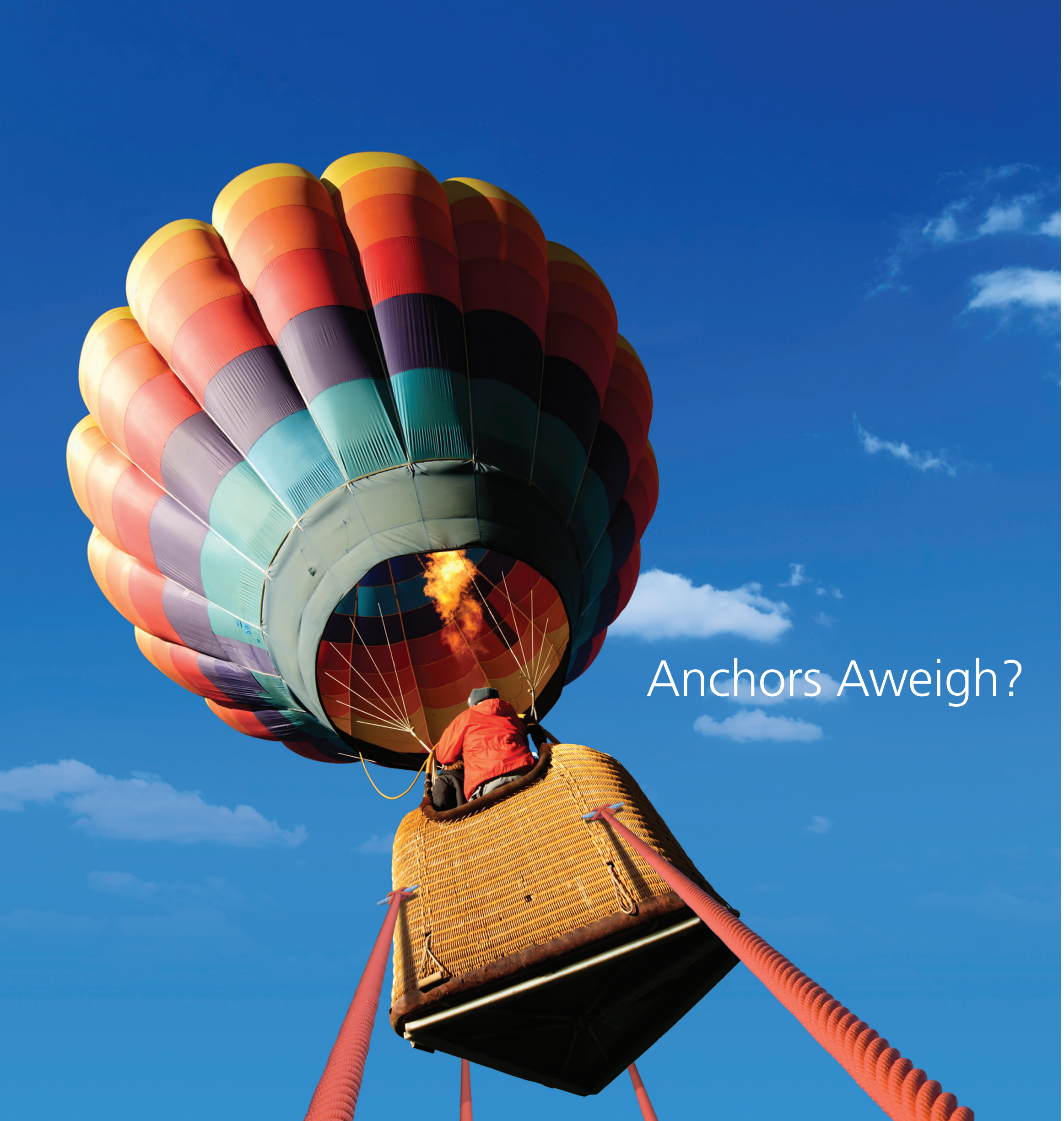

Anchors Aweigh?

Global Export Forecast

Spring 2012

Canada

EDC

Realize a World of Opportunity

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1.0 GEF Executive Summary

Anchors Aweigh?

Where is the world economy headed? If forecasting is a tricky business at the best of times, then the last 4 years take the cake. Pundits can gauge conditions and make their best call, but they all rely on a good dose of *ceteris paribus* – conditions being normal enough that the rules in the economic models are obeyed. But conditions have been far from normal for a long time. A growing list of events unprecedented in our time – or ever – is complicating the forecaster's craft, and testing the profession's credibility.

Unprecedented events

Consider the length of the last global growth cycle – at about 16 years, twice normal. This duped many into thinking that recessions were a thing of the past. The Great Recession, the worst in over 60 years, traded the poise for panic overnight, and sent world leaders scrambling for solutions. The policy response was impressive, and for its size, scale and swiftness, likely has no peer in human history. Its impact created the illusion of recovery, but 6 months later the spurt fizzled and ever since, a highly unusual phase of on-again, off-again growth has prevailed.

A long list of risks

The risk list isn't helping. Financial near-collapse and fiscal splurging saw OECD economies' public debt levels soar to unthinkable heights, and now the most fragile of these – mostly in Southern Europe – threaten to undermine the entire global economy. This is terrible news for a Western financial system that was weak before the onset of recession. If either of these issues turns nasty, there is very little left in the kitty to re-stimulate growth. Oil prices are a further bugbear, spiking this time around in response to Iran's sabre rattling. Slowing emerging markets have only perpetuated an unusually pervasive and long-standing sense of unease.

Slower performance

Current conditions are weighing more heavily on some. Staggering under the burden of its most indebted nations, Europe's response is immediate austerity. Whether this move ends up instilling confidence and restoring economic activity remains to be seen. Huge cutbacks in an imbalanced economy can easily drive things further downward. Measures have already taken effect, and the result is almost certainly a pan-European double-dip recession. Thus far, efforts to ring-fence the problem in the peripheral nations have minimized the global impact of the Eurozone debacle.

Western woes shifted sights to emerging markets as an antidote. That hope was short-lived. The mighty BRIC (Brazil, Russia, India, China) nations have each tasted slowdown in the past 6 months. In the absence of strong OECD growth, China has relied heavily on public stimulus, and recent policy tightening has dampened growth. Internal capacity problems are behind the slowdowns in India and Brazil, while Russia's close ties with Europe are weighing down its prospects.

A "new normal"?

Yet another wave of slowing has left the world jaded. Many have the impression that capitalism has failed, that the policy response has likewise failed, and that emerging market growth leaders have fizzled at just the wrong time. Discouraged, many have become resigned to a slow-growth scenario that is increasingly referred to as the "new normal." This can be a dangerous shift; after all, it was a similar psychological shift that perpetuated the Great Depression. Is sluggish growth truly the best we can expect over the near term?

Thankfully, not everyone is slowing. Japan is recovering from last year's devastation, and restored business volumes together with reconstruction will lift growth. But the surge won't last; true momentum will have to come from some other source. Is the US economy up to the task? In spite of popular sentiment, thus far, it seems so. First, consider that current US growth is broadly based: it is occurring (sustainably this time) in consumer spending, in the beleaguered housing market, in industrial production, and is being boosted by rapid export growth. Second, it is also occurring without new, aggressive stimulus measures. Third, growth is rising in spite of persistent pessimism. And finally, growth is occurring in spite of weakening in the rest of the world. Momentum this strong that rises against the odds suggests that the US economy – long shackled to levels of activity well below average – has gone a long way to exhausting its pre-recession excesses, and is rising back up to normal levels – "old normal" levels, in actual fact.

Will this momentum persist? Here is today's key question. The world economy is presently like a hot-air balloon, filled, fired up and ready to take off. But strong ropes are holding overall progress back. If the ropes prevail until the fuel is exhausted, then the flight will be short. But evidence suggests there is plenty of fuel: even with recent growth, the US economy is still operating well below normal, so there is still lots of immediate potential. This is backed up by growing evidence of pent-up demand in key sectors. As such, it will take a pretty nasty turn of events to engineer a US about-face.

World forecast numbers may seem humdrum, but the details are anything but. While the Eurozone sees outright contraction of 0.3 per cent, the US will enjoy 2.6% growth this year. As recovery sets in, the US economy is forecast to rise 3% next year, even as fiscal contraction takes more than 1% away from GDP growth – implying none too subtly that underlying growth is much more aggressive than the headline numbers suggest. Europe will benefit from this upsurge, but continued austerity will limit growth to 0.7%. At the same time, emerging markets will see growth slow to 5.1% this year before rising again to 5.7% collectively in 2013.

Many expect that recovery spells higher commodity prices. Economic downturn caused commodity inventories to surge, but surprisingly, prices did not swoon for long. Fiscal stimulus created a false recovery that revived fallen prices, and huge liquidity injections – money that found few normal channels into the regular economy – were parked in various investments. This has in all likelihood supported today's commodity prices, and if so, when normal flows of cash resume, prices will correct. As we move closer to 2013, we expect oil and base metal prices to ease, further aiding the recovery.

Canada's commodity producers may balk, but price levels will still be high enough to keep most projects viable. Lower prices will help other exporters by weakening the loonie. The economy as a whole will benefit, as it will rely more on international trade in the coming years. Canada's domestic economy – particularly consumption, housing and the government sector – has been unusually strong during the recession period. However, high consumer debt, an overbought housing market and fiscal withdrawal together suggest a weak near-term domestic outlook.

Thus far, things are looking good for trade. Export momentum is outstanding – merchandise exports are already up 5.3% over last year's levels, and any further growth this year will move the figure higher. US momentum suggests that there is indeed more growth ahead for exporters of services and raw, intermediate and finished Canadian goods. Exporters will also benefit from continued diversification of sales into fast-growing emerging markets. All told, Canadian exports are projected to rise 7.1% this year and 7.3% in 2013, following 10.8% growth in 2011. All of Canada's regions and the bulk of its broad industry sectors will participate in this good-news story.

The bottom line? It may not look great on the surface, but behind what many are calling "new normal" growth is a faster-paced global economy, full of opportunity. This underlying dynamic is enabling the world economy to weigh anchor on its next growth phase. Canada stands to benefit for a number of reasons. In fact, our greatest challenge may well be finding the means to accommodate the growth we see in the next cycle.

Table 1: Global GDP Forecast by Country (Growth)

Top Markets	Market Share of World Economy 2010	Export Outlook (% growth) 2011	2012(f)	2013(f)
NAFTA	22.1	2.0	2.6	3.0
United States	18.4	1.8	2.6	3.0
Canada	1.7	2.3	2.0	2.2
Mexico	2.0	4.1	3.3	3.4
Western Europe	17.7	1.6	-0.0	0.8
United Kingdom	2.8	0.9	0.2	0.5
EA	13.5	1.6	-0.3	0.7
Western Europe non-EMU & Scandinavia	1.5	2.6	2.1	2.6
Japan	5.5	-0.9	1.7	1.6
Australia & New Zealand	1.3	1.8	3.1	3.2
Emerging ASIA	22.6	7.9	7.1	7.9
China,P.R.: Mainland	12.8	9.2	7.7	8.7
India	5.1	7.4	7.3	7.9
ASEAN-5	3.1	4.8	5.3	5.7
Other East Asia & Pacific	0.5	6.4	6.2	6.6
Other South Asia	1.1	5.0	4.2	5.3
Asian NIEs	3.7	3.9	3.8	4.4
Emerging Europe & Central Asia	7.5	4.2	3.4	3.9
Russia	2.8	4.1	3.7	3.9
Latin America (incl. Mexico)	8.1	4.4	3.7	3.9
South America	5.6	4.7	3.8	4.1
Argentina	0.8	8.9	3.8	3.4
Brazil	2.8	2.7	3.1	4.1
Central America and the Caribbean	0.6	3.3	4.0	4.4
Middle East & North Africa	4.7	3.7	3.9	4.2
Sub-Saharan Africa	2.0	4.9	4.9	5.2
Industrialized Countries	**48.3**	**1.6**	**1.5**	**2.1**
Developing Countries	**51.7**	**6.2**	**5.1**	**5.7**
Total Global Economy	**100.0**	**3.8**	**3.4**	**3.9**

Source: EDC Economics. 2011 is actual data, 2012 and 2013 are forecast.

Asian Newly Industrialized Economies (NIEs) are Hong Kong, Singapore, South Korea and Taiwan. ASEAN-5 are Malaysia, Thailand, Indonesia, Philippines and Viet Nam.

Note - GDP history growth is based on IMF PPP weights.

Table 2: Canadian Merchandise Exports Forecast by Country

Top Markets	CAD bn 2010	% Share of Total Exports 2011	Export Outlook (% growth) 2011	2012(f)	2013(f)
Developed Markets					
United States	307.2	73.4	9.9	7.9	7.2
Western Europe	40.8	9.8	14.9	2.4	7.0
Japan, Oceania & Developed Asia	22.8	5.4	24.4	8.1	8.2
Emerging Markets					
Latin America & Caribbean	12.8	3.1	12.7	6.5	7.4
Emerging Europe and Central Asia	4.0	1.0	23.7	7.9	10.2
Africa & the Middle East	6.5	1.6	3.9	6.8	5.6
Emerging Asia	24.5	5.9	24.0	12.9	16.6
Total Goods Exports	**418.8**	**100.0**	**11.9**	**7.6**	**7.8**
Total Emerging Markets	**47.9**	**11.4**	**17.7**	**9.9**	**12.2**
Total to Industrialized Countries	**370.8**	**88.6**	**11.2**	**7.3**	**7.2**

Source: Statistics Canada, EDC Economics. 2011 is actual data, 2012 and 2013 are forecast.

1.1 Hard Landing in the BRICs? Not Likely

With the EU still putting out fires and anticipating anemic growth over the coming period and the US not far removed from 9% unemployment and losing its top credit rating, prospects in the BRIC countries have gained new importance. The numbers reveal a BRIC slowdown for both external and domestic reasons, with important global implications. In the current context, will the stars of the last decade continue to power growth, or are they fading?

China is slowing, thanks to a weakening residential property market and concerns over much slower import demand from Europe. These two factors are key elements pushing China's growth down from 9.2% last year to 7.7% in 2012. According to the IMF, a further worsening of the situation in the Eurozone in the form of a sovereign default or a collapse of a major financial institution would pull growth down to 4% this year for China, well below the recession-mark – and invite a global recession. However, China is fully expected to sidestep such an outcome: a new and untested Chinese leadership can afford, and would undoubtedly provide, stimulus to avoid such an event and the domestic unrest it would unleash.

Russia is highly sensitive to the cold spell descending upon Europe. With the Eurozone accounting for almost 50% of Russia's trade and EU members making up 75% of FDI into Russia, EDC Economics growth outlook for the country is down to 3.7% for this year. Although Vladimir Putin's re-election has reduced short-term political uncertainty, his continued ability to rein in domestic opposition through a large increase in social spending (totaling $160 billion) will be dependent upon the fluctuations of energy and commodity prices. Betting on the sustainability of $120 per barrel of oil, which Russia would need to balance its budget, begins to raise concerns over its fiscal and economic stability in the medium term. Again, public stimulus, which Russia can also afford in the short term, would save the day in the event of sharply slower growth.

Although the Brazilian economy accelerated slightly in the 4th quarter of 2011, GDP grew by only 2.7% year-to-year, a far cry from the explosive 7.5% rate in 2010. External shocks are less of an issue in Brazil – despite growing trade links with China, total trade accounts for only 20% of GDP. Brazil's difficulties are more on the home front. Severe policy tightening has been effective – perhaps too effective – in cooling the domestic economy. The government now finds itself trying to re-stimulate consumption, the main engine of growth, through significant fiscal and monetary policy moves. This is expected to forestall a more dramatic slowing, but won't be enough to keep Brazil from weak performance in the 3% range this year.

And what about the promising Indian economy? Like Brazil, slowing growth is more of an internal issue. Political gridlock in Delhi – one of the main impediments to growth and nothing new to India – is only increasing with the recent success of regional parties. Recent corruption scandals and failure to significantly improve the regulatory and business environment are impeding the attraction of foreign investment. Moreover, the European crisis has compromised access to long-term capital from European financial institutions, threatening the implementation of key investment projects. Even so, there is still enough domestic momentum to prevent a hard landing. But if India's progress on structural changes is interrupted more permanently, the darling of the BRICs may lose some luster.

While a sharp slowing of the BRICs would almost certainly mean global recession, the likelihood is low; gradual slowdown followed by public stimulus will avoid a messy outcome. Weaker performance will take some pressure off commodity prices, a help to the US and other developed markets. In the medium term, slowing is also an opportunity for the BRIC countries to retool their economic policies in order to build more stable and sustainable growth.

The temporary wobble in emerging markets demonstrates that, while their superior "catch-up" growth is boosting world growth, further development is needed before they will assume "engine" status. Fortunately, they have enough in their coffers to keep them going until the true engines get going.

1.2 Drag and Drop? – Fiscal Austerity and the World Economy

World governments are tightening their belts to get deficits under control, but this comes at a tough time for an already-vulnerable global economy. The IMF reports that the world itself will be heading into two more years of austerity with government trying to reign in expenditure. With governments around the world cutting back, what are the knock-on effects that will affect the global economy?

According to the IMF, the answer depends on whether one is looking at the short-term or long-term effects. In the long term, reducing debt raises output by lowering real interest rates and providing fiscal opportunities for cutting distortionary taxes – effectively increasing output. However, the same models suggest that cutbacks equal to 1% of GDP can have painful short-term effects, most notably, reducing output by up to 2%, and raising unemployment rates by 0.3% or more. Fortunately for the global economy, fiscal consolidation and the resulting fiscal drag will blanket the world in a highly uneven manner.

Government spending is forecast to decline by 0.9% of global GDP in 2012 and 2013, which could have significant growth dampening effects, but these cutbacks are not happening to the same degree across the board. Unsurprisingly, the most significant cuts are occurring in the advanced economies where deficits are projected at 5.2% of GDP this year and 4% in 2013. To address these deficits, advanced economies will cut expenditures by 1.3% and 1.2% of GDP in 2012 and 2013, respectively. Leading the way in this exercise of fiscal austerity is the European Union (EU) with expected cuts amounting to 1% of GDP in 2012 and 0.8% in 2013. As the EU faces a recession this year and tepid growth in 2013, these cuts will act as an added drag on its stagnating economies.

In stark contrast to the advanced economies, emerging markets will run deficits of only 1.7% of their GDP in 2012 and 1.4% in 2013. In these markets there will be modest fiscal consolidation, resulting in meager deficit reduction figures: 0.1% of GDP this year and 0.4% for the next. With much faster GDP growth, forecast to reach 5.4% in 2012 and 5.9% in 2013, this belt-tightening can be easily absorbed.

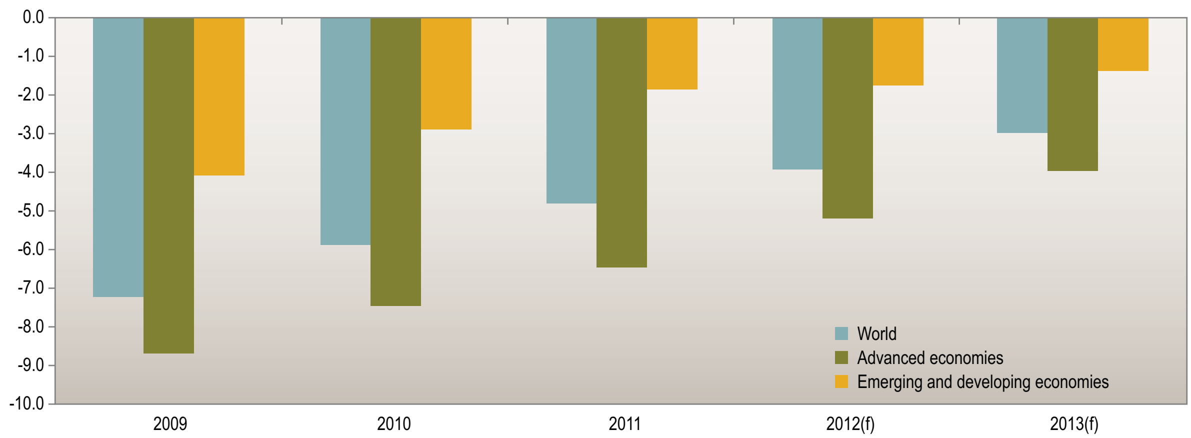
Emerging economies will not be evenly affected by fiscal consolidation. For example, in the Middle East and North Africa government expenditure will actually increase by 1.4% this year with expected budget surpluses during this period, driven by oil prices. On the other side of the globe, Central Asia and Russia are forecast to continue spending too, with deficits increasing collectively by 0.6% of GDP in 2012 and 0.2% in 2013.

This is not to suggest that all emerging economies are spending freely. Latin America and the Caribbean will see deficits fall from 2.5% of GDP this year to 2.1% in the next, and austerity measures will be modest, estimated at 0.0% of GDP in 2012 and 0.4% in 2013. In sub-Saharan Africa where cutbacks could reach 0.8% and 0.3% of GDP in 2012 and 2013, GDP growth is forecast to grow at a robust rate of 5.5% and 5.3% between now and 2013.

Finally, developing Asia is projected to run deficits amounting to 2.3% in 2012 and 1.8% in 2013 of their GDP, with government expenditures declining by 0.6% of GDP now and 0.5% in 2013. With GDP growth projected at 7.3% and 7.8% in 2012 and 2013, the impact appears negligible. In addition, because government balance sheets are in great shape with low debt levels, countries like China have room for fiscal stimulus in the event of slowdown.

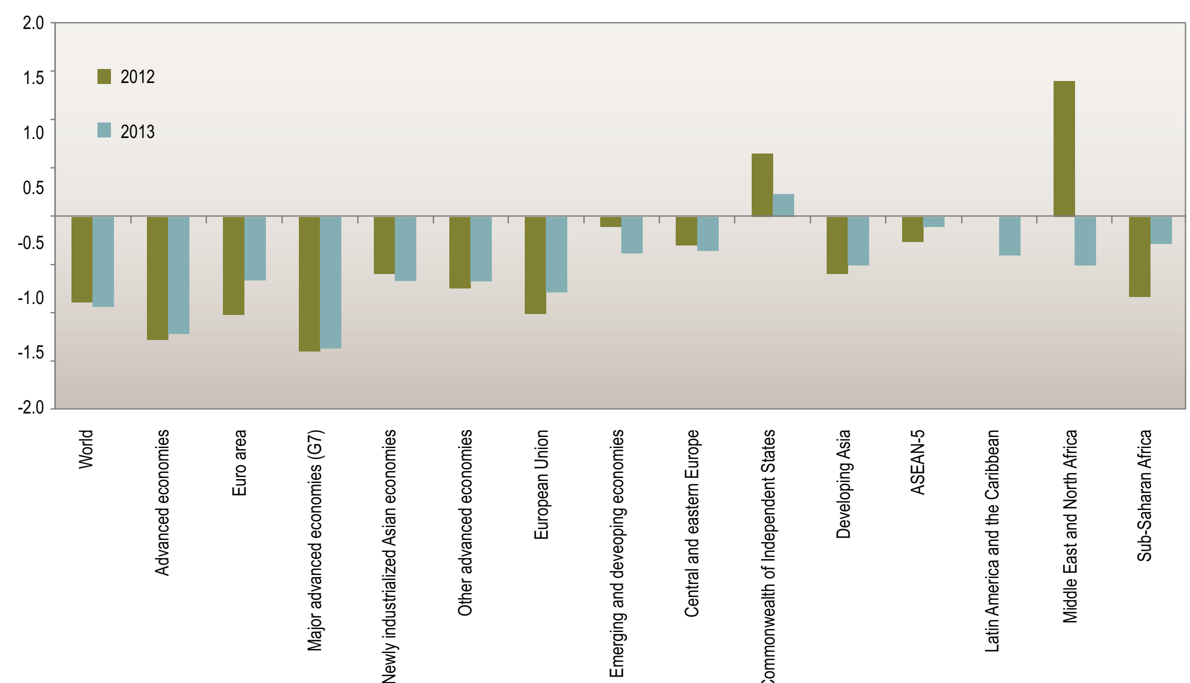
A few conclusions from this overview of government spending are evident: first, the onus will be more on the private sector to pick up the slack in advanced economies where fiscal drag will be felt most; second, relatively robust growth in most emerging markets should continue, keeping opportunities open for Canadian businesses; third, fiscal consolidation should serve most regions well in the medium to long term by addressing structural imbalances and creating an economic environment ready to foster growth. Overall, global austerity is already beginning to exact less from the global economy, easing back from 1.4% of the world's GDP in 2010 to only 0.9% this year – a trend that will hopefully continue. However, these cutbacks come during a delicate time for the world economy, especially after the aggressive public spending cuts last year. The global economy will still be swimming against this current of austerity, but hopefully it will weather the short-term pain for the long-term gain of returning to a state of balance.

Figure 1: Government Budget Balances (% of GDP)



Source: IMF/WEO

Figure 2: Changes in Government Budget Balances (% of GDP)



Source: IMF/WEO

1.3 Eurozone: Reprieve...For Now

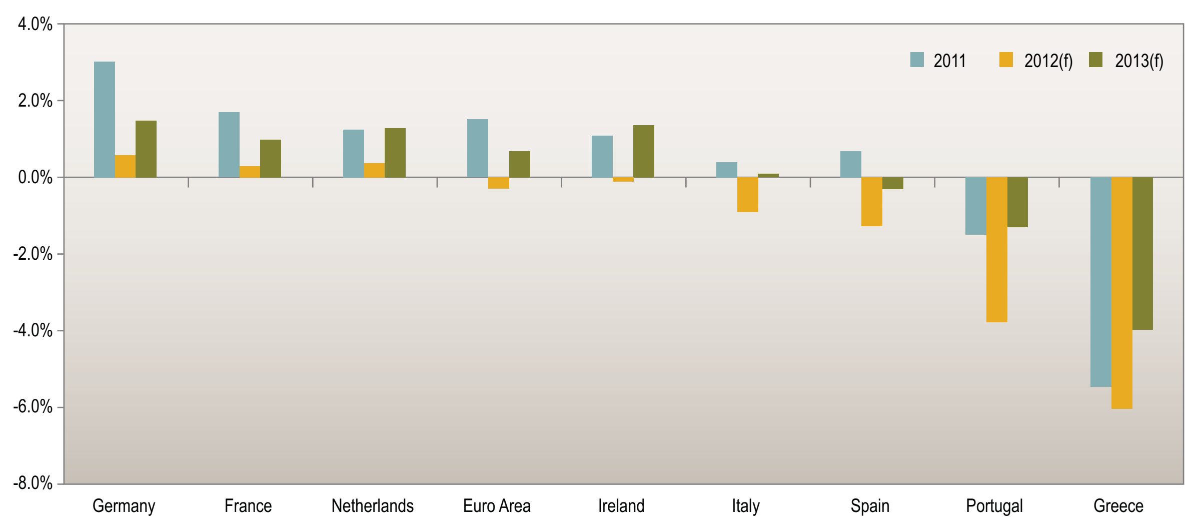
After a year of crisis and calamity in Europe, for now the storm seems to have passed. Equity markets are up with the FTSE Eurofirst 300 at its highest level since July, while sovereign bond yields are down sharply. Markets breathed a huge sigh of relief on February 21 when Eurozone Finance Ministers signed off on the second €130 billion rescue package for Greece. The European Central Bank has also taken bold steps lending over €1 trillion of cheap three-year loans to hundreds of banks since December.

As a result, the risk of a disorderly default has been taken off the table for now. European banks, even the risky ones, are now flush with cash, making it unlikely that a Lehman-style financial crisis will occur. Also, many banks have used the extra cash to buy sovereign debt, so government bond yields have fallen to more manageable levels. Spanish and Italian yields are now below 5%, down from peaks of 7.3% for Italy and 6.7% for Spain. So, has the problem been solved or just delayed?

Start with Greece, which just came through the largest debt restructuring in history. The 70% haircut on sovereign bonds held by the private sector will cut Greek debt by around €105 billion, although it is to be replaced by €130 billion of new lending under the generous terms of the new bailout package. Even the optimistic scenario has public debt reaching 120.5% of GDP by 2020. If tough austerity continues to hurt the Greek economy, debt could be back above 160% of GDP within a few years and possibly require another bailout. Markets are deeply skeptical. Restructuring saw the yield on Greek 10-year bonds drop from 40% to 19%, an improvement, but under the circumstances, a substantial risk premium that prices in a high likelihood of future default. Why so glum?

The European experience with austerity has taught us that if fiscal consolidation is challenging when economies are growing, it is extraordinarily difficult during a downturn. The more governments cut spending and raise taxes, the more they depress already anemic growth. Europe is headed for a tough recession in 2012 as growth turned negative in the 4th quarter of 2011, and is likely to stay flat or in the red for most of this year. Our forecast for Eurozone GDP is a 0.3% contraction in 2012 and 0.7% growth the following year. But this masks a considerable divergence between the core, which will be flat to slightly positive, and the very tough recessions on the periphery.

