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International Merchandise Trade

Annual Review

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International Merchandise Trade

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Table of Contents

Highlights

- Canadian exports rose 7.6% to a record $430.4 billion, thanks to continued strong energy prices and demand for metals and minerals. Imports increased 6.2% to $363.1 billion, and the trade surplus increased to $67.2 billion.

- Exports to China jumped by 38.8% to a record $6.6 billion, as China continued to be the fourth largest purchaser of Canadian goods. Imports also grew strongly by 29.7% to $24.1 billion. China represents Canada's largest trade deficit, which increased by $3.7 billion last year to a record $17.5 billion.

- After declining in every year since 2000, Canadian exports to the United States increased by 6.6% last year to $348.2 billion. Despite an appreciation of almost 8% in the Canadian dollar against the US currency, Canada's trade surplus with the United States rose by 13.3% last year to a record $139.3 billion.

- Energy exports led the way in 2004, growing by 14.4% to $69.2 billion. Most of this growth was due to price increases, as the price of Canadian crude exports grew by around 20%.

- A rise in global metals demand, coupled with limited supplies, led to price spikes and growth in exports of industrial goods and materials of 16.6% to $77.6 billion. Higher prices also caused imports to grow by 12.7% to $73.5 billion.

- Beef exports recovered from a slump in 2003 caused by the discovery of mad cow in Canada. Exports of fresh and frozen beef grew by 36% to nearly equal 2002 values. Exports of live animals continue to suffer due to restrictions on cattle shipments.

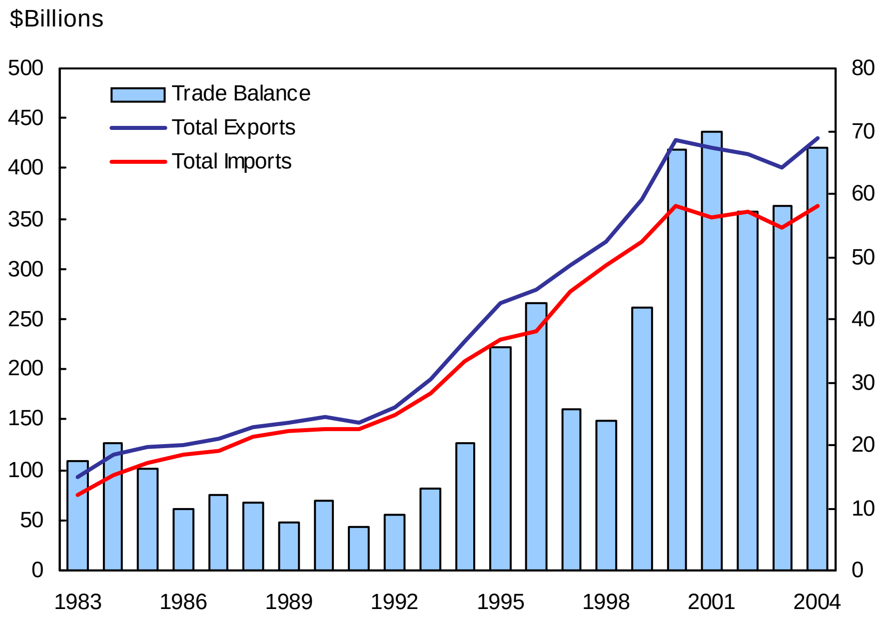
Key trends in 2004

Summary

Canada's merchandise trade surplus with the world widened in 2004 as prices surged for key export commodities such as energy and metals.

Both exports and imports surged, more than offsetting declines in 2003. This reversal occurred despite a soaring loonie, the value of which averaged 76.9 cents US for 2004, up from 71.4 cents the year before.

Figure 1
Total imports, total exports, balance of trade
Balance of payments basis



Canada established two key records in merchandise trade last year: an all-time high in the trade surplus with the United States, our leading trading partner; and an all-time high in the deficit with China, a growing force on the international scene and now Canada's second largest national trading partner.

Canada's deficit with China last year was larger than with any other single country. If current trade patterns continue, Canada's deficit with China could outstrip our deficit with the European Union in 2005.

Our deficit with the European Union narrowed for the second consecutive year in 2004, while the deficit with Japan fell below the $5-billion mark for the first time since 1997. The deficit with Mexico increased slightly.

The rising loonie was a double-edged sword for Canadian traders. It lowered the cost in Canadian dollars of imports from the United States, as well as from countries such as China with currencies linked to the US greenback. At the same time, however, Canadian products became more expensive for buyers in those countries.

Despite this, the value of Canadian exports rose 7.6% to a record $430.4 billion, thanks to continued strong energy prices and demand for metals and minerals. Imports increased 6.2% to $363.1 billion.

Canada's trade surplus jumped from $58.2 billion in 2003 to $67.2 billion, driven primarily by price spikes in key export commodities.

The trade surplus measured in constant dollars, which eliminates the impact of price shifts like those seen in energy and metals, actually fell by $6.9 billion last year to $26.6 billion.

Crude oil prices surged by about 20% last year, dramatically increasing export values to the United States, even though volumes rose by only 5%.

Prices also rose in other resource sectors such as metals, fuelled by increased demand from China amid limited global production capacity.

Energy products and forestry products were the one-two contributors to Canada's trade surplus last year. On the other hand, machinery and equipment and consumer goods were two sectors in which Canadians imported more than they exported.

The United States bought just about all the natural gas and crude oil exported from Canada last year. In addition, it accounted for over 90% of export growth in softwood lumber. This occurred despite the ongoing trade dispute over Canadian pricing policies that resulted in US-imposed tariffs and duties on softwood lumber imports from Canada.

Table 1. Exports by commodity groupings,[1] 1995 to 2004

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
						billions of dollars				
Total exports	265.3	280.1	303.4	327.2	369.0	429.4	420.7	413.8	400.0	430.4
Agricultural products	21.0	23.2	24.8	25.0	25.6	27.6	31.1	30.9	29.3	30.7
Energy products	20.4	26.1	27.2	23.8	29.9	53.2	55.8	49.3	60.5	69.2
Forestry products	36.7	34.5	35.1	35.4	40.1	42.8	40.3	37.3	34.5	39.2
Industrial goods and material	50.9	52.3	56.6	59.2	59.8	68.0	67.8	70.2	66.5	77.6
Machinery and equipment	56.0	61.9	68.9	80.7	88.7	110.1	102.6	97.1	88.6	91.8
Automotive products	62.9	63.4	69.5	78.5	97.3	97.9	92.5	96.7	87.4	90.3
Other consumer goods	8.3	9.5	10.7	12.6	14.0	15.2	16.3	17.7	17.2	17.3
Special transactions trade	2.9	3.2	4.1	5.6	7.3	8.0	8.1	7.9	7.7	8.0
Other balance of payments (BOP) adjustments	6.2	6.0	6.5	6.4	6.3	6.7	6.2	6.8	8.4	6.3

1. Balance of payments basis
Data source: Statistics Canada, International Trade Division.
Table source: Statistics Canada, 2005, International Merchandise Trade Annual Review, catalogue number 65-208-XWE.

