Canada's Trade Performance

An Examination of Eight Indicators

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Canada

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Executive Summary

- Canadian exports grew 10% in real (2002 dollars) terms during 2011, much higher than the compound annual growth rate of 0% seen in real exports from 2001 to 2011. Despite solid growth in the past two years, Canadian exports are still below their 2007 peak.

- Real (2002 dollars) imports increased 7% in 2011, reaching $595.1 billion. By comparison, the compound annual growth rate of real imports from 2001 to 2011 was 4%.

- The number of exporting enterprises fell by from 40,848 in 2009 to 38,456 in 2010, a decrease of 6%. This decline was concentrated in the manufacturing and wholesale trade sectors. Canada's exporter population has declined by 15% since peaking at 45,197 in 2005.

- In 2011, approximately 62% of the growth in Canadian exports was accounted for by the US, with another 20% concentrated in emerging markets. Exports to emerging markets became much more important in Canada's export trade from 2001 to 2011, increasing from representing 6% of Canadian exports to 13% during this time.

- Non-resource based manufacturing has fallen from representing 53% of goods exports in 2001 to 33% in 2011. Automotive and high-tech goods account for most of this decline. The oil and gas extraction, mining, and resource-based manufacturing industries have grown to fill this space, introducing a more diverse sectoral distribution of Canadian exports. The sectoral distribution of merchandise exports was essentially unchanged from 2010 to 2011.

- The stock of CDIA increased 7% from 2010 to 2011 to reach $684.5 billion, primarily due to investment growth in the US and in developing countries. By comparison, CDIA increased an average of 5.5% per year during the 2001 to 2011 period.

- Foreign affiliate sales (FAS) fell slightly in 2010, declining 2% to $462.2 billion CAD. From 2000 to 2010, nominal FAS grew at an average annual rate of 2.3%, much faster than the growth seen in nominal exports over the same period. The vast majority of the growth in FAS during this period took place in emerging markets.

- In 2011, the stock of foreign direct investment in Canada increased 4% to $585.1 billion. Canada's stock of FDI-in expanded by 78% through the 2001 to 2011 period, increasing from $340.4 billion to $607.5 billion. Roughly half of this stock of investment comes from the US, with the bulk of the remainder stemming from the EU, although emerging markets have significantly increased their share of FDI-in during the past decade.

A few concepts explained

Export growth: Exports are usually at the forefront of any discussion of Canada's trade performance, and not without reason. The real (fixed-price) value of exports is the preferred measure for calculating export growth, as the appreciation of the Canadian dollar and rising commodity prices can inflate the nominal value of exports, causing the appearance of growth even if the actual amount of goods and services being exported remains unchanged. The merchandise export data used in this report are presented on a customs basis, while exports of services are presented on a balance of payments basis.

Import growth: Imports play an important role in Canada's trade performance, as there is a positive relationship between export and import volumes – as exports grow, the quantity of imported inputs required to produce these goods also increase. As with exports, the real dollar value of imports is the preferred measure for calculating import growth, as an appreciation in the CAD (i.e. an increase in the purchasing power of Canadian currency) could allow actual quantity imported goods to increase even if the nominal value of these imports were to remain constant. The merchandise import data used in this report are presented on a customs basis, while imports of services are presented on a balance of payments basis.

Number of exporters: The number of exporting enterprises operating in Canada shows which types of companies are using international trade in order to expand their business, as well as how they are using it. The exporter count is drawn from the Exporter Register Database published annually by Statistics Canada. The Exporter Register tracks enterprises whose merchandise exports exceeded $30,000 in a year during the 1996 to 2010 period and classifies these enterprises according to NAICS industry, export revenue, province of residence and country of destination.

Diversification of trading partners: There are two key benefits to having a number of significant trading partners: first, a diverse set of trading partners minimizes the threat an economic downturn in a given country or region poses to Canada's economy, and second, diversification allows exporters to benefit from the rapid growth taking place in emerging markets.

