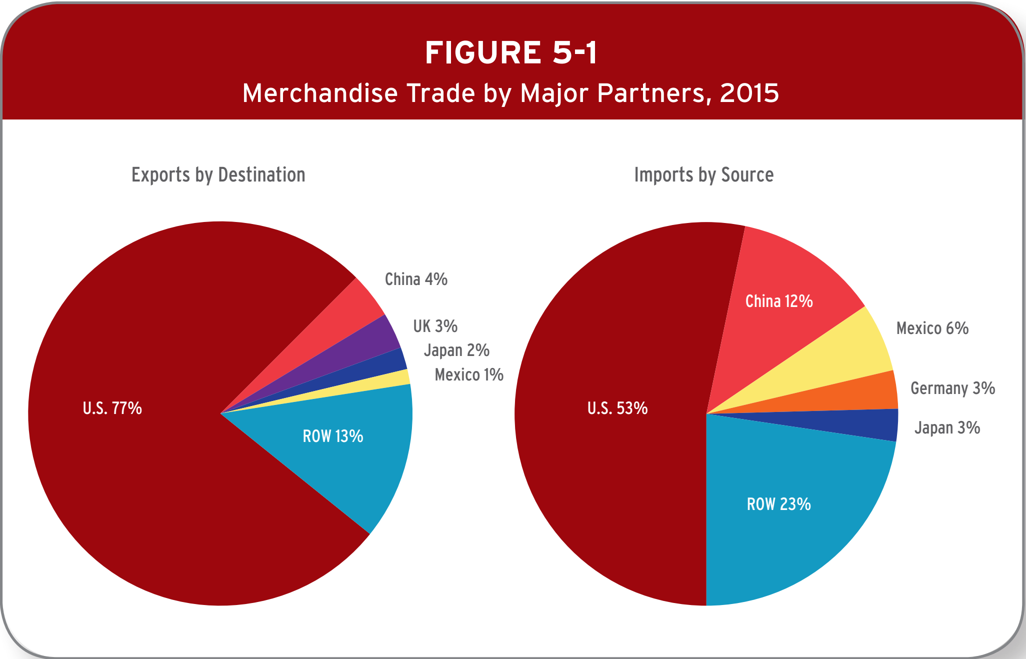
CHAPTER 5 | Key Developments in Canadian Merchandise Trade in 2015

Key Developments in Canadian Merchandise Trade in 2015

The previous chapters discussed the global economic situation and Canada's economic performance in its context. Those chapters also presented a general view of Canada's international trade and its contribution to Canada's economic growth in 2015. The present 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, and by province of origin.

After double-digit growth in 2014, total Canadian merchandise exports stumbled in 2015, registering a marginal decline of 0.3 percent to $523.4 billion, a $1.7-billion decrease from the 2014 level. This represents the first decline in Canadian merchandise exports since 2009. Meanwhile, Canadian merchandise imports rose 4.6 percent to $535.6 billion, a new record level, posting a $23.5-billion increase over 2014. This growth was slower than the brisk 7.7 percent recorded for 2014 and also slower than the 6.1-percent average growth over the last four years. Continuing import growth means that imports are now more than $100 billion above their pre-recession peak of $434.0 billion.

FIGURE 5-1
Merchandise Trade by Major Partners, 2015



1 Canadian trade statistics are provided in two basic forms: Customs basis and Balance of Payments basis. In the previous chapter, 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.

With exports falling and imports rising, the first post-recession merchandise trade surplus was eliminated and transformed into a $12.3-billion merchandise trade deficit in 2015. In spite of the relatively robust economic recovery in the United States, combined with the low Canadian dollar, and the resulting growth in U.S. demand for principal Canadian merchandise products, the plunge in global commodity prices (particularly oil prices) during 2015 was steep enough to offset all other export growth. While the resulting decrease in Canada's energy revenues led to an overall decline in export values, lower energy revenues did not cancel out the fact that export volumes, or real exports, grew robustly during 2015, led by non-resource-based exports to the United States in particular. Indeed, while energy exports to the United States plunged a full $39.4 billion, total exports to the U.S. market fell by only $1.6 billion (down 0.4 percent); thus over 95 percent of the decline in energy exports was compensated for by increases in exports of other products, particularly non-resource-based products.

After three straight years of increases, the proportion of Canada's exports destined for the United States fell back 0.1 percentage point to 76.7 percent. Exports to China recovered from their 2014 stumble (the first recorded decrease in exports to China since 2002) with robust 4.6-percent growth to reach $20.2 billion; however, that was still below the record $20.5 billion in exports in 2013. But it was India and Mexico who led the export increases, with gains of over $1 billion each; Canadian exports to India grew particularly quickly in 2015, increasing by more than a third.

Imports from the United States grew more slowly (just over half the pace of total imports growth), and imports from the United Kingdom stagnated, but imports from most other top suppliers outpaced average import growth considerably. Imports from Vietnam and India exhibited particularly impressive growth: 44.4 percent and 23.9 percent, respectively.

From a domestic standpoint, Ontario was responsible for the bulk of the gains in exports, followed by Quebec. Alberta's exports plummeted due to the decline in oil prices, offsetting those gains. Oil prices also severely affected two other jurisdictions, but while in Saskatchewan their decline was mitigated by increases in exports of other products, in Newfoundland and Labrador the decline in oil prices was exacerbated by declines in other products. As a result, the latter province led the country in terms of the percentage decline in exports.

For imports, Ontario accounted for the bulk of the increase. Large import declines occurred in six out of 13 jurisdictions, and while declining oil prices were responsible for most of these declines, other factors were in play in Saskatchewan.

Trade by Top Products

Merchandise Exports

Canada's merchandise exports ended a five-year growth spell to decline marginally to $523.4 billion in 2015. Value of exports was down $1.7 billion, or 0.3 percent, from the 2014 level. All but one of the top 10 export products registered an increase in exports during the year, that one exception being energy products. The export value for energy products dropped $43.4 billion in 2015 (down 30.4 percent) and ended the year at $99.1 billion. The share of total Canadian exports held by energy products dropped to 18.9 percent, down from 27.1 percent the year before. Although the United States accounted for the brunt of the $39.4-billion decline, declines in exports to other destinations were even sharper, with the net result being that the U.S. share of Canada's energy exports actually increased, from 93.8 percent to 95.1 percent. Meanwhile, energy exports to the Netherlands grew slightly, and those to Ukraine quadrupled (up $99.3 billion, or 301.7 percent, mostly coal), propelling Ukraine into Canada's top 10 destinations for energy exports.

TABLE 5-1
Canada's Top Merchandise Exports

	Value 2015 ($B)	Change 2015/2014 ($B)	Growth 2015/2014 (%)	Share 2015 (%)
All Products	**523.4**	**-1.7**	**-0.3**	**100.0**
Energy	99.1	-43.4	-30.4	18.9
Motor Vehicles	76.8	10.8	16.4	14.7
Mechanical Machinery & Equipment	39.7	3.6	10.1	7.6
Precious Stones & Metals	24.5	0.4	1.8	4.7
Electrical Machinery & Equipment	16.9	1.8	11.9	3.2
Plastics	15.9	1.4	9.4	3.0
Aircraft, Spacecraft & Parts	15.8	2.0	14.6	3.0
Wood & Articles	15.0	1.0	7.4	2.9
Aluminum & Articles	10.5	0.7	7.3	2.0
Paper & Articles	9.9	2.1	26.4	1.9
Top 10 Products	**324.1**	**-19.5**	**-5.7**	**61.9**
All Other Products	**199.3**	**17.8**	**9.8**	**38.1**

After resuming growth in 2014, Canada's second-largest overall export category, automotive products, continued the trend in 2015—posting the highest gain in value (up $10.8 billion) and one of the highest percentage gains (up 16.4 percent) among all of Canada's export products. While the United States accounted for most of this growth, other destinations also registered gains. Automotive exports to Mexico topped $1 billion for the first time (up 42.9 percent); jumped 36.2 percent to China; 40.9 percent to the United Arab Emirates; and were up over 60 percent to both Germany and the United Kingdom.

Changes in other exports were less dramatic, although uniformly strong in the manufacturing sectors. Exports of mechanical machinery and equipment posted strong 10.1-percent growth (up $3.6 billion), nearly doubling to Mexico; exports of electrical machinery and equipment grew 11.9 percent (up $1.8 billion), mostly to the United States; and aircraft and parts gained 14.6 percent (up $2.0 billion), with large new shipments to Singapore, India and South Africa and continued strength in the United States, Malta and China.

Merchandise Imports

Canada's merchandise imports grew $23.5 billion (up 4.6 percent) in 2015, to reach a record $535.6 billion. The top 10 products accounted for almost two-thirds of total imports ($343.7 billion). Just as for exports, the growth rate for the top 10 imported products was considerably below the growth rate for all other products, and was similarly due to the negative effect of energy prices. Energy imports dropped from third to fourth place in total imports, while aircraft imports entered the top 10.

TABLE 5-2
Canada's Top Merchandise Imports

	Value 2015 ($B)	Change 2015/2014 ($B)	Growth 2015/2014 (%)	Share 2015 (%)
All Products	**535.6**	**23.5**	**4.6**	**100.0**
Motor Vehicles	85.4	7.4	9.5	15.9
Mechanical Machinery & Equipment	80.8	6.1	8.2	15.1
Electrical Machinery & Equipment	52.8	4.1	8.3	9.9
Energy	37.7	-15.1	-28.5	7.0
Plastics	19.1	1.3	7.4	3.6
Scientific & Technical Instruments	15.7	1.5	10.4	2.9
Pharmaceuticals	14.5	0.8	5.5	2.7
Precious Stones & Metals	13.9	-0.2	-1.5	2.6
Iron & Steel & Articles	12.5	-0.5	-3.5	2.3
Aircraft, Spacecraft & Parts	11.2	2.7	30.9	2.1
Top 10 Products	**343.7**	**8.0**	**2.4**	**64.2**
All Other Products	**191.9**	**15.5**	**8.8**	**35.8**

Automotive imports, the top item, grew $7.4 billion (up 9.5 percent), with sizeable growth from all major suppliers. Automotive imports from Japan and Germany grew by double digits after declining in 2014. Growth in the two principal components, passenger vehicles and motor vehicle parts, was roughly equal.

