Global Affairs Canada · Affaires mondiales Canada

Canada

CANADA'S STATE OF TRADE

Trade and Investment Update

2017

Canada's State of Trade

Trade and Investment Update – 2017

ABOUT THIS DOCUMENT

Canada's State of Trade – 2017 was prepared under the direction of Mykyta Vesselovsky at the Office of the Chief Economist, Global Affairs Canada. The report was mainly written by Mykyta Vesselovsky, with individual components contributed by Catherine Lemieux, Ash Ahmad, Crystal Arnburg, David Boileau, Jackson Bryan, Stephen Moon and Aaron Sydor. Statistical verification and proofreading were conducted by Nancy Blanchet, with assistance from David Boileau and Aaron Sydor. Final editing and approval were performed by Dr. André Downs, Chief Economist, Global Affairs Canada.

Your comments concerning this year's report are welcome. Please direct them to Mykyta Vesselovsky at:<<Mykyta.Vesselovsky@international.gc.ca>>.

© Minister of Public Works and Government Services Canada, 2017

ISSN 1926-4283
Catalogue no. FR2-8E-PDF

Table of Contents

Message from the Minister . . . III

Executive Summary . . . V

I. Global Economic and Trade Performance . . . 1

Overview and Prospects for the Global Economy . . . 8
Overview and Prospects for World Trade . . . 9
Merchandise Exports . . . 9
Merchandise Imports . . . 10
Services Exports . . . 11
Services Imports . . . 12

II. Economic and Trade Developments: Regional and Country Overview . . . 13

Country Overview . . . 19
United States . . . 19
China . . . 20
Mexico . . . 21
Regional Overview . . . 23
Emerging Asia . . . 23
Eurozone . . . 24
Latin America and the Caribbean (LAC) . . . 25
World Merchandise Trade Value Rankings . . . 27
World Services Trade Value Rankings . . . 28
Box: Constant Market Share Analysis of Canadian Export Performance in the United States . . . 29

III. Canada's Economic Performance . . . 33

Gross Domestic Product (GDP) . . . 37
GDP by Industrial Activity . . . 39
Employment . . . 40
Inflation . . . 41
The Canadian Dollar . . . 42

IV. Canada's International Transactions . . . 43

The Balance of Payments . . . 46
Goods Exports . . . 49
Goods Imports . . . 51
Box: Majority-Female Owned Exporting SMEs in Canada . . . 52
Trade in Services . . . 56
Trade in Services by Region . . . 58

V. Key Developments in Canadian Merchandise Trade 61

Trade by Top Products 65
Merchandise Exports 65
Merchandise Imports 67
Box: Canadian Exporters 68
Trade by Top Destinations 71
Merchandise Exports 71
Merchandise Imports 73
Merchandise Trade by Provinces and Territories 74
Merchandise Exports 74
Box: Exports from Canadian Provinces and Territories to the United States 75
Merchandise Imports 79
Merchandise Trade by Top Drivers 80

VI. Global and Canadian Foreign Investment Performance. 83

Global Foreign Direct Investment (FDI) Flows 87
Canadian Foreign Direct Investment Performance 89
Inward Investment 89
FDI Inflows 89
FDI Stock 89
Box: The Macroeconomic Impacts of Foreign Direct Investment (FDI) in Canada 93
Outward Investment 94
Flows of Canadian Direct Investment Abroad (CDIA). 94
Stock of CDIA. 94
Box: Activities of Foreign Affiliates in Canada and Canadian Affiliates Abroad 98

Canada State of Trade – Message from the Minister

I'm delighted to present the 2017 edition of Canada's State of Trade. The results of this year's annual report show positive signs of export and investment growth in Canada. It's especially encouraging to see that Canada's exports to member countries of the European Union rose in 2016, as did our exports to China. Canada's ambitious and progressive trade agenda is creating new opportunities for export and generating real investment interest in Canada. However, the results also paint a picture of a challenging global trade environment, with lower than expected growth in the volume of exports throughout 2016 and uncertain forecasts of growth in trade over the year to come.

The Honourable
François-Philippe Champagne MP
Minister of International Trade

The Government of Canada knows that more trade and more investment means more jobs for Canadians and more economic growth to help strengthen our middle class, as well as those working hard to join it. Canada is a trading nation with a relatively small domestic market. Our prosperity is fundamentally linked to the global economy. There are only 36 million people living in Canada. While Canada represents roughly half of one percent of the world's population, we account for 2.5 percent of global merchandise exports. For our businesses to succeed and create good middle-class jobs, we must trade with the world and encourage global investors to set up shop in our communities.

This is why the Government of Canada is taking a leadership role in helping to address some of the challenges in the global trading environment. Canada is pushing back against the growth of protectionist sentiments by pursuing a progressive trade agenda. Progressive trade means doing everything possible to ensure that all segments of society, both in Canada and abroad, can take advantage of the economic opportunities flowing from trade and investment—with a particular focus on women, Indigenous peoples, youth, and small and medium-sized businesses.

Progressive trade also means ensuring that trade agreements include strong provisions in important areas such as labour, environmental protection, gender equality and that they reinforce the continued right of governments to regulate in the public interest. An excellent example of progressive trade in action is the Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union. CETA is a comprehensive blueprint for responsible economic cooperation between countries. It's a forward-looking agreement that reflects a truly progressive trade agenda—one that protects the ability of societies to promote the public good.

Today, the solution to global economic challenges is to make trade work for people. It is incumbent on governments to work together to strengthen the multilateral trading system, which can and does raise living standards. Indeed, liberalized trade has already lifted millions of people out of poverty. As a founding member

of multilateral institutions such as the World Trade Organization (WTO), Canada has been at the forefront of building today's global trading system. The progressive trade agenda that Canada is now pursuing will help to maintain that leadership role and ensure that current and future generations can benefit from global trade.

The Honourable
François-Philippe Champagne MP
Minister of International Trade

Executive Summary

Stronger manufacturing and trade activity, supported by partial recovery in commodity prices, has been observed in multiple regions and economies in the second half of 2016, leading many analysts to predict that the long-expected cyclical recovery is finally here. Though global growth estimates indicate that real global output slowed down from 2.7-percent growth in 2015 to 2.4 percent in 2016,[1] several key economic players, especially among the advanced economies, performed over and above expectations in the second half of the year. This is particularly true for the United States, the United Kingdom and Japan. Germany and Spain put in a strong year overall; China's growth remained strong; India suffered through a hiccup at the end of the year due to its monetary reform while Brazil spent the year deep in recession.

The improving economic conditions were accompanied by gains in economic confidence and market sentiment, particularly in developed economies. Production of durables and capital goods is increasing, along with investment and trade. Commodity prices, which hit lows in early 2016, have strengthened considerably during the year, benefiting resource exporters and helping them shore up their balances. Likewise, supportive monetary policies and a mildly supportive fiscal stance further encouraged growth at the global level. Among headwinds, the most prominent were the long-term issues: aging population and relatively weaker productivity growth.

The forecast by the IMF expects fiscal policy at the global level to be broadly neutral in 2017 and 2018, with substantial variation at the country level. Financial conditions are expected to remain accommodative, and commodity prices to strengthen moderately. Global growth is expected to pick up to 2.9 percent in 2017 and to 3.0 percent in 2018; Canada's economy is expected to grow 1.9 percent in 2017 and reach 2.0-percent growth in 2018.

In addition to aging population and weak productivity growth as undercurrents, short-term risks to the outlook are considerable and remain biased to the downside. The prime areas of uncertainty affecting the forecast relate to: a possible disruption of global trade, capital flows and migration; uncertainty of the U.S. policy agenda; dilution of worldwide financial regulation; tightening of economic and financial conditions in emerging markets; and non-economic factors (geopolitical tensions, conflicts, terrorism, etc.).

Global trade volumes grew at a very weak rate of 1.3 percent in 2016, considerably below the 2.4-percent growth in world output—the first year that trade growth lagged output growth since 2001. Both cyclical factors and the weakness in global investment were responsible. Real imports from developed economies grew 2.0 percent in 2016, while developing economies' imports stagnated at 0.2 percent. Real exports showed modest growth from both developed and developing economies.

Conditions differed among the economies and regions that are key to Canadian commercial interests. The economy of the United States slowed down early in 2016 and lost its leading position in economic growth in the G7. But much stronger performance is expected in 2017, when it is poised to regain its growth advantage among the largest developed economies. Good news is coming from the labour market and equity markets, with fiscal stimulus under the new administration also a possibility.

1 At market-based exchange rates. In fact, global economic growth in 2016 was at its lowest level since 2009.

Mexico has begun slowing down after two years of solid growth, even as its commercial role within NAFTA continued to increase. Mexico is the third-highest import supplier to Canada, providing as much merchandise as Germany and Japan combined, and its products are crucial for several of Canada's key industries: automotive, electric and electronic machinery, and mechanical machinery. Mexico's near-term outlook is clouded due to uncertainty emanating from the United States, but this also represents an opportunity for Canadian business and governments to forge stronger ties in various areas. Much the same applies to other countries in Latin America and the Caribbean (LAC), Canada's hemispheric neighbours that stand to lose the most under the policy uncertainty emanating from the United States.

Economic growth in the eurozone stabilized just below 2 percent and is expected to keep steady in the short term. The policy stance remains more conducive to growth than during the 2010-2013 period, and some of its short-term electoral risks have been avoided. A strong historical commercial association with this region was further strengthened last year with successful ratification of the Canada-European Union Comprehensive Economic and Trade Agreement (CETA). Its implementation in the coming year should provide unrivalled opportunities for Canadian businesses and consumers, especially in services.

Growth continued to be strong in the countries of emerging Asia. China's economy continued its transition from investment-based to domestically driven growth; its real exports of goods and services resumed growth in 2016 while inflation and unemployment remained stable. In 2016, Canada took a major step to tighten commercial ties with China by opening exploratory talks on a free trade agreement. India is expected to continue to realize its tremendous growth potential; throughout the region, dynamic economies are specializing as large export platforms in electrical and electronic machinery, apparel, services and other areas.

Against the background of global economic developments, Canada's economy charted a path similar to that of other developed economies through the year 2016, but not for the same reasons. After a strong first-quarter performance, growth slid into negative territory in the second quarter due to the disruptions in oil production following the Alberta wildfires. As the industry and community recovered from that natural disaster with a boost to output, strengthened consumer confidence and renewed investment drove growth to 3.8 percent in the third quarter, and it remained strong at 2.6 percent in the fourth quarter. The overall 1.4-percent growth for 2016 was half a percentage point higher than in 2015 and not far from the current estimated potential of the economy; growth performance is expected to rise to about 2.0 percent in the short term.

Canada's labour force and population age situation was better than in most advanced countries, as well as was its fiscal situation. Net exports contributed positively to growth for the fourth consecutive year after a decade of drag, and that contribution was higher than the boost from federal government activity. Employment expanded by 0.7 percent and exceeded 18 million jobs, while the unemployment rate declined to 6.9 percent (and was down to 6.5 percent by April 2017). The Canadian dollar spent most of the year near the US 75¢ mark. Over the course of the year, the loonie appreciated in value against the U.S. dollar and the European euro, was stable relative to the Japanese yen, and gained greatly against the British pound.

Although the declines in commodity prices moderated during 2016, they continued to exert substantial influence on Canada's trade. Overall export prices fell 13.8 percent in the energy sector and 1.1 percent overall; meanwhile, the price index of Canada's imports rose 1.2 percent. As a result, Canada's terms of trade deteriorated further in 2016, dropping 2.0 percentage points to 91.4 percent of their 2007 level.

The adjustments to these changing terms of trade meant that the volume of exports increased 0.5 percent while the volume of imports fell 1.3 percent; nominal values of both exports and imports of goods declined slightly in 2016. Services, on the other hand, recorded expansion. Exports of services rose 4.8 percent, with imports growing 2.0 percent. Notably, the travel deficit (the principal cause of Canada's trade deficit in services) shrunk considerably in 2016. Among commercial services, the largest absolute increase occurred in exports of telecommunications, computer and information services, an encouraging development for the industry. The trade deficit for goods widened while the deficit for services narrowed in 2016. The sum of all these developments left the balance on Canada's current account largely unaffected in 2016 as the deficit edged up a notch to $67.7 billion.

Detailed examination of Canada's merchandise trade shows that exports declined slightly by 1.4 percent (or $7.1 billion) to $516.9 billion, and so did Canada's merchandise imports for the first time since 2009 (down 0.6 percent) to reach $533.3 billion. Weaker energy revenues were behind the decline; export volumes were stable for crude oil and increased for gas. Among top destinations, the largest relative increase in exports occurred to Mexico (up 14.8 percent). The proportion of exports destined for the United States declined, but growth in exports to other top destinations meant that the concentration of Canadian exports increased both for the top 10 destinations (to 90.9 percent) and the top 20 destinations (to 94.7 percent). Conversely, import concentration decreased for both the top 10 and top 20 sources. Imports from the United States and China declined in 2016, but increased imports from Mexico, Japan and South Korea offset a significant portion of that decline.

Among notable trade developments, automotive exports rose 45.7 percent to Mexico and 136.4 percent to China. Exports of pharmaceutical products continued their robust growth, gaining 12.8 percent in 2016. Since 2011, exports in this category increased 132.2 percent—an average annual rate of 18.3 percent a year—making pharmaceutical products Canada's ninth most important export commodity. Imports of electrical machinery and equipment from Vietnam continued growing explosively, up over 60 percent in 2016 and over 1,500 percent in five years.

Global foreign direct investment (FDI) flows declined to US$1.5 trillion in 2016, down from their highest level since the Great Recession began, which was reached in 2015 and fueled by a resurgence in mergers and acquisitions (M&A) activities. FDI inflows into developed economies decreased slightly during the year, though the inflows into the EU dropped nearly 30 percent. However, inflows into developing economies declined at roughly twice the pace of the decline into the developed economies (down 20 percent).

FDI inflows into Canada declined by 15.8 percent in 2016, to $44.7 billion. Inflows from the United States dropped by almost 40 percent, while inflows from the rest of the world increased by 83 percent. The overall reduction in investment flows was mainly due to a decline in M&A activity. Foreign inflows decreased in management of companies and enterprises, as well as other industries, but more than doubled in manufacturing, and

also increased significantly in mining and oil and gas extraction as well as finance and insurance. The stock of foreign investment in Canada rose 4.7 percent to $825.7 billion; notably, the proportion of that stock originating in the United States remained below 50 percent this year. The manufacturing sector and the mining and oil and gas extraction sector remained the largest targets for foreign investors.

Canada's direct investment outflows increased slightly in 2016 to reach $88.0 billion. Negative investment flows in mining and oil and gas extraction changed sign to become positive; significant upturn in M&A activity drove the increase in flows in trade and transportation. Canada's stock of investments abroad also edged up, as the appreciation of the Canadian dollar largely offset strong activity during the year. Canada's net direct investment position narrowed slightly in 2016, but remained in large surplus.

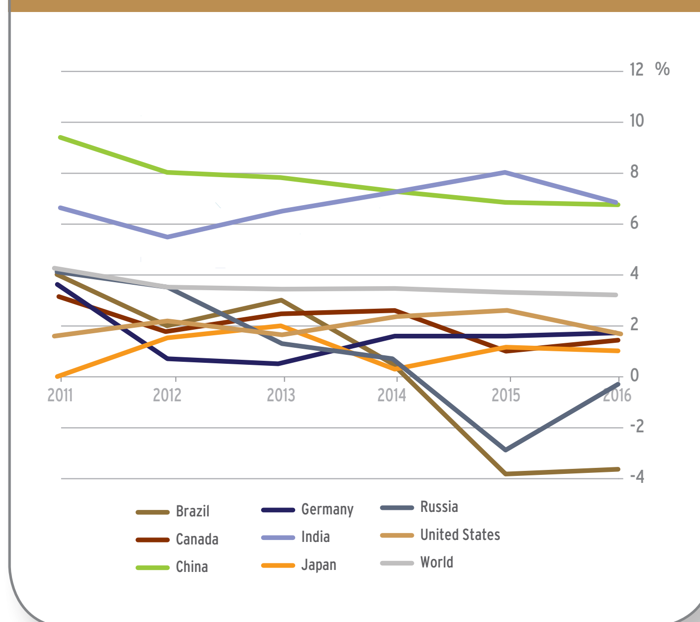
CHAPTER 1 | Global Economic and Trade Performance

Global Economic and Trade Performance[1]

Eight years after the global economic and financial crisis of 2008-09, the global economy has finally shifted into higher gear at the end of 2016. Stronger activity and signs of strength in diverse sectors and regions point undeniably to a cyclical recovery in manufacturing, trade and investment across the world. Economic confidence and market sentiment are growing, production of durables and capital goods is ramping up, and global investment is trending up, bringing global trade along with it. Commodity prices have strengthened considerably from their lows in early 2016. It is, therefore, highly ironic that just as the world economy seems to have turned the corner, the considerable downside risks that could put a halt to the long-awaited global recovery turned out to be lurking right behind that corner. Despite strong prospects and an optimistic outlook, the calibre of the downside risks has grown immensely during the year. The year 2016 is to be remembered as the time when the citizens of the two great pillars of post-WWII order voted for their countries to turn inward, away from the global community. These events cast a shadow over the global rules-based trading system and both the economic and human cross-border flows that these two countries have done so much to create and support. Both the Brexit vote in the United Kingdom and the presidential election in the United States carry a potential for radical changes to the world economy, the precise dimensions of which cannot be calculated at present with any degree of confidence. Aside from the risks, structural problems such as persistently low productivity growth and pressures for strictly domestic solutions continue to put a lid on the strength of the recovery.

Although the upward movement in most economic metrics was clear during 2016, the weak first half of the year meant that the world economy grew just 2.4 percent in real terms during that year on the basis of market-based exchange rates.[2] This represented a slowdown from the 2.7-percent growth in 2015; in fact, global economic growth was at its lowest level since 2009. Several key economic players, especially among the advanced economies, performed very well relative to expectations in the second half of the year after a weak first half—in particular the United

FIGURE 1-1
Real GDP Growth
in Major Economies, 2011-16



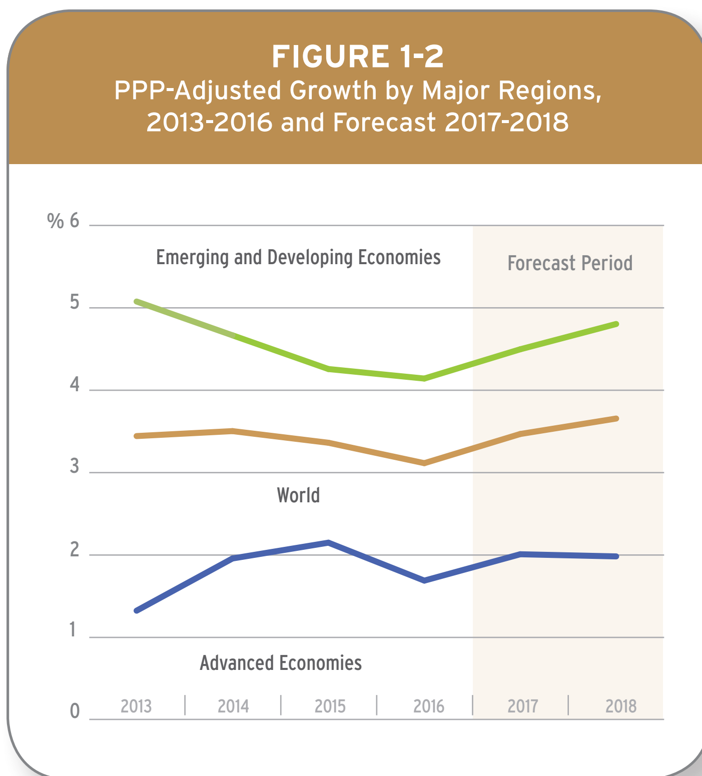
1 Statistics, estimations and projections in this chapter come from the International Monetary Fund's *World Economic Outlook*, April 2017, supplemented by statistics from the World Trade Organization (WTO), U.S. Bureau of Economic Analysis, Statistics Canada, Japan's Cabinet Office, the European Central Bank, and the *World Economic Outlook* April 2017 database.

2 IMF reports the PPP-adjusted growth as its flagship figure, which is appropriate for general macroeconomic analysis. However, for trade and investment purposes, the aggregation based on market exchange rates is more appropriate and is used to assess global growth in this report.

States, the United Kingdom and Japan, though all three slowed down overall during 2016. Germany and Spain both put in a solid overall year of economic growth. Performance among the developing economies was more uneven. China's growth remained strong while India slowed down due to its monetary reform issues and Brazil spent the year deep in recession. Commodity exporters are still recovering from the price troughs for their principal exports, while security and governance issues are slowing down several countries in the Middle East and Africa. The International Monetary Fund (IMF) forecasts growth to rise substantially in 2017 to 2.9 percent and to reach 3.0 percent in 2018; these projections contain small upward revisions from last year's based on stronger performance of advanced economies at the end of 2016. Growth in emerging and developed economies is expected to have bottomed out in 2016 and should pick up in 2017 with Latin America and Russia working their way out of recessions. India should maintain or strengthen its impressive growth performance. Growth in the advanced economies is expected to pick up broadly in 2017 and 2018, led by the United States.

In PPP-adjusted terms, world growth slowed last year: from 3.4 percent in 2015 to 3.1 percent in 2016. Growth in the major advanced economies slowed down from the upward-revised 2.1 percent in 2015 to 1.7 percent in 2016. Nevertheless, performance in the second half of the year was so strong that the outlook for 2017 is almost uniformly positive. Most of these economies were characterized by low core inflation, rising interest rates and strengthening equity markets. The U.S. dollar continued on its strengthening path, up nearly 30 percent from its 2012 level, while the euro and the Japanese yen have weakened. Growth in the United States dropped back a full percentage point, but is now based on a stronger foundation and poised to spring forward next year. Growth in the euro-zone slowed down from 2.0 percent in 2015 to 1.7 percent[3] in 2016, and a similar slowdown occurred in the EU: from 2.4 percent in 2015 to 2.0 percent in 2016. While Germany accelerated to 1.8-percent growth, the United Kingdom slowed down to the same pace; growth in France and Italy moved mostly sideways. Japan revised its national accounts upward and found growth in 2016 at 1.0 percent, considerably above expectations with strength coming from net exports. Forecasts for growth among the advanced economies are stronger than previously expected due to the projected cyclical recovery in manufacturing and a rise in confidence.

FIGURE 1-2
PPP-Adjusted Growth by Major Regions, 2013-2016 and Forecast 2017-2018



Growth in the emerging and developing economies slowed down for the sixth straight year, from 7.4 percent in 2010 to 4.2 percent in 2015 and then to 4.1 percent in 2016. Among the positive factors in that performance was the measured strength of

3 Preliminary estimate by IMF.

China's growth; a return to positive growth in Russia[4] and the surrounding area of Commonwealth of Independent States (CIS); and the strengthening of several economies in the Middle East. But there were also conspicuous weaknesses: a late-year slowdown in India; Latin America slipping into a recession; and substantial hits to growth in Turkey, Saudi Arabia, Nigeria and South Africa. These latter were due to idiosyncratic local conditions such as wars, insurrections, corruption and coups. Overall, performance has been weakening due to the continued adjustment to declining demand from China and the hangover of the weakness in resource prices, the latter particularly relevant for commodity exporters. There were also continuing conflicts in the Middle East and the Commonwealth of Independent States (CIS) and a global rise in tension and rhetoric directed across borders. Growth expectations for the emerging and developing economies have been slightly downgraded, but the forecast is for acceleration and improvement overall, as well as in most individual economies.

The United States lost momentum at the beginning of the year 2016, resulting in a rather weak economic performance for the year with 1.6-percent growth, its slowest pace since 2011. Growth is expected by most forecasters to improve substantially in 2017 and especially in 2018, but this is partly due to the assumptions of supportive fiscal policy; this may prove to be a risky assumption. Nevertheless, under most scenarios, the cyclical recovery in inventory accumulation and growing consumer confidence underpinning domestic demand should result in higher growth performance. The measured rise in interest rates should continue to support the strength of the U.S. dollar and thus continue a drag on growth coming from net exports. Growth is also expected to stay at present levels in the eurozone, as the fiscal stance becomes more supportive and the lower currency value stimulates net exports. Uncertainty about the future ties with the United Kingdom could put a damper on economic activity, as will weak productivity growth, adverse demographics, and unresolved debt overhang problems in some countries. Slower growth is expected in Germany, Italy and Spain, while France should speed up slightly.

The United Kingdom has performed better than expected after the June 2016 Brexit vote, and this is forecast to continue through 2017, with growth slowing in 2018 as the result of the expected increase in barriers to trade, financial activity and migration. Japan received a boost from net exports in 2016, and good numbers are expected in 2017, with subsequent moderation. Most other advanced economies are expected to accelerate, including Canada and Australia. In the newly industrialized economies (NIEs) of Asia, growth in 2017 will improve in Hong Kong[5] (to 2.4 percent), Taiwan (to 1.7 percent) and Singapore (to 2.2 percent), with strong support coming from an expected strengthening of China's import demand. A small decline in growth will occur in South Korea (down to 2.7 percent in 2017) due to high political uncertainty and phasing out of temporary support measures.

In developing economies, China is expected to slow down to 6.6 percent in 2017 and to 6.2 percent in 2018. This represents an upward revision and reflects a stronger momentum in the second half of 2016, continued policy support from credit growth and government policies. However, current growth rates will not be sustainable due to continued headwinds from the housing market correction and debt overhang. India is projected to slow down to 7.2-percent growth in 2017, largely because of the frictions associated

4 On a quarterly basis.
5 "Hong Kong" refers to the Hong Kong Special Administrative Region of the People's Republic of China throughout this report.

with the implementation of the recent currency exchange program; this pace should rise to the vicinity of 8 percent in the medium term. Slight acceleration is expected for most of Southeast Asia. The outlook for Mexico has weakened to 1.7 percent in 2017 and 2.0 percent in 2018, as prospects for investment and consumption are clouded by uncertainty and tighter financial conditions. Brazil is projected to emerge from its deep recession and turn in marginally positive growth in 2017, growing up to 1.7 percent in 2018. Activity in Argentina is set to grow at 2.2 percent in 2017 after contracting last year, supported by stronger public investment and consumer confidence. Russia is exiting recession, and growth is expected to reach 1.4 percent in 2017. Stronger oil prices and easing financial conditions will underpin the recovery in Russia and the surrounding CIS region. After a year of strong growth, the outlook has weakened for the Middle East and North African countries (MENA); overall growth is projected at 2.6 percent for the region. Conflict, uncertainty and the agreement to cut oil production are behind the softening growth. Recovery for the sub-Saharan African countries (SSA) is expected to be modest, with Nigeria returning to positive growth and South Africa doing slightly better than the 0.3-percent growth pace of 2016. Main risks to the outlook remain tilted to the downside and dangerously correlated (meaning that incurring one risk simultaneously makes incurring other risks more likely). These include: risks of disruption of global trade, capital flows and migration; risks proceeding from the U.S. policy agenda; financial deregulation; tightening of credit in the emerging markets; and geopolitical risks.

The growth of world trade volumes in 2016 was a very weak 1.3 percent, significantly below the 2.4-percent growth in real world output. This was the first year since 2001 that world trade grew at a slower pace than world GDP. In 2015, global trade and output grew at the same rate of 2.6 percent, but over the last three decades the growth in world trade has normally outpaced growth in output. According to the WTO, growth slowdown in trade was due to cyclical factors as global economic activity decelerated, particularly in emerging and developing markets. There was also a structural change in the relationship between growth and trade, as global investment was particularly weak in 2016. Overall, developed economies' imports grew 2.0 percent last year, while developing economies' imports stagnated at 0.2 percent. Exports showed modest growth from both developed and developing economies.

Asia's real imports declined in the first quarter of 2016, affected by the financial turbulence in China and its regional trading partners. Growth resumed for the rest of the year, and ultimately Asia recorded a growth of 2.0 percent during 2016. Imports contracted in South America (as Brazil struggled through the end of its recession) as well as in "other regions" (comprising Africa, the Middle East and the CIS), both driven partly by low commodity prices. North America's exports and imports have been mostly flat for the duration of 2016; North America's contribution to the weakness of world imports was considerable. In 2015, its import growth accounted for 42 percent (1.2 percentage points out of the world's import growth of 2.9 percent); in 2016, the region contributed only 0.1 percentage point to world import growth of 1.2 percent. For the second straight year, Europe's recovering imports made a substantial positive contribution to world trade (39 percent of the total increase), while Asia contributed the most in 2016 (49 percent of the total). Projections, partly based on leading indicators, call for world trade volume growth to rebound to 2.4 percent in 2017. Due to the high level of uncertainty in the global economy, a range of 1.8 percent to 3.6 percent is also given for 2017 growth, and a range of 2.1 percent to 4.0 percent for 2018 growth.

Nominal world imports measured in U.S. dollars declined again in 2016, losing 3.2 percent of their value to end up at US$15.8 trillion. The strengthening of the U.S. dollar versus many currencies contributed to the observed decline. After three years as the greatest merchandise trading nation in the world, China passed the leadership of world trade back to the United States. World imports of commercial services were essentially unchanged in value during 2016 (volume statistics for services are not available), but their transport services component fell rather ominously, down 4.7 percent.

Overview and Prospects for the Global Economy

Global GDP growth was recorded at 3.1 percent in 2016 (PPP-adjusted), which was nearly equal to the forecast of 3.2 percent made a year ago. This bodes well for the prediction of improved performance for world growth next year. According to the IMF, PPP-adjusted growth will rise to 3.5 percent in 2017 and to 3.6 percent in 2018 (or, if calculated with market-based exchange rates, to 2.9 percent and 3.0 percent, respectively). Forecasts call for improved performance both from advanced economies, at 2.0 percent for 2017 and 2018, as well as from developing economies to 4.5 percent in 2017 and 4.8 percent in 2018. The overall outlook is fairly strong, but risks remain tilted to the downside.