Diversification across export industries: The importance of diversification across export industries is more ambiguous than that of diversification of trading partners. On one hand, a narrow sectoral distribution is natural and even somewhat desirable due to the importance of comparative advantage in international trade. On the other hand, this type of diversification protects exports from industry-specific shocks.

Canadian Direct Investment Abroad: CDIA offers many benefits to the domestic economy. It allows for increased productivity through the realization of economies of scale, and creates high-value added head office activities in Canada, such as financing, marketing and research and development. The CDIA statistics cited in this report consider an investment a 'direct investment' when a Canadian company owns at least 10% of the voting equity in a foreign enterprise. CDIA is denominated in foreign currency, meaning the appreciation of the Canadian dollar results in the understatement of the value of CDIA and vice versa.

Foreign affiliate sales: FAS measure the sale of goods and services done through majority-owned foreign affiliates of Canadian companies. The use of foreign affiliates is important to Canada's trade performance because it allows the sale of services abroad, which can complement merchandise exports. The products sold through foreign affiliates can be produced in Canada or abroad. Data on FAS are collected annually through a mandatory survey on capital invested abroad by Canadian enterprises. FAS data do not include foreign sales by Canada's chartered banks.

Inbound foreign direct investment: Foreign direct investment into Canada helps Canadian companies become part of the supply chains of foreign companies, and helps to boost productivity and competitiveness at home. Unlike CDIA, inward FDI in Canada is directly recorded in Canadian dollars, meaning the changes in the value of the CAD do not affect the recorded value.

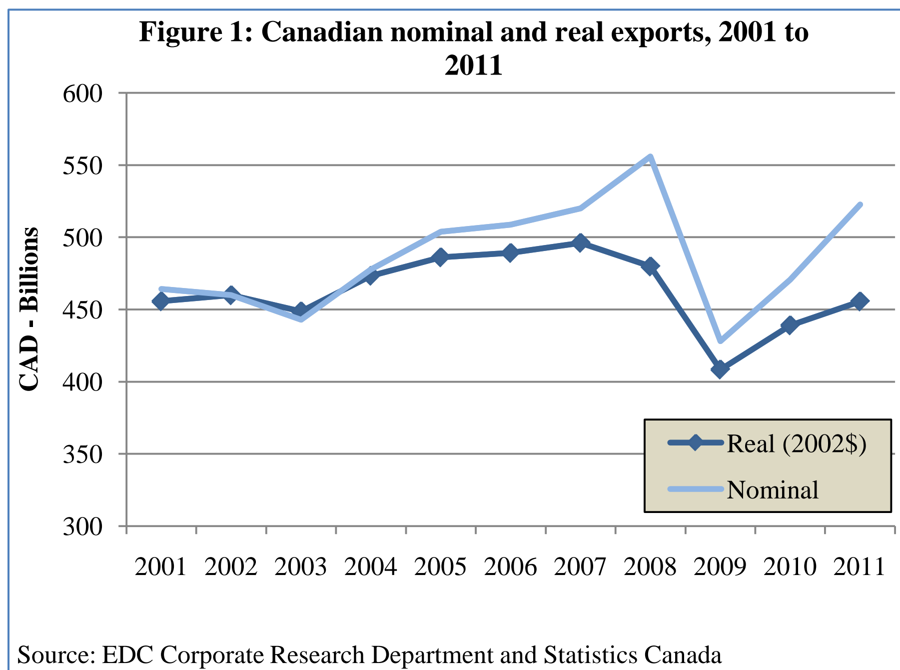
Introduction

This report represents the CRD's second annual review of Canada's Trade Performance. It examines both the period from 2001 to 2011, and changes since the 2008-2009 recession.

The years following the onset of the global recession in 2008 saw significant shakeups to the trends in Canada's integrative trade performance.[1] Outward Canadian economic activity has not weathered the crisis especially well: export volumes collapsed with the onset of the recession, and have remained below pre-recessionary levels despite strong growth in 2010 and 2011. Similarly, Canadian direct investment abroad also took a noticeable hit during the recession and continued to decline even in 2010, but started to make a recovery in 2011.Global activity directed into Canada has done relatively better: import volumes rapidly recovered since the recession, and inbound foreign direct investment, while declining through the recession, recovered in 2011.

