



The Final Push?

Global Export Forecast Fall 2012

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1.0 GEF Executive Summary



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The Final Push?

This is getting frustrating. Almost four years beyond the global recession, and the world economy is still going sideways. And for three of those years, an annoying pattern has hobbled the world's efforts to recover: momentum early on, softening in the summer months, but giving way to a late-year upturn that spills into the next year, only to be hit with a summer spoiler again. Repetition has convinced many that the best we can expect is more of the same. Are they right?

They themselves might determine the answer. The economy's failure to maintain higher growth has weighed heavily on confidence. Americans have been stuck in a recessionary gloom since 2009 – very unusual psychology for them – and pessimism is growing at an alarming pace in Europe. Immune until recently, emerging markets have recently joined in the dirge, thanks to a worrisome slowdown. The collective sense of gloom is in itself risky, as it can – and has – provoked overreactions to new economic and political developments.

Another key weight on confidence is the list of significant risks that the world economy could trip up on. Spanning Europe's fiscal tightrope is still a tricky business, and the high-wire act will have to endure further gusts of wind before reaching the other side. Any slip-up would have serious consequences for the continent's banking system, which is highly exposed to European government bonds. A third global risk is political instability. Discontent in the Middle East and North Africa is again surging, manifest in protests that are now engaging a broader global theatre. Recent developments have resurrected a fourth risk. Geopolitical tensions have raised fuel prices, and drought conditions affecting key agricultural zones have caused prices of key grains to skyrocket. Developed countries will barely notice the change, but emerging economies could experience significant economic and political disruption. Any one of these risks could quickly quash economic momentum, further prolonging a proper recovery.

The situation is further complicated by the opposing forces in the global economy. The foremost is probably the episodic push-and-pull of growth and stagnation, mentioned above. Second, there's the tension between the faster-growing countries and the slow ones. Third, policy measures are pulling in different directions. Europe is rapidly reeling in government spending in an effort to prevent debt spirals, while at the same time, emerging markets are spending more, and additional monetary easing is in the works in a number of countries. Fourth, the public sector, generally in decline, is at odds with a business sector eager to put the recession behind it. And finally, we can't forget the juxtaposition of a corporate sector sitting on mountains of cash, and investment in plant and equipment which remains lacklustre.

These tensions point to a world economy seemingly unable to break out of a sideways trend – the same dilemma it faced during the Great Depression. At that time it was observed that the economy remained well below normal levels of activity long after the excesses of the Roaring '20s were exhausted. What the economy needed then was a psychological reset – and deficit financing was born as a strategy that gave governments the fiscal firepower to kick-start ailing business activity.

This time around, shock-and-awe government spending measures were used across the world in a collective program that for size, speed and synchronization was unlike none other in history. The spending program was aided by an extreme dose of monetary policy, and when historically low interest rates proved insufficient, quantitative easing made its international debut.

History will likely conclude that spending programs were initiated too soon in the cycle. We had barely begun to chip away at the massive excesses of the past growth phase before vast public cash hit the economy. At first, it seemed very effective, creating what looked like a dramatic recovery. But when the initial effects of the new money wore off, we were back to dealing with those pre-recession excesses. Now, the economy is showing signs of being back in balance – but there's hardly any policy ammunition left to provide the needed push into the next growth cycle. Where, then, will it come from?

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If anything, it is likely to originate in a country or region of the world. Is Europe a possibility? Saddled with heavy government austerity and weak growth fundamentals, Western Europe seems anything but a global spark plug in the near term. And as long as its growth prospects remain soft, the financing requirements of Europe's weakest governments will continue to periodically incite fear in global financial markets. When it comes to potential growth engines, this 20% chunk of global GDP – slated to recede by 0.5% this year and to rise in 2013 by just 0.7% – is looking elsewhere in the world.

A casual glance at Japan's recent performance, and one might see hope. However, a large part of this year's 2.2% gain is due to substantial earthquake/tsunami reconstruction money. Without the same boost, 2013 growth is expected to ease to 1.5%, taking the world's number three economy out of the running.

Many have hailed the large, fast-growing emerging markets as global growth engines. Their dramatic growth is certainly lifting global average performance significantly, but at present, they are hardly pulling the rest of the world along. Among these economies, growth is static at best, but India, China and Brazil are each battling significant slowdown, highlighting their dependence on growth in the developed world and their own hefty stimulus programs. Together, emerging markets will continue to outpace the developed world by a large margin, averaging 5.3% in 2012 and 5.6% in 2013, but to date have not matured enough to launch the next growth cycle.

We are fast running out of options. With all the bad news about US fiscal finances both now and in the future, America hardly appears to be the world's great hope. However, its beleaguered housing market — in many ways, an icon of the current global debacle — is on the rise, and gaining momentum. New life in this market is pulling along the US consumer. Fears of a European meltdown early in the summer saw this awakening 70% chunk of the US economy nod off again, but only briefly. Spending is again rising aggressively, and this time around it is sustainable. Resurgence in the domestic economy and decent international trade performance have fired up the American production machine, lifting total industrial capacity utilization right back to peak levels seen at the end of the last growth cycle. The US economy won't be able to grow much more before it needs to expand productive capacity — suggesting that the mountain of cash corporations are currently sitting on is just about to be unleashed into the economy.

So, if the picture is this rosy for the world's largest economy, why does the forecast only call for 2.3% growth this year and 2.8% in 2013? Like Europe, the US is also weathering extensive government cutbacks. In an austerity environment, to get growth like America's requires an underlying economy growing at roughly 4%, which is more than achievable, and indeed, is occurring as we speak. It is this underlying pace of growth, originating in the private sector, that singles out the US economy as the most likely global growth engine, enabling the world economy to accelerate from growth of 3.4% in 2012 to 3.9% next year.

Commodity prices are forecast to retreat as world growth gains momentum. That might seem counter-intuitive as demand for commodities picks up again. While brief gains may occur, the vast amounts of stranded cash across the world — some of which has been invested in commodities — will make its way back into more normal investments, sending prices for base metals and energy products downward. Weaker prices will actually bring relief on the currency front. The Canadian dollar is forecast to dip from parity this year to 97 US cents in 2013.

The timing is good for Canadian exporters. The rest of the economy will be looking to exporters for growth, as Canada's domestic sectors run out of steam. Consumers are overstretched, running up debts to historic heights during the recession years, and government spending is in retreat. Unlike the US, Canada's housing markets are oversupplied. Will exporters come through?

Strong overseas demand for raw materials will combine with rising US demand and the continuation of a decade-long diversification of sales into fast-growing emerging markets, to lift merchandise exports growth from 4.9% this year to 6.7% in 2013.

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Most industries will see growth accelerate into 2013. Topping growth off at 12% is the forestry sector, where wood product sales will surge as US homebuilding takes off. In spite of weaker prices, strong volume sales will vault energy exports ahead by just under 11%. Also into double digits are the agri-food and fertilizer industries, where strong prices and volume shipments are the story. Strong product sales will lift the aerospace and industrial machinery sectors above 8% growth. Laggard industries include metals, which will sustain large price drops, advanced technology (a perennial weak spot) and the auto sector, which will be constrained by capacity.

Strength in commodity industries will be widespread, but will have the most notable impact on the Western provinces. Central Canada will benefit from higher machinery exports, but weakness in the auto sector will weigh on Ontario's performance. Atlantic Canada's growth will be conditioned by the effects of large projects. Strong growth in US sales will revive the region's beleaguered wood products industry.

The bottom line? The world economy is beset by powerful opposing forces that, together with unusually persistent pessimism, threaten a strong growth trend that is beginning in the US economy. Barring significant adverse economic developments in the coming months, underlying US strength and its effects on world growth will become more obvious as we head into 2013, lifting spirits everywhere and initiating the next global growth cycle.

Table 1: Key Economic Estimates

	2009	2010	2011	2012(f)	2013(f)
Canada	-2.8	3.2	2.4	2.0	2.2
United States	-3.5	3.0	1.7	2.3	2.8
Euro Area	-4.3	1.9	1.5	-0.5	0.7
Japan	-5.5	4.4	-0.7	2.2	1.5
Brazil	-0.3	7.5	2.7	1.6	4.3
Russia	-7.8	4.3	4.3	3.9	3.8
India	6.6	10.8	7.1	5.9	6.7
China	9.2	10.4	9.2	7.5	7.8
Mexico	-6.3	5.6	3.9	3.7	3.8
Developed Markets	-3.6	3.2	1.6	1.4	2.1
Emerging Markets	2.8	7.5	6.2	5.3	5.6
World Total	-0.6	5.3	3.9	3.4	3.9
Currencies					
USD/CAD	0.88	0.97	1.01	1.00	0.97
Commodity Prices					
WTI	\$62	\$79	\$95	\$96	\$95
Lumber	\$72	\$78	\$76	\$76	\$78
Copper (USD/MT, LME)	\$5,163	\$7,539	\$8,810	\$7,933	\$7,320
Wheat: Canada (US\$/Metric.Ton)	\$301	\$312	\$440	\$405	\$420
Other					
US housing starts ('000)	554	585	612	760	1,050

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

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	CAD bn	% Share of Total Exports	Export Outlook (% growth)		
	2011	2011	2011	2012(f)	2013(f)
Developed Markets					
United States	307.2	73.3	9.9	5	7
Western Europe	41.1	9.8	15.6	1	-2
Japan, Oceania and Developed Asia	22.8	5.4	24.5	-7	4
Emerging Markets					
Latin America and the Caribbean	12.8	3.1	12.7	3	8
Emerging Europe and Central Asia	4.0	1.0	23.7	2	9
Africa and the Middle East	6.5	1.6	3.9	20	7
Emerging Asia	24.6	5.9	24.2	14	11
Total Goods Exports	419.1	100.0	12.0	5	7
Total Emerging Markets	48.0	11.5	17.8	11	10
Total Developed Markets	371.1	88.5	11.3	4	6

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

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1.1 Peering Over the Fiscal Cliff

It's not yet morning in America, but there is good reason for optimism about the US economy. American business is in the best shape ever: corporate profits are near an all-time high of USD 1.9 trillion, while businesses are holding USD 1.8 trillion of cash and equivalents, the most liquid balance sheets since the 1950s. US productivity has grown 6.6% (real output per hours worked) since the crisis began in 2009, while other countries have seen productivity stagnate or decline. In spite of this success and much tighter industrial capacity, businesses remain reluctant to invest because of uncertainty in the global economy and extraordinary pessimism about conditions.

Consumers are particularly gloomy – but things are looking up for them too. With household deleveraging largely complete, the ratio of debt service payments to personal disposable income is at its lowest level since 1994, and consumer credit is just starting to pick up. Auto sales have surged to 14.5 million (SAAR), the highest level since the “Cash for Clunkers” incentives back in 2009. More importantly, the housing market is improving with prices rising four months in a row and home sales up sharply. Because of pent-up demand, we expect that home starts will rise to 1.05 million in 2013 from 760,000 this year, and those new homes will require all sorts of spending on durable goods. And even with consumer confidence still at recessionary levels, there is a huge gap between the index for the present situation (45.8) vs. expectations in 6 months (70.5) as a significant majority of Americans are optimistic about the future. So are the corks popping yet?

Not quite. The crisis in Europe and the slowdown in emerging markets are significant threats to recovery hopes. Rivalling these is the home-grown US “fiscal cliff.” Under current law, previously delayed spending reductions will hit the US early in 2013, which together with tax cuts set to expire on December 31, 2012, would slap the US with a fiscal tightening amounting to a massive 5.1% of GDP – enough to plunge the American economy into a tough recession in the first half of next year.

Although well aware of the risks to the economy, US policymakers will be unable to address the fiscal cliff until after the November 6 election. As such, we can expect frantic deal making and negotiations in November and December. Will they succeed? The US Constitution establishes checks and balances with the intention of limiting the power of any one branch of government; in essence, forcing brinksmanship, compromise and deal making. These types of debates, though rancorous, are an historic feature of the US legislative process, and have not prevented the current administration from passing tough, contentious legislation.

In fact, the legislation needed to address most parts of the fiscal cliff will be far easier to pass than the highly charged medicare and financial bailout bills, because so many elements would be supported by both parties. The reductions in payroll taxes and tax cuts for the middle class enjoy bipartisan support, while both parties would be loath to make deep cuts to defence as long as the US remains involved in Afghanistan.

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In order to assess the likely impact of the fiscal cliff, we have examined each component of the tax increases and spending cuts under current law and made assumptions about forthcoming agreements and compromises.

Table 3 : Fiscal Cliff

	Full Fiscal Cliff		Likely Compromise		CBO* Multiplier	Final Impact on Output as % of GDP
	USD bn	% of GDP	USD bn	% of GDP		
Payroll tax cuts	95	0.6	0	-	0.9	-
Bush tax cuts						
(for those earning over 250,000)	70	0.5	70	0.5	0.5	0.23
Bush tax cuts (other)	108	0.7	0	-	1	-
Unemployment Insurance benefits	26	0.2	0	-	1.5	-
Depreciation incentives	65	0.4	65	0.4	1.1	0.47
Other expiring tax provisions	18	0.1	9	0.1	1.7	0.10
Spending cuts from BCA	65	0.4	25	0.2	2.5	0.41
Alternative minimum tax	44	0.3	0	-	1.1	-
Medicare doc fix	11	0.1	0	-	1	-
Other changes in revenue and spending	105	0.7	40	0.3	1	0.27
TOTAL	607	4.0	209	1.4		1.49

*Congressional Budget Office

Source for Fiscal Cliff: www.cbo.gov/sites/default/files/cbofiles/attachments/FiscalRestraint_0.pdf.

Source for Multipliers: http://cbo.gov/sites/default/files/cbofiles/attachments/11-15-Outlook_Stimulus_Testimony.pdf, p. 28.
<http://cbo.gov/sites/default/files/cbofiles/attachments/02-22-ARRA.pdf>, p. 14.

After stripping out the measures that we believe will be extended or approved by both parties, there remains a fiscal tightening of 1.4% of GDP. As these measures churn through the broader economy, the impact, according to output multipliers by the CBO, rises to an approximate 1.5% reduction in US GDP.

However, it is important to keep in mind the underlying strength of the US economy, the pent-up demand for housing, the rise in business investment and a gradual consumer recovery. EDC's estimate of the underlying growth in the US economy is 4.3%, which, net of the 1.5% fiscal impact, yields an economic forecast of 2.8% growth for 2013.

While this pace may not sound very exciting, the underlying strength is – and that's where most Canadian exporters are doing business. As the American economy steadily gets back on track, Canadian exporters should prepare for growth.

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1.2 Euro Update: Steps in the Right Direction, but a Long Road Ahead

Recent news from across the Atlantic continues to rattle markets, as the Eurozone is clearly in the midst of a double-dip recession. On top of the dampening effect on global growth, Europe's sovereign debt crisis is the single greatest threat to the world economy, as a disorderly default could cause the type of cascading losses that rocked the international financial system in 2008. However, in recent months a number of key decisions by the EU and particularly the European Central Bank (ECB) have calmed markets. This is a pattern we've seen repeatedly in the past: a worsening crisis forcing European policymakers to take action, which then earns a temporary reprieve from financial markets – followed by a new crisis which spurs more action, and a repeat of the cycle. The figure below shows how the Europeans have gone through a long series of these cycles to contain the crisis. But will they pay off?

European leaders deserve credit for taking tough decisions, but in spite of herculean efforts and €700 billion of rescue funds, the Eurozone is in recession. At the same time, European banks are tightening credit as they struggle to deleverage. The current downturn has demonstrated that there are huge challenges to managing vastly divergent economies within a common currency.

Joining 17 countries together into the euro was a huge boon to European trade, as goods and services flowed across borders without transaction costs or currency risk. Capital flowed even more freely as banks integrated, while countries in Peripheral Europe found that their attachment to a stable world currency enabled them to borrow much more cheaply, not just governments but also businesses and households, all of which racked up unprecedented levels of debt.

But the euro came at a price: governments gave up control over monetary policy. This meant that they could no longer raise interest rates to cool off inflation or lower them to stimulate demand in a recession, because the ECB set rates based on overall conditions in the Eurozone. As a result, from 2000 to 2008, the fast-growing and overheating countries of Peripheral Europe were stuck with real interest rates that were negative or near zero as inflation persisted in the 3 to 5% range. During the same period, Peripheral European wages rose by 20 to 25% compared with just 6% in Germany, which severely hurt the competitiveness of southern Europe.

Back in the 1970s and 1980s, European countries that got into trouble with rising wages and too much debt could devalue their currencies to regain competitiveness and boost their exports. Not this time; they are locked fast into the euro. Saddled with too much debt, weakened banks and many uncompetitive economies, they were in very poor shape already when crisis hit in 2009.

The biggest challenge for the euro is that market nervousness over the risk of sovereign debt can become a self-fulfilling prophecy. As bond yields rise, the interest costs of servicing debt rise, which increases the deficit and spurs further market nervousness. For a country like Italy with debt to GDP of 120%, any increase in the cost of financing can be perilous. Because of contagion, the potential for a ruinous upward spiral in interest costs has always been a real possibility, one that can only be averted by urgent action from the ECB.

That is why the September 6 announcement from the ECB is so important. It has promised to purchase unlimited amounts of bonds in order to stabilize markets and bring down yields. However, there are conditions attached. The bank will buy a country's bonds only if the government agrees to an assistance program under the European Stabilization Mechanism (ECM), which entails strict supervision under EU/IMF austerity and reform. The idea is that a country, which is working hard and getting its budget under control, ought to be granted relief from speculative pressures of a jittery environment so that it has time to make the necessary adjustments. Will it work?

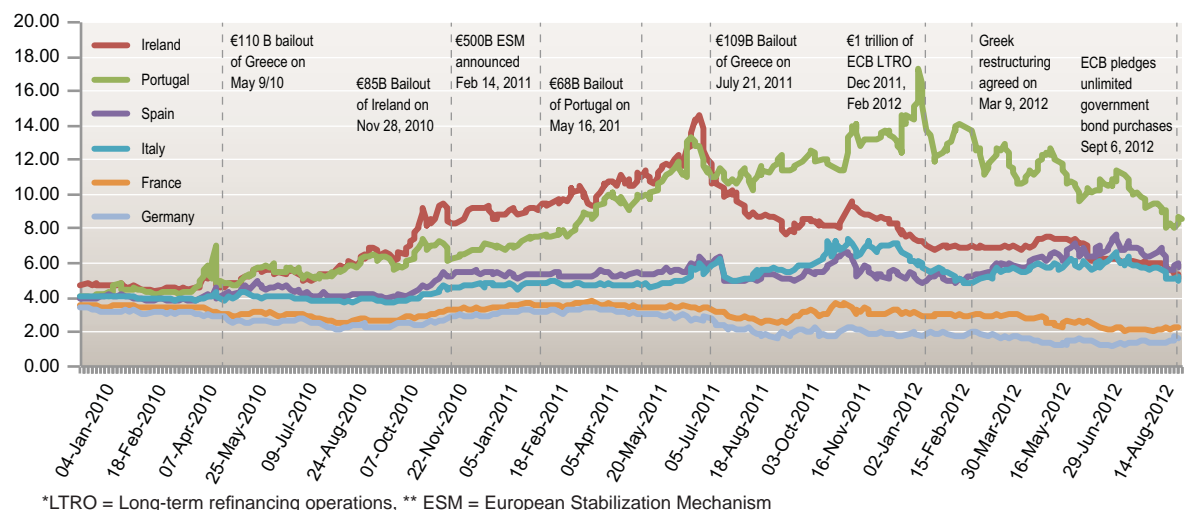
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There are a couple of key challenges on the road ahead. Firstly, the ECB is under pressure because of concerns in Core Europe about printing money to buy government debt and whether this might cause inflation. The ECB must make large, sustained bond purchases to demonstrate to the market that it is committed and credible, and large increases in its balance sheet will draw ire from Germany and Core Europe. Still, Eurozone inflation is unlikely in the short term as bond purchases will be sterilized (i.e. the ECB will sell other bonds to offset the increase in bank reserves), and more importantly, bank credit is contracting so it could take years before additional liquidity would actually leak into the money supply to affect prices.

The second challenge is that it will be politically difficult for larger countries to agree to have their budgets supervised and approved by the EU/IMF. Spain and Italy are not keen on the scrutiny and conditions of a rescue package, given the efforts they've already made to reduce spending and balance budgets. Moreover, there are risks of moral hazard because if a country fails to meet its fiscal targets, the ECB could potentially suspend bond purchases, but actually doing so could hurt a struggling country's solvency.

Modest growth of 0.7% will return to the Eurozone next year, but over the longer term, EU governments have a great deal of work ahead of them to ensure the sustainability of the euro. The first hurdle will be to recapitalize the banks. It is clearly not possible to expect a sustainable recovery while credit is contracting, and direct capital injections help troubled banks to start lending again. Secondly, European austerity has reduced deficits significantly, but markets are far more preoccupied with the lack of growth. Hence, many are calling for targeted investments in infrastructure while re-working austerity programs to address long-term problems such as pensions and health care instead of front-loading immediate spending cuts and tax increases. A more rapid return to growth would also boost tax revenues. Finally, Eurozone members have taken impressive steps toward greater fiscal integration, and leaders are exploring the possibility of common debt issuance (European bonds). With all the talk of crisis, it's sometimes easy to forget that Eurozone debt to GDP is just 68%, well below the US (80%), and this would undoubtedly go a long way toward restoring investor confidence. More importantly, if Europe is successful in implementing structural and labour reforms, the continent could emerge from this crisis even more integrated, more competitive and more dynamic than ever before.

The bottom line is that the Eurozone crisis will likely get worse before it gets better, owing to recessions this year and a weak growth outlook for 2013. However, the Europeans have demonstrated time and again that they will take decisive action to prevent the breakup of the euro, because the costs would be so catastrophic. Progress will take time, and there will be a series of incremental steps and interventions in response to market fears. This may be frustrating to those who would like a "big bang" solution to resolve the Eurozone crisis once and for all. However, because of the political challenges, this pattern of crisis and response will continue. And it means that the euro is here to stay.

Figure 1 : Intervention and 10-Year Sovereign Bond Yields

Source: Haver Analytics

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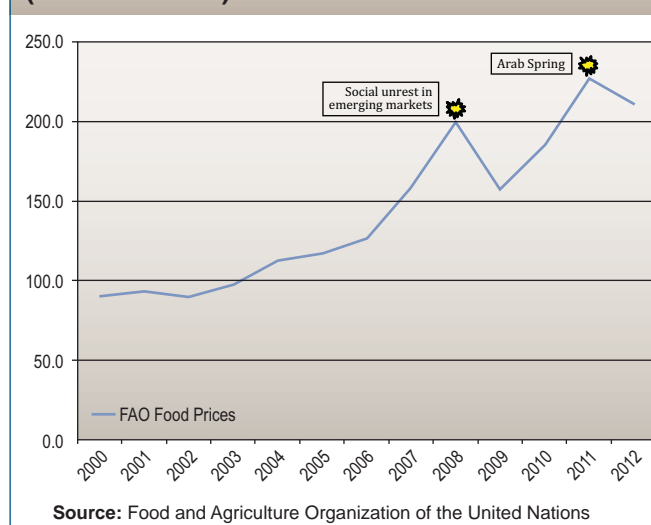
1.3 Weathering Rising Food Prices

The worst drought to hit the US in more than 50 years contributed to an aggressive uptick in food prices this summer. Between June and August, corn prices increased by 40% while soybean prices jumped by 33%, reflecting the US's position as the world's largest agricultural exporter. Wheat prices also lurched ahead by 44%, highlighting adverse weather conditions in traditional breadbasket economies such as Russia, Ukraine and Kazakhstan, which account for roughly a quarter of the world's wheat exports. Adding to this price pressure are the changing consumption patterns of the rising middle class in emerging markets and ethanol production requirements. An expected decline in global year-end stocks for wheat and coarse grain in 2012–13 is hardly comforting markets. The effects from this increase in food prices are wide ranging but also have quite varied impacts on different economies.

In general, developed markets will not be hamstrung by high food prices. For Canada, the increase in food prices will actually boost agricultural exports, lifting the forecast for agri-food export growth to 12% in 2012 and 11% in 2013. Meanwhile, the domestic economy will feel the effect, but it will be relatively small. Canadians spend 16% of their overall budget on food, which, all else being equal, translates into a modest increase of 0.3 percentage points in the overall Consumer Price Index (CPI) for 2013. At the same time, we expect that softer energy prices will mitigate these gains, resulting in consumer inflation that remains well within the target level in 2013. From a growth perspective, both the Canadian and US economies are expected to weather the effects from this price shock. Despite a decrease in corn and soybean production, total US agricultural exports could still post growth, thanks to higher prices. Fears of US consumers recoiling in the face of higher food prices are overblown. Stateside, food prices account for 14% of CPI, knocking up CPI by roughly 0.1 to 0.2 percentage points. The impact of the drought on overall economic growth and consumer spending in the US is thus quite negligible and should not hinder a potential economic recovery.

On balance, the effects of an increase in food prices across developed markets are more or less benign. On the other hand, households in emerging markets will continue to be strongly affected. In some emerging markets, where food purchases can account for anywhere from 25 to 40% of income, a price increase is typically quite disruptive, crowding out spending on other goods and services. Higher food prices can also result in households adopting coping strategies, like dipping into savings, or worse yet, running up debts to keep things going. Higher food prices are also a key source of social unrest in emerging markets, as demonstrated during the 2008 food crisis and the Arab Spring in 2011. September data from the Food and Agriculture Organization of the United Nations' Food Price Index indicates that prices seem to have stabilized after approaching benchmarks for bouts of instability. Further shocks, however, should not be ruled out, as demand pressures suggest that high prices will persist in food markets for the foreseeable future. On a macroeconomic level, economies that are net food importers or dependent on government subsidies to suppress prices will face increasing pressure as time goes on.

Figure 2: FAO Real Food Price Index (2002-2004=100)



Although high food prices can be a hindrance to economic growth, food producers stand to gain – first from the pure price effect, but ultimately through increased production. South America is already demonstrating high levels of planting, and is expecting a bumper crop by the end of the year. Higher farm incomes also suggest increased investment in leading-edge agricultural machinery, in turn leading to increased productivity and yields. As such, the forecast for Canadian agricultural machinery and equipment calls for a 22% increase this year and a further 12% gain in 2013. Clearly, this does not rule out the possibility of adverse weather in future, but assuming a return to more normal weather trends, the food industry itself faces a bright future.

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1.4 The Greenback Still Reigns, but No Longer the Only Game in Town

Talk with Canadians about exchange rates, and most will think dollars – US dollars, that is. With most of our trade still denominated in USD – whether headed for the US or not – the fixation makes sense. Any fluctuation in the CAD/USD rate translates into a direct hit on revenues, cost structure, profit margins and competitiveness. Given such clout, upward movement over the past decade – from a low of USD 0.63 in 2002 to a high of 1.09 in 2007 – has been a massive challenge for the exporting community. In response, Canadian exporters have been diversifying trade flows away from traditional markets, and in the process, exchange-rate conversations have become much more varied. Is it time to shift our thinking on the USD, and include more currencies in the exchange-rate mix?