Table 2. Imports by commodity groupings, 1995 to 2004[1]

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
					billions of dollars					
Total imports	229.9	237.7	277.7	303.4	327.0	362.3	350.7	356.6	341.8	363.1
Agricultural products	13.4	14.1	15.7	17.3	17.7	18.6	20.4	21.8	21.5	21.4
Energy products	7.2	9.6	10.6	8.6	10.7	17.9	17.7	16.4	19.6	24.9
Forestry products	2.0	1.9	2.4	2.5	2.7	3.1	2.9	3.1	3.0	3.2
Industrial goods and material	45.6	46.5	54.6	60.3	62.2	69.2	68.4	68.9	65.2	73.5
Machinery and equipment	75.7	76.4	91.3	101.1	108.2	122.9	112.5	105.8	98.2	103.7
Automotive products	50.1	51.1	60.8	66.8	75.9	77.4	72.6	81.5	76.4	77.3
Other consumer goods	25.5	25.8	29.8	34.6	37.0	40.1	42.9	46.4	46.3	47.7
Special transactions trade	5.4	7.1	7.0	6.3	6.3	6.7	6.9	6.0	5.3	5.0
Other balance of payments (BOP) adjustments	4.9	5.1	5.6	5.9	6.2	6.5	6.4	6.6	6.3	6.5

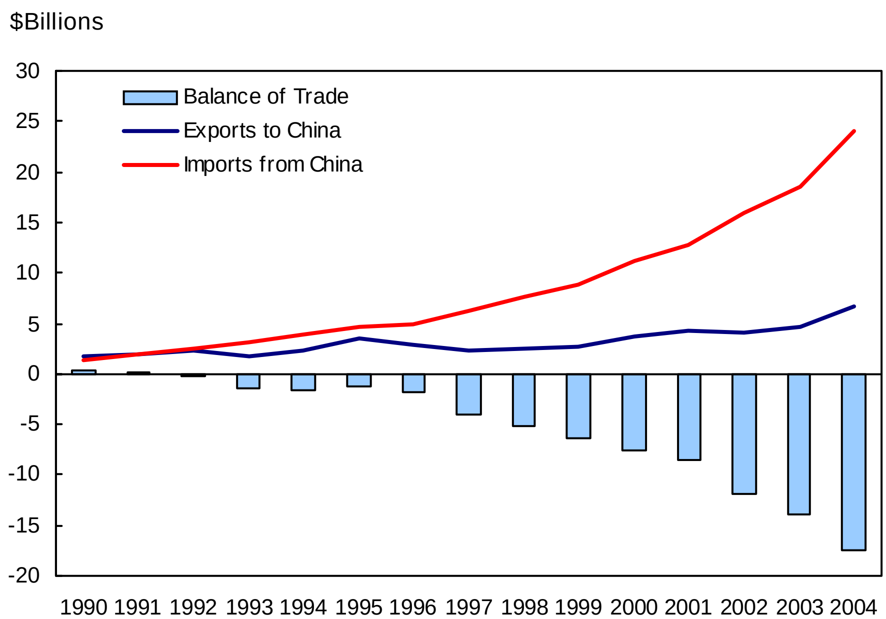
1. Balance of payments basis
Data source: Statistics Canada, International Trade Division.
Table source: Statistics Canada, 2005, International Merchandise Trade Annual Review, catalogue number 65-208-XIE.

Principal trading partners

China: Two-way trade shows explosive growth across variety of sectors

Canada's trade deficit with China grew by $3.7 billion last year to a record $17.5 billion. However, exports to China grew faster than Canadian imports from there in 2004, slowing the trade deficit's growth rate somewhat. Chinese exporters enjoyed the advantage of a depreciating currency in 2004, as the Chinese yuan, whose value is fixed to the US dollar, dropped significantly against the Canadian dollar.

Figure 2
Rising imports fuel trade deficit with China
Canada-China trade, customs basis



Canada's trade deficit with China is larger than its deficit with any other single country, and if current trade patterns continue it could outstrip the trade deficit with the European Union in 2005. Machinery and electrical equipment were responsible for nearly half of the trade deficit in 2004. China is Canada's second largest trading partner, with two-way trade valued at over $30.7 billion in 2004, 31.5% higher than in 2003.

Exports to China jumped by 38.8% to a record $6.6 billion, as China continued to be the fourth largest purchaser of Canadian goods behind the United States, Japan and the United Kingdom. Wood pulp shipments grew by 24.0% to top $1.0 billion, and remained the highest value export product in 2004. Over 60% of wood pulp sold to China came from British Columbia, with Alberta and Quebec contributing about 15% each. Wood pulp is often used to make paper, feeding burgeoning Chinese demand.

Increased wheat exports accounted for one-third of the rise in Canadian shipments to China, as sales jumped to $660 million, more than ten times their 2003 value. While wheat exports used to be an important component of Canadian exports to China, accounting for 30% of exports in 1996, they had nearly disappeared by 2003, when they were valued at only $45 million.

Organic chemical exports more than doubled last year to over $860 million, with Alberta and British Columbia supplying virtually all of China's imports from Canada. Metal exports also increased sharply, with nickel more than doubling to $230 million, iron and steel growing by 9%, aluminum increasing by 31% and copper shipments nearly tripling in value.

The most significant drop in exports was seen in vehicles, which fell by 34.0% to $480 million. Most of the decrease was due to auto parts exports, which made up 96% of Canadian automotive sales to China. The shift is occurring as China ramps up its own auto parts export industry.

Imports from China also grew substantially last year, by 29.7% to $24.1 billion. China continued to be the second largest source of Canadian imports after the United States, accounting for 6.8% of imports.

Machinery and electrical equipment accounted for over one-third of Canadian imports from China last year, increasing by 43.7% to $9.0 billion. China now supplies almost 10% of Canadian imports in this sector. Growth was concentrated in increased purchases of Chinese-made computers, which grew by 73.3% to $2.5 billion.

Spurred on by strong housing starts in Canada, furniture imports also enjoyed strong growth of 30.2%, increasing to $1.6 billion. China has steadily increased its share of Canada's furniture imports from 6% in 1995 to 25% in 2004.

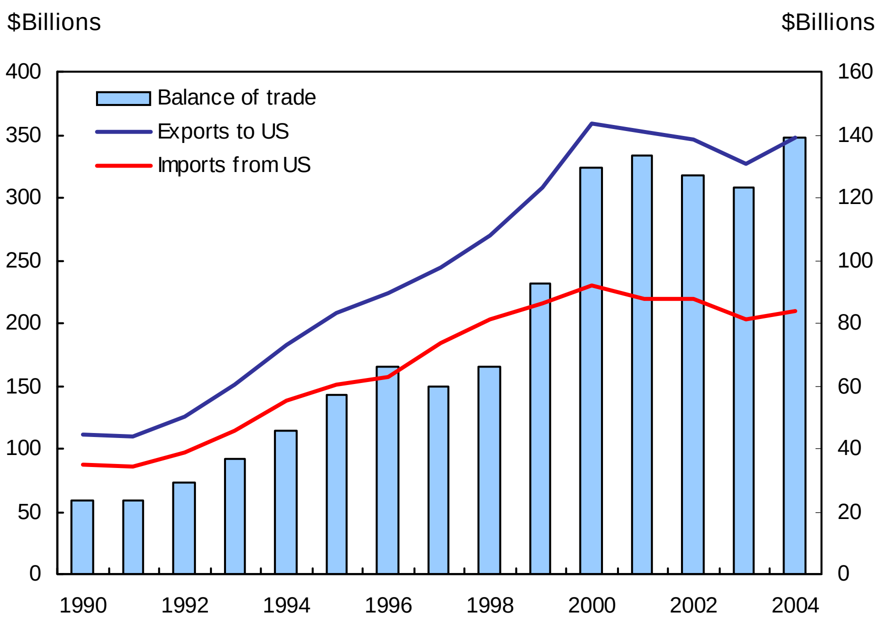
China remained the primary source of Canadian apparel imports, increasing its sales by 20.9% to $2.0 billion last year, or one-third of apparel imports. This sharp rise came as countries prepared to eliminate the quota system on textile and clothing imports in 2005. This system placed limits on Chinese exports in this sector, while guaranteeing a place for its competitors.

Toy imports grew by a more modest 6.3% to top $2.0 billion last year. China passed the United States to become the number one source of Canadian toy imports in 2000, and last year supplied over half of imported toys.

United States: Strong growth in energy and wood sales drives export increase

Canada's trade surplus with the United States grew by 13.3% last year to a record $139.3 billion, as strong growth in exports overshadowed a modest rise in imports. The surplus compensated for the Canadian trade deficit of $83.2 billion with the rest of the world, up from $78.0 billion in 2003. Two-way trade between Canada and the United States grew by 5.0% last year, from $530.5 billion to $557.1 billion.

