

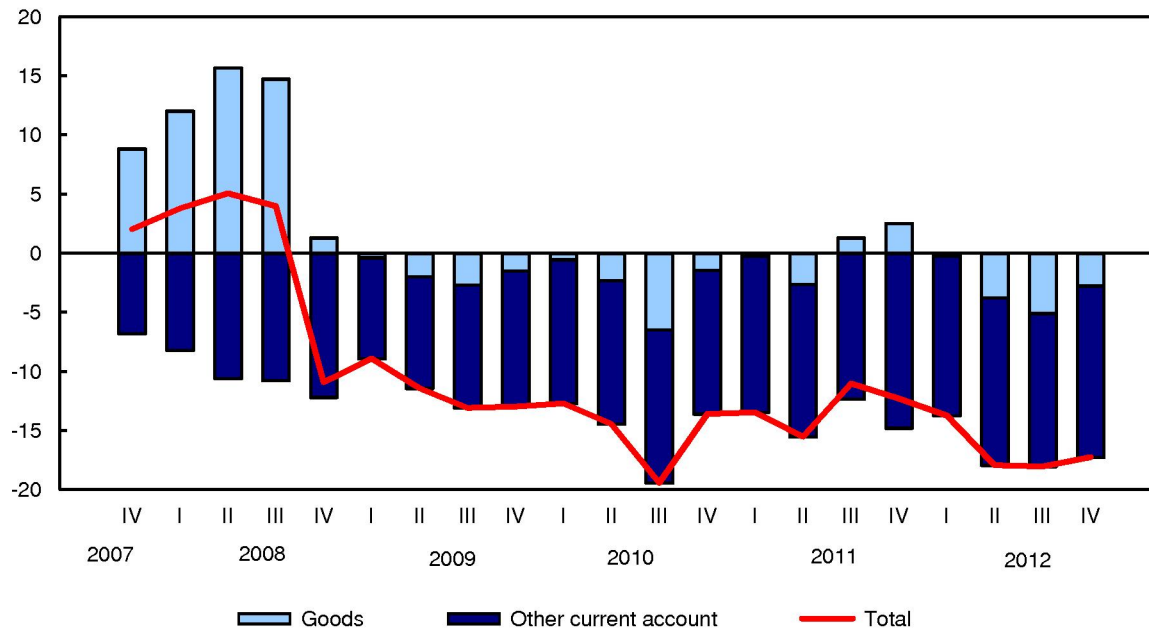
# Canada's balance of international payments, Fourth quarter 2012

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Canada's current account deficit (on a seasonally adjusted basis) decreased \$0.8 billion to \$17.3 billion in the fourth quarter. The reduction to the goods deficit was partially offset by the increase of the investment income deficit.

**Chart 1**  
**Current account balances**

billions of dollars, seasonally adjusted



In the financial account (unadjusted for seasonal variation), transactions in loans and deposits accounted for most of the inflows in the quarter, as inward and outward transactions in both securities and direct investment were largely offsetting. This contrasted with the general trend observed since 2009, where net inflows in the form of securities have been the main contributor to the financing of the ongoing current account deficit.