The idea has appeal, but Canada still does almost three-quarters of its direct trade with the US. Add to that non-US trade denominated in greenbacks, and the ratio rises. Then consider foreign investments and foreign affiliate sales – changed patterns notwithstanding, we're still very exposed to the USD. As such, the CAD/USD exchange rate is still by far the most influential mover in the Canadian trade space. So how does one keep a handle on CAD/USD fluctuations?

First, there are the domestic drivers. As Canada is a huge net exporter of commodities, global prices for our raw goods have a significant effect on the currency – in fact, the loonie is widely referred to as a petro-currency. Historically, this relationship has been strong and stable, enabling reliable models with useful rules of thumb. And indeed, soaring commodity prices explain a large chunk of the loonie's recent appreciation; however, they don't tell the full story. Notice that recent bouts of oil and commodity price weakness have not softened the northern buck. Here's where other drivers come in. Sound fiscal management, a healthy banking sector, robust domestic growth and other factors have created a "halo" effect that has seen foreign investors flocking to Canadian assets, buying up on average over CAD 100 billion in portfolio investment in the past 3 years – keeping the loonie on the high side.

Then there are the movements in the US dollar itself. Current conditions have left the world with fewer currency options. Once touted as a viable option to the greenback, the euro is currently on the back burner. Indeed, drastic measures like 70% private sector haircuts on sovereign bonds in Greece and the billions that the EU and the International Monetary Fund (IMF) are pouring into the economies of Peripheral Europe are a bold attempt to rescue the euro from a nasty fate. Is the yen a candidate? Although popular as a carry-trade play, the yen faces key structural concerns. Two decades of unchecked deficits have created a public debt burden projected to reach 240% of GDP by 2014. At the same time, Japan's working-age population is shrinking. Put these factors together, and it adds up to a Canadian dollar forecast at parity this year, and falling to USD 0.97 in 2013.

China is seen by many as an upcoming reserve currency, but that day is still a long way off. The relatively early state of economic development, the lack of full currency convertibility, the current fragility of the real estate sector, and the ability of its exporters to withstand a slowdown in Europe are all factors weighing against an imminent role on the global stage. With limited alternatives, small wonder that the US still enjoys privileged safe-haven status. One might even wonder, given the weakness in other major countries, shouldn't the greenback be even stronger?

Perhaps. There's more than one factor weighing against US strength. Monetary policy has been extremely loose, and the Federal Reserve has actually tripled the US monetary base. Emerging markets have also been bulking up on their gold stockpiles and diversifying into other currencies. Demand has also weighed on the greenback. The sluggish recovery in the US and the rapid growth of emerging markets over the past few years has resulted in a declining global share of US trade (US imports account for 12% of global trade, down from 19% in 2000). Consequently, some countries are moving away from denominating certain global commodities in USDs, and also opting for financing in their own currency rather than in USDs.

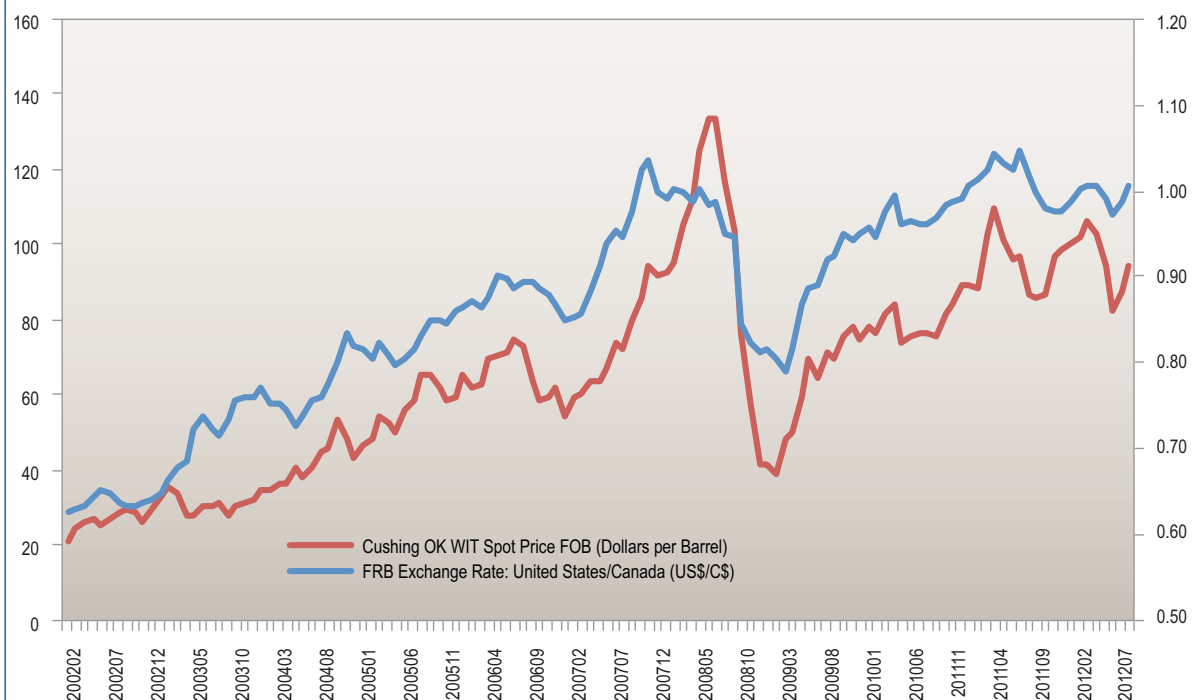
But many of these factors will dissipate and even reverse when the US economy resumes its role as global growth engine. Monetary policy will need to be tightened, pushing yields up and increasing the attractiveness of US assets. Similarly, gold will lose its lustre in times of robust growth and positive real interest rates. Moreover, structural concerns are expected to suppress the euro for some time to come.

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That said, the greenback will not be the only game in town. Massive infrastructure plays, large mining projects and heightened investor interest in emerging Asia, Latin America and Africa point to an increasing role for local currency (LCU) financing. For many companies doing business within or with an emerging market, LCU financing can bring reduced transaction costs, match expenses and revenues better, and provide a cheaper source of funds. Granted, along with these opportunities come risks, as emerging market currencies tend to be more volatile, have less monetary and price stability, and be more vulnerable to capital flight. Added to the mix are the typical regulatory and legal issues.

Nonetheless, the trend is unmistakable, and will gain prominence in the next growth cycle. China stands out as the world's second-largest economy and the largest exporter, yet its currency comprises only 0.3% of the global foreign exchange market. While restrictions on convertibility exist, the authorities have been implementing measures to grow the share of trade, financing and investment that is denominated in renminbi, including an offshore RMB market in Hong Kong. A Deutsche Bank report predicted that the size of the market would grow 10-fold during 2012, illustrating the high demand for LCU financing in China. Brazil is another key market where robust growth and soaring investment spending has been fuelling demand for real-based financing. As it has one of the most liquid markets in the world, Brazil offers the possibility of hedging to reduce currency risk.

Sum up the facts, and it's clear that Canadian companies have done an admirable job adjusting to a higher loonie. At the other end of the appreciation, we are still doing a phenomenal amount of USD-based business. But we have also ventured out into further-flung markets, and now have our eyes on an eclectic and growing mix of currencies. On both Canadian and world stages, the greenback still takes lead role. But quite a few others are beginning to play more significant supporting roles.

Figure 3: Halo Effect Evident but Loonie Still a Petro-Currency

Source: Haver Analytics

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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. Despite a cyclical economic slow down this year, EDC Economics expects the economy to pick up speed on the back of fiscal stimulus aimed to revive the industrial sector and maintain consumer spending, low levels of unemployment, robust credit growth, poverty reduction initiatives and public investment in infrastructure. GDP grew 2.7% in 2011 and it is forecasted to expand by around 1.6% in 2012 and 4.3% in 2013.

Trade and Investment Environment: With the goal of stimulating the domestic industry, the government has recently put in place a significant stimulus package (amounts to about 1.4% of GDP, of which 1.1% of GDP quasi-fiscal and 0.3% fiscal) that consists of export credit, tax cuts, subsidized credit from BNDES, national public procurement plans, import taxes, a reduction in red tape and custom controls enhancements. Massive capital inflows and FX intervention have allowed foreign exchange reserves to grow to around US\$ 378bn in September, which supports a strong liquidity ratio. Despite forecasting a Current Account deficit, EDC Economics does not anticipate any financing problems over the next two years, as Brazil's external financing requirements are comfortably covered by net foreign direct investment (FDI) and portfolio inflows. In sum, Brazil's net external creditor position and strong external liquidity will continue to mitigate risk of external shocks.

Outlook: Over the short term, downside risks include uncertainty about the magnitude of the global slowdown, as well as concerns associated with delays in infrastructure projects. The government also needs to continue strengthening banking regulations to 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 improved fiscal flexibility. The FIFA World Cup and the Olympics offer excellent opportunities for exporters and investors over the next 2-4 years. Nonetheless, state intervention in the economy is likely to continue with Brazil's policy of supporting "national champions" – companies that can perform well in both the domestic and international markets.

Country Stats

President
Dilma Rousseff

Government Position
Federal Republic

Next Elections
October 2014

Nominal GDP (2011)
\$2.3 trillion

Total Trade/GDP (2011)
19%

Exchange Regime
Free float

Merchandise Imports
from Canada (2011)
CAD 2.7 billion

Main Imports
Machinery, Equipment,
Chemicals

Source: Haver Analytics, EIU,
Statistics Canada

Risks to the Outlook

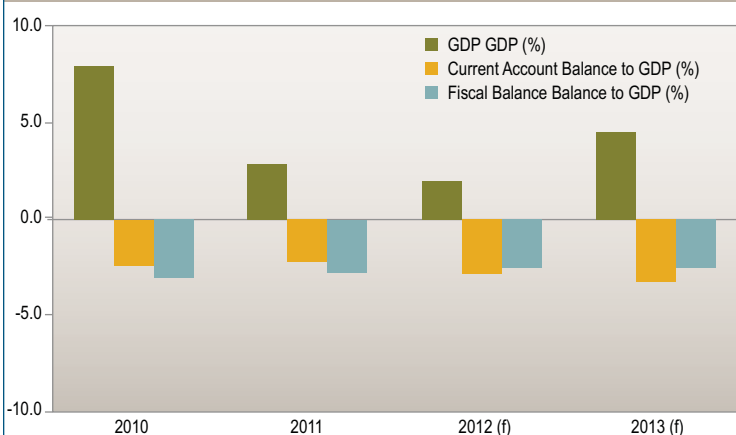


Further progress
on microeconomic
reforms



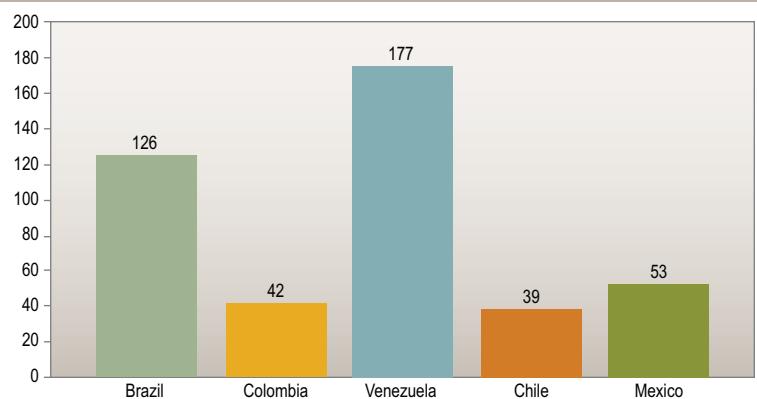
A sharp reversal in
capital flows or asset
bubble formation

Figure 4: Brazil – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

Figure 5: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: Haver Analytics, EIU

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2.2 China

Country Overview: China is the world's largest exporter, its second-largest economy and consistently has one of the strongest growth rates of any G20 country. Despite noticeable improvements in its risk profile since joining the WTO, China faces multiple challenges as it moves toward a full-market economy, particularly in regards to the liberalization of its financial system and its currency. The Communist Party of China maintains a firm grip on society and all levels of government and maintains a large degree of control over the economy through various state-owned enterprises and the banking system. The once-in-a-decade leadership change is currently under way and CPC leaders will be keen to maintain stability and avoid any more controversial incidents as witnessed in H1-12.

Trade and Investment Environment: China continues to be a top destination for global FDI despite various restrictions on the capital account. At the same time, China's complicated commercial environment poses several challenges for foreign investors. Frustrations include the lack of legal protection for investors and intellectual property rights, inconsistent application of regulations, burdensome bureaucracy, and corruption. While China continues to move toward a more rules-based business environment, implementation and enforcement of new laws seem inconsistent across regions and industries. In February 2012, Canada and China concluded negotiations on a Foreign Investment Promotion and Protection Agreement, which is now in the process of being ratified in both countries. Corruption is entrenched at all levels of government in China. The CPC leadership recognizes the importance of tackling corruption to ensure its legitimacy, and therefore the slew of recent high-profile arrests will continue.

Outlook: The change in China's growth model from investments and exports to domestic consumption, as well as the ageing of the population, will result in weaker potential growth going forward. At the same time, China will continue to move up the value chain with greater emphasis on home-grown R&D and higher value-added sectors. Greater focus will also be placed on developing infrastructure and manufacturing capacity in Western provinces and in rural areas. Political stability remains the top priority for the CPC, which views continued and regionally balanced economic growth as the key to such stability. The upcoming leadership transition will dominate the domestic political environment as officials jockey for key positions. Localized unrest over various social issues such as corruption, land seizures, wages and working conditions are likely to continue and increase in number should economic growth slow.

Country Stats

President
Hu JintaoGovernment Position
One party ruleNext Elections
Not applicableNominal GDP (2011)
USD 7,298 billionTotal Trade/GDP (2011)
49.8%Exchange Regime:
Crawling PegMerchandise Imports
from Canada (2011)
CAD 16.4 billionMain Imports:
Electrical M&E, Mineral Fuels,
Industrial M&ESource: Haver Analytics,
Strategis, ITC

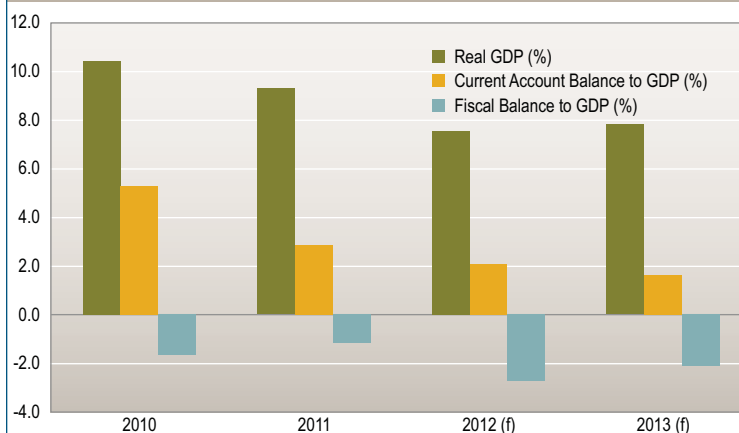
Risks to the Outlook:

↑ Significant stimulus
package boosts
economy

↓ Property sector
collapse and impact
on banking sector;
rise in social unrest
during leadership
change;

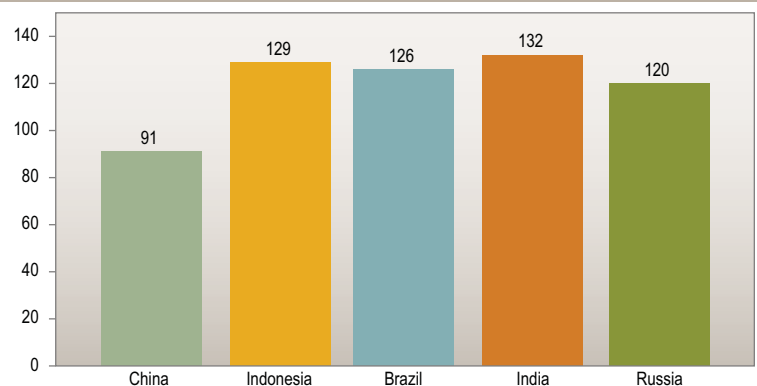
Senkaku/Diaoyu
Islands dispute
escalates

Figure 6: China – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

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



Source: Haver Analytics, EIU

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2.3 Euro Area

Overview: Europe's sovereign debt crisis has worsened in recent months as a painful recession has deepened; however, the September 6 announcement by the European Central Bank that it would purchase unlimited amounts of government bonds to stabilize markets has reassured nervous investors. Meanwhile the EU, in concert with the International Monetary Fund, have deployed vast resources to prevent disorderly default among smaller countries of the Periphery, namely Greece, Ireland and Portugal. The Euro Area's largest members – Italy, Spain and to a lesser extent, even France – are under pressure from a market that is deeply skeptical about government finances and concerned about deteriorating growth prospects.

Trade and Investment Environment: Collectively, the Euro Area is the world's largest economy with nearly 20% of global GDP. Strong adherence to contracts, a welcoming investment environment, and a rigorous legal environment characterize most countries of the Euro Area. Challenges of excessive regulation and labour market rigidities are being addressed by a wide variety of reforms at the national level. Canada and the EU have completed the 9th round of negotiations toward a Comprehensive Economic and Trade Agreement (CETA) with the aim of concluding in 2012. The CETA would provide improved market access to Canadian companies, thereby boosting bilateral trade and fostering even more investment.

Outlook: Euro Area GDP is forecast to contract by 0.5% in 2012, before returning to limited growth of 0.7% next year. Market conditions will continue to be stressed in spite of a €700 billion rescue fund and unprecedented intervention by the European Central Bank. The bank provided €1 trillion of cheap 3-year loans to Eurozone banks, but this only temporarily relieved the pressure in sovereign debt markets. Hundreds of billions more may be required to prop up bond markets and it's not yet clear how far the bank is willing to go in expanding its balance sheet. In the medium term, European leaders are exploring options for greater political union, such as mutualized debt (European bonds), fiscal transfers and EU-wide bank supervision. These types of solutions would go a long way to restoring confidence and repairing the crisis, but will take years to negotiate and implement.

Country Stats

President
President of the
European Commission
José Manuel Barroso

Nominal GDP (2011)
USD 14.36 trillion

Total Trade/GDP (2011)
86%

Exchange Regime
Currency Union – the euro

Merchandise Imports
from Canada (2011)
USD 19.9 billion

Main Imports
Metals, Aerospace Products,
Automotive Products

Source: Haver Analytics,
Stratigis

Risks to the Outlook



Greater political
union, mutualized
debt



Countries exiting
the Euro

Figure 8: Euro Area – Economic Indicators

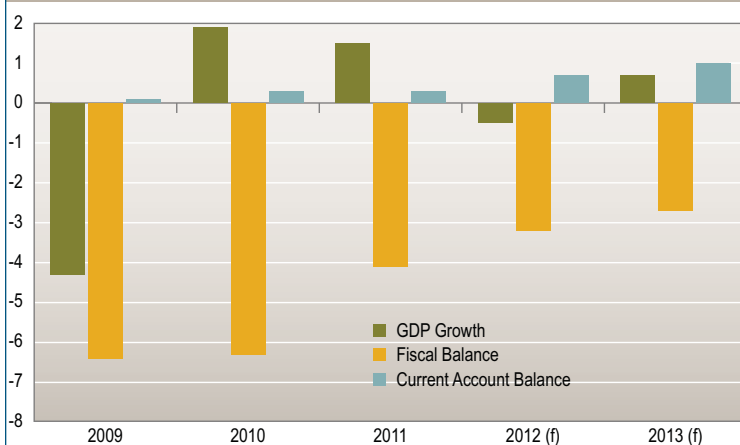
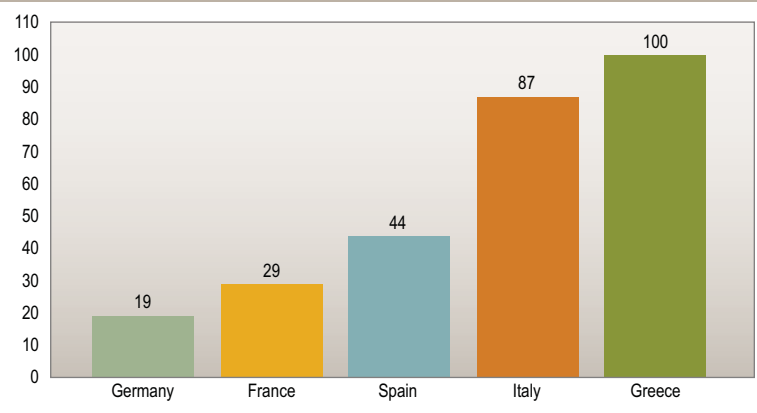


Figure 9: Ease of Doing Business (WDI): Regional Comparison (best=1)



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2.4 India

Country Overview: Economic momentum has clearly eased. Consumption remains the sole driver of growth according to the most recent data, while government outlays and business investment are holding back the pace. The domestic outlook has weakened alongside a much softer global environment. Meanwhile, inflation rates remain fairly lofty, thereby restricting the Reserve Bank's scope to lower policy rates. The government is running a sizable fiscal deficit, and while effort is needed to consolidate spending, it will unlikely materialize. In fact, expect the government to pump up fiscal outlays ahead of the 2014 elections. Nonetheless, growth will underperform in 2012 and 2013. Democracy is a cornerstone of Indian politics, characterized by a coalition government led by either the Congress Party, or a coalition led by the Bharatiya Janata Party. The current Congress-led Party coalition is expected to remain in office through to the next elections.

Trade and Investment Environment: India's foreign investment policy allows 100% foreign ownership in most sectors, yet FDI inflows remain weak, averaging about 1 to 1.5% of GDP annually. These amounts could be significantly higher, but due to corruption, bureaucratic delays and regulatory uncertainty, foreign companies have held back. A prominent South Korean steel company has struggled to start a mining project for 5 years. Lack of regulatory clarity between the federal government and the states was a significant factor in delaying the process. India's exports should get a boost from the rupee's weakening in the coming 12 to 24 months, though currency depreciation is not a solution to boosting long-term export potential. Meanwhile, EU banks are scaling back activity in India due to concerns closer to home, and this could open the door for other players to arrive.

Outlook: Despite the current bout of economic weakness, the mid- to longer-term growth trajectory is still a fairly robust 5 to 6% and at times bordering 7% over this period. Indeed, over the next decade India's workforce is expected to grow by about 2% annually. Meanwhile, the country is expected to gradually continue to move forward on trade and investment liberalization. India has pushed ahead with free trade agreements with Japan, ASEAN and more recently the EU. A free trade agreement is currently under negotiation with Canada. Further liberalization is anticipated, although coalition politics will ensure a bumpy ride.

Country Stats

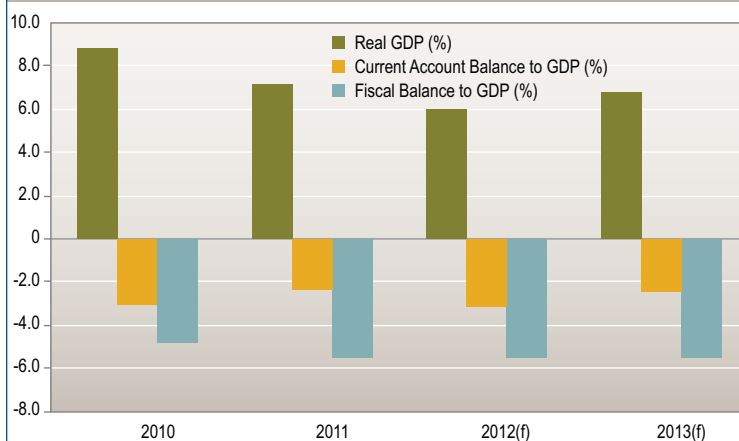
Prime Minister
Manmohan SinghNext Elections
April/May 2014Government Position
CoalitionNominal GDP (2011)
USD 1.860 billionTotal Trade/GDP (2011)
52%Exchange Regime:
Managed floatMerchandise Imports
from Canada (2011)
CAD 2,566 millionMain Imports
Pulses, Fertilizer, NewsprintSource: EIU, IMF,
Statistics Canada

Risks to the Outlook

 Improved FDI
inflows, declining
inflation (food)

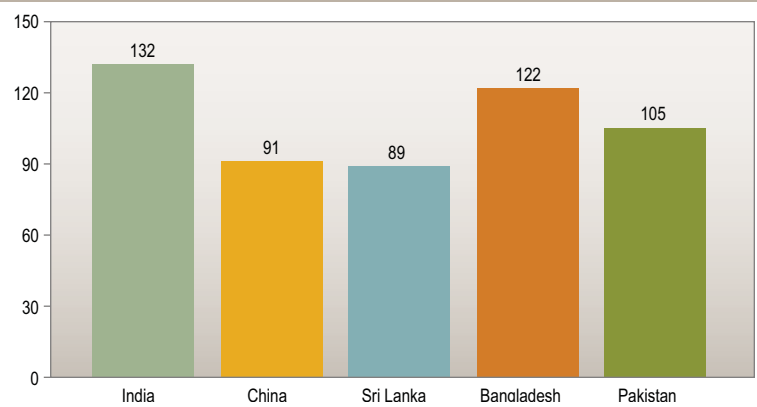
 Legislative
stalemate, inability to
contain fiscal outlays

Figure 10: India – Economic Indicators



Source: Haver Analytics, MF/WEO, EDC Economics

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



Source: Haver Analytics, EIU

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2.5 Japan

Country Overview: Despite two decades of weak growth, Japan remains the world's third-largest economy and is home to many of the world's largest corporations. The economy is dominated by the highly diversified manufacturing sector, where heavy industry co-exists with cutting-edge robotics M&E. With limited domestic growth at home, Japan's manufacturing sector has survived and expanded by increasingly seeking new opportunities in high-growth Asian markets, particularly China and Southeast Asia, and moving up the value-added chain. Despite long-standing democratic institutions, Japan's top-level executives rarely stay in position for more than 2 years. Intra-party factions dominate the political scene, making the passage and implementation of critical reforms challenging. As a result, the bureaucracy yields far more power than other developed economies, a situation that the ruling DPJ (Democratic Party of Japan) promised to change when it took power in 2009, with little success under either Prime Minister Hatoyama, Kan or Noda.

Trade and Investment Environment: Japan has a very open trade and investment environment. Nonetheless, FDI inflows have traditionally been weaker than other G7 countries. The current and capital accounts are open, corruption is low, the judiciary is independent and the rule of law is well established. Japan is a major importer of Canadian natural resources, including metals, coal, grains and seafood; the Fukushima nuclear disaster has intensified Japan's interest in Canada's shale gas potential. Japan and Canada have started negotiating an Economic and Partnership Agreement, which would reduce tariff and non-tariff barriers to bilateral trade, as well as open up government procurement to companies of both countries.