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

Regions (PPP aggregates)	2016	2017	2018
World	3.1	3.5	3.6
Advanced Economies	1.7	2.0	2.0
Eurozone	1.7	1.7	1.6
Developing Economies	4.1	4.5	4.8
Developing Asia	6.4	6.4	6.4
Emerging Europe	3.0	3.0	3.3
CIS	0.3	1.7	2.1
Latin America and Caribbean	-0.1	1.1	2.0
Middle East and North Africa	3.9	2.6	3.4
Sub-Saharan Africa	1.4	2.6	3.5
Countries (market-based aggregates)	**2016**	**2017**	**2018**
World	2.4	2.9	3.0
Canada	1.4	1.9	2.0
United States	1.6	2.3	2.5
United Kingdom	1.8	2.0	1.5
Japan	1.0	1.2	0.6
France	1.2	1.4	1.6
Germany	1.8	1.6	1.5
Italy	0.9	0.8	0.8
Spain	3.2	2.6	2.1
China	6.7	6.6	6.2
India	6.8	7.2	7.7
Russia	-0.2	1.4	1.4
Brazil	-3.6	0.2	1.7
Mexico	2.3	1.7	2.0
Nigeria	-1.5	0.8	1.9
South Africa	0.3	0.8	1.6

In the advanced economies, the stronger outlook is due to the projected cyclical recovery in global manufacturing and strengthening consumer and business confidence. Greater stability in oil prices as well as generally supportive monetary policies will aid as well. Fiscal policy is expected to remain neutral overall, but with slight easing compared to 2016. Some countries (Canada, Germany and France) are expected to adopt an expansionary fiscal stance while others (Australia, South Korea and the United Kingdom) will be under some contractionary pressure. In the United States, sizeable fiscal stimulus is not expected before 2018.

The emerging and developing economies have been decelerating since 2010, but that deceleration was the slowest in 2016, only 0.1 percentage point down from 2015. This gives renewed strength to expectations of them breaking out of this trend next year; as it stands, most of the projected pickup in global growth will be coming from stronger activity in these economies over the short and medium term. This outlook suggests the stabilization and recovery in several commodity exporters, strengthening growth in India, and cyclical upturns in Brazil and Russia. Offsetting these to some extent will be China's gradual slowdown as it shifts to a more sustainable growth pattern. Latin America and the Caribbean will break out of negative growth in 2017. Improved commodity prices will still remain structurally lower than in the recent past and will force protracted adjustments to lower revenue streams in many commodity exporters, putting a lid on their growth. Mexico and Central America will benefit from the strength of the U.S. recovery, but that is outweighed by the political risks to these countries. Elsewhere, domestic and foreign conflict as well as geopolitical tensions will affect the prospects of several countries in the MENA as well as SSA regions.

Overview and Prospects for World Trade

Merchandise Exports

Real merchandise exports of developed economies grew 1.4 percent in 2016, while the exports of developing economies grew 1.3 percent. Exports from South and Central America led the world in 2016 with a 2.0-percent increase, with Asia not far behind at a 1.8-percent pace. Europe produced a healthy 1.4-percent growth, while North America's real exports struggled for the second consecutive year, showing just 0.5-percent growth. Last year's WTO forecast correctly projected export growth in the developed economies to pull ahead of the developing world in 2016; for 2017, it suggests the widening of that gap by another half a percentage point as developed economies double their real trade growth. Overall growth is expected to jump more than a percentage point to 2.4 percent in 2017, although bounded by considerable bands of uncertainty between 1.8 percent and 3.6 percent.

Nominal world merchandise exports (measured in U.S. dollars) declined once again in 2016, down 3.3 percent to US$15.5 trillion. Substantial fluctuations in exchange rates were chiefly responsible, primarily the strengthening of the U.S. dollar.[6]

The value decline in world exports was broad-based, affecting most of the regions and large economies, but particularly commodity exporters. The CIS recorded a 16.2-percent decline in its exports, followed by Africa with 11.5 percent, while the Middle East was not far behind with a 9.5-percent decline. Nominal exports were the least affected in Europe, edging down 0.3 percent. Among the large economies, the decline in Russia's export revenues stood out at 17.5 percent. Export decline was 11.0 percent for the United Kingdom, 7.7 percent for China and 4.8 percent for Canada. In contrast, Germany, Italy and Japan increased the value of their exports during the year.

TABLE 1-2
World Merchandise Exports, 2016, By Regions

	Value US$B	Share (%)	Growth (%)
World	15,464	100.0	-3.3
North America	2,219	14.3	-3.2
United States	1,455	9.4	-3.2
Canada	390	2.5	-4.8
Mexico	374	2.4	-1.8
South & Central America	511	3.3	-5.6
Brazil	185	1.2	-3.1
Europe	5,942	38.4	-0.3
EU-28	5,373	34.7	-0.3
Germany	1,340	8.7	1.0
France	501	3.2	-0.9
United Kingdom	409	2.6	-11.0
Italy	462	3.0	0.9
CIS	419	2.7	-16.2
Russia	282	1.8	-17.5
Africa	346	2.2	-11.5
Middle East	766	5.0	-9.5
Asia	5,262	34.0	-3.7
China	2,098	13.6	-7.7
Japan	645	4.2	3.2
India	264	1.7	-1.3
NIEs	1,131	7.3	-3.5

6 According to the U.S. Federal Reserve's trade-weighted U.S. dollar index, the U.S. dollar appreciated 4.7 percent against the basket of world currencies in 2016.

Merchandise Imports

In 2016, once again, real merchandise imports of the developing economies scarcely grew (up 0.2 percent). A sharp 3-percent decline in the first quarter of the year was the culprit (11.6 percent on an annual basis). While growth resumed in the second quarter, the rest of the year was spent in recovering these losses. The primary causes were the continued downturn in the investment boom in Asia, aggravated by China's financial turbulence in the first quarter and the shoring up of the balances of commodity exporters whose export revenues went through a structural decline recently. Meanwhile, real imports of developed economies slowed to 2.0 percent in 2016. Europe led all regions with 3.1-percent import growth, while Asia's imports grew 2.0 percent. North America's imports moved mostly sideways, while there was a steep drop in South and Central America's real imports of 8.7 percent. The collective real imports of Africa, the CIS and the Middle East also fell, down 2.4 percent. These declines are expected to reverse by 2017.

TABLE 1-3
World Merchandise Imports, 2016, By Regions

	Value US$B	Share (%)	Growth (%)
World	15,799	100.0	-3.2
North America	3,067	19.4	-2.9
United States	2,251	14.2	-2.8
Canada	417	2.6	-4.5
Mexico	398	2.5	-1.9
South & Central America	533	3.4	-14.5
Brazil	143	0.9	-19.8
Europe	5,920	37.5	0.2
EU-28	5,330	33.7	0.1
Germany	1,055	6.7	0.3
France	573	3.6	-0.1
United Kingdom	636	4.0	1.5
Italy	404	2.6	-1.6
CIS	333	2.1	-2.6
Russia	191	1.2	-0.8
Africa	501	3.2	-9.5
Middle East	665	4.2	-7.2
Asia	4,781	30.3	-4.7
China	1,587	10.0	-5.5
Japan	607	3.8	-6.3
India	359	2.3	-8.6
NIEs	1,041	6.6	-5.8

In nominal terms, world merchandise imports fell 3.2 percent on the year to US$15.8 trillion. Just as in the case of exports, the largest influence was from the exchange rates and particularly the strong U.S. dollar. Import values were down in all regions with the exception of Europe, which showed small growth of 0.2 percent. Elsewhere, CIS showed the lowest decline at 2.6 percent, closely followed by North America whose imports were down 2.9 percent.

The value of imports in Asia declined more substantially, down 4.7 percent. The Middle East followed with a 7.2-percent decline and Africa with 9.5 percent. The imports of South and Central America fell by 14.5 percent, a second consecutive large decline.

Among the large economies, Brazil saw the greatest decline in its imports value, with a fall of 19.8 percent during 2016. Asian countries experienced large import declines: India's down 8.6 percent, Japan's down 6.3 percent and China's down 5.5 percent. The combined NIE import value also shrank, by 5.8 percent. The United States imported 2.8 percent less in 2016, while imports increased marginally in Germany and substantially (up 1.5 percent) in the United Kingdom.

Europe remained the world's leading importer, at 37.5 percent of the global trade. Asia's imports accounted for 30.3 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

In contrast to the significant decline in the value of merchandise exports, the value of world services exports (measured in U.S. dollars) was largely unchanged in 2016, rising 0.1 percent to reach US$4.8 trillion. This was on the heels of a 5.5-percent decline in 2015. Goods-related services[7] registered the largest gain of all categories as their value increased 2.1 percent, followed by a 1.8-percent increase in travel exports and a 0.9-percent rise in commercial services exports. However, these gains were offset by a 4.7-percent decline in transportation services.

On a regional basis, Asia recorded the highest increase in services exports, up just 0.9 percent on aggregate. This masked a large disparity between its constituent countries: India's exports grew a mild 3.5 percent; Japan's a stronger 6.5 percent, while China's exports declined 4.3 percent. North America also registered a small increase in the exports of services, up 0.5 percent, with Mexico showing the largest growth at 5.3 percent and the United States the smallest at 0.3 percent. Canada's services exports increased by 1.3 percent.[8] South and Central America's services exports were nearly unchanged, as Brazil's decline of 1.3 percent was outweighed by other countries' growth.

TABLE 1-4
World Services Exports, 2016, By Regions

	Value US$B	Share (%)	Growth (%)
World	4,770	100.0	0.1
North America	840	17.6	0.5
United States	733	15.4	0.3
Canada	80	1.7	1.3
Mexico	24	0.5	5.3
South & Central America	140	2.9	-0.1
Brazil	33	0.7	-1.3
Europe	2,245	47.1	-0.3
EU-28	2,010	42.1	0.2
Germany	267	5.6	2.8
United Kingdom	329	6.9	-5.2
France	235	4.9	-2.5
Netherlands	174	3.8	-1.0
Asia	1,215	25.5	0.9
China	207	4.3	-4.3
Japan	169	3.5	6.5
India	161	3.4	3.5
NIEs	380	8.0	-2.3
Other Regions	330	6.9	-0.6
Russia	49	1.0	-3.3
Egypt	14	0.3	-23.3
South Africa	14	0.3	-4.9
United Arab Emirates	26	0.5	-

Europe saw a marginal 0.3-percent reduction in services exports, in spite of Germany's 2.8-percent growth. Exports of services from the United Kingdom dropped 5.2 percent, with France's exports also slowing by 2.5 percent. The collective exports of Africa, the Middle East and the CIS recorded a 0.6-percent decrease; Egypt stood out with a 23.3-percent decline in services exports.

Europe continued to be the world's leading provider of services, accounting for 47.1 percent of global value of exported services, 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 17.6 percent of the global services exports in 2016.

7 "Goods-related services" is a WTO aggregate service category that includes manufacturing services on physical inputs owned by others and maintenance and repair services.

8 When measured in U.S. dollars. Measured in Canadian dollars, Canada's services exports grew 4.8 percent.

Services Imports

The total value of world services imports rose 0.5 percent to US$4.6 trillion in 2016. Services imports expanded 2.6 percent in Asia, 2.2 percent in North America and 1.1 percent in Europe. South and Central America decreased their imports of services by 4.8 percent relative to the previous year, while the combined imports of Africa, the Middle East and the CIS recorded a 7.4-percent decline.

North America's results were once again driven by the strong performance of the United States, which registered a 3.2-percent increase in services imports. Canada's imports of services declined 1.7 percent[9] while Mexico's were stable. In Asia, a stronger than average performance was reported by large economies (China, Japan and especially India) only to see the regional growth dragged back through stagnation in the NIE's services imports.

Brazil was behind the decline in services imports of South and Central America, as its own imports fell 10.8 percent. In Europe, Germany and France consumed more services imports, while imports of services by the United Kingdom fell substantially (down 8.9 percent). Elsewhere, Russia's services imports shrank by 16.4 percent, while imports in Egypt and South Africa also fell (down 3.3 percent and 3.7 percent, respectively).

Europe remained the largest importer of services, with 42.1 percent of the world's imports in 2016, followed by Asia with 30.5 percent. North America's import share equalled 13.1 percent, while Africa, the Middle East and the CIS combined for 10.5 percent of the total.

TABLE 1-5
World Services Imports, 2016, By Regions

	Value US$B	Share (%)	Growth (%)
World	4,645	100.0	0.5
North America	610	13.1	2.2
United States	482	10.4	3.2
Canada	97	2.1	-1.7
Mexico	29	0.6	0.0
South & Central America	165	3.6	-4.8
Brazil	61	1.3	-10.8
Europe	1,955	42.1	1.1
EU-28	1,767	38.0	1.1
Germany	304	6.5	2.2
United Kingdom	191	4.1	-8.9
France	235	5.1	1.5
Netherlands	165	3.6	-1.7
Asia	1,415	30.5	2.6
China	449	9.7	3.7
Japan	181	3.9	3.6
India	133	2.9	8.4
NIEs	390	8.4	0.0
Other Regions	500	10.5	-7.4
Russia	73	1.5	-16.4
Egypt	16	0.3	-3.3
South Africa	15	0.3	-3.7
United Arab Emirates	66	1.4	-

9 When measured in U.S. dollars. Measured in Canadian dollars, Canada's services imports grew 2.0 percent.

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

Economic and Trade Developments: Regional and Country Overview

Although the global economic outlook improved substantially during the second half of 2016, global economic growth for the year as a whole was lower than expected. Revised data indicate that on the PPP-adjusted basis,[1] global GDP grew at 3.5 percent in 2014, slowing down to 3.4 percent in 2015 before dropping to 3.1 percent in 2016. There were numerous disruptions to the normal economic and financial activity in the first half of 2016 that included vulnerable financial conditions in emerging markets, uncertainty about China's near-term prospects and the implications of the United Kingdom's vote to leave the European Union (i.e. "Brexit"); as a consequence, overall growth was estimated at 2.9 percent in the first half of 2016.

Activity was sluggish in the first two quarters in the United States and many other advanced economies. After the mid-year point, growth in the advanced economies strengthened considerably. Market reaction to Brexit has been contained, and the worst short-run fears were not realized; response to the U.S. election in November has generally been positive in the markets. Global manufacturing activity, trade and investment have all pointed to a cyclical rebound, driven by firmer fundamentals and increased business and consumer confidence. Overall, growth in advanced economies was below the 2-percent mark reached in 2014 and exceeded in 2015. Reaching just 1.7 percent, it was nevertheless above mid-year forecasts, and is expected to return to 2.0 percent in both 2017 and 2018.

Growth in the developing and emerging economies was also uneven through the year, owing to the influences described. The good news for the commodity exporters among these economies is that commodity prices arrested their slide early in the year 2016 and started firming up. According to the IMF, oil prices were up 50 percent to US$45 per barrel between January and August 2016 and increased a further 20 percent until February 2017; coal prices followed a similar trajectory, and the principal non-fuel commodity prices also increased in the second half of 2016. The bad news is that it will take time for most of these economies to adjust to these new price levels and to restore their damaged balance sheets and normalize macroeconomic conditions. Thus the overall growth for the year in the developing and emerging economies declined for the sixth straight year. Activity slowed down from 5.1 percent growth in 2013, through 4.7 percent in 2014, 4.2 percent in 2015, and to 4.1 percent in 2016. Last year's deceleration was smaller than those previously recorded, and conditions are favourable for recovery in trade and investment in 2017 and beyond, particularly if the geopolitical and local risks are kept contained. China's prospects are looking favourable once again, recession is ending in Brazil and Russia, and relatively weakened currencies in many locales will have a broadly stimulative effect on exports. Growth is projected to rise to 4.5 percent in 2017 and to reach 4.8 percent by 2018.

The set of economic policy issues facing different economies is growing more similar with globalization. Nearly every country's leadership is challenged by its domestic forces to create new and better solutions for its economic problems, to ensure stable domestic market conditions, to find secure and promising investment areas, to raise

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.

productivity, to improve income distribution, and to address infrastructure issues while including social justice in the process. Failing along any of these dimensions could easily spell political consequences, in advanced as well as in developing and emerging economies. To juggle all these priorities with a limited set of economic tools and an uncertain time horizon, while struggling against the dampening influence of the aging populations, financial and political instability and rising uncertainty is certainly challenging. But in earlier years, strong governance traditions were assumed to render advanced democratic countries immune from substantial influence of political movements on the economy. This belief does not hold anymore, increasing the risks inherent in the global economic system, and possibly exposing the next bastion of governance—international institutions—to disruption.

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. In the coming years, the well-established and similarly structured consumer markets of the eurozone should attract renewed attention of Canadian exporters, as the expected implementation of the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) occurs. Proximity to and engagement with Latin America and the Caribbean (particularly Mexico) also make that region a priority, especially given the potential barriers in their economic relationship with the United States. At the same time, emerging Asia continues to be a global growth leader, with China and India still the lands of peerless opportunities; the trade talks with China are an important step in taking advantage of these opportunities. This chapter provides a brief overview of the most important facets of economic and trade developments in these countries and regions.

The economy of the United States slowed down in the first half of 2016 and lost the leading position in economic growth in the G7 that it won in 2015. However, positive dynamics in the second half of the year point to a much stronger performance in 2017, when it is poised to regain its growth advantage among the largest advanced economies. Although GDP growth for the year 2016 decelerated by a whole percentage point, good news from the labour market and the equity markets shored up the situation in the economy, which can also look forward to a possibility of fiscal stimulus under the new administration. The United States remains the crucial reservoir of growth for the advanced economies, doubly so for Canada, which relies on its immense market for roughly three-quarters of its exports of goods and services. The United States is expected to lead the large advanced economies in growth in 2017 and 2018, supported by the cyclical recovery in inventory accumulation, strong growth in household consumption and possibly some fiscal stimulus. Business confidence and buoyant financial markets are pricing in a more business-friendly attitude from the new administration; however, an aging population and weaker productivity growth put a damper on what can be achieved in the long run. Canada's relationship with the United States will stay strong in the future, as the economic links between the two countries are vitally important to millions; some evolution of the trade and investment partnership in North America, however, is expected during the current presidency, with both partners prepared to look for more benefits from their relationship.

China's economy continued its unprecedented transition from investment-based growth to domestically driven growth. The government remains committed to its targets and is successively deploying more instruments and support mechanisms to achieve its goals; however, the impact of some of these measures is yet to be tested. Dealing with the corporate debt overhang remains a considerable challenge, one that may necessitate a sharper slowdown in the next few years. In the meantime, real exports of goods and services resumed growth in 2016, though imports far outpaced them; inflation and unemployment remain stable, and the country's economic plans retain the confidence of the markets.

Mexico has begun slowing down after two years of solid growth; real GDP expanded at a 2.3-percent pace in 2016. 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. However, its near-term outlook is clouded as the uncertainty over U.S.-Mexico relations generates an investment and consumption slowdown; growth is forecast to decelerate considerably in 2017. This situation represents an opportunity for Canadian businesses and government initiatives; Mexico has already begun looking for closer contacts with its other important partners, such as China.

Economic growth in the eurozone stabilized just below 2 percent and is expected to hold at that level in the short term. The eurozone policy stance remains more conducive to growth than during the 2010-2013 period, and by May 2017 some of its dire electoral risks had been successfully avoided (e.g. in the Netherlands and France). While its older sibling, the political union (the EU), cracked open in 2016, the monetary union has shown considerably greater unity of purpose and outlook in the face of its diverse challenges, such as migration and security. Despite the risks and headlines, the expertise and confidence embodied in the countries of continental Europe remains very great, and with strong fiscal and monetary support as well as stable growth in their trading partners, the eurozone may yet emerge stronger from its difficult times. Historically, a large portion of Canada's trade and investment is tied to the eurozone, rooted in shared norms, values and history. The expected implementation of the CETA will once again move the eurozone into the forefront of Canada's commercial policy, with opportunities for Canadian businesses and consumers. This is particularly important in the era of increasing tradability of services, as Europe is the most important services hub in the world.

The countries of emerging Asia are economically attractive, diverse and adaptable, a key area for expansion in Canada's commercial activities. Large export platforms in such areas as electrical and electronic machinery (Malaysia, Thailand and, increasingly, Vietnam), services (India), and apparel (Vietnam and Bangladesh) continue to develop. Emerging Asia has been the world's fastest-growing region, with excellent prospects for the future. Canada is taking a major step to tighter ties with that region by opening exploratory talks on a free trade agreement with China, thus breaking substantially new ground in this area and encouraging other deals as well. China is continuing to lead this area by the sheer size of its growing economy, but its growth pace has recently been passed by India, a much poorer country.

Countries in Latin America and the Caribbean (LAC) are Canada's hemispheric neighbours and remain a priority for its commercial policies. In the next few years, the possible risks in the LAC relationship with the United States on the issues of trade and

migration offer Canada a good opportunity to expand its commercial footprint in those countries—something that other countries, such as China, are poised to do. Mexico is Canada's key partner in this region, with its large economy aligning ever closer to its NAFTA partners and integrating into their value chains. The possible renegotiation of NAFTA should not neglect the opportunity to adapt the agreement to creating ever-stronger economic relations between the two countries, to their 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. Long-term prospects for the region remain favourable.

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)	
	2016	2015	2016	2015	2016
Gross domestic product	**100**	**2.6**	**1.6**	**2.6**	**1.6**
Household expenditures	69.2	3.2	2.7	2.16	1.86
Goods	24.0	4.0	3.6	0.91	0.79
Durable goods	9.5	6.9	5.8	0.51	0.42
Non-durable goods	15.0	2.6	2.5	0.40	0.36
Services	44.9	2.8	2.3	1.26	1.08
Business fixed investment	16.7	4.0	0.7	0.65	0.11
Residential	3.6	11.7	4.9	0.39	0.18
Non-residential	13.1	2.1	-0.5	0.27	-0.07
Structures	2.6	-4.4	-2.9	-0.13	-0.08
Machinery & equipment	6.3	3.6	-2.9	0.21	-0.17
Intellectual property products	4.3	4.8	4.7	0.19	0.19
Investment in inventories	0.1	45.6	-73.8	0.17	-0.37
Net exports of goods and services	-3.4	26.8	4.3	-0.71	-0.13
Exports	12.8	0.1	0.4	0.01	0.04
Goods	8.7	-0.6	0.6	-0.06	0.05
Services	4.1	1.6	-0.1	0.07	0.00
Less imports	16.2	4.6	1.2	-0.73	-0.17
Goods	13.3	4.9	0.7	-0.65	-0.09
Services	2.9	2.9	3.1	-0.08	-0.08
Government expenditures and gross investment	17.4	1.8	0.8	0.32	0.14
Federal	6.7	0.0	0.6	0.00	0.04
State and Local	10.7	2.9	0.9	0.32	0.10

Country Overview

United States

Economic growth in the United States declined a full percentage point in 2016, to 1.6 percent from 2.6 percent in 2015. The real GDP growth primarily reflected positive contributions from household expenditures, residential fixed investment, and state and local government spending. Federal government spending also contributed positively. These contributions were partly offset by negative contributions from private inventory investment and non-residential fixed investment. Compared with the previous year, the deceleration reflected downturns in private inventory investment and in non-residential fixed investment, as well as slowdowns in household expenditures, in residential fixed investment and in state and local government spending. This deceleration was, in turn, mitigated by a deceleration in imports and acceleration in federal government spending and in exports.

Household spending expanded 2.7 percent in 2016, a deceleration from the 3.2 percent in the previous year, but still contributed 1.9 percentage points to the final growth tally of 1.6 percent (meaning that the combined impact of all the other contributions was negative). Spending on both goods and services slowed down, but the deceleration was relatively sharper for services. Expenditures on non-durable goods were the most resilient, growing just a notch below the previous year's pace. Growth in business fixed investment slowed dramatically from 4.0 percent in 2015 to just 0.7 percent in 2016. For this, residential investment (down from 11.7-percent growth in 2015 to a 4.9-percent pace in 2016) as well as non-residential investment (down from 2.1-percent growth in 2015 to a 0.5-percent decline in 2016) are both responsible. The dynamics of the latter consisted of the falling investment in structures (down 4.4 percent in 2015 and 2.9 percent in 2016) being joined by falling investment in machinery and equipment (down 2.9 percent in 2016), while non-physical investment (intellectual property products) grew strongly at nearly the pace of the previous year (up 4.7 percent in 2016). As a result, business fixed investment contributed 0.1 percentage point to GDP growth, down from 0.7 percentage point in the previous year.

Contribution to GDP growth from net exports was negative again (-0.1 percentage point), but much less so than in 2015. Growth in exports picked up slightly to 0.4 percent due to gains in goods exports, while growth in imports decelerated from 4.6 percent in 2015 to 1.2 percent in 2016. The contribution to growth from state and local government spending was still positive, but small compared to 2015 while the federal government contribution was even smaller.

As in several previous years, weakness in the first quarter was again the case in 2016, as the economy grew just 0.8 percent. A fall in inventories restrained the growth to 1.4 percent in the second quarter of 2016. In the third quarter, the economy was out of the gates and running at 3.5 percent, with consumer spending, trade and business investment booming. Growth slowed down to a more restrained 2.1-percent pace in the last quarter of the year. Overall, the U.S. data show signs of a strong recovery in the second half of the year, with most cyclical indicators showing promise for growth in manufacturing, trade and investment in 2017. Labor market indicators continue to be

strong, with the unemployment rate down to 4.7 percent by the end of 2016. The final jobs report of 2016 also marked 75 consecutive months of jobs growth, with over two million jobs created in that year. Early 2017 labour data indicate that full employment is within reach in the economy. The IMF expects GDP growth to pick up to 2.3 percent in 2017 and then to 2.5 percent in 2018.

Canada's goods exports to the United States decreased by 1.2 percent in 2016, slightly faster than the overall decrease for all of Canada's goods exports. Import growth from the United States also fell, down 0.9 percent, faster than the overall import decline rate of 0.1 percent.[2] In contrast, exports of services to the United States grew 4.5 percent, and imports of services from it grew 2.1 percent. Canada's top five categories of export commodities to its southern neighbour were automotive products, mineral fuels and oil, mechanical machinery, plastics, and wood and articles of wood; its top five imports were automotive products, mechanical machinery, mineral fuels and oil, electric machinery and equipment, and plastics.

China

In 2016, China's economy continued on its path of mild deceleration of managed growth, with the final tally at 6.7 percent (down 0.2 percentage point from 2015 and 0.6 percentage point from 2014). Once again, the overall planning of China's great downshifting and its operational control by the government managed to keep the confidence of the markets, but not at all times. In early 2016, some questions were raised about the shifts in China's exchange rate management, and these caused occasional spikes in risk aversion aimed at emerging markets in general. However, greater transparency and communication from China with regard to key policy objectives helped allay these fears and quiet doubts about the underlying strength of the economy. Government is carrying a greater yearly burden, however: according to the Economist Intelligence Unit (EIU), the ongoing tax reforms and the increase in government's fiscal support for the economy expanded the fiscal deficit to 3.8 percent of nominal GDP in 2016, with projections for that figure to increase to 4.2 percent of GDP in 2017.

IMF data show that China's real exports of goods and services expanded by 1.1 percent in 2016 (after contracting 2.2 percent in 2015). A more substantial expansion took place in real imports growth, which rose to a 4.9-percent pace after contracting 0.5 percent in 2015. General government expenditures rose from 31.3 percent in 2015 to 32.0 percent in 2016, and the current account balance narrowed from 2.7 percent of GDP in 2015 to 1.8 percent of GDP in 2016. Inflation recovered to 2.0 percent, with reported unemployment at 4.0 percent.

The overall progress of re-orienting China's economy to achieve a more sustainable consumption-based growth as opposed to an investment-fueled one remains on target, but there may be tough times ahead. Growth in real private consumption, which amounted to 8.2 percent in 2014 and to 8.0 percent in 2015, is estimated to have slowed down to just 5.6 percent in 2016. Investment deceleration, the main factor behind the slowdown, continued apace as growth fell from 6.9 percent in 2015 to just 3.6 percent in 2016.[3] According to the IMF, China's economy is expected to continue to slow down in

2 All growth figures in this paragraph are calculated in Canadian dollar terms.
3 These figures for 2016 for China are estimates by IHS Global Insight, a forecaster.

the medium term—to 6.6 percent in 2017 and to 6.2 percent in 2018. The EIU projects a much harder landing: 6.2 percent in 2017 and 4.2 percent in 2018-19. This would still be a controlled slowdown to help curb excessive credit growth and contain corporate debt, much of which is considered to be risky; most of the impact of that slowdown would occur in investment. Growth is expected to rebound to around 5 percent thereafter. There are considerable risks associated with the forecast, both upside and downside, the latter mainly stemming from the uncertainty regarding U.S. policies toward China.

Canada's goods exports to China rose 4.0 percent in 2016, following similar growth in 2015. Meanwhile, Canada's goods imports from China declined 3.5 percent, helping correct some of the bilateral trade imbalance. China remains Canada's second-largest trade partner; Canada's main export commodities to China in 2016 were wood pulp, oil seeds and miscellaneous plants, wood and articles of wood, ores, and automotive products; Canada's main import commodities from China were electrical and electronic machinery, mechanical machinery, furniture, toys and sporting equipment, and apparel articles.

Mexico

After two years of solid GDP growth— 2.3 percent in 2014 and 2.6 percent in 2015—Mexico's economy has entered a downward path in 2016. Real GDP growth was 2.3 percent, with agriculture growing at 4.1 percent, followed by services at 3.4 percent. Private consumption was strong in 2016 due to the strong U.S. dollar and the record year for remittances; gross fixed investment stagnated, however, with 0.4-percent growth on the year. Real exports continued to grow in 2016, but at a subdued pace of 1.2 percent, while real imports increased 1.1 percent. The current account deficit narrowed to 2.7 percent of GDP, down from 2.9 percent in 2015; inflation ticked up to 2.8 percent while the unemployment rate edged down to 4.2 percent in 2016. The peso continued its depreciation relative to the U.S. dollar, falling from 14Ps/$ in January 2015 to 21Ps/$ in January 2017, reaching the lows arising from post-U.S. election fears from which it later recovered.

Mexico is arguably the country with most at risk following the U.S. election in November; the country is even more trade-dependent on the United States than Canada is, and its dependence is much higher in the areas of investment, remittances and human flows across the border. In the wake of the U.S. election, consumer confidence hit an all-time low in January 2017. In addition, considerable internal discontent over the energy subsidies reform that generates higher domestic oil prices threatens to dampen consumer demand looking forward. Though some measures were taken to recover the public's confidence, uncertainty about future U.S.-Mexico relations is expected to generate further volatility over the course of 2017.

Projections for Mexico's economy in the short term call for a deceleration to 1.7-percent growth in 2017 (according to the IMF), or a sharp slowdown to 1.2-percent growth (according to the EIU). Subdued prospects for investment and consumption in the face of tighter financial conditions and increased uncertainty from the north outweigh the benefits of proximity to the U.S. market. Most risks are associated with U.S. policy, where punitive trade barriers or a border adjustment tax are being discussed. The climate of fiscal austerity and rising interest rates is also a damper on economic growth.