Figure 3
Canadian exports, trade surplus rise with the United States
Canada-US trade, customs basis



After declining in every year since 2000, when they reached a high of $359.3 billion, Canadian exports to the United States increased by 6.6% last year to $348.2 billion. However, the US share of Canadian exports continued to fall from a high of 87.1% in 2002 to 84.6% in 2004.[1]

The rise in exports to the United States occurred despite an appreciation of almost 8% in the Canadian dollar measured against its American counterpart. This may have obliged some Canadian exporters to choose between lowering their prices in Canadian dollars or risk losing market share among US consumers, who would be more likely to purchase relatively cheaper US-made products.

Increased energy sales, which grew by 11.4% to a record $66.5 billion, were responsible for about a third of the rise in exports last year. Crude oil exports rode a wave of higher prices to increase by 23.0% to $25.1 billion. Natural gas sales, which had risen by an unprecedented 42.1% in 2003, enjoyed more modest growth of 3.7% to equal $27.0 billion in 2004.

Strong growth in exports of wood products (excluding pulp and paper), which rose by $4.1 billion to $19.2 billion, also contributed to the rise in exports to the United States. Softwood exports reversed four consecutive years of decline to rise by 34.7% to $9.2 billion in 2004. Gains were also evident in particle board, which rose by 33.5% to top $4 billion last year.

Vehicle exports also grew last year, adding $2.9 billion over 2003 values to total $77.6 billion. Declines in auto parts and trucks were overwhelmed by an 8.8% increase in passenger vehicle exports, which rose to $47.0 billion last year.

Growth in sales of machinery and electrical equipment of 6.2% in 2004 to $40.3 billion made up some of the ground lost in 2003, when exports declined by 13.3%. The US share of Canadian exports in this sector continued to decline to 78.2%, from a high of nearly 86.6% in 2000. There was also strong growth in metals exports to the United States, with increases in aluminum (12%), iron and steel (31%) and copper (40%).

One of the most notable areas of decline was in exports of aircraft, with US sales falling by 24.9% to $5.6 billion. Aircraft operators in the United States did purchase 8.3% more in parts from Canada last year, with sales rising to $1.3 billion.

Imports from the United States grew by 2.5% in 2004 to $208.9 billion, less than half the 5.7% increase observed in total imports. The US share of Canadian imports has been declining steadily since 1998, when it stood at 68.2%, compared with 58.8% in 2004.[2]

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1. Using BOP data, the US share of Canadian exports fell from 83.9% in 2002 to 81.8% in 2004.
2. Using BOP data, the US share of Canadian imports fell from 77.1% in 1998 to 68.8% in 2004

Energy was the largest contributor to the rise in imports last year, with Canadians spending 24.3% more on American energy than in 2003. The $1.4 billion increase was concentrated in natural gas, which rose by 41.4% to just under $2.6 billion, and crude oil imports, which more than doubled to over $550 million. The increase in crude was partly due to rising prices, while natural gas purchases rose despite a decrease in average import prices.

Metal imports also grew last year. Iron and steel imports rose by 45.4% to $4.3 billion on the strength of higher prices. Imports of American aluminum rose by 12.3% to $3.2 billion, and copper by 35.1% to over $760 million, both in part due to higher prices.

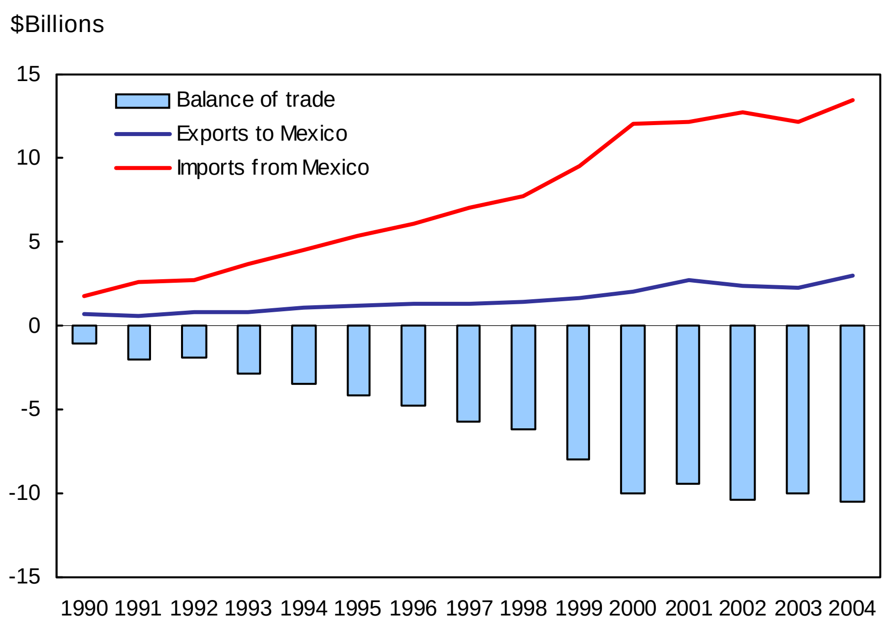
High-value imports remained relatively steady in 2004. Vehicle imports grew only slightly to $49.2 billion, with increases in auto parts, trucks and buses compensating for a 9.1% decline in car imports. Imports of machinery and electrical equipment fell slightly to $51.9 billion.

Mexico: Growing trade relationship focused on machinery and equipment

Canada's trade deficit with Mexico increased slightly last year to a record $10.4 billion, the second largest trade deficit Canada held in 2004. The Mexican peso continued to slide against the Canadian dollar for the third consecutive year, losing 11% in value through 2004. This made Mexican exports cheaper for Canadian buyers, while increasing the cost of Canadian goods for Mexicans.

The trade deficit in machinery and electrical equipment showed the largest rise, increasing from $4.6 billion in 2003 to $5.9 billion in 2004. The deficit in vehicle trade, however, fell slightly from $3.1 billion to $2.7 billion, driven by a drop in imports.

Figure 4
Trade deficit with Mexico continues to grow
Canada-Mexico trade, customs basis



Exports to Mexico grew by 34.5% last year to $3.0 billion, as Mexico passed Germany to become the fifth largest purchaser of Canadian goods in 2004. The largest source of export growth was a dramatic increase in beef shipments. While Canadian cattle exports are still under a global ban, Mexico re-opened its border to Canadian packaged beef last year, leading to a near tripling in exports of fresh or frozen beef to a record of almost $280 million. Mexico purchased 15% of Canadian beef exports last year, with the remainder going mostly to the United States.

Canola exports also contributed significantly to export growth, rising 72.4% to over $420 million. Mexico is the second largest purchaser of Canadian canola behind Japan, accounting for 30% of sales in 2004.

Exports of railway stock bounced back from a low of $6 million in 2003 to over $120 million in 2004, surpassing the previous high of just under $120 million attained in 2002.

Imports from Mexico rose by 10.0% to $13.4 billion last year, as Mexico passed Japan to become the third largest source of Canadian cross-border purchases.

Machinery and electrical equipment grew by 26.1% to a record $6.3 billion, with gains concentrated in imports of telecommunications equipment. Imports of specialized instruments rose 41.3% to over $550 million, while furniture imports grew 0.8% to $760 million.

Imports of auto parts grew by 42.1% to a record of over $890 million. Shipments of passenger vehicles, however, fell by 30.6% to $1.3 billion, the lowest value since 1998.

Apparel imports also grew last year, by 11.3% to $350 million. Canadian purchases of Mexican apparel have grown rapidly over the last 10 years, and are now more than twice their1999 levels. Mexico is now the fifth largest source of Canadian apparel imports.