## Current account

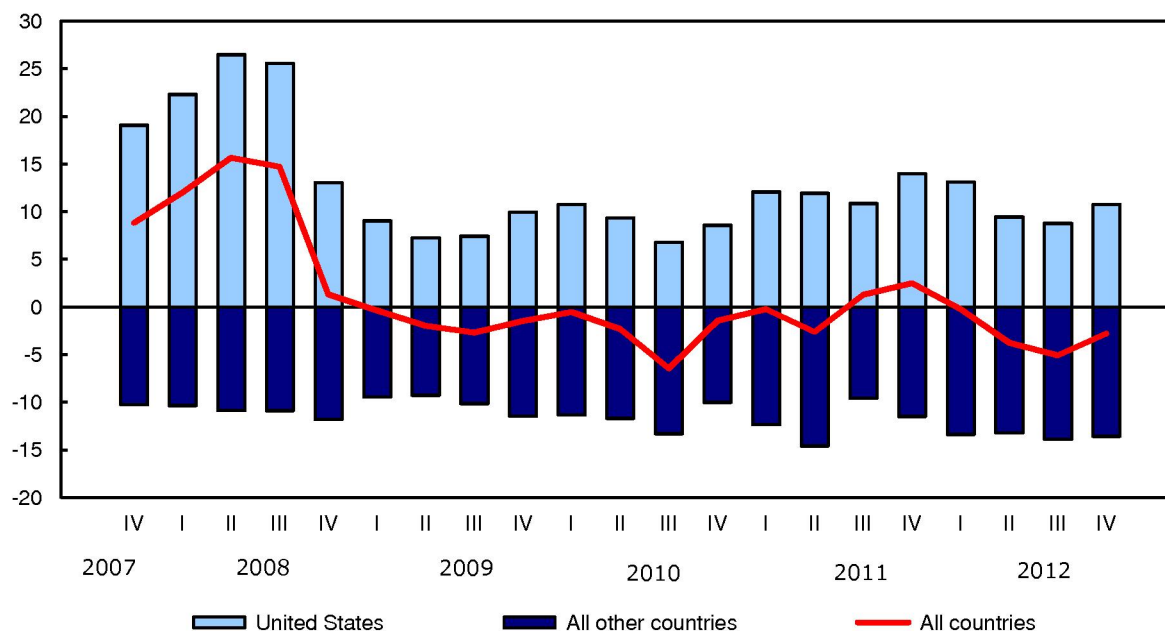
### Deficit on trade in goods narrows

The deficit on trade in goods was reduced by \$2.3 billion in the fourth quarter to \$2.8 billion. This largely reflected increased exports, led by energy products and by farm, fishing and intermediate food products. The goods surplus with the United States was up \$2.0 billion on stronger exports in the fourth quarter, although for the year 2012, it was reduced by \$6.8 billion to \$42.1 billion. The deficit on goods with all other countries reached a record of \$54.0 billion in 2012, up \$6.0 billion from 2011.



**Chart 2**  
**Goods balances by geographic areas**

billions of dollars, seasonally adjusted



Total exports of goods were up \$1.7 billion to \$114.5 billion in the fourth quarter. Energy products accounted for \$1.6 billion of this increase, led by higher prices as volumes were down. However, the crude petroleum portion of energy reflected both higher prices and volumes. Higher export volumes of canola and of other crop products contributed to the \$1.1 billion increase for farm, fishing and intermediate food products. Increases were moderated by a reduction in the exports of metal ores and non-metallic minerals, mainly on lower volumes.

Total imports were down \$0.6 billion to \$117.3 billion in the fourth quarter. Volumes were down for several major categories of goods, leading to reductions in imports of industrial machinery (-\$0.5 billion) and motor vehicles (-\$0.4 billion). Chemicals products and forestry products were also down. These import reductions were partially offset by higher imports of energy products, which increased \$0.7 billion through stronger prices and volumes, as well as by higher volumes of aircraft and other transportation equipment (+\$0.4 billion).

### Trade in services deficit edges down

The deficit on trade in services was reduced by \$0.1 billion in the fourth quarter from a high of \$6.2 billion the previous quarter. For the year 2012, the deficit in trade in services reached a new high at \$24.6 billion, mostly on the travel account.

Commercial services and travel accounted for the majority of changes in the fourth quarter. The surplus on commercial services edged up \$0.1 billion, as imports weakened in the fourth quarter. Increased spending by Canadians on visits to the United States was partially offset by larger spending by overseas travellers coming to Canada. This resulted in a slight increase in the deficit on international travel to \$4.6 billion.