Mexico remains one of Canada's key trade partners, and the current situation may be very conducive to expanding these ties as Mexico will need its friends in 2017. Canada's goods imports from Mexico grew 2.8 percent in 2016. In contrast, Canada's goods exports to Mexico grew much faster for the second straight year—up 14.0 percent. Nevertheless, Canada's merchandise trade deficit with Mexico expanded to $25.6 billion in 2016, 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 6.4 percent in 2016, a deceleration from the 6.7 percent recorded in 2015. However, this region is still by far the world's fastest-growing and is projected to continue to grow at that level in the medium term. Among the large economies in this region, India preserved its lead with reported 6.8-percent growth in 2016, a notch ahead of China, which grew at 6.7 percent. The ASEAN-5 economies (Indonesia, Malaysia, the Philippines, Thailand and Vietnam) kept on performing well, as their growth increased from 4.8 percent in 2015 up to 4.9 percent in 2016. Medium-term growth prospects remain favourable in the region. In India, the negative consumption shock that followed its currency exchange program is expected to be temporary, and the implementation of further key economic reforms is expected to push growth toward the 8-percent mark. Stronger domestic demand will underpin continued strength in the ASEAN-5 economies, and higher public spending is expected to boost the economy further in the Philippines. Continued policy support underpins China's growth, but may weaken as the government deals with the corporate debt and exuberant credit growth. It is important to remember the vast diversity within this region; for example, 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, 2016

2016	Emerging Asia	China	India	Indonesia	Malaysia
GDP Growth (%)	6.4	6.7	6.8	5.0	4.2
GDP per capita (US$)	-	8,113	1,723	3,604	9,360
Inflation (%)	2.9	2.0	4.9	3.5	2.1
Unemployment (%)	-	4.0	-	5.6	3.5
Current Account Balance (% of GDP)	1.3	1.8	-0.9	-1.8	2.0
Real Exports Growth, Goods and Services (%)	2.3	1.1	5.7	-1.0	2.5
Real Imports Growth, Goods and Services (%)	5.0	4.9	5.0	3.2	0.6
Canadian exports (merchandise, US$ M)	22,942	15,825	3,004	1,103	535
Canadian imports (merchandise, US$ M)	64,456	48,595	3,049	1,223	1,956
Canada's trade balance (merchandise, US$ M)	-41,514	-32,770	-45	-120	-1,421

Inflation continues to be moderate in most of the region, with a tendency to be higher in India, as commodity and agricultural prices recover and investment activity resumes. Average inflation in emerging Asia rose to 2.9 percent in 2016. Unemployment is also low across the region, with Indonesia's 5.6 percent the highest among large economies, although data for India were not available. Real exports of goods and services resumed growth in 2016 at a 2.3-percent pace after the 2015 decline; Indonesia's real exports declined in 2016, but there was robust growth in India's exports after the decline in 2015. Real imports registered strong growth of 5.0 percent, with smaller countries contributing more growth. Current account balances were 1.3 percent of GDP on average, with a stronger surplus in China and Malaysia, and a deficit of 1.8 percent in Indonesia.

China is and will remain Canada's most important trade partner in emerging Asia, accounting for over two-thirds of Canada's exports and over three-quarters of Canada's imports. Of key importance in Canada's trade with the region are the imports of electrical and electronic machinery conducted through the key international export platforms (e.g. China, Malaysia and, increasingly, Vietnam). Canada's trade with this region's countries that are not part of that platform, such as India and Indonesia, is nearly balanced, demonstrating that trade deficits are not necessarily a feature of Canada's commercial activities in the region. Emerging Asia now accounts for 16.0 percent of Canada's imports and 5.9 percent of Canada's exports, both largely unchanged from the previous year.

Eurozone

Strong domestic demand continued to manifest itself in the eurozone countries in 2016, supporting strong growth in such countries as Germany and Spain. After the revised growth performance of 2.0 percent in 2015, it decelerated slightly to 1.7 percent in 2016, but is expected to remain around that figure in the next two years. Cyclical recovery in manufacturing and trade is firming up across the region, and the output is projected to grow above potential in many European countries with output gaps. The economic environment will continue to be favouring growth across the region as commodity prices remain subdued, the euro is weaker, a somewhat expansionary fiscal regime is adopted in both France and Germany, and the monetary stance from the European Central Bank remains broadly supportive. On the downside, sizeable risks associated with political uncertainty are present, as elections in several countries and Brexit negotiations may weigh on the economy. Weak productivity and remaining overhang of public and private debt in some countries remain a drag on potential growth.

Inflation moved in a positive direction, averaging 0.2 percent for the year, though there was still deflation in Italy and Spain. The unemployment rate improved to 10.0 percent, but remains a serious issue, especially in light of the concomitant political risks, and is as high as 19.6 percent in Spain. Current account balances as a proportion of GDP in the region remained strongly positive at 3.4 percent, rising as high as 8.5 percent in Germany but dipping to negative 1.1 percent for France.

After improving from 1.5 percent in 2015 to 1.8 percent in 2016, growth in Germany is forecast to soften to 1.6 percent in 2017. France, meanwhile, is expected to pick up modestly from 1.2-percent growth in 2016 to 1.4 percent in 2017. Spain's economy, which grew strongly at

TABLE 2-3
Eurozone Overview, 2016

2016	Eurozone	France	Germany	Italy	Spain
GDP Growth (%)	1.7	1.2	1.8	0.9	3.2
GDP per capita (US$)	-	38,128	41,902	30,507	26,609
Inflation (%)	0.2	0.3	0.4	-0.1	-0.2
Unemployment (%)	10.0	10.0	4.2	11.7	19.6
Current Account Balance (% of GDP)	3.4	-1.1	8.5	2.7	2.0
Real Exports Growth, Goods and Services (%)	2.9	1.1	2.6	2.4	4.4
Real Imports Growth, Goods and Services (%)	4.0	3.7	3.7	2.9	3.3
Canadian exports (merchandise, US$ M)	15,597	2,569	3,069	1,750	1,366
Canadian imports (merchandise, US$ M)	34,625	4,518	13,033	5,696	1,780
Canada's trade balance (merchandise, US$ M)	-19,029	-1,949	-9,965	-3,946	-414

3.2 percent both in 2015 and 2016, should slow down to 2.6 percent in 2017. Italy's growth (0.9 percent in 2016) will remain around 0.8 percent in the next two years. Real exports picked up again with a 2.9-percent growth in the eurozone, though were up only 1.1 percent for France; real imports grew faster at 4.0 percent. Average growth in the eurozone is expected to stay at 1.7 percent in 2017 and to dip to 1.6 percent in 2018.

Canada's two-way merchandise trade with the eurozone is just over 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 that figure. Exports to the eurozone are smaller, amounting to 4.0 percent of Canada's total exports to the world, though this share expanded in 2016. Trade with the eurozone countries is much broader in scope than with most other regions. While Germany is very important, it does not dominate Canada's trade with its eurozone partners. Many eurozone countries occupy key positions in Canada's global supply chains, and the importance of Europe as a global services hub may be of key value to Canada in the future.

Latin America and the Caribbean (LAC)

LAC's regional economy slowed down for the sixth consecutive year, and this time slipped into a full recession as negative 1.0-percent growth followed a minimal positive (revised) growth of 0.1 percent in 2015. On top of the protracted downturn in Brazil (GDP down 3.6 percent in 2016), Argentina went into a recession during the year (GDP down 2.3 percent in 2016) and economic activity in Venezuela went from bad to worse (GDP down 18 percent in 2016 as estimated by the IMF). Weakening growth in Mexico, discussed above, was also a factor.

Inflation averaged 5.6 percent through the region, but was an endemic problem in some countries. No data were available on Argentina; Venezuela's inflation exceeded 250 percent; inflation was also high in Brazil, at 8.7 percent. Brazil's unemployment rate was also high, at 11.3 percent, while Mexico's was one of the lowest, at 4.3 percent. The current account balance for the region as a whole improved to negative 2.1 percent of GDP, with every major economy in the negative territory. The LAC region's real exports edged up 0.8 percent, while real imports declined 4.0 percent. Brazil's imports declined sharply once again (down 9.9 percent); Mexico was the exception, with 1.1-percent growth in imports.

TABLE 2-4
Latin America and the Caribbean Overview, 2016

2016	Latin America & the Caribbean	Brazil	Chile	Mexico	Peru
GDP Growth (%)	-1.0	-3.6	1.6	2.3	3.9
GDP per capita (US$)	-	8,727	13,576	8,555	6,199
Inflation (%)	5.6	8.7	3.8	2.8	3.6
Unemployment (%)	-	11.3	6.5	4.3	6.7
Current Account Balance (% of GDP)	-2.1	-1.3	-1.4	-2.7	-2.8
Real Exports Growth, Goods and Services (%)	0.8	-1.0	-0.1	1.2	11.8
Real Imports Growth, Goods and Services (%)	-4.0	-9.9	-1.6	1.1	-3.2
Canadian exports (merchandise, US$ M)	10,801	1,545	548	5,771	574
Canadian imports (merchandise, US$ M)	36,505	2,915	1,272	25,067	1,846
Canada's trade balance (merchandise, US$ M)	-25,704	-1,370	-724	-19,296	-1,272

Commodity prices firmed up in 2016, but most of the commodity-exporting

economies in LAC will need time to adjust to the new, lower levels and repair their public and private balance sheets. Brazil will emerge from its deep recession and grow slightly (up 0.2 percent) in 2017; so will Argentina, whose reforms and the process of restoration of macroeconomic stability will carry it to 2.2-percent growth next year. Higher commodity prices will help with growth in Chile (up 1.7 percent) and Colombia (up 2.3 percent), though these are modest rates. Mexico's growth in the next two years has been revised down due to uncertainty and financial conditions; in Venezuela, things are expected to get worse before they get better. Overall, LAC will climb out of recession with 1.1-percent growth in 2017, and that should strengthen to 2.0 percent in 2018.

Canada's links with this region have been strengthened in recent years. Imports from LAC amounted to 9.1 percent of Canada's total imports in 2016, with Mexico now accounting for over two-thirds of Canada's imports from the region, more than eight times as great as the value of imports from Brazil. Exports to the region represented 2.8 percent of Canada's total exports, over half of those to Mexico. Canada ran substantial trade deficits with Mexico, Brazil and Peru in 2016. This region is of particular interest to Canada's trade policy, with a number of trade and investment protection agreements signed in recent years; while the Trans-Pacific Partnership (TPP) failed to materialize, other initiatives may be expected as LAC countries search for stronger hemispheric links in the wake of possible policy risks from the United States.

World Merchandise Trade Value Rankings

For the eighth consecutive year, China was the world-leading merchandise exporter at US$2.1 trillion, accounting for 13.2 percent of the global exports. The United States, in second place, exported US$1.5 trillion worth of merchandise. Germany was third with US$1.3 trillion in exports and 8.4 percent of the global market.

These top three exporters were followed, at a considerable distance, by Japan, with US$645 billion in exports, and the Netherlands, with US$570 billion in exports. Hong Kong rose to sixth place with exports of US$517 billion, and France went up to seventh with US$501 billion in exports. South Korea fell from sixth to eighth place with exports of US$495 billion.

The United Kingdom, with much-reduced exports of US$409 billion, yielded the ninth place in the rankings back to Italy, which it had passed in 2015 and which exported US$462 billion worth of merchandise. Canada slipped back to 12th spot with exports of US$390 billion—which translated to a 2.4-percent share of the world's exports.

On the import side, Canada moving up from tenth into ninth place was the only change in the top ten. Canada imported US$417 billion worth of merchandise, passing South Korea, which slipped to tenth with imports of US$406 billion. The United States was the leading importer with US$2.3 trillion in imports and the leading trading nation overall, taking this distinction back from China, which held it for the previous four years.

TABLE 2-5
Leading Exporters and Importers, 2016 World Merchandise Trade (US$B and %)

2016 Rank	2015 Rank	Exporters	2016 US $B Value	2016 % Share
1	1	China	2,098	13.2
2	2	United States	1,455	9.1
3	3	Germany	1,340	8.4
4	4	Japan	645	4.0
5	5	Netherlands	570	3.6
6	7	Hong Kong	517	3.2
7	8	France	501	3.1
8	6	South Korea	495	3.1
9	10	Italy	462	2.9
10	9	United Kingdom	409	2.6
12	**11**	**Canada**	**390**	**2.4**

2016 Rank	2015 Rank	Importers	2016 US $B Value	2016 % Share
1	1	United States	2,251	13.9
2	2	China	1,587	9.8
3	3	Germany	1,055	6.5
4	5	United Kingdom	636	3.9
5	4	Japan	607	3.7
6	6	France	573	3.5
7	7	Hong Kong	547	3.4
8	8	Netherlands	503	3.1
9	**10**	**Canada**	**417**	**2.6**
10	9	South Korea	406	2.5

World Services Trade Value Rankings

In 2016, the United States further solidified its position as the world's foremost supplier and consumer of services. Its US$733 billion in services exports accounted for 15.4 percent of global exports, a considerable increase from 2015. The United Kingdom was a distant second, at US$329 billion, or 6.9 percent of the global exports, a decrease in both absolute and relative value from 2015. Germany and France remained third and fourth with US$267 billion and US$235 billion, respectively. China kept its fifth place, with US$207 billion in services exports; all those positions were unchanged since 2013.

The Netherlands remained sixth, exporting US$174 billion worth of services; Japan and India followed with US$169 billion and US$161 billion in the seventh and eighth spot, respectively. Singapore retained the ninth rank it claimed in 2015 despite the challenge from Ireland, which in its tenth spot was close with US$146 billion in services exports. Canada remained in 18th place, with exports of US$80 billion, accounting for 1.7 percent of the world's services exports.

In terms of imports, the United States remained in first place, with US$482 billion in imports of services and a 10.4-percent global share. China remained a close second with US$449 billion in services imports in 2016. Germany, with imports of US$304 billion, was a distant third; France was ranked fourth, with US$235 billion in services imports. Ireland ascended into fifth, past the United Kingdom, with imports of US$192 billion; the United Kingdom slipped into sixth with US$191 billion. Japan was seventh and the Netherlands eighth, with imports of US$181 billion and US$165 billion, respectively, while Singapore remained ninth. India rounded out the top ten services importers, having imported US$133 billion worth of services. Canada's services imports were US$97 billion, which put it in 14th place, the same rank as in 2015, with 2.1 percent of the global services import market.

TABLE 2-6
Leading Exporters and Importers, 2016 World Services Trade (US$B and %)

2016 Rank	2015 Rank	Exporters	2016 US $B Value	2016 % Share
1	1	United States	733	15.4
2	2	United Kingdom	329	6.9
3	3	Germany	267	5.6
4	4	France	235	4.9
5	5	China	207	4.3
6	6	Netherlands	174	3.7
7	7	Japan	169	3.5
8	8	India	161	3.4
9	9	Singapore	149	3.1
10	10	Ireland	146	3.1
18	**18**	**Canada**	**80**	**1.7**

2016 Rank	2015 Rank	Importers	2016 US $B Value	2016 % Share
1	1	United States	482	10.4
2	2	China	449	9.7
3	3	Germany	304	6.5
4	4	France	235	5.1
5	8	Ireland	192	4.1
6	5	United Kingdom	191	4.1
7	6	Japan	181	3.9
8	7	Netherlands	165	3.6
9	9	Singapore	155	3.3
10	10	India	133	2.9
14	**14**	**Canada**	**97**	**2.1**

Constant Market Share Analysis of Canadian Export Performance in the United States

Background

Canadian merchandise exports to the United States have grown significantly over the past 20 years, up from $207.8 billion in 1995 to $394.4 billion in 2016. However, Canada's exports to the United States have not been growing as strongly as those of many other countries. When looking at Canada's share of the U.S. import market, one sees that Canada has steadily lost share during this period, declining from 19.5% in 1995 to 12.7% in 2016. While Canada has lost share in the U.S. market, other countries have gained significantly, the two largest being China and Mexico. China has seen its share of U.S. imports increase from 6.1% in 1995 to 21.2% in 2016, while Mexico has seen its share rise from 8.3% to 13.4% over the same period.

Loss of market share can be explained by either product mix (concentration in slower-growing sectors) or loss of competitiveness at the sector level. This analysis shows that when energy is excluded from U.S. imports from Canada, poor competitiveness across sectors has played a significant role in Canada's loss of market share, while product mix has had a more neutral impact.

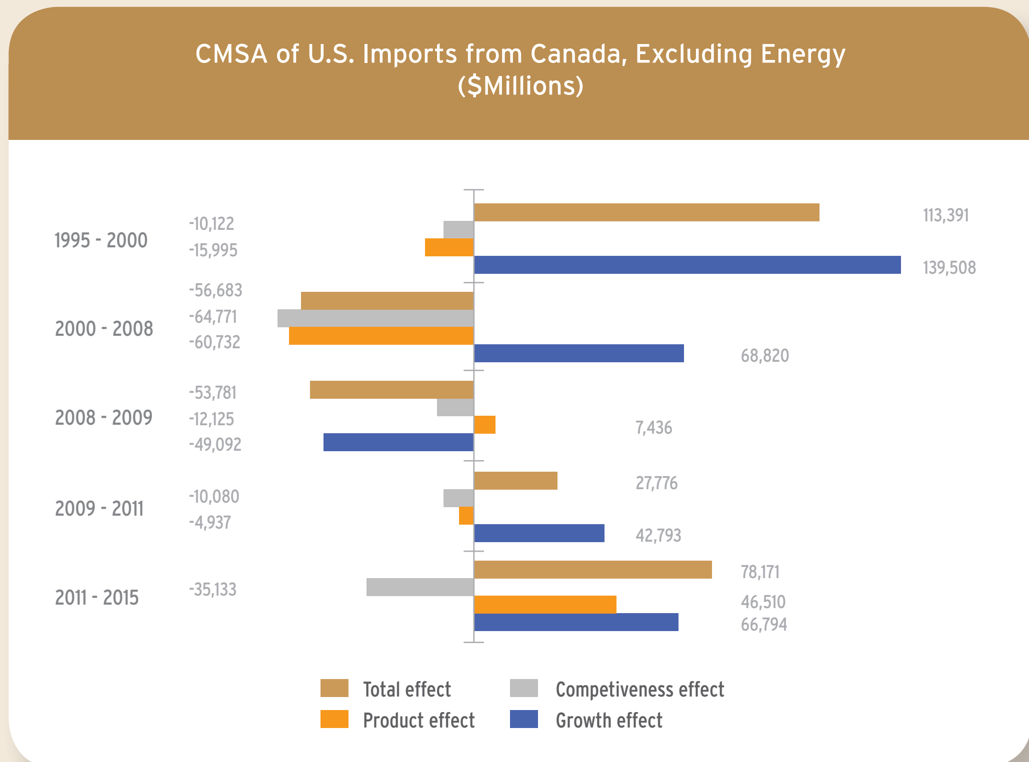
Constant Market Share Analysis (CMSA)

To better understand Canada's performance in the U.S. import market, we use U.S. merchandise import data to decompose the total change in U.S. imports from Canada into three separate effects: the growth effect (or market size effect), the product effect, and the competitiveness effect. This decomposition is known as constant market share analysis (CMSA). The growth effect (GE) refers to the potential growth in U.S. imports from Canada had they grown at the same rate as total U.S. imports from the world over the given period of analysis. The product effect (PE) reflects the change in U.S. imports from Canada due to the rise or fall of particular sectors (or products) in the United States' import mix. The final effect is the competitiveness effect (CE), which indicates the gain or loss in U.S. imports from Canada due to Canadian exports gaining or losing market share in a particular sector over the given period of analysis.

For this analysis, U.S. imports from Canada are decomposed into nine major sectors: agri-food, metals and minerals, chemicals, wood and paper, machinery and electronic equipment, automotive and automotive parts, aerospace, miscellaneous manufacturing, and energy. However, the latter—energy, which for most of the time period analyzed is Canada's largest export to the United States—is removed from the analysis in order to unmask important trends in Canada's non-energy sectors, whose relatively weak performance over this period has been overshadowed by large gains in Canadian energy exports.

CMSA Results

The CMSA results are broken down into five unique time periods for U.S. import growth.



1995-2000

This period can generally be characterized by high levels of economic and trade growth in North America following the implementation of NAFTA. Canada performed well during this period, increasing its non-energy exports to the United States by $113.4 billion. However, this growth was due to the booming U.S. economy. Together, the competitiveness effect and the product effect produced a small drag on U.S. imports from Canada.

2000-2008

This eight-year period saw U.S. import growth slow, following, among other things, the boom and bust of the "dot-com" bubble. Despite overall growth in U.S imports (a positive growth effect), U.S. non-energy imports from Canada fell, due in about equal measure to the competitiveness effect and the product effect. The automotive sector accounted for about half of the negative product effect and a third of the negative competitiveness effect over this period.

2008-2009

The period spanning 2008 to 2009 encompasses the global financial crisis and a decline in world trade, including a 20%-decline in total U.S. merchandise imports. U.S. non-energy imports from Canada declined by $53.7 billion, due mainly to lower U.S. import demand, but also a decline in Canadian competitiveness (seen across eight of the nine major non-energy sectors). The product effect was positive for Canada during this period, but did little to offset Canada's losses.

2009-2011

These three years can be considered the recovery period for U.S. imports, which by 2011 recovered to their pre-crisis levels. U.S. non-energy imports from Canada increased by $27.8 billion, but a potential $15-billion increase in imports was precluded by lower competitiveness (-$10.1 billion) and to a lesser extent unfavourable product mix (-$4.9 billion). The decline in competitiveness was mainly seen in imports of machinery and electrical equipment and miscellaneous manufacturing. Canada saw a small positive competitiveness effect from the automotive sector over this period.

2011-2015[1]

Finally, the period spanning 2011 to 2015 was also an expansionary period for U.S. imports, as they continued to grow beyond pre-recession levels, albeit at a slower pace than during the recovery years or during the 1990s. Sectoral results from the CMSA analysis of this period are shown in Table 1.

Over this period, U.S. non-energy imports from Canada rose by $78.2 billion, thanks in large part to overall U.S. import growth, but also to a large positive gain from Canada's product mix, which increased U.S. non-energy imports from Canada by $46.5 billion. Nearly half of this effect came from the automotive sector, which saw a strong recovery in U.S. imports in recent years. Note, however, the gains from the automotive sector could have had even greater potential if Canada did not have a large negative competitiveness effect (-$16.9 billion) over this time.

Table 1 also shows the large offsetting impact of U.S. energy imports from Canada if they are included in the analysis. The $46.5-billion boost from the positive product effect from automotive and other sectors is more than offset by the negative $78.1 billion impact from energy. This is mainly due to a large decline in the price of oil over this period, which fell by 48.7% from US$94.88 per barrel in 2011 to US$48.66 per barrel in

Change in U.S. Merchandise Imports from Canada, 2011 - 2015

Sector	Product effect (GE) ($M)	Growth effect (PE) ($M)	Competitiveness effect (CE) ($M)	Total effect (GE+PE+CE) ($M)	Increase in U.S. imports from Canada %
Agri-Food	6,813	4,350	-618	10,545	48.99
Metals and Minerals	11,230	-1,676	-5,570	3,983	11.23
Chemicals	10,977	3,344	-6,775	7,546	21.76
Wood and Paper	5,168	2,558	-1,686	6,039	36.99
Machinery and Equipment	8,806	4,757	-6,244	7,318	26.30
Automotive and Parts	15,615	23,158	-16,908	21,865	44.32
Aerospace	1,662	4,188	-306	5,544	105.57
Miscellaneous Manufacturing	6,524	5,832	2,975	15,331	74.37
Subtotal	66,794	46,510	-35,133	78,171	
Energy	31,906	-78,144	34,598	-11,640	-11.55
Total	**98,701**	**-31,634**	**-535**	**66,531**	**21.33**

1 2015 is the end year for this analysis as this study was performed before complete 2016 data were made available.

2015.[2] This decline in price caused energy to become a less important part of the U.S import mix: in 2011, energy accounted for 20.6% of overall U.S. imports from the world while in 2015 energy accounted for only 8.5%. It is interesting to note, however, that while energy became less important to the U.S. import mix, Canada gained share in U.S. imports of this sector: in 2011, Canada accounted for 22.5% of U.S. energy imports; in 2015, this was up to 36.7%. As seen in Table 1, this competitive gain in energy was worth $34.6 billion, almost completely offsetting the negative $35.1 billion competitiveness effect seen in total non-energy sectors in this period.

Conclusions

There are three main takeaways from the CMSA analysis of U.S imports from Canada over the 1995-2015 period. First, growth in U.S. imports from Canada has mainly been due to overall growth in total U.S. imports (the growth effect). This growth, when energy is omitted, has been significantly limited by poor competitiveness, whereas the product effect was more neutral—positive during some periods and negative in others—and had a large positive effect in more recent years. Second, Canada has experienced a poor competitiveness effect across most major non-energy sectors. In total, weakened competitiveness in non-energy sectors cost Canada a potential $130 billion in exports to the United States over the 1995 to 2015 period. While these developments may be considered unfavourable, they are not unexpected. Greater globalization and the rise of emerging markets (such as China) means, among other things, an increase in their shares of the United States' imports, at the expense of the United States' other partners. Finally, while energy plays an important role in Canadian exports to the United States, the sheer size of this sector can mask important trends in Canadian export performance to the U.S. market. For instance, during the 2011-2015 period, the energy sector completely negated the positive product effect in non-energy sectors, while almost reversing the negative competitiveness effect.

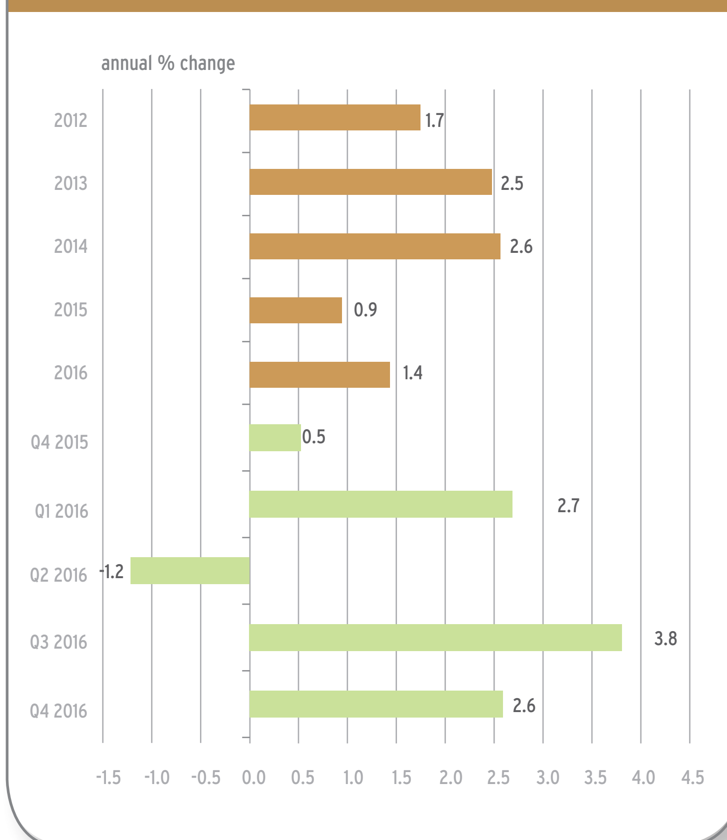
2 Oil prices are the annual average for West Texas Intermediate reported by the U.S. Energy Information Administration.

CHAPTER 3 | Canada's Economic Performance

Canada's Economic Performance

In 2016, Canada's economy grew stronger than in the previous year. Along with most developed countries, Canada was positively affected by a cyclical recovery in manufacturing and trade in the second half of the year, leading to rising consumer and business confidence. Along with most commodity exporters, the resource sector of Canada's economy has benefited from the upturn in commodity prices at the end of 2016. For the economy as a whole, substantial fiscal stimulus such as investments in infrastructure, tax cuts and more generous child benefits, along with continued accommodative monetary policy, provided considerable support for strong growth in the third and fourth quarters. In the short term, the IMF expects Canada's growth to accelerate and to reach 2.0 percent by 2018.

After a strong first-quarter growth of 2.7 percent, economic growth in Canada slid into negative territory in the second quarter due to the disruptions in oil production activity following the Fort McMurray wildfires. The recovery of the industry and community from that natural disaster, the most expensive ever in Canada, blended with strengthening consumer confidence and renewed investment in the sector. As a result, growth jumped to 3.8 percent in the third quarter and remained strong in the fourth at 2.6 percent.



Employment continued to rise during the year as the total number of jobs exceeded 18 million. While the oil-producing provinces experienced losses, these were more than balanced by gains elsewhere, especially in British Columbia. Even in the oil-producing provinces, employment came close to stabilizing in the second half of 2016.

Canada's economy in 2016 still felt the pressure of lower-than-usual oil prices, primarily through a decrease in business investment. Household spending continued to grow strongly last year, led by spending on non- and semi-durable goods, and helped by continually low interest rates and gains in disposable incomes, which were partly due to fiscal support measures. Business investment was still a drag, mostly due to the oil and gas sector, but Budget 2017 projects that to stabilize in 2017. The positive contribution of net exports to growth—for the fourth year in a row after a decade of drag—was lower

than last year, but still substantial, and higher than the boost from federal government activity. The Canadian dollar did not move substantially during the year, though its end-year value was above the beginning in terms of most major currencies.

Output grew by 2.1 percent in service sectors, but declined again in goods sectors, with manufacturing activity close to flat. Inflation rose slightly to 1.4 percent after 1.1-percent growth in 2015, but the rise in costs of food and household operations slowed down substantially. The Bank of Canada's core inflation index retreated to 1.8 percent, well within the Bank of Canada's monetary policy support band.

Gross Domestic Product (GDP)

Canada's real GDP growth picked up to 1.4 percent in 2016, up from the downwards-revised 0.9-percent pace of 2015. This performance was almost in line with the IMF expectations in April 2016, despite the negative economic impact of the Alberta wildfire that occurred soon after. The IMF forecasts this growth to pick up to 1.9 percent in 2017 and to 2.0 percent in 2018, strengthened by the stronger U.S. outlook, the appreciation of the U.S. dollar, infrastructure investment and improving sentiment following the upturn in commodity prices.

In 2016, output grew in service-producing industries, but declined in goods-producing industries for the second consecutive year. Solid consumer spending and a rebound in oil production supported stronger economic growth in the second half of the year, with help from accommodative monetary policy and fiscal support measures.

