

**Canadian Trade in Services has Outperformed Trade in Goods During the Global Economic Downturn**

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**Summary**

The global economic downturn has severely affected world trade over the past year. Much of the commentary on the impacts of the crisis on trade has focussed on goods trade, which, for Canada, slumped 19.5 percent between the first half of 2008 and the first half of 2009.<sup>1</sup> In contrast, services trade has weathered the crisis better than goods, falling by only 3.2 percent, due in large part to the relatively stable performance of commercial services. Some of the gap in performance between goods trade and services trade is due to a drop

**Change in total goods and services trade over previous quarter**  
 (Seasonally Adjusted)



in prices for goods trade, most notably for Canadian resource and energy exports. But even taking this into account, services trade outperformed that of goods by a considerable margin. Furthermore, like goods trade, services trade picked up in the second quarter of 2009 driven by an increase in exports possibly signalling a strengthening of global demand.

There are likely two reasons why services trade, and commercial services trade in particular, were less affected by the global economic crisis. Firstly, unlike in services, it is possible to build-up inventories in the goods sector that are run down during a slowdown, which has the effect of accentuating a downturn. Secondly, services may be considered to be less discretionary consumption than goods. For example, in the U.S. market, goods consumption fell by 7.1 percent over the last two quarters of 2008 (the most recent data available), while services consumption actually increased modestly, rising by 0.9 percent.

**Background**

After peaking in the third quarter of 2008, Canadian goods trade began falling at the end of 2008 and

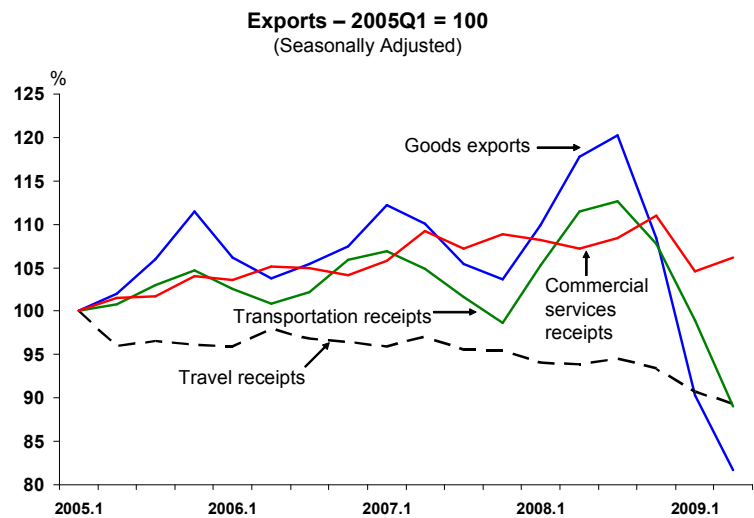
<sup>1</sup>All figures are in value terms unless otherwise stated.

has continued to do so over the first two quarters of 2009, with both exports and imports retracting. Goods trade in the second quarter of 2009 is now 72.5 percent of its level in the third quarter of 2008. For services trade, the contractions started later (beginning only in the first quarter of 2009) and have been less dramatic (services trade in the second quarter of 2009 is now 92.8 percent of its level in the fourth quarter of 2008). Among the three major services categories, commercial services recorded the smallest declines in exports and was the only one to register import growth in the first half of 2009 compared to the same period last year.

