Foreign direct investment, 2018

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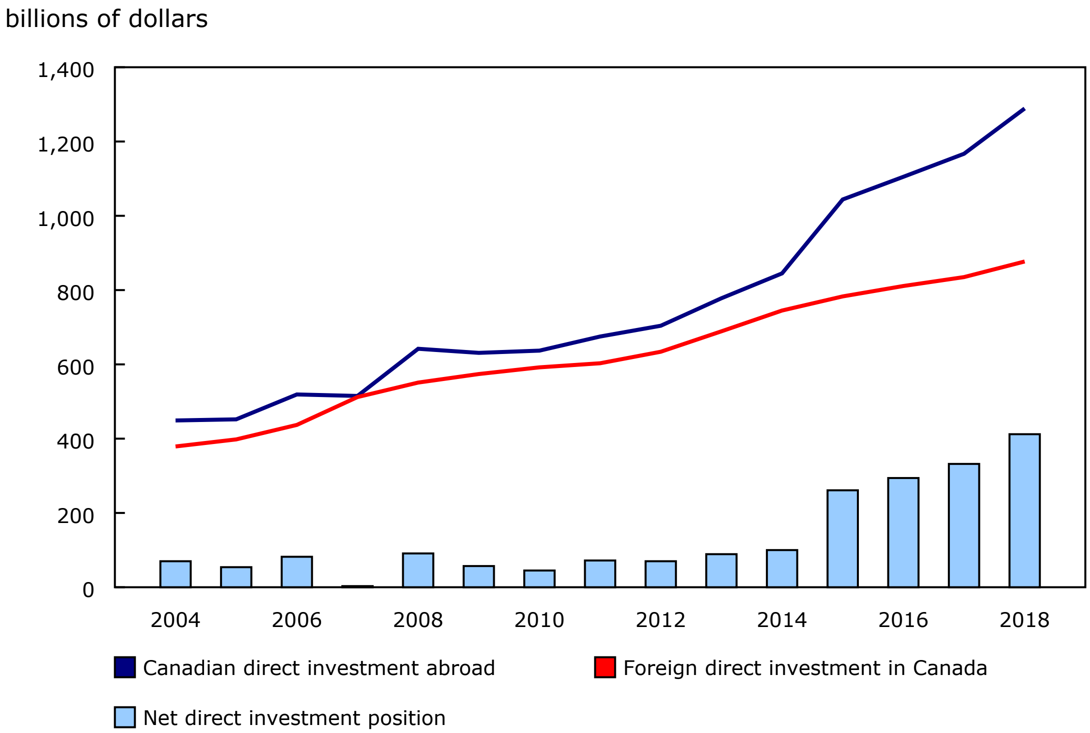
The stock of Canadian direct investment abroad grew at a faster rate (+10.4%) in 2018, largely as a result of valuation gains from a weaker Canadian dollar. The growth in the stock of foreign direct investment in Canada also picked up pace (+5.0%) when compared with the two previous years.

Chart 1
Canada's foreign direct investment position



Source(s): Table 36-10-0008.

Increase in Canadian direct investment abroad driven by a weaker Canadian dollar

The stock of Canadian direct investment abroad increased by 10.4% in 2018 to reach $1,289 billion. On an instrument basis, almost all of the increase was due to higher equity positions (up $115 billion to $1,198 billion), with debt balances up $6 billion to $91 billion.

While the growth in the stock of Canadian direct investment abroad in 2018 was significantly higher than in the previous two years, the majority of that increase was due to valuation gains from a weaker Canadian dollar, which resulted in a $72 billion upward revaluation of Canada's direct investment position. In 2018, the Canadian dollar depreciated by 8.7% against the US dollar, 3.7% against the euro and 2.8% against the British pound.

On a regional basis, nearly three quarters of the 2018 increase in the stock of Canadian direct investment abroad was due to higher investment positions in the North America region, primarily the United States (up $70 billion to $595 billion). Most of the remaining increase was in Europe, led by higher investment in the United Kingdom (up $12 billion to $109 billion) and Luxembourg (up $8 billion to $90 billion).