Mechanical machinery imports were a close second in value and percentage growth, with a gain of $6.1 billion (up 8.2 percent). Imports from the United States and China, the top suppliers, grew more slowly than the average, allowing Mexico, Germany, Japan, Italy and South Korea to gain market share. Imports of electrical machinery and equipment grew 8.3 percent (up $4.1 billion), accounting for an almost 10-percent share of total imports. With 16.0-percent growth, China surpassed the United States as the number one supplier to Canada in this category; imports from Taiwan grew even faster, and imports from Vietnam more than tripled.

Imports of energy products (mineral fuels and oil) declined by $15.1 billion (down 28.5 percent) and constituted only 7.0 percent of total imports. Despite the $9.4-billion decline, the U.S. share of those imports continued to grow, reaching 69.9 percent. After the sharp curtailing of oil imports in recent years from non-American destinations, some of these energy suppliers of yesteryear may have started a comeback in 2015 as energy imports from Nigeria, Russia and Venezuela increased considerably. By contrast, imports of oil from Iraq, valued at $1.9 billion in 2014, were discontinued in 2015.

Outside of the top four products, growth was uneven and less significant, with one major exception: imports of aircraft and parts jumped 30.9 percent, up $2.7 billion. Increases in imports from the United States (up $1.5 billion) and France (up $0.7 billion) accounted for the bulk of that growth.

Trade by Top Destinations

Merchandise Exports

In 2015, Canadian merchandise exports became even more concentrated among the top 10 destinations, from 90.3 percent in 2014 to 90.5 percent. The top five export destinations accounted for 86.8 percent of all exports. Exports to the United States decelerated slightly faster than overall exports, falling by 0.4 percent in 2015; this had the effect of reducing the U.S. share of Canada's merchandise exports for the first time in four years. Exports to the next two top destinations, China and the United Kingdom, showed robust growth, with each increasing its share of Canada's exports.

TABLE 5-3
Canadian Exports to Top Partners

	Value 2015 ($B)	Change 2015/2014 ($B)	Growth 2015/2014 (%)	Share 2015 (%)
World	523.4	-1.7	-0.3	100.0
United States	401.5	-1.6	-0.4	76.7
China	20.2	0.9	4.6	3.9
United Kingdom	16.0	0.7	4.8	3.0
Japan	9.8	-1.0	-9.1	1.9
Mexico	6.6	1.0	18.6	1.3
India	4.3	1.1	34.1	0.8
South Korea	4.0	-0.2	-3.8	0.8
Hong Kong	3.9	-0.7	-14.9	0.7
Germany	3.6	0.5	15.7	0.7
Netherlands	3.6	-0.3	-7.5	0.7
Top 10	473.4	0.5	0.1	90.5
Next 25	34.8	-2.0	-5.4	6.6
Next 75	14.2	0.1	0.5	2.7
Last 120	1.0	-0.3	-22.9	0.2

The overall $1.6-billion decrease in exports to the United States accounted for almost all of the decrease in total exports last year. Taking place in the background of that decrease was a much more significant realignment between Canada's resource exports (with steeply falling prices) and its non-resource-based exports (buoyed by dual volume-price increases) to its greatest trading partner. This is explored in more detail in the box insert on trade with the United States in this chapter. Exports grew by $2.1 billion to the other top nine destinations combined.

Exports to China grew $0.9 billion (up 4.6 percent), after a decline in 2014. Over half of the increase was due to exports of wood pulp—the top export product—which grew 18.1 percent. Exports of fertilizers, cereals, motor vehicles, copper and copper articles and fish also grew strongly. Meanwhile, exports of coal, copper and iron ores, wood and articles of wood and mechanical machinery declined.

Exports to the United Kingdom grew $0.7 billion (up 4.8 percent) based on large growth in nickel and broad-based increases elsewhere. The largest export increases occurred to Mexico and India; up by over $1 billion to both destinations. This amounted to 18.6 percent in the case of Mexico and to 34.1 percent for India; but while Mexico remained in fifth place, India jumped six spots to land just behind in sixth place. Growth in motor vehicles and mechanical machinery exports (broad-based) drove the increase in exports to Mexico, while growth in exports of legumes, gold, diamonds and aircraft and parts was behind the increase in exports to India. Meanwhile, exports to Japan declined 9.1 percent and exports to Hong Kong fell by 14.9 percent. Italy dropped from eighth place in 2014 to 13th place in 2015, as exports to that country declined 45.4 percent: the 2014 export high was accounted for by a large one-time shipment of Canadian crude oil and therefore unlikely to recur.

Merchandise Imports

Rankings among Canada's top import partners have been remarkably stable in recent years; in 2015, once again, there were no newcomers and no changes in rank among the top 10 import suppliers. Growth in imports was slightly above average for the top 10 and considerably above average for the next 25 partners; imports from all other partners declined on aggregate. Those declines are mostly explained by the continuing shift of Canada's crude oil imports from a variety of countries to the suppliers in the Americas. Thus not importing crude oil from Iraq in 2015 virtually erased Canada's imports from that country, and the resulting $1.9-billion import decline defined the magnitude of the import decline from the lowest 120 countries on the list.

TABLE 5-4
Canadian Imports from Top Partners

	Value 2015 ($B)	Change 2015/2014 ($B)	Growth 2015/2014 (%)	Share 2015 (%)
World	**535.6**	**23.5**	**4.6**	**100**
United States	285.2	6.8	2.4	53.3
China	65.6	7.0	11.9	12.3
Mexico	31.2	2.4	8.2	5.8
Germany	17.3	1.4	8.6	3.2
Japan	14.8	1.5	10.9	2.8
United Kingdom	9.2	0.0	-0.2	1.7
South Korea	7.9	0.6	8.7	1.5
Italy	7.4	1.0	14.8	1.4
France	6.8	0.9	14.3	1.3
Taiwan	5.5	0.8	18.0	1.0
Top 10	**450.9**	**22.2**	**5.2**	**84.2**
Next 25	**60.5**	**4.3**	**7.7**	**11.3**
Next 75	**23.8**	**-1.0**	**-4.1**	**4.4**
Last 120	**0.4**	**-1.9**	**-81.4**	**0.1**

Imports from the United States grew at a subdued 2.4-percent pace (up $6.8 billion) and accounted for less than a third of the overall import increase. Just like its export share, the U.S. share of Canadian imports declined, falling back from 54.4 percent in 2014 to 53.3 percent in 2015. The bulk of the increase in imports from the United States occurred in automotive products and mechanical machinery. Imports of aircraft and parts as well as pharmaceuticals also rose, while imports declined for energy, iron and steel and articles thereof.

Imports from China grew briskly again (up 11.9 percent), with the increase in their value greater than that of the imports from the United States (up $7.0 billion). A 16.0-percent increase in imports of electrical machinery and equipment (led by the imports of mobile phones) propelled China past the United States to the first rank as Canada's import source in that important sector. Broad-based growth across most other top import products was observed, particularly in motor vehicle parts (up 27.5 percent) and aluminum (up 25.7 percent).

Imports from Mexico, Germany and Japan all grew strongly, increasing their respective shares. Motor vehicle imports were the principal driver of the increase in every case. Imports from the United Kingdom declined marginally as higher gold imports were balanced by lower refined and crude oil imports. After a large increase in imports from Vietnam (up 44.4 percent), their total value reached $4.1 billion; increases took place mainly in imports of mobile phones, but also across the board in the apparel, footwear and furniture sectors. Italy, France, Taiwan, Switzerland and India were the other large import suppliers that registered double-digit growth rates; Canada imported a $268-million shipment of refined oil from India, accounting for a large part of the increase in imports from that country.

Canada's Trade Commissioner Service: assessing the impact on Canadian export performance

International trade is a cornerstone of the Canadian economy. Exporters tend to be larger, more productive and pay higher wages.[1] And yet only a small fraction of Canadian firms engage in exporting due to the high cost of entering a foreign market, which typically involves gathering intelligence about the market, identifying customers, and complying with local regulations. These up-front costs are often significant and generally cannot be recovered—even if the company decides not to export to a particular market. These costs can discourage smaller firms in particular from becoming exporters.

Governments worldwide respond to this challenge through export promotion programs that help firms make the move into foreign markets. In Canada, the Trade Commissioner Service (TCS) program, a part of Global Affairs Canada, provides Canadian exporters with on-the-ground market intelligence and advice on how to expand internationally. The TCS has offices across Canada and in 161 cities worldwide.

But is the TCS effective?

That is the key question for Canadian policy-makers—and for prospective Canadian exporters.