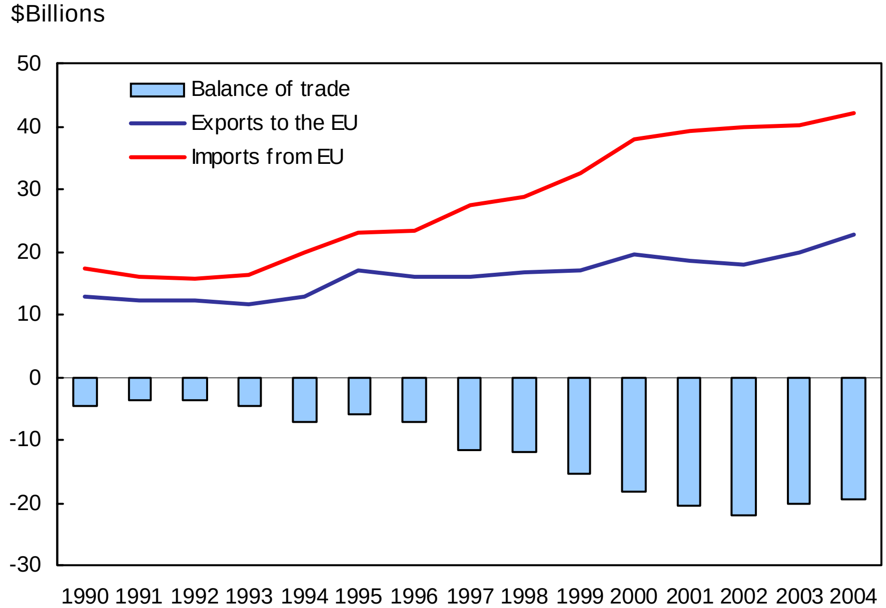
European Union: Larger shipments of Canadian precious metals, machinery and equipment reduce trade deficit

Canada's trade deficit with the European Union[3] narrowed for the second straight year to $19.4 billion in 2004. The strongest contributors to this movement were precious metals, where Canada's trade surplus grew by $790 million, and machinery and electrical equipment, where the deficit decreased by a half billion dollars.

Treated as a block, the European Union was the second largest purchaser of Canadian goods in 2004, with sales growing by 13.6% to top $22.6 billion, or 5.5% of Canada's total exports. Over half of the $2.7 billion increase was in exports to the United Kingdom, which increased its purchases by 25.0% to $7.6 billion. Exports to Germany fell by 8.2% to $2.7 billion, while exports to France rose by 8.4% and shipments to Belgium increased by 14.3%.

3. The European Union is made up of Austria, Belgium, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.

Figure 5
Canadian trade with the European Union increasing
Canada-EU trade, customs basis



Precious metals exports rose by 34.0% to $3.3 billion, as gold exports more than doubled to $1.2 billion. Diamond shipments also rose by 6.9% last year to $1.6 billion. Exports of machinery and electrical equipment increased by 17.2% to $4.7 billion.

A rise in exports of jet and diesel fuel and coal, driven in part by price increases, caused energy exports to the European Union to jump by 82.0% to nearly $870 million. Growth in metal exports was also significant, with nickel rising by 37.2% and iron and steel increasing by 15.8%.

The most significant decrease was in wood pulp exports, which fell by 8.1% to $1.4 billion, with Germany buying less than half the value of Canadian wood pulp it did in 2000.

Imports from the European Union rose by 4.8% last year to $42.0 billion, with the European Union supplying about 12% of Canadian imports. Imports of $9.6 billion from the United Kingdom and $9.4billion from Germany accounted for nearly half of Canadian purchases, while France exported $5.3 billion worth of goods to Canadians.

Purchases from Germany were focused on vehicles and capital machinery, while the United Kingdom supplied crude oil from the North Sea, machinery and equipment, and aircraft. Top imports from France included machinery and equipment, pharmaceuticals and wine.

Sales of machinery and electrical equipment, which accounted for about one-quarter of Canadian imports from the European Union, rose by 2.0% last year to $10.3 billion. A slight decline in imports of heavy capital machinery was overcome by growth in a wide variety of electrical equipment imports. The EU share of Canadian imports in this sector dropped slightly to 10.8% from 2003's high of 11.1%.

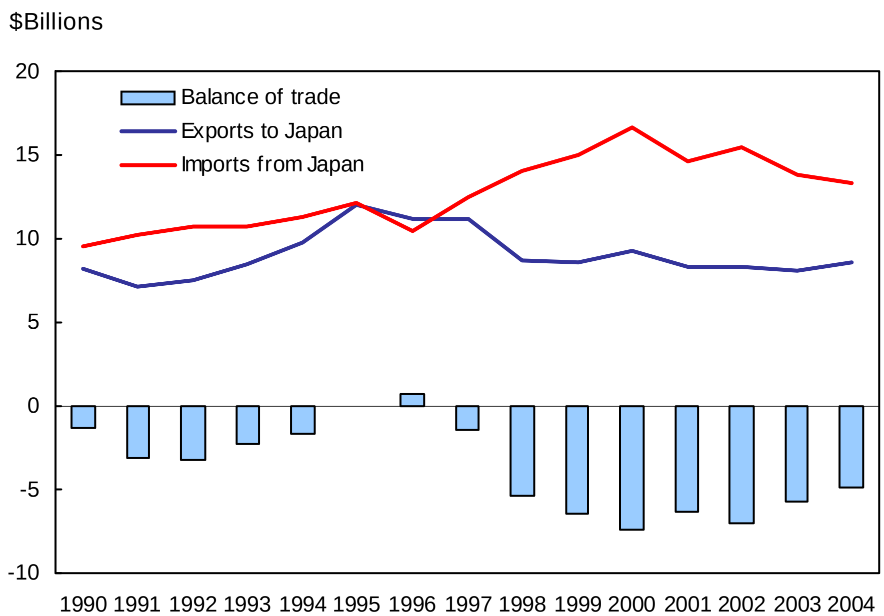
Imports of energy grew by 10.6% to $4.4 billion last year. Gains were concentrated in gasoline sales, spurred on by higher 2004 prices. Imports of European pharmaceuticals rose by 11.9% to $4.2 billion, as Canadians purchased more medication to treat the nervous system and gastro-intestinal illness. Vehicle imports were also 9.5% higher, at just under $4.0 billion, with luxury German automobiles accounting for over half of these imports.

Declines were evident in aircraft imports, which fell by 6.6% to $1.8 billion, the lowest level since 1996. An 11.2% increase in parts imports was overwhelmed by a 24.2% decrease in aircraft sales. Organic chemical imports also fell by 8.0% to $1.5 billion.

Japan: Canadian exports grow, led by wood and metals, while imports decline

Canada's trade deficit with Japan shrank to $4.8 billion, the first time it has dipped below $5 billion since 1997. Japan still represents Canada's fourth largest trade deficit, behind China, Mexico and Germany. The reduction of nearly $840 million in the deficit resulted from increased exports coupled with a slight decline in imports.

Figure 6
Falling imports from Japan diminish trade deficit
Canada-Japan trade, customs basis



Exports to Japan rose 4.7% to $8.5 billion as Japan maintained its status as the second largest purchaser of Canadian goods behind the United States. Strong growth of 9.8% in wood shipments, consisting mostly of softwood lumber, made up over one third of the increase in exports. Japan is the second largest consumer of Canadian softwood lumber, accounting for $1.3 billion, or about 12% of overall sales.

Metal exports also increased sharply last year due to price hikes and rising demand. Aluminum exports rose 40% to nearly $430 million, while nickel more than doubled to $160 million and cobalt shipments nearly tripled to $140 million.

Increases in exports of pork and poultry caused meat shipments to rise by 6.5% to almost $780 million despite a Japanese ban on Canadian beef.

Imports declined for the second year in a row, by 3.3% to $13.4 billion. Given growth of 5.7% in overall Canadian imports, Japan's share of imports slid below 4% for the first time in over a decade, dropping behind Mexico to become the fourth largest source of Canadian purchases.

The largest losses were in vehicle imports, which shrank by 9.5% to $5.1 billion. A decline of $610 million in passenger vehicle sales was mitigated slightly by gains of $90 million in auto parts.

Imports of machinery and electrical equipment also extended a three year slide to $5.2 billion, the lowest level in over a decade. As a result, Japan has lost the place it enjoyed prior to 2003 as the second largest source of Canadian machinery and equipment purchases, and has been surpassed by both China and Mexico.