## Investment income deficit expands

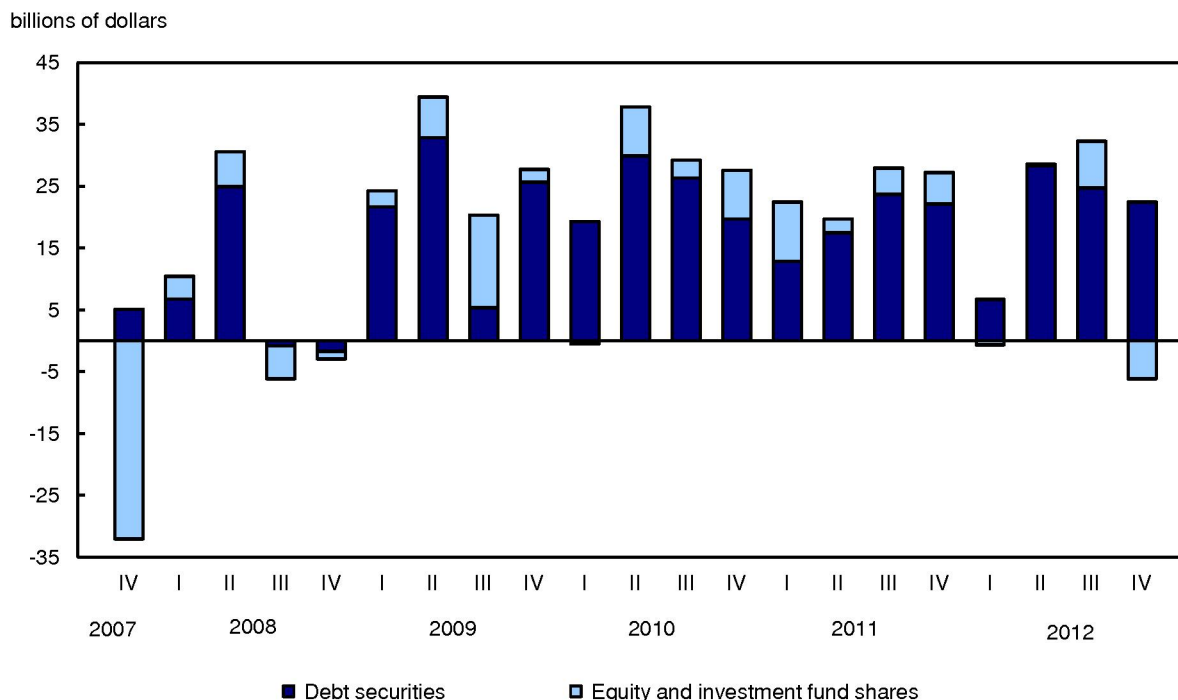
The deficit on investment income advanced \$1.8 billion in the fourth quarter to \$6.9 billion. This mainly reflected increased earnings of non-residents on their foreign direct investment in Canada, which advanced \$1.9 billion on higher dividend payments. On the other side of the ledger, earnings on Canadian direct investment abroad were up \$0.3 billion. Higher interest paid to foreign holders of Canadian bonds pushed the deficit on portfolio investment income up a further \$0.2 billion.

## Financial account

### Foreign portfolio investors continue to acquire Canadian debt securities but divest of equities

Foreign investors added \$16.3 billion of Canadian securities to their holdings in the fourth quarter, half the level of the previous quarter. Acquisitions of Canadian debt securities remained robust at \$22.4 billion, but were partly offset by a sizable decline in foreign portfolio holdings of Canadian equities.

**Chart 3**  
**Foreign investment in Canadian securities**



Non-resident investors increased their holdings of federal debt instruments by \$12.4 billion in the fourth quarter, adding both short and long-term instruments. Retirements and coupon payments in December moderated the inflows. Foreign holdings of private corporate debt securities were up by \$13.3 billion, on the strength of net new issues of bonds. This closed another year of strong foreign investment in Canadian debt securities as non-residents added \$82.2 billion worth to their holdings, with federal bonds accounting for nearly 40% of these transactions.

