A New Cycle

Global Export Forecast | Fall 2013

Canada

EDC

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1.1 A New Cycle

All that glitters is not Canada – or so it seems at the moment. Economic crisis tarnished the reputations of most OECD nations badly, and the consequences of the policy responses made things worse. However, Canada was held up as a model of financial stability and fiscal prudence, and domestic demand was far less fettered by global woes. That was then. Now, the shine is coming off: Canadian consumers are fast becoming as indebted as pre-crisis Americans. Housing activity is unsustainably high. At the same time, commodity prices have weakened, throwing resource investment into doubt. Transportation constraints are inhibiting exports as we speak. The rotation in growth – from domestic sources to the external side of the economy – is on hold, testing our collective patience. Our structural attributes are intact, but growth is looking more elusive.

Strange, because it's all happening as growth in the rest of the OECD appears at long last to be picking up. Leading indicators in the US, EU and Japan seem to be in a synchronized upswing. Japan has posted an impressive 6-month run of GDP growth that is stoking optimism. The EU has recently broken out of its six-quarter recession, and core activity is on the rise. As for the US, it picked up first, and is the furthest along the recovery road, although fiscal drag has been masking the private sector success. So much for recent stats – are they sustainable?

That's a debate that has raged since analysts hailed recovery in early 2010. The economy has grown in fits and false starts, confusing lay observers and legends alike. Perhaps this time, time is on our side. Given the huge excesses – financial and physical – of the last cycle, it wasn't realistic to think that 5 years of economic overdrive could balance out in a mere 6 months. But we now have 5 years of suppressed activity behind us and evidence of pent-up demand in key markets. This clearly seems to be driving the US housing market, and it's quite likely illustrative of behaviour in the broader marketplace.

A critical change that is just months old is the surge of sentiment. Buried by crisis and years of uncertainty, confidence has been missing from the economy for an unusually protracted period. The past 6 months have seen a break with the gloomy trend. Confidence is rising in, of all places, Japan and Europe, and most significantly has conclusively burst out of an extremely rare 4.5-year recessionary funk. Adding to the significance is that US consumers tried to crack out of the zone three times, and failed. If confidence is really back, it could be a significant piece of the recovery puzzle.

A further signal of sustainability is that deep fiscal contraction is coming to an end. That doesn't mean that governments are in a spending mood again – far from it. But the end of tightening has a dividend of its own. Suddenly, there's no additional weight on the economy, and its underlying growth is actually able to shine through. This is already showing up in the numbers, and the minimal incremental fiscal restraint that's forecast for 2014 suggests a lift in growth – one that is sure to add inspiration to reviving confidence.

It's clear that if the economy wasn't showing clear growth signals that monetary authorities would not be talking the way they are. "Tapering" became almost a household word in May when the Fed hinted that it was thinking about unwinding monetary easing. Other central banks have speculated on the timing of interest rate increases, and although they are still quite a distance off, the talk is signaling enough of more sustained growth. All these factors are contributing to increased "growth-chatter" – itself a tonic after years of bearish banter.

Together, these developments are inspiring. Even so, risks remain elevated. Europe still faces years of rebuilding its public finances. Financial institutions are still conforming to new regulations, and it remains to be seen how this will affect credit conditions in the coming years. Political unrest has taken on an unusual intensity, with numerous emerging economies addressing mass gatherings, initiated for a variety of reasons but exacerbated by economic conditions. Nascent slowing in certain key markets is not helping to quell emotions, instead raising speculation of deeper structural concerns. Add to this the need to unwind extraordinary measures that have enabled us to get this far, and there is obviously enough to worry about.

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The unwinding of quantitative easing is particularly intriguing, as it has never really been done before. Moreover, until we felt the effects of tapering, there was little consensus on actual market impact, and even now there is some disagreement. A key effect that the deployment of the extra liquidity in the marketplace appears to have had is asset price inflation. Data show that emerging markets have been particularly affected. As the unwind proceeds, these same markets are likely to experience compression of the sort seen just after tapering was hinted at. Stock markets, currencies, bond markets and commodity prices will all likely feel the effects. Will this headwind prove too much of a challenge to nascent growth, or is the world economy really ready to stand on its own two feet without support?

This monetary tightening is not likely to undermine growth for a number of reasons. First, it is growth itself that is giving rise to taper-talk in the first place. If the unwind undermines growth, then the reason for unwinding is gone; if central banks see it in time, they can simply go slow. Second, other jurisdictions are actually not ready to unwind, and are still likely to ease policy further. Japan has explicit quantitative easing targets that will offset a lot of the tightening that the US undertakes. Third, central banks will likely err on the side of going slow, given the risk of nixing growth, cautious market sentiment and the fact that policy-wise, they are in uncharted waters.

Credit has flowed freely to emerging markets in the post-crisis period, abetted by quantitative easing. Tightening of these flows could hit emerging markets harder. It's possible that although their international growth prospects are improving, local credit constraints may prevent them from seizing new opportunities. This outlook believes that growth will win the day, and that emerging economies will in general see an acceleration of growth in 2014. From a pace of 5% in 2013, as a group emerging economies are expected to see 5.5% growth next year.

Together with US-led industrialized market growth of 2.2% in 2014, up from just 1.2% this year, the world economy is forecast to experience a decent acceleration. This year, the world economy is set to repeat the 3.0% expansion seen in 2012. However, growth is projected to increase to 3.9% in 2014, a solid step toward a sustained new growth cycle.

That seems great for just about everyone except Canada. Fortunately for Canadian exporters, conditions are likely to improve soon. First, the Canadian dollar is weaker, providing a decent bottom line bonus at the outset. Second, the loonie is expected to weaken further – not a usual move in a recovery period, but likely with the unwind of monetary easing. Third, certain industries are already experiencing an export renaissance, and are pointing the way for trade in other goods and services. Fourth, growth is most promising in our key export market, the US. And finally, there is still strong basic demand for Canada's resources.

For these reasons, Canada's export growth is forecast to rise to 5% in 2014 after seeing an estimated 4% increase this year. The forestry sector will lead the way, up 11% thanks in large part to torrid wood shipments to US home builders. Canada's aircraft industry is also expected to benefit from global resurgence and the launch of new products. Industrial machinery and equipment will benefit from stronger international sales of agricultural and mining equipment. On the downside, fertilizer shipments will sustain a 5% contraction as market prices tumble. Also weak is the perennial laggard, advanced technology. Auto-sector shipments are not suffering from a lack of US demand, but rather from a lack of capacity.

Because of the large variations in industry mix among the provinces, there are major differences in trade performance. The leaders in 2013 will be BC and Alberta, thanks to strength in their forestry and energy sectors, respectively. PEI and Ontario pick up the rear, with the remainder clustered in the middle of the pack. Next year will see BC as the leader, with Newfoundland, Nova Scotia, Manitoba, PEI, and Quebec all delivering export growth above 6%.

The bottom line? After a long wait, the world economy is getting to its feet again. The path to more sustained growth will not likely be smooth, but as in all recovery periods, growth is more than likely to surprise on the upside. Canadian exporters are well placed to capitalize on this, and given low domestic growth prospects, the timing couldn't be better.

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Table 1: Key Economic Estimates (KEEs)

	2010	2011	2012	2013(f)	2014(f)
Canada	3.2	2.5	1.7	1.7	2.0
United States	2.4	1.8	2.2	1.7	3.0
Euro Area	2.0	1.5	-0.6	-0.4	1.0
Japan	4.7	-0.6	1.9	1.7	1.6
Developed Markets	3.0	1.7	1.2	1.2	2.2
Emerging Asia	10.0	7.8	6.5	6.6	7.0
Latin America and the Caribbean	6.1	4.6	3.0	2.8	3.7
Emerging Europe	7.3	7.5	5.2	2.8	3.5
Africa and Middle East	5.5	4.5	4.6	3.4	4.5
Emerging Markets	7.6	6.2	4.9	4.8	5.5
World Total	5.2	3.9	3.1	3.0	3.9
Currencies					
USD/CAD	0.97	1.01	1.00	0.98	0.97
Commodity Prices					
WTI	$79	$95	$94	$99	$96
Lumber	$78	$76	$76	$88	$98
Copper (USD/MT, LME)	$7,539	$8,810	$7,947	$7,279	$6,882
Wheat: Canada (US$/Metric Ton)	$312	$440	$440	$420	$380
Other					
US housing starts (000's)	585.50	611.92	783.17	980	1,250

Source: Statistics Canada, Haver Analytics, EDC Economics

Table 2: Total Canadian Merchandise Export Forecast by Region

	CAD bn	% Share of Total Exports	Export Outlook (% growth)		
	2012	2012	2012	2013(f)	2014(f)
Developed Markets					
United States	317.2	74.2	3.3	6	5
Western Europe	38.7	9.0	-6.0	-3	3
Japan, Oceania and Developed Asia	20.5	4.8	-9.9	5	6
Emerging Markets					
Latin America and the Caribbean	12.9	3.0	0.4	-1	4
Emerging Europe and Central Asia	3.9	0.9	-4.1	-2	8
Africa and the Middle East	7.6	1.8	16.6	4	4
Emerging Asia	26.5	6.2	7.7	8	9
Total Goods Exports	427.3	100.0	1.9	5	5
Total Emerging Markets	50.9	11.9	6.0	4	7
Total Developed Markets	376.4	88.1	1.4	5	5

Source: EDC Economics, Statistics Canada. 2012 is actual data while 2013 and 2014 are forecast

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1.2 Shouts Heard Around the World: Do Protests Matter?

Anyone observing the news in the past few months will no doubt have seen pictures of hundreds of thousands of mostly young people coming out into the streets of major cities around the world. The sheer number of them elicits key questions. What is making them so prevalent? Where will it strike next and, more personally, how will protests affect our international business operations? While it's difficult to predict the next site of demonstrations, this commentary will address the other two questions.

The Arab Spring shocked the world as mass protests and instability spread overnight from Tunisia across North Africa and the Middle East. Unlike these partial-autocracy cases, more recent demonstrations in democracies like Turkey, Brazil, India, Chile, Israel, Peru, Indonesia, Bulgaria and elsewhere are less about regime change, but rather focused almost exclusively on localized quality-of-life issues like governance. This in turn makes it very difficult to forecast the next flash point.

Part of what's motivating these events is structural changes in society. Though the triggers for public discontent vary widely across countries, one main commonality is that rising middle classes are driving the demonstrations. By 2020, the world will add another billion people to the ranks of the middle class. These are the very people who have benefited from economic growth over the past decade. So why do they protest?

The University of Michigan's World Values Study shows that as individual education levels rise, people assign a higher value to democracy and individual freedom. As citizens begin paying taxes and owning assets, they expect more from their governments. What is fueling these protests then is the gap between the growing expectations of this newly urbanized middle class and society's ability to meet them. These increasingly vocal segments of the population, motivated by concerns that growth has slowed, are demanding from their governments less corruption, better services, and more economic opportunity.

This "gap" as political scientist Samuel Huntington coined it, has been widening in many countries for some time but it takes a specific trigger to unleash large-scale opposition. In Brazil, for example, social discontent may have been bubbling for a while but it took a hike in the cost of public transportation to spark a movement. Princeton professor Mark Beissinger notes that protests are more likely to occur during times of economic downturn, austerity, inflation (food and fuel) and election years. As such, a broadly-based return to growth should lessen the likelihood of protests. Failure to shake off the post-crisis boom-and-bust blues increases the risk of further political unrest.

The middle class has always been the agent for political change, but what is different today is not just the sheer size of this "catalytic class," but the technology and social media that have enabled people to organize protests within minutes. This was certainly the case in Turkey, where photos of police using excessive force went viral, galvanizing many otherwise hesitant residents to join the protests.

So if the likelihood is higher, but location hard to pinpoint, should international businesspersons worry? The reaction thus far from the investor community is that many of these protests are merely temporary blips and part of the "growing pains" of emerging markets. For all the coverage these protests generate, with certain notable exceptions, the resulting policy changes have been comparatively small as the grievances tend to be varied and the movements themselves disorganized.

The exception is Brazil, where the government is trying to respond with short-term solutions to these unexpected mass demonstrations. Many of the grievances, however, are of a structural nature which will take time to address. One consolation for governments is that the eventual increase in emerging markets' economic growth will create the fiscal space to address constituents' complaints.

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Even if growth returns, it will likely prove to be a partial elixir. One of the key observations is that the protests have removed the halo hanging over emerging markets. Until recently, for example, investors were focused only on Turkey's large current account deficit, not political risk. And while rating agencies have generally not punished countries that experience mass protests, risk perceptions have changed and yields on sovereign bonds could be impacted. New policies aimed at mollifying tensions are costly, hurting sovereign creditworthiness. While most Canadian companies have not seen their operations impacted by protests, vandalism and sporadic violence in city centres are more present, elevating general interest in political risk insurance.