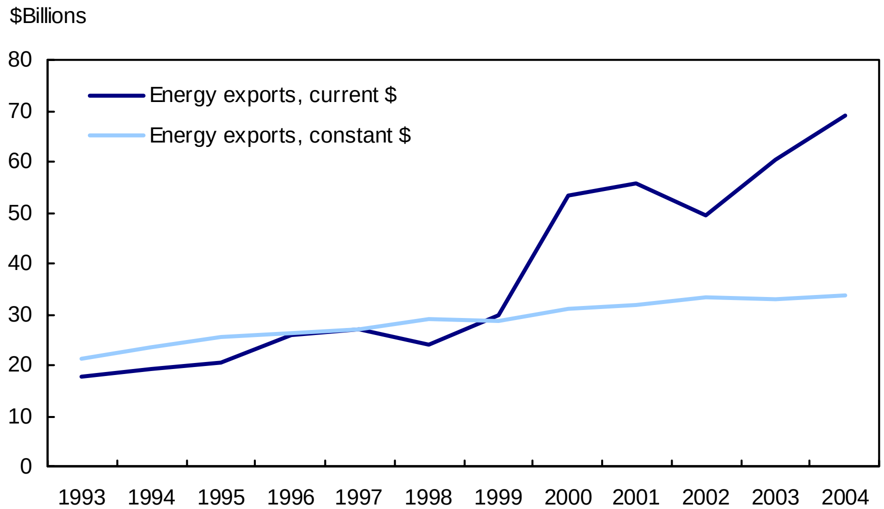
There was growth in some areas, particularly imports of Japanese aircraft parts, which rose by 81.9% to almost $270 million.

Trade sectors

Energy: Rising crude prices generate record exports

Price hikes in crude petroleum and natural gas combined with higher export volumes to set record highs in Canadian energy exports in 2004. Exports increased by 14.4% to $69.2 billion, but most of this was due to price increases. Prices accounted for about 80% of the increase in crude petroleum exports, which grew by 27.4% to hit a record $26.3 billion in 2004. The average price for crude exports rose by about 20% last year.[c]

Figure 7
Energy price increases push export values higher
Canadian energy exports, balance of payments basis



c. Data followed by c indicate that data are on a customs-basis, rather than a BOP basis. For more information see the *Note to readers*.

Price and volume increases also led to record high exports of natural gas, which grew by 6.9% to $27.9 billion, while volumes grew by a comparatively smaller 2.1%. Average prices for natural gas rose slightly by 1% last year, after having increased by about 45% in 2003.[c] All natural gas and virtually all crude oil exported from Canada were purchased by the United States.

Electricity prices, on the other hand, fell 6% last year.[c] Strong growth in sales volumes resulted in a 2.6% rise in 2004 exports, all to the United States. Quebec remained the primary source of Canadian electricity exports, due both to higher volumes and its access to higher-priced export markets. Ontario exports more than doubled last year to $390 million, overtaking Manitoba and British Columbia to become the province with the second largest electricity exports.[c]

Ontario benefited from strong growth in exports to Michigan, and from New York shifting a portion of its imports from Quebec to Ontario. British Columbian electricity exports suffered from price and volume declines in key markets in California, Washington and Oregon.

The domestic appetite for imported energy grew even more rapidly than exports, at the torrid rate of 26.8%, to reach a record $24.9 billion. Crude petroleum imports rose by 24.5% to $16.6 billion, though nearly three-quarters of this rise was due to price increases.

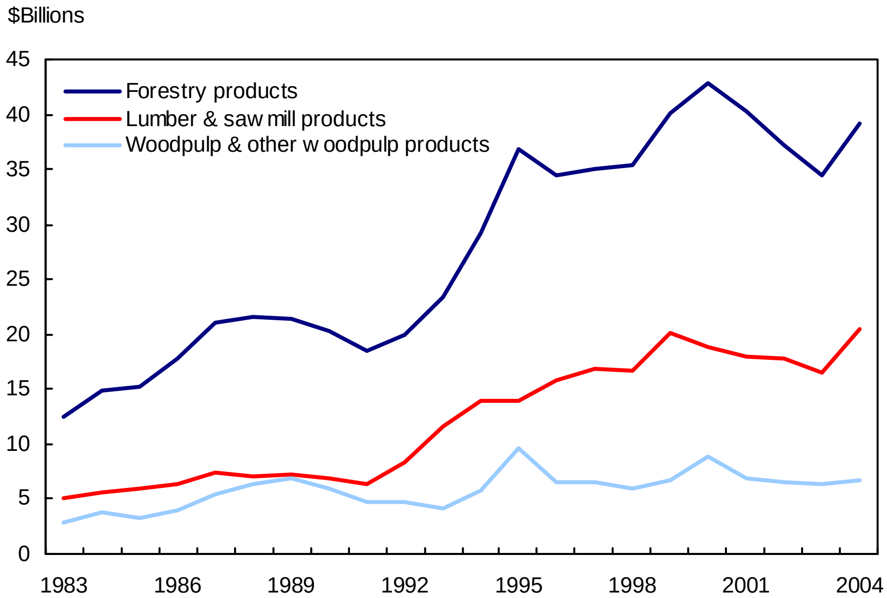
Other energy products, led by coal, rose 31.7%, with roughly half of the increase attributable to rising prices. Imports of coal, which hit $3.7 billion, and natural gas, which totaled $2.6 billion,[c] each rose by 40% last year to reach record highs. Ontario more than doubled its natural gas imports, accounting for four-fifths of natural gas and about two-thirds of Canadian coal imports.[c]

The energy trade surplus hit a record high of $44.3 billion on the strength of higher prices. Energy export volumes rose by 3.2% but import volumes increased by 10.4% over 2003.

Forestry: Strong demand for Canadian lumber boosts exports

Forestry exports increased for the first time since 2000. Strong growth of 13.8% in 2004 to $39.2 billion was due to a more than one-quarter increase in lumber and sawmill products coupled with more modest growth in pulp and paper exports. Lumber exports increased by 28.8% last year to top $11.5 billion. The United States accounted for over 90% of export growth in softwood lumber, importing $9.2 billion despite U.S.-imposed tariffs and duties resulting from the ongoing trade dispute over Canadian pricing policies.

Figure 8
Forestry exports
Canadian forestry exports, balance of payments basis



Higher prices played a significant role in the rise in lumber exports during the first half of the year, driven in part by strong housing starts in the United States which increased demand in spite of rising prices. British Columbia continued to account for nearly two-thirds of Canadian softwood exports in 2004.[c]

Exports of other wood fabricated materials jumped by 23.2% to reach a record high $8.2 billion. Most of this increase was a result of higher sales of oriented strand board, almost all of which went to US buyers.

Wood pulp exports increased by 6.1% to $6.7 billion in 2004. Sales to the United States, which continued to absorb over 40% ($3.1 billion) of Canadian pulp exports, increased by 6.1%.

Exports to China, which topped $1.0 billion in 2004, grew by 24.0% over 2003 levels to nearly four times 1997 levels. Wood pulp is used to make paper and paperboard products, of which China is a major consumer. Canadian exports of paper and newsprint grew at a more modest rate of 2.7%.

Forestry imports grew by 5.1% to $3.2 billion in 2004. Growth was concentrated in wood fabricated materials, which increased by 6.2% and accounted for about 80% of total forestry imports in 2004. Increased housing starts in Canada in 2004 sparked this rise in imports of semi-processed wood products such as plywood and shaped wood. Shaped wood is often used in flooring and siding for houses.

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While the United States remained the primary source of shaped wood imports, selling over $180 million in 2004, China emerged as the second largest source, nearly tripling its exports to Canada to more than $100 million.

Imports of crude wood products grew by just 1.2%, much more slowly than did wood fabricated materials.

The trade surplus in forestry products increased by 14.6% to $36.0 billion in 2004. Forestry was the second largest contributor, behind the energy sector, to Canada's overall trade surplus.