Outlook: The DPJ came to power in 2009 after 54 years of nearly uninterrupted rule by the LDP (Liberal Democratic Party). Current PM Noda's popularity has been waning since he took office in 2011, and early elections cannot be ruled out. At issue is the unpopular sales tax increase to 10%, part of a fiscal reform package to contain the massive public debt, the key challenge facing the government. Economic growth will remain lacklustre, as productivity gains are partly offset by the declining population and deflation, while the manufacturing sector is also under pressure from the strong yen. EDC Economics expects growth of 2.2% in 2012 and 1.5% in 2013. The Bank of Japan has officially moved to an inflation-targeting regime, which could help change deflation expectation and spur greater economic activity.

Country Stats

Prime Minister
Yoshihiko Noda

Government Position:
Majority

Next Elections
August 2013 (parliamentary)

Nominal GDP (2011)
USD 5,869 billion

Total Trade/GDP (2011)
27.1%

Exchange Regime
Free float

Merchandise Imports
from Canada (2011)
CAD 10.5 billion

Main Imports
Mineral Fuels, Electronics,
Industrial M&E

Source: IMF,
Statistics Canada, ITC

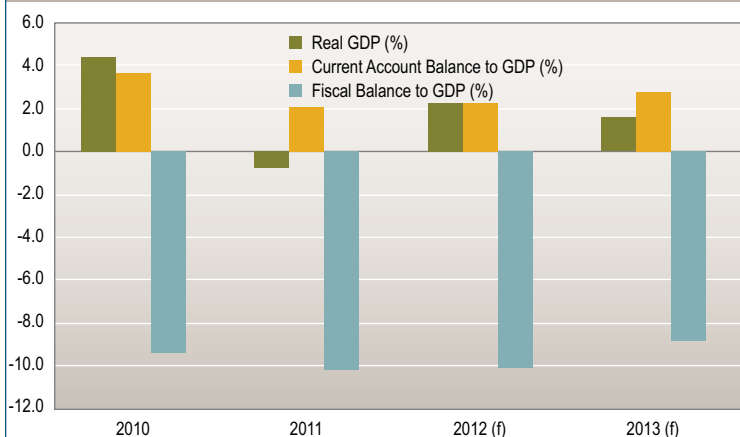
Risks to the Outlook

↑ Ramping up power
generation following
Fukushima disaster

↓ Chinese hard landing
could weaken
outlook;

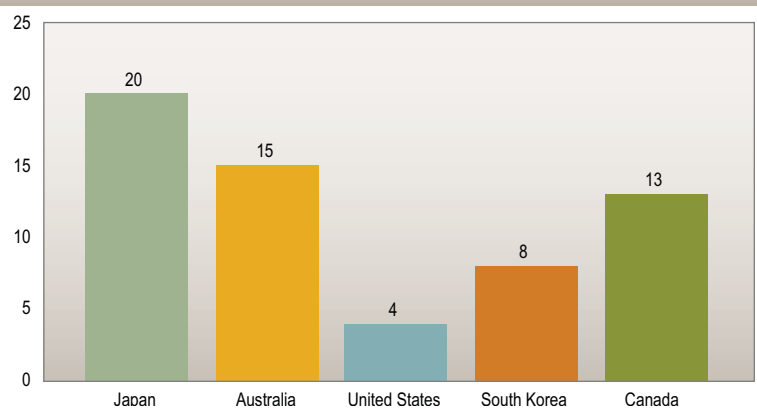
Senkaku/Diaoyu
Islands dispute
escalates

Figure 12: Japan – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

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



Source: Haver Analytics, EIU

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2.6 Mexico

Country Overview: In July 2006, Felipe Calderón of the Partido Acción Nacional (PAN) won a closely contested presidential election and has had low approval ratings compared with other Mexican presidents. Following the Partido Revolucionario Institucional's (PRI) resurgence in the July 2009 mid-term congressional elections, the party claimed 36.7% of the vote. Calderón has faced unprecedented challenges in pursuing his administration's national development plan, mainly focused on the rule of law, economic growth and increased competitiveness, as well as his goal of addressing monopoly power in Mexico. The July 2012 presidential election saw the PRI candidate Enrique Peña-Nieto become Mexico's new president. The PRI's victory is largely due to discontent over rising narco-related violence and chronic economic underperformance during the current administration. During the campaign, Peña-Nieto placed energy reform on top of his agenda and advocated for private investment (not privatization) to help increase PEMEX's production and refining capacity, which may result in increased business opportunities for the Canadian oil and gas sector. Enrique Peña-Nieto will be sworn in as president in December 2012 for a 6-year term.

Trade and Investment Environment: 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. 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: As expected, the July 2012 electoral results did not shake international investors' confidence in the market as president-elect Peña-Nieto seems to be aligned with most of the current administration's policies. Strong links to the US economy support a positive outlook for Mexico this year and next, as 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 precautionary and liquidity line with the International Monetary Fund. 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

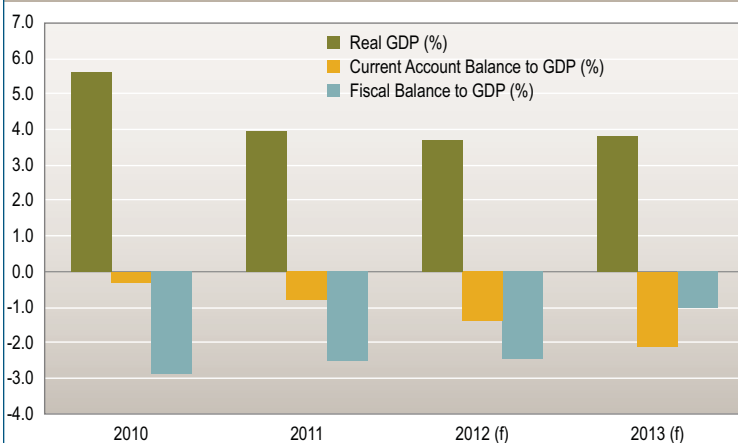
President
Felipe CalderónNext Elections
Presidential (July 2018);
Legislative (July 2014)Government Position
MinorityNominal GDP (2011)
USD 1.2 trillionTotal Trade/GDP (2011)
62%Exchange Regime
Free floatMerchandise Imports
from Canada (2011)
USD 4.7 billionMain Imports
Electronic and ICT, M&E,
AerospaceSource: Haver Analytics,
Stratigis

Risks to the Outlook

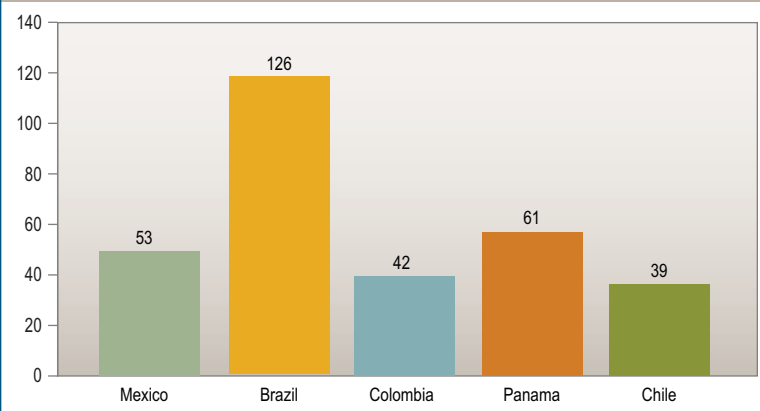
 Domestic economy
proves stronger
than expected

 Significant
worsening of
European crisis

Figure 14: Mexico – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

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

Source: Haver Analytics, EIU

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2.7 Russian Federation

Country Overview: President Putin's return to power ensures short-term political stability but raises concerns about his administration's ability to implement real change to address social challenges, strengthen property rights, reform the economy and reduce corruption. Capital flight has continued even after May's elections, indicative of uncertainty over the policy direction and weak institutions. Inflation is forecast to drop to 5.1% from 8.4% last year as a result of one-off factors, but is increasing due to rising food prices and administrative actions by the government. GDP growth fell in 2011 to 4% from 5.5% in 2010 due to global economic conditions and is expected to ease slightly to 3.9% this year and 3.8% in 2013.

Trade and Investment Environment: In an effort to boost much-needed FDI, Putin has made it a priority to drastically improve the investment environment. While most analysts remain skeptical about the probability of reforms being implemented, one step has already been taken – Russia's accession into the WTO in August. This move should in time provide investors with improved transparency and dispute resolution mechanisms in addition to reduced tariffs on agricultural products and machinery. The World Bank estimates that joining the WTO may add 11% to Russia's economy between 2012 and 2021. In June, Canada's Minister of International Trade led a delegation of companies to Russia and discussed upgrading the bilateral foreign investment promotion and protection agreement. The country's history of volatile growth, which is strongly correlated with commodity prices, acts as a key impediment to foreign investment. The health of the banking sector is also tied to oil prices.

Outlook: The outlook for the Russian economy is positive. It's one of the world's largest exporters of energy and minerals, which has allowed it to build up massive FX reserves. This acts as a buffer against a future economic crisis. However, in the medium to long term it faces structural challenges such as unfavourable demographics (aging population combined with a steady brain drain) and the need for economic diversification (the widening non-oil deficit is above 10%). The government increasingly depends on high energy prices; this year it needs an average oil price of almost \$120 a barrel to balance the budget. Russia's sheer size and resources assures it membership in influential groups like the G20; however, it lacks the vitality and innovation of many emerging powers. The 2014 Olympics will put the spotlight on Russia and create opportunities for investment, notably in infrastructure.

Country Stats

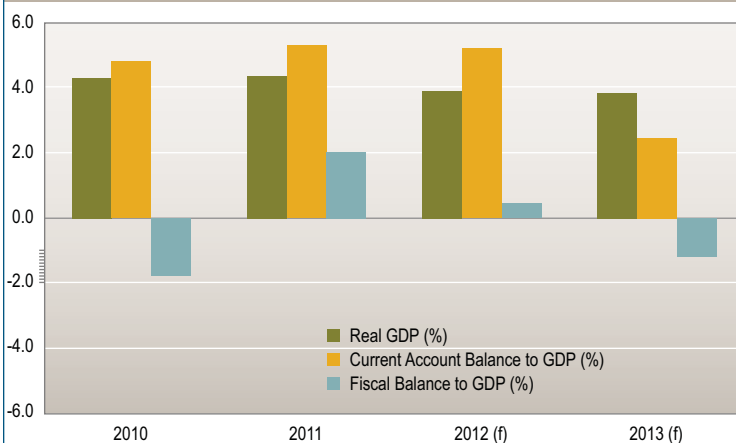
President
Vladimir PutinNext Elections
Parliamentary December 2017,
Presidential March 2018Government Position
Federal RepublicNominal GDP (2011)
USD 1.857 trillionTotal Trade/GDP (2011)
44%Exchange Regime:
Managed floatMerchandise Imports
from Canada (2011)
\$1.497 billionMain Imports:
M&E, Food and Agricultural
Products, Chemicals, MetalsSource: Haver Analytics,
Stratigis

Risks to the Outlook:

 Increased
oil prices

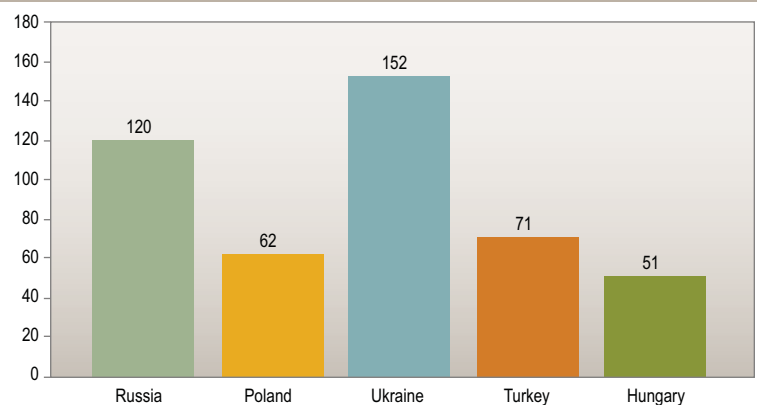
 Escalation of debt
crisis in Europe

Figure 16: Russia – Economic Indicators



Source: Haver Analytics, MF/WEO, EDC Economics

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



Source: Haver Analytics, EIU

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2.8 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 central bank 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 some 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 (ANC)

Government Position
Majority

Next Elections
Legislative: April 2014
Presidential: April 2014

Nominal GDP (2011)
USD 406 billion

Total Trade/GDP (2011)
48%

Exchange Regime
Free float

Merchandise Imports
from Canada (2011)
CAD 632 million

Main Imports
Manufactured Goods

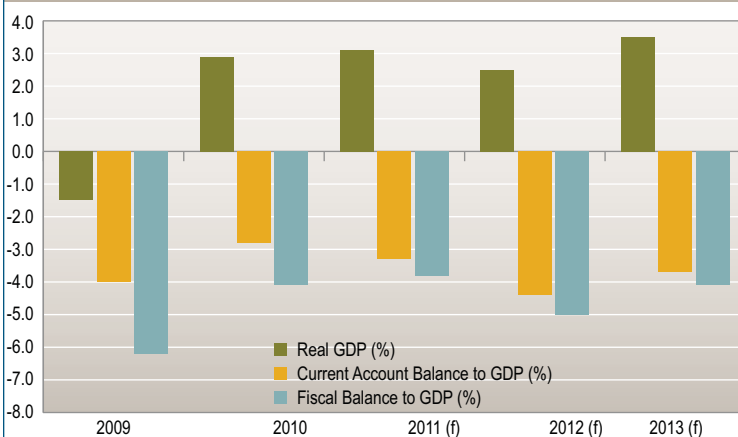
Source:
IMF, Statistics Canada

Risks to the Outlook

Manageable external
and government
debt burden

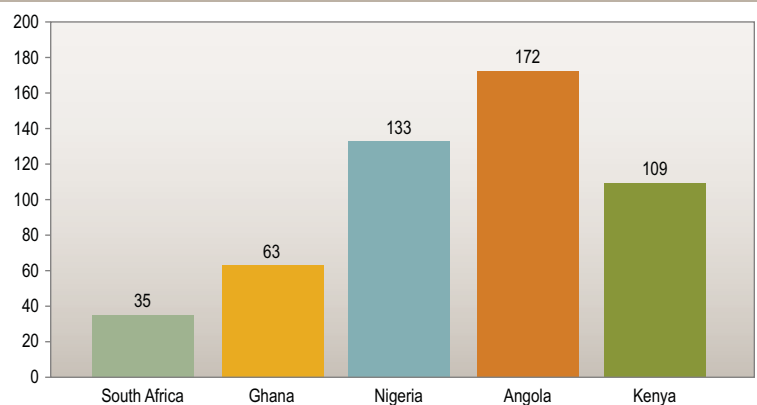
Large current
account shortfall and
declining investor
sentiment

Figure 18: South Africa – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

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



Source: Haver Analytics, EIU

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2.9 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). Fitch, Moody's and S&P all assign negative outlooks to their sovereign risk ratings, which is a concern heading into 2013.

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.

Outlook: Real consumer spending is expected to grow 1.9% this year and 2.2% in 2013. Easing energy prices will put money back in the pockets of US consumers, but willingness to spend will be contained by volatile confidence. Continued deleveraging by US households will contain upside risk to our spending outlook but leave household balance sheets in good shape 2 years from now. Home builder confidence is slowly improving, supported by falling inventories of existing homes for sale. 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 easing lending standards. The outlook for manufacturing has become less supportive on concern around Europe's ongoing sovereign/financial crisis, strength of the USD and easing orders. There remain formidable downside risks to the outlook led by uncertainty in Europe. Although exports to the market are small, other contagion channels (sales of major listed multinational corporations, bank financing sourced from the continent and general business sentiment around the global outlook) mean the US is not invulnerable to an intensification of market jitters from across the pond. Domestically, the fiscal cliff and need to increase the debt ceiling will negatively impact confidence. Current legislation would see a fiscal drag equal to 4 percentage points of GDP in 2013. Our forecast includes a drag of 1.4 percentage points but this assumes Democrats and Republicans can find some common ground to defer needed fiscal consolidation. A difficult task, especially in an election year.

Country Stats

President
Barak Obama

Next Elections
November 2012

Government Position
House Minority;
Senate Majority

Nominal GDP (2011)
USD 15.1 trillion

Total Trade/GDP (2011)
31%

Exchange Regime
Free Float

Merchandise Imports
from Canada (2011)
CAD 307 billion

Main Imports
Energy, Automotive,
Ores, Metals

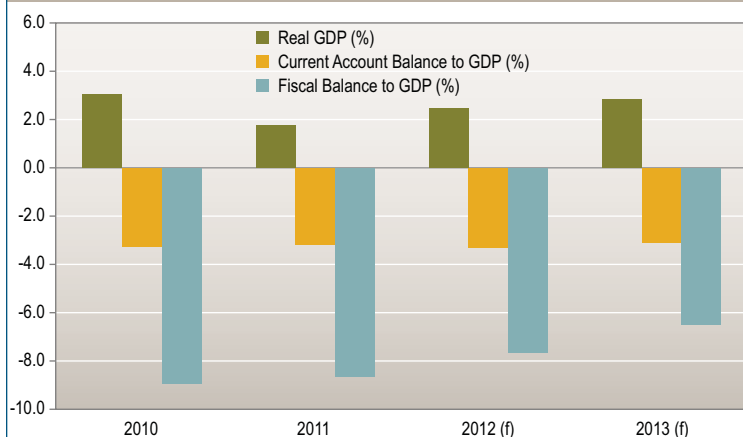
Source: Haver Analytics,
Stratigis

Risks to the Outlook

US housing
rebound sparks
general rebound in
confidence

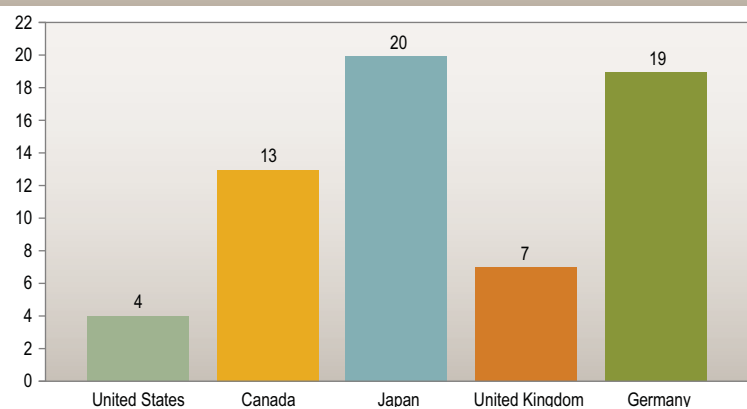
Escalating concern
around "fiscal cliff"

Figure 20: US – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

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



Source: Haver Analytics, EIU

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Divergent trends among the industrialized economies net out to growth of 1.5% in 2012, which isn't all that bad considering the year we've had, and the fact that it's only slightly below the 1.6% growth we had in 2011. In addition, as the momentum takes hold in the US in 2013, growth in the developed world climbs up to 2.1%. While the latter still reflects below-potential growth in many advanced industrialized economies, the uptick in economic activity should help support growth in the developing world. Developing economies, and the BRICs in particular, are facing slightly weaker growth prospects than what they've become accustomed to in the past; albeit each for different reasons.

On a relative basis, Emerging Europe has been the region hardest hit by the global recession and financial crisis, given its exposure to the economies of Western Europe. That region may take some time to recover to pre-crisis levels of activity. The retreat of global capital and a somewhat cash-strapped government have also severely impacted India's performance. But despite current weakness, the country's mid- to longer-term growth trajectory is still respectable at 4%.

Still-sluggish global growth and the net withdrawal of massive fiscal stimulus continue to weigh on China's economy, impacting the entire Asia-Pacific region. Over our forecast horizon, growth in China will remain below 8%, the threshold generally accepted as the level required to maintain social, political and economic stability in that country. That said, however, Chinese Communist Party (CCP) leaders will do what is needed to minimize any anxieties ahead of the once-in-a-decade leadership change currently under way.

Growth in Latin America has varied considerably between countries; however, as a heavy resource supplier into the global production chain, economic activity has been hard hit. Looking to 2013 we see improving prospects for the region, thanks in part to successful structural adjustments that have helped insulate many countries from the commodity boom/bust cycles of the past.

Africa is a region that has traditionally remained somewhat insulated from the capriciousness of global economic cycles, due to its generally poor integration into global trade and capital markets. However, as a region, Africa and the Middle East will post relatively stable growth numbers going forward and boast some of the world's fastest-growing economies.

On aggregate, the developing world will see growth slip back to 5.3% this year, before inching back up to 5.6% in 2013. While this is still slightly below the 6.5% average of the past decade, opportunities abound for exporters and investors that are willing and able to navigate the risk/reward labyrinth that characterizes many of these frontier markets.

While it must be stressed that there are numerous and significant risks, EDC Economics expects to see global growth hit 3.4% this year, down only slightly from last year's 3.9% growth. As momentum picks up, and if our assumptions on the US and Europe hold true, we anticipate growth pushing closer to the 4% mark next year. For us, 2013 is the year when we start seeing a true recovery set in.

Notwithstanding this relatively upbeat outlook, commodity prices are not expected to strengthen going forward. In fact, we believe that this will be one of those rare recoveries where commodity prices may even pull back. Because if fiscal and monetary stimulus has helped support current commodity price levels, either by encouraging activity or generating a search for yield, it follows that a withdrawal of this stimulus should precipitate a correction of prices. While the fear factor continues to play a key role for energy pricing, our expectation is that heightened tensions related to Iran's nuclear program and the threat of escalated conflict will remain just that. Meanwhile, the Brent price premium should continue to linger as a result of ongoing geopolitical risk concerns in the Middle East and Africa. However, barring any major new threats to global supply, EDC Economics expects the price of WTI crude to average USD 96/bbl in 2012 and USD 95/bbl in 2013.

The pricing dynamics facing the industrial metals complex are largely the same. In the absence of incremental monetary easing next year by the US Fed or the European Central Bank, much of the froth is expected to come off the market and exert downward pressure on prices. While the fundamentals for certain metals are somewhat supportive of higher prices, in general we expect prices to fall. This trend is being further influenced by increased supply as new projects go from construction to production over the medium term.

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What does this mean for the price of Canadian trade? The Canadian dollar has been range-bound throughout most of 2012, hovering between USD 0.96 and USD 1.03. Our commodity price scenario, while not necessarily bullish for producers, implies some protection for export-oriented companies. As a result, we expect the dollar to average USD 1.00 this year, before falling back to USD 0.97 in 2013. This will benefit all Canadians, not just exporters, as we expect the Canadian economy to rely more on the trade side over the next few years, with domestic drivers softening somewhat.

Table 4: Key Economic Estimates

	2010	2011	2012(f)	2013(f)
GDP (%y/y)				
Canada	3.2	2.4	2.0	2.2
United States	3.0	1.7	2.3	2.8
Euro Area	1.9	1.5	-0.5	0.7
Japan	4.4	-0.7	2.2	1.5
Developed Markets	3.2	1.6	1.4	2.1
Emerging Asia	9.7	7.8	6.8	7.1
Latin America and the Caribbean	6.2	4.5	3.2	4.1
Emerging Europe	7.2	8.0	3.1	3.5
Africa and Middle East	5.1	4.1	5.2	4.2
Emerging Markets	7.5	6.2	5.3	5.6
World Total	5.3	3.9	3.4	3.9
Currencies				
USD/CAD	0.97	1.01	1.00	0.97
Commodity Prices				
WTI	\$79	\$95	\$96	\$95
Lumber	\$78	\$76	\$76	\$78
Copper (USD/MT, LME)	\$7,539	\$8,810	\$7,933	\$7,320
Wheat: Canada (US\$/Metric.Ton)	\$312	\$440	\$405	\$420
Other				
US housing starts (000's)	586	612	760	1,050

Source: IMF/WEO, Haver Analytics, EDC Economics

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After considerable volatility in the last 4 years, Canadian exports of goods and services are expected to rise 5% in 2012 and an additional 6% in 2013. Averaging at parity for this year, the loonie continues to present competitiveness challenges for exporters. Next year, the dollar will fall back to USD 0.97, providing some reprieve for Canadian exporters. Export volumes are expected to rise 4% next year, as US GDP growth reaches 2.8%, Europe exits recession and crude production ramps up. Goods exports should finally recover to pre-2009 levels early next year, a feat accomplished by the services sector back in 2011.

Forestry, supported by US housing starts of 1.05 million, will be the best performing sector in 2013. Growth in energy exports will nearly double, to 11%, lifted by higher oil production and natural gas prices. Food prices are also expected to increase which, when added to skyrocketing emerging market demand, will result in 10% expansions for both agri-food and fertilizers exports. Higher valued-added industries, such as aircraft and parts, industrial M&E and to a lesser extent services, are also expected to have a good year in 2013. Growth is being muted by the relatively high base established last year, as exports of motor vehicles and parts were boosted by the recovery from the Japanese earthquake and tsunami. Capacity constraints are also weighing against export growth in this sector. Metals and ores will be the only sector recording an outright drop in foreign sales.

Merchandise exports to the US are expected to grow 7% in 2013. Exports to Canada's number two market, Western Europe, will fall 2% on falling metals prices, offsetting modest improvements in other sectors. Finally, sales to emerging markets should rise 10%, led by agri-food and fertilizers. Exports to the emerging markets will account for 12.4% of total Canadian exports next year, versus 11.5% in 2011, as growth to emerging markets outpaces growth to developed economies in 10 of 11 sectors.

Table 5: 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	9	10
Energy	114.9	23.2	21.4	6	11
Forestry	27.0	5.5	1.5	-5	12
Chemical and Plastics	35.2	7.1	8.4	1	7
Fertilizers	8.7	1.8	29.2	-2	10
Metals, Ores and Other Industrial Products	66.4	13.4	18.1	1	-2
Industrial Machinery and Equipment	26.5	5.4	11.0	13	8
Aircraft and Parts	10.2	2.1	-0.2	1	8
Advanced Technology	13.9	2.8	-2.0	4	3
Motor Vehicles and Parts	54.4	11.0	3.6	14	2
Consumer Goods	8.1	1.6	6.7	-8	6
Special Transactions*	3.4	0.7	-7.9	0	8
Total Goods Sector	419.1	84.8	12.0	5	7
Total Service Sector	75.3	15.2	5.7	3	4
Total Exports	494.4	100.0	11.0	5	6
Memorandum					
Total Volumes		100.0	3.5	4	4
Total Goods Nominal (excl. Energy)	304.2	61.5	8.9	5	5
Total Goods Nominal (excl. Autos and Energy)	249.8	50.5	10.1	3	6
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.					

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Energy sales will rise 6% in 2012 before jumping 11% in 2013. Gains this year are due to improved shipments of crude, which will more than offset sizable declines for natural gas, coal and electricity. Growth next year will be broad based, led by continued strong crude export volumes and the start of a long recovery in the price of natural gas. Exports of coal are expected to be flat to negative next year.

Barring a major net new threat to global supply, EDC Economics expects the price of WTI crude to average USD 96/bbl and USD 95/bbl in 2012 and 2013, respectively. Despite this outlook, crude exports should record double-digit growth in both years as output gains in Alberta oil sands are accompanied by the resurgence of conventional production. Canada's rig fleet is increasingly shifting away from gas to conventional oil, lifting Canada's rig count to near-record levels. Rail deliveries spiked this year and are likely to be called upon to fill in any pipeline deficiencies over the forecast. Canadian supply is expected to continue to rise beyond the forecast supported by new production and transportation megaprojects.