As Canadian companies build an increasingly global footprint, it is critical to understand the political dynamic shaping emerging markets. In the future, we should be less surprised and, if possible, more prepared the next time a wave of people power hits the streets of some distant capital.

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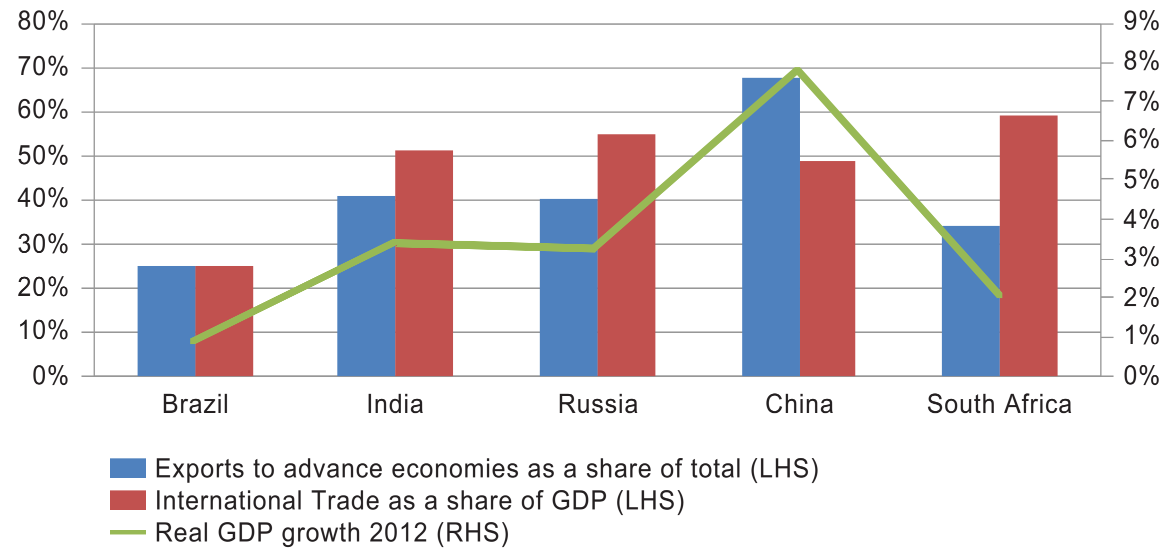
1.3 Beware of Falling BRICS?

So far, 2013 has been another tough year for the BRICS (Brazil, Russia, India, China and South Africa) as markets are rattled by the possibility of a severe slowdown in the world's fastest-growing countries. GDP growth numbers for the first half of this year were well below expectations. High-frequency business and consumer confidence surveys suggest this sluggishness may continue and economic growth forecasts for the BRICS markets have been revised down. In addition, "pundits" are now prognosticating the end of the BRICS growth era. With BRICS economies now accounting for over 20% of global GDP, a sharp slowdown in these economies could significantly frustrate the nascent global economic recovery. Should we be worried?

To be clear, the BRICS economies are undoubtedly slowing from the breakneck pace of growth we've seen in the past. In the 5 years leading up to the crisis, BRICS as a whole racked up an average growth rate of 9%, Brazil 4.0%, Russia 7.5%, India 9.0%, China 11.7% and South Africa 4.9%. Fueled by policy stimulus, post-crisis growth rebounded exceedingly fast, but remained below pre-crisis levels. Growth has been moderating since due to a number of domestic and external factors, some cyclical and others more structural in nature, even raising the possibility of these giants dipping into recession.

Through the global crisis, growth in BRICS countries has demonstrated a continued dependence on developed world activity, primarily because they have not yet matured enough to become true "growth engines" of the global economy in their own right. As such, lackluster growth in the US and the Euro area has weighed heavily on BRICS economic performance given the outsized role international trade plays inside these economies. In addition, the effects of the dramatic slowdown in commodity prices are acting as a further drag on growth, especially the commodity exporters.

Figure 1: Role of International Trade in BRICS Economies (2012 Data)



Source: IMF, Haver Analytics, EDC Economics

To compensate for weak world growth, the BRICS each implemented a variety of extraordinary fiscal, monetary and credit stimulus measures. However, subsequent rounds of policy actions are seeing diminished returns. Moreover, across the BRICS economies, stimulus actually fed consumer price inflation, which in certain cases triggered an unwinding of stimulus. At the same time, heated consumer demand led to higher debt levels, which are now weighing on spending activity – which in all cases accounts for a significant chunk of total GDP.

This is plainly illustrated in China, where enormous post-crisis stimulus has given rise to excesses in the real estate and financial sectors. The government's nascent hesitation to further extend stimulus, together with its tolerance for lower growth, has added to anxieties, as a slowdown in the world's second-largest economy has clear implications for fellow BRICS. Collectively, these developments have darkened the overall outlook for BRICS economies. But that presumes that current weakness continues. Will it?

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The BRICS are undoubtedly facing some growing pains, some more serious than others. But none is "life threatening." It is normal for fast-growing economies to hit snags, even significant ones. Even so, balance sheets of the BRICS economies remain healthy. Buffers that can be used to cushion against domestic or external shocks are not exhausted, although some are not as robust as in the pre-crisis period. China, in particular, has ample policy options to ward off a sharp slowdown, as has Russia.

Meanwhile, China has taken specific steps toward rebalancing the economy away from its over-dependence on trade and investment activity into consumption. Brazil, India and South Africa have significant infrastructure deficits, and have committed vast sums to addressing this considerable constraint. In addition, the political cycle should give this a boost, as pre-election spending in India and South Africa picks up, and as deadlines related to sporting events in Brazil spur infrastructure spending there. Once elections are held in 2014, prospects for boosting competitiveness via tough and sometimes unpopular reforms could also increase. Russia's substantial cash reserves hold out hope that industrial diversification and the requisite infrastructure will see the light of day.

Even as the medium-long-term growth potential remains relatively strong, the near-term outlook for BRICS is actually buoyed by the strengthening recovery in the US economy and improvement in the Euro area and Japan. BRICS economies are set to reap the benefits of stronger economic activity in the developed world, especially via trade channels.

As such, EDC Economics expects BRICS growth to accelerate in the second half of this year to finish 2013 with a growth rate of 5.6% followed by real GDP growth rate of 6.1% in 2014. China will grow at 7.5% in 2013 and accelerate somewhat in 2014 to 7.8% followed by India growing at 5.0% in 2013 and 5.8% in 2014. Brazil, too, will grow at 2.8% and 3.5% in 2013 and 2014, respectively. Year-on-year real GDP growth will, however, slow in 2013 to 2.0% in South Africa and Russia, but both are expected to grow at 2.9% in 2014.

Amid all this talk of emerging market slowdown, it's easy to forget that Canada's exports to both China and India are outpacing US shipments by a significant margin. This is a far cry from the 3% gain in sales to the US, and exporters that have experienced double-digit growth are unlikely to suddenly turn away from emerging markets. BRICS and emerging market growth is expected to continue to outpace that of developed markets over the next several years. A relative slowdown in growth does not outright dampen the compelling reasons Canadian companies looked to diversify into emerging markets in the first place. The growing hundreds of millions of middle-class citizens in these large BRICS countries will continue to be the greatest source of wealth and prosperity in the global economy in years to come.

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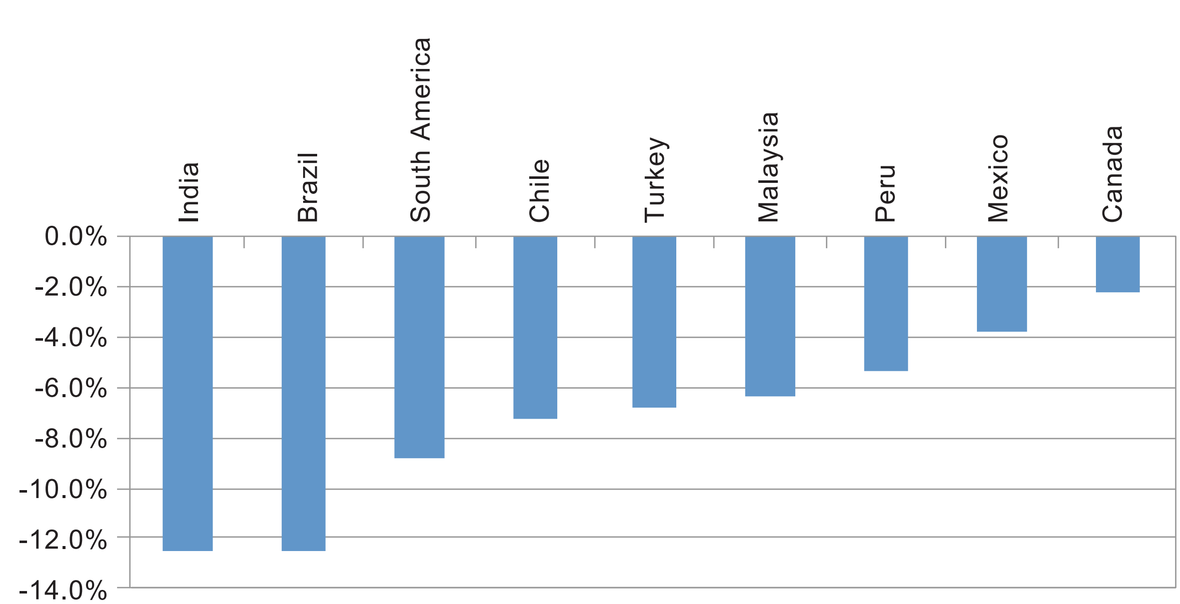
1.4 Hold on Tight for the End of QE

With all the positive news coming out of the US economy, it wasn't surprising that the US Fed would start talking about how to unwind the extraordinary monetary stimulus that has been in place since 2009. But a few mild comments from Chairman Bernanke provoked a furious reaction from global markets, with a punishing retreat from equities and a drop in emerging market currencies as bond yields reversed their 5-year decline. Why such a tizzy in global financial markets?

Figure 2: Currencies Tumbling (% Decline from May 1 to August 1, 2013)



Source: IMF, Fitch, Haver Analytics

There is still uncertainty about the US economy, but no one would dispute that there has been a dramatic improvement in the housing market and an impressive rebuilding of consumer balance sheets. At the same time, US business is in excellent shape with US corporate profits at an all-time high and with record levels of cash. On top of this, American banks are soundly profitable, with the strongest capitalization levels in two decades. More importantly they are lending aggressively, which makes funding available even for SMEs. In fact, in the absence of fiscal consolidation at the federal level, US GDP growth would be in the 3 to 4% range. Now that the US economy is returning to balance and is able to stand on its own legs, there is much less need for extraordinary monetary stimulus. The removal of quantitative easing (QE) has now become a question of if, not when. Good news, so what's the catch?

QE was a much-needed boost to a beleaguered US economy, but it was also an unprecedented experiment in the history of monetary policy. By buying treasuries and other highly rated securities from banks in exchange for cash, the Fed provided a nearly $2-trillion torrent of extra liquidity in an effort to shore up a fragile financial system, restore confidence and stimulate lending by lowering long-term bond yields.

But the secondary impact on the economy was through "portfolio rebalancing." Investors and banks with excess cash shifted away from the paltry 1% yields on US treasuries to invest in higher-yielding, longer-dated government and corporate bonds. As more cash flooded into riskier assets, prices fell across the board. Funds then began shifting out of corporate bonds into equities, exciting the market with rising share prices. The trouble is that, at the same time, cash moved into other risky assets as investors were desperate for return. It found its way into commodities (including gold) via exchange traded funds, and also into emerging market securities, fueled by carry trade activity.

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Investors could borrow US dollars for a near-zero interest rate and then convert to an emerging market currency earning an interest rate of 5 or 10%, seemingly free money. The benefit was that many emerging market banks were flooded with liquidity. However, the downside was that massive inflows of US dollars pushed up the relative value of their currencies, spurring complaints from a number of government heads in 2011, most notably the Brazilian Finance Minister.

Now that the Fed's liquidity is expected to taper off and eventually reverse, the risk is that we will see a huge gush of funds flowing out of emerging market bonds and portfolio investments. Early signals corroborate this entirely – and is more than evident in the precipitous devaluations of many emerging market currencies since May.

In the months and years ahead, certain emerging markets could be particularly vulnerable to major currency depreciations and a general tightening of credit conditions as they weather the withdrawal of "hot money." In order to examine which ones could be most at risk of volatility, as a rough proxy it is possible to rank the top 30 emerging markets using the following three indicators:

1. Net portfolio flows as % of GDP – Those markets that received the most hot money relative to the size of their economy will be the most affected by a generalized retreat of global liquidity.
2. Growth of credit to the private sector – Banks that have been lending aggressively may have to suddenly tighten lending standards in the absence of external funding.
3. Current account balance (CAB) – Countries with large current account deficits are often highly dependent on external borrowing in the capital account. The sudden retreat of external borrowing normally results in currency depreciation.