1. Export growth

During the 2001 to 2011 period, exports experienced very low growth, with a compound annual growth rate of just 1.2% (Figure 1) in nominal terms, and zero percent in real (2002 dollars) terms. Notably, nominal exports recovered at a much faster rate than export volumes in the past two years, spurred on largely by rising commodity prices.



Canadian exports are still in the process of recovery following a massive drop-off in 2009 brought on by the global financial crisis and the subsequent recession. The recovery in exports that began in 2010 maintained its momentum in 2011, propped up by the ongoing recovery of global demand. In nominal terms, exports grew 11% from 2010 to 2011, while real exports increased 10%. Despite this growth, real exports only reached 92% of their 2007 peak, leaving the recovery incomplete even after four years.

Although nominal exports are expected to exceed their 2008 level by the end of 2012 or early 2013, a similar recovery in real exports will take longer to occur. Canada's real exports have rebounded at a noticeably slower rate than the rest of the world, as world exports exceeded their 2008 peak in real terms as early as

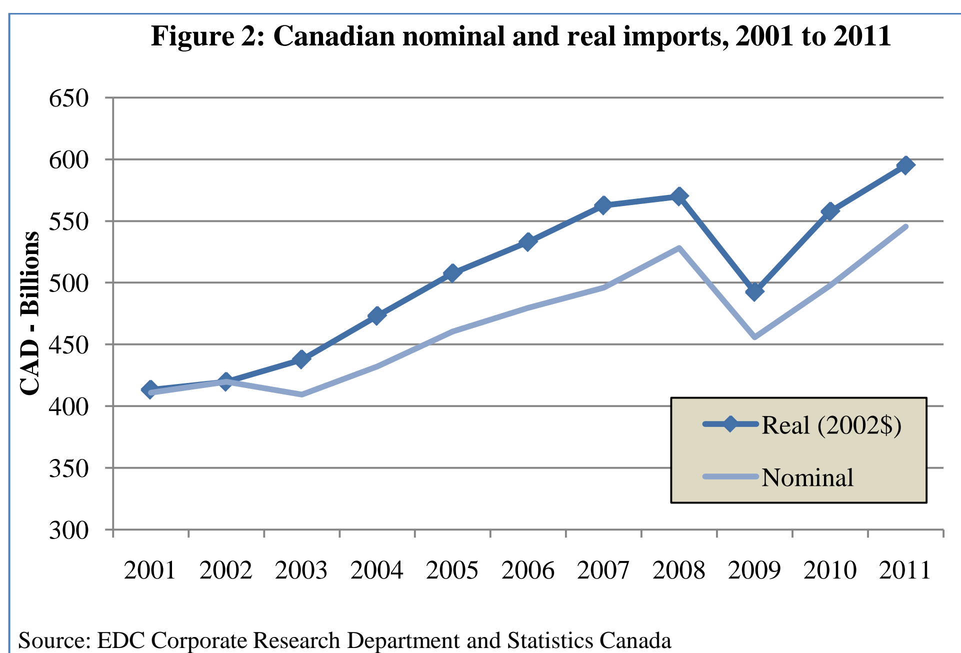
[1] Integrative trade refers to the expansion of the traditional export model to include direct investment abroad, the integration of imported inputs into exports and the establishment of foreign affiliates.

Q32011. In 2012 and beyond, energy and metals are expected to continue to drive Canadian export growth, with additional input from the recovery in export markets for automotives and capital machinery.[2]

2. Import growth

From 2001 to 2011, Canadian imports grew at an average annual rate of 2.9% in nominal terms (Figure 2), much higher than the 1.2% rate of annual increase in exports. In real (price-adjusted) terms, import volumes grew 3.7% per annum, reflecting the increased purchasing power of the strong Canadian dollar.

Imports enjoyed a much stronger recovery than exports coming out of the recession. In 2011, real imports were 4.4% higher than their most recent peak in 2008, while nominal imports were 3.3% higher than the 2008 level. Growth will persist in the medium term as the dollar remains strong and domestic demand continues to grow.