Travel and Transportation

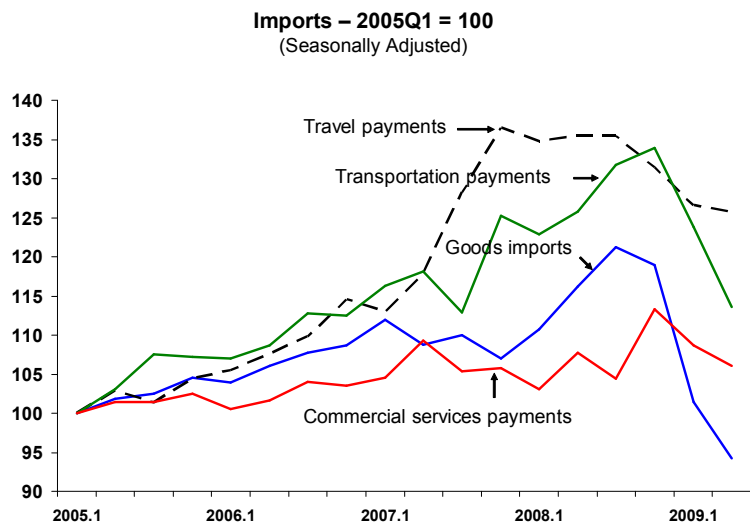
In the first half of 2009, travel receipts continued their downward trend that had started long before the 2008 downturn, due in part to the stronger Canadian dollar over the past several years, as both business and personal travel fell. Travel payments, on the other hand, levelled off in 2008 after rising sharply in recent years and only began to fall with the onset of the global economic downturn and possibly concerns related to H1N1, as most of the decline was due to a decline in personal travel as opposed to business travel which was more stable.

Transportation services are closely linked to goods trade. Since the second quarter of last year, both Canada’s transportation receipts and payments have dropped steeply, following a pattern similar to goods trade.



Commercial Services

Commercial services are diverse and cover a wide range of activities, from insurance to culture and recreation, and from equipment rentals to royalties and licensing fees. Total commercial services trade has been comparatively stable, declining by only 0.2 percent between the first half of 2008 and the first half of 2009, as a 2.2 percent decrease in exports was partially offset by a 1.8 percent increase in imports.

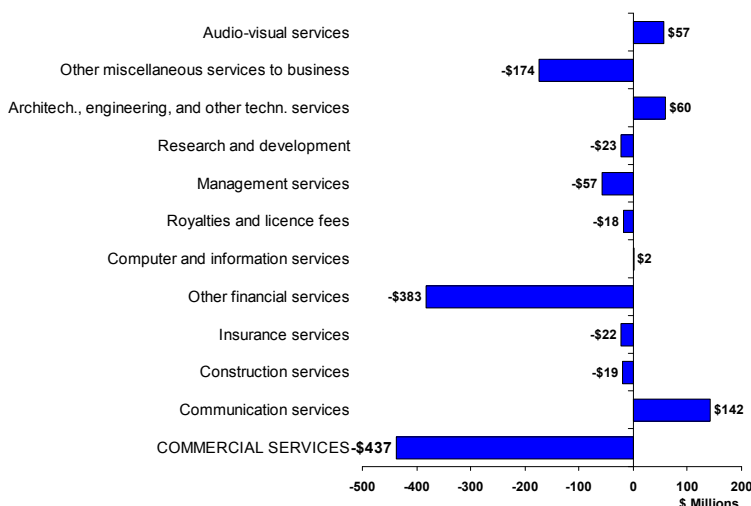


Given the source of the global downturn in the financial sector it is not surprising that financial services registered the largest drop among all commercial services subcategories in the first half of 2009. A significant decrease was also recorded in exports of miscellaneous services to business. This subcategory includes activities in industries that were severely affected by the crisis, such as real estate services, equipment rentals, and tooling and other services for the automotive industry. Nevertheless, a rise in exports of communication services in the first two quarters this year over the same period in 2008, complemented by increases in architectural and engineering services and in audio-visual services, limited the drop in overall commercial services exports to 2.2 percent over the period.

Commercial services imports were up 1.8 percent in the first half of 2009. Royalties and license fees recorded the biggest increase among all commercial services subcategories, followed by audio-visual services, management services, and computer and information services. Miscellaneous financial services and miscellaneous services to business registered the largest declines between the first half of 2008 and the first half of 2009; as with exports, it was likely due to strong ties to the financial sector.

In the second quarter of 2009, exports of commercial services have started to rebound, rising 1.5 percent. Most subcategories went up — even in sectors that were severely affected by the economic slowdown, such as construction, miscellaneous financial services, and miscellaneous services to business, possibly suggesting a pickup in economic activity abroad. While total imports of commercial services declined in the second quarter, imports of miscellaneous financial services advanced over the quarter, consistent with improved conditions in financial markets.

**Change in exports of commercial services by category  
2009 H1 over 2008 H1, SA**



**Change in imports of commercial services by category  
2009 H1 over 2008 H1, SA**