The top-ranked countries in the table are likely to be the most susceptible to volatility in the years ahead. In some ways, countries may be punished for their successes, because the fact that they skillfully navigated the financial crisis of 2008-09 and achieved impressive growth has made them more attractive to international investors and to receiving flows of hot money that could suddenly be reversed. For example, in August India introduced limited controls on domestic capital to stem outflows of funds. Indeed, many of the most vulnerable markets have ample reserves and well-managed banking systems that will shield them from crisis, but major volatility is still to be expected.

The next 2 to 3 years will see heightened risk for emerging markets and this is why it will pay to carefully monitor the negative effects of the unwinding of this unprecedented experiment in monetary policy.

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Table 3: Emerging Market Vulnerability Ranking

	EDC liquidity flight vulnerability ranking	Average annual bank credit growth 2009-12 (%)	Rank	Average CAB 2009-12 (% of GDP)	Rank	Portfolio flows (2009-12) as % of 2012 GDP	Rank	Nominal GDP 2012 (USD mil)	Average of the three risk rankings
Turkey	1	26.07	2	(6.18)	3	8.0%	2	788,875.28	2.3
Sri Lanka	2	17.82	6	(4.27)	6	5.6%	8	59,421.64	6.7
India	3	17.30	7	(3.72)	10	4.0%	10	1,841,717.65	9.0
Poland	4	7.97	21	(4.38)	5	7.6%	3	489,894.61	9.7
Vietnam	5	23.83	3	(0.80)	17	2.9%	13	155,819.09	11.0
Mexico	6	13.93	10	(0.62)	19	6.4%	5	1,177,226.01	11.3
Dominican Rep.	7	12.63	12	(7.21)	1	0.2%	23	58,897.64	12.0
Argentina	8	30.44	1	0.70	22	2.4%	14	477,029.62	12.3
Indonesia	9	21.91	4	0.04	21	3.3%	12	878,042.95	12.3
Brazil	10	18.76	5	(2.06)	14	1.1%	19	2,254,465.38	12.7
South Africa	11	5.33	22	(4.11)	8	3.7%	11	384,312.61	13.7
Costa Rica	12	9.03	17	(4.03)	9	1.7%	16	45,332.98	14.0
Colombia	13	15.78	8	(2.78)	12	-0.2%	24	369,811.90	14.7
Kazakhstan	14	8.86	18	2.41	24	7.2%	4	200,480.59	15.3
Morocco	15	8.72	20	(7.12)	2	-1.4%	26	97,013.76	16.0
South Korea	16	3.57	25	3.25	25	10.2%	1	1,129,599.10	17.0
Ukraine	17	2.04	28	(4.56)	4	1.0%	20	176,616.03	17.3
Peru	18	12.15	13	(2.16)	13	-3.4%	28	199,437.37	18.0
Thailand	19	13.32	11	3.47	26	1.6%	17	365,564.28	18.0
Romania	20	2.21	27	(4.25)	7	1.0%	21	169,395.94	18.3
Croatia	21	0.31	30	(1.78)	16	5.1%	9	56,447.12	18.3
Ecuador	22	10.43	16	(0.77)	18	0.9%	22	84,532.40	18.7
Philippines	23	12.08	14	3.99	27	2.3%	15	250,265.22	18.7
Hungary	24	-3.52	31	0.83	23	6.1%	7	125,613.05	20.3
Egypt	25	4.66	23	(1.89)	15	-1.2%	25	270,147.88	21.0
Russia	26	14.78	9	4.40	28	-1.9%	27	2,021,961.88	21.3
Malaysia	27	10.49	15	11.11	31	1.5%	18	303,526.61	21.3
Nigeria	28	1.40	29	6.33	29	6.1%	6	262,621.01	21.3
Bulgaria	29	2.93	26	(2.91)	11	-3.8%	29	50,972.11	22.0
Chile	30	8.82	19	(0.33)	20	-11.9%	30	268,313.82	23.0
Taiwan	31	4.40	24	10.00	30	-23.7%	31	474,139.82	28.3

Source: IMF, Fitch, Haver Analytics. CAB=Current Account Balance

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1.5 Europe: Risks Receding, but Huge Challenges Ahead

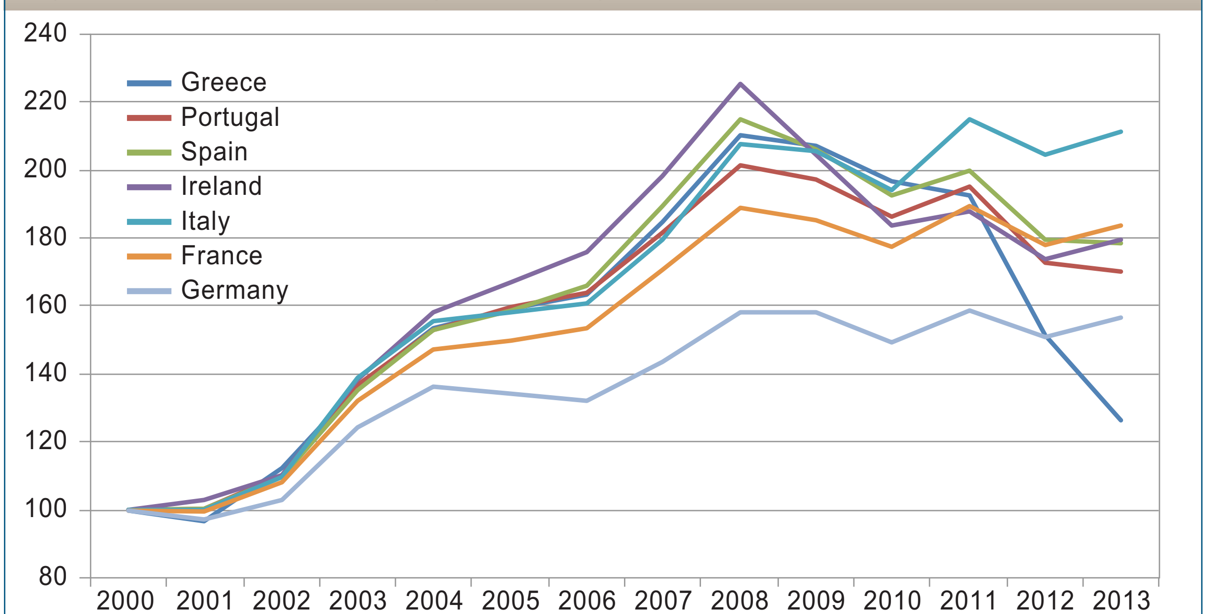
Glimmers of optimism are sprouting like green shoots all across the Eurozone. What a difference a central bank promise makes. Last summer, European financial markets were paralyzed by crisis, with dire predictions of imminent Eurozone breakup, but the panic subsided in September 2012 when the European Central Bank promised unlimited bond purchases if needed, to do “whatever it takes.” This summer was stunningly quiet – politics were in a holding pattern pending the German election, and with lots of bank liquidity and little in the way of new developments to worry about, the whole continent seemed to go on vacation. In the fall, nervous sighs turned to cheers as the Eurozone’s second quarter GDP returned to positive territory with 0.3% growth – the continent appears to be emerging from recession.

Time to pop champagne and declare the crisis over? One look at the overall picture would suggest not. The Euro-Area recession was six quarters long, the longest recession since the 1930s. Current output is still 1% below last year’s level, while today’s indicators are still fairly mixed, and complicated by the ups and downs of global demand, unusual weather and the disruptive effect on output and expectations of US fiscal deadlines. Multiple “cliff-edge” panic points over the past 4 years have largely originated in Europe, and though now is a period of relative calm, the risk of disruption remains palpable. Europe’s manifold woes have been fuel for pervasive pessimism. Are these debilitating developments, or events that nascent growth can overcome?

First, the good news. Euro-Area performance looks grim until held up to the light of fiscal austerity, and this, the biggest headwind, will be coming off in 2014. For the past 2 years, governments have been tightening fiscal measures considerably – radically in not a few cases – to the point that on average, they have outstripped regional potential growth. Under such circumstances, it is almost impossible to avoid a policy-led recession. In fact, it is remarkable that, all things considered, the rest of the economy has been able to generate enough growth to hold at bay the punishment of the public penury. Recent IMF analysis of the knock-on effects of austerity on the rest of the economy suggests that in the absence of the severe tightening, growth would be fairly strong.

This raises an interesting and critical issue. If government cuts and tax increases have had such influence on growth, what will happen when the cuts stop? If the current pattern of growth persists, the end of additional austerity – slated for 2014 – will bring an instant and desperately needed jump in growth. The speed, if not the magnitude, of this growth pop could be enough of a surprise to inject some badly needed optimism at both the business and consumer levels – which would no doubt add to the growth pop, aiding upward momentum.

Figure 3: Unit Labour Costs (2000 = 100)



Source: Economist Intelligence Unit, Haver Analytics

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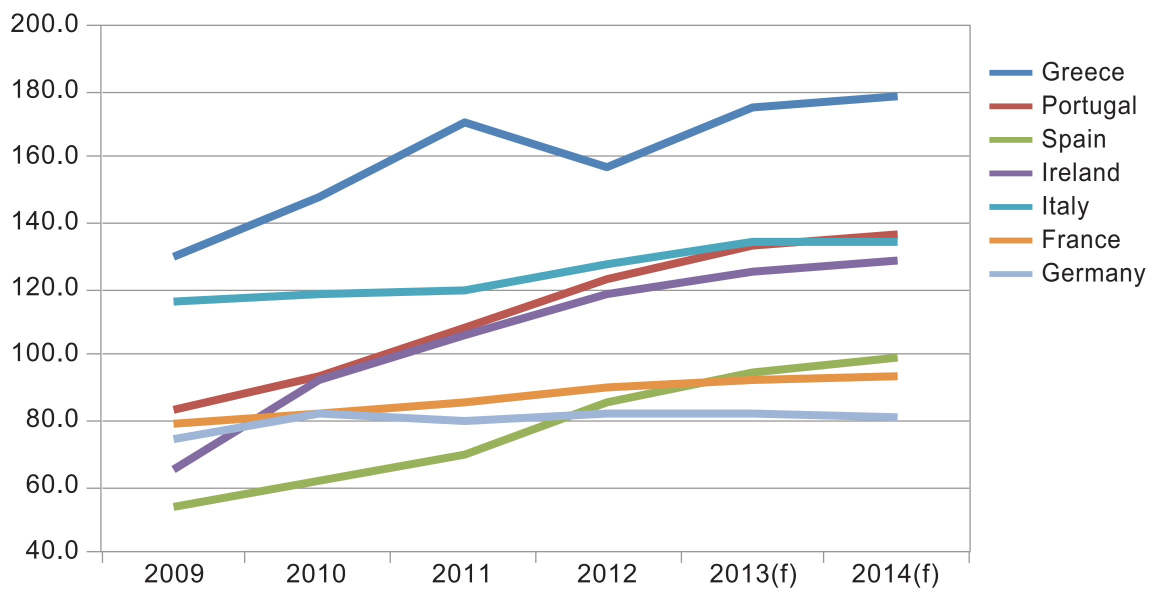
Our expectation is that the Eurozone will return to growth next year, but the risk is that Eurozone growth returning to positive territory is hardly the end of the story. Pessimists point out that the great depression was full of false starts and temporary rebounds which did not arrest a decade-long decline.

First, the common currency permitted wage and price inflation that created huge competitiveness gaps. Unit labour costs in Southern Europe nearly doubled over the past decade, soaring above German levels. Much progress has been made in restoring competitiveness but there is a long way to go and, given the scale of structural adjustment needed in Southern Europe, some of these countries could languish in stagnation for many years.

Second, banks in Southern Europe are still struggling with large losses and are continuing to deleverage in order to rebuild depleted capital levels. As a result, the credit environment is extremely tight and many businesses are starved of capital.

Finally, overall sovereign risk remains a concern despite promises from the European Central Bank. This is because several countries are stuck with a punishing combination of unsustainable debt levels and weak growth outlooks. Now that Chancellor Merkel has been comfortably re-elected, tough decisions lie ahead. Greece's public debt will exceed 170% of GDP this year despite heroic efforts and so debt forgiveness or a new restructuring is needed. Portugal (134%) and Ireland (126%) are not far behind and even with a more favourable growth profile in the short term, will likely require support for many years.

Figure 4: Public Debt (% of GDP)



Source: Economist Intelligence Unit, Haver Analytics

Recapitalizing banks and restructuring debts will take years. At the same time, governments are under pressure from the societal strain that comes with sky-high unemployment (estimated at 26% in Spain and 27% in Greece). Economic strain can topple governments even in the richest countries, but citizens are demanding aggressive action from governments whose budgets are already bursting, a recipe for instability. A crisis in bond markets could spiral if the European Central Bank is unable to provide support to a government that cannot implement a credible fiscal consolidation plan. This is admittedly a tail-risk, and it is far more likely that politicians will compromise and muddle through some tough decisions while the Eurozone slowly emerges from recession.