3. Number of exporters

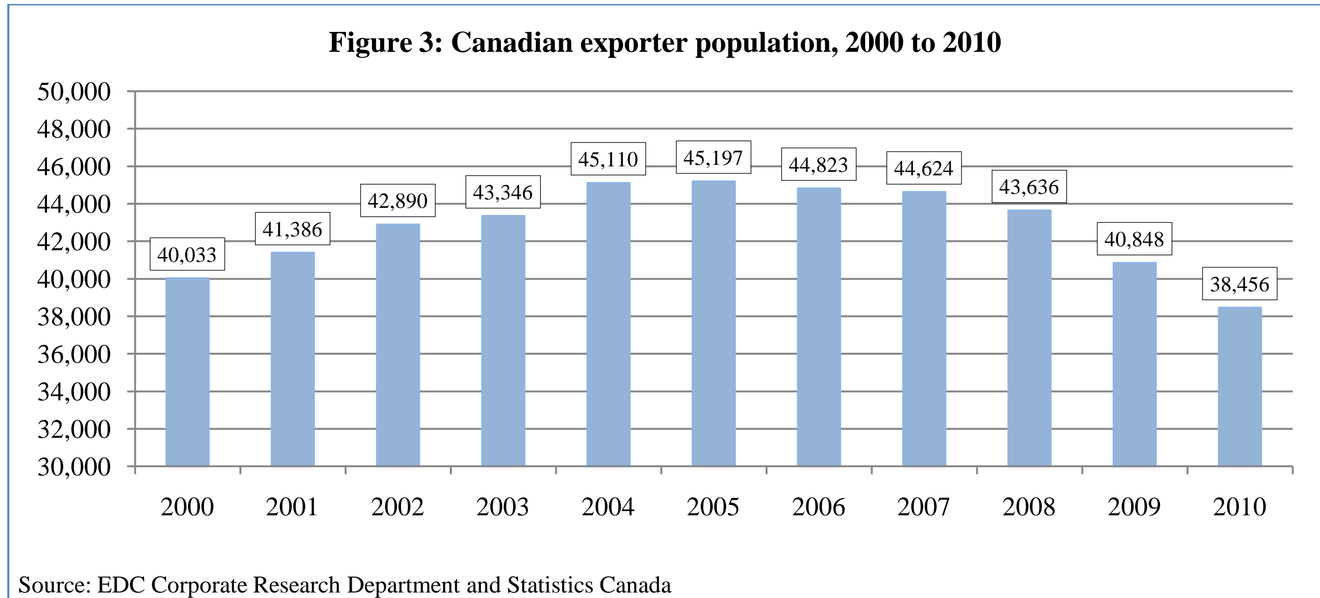
In 2010, there were 38,456 exporting enterprises in Canada – 4% below the level in 2000 (Figure 3), and 15% below the 2005 peak. Most of the decline in exporters came from the manufacturing and wholesale trade sectors. In 2010, the number of exporters as a proportion of the total number of potential exporting enterprises in Canada was the lowest it has been at any point from 2000 to 2010, at 4.8%. This indicates that the exporter population is declining faster than the number of businesses operating domestically.[3]

[2] For a more detailed outlook on Canada's major export industries consult the Spring 2012 edition of EDC's Global Export Forecast available on www.edc.ca.

[3] The number of potential exporting enterprises is calculated by removing the sectors from the total enterprise count that are unlikely to export (e.g. retail trade; most construction sub-sectors; finance and insurance services with the exception of credit intermediation and insurance; educational services; health care; etc.).

From 2009 to 2010, the number of large exporters fell by just 10 firms to 3,833 while the number of small exporters declined 6.4% to 34,623, indicating a much worse relative performance on the part of small exporters.[4]

Given the nascent global recovery, it seems likely the exporter count will start to recover over the next couple of years. However, we can expect the high value of the dollar and other challenges to keep the exporter count below its previous peak through the next several years.