Investment in other parts of the world was mixed, with an increase in the Asia/Oceania region (up $4 billion to $89 billion) offset in part by a small decline in South and Central America (down $1 billion to $67 billion). The increase in Asia/Oceania, primarily in China, Hong Kong and Japan, was due to a combination of valuation gains from the weaker Canadian dollar against most major Asian currencies and higher equity balances.

Changes in the value of currency also contributed to the lower investment positions in South and Central America, most notably in Argentina where a 53% decline in the value of the Argentinian peso against the Canadian dollar led to significant reduction in the investment position.

On an industry basis almost half of the growth in the stock of direct investment abroad in 2018 was in the finance and insurance industry (up $53 billion to $471 billion), with the transportation and warehousing as well as the management of companies and enterprises industries also showing significant increases. This growth was partially offset by declines in the information and cultural industries and in mining (except oil and gas).

The transportation and warehousing industry in particular has experienced a period of rapid growth in recent years, with the overall investment position increasing by nearly 150% from $34 billion in 2014 to $84 billion in 2018. This was largely driven by merger and acquisition activity in the United States.

Finance and insurance (37%) continued to be the most significant industry for Canadian direct investment abroad in 2018, followed by mining and oil and gas extraction (15%) and management of companies and enterprises (13%).

Pickup in merger and acquisition activity helps to push foreign direct investment in Canada higher

The stock of foreign direct investment in Canada rose by 5.0% in 2018 to $877 billion. The increase was the largest in four years and was the result of higher equity positions (up $44 billion to $732 billion), moderated by lower debt instrument positions (down $2 billion to $145 billion). The increase in the equity position was stimulated by a pickup in merger and acquisition activity following a net decline in this activity in 2017.

The North America region posted the largest increase in investment positions, up $22 billion to $438 billion, followed by Europe with a $15 billion rise to $329 billion. On a country basis, the United States accounted for nearly half of the overall increase in 2018, up $19 billion to $406 billion, followed by the Netherlands (up $5 billion to $107 billion) and the United Kingdom (up $3 billion to $50 billion).

On an industry basis, the growth in foreign direct investment in Canada was widespread, with manufacturing (up $17 billion to 202 billion) accounting for the largest increase. The increase in manufacturing was mostly concentrated in chemical and food manufacturing. The next largest increases were in the wholesale trade and in the agriculture, forestry, fishing and hunting industries. This growth was partially offset by a decline in retail trade.

The growth in agriculture, forestry, fishing and hunting was uncharacteristically high, increasing from $182 million in 2017 to $4.7 billion in 2018. This was largely driven by merger and acquisition activity from the United States.

Manufacturing (23%) continued to be the most significant industry for foreign direct investment in Canada in 2018, followed by mining and oil and gas extraction (20%) and management of companies and enterprises (20%).

Lower foreign direct investment from Europe when measured on an ultimate investor basis