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)	
	2016	2015	2016	2015	2016
Gross domestic product	**100.0**	**0.9**	**1.4**	**0.9**	**1.4**
Household expenditures	56.8	1.9	2.2	1.06	1.30
Goods	24.8	1.6	2.7	0.40	0.68
Durable goods	7.3	2.8	3.6	0.19	0.26
Semi-durable goods	4.1	2.3	4.4	0.09	0.18
Non-durable goods	13.4	0.8	1.7	0.11	0.24
Services	32.0	2.1	1.9	0.66	0.62
Business investment	19.0	-6.2	-4.0	-1.28	-0.78
Residential	7.6	3.8	2.9	0.26	0.22
Non-residential	9.7	-11.5	-8.4	-1.38	-0.90
Structures	5.8	-16.0	-10.7	-1.24	-0.70
Machinery & equipment	3.9	-3.3	-5.0	-0.14	-0.21
Intellectual property products	1.6	-9.0	-5.3	-0.16	-0.09
Investment in inventories	-0.1	-58.9	-126.9	-0.30	-0.31
Non-farm	-0.1	-49.4	-131.8	-0.33	-0.44
Farm	0.0	-	-	0.1	0.14
Net exports of goods and services	-2.4	-	-	0.97	0.66
Exports	31.0	3.4	1.1	1.08	0.37
Goods	25.7	3.7	0.5	0.99	0.16
Services	5.3	1.9	4.0	0.10	0.21
Less imports	33.4	0.3	-1.0	0.11	-0.29
Goods	27.0	0.3	-1.3	0.08	-0.31
Services	6.4	0.6	0.2	0.04	0.02
Government expenditures and gross investment	25.1	1.9	1.9	0.48	0.48
Non-profit institutions serving household expenditures and gross investment	1.5	1.5	-0.2	0.02	0.00

Growth in household expenditures (i.e. private consumption) rose to 2.2 percent after 1.9-percent growth in 2015. This was due to higher spending on goods, in particular non-durable goods and semi-durable goods. In the meantime, growth in spending on services slowed down from 2.1 percent in 2015 to 1.9 percent in 2016. As a result, private consumption of goods contributed 0.68 percentage point to GDP growth, more than private consumption of services whose contribution amounted to 0.62 percentage point. Altogether, the contribution from private consumption of 1.3 percentage points was dominant in GDP growth.

Business investment declined for the second consecutive year in 2016, down 4.0 percent. Business investment in residential structures grew 2.9 percent, but non-residential investment suffered an 8.4-percent decline, mostly due to structures. Overall, business investment subtracted 0.78 percentage point from GDP growth in 2016. Investment in inventories not only continued to shrink, but turned negative in 2016. This category, much like in 2015, subtracted 0.31 percentage point from growth in 2016.

Net exports, the difference between exports and imports, continued to contribute positively to growth, with a 0.66-percentage point boost to the economy last year. Growth in real exports decelerated to 1.1 percent, led by strong growth in services. By contrast, growth in real imports turned negative due to the decline in goods imports and only modest growth in services imports. Government expenditures continued to support GDP growth evenly with the same 0.48-percentage point contribution as in 2015.

GDP by Industrial Activity

Real GDP at basic prices, by industry, increased 1.3 percent in 2016, up from the 0.9-percent pace recorded in the previous year. Growth in services-producing industries remained at 2.1 percent in 2016, the same level as in 2015, but a second consecutive contraction in goods-producing industries slowed the overall growth. However, goods-producing industries shrank by just 0.8 percent, less than half the rate of decline in the previous year.

Among the goods industries, construction activities declined again during the year (down 3.3 percent), and likewise did the mining, quarrying and oil and gas sector (down 1.8 percent). The latter decline was due to sharply lower support activities, since production in both the oil and gas sub-sector and in the mining and quarrying sub-sector actually grew by 1.5 percent and 0.1 percent, respectively. The agriculture, forestry, fishing and hunting sector recorded 3.8-percent growth in 2016 while the utilities sector grew for the first time in three years, up 0.5 percent.

Manufacturing increased at a modest rate (up 0.7 percent) as output in non-durables was up 2.5 percent on the year. Gains in the chemicals; food; and plastics and rubber industries drove the increases. Activity declined considerably in the textiles, clothing and leather industry, while the printing, pulp and paper, and petroleum and coal products industries also recorded declines.

In durables, output declined by 0.8 percent, slower than in the previous year. Fabricated metal products and machinery manufacturing industries led the declines. Activity fell in most durables industries, but robust growth of 6.6 percent was recorded in the wood industry; primary metals grew strongly at a 5.2-percent pace and the furniture industry recorded a 2.5-percent growth.

Gains were reported for most major services industries. Finance and insurance was the fastest-growing industry, with 4.4-percent growth, followed by arts and entertainment at 3.9 percent. Transportation and warehousing and real estate services also grew strongly, while activity in management services declined.

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

	2014	2015	2016
All industries	2.6	0.9	1.3
Goods-producing industries	3.1	-1.9	-0.8
Agriculture, forestry, fishing and hunting	-5.8	3.6	3.8
Mining, quarrying and oil and gas extraction	7.1	-3.5	-1.8
Utilities	0.0	-0.5	0.5
Construction	2.3	-4.7	-3.3
Manufacturing	**3.0**	**0.2**	**0.7**
Non-durable manufacturing	**2.2**	**2.1**	**2.5**
Food	4.0	1.5	4.9
Beverages and tobacco	0.4	2.7	2.1
Textiles, clothing and leather	7.4	-2.6	-6.6
Pulp and paper	3.6	5.7	-1.7
Printing	-0.9	-2.0	-2.7
Petroleum and coal products	-1.0	-0.5	-1.5
Chemicals	1.9	3.8	5.2
Plastics and rubber	2.7	3.2	4.1
Durable manufacturing	3.6	-1.4	-0.8
Wood	4.7	6.1	6.6
Non-metallic minerals	4.7	-2.4	-1.1
Primary metals	5.5	-4.7	5.2
Fabricated metal products	2.2	-5.0	-7.1
Machinery manufacturing	1.4	-4.5	-5.3
Computers and electronic products	1.6	-0.2	-1.2
Electrical equipment etc.	0.0	-3.5	-0.8
Transportation equipment	7.1	-0.4	-0.2
Furniture	-0.6	3.1	2.5
Miscellaneous manufacturing	-4.4	7.0	-0.9
Service-producing industries	2.4	2.1	2.1
Wholesale trade	4.0	0.9	1.6
Retail trade	3.6	2.0	2.6
Transportation and warehousing	4.5	3.9	3.1
Information and culture	0.4	0.1	0.6
Finance and insurance	3.2	5.1	4.4
Real estate	3.0	3.4	3.0
Professional and technical	2.9	1.4	1.0
Management of companies	0.4	2.8	-2.5
Administrative and support	2.0	-0.2	-0.2
Education	0.6	1.7	1.6
Health care and social assistance	1.5	2.1	2.8
Arts and entertainment	0.5	4.9	3.9
Hotels and restaurants	2.6	1.4	2.5
Other	2.5	0.4	-1.0
Public administration	0.7	0.3	1.4

Employment

In 2016, employment in Canada expanded by 133,300 jobs (up 0.7 percent) and reached 18.1 million. The unemployment rate that stood at 7.1 percent in December 2015 declined 0.2 percentage point to 6.9 percent at the end of 2016 (and was down by a further 0.4 percentage point to 6.5 percent by April 2017). There was a minimal decline in the participation rate during the year, from 65.9 percent in December 2015 to 65.8 percent in December 2016.

For the third consecutive year, employment declined in the goods-producing industries (down 1.0 percent). This decline was led by the drop in mining, oil and gas extraction (down 9.0 percent); employment in agriculture was down 1.9 percent and employment in manufacturing declined 1.0 percent. Employment grew marginally in utilities and rose 1.0 percent in construction industries.

Employment in the services-producing industries recorded positive growth of 1.2 percent; their combined share of Canadian jobs reached 78.8 percent. Jobs grew the fastest in the information, culture and recreation sector (up 4.2 percent). Employment also increased substantially in the following sectors: finance, insurance and real estate (up 2.2 percent); public administration (up 2.2 percent); health care/social assistance (up 2.1 percent); and professional/technical services (up 2.0 percent). Meanwhile, employment was down 1.1 percent in the transportation and warehousing sector and also declined 0.3 percent in the education sector.

Regionally, jobs gains and losses diverged as usual. Nunavut again led job gains in Canada with growth of 6.3 percent, and Yukon was second with 4.1-percent growth. Among the provinces, British Columbia showed by far the largest increase in employment at 3.2 percent, followed by Ontario at 1.1 percent and Quebec at 0.9 percent. All other provinces registered declines in employment, led by Prince Edward Island (down 2.3 percent), followed by Alberta (down 1.6 percent) and Newfoundland and Labrador (down 1.5 percent).

TABLE 3-3
Employment and Related Measures

Number of Employees	2016 (000's)	Share (%)	Growth (%)
Total, all industries	18,079.9	100.0	0.7
Industrial Employment			
Goods-producing industries	3,833.0	21.2	-1.0
Agriculture	289.2	1.6	-1.9
Forestry and fishing	63.0	0.3	0.0
Mining, oil and gas extraction	263.8	1.5	-9.0
Utilities	137.2	0.8	0.1
Construction	1,385.0	7.7	1.0
Manufacturing	1,694.8	9.4	-1.0
Services-producing industries	14,246.9	78.8	1.2
Trade	2,745.9	15.2	0.5
Transportation and warehousing	907.4	5.0	-1.1
Finance, insurance and real estate	1,127.0	6.2	2.2
Professional/technical	1,393.7	7.7	2.0
Business and support	766.4	4.2	0.8
Education	1,270.0	7.0	-0.3
Health care/social assistance	2,339.3	12.9	2.1
Information, culture and recreation	782.4	4.3	4.2
Hotels and restaurants	1,212.6	6.7	0.2
Other	774.9	4.3	1.7
Public administration	927.3	5.1	2.2
Provincial Employment			
Alberta	2,263.8	12.5	-1.6
British Columbia	2,379.5	13.2	3.2
Manitoba	633.6	3.5	-0.4
New Brunswick	351.5	1.9	-0.1
Newfoundland and Labrador	232.6	1.3	-1.5
Northwest Territories	22.5	0.1	2.7
Nova Scotia	446.2	2.5	-0.4
Nunavut	13.5	0.1	6.3
Ontario	6,999.6	38.7	1.1
Prince Edward Island	71.5	0.4	-2.3
Quebec	4,133.1	22.9	0.9
Saskatchewan	568.5	3.1	-0.9
Yukon	20.2	0.1	4.1

Inflation

Canada's annual rate of inflation rose slightly from 1.1 percent in 2015 to 1.4 percent in 2016, which is at the lower end of the Bank of Canada's target band. However, the Bank of Canada's core inflation index, which excludes eight of the most volatile components[1] of the CPI and the effect of changes in indirect taxes on the remaining components, decelerated to 1.8 percent following a 2.2-percent increase in 2015. Thus the core inflation rate, which rose above 2 percent in 2015 for the first time since the Great Recession, fell back well within the monetary policy target area, with monetary support from the Bank of Canada continuing to run at high levels.

Growth in food prices slowed down considerably to 1.5 percent in 2016, down from the 3.7-percent pace of 2015. Prices of shelter and household operations increased at a comparable rate, up 1.6 percent and 1.7 percent, respectively. Prices of alcohol and tobacco continued to grow faster than the average at 3.2 percent, while recreation and education activities cost 1.7 percent more in 2016 than in the previous year. Prices of gasoline recorded another annual decrease (down 6.0 percent) while prices of clothing and footwear declined slightly (down 0.2 percent).

Services prices grew considerably faster (up 1.8 percent) than goods prices (up 0.9 percent), as there remains some excess production capacity in the economy. Prices of durable goods grew the fastest (up 3.1 percent) while prices of semi-durables and non-durables stagnated.

Regionally, the highest level of inflation was observed in Newfoundland and Labrador at 2.7 percent. Inflation was also higher than the national average in Nunavut (up 2.5 percent), New Brunswick (up 2.2 percent), Ontario (up 1.8 percent) and British Columbia (up 1.8 percent). Quebec had the lowest inflation recorded in Canada at 0.7 percent.

TABLE 3-4
Percent Changes in Consumer Prices

	2014	2015	2016
All-items CPI	2.0	1.1	1.4
Food	2.3	3.7	1.5
Shelter	2.7	1.1	1.6
Household operations	1.9	2.7	1.7
Clothing and footwear	1.2	1.5	-0.2
Transportation	1.1	-3.0	1.1
Gasoline	0.2	-16.5	-6.0
Health and personal care	0.6	1.3	1.4
Recreation and education	1.1	1.9	1.7
Alcohol and tobacco	4.4	3.7	3.2
Core CPI	1.8	2.2	1.8
Durable goods	0.2	1.5	3.1
Semi-durable goods	1.1	1.5	0.2
Non-durable goods	2.5	-0.7	0.1
Services	2.1	2.0	1.8
Provincial CPI			
Alberta	2.6	1.1	1.1
British Columbia	1.0	1.1	1.8
Manitoba	1.9	1.2	1.3
New Brunswick	1.5	0.5	2.2
Newfoundland and Labrador	1.9	0.5	2.7
Northwest Territories [Yellowknife]	1.7	1.6	1.2
Nova Scotia	1.7	0.4	1.2
Nunavut [Iqaluit]	1.3	1.9	2.5
Ontario	2.4	1.2	1.8
Prince Edward Island	1.6	-0.6	1.2
Quebec	1.4	1.1	0.7
Saskatchewan	2.4	1.6	1.1
Yukon [Whitehorse]	1.3	-0.2	1.0

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

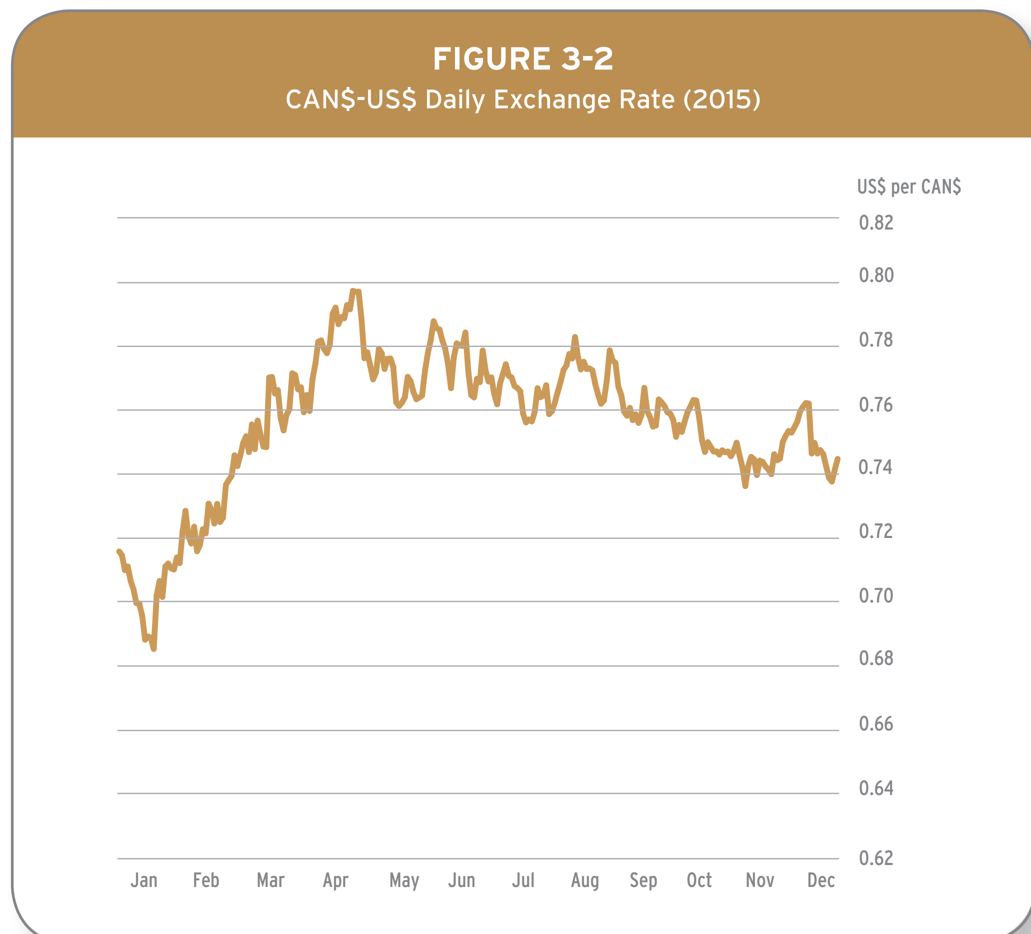
The Canadian Dollar

Although the value of the Canadian dollar vis-à-vis its U.S. counterpart finished the year higher than it started, its average yearly valuation against the greenback declined for the fifth consecutive year. A decline of 3.5 percent against the U.S. currency was recorded in 2016, following the drop of 13.6 percent in 2015 and of 6.8 percent in 2014. The loonie's decline relative to the U.S. dollar in 2016 was mirrored by its decline against the European euro (down 3.3 percent). The Japanese yen strengthened considerably during the year, and the Canadian dollar declined 13.5 percent against that benchmark. At the same time, the Canadian dollar rose 8.8 percent vis-à-vis the British pound, which has had a difficult year.

Throughout most of 2016, the Canadian dollar traded in a narrow 10-cent band relative to the U.S. dollar (between 70¢ and 80¢). After opening just below US 72¢ in 2016, the Canadian dollar fell rapidly to its annual low of US 68.5¢ by January 20. The currency then went on a rally that lasted until May 2, when it hit its annual high of US 79.7¢. For the rest of the year, a very even performance with a hint of a decline was observed. The US 75-cent mark was reached in October, and the Canadian dollar continued trading around that mark to close at US 74.5¢ on December 30, 2016.

In consequence, the Canadian dollar appreciated in value 3.1 percent against the U.S. dollar over the course of the year; likewise, an appreciation was recorded against the European euro (up 6.1 percent), the Japanese yen (up 0.1 percent) and especially against the British pound (up 23.2 percent).

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



CHAPTER 4 | Canada's International Transactions

Canada's International Transactions

The slide in commodity prices that so strongly affected Canada's resource-based exports in 2015 moderated in 2016, although there were still sizeable declines during the year, ranging in magnitude from roughly one-quarter to one-third of the 2015 amounts. The combined impact of these declines further decreased the overall price index of Canada's goods exports by 1.1 percent. Most of this impact was felt in the energy sector, where prices dropped by 13.8 percent from 2015 levels. At the same time, the price index of Canada's imports grew by 1.2 percent. As a result, Canada's overall terms of trade have deteriorated further in 2016, falling by 2.0 percentage points to 91.4 percent of their 2007 level.

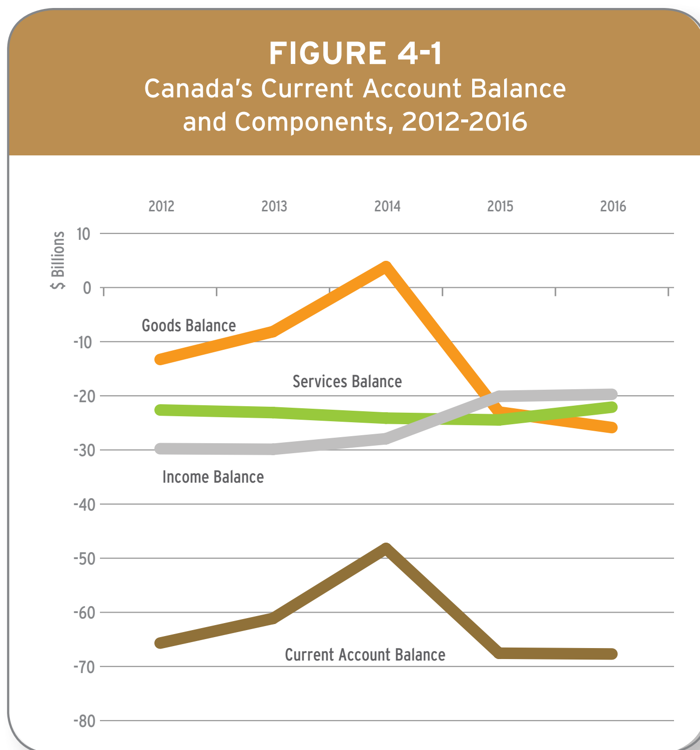
The value of both exports and imports of goods declined slightly in 2016. Despite the decline in nominal exports, real exports grew, and net exports contributed positively and significantly to GDP growth in 2016. The relationship between energy prices and the value of the Canadian dollar continued to influence the adjustment process in Canada's trade, although to a much lesser extent than in 2015. The volume of relatively more expensive imports declined 1.3 percent, while the volume of exports, which became relatively more attractive to foreigners, grew 0.5 percent. Increases in exports were centred on the motor vehicles and consumer goods sectors, while volumes were down for both imports and exports of aircraft and other transportation equipment. These adjustments resulted in the trade in goods largely moving sideways, signalling the likely end of the adjustment process unless new disturbances occur. Additionally, if not for the devastating fire in Alberta that had a considerable impact on the export of energy products, energy exports would have grown in volume, and total goods exports would have grown in value in the year 2016.

While these developments widened Canada's trade deficit in goods, that widening was mostly offset by the narrowed deficit in services. Both exports and imports of services continued to expand during the year, but exports grew more than twice as fast, rising by $4.9 billion—the greatest increase among all the current account entries. While Canada continues to run an aggregate services trade deficit, this deficit is principally due to two causes: tourism and transportation services, and not to trade policy. First, Canadians spend much more abroad than do visitors to Canada (although that deficit has shrunk considerably in 2016); 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 14 years, all the way back to 2003 and throughout the Great Recession.

As a result of these developments, Canada's current account deficit was largely unchanged, going up a notch from $67.6 billion in 2015 to $67.7 billion in 2016.

The Balance of Payments

The summary of Canada's international transactions is recorded in its Balance of Payments (BoP) accounts. BoP entries track all the exchanges and transfers of economic value between Canadian residents and non-residents, viewed from the Canadian perspective. The BoP accounts consist of two main sections: 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 investments, 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 values of exports of goods and services are recorded as receipts in the current account. The values of the imports of goods and services are 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—edged down very slightly last year, widening the current account deficit from $67.6 billion in 2015 to $67.7 billion in 2016. After two years of narrowing deficits in 2013 and 2014, followed by an expansion in 2015, this $0.1-billion downward shift left the 2015 balance essentially unaffected and not far from the 2012 deficit level of $65.7 billion. As a share of growing GDP, however, this stationary deficit is relatively smaller i.e. the current account deficit of 2016 amounted to 3.3 percent of GDP—down from the 2015 share of 3.4 percent of GDP.

Beneath the stable surface of the current account, however, there were ongoing changes. Chief among those was the continued deterioration of the trade balance in goods, which followed up a $26.9-billion drop in 2015 with a decline of $2.9 billion in 2016. The decline in both years was directly traceable to the sharp deterioration in Canada's terms of trade index: from 100.3 in 2014, it plummeted to 93.4 in 2015 and then declined further to 91.4 percent in 2016. The severity of this two-year decline in the amount of 8.9 percentage points can only be understood by comparing it with the only time that it was exceeded in the past. In 2009, the collapse in resource prices after the Great Recession

1 With the revisions to the Balance of Payments Manual, the *financial account* is now the short name for the *capital and financial account* (which was formerly abbreviated to *capital account*). The "capital account" remains an entry in the BoP, but not within the financial account. It is a small and usually inconsequential entry within the current account; its usage there should not be confused with its former usage.

drove Canada's terms of trade down 9.6 percentage points. Yet even then, the terms of trade had bounced up 8.4 percentage points by 2011; this time, recovery is not certain or imminent, and Canada's trade structure must readjust to the new terms of trade in conditions of uncertainty, with its dampening impacts on investment and growth.

The impact of the deteriorating goods balance was largely offset by the narrowing of the deficit on the services balance by $2.4 billion in 2016. As a result, the deficit in goods and services trade widened by only $0.5 billion. Meanwhile, the income balance (which includes investment income, compensation of employees and transfers) also improved by $0.4 billion, leaving the current account nearly unchanged as a result. Thus, for the second year running, Canada is experiencing a "conjunction" of the principal current account balances as goods, services and income balances show sizeable and comparable deficits of between $20 billion and $26 billion.

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

	2015	2016
Current account balance	**-67,553**	**-67,695**
Goods	-23,002	-25,869
Services	-24,455	-22,098
Primary income	-16,489	-16,584
Secondary income	-3,606	-3,145
Financial account balance	**-68,275**	**-65,099**
Net acquisition of financial assets	201,722	197,290
Canadian direct investment assets	102,158	85,115
Canadian portfolio investment	60,236	13,792
Official international reserves	10,911	7,390
Other Canadian investment	28,417	90,992
Net incurrence of liabilities	269,997	262,389
Foreign direct investment liabilities	69,508	41,800
Foreign portfolio investment	106,024	161,276
Other foreign investment	94,466	59,312
Discrepancy (net errors and omissions)	**-616**	**2,687**
BALANCE OF PAYMENTS	**0**	**0**

Turning now to Canada's financial account, 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 *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 moderated from $68.3 billion in 2015 to $65.1 billion in 2016. This narrowing of $3.2 billion arose from a combination of the declines in both the net incurrence of liabilities (down $7.6 billion) and the net acquisition of financial assets (up $4.4 billion), with the former prevailing over the latter. The principal factors in the decline in net incurrence of liabilities, i.e. Canadian financial assets acquired by foreigners, was the net decrease in both direct[2] and other foreign investment in Canada[3] (down $27.7 billion and $35.2 billion, respectively). Foreign portfolio investment rose substantially (up $55.3 billion), with the primary target being Canadian equity and investment fund shares. Investment in these rose by $38.9 billion, reversing the $10.8-billion net selloff that took place in 2015. Canadian bonds also did well, rising $19.3 billion.

The overall decline in net acquisition of financial assets (i.e. Canadian investment abroad) originated primarily in the net decline in Canadian portfolio investment, which plummeted 77 percent (down $46.4 billion), due to large net disinvestment in foreign bonds. Direct investment assets also declined substantially (down $17.0 billion), as

2 The decline took place predominantly in equity.
3 The decline took place predominantly in currency and deposits.

considerable disinvestment in assets and debt instruments took place. It is important to note that these processes were largely the result of a shift from less profitable to more profitable activities, as these massive movements were closely matched by the increase in "other Canadian investment" (i.e. the financial assets stayed abroad but were switched between investments). That "other Canadian investment" rose $62.6 billion, mostly in the form of currency and deposits (up $56.4 billion). Official international reserves decreased by $3.5 billion in 2016.

There was also a statistical discrepancy of $2.7 billion in 2016, which balanced the net borrowing on the financial account with the balance of receipts and payments on the current account. This discrepancy, which represents net errors and omissions, indicates that there may be significant adjustments to the quoted figures with the passage of time, particularly those in the financial account.

Goods Exports

Canada's exports of goods on a BoP basis fell $3.6 billion in 2016 (down 0.7 percent) to $521.4 billion, with growth in 5 of 11 sectors and decline in the other 6. This was the second consecutive decrease in goods exports after five consecutive annual increases. As in 2015, the decline was due to the fall in export prices, down 1.1 percent during the year, offsetting the 0.5-percent growth in volumes of exports. A separation between prices of resource-based goods and all others was conspicuous: prices for 5 out of 6 resource-based exports fell, but rose for all non-resource-based exports. Export volumes rose in 5 out of 11 sectors and fell in the other 6, including the energy sector.

In 2016, the most substantial price decline was once again recorded in exports of energy products. The 13.8-percent fall was, however, much less dramatic than the one in 2015. This time, volumes of energy exports edged down as well by 0.5 percent, and as a consequence their value declined 14.3 percent in 2016 (down $11.9 billion). A similar situation occurred in exports of metal ores and minerals, although the causes were reversed: volumes of exports decreased 11.6 percent, while prices fell 3.0 percent, combining for a 14.2-percent fall in the value of exports (down $2.7 billion). Other notable declines were observed in exports of aircraft and other transport equipment, where a drop in volumes of nearly 10 percent occasioned the 5.6-percent drop in value; and in chemicals, plastics and rubber, where a 3.9-percent price decline translated into the same value decline on stable volumes.

TABLE 4-2
Goods Exports, 2016

Products	Value of Exports ($B)	Change, Values (%)	Change, Volumes (%)	Change, Prices (%)
Total, all sectors	**521,368**	**-0.7**	**0.5**	**-1.1**
Agri-food and fish	31,777	-1.2	0.8	-2.0
Energy	71,816	-14.3	-0.5	-13.8
Metal ores and minerals	16,302	-14.2	-11.6	-3.0
Metal & mineral products	57,556	-0.6	-0.4	-0.2
Chemicals, plastics and rubber	33,854	-3.9	-0.0	-3.9
Forestry, building & packaging	41,318	4.3	3.7	0.5
Industrial machinery & equipment	32,964	0.3	-1.5	1.8
Electronical & electrical equipment	28,304	2.2	1. 1	1.0
Motor vehicles	95,640	9.5	6.5	2.9
Aircraft & other transport equipment	23,493	-5.6	-9.7	4.5
Consumer goods	74,007	5.7	3.5	2.0
By Region				
U.S.	392,462	-1.2		
EU	41,825	6.6		
Japan	11,004	8.7		
China	22,352	4.0		
India	4,059	-9.6		
Mexico	8,874	14.0		
South Korea	4,624	9.9		
Rest of World	36,168	-10.5		

The most notable growth for the second year running occurred in those sectors that can be loosely termed "non-resource-based", or "advanced manufacturing" sectors. Supported by export price increases, most of the exports in these sectors grew, although aircraft and other transport equipment was the exception. The highest export growth was recorded in motor vehicles, whose value increased 9.5 percent (up $8.3 billion) due to a combination of a 6.5-percent volume increase with a 2.9-percent price increase. Exports of consumer goods, the second-largest export sector, rose 5.7 percent (up $4.0 billion) as volumes rose 3.5 percent and prices increased 2.0 percent. Exports of forestry, building and packaging products rose 4.3 percent, primarily on higher volumes, while the higher value of exports of industrial machinery and equipment was due to rising prices that offset the lower export volumes.