The natural gas outlook is more volatile, with exports plunging 35% this year followed by a 20% gain in 2013. Volatility results from a price outlook that sees Henry Hub gas rising from USD 2.7/MMBtu to USD 3.3/MMBtu next year. Despite a 60% drop in gas rig count, the US remains awash in shale gas with inventories near record highs. Although inventories should slide, today's spot prices mean there is little incentive to tap into dry gas plays here in Canada. Some shale and wet gas locations will remain active, but this won't be enough to prevent export volumes from falling. Over the longer term, the attractiveness of shale gas will only improve as anticipated natural gas liquefaction capacity comes on line, unlocking access to lucrative Asian markets.

Sector Stats

International Exports
2011: CAD 114.9 bn

Number of Exporters
2010: 49
2000: 51

Share of Total Canadian
Merchandise Exports
2011: 27.4%

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 22: US Industrial Activity Drives Crude Prices

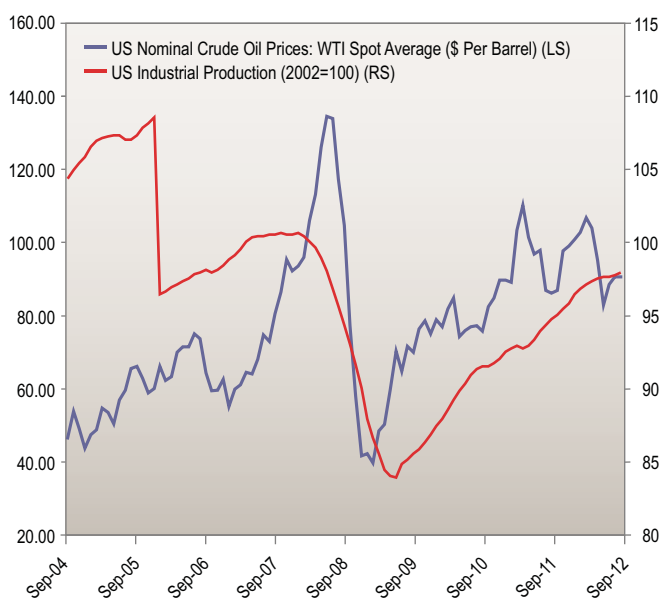


Table 6: Energy Export Outlook by Region

Top Markets	CAD bn		% Share of Exports		Export Outlook (% growth)	
	2011	2011	2011	2012(f)	2013(f)	
Developed Markets						
United States	104.0	90.5	19.0	5	12	
Western Europe	2.8	2.4	84.8	43	2	
Japan, Oceania and Developed Asia	4.6	4.0	41.2	-17	-3	
Emerging Markets						
Latin America and the Caribbean	1.4	1.3	80.6	-18	3	
Emerging Europe and Central Asia	0.3	0.3	66.8	-28	2	
Africa and the Middle East	0.2	0.1	179.7	14	15	
Emerging Asia	1.6	1.4	5.5	64	5	
Total Developed Markets	111.4	96.9	20.9	5	11	
Total Emerging Markets	3.5	3.1	38.0	19	5	
Total World	114.9	100.0	21.4	6	11	

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

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4.2 Ores and Metals

In the midst of volatile prices and frantic investment activity, exports out of Canada's metals and mining complex are forecast to grow 1% this year before contracting 2% in 2013. In both years, weaker pricing will mask healthy volume growth. For producers of manufactured metals lower input costs will be a welcome reprieve, but for miners and refiners alike, this will erode margins that could pare back production plans beyond the forecast.

This year, Canadian steel producers will continue to enjoy the strong rebound in automotive manufacturing in the US and Mexico. Next year, strong US vehicle production and increased private sector investment spending will drive steel demand higher. In response to healthy demand conditions, there have been several positive developments for Canadian production, including the recall of workers to US Steel's Hamilton facility; Tata Steel Minerals Canada's planned investment in a new multi-user dock facility at the Port of Sept-Îles; and ArcelorMittal's planned expansion at its Mont-Wright iron ore mine. The industry does still face some challenges, however, in the form of persistent "Buy American" sentiment and alleged dumping by low-cost international players.

EDC Economics remains quite bullish on iron ore exports, but we have scaled back our growth forecast on plummeting prices and reduced production plans by Cliffs Natural Resources. Rio Tinto's expansion of IOC's Labrador project is progressing and Phase 2 should enter production late this year. Gold exports are expected to pick up sharply toward the end of 2012 and into 2013 on ramped-up production at Malartic, Detour Lake and the New Afton mine. Aluminum exports will contract this year, but the restart of Rio Tinto's Alma Smelter with a capacity of 438,000 tonnes per year will cushion the fall. Additions to capacity over the next few years will ensure Canada's spot as the star performer in North America's aluminum market.

Sector Stats

International Exports
2011: CAD 72.7 bn

Number of Exporters
2010: 2,761
2000: 3,081

Share of Total Canadian
Merchandise Exports
2011: 17.3%

Sector Distribution
Across Provinces:

NFLD: 2.6%

NB: 0.8%

NS: 0.5%

PEI: 0.0%

QC: 21.1%

ON: 49.4%

MN: 2.7%

SK: 6.7%

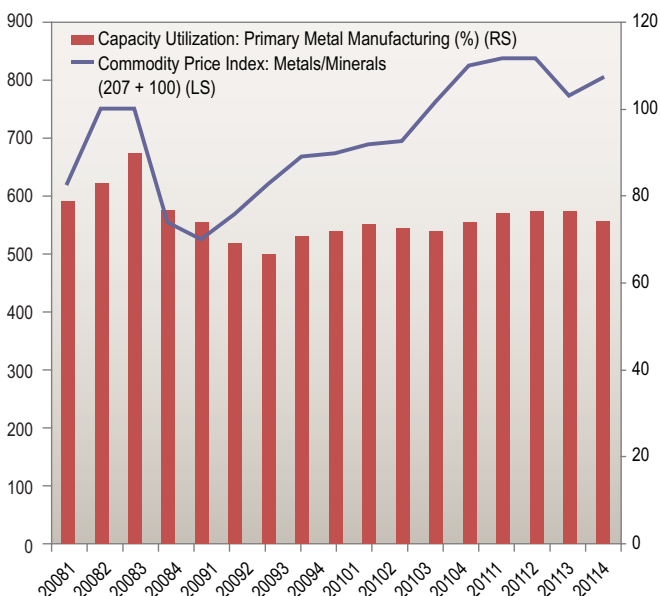
AB: 8.8%

BC: 5.6%

Canadian Direct
Investment Abroad
(2010):
CAD 58.0 bn

Source: Statistics Canada

Figure 23: Metals and Mining: Pricing and Activity



Source: Haver Analytics

Table 7: Canadian Metal Ores and Metal Products Export Outlook by Region

Top Markets	CAD bn		% Share of Exports		Export Outlook (% growth)	
	2011	2011	2011	2012(f)	2013(f)	2013(f)
Developed Markets						
United States	33.0	49.6	7.1	-1	1	
Western Europe	20.6	31.1	25.5	6	-8	
Japan, Oceania and Developed Asia	4.7	7.1	50.4	-7	0	
Emerging Markets						
Latin America and the Caribbean	1.4	2.1	20.4	6	1	
Emerging Europe and Central Asia	0.7	1.1	157.0	-10	1	
Africa and the Middle East	0.8	1.2	25.0	-16	-3	
Emerging Asia	5.2	7.8	36.6	1	2	
Total Developed Markets	58.3	87.8	15.8	1	-2	
Total Emerging Markets	8.1	12.2	37.7	-1	1	
Total World	66.4	100.0	18.1	1	-2	

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

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4.3 Agri-Food

Rarely does Canadian agriculture benefit from both high prices and a bumper harvest; in a good year farmers generally get one or the other. But in 2012 excellent weather conditions will align with sky-high grain prices to drive export growth of 9%, before recording an additional 10% growth in 2013. Total production of grains and oilseeds should increase around 9% in 2012, though approximately two-thirds of the harvest will actually be exported next year. Demand conditions should also remain positive, supported by skyrocketing emerging market consumption and rising use of grains in biofuels.

Grain prices will remain strong over the forecast period as a severe drought in the US will depress the American harvest, and improved conditions in 2013 will only be sufficient to rebuild depleted inventories. Canada's production of canola and soybeans will reach all-time record highs, as farmers have shifted production to these more lucrative crops. Meanwhile, beef prices will continue to climb through the forecast, however, the recall will dampen beef exports this year and next. Unfortunately, this will not be enough to offset the rising cost of feed from eating into the margins of cattle producers, resulting in flat export volumes. When added to a poor pricing environment for pork, suffering the effects of global oversupply, EDC Economics expects only modest volume growth for related exports.

Next year, as US consumer confidence improves and household deleveraging approaches completion, American consumers will spend more on higher-margin items at grocery stores and restaurants. Canada's exports of processed food and beverages are expected to jump 9% this year and next, impressive for a \$10-billion industry that is used to seeing annual fluctuations in the 1 to 2% range. Closing out the agri-food sector, exports of seafood are expected to rise modestly this year and next, with higher shipments of lobster, crab, shrimp and salmon contrasting against easing prices.

Sector Stats

International Exports
2011: CAD 44.2 bn

Number of Exporters
2010: 2,925
2000: 3,484

Share of Total
Canadian Exports
2011: 10.5%

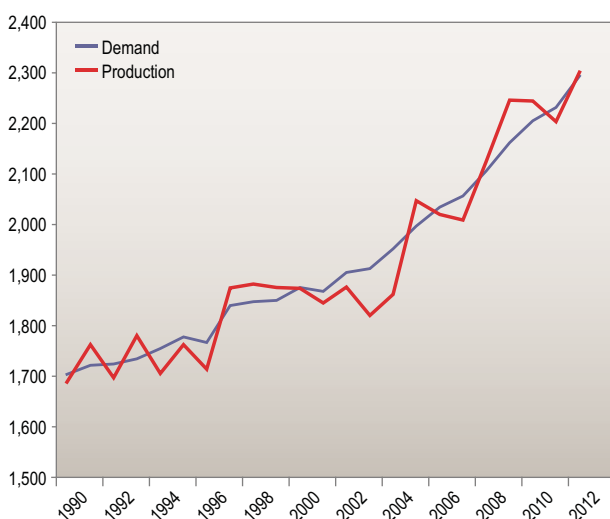
Sector Distribution
Across Provinces:

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 11.6 bn

Source: Statistics Canada

Figure 24: Shortfall in Global Grain Is Driving High Prices (millions of metric tonnes)



Source: USDA World Agriculture Supply and Demand Estimates

Table 8: Agri-Food 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	21.9	49.6	10.6	8	10	
Western Europe	3.2	7.2	22.0	-26	5	
Japan, Oceania and Developed Asia	6.2	14.0	21.1	-8	8	
Emerging Markets						
Latin America and the Caribbean	3.5	7.9	10.9	7	10	
Emerging Europe and Central Asia	1.0	2.2	21.0	12	9	
Africa and the Middle East	2.4	5.5	7.7	39	11	
Emerging Asia	6.0	13.5	10.4	35	12	
Total Developed Markets	31.3	70.9	13.7	2	9	
Total Emerging Markets	12.9	29.1	10.8	27	11	
Total World	44.2	100.0	12.8	9	10	

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

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4.4 Fertilizers

High crop prices will incentivize strong fertilizer usage, but local soil, weather and market conditions, especially nutrient carryover from spring applications, could dampen demand. Overall, we expect international sales to decrease 2% in 2012 before rising export volumes drive growth to 10% in 2013. However, the outlook, especially for potash, remains largely uncertain owing to pending contract negotiations with key buyers India and China.

US demand for nitrogen will likely remain robust through 2013. This contrasts with the demand outlook for potassium, which looks soft as this year's drought has increased potential nutrient carryover from the spring application. Added to this, the timing of crop insurance payments to farmers adds an extra dose of uncertainty to our US forecast. Brazilian demand for potash looks strong through 2013 on increased corn and soy acreage. However, demurrage costs due to significant delays at the Paranagua ports present a near-term forecast risk. Southeast Asian demand for potash, underpinned by palm oil and rice production, is also expected to remain steady but here, too, there are uncertainties. At the time of writing, India had not yet signed any new contracts for 2012, leading to further weakness for exports this year. This poor performance does, however, set the stage for decent growth next year, though it may take until end-2013 or later for shipments to return to trend levels.

Canpotex contracts with China are expected to be concluded soon, but price increases appear unlikely. A potential oversupply in potash, as noted by the International Fertilizer Association (IFA), seems to be supported by overall bearish sentiment in the market, tilting pricing power toward buyers. As such, prices are expected to remain flat going into 2013. Spot markets, especially in the US, may see short-lived hikes, due to transportation bottlenecks caused by low water levels on major US inland waterways.

Sector Stats

International Exports
2011: CAD 8.7 bn

Number of Exporters
N/A

Share of Total
Canadian Exports
2011: 2.1%

Sector Distribution
Across Provinces:

NFLD: 0.0%

NB: 3.5%

NS: 0.0%

PEI: 0.0%

QC: 0.2%

ON: 4.2%

MN: 2.3%

SK: 75.6%

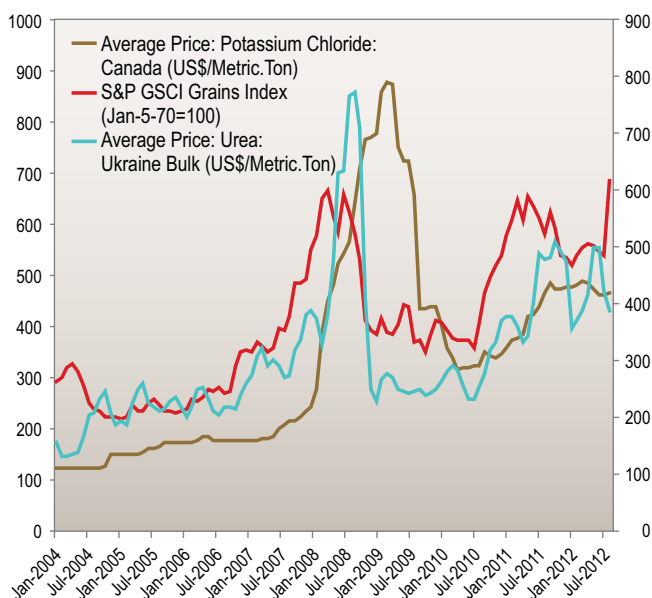
AB: 13.6%

BC: 0.6%

Canadian Direct
Investment Abroad
(2010):
N/A

Source: Statistics Canada

Figure 25: Fertilizer Prices Boosted by Agriculture



Source: Haver Analytics

Table 9: Fertilizers Export Outlook by Region

Top Markets	CAD bn	% Share of Exports	Export Outlook (% growth)		
			2011	2011	2011
Developed Markets					
United States	5.5	63.6	20.4	-6	6
Western Europe	0.0	0.2	-48.4	114	-12
Japan, Oceania and Developed Asia	0.2	2.3	72.5	-17	10
Emerging Markets					
Latin America and the Caribbean	0.9	10.6	44.7	3	11
Emerging Europe and Central Asia	0.0	0.0	-42.0	16	4
Africa and the Middle East	0.0	0.1	88.6	-28	-1
Emerging Asia	2.0	23.2	50.2	6	20
Total Developed Markets	5.7	66.1	21.2	-6	6
Total Emerging Markets	2.9	33.9	48.5	5	17
Total World	8.7	100.0	29.2	-2	10

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

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4.5 Forestry Products

Our outlook for the forestry sector has deteriorated with the weakening of global growth, particularly in China and the EU. Overall, we expect exports to decline 5% this year, driven by weakness in both pulp and paper products. Growth of 12% next year will come largely from a jump in lumber exports.

The wood products sector will see greater exports to the US this year and next as housing starts are expected to rise nearly 40% in 2013. Also boosting exports next year will be greater residential construction in China after property developers severely curtailed activity in 2012. With substantial Canadian sawmill capacity permanently closed in recent years, remaining lumber and panel producers are well positioned to take advantage of higher prices sustained by strong demand. Additionally, we expect softwood lumber prices to remain sufficiently high to reduce the softwood lumber export tax and export quotas agreed to under the Softwood Lumber Agreement.

With the ongoing decline in paper consumption in advanced economies, paper producers continue to shed capacity to maintain prices. Permanent capacity reductions or market-related shutdowns were announced in Nova Scotia, Quebec and British Columbia. On a more positive note, it now appears that White Birch's Stadacona mill in Quebec and the Port Hawkesbury newsprint mill in Nova Scotia are set to reopen, supporting export volumes next year. Recent announcements of price increases for coated groundwood and supercalendered paper will also help maintain exports at this year's level.

The pulp sector has taken a sharper downturn than expected this year with the slowdown in China, EU recession and significant new additions to global capacity. Furthermore, with inventories above normal, recently announced price increases for exports to China may not hold for long. Prices should bottom out later this year, but all of next year's export growth is expected to come from increased export volumes, including from the reopening of Terrace Bay.

Sector Stats

International Exports
2011: CAD 27.0 bn

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

Share of Total
Canadian Exports
2011: 6.5%

Sector Distribution
Across Provinces:

NFLD: 0.6%

NB: 5.6%

NS: 2.7%

PEI: 0.0%

QC: 27.4%

ON: 17.0%

MN: 1.5%

SK: 1.0%

AB: 7.7%

BC: 36.6%

Canadian Direct
Investment Abroad
(2010):
CAD 10.5 bn

Source: Statistics Canada

Figure 26: US Housing Recovery Under Way (Quarterly)

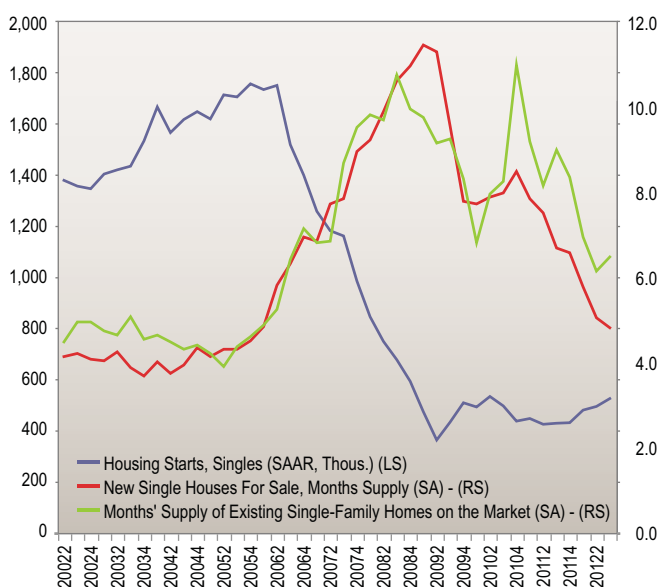


Table 10: Forestry Export Outlook by Region

Top Markets	CAD bn	% Share of Exports	Export Outlook (% growth)		
	2011	2011	2011	2012(f)	2013(f)
Developed Markets					
United States	16.7	61.7	-4.1	-2	12
Western Europe	1.3	4.8	-8.8	-13	1
Japan, Oceania and Developed Asia	2.5	9.4	6.4	-9	8
Emerging Markets					
Latin America and the Caribbean	0.8	2.9	-2.0	-1	7
Emerging Europe and Central Asia	0.2	0.9	29.7	-16	10
Africa and the Middle East	0.4	1.6	-15.3	-32	10
Emerging Asia	5.1	18.7	28.7	-9	16
Total Developed Markets	20.5	76	-3.2	-4	11
Total Emerging Markets	6.5	24	20.0	-10	15
Total World	27.0	100	1.5	-5	12

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

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4.6 Automotive

Canadian exports of automotive products have soared as the industry rebounds from supply disruptions related to last year's earthquake in Japan. This effect will dissipate next year, but the demand outlook will remain rosy with US vehicle sales topping 15 million units. Nevertheless, capacity constraints will see Canadian export growth ease from 14% this year to 2% in 2013. The sector will continue to face competitiveness challenges with the Canadian dollar hovering around parity, although some reprieve on this front is expected beyond the forecast horizon.

The shuttering of one GM Oshawa plant will reduce Canadian production capacity by about half a million units next year. Our strong demand outlook does, however, suggest some upside risk to our forecast via the possible addition of a third shift at GM's other Oshawa plant. The closure of Ford's St. Thomas truck plant in 2011 continues to weigh on export receipts this year, and with no new Ford product lines in the works for Canada, represents another source of reduced Canadian capacity. Meanwhile, Toyota, like other Japanese manufacturers, is attempting to mitigate the impacts of the high yen by moving production to North America. This includes a large investment in Cambridge that will increase capacity for its Lexus model by 30,000 units.

Part suppliers are benefiting from ramped-up vehicle production in the US, where activity levels are even higher than here in Canada. The industry, which has seen significant consolidation since the financial crisis, is currently operating at capacity, and growth rates will moderate next year in tandem with original equipment manufacturer (OEM) activity. Canada continues to lose market share within NAFTA as the bulk of new investments migrate to Mexico and southern US states. Additionally, the trend toward co-locating with OEMs will dent exports over the medium term, but it will also provide opportunities for Canadian Direct Investment Abroad. Other bright spots for the Canadian industry include R&D and green technology.

Sector Stats

International Exports
2011: CAD 54.4 bn

Number of Exporters*
2010: 844
2000: 909

Share of Total
Canadian Exports
2011: 13%

Sector Distribution
Across Provinces:

NFLD: 0.0%

NB: 0.0%

NS: 1.9%

PEI: 0.0%

QC: 4.0%

ON: 92.1%

MN: 0.9%

SK: 0.1%

AB: 0.5%

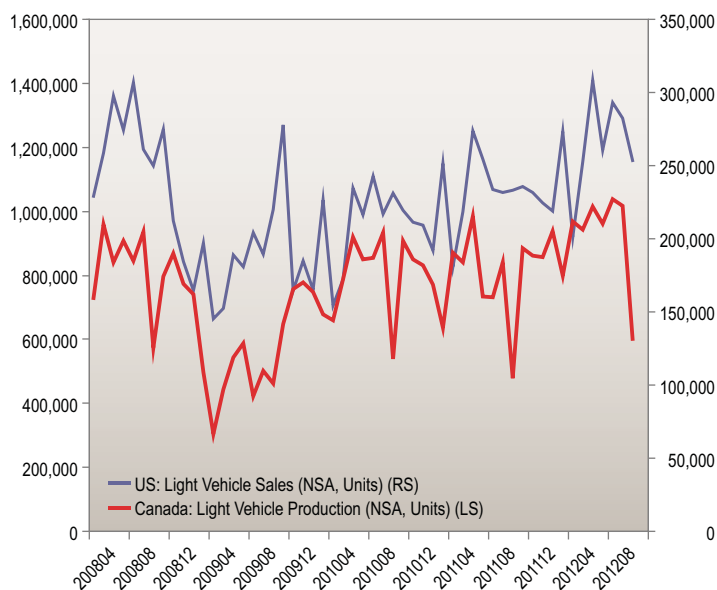
BC: 0.5%

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

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

Source: Statistics Canada

Figure 27: US Vehicle Sales and Canadian Supply



Source: Haver Analytics

Table 11: Automotive 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	52.8	97.1	3.5	14	2
Western Europe	0.2	0.4	26.8	10	5
Japan, Oceania and Developed Asia	0.1	0.2	-3.2	17	7
Emerging Markets					
Latin America and the Caribbean	0.8	1.4	-7.9	6	9
Emerging Europe and Central Asia	0.1	0.1	62.9	-3	12
Africa and the Middle East	0.3	0.5	25.6	3	6
Emerging Asia	0.1	0.2	44.5	7	13
Total Developed Markets	53.2	97.7	3.5	14	2
Total Emerging Markets	1.2	2.3	5.1	5	9
Total World	54.4	100.0	3.6	14	2

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

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4.7 Industrial Machinery and Equipment

Exports of industrial machinery and equipment (M&E) in 2012 will exceed last year's spectacular performance, before moderating somewhat next year. Emerging markets and the resurgence of manufacturing south of the border will drive demand in the forecast. With US capacity utilization around pre-crisis levels, and US corporates flush with cash, we are optimistic about the prospects for investment in 2013. Overall, exports of industrial M&E are projected to expand 13% this year and 8% in 2013, with sales to emerging markets growing twice as fast as those destined for developed economies.

Investment in agriculture M&E will benefit from sky-high food prices – which has put a lot of extra cash into the hands of global farmers – and surging demand for food in emerging markets. As a result, Canada's exports of related goods will surge by 20% this year and another 12% in 2013. The biggest increases will come from emerging markets.

Though the pace of growth has eased significantly versus 2011, exports of oil and gas M&E are expected to post a solid 10% gain in 2012, and are on track to perform well again next year. Shipments to the traditional US market remain sound, though it is sales to emerging markets in Latin America, Africa and the Middle East that are leading gains for the overall sector.

Metals and woodworking M&E will see strong growth through the forecast horizon to both emerging and developed markets. Soaring export receipts this year have been fuelled by strong sales to the US and Mexico, along with a rebound in the automotive industry as it recovered from the effects of the Japanese earthquake. Next year, an increasingly dynamic investment environment, in the US and BRICM (Brazil, Russia, India, China and Mexico) markets, will fuel a growth rate of 8%, down from 18% this year.

Sector Stats

International Exports
2011: CAD 26.5 bn

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

Share of Total
Canadian Exports
2011: 6.3%

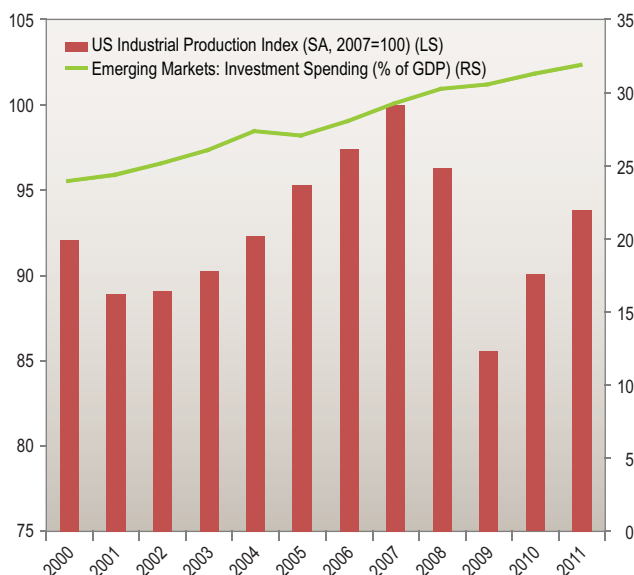
Sector Distribution
Across Provinces:

NFLD: 0.0%
NB: 0.7%
NS: 0.6%
PEI: 0.2%
QC: 20.0%
ON: 52.0%
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 28: Demand Indicators for M&E



Source: Haver Analytics

Table 12: Machinery and Equipment
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	18.5	69.8	12.9	10	8
Western Europe	2.2	8.5	2.0	0	7
Japan, Oceania and Developed Asia	1.2	4.4	-9.6	19	8
Emerging Markets					
Latin America and the Caribbean	1.4	5.4	13.7	26	11
Emerging Europe and Central Asia	0.9	3.2	11.3	27	14
Africa and the Middle East	0.9	3.5	1.7	44	6
Emerging Asia	1.4	5.2	29.8	13	15
Total Developed Markets	22	83	10.3	10	8
Total Emerging Markets	4.6	17	14.8	26	12
Total World	27	100	11.0	13	8

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

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4.8 Advanced Technology

Advanced technology exports are expected to rise 4% this year and 3% in 2013, the first increases in international sales since 2005. The main difference between the outlook and recent history is premised on improved US business and consumer demand. Growth is contained by the long-standing trend of outsourcing manufacturing activity to emerging markets, which is especially attractive given the strong CAD. Higher value-added production and R&D should remain in Canada, but over the medium to long term emerging market producers will push competition up the value chain. Opportunities for growth are led by electrical components, measuring and testing devices and wireless equipment segments.