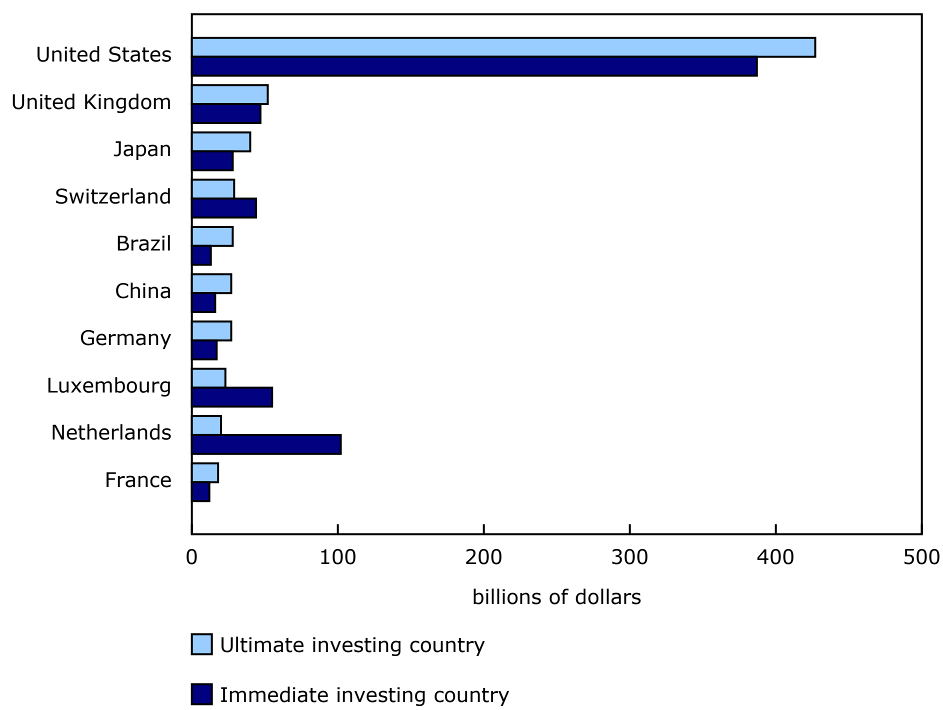
Measuring foreign direct investment in Canada according to the ultimate investing country (UIC)—looking through the immediate investing country (IIC) to show the country that ultimately controls the investment in Canada—paints quite a different picture. Looking at the data for 2017 (the latest year for which information on a UIC basis is available), Europe's share of foreign direct investment in Canada drops from 38% on a IIC basis to 25% on a UIC basis, while that of Asia/Oceania rises from 10% to 15%.

The lower European share in overall investment when measured on a UIC basis can largely be attributed to lower positions for the Netherlands and Luxembourg, with combined investment from these two countries falling from $156 billion on a IIC basis to $43 billion on a UIC basis. These two countries often act as intermediaries through which investors channel their investment to other countries.

On a UIC basis, the United States is by far the largest source of foreign direct investment in Canada at $427 billion, which is around $40 billion higher than when measured on a IIC basis. Investment from China also sees a significant increase when measured on a UIC basis, up $11 billion to $27 billion, with Japan, Brazil, Germany and Malaysia also showing higher investment positions.

When measured on a UIC basis, there is also a small proportion of foreign direct investment that ultimately comes from Canadian sources (known as "round-tripping" investment). In 2017, the value of this "round-tripping" amounted to $14 billion, but this still represented less than 2% of the total foreign direct investment into Canada. In other countries such as Germany and France for which information on a UIC basis is available, round-tripping typically accounts for a higher percentage of overall investment.

Chart 2
Foreign direct investment in Canada by selected immediate and ultimate investing country, 2017



Source(s): Tables 36-10-0433, 36-10-0008.

Note to readers

This is the annual release of detailed foreign direct investment data at book value. This release contains country and industry details for foreign direct investment that are drawn from the annual survey. This detailed information is not available at the time of quarterly international investment position releases. However, aggregates of direct investment positions, both at book and market values, are available as part of the quarterly international investment position release. The current aggregates at book value, along with revised aggregates at market value, will be integrated into the international investment position at the time of the third quarter 2018 release in December, in line with the Canadian System of Macroeconomic Accounts revision policy.

Direct investment *is a component of the international investment position that refers to the investment of an entity in one country (the direct investor) obtaining a lasting interest in an entity in another country (the direct investment enterprise). The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence by the direct investor on the management of the direct investment enterprise.*

In practice, direct investment is deemed to occur when a direct investor owns at least 10% of the voting equity in a direct investment enterprise. This report presents the cumulative year-end positions for direct investment, measured as the total value of equity and the net value of debt instruments between direct investors and their direct investment enterprises.

Foreign direct investment by country and by industry

Following international standards, the main measure of direct investment is based on the country of residence of the direct investor (immediate parent company) for foreign direct investment in Canada and on the country of residence of the direct investment enterprise (the immediate subsidiary) for Canadian direct investment abroad. This implies that direct investment is largely attributed to the first investor/investee country, rather than the ultimate investor/investee country. Direct investment data on an immediate investor basis is available in tables 36-10-0008 and 36-10-0009.