Regionally, exports to most large trading partners increased, though exports to the Unites States edged down 1.2 percent (to 75.3 percent of the total goods exports), as lower energy and aircraft exports were mostly offset by motor vehicles and other advanced manufacturing exports. Exports to the EU rose 6.6 percent, and exports to Japan were up 8.7 percent. Exports to Mexico soared, up 14.0 percent. Exports to China increased 4.0 percent and exports to South Korea rose 9.9 percent, but exports to India fell (down 9.6 percent).

Goods Imports

Canada's imports of goods on a BoP basis took a small step back in 2016, falling 0.1 percent (down $0.7 billion), their first decrease since 2009. Declines occurred in 7 out of 11 sectors. Growth in import prices substantially mitigated, but did not fully offset, the effect of the volume declines. Import prices rose in 8 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 1.6 percent in 2016 (up $1.8 billion). This growth was driven by a price increase of 3.8 percent, while the volume of imports decreased 2.2 percent. The second-largest import sector, motor vehicles, grew by 6.2 percent (up $6.2 billion) on volume growth with prices almost constant. Imports of agri-food and fish grew 5.1 percent in volume, with sliding prices moderating the import value increase to 3.9 percent. Imports of energy products, on the other hand, also grew in volume (up 5.2 percent) but decreased 10.9 percent in value owing to a 15.3-percent price decline.

TABLE 4-3
Goods Imports, 2016

Products	Value of Imports ($B)	Change, Values (%)	Change, Volumes (%)	Change, Prices (%)
Total, all sectors	**547,237**	**-0.1**	**-1.3**	**1.2**
Agri-food and fish	17,051	3.9	5.1	-1.1
Energy	27,431	-10.9	5.2	-15.3
Metal ores and minerals	10,745	4.0	2.0	1.9
Metal & mineral products	44,582	-4.3	-6.3	2.2
Chemicals, plastics and rubber	44,377	-1.0	-1.1	0.1
Forestry, building & packaging	23,863	-3.0	-5.5	2.6
Industrial machinery & equipment	53,022	-1.2	-6.0	5.1
Electronical & electrical equipment	63,075	-0.2	-3.4	3.4
Motor vehicles	106,656	6.2	6.3	-0.1
Aircraft & other transport equipment	18,718	-12.2	-15.3	3.6
Consumer goods	119,348	1.6	-2.2	3.8
By Region				
U.S.	359,954	-0.9		
EU	52,254	-1.5		
Japan	11,763	9.0		
China	37,581	-3.5		
India	2,951	1.0		
Mexico	18,882	2.8		
South Korea	8,949	45.3		
Rest of World	54,903	0.9		

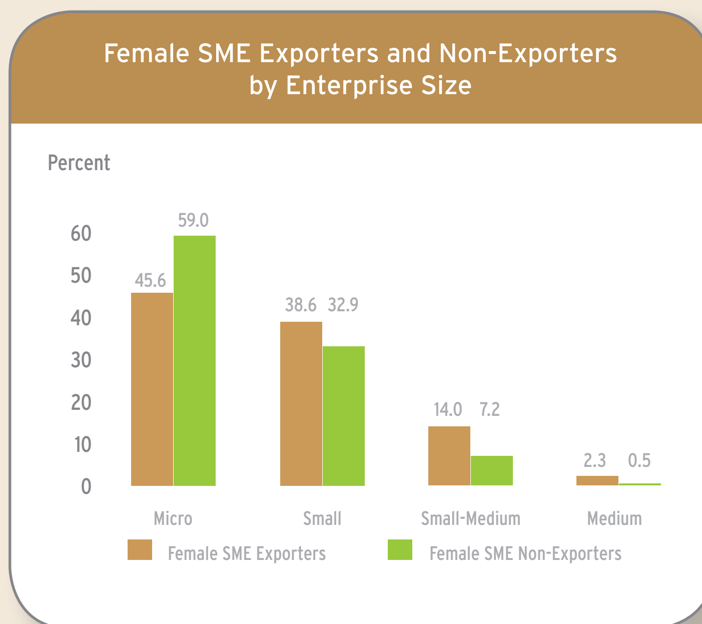
The largest proportional decrease in imports occurred in the aircraft and transport equipment sector (down 12.2 percent, or $2.6 billion), where values fluctuate substantially from year to year; 2015 values were unusually high. The volume of imports declined 15.3 percent, while prices rose 3.6 percent. Declines in volumes also drove down imports of metal and mineral products; industrial machinery and equipment; forestry building and packaging products; and electronic and electrical equipment, in spite of a rise in prices in all of these sectors.

Imports from several key destinations decreased, with losses in imports from China leading the way at 3.5 percent. Imports from the EU also declined (down 1.5 percent) as did those from the United States (down 0.9 percent) to reduce the share of goods imports from Canada's main trading partner to 65.8 percent. Other major destinations increased their shipments to Canada—imports from South Korea rose 45.3 percent, those from Japan went up 9.0 percent, and imports from Mexico were up 2.8 percent. Imports from the rest of the world increased marginally for the second consecutive year.

Majority-Female Owned Exporting SMEs in Canada

Despite an increased participation of women in the formal economy during the past several decades, females continue to be less likely to own businesses in Canada compared to males. Furthermore, when females do own businesses, these businesses tend to be smaller and less likely to participate in international markets. Majority-female owned small and medium enterprises (henceforth female SMEs)[1] exhibit similar traits to all SMEs when it comes to internationalization. That is, among SMEs, those that export tend to be larger and have owners with higher levels of education and experience. Yet, female SMEs appear to be underrepresented among exporting enterprises. In 2014, female SMEs represented 15.7 percent of all SMEs, but only 11.1 percent of exporting enterprises. A number of non-gender characteristics, such as industry and firm size, contribute to this underrepresentation. This note explores firm and owner characteristics of female SMEs in Canada to learn more about the factors driving their export propensities using data from the Statistics Canada Survey on Financing and Growth of Small and Medium Enterprises (the Survey). The Survey covered over 600,000 SMEs in Canada in 2014 with over 70,000 exporters and over 97,000 female SMEs.

Female SME Exporters Outshine Female Non-Exporters in Size, Education, and Experience



Female SME exporters exhibit a number of characteristics that are common to exporting SMEs more generally: they are larger and their owners have more education and experience.

It is well established that exporting firms tend to be larger on average compared to non-exporters.[2] According to the resource-based theory of firms, size is a proxy for a firm's financial and human resources, and firms need enough extra resources before they can allocate some to exporting markets.[3] It could also be the case that when firms reach a certain level of success (and therefore size) in their domestic markets, they turn to global markets to

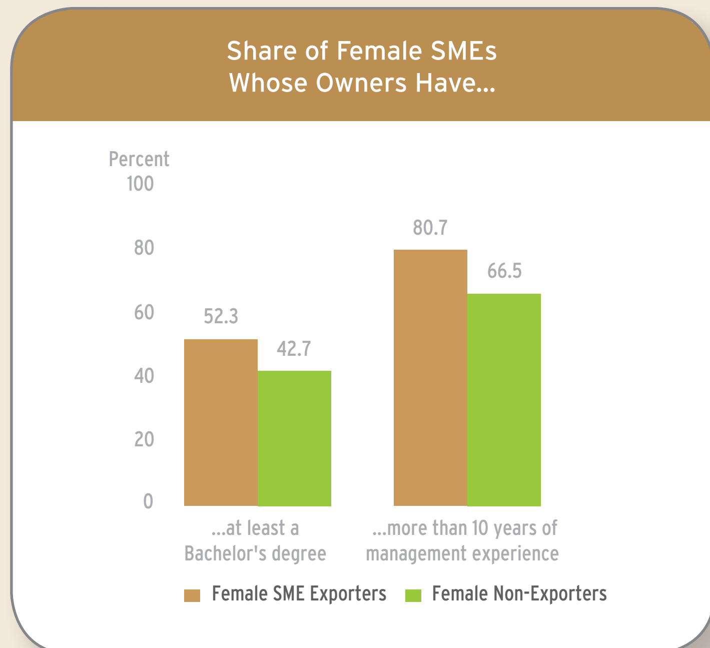
1 Majority-female owned SMEs are defined as 51+% of the owners self-identifying as female. Non-female SMEs is defined here as anywhere between 0% and 50% of owners self-identifying as female (where 0% indicates a completely male-owned firm).

2 In the Canadian context, Orser et al. (2010) finds that Canadian SME exporters are larger compared to non-exporters, controlling for other relevant firm and ownership characteristics.

3 See Martineau and Pastoriza (2016).

expand further. Indeed, export propensity increases with firm size among Canadian SMEs studied in the 2014 Survey, with only 9.1 percent of micro enterprises exporting compared to 28.0 percent of medium enterprises.[4]

Female SME exporters are larger on average compared to female SME non-exporters: 2.3 percent of female SME exporters were medium enterprises compared to only 0.5 percent of non-exporters, meaning that, relatively speaking, the number of female exporters that are medium enterprises is four times as great as the number of female non-exporters. Meanwhile, non-exporters are more likely to be micro enterprises as 45.6 percent of female SME exporters are micro enterprises compared to 59.0 percent of non-exporters.



Years of education and management experience can be considered a proxy for an individual's skill and knowledge; SMEs whose owners have high levels of education and management experience are more likely to export.[5] Female exporters were more educated on average than female non-exporters: 52.3 percent have at least a Bachelor's degree compared to 42.7 percent for non-exporters. Moreover, their owners had more experience as only 66.5 percent of female SME non-exporters had owners with more than 10 years of management experience compared to 80.7 percent of female SME exporters.

---

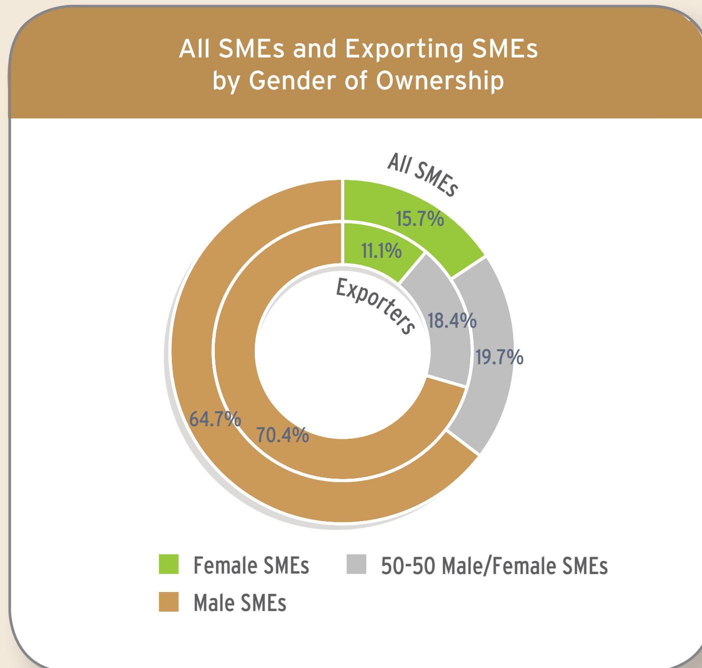
4 Size is defined by the number of employees. Micro enterprises have between 1 and 4 employees, small enterprises have between 5 and 19 employees, small-medium firms have between 20 and 99 employees, and medium firms have between 100 and 499 employees.

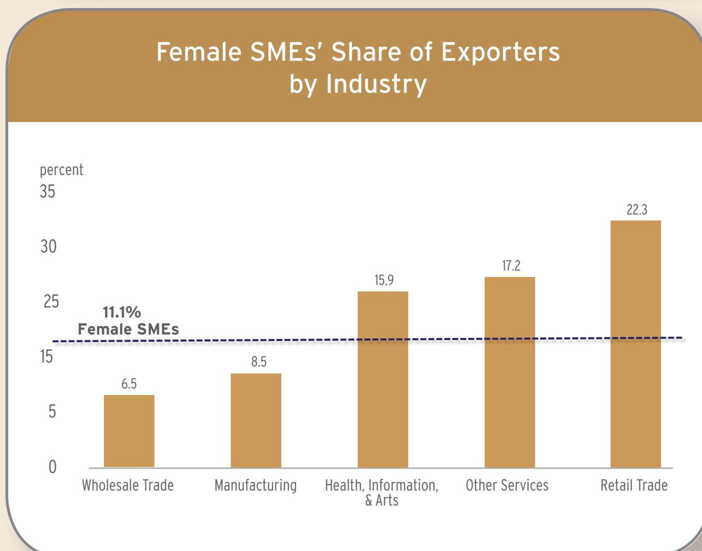
5 For SMEs, the decision to export is largely that of the primary business owner; hence, educated and experienced owners with goals of expanding their business are more likely to export (Martineau and Pastoriza, 2016). An owner's education and experience might not have the same direct link to exporting in large firms where the decision to export might not be solely that of the owner.

Female SMEs are Underrepresented Among Exporting SMEs

Despite exceeding non-exporters in size, education and experience, female SMEs are underrepresented among exporters. Female SMEs represented 15.7 percent of Canadian SMEs in 2014, but only 11.1 percent of exporting SMEs. This may, in large part, be explained by industry and firm size.

Export propensity varies greatly by industry. Generally speaking, some industries are more suited for exporting while the nature of other industries is more local. For example, 1.9 percent of construction SMEs exported in 2014 while 38.3 percent of manufacturing firms exported that year. The majority of SME exporters are located in three industries: professional and technical services (21.7 percent of exporting SMEs), manufacturing (20.9 percent), and wholesale trade (13.3 percent).





However, female SMEs represented a smaller share of exporters in export-intensive industries than they accounted for on average in 2014. Manufacturing and wholesale trades are among the most export-intensive industries, yet female SMEs represented only 8.5 percent and 6.5 percent of SME exporters in these industries, respectively.

On the other hand, female SMEs accounted for a larger than average share of exporters in industries such as retail trade, other services,[6] and the health, information and arts sector, which are significantly less export-intensive overall.

Like industry, firm size also contributes to the underrepresentation of female SME exporters. Exporters are larger than non-exporters; however, female SMEs are smaller on average compared to their non-female counterparts. 28.0 percent of medium enterprises exported in 2014 and only 2.3 percent of female exporters were this size compared to 4.0 percent for

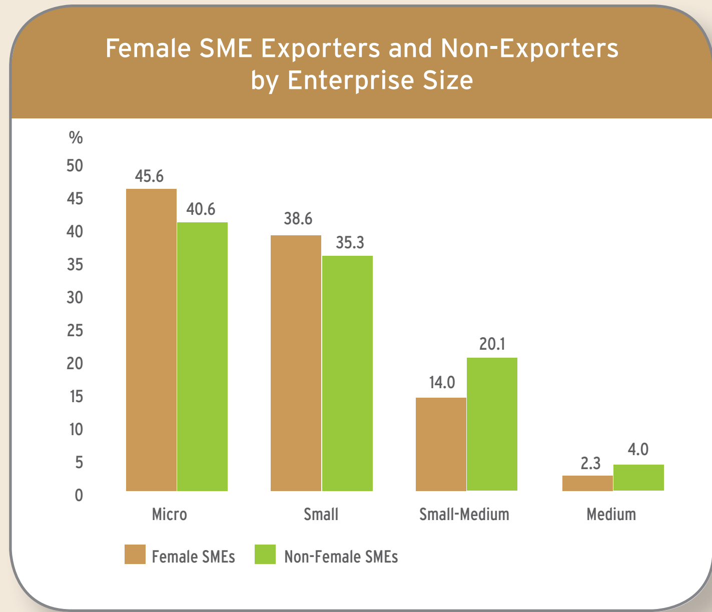
6 Other services include repair and maintenance services, personal and laundry services, religious, civil, professional and similar organizational services, and private household services. It excludes public administration.

non-female exporters. Comparatively, 9.1 percent of micro enterprises exported and 45.6 percent of female exporters were this size compared to 40.6 percent of non-female exporters.

Non-gender characteristics play an important role in determining the export propensity of SMEs. While female SME exporters are larger and have more experienced and educated owners than female non-exporters, females are still underrepresented among exporters. Firm size and industry likely explains some of this discrepancy.

However, given the limitations of this data, it is not possible to be certain if female SMEs would still be underrepresented among exporters once size and industry composition are controlled for. Perhaps female SMEs have less of an appetite for exporting or they face additional barriers to exporting. Regardless, it is clear that females still have a long way to go to reach a representative level of participation in the formal economy. This includes gaining a representative share of SMEs more generally in addition to exporting SMEs.

For more information on this topic, please visit the Business Women in International Trade Website.



References

Martineau, C., & Pastoriza, D. (2016). International involvement of established SMEs: A systematic review of antecedents, outcomes and moderators. International Business Review, 25(2), 458-470.

Orser, B., Spence, M., Riding, A., & Carrington, C. (2010). Gender and export propensity. Entrepreneurship Theory and Practice, 34(5), 933-958.

Trade in Services

In 2016, Canada's services exports increased for the seventh consecutive year, rising by $4.9 billion to reach an all-time high of $107.2 billion, an increase of 4.8 percent over 2015. Travel exports, which represent the purchase of goods and services by foreign travellers in Canada, grew briskly at 13.6 percent in 2016 to reach $24.1 billion, up $2.9 billion from $21.2 billion in 2015. While personal travel, which accounted for nearly 85 percent of total travel exports, was responsible for most of the increase, business travel was the faster-growing category at 18.4 percent. The weakness of the Canadian dollar vis-à-vis the U.S. dollar is likely related to this travel boom.

TABLE 4-4
Canada's Service Exports by Sector, 2015 and 2016

($ millions and annual % change)	2015	2016	% change
Total, all services	**102,295**	**107,164**	**4.8**
Travel	21,180	24,057	13.6
Business travel	3,092	3,662	18.4
Personal travel	18,088	20,396	12.8
Transportation	15,605	16,320	4.6
Water transport	3,206	3,129	-2.4
Air transport	6,906	7,438	7.7
Land and other transport	5,493	5,753	4.7
Commercial services	63,946	65,221	2.0
Maintenance and repair services	2,096	2,091	-0.2
Construction services	478	500	4.6
Insurance services	1,861	1,863	0.1
Financial services	10,276	10,715	4.3
Telecommunications, computer, and information services	8,294	8,862	6.8
Charges for the use of intellectual property	5,537	5,933	7.2
Professional and management consulting services	13,184	13,229	0.3
Research and development services	5,471	5,383	-1.6
Technical, trade-related, and other business services	14,729	14,219	-3.5
Personal, cultural, and recreational services	2,021	2,427	20.1
Government services	1,564	1,565	0.1

Exports of transportation services increased $0.7 billion in 2016 to reach $16.3 billion, a 4.6-percent increase, with air transportation services (up 7.7 percent) chiefly responsible. Land and other transportation services also grew (up 4.7 percent) while water transportation services declined again (down 2.4 percent).

Commercial services exports, the crucial component accounting for just over 60 percent of the total services exports, grew at a 2.0-percent pace in 2016, considerably slower than other services. Exports increased $1.3 billion to reach $65.2 billion. While growth varied considerably across sectors, most of those showed measured growth: exports increased in seven sub-sectors and declined in the other three.

The largest absolute increase occurred in exports of telecommunications, computer and information services, which grew $0.6 billion (up 6.8 percent) to reach $8.9 billion for the year—an encouraging development for that industry. Exports of financial services, another heavyweight category, grew $0.4 billion (up 4.3 percent). Strong growth was also recorded in charges for the use of intellectual property (formerly known as royalties and licence fees), which were up $0.4 billion. The fastest proportional growth occurred in the exports of personal, cultural and recreational services, which soared 20.1 percent (up $0.4 billion). Technical, trade-related and other business services, the largest overall sub-sector of commercial services, experienced the largest decline in value, falling by $0.5 billion (down 3.5 percent), while research and development services edged down 1.6 percent.

Canada's imports of services grew considerably slower than exports, increasing 2.0 percent. In 2016, the value of service imports reached $129.3 billion, $2.5 billion over the 2015 level. Travel imports, or spending by Canadians while abroad, have remained essentially stable. Despite business travel imports soaring 21.0 percent, the 2.7-percent decrease in personal travel kept travel imports largely unchanged (up 0.1 percent). Transportation service imports decreased slightly, down $0.1 billion or 0.5 percent, in 2016. Imports of air transportation services fell 3.0 percent, offset by the increase in imports of land transportation services, while water transportation services moved sideways during the year.

Thus import growth during 2016 was entirely due to commercial services imports, which recorded a 4.2-percent increase and added $2.6 billion to their value to reach $63.8 billion. Close to half of this growth was due to increased imports of financial services, which rose 12.6 percent above their 2015 level (up $1.1 billion). Proportionally, that growth was followed by imports of personal, cultural and recreational services, which rose 8.0 percent (up $0.2 billion), insurance services, which rose 6.5 percent (up $0.3 billion), and professional and management consulting services, which rose 5.7 percent (up $0.7 billion).

TABLE 4-5
Canada's Service Imports by Sector, 2015 and 2016

($ millions and annual % change)	2015	2016	% change
Total, all services	**126,751**	**129,261**	**2.0**
Travel	38,515	38,564	0.1
Business travel	4,607	5,576	21.0
Personal travel	33,908	32,990	-2.7
Transportation	25,826	25,708	-0.5
Water transport	11,846	11,837	-0.1
Air transport	10,322	10,010	-3.0
Land and other transport	3,660	3,862	5.5
Commercial services	61,234	63,790	4.2
Maintenance and repair services	1,153	1,122	-2.7
Construction services	446	334	-25.1
Insurance services	4,506	4,797	6.5
Financial services	8,977	10,108	12.6
Telecommunications, computer, and information services	7,465	7,409	-0.8
Charges for the use of intellectual property	12,606	12,849	1.9
Professional and management consulting services	11,869	12,551	5.7
Research and development services	1,268	1,130	-10.9
Technical, trade-related, and other business services	10,469	10,818	3.3
Personal, cultural, and recreational services	2,477	2,674	8.0
Government services	1,176	1,199	2.0

On the other hand, substantial declines in imports were recorded in some smaller sub-sectors: imports of construction services fell by a quarter, although that amounted to only $0.1 billion, while imports of research and development services declined 10.9 percent (also down $0.1 billion).

Overall, exports of services grew more than twice as fast as imports, and despite the greater value of the latter, reduced Canada's deficit in services trade by $2.4 billion to $22.1 billion in 2016. Almost two-thirds of that deficit (65.7 percent, or $14.5 billion) is due to the travel deficit, which narrowed by $2.8 billion (over 70 percent) in 2016. The remainder of the services trade deficit can be traced to the large and growing deficits in water transportation services ($8.7 billion in 2016), which represents the international shipping industry services provided to Canada.[4]

4 Canada owns a very small share of the international shipping industry. Thus the vast majority of Canada's shipments not destined to the United States involve paying shipping to foreigners for transoceanic water transportation services.

Commercial services, on the other hand, have now run a surplus for 14 years, all the way back to 2003 and throughout the Great Recession. However, this surplus has been declining for several years and what remained of it in 2015 ($2.7 billion) was cut almost in half in 2016 (down to $1.4 billion). Strong increases in imports of financial services and professional and management consulting services were the chief influence on this trend. Meanwhile, Canada's traditional deficit in insurance services grew worse (widening by $0.3 billion to $2.9 billion) while the deficit in charges for the use of intellectual property somewhat improved (narrowing by $0.2 billion to $6.9 billion) in 2016.

Trade in Services by Region

Canada's trade in services with the United States was more balanced than in goods, with 55.1 percent of its exports going to the United States and 54.4 percent of its imports coming from there in 2016. Of the overall increase in services exports in 2016, just over half was destined to the United States as exports to that destination increased by $2.5 billion (up 4.5 percent). Imports from the United States grew at less than half that pace, increasing $1.5 billion (up 2.1 percent). As a result, the services trade deficit with the United States narrowed by $1.0 billion (down 8.4 percent). The deficit was entirely due to travel services, as Canadians travelling in the United States spent much more that Americans travelling in Canada spent; however, the travel deficit with the United States decreased once again in 2016 (down 11.5 percent) as the stronger U.S. dollar made it more expensive for Canadians to travel south of the border. Meanwhile, commercial services (over half of all transactions) recorded a trade surplus of $0.7 billion with the United States.

TABLE 4-6
Services Exports and Imports by Region ($M)

2016	Exports	% change	Imports	% change	Balance
TOTAL	**107,163**	**4.8**	**129,261**	**2.0**	**-22,098**
United States	**58,999**	**4.5**	**70,323**	**2.1**	**-11,324**
Travel	9,543	11.0	20,918	-2.5	-11,375
Transportation	8,304	3.7	8,940	0.2	-636
Commercial	40,746	3.3	40,047	5.2	699
Government	406	-6.2	418	3.5	-11
EU	18,024	4.2	23,753	-1.5	-5,728
Travel	3,520	8.9	6,143	1.0	-2,623
Transportation	3,385	8.2	5,268	-3.3	-1,883
Commercial	10,888	1.7	12,045	-2.1	-1,157
Government	231	1.8	296	2.1	-66
Japan	1,699	8.3	2,377	-2.3	-678
Travel	516	12.4	214	-31.6	302
Transportation	578	8.0	820	4.2	-243
Commercial	575	5.3	1,321	0.8	-745
Government	30	3.4	22	4.8	8
ROW	28,440	5.5	32,807	4.7	-4,367
Travel	10,477	17.8	11,288	5.8	-811
Transportation	4,052	2.9	10,679	0.1	-6,627
Commercial	13,012	-1.7	10,377	8.6	2,636
Government	899	2.7	463	0.7	435

In services trade with the EU, Canada's travel and transportation exports grew considerably. Meanwhile, imports of transportation and commercial services decreased, as did overall imports. This movement helped narrow the services trade deficit with the EU to $5.7 billion in 2016 (from $6.8 billion in 2015), with all categories of services in deficit for Canada. The EU accounted for $0.7 billion of the increase in Canada's services exports as receipts from the United Kingdom grew by $0.3 billion while those from Germany and France increased by $0.1 billion each. On the import side, payments for services to the EU declined by $0.4 billion (despite rising to both Germany and the United Kingdom).

Japan was among few places 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 travel accounting for more than a third of both exports and imports. Exports of travel services to ROW soared 17.8 percent in 2016, reaching $10.5 billion; imports growth was more subdued, at 5.8 percent. The surplus in commercial services, however, was sharply reduced (from $3.7 billion in 2015 to $2.6 billion in 2016) as exports declined 1.7 percent while imports grew 8.6 percent. Although they hardly grew in 2016, transportation service imports from ROW were the key reason for the deficit with this region; the deficit of $6.6 billion in this category was likely due chiefly to water transportation services (transoceanic international shipping).

A more detailed analysis shows that services exports increased notably to China (up $0.4 billion) and Hong Kong (up $0.2 billion), while services exports to Singapore and Switzerland both declined by $0.2 billion. Services imports from Mexico were up $0.2 billion with little significant movements elsewhere.

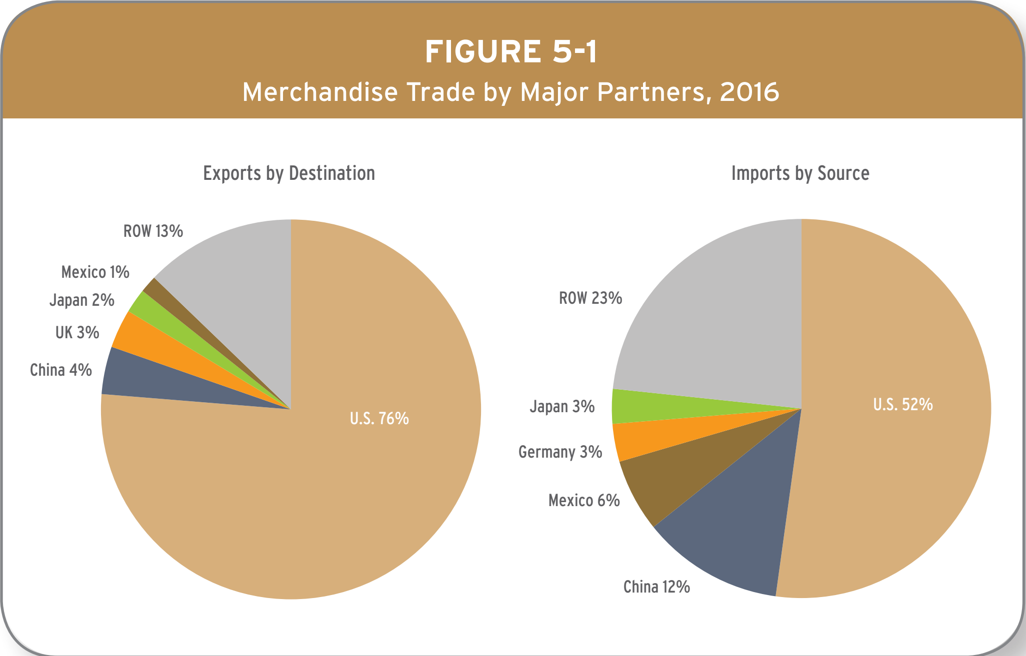
CHAPTER 5 | Key Developments in Canadian Merchandise Trade in 2016

Key Developments in Canadian Merchandise Trade in 2016

The earlier chapters of this report 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 2016. The present chapter takes a closer look at the detailed 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 Chapter Four—allows for a more detailed analysis of the trade statistics: by partner country, by commodity, and by province/territory of origin.

Canadian merchandise exports declined for a second consecutive year in 2016. The 1.4-percent decline reduced exports to $516.9 billion, a $7.1-billion decrease from the 2015 level. Nevertheless, merchandise exports are up 9.5 percent from their 2013 level and within $10 billion of their 2014 record high. Meanwhile, Canadian merchandise imports declined for the first time since 2009, down marginally by 0.6 percent to $533.3 billion. As exports fell more than imports, Canada's merchandise trade deficit widened by $4.2 billion in 2016 to $16.4 billion.

FIGURE 5-1
Merchandise Trade by Major Partners, 2016



The 2015 exports trend largely continued, as the robust economic recovery in the United States bolstered U.S. demand for principal Canadian merchandise products, but the lower energy export values were steep enough to offset all of the other export growth. While the decrease in Canada's energy revenues was once again severe, export

1 Canadian trade statistics are provided in two basic forms: Customs basis and Balance of Payments basis. In Chapter Four, the analysis of trade with major partners used trade data prepared on the Balance of Payments basis. More detailed trade statistics—at the individual country level 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.

volumes were stable for crude oil and increased for gas. While the value of the energy exports to the United States fell a further $18.0 billion, total exports to the U.S. market fell only $7.8 billion (down 1.9 percent); thus over half of the decline in energy exports was compensated for by increases in exports of other products.