As the growth-dampening effects of austerity are finally lifting from Europe, all eyes are on the data releases in the coming 6-month window. After all, the EU accounts for over 20% of world GDP. Any rise in growth will be felt the world over, and while the region is a long way from taking on the role of growth engine, higher-than-expected growth will at the very least help to lift the world away from the pessimism that has persisted for a half-decade – an extraordinarily long run for the post-war period. This is sorely needed by a world economy that is now overdue for its next expansionary cycle.

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2.1 Brazil

Country Overview: President Dilma Rousseff took office January 1, 2011, 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. Due to increasing public discontent over the cost of living and doing business, corruption, poor infrastructure and services such as health and education, the government will attempt to address these structural issues as the October 2014 elections near. Despite the government's efforts, Brazil's structural problems will not likely be resolved over the short term. Although the economic slowdown continued into 2013, EDC Economics expects the economy to moderately pick up speed on the back of an uptick in industrial production and investment. GDP is expected to grow by 2.8% in 2013 and 3.5% in 2014.

Trade and Investment Environment: Massive capital inflows and FX intervention have allowed FX reserves to grow to over USD 370 billion in the first half of 2013, which supports a strong liquidity ratio; however, slowing economic activity in BRIC countries has reversed some of the large capital flows and, coupled with the upcoming withdrawal of monetary stimulus, we are likely to see impacts on reserves and exchange rate movements. The real has depreciated significantly in the first half of 2013 and although we expect a moderation, it is likely to remain above crisis levels. Despite forecasting a current account deficit, EDC Economics does not expect any financing problems over the next 2 years, as Brazil's external financing requirements are comfortably covered by net 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 emerging market slowdown, predominantly China, as well as its impacts on the real and trade dynamics. 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 3 years.

Country Stats

President
Dilma Rousseff

Next Elections
October 2014

Nominal GDP (2012)
USD 2.3 trillion

Total Trade/GDP (2012)
26.5%

Exchange Regime
Free float

Canadian Merchandise Exports to Brazil (2012)
CAD 2.5 billion

Main Imports
Machinery and Equipment, Chemicals

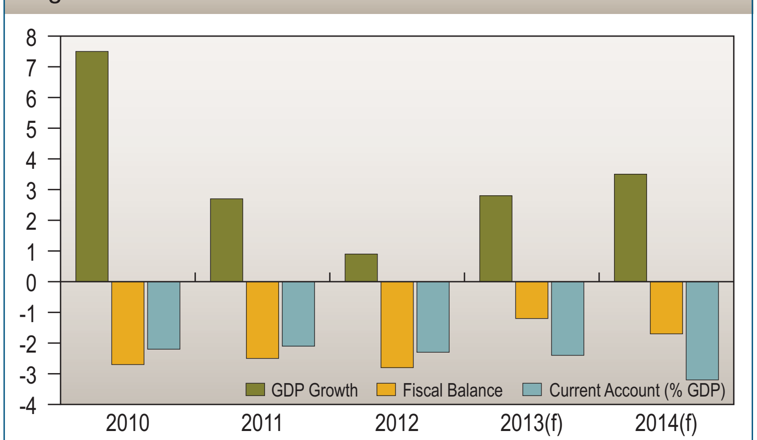
Source: Haver, EIU, Statistics Canada

Risks to the Outlook:

Further progress on microeconomic reforms

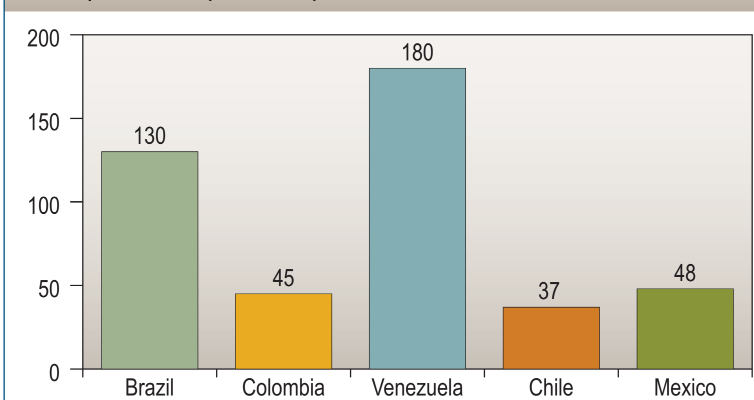
A sharp reversal in capital flows or asset bubble formation

Figure 5: Brazil – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

Figure 6: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: The World Bank

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2.2 China

Country Overview: China is the world's largest exporter and second-largest economy, and 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 currency. The Chinese Communist Party (CCP) maintains a firm grip on society and all levels of government, including a large degree of control over the economy through various state-owned enterprises and the banking system. Following the selection of the Standing Committee earlier this year, the new administration has indicated limited appetite to substantially spur growth beyond the 7.5% range through the use of fixed asset investment and easy credit.

Trade and Investment Environment: China continues to be a top destination for global FDI despite severe restrictions on the capital account. At the same time, China's complicated commercial environment poses several challenges for foreign investors. Complications can arise from the lack of legal protection for investors and intellectual property rights, inconsistent application of regulations, a 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 Protection Agreement, which is now in the process of being ratified in both countries. The CCP leadership recognizes the importance of tackling corruption to ensuring its legitimacy and will continue to address the issue moving forward.

Outlook: China's growth model is being transformed to be more consumption-driven, and this coupled with an aging population will result in a more moderate growth profile 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. Specific policy pronouncements and reforms may be unveiled following the critical October 2013 plenary session. Greater focus will also be placed on developing infrastructure and manufacturing capacity in the Western provinces and in rural areas. Political stability remains the top priority for the CCP, which views continued and regionally balanced economic growth as the key to the country's prosperity. Localized unrest over various social issues, such as corruption, land seizures, wages and working conditions, are expected to continue and will likely increase in number if economic growth slows significantly.

Country Stats

President
Xi Jinping

Next Elections
Not applicable

Nominal GDP (2012)
USD 8.4 trillion

Total Trade/GDP (2012)
54%

Exchange Regime
Crawling peg

Canadian Merchandise Exports to China (2012)
CAD 19.1 billion

Main Imports
Pulses, Coal, Wood pulp, Lumber, Iron ore, Mineral fuels

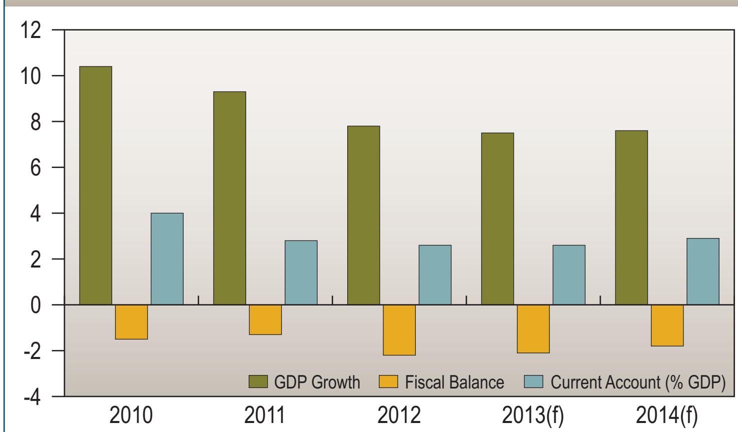
Source: Haver, Strategis

Risks to the Outlook:

Successful financial sector reforms; effective anti-corruption policy

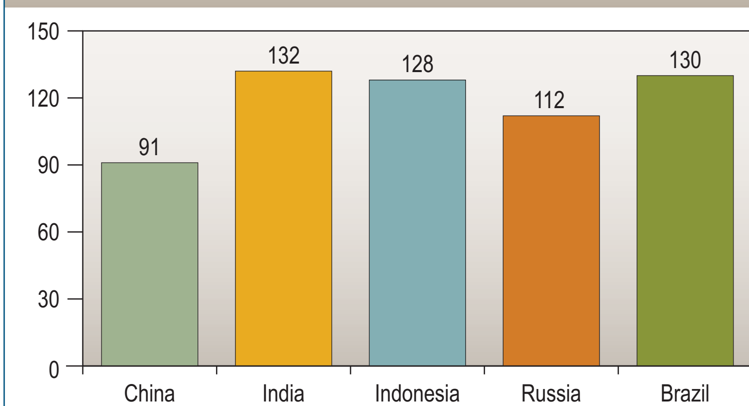
Property sector collapse and impact on banking sector; rise in social unrest

Figure 7: China – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

Figure 8: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: The World Bank

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2.3 Euro Area

Overview: Much of the fear over an uncontrolled break-up of the euro has dissipated following the European Central Bank's September 6 announcement that it would undertake unlimited bond purchases. Nervous investors are gradually re-entering European capital markets; in Q2 the Eurozone economy returned to growth of 0.3% after 6 quarters of recession. The EU, in concert with the IMF, has deployed vast resources to prevent disorderly default among smaller countries of the Periphery, but a great deal remains to be done.

Trade and Investment Environment: Collectively, the Eurozone 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 Eurozone. 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 with the aim of concluding in 2013. The CETA would provide improved market access to Canadian companies, thereby boosting bilateral trade and fostering even more investment.

Outlook: Eurozone GDP contracted by 0.6% in 2012, but should gradually return to limited growth in 2013. Market conditions have improved but will continue to be stressed by a weak financial system. The European Central Bank's pledge to purchase sovereign bonds is helpful, but hundreds of billions may be required to prop up bond markets (particularly if Italy and Spain suffer contagion) and it's not 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 of the European Commission
José Manuel Barroso

Nominal GDP (2012)
USD 14.36 trillion

Total Trade/GDP (2012)
86%

Exchange Regime
Currency union – euro

Canadian Merchandise Exports to Euro Area (2012)
USD 16.8 billion

Main Imports
Metals, Aerospace products, Automotive products

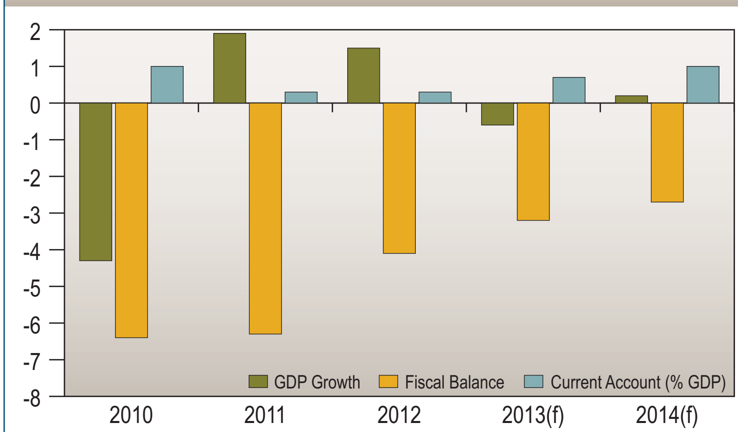
Source: Haver, Strategis

Risks to the Outlook:

Greater political union, mutualized debt

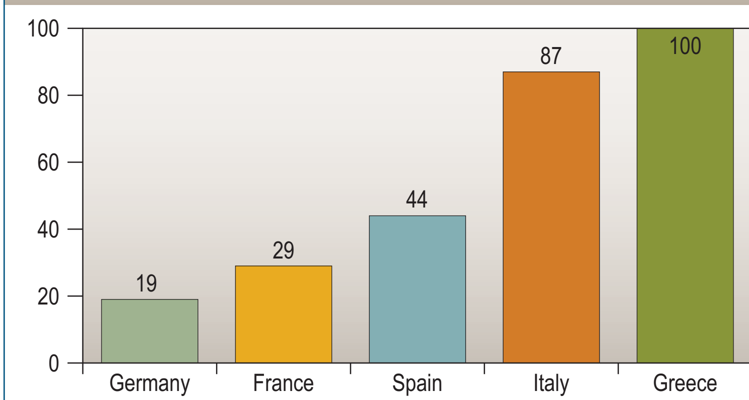
Countries exiting the euro

Figure 9: Euro Area – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

Figure 10: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: The World Bank

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2.4 India

Country Overview: Economic momentum has eased, and the outlook remains weak amid a soft global environment. Inflation rates remain stubbornly high, restricting the reserve bank's scope to lower interest rates. Sizable fiscal deficits are also limiting policy options, and effort is needed to consolidate spending. The government may attempt to pump up fiscal outlays ahead of the 2014 elections. Growth will likely underperform in 2013, though agricultural output appears to be picking up. Democracy is a cornerstone of Indian politics, characterized by a coalition government led by the Congress Party, or a coalition led by the Bharatiya Janata Party. The Congress-led coalition is expected to remain in office through to the next elections. State-level elections are also important. The BJP appears to be settling on Gujarat's Chief Minister Modi to lead the party in the upcoming national parliamentary elections in 2014, lifting the party's chance of winning.