For an export promotion program to be deemed effective, it must demonstrate that the firms that received assistance from the program export more as a direct result of program assistance than those that did not. Furthermore, to evaluate the impact of a program, it is important to understand the channels through which the program achieves its results; did the increase in exports occur largely through exporting more of products that are already being exported to existing markets or as the result of the introduction of new export products to new export markets? To this end, Global Affairs Canada through its Office of the Chief Economist conducted an economic assessment of the impact of the TCS, which updates and enhances a previous study that was completed in 2010.[2]

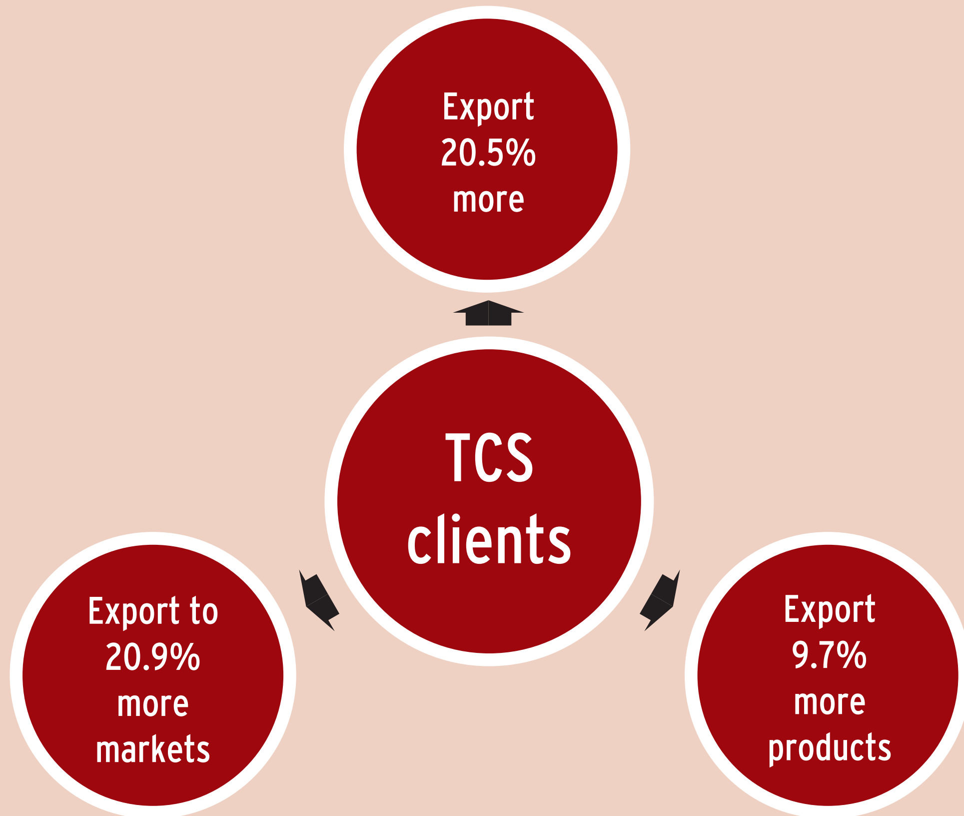
The updated study makes use of the "average treatment effect", a technique that allows the researcher to identify that two variables are related and to assess the causality of the relation—in this case, assistance each firm in the study received from the TCS and the increase in that firm's exports.[3] This technique is similar to that used to evaluate the effectiveness of a new drug in medical trials by comparing a group that received the new drug (i.e. treated) to a control group that received a placebo (i.e. untreated). However, given that it was not possible to set up a true control group in the TCS assessment study a second technique—propensity score matching—was used to ensure that only firms deemed to share comparable characteristics (i.e. the likelihood of each seeking TCS services is similar) were paired for assessment. In other words, each firm that received TCS services was paired with a "control" that had not accessed TCS services but that had a similar probability of doing so.

1 See the special feature in State of Trade 2012 for a review of the benefits of trade.

2 Johannes Van Biesebroeck, Emily Yu and Shenjie Chen (2010) "The Impact of Trade Promotion Services on Canadian Exporter Performance", Trade Policy Research 2010, p.145.

3 The estimation equation is, $y_{it} = \alpha\omega_{it} + x'_{it}\gamma + \omega_{it}(x_{it} - x)'\beta + \varepsilon_{it}$ where y_{it} is the performance variable (value of export, number of export products or number of markets); ω_{it} is a dummy for TCS services; x_{it} represents a vector of firm-level characteristics and is the mean of logarithm of x. The resulting estimate of α is the average treatment effect of TCS services on the performance.

The latest results show that exporters that accessed TCS services exported, on average, 20.5 percent more in value terms than those that did not use the services. In addition, TCS clients exported nearly 10 percent more products to almost 21 percent more markets.



The evidence is clear: the TCS program is highly effective in helping exporters increase their exports. Furthermore, the TCS is at its most effective when helping exporters expand and diversify into new markets. This makes sense given that the key role of the TCS is to help reduce the fixed costs for firms entering new markets by providing them with market-specific intelligence. The study revealed another key finding: the impact of the TCS is even stronger when exporters received assistance in consecutive years. This suggests that gathering market intelligence is not a one-off activity, but rather an important part of an ongoing relationship between the TCS and the client.

In the final analysis, when the TCS helps exporters grow and expand internationally, Canada and Canadians benefit.

Merchandise Trade by Provinces and Territories

Merchandise Exports

The top three exporting provinces—Ontario, Alberta and Quebec—accounted for 78.3 percent of Canada's exports in 2015. Ontario's exports underwent robust 13.5-percent growth last year, adding $28.0 billion to their value. Ontario's export gains occurred in most of the province's areas of strength: automotive products (up $9.5 billion), mechanical machinery and equipment (up $3.8 billion), electrical machinery and equipment (up $1.6 billion) and pharmaceuticals (up $1.2 billion). Exports of iron and steel were down $0.5 billion, and similar losses of $0.4 billion took place in exports of organic chemicals and energy products.

After leading in exports gains among the provinces for several years, Alberta now led the losses, with a $29.1-billion decline in its exports (down 23.8 percent) due to declining oil prices. The dramatic changes in the export performances of these two provinces mostly offset each other, while changes in exports among the other jurisdictions were much smaller.

Quebec's export gains were fairly substantial, rising 8.0 percent (up $6.1 billion). Strong export gains in aircraft and parts (up $1.3 billion), automotive products (up $0.9 billion), mechanical machinery (up $0.5 billion), scientific instruments (up $0.4 billion) and furniture (up $0.4 billion) were the drivers of Quebec's performance; the two notable declines occurred in energy exports (down $0.4 billion) and iron ores (down $0.4 billion).

TABLE 5-5
Provincial/Territorial Merchandise Exports to the World, 2015

	Value 2015 ($B)	Change 2015/2014 ($B)	Growth 2015/2014 (%)	Share 2015 (%)
Ontario	235.0	28.0	13.5	44.9
Alberta	92.9	-29.1	-23.8	17.8
Quebec	81.9	6.1	8.0	15.7
British Columbia	36.7	0.2	0.6	7.0
Saskatchewan	32.8	-2.6	-7.3	6.3
Manitoba	13.8	0.3	2.3	2.6
New Brunswick	12.2	-0.8	-6.2	2.3
Newfoundland and Labrador	9.2	-3.8	-29.3	1.8
Nova Scotia	5.5	0.1	2.2	1.0
Northwest Territories	1.8	-0.2	-11.5	0.4
Prince Edward Island	1.3	0.2	15.5	0.2
Yukon	0.1	0.0	-3.0	0.0
Nunavut	0.0	0.0	7.4	0.0
All Jurisdictions	**523.4**	**-1.7**	**-0.3**	**100.0**

Exports of wood, mechanical machinery and fish products helped British Columbia offset the losses in its coal and gas exports, with total exports increasing $0.2 billion in 2015. Saskatchewan's energy exports suffered a severe blow, declining by 42.9 percent (down $5.9 billion), but that was mitigated by the rise in exports of potash and legumes; in total, the province's exports declined by $2.6 billion.

Newfoundland and Labrador was arguably the province hardest-hit by the decline in oil prices as its exports fell 29.3 percent (down $3.8 billion). A fall in exports of iron and copper ores exacerbated this decline.

Merchandise Imports

On the import side, the three great gateways to Canada are Ontario, Quebec and British Columbia, providing access to and from the United States and to the Atlantic and Pacific shipping routes, respectively. In 2015, 84.5 percent of Canada's imports entered the country through these provinces.

As in 2014, the 2015 import gains were channeled mostly through Ontario, where import values increased by $29.5 billion. These increases were primarily accounted for by automotive imports (up $7.4 billion), mechanical machinery and equipment imports (up $5.6 billion) and electrical machinery and equipment imports (up $4.2 billion). Combined total imports among the other provinces and territories declined by $5.9 billion.

TABLE 5-6
Provincial/Territorial Merchandise Imports from the World, 2015

	Value 2015 ($B)	Change 2015/2014 ($B)	Growth 2015/2014 (%)	Share 2015 (%)
Ontario	325.0	29.5	10.0	60.7
Quebec	78.6	-0.6	-0.7	14.7
British Columbia	48.8	2.1	4.6	9.1
Alberta	29.4	-2.9	-8.8	5.5
Manitoba	20.9	0.5	2.7	3.9
New Brunswick	10.6	-2.7	-20.3	2.0
Saskatchewan	10.4	-1.7	-14.4	1.9
Nova Scotia	8.2	0.4	5.7	1.5
Newfoundland and Labrador	3.4	-1.1	-24.3	0.6
Yukon	0.1	0.0	-27.9	0.0
Nunavut	0.1	-0.1	-58.1	0.0
Prince Edward Island	0.1	0.0	-1.8	0.0
Northwest Territories	0.0	0.0	N/A	0.0
All Jurisdictions	**535.6**	**23.5**	**4.6**	**100.0**

Energy imports decreased $6.0 billion in Quebec (mainly crude oil imports), offset by growth in the imports of mechanical machinery, electrical machinery, aircraft and parts and automotive products. The overall result was a $0.6-billion decline in imports (down 0.7 percent). In British Columbia, imports of energy products contracted $0.7 billion, but this was more than offset by increases in imports of electrical machinery and equipment, apparel, furniture and plastics, for a 4.6-percent increase in imports for 2015 (up $2.1 billion).