On the back of a much anticipated rebound in consumer spending, and corporate investment in network upgrades, exports to the US are forecasted to rise this year and next. Sales to Europe, Canada's number two market, will remain suppressed by ongoing sovereign risk concerns in the region. Meanwhile, shipments to Asia are well positioned to gain market share over the medium term. Pockets of opportunity in emerging markets will come from the convergence in media telecommunication technologies requiring network upgrades to increase internet speed and connectivity. This said, the US will remain the main destination for Canadian telecom exports well beyond the forecast.

Going into next year, exports of electrical equipment should benefit from a positive outlook for US housing starts (up nearly 40% in 2013) and renovations. Over the medium term, higher environmental standards and a growing need for electricity in emerging markets will support demand for energy-efficient electrical equipment. Exports of semiconductors have been particularly strong so far this year, but this is not expected to signal a structural change in the supply chain of Canadian producers. Semiconductor manufacturing is a comparatively labour-intensive subsector, making it a prime candidate for continued outsourcing of production to emerging markets, particularly Asia. The same holds true for producers of computer and peripheral equipment.

Sector Stats

International Exports
2011: CAD 13.9 bn

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

Share of Total
Canadian Exports
2011: 3.3%

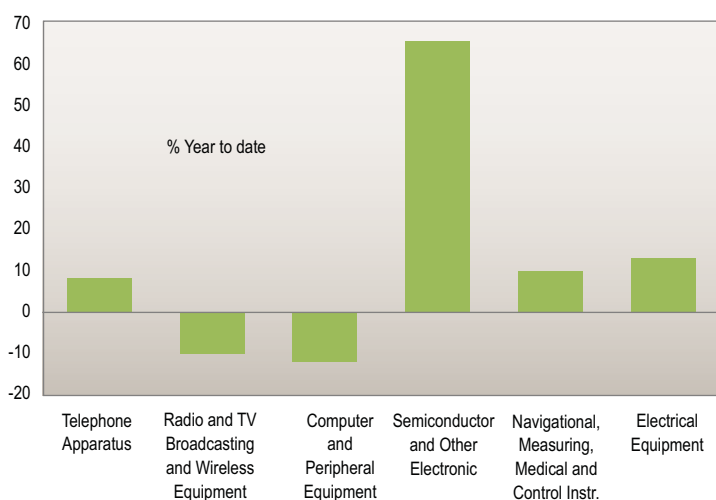
Sector Distribution
Across Provinces:

NFLD: 0.1%
NB: 0.2%
NS: 1.1%
PEI: 0.1%
QC: 24.4%
ON: 57.8%
MN: 1.9%
SK: 0.7%
AB: 5.9%
BC: 7.7%

Canadian Direct
Investment Abroad
(2010):
CAD 22.4 bn

Source: Statistics Canada

Figure 29: Semiconductor Leading on Export Growth this Year



Source: Statistics Canada.

Table 13: 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	8	2
Western Europe	1.7	12.3	-5.0	-6	2
Japan, Oceania and Developed Asia	0.9	6.6	-1.7	-2	5
Emerging Markets					
Latin America and the Caribbean	0.7	5.4	-2.2	-8	-1
Emerging Europe and Central Asia	0.3	1.8	1.8	13	8
Africa and the Middle East	0.4	2.7	-6.5	9	-2
Emerging Asia	0.8	5.7	3.6	-8	10
Total Developed Markets	11.7	84.5	-2.3	5	2
Total Emerging Markets	2.2	15.5	-0.5	-3	4
Total World	13.9	100.0	-2.0	4	3

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

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4.9 Aerospace

Aerospace exports are expected to rise 1% this year before accelerating to 8% in 2013. High corporate profits in the US, and strong wealth creation in some emerging markets, will support demand for business jets, while a healthy backlog of existing orders will support deliveries of commercial aircraft. Over the longer term, higher environmental standards will result in fleet upgrades bolstering potential for aircraft sales, especially to emerging market destinations.

Business jets are expected to drive most of the growth in Canadian aircraft exports over the forecast horizon. Bombardier is reporting a significant increase in business jet demand, highlighted by NetJets's historic order for 100 Challenger family aircraft. EDC Economics expects this order will have a positive impact on deliveries starting at the end of 2013. In addition, the Learjet 75 is scheduled for entry into service in the first half of 2013, and the Learjet 70 in the second half of the same year.

Although new commercial aircraft orders have slowed, a healthy backlog of existing orders should drive deliveries over the short-run. Beyond this, modest economic growth prospects in some developed markets, high fuel prices, and limited availability for financing will weigh on new orders. On a positive note, the C-Series is now in testing phase and Bombardier aims to have its first flight before the end of this year.

The rest of the industry is expected to post respectable growth supported by rising civil demand. This stands in contrast to military demand, which will suffer from the progressive withdrawal of troops in Afghanistan and budget cuts in the US and Europe. Not surprisingly, CAE has reported strong orders for civil simulators and a drop in its backlog for the military segment. A similar demand profile is expected for exports of helicopters.

Sector Stats

International Exports
2011: CAD 10.2 bn

Number of Exporters*
2010: 844
2000: 909

Share of Total
Canadian Exports
2011: 2.4%

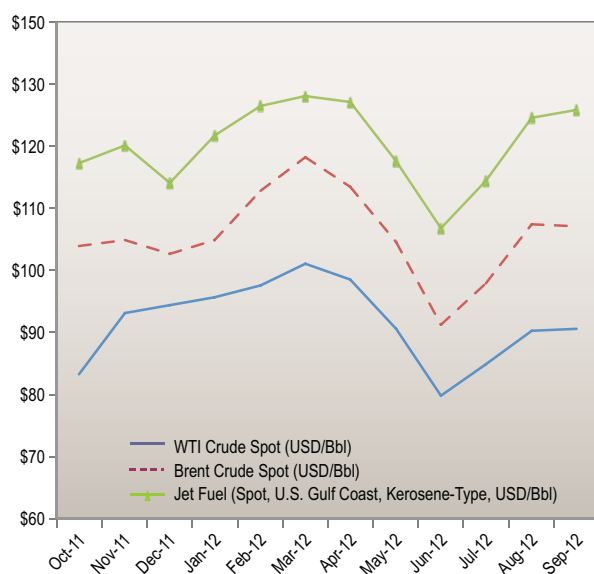
Sector Distribution
Across Provinces:
NFLD: 0.1%
NB: 0.0%
NS: 0.4%
PEI: 0.4%
QC: 65.7%
ON: 25.9%
MN: 4.1%
SK: 0.0%
AB: 1.5%
BC: 1.8%

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

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

Source: Statistics Canada

Figure 30: Jet Fuel Prices Stabilizing



Source: Haver Analytics

Table 14: Aerospace Export Outlook by Region

Top Markets	CAD bn		% Share of Exports		Export Outlook (% growth)	
	2011	2011	2011	2012(f)	2013(f)	2013(f)
Developed Markets						
United States	5.4	53.4	7.9	-3	8	
Western Europe	2.3	22.9	-21.4	4	6	
Japan, Oceania and Developed Asia	0.7	6.9	58.2	-26	9	
Emerging Markets						
Latin America and the Caribbean	0.4	4.0	3.3	-34	10	
Emerging Europe and Central Asia	0.3	3.0	-27.5	-20	12	
Africa and the Middle East	0.4	3.7	-34.7	50	7	
Emerging Asia	0.6	6.0	73.0	-63	-15	
Total Developed Markets	8.5	83.3	0.3	-3	7	
Total Emerging Markets	1.7	16.7	-2.6	22	12	
Total World	10.2	100.0	-0.2	1	8	

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

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4.10 Chemicals and Plastics

Our outlook for exports of chemicals and plastics has been revised down significantly to 1% in 2012, while our forecast for 2013 now stands at 7% growth. With no significant changes expected for Canadian capacity, the forecast will be dictated by volatile commodities prices and our outlook for international demand. The latter will be underpinned by a bullish US outlook, the destination for 80% of total shipments.

Prices for petrochemicals experienced a substantial fall in the summer months of 2012, moving in tandem with a drop in the price of crude oil. Although we do not expect prices to return to early-2012 levels, they will rebound from summer lows. Meanwhile, exports of pharmaceuticals will record a double-digit increase this year on rising sales to the US. Overall, chemicals should fall 1% this year before growth moves to 7% in 2013. Beyond the forecast, we expect Canadian companies will continue to shift toward natural gas feedstock and diversify their petrochemical product mix (e.g. production of corn-derived succinic acid in 2013).

Exports of plastics will rise in line with our bullish outlook for the US economy. In fact, were it not for rising sales to the US, exports would have fallen by 7 to 8% this year. In 2013, sales to the US automotive and construction sectors will benefit from increased auto production and a 30 to 40% jump in housing starts, respectively. New demand should also come from commercial construction as banks ease lending standards for related credit. Slightly improved conditions in Western Europe, and a return to trend growth for exports heading to emerging markets, add support to next year's outlook. Companies interested in unlocking the benefits of generally faster-growing emerging markets will be increasingly attracted to doing so via Canadian Direct Investment Abroad to generate foreign affiliate sales. Investing in R&D to develop environmentally friendly production methods is another growth opportunity for the sector.

Sector Stats

International Exports
2011: CAD 35.0 bn

Number of Exporters
2010: 1,991
2000: 2,175

Share of Total
Canadian Exports
2011: 8.4%

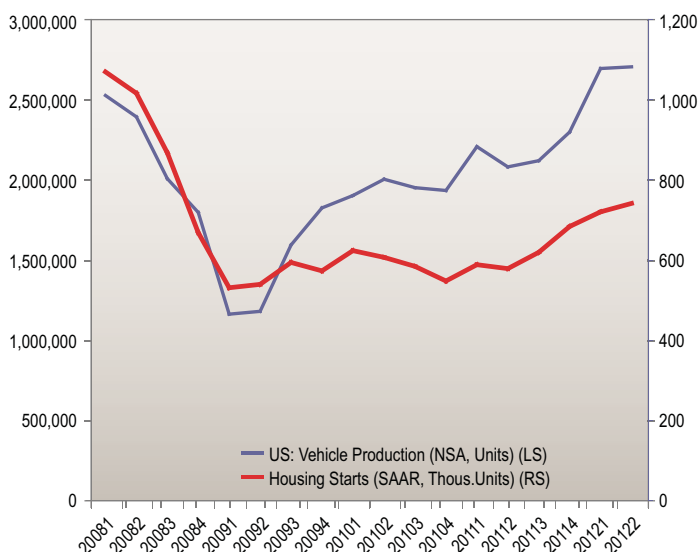
Sector Distribution
Across Provinces:

NFLD: 0.0%
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 14 bn

Source: Statistics Canada

Figure 31: Demand Indicators for Chemicals and Plastics



Source: Haver Analytics

Table 15: 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	3	7
Western Europe	3.0	8.6	11.0	-20	5
Japan, Oceania and Developed Asia	1.1	3.2	5.9	14	8
Emerging Markets					
Latin America and the Caribbean	1.2	3.3	-10.1	3	9
Emerging Europe and Central Asia	0.2	0.5	-15.1	-15	11
Africa and the Middle East	0.4	1.1	6.3	0	6
Emerging Asia	1.4	4.0	18.1	8	14
Total Developed Markets	32.1	91.1	9.0	1	7
Total Emerging Markets	3.1	8.9	2.4	4	11
Total World	35.2	100.0	8.4	1	7

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

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EDC Economics expects exports of consumer goods to fall 8% this year before rising 6% in 2013. Next year's performance will be underpinned by a breakout year for US housing starts and a supportive pricing environment for precious metals. The result will be higher sales to all major destinations, with exports to developed markets up 6% and those to emerging markets soaring by 9%.

Housing-related goods, which account for one-third of sector exports, and include everything from kitchen cabinets to lighting, will record modest growth this year. In 2013, our forecast for US housing of roughly 1 million units should trigger a considerable boost in demand for the subsector, especially as 91% of related exports go to the US.

In 2011, international sales of minted coins reached USD 1.7 billion, an increase of 650% in only 5 years. When added to exports of jewellery, this subsector generates more export receipts than electricity or even live animals. This year's fall in silver prices is expected to see related exports drop for the first time since 2005. Next year, continued quantitative easing in the US, and ongoing bouts of global risk aversion, point to a supportive environment for both prices and demand. Key destinations for Canadian coins and jewellery include the US, Germany, Switzerland and Japan.

Other consumer goods comprise highly cost-competitive exports, including clothing, sporting goods and toys. Exports have fallen in 8 of the last 10 years and are unlikely to fare well over the forecast. In 2013, the combined effect of improved US consumer sentiment and a modest acceleration of emerging market growth suggests some improvement for demand; nevertheless, it will be hard to buck the long-term trend of falling exports.

Sector Stats

International Exports
2011: CAD 8.1 bn

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

Share of Total
Canadian Exports
2011: 1.9%

Sector Distribution
Across Provinces:

NFLD: 0.1%

NB: 0.2%

NS: 0.9%

PEI: 0.0%

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 32: Consumer Goods Finding a Home



Source: Haver Analytics

Table 16: Consumer Goods Export Outlook by Region

Top Markets	CAD bn		% Share of Exports		Export Outlook (% growth)	
	2011	2011	2011	2012(f)	2013(f)	2013(f)
Developed Markets						
United States	6.3	77.7	4.2	-12	7	
Western Europe	1.1	14.1	14.1	3	4	
Japan, Oceania and Developed Asia	0.3	4.1	48.5	23	6	
Emerging Markets						
Latin America and the Caribbean	0.1	1.3	4.3	-11	8	
Emerging Europe and Central Asia	0.0	0.6	18.9	4	10	
Africa and the Middle East	0.1	1.0	-7.2	7	5	
Emerging Asia	0.1	1.3	0.2	14	12	
Total Developed Markets	7.7	95.9	7	-8	6	
Total Emerging Markets	0.3	4.1	2	3	9	
Total World	8.1	100.0	7	-8	6	

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

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4.12 Services Export Sector

Following a mid-year correction, the Canadian dollar has again climbed back above parity – on the latest round of quantitative easing by the US Federal Reserve – acting as a drag on an otherwise healthy demand outlook. Continuing a trend, services export growth will underperform the merchandise trade sector this year; however, unlike the merchandise component, which remains below pre-recession peaks, the services segment has fully recovered from the recession, sitting 4% above 2008 levels. For overall services exports, EDC Economics is forecasting growth of 3% and 4% in 2012 and 2013, respectively.

Commercial services exports faced headwinds this year in the form of a still-tepid US investment environment and concerns about the “Fiscal Cliff.” As uncertainty and political risks clear in 2013, demand should rebound strongly. The vast amounts of cash US corporations hold in their war chests present tangible upside risks to our outlook. Commercial services, which account for over half of all Canadian services exports, will post a modest 2% increase this year before accelerating to 5% in 2013.

Transportation services will grow in tandem with resuming trade flows, advancing 6% this year and next. Within the transportation sector, land transportation will outperform next year on a spike in demand for energy-related transportation. Travel services to businesses and persons, accounting for a quarter of services exports, will grow by 6% this year before moderating to 1% in 2013. Exports of financial services will take a breather this year, following 2 years of strong growth, but underlying positive dynamics remain, and heading into 2013 we expect exports in this sector to accelerate once again. In a sign that Canada is moving up the supply chain (increasing its focus on R&D), GM recently announced plans for a USD 850-million engineering centre in Oshawa, focused on designing new software and alternative energy applications.

Sector Stats

International Exports
2011: CAD 77.5 bn

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

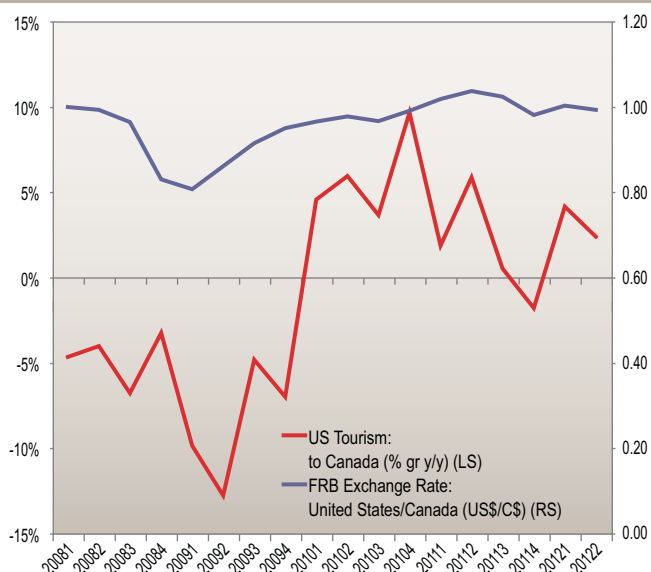
Share of Total
Canadian Exports
2011: 15.5%

Sector Distribution
Across Provinces:
N/A

Canadian Direct
Investment Abroad
(2010):
CAD 60 bn

Source: Statistics Canada

Figure 33: US Visitors Undeterred by the High Canadian Dollar



Source: Haver Analytics

Table 17: Services Export Outlook

	2009	2010	2011	2012(f)	2013(f)
Total Service Exports (\$ mn)	68,293	71,253	75,298	77,727	80,945
annual % change	-5.8	4.3	5.7	3	4
Commercial Services (\$ mn)	40,324	41,263	43,826	44,527	46,622
annual % change	-4	2	6.2	2	5
Transportation Services (\$ mn)	10,559	12,005	13,352	14,143	14,936
annual % change	-13.37	13.69	11.22	6	6
Travel Services (\$ mn)	15,547	16,198	16,506	17,426	17,658
annual % change	-6.0	4.2	1.9	6	1
Government Services (\$ mn)	1,864	1,788	1,615	1,631	1,729
annual % change	7.5	-4.1	-9.7	1	6

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

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In addition to the adverse impact of the high loonie on Canadian competitiveness, exporters are also feeling the sting of softer metals and energy prices alongside weaker demand from key markets. We also adjust for unexpected local circumstances that have limited local production capacity. As a result, EDC Economics has made a number of revisions to the provincial outlooks since our Spring 2012 forecast.

In most cases, the forecast for this year has been lowered; however, the outlooks vary by sector for each province. We expect export growth to accelerate next year, albeit at a somewhat more modest pace than was expected in the Spring.

British Columbia's export outlook for 2012 has been revised down as forestry, energy and industrial goods exports all contract; robust M&E sales will not be sufficient to bring overall trade into positive territory this year, but a broad-based rebound is expected in 2013. **Alberta's** performance is roughly on target this year, and improvement next year will be driven by increased energy and agricultural sales. Agri-food and energy sales will also lead the way for **Saskatchewan**, which will see good growth this year and next. By contrast, **Manitoba** should see softer export growth in 2012 – linked to weaker agri-food and M&E gains, while industrial goods exports are depressed due to a mine closure.

A weaker-than-expected showing for industrial goods this year will leave **Ontario's** export performance short of our Spring outlook. In 2013, growth will decelerate due primarily to a slowing automotive sector. **Quebec's** export growth fortunes have been roughly halved in both years as industrial goods, M&E, forestry and transportation sector sales to foreign markets soften. Next year, the province will see more broad-based gains by sector.

The Atlantic provinces will see a mixed outcome. **Prince Edward Island** is in the midst of much stronger export growth this year, driven by improved agri-food and greatly improved M&E and transportation gains – a feature uniquely tied to the province's aircraft overhaul sector. **Newfoundland and Labrador** has seen its export performance drop into negative territory this year due to energy-related shut-downs, but as capacity comes back on line this sector will drive a large gain next year. Soft commodity prices and some production-related issues have hampered **New Brunswick's** export fortunes this year; however, next year a reversal of these two factors will add to growth. Finally, **Nova Scotia** saw this year's exports dragged lower due to a much weaker energy sector alongside paper mill shut-downs. Next year, export growth will bounce back.

Table 18: Canadian Merchandise Export Forecast by Province

Provinces	CAD bn	% Share of Province's Total Exports	Export Outlook (% growth)		
			2011	2012(f)	2013(f)
Newfoundland and Labrador	12.1	2.9	31.6	-4.8	5.9
Prince Edward Island	0.7	0.2	5.8	21.8	7.5
Nova Scotia	4.4	1.0	3.5	-14.2	16.6
New Brunswick	14.8	3.5	16.6	-1.2	6.1
Quebec	62.2	14.8	7.7	2.8	4.4
Ontario	155.5	37.1	6.5	6.7	3.4
Manitoba	11.7	2.8	14.1	5.4	6.9
Saskatchewan	29.5	7.1	24.7	10.9	7.5
Alberta	93.2	22.2	18.5	7.2	12.1
British Columbia	32.7	7.8	14.0	-2.7	9.6
Territories	2.2	0.5	3.2	-21.4	5.2
Total Goods Exports	419.1	100.0	12.0	4.8	6.7

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

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5.1 Newfoundland and Labrador

EDC Economics has downwardly revised Newfoundland's export forecast for this year from our Spring 2012 GEF. We now project provincial exports to decline 5% this year, followed by a 6% rebound in 2013. This year's downturn is due to sizable declines in energy output and commodity prices. Continued strong demand for iron ore predominantly from China (including Chinese infrastructure investments in the Bahamas) have compensated for the drop in US shipments.

Falling crude production and platform maintenance have dragged energy shipments into negative territory this year and, combined with modest price growth, are pushing sales receipts into negative territory. Next year, crude oil prices will remain broadly unchanged. Declining production at Hibernia will be somewhat offset by growth from Hibernia South. Output gains are also expected at North Amethyst – a satellite field of White Rose. Repairs to White Rose and Terra Nova platforms that have negatively impacted overall production in 2012 will experience a modest rebound in 2013.

The outlook for industrial goods is bright both this year and next year, driven mainly by higher volumes as prices have tracked downwards, and are expected to soften further next year. Foreign sales of iron ore will continue to build as a result of ramped-up production at IOC 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 and Wabush this year.

Newfoundland and Labrador's agri-food sector, dominated by seafood, is bearing the brunt of weak crab prices and lower quotas in 2012, but a recovery is expected in 2013. The balance of the province's exports consist of a broad mix of goods, including forestry, M&E, aerospace and alcoholic beverages, which are shipped by numerous small and medium-sized companies. Apart from forestry, we expect exports in this category to experience significant growth this year due to one-off shipments. A modest acceleration is on tap for next year, though the sector performance is highly sensitive to external developments.

Provincial Stats

GDP (CAD bn)
CAD 2 bn

International Exports/
GDP
37%

Number of Exporters
2010: 195
1999: 178

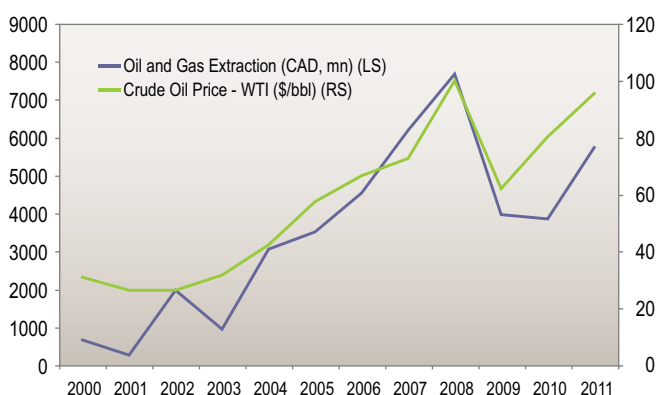
Trade Balance
CAD 9 bn

Largest Export
Destinations
United States 67%
China 9%
Netherlands 5%
Germany 3%
Finland 2%

Share of Exports to
Emerging Markets
2011: 16%
2007: 7%

Trade Diversification
Index (100=total
concentration in a
single sector/region
and 0=completely
diversified)
Sector Diversification:
50%
Regional Diversification:
46%

Figure 34: Oil Exports Overinflated by Crude Oil Price



Source: Haver Analytics, CANSIM

Table 19: 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	7,992	65.9	33.6	-9	8
Industrial Goods	3,022	24.9	35.0	7	1
Agri-Food	876	7.2	10.3	-9	4
Forestry	161	1.3	36.7	-8	1
All Others	71	0.6	-8.2	40.1	6
Total	12,122	100.0	31.6	-5	6
Total excl. energy	4,130	34.1	28.0	4	2

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

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5.2 Prince Edward Island

Prince Edward Island's exports are in line to grow by 22% in 2012 and will likely post a modest 7% gain in 2013. This year's forecast has been revised sharply higher compared with our Spring 2012 GEF. Hungry US consumers are an important factor supporting the growth of food exports. Meanwhile, due to a spike in demand from cash-rich US companies, M&E and transportation sales are becoming a significant contributor to the forecast.

Both the M&E and the transportation sector, specifically aircraft and parts, are witnessing explosive export growth driven by large-order volumes. The aircraft and parts industry is expected to see triple-digit sales increases, while the value of M&E exports will double in 2012. Next year will see M&E and aviation maintenance, repair and overhaul industries maintain high levels of activity, though export growth will be lower given the dramatic increase achieved this year.

The agri-food industry, which remains the dominant export sector, is also on track to experience strong growth, although sales will be less spectacular than in the M&E and aircraft and parts sectors. Seafood exports are forecast to grow 18% in 2012 due to an increase in lobster landings. Poor weather conditions in 2011 reduced supplies. This year's bounty will compensate for the downward price movement seen in the late summer and fall season as a result of the large catch made by New England fishers.

Exports of French fries, produced by the McCain and Cavendish plants, are also set to see solid growth of 16%. In 2013, growth should come in at a somewhat lower 9%, due to the high 2012 base effect. Increased demand fuelled by US consumer confidence and spending, both of which are forecast to remain elevated in 2013, is likely powering this growth spurt.

While French fry potato manufacturers will see gains, raw potato exports will slip in 2012, likely by as much as 30%. Hot and dry weather that affected table potato crops on part of the Island is one of the culprits. The other is that the US market is better supplied in 2012 than last year, driving down prices. Assuming the weather improves next year, a recovery should take place in 2013.