The proportion of Canada's exports destined for the United States dropped 0.4 percentage point to 76.3 percent. Exports to China generated a robust 4.1-percent growth to reach $21.0 billion. Despite that, growth in exports to the other top destinations—particularly Mexico, Germany and Japan—led to the increased concentration in merchandise exports to top destinations. Export concentration increased both for the top 10 (to 90.9 percent) and the top 20 destinations (to 94.7 percent).

Imports from the United States and China both declined faster than total imports, but increased imports from Mexico, Japan and South Korea offset a significant portion of that decline. Concentration of imports decreased both for the top 10 and the top 20 destinations.

In 2016, British Columbia and Ontario were the only large provinces to increase their exports. These gains were offset by double-digit declines in exports from Saskatchewan, Alberta and New Brunswick. Three provinces reported higher imports: a large module imported from South Korea for the Hebron oil project increased Newfoundland and Labrador's imports by more than half; the only other sizeable import increase occurred in Ontario, with $8.3 billion in extra imports in 2016. Double-digit import declines occurred in Alberta, Saskatchewan and New Brunswick.

Trade by Top Products

Merchandise Exports

Canada's merchandise exports declined 1.4 percent to $516.9 billion in 2016, after edging down 0.5 percent in 2015. Export values declined $7.1 billion in 2016. These two consecutive annual declines were small, leaving exports only $9.8 billion (or 1.9 percent) below their all-time high of $526.8 billion in 2014. Significantly, 2016 exports were also 9.5 percent above their 2013 level, implying an average positive growth of 3.1 percent over the last three years.

The year's results were mixed for the top 10 export products: 6 of the 10 registered an increase in exports during the year, and 4 experienced a decline. The largest absolute gain occurred in exports of motor vehicles and parts (henceforth "automotive exports"), which grew 10.5 percent (up $8.1 billion) to reach $85.2 billion—within sight of the record high of $86.9 billion for automotive exports in 2000 and surpassing the exports of energy products in value. Automotive exports to the United States accounted for most of this growth (up $6.3 billion, or 8.6 percent), but gains to other major destinations were relatively larger. Automotive exports to Mexico were up 45.7 percent to reach $1.6 billion;[2] to China up 136.4 percent to reach $1.5 billion;[3] to Saudi Arabia up 80.1 percent to reach $0.6 billion;[4] and finally, automotive exports to the United Arab Emirates were up 18.5 percent to reach $0.3 billion.[5]

TABLE 5-1
Canada's Top Merchandise Exports

	Value 2016 ($B)	Change 2016/2015 ($B)	Growth 2016/2015 (%)	Share 2016 (%)
All Products	**516.9**	**-7.1**	**-1.4**	**100.0**
Motor Vehicles	85.2	8.1	10.5	16.5
Energy	82.5	-16.6	-16.8	16.0
Mechanical Machinery & Equipment	39.7	-0.1	-0.2	7.7
Precious Stones & Metals	25.1	0.6	2.6	4.9
Wood & Articles	17.5	2.5	16.9	3.4
Electrical Machinery	16.7	-0.2	-0.9	3.2
Plastics and Articles	16.1	0.1	0.7	3.1
Aircraft	13.6	-2.2	-13.7	2.6
Pharmaceutical Products	11.1	1.3	12.8	2.2
Aluminum & Articles	10.7	0.2	1.9	2.1
Top 10 Products	**318.2**	**-6.2**	**-1.9**	**61.6**
All Other Products	**198.8**	**-0.9**	**-0.5**	**38.4**

Meanwhile, exports of energy products declined 16.8 percent in 2016 (down $16.6 billion) and ended the year at $82.5 billion. The share of total Canadian exports held by energy products continued to decline, down to 16.0 percent—a far cry from 27.0 percent in 2014. An even more severe 19.1-percent decline in energy exports to the United States was behind that trend—wholly due to the decline in the price of crude oil, as the volume of crude oil exports to the U.S. market remained unchanged from 2015.

Energy exports to other destinations increased slightly on aggregate. Coal forms the basis of Canada's energy exports to non-U.S. destinations, particularly to Asia, and its flows were the primary cause of the increase. Coal shipments to Japan, South Korea, China and India all increased significantly, more than doubling in India's case. Five out of Canada's top 10 energy exports destinations were Asian countries, all of them importing mostly bituminous coal. Overall, coal exports increased by $1.0 billion in 2016.

2 Driven by increases in exports of passenger vehicles and motor vehicle parts.
3 Driven by increases in exports of passenger vehicles.
4 Driven by increases in exports of armored fighting vehicles and parts.
5 Driven by increases in exports of passenger vehicles.

Changes in other major export sectors were much smaller in absolute value. Exports of mechanical machinery and equipment were nearly constant, slipping 0.2 percent (down $0.1 billion) from their previous year's level. Exports of precious stones and metals grew 2.6 percent (up $0.6 billion), but this masked a large increase in shipments of gold to the United Kingdom and the United States and a large decline in gold shipments to Hong Kong, while exports of gold to India and Switzerland declined along with exports of diamonds to Belgium and Botswana. The largest proportional increase in the top 10 occurred in exports of wood and articles of wood, which expanded by 16.9 percent (up $2.5 billion). This was mostly accounted for by increased shipments (up $2.3 billion) of sawn coniferous wood (classified under softwood lumber) and particle board to the United States. The only other large increase was a 45-percent growth in exports of fuel wood (wood pellets) to the United Kingdom (up $86 million).

Exports of aircraft and parts declined 13.7 percent in 2016 (down $2.2 billion); the fall in these exports to the United States was even sharper, down $2.4 billion, as exports of airplanes over 15 tonnes nearly halved. This was mitigated somewhat by considerable growth in exports to Spain and Switzerland, with increases of $0.4 billion and $0.3 billion, respectively; aircraft exports to France and Germany also rose considerably.

Exports of pharmaceutical products continued their robust growth, gaining 12.8 percent in 2016 (up $1.3 billion). In the five-year period since 2011, exports in this category increased by a remarkable 132.2 percent, at an average annual rate of 18.3 percent a year, and their ranking among Canada's main exports improved from 21st to 9th place. A quickly growing share of these exports (nearly three-quarters in 2016) is destined for the United States; other important export destinations include Japan, Italy, Brazil, Belgium and Ireland. Medicaments in dosage form account for nearly all of these exports.

Merchandise Imports

Canada's merchandise imports declined by $3.0 billion (down 0.6 percent) in 2016, to $533.3 billion. Import growth was observed for 6 out of 10 top import products, but the declines in the other 4 were more significant and offset those increases. In the end, the aggregate imports of the top 10 products showed marginal positive growth, and it was the decline in other imports that led to the overall decline. The dynamics are further described below.

Automotive imports (motor vehicles and parts), the top item, grew robustly by 4.6 percent (up $3.9 billion), with comparable stable growth from all major suppliers. Automotive imports (predominantly automotive parts) from China registered a small decline, while automotive imports from the United Kingdom jumped by almost one-quarter. In relative terms, imports of trucks grew the most (up 13.3 percent) followed by automotive parts (up 7.1 percent) and passenger vehicles (up 4.1 percent), while imports of both tractors and trailers declined.

TABLE 5-2
Canada's Top Merchandise Imports

	Value 2016 ($B)	Change 2016/2015 ($B)	Growth 2016/2015 (%)	Share 2016 (%)
All Products	**533.3**	**-3.0**	**-0.6**	**100.0**
Motor Vehicles	89.3	3.9	4.6	16.7
Mechanical Machinery & Equipment	81.9	0.7	0.8	15.4
Electrical Machinery & Equipment	52.5	-0.3	-0.6	9.8
Energy	33.5	-4.4	-11.5	6.3
Plastics	19.5	0.4	2.3	3.7
Scientific & Technical Instruments	15.8	0.2	1.0	3.0
Pharmaceuticals	15.1	0.6	3.9	2.8
Precious Stones & Metals	13.9	0.0	-0.1	2.6
Furniture	11.6	0.5	4.1	2.2
Iron & Steel & Articles	11.2	-1.3	-10.6	2.1
Top 10 Products	**344.4**	**0.2**	**0.1**	**64.6**
All Other Products	**188.9**	**-3.2**	**-1.7**	**35.4**

Mechanical machinery imports remained a close second in value, but showed much slower growth at 0.8 percent (up $0.7 billion). Imports from the United States and China, the top suppliers, declined in 2016, and increases in imports from Mexico, Japan, and South Korea compensated for these declines. Further down the list, machinery imports from Germany, Italy and the United Kingdom also declined.

Imports of electrical machinery and equipment declined for the first time since 2009, falling 0.6 percent (down $0.3 billion), as fewer cellphones were imported from China. Imports from Vietnam in this sector continued growing explosively, up over 1,500 percent in five years and 60.5 percent in 2016, as Vietnam became the fifth top supplier of electrical machinery and equipment to Canada.

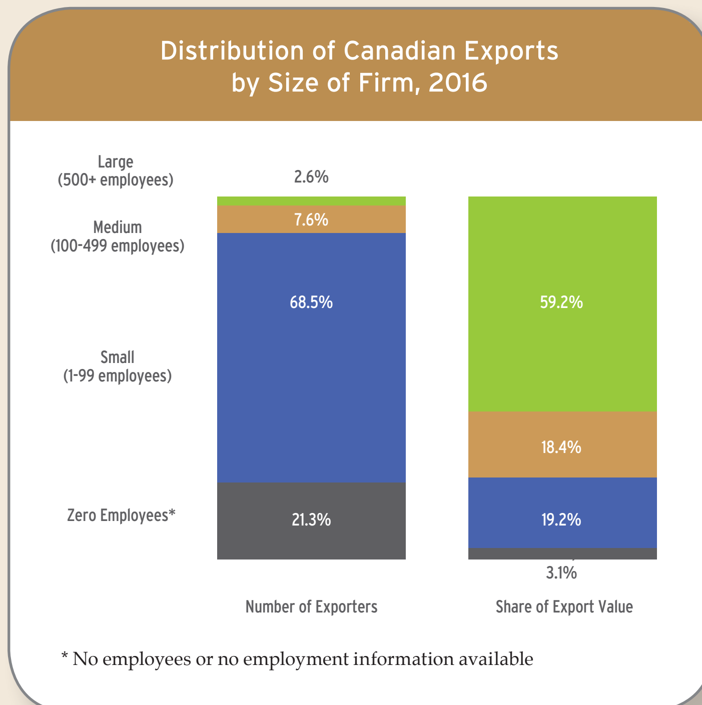
Imports of energy products declined by 11.5 percent (down $4.4 billion) to $33.5 billion. The decline was attributable mainly to U.S. sources, as imports from most other top suppliers (Algeria, the Netherlands, Nigeria, the United Kingdom, Kazakhstan and India) increased. Imports from Angola and Venezuela were discontinued in 2016, while those from Azerbaijan and Brazil were sharply reduced. Refined oil was the most stable component of imports, declining just 3.9 percent, while other components such as crude oil, gas, coal, coke and electricity underwent double-digit reductions.

Outside of the top four products, import growth was restrained and some declines were notable. Imports of articles of iron and steel declined 10.6 percent, aircraft imports were down 17.2 percent, and organic chemicals imports fell 10.6 percent.

Canadian Exporters

Countries don't trade; firms do. Trade statistics, however, have traditionally been produced at the national level—the value of a nation's exports or imports. Recognizing that, statistical offices worldwide, including Statistics Canada, are increasingly producing information about the firms that trade.

In 2016, 43,255 enterprises in Canada exported goods,[1] 667 fewer than the previous year, a decline of 1.5% spread across numerous sectors—but up 6.5% from 2010, the first year for which data are available. Of those 43,255 exporters, the vast majority (97.4%) are small and medium-sized enterprises (SMEs)—using the common definition of SMEs as firms with fewer than 500 employees. These SMEs account for 40.7% of Canadian merchandise exports by value. Most exporters (just over two-thirds) are small, having between 1 and 99 employees, while just over one-fifth register no employees. However, the 1,129 large firms (those with 500 or more employees) that make up only 2.6% of the total number of exporters account for nearly 60% of the value of Canadian goods exports.



The U.S. accounts for a large majority of Canadian merchandise exports—more than 76% of total exports by value in 2016. The U.S. market is even more important in terms of the number of exporters. In 2016, 81.4% of firms exported to the U.S.; more than two-thirds of those, mostly SMEs, exported only to the U.S. In fact, more Canadian companies export to the states of New York and California than to all 28 countries of the EU combined. After the U.S., China has emerged as the second most important destination for exporters of Canadian goods: 4,052 Canadian firms export to China, slightly ahead of the number exporting to the United Kingdom (3,913). If the EU is treated as one destination, it would appear second on the list behind the U.S. as the destination for 9,841 exporters in 2016.

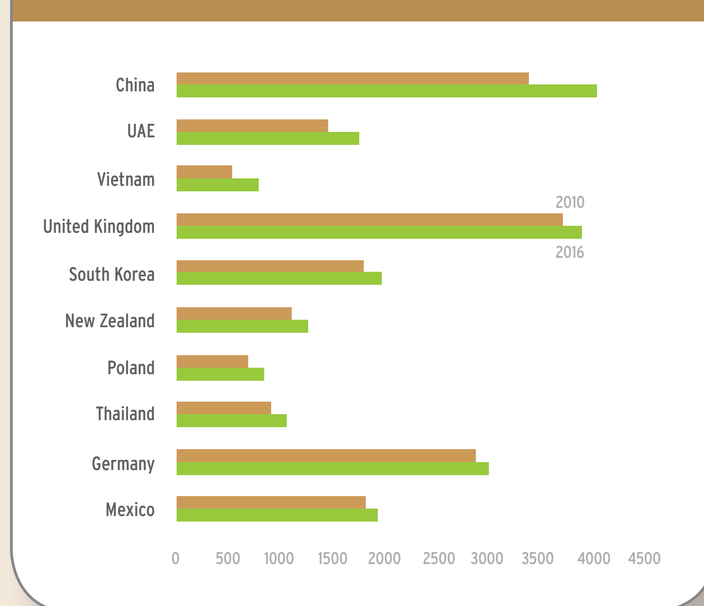
1 The current data for Canada only cover exporters of goods, however, similar data on importers and for services trade are expected in the future. These data on Trade by Enterprise Characteristics (TEC) use a new methodology that only begins in 2010 and replace previously available data from the importer/exporter register.

Top 10 Destinations for Canadian Exporters

Country	United States	China	United Kingdom	Germany	Australia	France	Japan	Hong Kong	South Korea	Mexico
Number of Exporters	35,203	4,052	3,913	3,012	2,960	2,793	2,393	2,080	1,976	1,941

Note: summing the number of exporters by country to arrive at a total is not possible due to double counting as some exporters will be active in more than one country.

From 2010 to 2016, the net number of exporters increased by 2,644. The number of exporters that only export to the United States increased by 2,401 while those exporting to the United States and at least one other market decreased slightly by 171. Those exporting to non-U.S. markets increased slightly (up 414). Looking beyond the U.S., the largest increases in numbers of exporters were among those exporting to China, to the United Arab Emirates, and to Vietnam. The largest decreases were among those exporting to Brazil, Iran, Libya, Russia, Syria and Venezuela.



Although large firms dominate the total value of exports, large firms are not necessarily big exporters. Similarly, some SMEs export very large amounts. Rather, it is intensive exporters—firms of all sizes that depend critically on exporting—that dominate Canadian exports. In total, 476 firms, with each exporting more than $100 million annually, account for more than three-quarters of total Canadian merchandise exports. Expanding the number of exporters to the top 1,000 adds another 7.8% of exports for a total of 83.6% of Canadian merchandise exports, by value. The remaining nearly 42,000 exporters account for only 16.4% of exports, by value.

It is not surprising that the manufacturing sector contributes the bulk of Canadian goods exports, accounting for 57.4% of the total, followed by mining, oil and gas at 6.7%. The remaining one-third of the value of goods exports is accounted for by firms outside the goods-producing sectors. In 2016, wholesalers accounted for the largest share (14.1%) of goods exports coming from the services-producing sectors, followed by management of companies (i.e. corporate headquarters) at 10.6%. Finance and insurance firms accounted for a greater share of goods exports (2.8%) than did utilities (2.0%)—and even more than agriculture, forestry and fishing combined (2.3%), which are in the goods-producing sectors.

International comparisons are difficult as the data are not perfectly comparable across countries. In broad terms, however, a pattern emerges that largely corresponds to expectations. As shown in the accompanying chart, the U.S. and Germany stand out as major exporting countries with many exporters, but their exporters are also larger on average (as measured by value of exports divided by number of exporters). Italy and Spain, on the other hand, are also important exporters but those two countries have many small exporters and as such appear below the average line (representing the average value of exports per exporter among OECD countries). Canada is often perceived as having many small firms; however, when it comes to exports, Canada's large firms dominate—a finding that is reinforced by the large share of total exports accounted for by the 500 largest exporters. For most countries, a relatively small number of large firms account for most exports, but the share of total export values accounted for by the top 500 exporters in Canada is larger than in France, the UK, or Germany. Indeed, Finland is the only major OECD country for which the top 500 firms account for an even larger share of exports than in Canada.

Data for Mexico and New Zealand are not available

An alternative interpretation suggests that the top exporters make a disproportionately high contribution to exports for Canada compared to top exporters in other countries. But what about the bottom end? Of the 22 OECD countries for which comparable data exists, Canada ranks fourth behind the Netherlands, Germany, and France for the average value of exports per exporter (after removing the top 500 exporters). Thus while Canada's top exporters are extremely important, Canada also has some depth to its lineup.

Trade by Top Destinations

Merchandise Exports

In 2016, Canadian merchandise exports became further concentrated among the top export destinations. The top 10 export partner countries accounted for 90.9 percent of Canadian exports, up from 90.5 percent in 2015; notably, 87.2 percent went to the top five destinations. Concentration also grew in the top 20, from 94.6 percent in 2015 to 94.7 percent in 2016. The deceleration in exports to the United States (down 1.9 percent in 2016) was slightly more pronounced than for overall exports; this had the effect of reducing the U.S. share of Canada's merchandise exports for the second consecutive year. Exports to the next top destination, China, grew a robust, if unremarkable, 4.0 percent. Export growth was stronger down the list: the United Kingdom (up 7.2 percent), Japan (up 9.7 percent), and Mexico (a remarkable 14.8 percent). Exports to South Korea, Germany and France also grew strongly, while exports to India declined substantially. The top 5 export destinations remained the same, but India slid from 6th place to 8th, and Hong Kong from 8th place to 13th.

TABLE 5-3
Canadian Exports to Top Partners

	Value 2016 ($B)	Change 2016/2015 ($B)	Growth 2016/2015 (%)	Share 2016 (%)
World	**516.9**	-7.1	-1.4	**100.0**
United States	394.4	-7.8	-1.9	76.3
China	21.0	0.8	4.0	4.1
United Kingdom	17.1	1.1	7.2	3.3
Japan	10.7	0.9	9.7	2.1
Mexico	7.6	1.0	14.8	1.5
South Korea	4.4	0.3	8.7	0.8
Germany	4.1	0.4	12.5	0.8
India	4.0	-0.3	-7.7	0.8
France	3.4	0.3	8.5	0.7
Belgium	3.2	0.1	2.7	0.6
Top 10	**469.8**	**-3.1**	**-0.7**	**90.9**
Next 25	**33.0**	**-2.7**	**-7.4**	**6.4**
Next 75	**13.2**	**-1.1**	**-7.6**	**2.6**
Last 120	**0.8**	**-0.2**	**-23.0**	**0.2**

The $7.8-billion decrease in exports to the United States was slightly larger than the overall decline in total exports in 2016. An $18.0-billion fall in energy exports was behind reduced exports to the U.S., with a sizeable offset from the increase in automotive exports (up $6.3 billion). Substantial gains also took place in exports of wood and articles of wood (up $2.3 billion), precious stones and metals (up $1.1 billion) and pharmaceutical products (up $1.0 billion), while considerable declines occurred in exports of aircraft (down $2.4 billion) and fertilizers (down $1.2 billion). Trade with the United States at the province-U.S. state level is explored in more detail in the box insert in this chapter. Exports grew by $4.7 billion to the other top nine destinations combined.

Exports to China grew $0.8 billion and reached $21.0 billion, passing the all-time high recorded in 2013. This occurred despite a $0.2-billion decline in exports of wood pulp—the top export product—which fell 4.8 percent. However, very strong growth in automotive exports to China of $0.8 billion (up 136.5 percent) offset that result, with exports of passenger cars increasing a remarkable 163.1 percent. Soybean exports also grew strongly, gaining $0.4 billion, and meat and fish exports performed well. Meanwhile, exports of aircraft, cereals, fertilizers, nickel, copper and fur declined.

Exports to the United Kingdom grew $1.1 billion, the highest absolute increase among the top 10 destinations, based on a nearly 20-percent increase in gold exports, which passed the $10-billion mark in 2016. Broad-based increases drove the $0.9-billion export increase to Japan; pharmaceutical exports in particular registered outstanding growth, jumping over 80 percent. The highest relative export growth was observed to Mexico (up 14.8 percent, or $1.0 billion) driven by exports of passenger vehicles and automotive parts. Exports to Germany increased 12.5 percent, largely due to a large uranium shipment. Lower exports of some legumes (i.e. lentils) to India were behind declines to that destination.

Spain accounted for the highest export growth among the major partners (up 57.9 percent to $1.8 billion), with Pakistan close behind (up 56.1 percent to $1.1 billion). Meanwhile, exports to Hong Kong were down again, 40.4 percent from the 2015 level, largely due to falling gold exports, which shrank by over four-fifths. Other large declines occurred in exports to the Netherlands (down 20.7 percent), Indonesia (down 19.7 percent) and Norway (down 18.6 percent).

Merchandise Imports

Canada's top five import partners did not change once again in 2016, but there was movement further down the list as South Korea passed the United Kingdom to claim 6th place in the import sources ranking. This was due to the Utilities/Process Module (UPM) import for the Hebron oil project. No other changes occurred in the top 10, although Vietnam appears poised to break into that list next year as rapid import growth from that destination already put it neck-and-neck with Taiwan. Imports from the top 10 sources decreased 1.1 percent, but grew for the next 100 sources, minimizing the overall import decline.

TABLE 5-4
Canadian Imports from Top Partners

	Value 2016 ($B)	Change 2016/2015 ($B)	Growth 2016/2015 (%)	Share 2016 (%)
World	**533.3**	**-3.0**	**-0.6**	**100**
United States	278.3	-7.2	-2.5	52.2
China	64.4	-1.3	-1.9	12.1
Mexico	33.2	2.0	6.4	6.2
Germany	17.2	-0.1	-0.7	3.2
Japan	15.8	1.0	6.9	3.0
South Korea	10.6	2.4	28.7	2.0
United Kingdom	8.3	-0.9	-10.2	1.5
Italy	7.5	0.2	2.3	1.4
France	6.0	-0.8	-12.1	1.1
Taiwan	5.1	-0.4	-6.9	1.0
Top 10	**446.4**	**-5.1**	**-1.1**	**83.7**
Next 25	**62.0**	**2.1**	**3.5**	**11.6**
Next 75	**24.7**	**1.1**	**4.5**	**4.6**
Last 120	**0.4**	**-1.0**	**-73.3**	**0.1**

Imports from the United States declined by 2.5 percent (down $7.2 billion), falling to below their 2014 level and lowering the U.S. share to 52.2 percent of Canada's imports from 53.2 percent in 2015. Most of the fall was explained by lower energy imports (down $5.1 billion), although lower imports from the United States were also recorded in mechanical machinery, aircraft and parts, electrical machinery and articles of iron and steel. The only substantial countering trend was the rise in imports of automotive products, up $2.9 billion, or 5.1 percent.

Imports from China declined 1.9 percent (down $1.3 billion), with most of the decline coming from lower cellphone imports (down $0.9 billion). Imports of articles of iron and steel also declined considerably, down $0.4 billion; other declines included apparel and accessories, footwear, toys and sports equipment and leather articles. Among broad-based declines, the single notable exception was the $0.3-billion growth in furniture imports (up 7.1 percent).

Imports from both Mexico (up 6.4 percent) and Japan (up 6.9 percent) showed solid growth in 2016. Imports of automotive products, machinery, furniture and refined oil were the principal drivers of the increase in Mexico's case; imports from Japan grew on higher values for machinery and gold and precious metals' scrap imports.

Imports from Germany declined marginally (down 0.7 percent), while imports from the United Kingdom fell sharply (down 10.2 percent) due to gold imports falling from $1.4 billion in 2015 to zero. Imports from France dropped even more severely, down 12.1 percent on the decline in imports of aircraft, pharmaceuticals and scientific instruments. Elsewhere, increased crude oil imports from Algeria and Nigeria raised the overall values of imports from these countries by 95.2 percent and 50.9 percent, respectively, while lower gold imports from Peru decreased flows of merchandise from that destination by almost a quarter.

Merchandise Trade by Provinces and Territories

Merchandise Exports

The top three exporting provinces—Ontario, Quebec and Alberta—accounted for 79.2 percent of Canada's exports in 2016. Ontario's exports continued to do well, expanding by 5.9 percent last year for a gain of $13.9 billion. Ontario's export gains occurred across the spectrum of the province's areas of strength: automotive products (up $7.3 billion), mechanical machinery and equipment (up $1.1 billion), precious stones and metals (up $1.1 billion) and pharmaceuticals (up $1.1 billion). Exports of nickel and articles of nickel were down $0.9 billion, exports of energy products went down $0.5 billion and exports of aircraft declined $0.3 billion.

TABLE 5-5
Provincial/Territorial Merchandise Exports to the World, 2016

	Value 2016 ($B)	Change 2016/2015 ($B)	Growth 2016/2015 (%)	Share 2016 (%)
Ontario	249.5	13.9	5.9	48.3
Quebec	80.4	-1.8	-2.1	15.5
Alberta	79.4	-13.6	-14.6	15.4
British Columbia	40.0	3.3	9.0	7.7
Saskatchewan	26.7	-6.0	-18.2	5.2
Manitoba	13.6	-0.2	-1.7	2.6
New Brunswick	10.7	-1.6	-12.9	2.1
Newfoundland and Labrador	8.4	-0.9	-9.2	1.6
Nova Scotia	5.3	-0.1	-2.0	1.0
Northwest Territories	1.4	-0.4	-21.9	0.3
Prince Edward Island	1.3	0.0	1.6	0.3
Yukon	0.2	0.1	101.9	0.0
Nunavut	0.0	0.0	21.2	0.0
All Jurisdictions	**516.9**	**-7.1**	**-1.4**	**100.0**

Despite a 2.1-percent decline in exports, Quebec passed Alberta as the second top exporting province in Canada. The decline in export value of $1.8 billion was due to the $1.9-billion decline in exports of aircraft (down 17.2 percent). Elsewhere, gains in exports of mechanical machinery, automotives, wood and articles of wood and furniture were offset by losses in exports of aluminum, energy products and copper.

Alberta experienced a milder export loss in 2016 than in the previous year, with a $13.6-billion decline in its exports (down 14.6 percent) due to a further decline in oil exports. Severe declines also occurred in exports of mechanical machinery and cereals.

Along with Ontario, British Columbia was the only other province to record substantial export gains, a strong 9.0 percent (up $3.3 billion). Strong advances in exports of wood and articles of wood (up $1.6 billion), energy products (coal and gas, up $1.7 billion) and aluminum (up $0.7 billion) were the drivers of this performance; the two notable declines occurred in exports of ores (down $0.4 billion) and wood pulp (down $0.3 billion).

Saskatchewan experienced the greatest relative decline in exports of all Canadian provinces with an 18.2-percent decline (down $6.0 billion). The value of energy exports fell by more than 33 percent, and that was compounded by a nearly 30-percent fall in potash exports.

Declines were also recorded in the value of exports from New Brunswick (down 12.9 percent) as well as from Newfoundland and Labrador (down 9.2 percent), both driven by declining energy exports. Export declines were marginal in Manitoba and Nova Scotia, while Prince Edward Island expanded its exports by 1.6 percent as potato shipments rose sharply. Yukon exports more than doubled due to greater copper ores exports; meanwhile, exports from the Northwest Territories were down 21.9 percent due to lower diamonds exports.

Exports from Canadian Provinces and Territories to the United States

The United States is the destination for over three quarters of Canadian merchandise exports, making it Canada's principal export partner, so it is not surprising that the United States is also the leading export destination for most Canadian provinces and territories. This special study provides an overview of the importance of the U.S. market for Canada's provinces and territories in 2016.