4. Diversification of trading partners

Canada's trade with non-US markets has greatly increased over the past decade (Table 1). The US absorbed 71% of total Canadian exports in 2011, down from 84% in 2001. The appreciation of the CAD, shaky economic conditions in the US and the rapid expansion of emerging markets have all contributed to this process of geographic diversification.

Canadian exports grew in all major geographic markets from 2010 to 2011. Roughly three-fifths of this export growth happened in the US, with another fifth concentrated in emerging markets and the remainder spread across the EU and other OECD countries. The increase in exports to the US mostly reflects a rebound from the steep drop experienced during the recession. Exports to emerging markets increased their share of Canada's total exports by roughly one percentage point in 2011.

In 2001, Canada sourced 63% of its imports from the US, a figure that dropped to 51% in 2011. Meanwhile, imports from emerging markets in general rose substantially, though this growth is primarily attributable to China. As was the case with exports, 2011 saw imports from emerging markets increase their share of total Canadian imports by approximately one percentage point.

[4] For more details on the decline in Canada's exporter population, see "Where Did Everybody Go? Dissecting the Disappearance of Canada's Exporters." EDC Corporate Research Department, May 2012.

In the next couple of years, the US will likely regain some of its share of Canadian trade activity as its economy is expected to regain momentum. Over the long term, however, geographic diversification shows no sign of slowing down.

Table 1: Relative share of major trading partners
Canadian exports and imports of goods and services

	Exports			Imports		
	2001	**2010**	**2011**	**2001**	**2010**	**2011**
World total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
US	83.7	71.7	70.7	63.2	51.7	50.9
EU	6.1	10.0	10.1	12.1	12.6	12.4
Japan	2.4	2.2	2.3	4.1	3.0	2.7
Other OECD	2.2	4.4	4.4	8.6	9.3	9.5
All other countries*	5.6	11.7	12.5	12.1	23.4	24.6
Value (billions of CAD)	464.2	470.6	522.6	411.0	497.8	545.4
*Non-OECD countries located outside the EU (acts as a proxy for developing markets)						

Source: EDC Corporate Research Department, Industry Canada and Statistics Canada

5. Diversification across export industries

Canada's sectoral diversification over the past decade has included dramatic changes in the industrial composition of exported goods (Table 2). In particular, the share of manufactured goods fell from 68% of total goods and services exports in 2001 to 53% in 2011. This trend persisted despite the recovery following the recession, as the manufacturing sector is regaining lost ground more slowly than the economy overall. Even exports from resource-based manufacturing industries, which have performed much better than manufacturing as a whole, have not yet returned to their 2008 level.

Exports from resource industries, on the back of surging commodity prices, have filled the void left by the weakened manufacturing sector. Oil and gas extraction, for example, has increased from representing 12% of Canadian merchandise exports in 2001 to 20% in 2011. Similarly, the mining sector has increased its share of merchandise exports from 3% to 10% over the same period.

Non-resource based manufacturing has fallen from representing more than 50% of goods exports in 2001 to 33% in 2011. The nominal value of these exports decreased 29% over the same period, with the bulk of the decline concentrated in the automotive and high tech industries. As such, one can expect resource industries and related support sectors to continue driving Canadian exports for some time yet.

The sectoral distribution of merchandise exports did not change significantly from 2010 to 2011. The largest changes occurred in the oil and gas extraction and mining sectors, whose shares increased 1.6 and 1.1 percentage points respectively, while transportation equipment manufacturing saw a 1.4 percentage point decrease.

Looking forward, Canada can expect to see greater diversification in its merchandise exports than it has in past decades due to the rising importance of the mining, oil and gas extraction, and related sectors relative to the transportation equipment sector. The anticipated softening of commodity prices combined with the expected growth in the automotive sector will likely narrow the spread between these three sectors in the near-term.