Provincial Stats

GDP (CAD bn)
CAD 5 bn

International Exports/
GDP
21%

Number of Exporters
2010: 158
1999: 131

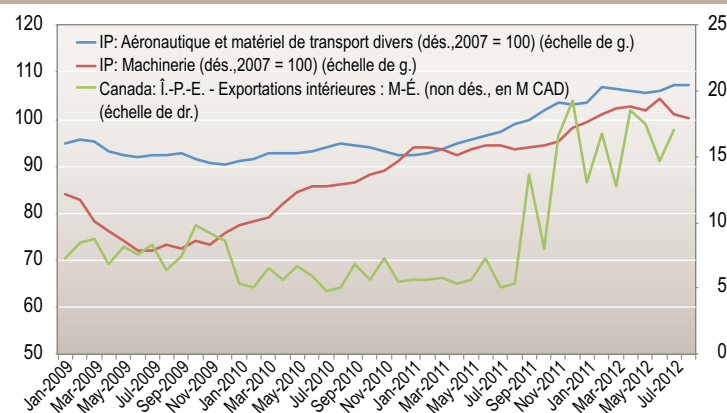
Trade Balance
CAD 1 bn

Largest Export
Destinations
United States 70%
United Kingdom 2%
Japan 2%
Kenya 2%
Indonesia 1%

Share of Exports to
Emerging Markets
2011: 17%
2007: 10%

Trade Diversification
Index (100=total
concentration in a
single sector/region
and 0=completely
diversified)
Sector Diversification:
46%
Regional Diversification:
52%

Figure 35: US Industrial Production Drives PEI Manufacturing



Source: Haver Analytics, CANSIM, Federal Reserve Board

Table 20: 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	475.9	65.1	1.8	9	7
M&E	51.9	7.1	62.5	87	7
Transportation	50.2	6.9	41.8	134	8
Industrial Goods	54.8	7.5	-8.6	5	7
All Others	98.7	13.5	2.2	1	8
Total	731.4	100.0	5.8	22	7
Total excl. energy	731	100.0	5.9	22	7

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

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5.3 Nova Scotia

EDC Economics has revised Nova Scotia's export forecast down for this year compared to our Spring 2012 GEF. Lower natural gas prices and production, alongside paper mill shutdowns, will see exports plunge 14% this year. A more positive outlook for the natural gas sector, paper mills coming back on line and an improved US demand outlook will see a 17% export rebound next year.

Ongoing decline in natural gas production from the Sable fields and delays in the Deep Panuke project, added to low prices, will result in a significant contraction in exports of natural gas in 2012. That said, production will ramp up as Deep Panuke comes online, and complemented by better pricing will result in positive export growth in 2013. Shell acquired four exploration parcels earlier this year, highlighting the province's plan to expand offshore oil exploration, which should have positive medium-term prospects for energy sales.

Exports of fish and fish products are expected to rise this year and next, driven by higher shipments of lobster, crab and shrimp. However, export growth may soften going forward as prices for most major species come under pressure. The aquaculture sector is expected to continue growing as a result of further investments that will increase processing capacity. Nova Scotia's fisheries will continue to be focused on supplying sustainable seafood products. A good example of this trend is Clearwater, which has completed the certification of all of its core products, becoming the company with the widest selection of Marine Stewardship Council Certifications in the world.

The shutdown of the NewPage Port Hawkesbury paper mill in September 2011 adversely impacted export volumes in the newsprint sector this year, but its reopening will add to export growth next year. The shutdown of the Bowater Mersey Mill in Brooklyn is not expected to weigh down export growth as most of its production supplies the domestic market.

The auto parts sector, led by Michelin, will see production growth soften this year mostly due to weaker demand from European markets. Expect exports to advance 4%. But an increase in vehicle production in the US, a positive pricing environment and favourable raw materials costs will see exports rise 10% next year.

Provincial Stats

GDP
CAD 36 bn

International Exports/
GDP
19%

Number of Exporters
2010: 670
1999: 819

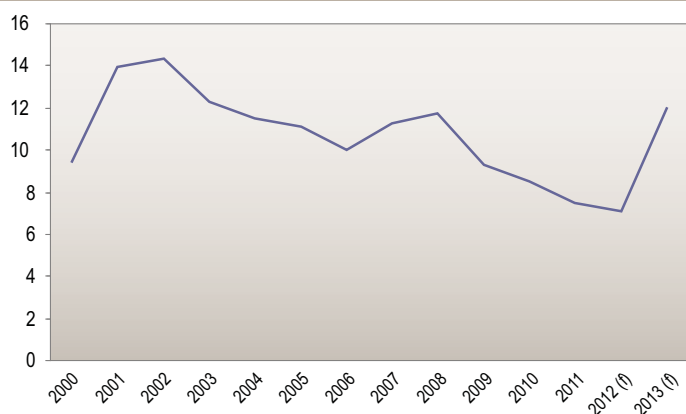
Trade Balance
CAD (4) bn deficit

Largest Export
Destinations
United States 74%
China 3%
France (incl. Monaco,
French Antilles) 2%
United Kingdom 2%
Netherlands 2%

Share of Exports to
Emerging Markets
2011: 10%
2007: 7%

Trade Diversification
Index (100=total
concentration in a
single sector/region
and 0=completely
diversified)
Sector Diversification:
22%
Regional Diversification:
56%

Figure 36: Nova Scotia Natural Gas Production (mmcmd)



Source: Canada Energy Board, EDC Economics.

Table 21: Nova Scotia Merchandise Outlook

Top Sectors	CAD mn	% Share of Province's Total Exports	Export Outlook (% growth)		
	2011	2011	2011	2012(f)	2013(f)
Energy	458	10.4	-4.9	-86	47
Agri-Food	1,152	26.2	15.4	2	5
Forestry	721	16.4	-9.8	-50	103
Motor Vehicle	1,045	23.8	7.8	4	10
All Others	1,019	23.2	1.9	6	5
Total	4,394	100.0	3.5	-14	17
Total excl. energy	3,936	89.6	4.5	-6	16

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

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5.4 New Brunswick

EDC Economics revised down New Brunswick's export forecast for this year compared to our Spring 2012 GEF outlook due to weaker-than-expected pricing for key commodities. We now expect exports to decline 1% in 2012, before rising 6% in 2013. The broad-based increase next year will see improvements in energy, forestry and the agri-food sectors.

Despite slightly weaker oil prices in 2013, energy exports will receive a boost from recovering natural gas prices which plunged 33% in 2012. The reopening of the Point Lepreau nuclear power plant and stronger demand linked to growing US economic activity will add lift to the outlook. Spain's Repsol, which owns 75% of the Canaport LNG terminal in Saint John, is looking to sell its global LNG assets to shore up its own financial position due to Argentina's expropriatory actions. Meanwhile, shale gas exploration has slowed as businesses await greater regulatory clarity. Nonetheless, unlocking New Brunswick's shale gas potential remains a few years away.

Wood products exports will receive a significant boost from the positive momentum in US housing, with starts expected to rise nearly 40% next year. Some of the province's previously closed mills are in the process of reopening, including the OSB mill in Miramichi. On the paper side, North American producers of containerboard and supercalendered paper are in the midst of pushing through higher prices for those two grades. The expected improvement in the US economy will support demand fundamentals for those grades, which will shore up the province's paper sales.

Shipments of agri-food products are proving to be considerably better than expected in 2012 as a result of higher exports of farmed salmon and lobster, despite weaker prices for both commodities. With prices expected to improve going forward, sales of seafood products will rise further in 2013. Cranberry production remains relatively small but will continue to increase quickly with the opening of the Ocean Spray bog.

The closure of Brunswick Mine in 2013 will result in weaker exports of industrial goods next year. However, the decline will be tempered by new projects or planned production expansions, led by PotashCorp Sussex mine, and to a lesser extent Halfmile, Mount Pleasant and Trevalli.

Provincial Stats

GDP
CAD 29 bn

International Exports/
GDP
40%

Number of Exporters
2010: 540
1999: 692

Trade Balance
CAD (8) bn deficit

Largest Export
Destinations
United States 84%
Netherlands 4%
Brazil 1%
Turkey 1%
China 1%

Share of Exports to
Emerging Markets
2011: 7%
2007: 5%

Trade Diversification
Index (100=total
concentration in a
single sector/region
and 0=completely
diversified)
Sector Diversification:
51%
Regional Diversification:
72%

Figure 37: Manufacturing Sector Improving

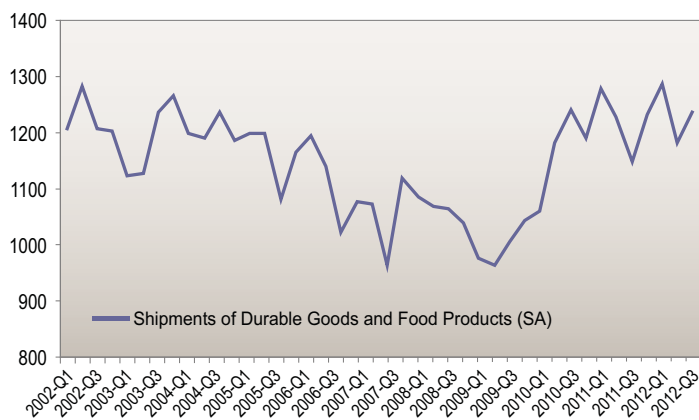


Table 22: New Brunswick Merchandise Outlook

Top Sectors	CAD mn	% Share of Province's Total Exports	Export Outlook (% growth)		
	2011	2011	2011	2012(f)	2013(f)
Energy	10,620	71.8	22.2	-4	7
Forestry	1,512	10.2	-2.8	1	12
Agri-Food	1,380	9.3	18.1	12	6
Industrial Goods	959	6.5	3.1	0	-12
M&E	194	1.3	-16.9	21	7
All Others	125	0.8	15.1	15	8
Total	14,790	100.0	16.6	-1	6
Total excl. energy	4,170	28.2	4.3	6	4

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

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5.5 Quebec

Quebec's export outlook has been revised down from our Spring 2012 GEF due to sluggish demand from key markets and weaker-than-expected pricing. Overall, EDC Economics forecasts growth of 3% this year and a slight acceleration to 4% in 2013. The change in the provincial government following September elections could have an impact on Quebec's overall investment and export picture with potential regulatory changes to the mining and oil and gas sectors; some investors have voiced concern over the potential changes.

Quebec's aluminum exports will be weighed down by weak prices this year; prices are forecast to average USD 2,000/tonne in 2012 before climbing back above USD 2,300/tonne next year. EDC's volume projection for the industry, however, has been revised following the resolution of the strike at Rio Tinto's Alma smelter in July that has led to increased activity. The smelter should reach full capacity by end of year. Aluminerie Alouette, already North America's largest aluminum smelter, will see a substantial increase in annual output over the medium term owing to a CAD 2 billion expansion.

The metals and mining industry continues to be a key contributor to Quebec's overall export performance with gold production leading the charge. Gold output is set to soar thanks to a fourfold boost in production at Osisko's Malartic mine and the expansion of Agnico-Eagle's LaRonde gold mine. The province's iron ore output is set for further growth as New Millennium Iron begins shipping ore from its mine at Schefferville in 2013 with output destined for India's Tata Steel. Additional boosts to the future iron ore export story come from expansions at Cliffs Natural Resources' Bloom Lake property and at ArcelorMittal's Mont-Wright mine. Delivery of ore from these various projects will also benefit from ongoing development of rail and port facilities in Sept-Îles, Quebec.

In spite of a slow start, aerospace sector exports will record positive, albeit limited, gains this year and next with business jet deliveries expected to drive most of the growth. Although new commercial aircraft orders have slowed, a backlog of orders will support deliveries over the short term. Bombardier's long-awaited C-Series is now in testing phase, with the plane's first flight planned before end of year.

Provincial Stats

GDP
CAD 319 bn

International Exports/
GDP
26%

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

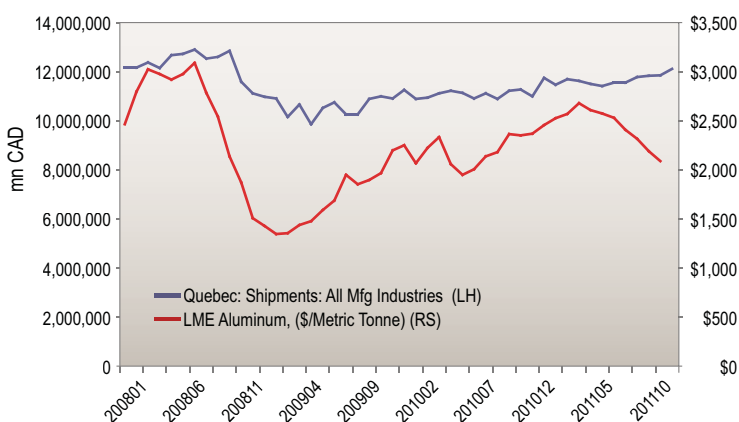
Trade Balance
CAD (8) bn deficit

Largest Export
Destinations
United States 69%
China 4%
Germany 2%
France (incl. Monaco,
French Antilles) 2%
Netherlands 2%

Share of Exports to
Emerging Markets
2011: 13%
2007: 8%

Trade Diversification
Index (100=total
concentration in a
single sector/region
and 0=completely
diversified)
Sector Diversification:
24%
Regional Diversification:
50%

Figure 38: Quebec: Export Demand Indicators



Source: Haver Analytics, CANSIM

Table 23: Quebec Merchandise Outlook

Top Sectors	CAD mn	% Share of Province's Total Exports	Export Outlook (% growth)		
	2011	2011	2011	2012(f)	2013(f)
Industrial Goods	24,489	39.4	9.6	3	1
M&E	8,349	13.4	7.8	11	6
Forestry	7,402	11.9	-2.5	-7	1
Transportation	7,457	12.0	5.3	1	8
Agri-Food	5,598	9.0	12.9	5	10
Consumer Goods	2,478	4.0	-1.2	-5	6
All Others	6,444	10.4	16.0	6	11
Total	62,216	100.0	7.7	3	4
Total excl. energy	58,775	94.5	7.0	3	4

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

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5.6 Ontario

Ontario's exports will outperform the national picture this year due, once again, to the dominant role of the automotive and mining sectors. Next year's outlook, however, has been revised down from our Spring 2012 GEF due to slower growth in auto production. Commodity prices have been generally much weaker than expected and in spite of a rally in the second half of the year, prices, on an annual basis, will record declines in 2012 and 2013. The US and Mexico will drive trade growth this year and next as the North American automotive sector and US investment underpin demand.

The province's export growth story is linked to the normalization of activity at Toyota and Honda after last year's tsunami-related supply disruptions. Next year, production will level off, with the exception of the Lexus model being added to Toyota's Cambridge plant. Vehicle sales in the US have been steadily climbing and will continue to recover to pre-crisis levels over the coming years; however, the shrinking footprint of Ford and GM limits Ontario's manufacturing export potential.

Precious metal exports have not mirrored the rapid growth in production in the gold mining industry thus far, but firming prices and some key projects will fuel export receipts in the second half of 2012 and into 2013. Two such projects include the Young Davidson project which entered commercial production on September 1 and Detour Lake, scheduled to commence production in January 2013. Exports of other metals will be lower than expected this year as miners cope with a weak pricing environment; in August, nickel prices were down 20% from January. In a move indicative of these pressures, Vale announced a hiring freeze at its Sudbury operations in September. The outlook for 2012 steel exports is closely tied to North American auto output, whereas the acceleration in US investment spending will underpin sales receipts in 2013.

Exports of M&E will post healthy growth rates both this year and next, with strong demand from both traditional and emerging markets. Foreign sales of M&E in the mining and agricultural sectors have been particularly strong, benefiting from booming investment in the mining sector worldwide, and with high food prices spurring investments by farmer operators.

Provincial Stats

GDP
CAD 612 bn

International Exports/
GDP
31%

Number of Exporters
2010: 16,655
1999: 17,504

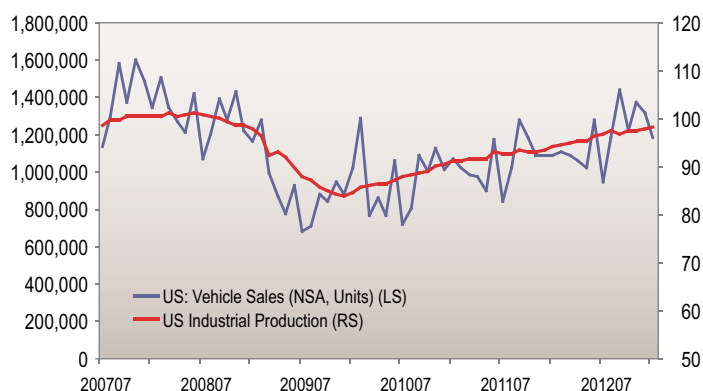
Trade Balance
CAD (69) bn deficit

Largest Export
Destinations
United States 77%
United Kingdom 9%
Norway 2%
China 1%
Hong Kong 1%

Share of Exports to
Emerging Markets
2011: 6%
2007: 4%

Trade Diversification
Index (100=total
concentration in a
single sector/region
and 0=completely
diversified)
Sector Diversification:
26%
Regional Diversification:
61%

Figure 38: Ontario: Export Demand Indicators



Source: Haver Analytics

Table 24: 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	57,472	37.0	13.5	3	2
Motor Vehicle	50,130	32.2	2.4	14	2
M&E	20,913	13.4	3.0	6	6
Agri-Food	9,781	6.3	5.6	7	10
Forestry	4,590	3.0	-0.3	-6	8
Consumer Goods	4,594	3.0	13.2	-10	6
All Others	8,017	5.2	-2.3	6	10
Total	155,497	100.0	6.5	7	3

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

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5.7 Manitoba

Manitoba's exports will grow 5% in 2012 and then accelerate by 7% in 2013. EDC Economics' provincial forecast is underpinned by improving demand from the US and healthy agricultural commodity prices. A strong currency remains a challenge for exporters; however, the manufacturing sector is on a tear, with rising sales in key sectors such as aerospace parts, buses and agricultural equipment. The province is Canada's most diversified with most sectors, except industrial goods, seeing impressive foreign sales growth.

Agri-food exports are projected to rise by 12% this year, due to a combination of soaring grain prices resulting from the US drought as well as tight global supply conditions. Excellent weather conditions throughout the province will mean a bumper crop, though much of this fall's harvest will be shipped next year. Higher canola production over the forecast period will be a key contributor to export performance, and meat sales are set for strong increases this year and next. This is mainly a result of an increase in beef prices rather than increased volumes.

Exports of industrial goods will be 12% lower this year mainly due to a sharp decline in copper exports following the closure of the Trout Lake Mine. Sales of M&E will increase by 17% this year and 9% in 2013 due to growth in agricultural machinery as high food prices enable farmers to boost investment globally.

The energy sector will be a key driver of growth over the forecast horizon, with exports expected to rise 10% this year and level off in 2013. Strong oil prices through 2012–13 will raise the value of the province's crude exports, while boosting drilling activity to record levels. The outlook for 2013 is also boosted by Manitoba Hydro's Wuskwatim generating station coming online in the fall of 2012, driving electricity exports.

The transportation sector will be the star performer, where the aerospace industry will see a surge in exports of aircraft parts by Boeing Winnipeg as production of the 787 Dreamliner ramps up. Shipments of buses are also up a stunning 40% so far this year led by industry leaders such as New Flyer, which will continue to benefit from improving economic conditions in the US.

Provincial Stats

GDP
CAD 54 bn

International Exports/
GDP
27%

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

Trade Balance
CAD (3.5) bn deficit

Largest Export
Destinations
United States 61%
China 8%
Japan 6%
Mexico 3%
Korea, South 2%

Share of Exports to
Emerging Markets
2011: 23%
2007: 20%

Trade Diversification
Index (100=total
concentration in a
single sector/region
and 0=completely
diversified)
Sector Diversification:
23%
Regional Diversification:
40%

Figure 40: Manitoban Imports Back to Pre-Crisis Levels, but Exports Still Have a Way to Go (Monthly, CAD mn)

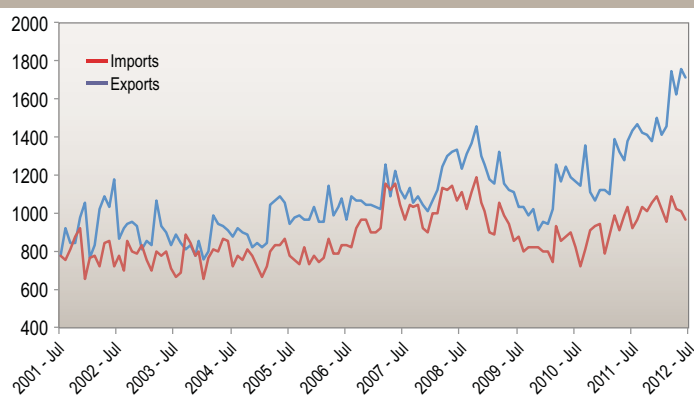


Table 25: Manitoba Merchandise Outlook

Top Sectors	CAD mn	% Share of Province's Total Exports	Export Outlook (% growth)		
	2011	2011	2011	2012(f)	2013(f)
Agri-Food	4,279	36.6	5.8	12	14
Industrial Goods	3,207	27.5	33.3	-12	-3
M&E	1,444	12.4	18.4	17	9
Energy	995	8.5	15.2	10	-4
Motor Vehicle	469	4.0	8.7	23	12
Forestry	401	3.4	7.3	-2	7
All Others	881	7.5	-1.7	4	8
Total	11,676	100.0	14.1	5	7
Total excl. energy	10,682	91.5	14.0	5	8

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

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5.8 Saskatchewan

Saskatchewan's export growth will continue to boom this year, posting a solid 11% gain, followed by an 8% rise next year. The province's energy exports will benefit from strong prices through the forecast. The agri-food sector will see both healthy prices combined with a bumper crop due to excellent growing conditions, marking a dramatic improvement over the troubled flood conditions that plagued the industry over the preceding 2 years.

Energy exports will grow by a stunning 21% this year before slowing to 3% in 2013, as earnings are supported by still strong prices. The province's total conventional crude production this year is forecast to increase to 474,000 barrels per day from 430,000 last year. Additional gains in light and medium crude production will offset slight declines in conventional heavy oil production next year; the Western Canada Sedimentary Basin is mature and production has been declining for years. While high energy prices will drive investment, increased drilling activity will continue through the forecast horizon. Large additions in production capacity are expected to come online in 2014.

Saskatchewan's agri-food exports are forecast to grow by 12% this year and next as record canola and wheat harvests will drive an export bonanza amid a healthy price environment. The long-term price drivers for global agriculture will remain strong. Notably, there will be a continual rapid rise in demand for food by the emerging markets as well as the soaring trend to grow biofuels. As global grain production recovers in 2013 after a devastating drought in the US, grain inventories will return to normal levels.

Fertilizer exports are expected to decrease by 4% in 2012 before rising export volumes drive a 9% expansion in 2013. The outlook, especially for potash, remains uncertain, as local soil, weather and market conditions (in particular carryover of nutrient from spring applications) could dampen demand. We expect prices to remain flat given prevailing bearish sentiment in the market through 2012 and into next year.

Provincial Stats

GDP
CAD 64 bn

International Exports/
GDP
39%

Number of Exporters
2010: 761
1999: 731

Trade Balance
CAD (20.3) bn deficit

Largest Export
Destinations
United States 62%
China 6%
Japan 3%
India 3%
Indonesia 3%

Share of Exports to
Emerging Markets
2011: 25%
2007: 23%

Trade Diversification
Index (100=total
concentration in a
single sector/region
and 0=completely
diversified)
Sector Diversification:
31%
Regional Diversification:
41%

Figure 41: Saskatchewan Exports Back to Pre-Crisis Levels (CAD mn)

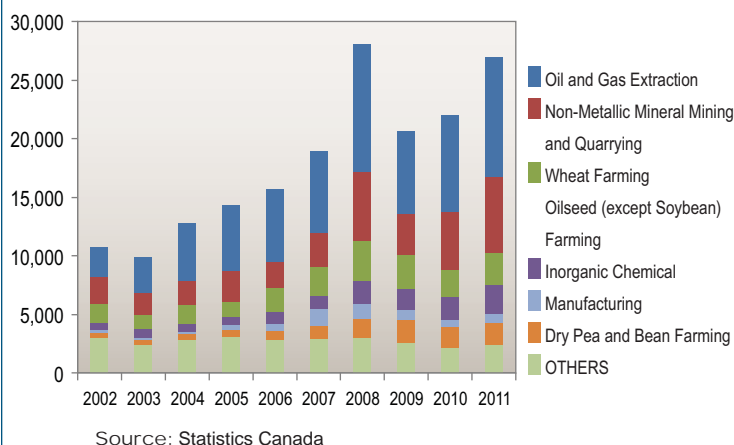


Table 26: Saskatchewan Merchandise Outlook

Top Sectors	CAD mn	% Share of Province's Total Exports	Export Outlook (% growth)		
	2011	2011	2011	2012(f)	2013(f)
Energy	10,527	35.6	24.0	21	3
Agri-Food	10,170	34.4	23.2	12	12
Fertilizers	6,556	22.2	30.3	-4	9
Chemicals/Plastics	871	2.9	34.4	-20	7
All Others	1,427	4.8	12.2	16	8
Total	29,550	100.0	24.7	11	8
Total excl. energy	19,023	64.4	25.1	6	10

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

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5.9 Alberta

Alberta's exports will climb 7% in 2012 before expanding a whopping 12% in 2013. The latter marks a substantial upward revision from our Spring GEF projection, owing to increased crude shipments and higher prices in other subsectors. Crude oil, most agricultural commodities and a number of industrial goods will post gains this year. More of the same is projected next year, driving total exports to over CAD 100 billion, and firmly establish Alberta as Canada's number two export province. Natural gas sales witnessed the brunt of lower prices and volumes this year, but next year's price lift will boost sales even as volume declines.

Elevated global crude oil prices earlier this year lifted activity and there is good reason to see this trend continue in light of an estimated CAD 20 billion of new oil sector investment this year (Canadian Association of Petroleum Producers). Favourable crude prices alongside faltering natural gas prices have prompted a shift of drilling rigs toward crude wells at the expense of dry natural gas. Crude production will rise about 300,000 barrels a day next year, to reach 2.6 million barrels a day. Conventional output will rise 30,000 barrels a day, thanks to improved horizontal drilling and fracturing techniques. Increased production means increased exports, whether they are shipped by pipeline or rail.

Natural gas prices are down 33% on Henry Hub this year due to near-record gas in US storage following years of investment in shale gas capacity. Next year, a 25% price recovery is expected as US inventories adjust downwards. Nevertheless, Alberta producers will maintain focus on wet gas as prices will remain uneconomical to entice dry gas activity.

The performance for industrial goods will be mixed due to swings in pricing. Growth in fertilizer, rubber and plastics will be offset by weakness in chemicals, metals and ores this year. Oil and gas M&E exports are down this year due to increased deployment in Canada, dragging overall M&E exports lower. Agri-food sales will show solid gains over the forecast as this year's bumper harvest due to excellent weather conditions and strong price outlook will increase sales of special crops and wheat. Higher grain prices have also driven cattle sales as farmers trim back herds. Beef sales will be dampened this year due to the recent recall of packaged meat.