Canadian Regional Merchandise Exports to the United States, 2016

	Ontario	Prairies	Quebec	B.C.	Atlantic Canada	Territories
Total Exports to U.S. (billions $)	206.5	90.1	57.1	21.2	19.3	0.2
Top 3 State Export Partners and share (%)	Michigan (28.4%) California (14.7%) New York (7.9%)	Illinois (26.8%) Texas (9.8%) Washington (8.4%)	New York (11.6%) Ohio (7.3%) Texas (6.3%)	Washington (27.8%) California (11.8%) Illinois (6.4%)	New Hampshire (23.2%) New Jersey (15.4%) Massachusetts (14.8%)	Alaska (97.6%) Michigan (0.7%) California (0.6%)
Top 3 Export Products and share (%)	Motor Vehicles (36.0%) Mechanical Machinery (9.8%) Electrical Machinery (4.3%)	Crude Oil/ Natural Gas (64.0%) Plastics (4.7%) Potash (3.4%)	Aluminum (10.3%) Mechanical Machinery (8.9%) Aircraft (7.8%)	Wood (29.5%) Petroleum (16.0%) Mechanical Machinery (6.6%)	Refined Oils (53.2%) Fish (12.9%) Rubber (6.0%)	Copper Ores (96.8%) Motor Vehicles (0.5%) Gold and Diamonds (0.4%)

Ontario

Among the provinces and territories, Ontario is by far the leading exporter to the United States, exporting over $206 billion in 2016. Michigan is Ontario's largest export destination, accounting for $58.7 billion (28.4%) of Ontario's exports to the U.S. in 2016. Linkages in the automotive sector are an important feature of the Ontario-Michigan export relationship: three products (passenger cars, automotive parts and engines) accounted for $43.2 billion (73.5%) of the province's exports to the state. So important is this trade linkage that in 2016 the value of Ontario's automotive exports to Michigan exceeded the value of Canada's combined total exports to China, the United Kingdom, Japan and Mexico. Although Michigan has long been the most important U.S. state for Ontario's exports, other states, such as California, have recently grown in importance. Over the past decade, Ontario's exports to California have grown substantially, at an average annual rate of 5.8%, more than two and a half times as fast as Ontario's average annual

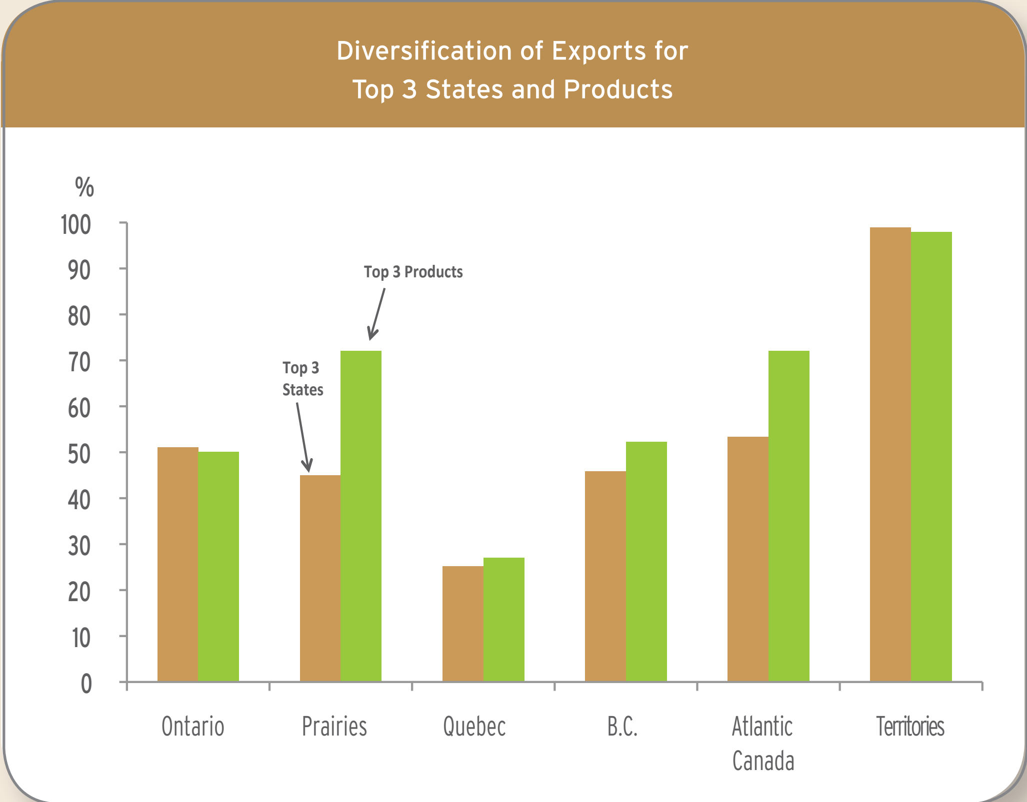
growth of exports to the entire United States (2.3%). California is now Ontario's second-largest U.S. export destination behind Michigan, receiving $30.5 billion of exports in 2016, of which $24.1 billion were passenger cars. Exports of mechanical machinery and equipment ($20.3 billion), electrical machinery ($8.9 billion) and gold ($3.9 billion) also contributed to Ontario's exports to U.S. markets in 2016.

Prairie provinces: Alberta, Saskatchewan, Manitoba

The Prairies together comprise Canada's second-largest exporting region to the United States, with exports of $90.1 billion to the U.S. in 2016. Exports from the Prairies to the United States are largely concentrated in mineral fuels, primarily crude oil as well as natural gas, which accounted for 64.0% of these exports in 2016. The Prairies are the largest regional Canadian exporter of crude oil to the United States, exporting $48.1 billion in 2016. Illinois and Texas—the Prairies' two largest state export partners—are both recipients of Alberta crude oil shipped through the Keystone Pipeline to major refining centres in each state. Illinois is the Prairies' largest export destination, accounting for $24.2 billion (26.8%) of exports in 2016. At over $20 billion, Illinois is the primary U.S. destination for crude oil from Alberta. Illinois also received $1.1 billion in natural gas from the Prairies in 2016. Natural gas is piped to major pipeline hubs in Illinois, such as the ANR Joliet Hub, and shipped from there to other cities in the American Midwest and Northeast. Exports from the Prairies to Texas jumped in 2014, when Phase 3 of the Keystone pipeline was completed to include a crude oil refinery in Port Arthur, Texas. Exports from the Prairies to Texas have grown at an average annual rate of 14.4% over the last five years. Exports to Oklahoma have risen dramatically as well, growing at an average annual rate of 22.4% since 2010, likely due to the Keystone Phase 2, which extended the pipeline into Oklahoma and was completed in early 2011.

Quebec

Quebec exported $57.1 billion to the United States in 2016. In general, Quebec's exports are more diversified with respect to products and U.S. states than Canada's other five exporting regions: only 25.5% of Quebec's exports to the United States were shipped to the three largest state export destinations, New York, Ohio, and Texas. Although New York has long been Quebec's largest U.S. export destination, exports to Ohio have grown significantly over the last 10 years. In 2007, Ohio ranked as Quebec's seventh most important U.S. export destination; however, since 2007, exports from Quebec to Ohio have been growing at an average annual rate of 6.3%. Ohio is now Quebec's second most important U.S. export state, having surpassed Texas in 2015. This growth can largely be attributed to increased exports of aircraft. Aircraft exports, which grew from $9.9 million in 2007 to $1.5 billion in 2016, are now the largest export from Quebec to Ohio. Quebec's top three export products to the U.S. make up 27.0% of total exports, presently



the lowest share out of the five regions. Exports of aluminum ($5.9 billion), mechanical machinery ($5.1 billion) and aircraft ($4.5 billion) drove Quebec's exports to the United States in 2016.

British Columbia

British Columbia exported $21.2 billion to the United States in 2016, primarily to the west coast states of Washington, California, and Oregon, which together accounted for 45.9% of the province's total exports to the United States. British Columbia's most important export is wood and lumber: B.C.'s wood exports to the United States were valued at $6.2 billion in 2016, accounting for 29.5% of the province's total exports to the United States. Wood is B.C.'s largest export to California, which is B.C.'s second-largest export destination state; wood is the second-largest export to Washington, which is B.C.'s largest export destination. As well, British Columbia exported $2.0 billion in natural gas and over $500 million in refined oils to the United States in 2016.

Atlantic provinces: New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island

The Atlantic provinces exported $19.3 billion to the United States in 2016, which represented 4.9% of Canada's total exports to the United States. Exports from this region are largely destined for the northeastern United States, notably New Hampshire, New Jersey, and Massachusetts, which together account for over half of all exports from this region to the United States. With $9.7 billion in exports in 2016, New Brunswick represented a little more than half of all exports from the region to the United States.

Both crude and refined oils are the largest exports from the Atlantic provinces to the U.S. market, accounting for 49.1% of total exports from the region to the United States, and led by refined oil from New Brunswick as well as some crude oil from Newfoundland and Labrador. New Brunswick is the home of the Irving Oil Refinery, the largest oil refinery in Canada, which is capable of producing over 300,000 barrels of refined products per day. New Brunswick exports the refined oil to the northeastern United States, primarily New Hampshire. New Brunswick exported $4.4 billion to New Hampshire in 2016, of which $4.1 billion was refined oils. This is a very important trade relationship for the Atlantic region since New Hampshire is its largest export destination. Newfoundland and Labrador exported $3.0 billion in crude oil to the U.S. market in 2016. Crude oil exports come largely from three offshore oilfields (Hibernia, White Rose, and Terra Nova). Other key exports from the region to the U.S. market include fish ($2.5 billion) and rubber ($1.2 billion).

Territories: Northwest Territories, Yukon, and Nunavut

In 2016, Canada's three territories exported $218.0 million to the United States, with Alaska the key destination due to its proximity: exports to Alaska from the territories account for 97.6% of all exports from the region. Although Alaska represented only 0.3% of the United States' GDP in 2015 and is one of the least significant U.S. state destinations for Canadian exports overall, the state is by far the most important destination for exports from the territories, led by exports of copper ores from the Yukon. Exports of copper ores from the Yukon account for nearly 97% of all products exported from the Territories into Alaska. The Territories' exports to Alaska have grown at an average annual rate of 29.8% over the last 10 years. Exports of passenger cars (0.6%) and diamonds (0.5%) from the Northwest Territories round out the region's top exports to the United States.

Merchandise Imports

On the import side, the three great import 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 2016, 85.5 percent of Canada's imports entered the country through these provinces.

Imports by Ontario increased 2.5 percent in 2016 (up $8.3 billion), driven by increased imports of automotive products, plastics, furniture and energy products (crude oil). However, imports fell for most of the other provinces, notably Quebec (down 6.2 percent), Alberta (down 14.8 percent), New Brunswick (down 12.9 percent) and Saskatchewan (down 13.1 percent). Imports of energy products were behind the decline in Quebec and New Brunswick (mainly crude oil imports), while Alberta imported fewer products across the board: mechanical machinery, electrical machinery, aircraft and parts and automotive products. Reductions in Saskatchewan's imports were mainly concentrated in imports of mechanical machinery and automotive products.

Imports grew over 50 percent in Newfoundland and Labrador due to the import of the UPM module for the Hebron oil project. Significant decreases in imports took place across several smaller provinces and territories, notably Yukon, Nunavut and Northwest Territories, mostly due to lower imports of energy products.

TABLE 5-6
Provincial/Territorial Merchandise Imports from the World, 2016

	Value 2016 ($B)	Change 2016/2015 ($B)	Growth 2016/2015 (%)	Share 2016 (%)
Ontario	333.7	8.3	2.5	62.6
Quebec	73.7	-4.9	-6.2	13.8
British Columbia	48.8	0.0	-0.1	9.1
Alberta	25.0	-4.4	-14.8	4.7
Manitoba	19.8	-1.0	-4.9	3.7
New Brunswick	9.2	-1.4	-12.9	1.7
Saskatchewan	9.0	-1.4	-13.1	1.7
Nova Scotia	8.2	-0.1	-1.6	1.5
Newfoundland and Labrador	5.8	2.0	53.9	1.1
Prince Edward Island	0.1	0.0	27.7	0.0
Yukon	0.1	0.0	-20.5	0.0
Nunavut	0.0	-0.1	-93.7	0.0
Northwest Territories	0.0	0.0	-100.0	0.0
All Jurisdictions	**533.3**	**-3.0**	**-0.6**	**100.0**

Merchandise Trade by Top Drivers

Canada's trade performance can be examined in greater detail using a commodity breakdown comprising over 1,200 items.[6] However, only a few of these items account for a sufficient trade value to decisively influence Canada's trade balance. The table below lists 21 commodities that drove Canada's trade balance performance in 2016, expressed at the HS 4-digit level.

TABLE 5-7
Key Commodities Driving Canada's Trade Performance in 2016

	Exports 2016 ($B)	Change 2016/2015 ($B)	Imports 2016 ($B)	Change 2016/2015 ($B)	Balance 2016 ($B)	Change 2016/2015 ($B)
Large Exports, Large Imports, Surplus						
Crude Oil	52.4	-11.8	14.5	-2.4	37.9	-9.4
Passenger Cars	64.7	7.3	35.0	1.4	29.7	6.0
Gold	16.5	0.6	7.4	-1.0	9.1	1.6
Petroleum Gases	10.3	-1.4	2.5	-0.9	7.8	-0.6
Aircraft	8.2	-2.4	3.8	-1.9	4.4	-0.5
Sub-total	**152.1**	**-7.7**	**63.2**	**-4.8**	**88.9**	**-2.9**
Large Exports, Small Imports, Surplus						
Wheat	6.0	-2.0	0.0	0.0	5.9	-2.0
Lumber	10.3	1.5	0.6	0.0	9.7	1.5
Canola Seed	5.7	0.7	0.1	0.0	5.5	0.7
Aluminum	6.7	0.1	0.3	-0.1	6.4	0.2
Chemical Woodpulp	5.3	-0.4	0.2	0.0	5.1	-0.4
Potash	4.7	-2.2	0.0	0.0	4.6	-2.2
Sub-total	**38.7**	**-2.3**	**1.2**	**-0.1**	**37.2**	**-2.2**
Small Exports, Large Imports, Deficit						
Wire and Cable	0.9	0.0	4.5	0.1	-3.5	-0.1
Tractors	0.5	-0.2	3.7	-1.1	-3.2	0.9
Blood Products	0.9	0.0	4.6	0.6	-3.7	-0.6
Sub-total	**2.3**	**-0.2**	**12.8**	**-0.4**	**-10.4**	**0.2**
Large Exports, Large Imports, Deficit						
Refined Oils	10.8	-3.8	14.6	-0.6	-3.9	-3.2
Motor Vehicle Parts	14.1	0.1	27.2	1.8	-13.2	-1.7
Trucks	2.7	0.3	17.2	2.0	-14.6	-1.7
Computers	1.8	0.1	10.3	0.2	-8.5	-0.2
Transmission Shafts, Bearings and Gears	1.7	-0.1	4.9	-0.3	-3.2	0.3
Mechanical Appliances	1.4	-0.1	4.8	2.7	-3.3	-2.8
Telephones and Parts	2.7	-0.1	11.9	-0.3	-9.2	0.3
Sub-total	**35.2**	**-3.6**	**90.9**	**5.5**	**-55.9**	**-9.0**
21-Commodity Total	**228.3**	**-13.8**	**168.1**	**0.2**	**59.8**	**-13.9**

6 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 21 commodities accounted for $228.3 billion (44.2 percent) of Canada's $516.9 billion in exports in 2016. This was $13.8 billion less in exports than posted by these commodities a year earlier. At the same time, these products also represented 31.5 percent of overall imports, or $168.1 billion, which was $0.2 billion more than their import value in 2015. These 21 commodities yielded a $59.8-billion trade surplus, which was $13.9 billion lower than in the previous year; that movement strongly contributed to the widening of the merchandise trade deficit in 2016. Canada posted an overall $16.4-billion merchandise trade deficit in 2016, a worsening of $4.2 billion from the $12.2-billion deficit registered in 2015.

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] decreased to US$1.5 trillion in 2016, after reaching in 2015 their highest level since the start of the global crisis. As shown in table 6-1, FDI inflows targeting developed economies accounted for nearly 60 percent of total FDI inflows. In 2016, FDI inflows to developed economies decreased 9 percent, with the EU inflows in particular dropping by almost 30 percent. Similarly, FDI inflows to developing economies, which accounted for less than 40 percent of global FDI inflows in 2016, also declined, by 20 percent. After two consecutive years of FDI inflows to so-called transition economies (comprising the Commonwealth of Independent States and South-East Europe) more than halving, those flows increased in 2016, to account for 3.4 percent of overall flows.

FDI inflows into Canada declined 15.8 percent in 2016, to $44.7 billion. This represented a combination of the inflows from the United States dropping by almost 40 percent and the inflows from the rest of the world increasing 83 percent. The overall reduction in investment flows was mainly due to a decline in mergers and acquisitions (M&A), mitigated by an increase in other flows. By sector, foreign entities decreased their investment flows into management of companies and enterprises in 2016, as well as into other industries.[2] However, they more than doubled their investment inflows into manufacturing, while foreign investment in trade and transportation also increased and jumped significantly in mining and oil and gas extraction as well as in finance and insurance.

Foreign investors increased their cumulative holdings of direct investment (stock) in Canada by 4.7 percent to $825.7 billion in 2016. The United States holds almost half (47.5 percent) of all FDI stock in Canada and accounted for 60.2 percent of the overall gain in FDI in Canada in 2016. By sector, as can be seen in more detail in table 6-4, manufacturing, and mining and oil and gas extraction remained the two largest targets for foreign investor interests and also the main contributors to the overall growth, along with wholesale trade. Together they accounted for over half of the increased FDI in Canada last year, as holdings rose in these three sectors by $9.0 billion, $5.8 billion, and $5.8 billion, respectively.

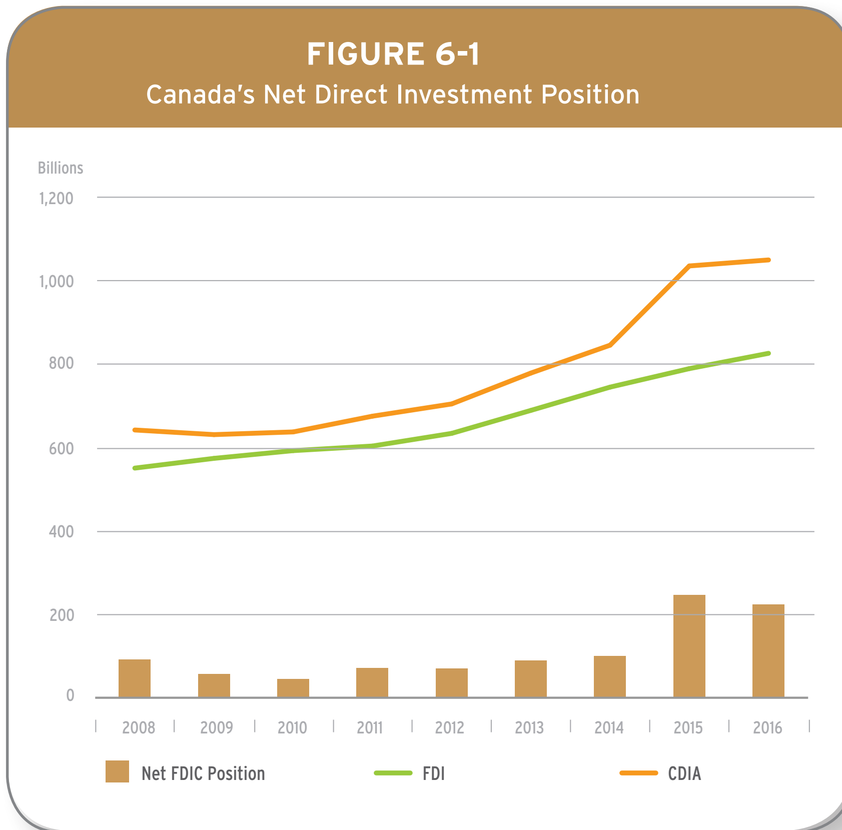
Canadian direct investment abroad (CDIA), or FDI outflows, increased by 2.6 percent in 2016, to $88.0 billion. By sector, CDIA in mining and oil and gas extraction reversed sign: from negative $13.8 billion in 2015 to positive $13.8 billion in 2016. CDIA flows increased by more than 2,000 percent in trade and transportation as a result of a significant increase in M&A activity, and more than doubled in other industries.

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 Management of companies and enterprises comprises establishments primarily engaged in managing companies and enterprises and/or holding the securities or financial assets of companies and enterprises, for the purpose of owning a controlling interest in them and/or influencing their management decisions. Other industries 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.

CDIA, however, decreased in manufacturing, finance and insurance, and management of companies and enterprises. All M&A activities and other flows were up from 2015 levels, while reinvested earnings declined by 10.5 percent.

At the same time, Canadian investors added 1.4 percent to their direct investment holdings abroad (CDIA stock) to reach $1,049.6 billion in 2016, the second year above $1 trillion. This slow growth in CDIA stock in 2016 was due to the appreciation of the Canadian dollar against major currencies, which had the effect of offsetting most of the strong investment activity during the year. North America was the recipient of 64.4 percent of CDIA stock, with four low-tax U.S. dollar jurisdictions (Bahamas, Barbados, Bermuda, and the Cayman Islands) together accounting for 16.7 percent of the overall CDIA stock and being responsible for 10.8 percent of the North American 2016 gain. Finance and insurance, which remained the most important sector for CDIA, accounted for 36.6 percent of the overall stock in 2016, followed by mining and oil and gas extraction, at 18.5 percent.



As a result of the slower growth of CDIA stock, Canada's net direct investment position—the difference between stocks of CDIA and FDI—narrowed by $22.3 billion in 2016, to $223.9 billion (the second highest on record). Canada continues to be a net exporter of direct investment vis-à-vis the world since 1997.

Global Foreign Direct Investment (FDI) Flows

According to preliminary estimates from the United Nations Conference on Trade and Development (UNCTAD), global FDI inflows decreased by 12.9 percent in 2016 to US$1.5 trillion. This fell well below the peak of US$1.9 trillion in 2007.

FDI inflows to developed economies fell 9.4 percent to an estimated US$872 billion in 2016, accounting for a 57.2-percent share of world inflows. North America flows grew by 5.9 percent to US$414 billion, while flows to the United States, which remained the world's largest recipient of inflows for the second year in a row, grew by 10.6 percent to reach US$385 billion in 2016. This growth was bolstered by strong equity investment inflows as M&A rose 17 percent over the year. Inflows to Canada, which had been relatively stable until 2014, fell 31.9 percent to US$29.3 billion, as M&A deals and greenfield projects in the country tumbled significantly in mining and oil and gas extraction, and manufacturing. From a sectoral perspective, the recent weaknesses were also attributed partly to divestments in the oil and gas industries, such as the acquisition of a 50-percent interest in an affiliate of Devon Energy Corporation by a unit of the state-owned Canada Pension Plan Investment Board. Canada's ranking therefore fell to the 12th-largest host economy in the world, from 9th last year. Within the EU countries, inflows declined by 18.1 percent, making up over a quarter of global inflows. Declines in the region were particularly marked in Switzerland, Belgium and the Netherlands, while the United Kingdom showed a strong increase. Other highlights of developed-economy inflows were Australia and Japan, which registered large proportional increases due to increased equity investment and M&A activity.

TABLE 6-1
World FDI Inflows by Major Region, 2015 and Estimated 2016

	2015 US$B	2016 US$B	Growth %	Share %
World	**1,750**	**1,525**	**-12.9**	**100.0**
Developed	**963**	**872**	**-9.4**	**57.2**
EU	475	389	-18.1	25.5
North America	391	414	5.9	27.1
Developing	**749**	**600**	**-19.9**	**39.3**
Africa	54	51	-5.6	3.3
Latin America & Caribbean	166	135	-18.7	8.9
Developing Asia	527	413	-21.6	27.1
Transition	**38**	**52**	**36.8**	**3.4**

FDI inflows to developing economies fell 19.9 percent, to US$600 billion in 2016. With a share of 39.3 percent of global inflows, this decline was a significant drag on direct investment worldwide. Flows fell in all geographical regions. In Latin America and the Caribbean, flows fell by 18.7 percent to US$135 billion, driven in large part by low commodity prices. For the same reason, inflows to Africa fell by 5.6 percent to US$51 billion. In developing Asia, flows fell 21.6 percent to US$413 billion, although most of the decline was registered in Hong Kong. Mainland China and Hong Kong remained the third- and fourth-largest recipients of FDI, at US$139 billion and US$92 billion, respectively.

FDI inflows to transition economies increased sharply in 2016, rising 36.8 percent from US$38 billion to US$52 billion. This was largely driven by a strong increase in mining exploration in Kazakhstan and by the privatization of state-owned assets in Russia. However, inflows to transition economies, comprising the former USSR and southeast Europe, represented only 3.4 percent of the 2016 total.

Cross-border M&A rose 13 percent in 2016, but at $831 billion failed to reach the 2007 high of US$1,033 billion. M&A activities in 2016 were overwhelmingly concentrated in developed economies. Greenfield FDI also increased slightly, to US$810 billion, but apart from a handful of very large investments in a small number of countries, there was a widespread decline worldwide. At the sectoral level, the value of greenfield FDI decreased in manufacturing by 9 percent and in the primary sector by 46 percent, but increased by 21 percent in services, reflecting a surge in construction investment.

Canadian Foreign Direct Investment Performance

Inward Investment

FDI Inflows

In 2016, total inflows of FDI into Canada declined by 15.8 percent to $44.7 billion. M&A-related and reinvested earnings inflows from abroad decreased 64.0 percent and 4.0 percent respectively, but higher other flows (mainly intra-company flows) increased by 133.1 percent. FDI inflows from the United States decreased by 37.9 percent, largely due to declines in both M&A activity from U.S. investors (down 73.9 percent) and in the level of intra-company flows (other flows) by the U.S. firms (down 24.7 percent) in 2016. In contrast, non-U.S. investors increased their total FDI inflows into Canada drastically (up 83.3 percent). M&A investment declined by 44.9 percent, reinvested earnings declined by 23.3 percent and other flows went from $5.9 billion to $7.8 billion. Foreign investors decreased their investments in management of companies and enterprises, and all other industries, while they increased their investments in mining and oil and gas extraction, manufacturing, trade and transportation, and finance and insurance.

TABLE 6-2
Foreign Direct Investment in Canada: Inflows

	2015 C$M	2016 C$M	Growth %
Type of FDI infows			
From the world			
Total net flows	53,098	44,694	-15.8
Mergers and acquisitions	28,253	10,159	-64.0
Reinvested earnings	17,055	16,372	-4.0
Other flows	7,791	18,162	133.1
From the U.S.			
Total net flows	43,421	26,967	-37.9
Mergers and acquisitions	18,645	4,870	-73.9
Reinvested earnings	11,057	11,775	6.5
Other flows	13,718	10,323	-24.7
From the rest of the world			
Total net flows	9,674	17,728	83.3
Mergers and acquisitions	9,608	5,291	-44.9
Reinvested earnings	5,997	4,598	-23.3
Other flows	-5,929	7,840	-
Sectors of FDI inflows from the world			
Mining and oil and gas extraction	119	6,676	5,510.1
Manufacturing	3,931	8,830	124.6
Trade and transportation	9,125	11,526	26.3
Finance and insurance	-108	5,209	-
Management of companies and enterprises	14,084	5,779	-59.0
Other industries	25,947	6,675	-74.3

FDI Stock

The FDI stock in Canada rose by $36.7 billion (up 4.7 percent) to $825.7 billion in 2016. As the stock of FDI grew more than twice as fast as Canada's nominal GDP (2.0 percent) in 2016, the ratio of FDI stock to GDP rose from 39.7 percent in 2015 to a record-high 40.7 percent in 2016.

In 2016, investors from the United States increased their holdings in Canada by $22.1 billion, to $392.1 billion. The U.S. share of Canada's total FDI stock went up slightly, from 46.9 percent in 2015 to 47.5 percent in 2016. Although the United States continues to be by far the most important source of FDI in Canada, its relative share has fallen sharply over the last decade—from 60.6 percent in 2006 to 47.5 percent in 2016. The FDI landscape in Canada is far more diversified today than it was a decade ago.

The remaining increase in FDI stock in 2016 came from the traditionally important region of Europe, as well as South and Central America. Europe's FDI position added $18.1 billion to reach $307.4 billion. Among notable European investors that posted major gains in 2016, Switzerland increased its FDI stock in Canada 26.6 percent ($11.6 billion) to $55.2 billion, and the Netherlands increased its FDI stock 5.7 percent ($5.1 billion) to

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

	2006 C$M	2015 C$M	2016 C$M	Share 2006 %	Share 2016 %	Change 2015-16 %
All countries	**437,171**	**789,012**	**825,704**	**100.0**	**100.0**	**4.7**
North America	269,699	390,353	413,667	61.7	50.1	6.0
Barbados	627	-352	659	0.1	0.1	-
Bermuda	2,824	10,332	10,094	0.6	1.2	-2.3
British Virgin Islands	196	2,865	2,836	0.0	0.3	-1.0
Cayman Islands	545	5,843	6,264	0.1	0.8	7.2
Mexico	232	1,664	1,713	0.1	0.2	2.9
United States	265,096	369,977	392,071	60.6	47.5	6.0
South and Central America	**12,979**	**22,241**	**24,195**	**3.0**	**2.9**	**8.8**
Brazil	12,868	21,459	23,419	2.9	2.8	9.1
Europe	**124,513**	**289,319**	**307,378**	**28.5**	**37.2**	**6.2**
France	17,181	8,020	8,059	3.9	1.0	0.5
Germany	8,391	14,675	15,563	1.9	1.9	6.1
Luxembourg	6,574	55,788	58,381	1.5	7.1	4.6
Netherlands	24,766	88,403	93,463	5.7	11.3	5.7
Spain	291	8,226	8,187	0.1	1.0	-0.5
Switzerland	14,601	43,584	55,199	3.3	6.7	26.6
United Kingdom	39,409	44,996	41,795	9.0	5.1	-7.1
Africa	**1,398**	**2,943**	**2,351**	**0.3**	**0.3**	**-20.1**
Asia/Oceania	**28,581**	**84,156**	**78,113**	**6.5**	**9.5**	**-7.2**
Australia	2,580	7,830	8,400	0.6	1.0	7.3
Hong Kong	x	11,208	12,090	n/a	1.5	7.9
Japan	13,439	27,807	29,101	3.1	3.5	4.7
China	x	19,616	21,393	n/a	2.6	9.1
Singapore	118	247	194	n/a	0.0	-21.5
South Korea	839	966	1461	0.2	0.2	51.2
United Arab Emirates	x	9681	x	n/a	n/a	n/a

$93.5 billion. These gains were moderated by declines in the level of FDI from the United Kingdom (7.1 percent) to $41.8 billion and Spain (0.5 percent) to $8.2 billion. Europe, with more than a third (37.2 percent) of Canada's overall FDI stock in 2016, remained the second-largest region contributing FDI in Canada, after the United States.

The level of FDI stock in Canada from South and Central America increased by $2.0 billion to reach $24.2 billion in 2016. Brazil, the major emerging economy in the region, accounted for the bulk of this expansion, with its FDI stock in Canada rising by $2.0 billion to reach $23.4 billion.

The stock of FDI from Asia and Oceania declined by 7.2 percent in 2016, to $78.1 billion. This occurred in spite of increases in the stock of FDI from China (9.1 percent or $1.8 billion), Hong Kong (7.9 percent or $0.9 billion), Australia (7.3 percent or $0.6 billion), and South Korea (51.2 percent or $0.5 billion). The overall disinvestment for the region occurred due to a reduction in the debt balance between Canadian enterprises/affiliates from this region and their parent or sister companies abroad.[3] Nevertheless, from a regional perspective, Asia and Oceania has made some inroads in the last decade, with its relative share of FDI stock rising from 6.5 percent in 2006 to 9.5 percent in 2016.

3 The reduction in debt balance may reflect the repayment by Canadian enterprises/affiliates of existing and/or additional loans to the foreign parent or sister company, or the supply of additional credit to the company abroad.