Industrial goods and materials: Exporters reap windfall as rising global demand pushes up prices for metals, chemicals

A rise in global metals demand, coupled with limited supplies, caused prices for many metals to increase sharply last year. As a result, exports of industrial goods and materials grew by almost 16.6% in 2004 to $77.6 billion, mostly on the strength of volume and price increases in metals and metal ores.

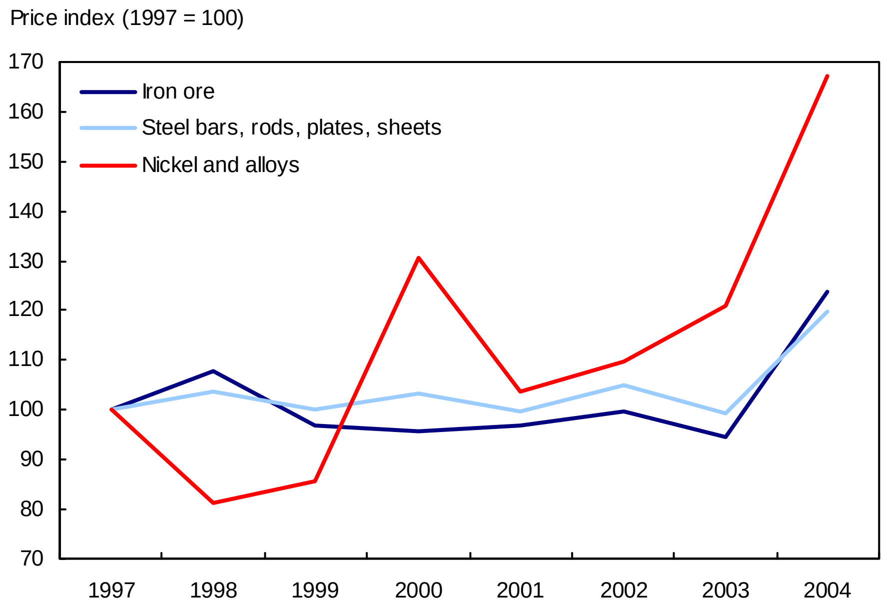
Imports of industrial materials grew by 12.7% to $73.5 billion. This was due in large part to a 40% rise in imports of metals and metal ore, half of which was due to higher prices.

Increased demand from China, which is a significant consumer of the world's metals, has put pressure on limited global supplies. Metal producers have been reluctant to invest in expanding production, having recently emerged from a slump in consumption that threatened profitability.

Increased sales of metals to China are fuelling growth in Chinese steel production. Canadian exports of metal ores, particularly those used to make steel, increased by 27.3% to $7.4 billion, with virtually all growth due to price increases.

Imports of metal ore and scrap rose by 36.4% last year to $4.1 billion, with gains concentrated in iron, copper and nickel ores. Exports of metals and alloys grew by 23.2% to $24.9 billion, with about four-fifths of the gain the result of substantial price hikes in commodities such as nickel.

Figure 9
Metals prices increase rapidly in 2004
Prices of metal exports, paasche price index, balance of payments basis



Shipments of raw and processed nickel, a primary input in stainless steel production, rose 68.4% to $4.2 billion,[c] with gains evenly split between price and volume increases. Prices for nickel and nickel alloys rose by 38% last year.

The United States was the largest market for Canadian nickel in 2004, with purchases more than doubling to over $1.1 billion. China also more than doubled its expenditure on Canadian nickel to $230 million to become Canada's fourth largest export market.

Iron and steel exports rose by 24.1% last year to over $6.4 billion, with most shipments going south of the border. Canadian imports of semi-processed steel increased by 58.2% to $6.3 billion.

China more than quadrupled its exports to Canada last year to $280 million, becoming the number four source of Canadian iron and steel imports. The United States continued to supply the bulk of our iron and steel imports, with shipments growing by 45.4% to $4.3 billion.

Canadian trade in gold increased sharply last year, as the closure of a gold refinery in the United Kingdom brought increased business for Canadian smelters. Both exports and imports rose, as raw gold was imported, refined in Canada, and then exported to meet global demand.

Gold exports rose by 28% to $3.4 billion,[c] with over 60% of shipments going to the United States. The United Kingdom doubled its purchases of Canadian gold in 2004 to $1.2 billion, up from less than $1 million in 2000. Imports of gold and gold waste increased by 88.2% to $1.8 billion,[c] with the United States the leading supplier.

Diamond exports were also up by 9.0% to $1.8 billion,[c] as recently opened diamond mines in the North West Territories continued to ramp up production. Most of the additional exports last year went to Belgium, a global distribution centre for trade in diamonds, while the United Kingdom remained the primary destination for Canadian diamonds.

Exports of chemicals, plastics and fertilizer rose by 15.4% to $27.0 billion last year, with gains concentrated in organic chemicals, which rose by 37.0% to $6.0 billion. The United States, which increased its purchases by 38%, was responsible for 71% of Canadian shipments, while China more than doubled its purchases to account for 18% of organic chemical exports. Sales to China were mostly of ethylene glycol, which is used in the production of polyester used in the Chinese textile industry.

Imports of heterocyclic compounds, organic chemicals used to make pharmaceuticals, rose by 31.5% last year to $1.3 billion.[c] The Canadian pharmaceutical industry has been growing strongly over the last few years, with a wider variety of drugs available and demand increasing as older people make up a greater proportion of populations in Canada and the United States.

Canadian pharmaceutical exports are continuing to grow rapidly, up by 19.2% last year to $3.8 billion, more than twice the level seen in 2000.[c] These export figures do not include most cross-border purchases made by individuals. Over half of Canada's imported organic chemicals come from the United States.

Price increases caused the trade surplus in industrial goods and materials to more than triple to $4.1 billion. Increasingly large trade surpluses in metals such as nickel, where prices rose dramatically, offset trade deficits in chemicals, plastics and other industrial materials.

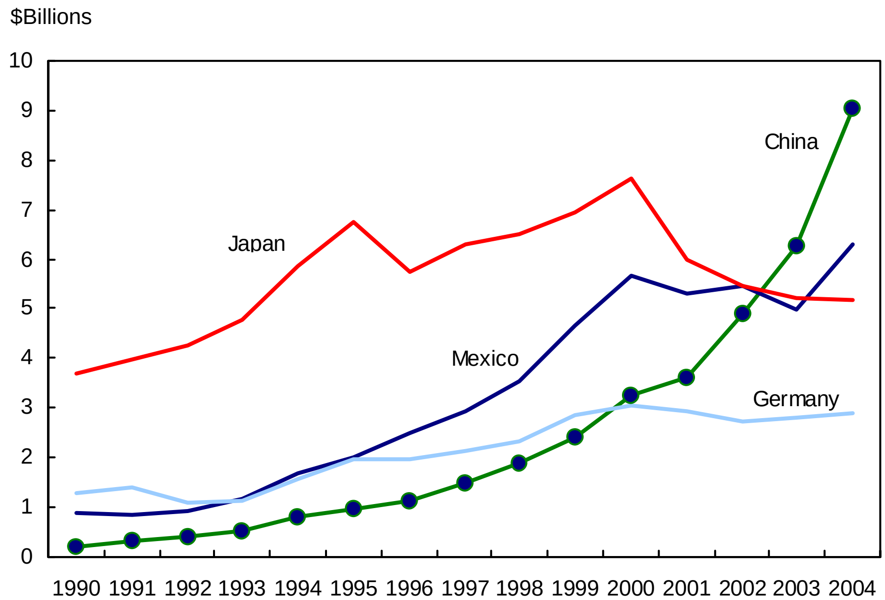
Machinery and equipment: Canadian firms take advantage of lower prices to invest in imported machinery

Machinery and equipment was one of two sectors where Canadian imports exceeded exports in 2004. The trade deficit, which has grown from $8.8 billion in 2002 to $9.6 billion in 2003 and $11.9 billion in 2004, has been mirrored by the dramatic decline of the US dollar against many other currencies, including the Canadian dollar. The depreciation of the U.S. dollar has made imports from the United States, as well as from countries such as China with currencies linked to the U.S. dollar, relatively cheaper in Canadian dollars.