Imports fell among each of Alberta's top three categories—energy products, mechanical machinery and equipment and electrical machinery and equipment—leading to an 8.8-percent overall contraction in imports (down $2.9 billion). A substantial increase in imports of aircraft and parts also took place (up 66.2 percent).

Significant decreases took place in imports of several smaller provinces and territories, with five jurisdictions experiencing double-digit declines. In New Brunswick, Newfoundland and Labrador, Yukon and Nunavut declines were either fully or partly due to lower imports of energy products, while in Saskatchewan imports declined primarily in mechanical machinery and equipment and automotive products.

Merchandise Trade by Top Drivers

Canada's trade performance can be examined in greater detail using a commodity breakdown comprising over 1,200 items.[2] 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 2015, expressed at the HS 4-digit level.

TABLE 5-7
Key Commodities Driving Canada's Trade Performance in 2015

	Exports 2015 ($B)	Change 2015/14 ($B)	Imports 2015 ($B)	Change 2015/14 ($B)	Balance 2015 ($B)	Change 2015/14 ($B)
Large Exports, Large Imports, Surplus						
Crude Oil	64.1	-33.3	16.8	-7.0	47.3	-26.3
Petroleum Gases	11.7	-7.1	3.4	-2.6	8.4	-4.5
Cars	57.4	7.7	33.6	3.7	23.7	4.0
Aircraft	10.6	1.6	5.6	2.1	4.9	-0.5
Gold	15.9	-0.7	8.3	-0.5	7.5	-0.2
Sub-total	**159.7**	**-31.8**	**67.8**	**-4.3**	**91.9**	**-27.4**
Large Exports, Small Imports, Surplus						
Wheat	7.9	0.0	0.0	0.0	7.9	0.0
Lumber	9.0	0.3	0.6	0.0	8.4	0.3
Canola Seeds	5.0	-0.2	0.1	0.0	4.8	-0.2
Aluminum	6.6	0.2	0.4	0.0	6.2	0.2
Chemical Woodpulp	5.8	0.5	0.3	0.1	5.5	0.5
Potash	6.9	1.6	0.1	0.0	6.8	1.6
Sub-total	**41.1**	**2.4**	**1.4**	**0.1**	**39.6**	**2.4**
Small Exports, Large Imports, Deficit						
Wire and Cable	0.9	0.1	4.4	0.3	-3.5	-0.2
Tractors	0.7	0.1	4.7	0.3	-4.1	-0.1
Bulldozers, Graders, Scrapers Etc	0.2	0.0	3.3	-0.3	-3.1	0.3
Sub-total	**1.8**	**0.2**	**12.4**	**0.3**	**-10.7**	**0.0**
Large Exports, Large Imports, Deficit						
Medicaments In Dosage Form	8.5	1.9	9.6	0.1	-1.1	1.8
Motor Vehicle Parts	13.7	1.8	25.4	2.7	-11.7	-0.9
Trucks	2.4	0.8	15.2	1.1	-12.8	-0.2
Computers	1.7	0.2	10.1	0.2	-8.4	-0.1
Transmission Shafts, Bearings and Gears	1.8	0.3	5.3	0.9	-3.5	-0.6
Telephones and Parts	2.8	0.2	12.3	2.2	-9.5	-1.9
Sub-total	**30.9**	**5.3**	**77.8**	**7.2**	**-47.0**	**-1.9**
20-Commodity Total	**233.4**	**-23.8**	**159.4**	**3.2**	**73.9**	**-27.0**

2 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, which drove Canada's trade balance during the past year.

These 20 commodities accounted for $233.4 billion (44.6 percent) of Canada's $523.4 billion in exports in 2015. This was $23.8 billion less in exports than posted by these commodities a year earlier. At the same time, these products also represented 29.8 percent of overall imports, or $159.4 billion, which was $3.2 billion more than their import value in 2014. These 20 commodities yielded a $73.9-billion trade surplus, which was $27.0 billion lower than the previous year; that movement crucially contributed to the reversal of the merchandise trade surplus in 2015. Canada posted an overall $12.3-billion merchandise trade deficit in 2015, a worsening of $25.2 billion from the $12.9-billion surplus registered in 2014.

A closer inspection of the trade performance of these commodities shows that Canada specializes in a relatively small number of products, both in natural resources as well as manufactured goods, to produce a sizeable trade surplus among these key products. It then uses this trade surplus to finance imports of a large variety of other 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 theories of trade.

CHAPTER 6

Global and Canadian Foreign Investment Performance

Global and Canadian Foreign Investment Performance

Preliminary estimates indicate that global foreign direct investment (FDI) inflows[1] increased to US$1.7 trillion in 2015, the highest level since the start of the global crisis in 2008. FDI inflows targeting developed economies accounted for over half of total FDI inflows and were the main driver of the global rebound.[2] In 2015, FDI inflows to developed economies increased almost 90 percent, with North America in particular nearly tripling its inflows. In contrast, developing economies accounted for less than half of global FDI inflows in 2015, with inflows to these economies increasing by only 5.3 percent. For the second successive year, FDI inflows to so-called transition economies (comprising the Commonwealth of Independent States and South-East Europe) more than halved.

FDI inflows into Canada declined 16.0 percent in 2015, to $54.3 billion, which was less than half of the previous peak level reached in 2007. This represented a combination of the inflows from the U.S. more than doubling and the inflows from the rest of the world dropping by more than three-quarters. The overall reduction in investment flows was due to modest declines in reinvested earnings and other miscellaneous flows, mitigated by an increase in mergers and acquisitions (M&A) inflows. By sector, foreign entities decreased their investment flows into energy and mining in 2015, as well as in manufacturing, finance and insurance, and management of companies and enterprises. However, they more than doubled their investments inflows into other industries[3]; foreign investment in trade and transportation also increased.

Foreign investors increased their cumulative holdings of direct investment (stock) in Canada by 6.8 percent to $768.5 billion in 2015. The United States holds more than half of all FDI stock in Canada and accounted for over three-quarters of the overall gain in FDI in Canada in 2015. By sector, manufacturing, and mining and oil and gas extraction remained the two largest targets for foreign investor interests, but the main contributors to the overall growth were the management of companies and enterprises sector and the professional, scientific and technical services sector, which together accounted for over half of the increased FDI in Canada last year, as holdings rose in these two sectors by $15.3 billion and $11.1 billion, respectively.

Canadian direct investment abroad (CDIA), or FDI outflows, increased by 40.2 percent in 2015, to $86.4 billion. By sector, CDIA was up almost fivefold in finance and insurance and more than doubled in manufacturing, but decreased in mining and oil and gas extraction, and management of companies and enterprises. All M&A activities, reinvested earnings and intra-company flows were up from 2014 levels.

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.

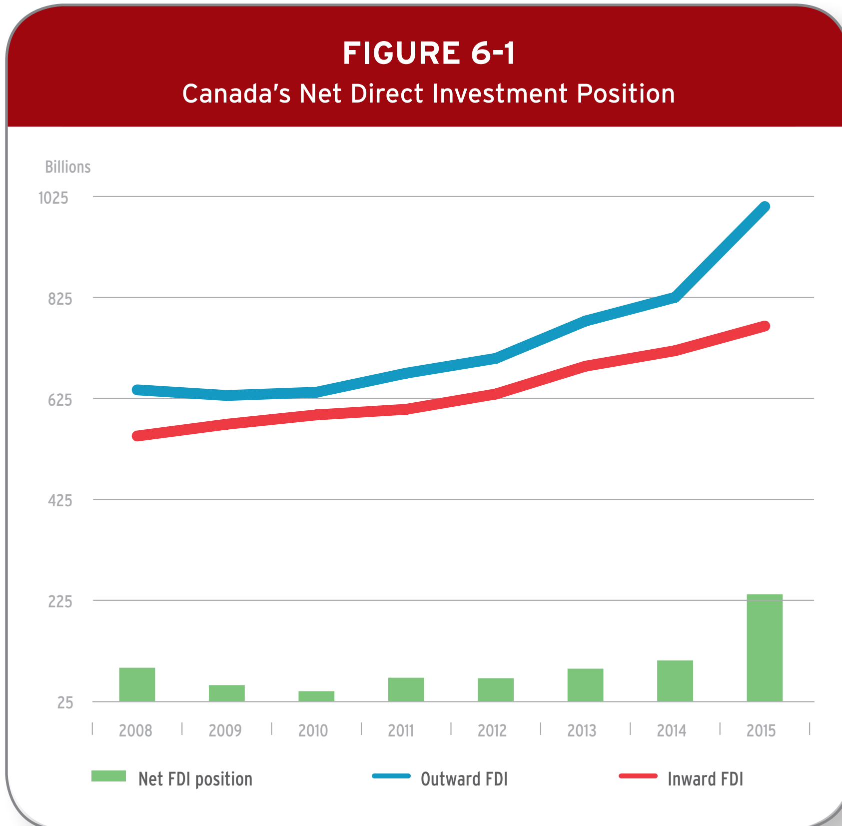
2 See UNCTADStat for the country composition of these classifications.

3 This combines the North American Industry Classification System (NAICS) codes 11, 23, 51, 53, 54, 56, 61, 62, 71, 72, 81 and 91 – which are agriculture, construction and all the service industries not otherwise indicated.

At the same time, Canadian investors added 21.8 percent to their direct investment holdings abroad (CDIA stock) to pass $1 trillion in 2015. This unusual growth in CDIA stock in 2015 largely reflected the impact of the 19-percent depreciation of the Canadian dollar against the U.S. dollar, which contributed nearly two-thirds of the increase in the value of these assets. North America held 65.0 percent of CDIA stock and accounted for 78.5 percent of the overall gain in the value of this stock, while four low-tax U.S. dollar jurisdictions (Bahamas, Barbados, the Cayman Islands and Bermuda) together were responsible for most of the remainder of the 2015 gain.