Table 2: Relative share of top 10 Canadian merchandise export sectors (ranked on 2010 position)

		2001	2010	2011
1	Oil and Gas Extraction	11.5	18.6	20.2
2	Transportation Equipment Manufacturing	27.0	17.0	15.6
3	Mining (except Oil and Gas)	2.8	9.3	10.4
4	Primary Metal Manufacturing	5.1	7.7	7.8
5	Chemical Manufacturing	5.3	7.2	7.1
6	Food Manufacturing	4.4	5.4	5.4
7	Machinery Manufacturing	5.7	5.1	5.2
8	Petroleum and Coal Products Manufacturing	2.6	5.1	5.3
9	Pulp and Paper Manufacturing	7.0	4.6	4.1
10	Crop Production	2.6	4.1	4.3

Source: EDC Corporate Research Department and Industry Canada

6. Canadian Direct Investment Abroad (CDIA)

Canada's relative share of global outward foreign direct investment stock has remained very stable over the past decade, hovering around 3% (Table 3). This contrasts with trends in outward FDI stock from the United States, which has seen its share of global outward FDI stock decline from 34% to 24%. From 2001 to 2011, the stock of CDIA increased an average of 5.5% per year, increasing from $399.3 billion in 2001 to $684.5 billion in 2011.

The stock of CDIA increased by 7% from 2010 to 2011 (Table 4), placing it well above its previous peak of $641.9 billion in 2008. Most of this increase was concentrated in the US and in developing countries. Canadian investment in the EU and other OECD countries also increased, although not by as much. Most of the growth in emerging markets did not occur in BRIC countries, showing that Canadian investors are placing increasing importance on other high-growth regions, such as Hong Kong, Indonesia, Malaysia, Mongolia, and Singapore.

The increase in CDIA stock in 2011 mostly stemmed from the finance sector, although manufacturing and mining also saw strong growth. Note, however, that measurement issues result in the overstatement of the importance of the financial services sector. This is because CDIA statistics compiled by Statistics Canada only consider the first country of destination for exported capital. When funds used to establish a foreign affiliate transit through offshore financial centres, these countries are recorded as the recipients of CDIA and the financial services sector is credited with the investment.

The ongoing debt crisis in the Eurozone may cause CDIA to falter in 2012, as companies will want to avoid the tumultuous economic conditions of the region.

Table 3: Relative share of global outward FDI stocks and flows for selected countries and groupings

	2000	2009	2010	2000	2009	2010
	Stocks			Flows		
World	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Canada	3.0	3.1	3.0	3.6	3.6	2.9
United States	33.8	22.6	23.7	11.6	24.2	24.9
Developed economies	89.0	84.2	82.3	88.8	72.7	70.7
Developing economies	10.8	14.0	15.3	10.9	23.1	24.8
Total outward FDI stock (bil. of USD)	7,962	19,197	20,408	1,232	1,171	1,323

Source: EDC Corporate Research Department and UNCTAD

Table 4: Location of CDIA stock - relative share for selected countries and groupings

	2001	2010	2011
World	100.0%	100.0%	100.0%
United States	47.2	39.6	40.3
EU	20.7	26.4	25.2
Japan	1.8	1.2	1.2
Other OECD	6.6	5.4	5.7
All other countries	23.8	27.4	27.6
CDIA (billions of CAD)	399.3	639.9	684.5

Source: EDC Corporate Research Department and Statistics Canada

7. Canadian foreign affiliate sales (FAS) (data available up to 2010)

Nominal FAS grew significantly faster than exports over the 2000 to 2010 period, due in large part to rising sales of Canadian mining and oil and gas foreign affiliates. As a result, the ratio of total FAS to total nominal exports rose from 78% in 2000 to 98% in 2010. Even after excluding the mining and oil and gas sectors, the ratio rose from 78% to 96%. As with CDIA, the nominal value for FAS likely under-represents the real value of these sales because the Canadian-dollar value of these sales, which are carried out in foreign currencies, has been eroded by the strong appreciation of the CAD.[5]