As Canadian firms took advantage of these currency shifts to invest in capital equipment, imports of machinery and equipment rose by 5.6% last year to $103.7 billion, reversing three years of decline. Falling prices masked the true increase, as imports measured in constant dollars rose by 14.2%. Imports of excavating machinery grew particularly rapidly, by 21.3% to $2.3 billion, another possible consequence of strong housing starts in Canada last year.

The source of machinery and electrical equipment imports shifted away from the United States, from which imports fell slightly to $51.9 billion. While the United States used to supply about two-thirds of Canadian imports of these products in the mid-1990s, its share has since dropped to 57.7% in 2003 and 54.6% in 2004.

Figure 10.
China growing source of Canadian imports of machinery and electrical equipment
Canadian imports of machinery and electrical equipment by source country, customs basis



China and Mexico have both overtaken Japan to become the second and third largest exporters to Canada of machinery and electrical equipment. Imports from China rose by 43.7% to $9.0 billion, while purchases from Mexico increased by 26.1% to $6.3 billion.

Imports of industrial and agricultural machinery and equipment rose slightly by 1.8% to $27.2 billion. Prices of office machines fell steeply in 2004: while the money spent on imports increased by 6.2% to $15.4 billion, the constant dollar value of imports rose by 19.2%.

The same held true for other machinery and equipment, where imports rose by 7.6% to $48.4 billion, while the constant dollar measure increased by 16.5%. Larger volumes of machinery and equipment imports may indicate that Canadian firms are taking advantage of lower prices to invest in capital goods, which bodes well for future industrial productivity.

Machinery and equipment exports also reversed three years of consecutive declines, increasing by 3.6% in 2004 to $91.8 billion while prices fell. Industrial and agricultural machinery exports grew by 2.3% to $19.3 billion with prices remaining relatively stable.

Aircraft and other transportation machinery and equipment actually fell by 3.2% to $19.9 billion. The drop in exports was concentrated in airplanes, with sales falling by 20% to $7.3 billion.[c] Lower aircraft exports to the United States were responsible for the decrease.

Although the export volume of other machinery and equipment increased by 16.9%, the value of exports grew by only 6.9% to $52.5 billion, the result of lower prices. Sales of television and telecommunications equipment increased by 10.4% to $12.0 billion, while exports of office machines grew by 10.5% to $7.4 billion. Exports of other equipment and tools rose by 3.3% to $22.2 billion.

Automotive products: Exports of passenger vehicles rise, while imports fall

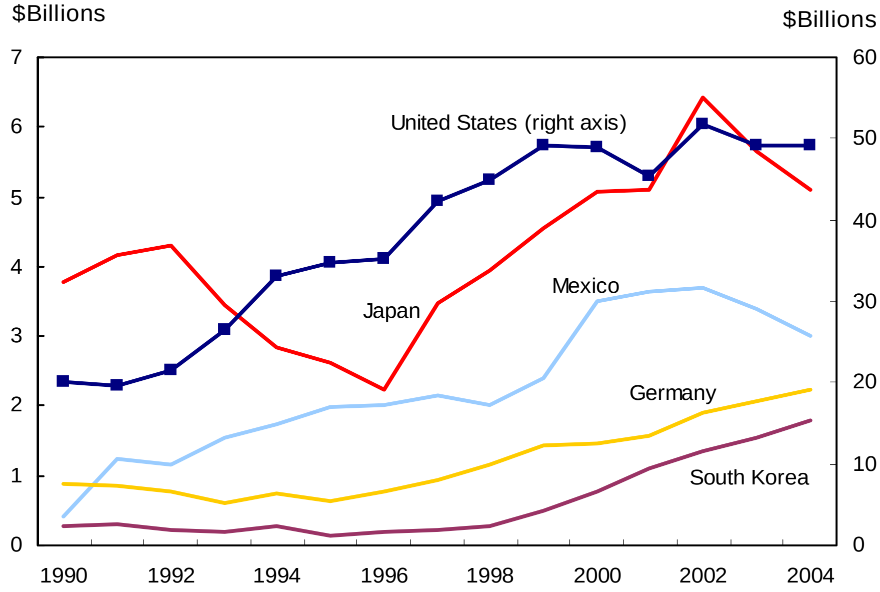
Automotive product exports bounced back after declining by 9.6% in 2003, recovering by 3.4% to $90.3 billion in 2004. The 8.7% growth in passenger auto exports to $47.1 billion was tempered by falling prices, as export volumes grew by 15.6%. This increase more than offset declines of 3.8% in trucks and 0.7% in auto parts exports.

The United States purchased 99% of Canada's passenger car exports, and 93% of auto parts in 2004. Auto parts exports to China, which had grown from less than $5 million in 1998 to nearly $700 million in 2003, lost ground in 2004, falling by 34% to $460 million.

Imports of automotive products grew by 1.2% last year to $77.3 billion. Import volumes increased by 4.5%, but the full effect of this growth was mitigated by falling price levels. Auto parts grew by 5.5% to $40.9 billion while imports of trucks increased by 8.1% to $14.1 billion.

Lacklustre growth in car parts imports from the United States, which rose by 1.8%, was buttressed by significant increases from Japan (9.1%), and annual growth of one-third or more from Mexico, Germany, China and South Korea. While the United States is still the primary source of car parts for Canadian production facilities, the proportion has slipped to 87%, down from 90% in 1999.

Figure 11
Canadian vehicle imports still mostly from the US:
Canadian vehicle imports by source country, customs basis



Declines in imports of passenger vehicles of 9.2% to $22.2 billion contrasted with growth in the rest of the automotive product import sectors in 2004. The United States and Japan, the two largest sources of Canadian vehicle imports, both lost ground in 2004. The US value fell by 9% to $13.7 billion, while Japan declined by 15% to $3.5 billion.

Imports of Mexican-made vehicles, which have been falling off since 2000, lost a further 31% last year to finish the year at $1.3 billion. Germany and South Korea increased their share of the Canadian passenger automobile market in 2004. Imports from Germany rose 1% to $1.7 billion, while South Korea enjoyed the largest gain, rising nearly 16% to almost $1.7 billion. The United States, which had been the country of origin for nearly 73% of passenger vehicle imports in 1996, saw its share fall to 59% in 2004.

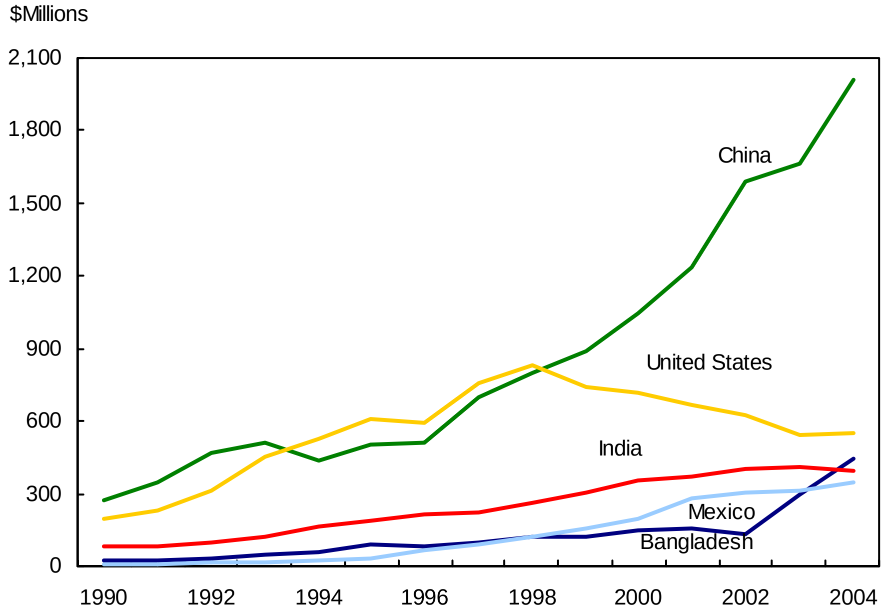
The trade surplus in automotive products bounced back from four consecutive years of decline, jumping by 18.2% to $13.0 billion in 2004. This trend was particularly evident in passenger vehicles, whose trade surplus increased by 31.8% to $24.9 billion last year.