In terms of overall standing, 2016 witnessed a few changes in the ranks of the top 10 source countries of FDI in Canada from the previous year. As before, the Netherlands continued to rank as the second-largest direct investor in Canada (11.3 percent share of FDI stock), and Luxembourg, a major financial centre in the European Union, as the third largest (7.1 percent). Switzerland, with $55.2 billion (6.7 percent) of the FDI stock eased past the United Kingdom to become the fourth-largest direct investor, followed by the United Kingdom itself in fifth place (5.1 percent), and Japan in sixth (3.5 percent). China ranked seventh (2.6 percent) followed by Brazil in eighth place (2.8 percent)—both of which ranked higher than traditionally important direct investors such as ninth-ranked Germany (1.9 percent). Hong Kong ranked 10th (1.5 percent).

In recent years, a number of so-called low-tax jurisdictions have been playing an increasingly important role as sources of FDI in Canada and, conversely, as destinations for CDIA. In particular, Luxembourg in Europe and four offshore low-tax centres in the Caribbean—Barbados, Bermuda, the British Virgin Islands, and the Cayman Islands—have steadily gained prominence. Collectively, the FDI holdings of the four Caribbean jurisdictions in Canada totaled almost $20 billion in 2016, or 2.4 percent of Canada's total FDI stock, which is more than that of Germany, and rivals that of China and Brazil among the top 10. The increase in the value of FDI stock from those low-tax jurisdictions ($15.7 billion over the last 10 years), may in fact be far more modest if FDI statistics were reported on the basis of the ultimate source of the investment as opposed to the immediate source of the investment, as is currently the case.[4] One potential implication of this phenomenon is that the level of FDI in Canada from key sources, such as the United States and other countries in Europe and Asia, may in fact be understated. U.S. and other direct investors may be channelling FDI in Canada through the low-tax jurisdictions in order to minimize their tax burden, but their investments are being attributed to those countries based on the current practice of linking FDI in Canada to the immediate source country.

The manufacturing sector alone was responsible for almost a quarter ($9.0 billion) of the overall increase in Canada's FDI stock in 2016. Mining and oil and gas extraction, and wholesale trade contributed equally to the overall increase, each contributing close to 16 percent or $5.8 billion of the increase, followed by finance and insurance, with 12.2 percent ($4.5 billion).

In terms of the relative importance of sectors in total FDI, the FDI shares of manufacturing and mining, oil and gas extraction continued, for the second year in a row, to be virtually tied at 22.8 percent and 22.7 percent, respectively. Management of companies attracted the next biggest share of FDI (18.2 percent), followed by finance and insurance (14.7 percent) and wholesale trade (8.3 percent); collectively, these top five sectors accounted for 86.8 percent of total FDI stock.

Among major industry trends over the past decade, the share of mining, oil and gas extraction in FDI experienced the biggest gains, rising from 18.0 percent in 2006 to 22.7 percent in 2016 while the share of manufacturing suffered the largest decline, shrinking by nearly 7 percentage points over this period to 22.8 percent. The strong rebound in mining, oil and gas extraction FDI was due to the boom in commodity prices

4 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 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.

globally up to 2014, largely via significant cross-border acquisitions of major Canadian-owned natural resource companies. Over the same 2006-2016 period, most other sectors saw marginal gains or losses in their respective shares of total FDI, ranging from a 2-percentage point loss in the share of wholesale trade to a 3.7-percentage point gain for management of companies and enterprises. Another notable development concerns the slight deterioration in FDI performance of the information and communication technologies (ICT) sector—a special category representing a mix of goods- and services-producing industries that are R&D-intensive and important drivers of productivity growth. This sector's share of total FDI stock has more than halved over the past two decades—from nearly 10 percent in 2000 to 3.8 percent in 2006, and sliding further to 3.0 percent in 2016.

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

	2006 C$M	2015 C$M	2016 C$M	Share 2006 %	Share 2016 %	Change 2015-16 %
Total, all industries	**437,171**	**789,012**	**825,704**	**100.0**	**100.0**	**4.7**
Manufacturing	130,055	179,495	188,483	29.7	22.8	5.0
Mining, oil and gas extraction	78,904	181,436	187,263	18.0	22.7	3.2
Management of companies and enterprises	63,209	146,835	150,377	14.5	18.2	2.4
Finance and insurance	60,788	116,974	121,464	13.9	14.7	3.8
Wholesale trade	45,202	63,140	68,914	10.3	8.3	9.1
Retail trade	13,540	31,567	35,355	3.1	4.3	12.0
Professional, scientific and technical services	10,605	23,851	25,040	2.4	3.0	5.0
Transportation and warehousing	2,883	11,832	11,108	0.7	1.3	-6.1
Real estate and rental and leasing	6,538	10,179	10,392	1.5	1.3	2.1
Information and cultural industries	5,034	5,880	8,306	1.2	1.0	41.3
Construction	2,145	4,410	4,301	0.5	0.5	-2.5
Accommodation and food services	4,930	3,270	3,698	1.1	0.4	13.1
Utilities	5,279	2,514	2,622	1.2	0.3	4.3
Agriculture,forestry, fishing and hunting	1,816	450	616	0.4	0.1	36.9
All other industries	6,244	7,179	7,765	1.4	0.9	8.2
Information and communication technologies (ICT)	16,431	25,125	24,746	3.8	3.0	-1.5

"The Macroeconomic Impacts of Foreign Direct Investment (FDI) in Canada": A Study Commissioned by Global Affairs Canada

FDI has traditionally played and continues to play a significant and positive role in Canada's economy. It has been a key driver of Canada's participation in globalization and, along with trade and innovation, a critical driver of global value chains and competitiveness. Although the stylized facts concerning the benefits of FDI and the important role that foreign affiliates continue to play in the Canadian economy are well documented, the existing empirical research on the impacts of FDI in Canada has its limitations in that it has failed to examine the impacts using a macroeconomic framework. A recent study commissioned by the Office of the Chief Economist at Global Affairs Canada entitled "The Macroeconomic Impacts of FDI in Canada" seeks to address this shortcoming by taking into account the potential interactions and interdependencies among key macroeconomic variables.

In the study, the authors investigate the market dynamics associated with foreign investment at the macro level, taking into account the interrelationships among the factors impacted by foreign investment. To do so, they develop a small macro model to estimate and simulate the impacts of inward FDI on key macroeconomic variables in Canada, including real investment, human capital, R&D spending, real exports and imports of goods and services, labour productivity, employment and real output (GDP).[1] The study explores the main channels through which inward FDI could impact the host economy, using panel data of 36 industries based on the North American Industrial Classification System (NAICS) for the period 1999-2013.[2]

As expected, the authors find that inward FDI has a direct positive impact on most key variables, except labour productivity, which is impacted indirectly through the positive influence of FDI on innovation and investment intensity. The authors then use the macro results to simulate the impacts of a 10% increase in Canada's FDI stock, which is found to have a positive and direct impact on key economic activities such as investment, exports, innovation, employment and GDP. The authors estimate that by the fifth year of the increase in the investment stock, Canada's real annual GDP would be $10 billion higher, and net new jobs would increase by 60,000. Equivalently, 10 years following a $1-billion dollar increase in Canada's inward FDI stock, real GDP in Canada would increase by $170 million per year and create 860 net new jobs.[3] For policy makers, the key findings of this study serve as a practical tool for estimating the potential macroeconomic impacts of additional FDI in Canada.

1 "*The Macroeconomic Impacts of FDI in Canada*", Someshwar Rao, S. Rao Consulting Inc. and Institute of Research and Public Policy, Ottawa, and Qi Zhang, University of Ottawa, 2016.

2 Panel data are data that cover a (usually small) number of observations over time on a (usually large) number of cross-sectional units such as individuals, households, firms, or industries.

3 The authors are using a similar approach to conduct a study for Global Affairs Canada that will examine the macro-economic impacts of outward FDI on the Canadian economy.

Outward investment

Flows of Canadian Direct Investment Abroad (CDIA)

In 2016, Canadian investors increased their FDI outflows by 2.6 percent to $88.0 billion, almost twice as much as what foreign direct investors invested in Canada during the year. In fact, 2016 marked the sixth 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 $74.9 billion per year in the last four years (2013-2016), compared to $47.1 billion annually in the previous four years (2009-2012).

TABLE 6-5
Canadian Direct Investment Abroad: Outflows

	2015 C$M	2016 C$M	Growth %
By region			
To the world			
Total net flows	85,747	88,010	2.6
Mergers and acquisitions	56,712	57,437	1.3
Reinvested earnings	31,081	27,820	-10.5
Other flows	-2,045	2,753	-
To the U.S.			
Total net flows	58,303	68,034	16.7
Mergers and acquisitions	36,291	43,831	20.8
Reinvested earnings	16,424	13,348	-18.7
Other flows	5,588	10,856	94.3
To the rest of the world			
Total net flows	27,445	19,975	-27.2
Mergers and acquisitions	20,421	13,605	-33.4
Reinvested earnings	14,657	14,474	-1.2
Other flows	-7,633	-8,105	-
Sector of CDIA outflows			
Mining and oil and gas extraction	-13,764	13,790	-
Manufacturing	23,811	6,508	-72.7
Trade and transportation	760	18,857	2,381.2
Finance and insurance	54,486	23,477	-56.9
Management of companies and enterprises	10,622	2,592	-75.6
Other industries	9,833	22,785	131.7

By mode of investment, cross-border M&A were responsible for slightly under two thirds (65.3 percent) of CDIA flows in 2016—a relatively higher share, on average, than that posted during the 2008-2016 period (50.2 percent).

By destination, 57.8 percent of total CDIA flows from 2008 to 2016, on average, went to the United States, compared to 77.3 percent in 2016 alone.

By destination, Canadian investors increased their investment flows to the United States by 16.7 percent to $68.0 billion in 2016. M&A and other flows were on the rise, but reinvested earnings in U.S. affiliates were on the decline. M&A outflows decreased by 33.4 percent to the rest of the world, while reinvested earnings declined by only 1.2 percent.

Canadian investors decreased their outflows of FDI into all sectors except in mining and oil and gas extraction, trade and transportation and other industries. Finance and insurance remained the most important destination for Canadian outflows, with a 26.7-percent share in 2016, in spite of a 56.9-percent decline.

Stock of CDIA

Canadian investors added $14.4 billion (1.4 percent) to their direct investment holdings abroad to reach $1,049.6 billion in 2016. This slight growth in CDIA stock in 2016 largely reflected the impact of a stronger Canadian dollar, which offset most of the strong investment activity during the year.[5]

Regionally, North America—comprising the United States, Mexico and the Caribbean region—and South and Central America were the only regions that posted an increase in CDIA stock in 2016. The North America region's CDIA position rose by

5 The Canadian dollar gained ground against the U.S. dollar (3.1 percent), the British pound (23.2 percent), and the euro (6.1 percent).

6.1 percent ($38.8 billion) to $676.2 billion while the position of the South and Central America region increased by 3.4 percent ($1.8 billion) to $54.7 billion. Within North America, the United States—by far the most dominant destination for CDIA—accounted for 70.2 percent of the total CDIA stock in North America, and its direct investment position rose by 8.0 percent to $474.4 billion. The growth of the CDIA stock in the United States was partly affected by the appreciation of the Canadian dollar against the U.S. dollar (3.1 percent appreciation in 2016).[6] Consequently, the U.S. share of Canada's total CDIA stock increased from 42.4 percent in 2015 to 45.2 percent in 2016.

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

	2006 C$M	2015 C$M	2016 C$M	Share 2006 %	Share 2016 %	Change 2015-16 %
All countries	518,839	1,035,157	1,049,571	100.0	100.0	1.4
North America	319,759	637,315	676,163	61.6	64.4	6.1
Bahamas	x	19,637	19,958	n/a	1.9	1.6
Barbados	40,617	62,126	68,256	7.8	6.5	9.9
Bermuda	18,062	43,215	39,434	3.5	3.8	-8.7
Cayman Islands	16,846	46,372	47,896	3.2	4.6	3.3
Mexico	5,157	18,388	16,780	1.0	1.6	-8.7
United States	224,020	439,045	474,373	43.2	45.2	8.0
South & Central America	20,975	52,894	54,701	4.0	5.2	3.4
Argentina	2,837	2,327	1,569	0.5	0.1	-32.6
Brazil	8,951	12,914	14,358	1.7	1.4	11.2
Chile	4,626	15,285	16,496	0.9	1.6	7.9
Colombia	414	3,676	3,687	0.1	0.4	0.3
Peru	2,154	12,539	12,663	0.4	1.2	1.0
Europe	143,921	266,796	245,651	27.7	23.4	-7.9
France	16,317	7,221	8,474	3.1	0.8	17.4
Germany	8,868	12,218	12,364	1.7	1.2	1.2
Hungary	6,618	3,857	3,594	1.3	0.3	-6.8
Ireland	19,989	13,770	3,719	3.9	0.4	-73.0
Luxembourg	3,022	66,483	59,773	0.6	5.7	-10.1
Netherlands	8,051	28,086	27,153	1.6	2.6	-3.3
Spain	3,361	4,264	4,377	0.6	0.4	2.7
Sweden	1,881	4,179	3,688	0.4	0.4	-11.7
Switzerland	7,592	4,080	4,016	1.5	0.4	-1.6
United Kingdom	58,518	97,654	97,928	11.3	9.3	0.3
Africa	3,680	4,607	3,570	0.7	0.3	-22.5
Asia/Oceania	30,503	73,545	69,486	5.9	6.6	-5.5
Australia	6,790	25,382	26,537	1.3	2.5	4.6
Hong Kong	4,466	7,009	7,307	0.9	0.7	4.3
Japan	3,780	4,377	4,300	0.7	0.4	-1.8
Kazakhstan	x	1,303	1,250	n/a	0.1	-4.1
China	2,099	13,589	13,257	0.4	1.3	-2.4
Singapore	2,655	3,941	3,856	0.5	0.4	-2.2
South Korea	478	1,402	1,726	0.1	0.2	23.1

6 Conversion using end-of-year exchange rate.

Conversely, Canadian direct investment in Europe—the second most popular destination for CDIA—decreased by $21.1 billion (7.9 percent) to $245.7 billion. The contraction reflected mainly Ireland and Luxembourg's CDIA positions, which dropped by $10.1 billion and $6.7 billion, respectively. Those declines were in the finance sector and may have come as a result of companies redeploying their capital to other parts of the world. In spite of the significant appreciation of the Canadian dollar against the euro in 2016 (6.1 percent), small gains were recorded by few of the major European source countries for FDI, such as France, the United Kingdom and Germany; collectively, these three countries increased their CDIA position in Canada by a modest $1.7 billion.

Canada's direct investment assets in Asia and Oceania—the third most important region for CDIA after the United States and Europe—also lost some ground, declining by $4.1 billion to $69.5 billion in 2016 (accounting for 6.6 percent of total CDIA stock). In terms of the major players in this region, Canada increased its FDI holdings in Australia by $1.2 billion (4.6 percent), while decreasing FDI holdings in China by $0.3 billion (2.4 percent).

As with FDI in Canada, a notable feature of CDIA is the dominant role played by several so-called offshore low-tax jurisdictions. These are especially concentrated in the Caribbean and continue to be popular destinations for CDIA, primarily because of their lax financial regulations and little or no taxation on income or capital that they impose on non-residents. Four such offshore tax havens (Barbados, the Cayman Islands, Bahamas and Bermuda) continued to be among the top 10 destinations for CDIA in 2016; collectively, they accounted for 16.7 percent of Canada's CDIA stock in 2016, up from 14.6 percent in 2006.[7] A parallel development in the last decade has been the significant rise in the importance of Luxembourg for CDIA, primarily because of the huge tax incentives it offers multinationals from around the world. Luxembourg's share of CDIA rose from a paltry 0.6 percent in 2006 to 5.7 percent in 2016. In 2016, Luxembourg and the four Caribbean low-tax jurisdictions together held $235 billion, or 22.4 percent, of Canada's CDIA stock, up from about 15 percent in 2006.

In 2016, the stock of CDIA contracted in all sectors but the following: the transportation and warehousing sector posted the largest absolute increase in CDIA stock ($10.7 billion), followed by utilities and finance and insurance ($6.8 billion each), information and cultural Industries ($3.3 billion), and manufacturing ($0.7 billion). Conversely, the largest absolute drop in FDI stock occurred in mining and oil and gas extraction ($9.3 billion), with FDI in all three of the sub-sectors contracting: oil and gas extraction, mining, and support activities.

The sectoral distribution of CDIA stock in 2016 continued to be largely concentrated in the finance and insurance sector (36.6 percent), followed at a distance by mining, oil and gas extraction (18.5 percent), management of companies and enterprises (11.6 percent), manufacturing (8.0 percent), and real estate, rental and leasing (5.2 percent). The traditionally dominant position of the finance and insurance sector in CDIA can be linked to the importance of offshore banking sectors in both the Caribbean and Luxembourg.

One of the significant long-term sectoral developments has been the marked reduction in the share of manufacturing in total CDIA, which declined from 21.0 percent in 2006 to 8.0 percent in 2016—a drop of 13 percentage points. Offsetting shares accrued primarily to finance and insurance (up nearly 7 percentage points) and to a lesser extent by real estate, rental and leasing (up about 3 percentage points) over this period. These

7 2006 data for CDIA stock in Bahamas are not available.

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 some other activity.

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

	2006 C$M	2015 C$M	2016 C$M	Share 2006 %	Share 2016 %	Change 2015-16 %
Total, all industries	518,839	1,035,157	1,049,571	100.0	100.0	1.4
Finance and insurance	155,800	377,136	383,908	30.0	36.6	1.8
Mining and oil and gas extraction	86,031	203,326	194,001	16.6	18.5	-4.6
Management of companies and enterprises	86,614	124,977	121,387	16.7	11.6	-2.9
Manufacturing	108,753	83,480	84,163	21.0	8.0	0.8
Real estate and rental and leasing	9,842	58,272	54,365	1.9	5.2	-6.7
Transportation and warehousing	16,242	34,414	45,116	3.1	4.3	31.1
Information and cultural industries	13,907	40,373	43,637	2.7	4.2	8.1
Utilities	7,923	22,877	29,684	1.5	2.8	29.8
Professional, scientific and technical services	8,022	29,901	27,944	1.5	2.7	-6.5
Wholesale trade	5,209	19,866	19,534	1.0	1.9	-1.7
Retail trade	11,232	8,929	8,496	2.2	0.8	-4.8
Agriculture, forestry, fishing and hunting	1,558	2,379	2,286	0.3	0.2	-3.9
Accommodation and food services	3,410	2,234	2,087	0.7	0.2	-6.6
Construction	1,880	900	939	0.4	0.1	4.3
All other industries	2,416	26,092	32,025	0.5	3.1	22.7
Information and communication technologies (ICT)	18,447	22,132	19,704	3.6	1.9	-11.0

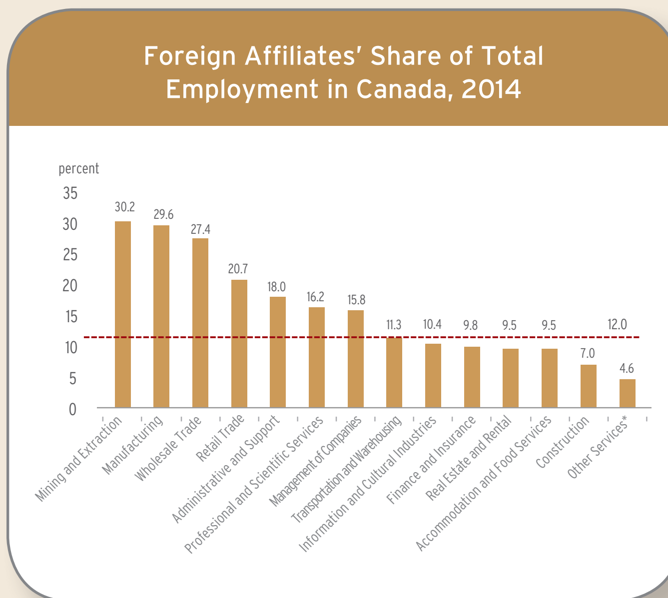
Activities of Foreign Affiliates in Canada and Canadian Affiliates Abroad

Canada is an open economy where foreign investment, whether foreign direct investment into Canada or Canadian foreign investment abroad, plays a crucially important role. To better understand the contribution of foreign investment to Canadian economic activity, Statistics Canada has been compiling and reporting annual data on key activities of foreign affiliates (FAs) such as employment, trade, R&D spending and financial indicators since 2010. The statistics provide valuable insights on the significant role FAs play in the Canadian economy and abroad.

For example, as shown in this short review, FAs represented 12.0 percent of Canada's total employment in 2014 and conducted 55.1 percent of Canada's total merchandise trade and almost half of the total international transactions in services. Likewise, Canadian affiliates abroad conduct a large amount of business abroad.[1] In 2014, Canadian subsidiary sales abroad were nearly as large as traditional exports.

Foreign Affiliates in Canada

Employment by FAs in Canada



In 2014, FAs employed 1.9 million Canadians, of which Ontario accounted for the largest share (47.7 percent), followed by Quebec (16.2 percent), Alberta (15.0 percent) and British Columbia (11.2 percent). Between 2010 and 2014, Canada's employment in FAs grew by 7.5 percent—faster than the 5.7-percent increase posted by Canadian-controlled firms—with FAs in Alberta recording the fastest employment growth (23.6 percent), followed by British Columbia (15.2 percent) and Ontario (5.0 percent).

In 2014, FAs accounted for a significant share of Canada's total employment in several key sectors, most notably in mining and oil and gas extraction and in manufacturing (about 30 percent each), followed by wholesale trade (27.4 percent) and retail trade (20.7 percent).

By country, U.S.-controlled firms were the dominant source of jobs created by FAs, employing 1.2 million Canadians, or 64.3 percent of total FA employment in 2014, followed by the United Kingdom (7.0 percent), France (5.0 percent), Japan (3.8 percent), and Switzerland (2.9 percent). Over 90 percent of FA employment continues to come from 10 countries; all but one (India) are advanced OECD partners.

1 Foreign affiliates in Canada and Canadian affiliates abroad represent businesses that are majority-owned (more than 50 percent of the voting shares) and that reside in Canada and abroad, respectively.

International Trade by FAs in Canada

In 2014, FAs conducted 53.3 percent of Canada's total merchandise trade and almost half of total international transactions in commercial services.

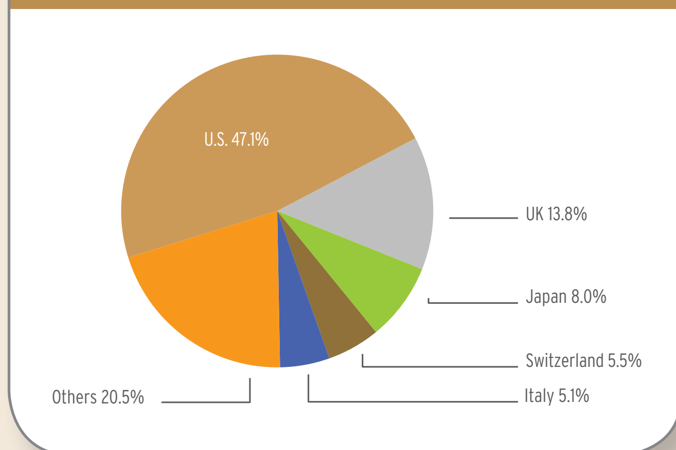
FAs in Canada were responsible for 49.3 percent of merchandise exports, 41.8 percent of commercial services exports, 57.5 percent of merchandise imports, and 53.0 percent of commercial services imports.

Overall, total trade by foreign enterprises grew 26.2 percent in merchandise trade and 39.7 percent in commercial services from 2010 to 2014.

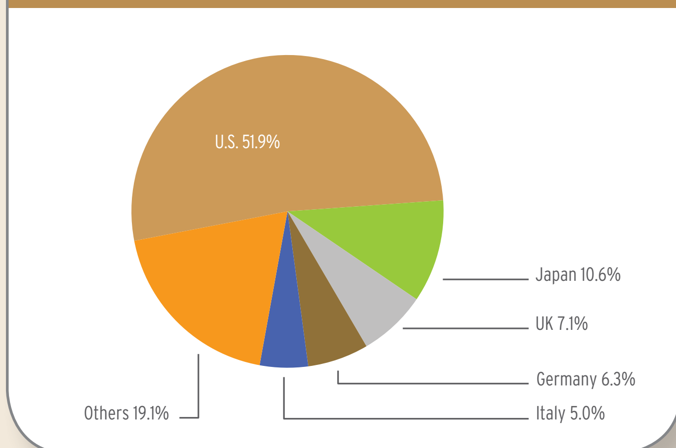
Sectorally, almost 90 percent of FA exports in 2014 originated from three key sectors: manufacturing (60.3 percent), wholesale trade (14.5 percent), and mining, oil and gas extraction (13.2 percent).

Given Canada's deep integration with and proximity to the United States, it is also unsurprising that U.S. affiliates accounted for nearly half of all FA exports and more than half of all FA imports.

Share of Total Exports by Foreign Enterprises, by Country of Control, 2014 (%)



Share of Total Imports by Foreign Enterprises, by Country of Control, 2014 (%)



Research and Development (R&D) by FAs in Canada

In 2013, FAs spent $5.9 billion on R&D, making up 35.5 percent of Canada's total R&D expenditures.[2] By ultimate country of control, U.S. firms accounted for the largest share of R&D spending by FAs (62.0 percent), followed by the United Kingdom (6.6 percent) and France (5.8 percent).

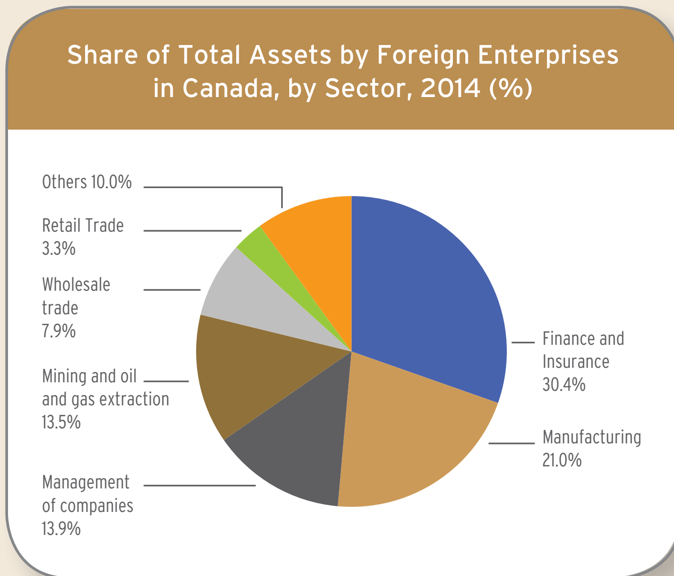
In 2013, a total of 38,984 employees were engaged in R&D activities in FAs. FAs were more R&D-intensive than domestic companies—they employed 12.0 percent of all workers in Canada, but over a quarter (29.5 percent) of all R&D employees. As with R&D spending, the United States accounted for the highest share of R&D personnel employed by FAs (62.0 percent), followed by France (8.9 percent), and Sweden (6.1 percent).

2 Latest year for which R&D data are available.

Corporate Assets and Revenues by FAs in Canada

FAs controlled 19.5 percent of Canada's corporate assets in 2014, or $2.1 trillion, which was equivalent to roughly three times the value of the stock of FDI in Canada.

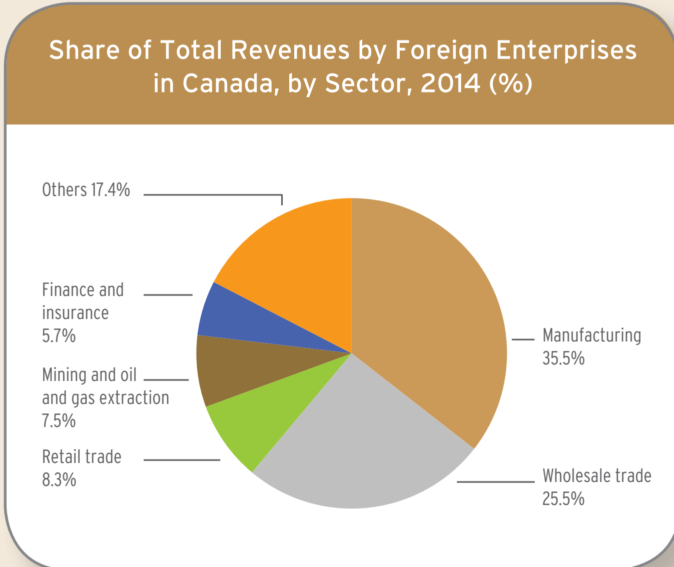
Of all foreign-controlled assets, 52.0 percent were controlled by U.S. affiliates, an additional 33.5 percent controlled by European affiliates (of which U.K. affiliates accounted for close to 40 percent), and 11.0 percent controlled by affiliates from Asia and Oceania.



By sector, FAs in the finance and insurance sector accounted for 30.4 percent of total assets, followed by the manufacturing sector (21.0 percent) and management of companies (13.9 percent).[3]

In 2014, FAs generated 28.2 percent of total operating revenues in Canada, 55.6 percent of which were under U.S. control.

Sectorally, manufacturing and wholesale trade contributed the most to the overall revenues of FAs, accounting for 35.5 percent and 25.5 percent, respectively.



Canadian Affiliates Abroad

Canadian firms often locate abroad to stay competitive, through access to inputs and technology, and to increase access to foreign markets. In 2014, sales of Canadian affiliates abroad were nearly as large as traditional exports, totalling $541.8 billion or almost 90 percent of the value of goods and services exports.

Sales of Canadian affiliates abroad grew 13.2 percent between 2011 and 2014, slightly outpaced by growth of Canadian goods and services exports (15.8 percent). In particular, growth of services sales abroad (30.7 percent) was almost twice as fast as that of exports. In 2014, services accounted for 53.1 percent of total FA sales abroad, whereas they comprised only 15.6 percent of total Canadian exports of goods and services.

By sector, manufacturing accounted for the largest share (26.8 percent) of affiliates' sales in 2014, followed by firms in mining and oil and gas extraction (18.5 percent), and finance and insurance (17.6 percent).

3 The group comprises establishments primarily engaged in managing companies and enterprises and/or holding the securities or financial assets of companies and enterprises.

By country, U.S.-located affiliates generated 55.1 percent of overall sales abroad in 2014, compared to 72.5 percent of exports of goods and services destined to the United States, underscoring the greater diversity in affiliates' sales compared to traditional exports. Between 2011 and 2014, the United States also accounted for the bulk of growth in affiliates' sales abroad (56.8 percent), followed by Sweden (9.2 percent), Norway (6.7 percent), and Germany (5.5 percent).