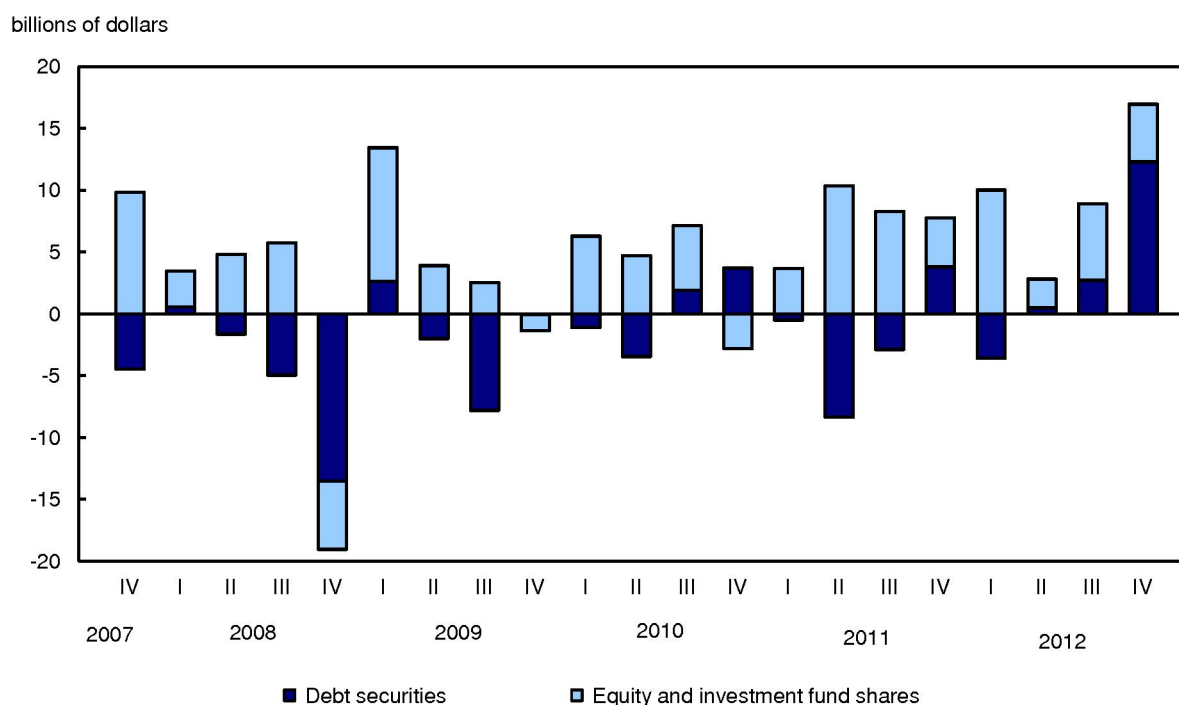
Foreign portfolio investors reduced their holdings of Canadian equities by \$6.1 billion in the fourth quarter, the largest divestment since the fourth quarter of 2007. This was related to cross-border mergers and acquisitions activity, with non-resident portfolio investors rendering their Canadian shares to foreign direct investors. Foreign purchases of Canadian stocks on the secondary market slowed to \$0.7 billion. Canadian stock prices were up by 0.9% in the fourth quarter, following a 6.2% increase in the third quarter.

## Canadian investment in foreign securities increases further

Canadian investors acquired \$17.0 billion of foreign securities in the fourth quarter, the largest investment since the second quarter of 2007, just before the onset of the global credit crisis. Over three-quarters of this activity was in foreign bonds, mainly US government instruments. This was partially offset by retirements of maple bonds.

Canadian investment in foreign stock markets slowed to \$4.7 billion, marking an eighth straight quarter of investment. Acquisitions were led by US stocks. On an annual basis, Canadians acquired the largest amount of foreign securities in five years, as they increased their holdings of bonds for the first time during this period. As of the third quarter of 2012, nearly 80% of Canadian holdings of foreign securities were in equity.

**Chart 4**  
**Canadian investment in foreign securities**



## Inward direct investment led by mergers and acquisitions

Foreign direct investment in Canada was \$14.9 billion in the fourth quarter, up from \$8.0 billion in the third quarter. Inflows reflected strong merger and acquisition transactions, the largest such activity since the second quarter of 2011. Foreign direct investors from Europe accounted for most of the investment in the country.

## Outward direct investment moderates, but remains strong

Funds sent abroad by Canadian direct investors eased to \$16.8 billion, following a strong third quarter. Outflows related to mergers and acquisitions were reduced to \$4.4 billion from \$10.7 billion in the third quarter. Outside of mergers and acquisitions, the energy and mining sector was also lower. Nevertheless, Canadian direct investment abroad has exceeded foreign direct investment in Canada for a fifth straight year in 2012.