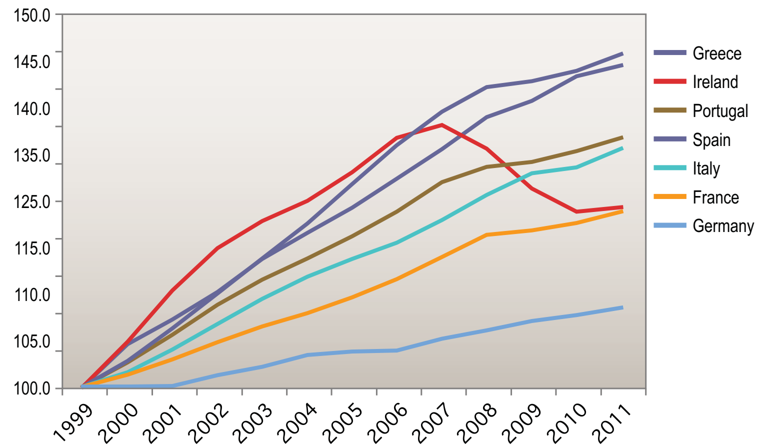
Figure 3: Real GDP Growth (%)



Source: IMF/WEO

In order to get back to growth, the countries of peripheral Europe must become competitive after years of lost ground. A decade of high inflation and credit-fuelled spending raised input and labour costs by 35-40% in peripheral Europe, while these costs rose just 6% in Germany. Locked in to the euro, for these countries devaluation is not an option. Are there alternatives? Internal deflation is one option: years of persistently high unemployment can gradually reduce wages across the board and get them back to competitive levels. The alternative is to pull off a productivity miracle. In the absence of miracles, it looks like Peripheral Europe is destined for a multi-year recession.

Figure 4: GDP Deflators (1999 = 100)



Source: Haver Analytics, IMF/WEO

Another important lesson from the 2008 crisis is that it's difficult to achieve growth with an impaired financial sector, as credit is the lifeblood of the economy. European banks have been pulled back from the brink by the ECB's generous $1 trillion of liquidity, but they remain under strain. They must contend with losses on sovereign debt, rising provisions for impaired loans in a tough economy, multiple downgrades from rating agencies, all while raising their tier-1 capital ratios to 9% by July 2013. This means either raising additional equity, not an easy task even for the strongest banks in such a stressed environment, or shrinking the asset side of the balance sheet by restraining new lending and/or selling off assets. As a result, Europe is suffering from a credit crunch as banks deleverage and the latest ECB Bank lending survey shows severe tightening of bank credit standards.

As such, Peripheral Europe must balance budgets and completely retool their economies to become more competitive in the midst of a severe recession and a credit crunch. Tough austerity hasn't worked so far and it's difficult to see why it would suddenly succeed in 2012. Greece remains shaky and Portugal will be unable to return to private credit markets next year, so will almost certainly need a second bailout.

While the ECB and the EU can deal with challenges in the short term, perhaps the greatest threat to the viability of the Eurozone is what might occur over the medium to longer term, particularly in the event of a deterioration in either of Italy or Spain. This is because risk premiums are part of the new normal for Europe and elevated debt servicing costs will threaten their solvency. Italy, with a debt to GDP ratio of 120% and a 5% cost of funds must maintain a primary surplus greater than 6% of GDP just to keep the debt stock stable. Were Italy to fall into a tough recession with debt spiraling upward to 130% or 140% of GDP, and with austerity unable to repair the balance sheet, then the Eurozone would be left in a difficult position. The Italian economy is simply too large to rescue with fiscal transfers, and the alternative is for the ECB to print a continuous stream of euros to finance unsustainable debt, a certain recipe for inflation that would be unthinkable for Germany.

European leaders and the ECB deserve credit for taking difficult steps that have been successful up to now in containing the sovereign debt problem within the peripheral nations, which is critical for global stability. Policy measures are most likely to remain focused on containment, as a spread of infection beyond the periphery would have a much more damaging impact on the broader world economy. More comprehensive solutions, such as closer fiscal integration and the issuance of European bonds remain years away. This means that the problems of the Eurozone are still far from being solved and the road ahead will be treacherous indeed.

1.4 Iran Jitters

Ongoing violence in Syria and the complex transitions underway in Egypt, Libya and Tunisia guarantee that the "Arab Spring" uprisings will continue to feature prominently in news headlines in 2012. However, this year and the next, the Arab Spring will have to share the stage with Iran, as the nuclear standoff between that country and a coalition of Western and like-minded states inches toward a crisis point.

At its core, the confrontation between the West and Iran is about the country's failure to address well-founded international concerns about the possible military dimensions of its nuclear program. Canada, the European Union, the US and other like-minded countries fear that Iran's enrichment of uranium to higher and higher levels will one day allow it to manufacture nuclear weapons.

Negotiations with Iran were first launched in 2002 when the UN's International Atomic Energy Agency (IAEA) discovered several hitherto undeclared Iranian nuclear sites involved in suspicious activities. Since then, the West has embarked on numerous diplomatic initiatives and initiated sanctions to try to compel Iran to halt its enrichment efforts and to abandon its suspected pursuit of nuclear weapons.

What is different in the 2012-2013 timeframe is that the patience of the West and Israel with Iran is growing thin. Following the release of an IAEA report that raised concerns about Iran's experimentation with technologies essential to developing nuclear weapons, the US, European Union, Canada and other like-minded countries adopted tough new economic sanctions against Iran in November 2011 that are unprecedented in their scope. For its part, Israel, which sees a nuclear-weapons-capable Iran as an existential threat, appears closer than ever to launching a military strike against Iran's nuclear facilities. In fact, Israel's Prime Minister stated in March that his country will decide whether to attack Iran within about a year if sanctions and diplomacy fail to persuade Iran to cease enriching uranium and to dismantle a secretly constructed underground uranium enrichment facility. Israel's rush to act reflects the belief of the Israeli leadership that Iran's defensive preparations will be too advanced next year for an Israeli air raid to significantly set back the Iranian nuclear program .

The US does not share the same sense of urgency, partly because the military means and arsenal of bunker busting bombs available to it are far greater than Israel's. A US-initiated attack on Iran is therefore less likely in the next two years.

Nevertheless, concern about the possibility of an Iran-Israel confrontation disrupting oil exports from the Persian Gulf (20% of oil traded worldwide) have served to elevate global concerns about an oil price spike this year or the next. What is the probability that Israel will act on its threats?

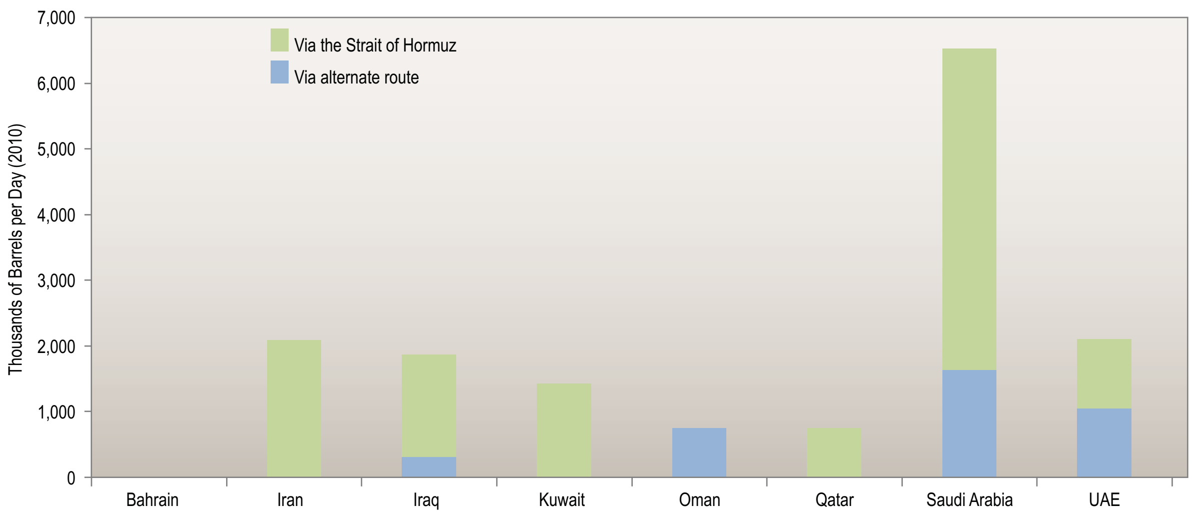
An Israeli decision to attack Iran in 2012 would not be taken lightly. Israel assesses that Iran would retaliate by pressuring its ally in Lebanon, Hizballah, to launch rockets against Israeli cities. Military action in 2012 is also opposed by the US government, whose military planners believe that Iran would not only retaliate against Israel but also against US troops in Afghanistan and perhaps in the Persian Gulf. Finally, an Israeli raid, even if successful, would have a limited payoff. Analysts estimate that an Israeli bombing attack would only set back the Iranian nuclear program by 2 to 4 years.

Together, these considerations are probably (but not certainly) compelling enough to dissuade Israel from military action in 2012 and to give the recently imposed economic sanctions as well as diplomatic efforts a last chance to work. However, without a diplomatic breakthrough or changes in Israeli assumptions about Iran's nuclear weapons capability, a military confrontation between Israel and Iran is increasingly likely in 2013.

An Israeli attack would probably take the form of pinpoint air strikes against key nuclear enrichment sites. In addition to retaliating against Israel, Iran could opt to temporarily slow transit times of tankers passing through the Strait of Hormuz so as to mobilize world opinion against Israel and any future strikes. The Strait is a narrow chokepoint through which most of the oil and LNG produced by the Arab Gulf monarchies and Iran must pass to reach world markets. Shipping slow-downs in the Strait would probably cause temporary price spikes in the neighbourhood of USD$125-150/bbl for West Texas Intermediate (WTI). However, export disruptions would likely not be maintained for more than a month or two, since the US Navy, acting to secure world oil supplies, would retaliate against Iran, whose tankers must also transit the Strait. More extreme measures, such as an extended closure of the Strait or military attacks against the US-allied Gulf kingdoms would be unlikely since they would deprive Iran of any international or regional support and would again trigger severe retaliation.

Looking ahead, fear of military conflict in the Persian Gulf is unlikely to subside in the next two years unless there is a breakthrough in negotiations between the West and Iran. The fear factor will add a risk premium to crude prices, yet the North American market will remain adequately supplied. We expect the price of WTI to average USD$100/bbl in 2012 and a somewhat lower USD$95/bbl in 2013.

Figure 5: Gulf Oil Exports and Potential Disruptions)



Source: IMF/WEO, IEA

2.0 Country Overviews

2.1 Brazil

Country Overview: President Dilma Rousseff took office January 1, 2011 and is backed by a 10-party coalition representing 70% of Congress. Political progress requires constant horse-trading that slows the passage of fundamental reforms such as tax policies, widely considered necessary to maintain fiscal sustainability and to accelerate growth to a level that will continue to move Brazil forward. EDC Economics expects supportive domestic economic activity over the next 2 years, driven by Brazil's main engine of growth, consumer spending, which currently benefits from historically low levels of unemployment, continued robust credit growth and poverty reduction initiatives. GDP grew 2.7% in 2011 and it is forecasted to expand by around 3% in 2012 and 4.1% in 2013.

Trade and Investment Environment: The government has temporarily reduced import taxes on 99 capital goods and 6 IT and telecommunications products to 2%, with the goal of increasing imports of goods that are not produced locally but that are required for the manufacture of domestic goods. Massive capital inflows and FX intervention have allowed foreign exchange reserves to grow to around USD 356 billion in February which supports a strong liquidity ratio. The government increased tax policies toward capital inflows aiming to reduce the pressures on the currency. As a result, foreign loans with an average life of up to 5 years are now subject to a new IOF tax of 6%. EDC Economics does not anticipate any financing problems over the forecast horizon as Brazil's external financing requirements are comfortably covered by net foreign direct investment (FDI) and portfolio inflows. Overall, Brazil's net external creditor position and strong external liquidity mitigate risk to external shocks.

Outlook: The outlook for the Brazilian economy is positive. Over the short term, downside risks include uncertainty about the magnitude of the global slowdown as well as concerns associated with inflation, reflecting in part domestic demand not being adequately met by domestic supply. The government also needs to prevent the formation of asset bubbles in the economy while banking regulators deal with rising household indebtedness and debt servicing costs relative to income. In the medium term, some structural reforms need to be undertaken to ensure sustainable growth and improve fiscal accounts. The FIFA World Cup and the Olympics will offer excellent opportunities for exporters over the next 5 to 7 years. State intervention in the economy is likely to increase with Brazil's policy of supporting "national champions".

Country Stats

President
Dilma Rousseff (PT)

Next Elections
- Presidential: October 2014
- Legislative: October 2014

Nominal GDP PPP (2011e)
USD 2.5 trillion

Total Trade/GDP:
across provinces:
19%

Exchange Regime:
Free float

Merchandise Imports from Canada (2011):
CAD 2.7 billion

Main Imports:
M&E, chemicals

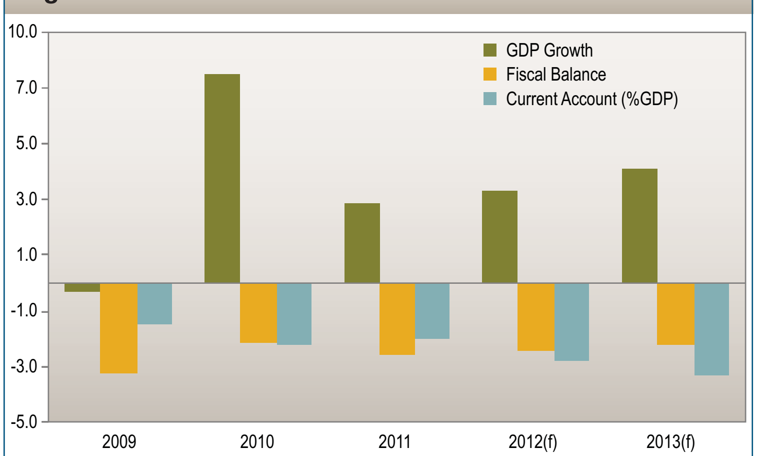
Source: IMF, EIU & Statistics Canada

Risks to the Outlook:

Further progress on microeconomic reforms

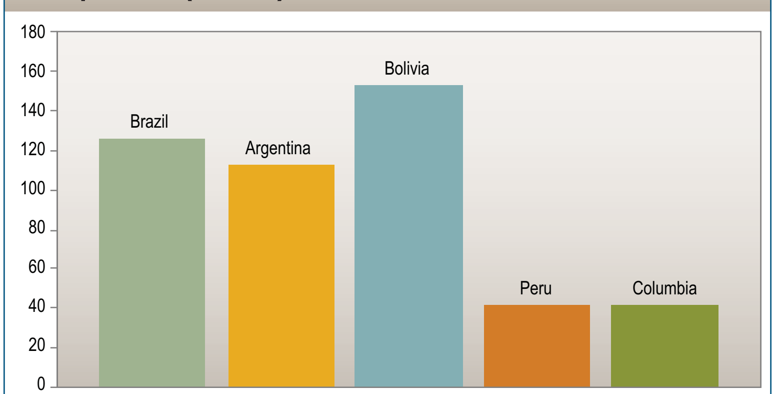
A sharp reversal in capital flows or asset bubble formation

Figure 6: Brazil – Economic Indicators



Source: Haver Analytics, EIA

Figure 7: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: Haver Analytics, EIA

2.2 Canada

Country Overview: Canada's GDP growth softened from 3.2% in 2010 to 2.5% in 2011 as consumption slowed and exports continued to surge ahead, helped by soaring commodity prices and strong demand from emerging markets. High levels of consumer debt and an overheating housing market remain near-term concerns. A boost in exports from rising US demand in 2012 will help to offset soft consumption, but Canadian exporters will continue to struggle with the effects of a very strong currency, which is not only lowering the Canadian dollar value of foreign sales but also increasing the cost of Canadian inputs (such as labour) relative to US and other competitors. Nevertheless, the strong export performance in 2011 demonstrates that Canadian companies have been able to adapt and compete despite the soaring loonie.

Trade and Investment Environment: Canada's overall export performance for 2011 has been very impressive with exports rising by 12.9%. The biggest contributors were the energy, metals and agriculture sectors; however, strong commodity prices are only part of the story. On the volume side, the top performing sector was machinery and equipment where shipments rose by 6% for the year. In fact, Canada's exports of industrial and agricultural machinery rose by 11.8%, the largest annual increase on record. Automotive also saw a solid 5.8% increase in volumes for 2011, as US consumer demand gathered momentum.

Canada's exports to emerging markets soared by a whopping 19.4% for the year. The US recovery has been impressive with exports rising 9.9% last year, and this is still by far the most important destination accounting for 75% of exports. However, the emerging market numbers are simply stunning: exports to Turkey topped 51.8%, Russia rose 30.7%, China charged ahead by 27.0%, and India increased by 27.4%. Because these countries will sustain higher economic growth rates than developed markets, it's likely that Canada's exports can continue to expand at impressive rates. This trade diversification will position them well for growth and success in the years ahead.

Outlook: EDC is forecasting GDP growth of 2.0% this year and 2.2% in 2013 as exports continue to recover, while at the same time Canadian consumption begins to slow. EDC Economics is forecasting that the dollar will average USD 1.01 this year, then fall to USD 0.97 in 2013, with significant volatility expected through the forecast horizon.

Country Stats

Prime Minister
Stephen Harper

Next Elections
• Parliamentary: October 2015

Nominal GDP (2011)
USD 1.8 trillion

Total Trade/GDP:
52%

Exchange Regime:
Managed float

Main Imports:
Crude petroleum
Motor vehicles
Motor vehicle parts

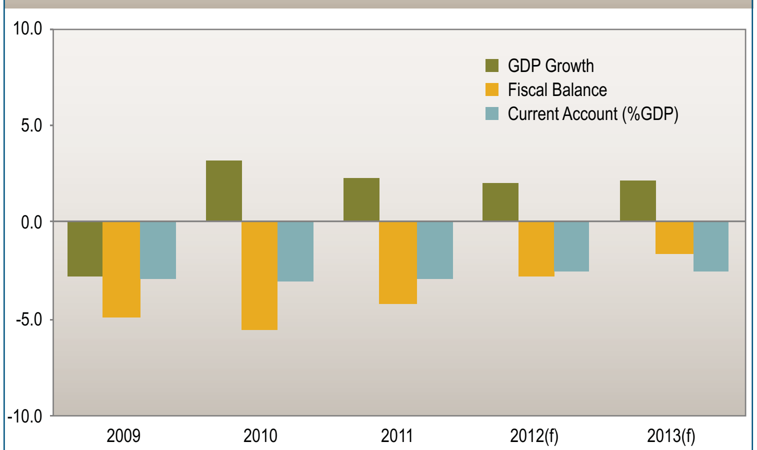
Source: IMF, EIU & Statistics Canada

Risks to the Outlook:

A stronger-than-expected US recovery would boost exports

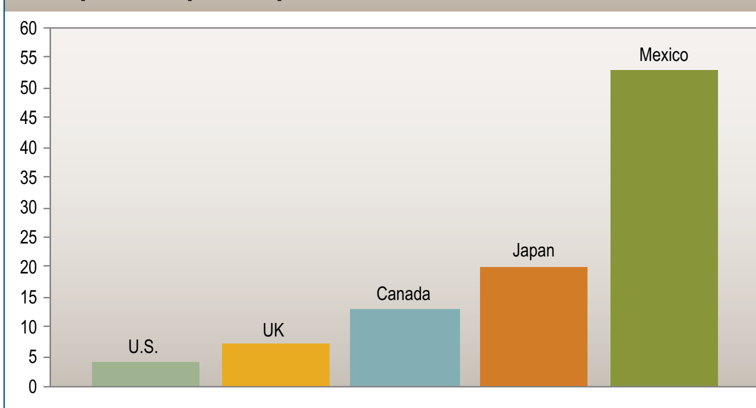
Overheating housing market could fall back to earth

Figure 8: Canada – Economic Indicators



Source: Haver Analytics, EIU, EDC Economics

Figure 9: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: Haver, EIU

2.3 China

Country Overview: China is in the midst of transforming its economy as the growth model of exports-investment-urbanization shows signs of fatigue. The 12th Five-Year Plan (FYP) hopes to re-shape the economy into one driven primarily by consumption and innovation. The FYP also places greater emphasis on infrastructure investment in the under-developed central and western provinces as well as greater investments in R&D and high-tech sectors in coastal provinces. While the focus on continued growth remains, the plan also lays out measures to expand the social safety net. A once-in-a-decade leadership change is taking place in 2012 and has already generated its share of drama, with the dismissal of Bo Xilai, a populist provincial head of the Communist Party of China with leadership ambitions; behind closed doors, the CCP political machine is not the well-oiled machine it tries to portray itself to be. The next generation of leaders will have critical decisions to make on land reforms, the hukou system, and greater participation in the political process as well as positioning China's growing importance on the international stage, all the while managing the economic transformation.

Trade and Investment Environment: While China continues to be a top destination for global FDI and investments, its complicated commercial environment poses several challenges for foreign investors. Once ratified, the Canada-China Foreign Investment Promotion and Protection Agreement (FIPA) will provide greater certainty and protection for Canadian investors going forward. At the same time, China is becoming a major source of capital for the rest of the world, with FDI outflow from China expected to reach USD 90 billion in 2012, some of which has already made its way to Canada's energy sector. On the other hand, Chinese demand for commodities will deteriorate in 2012 due to the real estate sector-led economic slowdown. The internationalization of the renminbi as a global currency will continue apace in 2012, but full convertibility remains a few years away. Various countries have signed agreements to increase the use of renminbi in trade settlement.

Outlook: The country will have a turbulent year in 2012, faced with the bursting of a residential property bubble and slowing demand from its key export market (Europe). Yet the government retains a number of policy and administrative options to stimulate the economy and manage social order, as authorities will want to avoid social instability and unrest prior to the upcoming once-in-a-decade leadership transition change.

General Secretary of CCP and President
Hu Jintao

Next Elections
Leadership elections - late 2012/2013

Nominal GDP (2011)
USD 7 trillion

Total Trade/GDP:
52%

Exchange Regime:
Crawling Peg

Merchandise Imports from Canada (2010):
CAD 12.9 billion

Main Imports:
Industrial M&E

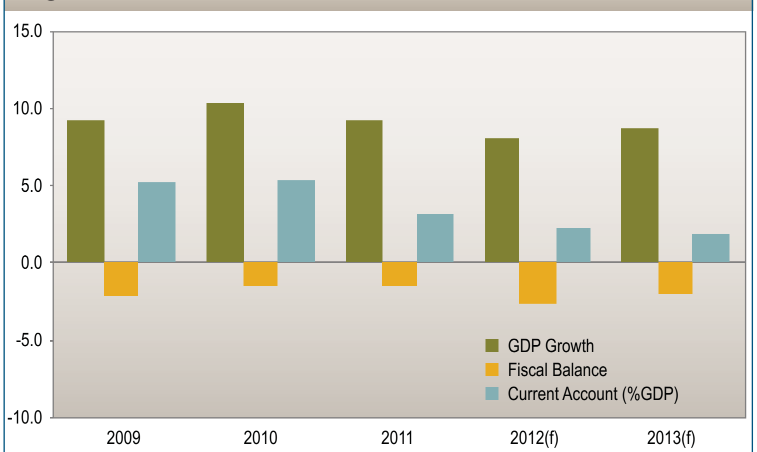
Source: IMF, EIU & Statistics Canada

Risks to the Outlook:

↑ Fiscal stimulus package; rapid monetary and credit loosening

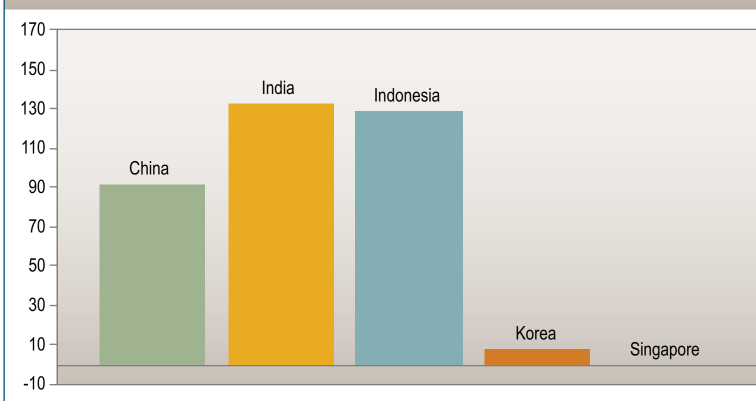
↓ Real estate bubble burst; debt crisis in Europe

Figure 10: China – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

Figure 11: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: Haver, EIU

2.4 Euro Area

Country Overview: The Eurozone is the world's largest economy accounting for almost 20% of global GDP, but it has struggled with a sovereign debt crisis that will test the very future of the currency union as well as the international financial system. The Eurozone received a much-needed reprieve from the crisis as Greece successfully restructured its debt and received a second €130-billion support package. At the same time, the European Central Bank provided a massive liquidity injection of over €1 trillion of 3-year loans to hundreds of banks at a 1% interest rate. This has made a disorderly default unlikely for now, while providing struggling banks with much-needed cash to stave off a credit crisis. However, there are many challenges ahead in the coming years, including restoring competitiveness in the periphery countries that have seen costs soar, tough austerity involving both spending cuts and tax hikes, and avoiding a credit crunch as banks deleverage and raise credit standards.

Trade and Investment Environment: Despite its challenges, the Eurozone holds tremendous opportunities for Canadian exporters because of its wealthy, advanced economies. In 2011, Canadian companies exported CAD 39.8 billion of merchandise to the European Union, everything from precious metals and aerospace to soybeans and pharmaceuticals. However, investment is an even larger part of the relationship with Europe as Canadian Direct Investment amounts to CAD 157 billion. The European Union has recently completed the ninth round of negotiations toward a Comprehensive Economic and Trade Agreement that covers intellectual property and government procurement in addition to goods and services. Both parties are aiming to conclude an agreement by the end of 2012.

Outlook: EDC Economics is forecasting that the Eurozone will experience a recession in 2012 as growth turned negative in the 4th quarter of 2011 and is likely to remain weak for most of this year. The forecast calls for a -0.3% contraction in 2012 and 0.7% growth the following year. But this masks a considerable divergence between the core where Germany and the Netherlands will chalk up moderate expansion in the 0.6% range, then onto France where GDP will remain essentially flat, while Peripheral Europe, particularly Greece and Portugal, will experience tough recessions. Over the next 2 years, exporters should expect continued volatility as financial markets will remain vulnerable. European leaders will have to consider new governance models that entail tighter fiscal integration in order to restore confidence and stabilize the euro.

Nominal GDP (2011)
USD 13.4 trillion

Share of Global Economy:
19%

Total Trade/GDP:
71%

Exchange Regime:
Independent float

Merchandise Imports from Canada (2010):
CAD 43.3 billion

Main Imports:
Chemicals
Telecom equipment
Automotive products

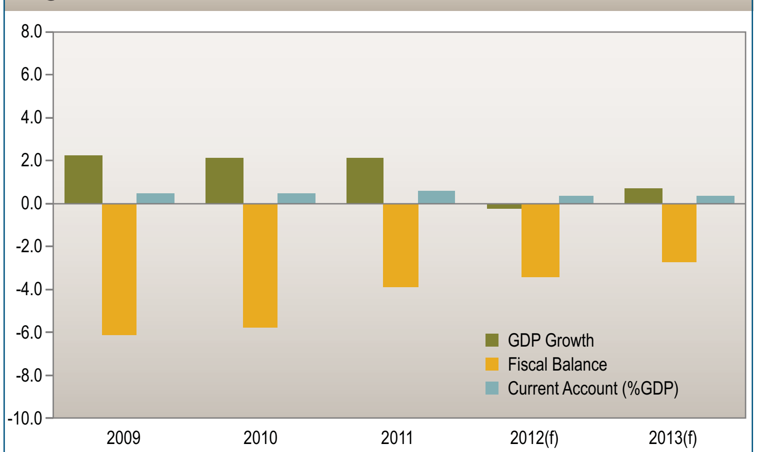
Source: IMF, EIU & Statistics Canada

Risks to the Outlook:

↑ Strong business confidence in core Europe

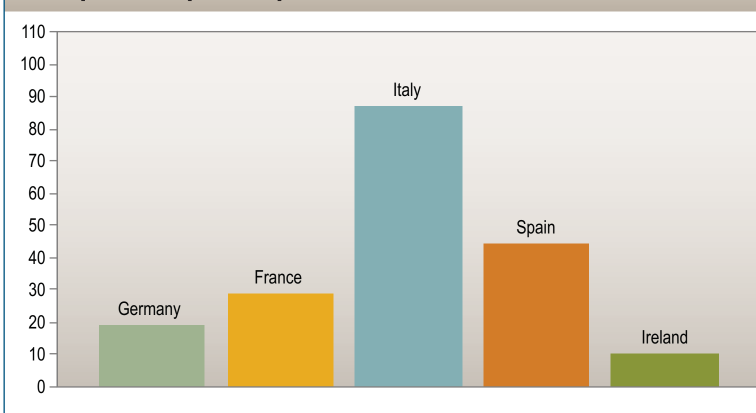
↓ Political risks as voters reject austerity and reform

Figure 12: Euro Area – Economic Indicators



Source: Haver Analytics, EIU, EDC Economics

Figure 13: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: Haver, EIU

2.5 India

Country Overview: Corruption scandals have drained government resources and nearly paralyzed the legislative process in recent months. The Indian National Congress fared poorly at the polls in 2011 and early 2012, so the INC-led coalition could find it difficult to pass major reforms in the near term. At the same time, the government has shown little interest in fiscal consolidation, despite weaker revenue growth from the slowing economy and the need to recapitalize state-owned banks.

Trade and Investment Environment: Trade continues to rapidly grow in importance but overall remains a small share of the economy. Negotiations for a free trade agreement with Canada, which are due to be completed by the end of 2013, will give bilateral trade a welcome boost. Canadian non-commodity exports will particularly benefit once implemented.

Despite a relatively open foreign investment policy that allows 100% foreign ownership in most sectors, India has failed to reach its full potential as an FDI destination. Government attempts to increase FDI inflows have been slowed by uncertain regulations, critical infrastructure deficits and corruption. Land acquisition is a particularly sensitive issue. The government's plan to spend USD 1 trillion on infrastructure represents one of the best opportunities for Canadian companies, although we expect the full amount will not be invested in the 5-year time frame as planned.

