

Sales Abroad by Canadian Foreign Affiliates

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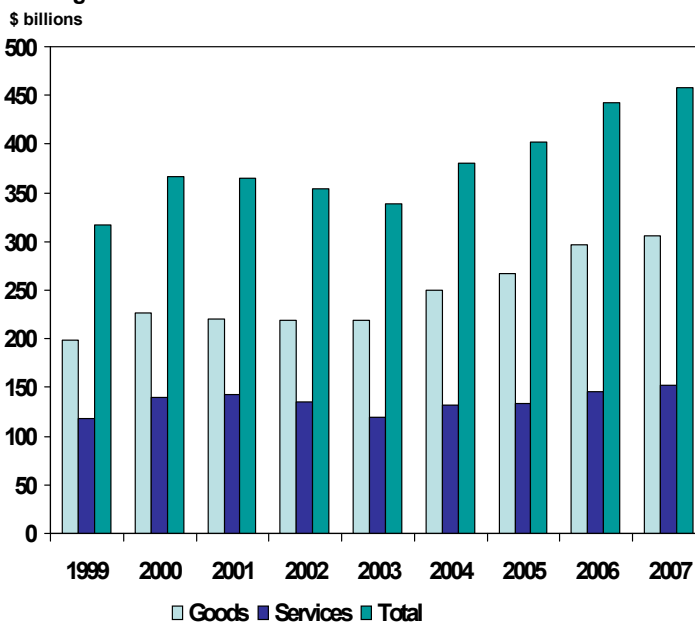
Summary

Affiliates of Canadian companies located in emerging economies have been growing their global sales at a significant pace in recent years. Recently released data show that the global sales of Canadian affiliates located in non-OECD countries now exceed those of Canadian affiliates in the EU. While foreign affiliate sales do not contribute to Canadian GDP in the same way as exports, they are nevertheless another important aspect of the global commercial activity of Canadian firms. This is particularly true for services given that a local presence is frequently required for the provision of services. Foreign affiliate sales of goods are only about two-thirds as large as Canadian exports of goods, while affiliate sales of services are more than twice the value of services exports. Further, foreign affiliate sales expansion has outpaced export growth in recent years, elevating the relative importance of foreign affiliate sales as a vehicle for serving foreign markets.

Background

Foreign affiliate trade statistics are released with a considerable lag. Data recently released by Statistics Canada is for 2007 sales, and therefore does not reflect the impact of the global economic crisis that began in 2008. Total Canadian foreign affiliate sales grew for the fourth consecutive year in 2007, expanding by 3.6 percent to \$458 billion. Sales for both goods-producers and services-producers advanced, with services sales outpacing goods sales (4.2 percent versus 3.4 percent annual growth respectively).

Foreign Affiliate Sales of Goods and Services



Source: Statistics Canada – Foreign Affiliate Trade Statistics, FATS (Table 376-0061)

Strong growth in the agriculture, forestry and fishing sector and the oil and gas extraction sectors were the major driver for the 3.4 percent expansion among goods producers in 2007. For service producers, strong expansion in the information & cultural industries, transportation and finance & insurance sectors was partially offset by declining sales in the retail sector.

Geographic Distribution of Sales

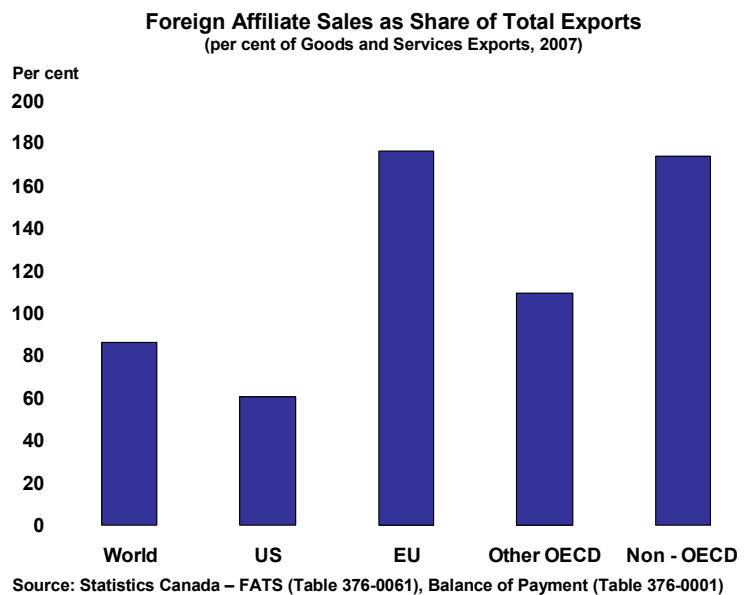
Sales by affiliates in non-OECD countries grew by 11.8 percent in 2007, easing off from the 39.2 percent expansion the previous year, but still exceeding growth in sales from affiliates in the other regions for which Statistics Canada publishes data. Sales by affiliates in the U.S. declined slightly in 2007, while affiliates in the EU grew their sales by 3.4 percent after a 2.1 percent decline in 2006. The share of total sales by Canadian affiliates located in the United States has fallen from 64.3 percent in 1999 to 52.0 percent in 2007, with most of that share being picked up by affiliates in non-OECD countries and OECD countries outside the U.S. and the EU.

Geographic distribution of Canadian foreign affiliate sales			
	2007	Sales	
		2006/07 growth	2007 share
	\$ millions	percent	percent
World	458,417	3.6	100.0
United States	238,152	-0.2	52.0
European Union	88,643	3.4	19.3
Other OECD countries	38,556	11.3	8.4
Non-OECD countries	93,066	11.8	20.3

Source: Statistics Canada - Foreign Affiliate Trade Statistics, FATS

Value of Foreign Affiliate Sales Compared to Exports

Global foreign affiliates sales of goods and services are rising faster than exports, and as of 2007 were equal to 86 percent of exports, up from 75 percent in 1999. This growth relative to exports is driven by affiliate sales of goods, which have risen from 54 to 66 percent of the value of goods exports over the same period. This shows that the affiliate sales route is gaining in importance relative to exports for goods, although it is still far from the services case, where affiliate sales of services are more than double services exports (almost 220 percent their value, unchanged from 1999).



The ratio of foreign affiliate sales to exports varies greatly by region.¹ Canadian firms are much more likely to serve the U.S. market through exports than through affiliate sales. The proportion of such sales in relation to exports in the U.S. rose slightly in 2007, but is still at only just over 60 percent. In contrast, for the EU and non-OECD countries, affiliate sales far exceed exports.

¹ As Statistics Canada does not provide a breakdown of destination of sales for foreign affiliates in the geographic regions, total sales from affiliates in a region will encompass both sales within the region as well as sales shipped to other regions.