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 2% of GDP annually. Actual amounts are large by emerging market standards and they could be significantly higher, but foreign companies have held back due to corruption, bureaucratic delays, regulatory uncertainty and even because of policy disconnect between federal and local levels of government. However, the federal government took steps to re-ignite FDI in 2012 and into 2013. India's exports should gain in the coming 12 to 24 months from the rupee's recent weakness, although 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.

Outlook: Despite the current bout of economic weakness, the medium-longer term growth trajectory is still fairly robust at 6 to 7%. Indeed, over the next decade India's workforce is expected to grow by about 2% annually, and this young workforce will deliver a growth dividend. 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 expected, although coalition politics will ensure a bumpy ride. The upcoming elections loom large over policy and political debate, making reform difficult.

Country Stats

President
Pranab Mukherjee

Next Elections
April/May 2014

Nominal GDP (2012)
USD 1.8 trillion

Total Trade/GDP (2012)
56%

Exchange Regime
Managed float

Canadian Merchandise Exports to India (2012)
CAD 2.3 billion

Main Imports
Pulses, Aircraft, Newsprint, Coal

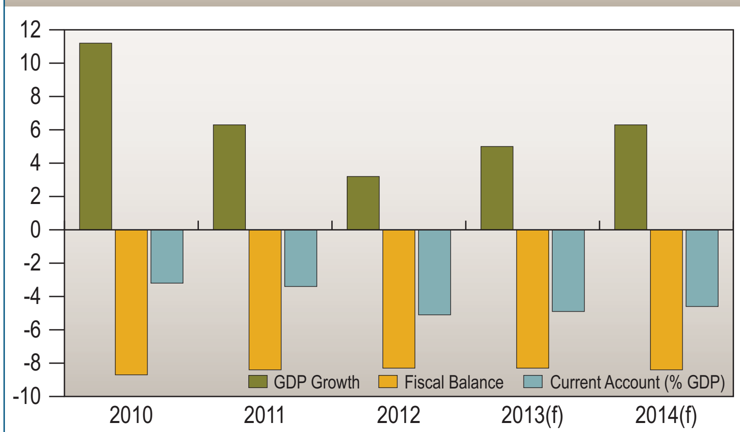
Source: EIU, IMF, Statistics Canada

Risks to the Outlook:

Improved FDI inflows, declining inflation (food)

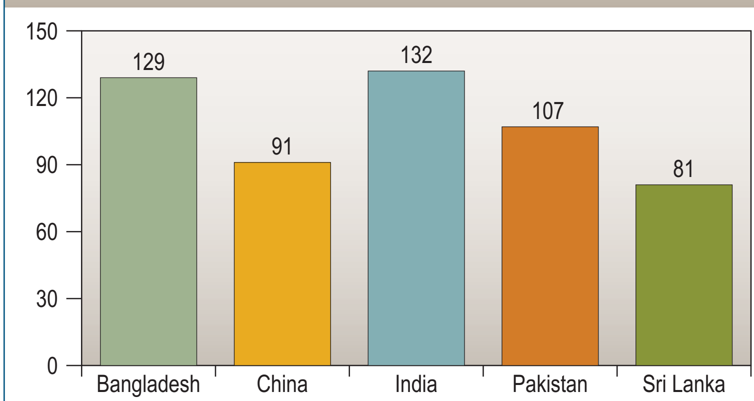
Legislative stalemate, inability to contain fiscal outlays

Figure 11: India – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

Figure 12: Ease of Doing Business (WDI): Regional Comparison (best=1)



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2.5 Japan

Country Overview: Japan remains the world's third-largest economy and a heavy industrial manufacturing and technology powerhouse in spite of two decades of economic weakness and persistent deflation. Despite being a mature developed country with sound democratic institutions, there remain key structural challenges that dampen growth potential due to relative political instability, aging population and vested interests. Armed with a strong electoral performance, including a majority position gained in 2012 and July 2013, the current administration should provide much-needed policy continuity and political stability. Since coming to power, Prime Minister Abe has launched an ambitious and unorthodox three-pronged program – fiscal stimulus, monetary easing and structural reforms (dubbed Abenomics) – to resuscitate the economy. The policy stimulus appears to be bearing fruit, at least in the short term. Still, wage growth and investment in plant and machinery have not taken hold. The trade balance remains in deficit due to both a weak yen and the reliance on fuel imports to generate power, but is cushioned by one of the world's largest FX reserve base.

Trade and Investment Environment: The trade and investment environment is mature and liberal with very few formal restrictions. FDI inflows have tended to lag OECD countries, likely due to non-tariff barriers and the peculiarities of Japanese corporate structures. Overall competitiveness of the economy lags behind other G7 countries and even some less developed markets. Japanese corporations remain at the forefront of high-tech manufacturing and advanced robotics. Japan is a major importer of Canadian natural resources, including metals, coal, grains and seafood. Japan and Canada have started negotiating an Economic and Partnership Agreement.

Outlook: Following a strong upper house election (2013) victory for the Liberal Democratic Party, Prime Minister Abe now has the political flexibility to tackle difficult structural reforms. The success of these reforms and future prospects for Japan will depend on his ability to manage interferences by powerful vested interests both within and outside the party. At the same time, the various investment and trade treaties currently being negotiated, including the Trans-Pacific Partnership (TPP), have the potential to revitalize the economy. Stimulus measures are increasing consumer confidence, but it is unclear if inflation expectations and sustainable growth are taking hold. Capital investment and wage growth are key areas to monitor. Failure to enact the proposed consumption tax hikes in 2014 could precipitate reviews by the ratings agencies and could exacerbate investor concerns of Japan's looming public debt issues.

Country Stats

Prime Minister
Shinzo Abe

Next Elections
Parliamentary: 2016

Nominal GDP (2012)
USD 5.9 trillion

Total Trade/GDP (2012)
31.4%

Exchange Regime
Free float

Canadian Merchandise Exports to Japan (2012)
CAD 10.2 billion

Main Imports
Mineral fuels, Non-ferrous metals, Plant oils, Lumber

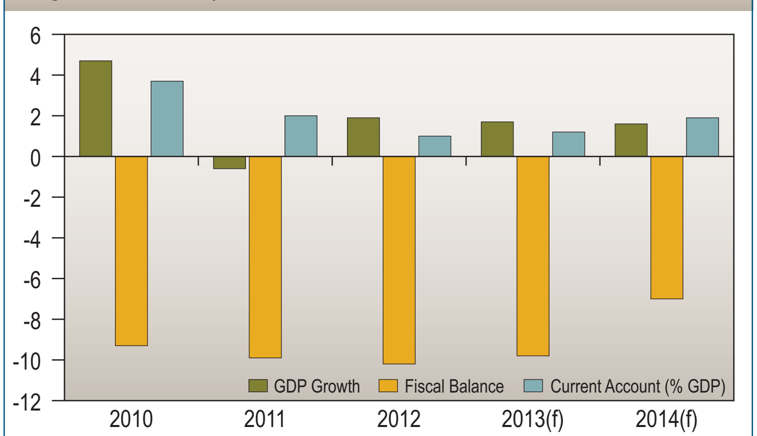
Source: IMF, Statistics Canada, ITC

Risks to the Outlook:

Wage and capital investments increase, restarting nuclear plants

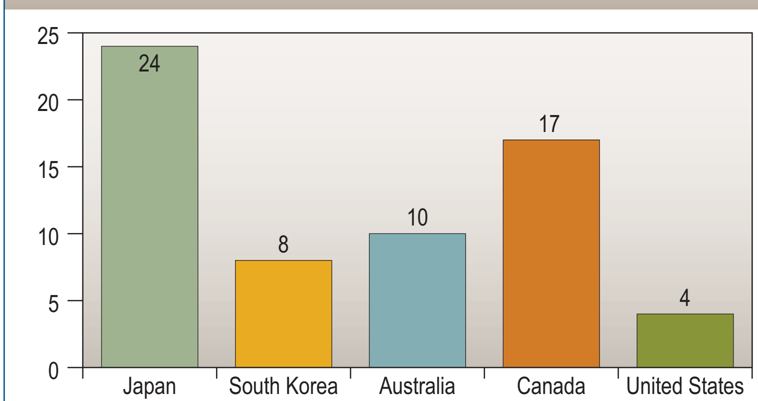
Escalation of maritime tensions, structural reforms slowing

Figure 13: Japan – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

Figure 14: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: The World Bank

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2.6 Mexico

Country Overview: President Enrique Peña Nieto (EPN) of the Partido Revolucionario Institucional (PRI) has made addressing narco-related violence, improving Mexico's competitiveness, and spurring economic growth via increased FDI key government priorities.

Through the Pact of Mexico, a political agreement between the government and the two main opposition parties, his administration has succeeded in swiftly implementing a number of reforms in areas such as labour, education and telecommunications, which began under the previous administration. The real test for the government and its ambitious agenda will be in its ability to get energy and taxation reforms implemented. President Peña Nieto has placed energy reform at the 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 foreign investors. Legislation that would enable increased private investment is expected by the end of this year.

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. A number of foreign companies are re-shoring their manufacturing operations from China to Mexico to better access the US market and lower costs. Measures have been taken to improve Mexico's business climate, and access to international arbitration is guaranteed by law and NAFTA. The country offers a welcoming environment for foreign investors in almost every sector except energy. Corruption and criminal violence, including extortion by criminal groups, are factors that negatively impact the business environment.

Outlook: Strong links to the US economy and its expected recovery support a positive outlook for Mexico over the coming years, 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 and FX reserves are high and backed by a precautionary flexible credit line with the IMF.

Country Stats

President
Enrique Peña Nieto

Next Elections
Presidential: July 2018
Legislative: July 2014

Nominal GDP (2012)
USD 1.2 trillion

Total Trade/GDP (2012)
62%

Exchange Regime
Free float

Canadian Merchandise Exports to Mexico (2012)
CAD 4.9 billion

Main Imports
Electronic and information and communications technologies, Machinery and equipment, Aerospace

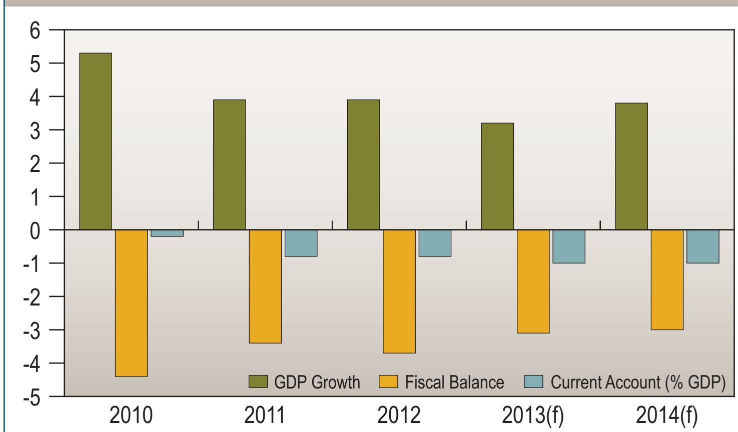
Source: Haver, Strategis

Risks to the Outlook:

Domestic economy proves stronger than expected

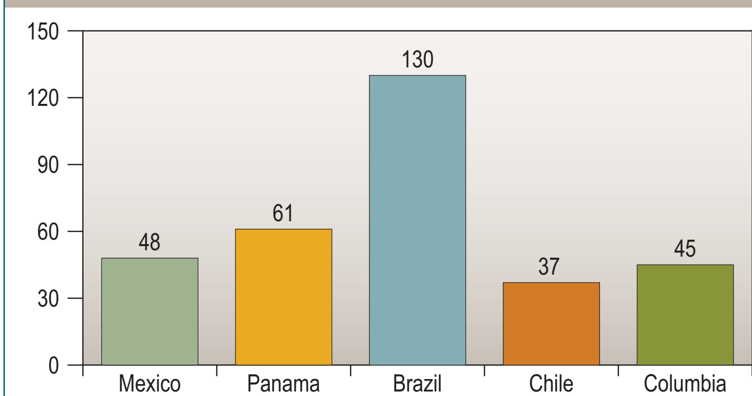
Global economy remains weak

Figure 15: Mexico – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

Figure 16: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: The World Bank

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2.7 Russia

Country Overview: While growth has been moderate, particularly in comparison to fellow BRCIM colleagues, the Russian economy is operating near capacity with unemployment at a historic low of 5% and capacity utilization at pre-crisis highs. The persistence of capital flight, which recent central bank estimates put at USD 20 billion this year, is a reflection of structural challenges, including a track record of volatile growth, inflation and weak institutions. The central bank has begun moving toward a policy of inflation targeting and letting the ruble "float" more freely, which will help cushion the economy from macroeconomic shocks.

Trade and Investment Environment: Expanding and revitalizing the productive capacity of the economy will require billions of dollars in investment over the coming years; as such, improving the investment environment has been a key focus of the government for a while. Some gains have been made; however, the country currently ranks 112th (out of 185) on the World Bank's Ease of Doing Business Index and remains a long way from the government's goal of attaining 20th spot by 2018. Russia's accession to the WTO last summer was a welcome step toward further integration into the international community, and the accompanying lower trade barriers and improved transparency should contribute to a more investor-friendly environment. Other opportunities for foreign investment via the State's privatization plans were amended this summer, with the government announcing a reduction in the number and magnitude of assets it wants to sell to the private sector. Perhaps most notable was the change in plans to reduce the State's stake in Rosneft and VTB.