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## Transactions in loans and deposits generate inflows of funds

Transactions in the other investment category of the financial account generated a net inflow of \$17.3 billion in the fourth quarter. This was the second straight quarter of expansion in Canadian deposit liabilities at \$26.5 billion, mostly reflecting an increase in foreign currency deposits held by non-residents. As well, loans to non-residents through reverse repurchase agreement transactions led to a reduction on the asset side in the fourth quarter.

### **Note to readers**

The **balance of international payments** covers all economic transactions between Canadian residents and non-residents in three accounts: the current account, the capital account, and the financial account.

The **current account** covers transactions in goods, services, compensation of employees, investment income and current transfers.

The **current account** data in this release are seasonally adjusted. For more information on seasonal adjustment, see [Seasonal adjustment and identifying economic trends](#).

The **capital account** covers capital transfers and transactions in non-produced non-financial assets.

The **financial account** comprises transactions in financial assets and liabilities.

In principle, a net lending (+) / net borrowing (-) derived from the sum of the current and capital accounts corresponds to a net lending (+) / net borrowing (-) derived from the financial account. In practice, as data are compiled from multiple sources, this is rarely the case and gives rise to measurement error. The **discrepancy** (net errors and omissions) is the unobserved net inflow or outflow.

For more information about the balance of payments, consult the ["Frequently asked questions"](#) section in the National economic accounts module of our website. The module also presents the most recent balance of payments statistics.

**Table 1**  
**Balance of payments – Not seasonally adjusted**

	Fourth quarter 2011	First quarter 2012	Second quarter 2012	Third quarter 2012	Fourth quarter 2012	2011	2012
millions of dollars							
<b>Capital account and current account</b>							
<b>Net lending / net borrowing, from capital account and current account</b>	<b>-10,469</b>	<b>-15,816</b>	<b>-17,104</b>	<b>-18,512</b>	<b>-15,651</b>	<b>-52,303</b>	<b>-67,083</b>
Current account balances	-10,468	-15,812	-17,102	-18,508	-15,521	-52,292	-66,944
Goods and services	-1,555	-7,106	-10,446	-11,893	-7,002	-22,110	-36,447
Goods	3,518	655	-3,806	-7,258	-1,469	912	-11,879
Services	-5,073	-7,761	-6,640	-4,635	-5,533	-23,022	-24,569
Primary income	-8,552	-6,968	-6,088	-5,633	-8,136	-26,723	-26,825
Compensation of employees	-478	-464	-494	-516	-504	-1,908	-1,978
Investment income	-8,074	-6,504	-5,594	-5,117	-7,632	-24,815	-24,847
Direct investment	-2,675	-943	3	364	-1,546	-4,613	-2,121
Portfolio investment	-4,874	-5,132	-5,357	-5,537	-5,628	-18,857	-21,653
Other investment	-525	-430	-240	56	-458	-1,345	-1,072
Secondary income	-361	-1,738	-569	-982	-384	-3,459	-3,672
Capital account balance	-2	-4	-2	-4	-129	-10	-139
<b>Financial account<sup>1, 2</sup></b>							
<b>Net lending / net borrowing, from financial account</b>	<b>-15,632</b>	<b>-15,187</b>	<b>-12,186</b>	<b>-21,564</b>	<b>-14,654</b>	<b>-57,004</b>	<b>-63,590</b>
Net acquisition of financial assets	36,388	13,157	3,732	57,489	44,716	104,604	119,093
Canadian direct investment abroad	16,025	11,082	2,942	23,117	16,754	49,326	53,895
Canadian portfolio investment in foreign securities	7,762	6,447	2,814	8,907	16,963	18,331	35,131
Foreign debt securities	3,795	-3,576	490	2,712	12,307	-7,924	11,933
Foreign money market instruments	-1,208	-565	-1,205	815	-659	-2,036	-1,615
Foreign bonds	5,003	-3,011	1,695	1,897	12,966	-5,888	13,548
Foreign equity and investment fund shares	3,967	10,023	2,324	6,195	4,656	26,255	23,198
Official international reserves	3,591	2,965	-2,464	1,073	124	8,061	1,697
Other Canadian investment abroad	9,010	-7,337	440	24,392	10,875	28,886	28,370
Loans	5,222	3,614	7,984	20,321	-9,709	14,629	22,211
Currency and deposits	-1,255	-8,916	3,743	1,189	4,298	27,773	313
Other assets	5,044	-2,035	-11,286	2,882	16,286	-13,517	5,846
Net incurrence of liabilities	52,020	28,344	15,918	79,052	59,369	161,607	182,683
Foreign direct investment in Canada	3,626	17,166	5,275	7,995	14,902	40,953	45,339
Foreign portfolio investment in Canadian securities	27,216	6,050	28,563	32,273	16,306	97,335	83,192
Canadian debt securities	22,146	6,705	28,320	24,751	22,448	76,198	82,224
Canadian money market instruments	9,810	-7,759	10,237	4,862	5,915	32,021	13,255
Canadian bonds	12,335	14,464	18,083	19,889	16,533	44,177	68,969
Canadian equity and investment fund shares	5,070	-656	243	7,522	-6,142	21,136	968
Other foreign investment in Canada	21,178	5,128	-17,921	38,785	28,161	23,319	54,152
Loans	6,421	-1,827	-4,552	8,685	1,565	-1,213	3,871
Currency and deposits	14,255	6,661	-13,350	29,718	26,499	22,561	49,529
Special drawing rights	0	0	0	0	0	0	0
Other liabilities	502	293	-19	381	97	1,971	752
<b>Discrepancy (net errors and omissions)</b>	<b>-5,163</b>	<b>630</b>	<b>4,918</b>	<b>-3,052</b>	<b>997</b>	<b>-4,701</b>	<b>3,493</b>