Finance and insurance, which remained the most important sector for CDIA, accounted for 53.6 percent of the increase in its stock in 2015. Holdings in the manufacturing sector and the management of companies and enterprises sector also rose significantly.

As a result of the significant annual increase in CDIA, Canada's net direct investment position with the rest of the world more than doubled from $105.7 billion to a record high of $236.8 billion in 2015. Consequently, 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.



Global Foreign Direct Investment Flows

According to preliminary estimates from the United Nations Conference on Trade and Development (UNCTAD), global FDI inflows increased by 36.5 percent in 2015 to US$1.7 trillion. This exceeded the 2011 level of US$1.6 trillion, though not the US$1.9-trillion peak of 2007. After 2011, the world FDI inflows began a generally downward trend, interrupted by a slight increase in 2013.

FDI inflows to developed economies jumped by 89.9 percent to an estimated US$936 billion, accounting for a 55.1-percent share of world inflows, but remaining at less than three-quarters of the peak value in 2007 (US$1.3 trillion). Nonetheless, the surge in FDI in developed economies was the principal factor behind the global rebound in 2015. FDI inflows to North America rose greatly, increasing 193.5 percent to US$429 billion, and those to the European Union rose by 67.6 percent to reach US$426 billion after three successive years of decline. The United States was the largest recipient of global FDI inflows in 2015 (US$384 billion, up 315.6 percent)—after falling to the third rank in 2014. The rise, however, was due in part to inversion deals (one of the strategies employed by companies to reduce tax burden) and reconfiguration of corporate structures, thus involving little movement in actual resources. Canada ranked as the ninth-largest FDI recipient in 2015, with FDI inflows totaling US$45 billion, down 16 percent from 2014.

TABLE 6-1
World FDI Inflows by Major Region, 2014 and Estimated 2015

	2014 US$B	2015 US$B	Growth %	Share %
World	**1,245**	**1,699**	**36.5**	**100.0**
Developed	**493**	**936**	**89.9**	**55.1**
EU	254	426	67.6	25.1
North America	146	429	193.5	25.3
Developing	**703**	**741**	**5.3**	**43.6**
Africa	55	38	-31.4	2.2
Latin America & Caribbean	170	151	-11.2	8.9
Developing Asia	475	548	15.5	32.3
Transition	**49**	**22**	**-54.1**	**1.3**

FDI inflows to developing economies reached a new high of US$741 billion, but accounted for less than half of global FDI inflows, in contrast with the position they held last year. The only developing economy among the world's top five FDI recipients in 2015, China was the third-largest destination of global FDI inflows. The estimated 6-percent increase in FDI inflows to China in 2015 (up US$136 billion) was driven by FDI in the services sector, while FDI in the manufacturing sector continued to decline. Flows to developing Asia as a whole increased by 15.5 percent, reaching more than half a trillion U.S. dollars, while those to Latin America and the Caribbean decreased by 11.2 percent.

FDI inflows to the transition economies (which comprise the Commonwealth of Independent States and South-East Europe) more than halved once again this year, reaching US$22 billion and representing just 1.3 percent of global FDI inflows. Investors continued to be deterred from investing in the region because of ongoing geopolitical conditions, reduced market confidence and the tumbling of international commodity prices, which affected the Russian Federation and Kazakhstan heavily.

In 2015, cross-border M&As increased by 61 percent to US$644 billion, reaching their highest level since 2007. Global multinational enterprises (MNEs) took advantage of record cash positions and exceptional global liquidity conditions and, in particular, sales of assets in the manufacturing sector that rose sharply by 132 percent to US$339 billion. Developed economies were largely the target of the cross-border deals, while the value of M&As in developing economies fell by 44 percent.

Canadian Foreign Direct Investment Performance

Inward Investment

FDI Inflows

In 2015, total inflows of FDI into Canada declined by 16.0 percent to $54.3 billion. M&A-related inflows from abroad increased 13.9 percent, but lower reinvested earnings and other miscellaneous flows (mainly intra-company flows) accounted for the overall reduction in investment. However, this overall reduction conceals a large increase in U.S. capital inflows and a severe curtailment in FDI inflows from the rest of the world.

FDI inflows from the United States increased by 100.2 percent, largely due to M&A activity from U.S. investors (up 244.3 percent) and the rise in level of intra-company flows by the U.S. firms (up 368.4 percent) in 2015. In contrast, non-U.S. investors decreased their total FDI inflows into Canada drastically (down 76.3 percent). M&A investment declined by 50.4 percent, reinvested earnings declined by 48.9 percent and other miscellaneous flows dropped by 137.1 percent. Foreign investors decreased their investments in mining and oil and gas extraction, manufacturing, finance and insurance, and management of companies and enterprises, while they increased their investments in trade and transportation, and all other industries.

TABLE 6-2
Foreign Direct Investment in Canada: Inflows

	2014 C$M	2015 C$M	Growth %
Type of FDI infows			
From the world			
Total net flows	64,714	54,336	-16.0
Mergers and acquisitions	24,804	28,253	13.9
Reinvested earnings	24,209	17,792	-26.5
Other flows	15,700	8,290	-47.2
From the U.S.			
Total net flows	22,099	44,245	100.2
Mergers and acquisitions	5,416	18,645	244.3
Reinvested earnings	13,890	12,518	-9.9
Other flows	2,793	13,083	368.4
From the rest of the world			
Total net flows	42,614	10,091	-76.3
Mergers and acquisitions	19,388	9,608	-50.4
Reinvested earnings	10,319	5,274	-48.9
Other flows	12,907	-4,793	-137.1
Sectors of FDI inflows from the world			
Mining and oil and gas extraction	15,167	1,486	-90.2
Manufacturing	13,330	4,781	-64.1
Trade and transportation	7,407	9,262	25.0
Finance and insurance	3,825	-1,374	-135.9
Management of companies and enterprises	14,812	13,340	-9.9
Other industries	10,173	26,843	163.9

FDI Stock

The FDI stock in Canada rose by $48.9 billion (up 6.8 percent) to $768.5 billion in 2015. As the growth rate of FDI stock was faster than the growth of nominal GDP (up 0.64 percent) in Canada in 2015, the ratio of FDI stock to GDP—a measure of Canada's orientation toward FDI—rose from 36.5 percent in 2014 to 38.7 percent in 2015.

In 2015, investors from the United States increased their holdings in Canada by $37.0 billion, contributing three-quarters of the overall increase in total FDI stock in Canada. This relatively strong performance raised the U.S. share of total FDI stock in Canada from 48.7 percent in 2014 to 50.4 percent in 2015. Although the United States continues to be by far the most important source of direct investment in Canada, with $387.7 billion of FDI stock in 2015, its relative importance has declined considerably in the last decade, as the U.S. share of Canada's FDI stock was 63.2 percent in 2005.

The remaining increase in FDI stock in 2015 came from the traditionally important region of Europe and the emergent region of Asia and Oceania. FDI stock from Asia and Oceania advanced by $4.4 billion (up 5.3 percent) to $88.0 billion. Europe's FDI stock in Canada rose $5.0 billion (up 2.0 percent) to reach $259.4 billion. Europe, with just over

TABLE 6-3
Foreign Direct Investment in Canada: Stock by Region

	2005 C$M	2014 C$M	2015 C$M	Share 2005 %	Share 2015 %	Change 2014-15 %
All countries	397,828	719,574	768,467	100.0	100.0	6.8
North America	255,865	359,894	397,526	64.3	51.7	10.5
Barbados	497	428	1,114	0.1	0.1	160.3
Bermuda	2,987	4,534	4,485	0.8	0.6	-1.1
Mexico	322	1,501	1,422	0.1	0.2	-5.3
United States	251,477	350,702	387,691	63.2	50.4	10.5
South & Central America	3,168	18,044	20,064	0.8	2.6	11.2
Brazil	3,069	17,700	19,696	0.8	2.6	11.3
Europe	116,138	254,424	259,447	29.2	33.8	2.0
France	28,293	8,171	7,896	7.1	1.0	-3.4
Germany	8,763	12,512	13,492	2.2	1.8	7.8
Luxembourg	3,595	60,351	60,824	0.9	7.9	0.8
Netherlands	21,068	75,055	89,060	5.3	11.6	18.7
Spain	176	2,199	10,177	0.0	1.3	362.8
Switzerland	13,061	23,290	12,258	3.3	1.6	-47.4
United Kingdom	29,499	41,187	34,266	7.4	4.5	-16.8
Africa	1,241	3,484	3,258	0.3	0.4	-6.5
Asia/Oceania	21,416	83,562	87,962	5.4	11.4	5.3
Australia	2,314	5,933	8,338	0.6	1.1	40.5
Japan	10,523	21,093	22,000	2.6	2.9	4.3
China	928	20,744	20,581	0.2	2.7	-0.8
Hong Kong	6,174	15,895	16,355	1.6	2.1	2.9
Singapore	28	920	953	0.0	0.1	3.6
South Korea	397	3,477	3,224	0.1	0.4	-7.3
United Arab Emirates	n/a	10,815	12,234	n/a	1.6	13.1

one-third of Canada's overall FDI stock in 2015, remained the second-largest contributor to FDI in Canada after the United States. However, from a regional perspective, the Asia and Oceania region has made considerable inroads in the last decade, with its share of FDI stock in Canada more than doubling, from 5.4 percent in 2005 to 11.4 percent in 2015.