Outlook: Growth will slow slightly in 2013 before picking up again next year. Robust domestic demand has been underpinning growth recently, fueled in turn by soaring credit being extended to households. The central bank has grown worried about the potential destabilizing effects of such a rapid run-up in leverage and has essentially put the brakes on this component of the economy. There is little upside potential for energy prices and this, coupled with the ongoing malaise in the Eurozone, will weigh on Russia's export sales over the next 2 years. Russia's very favourable public sector and external debt metrics will ensure debt sustainability over the medium term. The current account will remain in surplus (in the near term), FX reserves are being rebuilt and a more flexible exchange rate will all contribute to reducing external vulnerabilities.

Country Stats

President
Vladimir Putin

Next Elections
Presidential: March 2018

Nominal GDP (2012)
USD 2.0 trillion

Total Trade/GDP (2012)
51%

Exchange Regime
Managed float

Canadian Merchandise Exports to Russia (2012)
CAD 1.6 billion

Main Imports
Animal products, Agricultural machinery and equipment, Oil and gas machinery and equipment

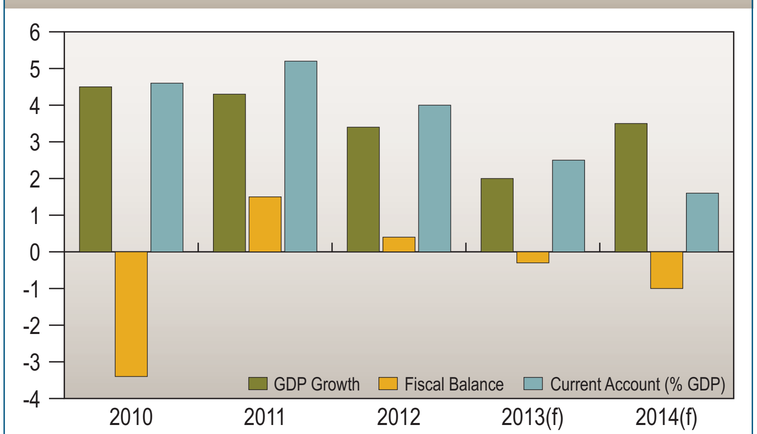
Source: Haver, Strategis

Risks to the Outlook:

Increased oil prices

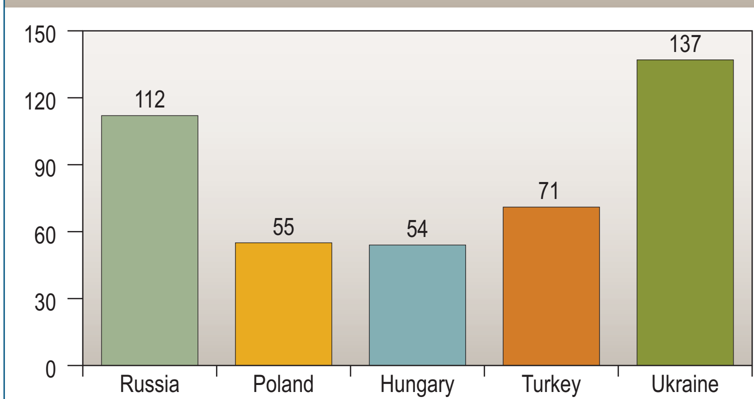
Capital flight

Figure 17: Russia – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

Figure 18: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: The World Bank

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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. President Zuma will lead the African National Congress into the 2014 elections. While an ANC re-election is highly likely, several new political parties have emerged in 2012-13 to challenge the party. The continent's largest economy is well diversified and has a sizable private sector and a highly developed and well-supervised financial sector. However, the country faces some significant structural challenges, particularly in relation to the very high rate of unemployment (around 25%), an ineffective and inadequate education system and growing income inequality. These issues are a priority for the government which, in its recently released medium-term policy document, outlined plans to reduce unemployment and to improve service delivery. The fiscal position is relatively good and while spending pressures will increase on the wage and social services side, sufficient space for investment spending will be preserved (which includes R 3.2 trillion over 10 years for transportation, energy and housing).

Trade and Investment Environment: Given the importance of trade and investment to the economy, 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, to redress the inequities created under Apartheid. Organized labour action is another consideration. In the worst violence seen since Apartheid ended, over 30 were left dead following clashes between striking miners and police in 2012. Militant unions and growing populist politics risk eroding competitiveness and damaging the attraction of foreign direct investment.

Outlook: Growth in 2012 was dragged lower as wildcat strikes and weaker-than-expected demand from key export markets (in Asia and Europe) weighed on exports. The political uncertainty has eased somewhat in 2013 with the re-election of Zuma as head of the ANC. The trade sector will contribute little to growth this year given ongoing weakness in Europe and parts of Asia. Consumer demand will continue to support the economy as wage and credit growth, combined with stable interest rates, encourage spending. The government's large infrastructure program will offset softening private sector investment spending and will be a critical component of the growth trajectory over the coming years.

Country Stats

President
Jacob Zuma (ANC)

Next Elections
Legislative: April 2014
Presidential: April 2014

Nominal GDP (2012)
USD 384 billion

Total Trade/GDP (2012)
68%

Exchange Regime
Free float

Canadian Merchandise Exports to South Africa (2012)
CAD 586 million

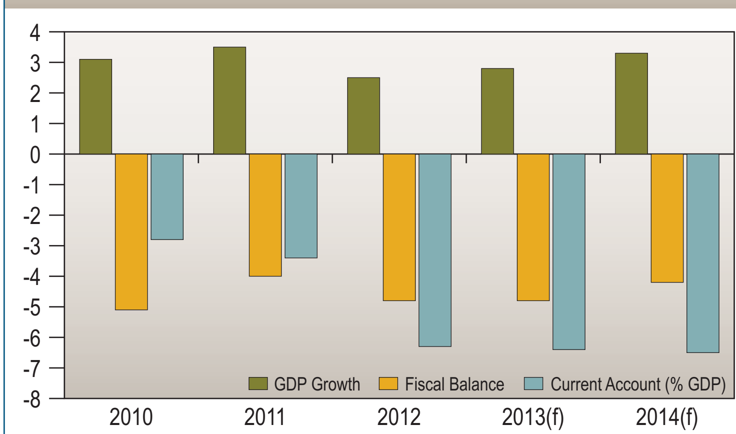
Main Imports
Helicopters and airplanes, Sulfur, Pharmaceuticals

Source: IMF and Statistics Canada

Risks to the Outlook:

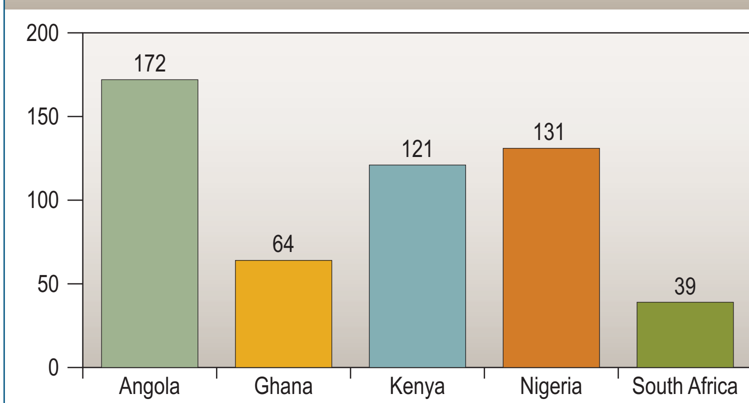
- Manageable external and government debt burden
- Large current account shortfall and declining investor sentiment

Figure 19: South Africa – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

Figure 20: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: The World Bank

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2.9 United States

Country Overview: The US is the world's largest economy, accounting for 20% of global GDP and is ranked the 4th best country in the world in terms of ease of doing business (World Bank). The major credit agencies all assign negative outlooks to their sovereign risk ratings because of budgetary gridlock, which is a concern heading into 2014.

Trade and Investment Environment: Exports of Canadian goods to the US are projected to grow by just over 6% in 2013. The US accounts for over 70% of our merchandise exports, 40% of the stock of Canadian direct investment abroad, and 50% of all sales made by Canadian foreign affiliates. In terms of ease of trading across borders, enforcing contracts and resolving insolvency, the US ranks 20th, 7th and 15th, respectively (World Bank).

Outlook: After the historic re-election of President Barack Obama, the focus has shifted to whether the Administration can work out a deal with Congress to balance the budget in the medium term. However, the Congressional Budget Office projects that the deficit will fall to just 4% of GDP in 2013 (down from the previous estimate of 6%) as tax revenues are rising because of the strengthening economy. In fact, American business is performing extremely well: corporate profits are near an all-time high of $1.9 trillion, while businesses are holding an estimated USD 3 trillion of cash and equivalents. Businesses remain reluctant to invest because of pessimism about conditions, but consumer confidence is rising. With household deleveraging largely complete, the ratio of debt service payments to personal disposable income is at its lowest level since 1994 and retail sales are strengthening. The housing market is improving with prices rising five 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 last year, and those new homes will require all sorts of spending on durable goods. As confidence builds, this recovery among consumers will give rise to increased business investment to meet this demand. EDC's Economics estimate of the underlying growth in the US economy is in the mid-3% range, which, after subtracting fiscal drag from reductions in government spending and tax increases, yields an economic forecast of roughly 2% growth for 2013.

Country Stats

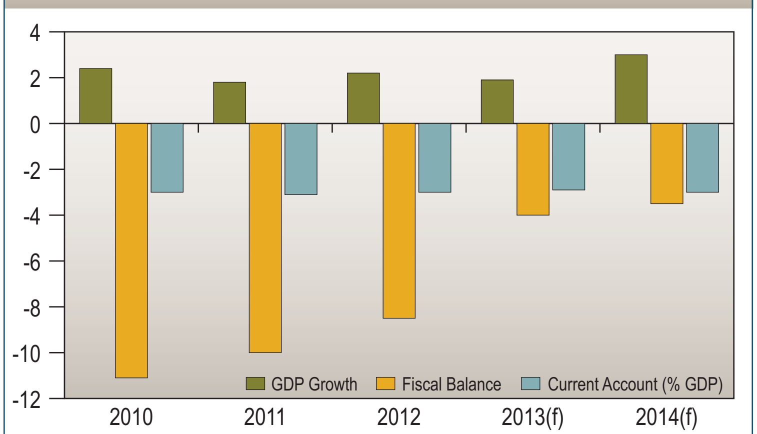
President	Barack Obama
Next Elections	November 2016
Nominal GDP (2012)	USD 16.2 trillion
Total Trade/GDP (2012)	32%
Exchange Regime	Free float
Canadian Merchandise Exports to the US (2012)	CAD 317.2 billion
Main Imports	Energy, Automotive, Ores

Source: Haver, Strategis

Risks to the Outlook:

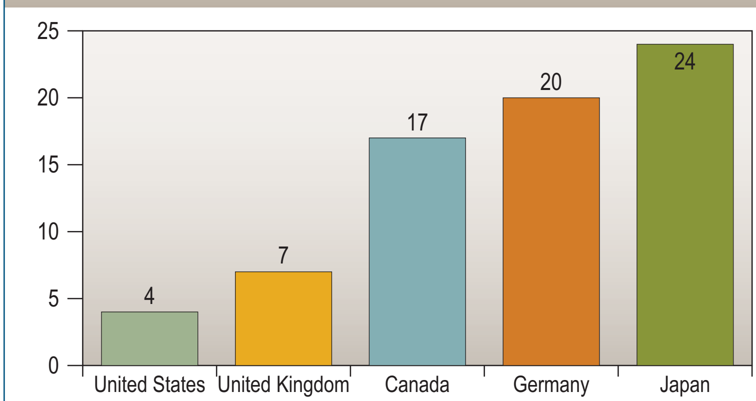
- US business begins to spend massive cash reserves
- Prolonged battle over the "debt ceiling"

Figure 21: US – Economic Indicators



Source: Haver Analytics, IMF/WEO, EDC Economics

Figure 22: Ease of Doing Business (WDI): Regional Comparison (best=1)



Source: The World Bank

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3.0 Sector Overviews

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Canadian exports of goods and services are projected to rise 4% in 2013, followed by an additional 5% next year. This represents a downward revision from the spring forecast as certain commodity prices, particularly in metals, have come down more sharply than expected, which also resulted in tepid demand in the natural resource-related machinery and equipment sectors. The loonie is forecast to average 98 cents in 2013, declining to 97 cents next year, which will provide some relief for exporters who struggled with the dollar at parity. Export volumes will edge up 2% this year before strengthening to a 4% gain in 2014, as the US economic recovery gathers steam, and as Europe finally emerges from recession. Goods exports should finally recover to pre-crisis levels in 2014, a feat accomplished by the services sector back in 2011.