Foreign direct investment in Canada by ultimate investor

A supplementary series on inward foreign direct investment in Canada by ultimate investor is now available in table 36-10-0433. This series differs from the standard presentation of foreign direct investment, which is based on the country of residence of the immediate direct investor, by showing the country of the investor that ultimately controls the investment in Canada. Because inward foreign direct investment may be channeled through holding companies or other legal entities in intermediate countries before reaching Canada, the measurement of foreign direct investment on an ultimate investor basis can result in substantial changes in the distribution of inward positions by country when compared to foreign direct investment measured on an immediate investor basis.

Currency valuation

The value of Canadian direct investment abroad is denominated in foreign currency and converted to Canadian dollars at the end of each period for which a year-end position is calculated. When the Canadian dollar is depreciating in value, the restatement of the value of direct investment abroad in Canadian dollars increases the recorded value. The opposite is true when the dollar is appreciating. Foreign direct investment in Canada is directly recorded in Canadian dollars and the fluctuation of the Canadian dollar has no impact on the recorded value.

Data quality

In general, data for smaller countries and industries (defined as countries with foreign direct investment below $500 million or industries at the three-digit level of the North American Industry Classification System) are subject to higher sampling variability.

Table 1
Foreign direct investment positions at year end

	2014	2015	2016	2017	2018
	billions of dollars				
Canadian direct investment abroad	**845.2**	**1,043.8**	**1,105.2**	**1,167.2**	**1,288.9**
United States	346.5	448.3	490.2	525.0	595.0
United Kingdom	74.8	92.5	92.9	97.6	109.3
Luxembourg	55.4	71.4	78.9	81.7	90.1
Barbados	55.8	59.7	60.2	56.0	64.8
Bermuda	31.9	43.4	42.5	45.5	47.0
Cayman Islands	36.9	39.9	41.1	40.2	39.6
Netherlands	20.4	31.5	33.5	34.6	36.5
Australia	22.0	25.8	28.6	31.9	31.2
Bahamas	18.9	19.6	22.7	24.1	27.1
Mexico	13.8	16.8	17.6	19.5	22.5
Chile	18.8	15.7	17.6	22.7	21.5
Peru	11.8	13.4	12.9	13.6	14.2
Brazil	14.0	11.9	12.1	14.0	14.1
China	8.0	10.3	10.2	11.2	12.7
Germany	9.2	10.6	11.6	9.2	10.5
All other countries	107.0	133.1	132.6	140.3	152.7
Foreign direct investment in Canada	**744.7**	**782.9**	**810.7**	**834.8**	**876.9**
United States	351.8	369.5	376.8	386.9	406.1
Netherlands	77.2	92.5	102.7	101.9	106.7
Luxembourg	61.2	51.5	51.5	54.6	55.8
United Kingdom	39.2	46.8	46.7	47.0	50.4
Switzerland	42.9	32.3	41.4	44.0	46.1
Japan	22.2	26.5	27.9	28.2	28.9
Hong Kong	14.7	11.2	14.7	20.1	21.8
Germany	12.2	15.0	15.9	16.6	17.0
China	15.6	13.8	15.2	16.2	17.0
Bermuda	2.7	17.7	15.8	15.5	16.6
Brazil	19.8	19.2	15.9	13.2	14.6
France	9.3	8.0	10.5	11.5	13.5
Australia	6.4	9.4	10.3	9.3	9.7
Cayman Islands	5.2	5.8	6.4	8.0	8.9
Ireland	6.6	7.0	6.2	7.1	8.1
All other countries	57.8	56.8	52.8	54.7	55.7

Source(s): Table **36-10-0008-01**.

Available tables: 36-10-0008-01, 36-10-0009-01 and 36-10-0433-01.

Definitions, data sources and methods: survey number 1537.

The updated *Canada and the World Statistics Hub* (**13-609-X**) is available online. This product illustrates the nature and extent of Canada's economic and financial relationship with the world using interactive graphs and tables. This product provides easy access to information on trade, investment, employment and travel between Canada and a number of countries, including the United States, the United Kingdom, Mexico, China and Japan.

For more information, contact us (toll-free 1-800-263-1136; 514-283-8300; **STATCAN.infostats-infostats.STATCAN@canada.ca**).

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