Among Europe's notable investors that posted major gains in 2015, the Netherlands' FDI stock in Canada increased 18.7 percent (up $14.0 billion) to $89.1 billion, and that of Spain soared 362.8 percent (up $8.0 billion) to $10.2 billion. These gains were moderated by relatively large declines in the FDI stock from Switzerland, which decreased 47.4 percent (down $11.0 billion) to $12.3 billion, and the United Kingdom, which declined 16.8 percent (down $6.9 billion) to $34.3 billion.

Concerning the sourcing of FDI from the Asia and Oceania region, over half (54.7 percent) of the $4.4-billion increase in the region's FDI stock in Canada in 2015 came from Australia alone, with nearly another third (32.3 percent) coming from the United Arab Emirates, and an additional fifth (20.6 percent) from Japan. China's FDI position in Canada—the region's second-largest contributor after Japan—declined marginally, by $163 million (down 0.8 percent) to $20.6 billion.

In terms of overall standing, 2015 witnessed very few changes in the ranks of the top 10 source countries of FDI in Canada. As before, the Netherlands continued to rank as the second-largest direct investor in Canada with 11.6 percent of FDI stock, followed

by Luxembourg with 7.9 percent and the United Kingdom with 4.5 percent. Switzerland, which ranked as the fifth-largest direct investor in Canada in 2014, saw its position slip to 10th overall in 2015, in large part due to the absolute decline in its FDI stock in Canada by $11.0 billion. This realignment boosted Japan's rank to fifth place overall, with 2.9 percent of the FDI stock, followed by China in sixth position with 2.7 percent, Brazil in seventh with 2.6 percent, Hong Kong in eighth with 2.1 percent and Germany in ninth with 1.8 percent. Among emerging economies, China and Brazil continued to rank above a number of traditionally dominant foreign investors in Canada, such as Germany and France. Another emerging economy—the United Arab Emirates—virtually tied with Switzerland for its share of total FDI stock in Canada (1.6 percent), with direct investment stock totalling $12.2 billion at year-end 2015 and ranking 11th.

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

	2005 C$M	2014 C$M	2015 C$M	Share 2005 %	Share 2015 %	Change 2014-15 %
All countries	397,828	719,574	768,467	100.0	100.0	6.8
Manufacturing	112,236	198,057	204,981	28.2	26.7	3.5
Mining and oil and gas extraction	64,525	156,839	157,983	16.2	20.6	0.7
Management of companies and enterprises	69,706	123,039	138,334	17.5	18.0	12.4
Finance and insurance	55,957	97,692	97,998	14.1	12.8	0.3
Wholesale trade	40,826	54,873	58,028	10.3	7.6	5.7
Retail trade	15,348	37,474	39,303	3.9	5.1	4.9
Transportation and warehousing	2,882	7,576	11,707	0.7	1.5	54.5
Professional, scientific and technical services	9,389	11,013	22,134	2.4	2.9	101.0
All other industries	5,942	8,312	9,378	1.5	1.2	12.8
Information and cultural industries	4,967	5,130	7,389	1.2	1.0	44.0
Real estate and rental and leasing	4,691	7,009	7,346	1.2	1.0	4.8
Accommodation and food services	3,338	3,963	4,591	0.8	0.6	15.8
Construction	1,985	5,166	5,669	0.5	0.7	9.7
Utilities	4,984	3,128	3,301	1.3	0.4	5.5
Agriculture, forestry, fishing and hunting	1,052	304	326	0.3	0.0	7.2

Three major sector groups, namely management of companies and enterprises,[4] professional, scientific and technical services and manufacturing were collectively responsible for $33.3 billion, or close to 70 percent of the overall increase in Canada's FDI stock in 2015. The FDI stock in the management of companies and enterprises sector was up $15.3 billion to $138.3 billion; it doubled in professional, scientific and technical services (up $11.1 billion to $22.1 billion) and in manufacturing it rose by $6.9 billion to $205.0 billion. Despite the difficult year in the mining, oil and gas extraction

4 The management of companies and enterprises sector comprises establishments primarily engaged in managing companies and enterprises and/or holding the securities or financial assets of companies and enterprises.

sector—a traditionally important recipient of foreign investment—the overall FDI stock there actually increased by $1.1 billion in 2015, which reflected an increase in investment in oil and gas and a decline in mining.

In terms of the relative importance of sectors, the biggest share of FDI stock in 2015 continued to be concentrated in manufacturing (26.7 percent), followed by mining, oil and gas extraction (20.6 percent), and management of companies and enterprises (18.0 percent). Finance and insurance (12.8 percent) and wholesale trade (7.6 percent) were the next two sectors with the highest shares of FDI among the top five, which collectively accounted for 85.5 percent of total FDI stock.

Among notable industry trends over the past decade, the biggest gains were registered in mining and oil and gas extraction, where FDI share rose from 16.2 percent in 2005 to 20.6 percent in 2015—a gain of 4.4 percentage points. The sector experienced a strong rebound in FDI due to the boom in commodity prices globally, largely via significant cross-border acquisitions of major Canadian-owned mining, oil and gas companies. Over the same 2005-2015 period, most other sectors saw marginal gains or losses in their respective shares of total FDI, ranging from a loss of 2.7 percent in the share of wholesale trade to a gain of 1.3 percent in the share of retail trade.

Outward investment

Flows of Canadian Direct Investment Abroad (CDIA)

In 2015, Canadian investors increased their FDI outflows by 40.2 percent to $86.4 billion—58.9 percent more than what foreign direct investors invested in Canada during the year. In fact, 2015 marked the fifth consecutive year of growth in CDIA flows since they bottomed out in 2010 following the global financial crisis and the ensuing recession. In their recent recovery, CDIA flows have averaged $65.1 billion per year in the last four years (2012-2015), compared to $54.3 billion annually in the previous four years (2008-2011).

By mode of investment, more than three fifths of CDIA outflows in 2015 were driven by M&As (up $17.4 billion), with another 37.0 percent sourced from reinvested earnings (up $1.7 billion).

By destination, in 2015, Canadian investors increased their investment flows to the United States by 66.3 percent to $58.4 billion. M&A activity, reinvested earnings in U.S. affiliates and other flows were all on the rise, by 33.6 percent, 28.6 percent and 257.1 percent, respectively, which contributed to the overall increase. M&A outflows increased by 67.6 percent to the rest of the world, but there was a disinvestment of over $4.9 billion in intra-company flows to non-U.S. affiliates.

TABLE 6-5
Canadian Direct Investment Abroad: Outflows

	2014 C$M	2015 C$M	Growth %
By region			
To the world			
Total net flows	61,596	86,375	40.2
Mergers and acquisitions	39,349	56,712	44.1
Reinvested earnings	30,267	31,917	5.5
Other flows	-8,017	-2,253	71.9
To the U.S.			
Total net flows	35,138	58,445	66.3
Mergers and acquisitions	27,167	36,291	33.6
Reinvested earnings	12,139	15,611	28.6
Other flows	-4,166	6,544	257.1
To the rest of the world			
Total net flows	26,458	27,931	5.6
Mergers and acquisitions	12,182	20,421	67.6
Reinvested earnings	18,128	16,307	-10.0
Other flows	-3,851	-8,798	-128.5
Sector of CDIA outflows			
Mining and oil and gas extraction	14,871	-6,666	-144.8
Manufacturing	9,626	24,589	155.4
Trade and transportation	2,506	1,891	-24.5
Finance and insurance	10,287	50,776	393.6
Management of companies and enterprises	21,808	10,337	-52.6
Other industries	2,499	5,449	118.0

Canadian investors decreased their outflows of FDI into mining and oil and gas extraction, management of companies and enterprises, and trade and transportation in 2015, but increased their outflows of FDI across all other sectors. FDI outflows increased the most in finance and insurance (up 393.6 percent), followed by manufacturing (up 155.4 percent), and other industries (up 118.0 percent).

Stock of CDIA

Canadian investors added $179.9 billion (21.8 percent) to their direct investment holdings abroad to reach $1,005.2 billion in 2015. This extraordinary growth in CDIA stock in 2015 largely reflected the impact of a weaker Canadian dollar, which added $115.8 billion, or nearly two-thirds of the increase in the value of these assets. As the largest relative decrease in the currency value was against the U.S. dollar, holdings of the greenback-denominated assets in the U.S. and the Caribbean accounted for most of this effect.

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

	2005 C$M	2014 C$M	2015 C$M	Share 2005 %	Share 2015 %	Change 2014-15 %
All countries	452,195	825,303	1,005,227	100.0	100.0	21.8
North America	273,785	512,440	653,699	60.5	65.0	27.6
Bahamas	n/a	24,546	32,898	n/a	3.3	34.0
Barbados	34,553	70,326	79,897	7.6	7.9	13.6
Bermuda	11,053	19,162	22,434	2.4	2.2	17.1
Cayman Islands	8,577	35,628	48,701	1.9	4.8	36.7
Mexico	4,397	13,676	14,816	1.0	1.5	8.3
United States	202,398	342,413	448,513	44.8	44.6	31.0
South & Central America	20,717	54,555	44,897	4.6	4.5	-17.7
Argentina	4,182	1,904	1,182	0.9	0.1	-37.9
Brazil	6,829	14,028	12,620	1.5	1.3	-10.0
Chile	5,330	20,758	15,130	1.2	1.5	-27.1
Colombia	344	2,897	2,522	0.1	0.3	-12.9
Peru	2,057	11,920	9,947	0.5	1.0	-16.6
Europe	123,239	192,360	226,749	27.3	22.6	17.9
France	14,637	5,490	6,890	3.2	0.7	25.5
Germany	7,442	4,002	6,597	1.6	0.7	64.8
Hungary	5,436	7,285	7,859	1.2	0.8	7.9
Ireland	19,844	12,969	13,999	4.4	1.4	7.9
Luxembourg	305	50,973	50,173	0.1	5.0	-1.6
Netherlands	9,852	15,073	16,259	2.2	1.6	7.9
Spain	2,909	4,113	4,599	0.6	0.5	11.8
Sweden	1,210	1,765	2,552	0.3	0.3	44.6
Switzerland	5,321	5,093	8,030	1.2	0.8	57.7
United Kingdom	46,410	70,110	92,935	10.3	9.2	32.6
Africa	3,790	1,185	762	0.8	0.1	-35.7
Asia/Oceania	30,664	64,575	78,934	6.8	7.9	22.2
Australia	8,002	21,272	24,836	1.8	2.5	16.8
Hong Kong	2,823	5,257	7,302	0.6	0.7	38.9
Japan	6,559	6,888	8,327	1.5	0.8	20.9
Kazakhstan	n/a	2,263	2,512	n/a	0.2	11.0
China	1,820	8,118	12,410	0.4	1.2	52.9
Singapore	2,728	3,318	3,692	0.6	0.4	11.3
South Korea	356	420	1,288	0.1	0.1	206.7