A number of export sectors will continue to grow significantly but be held back by declining prices; particularly metals and fertilizer, as well as to a much lesser extent, energy and many agricultural commodities, where prices have come down from 2012 levels. The top performing export sector will be forestry chalking up double-digit gains this year and next, thanks to US housing starts which will rise 25% in 2013 and by nearly 28% in 2014. Energy exports will rise 6% this year and next due to strong natural gas prices and electricity sales, while petroleum exports will see 6% gains in spite of pipeline constraints and softer pricing. Canada's agricultural exports will increase by 6%, as export volumes soar due to a bumper crop in 2013. The industrial machinery and equipment sector will increase just 1% this year, but will accelerate to 9% in 2014 as US business investment will pick up when American corporations finally start spending their record cash levels. In the transportation sector, aerospace exports will increase by 6% in 2013, before accelerating to 9% next year, while the automotive sector is expected to see more modest gains of 1% in 2014 after a 2% decline this year because capacity constraints are weighing against export growth in this sector.

Merchandise exports to the US are expected to increase by 6% in 2013, which will partly compensate for a 3% fall in exports to Canada's number two market, Western Europe. Sales to emerging markets will rise by 4% in 2013 and 7% in 2014, led by emerging Asia which will increase by 8% and 9%, respectively.

Table 4: Canadian Merchandise Export Forecast Overview

	CAD bn	% Share of Total Exports	Export Outlook (% growth)		
	2012	2012	2012	2013(f)	2014(f)
Agri-Food	47.5	9.3	7.6	6	5
Energy	115.9	22.7	0.9	6	6
Forestry	26.5	5.2	-2.0	13	11
Chemical and Plastics	34.5	6.7	-2.1	8	3
Fertilizers	8.1	1.6	-6.2	-1	-5
Metals, Ores and Other Industrial Products	61.9	12.1	-6.8	6	6
Industrial Machinery and Equip.	28.7	5.6	8.0	1	9
Aircraft and Parts	10.8	2.1	6.0	6	9
Advanced Technology	13.9	2.7	0.3	-1	1
Motor Vehicles and Parts	63.0	12.3	15.8	-2	1
Consumer Goods	7.2	1.4	-11.0	16	8
Special Transactions*	3.3	0.6	-4.3	5	7
Total Goods Sector	427.3	83.6	1.9	5	5
Total Service Sector	84.1	16.4	0.3	3	4
Total Exports	511.4	100.0	1.7	4	5
Memorandum					
Total Volumes		100.0	3.6	2	4
Total Goods Nominal (excl. Energy)	311.4	60.9	2.3	4	5
Total Goods Nominal (excl. Autos and Energy)	248.4	48.6	-0.6	6	6

Source: Statistics Canada, EDC Economics, 2012 is actual data while 2013 and 2014 are forecast.

Special transactions* mainly low-valued transactions, value of repairs to equipment and goods returned to country of origin.

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3.1 Energy

Canada's energy exports will rise 6% in 2013 driven primarily by gains in crude oil volumes and higher natural gas prices. Next year's overall 6% increase will be driven by more moderate natural gas price increases, while oil exports will be supported by stronger volumes. Falling coal shipments will drag exports lower this year, but this trend will reverse in 2014.

In recent years, insufficient pipeline and refinery capacity has increased the gap between the standard North American price of oil, WTI, and the lower price paid for Western Canada Select Crude. However, the gap will gradually narrow toward USD 10/bbl from current levels by the end of 2015 when roughly 1 mb/d of new pipeline capacity gets added to the system. A combination of pipeline upgrades, repurposing and reversals alongside rail additions will manage to keep up with the growth in shipments this year and next year. Meanwhile, US refiners are adding about 300,000 b/d of heavy crude capacity this year. We expect crude exports will grow 5% in 2013 and be followed by a 6% rise next year.

Natural gas exports are projected to grow 35% and 6% in 2013 and 2014, respectively, driven by pricing gains as volumes decline. Henry Hub prices will increase 40% to $3.80/mmbtu this year and should strengthen to $4.2/mmbtu next year. However, export volumes will continue to decline due to the abundance of cheaper US shale gas that is shutting out higher-cost producers.

Low prices and excess supply will provoke a 22% drop in coal exports in 2013. Metallurgical coal prices are being held back due to the global industry's ample capacity. While higher-cost US mines are expected to be shut, new supply is coming on line in Australia, Mongolia, Mozambique and Russia, limiting the volume and price recovery. Chinese demand will help lift exports to 5% in 2014.

Sector Stats

International Exports
2012: CAD 116 bn

Share of Sector Exports to Emerging Markets
2008: 2
2012: 3

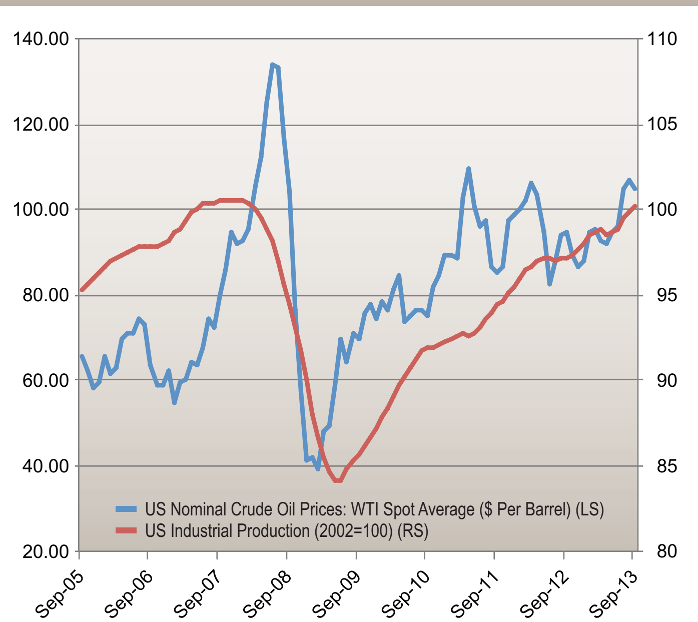
Share of Total Canadian Merchandise Exports
2012: 27.1%

Sector Distribution Across Provinces:
NL 6.3%
NB 9.1%
NS 0.1%
PE 0.0%
QC 3.3%
ON 3.0%
MB 0.8%
SK 10.2%
AB 59.8%
BC 7.3%

Canadian Direct Investment Abroad (2011)
CAD 101.0 bn

Source: Statistics Canada

Figure 23: US Industrial Activity Drives Crude Prices



Source: Haver Analytics, EIA

Table 5: Energy Export Outlook by Region

Top Markets	CAD bn 2012	% Share of Exports 2012	Export Outlook (% growth) 2012	2013(f)	2014(f)
Developed Markets					
United States	105.6	91.1	1.6	9	6
Western Europe	3.0	2.6	7.7	-29	4
Japan, Oceania and Developed Asia	3.3	2.9	-26.7	-22	5
Emerging Markets					
Latin America and the Caribbean	1.2	1.0	-18.3	-30	7
Emerging Europe and Central Asia	0.2	0.2	-36.0	-46	10
Africa and the Middle East	0.1	0.1	-11.9	-63	8
Emerging Asia	2.3	2.0	49.0	-22	8
Total Developed Markets	112.0	96.6	0.6	8	6
Total Emerging Markets	3.9	3.4	10.1	-27	8
Total World	115.9	100.0	0.9	6	6

Source: Statistics Canada, EDC Economics

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3.2 Ores and Metals

The global metal industry has been rocked by the withdrawal of quantitative easing (QE) and unexpected weakness of some key emerging market economies that have dampened prices and demand, leading to a downward revision in our export forecast. EDC Economics is now expecting a more modest 6% increase in exports from the metals, ores and manufactured products complex this year and a repeat performance of 6% growth in 2014.

EDC Economics has for some time been expecting a significant price correction in gold and some base metals. Since 2009, metal prices have been pushed skyward by a torrent of excess cash from the US's $2-trillion-plus QE program. Early this summer, the US Federal Reserve indicated that it would begin reducing the QE program, likely in late 2013; the announcement sent the price of gold plummeting to a low of $1,200. Prices recovered somewhat but the violent market reaction illustrates the sensitivity to developments in US monetary policy. Weaker demand from China and rising supplies also put downward pressure on prices throughout the summer.

As a result, metal producers are facing lower profit margins, reduced cash flow and are actively reducing capital expenditures. Gold production has been scaled back in response to the collapse in prices this summer, but annual growth in sales will still be in the double digits this year and next. Aluminum production in 2013 will be fueled by the resumption of production at the Alma smelter and next year by the rapid ramp-up at the Kitimat facility. In the iron ore industry, the decision to idle the Wabush pellet plant will shift the product mix toward concentrate (from pellets), thereby reducing the value of exports. Canadian exports of steel have disappointed this year and, despite rising US consumption, will contract slightly this year before returning to a modest increase in 2014.

Sector Stats

International Exports
2012: CAD 67.9 bn

Share of Sector Exports to Emerging Markets
2008: 10
2012: 12

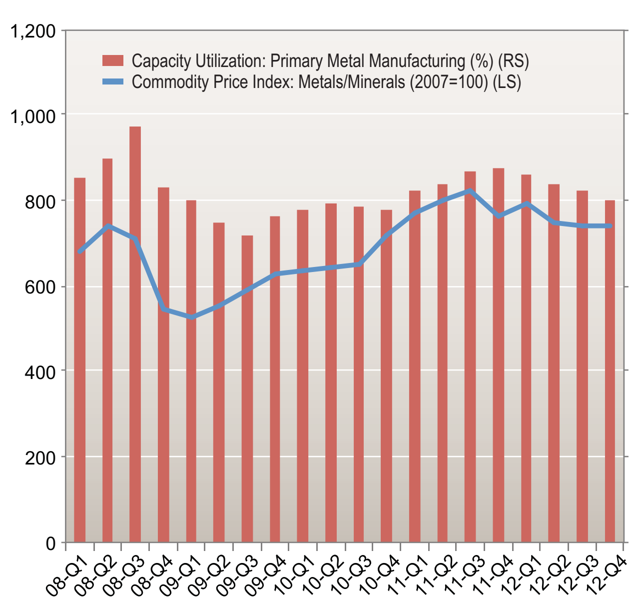
Share of Total Canadian Merchandise Exports
2012: 15.9%

Sector Distribution Across Provinces:
NL 2.5%
NB 0.9%
NS 0.5%
PE 0.1%
QC 21.3%
ON 49.7%
MB 2.5%
SK 6.5%
AB 8.6%
BC 5.7%

Canadian Direct Investment Abroad (2011)
CAD 58.6 bn

Source: Statistics Canada

Figure 24: Metals and Mining: Pricing and Activity



Source: Haver Analytics

Table 6: Metals and Ores Export Outlook by Region

Top Markets	CAD bn 2012	% Share of Exports 2012	Export Outlook (% growth) 2012	2013(f)	2014(f)
Developed Markets					
United States	30.7	49.6	-6.8	0	7
Western Europe	19.6	31.6	-5.1	4	3
Japan, Oceania and Developed Asia	4.1	6.7	-12.5	35	9
Emerging Markets					
Latin America and the Caribbean	1.5	2.4	6.2	-8	8
Emerging Europe and Central Asia	0.5	0.8	-28.5	-6	10
Africa and the Middle East	0.7	1.1	-16.4	125	4
Emerging Asia	4.8	7.8	-6.9	17	11
Total Developed Markets	54.4	87.9	-6.7	4	6
Total Emerging Markets	7.5	12.1	-7.4	20	10
Total World	61.9	100.0	-6.8	6	6

Source: Statistics Canada, EDC Economics

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3.3 Agri-Food

Canada's agricultural and food exports will rise by 6% in 2013 followed by a 3% gain next year. After last year's record crop, Canada's farmers are set to deliver another blockbuster year, supported by generally favourable weather conditions. Canada's total production of grains and oilseeds should increase by around 7% in 2013, because of higher area seeded and higher yields. However, prices will retreat from their soaring heights, pushing down farm receipts. In addition, Canada's inventories dropped to record lows as exports soared to cope with the drought in the US last year; thus, much of the additional production will rebuild inventories rather than exports.

Global supplies are coming back after extreme weather conditions hampered conditions in a variety of countries from the US to parts of Europe and Australia. Demand conditions should also remain positive, supported by strong emerging market consumption and rising use of grains in biofuels. Canada's exports of corn and soybeans will reach all-time record highs next year, as farmers have shifted production to these more lucrative crops. Meat exports should be fairly flat this year, but next year's exports will be boosted by stronger pricing alongside lower cost of feed.