Corruption in India is widespread, especially in the public sector; the judiciary is independent and considered competent and fair, especially at the higher levels. Despite recent judicial sector reforms, often cases can still take years or decades to be resolved. Enforcing rulings can also prove difficult.

Outlook: With inflation abating, monetary authorities have started loosening credit conditions, although we don't expect the economy to show material signs of improvements until the second half of 2012. The Congress-led UPA governing coalition is likely to govern through to the end of its mandate in 2014. Criticism over the government's inability to pass important reforms will sharpen if it is not seen to be actively managing obstacles to India's continued rapid development. The government will, however, refrain from pursuing unpopular reforms throughout much of 2012 in order to restore a more positive public image with the 2014 elections in mind.

Country Stats

Prime Minister
Manmohan Singh, Indian National Congress

Next Elections
April/May 2014

Nominal GDP (2011)
USD 1,843.4 billion

Total Trade/GDP (2011):
45.0%

Exchange Regime:
Managed float

Merchandise Imports from Canada (2011):
CAD 2.0 billion

Main Imports:
Mineral fuels (37%)
Industrial M&E (16%)
Precious metals & gems (11%)

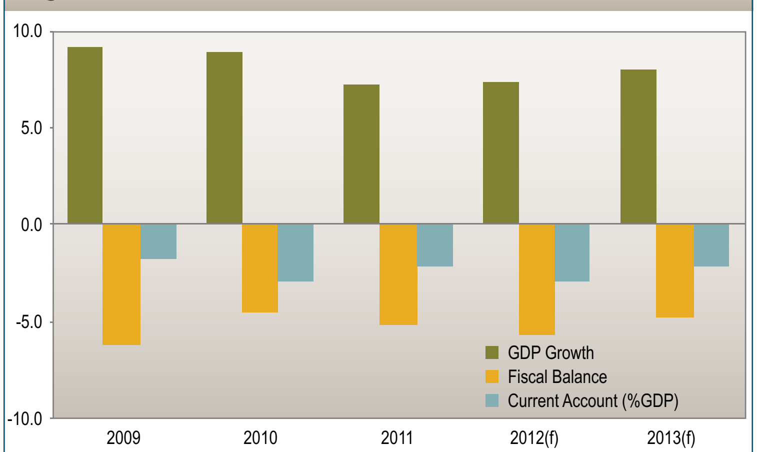
Source: IMF, EIU & Statistics Canada

Risks to the Outlook:

↑ Greater-than-expected FDI; food inflation falls

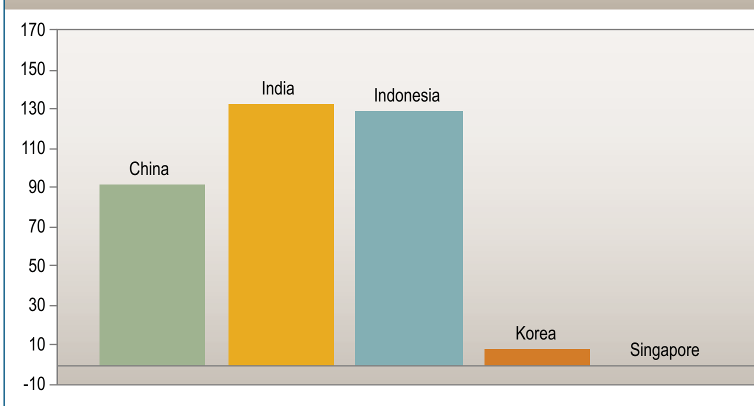
↓ External financing vulnerable; lack of fiscal consolidation

Figure 16: India – Economic Indicators



Source: Haver Analytics, EIU, EDC Economics

Figure 17: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: Haver Analytics, EIU

2.6 Japan

Country Overview: Japan's economy will rebound in 2012, primarily driven by reconstruction activity following last year's devastating earthquake and tsunami. Japanese exporters face a difficult environment, caught between the slowdown in China, Europe sovereign debt problems and the strong yen. The government has had little success in tackling its massive debt, which now exceeds 200% of GDP, by far the largest in the industrial world. The world's third largest economy is also facing an aging and declining population, while it continues to struggle with deflation. On the political front, the Prime Minister's popularity has fallen steadily since taking office last year, to a point where another change of leadership cannot be ruled out ahead of the 2013 elections.

Trade and Investment Environment: Outside the agricultural sector, Japan is one of the world's most open economies, with trade and investment across a broad spectrum of industries, particularly high-tech goods, machinery and equipment and automobiles. Last year's nuclear disaster has pushed the country to become more aggressive in securing off-shore energy supplies, including ventures in Canada's shale gas sector. Despite this openness, transparent legal system and tax regime and low level of corruption, Japan has failed to attract significant amounts of FDI to its territory in the last decade. Faced with a challenging domestic economic environment and the strong yen, Japanese companies are increasingly looking to expand abroad. On the trade front, Japan and Canada have recently released a joint study recommending that the two countries begin negotiations of a comprehensive and high-level economic partnership agreement. Both Canada and Japan have expressed interest in joining the Trans-Pacific Partnership, which would also facilitate bilateral trade in goods and services between the two countries. Bilateral trade is largely complementary, with Canada exporting raw materials and importing transportation vehicles, parts and machinery and equipment.

Outlook: Japan will need to tackle several challenges over the next few years to safeguard its long-term prosperity. It is too soon to see if the recent introduction of an explicit inflation target by the central bank will solve the issue of persistent deflation, but the move is a step in the right direction. Other reforms may be more difficult to pass and implement, especially if parliament were to become more fragmented, which would give the political leadership a weak hand in negotiating with the strong bureaucracy.

Country Stats

President
Yoshihiko Noda

Next Elections
• Parliamentary:
August 30, 2013

Nominal GDP (2011)
USD 5.9 billion

Total Trade/GDP:
31%

Exchange Regime:
Independent float

Merchandise Imports from Canada (2011):
CAD 8,069 million

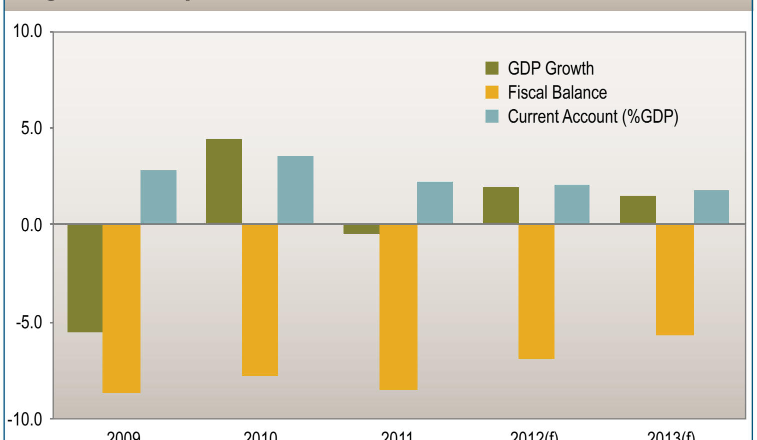
Main Imports:
Industrial supplies
Services
Capital equipment

Source: IMF, EIU & Statistics Canada

Risks to the Outlook:
European and global economy improves weaker yen

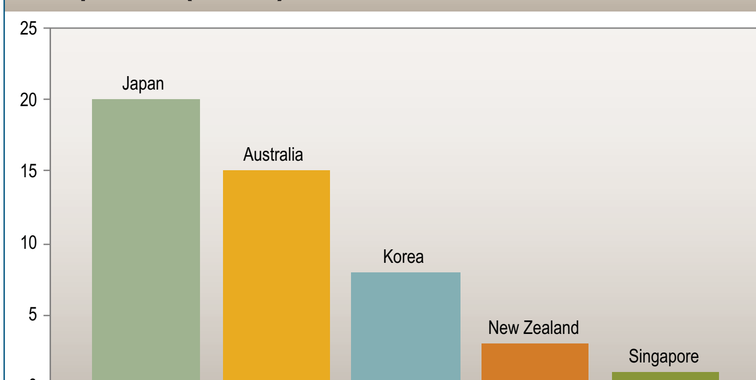
Sovereign downgrade; sharp Chinese slowdown

Figure 14: Japan – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

Figure 15: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: Haver Analytics, EIU

2.7 Mexico

Country Overview: Mexico is a large open economy that has become an important part of the global supply chain, thanks to its large network of free trade agreements. It ranks 53rd overall in terms of ease of doing business (World Bank) and is assigned an investment grade rating by Moody's, Fitch and S&P. Economic activity is tied greatly to the US economy via trade, remittances and investment. Long-term growth potential is relatively modest at 3.5% per year.

Trade and Investment Environment: Although Mexico's business environment remains politicized and without a strong legal framework, it is changing due to the more global focus of the government and the private sector. Measures have been taken to make doing business in Mexico easier, and access to international arbitration is guaranteed by law and NAFTA. The country offers a welcoming environment for businesses in almost every sector except in the energy sector. Corruption and criminal violence are also factors that negatively impact the business environment.

Outlook: With PRI-PAN cooperation increasingly improbable, a legislative stalemate is likely until the presidential and legislative elections in July 2012. The strong lead the PRI secured in the 2011 state elections suggests that the party is likely to be elected in the 2012 presidential elections. However, the unpredictable nature of Mexican politics and the noted popularity of the PAN candidate, former education minister Josefina Vasquez Mota, and the PRD candidate Andres Manuel Lopez Obrador could still make for a close race. Elections slated for July are not expected to shake international investors' confidence in the market as leading candidates for both the PRI and the PAN are aligned with most of the current administration's policies. This could change if the PRD were to make significant headway between now and elections. Strong links to the US economy support a positive outlook for Mexico this year and next. Direct exposures, via trade links, to the crisis in Europe are limited and local subsidiaries of Spanish banks operate with a high level of independence from their parent organizations. Most indicators of external vulnerability show that Mexico is in good shape. The current account deficit is low and easily financed by FDI, external debt service ratios are modest, foreign exchange reserves are near record levels and the country has secured a credit line with the IMF. Contagion from Europe is nonetheless a concern as it is for many markets, mainly via the risk of a global flight to quality.

Country Stats

President
Felipe Caldern

Next Elections
Presidential: July 2012
Legislative: July 2012

Nominal GDP (2011)
USD 1.2 trillion

Total Trade/GDP (2011):
62%

Exchange Regime:
Free float

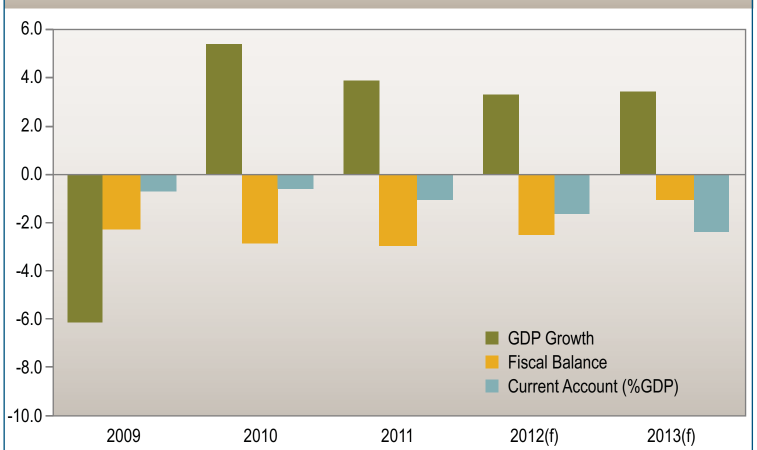
Merchandise Imports from Canada (2011):
CAD 4.7 billion

Main Imports:
Electronic and ICT
M&E
Aerospace

Source: IMF, EIU & Statistics Canada

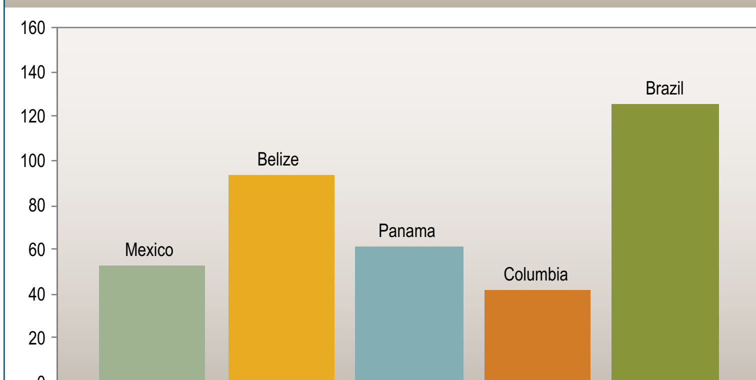
Risks to the Outlook:
- ↑ US economic activity proves stronger than expected
- ↓ Escalation of the debt crisis in Europe

Figure 18: Mexico – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

Figure 19: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: Haver Analytics, EIU

2.8 Russian Federation

Country Overview: Strong domestic demand has been facilitated by the steadily recovering domestic banking sector that has seen reduced pressure from loan-loss provisioning. The accompanying credit growth has been robust, with loan growth (y/y) rates in the double digits throughout 2011, rising to 27% by year-end. The ruling United Russia party suffered significant losses in the parliamentary elections in December 2011. Even with the drop in popular support (down to 49% from 70% support in the 2008 elections), there were allegations of widespread vote rigging which led to large demonstrations. While the protest movement failed to prevent Vladimir Putin's re-election for president, his administration will have to be mindful of key constituencies opposing him, such as the urban middle class. This could result in greater efforts to tackle corruption and perhaps give greater voice to economic liberals within government.

Trade and Investment Environment: Trade and investment matters are strategic areas of both domestic and foreign policy. The government has at times intervened in sectors deemed to be strategic to Russia's foreign and security or commercial policies, such as oil and gas, minerals, defence and aerospace. While fighting graft has become a key policy focus of the former Medvedev government with notable effort on tackling low-level corruption, the government has acknowledged that more progress is needed. According to the World Bank's "Ease of Doing Business 2012," Russia ranked 120 out of 183 economies. WTO accession later this year will bring reduced tariff rates on specific products such as agriculture equipment and machinery, which will drop immediately from 15% to 5%. The ancillary benefits of ameliorating operating environment and protection of intellectual property (IP) rights will be much more gradual and should lead to a marked improvement in the predictability, transparency and dispute resolution options available to exporters.

Outlook: The cyclical recovery is being supported by growing consumer demand and improving conditions in the financial sector; however, the deteriorating conditions in the Eurozone and uncertainty over future government policies represent downside risks. The medium-term outlook is clouded by unfavourable demographics and productivity constraints. In addition to a challenging investment environment, Russia's history of volatile growth and inflation are key impediments to foreign investment and stable growth. Despite medium-term structural challenges, public debt is just 12% of GDP and will remain manageable for the foreseeable future.

Country Stats

President
Dmitry Medvedev and Vladimir Putin as of May 7th

Next Elections
• Duma: December 2017
• Presidential: 2018

Nominal GDP (2011)
USD 1.8 trillion

Total Trade/GDP (2011):
54%

Exchange Regime:
Managed float

Merchandise Imports from Canada (2011):
CAD 1,497 million

Main Imports:
M&E, food & agricultural products, chemicals, metals

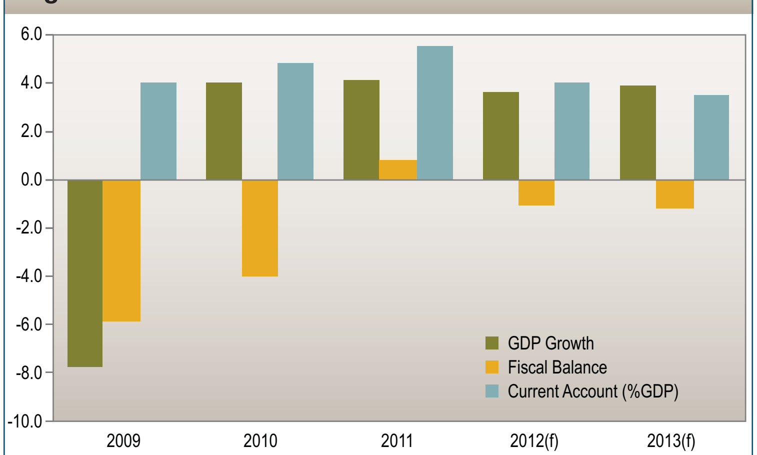
Source: IMF, EIU & Statistics Canada

Risks to the Outlook:

↑ Continuing strong commodity prices; progress on privatization

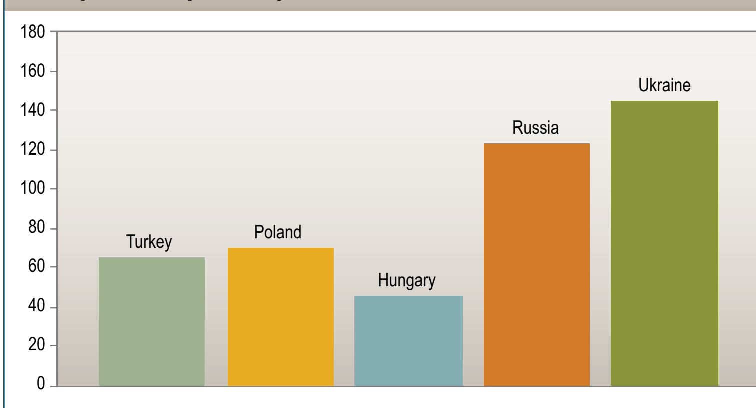
↓ Escalating debt crisis in Europe; delayed structural reforms

Figure 20: Russia – Economic Indicators



Source: Haver Analytics, EIU, EDC Economics

Figure 21: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: Haver Analytics, EIU

2.9 South Africa

Country Overview: South Africa is noteworthy both on its own merits and as a gateway into the region. Its ports systems are essential to many of its land-locked neighbours.

The ruling African National Congress's position is well established for the foreseeable future, although President Zuma's tenure is less certain. Presidential and legislative elections are due in 2014. The continent's largest economy is well diversified and has a sizable private sector. The financial sector is highly developed and well supervised. The Central Bank has independence and the legal system is effective and transparent.

Economic growth is getting back on track. Although last year's recovery will be interrupted by the EU's false start and weaker growth in China, expect a 2.8% outcome this year followed by a 3.5% gain in 2013. Household debt loads have eased and consumer activity is recovering. Private sector credit growth remains soft with a 25% unemployment rate. The CB will likely nudge rates higher by year-end to temper inflation pressures.

Trade and Investment Environment: On an annual basis, total trade (goods) amounts to half of GDP, while inbound FDI and capital inflows account for about 5% of GDP – matching the current account shortfall. Given the importance of trade and investment, the government is expected to ensure that the business-friendly environment remains intact, though there are certain uncertainties. Since 1994 the government has been gradually implementing its "Black Economic Empowerment" (BEE) strategy. The intent is to redress the inequities created under Apartheid. Nationalistic strains within the ANC have also hampered the investment environment. Mining nationalization continues to make headlines despite repeated government claims to the contrary. Organized labour action is another consideration. Workers often strike to channel their grievances to employers and exert pressure on the government to adopt pro-worker policies.

Outlook: South Africa's fortunes are tied to the health of the US, EU and increasingly the Asian economies. However, there remain stumbling blocks including a significant infrastructure deficit and lingering socio-economic imbalances. In spite of occasional factionalism, the ruling ANC is well positioned to retain power. South Africa continues to have extensive economic and political relations with the regional and international community, which will likely provide a degree of continuity.

Country Stats

President
Jacob Zuma

Next Elections
• Legislative: April 2014
• Presidential: April 2014

Nominal GDP PPP (2011e)
USD 406 billion

Total Trade/GDP:
48%

Exchange Regime:
Free float

Merchandise Imports from Canada (2011):
CAD 632 million

Main Imports:
Manufactured goods

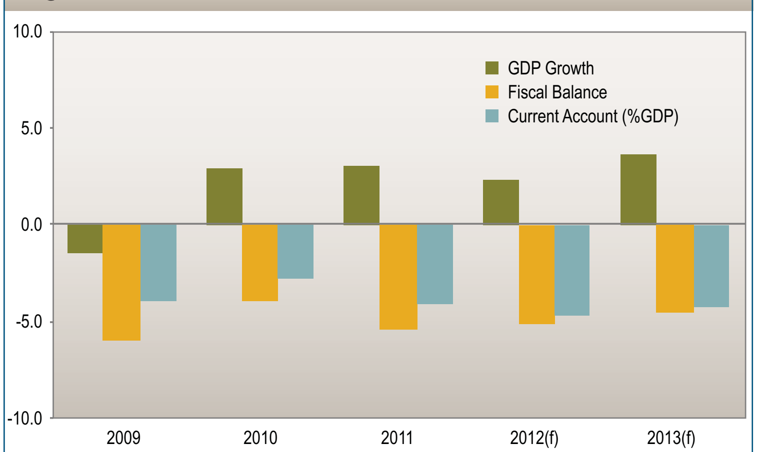
Source: IMF, EIU & Statistics Canada

Risks to the Outlook:

Low external and government debt burden; solid banking sector

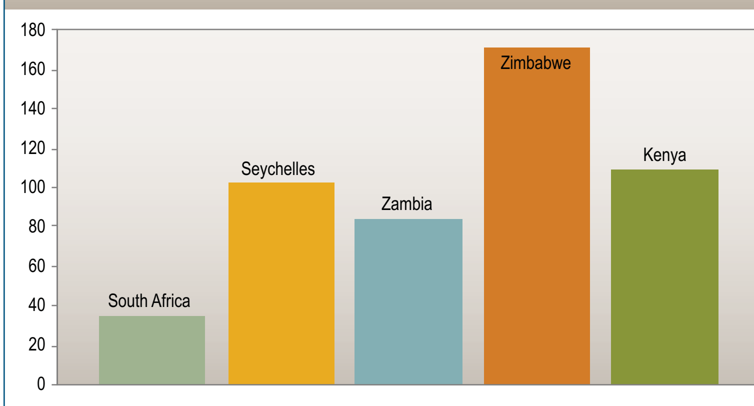
Weak currency; large current account deficit; shift in investor sentiment

Figure 22: South Africa – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

Figure 23: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: Haver Analytics, EIU

2.10 United States

Country Overview: The US accounts for 20% of global GDP and is ranked 4th best country in the world in terms of ease of doing business (World Bank).

Trade and Investment Environment: Exports of Canadian goods to the US are forecasted to grow by just over 7% this year and next. This year would mark the first time in 12 years that exports to the US have grown faster than to the rest of the world. The US accounts for over 70% of our merchandise exports, 40% of the stock of Canadian direct investment abroad, and 50% of all sales made by Canadian foreign affiliates. In terms of ease of trading across borders, enforcing contracts and resolving insolvency, the US ranks 20th, 7th and 15th, respectively (World Bank).

Outlook: Although consumer confidence remains well below normal levels, it is trending upwards. Supporting this is continued deleveraging by US households which will cap upside risk to consumer spending, but leave household balance sheets in good shape 2 years from now. Home builder confidence is slowly improving supported by falling inventory of existing homes for sale and record housing affordability. We expect good growth in housing but overall activity will remain well below normal levels. Commercial construction also appears to be finding a floor, with banks showing easing lending standards and increased demand for related loans. The outlook for manufacturing is positive supported by broader improvements in the domestic economy, and moderated, but still strong demand, for exports. Most importantly there is also emerging evidence that small businesses, traditionally the main source of job growth in a recovery, are feeling more comfortable about the state of the US economy. The corporate sector as a whole is recording solid profits and their balance sheets are flush with cash.

There remain formidable downside risks to the outlook, most notably the unresolved sovereign debt crisis in Europe. Add to this the price of oil, which could spike on political risks in the Middle East (particularly Iran), pushing up the price of gasoline, acting as a tax for consumers and businesses alike. Finally, the outcome of this year's elections is of particular importance given implications on potential changes in government spending and taxation. Current legislation is estimated to cut roughly 2.5 percentage points from 2013 GDP growth (our forecast includes roughly half of this figure).

Country Stats

President
Barak Obama

Next Elections
Presidential:
November 2012

Nominal GDP (2011)
USD 15.1 trillion

Total Trade / GDP:
25%

Exchange Regime:
Independent float

Merchandise Imports from Canada (2011):
CAD 330 billion

Main Imports:
Consumer goods e.g. autos, services, capital goods, petroleum, industrial supplies

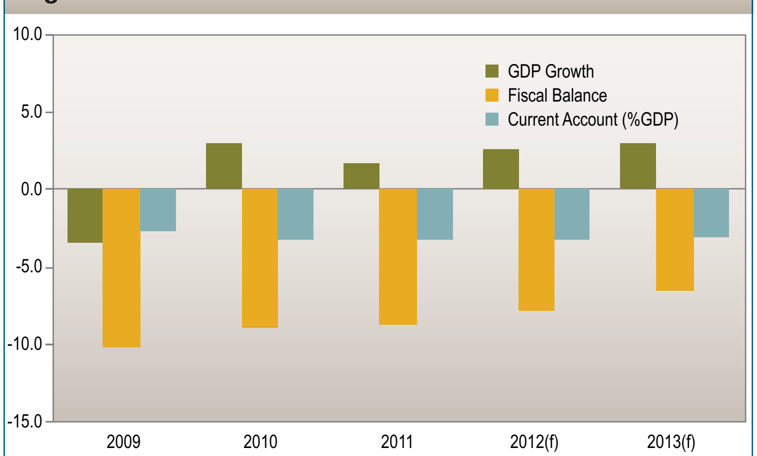
Source: IMF, EIU & Statistics Canada

Risks to the Outlook:

Further fiscal stimulus

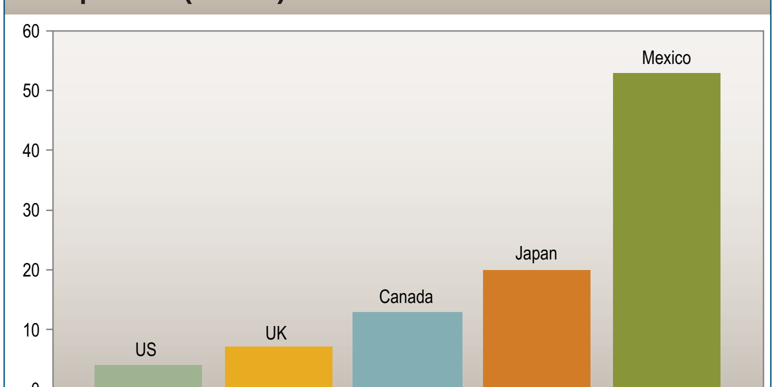
Escalating debt crisis in Europe; higher gasoline prices

Figure 24: US – Economic Indicators



Source: Haver Analytics, EIU, EDC Economics

Figure 25: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: Haver Analytics, EIU

3.0 Sector Overview

3.0 Sector Overview

After a solid performance in 2011, Canadian exports of goods will continue their upward climb this year and next, albeit at a slower pace than in the past 2 years growing 8% in both years. The loonie is expected to remain around parity with the USD, presenting ongoing cost and competitive challenges for Canadian exporters; however, some reprieve is expected next year as falling commodity prices drag the loonie down; EDC Economics' outlook is for the Canadian dollar to average USD 1.01 this year and USD 0.97 in 2013.

High commodity prices continue to be a key driver for several export sectors, and while a softening in most prices has already begun (and is expected to continue) they will remain well above historical norms. For the energy and metals and mining sectors, the effects of high prices will translate into higher volume shipments beyond the forecast horizon even as the nominal effect wanes. The pricing environment will also fuel the ongoing ramp-up in global exploration and development activity and lead to sustained foreign demand for Canadian-made machinery and equipment in 2012, accelerating further in 2013.

Weakness emanating from Europe over the next 2 years will be partially offset by an accelerating US economic recovery. EDC Economics' view that US housing starts will rise to 800,000 units this year, along with the significant deleveraging of US households and the improvement in the labour market, shapes the export outlook for several key Canadian industries, including consumer goods, forestry products, and chemicals and plastics. Underperforming will be the aerospace industry, which continues to feel the lagged impacts of the last crisis, and advanced technology with a much-reduced export capacity. And finally, the elimination of adverse supply-side conditions will lead to a rebound in automotive production this year (after facing significant parts shortages due to catastrophic weather in Asia last year) and also in the volume of agri-food (which battled difficult weather conditions in 2011), before moderating next year.

Table 3: Export Forecast Overview

	CAD bn	% Share of Total Exports	Export Outlook (% growth)		
	2011	2011	2011	2012(f)	2013(f)
Agri-Food	44.2	8.9	12.8	8.3	5.1
Energy	114.9	23.1	21.3	6.6	4.4
Forestry	27.0	5.4	1.5	3.7	17.3
Chemical and Plastics	35.2	7.1	8.4	7.4	6.4
Fertilizers	8.7	1.7	29.2	10.0	7.7
Metals, Ores and Other Industrial Products	72.4	14.6	15.9	6.7	9.8
Aircraft and Parts	10.2	2.0	-0.2	7.2	9.5
Advanced Technology	13.9	2.8	-2.0	2.0	2.4
Industrial Machinery and Equip.	26.5	5.3	11.0	7.8	12.0
Motor Vehicles and Parts	54.4	11.0	3.6	14.3	9.9
Consumer Goods	8.1	1.6	6.7	4.3	6.0
Special Transactions*	3.4	0.7	-8.0	6.0	9.8
Total Goods Sector	**418.8**	**84.3**	**11.9**	**7.6**	**7.8**
Total Service Sector	**77.8**	**15.7**	**5.0**	**4.0**	**4.2**
Total Exports	**496.6**	**100.0**	**10.8**	**7.1**	**7.3**
Total Volumes		**100.0**	**3.3**	**6.4**	**4.6**
Total Goods Nominal (excl. Energy)	**303.9**	**61.2**	**8.7**	**8.0**	**9.1**
Total Goods Nominal (excl. Autos and Energy)	**249.5**	**50.2**	**9.9**	**6.7**	**8.9**

Source: Statistics Canada. EDC Economics. 2011 is actual data while 2012 and 2013 are forecast. Special transactions* mainly low-valued transactions, value of repairs to equipment and goods returned to country of origin.