Regionally, North America—comprising the United States, Mexico and the Caribbean region—was responsible for almost four-fifths of the overall increase in total CDIA stock in 2015, with the region's CDIA position rising by 27.6 percent to $653.7 billion. Within North America, the United States—by far the most dominant destination for CDIA—accounted for 59.0 percent of the overall increase in CDIA, as its direct investment position rose by 31.0 percent to $448.5 billion. Both the investment flows and the revaluation effect of the Canadian dollar's depreciation against the U.S. dollar (which amounted to 19 percent during 2015) contributed to the increase in the position. The U.S. share of Canada's total CDIA stock increased from 41.5 percent in 2014 to 44.6 percent in 2015.

Canadian direct investment in Europe—the second-biggest destination for CDIA—rose by 17.9 percent to $226.7 billion. The expansion reflected the major gains recorded by five major economies: the United Kingdom, Switzerland, Germany, France and the Netherlands. These five destinations collectively increased their CDIA position by $30.9 billion, or 90 percent of the increase in Canada's CDIA stock in the region in 2015. The impressive growth of CDIA stock in Europe in 2015 was driven in part by the depreciation of the Canadian dollar against the British pound sterling (13 percent) and the euro (7 percent).

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

	2005 C$M	2014 C$M	2015 C$M	Share 2005 %	Share 2015 %	Change 2014-15 %
Total, all industries	452,195	825,303	1,005,227	100.0	100.0	21.8
Finance and insurance	129,117	320,904	417,289	28.6	41.5	30.0
Mining and oil and gas extraction	72,163	168,352	179,178	16.0	17.8	6.4
Management of companies and enterprises	81,346	99,070	119,280	18.0	11.9	20.4
Manufacturing	100,484	56,513	75,453	22.2	7.5	33.5
Real estate and rental and leasing	6,667	40,371	48,499	1.5	4.8	20.1
Information and cultural industries	13,872	35,302	40,460	3.1	4.0	14.6
Transportation and warehousing	12,308	26,117	33,043	2.7	3.3	26.5
Utilities	5,867	22,524	27,460	1.3	2.7	21.9
Professional, scientific and technical services	7,238	13,205	15,880	1.6	1.6	20.3
All other industries	2,815	17,514	19,955	0.6	2.0	13.9
Wholesale trade	4,605	10,543	10,981	1.0	1.1	4.2
Retail trade	10,776	7,723	9,556	2.4	1.0	23.7
Agriculture, forestry, fishing and hunting	695	3,802	4,366	0.2	0.4	14.8
Accommodation and food services	3,417	2,595	2,681	0.8	0.3	3.3
Construction	824	770	1,147	0.2	0.1	49.0

Canada's direct investment assets in Asia and Oceania—the third most important region for CDIA after the United States and Europe—rose by $14.4 billion to $78.9 billion in 2015 (accounting for 7.9 percent of total CDIA stock). Nearly four-fifths of the increase in the region's CDIA position was accounted for by four economies: China (29.9 percent), Australia (24.8 percent), Hong Kong (14.2 percent) and Japan (10.0 percent).

A notable feature of CDIA is the dominant role played by several so-called low-tax jurisdictions that are particularly concentrated in the Caribbean and continue to be popular destinations for CDIA, primarily because of their easier financial regulations and little to no taxation on income or capital that they impose on non-residents. Four such jurisdictions (Barbados, the Cayman Islands, Bahamas and Bermuda) were among the top 10 destinations for CDIA in 2015, being collectively responsible for nearly one-fifth of the overall increase in the level of CDIA that year. These offshore centres together accounted for 18.3 percent of CDIA stock at year-end in 2015, up from 12.0 percent in

2005 (excluding Bahamas, for which data are not available in 2005). A parallel development in the last decade has been the increasing importance of Luxembourg as a location for CDIA, again driven by its attractiveness as a major financial centre in the European Union and as tax haven from where multinationals find it lucrative to channel their investment to other jurisdictions. Luxembourg's share of CDIA rose from a mere 0.1 percent in 2005 to 5.0 percent in 2015.

In 2015, the finance and insurance sector posted the largest increase in CDIA stock, with its value increasing by $96.4 billion to $417.3 billion. This sector alone was responsible for 53.6 percent of the overall increase in CDIA stock in 2015, followed by two other key sectors with double-digit contributions to the increase in the level of growth of CDIA: management of companies and enterprises (11.2 percent) and manufacturing (10.5 percent). Another notable change concerns the mining, oil and gas extraction sector and the underlying changes in the CDIA position in regards to the sub-sectors. As in the case of inward FDI stock, CDIA stock in the mining sub-sector also contracted in 2015, declining by $11.8 billion to $62.7 billion, whereas that of the oil and gas extraction sub-sector increased by $18.4 billion to $80.3 billion. Poor investment opportunities in the wake of the slump in commodity prices may explain the contraction in CDIA in the mining subsector, but appear to have had less of an effect on investment in oil and gas extraction.

As for the distribution of CDIA stock in 2015 by sector, it continued to be largely concentrated in the finance and insurance sector (41.5 percent), followed at a distance by mining, oil and gas (17.8 percent), management of companies and enterprises (11.9 percent), manufacturing (7.5 percent), and real estate, rental and leasing (4.8 percent). The traditionally dominant position of the finance and insurance sector in CDIA can be linked to the importance of offshore banking activities where very generous tax shelters have long attracted substantial direct investment from multinationals from Canada and elsewhere.

One of the significant long-term sectoral developments has been the marked reduction in the share of manufacturing in total CDIA, which declined from 22.2 percent in 2005 to 7.5 percent in 2015—a drop of almost 15 percentage points. Offsetting these declines, finance and insurance was up nearly 13 percentage points, and real estate, rental and leasing was up about 3 percentage points over this period. These trends, however, mask the degree to which CDIA in the finance and insurance industry, in particular in offshore banking, acts as a conduit for Canadian multinationals to ultimately undertake direct investment in productive sectors, whether manufacturing or other activities.[5]

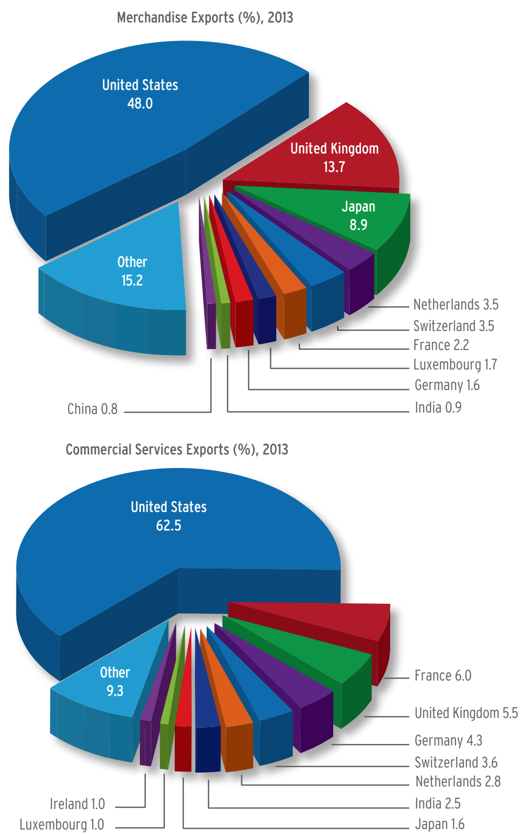
5 Following international standards, direct investment is based on the country of residence of the direct investor (immediate parent company) for FDI in Canada and to the country of residence of the direct investment enterprise (the immediate subsidiary) for CDIA. This implies that direct investment is largely attributed to the first investor/investee country, rather than to the ultimate investor/investee country. Direct investment is often channelled through intermediate holding companies or other legal entities in other countries before reaching its ultimate destination. Since these entities are generally in the financial sector, this sector accounts for a larger share of FDI on an immediate country basis than it would on an ultimate country basis.

Foreign Affiliates in Canada and Abroad: Statistics on Exports and Employment

Foreign-controlled firms account for a significant amount of business activity in the Canadian economy; likewise, Canadian subsidiaries[1] conduct a large amount of business abroad. In 2013, one in eight Canadians was employed by a foreign affiliate (FA)[2], and Canadian subsidiary sales were nearly as large as traditional exports. Newly released data on the activities of FAs in Canada and Canadian subsidiaries abroad highlight the contribution of these enterprises to the Canadian economy, both through exports and jobs.

Foreign Affiliates in Canada

FIGURE 1
Exports of Foreign Affiliates in Canada by Country of Ownership



Data: Statistics Canada
Source: Office of the Chief Economist, Global Affairs Canada

Exports by FAs in Canada

In 2013[3], FA exports represented half of all Canadian merchandise exports ($222.6 billion) and over 40 percent of all commercial services exports ($24.2 billion).