Provincial Stats

GDP
CAD 264 bn

International Exports/
GDP
33%

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

Trade Balance
CAD 69.8 bn

Largest Export
Destinations
United States 87%
China 3%
Japan 2%
Mexico 1%
Korea, South 1%

Share of Exports to
Emerging Markets
2011: 7%
2007: 8%

Trade Diversification
Index (100=total
concentration in a
single sector/region
and 0=completely
diversified)
Sector Diversification:
54%
Regional Diversification:
75%

Figure 42: Alberta Rig Count vs. WTI Prices

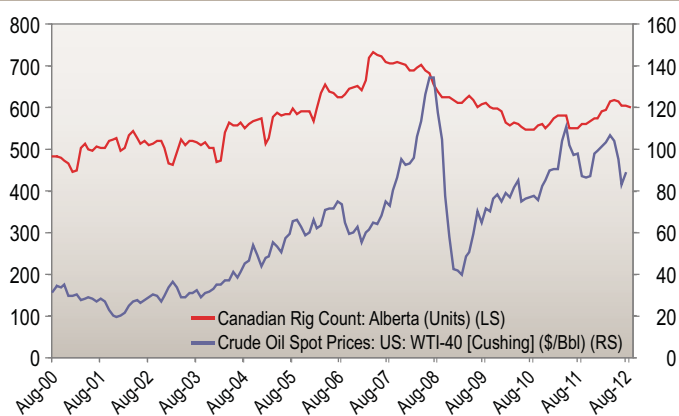


Table 27: Alberta Merchandise Outlook

Top Sectors	CAD mn	% Share of Province's Total Exports	Export Outlook (% growth)		
	2011	2011	2011	2012(f)	2013(f)
Energy	67,672	72.6	19.5	8	14
Industrial Goods	10,200	10.9	15.4	-2	6
Agri-Food	7,989	8.6	19.6	11	9
M&E	4,366	4.7	26.6	5	8
Forestry	2,046	2.2	-9.9	-1	10
All Others	901	1.0	18.2	1	9
Total	93,174	100.0	18.5	7	12
Total excl. energy	25,502	27.4	15.9	4	8

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

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5.10 British Columbia

EDC Economics has revised British Columbia's export outlook down this year compared to our Spring 2012 GEF. Sharper-than-anticipated declines in key commodity prices, including pulp, natural gas and copper, exacerbated by the slowing Chinese economy, will push back export growth into negative territory in 2012. Exports should rebound next year, rising 10% overall as commodity prices improve and growth recovers south of the border and in Asia.

Forestry sector exports are being dragged down by weaker pulp prices, as well as the indefinite shutdown of the Tembec's pulp mill in Chetwynd. Stronger US housing starts, which are expected to rise nearly 40%, will give a significant boost to the wood products sector. The province's sawmills are already retooling in preparation for the expected rise in demand: year-to-date announcements of new investments and mill restarts reported by Industry Intelligence outnumber shutdowns by a factor of two to one. At the same time, next year should see improved pulp and lumber demand from China as its economy and housing sector accelerate again.

Improved natural gas prices alongside rising production from both the Horn River Basin and the Montney shale gas formations will boost energy exports next year. On the other hand, global coal prices are expected to weaken further, and the unfavourable environment has delayed the reopening of the Quintette mine until 2014. Nevertheless, the long-term potential for the province's energy sector remains bright. Two export-oriented LNG terminals have already been approved, while Shell and its partners in the LNG Canada project have applied to Canada's National Energy Board for a licence to export up to 24 million tons of liquefied natural gas annually for 25 years.

With additional copper, gold and molybdenum capacity being added to the mining complex, exports of industrial goods are expected to increase next year. New or increased output at Highland Valley Copper, New Afton and Gibraltar mines will more than offset weaker copper prices forecasted next year. Longer-term projects will also boost the metals sector beyond 2014, such as the CAD 3.3 billion modernization of the Rio Tinto aluminum smelter in Kitimat and the Mount Milligan mining project, which will open later than previously expected.

Provincial Stats

GDP
CAD 203 bn

International Exports/
GDP
22%

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

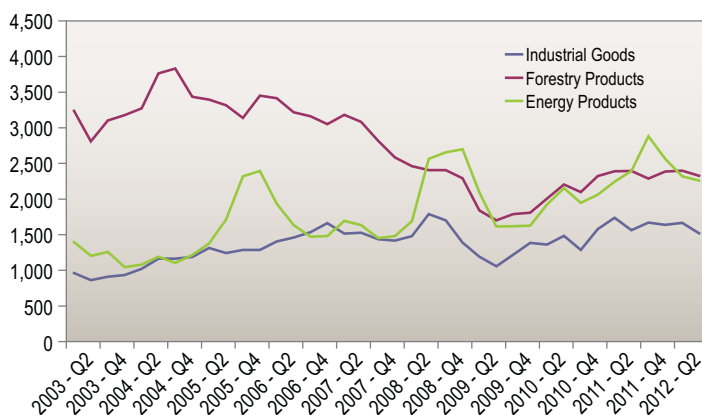
Trade Balance
CAD (6.4) bn deficit

Largest Export
Destinations
United States 43%
China 15%
Japan 14%
Korea, South 8%
Taiwan 2%

Share of Exports to
Emerging Markets
2011: 24%
2007: 13%

Trade Diversification
Index (100=total
concentration in a
single sector/region
and 0=completely
diversified)
Sector Diversification:
23%
Regional Diversification:
24%

Figure 43: Asian Demand Boost



Source: Industry Canada

Table 28: BC Merchandise Outlook

Top Sectors	CAD mn	% Share of Province's Total Exports	Export Outlook (% growth)		
	2011	2011	2011	2012(f)	2013(f)
Forestry	9,933	30.3	9.2	-2	18
Energy	10,084	30.8	25.5	-7	5
Industrial Goods	6,521	19.9	17.8	-9	6
M&E	2,417	7.4	6.4	14	6
Agri-Food	2,494	7.6	-2.1	6	8
All Others	1,288	3.9	5.1	8	8
Total	32,736	100.0	14.0	-3	10
Total excl. energy	22,652	69.2	9.5	-1	12

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

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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.

6.1 Experience and Attitude



Algeria

Risk Level

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



Angola

Risk Level

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



Bangladesh

Risk Level

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



Barbados

Risk Level

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

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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.



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:	Low-Medium
EDC payment experience 2011:	Positive: (+)



Brazil

Risk Level

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



Bulgaria

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Low-Medium
Sovereign:	Low-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

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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.



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



Colombia

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Low-Medium
Sovereign:	Low-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

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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.



Croatia

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Low-Medium
Sovereign:	Low-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: (+)

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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.



Egypt

Risk Level

Short-term commercial:	Medium-High
Medium-long-term commercial:	Medium-High
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

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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.



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: (+)

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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.



Greece

Risk Level

Short-term commercial:	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:	No Information



Haiti

Risk Level

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

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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:	Low-Medium
Sovereign:	Low-Medium
EDC payment experience 2011:	Positive: (+)



Indonesia

Risk Level

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



Italy

Risk Level

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

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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.



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-High
Medium-long-term commercial:	Low-Medium
Sovereign:	Low-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: (-)

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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.



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



Libya

Risk Level

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

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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.



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



Mexico

Risk Level

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

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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.



Mongolia

Risk Level

Short-term commercial:	Medium-High
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:	Low-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:	Medium
Medium-long term commercial:	Low
Sovereign:	Low-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: (+)

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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.



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:	Low-Medium
EDC payment experience 2011:	Positive: (+)



Peru

Risk Level

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

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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.



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



Portugal

Risk Level

Short-term commercial:	Medium
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: (+)

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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.



Russian Federation

Risk Level

Short-term commercial:	Medium
Medium-long-term commercial:	Low-Medium
Sovereign:	Low-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: 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.



South Africa

Risk Level

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



Sri Lanka

Risk Level

Short-term commercial:	Medium-High*
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: (+)

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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.



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:	Low-Medium
EDC payment experience 2011:	Positive: (+)



Trinidad and Tobago

Risk Level

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

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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.



Tunisia

Risk Level

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



Ukraine

Risk Level

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

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

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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.



Venezuela, Bolivarian Republic of

Risk Level

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

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Latin America

Short-term payment risk



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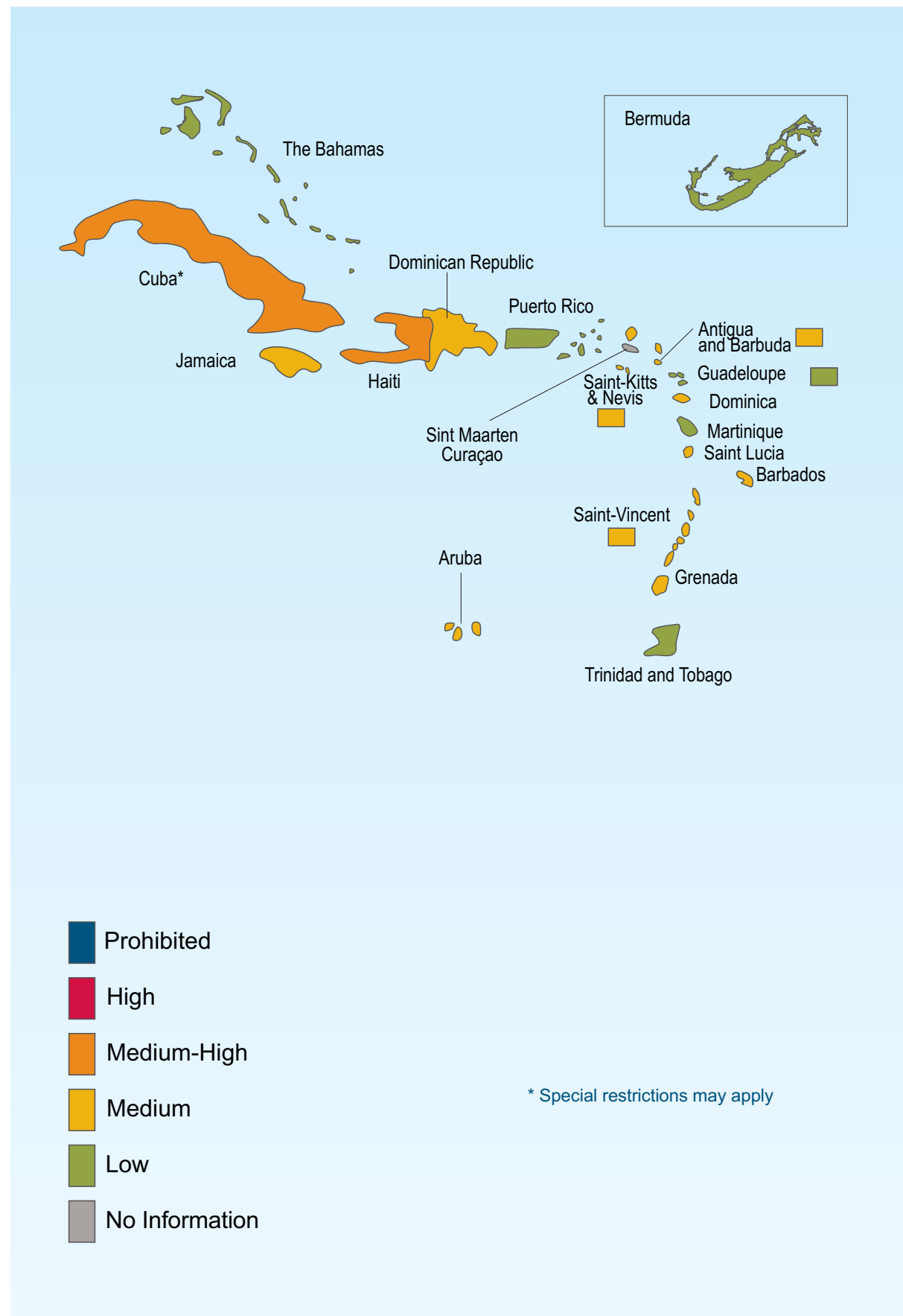
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Caribbean

Short-term payment risk



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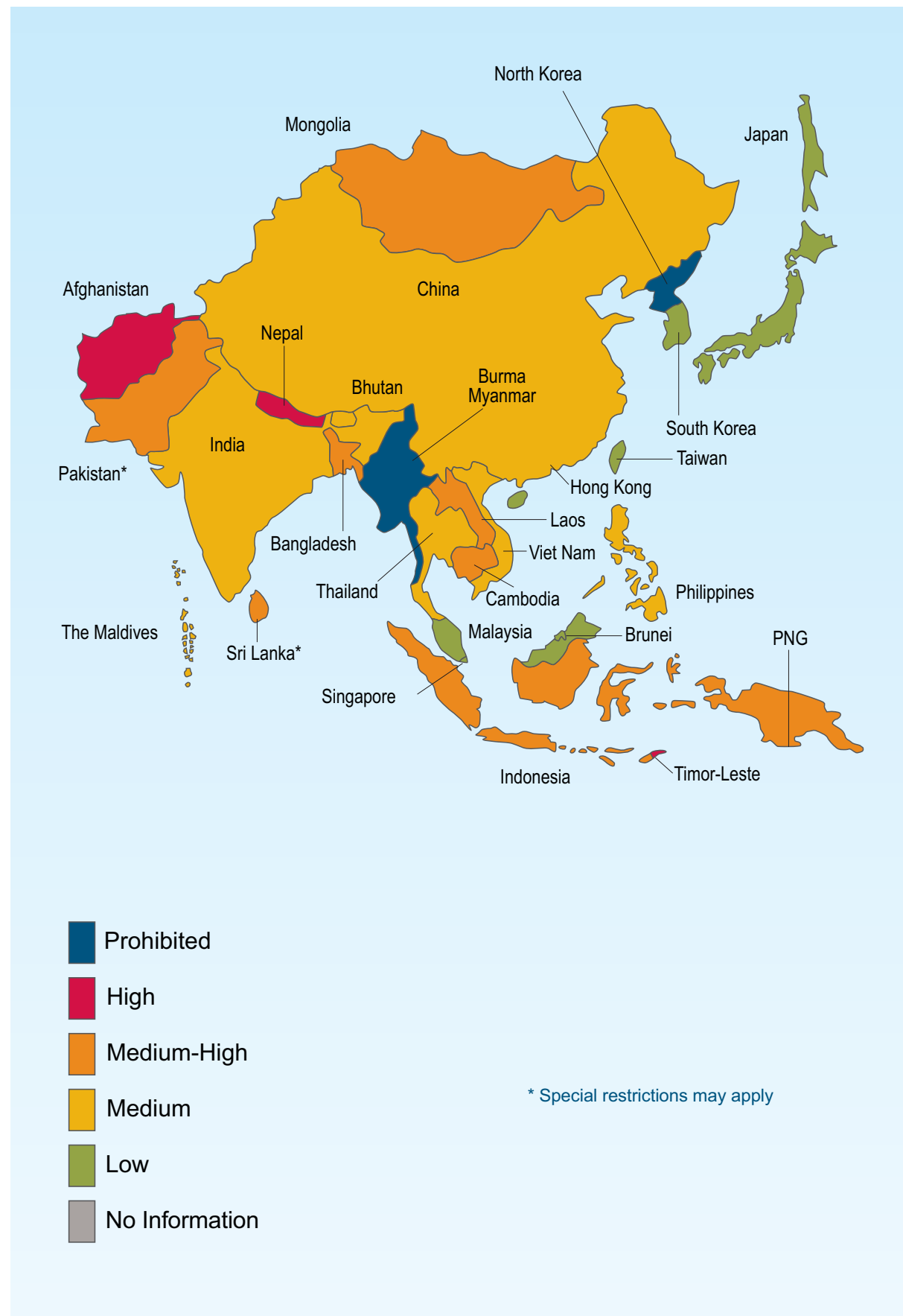
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Asia/Pacific

Short-term payment risk



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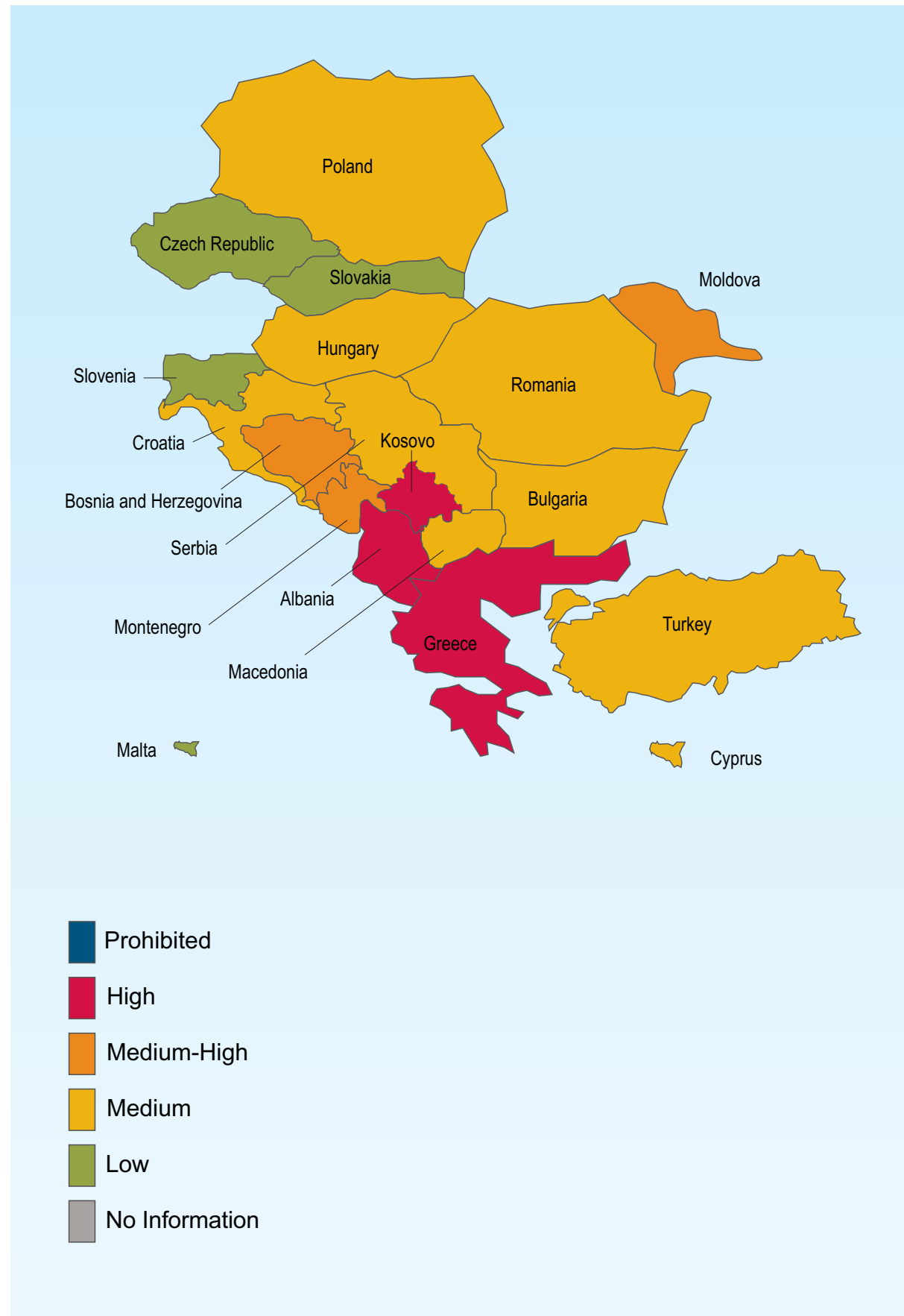
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Central Europe

Short-term payment risk



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Western Europe

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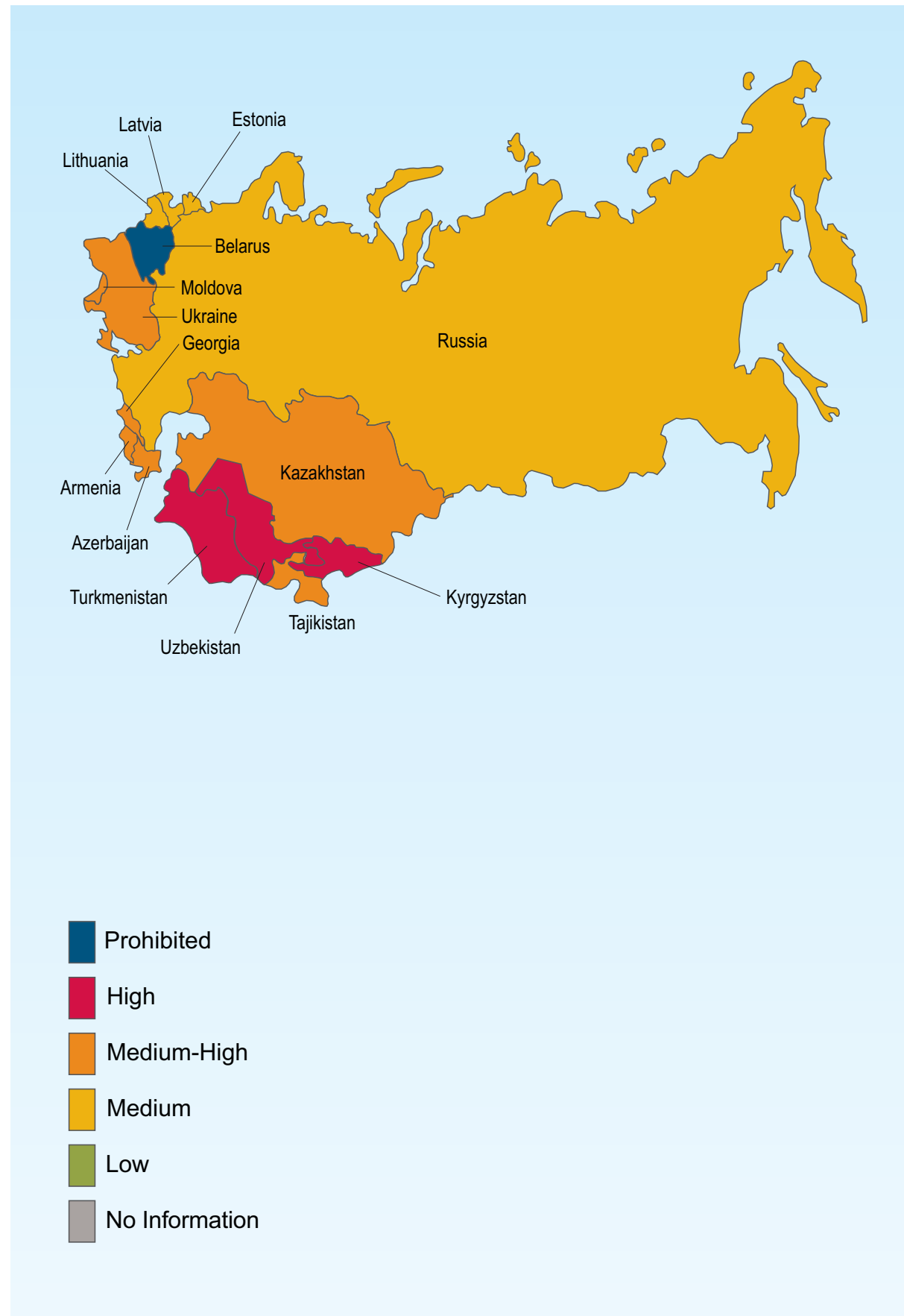
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Former Soviet Union

Short-term payment risk



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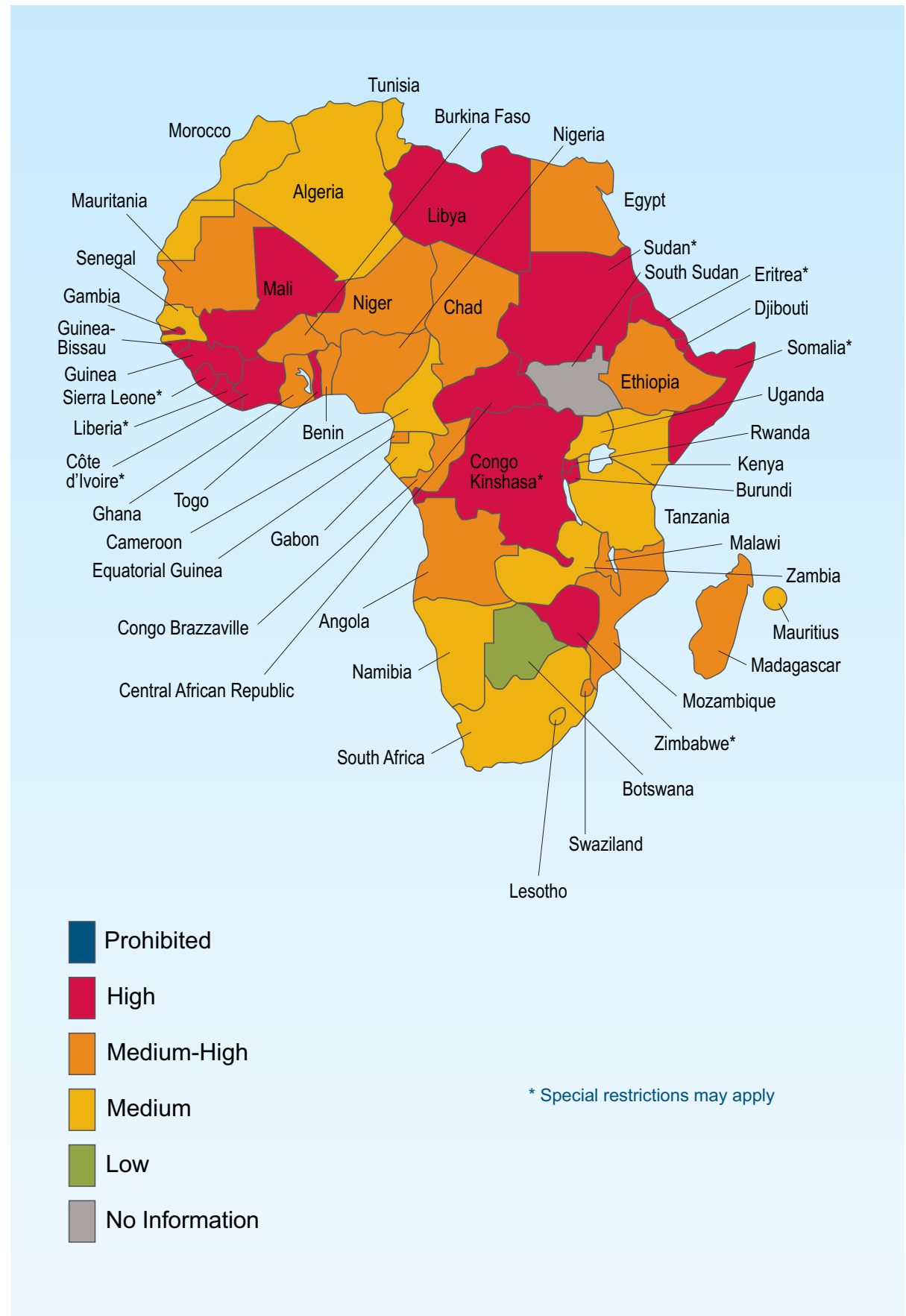
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Africa