3.1 Energy

After rising 21% in 2011, energy sales will rise 7% in 2012 and another 4% in 2013. Support this year comes mostly from gains in crude oil pricing and shipments, while stronger natural gas sales will do much of the heavy lifting in 2013. Coal sales growth will be soft this year due to pricing, but will post stronger results next year.

Elevated global oil prices will spell solid opportunities for Canada's oil shipments going forward. Canadian supply is expected to rise through the forecast, supported largely by increased output from Albertan oil sands. Perhaps more interesting, however, is the reversal of the decline in conventional oil production. Traditionally a headwind for the industry, related production actually rose last year. With Canadian oil rigs operation near all-time highs, we expect this new-found tailwind to provide a modest lift to export growth through the forecast. With global supply interruptions threatening in Iran, South Sudan, Syria and Yemen, the price of WTI crude will hover around USD100/bbl this year before slipping to $95/bbl in 2013. Accordingly, sales of petroleum and related products will grow 12% in 2012, followed by a 3% gain next year.

The story for natural gas is much more volatile with exports expected to fall 26% this year, followed by a 19% gain in 2013. The forecast is mainly driven by our price outlook, which sees Henry Hub gas selling for USD3/mmbtu in 2012 and $3.50/mmbtu in 2013. The US remains awash in shale gas and although drilling activity continues to fall, inventories stand near record highs. With prices holding well below levels seen only a few years ago, there is little incentive to increase production of conventional gas here in Canada. Lower all-in production costs for shale gas points to a more optimistic view for production in British Columbia. Over the longer term, shale gas will look even more attractive, as investment in natural gas liquefaction capabilities permits the export of gas to lucrative Asian markets.

Sector Stats

International Exports
2011: CAD 114.9 bn

Number of Exporters
2010: 49
2000: 42

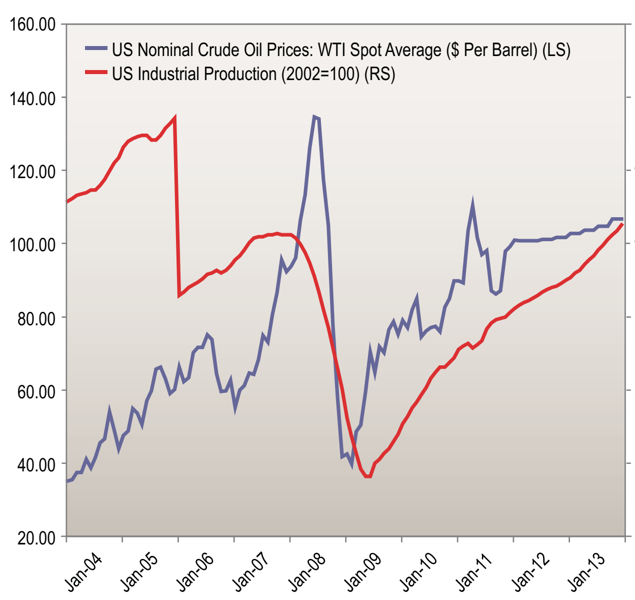
Share of Total Canadian Exports
2011: 23.2%

Sector Distribution across provinces:
NFLD: 6.9%
NB: 9.3%
NS: 0.4%
PEI: 0.0%
QC: 2.9%
ON: 2.7%
MN: 1.0%
SK: 9.1%
AB: 58.8%
BC: 8.8%

Canadian Direct Investment Abroad (2010):
CAD 87.3 bn

Source: Statistics Canada

Figure 26: Industrial Production and Crude Forecast



Source: Haver Analytics, EIA

Table 4: Energy Export Outlook by Region

Top Markets	CAD bn 2011	% Share of Exports 2011	Export Outlook (% growth) 2011	2012(f)	2013(f)
Developed Markets					
United States	104.0	90.5	19	7	4
Western Europe	3.2	2.8	85	2	1
Japan, Oceania and Developed Asia	4.6	4.0	41	2	3
Emerging Markets					
Latin America and Caribbean	1.4	1.3	81	5	2
Emerging Europe and Central Asia	0.3	0.3	67	1	4
Africa and the Middle East	0.2	0.1	180	9	3
Emerging Asia	1.6	1.4	6	9	9
Total Developed Markets	**111.3**	**96.9**	**21**	**7**	**4**
Total Emerging Markets	**3.5**	**3.1**	**38**	**7**	**6**
Total World	**114.9**	**100.0**	**21**	**7**	**4**

Source: Statistics Canada, EDC Economics. 2011 is actual data, while 2012 and 2013 are forecast.

3.2 Ores and Metals

Exports from the metals complex were again star performers on Canada's trade stage in 2011 as insatiable demand from emerging markets and record high prices for metals pushed the sector's foreign sales to an all-time high. EDC Economics expects some softening in prices over the forecast horizon as market dynamics for most base metals return to equilibrium, Chinese growth moderates and the attraction of metals as a financial asset diminishes. However, even a weaker pricing environment will see high prices fuelling investment in Greenfield and Brownfield projects. Gold prices will likely prove stickier as central banks in developed markets maintain unprecedented monetary conditions to foster growth and stave off tightening credit conditions. Producers will face increased competition for scarce resources, keeping industry costs elevated.

Canadian iron ore shipments will get another hefty boost in 2012 as production at Quebec's Bloom Lake mine ramps up; current Phase 2 expansion will double output over the next few years. Foreign sales of nickel will also add to growth this year, thanks to Vale's return to normal at Sudbury and Voisey's Bay after last year's supply interruptions. Foreign sales of precious metals will keep soaring in 2012. Canadian gold mine output is set to jump over 20% with incremental gains contributed mostly by Osisko's Malartic mine. Despite the trend of declining ore grades and higher costs, record gold prices will continue to drive investment.

The outlook for US vehicle production and construction is quite bright over the next 2 years, providing a life to manufactured metals. Aluminum exports, however, will underperform due to relatively flat smelting capacity; significant additions to the Kitimat smelter in British Columbia will provide some momentum in 2015 and beyond. For Canadian steel makers, structural conditions on both the supply and demand sides will remain challenging over the next several years. The sector's export performance will reflect both current excess plant capacity and sliding demand as steel usage in construction falls.

Sector Stats

International Exports
2011: CAD 72.4 bn

Number of Exporters
2010: 2,761
1999: 3,081

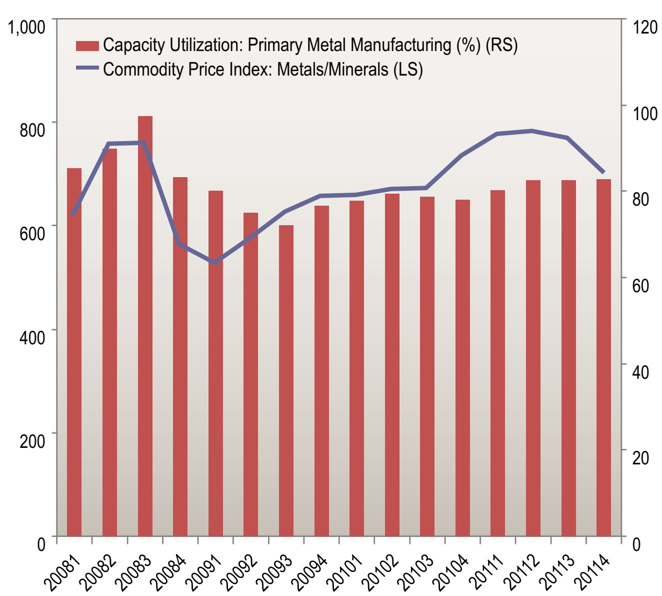
Share of Total Canadian Exports
2011: 14.6%

Sector Distribution across provinces:
NFLD: 4.2%
NB: 0.8%
NS: 0.4%
PEI: 0.0%
QC: 25.4%
ON: 52.4%
MN: 2.8%
SK: 0.5%
AB: 3.5%
BC: 7.3%

Canadian Direct Investment Abroad (2010):
CAD 58 bn

Source: Statistics Canada

Figure 27: Metals & Mining: Pricing and Activity



Source: Haver Analytics

Table 5: Canadian Metal Ores and Metal Products Export Outlook by Region

Top Markets	CAD bn 2011	% Share of Exports 2011	Export Outlook (% growth) 2011	2012(f)	2013(f)
Developed Markets					
United States	33.0	49.7	7	9	8
Western Europe	20.6	31.1	25	3	9
Japan, Oceania and Developed Asia	4.7	7.1	50	7	12
Emerging Markets					
Latin America and Caribbean	1.4	2.1	20	6	11
Emerging Europe and Central Asia	0.7	1.1	157	4	11
Africa and the Middle East	0.8	1.2	25	5	9
Emerging Asia	5.2	7.8	36	18	21
Total Developed Markets	**58.3**	**87.8**	**16**	**7**	**9**
Total Emerging Markets	**8.1**	**12.2**	**37**	**13**	**17**
Total World	**66.4**	**100.0**	**18**	**8**	**10**

Source: Statistics Canada, EDC Economics. 2011 is actual data while 2012 and 2013 are forecast.

3.3 Agri-Food

Canada's agricultural exports will perform well in 2012 as harvests soar after difficult weather conditions in 2011. EDC Economics is forecasting an 8% gain this year and a further 5% increase in 2013. After a 2-year struggle with water-saturated soils in the Prairies, seeded area will rise impressively this year and yields will return to trend. Overall, the next 2 years should be very positive for the Canadian agri-food industry because of skyrocketing demand from emerging markets as well as rising use of grains for biofuel.

In 2011, commodity prices surged to record highs but retreated in the second half as global production began to catch up to mounting demand. Moreover, many of the fearful stories of droughts and disasters that rattled global commodity markets either failed to materialize or were not as bad as expected. While prices are off their peak, and expected to soften somewhat in 2012, they remain very strong by historical standards. In fact, even if the world has a record grain harvest, without severe weather, it would only enable production to catch up with demand. Canadian farmers will continue to shift production toward the most lucrative crops, such as canola and durum wheat, which will be key contributors to export growth. Wheat will also see increased production, as seeded area is forecast to rise 11%.

Canada's exports of processed food and beverages will show modest growth, but pricing will increase only moderately as confidence remains shaky and strained consumers will remain price-sensitive at the grocery store. As labour markets improve and household deleveraging tapers off, consumers will spend more on higher-margin specialty items. Canada's fish exports will rise 3% this year and next. Crab prices will continue to receive a boost from weak Alaskan supplies, but salmon prices are dropping fast as Chilean supplies return to the market. Weak prices will persist, but the net effect will be a slight improvement overall.

Sector Stats

International Exports
2011: CAD 44.2 bn

Number of Exporters
2010: 2,925
1999: 3,484

Share of Total Canadian Exports
2011: 8.9%

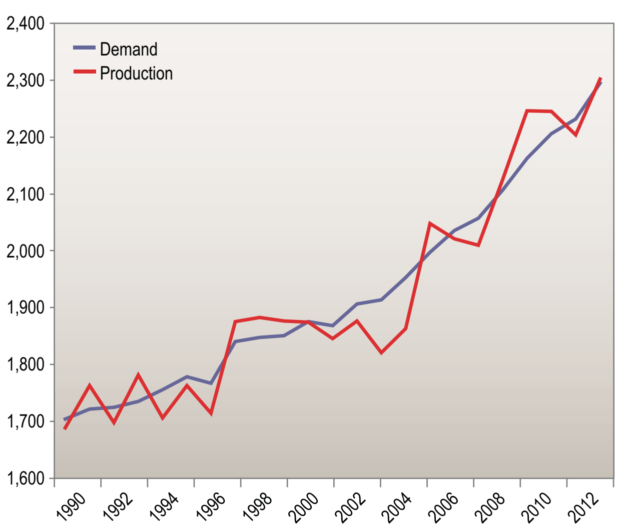
Sector Distribution across provinces:
NFLD: 2.0%
NB: 3.1%
NS: 2.6%
PEI: 1.1%
QC: 12.7%
ON: 22.1%
MN: 9.7%
SK: 23.0%
AB: 17.9%
BC: 5.9%

Canadian Direct Investment Abroad (2010)*:
CAD 11.7 bn

*Food, beverage and tobacco - does not include NAICS 11

Source: Statistics Canada

Figure 28: Global Grain Market Returning to Balance (millions of metric tonnes)



Source: USDA World Agriculture Supply and Demand Estimates

Table 6: Agri-Food Export Outlook by Region

Top Markets	CAD bn 2011	% Share of Exports 2011	Export Outlook (% growth) 2011	2012(f)	2013(f)
Developed Markets					
United States	21.9	49.6	10.6	6	6
Western Europe	3.2	7.2	22.0	9	1
Japan, Oceania and Developed Asia	6.2	14.0	21.0	10	5
Emerging Markets					
Latin America and Caribbean	3.5	7.9	10.9	6	3
Emerging Europe and Central Asia	1.0	2.2	21.0	8	8
Africa and the Middle East	2.4	5.5	7.7	7	0
Emerging Asia	6.0	13.5	10.5	15	8
Total Developed Markets	**31.3**	**70.9**	**13.6**	**7**	**5**
Total Emerging Markets	**12.9**	**29.1**	**10.8**	**11**	**5**
Total World	**44.2**	**100.0**	**12.8**	**8**	**5**

Source: Statistics Canada, EDC Economics. 2011 is actual data while 2012 and 2013 are forecast.

3.4 Fertilizers

Global demand for fertilizer and Canadian fertilizer exports is expected to remain firm through most of 2012 following last year's near record numbers. Both short- and long-term macro-fundamentals, including high food, fuel and feed prices, and tight global grain inventories, are positive factors. In addition, recent weather-related destruction of crops in several parts of the world will incent farmers to increase their use of fertilizer to boost yields.

The softening of demand in Q4/11 has continued into 2012, but we expect demand for all three crop nutrients – nitrogen, phosphorus and potassium – to rebound. Overall, global demand for fertilizer is expected to increase by nearly 3% in 2012 according to the UN Food and Agricultural Organization (FAO). As in 2011, demand for Canadian exports into South East Asia, South Asia, China and Latin America will remain robust. Worries about the Eurozone could weaken developed market demand, but are unlikely to lead to a fertilizer market collapse as in 2009 given emerging market demand and food security requirements.

Investments to increase global production continue as the fertilizer industry is close to capacity. Despite the new production coming online this year, especially for urea, nitrogen and phosphates, the impact on pricing will be muted as the supply and demand balance for crop nutrients remains tight. Furthermore, supply side levers available to potash producers should keep prices firm through much of 2012. Overall, despite some softening in the market, prices are likely to remain high and above long-term historical values. At the same time, elevated prices may be altering purchasing behaviour. Farmers and distributors, especially in North America, seem to be delaying nutrient purchases and adopting a "just-in time" approach to take advantage of anticipated price drops, when this behaviour in fact can bunch orders and precipitate price spikes. The evolution of Chinese authorities' restrictions on fertilizer exports and Indian fertilizer contract negotiations and bookings can also add to pricing volatility.

Sector Stats

International Exports
2011: CAD 8.7 bn

Number of Exporters
N/A

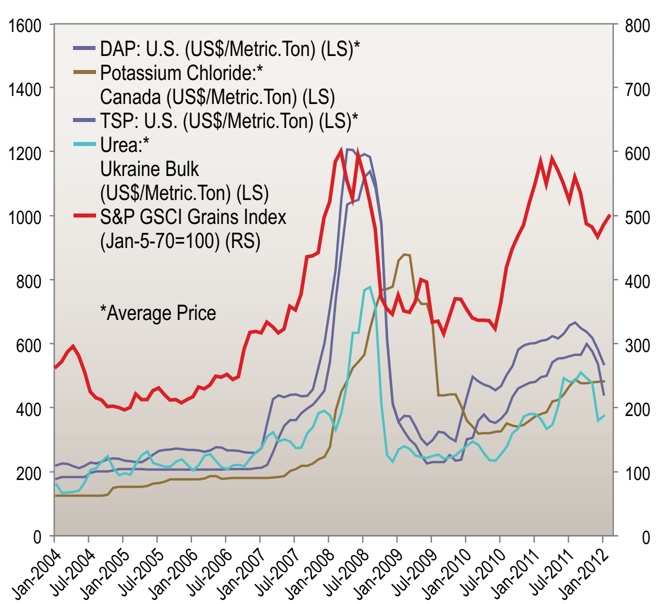
Share of Total Canadian Exports
2011: 1.7%

Sector Distribution across provinces:
NFLD: 0%
NB: 3.5%
NS: 0%
PEI: 0%
QC: 0.2%
ON: 4.2%
MN: 2.3%
SK: 75.6%
AB: 13.6%
BC: 0.6%

Canadian Direct Investment Abroad (2010):
N/A

Source: Statistics Canada

Figure 29: Fertilizers (USD/metric tonne)



Source: Haver Analytics

Table 7: Fertilizers Export Outlook by Region

Top Markets	CAD bn 2011	% Share of Exports 2011	Export Outlook (% growth) 2011	2012(f)	2013(f)
Developed Markets					
United States	5.5	63.6	20.4	7	6
Western Europe	0.0	0.2	-48.4	5	5
Japan, Oceania and Developed Asia	0.2	2.3	72.5	10	7
Emerging Markets					
Latin America and Caribbean	0.9	10.6	44.7	14	7
Emerging Europe and Central Asia	0.0	0.0	-42.0	6	7
Africa and the Middle East	0.0	0.1	88.6	7	5
Emerging Asia	2.0	23.2	50.2	17	13
Total Developed Markets	**5.7**	**66.1**	**21.2**	**7**	**6**
Total Emerging Markets	**2.9**	**33.9**	**48.5**	**16**	**11**
Total World	**8.7**	**100.0**	**29.2**	**10**	**8**

Source: Statistics Canada, EDC Economics. 2011 is actual data while 2012 and 2013 are forecast.

3.5 Forestry Products

The US housing market is about to take off, with home inventories at their lowest since 2006, housing affordability at record highs, and the US economy adding an average 320,000 jobs per month since July. There is also growing anecdotal evidence that banks are working with distressed homeowners rather than foreclosing. With substantial capacity curtailed during the downturn, both temporary and permanent, we expect short-term price pressures in 2012 and 2013 while supply chains are rebuilt. West Coast producers will also benefit from greater reconstruction activity in Japan after last year's tsunami. Exports to China will moderate in 2012 as the Chinese housing market is facing excesses of its own, which need to be cleared. Furthermore, Chinese importers may favour Russian suppliers, as Russia is expected to lower its log export tax to comply with its WTO accession obligations.

Pulp demand from China, now Canada's largest export market, appears to be stabilizing following the inventory down cycle in the second half of 2011. While global producers are making early calls for price increases to Asia, significant additions to global pulp capacity late in 2011 and the economic slowdown in China suggest increases will be limited. The economic weakness in Europe, combined with a generalized declining trend in paper consumption in industrial economies, will keep pulp inventories at comfortable levels.

While the long-standing decline in paper consumption will continue in industrial economies, a more positive US economic outlook will improve demand for ad lineage, office papers, magazines, containerboard and packaging grades. Emerging market opportunities continue to present the best growth prospects going forward, although Asian producers are also making inroads in various segments. Industry consolidation will continue to rationalize excess capacity and maintain profit margins in the sunset segments of the industry.

Sector Stats

International Exports
2011: CAD 27 bn

Number of Exporters*
2010: 1,063
2000: 1,526

Share of Total Canadian Exports
2011: 5.4%

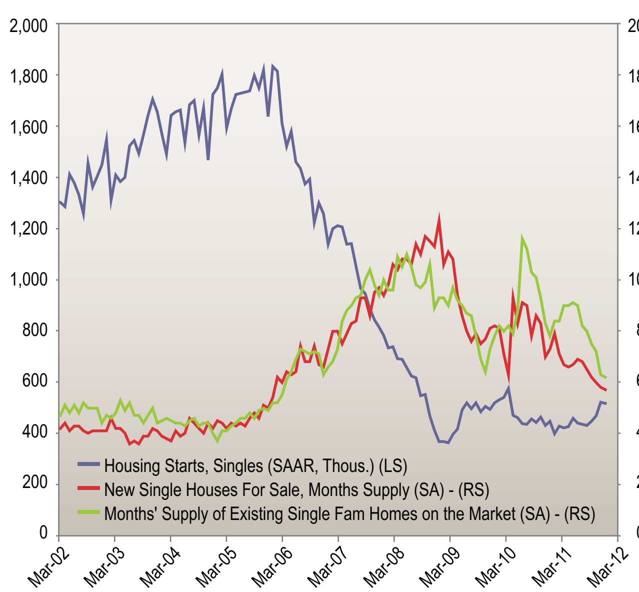
Sector Distribution across provinces:
NFLD: 0.6%
NB: 5.6%
NS: 2.7%
PEI: 0%
QC: 27.4%
ON: 17%
MN: 1.5%
SK: 1.0%
AB: 7.7%
BC: 36.6%

Canadian Direct Investment Abroad (2010)*:
CAD 10.5 bn

includes wood and paper products; excludes NAICS 11

Source: Statistics Canada

Figure 30: US Housing Recovery Under Way



Source: Haver Analytics

Table 8: Forestry Export Outlook by Region

Top Markets	CAD bn 2011	% Share of Exports 2011	Export Outlook (% growth) 2011	2012(f)	2013(f)
Developed Markets					
United States	16.7	61.7	-4.1	3	14
Western Europe	1.3	4.8	-8.9	-2	13
Japan, Oceania and Developed Asia	2.5	9.4	6.4	9	16
Emerging Markets					
Latin America and Caribbean	0.8	2.9	-2.0	5	14
Emerging Europe and Central Asia	0.2	0.9	29.7	5	16
Africa and the Middle East	0.4	1.6	-15.3	7	13
Emerging Asia	5.1	18.7	28.6	3	29
Total Developed Markets	**20.5**	**76**	**-3.2**	**4**	**14**
Total Emerging Markets	**6.5**	**24**	**20.0**	**4**	**26**
Total World	**27.0**	**100**	**1.5**	**4**	**17**

Source: Statistics Canada, EDC Economics. 2011 is actual data while 2012 and 2013 are forecast.

3.6 Automotive

On the heels of a disappointing trade performance in the automotive sector, North American production is ramping up and Canadian OEMs are back to full capacity. The Canadian dollar is projected to hover around parity this year and will leave Canadian producers bereft of the competitive advantages enjoyed during the last decade. Very high input costs combined with soaring oil prices will pose additional challenges over the forecast horizon, particularly given Canada's product mix, which is weighted toward larger vehicles.

Improving macroeconomic conditions in the US are feeding through into consumer confidence and spending. EDC Economics expects that in 2012 the firming labour market and much lower levels of household debt will combine with rising vehicle replacement rates and population growth to fuel sales of 14 million units, up from 12.7 million units in 2011. Inventory levels in the US have been very low by historical standards, leaving dealers ill-prepared for last year's supply disruptions, and an added boost due to inventory rebuild is expected in H1/12.

While demand conditions are extremely favourable, supply-side developments for Canadian-based producers are less so. After driving growth in 2011, the Detroit-3 will take a back seat to Honda and Toyota in 2012. The Japanese manufacturers will enjoy very high growth rates this year; however, they will not fully recoup last year's losses which translated into falling market share. The trend toward shorter model life-cycles will provide significant opportunities for tooling shops while Canadian parts suppliers will suffer from the trend toward OEM new capacity relocating to "right-to-work" states in the US and Mexico. Overall, Canadian production levels are projected to remain well below the peak seen early last decade; however, when foreign affiliate sales are taken into account the outlook is much brighter.

Sector Stats

International Exports
2011: CAD 54.4 bn

Number of Exporters*
2010: 844
2000: 909

Share of Total Canadian Exports
2011: 11%

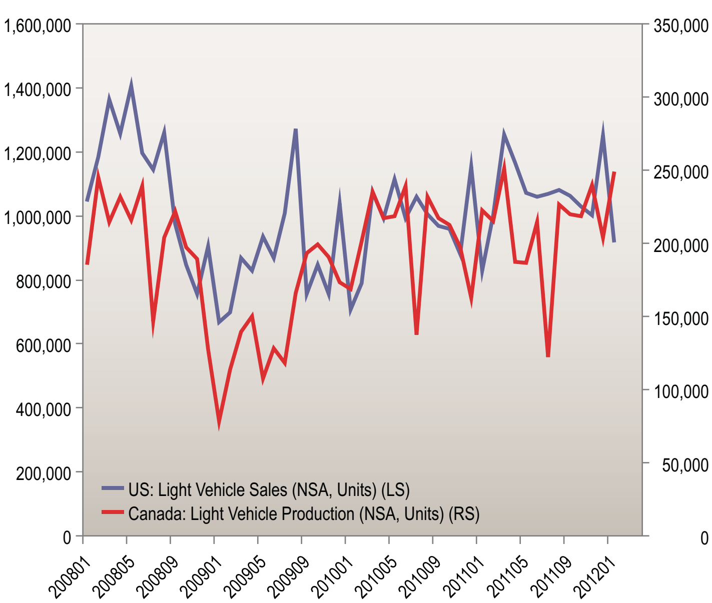
Sector Distribution across provinces:
NFLD: 0%
NB: 0%
NS: 1.9%
PEI: 0%
QC: 4.0%
ON: 92.1%
MN: 0.9%
SK: 0.1%
AB: 0.5%
BC: 0.5%

Canadian Direct Investment Abroad (2010)*:
CAD 31.3 bn

**Reporting the broader sector of transportation equipment (and services)*

Source: Statistics Canada

Figure 31: US Demand and Canadian Supply



Source: Haver Analytics

Table 9: Automotive Export Outlook by Region

Top Markets	CAD bn 2011	% Share of Exports 2011	Export Outlook (% growth) 2011	2012(f)	2013(f)
Developed Markets					
United States	52.8	97.1	3.5	14	10
Western Europe	0.2	0.4	26.8	5	5
Japan, Oceania and Developed Asia	0.1	0.2	-0.4	9	11
Emerging Markets					
Latin America and Caribbean	0.1	0.1	-8.1	7	11
Emerging Europe and Central Asia	0.1	0.1	62.9	8	12
Africa and the Middle East	0.3	0.5	25.9	7	9
Emerging Asia	0.1	0.2	39.6	12	17
Total Developed Markets	**53.2**	**97.7**	**3.6**	**14**	**10**
Total Emerging Markets	**1.2**	**2.3**	**4.8**	**8**	**12**
Total World	**54.4**	**100.0**	**3.6**	**14**	**10**

Source: Statistics Canada, EDC Economics. 2011 is actual data while 2012 and 2013 are forecast.

3.7 Industrial Machinery and Equipment

Following last year's spectacular performance, Canadian exports of industrial machinery and equipment (M&E) will post healthy, albeit moderating, gains over the next 24 months. Weakness emanating from Europe will be offset by an accelerating US economy where growing business and consumer confidence, improving labour market conditions and record-high cash levels in the corporate sector will encourage investment spending. Sales to emerging markets, a small but rapidly growing share of overall sales, will outperform the traditional markets throughout and beyond the forecast horizon.

Weakening agricultural commodity prices will temper demand for agricultural M&E in 2012 and again in 2013, but sales will remain solid. Opportunities in Eastern Europe and Central Asia will continue to recover from the collapse witnessed during the global crisis, with exports to the region expanding rapidly. Demand for construction machinery south of the border, on the other hand, will accelerate as a result of greater construction activity in the housing, commercial and industrial sectors. Demand for institutional buildings and infrastructure will decline due to the pullback of public spending and ongoing fiscal challenges at the municipal and state levels. Oil and gas M&E sales will remain solid in 2012 and 2013, though the pace of growth will slow from last year's torrid rate. Markets further afield will offer growing opportunities led by sales to Caribbean-Latin America and Africa-Middle East.

Opportunities south of the border abound, including rising freight traffic and a corresponding increase in investment in rolling stock; however, the recent closure of Caterpillar's Electromotive diesel plant is indicative of the challenging competitive landscape facing the Canadian industry. The small but growing renewable energy segment of the industry will face challenging conditions over the next few years as incentives and subsidies expire in both the wind and solar power generating industry in the US. Slowing demand from the industrial sector, however, is expected to be offset by still robust growth in the residential segment.