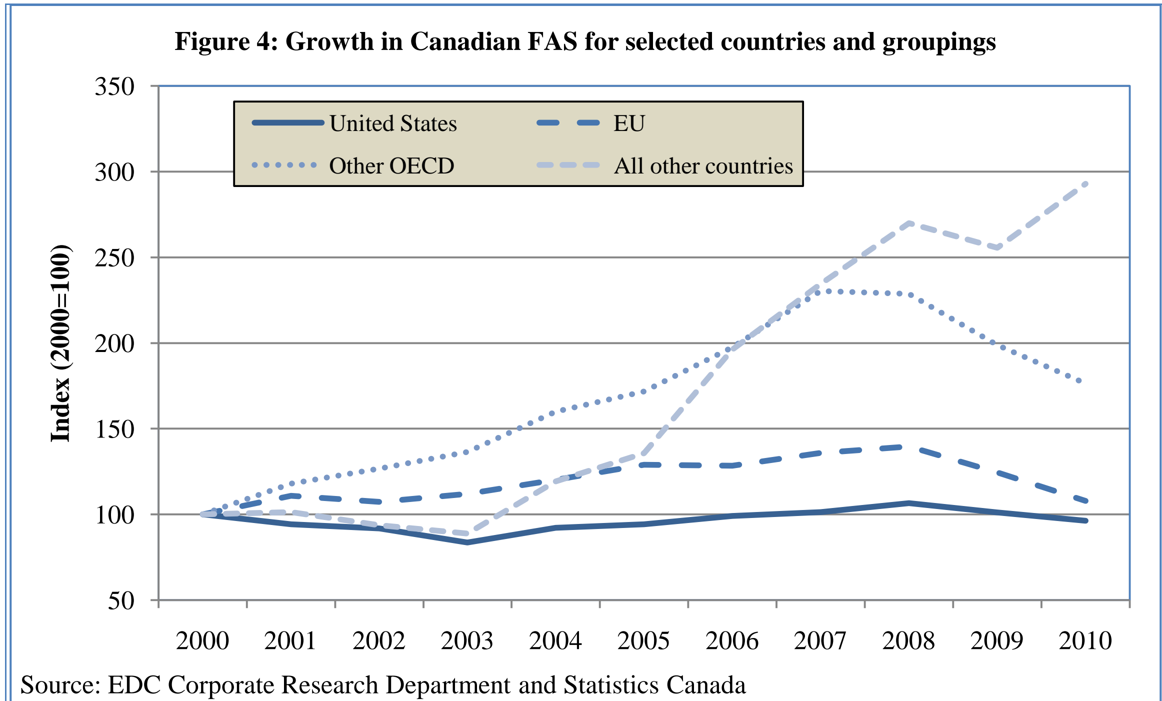
FAS declined 2% to $462.2 billion CAD in 2010 due to diminishing sales in the manufacturing, utilities, and most services sectors. The only sectors to experience growth in their FAS in 2010 were agriculture, mining, and transportation and warehousing.

Looking at FAS from a geographical standpoint, the sales of affiliates of Canadian companies located in developing markets nearly tripled from 2000 to 2010 (from $44.1 billion to $129.1 billion). Conversely, sales by Canada's US-based affiliates actually fell 4% below the 2000 level during this time (Figure 4).

In 2010, FAS increased by 15% in developing markets and fell everywhere else, declining by 5% in the US and 13% in the EU. As a result, the share of Canadian FAS taking place in developing markets increased from 24% to 28% over the course of just one year.

[5] Foreign affiliate sales as defined by Statistics Canada (and in line with international norms) include only majority-owned affiliates. In addition, foreign sales of Canadian banks are not included. As a result, the official data on FAS are likely to be understated.

As long as the CAD remains high and CDIA continues to grow, foreign affiliates will continue to gain relevance in Canada's economic interactions with other countries, and FAS should rise as global demand recovers.



Canada's foreign affiliate sales in perspective

In 2009, the nominal value of Canada's foreign affiliate sales exceeded that of its exports for the first time in the past decade, and, despite falling slightly below the value of exports in 2010, it will likely remain at that level or above for at least as long as exports remain depressed. Couple that with the fact that the level of foreign affiliate sales has had a consistently higher annual growth rate than that of exports even in times when exports were performing well, and it seems that the rising importance of FAS relative to exports can be expected to persist. The question is, is this trend specific to Canada, or are other countries undergoing similar phenomena?