Short-term payment risk



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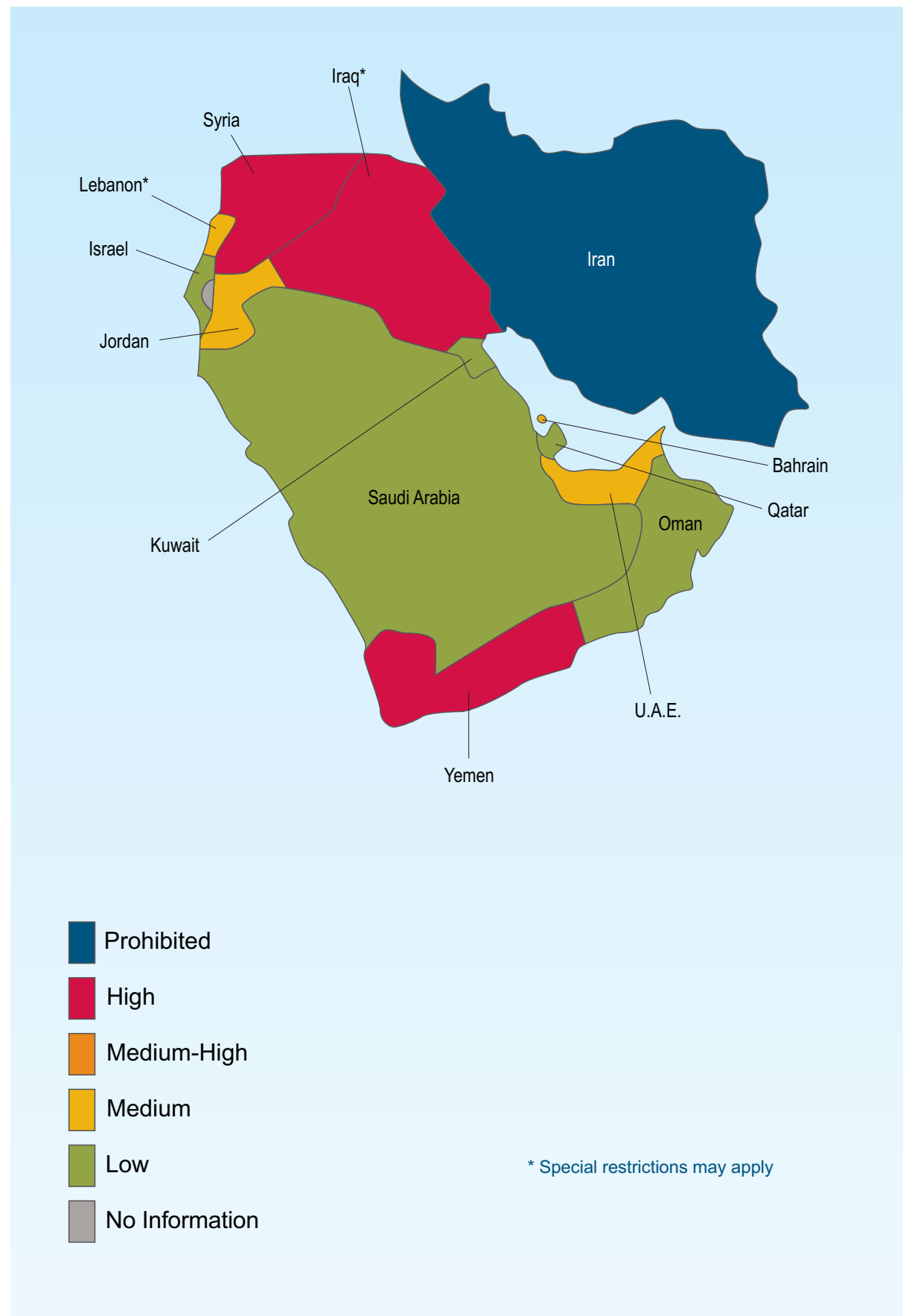
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Middle East

Short-term payment risk



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Latin America

Medium- and long-term payment risks



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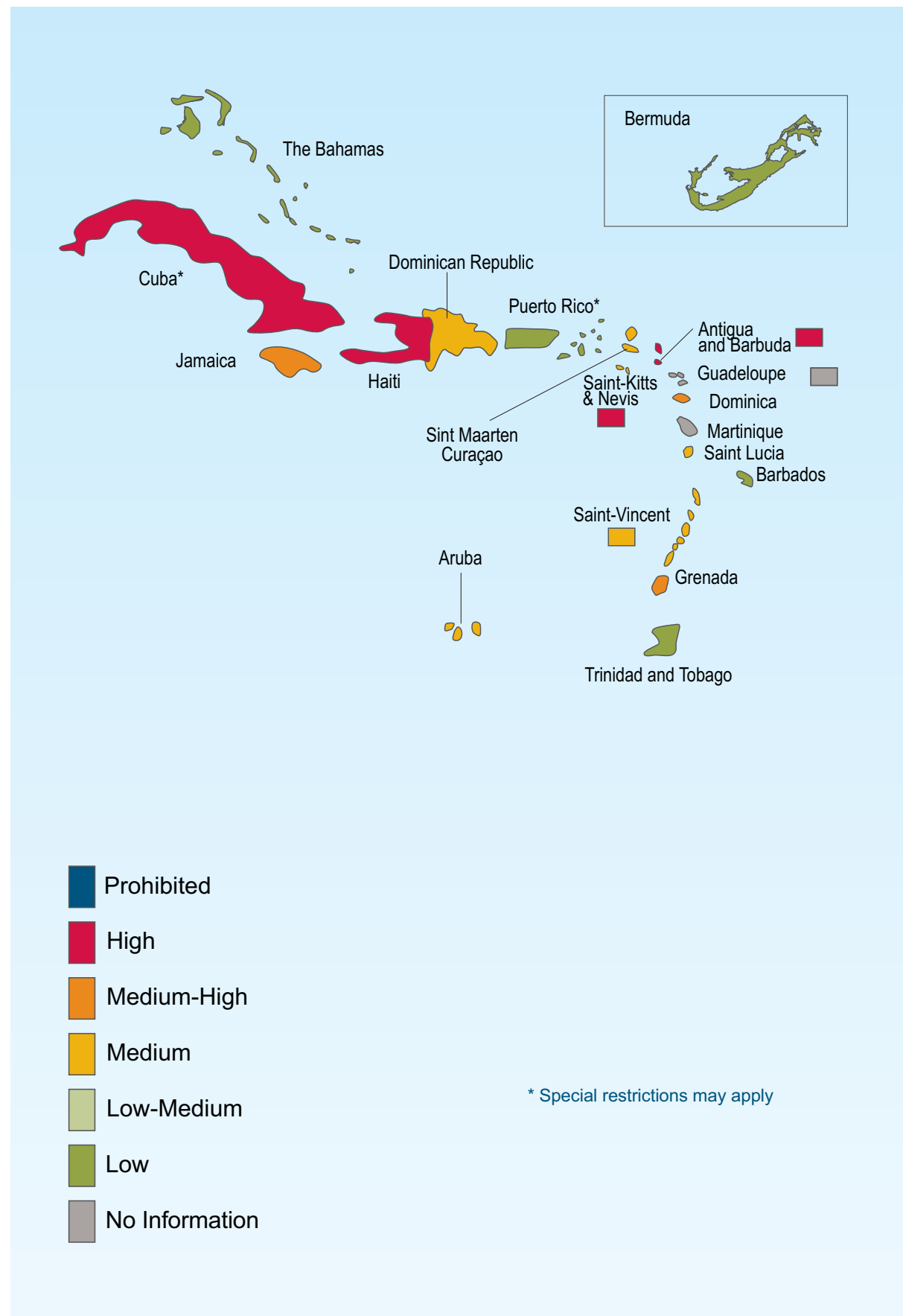
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Caribbean

Medium- and long-term payment risks



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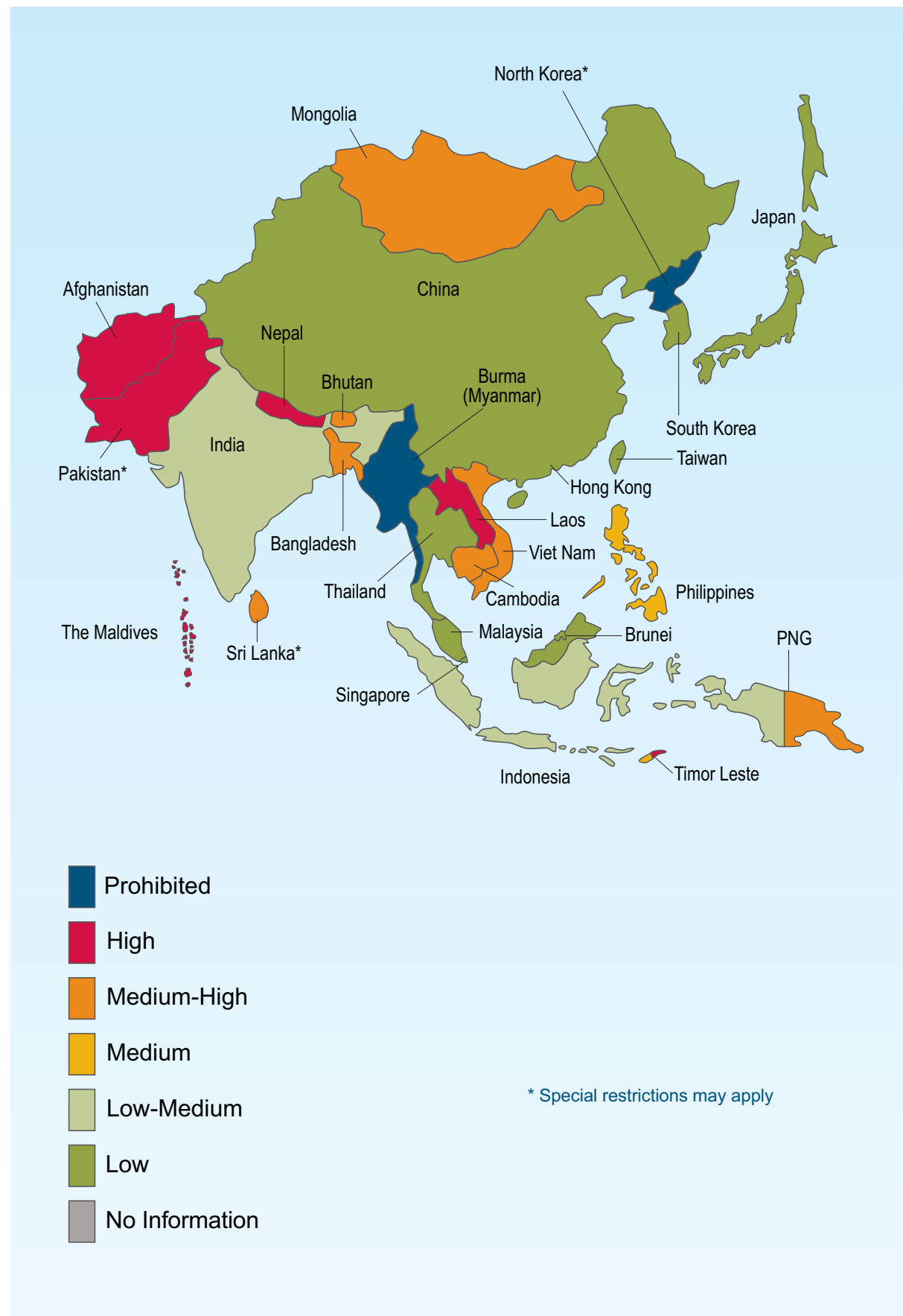
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Asia/Pacific

Medium- and long-term payment risks



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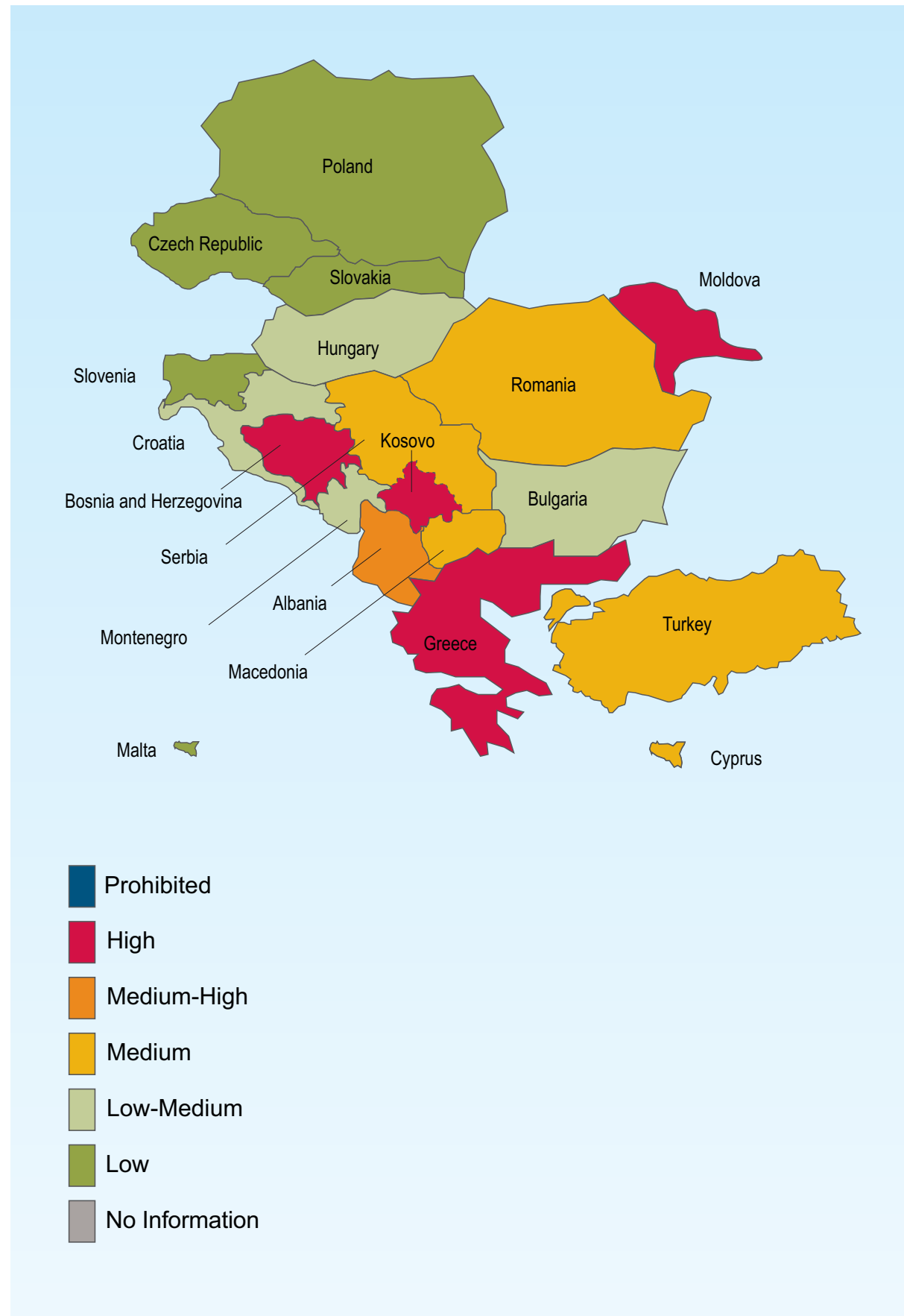
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Central Europe

Medium- and long-term payment risks



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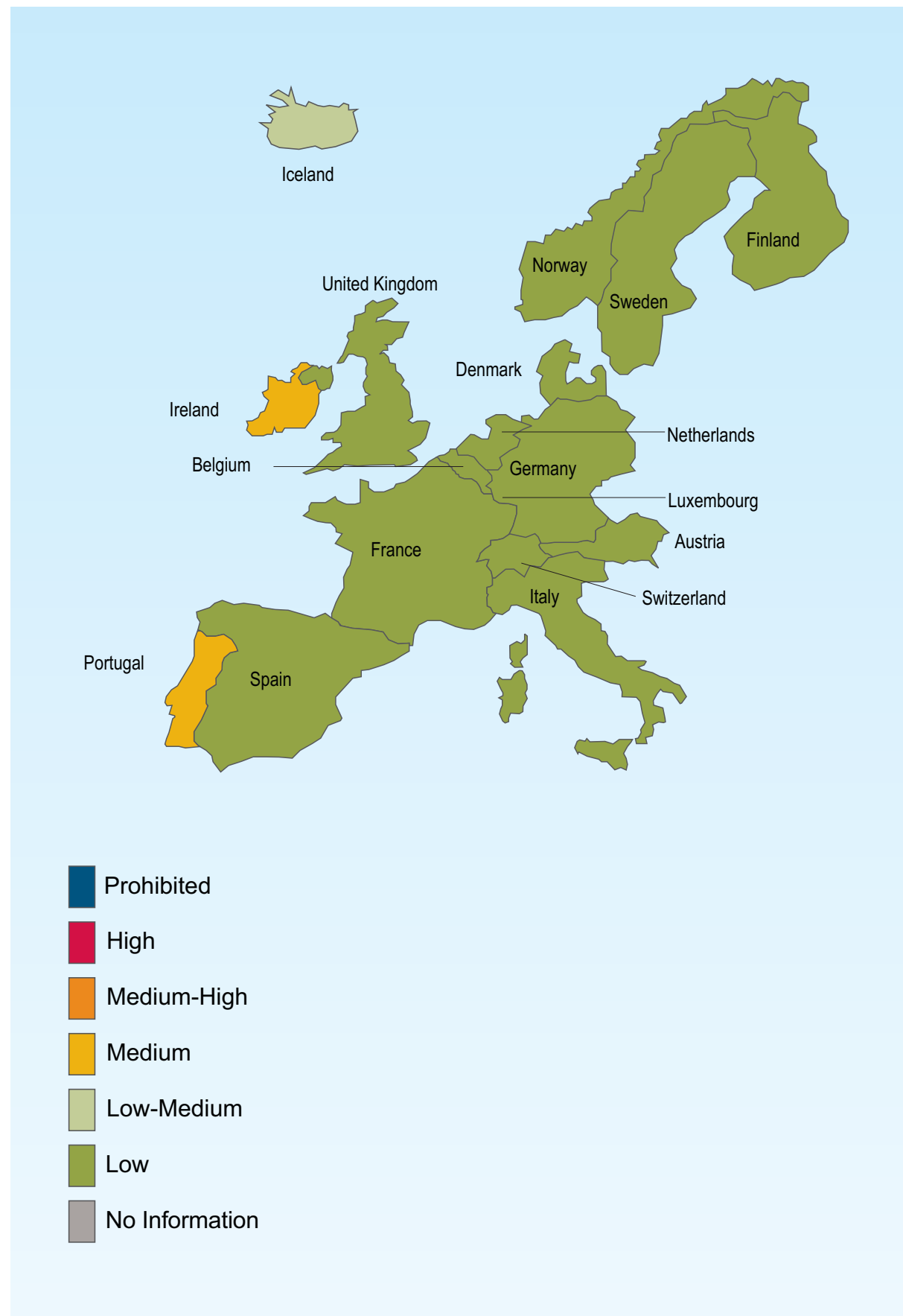
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Western Europe

Medium- and long-term payment risks



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Former Soviet Union

Medium- and long-term payment risks



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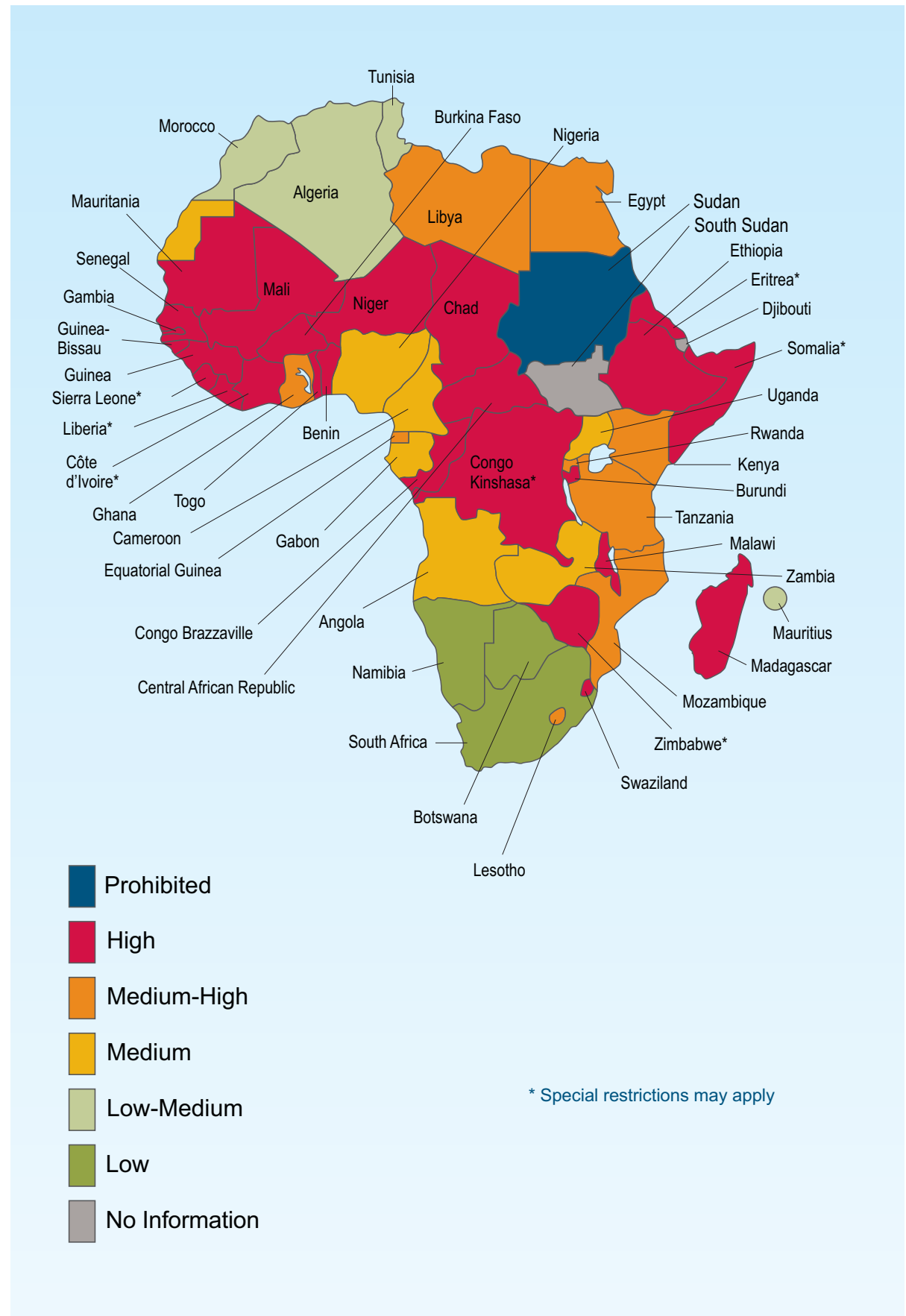
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Africa

Medium- and long-term payment risks



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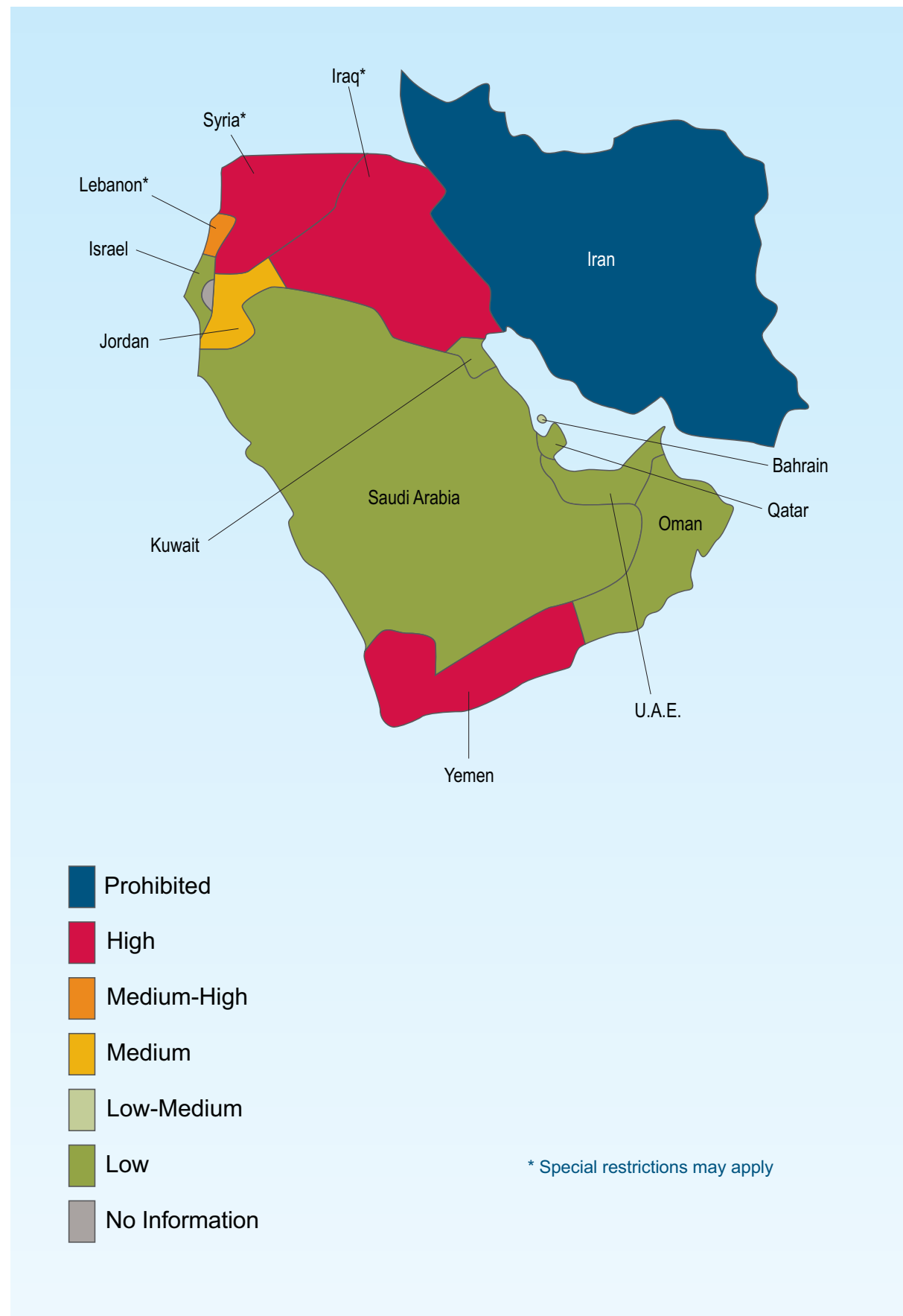
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