Sector Stats

International Exports
2011: CAD 26.5 bn

Number of Exporters
2010: 2,347
2000: 2,365

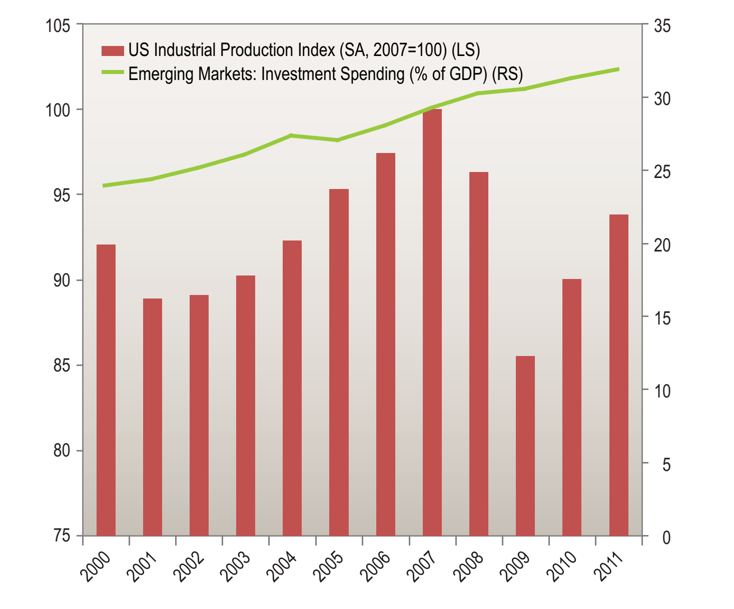
Share of Total Canadian Exports
2011: 5.3%

Sector Distribution across provinces:
NFLD: 0%
NB: 0.7%
NS: 0.6%
PEI: 0.2%
QC: 20%
ON: 52%
MN: 4.7%
SK: 2.1%
AB: 14.3%
BC: 5.4%

Canadian Direct Investment Abroad (2010):
CAD 3.5 bn

Source: Statistics Canada

Figure 32: Demand Indicators for M&E



Source: Haver Analytics

Table 10: Machinery and Equipment Export Outlook by Region

Top Markets	CAD bn 2011	% Share of Exports 2011	Export Outlook (% growth) 2011	2012(f)	2013(f)
Developed Markets					
United States	18.5	69.8	22.0	7	12
Western Europe	2.2	8.5	2.0	5	9
Japan, Oceania and Developed Asia	1.2	4.4	-8.9	9	10
Emerging Markets					
Latin America and Caribbean	1.4	5.4	13.5	7	11
Emerging Europe and Central Asia	0.9	3.2	11.3	16	14
Africa and the Middle East	0.9	3.5	1.7	7	10
Emerging Asia	1.4	5.2	28.8	12	17
Total Developed Markets	**21.9**	**83**	**17.5**	**7**	**12**
Total Emerging Markets	**4.6**	**17**	**14.5**	**10**	**13**
Total World	**26.5**	**100**	**11.0**	**8**	**12**

Source: Statistics Canada, EDC Economics. 2011 is actual data while 2012 and 2013 are forecast. Includes rail and other transportation

3.8 Advanced Technology

The export landscape for advanced technology is changing rapidly. Overall, structural shifts and the need to lower costs to remain competitive in the context of a strong Canadian dollar are expected to continue shaping the industry. Production trends show a concentration of R&D and services in Canada and a re-location of manufacturing activities to emerging markets. Major segments of opportunity for merchandise exports in this sector are in electrical components, measuring and testing devices and wireless equipment.

Exports of electrical equipment will benefit from a more positive outlook for housing starts in the US. In addition, the US energy bill introduced in 2005 will continue to support capital investment and grid modernization south of the border. Measuring and testing equipment is a highly R&D-driven segment that will present plenty of possibilities for those companies concentrated in the health sector. Main opportunities for growth will be in developed markets faced with an aging population.

The convergence in media telecommunications technologies will require major information technology investments by internet service providers and carriers around the world, boosting demand for networking equipment. In addition, wireless cell phones and voice over internet protocol communications will increasingly replace traditional telephone services, creating good prospects for Canadian exporters in this segment.

The relative value of the Canadian dollar against the USD will reduce the competitiveness of the computer equipment segment over the forecast horizon. As a result, manufacturing of computer and peripheral equipment, semiconductors, circuit and other electronic components will continue to be outsourced to emerging markets and in particular to Asia and Mexico.

Sector Stats

International Exports
2011: CAD 13.9 bn

Number of Exporters
2010: 1,596
2000: 1,601

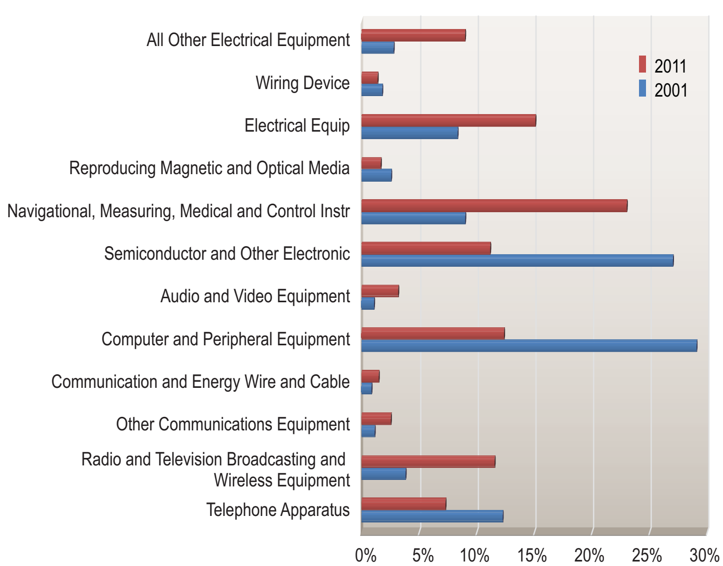
Share of Total Canadian Exports
2011: 2.8%

Sector Distribution across provinces:
NFLD: 0.1%
NB: 0.3%
NS: 0.9%
PEI: 0.1%
QC: 27.2%
ON: 54.1%
MN: 2.4%
SK: 0.3%
AB: 6.2%
BC: 8.5%

Canadian Direct Investment Abroad (2010):
CAD 22.4 bn

Source: Statistics Canada

Figure 33: Advanced Technology Exports by Segment (2001 vs. 2011 % share)



Source: AT: Statistics Canada. EDC Economics

Table 11: Advanced Technology Export Outlook by Region

Top Markets	CAD bn	% Share of Exports	Export Outlook (% growth)		
	2011	2011	2011	2012(f)	2013(f)
Developed Markets					
United States	9.1	65.6	-1.8	2	1
Western Europe	1.7	12.3	-5.0	-11	1
Japan, Oceania and Developed Asia	0.9	6.6	-1.5	9	5
Emerging Markets					
Latin America and Caribbean	0.7	5.4	-2.2	7	6
Emerging Europe and Central Asia	0.3	1.8	1.8	6	6
Africa and the Middle East	0.4	2.7	-6.4	6	4
Emerging Asia	0.8	5.6	3.4	12	11
Total Developed Markets	**11.7**	**84.5**	**-2.3**	**1**	**1**
Total Emerging Markets	**2.2**	**15.5**	**-0.6**	**9**	**8**
Total World	**13.9**	**100.0**	**-2.0**	**2**	**2**

Source: Statistics Canada, EDC Economics. 2011 is actual data while 2012 and 2013 are forecast.

3.9 Aerospace

Although the aerospace sector is still feeling the effects of the 2008-09 global financial downturn, exports are expected to record positive gains in the next 2 years. Over the medium term, environmental concerns will cause the retirement of older aircraft, increase fleet modernization and drive technological, infrastructure and operational improvements. This should not only increase the potential for aircraft sales, but also result in higher business volumes for after-market companies that supply spare parts and services to the sector.

In the aircraft segment, business jet deliveries are expected to remain stronger than commercial jet deliveries and continue driving much of the industry growth over the next couple of years. Bombardier is estimating a delivery of 180 business aircraft and 55 commercial aircraft in 2012, leaving commercial jet deliveries well below the 5-year average. The company's latest financial results report a significant number of orders for the C-Series and the first deliveries are expected in late 2013, with major deliveries following in 2014 and 2015. North America and Europe continue to be the largest markets for aircraft deliveries; however, given rapid growth in Asia Pacific the global demand profile will change significantly over the next 20 years.

The rest of the aerospace industry is expected to post strong positive gains over the forecast horizon, with helicopters and flight simulators contributing strongly to the growth. Helicopter demand will be driven by growing exploration and production in the oil and gas sector in remote areas. The civil flight simulator segment is still a promising niche market, as evidenced by CAE's training services contracts with many emerging markets, including the United Arab Emirates. Pratt & Whitney will continue ramping up production and supporting the engines for Bombardier's C-Series. Last October, the company received Transport Canada certification for the new (P&WC) PW210S engine and is moving into the production phase of the program.

Sector Stats

International Exports
2011: CAD 10.2 bn

Number of Exporters*
2010: 844
2000: 909

Share of Total Canadian Exports
2011: 2.0%

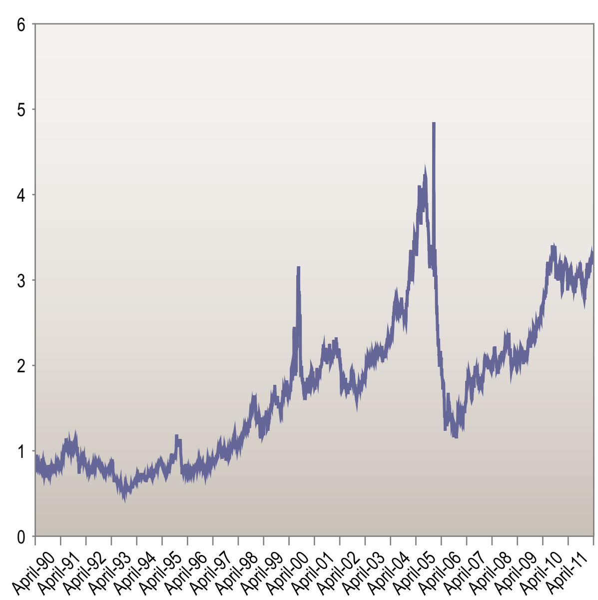
Sector Distribution across provinces:
NFLD: 0.1%
NB: 0.0%
NS: 0.4%
PEI: 0.4%
QC: 65.7%
ON: 25.9%
MN: 4.1%
SK: 0.0%
AB: 1.5%
BC: 1.8%

Canadian Direct Investment Abroad (2010)*:
CAD 31.3 bn

**Reporting the broader sector of transportation equipment (and services)*

Source: Statistics Canada

Figure 34: US Gulf Coast Type Fuel Spot Prices (USD)



Source: US Energy Information Administration

Table 12: Aerospace Export Outlook by Region

Top Markets	CAD bn 2011	% Share of Exports 2011	Export Outlook (% growth) 2011	2012(f)	2013(f)
Developed Markets					
United States	5.4	53.4	7.9	6	9
Western Europe	2.3	22.9	-21.4	4	8
Japan, Oceania and Developed Asia	0.7	7.2	54.1	9	11
Emerging Markets					
Latin America and Caribbean	0.4	4.0	3.3	7	11
Emerging Europe and Central Asia	0.3	3.0	-27.5	6	11
Africa and the Middle East	0.4	3.7	-34.7	6	9
Emerging Asia	0.6	5.8	78.8	27	15
Total Developed Markets	**8.5**	**83.5**	**0.2**	**6**	**9**
Total Emerging Markets	**1.7**	**16.5**	**-2.6**	**13**	**12**
Total World	**10.2**	**100.0**	**-0.2**	**7**	**9**

Source: Statistics Canada, EDC Economics. 2011 is actual data, 2012 and 2013 are forecast.

3.10 Chemicals and Plastics

Exports of chemicals and plastics will rise 7% in 2012, followed by 6% in 2013. Growth is driven by improved optimism in the US which saw rising consumer, small business and home builder confidence in the latter part of 2011. The US will continue to be the main driver of exports over the forecast with that market taking in 80% of the sector's total shipments.

International price and demand will determine overseas shipments of chemicals as significant changes in Canadian capacity are not expected over the short term. Prices for petrochemicals will get a lift in 2012 on a rise in the price of crude oil, but we expect little change in 2013 as falling energy prices are offset by a weaker Canadian dollar. Over the longer term, we expect to see Canadian companies continue to shift toward natural gas feedstock (as a means of lowering input costs) and a slow diversification of Canada's petrochemical product mix (e.g. production of corn-derived succinic acid in 2013). Meanwhile, exports of pharmaceuticals, which have been falling since 2009, are expected to decline further on reduced demand from European markets. US health care reforms may bring about new opportunities for this once-booming industry, presenting an upside risk to our forecast.

Exports of plastics will rise on growing demand from packaging, automotive and construction in the US (the destination for 90% of industry exports). US international trade growth is expected to hold strong while autos sales get a lift from improved household balance sheets. Finally, both residential and commercial construction are expected to grow through the forecast. Canada remains a good location from which to serve US clients, but companies interested in unlocking the benefits of generally faster-growing emerging markets will be increasingly attracted to overseas investments. Increasing R&D spending to develop more environmentally-friendly production methods for chemicals and plastics products is another growth opportunity for the sector.

Sector Stats

International Exports
2011: CAD 35.2 bn

Number of Exporters
2010: 1,991
1999: 2,175

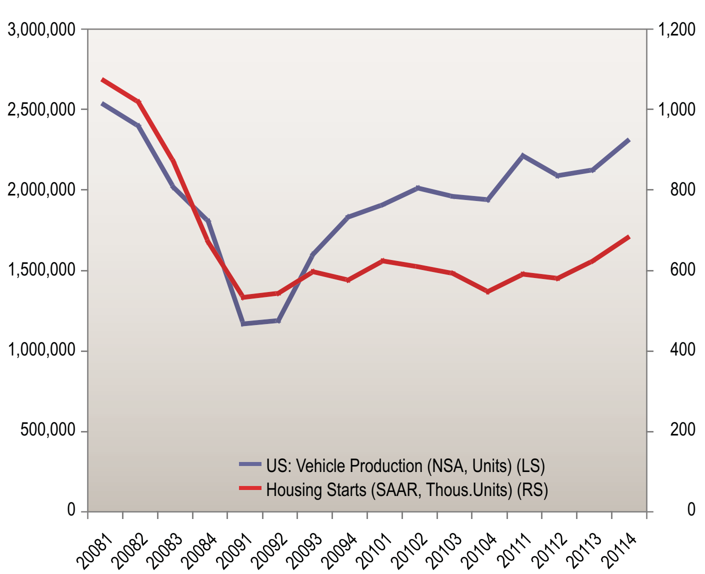
Share of Total Canadian Exports
2011: 7.1%

Sector Distribution across provinces:
NFLD: 0%
NB: 0.3%
NS: 0.8%
PEI: 0.1%
QC: 17.3%
ON: 54.3%
MN: 2.8%
SK: 2.5%
AB: 18.4%
BC: 3.5%

Canadian Direct Investment Abroad (2010):
CAD 13.5 bn

Source: Statistics Canada

Figure 35: Demand Indicators for Chemicals and Plastics



Source: Haver Analytics

Table 13: Chemicals and Plastics Outlook by Region

Top Markets	CAD bn	% Share of Exports	Export Outlook (% growth)		
	2011	2011	2011	2012(f)	2013(f)
Developed Markets					
United States	27.9	79.3	8.9	7	6
Western Europe	3.0	8.6	11.1	3	2
Japan, Oceania and Developed Asia	1.1	3.1	4.6	19	8
Emerging Markets					
Latin America and Caribbean	1.2	3.3	-10.1	5	8
Emerging Europe and Central Asia	0.2	0.5	-15.1	9	8
Africa and the Middle East	0.4	1.1	6.6	10	6
Emerging Asia	1.4	4.0	19.2	14	14
Total Developed Markets	**32.1**	**91.1**	**9.0**	**7**	**6**
Total Emerging Markets	**3.1**	**8.9**	**2.9**	**10**	**11**
Total World	**35.2**	**100.0**	**8.4**	**7**	**6**

Source: Statistics Canada, EDC Economics. 2011 is actual data while 2012 and 2013 are forecast.

3.11 Consumer Goods

Reversing a long-running trend of falling foreign sales, Canadian exports of consumer goods jumped 6.7% last year due to very strong demand from European and Asian customers. This strength, particularly in the face of a persistently high Canadian loonie and a very competitive landscape, is impressive. The sector will continue to reflect the diversification story playing out across the country as sales to Emerging Asia outpace those to developed markets over the medium term.

Despite recent success in non-traditional markets, the US still accounts for over three-quarters of foreign sales. After 3 years of deleveraging, US consumers are in much better shape heading into 2012 than they have been for years. The ratio of overall household debt to personal disposable income has dropped from a peak of almost 130% during the pre-crisis years to 110% at the end of 2011. EDC Economics expects that US consumer spending on durable goods will jump 8% in 2012 and a further 5% in 2013 as pent-up demand drives a strong rebound in spending.

After 3 years of wallowing at record low levels, there are also signs of revival in US housing activity. Housing starts are projected to increase from just over 600,000 units in 2011 to 800,000 this year and 1.1 million in 2013 – fuelling demand for household furnishings, kitchen cabinets and appliances.

Despite the rosy demand outlook, the industry faces a pricing environment that is very challenging. While some reprieve is expected in 2013 and beyond as the loonie dips below parity, existing pressures from price-sensitive consumers and heightened competition from low-cost jurisdictions will erode the sector's share of the overall national trade pie.

Sector Stats

International Exports
2011: CAD 8.1 bn

Number of Exporters
2010: 1,375
2000: 2,020

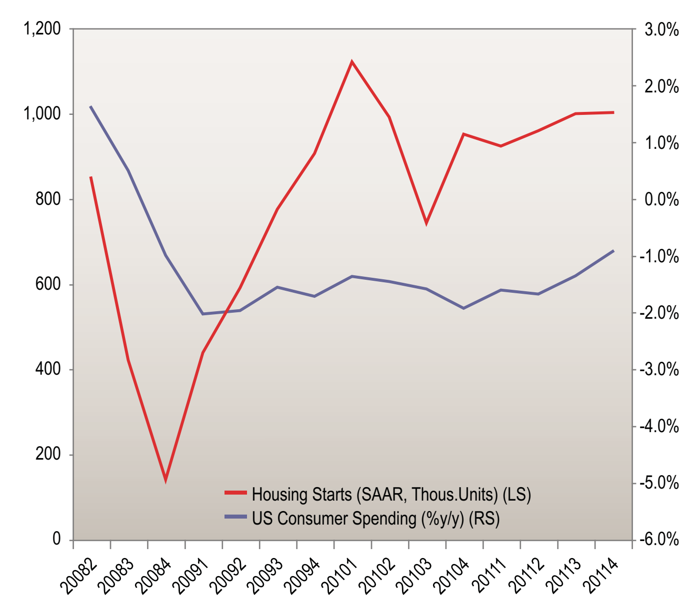
Share of Total Canadian Exports
2011: 1.6%

Sector Distribution across provinces:
NFLD: 0.1%
NB: 0.2%
NS: 0.9%
PEI: 0%
QC: 30.7%
ON: 56.9%
MN: 2.1%
SK: 0.3%
AB: 2.1%
BC: 6.6%

Canadian Direct Investment Abroad (2010):
CAD 8.4 bn

Source: Statistics Canada

Figure 36: US Consumer Spending



Source: Haver Analytics.

Table 14: Consumer Goods Export Outlook by Region

Top Markets	CAD bn 2011	% Share of Exports 2011	Export Outlook (% growth) 2011	2012(f)	2013(f)
Developed Markets					
United States	6.3	77.7	4.2	4	5
Western Europe	1.1	14.0	14.1	3	7
Japan, Oceania and Developed Asia	0.3	4.1	48.1	14	11
Emerging Markets					
Latin America and Caribbean	0.1	1.3	4.4	7	11
Emerging Europe and Central Asia	0.0	0.6	18.9	6	11
Africa and the Middle East	0.1	1.0	-6.4	6	9
Emerging Asia	0.1	1.2	0.0	15	18
Total Developed Markets	**7.7**	**95.9**	**6.9**	**4**	**6**
Total Emerging Markets	**0.3**	**4.1**	**1.9**	**9**	**13**
Total World	**8.1**	**100.0**	**6.7**	**4**	**6**

Source: Statistics Canada, EDC Economics. 2011 is actual data while 2012 and 2013 are forecast.

3.12 Services Export Sector

After two years of healthy growth, Canada's service export sector has surpassed pre-recession peaks and will continue to experience steady growth. The merchandise export sector however, which has been growing very rapidly as it recoups losses experienced during the 2008-09 crisis, has outperformed and the share of services exports in total trade fell back to 14% in 2011.

For overall services exports, EDC Economics is forecasting growth of approximately 4% both this year and next. Commercial services, which account for the bulk of all Canadian services exports, are expected to accelerate over the forecast horizon, growing 3.7% in 2012 and 4.9% in 2013. Transportation services are projected to expand by 7.1% this year and then decelerate, but continue growing by 5.6% next year. Meanwhile, travel services for businesses and individuals, making up about a quarter of services exports, will grow by 3.5% this year and 1.5% next year.
Trade performance among the subsectors of commercial services group has been mixed over the past couple of years. The Canadian financial sector was well positioned to capitalize on opportunities south of the border; growth in this segment will moderate over the forecast horizon however as improving conditions in the US reduce opportunities. Other segments of the services industry, particularly construction management and engineering services, will benefit from the improving US macroeconomic landscape and major projects in the resources industries. R&D-related exports along with services related to the advanced technology sector will continue to grow, offsetting the weakness seen on the merchandise trade side of the industry.

Transportation service exports generally mirror activity on the merchandise trade side, and as trade flows normalize, growth rates here will moderate. The rail transportation sector, however, will outperform over the next 24 months, as higher volumes of agricultural products and growing reliance on rail transportation to get crude oil down to refineries in the US push up demand substantially.

Sector Stats

International Exports
2011: CAD 76.9 bn

Number of Exporters
2010: 7,083
2000: 6,636

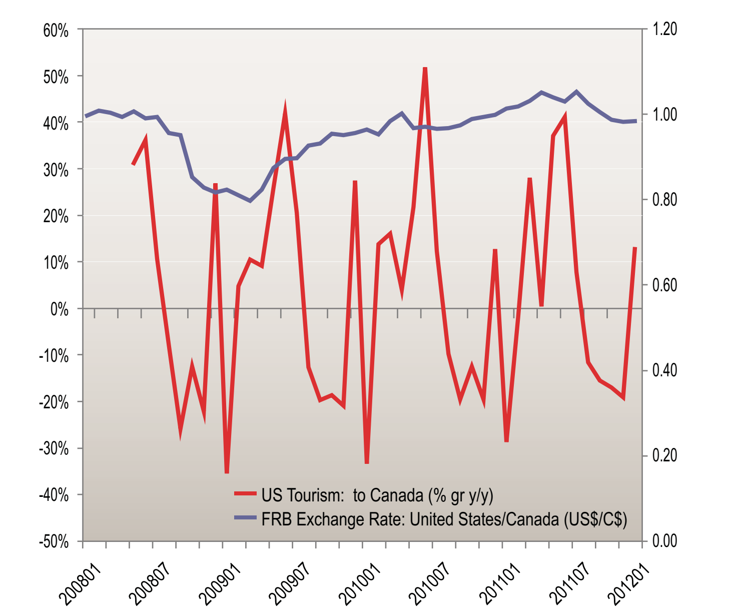
Share of Total Canadian Exports
2011: 15.5%

Sector Distribution across provinces:
N/A

Canadian Direct Investment Abroad (2010):
CAD 59.8 bn

Source: Statistics Canada

Figure 37: Tourism and the Canadian Dollar



Source: Haver Analytics

Table 15: Services Export Outlook

	2009	2010	2011	2012(f)	2013(f)
Total Service Exports ($ mn)	**68,293**	**71,253**	**74,845**	**77,828**	**81,076**
annual % change	**-5.78**	**4.33**	**5.04**	**4**	**4**
Commercial Services ($ mn)	40,324	41,263	43,221	44,808	47,003
annual % change	-4.03	2.33	4.75	4	5
Transportation Services ($ mn)	10,559	12,005	13,250	14,177	14,967
annual % change	-13.37	13.69	10.37	14	6
Travel Services ($ mn)	15,547	16,198	16,759	17,276	17,507
annual % change	-6.03	4.19	3.46	3	1
Government Services ($ mn)	1,864	1,788	1,616	1,568	1,599
annual % change	7.50	-4.08	-9.62	-3	2

Source: Statistics Canada, EDC Economics. 2011 is actual data while 2012 and 2013 are forecast.

4.0 Provincial Export Outlook

The export outlook for 2012 sees a continuation of the robust growth seen over the past 2 years, but at a slightly slower pace as the nominal impact of record-high prices begins to fade and more than offsets a pickup in actual volume shipments.

The seemingly insatiable demand from emerging markets seen over the past couple of years will ease slightly this year and is a response to a slowing of GDP growth in BRICM markets, while the US economic recovery picks up steam. Most provinces will experience a deceleration from last year's rapid growth rate, with the exception of Prince Edward Island and Ontario which will both see a rebound due to supply-side factors. Next year, British Columbia and Nova Scotia will enjoy double-digit gains thanks to the forestry and energy sectors, respectively, while most other provinces will remain at or slightly below 2012 growth rates.

Exports from **Newfoundland and Labrador** will continue to grow but at a slower pace of 5% in 2012 and 7% in 2013. Growth this year will be due to sizable gains in exports of industrial goods, which will offset declining energy output.

EDC Economics expects **Prince Edward Island**'s export sector to continue on its upward trajectory, and the forecast is for growth of approximately 7% both this year and next. The US economic recovery is gaining traction, which will underpin firming demand across all sectors, while a weakening loonie next year will provide a boost to nominal receipts.

On the whole, an improved demand outlook from the US as well as increased natural gas production will not be enough to offset the strong fall in natural gas prices and production capacity shutdowns in the newsprint sector that will drive **Nova Scotia**'s export receipts down by 1% in 2012. A rebound of 12% will follow next year thanks to large broad-based gains in 2013.

After a stellar performance over the past few years, **New Brunswick**'s export growth will slow to 6% in 2012 and 3% in 2013 as energy prices weaken. Improvements in the US housing market will lend support to exports of wood products and the industrial goods sector will see mixed results, with lower output from the metals sector being offset by greater potash production.

Quebec's exports are expected to increase a modest 7% this year and next. Growth will be driven by a variety of factors, including strong prices and demand for commodities, higher aircraft deliveries, and the nascent rebound in the US housing market.

EDC Economics is forecasting a healthy 9% increase in exports out of **Ontario** in both 2012 and 2013, slightly above the national level. A rebound in the automotive industry and still-strong prices for industrial goods will frame this year's picture, while strength in 2013 will be broad-based as the US economy picks up steam and a weaker loonie pads foreign sale receipts.

After surging 15% last year, **Manitoba**'s exports are poised for a solid 8% increase in 2012 followed by a further 7% rise next year. The outlook is underpinned by improving demand from the US and still-high, albeit moderating, agricultural commodity prices.

After a blistering 25% increase in exports last year, **Saskatchewan**'s growth will slow to a solid 8% this year, followed by a 3% rise in 2013. The province's energy exports will receive a boost from rising prices, while agriculture should rebound after the wet weather conditions that lowered harvests over the past 2 years.

Following last year's very strong performance, **Alberta**'s export sector will see growth moderate but continue to post steady gains; EDC Economics forecasts a 7% increase this year followed by a slightly slower 6% in 2013. After the very strong price gains for key commodities last year, upside potential is limited and prices will begin to soften next year.

British Columbia's exports will continue to expand rapidly over the next 2 years, despite the dampening effect of a slowing Chinese economy. Growth of 4% this year and 13% in 2013 reflect a recovery in the US residential market, ongoing development in the mining sector, and higher energy output next year.

Table 16: Canadian Merchandise Export Forecast by Province

Provinces	CAD mn	% Share of Province's Total Exports	Export Outlook (% growth)		
	2011	2011	2011	2012(f)	2013(f)
Newfoundland and Labrador*	12.1	2.9	31.5	5.5	6.8
Prince Edward Island	0.7	0.2	5.8	6.8	6.6
Nova Scotia	4.4	1.0	3.1	-1.2	12.3
New Brunswick	14.9	3.5	17.1	5.6	2.6
Quebec	62.2	14.8	7.6	6.7	7.1
Ontario	155.4	37.1	6.4	9.4	9.4
Manitoba	11.8	2.8	15.1	8.2	6.8
Saskatchewan	29.5	7.0	24.6	8.2	3.1
Alberta	93.0	22.2	18.3	7.3	5.8
British Columbia	32.8	7.8	14.2	4.5	13.4
Territories	2.0	0.5	-9.4	-1.8	10.6
Total Goods Exports	**418.8**	**100.0**	**11.9**	**7.6**	**7.8**

Source: Statistics Canada, EDC Economics. 2011 actual data, while 2012 and 2013 are forecast.

*Includes EDC estimate for crude oil exports (not included in national total from Statistics Canada)

4.1 Newfoundland and Labrador

The province's export sector, which is dominated by commodities, benefited from skyrocketing energy prices and strong demand for iron ore last year, sending overall foreign sales soaring 32%. EDC Economics is forecasting continued export growth, albeit at a more moderate pace of 5.5% in 2012 and 6.8% in 2013. Growth this year will be due to sizable gains in exports of industrial goods which will offset declining energy output. Strong demand for iron ore from China (including Chinese infrastructure investments in the Bahamas) will augment the broad-based recovery in US shipments.

The outlook for industrial goods is bright both this year and next, driven mainly by higher volumes as prices have limited upside potential and are expected to soften next year. Foreign sales of iron ore will continue to build as a result of ramped-up production at IOC, Wabush and Labrador Iron Mines over the forecast horizon. Sector prospects beyond 2013 continue to be bright, thanks to significant investment by New Millennium Capital Corporation and Tata Steel Ltd. The overall sector will be slightly weighed down by declining output at Voisey's Bay this year.

Falling crude production will drag energy export volumes into negative territory this year, but the price effect of persistently high oil prices will tip sales receipts into positive territory. Next year, WTI oil prices will soften and we expect an annual average of $95/bbl in 2013. Declining production at Hibernia is somewhat offset by growth from Hibernia South, in addition to ramped-up production at North Amethyst – a satelite field of White Rose. Come-by-Chance refinery has reopened following repairs of damages caused by a fire and will experience a ramp-up in activity.