Manufacturing enterprises produced the vast majority (66.6 percent) of FA merchandise exports, followed by mining and oil and gas extraction enterprises (17.3 percent) and wholesale enterprises (10.2 percent). Clearly, FA merchandise exports are highly concentrated, since over 94 percent of exports came from three of nineteen aggregated sectors. This is not surprising considering that Canada's traditional exports are also fairly concentrated within the manufacturing and the mining and oil and gas extraction sectors.

FA commercial services exports were also concentrated among three sectors, although to a lesser degree than merchandise exports, led by professional and scientific services (38.2 percent), information services (16.4 percent), and manufacturing services (13.1 percent).

Given Canada's deep integration with and proximity to the United States, it is also unsurprising that U.S. affiliates accounted for

1 Canadian subsidiaries are defined here as foreign affiliates abroad that are majority-owned (more than 50 percent of the voting shares) by a business that resides in Canada.

2 Foreign majority-owned affiliates are defined as an entity located in Canada where a foreign direct investor owns more than 50 percent of the voting shares.

3 The most recent data available.

nearly half of all FA merchandise exports and 62.5 percent of all FA commercial services exports in 2013.[4] Figure 1 shows that the top 10 countries for merchandise and for commercial services exports by FAs accounted for 84.8 percent and 90.7 percent of FA exports, respectively.

Employment by FAs in Canada

In 2013, FAs employed 1.9 million Canadians—about one in every eight Canadians. However, in several sectors FAs accounted for a much larger share of employment; notably, FAs accounted for roughly one-third of employment in both the manufacturing and the mining and oil and gas extraction sectors.

Between 2010 and 2013,[5] FA employment of Canadians grew at nearly twice the rate as total employment in Canada (foreign and Canadian enterprises combined), increasing 8.8 percent, which translated to 153,285 jobs. This growth was led by increases in wholesale trade (up 26,246 jobs), accommodation and food services (up 22,780 jobs), and professional and technical services (up 20,366 jobs).

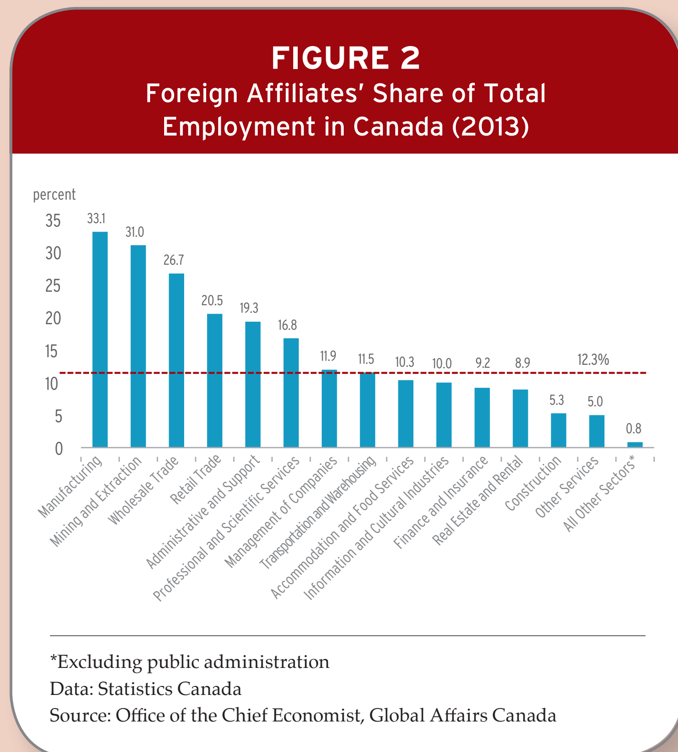


FIGURE 2
Foreign Affiliates' Share of Total Employment in Canada (2013)

*Excluding public administration
Data: Statistics Canada
Source: Office of the Chief Economist, Global Affairs Canada

By country, U.S.-controlled firms dominate FA employment, while employment in firms controlled by other advanced OECD partners grew significantly between 2010 and 2013. U.S. affiliates employed 1.2 million Canadians in 2013 (up 3.3 percent from 2010). Meanwhile, subsidiaries of firms from the United Kingdom (up 17.5 percent), France (up 15.8 percent) and Switzerland (up 49.6 percent) all contributed markedly to the overall increase in FA employment. Over 90 percent of FA employment comes from 10 countries; all but one (India) are advanced, OECD partners.

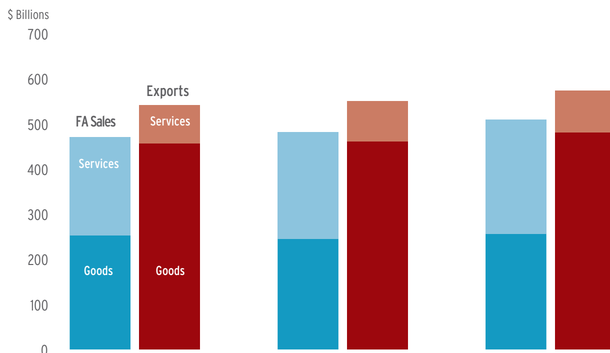
Canadian Subsidiaries Abroad

Canadian firms often locate abroad to stay competitive, through access to inputs and technology, and to increase access to foreign markets. Canadian subsidiary sales were nearly as large as traditional exports in 2013, totalling $509.8 billion or almost 90 percent of the value of goods and services exports. However, subsidiary sales and exports are different in several ways, and therefore their benefit to Canada is not necessarily the same. For example, traditional exports tend to involve more Canadian content than do subsidiary sales. Moreover, Canadian products and services can be exported to Canadian subsidiaries abroad and Canadian subsidiaries abroad can sell products back to the Canadian market. Clearly, these transactions are more nuanced than a simple

4 Statistics reported are for country of ultimate ownership. In 2015, Statistics Canada released data on intermediate and ultimate owners, which are not analyzed here.

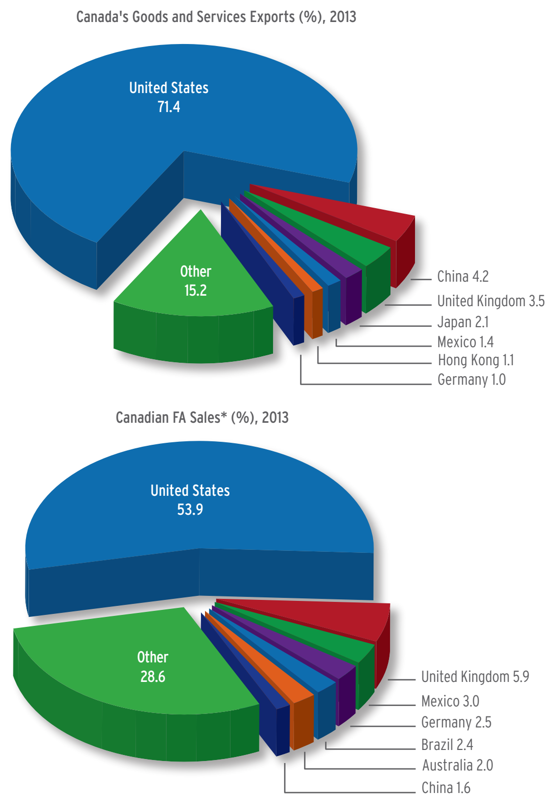
5 New data on FAs in Canada, released by Statistics Canada in 2015, begin in 2010.

FIGURE 3
Canadian Foreign Affiliate Sales vs. Goods and Service Exports



Data: Statistics Canada
Source: Office of the Chief Economist, Global Affairs Canada

FIGURE 4
Canada's Exports by Destination and Canadian FA Location*



*The countries indicated here represent the location of the Canadian FA making the sale, not the destination of the sale.
Data: Statistics Canada
Source: Office of the Chief Economist, Global Affairs Canada

comparison suggests. Nonetheless, subsidiary sales continue to be an important avenue for delivering Canadian goods and services to international markets.

Sales by Canadian subsidiaries abroad grew 8.3 percent between 2011 and 2013[6] (up $39 billion), outpacing Canadian goods and services export growth (up 5.9 percent). Notably, FA services sales growth outpaced that of exports by an even larger margin: 16.1 percent compared to 10.0 percent. As shown in Figure 3, the importance of services sales for Canadian subsidiaries abroad is significant, with roughly half ($253 billion) of all subsidiary sales coming from services in 2013. Moreover, the value of services sales was nearly three times as great as that of services exports in 2013, while goods sales were just over half the value of goods exports. By sector, manufacturing accounted for the largest share of subsidiary sales in 2013 (28.9 percent), followed by mining and oil and gas extraction (19.6 percent) and finance and insurance (16.0 percent).

By country, sales by Canadian subsidiaries were more geographically diverse than traditional exports. U.S.-located subsidiaries generated 53.9 percent of subsidiary sales in 2013, compared to 71.4 percent of Canadian goods and services exports to the U.S. market. Much of the growth in Canadian subsidiary sales between 2011 and 2013 was from U.S.- and Europe-located subsidiaries; subsidiary sales from U.S.-located subsidiaries increased by 6.4 percent to $275.0 billion and those in Europe increased by 22.4 percent to $101.2 billion. Growth in Europe was fairly widespread, but subsidiaries located in Germany and Denmark posted significant increases of $3.1 billion (up 31.7 percent) and $2.9 billion (up 337.8 percent), respectively. Canadian subsidiaries located in the United Kingdom were the only European-based subsidiaries to post a dramatic decrease in sales, falling by $3.4 billion (down 10.2 percent) between 2011 and 2013.

6 Data on Canadian subsidiary sales are only available starting in 2011.