1. Transactions are recorded on a net basis.

2. In the financial account, a plus sign denotes an increase in investment and a minus sign denotes a decrease in investment.

**Table 2**  
**Current account – Seasonally adjusted**

	Fourth quarter 2011	First quarter 2012	Second quarter 2012	Third quarter 2012	Fourth quarter 2012	2011	2012
millions of dollars							
<b>Current account receipts</b>	<b>161,591</b>	<b>159,515</b>	<b>155,606</b>	<b>153,453</b>	<b>155,658</b>	<b>615,948</b>	<b>624,232</b>
Goods and services	141,878	139,150	137,531	133,665	135,479	539,289	545,825
Goods	120,755	118,724	116,574	112,765	114,481	456,518	462,544
Services	21,123	20,426	20,957	20,900	20,998	82,771	83,281
Travel	4,325	4,307	4,298	4,316	4,429	16,624	17,350
Transportation	3,698	3,685	3,609	3,483	3,496	14,294	14,273
Commercial services	12,696	12,022	12,636	12,689	12,663	50,285	50,010
Government services	403	412	414	412	410	1,568	1,649
Primary income	17,303	18,117	15,816	17,668	17,888	67,837	69,490
Compensation of employees	291	302	304	301	297	1,154	1,205
Investment income	17,012	17,815	15,512	17,368	17,591	66,683	68,285
Direct investment	10,870	11,911	9,679	11,432	11,757	42,480	44,778
Interest	576	721	771	735	737	2,246	2,964
Profits	10,295	11,190	8,908	10,696	11,020	40,234	41,814
Portfolio investment	4,756	4,503	4,414	4,560	4,496	18,975	17,973
Interest on debt securities	1,232	1,227	1,206	1,245	1,253	5,088	4,931
Dividends on equity and investment fund shares	3,524	3,276	3,208	3,315	3,243	13,887	13,042
Other investment	1,385	1,401	1,419	1,376	1,338	5,228	5,534
Secondary income	2,410	2,248	2,259	2,120	2,290	8,822	8,918
Private transfers	529	533	539	513	516	2,180	2,102
Government transfers	1,881	1,715	1,720	1,606	1,774	6,642	6,815
<b>Current account payments</b>	<b>173,882</b>	<b>173,237</b>	<b>173,526</b>	<b>171,497</b>	<b>172,917</b>	<b>668,240</b>	<b>691,176</b>
Goods and services	144,881	145,447	147,432	144,990	144,403	561,399	582,273
Goods	118,260	118,968	120,334	117,856	117,264	455,606	474,422
Services	26,621	26,479	27,097	27,135	27,139	105,793	107,850
Travel	8,414	8,411	8,985	8,818	8,980	32,974	35,195
Transportation	6,044	5,953	5,950	6,079	6,050	23,912	24,031
Commercial services	11,843	11,808	11,855	11,929	11,800	47,627	47,392
Government services	320	308	307	308	309	1,280	1,232
Primary income	25,835	24,663	23,075	23,252	25,324	94,560	96,314
Compensation of employees	776	783	793	800	806	3,062	3,183