The balance of the province's exports consist of a broad mix of goods, including seafood, aquaculture, machinery and equipment, aerospace, and alcoholic beverages, and are shipped by numerous small and medium-sized companies. We expect exports in this category to experience modest growth this year and in 2013, although volatility and sensitivity to external developments are prominent features of this segment.

Provincial Stats

GDP
CAD 28.1 billion

International Exports/GDP
37%

Number of Exporters
2010: 195
1999: 178

Trade Balance (2011)
CAD 8.5 billion

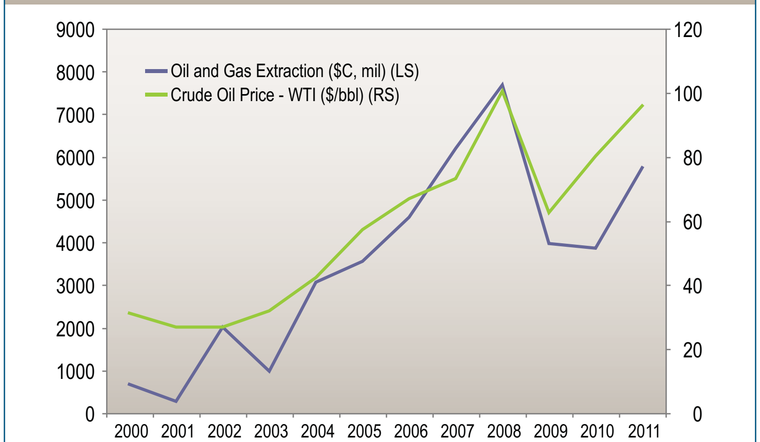
Largest Export Destinations
1. United States 66%
2. China 9%
3. Netherlands 5%

Share of Exports to Emerging Markets
2011: 16.4%
2007:6.8%

Herfindahl Index

(Trade diversification where 0=extreme concentration)
Sector: 0.50
Regional: 0.46

Figure 38: Oil Exports Overinflated by Crude Oil Price



Source: Haver Analytics, CANSIM

Table 17: Newfoundland & Labrador Merchandise Outlook

Top Sectors	CAD mn	% Share of Province's Total Exports		Export Outlook (% growth)	
	2011	2011	2011	2012(f)	2013(f)
Energy	7,972	65.9	33.3	4	2
Industrial Goods	3,026	25.0	35.2	11	19
Agri-Food	876	7.2	10.3	3	3
Forestry	161	1.3	36.7	-2	5
All Others	71	0.6	-8.3	6	8
Total	**12,105**	**100.0**	**31.5**	**5**	**7**
Total excl. energy	**4,133**	**34.1**	**28.1**	**9**	**15**

Source: Statistics Canada, EDC Economics. 2011 actual data, while 2012 and 2013 are forecast.

4.2 Prince Edward Island

Following 2 years of declines, Prince Edward Island's export sector set out on the road to recovery last year, posting a gain of almost 6%. EDC Economics expects foreign sales to continue on this upward trajectory, and the forecast is for growth of 7% both this year and next. The US economic recovery is gaining traction, which will underpin firming demand across all sectors, while a weakening loonie next year will provide a boost to nominal receipts.

The export outlook will be shaped by the traditional and still dominant agri-food sub-sectors: seafood and potatoes. Last year, bad weather caused a marked decline in lobster landings. In 2012, the PEI lobster fishery will see a bounce-back to more normal levels of lobster supply, pushing up exports to the US. In the potato sub-sector, higher prices for table potatoes and processed spuds will underpin growth this year thanks to tight supply in the US which has been supporting prices. Unfortunately, PEI is itself confronting reduced inventories, so the Island will not see a major uptick in quantities exported. Next year, the US market will return to balance, thereby easing price pressure and slowing export demand for PEI potatoes.

The Island's other "new" industries will be boosted by increased demand from a recovering US economy. In the transportation category, PEI companies, which specialize in the maintenance and overhaul of airplanes, are expected to see an increase in work orders as the aerospace sector gradually picks up this year and gains altitude in 2013.

One of the Island's newer emerging industries that warrants attention is the bio-sciences sector, specifically laboratory reagents and animal vaccines. Until now, the sector has trailed closely behind agri-food, transportation, industrial goods and machinery and equipment, putting it within range of the top five export sectors. Powered by investment from the likes of Novartis, which injected $2.8 million into expanding its existing R&D facilities on PEI between 2011 and 2012, vaccine products have seen steady export growth over the past 10 years. Although 2011 saw an unusual decrease in exports, the vaccines targeting fish bacteria and viruses appear to have made strong inroads in Chile, the UK and the US and should return to more typical positive growth in 2012 and 2013.

Provincial Stats

GDP
CAD 5.1 billion

International Exports/GDP
21%

Number of Exporters
2010: 158
1999: 131

Trade Balance (2011)
CAD 1.2 billion

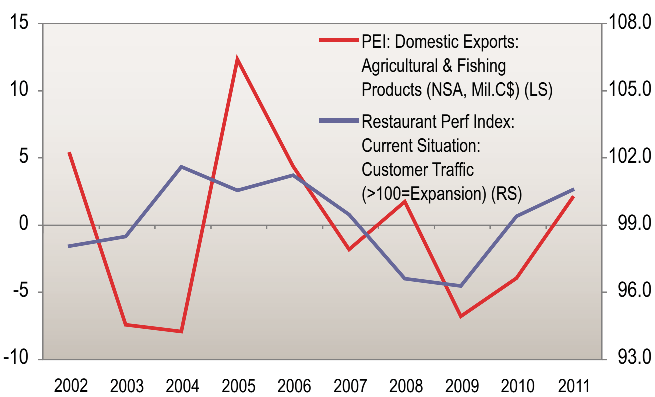
Largest Export Destinations
1. United States 70%
Massachusetts 18%
New Jersey 12%
New York 8%
2. United Kingdom 2%
3. Japan 2%

Share of Exports to Emerging Markets
2011: 16.7%
2007:10.3%

Herfindahl Index

(Trade diversification where 0=extreme concentration)
Sector: 0.46
Regional: 0.52

Figure 39: US Restaurant Activity Drives Agricultural Exports



Source: Haver Analytics, CANSIM

Table 18: Prince Edward Island Merchandise Outlook

Top Sectors	CAD mn	% Share of Province's Total Exports	Export Outlook (% growth)		
	2011	2011	2011	2012(f)	2013(f)
Agri-Food	475.8	65.1	1.8	7	5
M&E	51.9	7.1	62.5	6	11
Transportation	50.2	6.9	41.8	7	12
Industrial Goods	54.8	7.5	-8.6	8	7
All Others	98.7	13.5	2.2	6	10
Total	**731.3**	**100.0**	**5.8**	**7**	**7**
Total excl. energy	**731**	**100.0**	**5.9**	**7**	**7**

Source: Statistics Canada, EDC Economics. 2011 actual data, while 2012 and 2013 are forecast.

4.3 Nova Scotia

On the whole, an improved demand outlook from the US as well as increased natural gas production will not be enough to offset the strong fall in natural gas prices and production capacity shutdowns in the newsprint sector that will drive export receipts down in 2012. A rebound will follow in 2013.

In particular, the natural gas sector is expected to record positive production growth over the next 2 years. Encana expects to ramp up production at the Deep Panuke Field to 200 mmcf a day. According to the National Energy Board, volumes from Deep Panuke are likely to offset ongoing declines in output from the Sable fields. As per media reports, production is expected to start in July 2012. In addition, Shell has recently won a bid to commence oil and gas exploration in four parcels of acreage off Nova Scotia. The company plans to conduct seismic tests next year and start drilling in 2014. This is anticipated to have a positive impact on the province's energy production capacity over the medium to long term.

The newly formed Professional Lobster Fisherman's Association in Nova Scotia has been applying pressure to increase lobster prices, with positive results to date. Most of the growth in exports is likely to come from sales of lobster and shrimp to China. The industry will continue to work hard to increase market diversification. Markets such as Russia, Hong Kong and South Korea are becoming increasingly important. Aquaculture farms and investment to increase processing capacity should translate into export gains for the fisheries industry over the forecast horizon.

The shutdown of the New Page Port Hawkesbury paper mill last September and the recently announced production shutdowns in the Bowater Mersey Mill in Brooklyn will adversely impact export volumes in the newsprint sector. According to a report by the Atlantic Provinces Economic Council, if the New Page Mill is not re-opened export revenues for the newsprint sector will suffer a $300-million loss this year.

Finally, Michelin is expected to hold production steady this year in response to weaker demand from European markets, but ramp up volumes in 2013. The company expects to grow production by 25% by 2015, as well as increase export diversification.

Provincial Stats

GDP
CAD 36.4 billion

International Exports/GDP
19%

Number of Exporters
2010: 670
1999: 819

Trade Balance (2011)
CAD -3.9 billion (deficit)

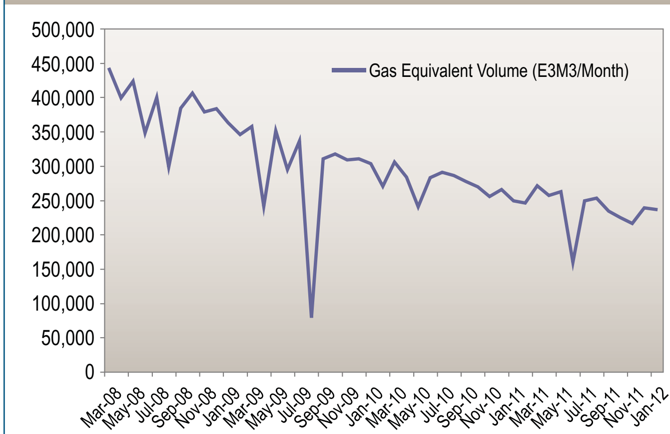
Largest Export Destinations
1. United States 74%
Massachusetts 20%
South Carolina 15%
Michigan 6%
2. China 3%
3. France 2%

Share of Exports to Emerging Markets
2011: 10.5%
2007:7.4%

Herfindahl Index

(Trade diversification where 0=extreme concentration)
Sector: 0.21
Regional: 0.56

Figure 40: Sable Project Nova Scotia



Source: Canada-Nova Scotia Offshore Petroleum Board (CNSOPB)

Table 19: Nova Scotia Merchandise Outlook

Top Sectors	CAD mn	% Share of Province's Total Exports	Export Outlook (% growth)		
	2011	2011	2011	2012(f)	2013(f)
Natural Gas	214	5.0	-10.0	-9	56
Agri-Food	1,152	26.3	15.4	7	3
Forestry	721	16.5	-9.8	-37	15
Motor Vehicle	1,045	23.8	7.8	3	13
All Others	1,249	28.5	0.5	5	12
Total	**4,380**	**100.0**	**3.1**	**-1**	**12**
Total excl. energy	**3,936**	**89.9**	**4.5**	**-2**	**9**

Source: Statistics Canada, EDC Economics. 2011 actual data, while 2012 and 2013 are forecast.

4.4 New Brunswick

New Brunswick's export growth will slow in 2012 and 2013 as energy prices weaken. Improvements in the US housing market will lend support to exports of wood products and the industrial goods sector will see mixed results, with lower output from the metals sector being offset by greater potash production.

With global oil supply interruptions threatening in the Middle East, the price of WTI crude will hover around USD100/bbl this year before slipping to USD95/bbl in 2013. Meanwhile, natural gas prices will fall to USD3/mmbtu in 2012 before rising to USD 3.50 next year, as the US market remains awash in shale gas. The completion of the Point Lepreau nuclear power plant refurbishment will provide the capacity to increase export sales of electricity in response to rising US industrial production. Shale gas exploration continues, but technical challenges in unlocking New Brunswick's potential mean production and exports remain a few years away.

With the US housing market finally picking up steam, wood products exports will see a strong increase in 2012 and 2013, supported by the reopening of the Weyerhauser mill in the Miramichi area. Meanwhile, pulp prices have deteriorated more sharply than anticipated, particularly for dissolving pulp for the textile market, with substantial global capacity being added or converted. On the paper side, fundamentals for containerboard remain stable, while those for supercalendered paper have deteriorated slightly.

Exports of agri-food products will slow considerably in 2012, as farmed salmon prices are expected to decline significantly due to rising production and exports from Chile. Lobster landings are expected to improve in 2012, as 2011 was affected by adverse weather conditions. Potato and snow crab prices should also improve due, respectively, to a smaller US crop and weaker supplies from Russia and Alaska. Also supporting export growth will be the opening of the Rogersville cranberry bog.

Mineral exports will decline in 2012 and 2013 with lower output at the Brunswick Mine, which is slated to close in 2013. Production at Halfmile and other potential projects, such as Mount Pleasant and Sisson Brook, will not be sufficient to offset the closure of Brunswick Mine. The new Sussex potash mine due to open next year will double potash capacity by 2015. Exploration on a new greenfield potash mine, also in the Sussex area, has begun.

Provincial Stats

GDP
CAD 29.4 billion

International Exports/GDP
40%

Number of Exporters
2010: 540
1999: 692

Trade Balance (2011)
CAD 1.2 billion

Largest Export Destinations
1. United States 84%
52%
9%
5%
2. Netherlands 4%
3. Brazil 1%

Share of Exports to Emerging Markets
2011: 6.7%
2007:5.5%

Herfindahl Index

(Trade diversification where 0=extreme concentration)
Sector: 0.51
Regional: 0.72

Figure 41: Manufacturing Sector Improving

Source: Haver Analytics, EDC Economics

Table 20: New Brunswick Merchandise Outlook

Top Sectors	CAD mn 2011	% Share of Province's Total Exports 2011	2011	Export Outlook (% growth) 2012(f)	2013(f)
Energy	10,691	71.9	23.0	7	1
Forestry	1,512	10.2	-2.8	1	15
Agri-Food	1,380	9.3	18.1	2	5
Industrial Goods	958	6.4	3.0	-5	-8
M&E	194	1.3	-16.8	6	11
All Others	124	0.8	15.0	15	10
Total	**14,859**	**100.0**	**17.1**	**6**	**3**
Total excl. energy	**4,168**	**28.1**	**4.3**	**1**	**6**

Source: Statistics Canada, EDC Economics. 2011 actual data, while 2012 and 2013 are forecast.

4.5 Quebec

Quebec's exports are expected to increase modestly this year and next, following a relatively flat 2011. Growth will be driven by a variety of factors, including strong prices and demand for commodities, higher aircraft deliveries, and the nascent rebound in the US housing market (the effect of which will be augmented by the 2-year extension, effective January 2012, of the Softwood Lumber Agreement between the US and Canada).

Quebec's aluminum production dipped in early 2012 due to production interruptions at Rio Tinto Alcan's Alma smelter, which saw a temporary reduction of 30% (i.e. over 100,000 tonnes). At the Shawinigan smelter, output was temporarily reduced by 50% due to technical issues. Despite these disruptions, production during 2012-13 is expected to expand modestly with further upside potential in 2013. New investments in the sector that will boost this future growth include the announced third expansion phase at the Aluminerie Allouette smelter ($2 billion over 15 years) and Alcoa's 5-year, $2.1-billion investment into its two smelters in Baie-Comeau.

Mining sector output will increase both this year and next. A key driver of this expansion is the $80-billion, government-led initiative unveiled in 2011 (Plan Nord) to support mineral extraction in the northern regions. Under the plan, Xstrata is investing $500 million to develop its Raglan nickel mine in Nunavik, expected to produce 40,000 tonnes of nickel concentrate by 2016. In terms of other notable mining projects, ArcelorMittal's Mont-Wright project is expected to double its iron-ore production in the coming years. Cliff Natural Resources' Bloom Lake Mine will continue expanding its output through 2012-13, with the entirety of its production (roughly 12 million tonnes this year) destined for the Chinese market.

The aerospace sector is expected to finally shed the sluggishness that has characterized the sector since the recession. Bombardier will lead the charge with the first delivery of its C Series planes expected in the 2012-13 time frame; there are reportedly close to 150 firm orders for the planes, pointing toward strength into 2013 and beyond. C Series aside, Bombardier is expecting a strong year for deliveries in 2012, particularly for business aircraft.

Provincial Stats

GDP
CAD 319.3 billion

International Exports/GDP
26%

Number of Exporters
2010: 8,001
1999: 8,108

Trade Balance (2011)
-$11 billion (deficit)

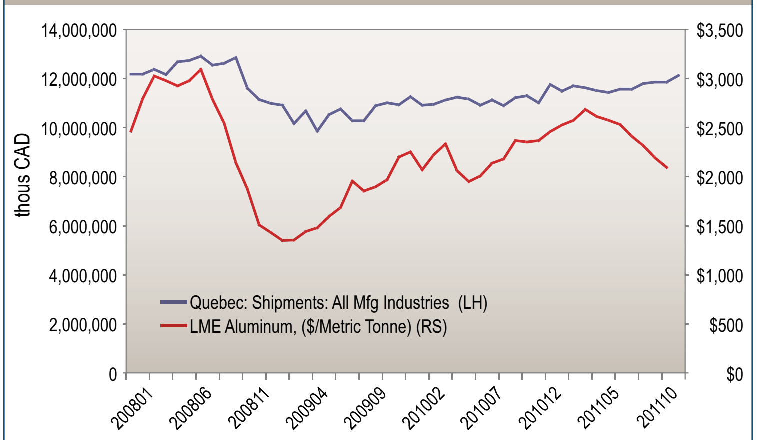
Largest Export Destinations
1. United States 69%
2. China 4%
3. Germany 2%

Share of Exports to Emerging Markets
2011: 13.2%
2007: 7.6%

Herfindahl Index

(Trade diversification where 0=extreme concentration)
Sector: 0.24
Regional: 0.50

Figure 42: Quebec: Export Demand Indicators



Source: Haver, CANSIM

Table 21: Quebec Merchandise Outlook

Top Sectors	CAD mn 2011	% Share of Province's Total Exports 2011	Export Outlook (% growth) 2011	2012(f)	2013(f)
Industrial Goods	24,511	39.4	9.7	6	5
M&E	8,348	13.4	7.8	5	8
Forestry	7,402	11.9	-2.5	6	11
Transportation	7,457	12.0	5.3	8	10
Agri-Food	5,597	9.0	12.9	9	7
Consumer Goods	2,478	4.0	-1.2	2	5
All Others	6,364	10.2	14.6	11	7
Total	**62,157**	**100.0**	**7.6**	**7**	**7**
Total excl. energy	**58,795**	**94.6**	**7.0**	**7**	**7**

Source: Statistics Canada, EDC Economics. 2011 actual data, while 2012 and 2013 are forecast.

4.6 Ontario

Ontario's export sector expansion rate will be strong in both 2012 and 2013, above the national level. Commodity prices will remain high in 2012, driving gains in the mining industry. Softening prices in 2013 will be accompanied by a falling loonie, offsetting the nominal impact and giving Ontario manufacturers a much-needed reprieve. Strength in 2013 will be broad-based as the US economy picks up steam and a weaker loonie pads foreign sale receipts. Ontario's export sector is oriented toward the US market, but the trade diversification story is evident even in the manufacturing heartland of Canada, with China becoming the second-largest export destination (excluding precious metals).

While significantly smaller than it was before the recession, the auto sector remains the single largest export sector in Ontario. Following the natural disaster-related disruptions that plagued the Canadian automotive industry in 2011, production is back to normal and large gains at Honda and Toyota will drive export growth this year. Next year, the industry will moderate but continue posting healthy gains as the loonie dips below parity and US vehicle sales climb toward pre-recession levels.

Double-digit increases in production at several Ontario gold mines, including the Young Davidson project, La Ronde and Kirkland Lake, will back record-high sales over the next 2 years. Higher output of both nickel and copper will also contribute to growth as the Lockerby nickel/copper mine is expected to reach full production by the end of 2012 and Vale's Sudbury operations will be ramping up following supply disruptions in 2011. The outlook for steel exports, however, is lacklustre in comparison. The recent announcement that US Steel will not restart production at its Hamilton plant highlights the underlying weakness in the industry despite improving demand from downstream industries. In this environment, it is highly unlikely that Essar Algoma will bring its (idled) capacity online.

Ontario's pharmaceutical industry still faces a challenging business environment shaped by falling R&D spending and expiring patents. Yet an uptick in venture capital activity in 2011 and a slew of recently announced investments, including expansion plans for Teva Canada's Stouffville plant and GlaxoSmithKline's Mississauga production facility, bode well for the medium-term outlook.

Provincial Stats

GDP
$612.5 billion

International Exports/GDP
31%

Number of Exporters
2010: 16,655
1999: 18,265

Trade Balance (2011)
$73 billion (deficit)

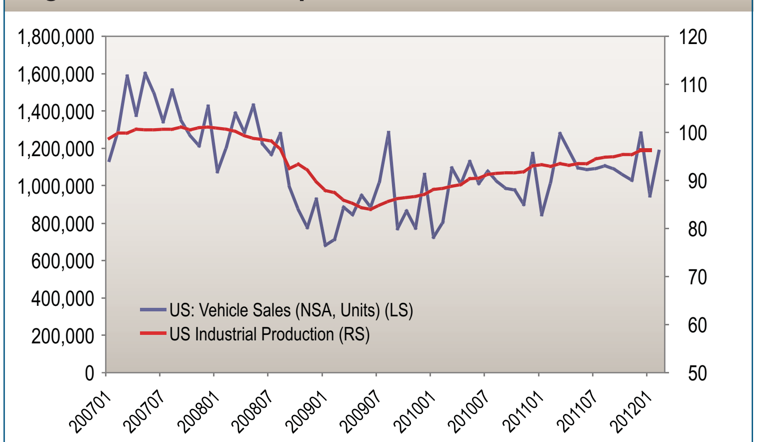
Largest Export Destinations
1. United States 77%
Michigan 31%;
California 11%
New York 8%
2. United Kingdom 9%
3. Norway 2%

Share of Exports to Emerging Markets
2011: 5.8%
2007:3.9%

Herfindahl Index

(Trade diversification where 0=extreme concentration)
Sector: 0.26
Regional: 0.61

Figure 43: Ontario: Export Demand Indicators



Source: Haver Analytics

Table 22: Ontario Merchandise Outlook

Top Sectors	CAD mn	% Share of Province's Total Exports	Export Outlook (% growth)		
	2011	2011	2011	2012(f)	2013(f)
Industrial Goods	57,398	36.9	13.3	8	10
Motor Vehicle	50,130	32.3	2.4	15	10
M&E	20,909	13.5	2.9	6	8
Agri-Food	9,767	6.3	5.5	7	6
Forestry	4,590	3.0	-0.3	-1	12
Consumer Goods	4,594	3.0	13.2	5	7
All Others	8,024	5.2	-2.3	7	6
Total	**155,413**	**100.0**	**6.4**	**9**	**9**

Source: Statistics Canada, EDC Economics. 2011 actual data, while 2012 and 2013 are forecast.

4.7 Manitoba

After surging 15% last year, Manitoba's exports are poised for a solid 8% increase in 2012 followed by a more moderate 7% rise next year. EDC Economics' forecast for solid export growth is underpinned by improving demand from the US and still-high, albeit moderating, agricultural commodity prices. The energy sector is benefiting from the soaring price of oil, driven by instability in the Middle East and North Africa. Pressure from the strong Canadian dollar remains a significant challenge for exporters; however, some reprieve is expected next year as the loonie dips to USD 0.97. Manitoba is Canada's most diversified provincial economy and almost all of its sectors are firing on all cylinders.

Manitoban agri-food exports are forecast to rise by 10% this year, as a large increase in the volume of exports will compensate for lower prices for most grains in 2012. After 2 years of water-saturated soils, farmers are looking forward to vastly improved conditions and harvests this year. Higher canola production over the forecast period will be a key contributor to Manitoba's export growth, while durum sales will also climb reflecting much higher prices. Manitoba's livestock exports will increase, particularly beef, which is seeing solid price increases and higher demand from emerging markets and Korea (which recently lifted its ban on Canadian beef).

Manitoba's energy sector will be a strong driver of growth over the forecast horizon, with exports expected to rise 11% this year and 5% in 2013. In spite of low growth in petroleum production, higher oil prices through 2012 will raise the value of the province's crude exports, while providing the incentive needed for increased drilling activity to support output. With US industrial activity picking up and Manitoba Hydro's Wuskwatim generating station coming online in 2012, our forecast is positive for Manitoba's electricity exports.

Finally, in the transportation sector, the aerospace industry will benefit from rising aircraft orders that will provide a welcome boost for Boeing Winnipeg, while Standard Aero's multi-year contracts with US NAVAIR and EuroLot should boost export prospects in the service segment.

Provincial Stats

GDP
CAD 54.3 billion

International Exports/GDP
27%

Number of Exporters
2010: 1,156
1999: 1,263

Trade Balance (2011)
CAD 4.3 billion (deficit)

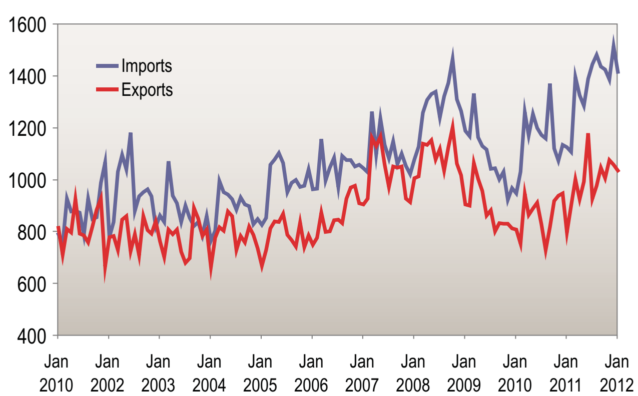
Largest Export Destinations
1. United States 61%
2. China 8%
3. Japan 6%

Share of Exports to Emerging Markets
2011: 22.3%
2007:19.8%

Herfindahl Index

(Trade diversification where 0=extreme concentration)
Sector: 0.22
Regional: 0.41

Figure 44: Manitoban Imports Back to Pre-Crisis Levels, but Exports Still Have a Way to Go (Monthly, CAD Millions)



Source: Statistics Canada

Table 23: Manitoba Merchandise Outlook

Top Sectors	CAD mn 2011	% Share of Province's Total Exports 2011	Export Outlook (% growth) 2011	2012(f)	2013(f)
Agri-Food	4,279	36.3	5.8	10	5
Industrial Goods	3,180	27.0	32.1	5	7
M&E	1,444	12.3	18.4	9	12
Energy	1,128	9.6	30.6	11	5
Motor Vehicle	469	4.0	8.7	13	10
Forestry	401	3.4	7.4	3	11
All others	881	7.5	-1.7	6	9
Total	**11,783**	**100.0**	**15.1**	**8**	**7**
Total excl. energy	**10,655**	**90.4**	**13.7**	**8**	**7**

Source: Statistics Canada, EDC Economics. 2011 actual data, while 2012 and 2013 are forecast.

4.8 Saskatchewan

After a blistering 25% increase in exports last year, Saskatchewan's growth will slow to a solid 8% this year, followed by a 3% rise in 2013. The province's energy exports will receive a boost from rising prices, while agriculture should rebound after the wet weather conditions that lowered harvests over the past 2 years.

Saskatchewan's energy exports will grow by 5% this year even though the oil production profile is fairly stable through 2013, as earnings will be pushed up by climbing oil prices. Rising light crude output out of the Bakken will be offset by sustained declines in conventional production of heavy oil, simply because the Western Canada Sedimentary Basin is mature and production has been declining for years. High energy prices will continue to drive investment, and higher drilling activity will continue through the forecast horizon, although it will take time for additional production capacity to come online.

The volume of Saskatchewan's agri-food exports will take off in 2012 as last year's flooding and much heavier-than-normal springtime precipitation led to challenging conditions in 2011, which saw a remarkably low level of acreage being seeded. However, soaring export volumes will be partly offset by lower grain prices, which will persist below the heights reached in 2011. Despite this, the long-term price drivers for global agriculture remain strong, particularly the rapidly rising emerging market demand for food as well as soaring production of biofuel. However, the record-high prices have driven big increases in supply and inventories will recover to normal levels. This year, Saskatchewan farmers have shifted production toward higher-margin canola and durum, while corn will remain essentially unchanged. Saskatchewan's beef exports will see slight declines in export volumes, but these will be supported by strong prices this year, as consumer demand builds momentum.

Fertilizer exports will post solid growth both this year and next, with the strongest performance coming from the potash sector. As an input into global agriculture, fertilizers are affected by the same retreat in agriculture prices, but potash much less so. Canpotex's growing shipments to Brazil, India and other Asian importers will be supported by impressive emerging market growth, which should continue through 2012 and into next year.