Canada's trade surplus in automotive products with the United States increased while the trade deficit with Japan and Mexico narrowed. The automotive products deficit with South Korea widened on the strength of increased passenger vehicle imports. Canada continued to run a trade deficit in auto parts, which grew from $10.9 billion in 2003 to $13.3 billion in 2004.

Consumer goods: Canadians import more clothing, furniture

Imports of consumer goods rose by 3.0% to $47.7 billion, with gains concentrated in apparel, footwear and home furnishings. Apparel imports rose 7.4% to $7.4 billion, with China, which was responsible for one-third of clothing imports last year, increasing its Canadian sales by 20.9%. Apparel imports from the United States, which have been declining since 1998, increased slightly to $550 million, or 9% of Canadian imports.

Figure 12
China, Bangladesh increasing share of Canadian apparel imports
Canadian apparel imports by source country, customs basis



Sales from Bangladesh enjoyed strong growth of 50%, surpassing India and Mexico to become the third largest source of Canadian apparel imports. Bangladesh, along with other Least Developed Countries, has benefited from Canada's elimination of tariffs and quotas on apparel imports in 2003, during which Bangladesh more than doubled its apparel exports to Canada. This advantage may end in 2005, when the global phase-out of quotas on trade in apparel takes effect, extending the same treatment to apparel firms in China and elsewhere.

House furnishings imports grew by 5.6% to $7.2 billion, while imports of watches, sporting goods and toys dipped slightly to $4.5 billion. The source of Canadian toy imports shifted away from the United States and Europe, which lost 7% and 5% respectively of their Canadian sales.

China picked up the slack, increasing its sales by 6% to over $2.0 billion, or 55% of Canadian toy imports. In 1995, Chinese goods made up 29% of toy imports, while the United States led in market share at 40%.

Exports of consumer goods increased slightly by 0.7% to $17.3 billion last year. Furniture exports supplied most of this increase, rising 2.5% to $8.1 billion on the strength of increased sales south of the border.[c] The gains in furniture were balanced by losses in sectors such as toys, where exports fell by 8.9% to $1.3 billion[c] as a result of an 11% decline in sales to the United States.

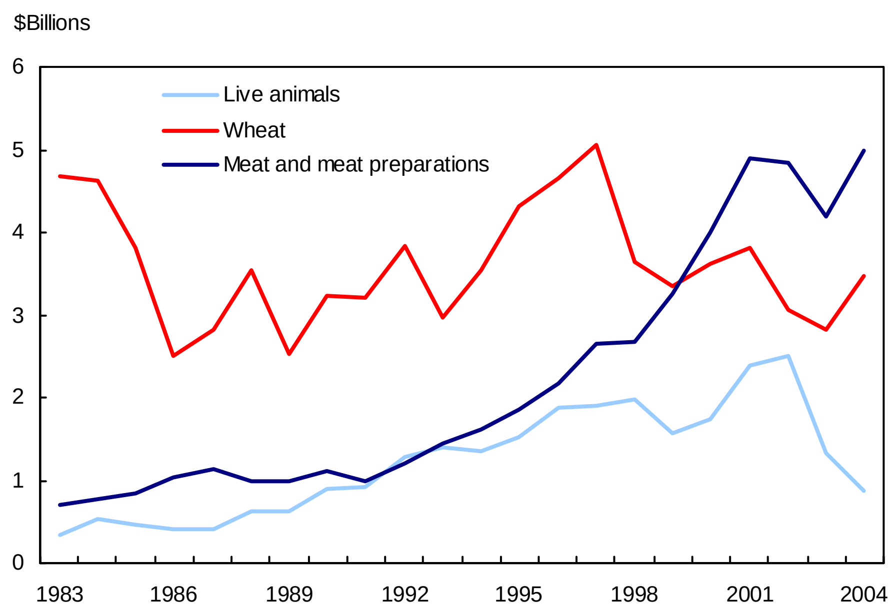
Canada's trade deficit in consumer goods continued its pattern of steady increases over the last twenty years, growing by another $1.3 billion to top $30 billion for the first time. This is nearly twice what it was ten years ago, and nearly four times the $8.3 billion deficit recorded in 1984. The trade deficit in apparel alone increased by 20% in 2004 to $3.8 billion.[c]

Agriculture: Better wheat harvest pushes exports higher

Exports of agricultural products increased by 4.9% in 2004, mostly on the strength of growth in wheat exports. Following two years of drought on the prairies, wheat exports rose by 23.8% to $3.5 billion in 2004. Prices were slightly lower than in previous years because poorer crop quality affected the selling grade of grain.

The leading market for Canadian wheat was China, which purchased close to $660 million, or nearly one-fifth of wheat exports, and accounted for over 90% of the 2004 increase. While China formerly imported significant quantities of Canadian wheat, the value of wheat exports to China fell sharply from about $1.1 billion in 1996 to under $310 million in 1997, and then continued to fall to less than $45 million in 2003.

Figure 13.
Meat exports recover in 2004, live animal exports continue to fall
Selected Canadian agricultural exports, balance of payments basis



Other agricultural exports grew at the more modest pace of 2.9% in 2004. Stronger growth in some areas was overwhelmed by a sharp decline in exports of live cattle, which fell to zero from about $590 million[c] in 2003 as a result of the May 2003 ban related to mad cow disease.

Meat preparations recovered from lower exports in 2003, increasing by 18.5% over the previous year to reach $5.0 billion in 2004. This was mainly the result of increased beef exports, as Mexico and the United States opened their borders to Canadian beef shipments while continuing to restrict live cattle. Meat exports in 2004 were 2.9% higher than 2002 levels of about $4.8 billion.

The United States, which purchased $2.9 billion in meat, and Japan, which bought $780 million, remained the top two markets for Canadian meat preparations, importing roughly the same amount in 2004 as they did before the mad cow crisis in 2002. Mexico has emerged as the third largest consumer of Canadian meat, with imports of nearly $400 million in 2004, 63% higher than in 2002.

Agricultural imports declined slightly by 0.7% due to the ongoing disruption in the cattle industry in 2004. Imports of fresh and frozen beef fell by 58%[c] in 2004 as the ban on Canadian exports of live animals had a ripple effect on the integrated North American beef industry. Canadian stocks of imported frozen and chilled beef fell in 2004 while domestic beef stocks remained high.

Canadians imported 2.2% more fruits and vegetables in 2004, though two-thirds of this increase was due to higher prices. Imports of dairy products, particularly butter, mostly from New Zealand, and eggs, primarily from the United States, also rose in 2004, while imports of fish fell slightly.

Canada’s trade surplus in agricultural products rose to $9.3 billion in 2004.

Note to readers

Statistics Canada derives trade data primarily from administrative records compiled by the Canada Border Services Agency. These customs-based data are also adjusted and published on a Balance of Payments (BOP) basis to conform to the definitions used by the System of National Accounts. The main differences between customs and BOP data are in valuation, residency, timing and coverage.

While BOP data, which make up part of the current account, are more useful for those interested in macroeconomic issues, customs data provide a wealth of detail on specific commodities and trading partners.

To allow for cross-country comparisons, all data in this paper that reference a trading partner are customs-based. Data that refer only to products but not to the countries these are traded with are BOP-adjusted. The only exceptions are data for detailed product groups which are not available on a BOP basis; these are customs data and are indicated by a superscript [c].

Exports refer both to domestic exports of goods which originated in Canada and re-exports of goods of foreign origin that entered and left Canada without undergoing substantial transformation.

All comparisons of trade between Canada and its partners refer to partners as specific countries. The only exception to this is when the European Union is specifically mentioned, in which case EU-Canada trade is compared with Canadian trade with other specific countries.