Investment income	25,059	23,880	22,282	22,452	24,518	91,498	93,132
Direct investment	13,602	12,537	10,686	10,912	12,765	47,093	46,900
Interest	976	932	925	922	910	3,869	3,690
Profits	12,625	11,605	9,760	9,990	11,854	43,224	43,209
Portfolio investment	9,655	9,618	9,848	10,000	10,160	37,832	39,626
Interest on debt securities	7,087	6,880	6,975	6,989	7,084	27,476	27,929
Dividends on equity and investment fund shares	2,568	2,737	2,873	3,011	3,076	10,357	11,697
Other investment	1,803	1,726	1,749	1,539	1,593	6,572	6,606
Secondary income	3,166	3,126	3,019	3,255	3,189	12,282	12,589
Private transfers	1,678	1,720	1,718	1,731	1,728	6,746	6,897
Government transfers	1,488	1,406	1,301	1,524	1,462	5,536	5,692
<b>Current account balances</b>	<b>-12,291</b>	<b>-13,722</b>	<b>-17,920</b>	<b>-18,044</b>	<b>-17,259</b>	<b>-52,292</b>	<b>-66,944</b>
Goods and services	-3,003	-6,297	-9,901	-11,325	-8,924	-22,110	-36,447
Goods	2,495	-244	-3,761	-5,091	-2,783	912	-11,879
Services	-5,498	-6,053	-6,140	-6,234	-6,140	-23,022	-24,569
Travel	-4,089	-4,104	-4,687	-4,502	-4,551	-16,350	-17,845
Transportation	-2,345	-2,268	-2,341	-2,596	-2,553	-9,618	-9,758
Commercial services	853	214	781	760	863	2,658	2,618
Government services	84	104	107	104	101	289	416
Primary income	-8,532	-6,547	-7,259	-5,583	-7,436	-26,723	-26,825
Compensation of employees	-485	-481	-488	-500	-509	-1,908	-1,978
Investment income	-8,047	-6,066	-6,770	-5,084	-6,927	-24,815	-24,847
Direct investment	-2,731	-626	-1,007	519	-1,007	-4,613	-2,121
Interest	-401	-211	-154	-187	-173	-1,623	-726
Profits	-2,331	-415	-852	706	-834	-2,990	-1,395
Portfolio investment	-4,898	-5,114	-5,434	-5,441	-5,664	-18,857	-21,653
Interest on debt securities	-5,855	-5,653	-5,770	-5,744	-5,831	-22,388	-22,999
Dividends on equity and investment fund shares	956	539	336	304	167	3,531	1,346
Other investment	-418	-325	-330	-163	-255	-1,345	-1,072
Secondary income	-756	-878	-760	-1,135	-899	-3,459	-3,672
Private transfers	-1,149	-1,187	-1,179	-1,217	-1,211	-4,566	-4,795
Government transfers	393	309	419	82	313	1,106	1,123

**Available in CANSIM: tables 376-0012, 376-0013, 376-0101 to 376-0108, 376-0121, 376-0122 and 376-0124.**

**Definitions, data sources and methods: survey numbers 1534, 1535, 1536 and 1537.**

The balance of international payments data for the first quarter will be released on May 30.

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