Provincial Stats

GDP
CAD 63.5 billion

International Exports/GDP
39%

Number of Exporters
2010: 761
1999: 731

Trade Balance (2011)
CAD 20.2 billion

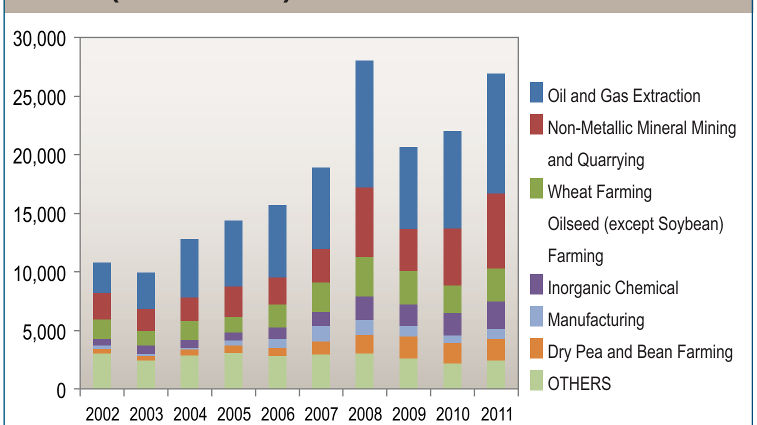
Largest Export Destinations
1. United States 62%
2. China 6%
3. Japan 3%

Share of Exports to Emerging Markets
2011: 24.9%
2007: 23.3%

Herfindahl Index

(Trade diversification where 0=extreme concentration)
Sector: 0.31
Regional: 0.41

Figure 45: Saskatchewan Exports Back to Pre-Crisis Levels (CAD Millions)



Source: Statistics Canada

Table 24: Saskatchewan Merchandise Outlook

Top Sectors	CAD mn 2011	% Share of Province's Total Exports 2011	2011	Export Outlook (% growth) 2012(f)	2013(f)
Energy	10,500	35.6	23.7	5	-1
Agri-Food	10,166	34.4	23.2	10	3
Fertilizers	6,555	22.2	30.3	10	7
Chemicals/Plastics	871	2.9	34.4	6	6
All Others	1,427	4.8	12.2	7	13
Total	**29,520**	**100.0**	**24.6**	**8**	**3**
Total excl. energy	**19,020**	**64.4**	**25.1**	**10**	**5**

Source: Statistics Canada, EDC Economics. 2011 actual data, while 2012 and 2013 are forecast.

4.9 Alberta

Following last year's very strong performance, Alberta's export sector will see growth moderate but continue to post steady gains; EDC Economics forecasts a 7% increase this year followed by a slightly slower 6% in 2013. After the very strong price gains for key commodities last year, upside potential is limited and prices will begin to soften next year. Volumes will be down for natural gas and newsprint over the coming 2 years. Overall, EDC anticipates that export revenues will clock in just shy of USD 100 billion in 2012, but clear this hurdle the following year.

Our forecast for exports of crude oil and petroleum products is largely driven by increased volume as price gains are limited. However, the impact from high prices will continue to be felt on the supply side, as heightened production activity will continue going forward due to significant investments and enhanced extraction techniques. Bitumen output could rise as much as 10% this year and next. We expect an annual average price for WTI crude of USD100/bbl this year, falling to USD95/bbl next year. The outlook for natural gas, on the other hand, is weak and is shaped by a regional market oversupplied thanks to ample US shale gas production. Natural gas prices will slip 25% to average just USD3/mmbtu this year. A price rebound is on tap next year, but will be insufficient to help entice production and export gains. With greater returns in the crude market, the shift toward more rig activity in the crude segment over natural gas will remain in place.

Industrial goods, M&E, agri-food and forestry are Alberta's other major export segments. Turning to industrial goods, the performance will be mixed. Fertilizers, chemicals and plastics will help propel industrial goods growth as global demand continues to rise and the US recovery boosts demand. Metals and ore sales, while less impressive, will benefit from a rebound in the US auto sector. The agri-food sector will also post solid gains thanks to higher sales of wheat, oilseeds and Alberta beef. The recovering US and Japanese markets alongside continued growth in sales to China, Mexico and the UAE will see steady double-digit volume sales of wheat and pulses. Meanwhile, prepared meat sales will advance 12% in both years. M&E sales linked to oil and gas drilling activity will continue to be strong over the forecast.

Provincial Stats

GDP
CAD 263.5 billion

International Exports/GDP
33%

Number of Exporters
2010: 2,972
1999: 2,901

Trade Balance (2011)
$69 billion

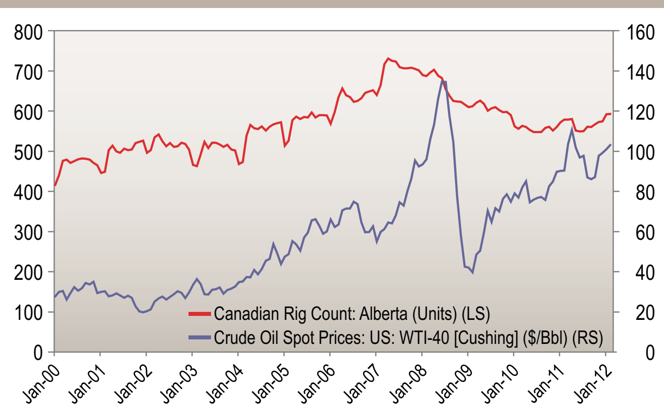
Largest Export Destinations
1. United States 43%
2. China 3%
3. Japan 2%

Share of Exports to Emerging Markets
2011: 7.2%
2007:7.6%

Herfindahl Index

(Trade diversification where 0=extreme concentration)
Sector: 0.53
Regional: 0.76

Figure 46: Alberta Rig Count vs WTI Prices



Source: Statistics Canada

Table 25: Alberta Merchandise Outlook

Top Sectors	CAD mn 2011	% Share of Province's Total Exports 2011	Export Outlook (% growth) 2011	2012(f)	2013(f)
Energy	67,596	72.6	19.3	8	5
Industrial Goods	10,200	11.0	15.4	4	5
Agri-Food	7,912	8.5	18.4	10	5
M&E	4,362	4.7	26.5	7	10
Forestry	2,078	2.2	-8.5	-1	20
All Others	898	1.0	17.9	8	9
Total	**93,046**	**100.0**	**18.3**	**7**	**6**
Total excl. energy	**25,450**	**27.4**	**15.7**	**6**	**7**

Source: Statistics Canada, EDC Economics. 2011 actual data, while 2012 and 2013 are forecast.

4.10 British Columbia

The expected slowdown in China this year will dampen the strong export growth of key commodities seen in recent years. Nonetheless, continued strong demand from China and other rapidly growing Asian economies over the medium to long term will benefit British Columbia's export sector, as will the US housing recovery.

We anticipate strong growth of BC's forestry sector exports in 2012 and 2013. As residential construction activity in China gears down, weaker Chinese demand for wood products will be more than compensated for by reconstruction in Japan following last year's devastating tsunami, and stronger US housing starts. Chinese pulp imports will again be an important growth driver going forward, although import demand will weaken from recent high growth rates with the slowing economy. We do not expect the Catalyst Paper restructuring to lead to capacity curtailment at the company's BC operations, although this remains a downside risk to our outlook.

Significantly weaker prices for natural gas and coal will see exports of energy decline in 2012. This will come despite rising production of natural gas from both the Horn River Basin and the Montney shale gas formation, and greater coal exports with the reopening of the Quintette mine and capacity expansion of West Coast coal terminals. There is mounting interest in the province's energy potential for natural gas and coal, particularly from Asia, due to growing demand for steel and electricity. As a result, international energy companies are lining up to invest in BC's energy potential, with further interest driven by uncertainty over the future of the Japanese nuclear sector. Two export-oriented LNG terminals have been approved, and analysts expect Shell to submit an application for a third one in the near future.

While the fundamentals for gold and copper will deteriorate over the forecast horizon, industrial goods exports will benefit from greater capacity in the province's metal mining sector. New supply is coming on stream in 2012, including Copper Mountain, Mount Milligan and New Afton, which will boost ore and metal exports despite weaker prices for key commodities. With more than 350 mineral exploration operations and 20 major mine projects active throughout the province, as well as significant additions to the Kitimat smelter in the province, the long-term outlook for BC's mining sector is quite promising.

Provincial Stats

GDP
CAD 203.1 billion

International Exports/GDP
22%

Number of Exporters
2010: 5,077
1999: 5,543

Trade Balance (2011)
CAD -7 billion (deficit)

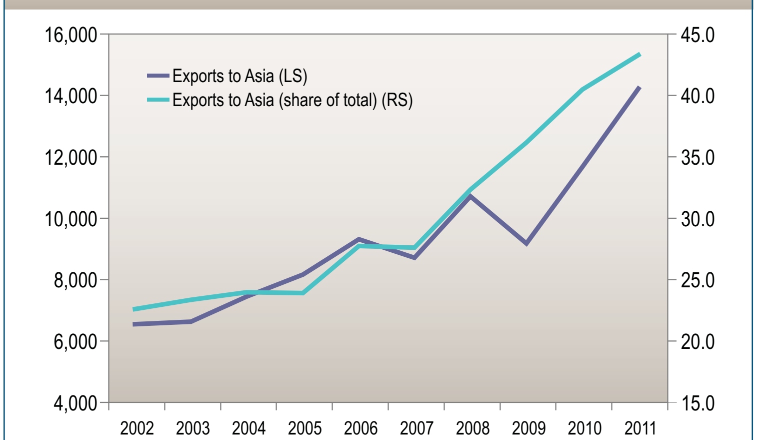
Largest Export Destinations
1. United States 43%
2. China 15%
3. Japan 14%

Share of Exports to Emerging Markets
2011: 24.5%
2007:12.6%

Herfindahl Index

(Trade diversification where 0=extreme concentration)
Sector: 0.23
Regional: 0.24

Figure 47: Asian Demand Boost



Source: Industry Canada

Table 26: BC Merchandise Outlook

Top Sectors	CAD mn	% Share of Province's Total Exports	Export Outlook (% growth)		
	2011	2011	2011	2012(f)	2013(f)
Forestry	9,900	30.2	8.8	9	24
Energy	10,054	30.7	25.1	-1	8
Industrial Goods	6,557	20.0	18.4	7	10
M&E	2,416	7.4	6.3	5	8
Agri-Food	2,587	7.9	1.5	4	6
All Others	1,285	3.9	4.9	5	8
Total	**32,799**	**100.0**	**14.2**	**4**	**13**
Total excl. energy	**22,745**	**69.3**	**10.0**	**7**	**16**

Source: Statistics Canada, EDC Economics. 2011 actual data, while 2012 and 2013 are forecast.

5.0 Annexes

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

positive +

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative –

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

5.1 Experience and Attitude

Algeria

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Negative: (–)

Angola

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

Argentina

Risk Level

Short-term commercial:	Medium-High
Medium-long-term commercial:	Medium-High
Sovereign:	High
EDC payment experience 2011:	Positive: (+)

Armenia

Risk Level

Short-term commercial:	Medium-High
Medium-long-term commercial:	Medium-High
Sovereign:	Medium-High
EDC payment experience 2011:	Insufficient Data

Australia

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Positive: (+)

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positive

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

Azerbaijan

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Insufficient Data

Bahamas

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Positive: (+)

Bahrain

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Negative: (–)

Bangladesh

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium-High
Sovereign:	Medium-High
EDC payment experience 2011:	Positive: (+)

Barbados

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

positive +

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative –

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

Bolivia, Plurinational State of

Risk Level

Short-term commercial:	Medium-High
Medium-long-term commercial:	Medium-High
Sovereign:	Medium-High
EDC payment experience 2011:	Positive: (+)

Botswana

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

Brazil

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Negative: (–)

Bulgaria

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

Cameroon

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium-High
EDC payment experience 2011:	Insufficient Data

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

positive +

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative −

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

Chile

Risk Level

Short-term commercial: Low
Medium-long-term commercial: Low
Sovereign: Low
EDC payment experience 2011: Positive: (+)

China

Risk Level

Short-term commercial: Low
Medium-long-term commercial: Low
Sovereign: Low
EDC payment experience 2011: Positive: (+)

Colombia

Risk Level

Short-term commercial: Medium
Medium-long-term commercial: Medium
Sovereign: Medium
EDC payment experience 2011: Positive: (+)

Costa Rica

Risk Level

Short-term commercial: Medium
Medium-long-term commercial: Medium
Sovereign: Medium
EDC payment experience 2011: Positive: (+)

Côte d'Ivoire

Risk Level

Short-term commercial: High*
Medium-long term Commercial: High
Sovereign: High
EDC payment experience 2011: No Information

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

positive +

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative −

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

Croatia

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Meduim
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

Cuba

Risk Level

Short-term commercial:	Medium-High*
Medium-long-term commercial:	High
Sovereign:	High
EDC payment experience 2011:	No Information

Czech Republic

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Neutral: **(O)**

Dominican Republic

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium-High
EDC payment experience 2011:	Neutral: **(O)**

Ecuador

Risk Level

Short-term commercial:	Medium-High
Medium-long term Commercial:	Medium-High
Sovereign:	High
EDC payment experience 2011:	Positive: (+)

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

positive +

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative –

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

Egypt

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Neutral: **(O)**

El Salvador

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

Equatorial Guinea

Risk Level

Short-term commercial:	Medium-High
Medium-long-term commercial:	Medium-High
Sovereign:	Medium-High
EDC payment experience 2011:	Insufficient Data

Estonia

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Positive: (+)

Ethiopia

Risk Level

Short-term commercial:	Medium-High
Medium-long-term commercial:	High
Sovereign:	High
EDC payment experience 2011:	Insufficient Data

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

positive +

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative –

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

France

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Positive: (+)

Gabon

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium-High
EDC payment experience 2011:	Negative: (–)

Georgia

Risk Level

Short-term commercial:	Medium-High
Medium-long-term commercial:	Medium-High
Sovereign:	Medium-High
EDC payment experience 2011:	Positive: (+)

Germany

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Positive: (+)

Ghana

Risk Level

Short-term commercial:	Medium-High
Medium-long-term commercial:	Medium-High
Sovereign:	Medium-High
EDC payment experience 2011:	Positive: (+)

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

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Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative –

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

Greece

Risk Level

Short-term commercial:	Medium-High
Medium-long-term commercial:	High
Sovereign:	High
EDC payment experience 2011	Negative: (–)

Guinea

Risk Level

Short-term commercial:	High
Medium-long-term commercial:	High
Sovereign:	High
EDC payment experience 2011:	Insufficient Data

Haiti

Risk Level

Short-term commercial:	High
Medium-long-term commercial:	High
Sovereign:	High
EDC payment experience 2011:	Insufficient Data

Hong Kong

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Positive: (+)

Hungary

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

positive

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

India

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

Indonesia

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

Iraq

Risk Level

Short-term commercial:	High
Medium-long-term commercial:	High
Sovereign:	High
EDC payment experience 2011:	Insufficient Data

Israel

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Neutral: **(O)**

Italy

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Positive: (+)

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neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative –

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

Jamaica

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium-High
Sovereign:	Medium-High
EDC payment experience 2011:	Neutral: **(O)**

Japan

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Positive: (+)

Jordan

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Neutral: **(O)**

Kazakhstan

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

Kenya

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium-High
Sovereign:	Medium-High
EDC payment experience 2011:	Negative: (–)

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

positive +

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative –

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

Kuwait

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Negative: (–)

Kyrgyzstan

Risk Level

Short-term commercial:	High
Medium-long-term commercial:	High
Sovereign:	High
EDC payment experience 2011:	Insufficient Data

Lebanon

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium-High
Sovereign:	Medium-High
EDC payment experience 2011:	Neutral: (O)

Libya

Risk Level

Short-term commercial:	Medium-High
Medium-long-term commercial:	Medium-High
Sovereign:	Medium-High
EDC payment experience 2011:	Insufficient Data

Lithuania

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Low
Sovereign:	Medium
EDC payment experience 2011:	Negative: (–)

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

positive +

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative –

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

Malaysia

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Positive: (+)

Mali

Risk Level

Short-term commercial:	Medium-High
Medium-long-term commercial:	High
Sovereign:	High
EDC payment experience 2011:	Positive: (+)

Mauritania

Risk Level

Short-term commercial:	Medium-High
Medium-long-term commercial:	High
Sovereign:	High
EDC payment experience 2011:	Positive: (+)

Mauritius

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

Mexico

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Low
Sovereign:	Medium
EDC payment experience 2011:	Neutral: **(O)**

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

positive +

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative –

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

Mongolia

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium-High
Sovereign:	Medium-High
EDC payment experience 2011:	Positive: (+)

Morocco

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

Mozambique

Risk Level

Short-term commercial:	Medium-High
Medium-long-term commercial:	Medium-High
Sovereign:	Medium-High
EDC payment experience 2011:	Insufficient Data

Namibia

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

Netherlands

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Positive: (+)

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

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positive +

neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative –

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

Nigeria

Risk Level

Short-term commercial:	Medium-High
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

Oman

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Positive: (+)

Pakistan

Risk Level

Short-term commercial:	Medium-High
Medium-long-term commercial:	High
Sovereign:	High
EDC payment experience 2011:	Positive: (+)

Panama

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Low
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

Peru

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

positive +

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative –

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

Philippines

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

Poland

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Positive: (+)

Portugal

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Medium
EDC payment experience 2011:	Negative: (–)

Qatar

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Neutral: (O)

Romania

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

positive +

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative –

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

Russian Federation

Risk Level

Short-term commercial: Medium
Medium-long-term commercial: Medium
Sovereign: Medium
EDC payment experience 2011: Negative: (–)

Saudi Arabia

Risk Level

Short-term commercial: Low
Medium-long-term commercial: Low
Sovereign: Low
EDC payment experience 2011: Neutral: **(O)**

Senegal

Risk Level

Short-term commercial: Medium
Medium-long-term commercial: High
Sovereign: High
EDC payment experience 2011: Negative: (–)

Singapore

Risk Level

Short-term commercial: Low
Medium-long-term commercial: Low
Sovereign: Low
EDC payment experience 2011: Positive: (+)

Slovakia

Risk Level

Short-term commercial: Low
Medium-long-term commercial: Low
Sovereign: Low
EDC payment experience 2011: Negative: (–)

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positive +

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative –

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

South Africa

Risk Level

Short-term commercial: Low
Medium-long-term commercial: Low
Sovereign: Medium
EDC payment experience 2011: Positive: (+)

Republic of Korea

Risk Level

Short-term commercial: Low
Medium-long-term commercial: Low
Sovereign: Low
EDC payment experience 2011: Positive: (+)

Spain

Risk Level

Short-term commercial: Low
Medium-long-term commercial: Low
Sovereign: Low
EDC payment experience 2011: Positive: (+)

Sri Lanka

Risk Level

Short-term commercial: Medium
Medium-long-term commercial: Medium-High
Sovereign: Medium-High
EDC payment experience 2011: Negative: (–)

Syrian Arab Republic

Risk Level

Short-term commercial: High
Medium-long-term commercial: High
Sovereign: High
EDC payment experience 2011: Positive: (+)

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

positive +

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative –

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

Taiwan, Province of China

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Positive: (+)

Tajikistan

Risk Level

Short-term commercial:	Medium-High
Medium-long-term commercial:	High
Sovereign:	High
EDC payment experience 2011:	No Information

Tanzania, United Republic of

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium-High
Sovereign:	Medium-High
EDC payment experience 2011:	Negative: (–)

Thailand

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Low
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

Trinidad & Tobago

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Low
Sovereign:	Medium
EDC payment experience 2011:	Negative: (–)

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

positive +

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative –

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

Tunisia

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Negative: (–)

Turkey

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

Turkmenistan

Risk Level

Short-term commercial:	High
Medium-long-term commercial:	Medium-High
Sovereign:	Medium-High
EDC payment experience 2011:	No Information

Uganda

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium-High
EDC payment experience 2011:	Insufficient Data

Ukraine

Risk Level

Short-term commercial:	Medium-High
Medium-long-term commercial:	Medium-High
Sovereign:	Medium-High
EDC payment experience 2011:	Insufficient Data

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

positive +

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative –

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

United Arab Emirates

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Positive: (+)

United Kingdom

Risk Level

Short-term commercial:	Low
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Positive: (+)

United States

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Low
Sovereign:	Low
EDC payment experience 2011:	Positive: (+)

Uruguay

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Positive: (+)

Uzbekistan

Risk Level

Short-term commercial:	Medium-High
Medium-long-term commercial:	High
Sovereign:	High
EDC payment experience 2011:	Insufficient Data

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

positive +

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

neutral O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

negative –

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

Venezuela, Bolivarian Republic of

Risk Level

Short-term commercial:l:	Medium-High
Medium-long-term commercial:	Medium-High
Sovereign:	Medium-High
EDC payment experience 2011:	Positive: (+)

Viet Nam

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium-High
Sovereign:	Medium-High
EDC payment experience 2011:	No Information

Yemen

Risk Level

Short-term commercial:	High
Medium-long-term commercial:	High
Sovereign:	High
EDC payment experience 2011:	No Information

Zambia

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Medium
Sovereign:	Medium
EDC payment experience 2011:	Insufficient Data