A lack of data availability along with international comparability issues makes it difficult to answer this question. Nonetheless, a comparison with the US yields an interesting revelation: while Canadian FAS have only matched the value of exports since 2009, the value of US FAS has been three times higher than US exports for nearly the entirety of the past decade.[6] Of course, simply having a high ratio of FAS to exports is not necessarily a positive indicator of a country's trade performance. For example, a country could expect to have a growing gap between FAS and exports if its export volumes stagnated or shrank: in such a case, growth in the ratio of FAS to exports would actually be capturing a trend with negative implications for the economy. However, this has not been the situation in the US, where exports grew at an average annual rate of 6.8% from 2000 to 2008, and FAS grew at an average annual rate of 9.7% over the same period – compared to growth rates of 2.1% and 3.8% respectively in Canada. This indicates there is still plenty of room for Canada to strengthen its degree of integration with the global economy.

[6] FAS data for other countries are quite limited, but the available evidence suggests foreign affiliate sales are quite significant in relation to exports. For example, the ratio of FAS to exports is estimated at 4-5 for the UK, 3 for Japan and around 2 for Australia.

Table 5: Canadian FAS for selected sectors (millions of CAD)

	2000	2010	Compound Annual Growth Rate
All Sectors	**367,052**	**462,201**	**2.3**
Goods Total	**226,650**	**299,838**	**2.8**
Mining and Oil and Gas Extraction	37,138	107,752	11.2
Utilities and Construction	7,211	11,876	5.1
Manufacturing	181,486	174,029	-0.4
Services Total	**140,402**	**162,363**	**1.5**
Retail Trade	3,899	17,999	16.5
Information and Cultural Services	30,851	22,499	-3.1
Finance (non-bank) and Insurance	43,422	59,305	3.2
Other services	62,230	62,559	0.1

Source: EDC Corporate Research Department and Statistics Canada

8. Inbound foreign direct investment

Canada's relative share of global inward stock of FDI remained steady from 2000 to 2010 at just under 3% (Table 7). This is a solid performance compared to the decline observed for all developed economies, on average.

The stock of inward FDI in Canada rapidly expanded from 2001 to 2011, increasing 78% from $340.4 billion (CAD) to $607.5 billion. Approximately 65% of this investment came from the US and the EU, while 24% came from developing economies. FDI-in from developing economies has grown at a rapid pace, increasing an average of 23% per year throughout the past decade.

In 2011, the stock of foreign direct investment in Canada increased 4% to $607.5 billion (CAD). This increase stemmed primarily from growth in investment from the EU and the US (Table 6).
Looking forward, the growth of inward FDI in Canada seems unlikely to slow down. It may even gain momentum as developing economies continue to gain relevance as sources of investment.

Table 6: Inbound foreign investment in Canada – relative share for selected countries and groupings

	2001	2010	2011
World	100.0%	100.0%	100.0%
United States	64.6	54.4	53.7
EU	27.0	25.7	26.4
Japan	2.3	2.1	2.1
Other OECD	3.2	5.7	5.6
All other countries	2.8	12.0	12.2
FDI-in (Billions of CAD)	340,429	585,107	607,496

Source: EDC Corporate Research Department and Statistics Canada

Table 7: Relative share of global inward FDI stocks and flows for selected countries and groupings

	2000	2009	2010	2000	2009	2010
	Stocks			Flows		
World	100.0	100.0	100.0	100.0	100.0	100.0
Canada	2.9	2.9	2.9	4.8	1.8	1.9
United States	37.4	16.9	18.0	22.4	12.9	18.4
Developed economies	75.9	68.3	65.3	81.1	50.9	48.4
Developed economies of Europe	32.8	44.3	39.8	51.7	32.7	25.2
Developing economies	23.3	28.2	31.1	18.4	43.1	46.1
Total inward FDI stock (billions of USD)	7,446	17,950	19,141	1,403	1,185	1,244

Source: EDC Corporate Research Department and UNCTAD

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