5.2 Payment Risk Maps

Latin America

Short-term payment risk

Caribbean

Short-term payment risk

* Special restrictions may apply

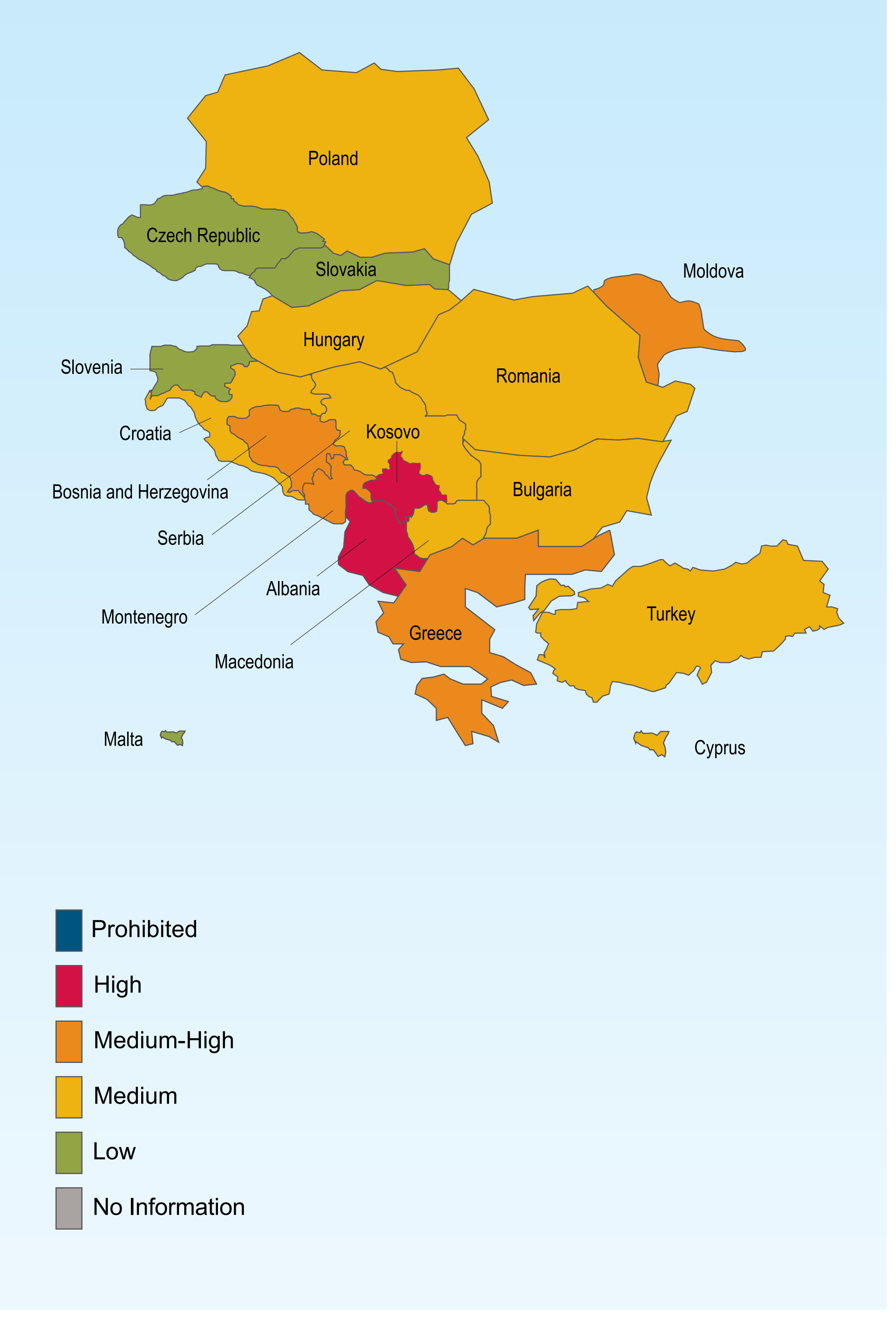
Asia/Pacific

Short-term payment risk

* Special restrictions may apply

Central Europe

Short-term payment risk

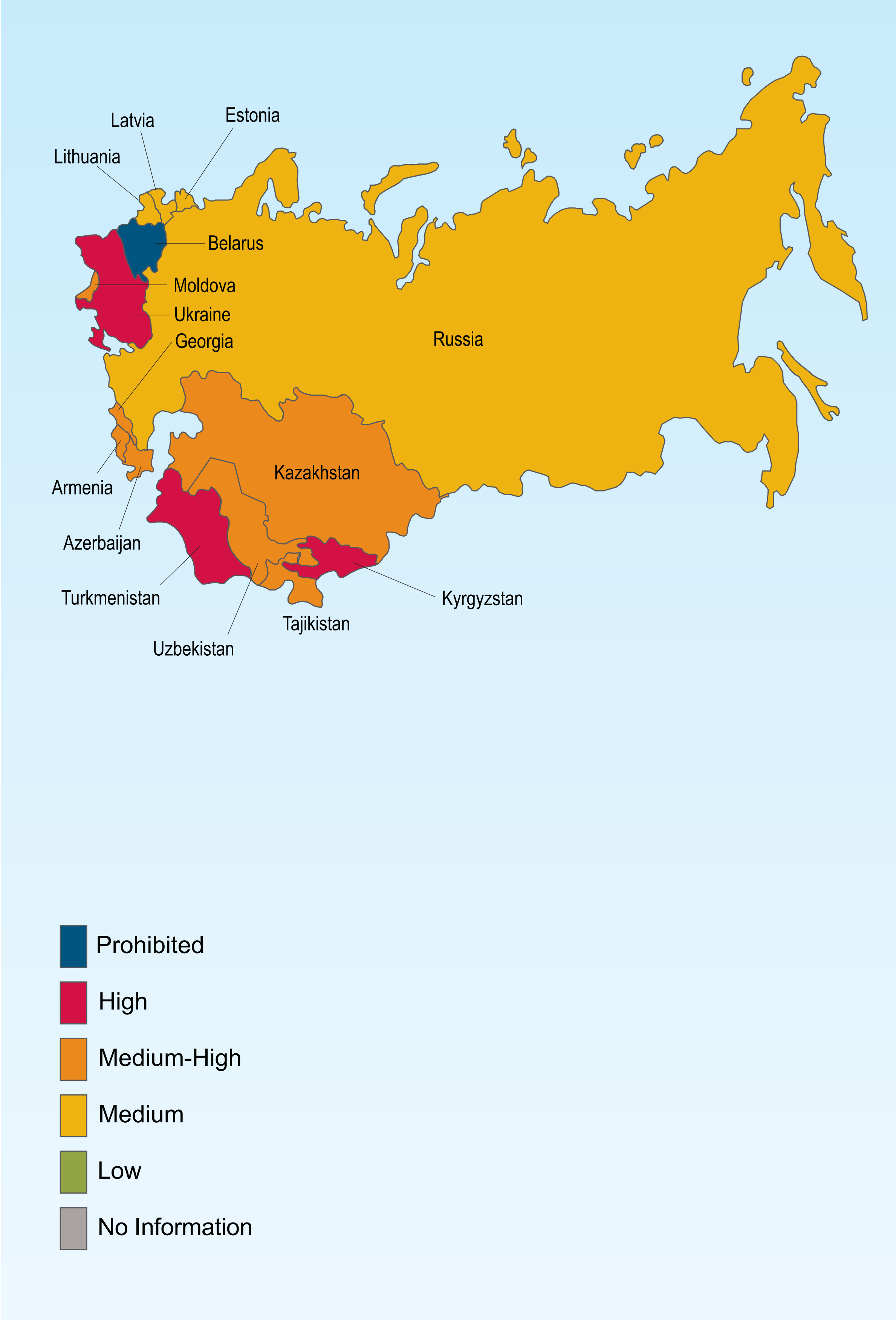


Western Europe

Short-term payment risk

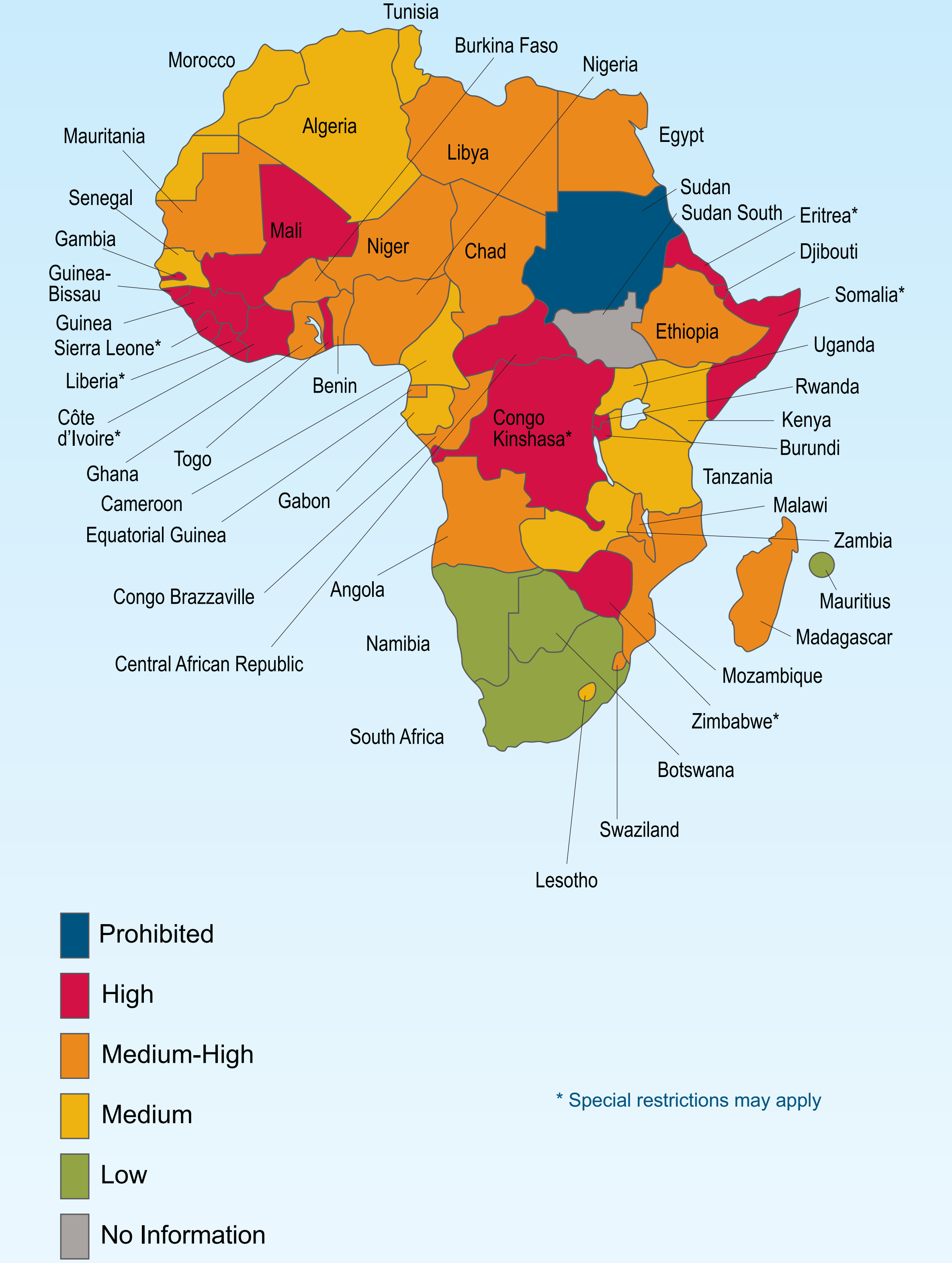
Former Soviet Union

Short-term payment risk



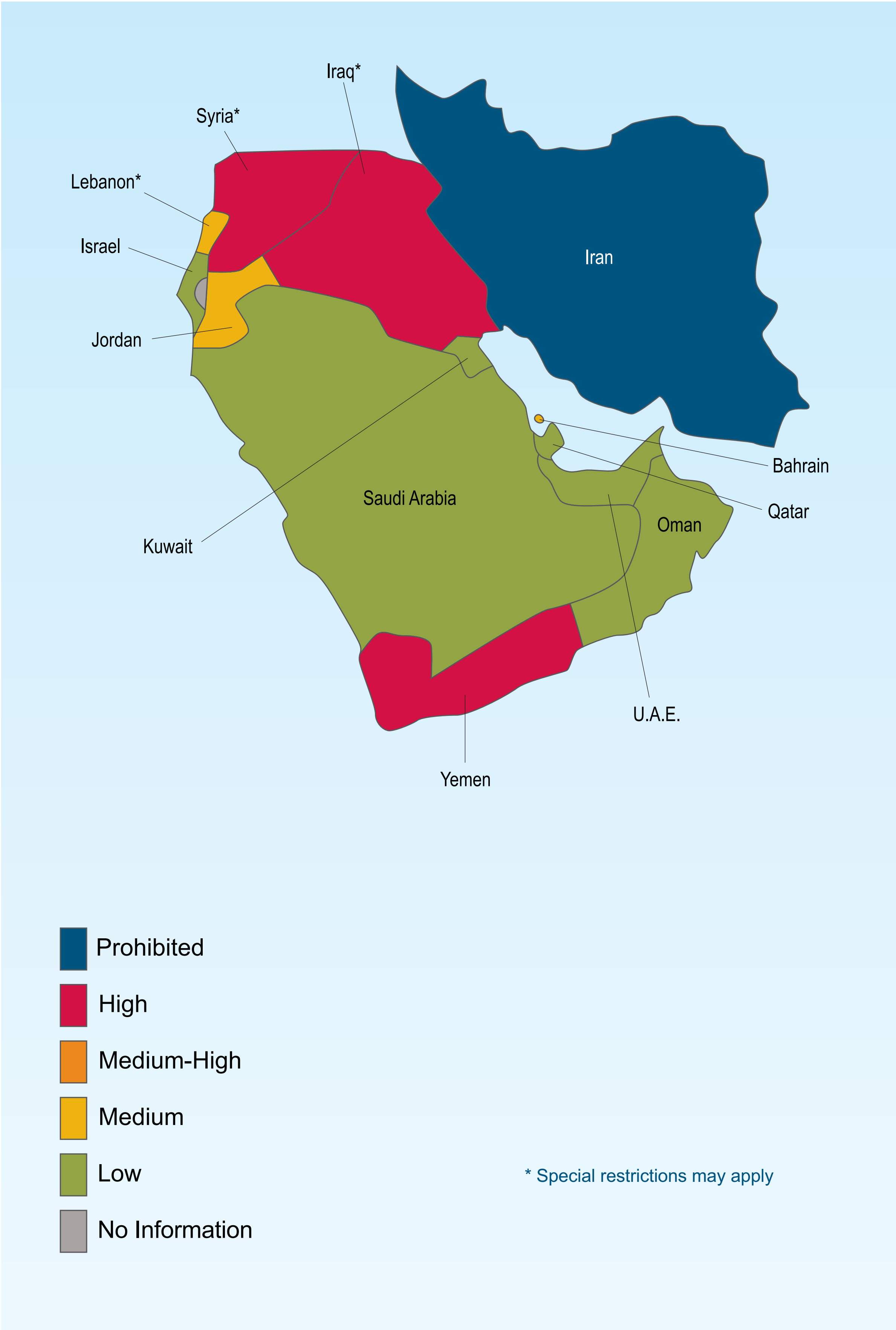
Africa

Short-term payment risk



Middle East

Short-term payment risk

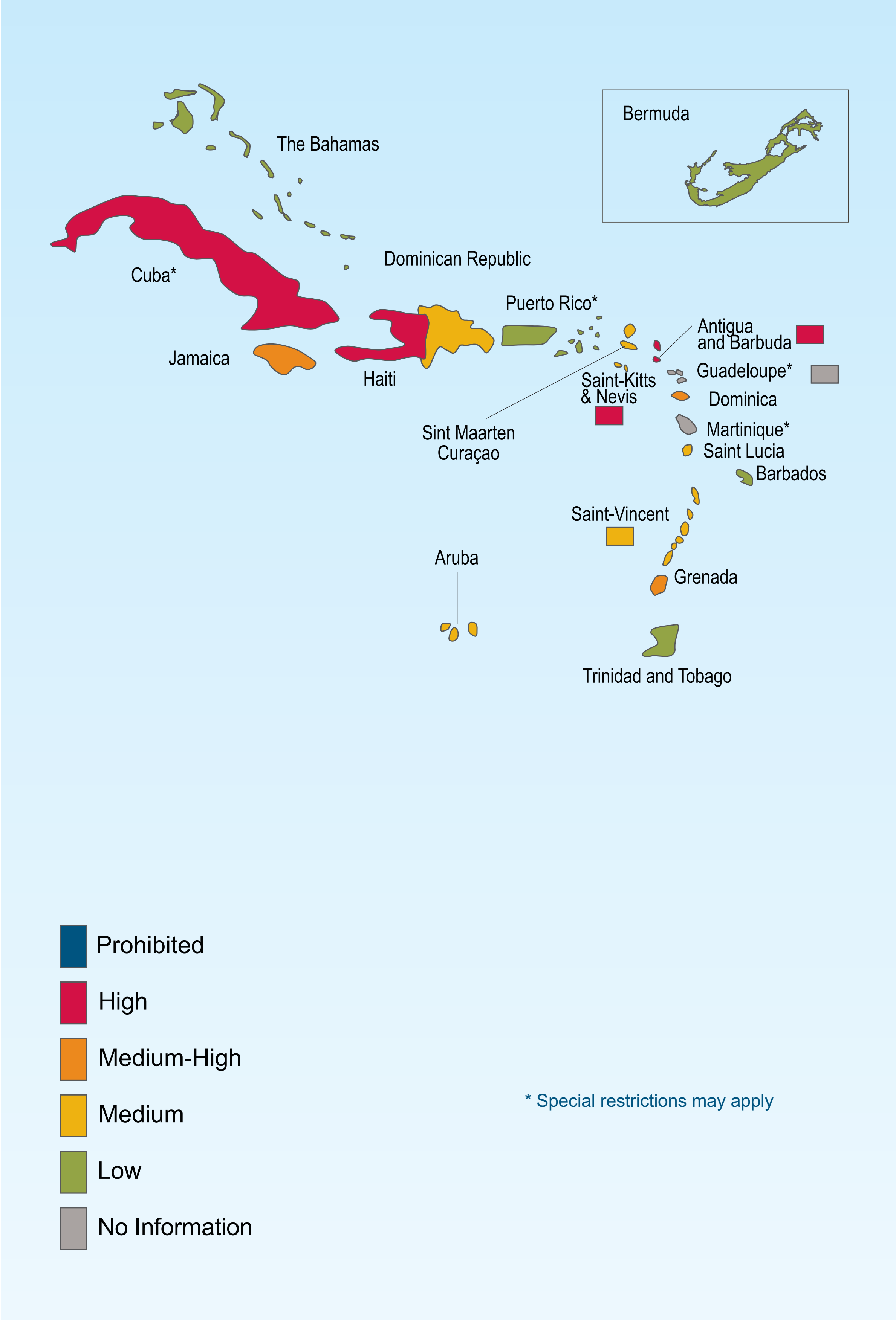


Latin America

Medium- & long-term payment risks

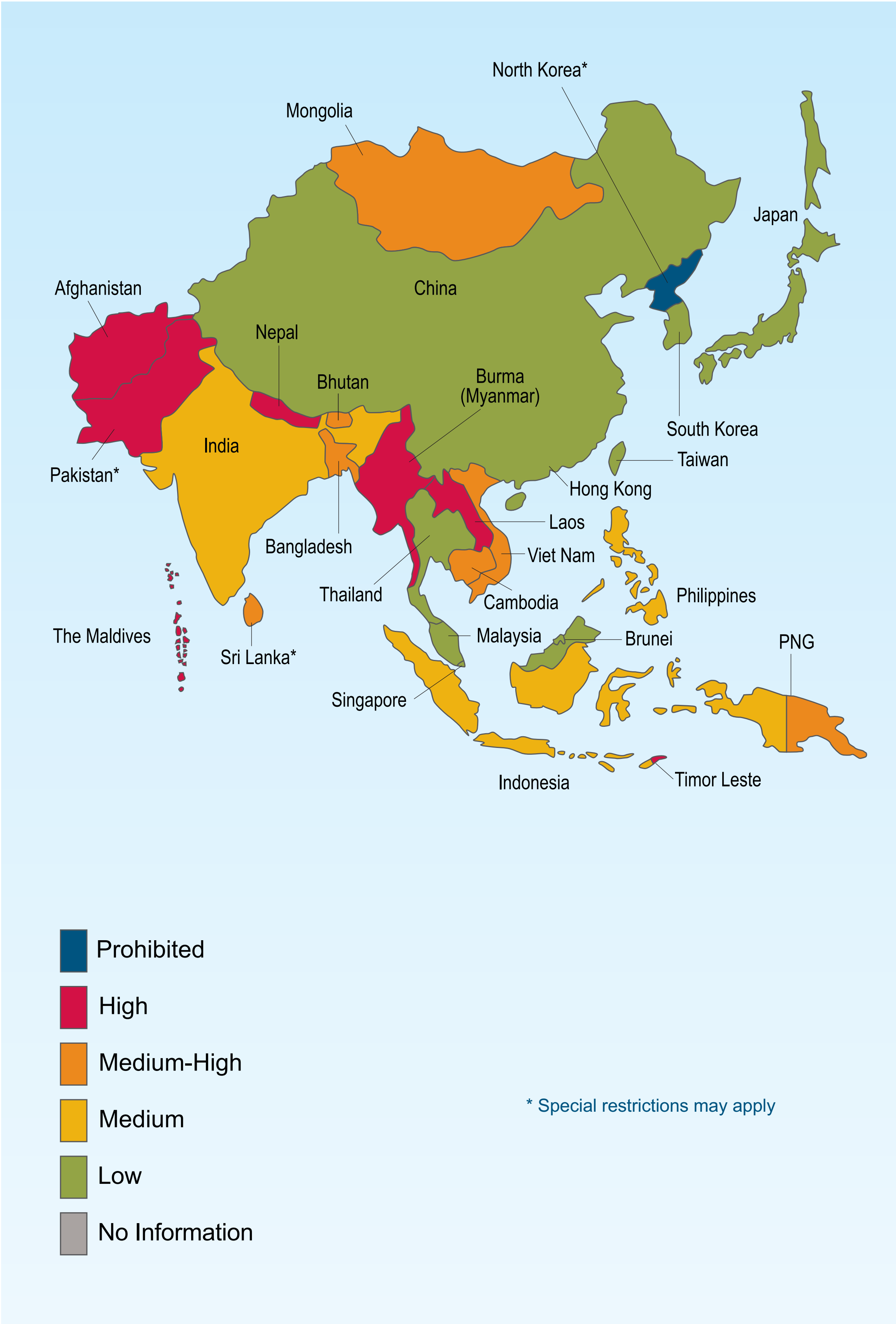
Caribbean

Medium- & long-term payment risks



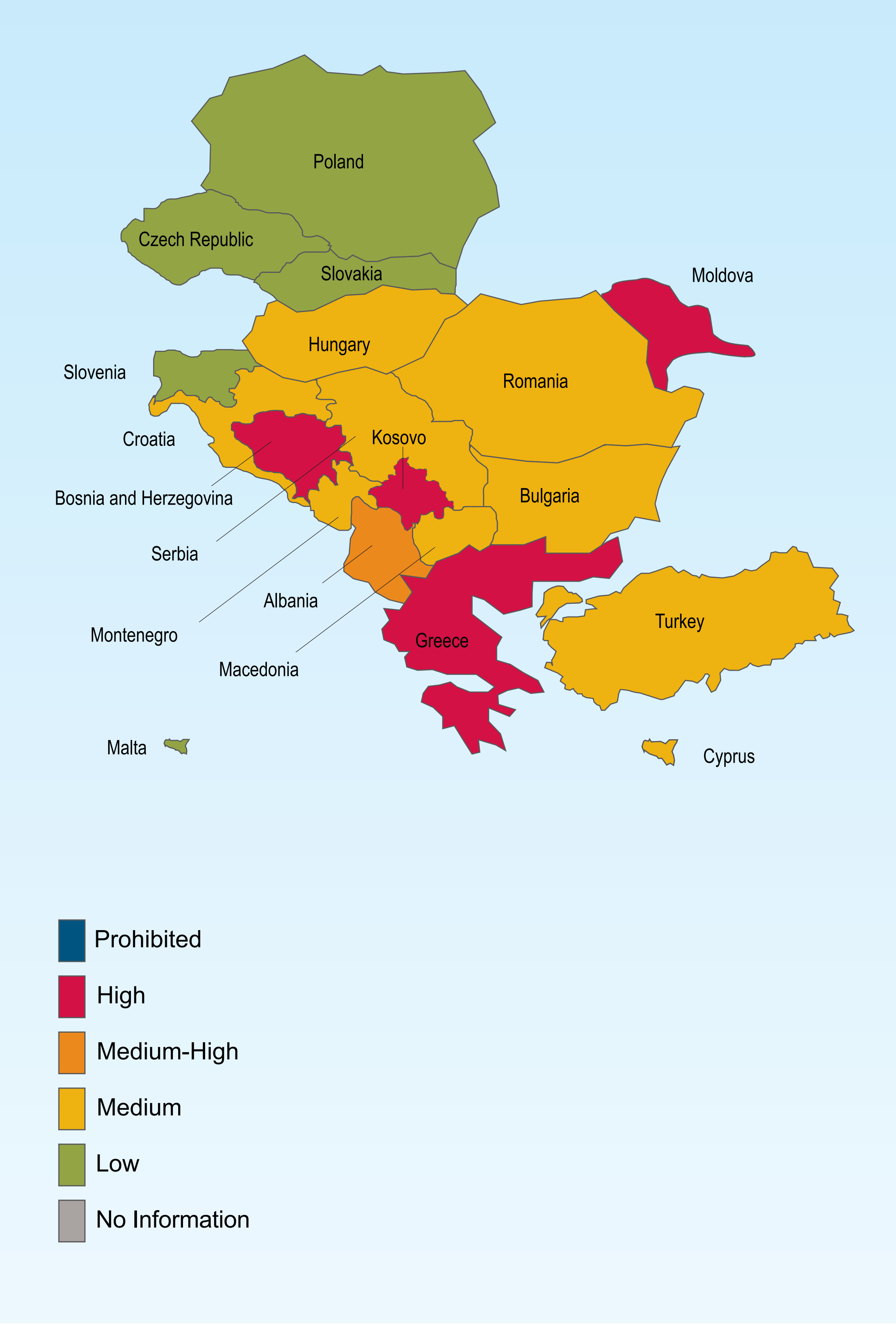
Asia/Pacific

Medium- & long-term payment risks



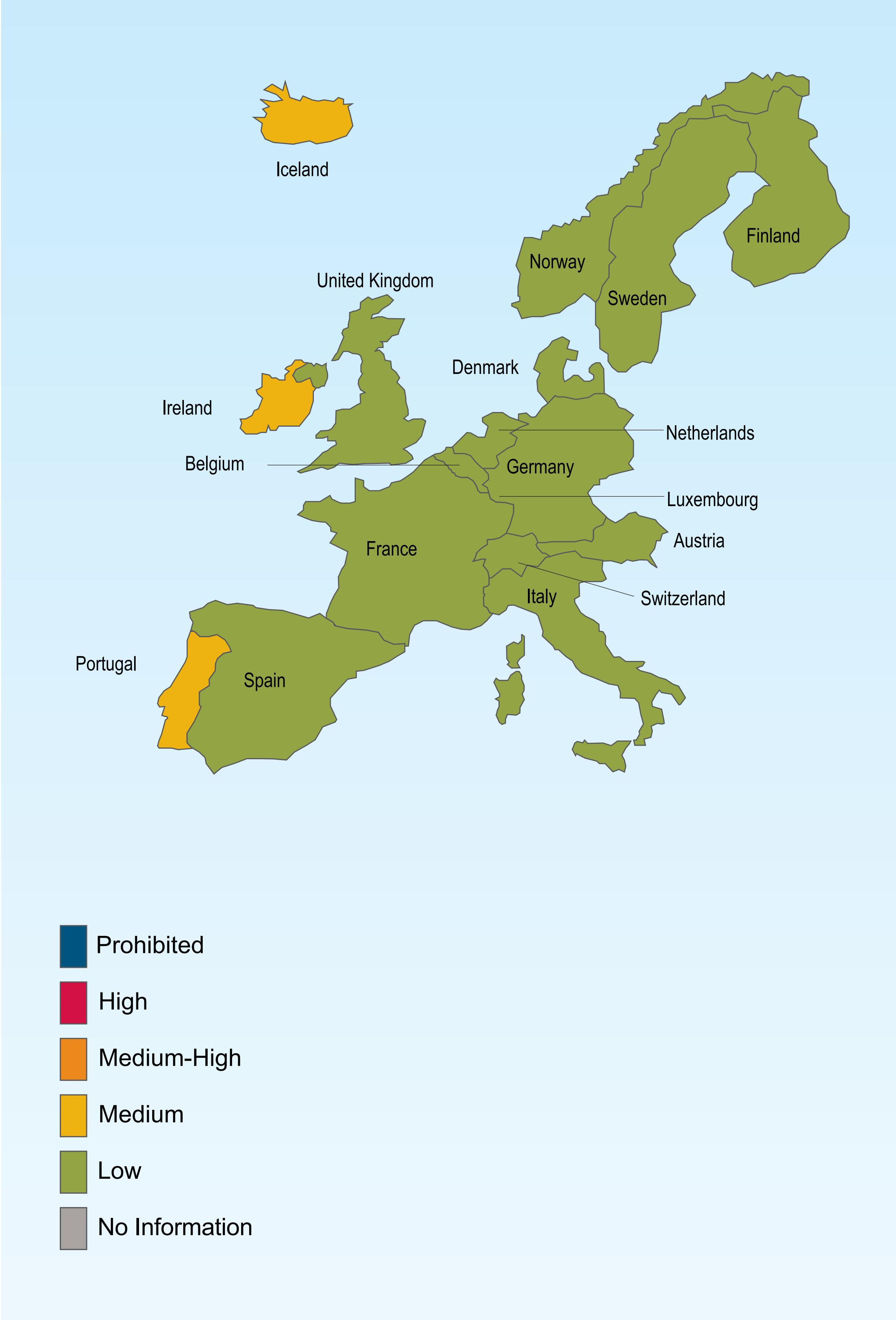
Central Europe

Medium- & long-term payment risks



Western Europe

Medium- & long-term payment risks

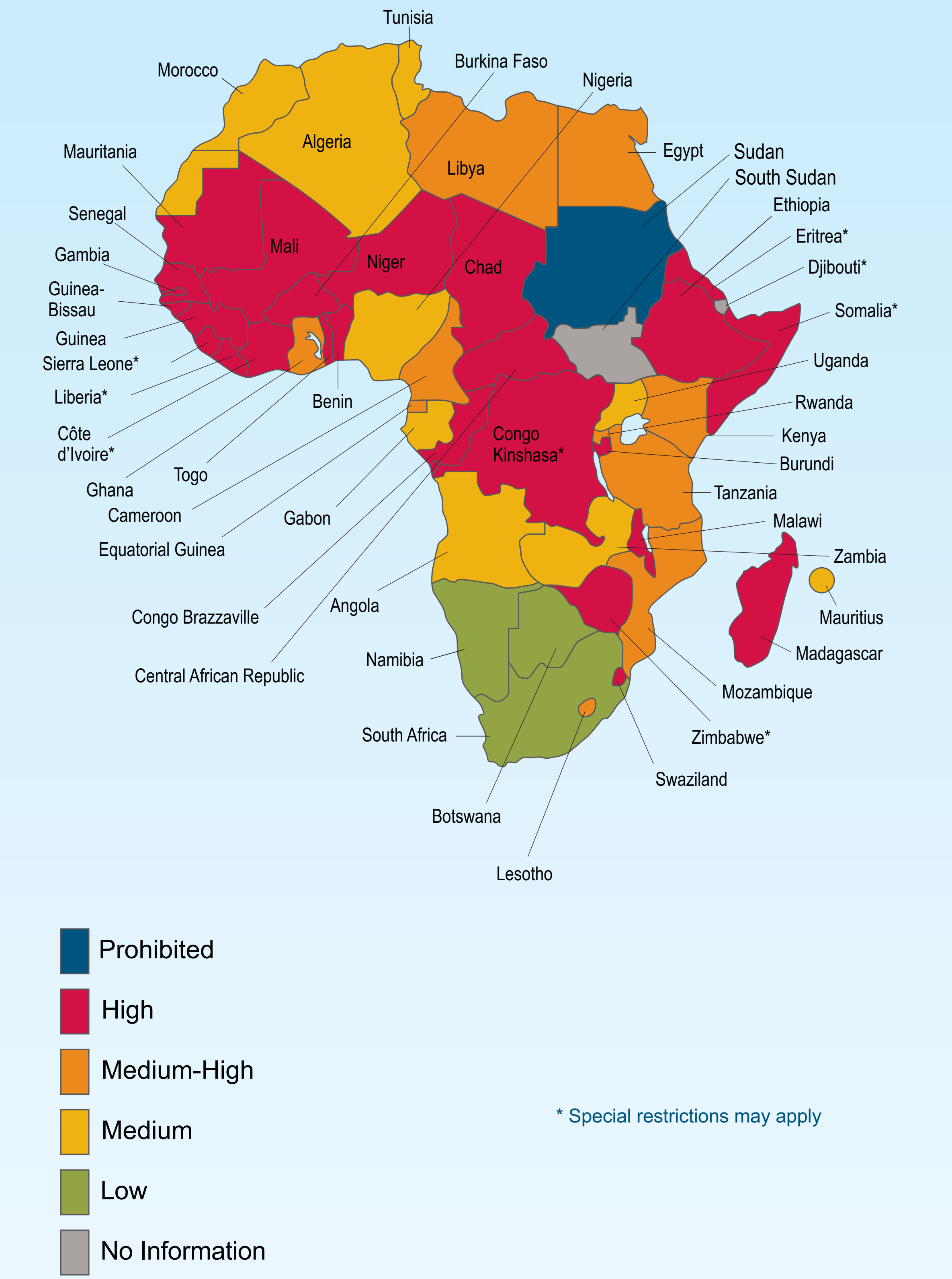


Former Soviet Union

Medium- & long-term payment risks

Africa

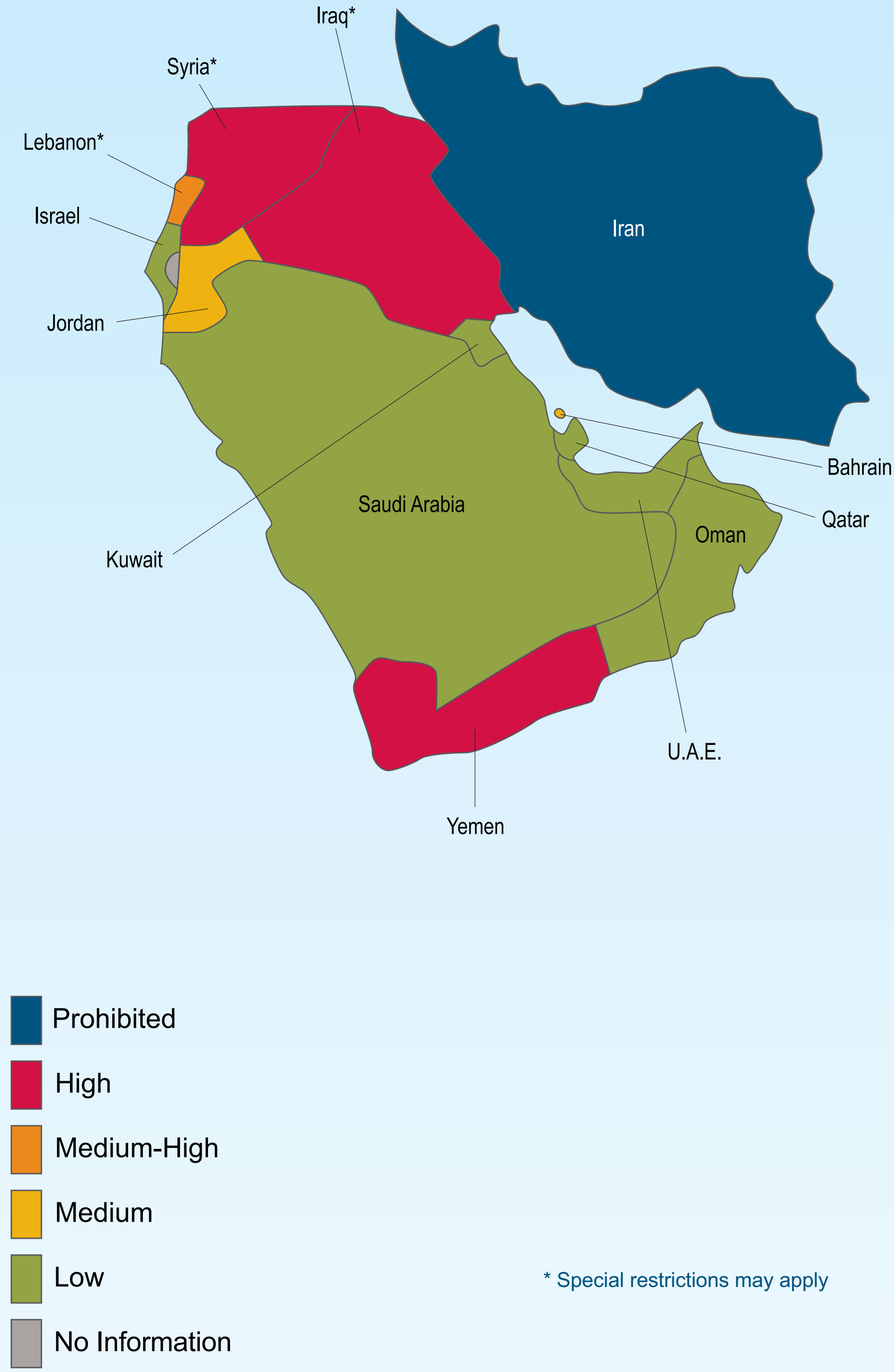
Medium- & long-term payment risks



* Special restrictions may apply

Middle East

Medium- & long-term payment risks



* Special restrictions may apply

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Commodity Tracker
The Commodity Tracker is a weekly table of commodity prices and economic indicators related to activity in the commodity markets that are most relevant to Canadian exporters.

Weekly Commentary by Peter G. Hall
Short, intuitive insights into this week's hot economic issues.

Country Snapshots

- Canada Country Overview
- US Country Overview
- Japan Country Overview
- Euro Area Overview
- Brazil Country Overview
- Mexico Country Overview
- China Country Overview
- India Country Overview
- Russian Federation Country Overview
- South Africa Country Overview

This assessment is valid at date of issue but always subject to review.
Please contact the **EDC Economics Division** for current position.

For the complete Spring 2012 Global Export Forecast visit

www.edc.ca/gef

edc.ca

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