The improving outlook for the US consumer, with rising confidence and stronger retail sales, has been great news for the Canadian food industry. 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 6% this year and a further 8% in 2014, impressive for a $10-billion industry that is used to fluctuations in the 3% range. The star performer of the food and beverage sector is Canada's wine industry whose exports will rise by 25% in 2013. Seafood exports are expected to rise roughly 3% this year and next; however, prices will be challenged by the continued glut in lobster and competition from Chilean salmon.

Sector Stats

International Exports
2012: CAD 47.5 bn

Share of Sector Exports to Emerging Markets
2008: 28
2012: 32

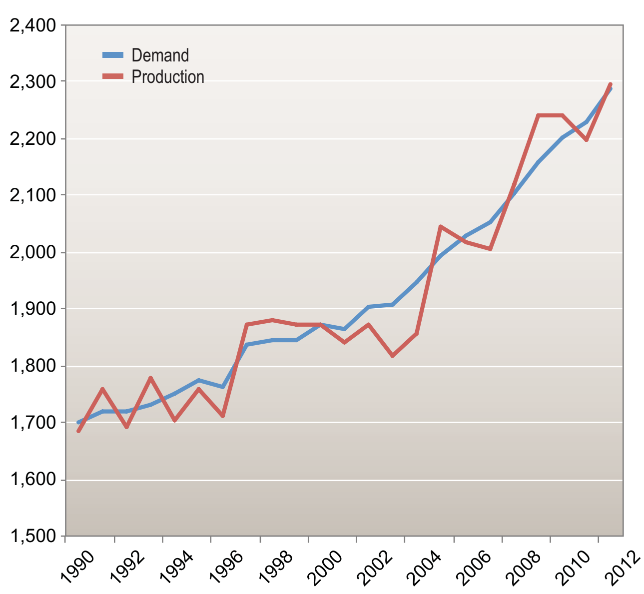
Share of Total Canadian Merchandise Exports
2012: 11.1%

Sector Distribution Across Provinces:
NL 1.7%
NB 3.0%
NS 2.5%
PE 1.1%
QC 12.8%
ON 22.5%
MB 8.3%
SK 23.4%
AB 19.2%
BC 5.7%

Canadian Direct Investment Abroad (2011)
CAD 15.6 bn

Source: Statistics Canada

Figure 25: Shortfall in Global Grain Is Driving High Prices (millions of metric tonnes)



Source: USDA World Agriculture Supply and Demand Estimates

Table 7: Agri-Food Export Outlook by Region

Top Markets	CAD bn 2012	% Share of Exports 2012	Export Outlook (% growth) 2012	2013(f)	2014(f)
Developed Markets					
United States	23.5	49.4	7.0	9	6
Western Europe	2.8	5.8	-12.9	-6	1
Japan, Oceania and Developed Asia	6.1	12.9	-1.2	4	4
Emerging Markets					
Latin America and the Caribbean	3.6	7.6	2.7	0	1
Emerging Europe and Central Asia	1.0	2.1	4.6	-2	5
Africa and the Middle East	2.8	5.8	13.5	-6	-1
Emerging Asia	7.8	16.4	30.6	9	7
Total Developed Markets	32.4	68.1	3.3	7	6
Total Emerging Markets	15.2	31.9	17.8	3	4
Total World	47.5	100.0	7.6	6	5

Source: Statistics Canada, EDC Economics

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3.4 Fertilizers

Global fertilizer markets are roiling due to the ongoing dispute between Belarus Potash Co's (BPC) marketing partners, Uralkali and Belaruskali – what many media outlets have called the "fertilizer war." The potential Russian departure from BPC's supply-managing arrangement has prompted an accelerated decline in potash prices, which was already underway for some months due to global oversupply.

For Canada, this means that despite a strong recovery in the volume of potash shipped, 2013 export growth is expected to decline by -1% due to falling prices. Currency volatility in key export markets and continued industry pricing uncertainty temper our 2014 forecast to -5%.

Even though efforts to resolve the dispute are ongoing, the outcome remains uncertain, which complicates the outlook. In addition, near-term demand is being dampened as farmers delay purchases in the hope of even lower prices if supply management practices are abandoned by some producers. Given this backdrop, BHP Billiton's decision to invest USD 2.6 billion in its Jansen potash mine in Saskatchewan is welcome news.

Even though potash exports to Asia are expected to increase significantly in 2013, the outlook for 2014 remains mixed as the prospect of lower prices will not guarantee increased demand and exports. Plentiful monsoons and years of chronic under-application should boost Indian demand, although additional cuts to subsidies for 2013–14 and a weakened rupee increase downside risks. However, currency market volatility will impact demand for potash in key South East Asian markets even as the recovery in the Eurozone area stimulates demand for palm oil.

Moderating grain prices will decrease demand growth for potash, especially in the Americas. Exports to Brazil in particular will slow down in 2014 following near-record growth in 2013. The expected increase in Chinese urea production and exports will further weaken global prices and also risk damaging demand for Canadian urea sales.

Sector Stats

International Exports
2012: CAD 8.1 bn

Share of Sector Exports to Emerging Markets
2008: 32
2012: 33

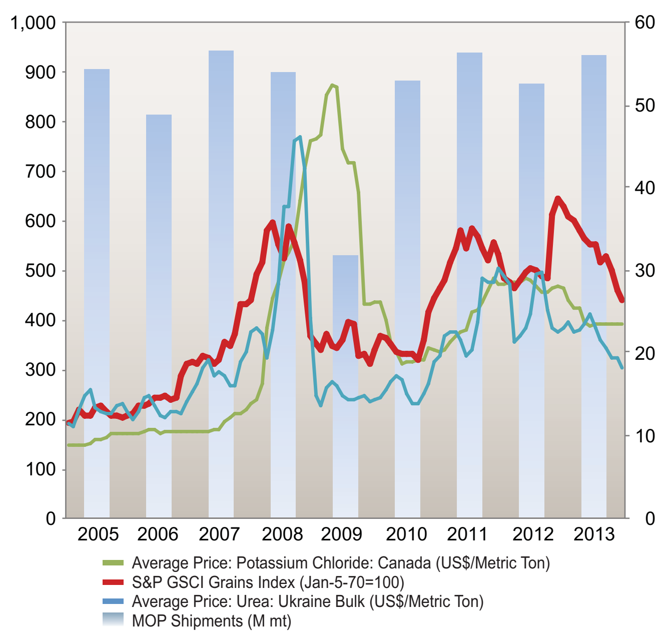
Share of Total Canadian Merchandise Exports
2012: 1.9%

Sector Distribution Across Provinces:
NL 0.0%
NB 3.9%
NS 0.0%
PE 0.0%
QC 0.2%
ON 4.7%
MB 1.8%
SK 72.6%
AB 15.9%
BC 0.8%

Canadian Direct Investment Abroad (2011)
N/A

Source: Statistics Canada

Figure 26: Price Weakness Accelerating?



Source: Haver Analytics, Company reports, Scotiabank, EDC Economics

Table 8: Fertilizers Export Outlook by Region

Top Markets	CAD bn 2012	% Share of Exports 2012	Export Outlook (% growth) 2012	2013(f)	2014(f)
Developed Markets					
United States	5.3	65.3	-3.6	-5	-6
Western Europe	0.1	0.8	109.1	-44	-6
Japan, Oceania and Developed Asia	0.1	1.4	-27.2	-45	52
Emerging Markets					
Latin America and the Caribbean	1.0	11.7	5.1	18	-9
Emerging Europe and Central Asia	0.0	0.0	79.5	-22	-7
Africa and the Middle East	0.0	0.1	-27.3	-13	-6
Emerging Asia	1.7	20.8	-18.1	5	-1
Total Developed Markets	5.5	67.5	-3.7	-6	-5
Total Emerging Markets	2.6	32.5	-11.0	10	-4
Total World	8.1	100.0	-6.2	-1	-5

Source: Statistics Canada, EDC Economics

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3.5 Forestry Products

The ongoing recovery in the US real estate market and the resulting surge in housing starts are driving a remarkable boom in Canadian lumber exports. This growth will more than offset weakness in the pulp and paper sector as demand wanes because of the expanding use of technology and digital media. Overall, total forestry exports are forecast to grow by 13% this year and 11% in 2014.

With US housing starts forecast to grow by more than 25% in 2013 and by nearly 28% next year, demand for Canadian wood products is growing rapidly. Demand from China for construction-related wood products is also expected to support exports in the near term. This has resulted in a number of producers that have reopened shuttered mills and begun new investments over the course of 2013, including the White River Sawmill in Ontario, as well as the construction of a new sawmill in the Atikokan, Ontario area, slated for completion in early 2014.

One downside risk to the forecast is a potential barrier to Japanese sales, which account for 9.9% of Canadian wood exports. The Japanese government is considering a new “wood points stimulus program” that may require that at least 50% of structural wood must be of Japanese origin and that lumber imports must be certified to come from a “growing forest.”

As the shift toward digital media leads to declining paper demand in advanced economies, many producers are diversifying into higher value-added products. Atlantic Packaging is a perfect example of this trend because the company reopened its newsprint mill in Whitby, Ontario, in March 2013 after installing new technology to produce recycled packaging products.

Pulp exports are expected to remain subdued in 2014 as significant excess capacity exists globally for many formats. This is expected to keep price growth subdued even as demand for pulp from China increases.

Sector Stats

International Exports
2012: CAD 26.5 bn

Share of Sector Exports to Emerging Markets
2008: 14
2012: 23

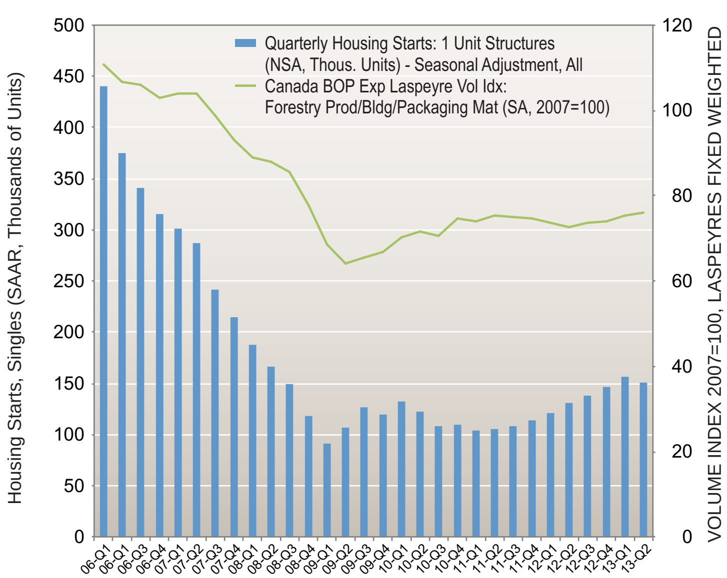
Share of Total Canadian Merchandise Exports
2012: 6.2%

Sector Distribution Across Provinces:
NL 0.5%
NB 5.5%
NS 1.5%
PE 0.0%
QC 27.0%
ON 16.3%
MB 1.6%
SK 1.4%
AB 8.1%
BC 38.2%

Canadian Direct Investment Abroad (2011)
CAD 9.0 bn

Source: Statistics Canada

Figure 27: Recovery in US Housing Important for Lumber Exports



Source: Haver Analytics

Table 9: Forestry Export Outlook by Region

Top Markets	CAD bn 2012	% Share of Exports 2012	Export Outlook (% growth) 2012	2013(f)	2014(f)
Developed Markets					
United States	17.0	63.9	1.6	15	12
Western Europe	1.1	4.1	-15.4	-7	-2
Japan, Oceania and Developed Asia	2.3	8.8	-7.7	9	8
Emerging Markets					
Latin America and the Caribbean	0.8	2.9	-2.8	-3	0
Emerging Europe and Central Asia	0.2	0.8	-9.9	34	3
Africa and the Middle East	0.3	0.9	-42.9	15	4
Emerging Asia	4.9	18.5	-3.3	13	12
Total Developed Markets	20.4	77	-0.7	13	11
Total Emerging Markets	6.1	23	-6.2	12	10
Total World	26.5	100	-2.0	13	11

Source: Statistics Canada, EDC Economics

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3.6 Automotive

Canadian automotive exports will disappoint this year, falling by 2% before returning to modest growth of 1% in 2014. A booming recovery is underway in the US, with auto sales expected to reach nearly 15.5 million vehicles in 2013 and potentially climbing to 18 million by 2018. So far, this has been very beneficial to factories in Mexico and the southern US, but is scarcely showing up in Canadian export numbers.

Despite the robust demand outlook for the US, capacity constraints will limit Canadian export growth over the forecast horizon, and the sector will continue to face competitiveness challenges. Investment in the Canadian auto sector has lagged the rest of North America, with many auto manufacturers citing the high cost of producing in Canada. The Canadian dollar's retreat below parity should provide some relief, but is not enough to change the overall picture in the short term. Major investments in new technology are needed to develop growth in the medium term.

This is why the industry is excited about Ford's announcement of a $700-million investment to retool its assembly plant in Oakville. It enables improved manufacturing capability and will allow the plant to produce new models. Also, GM's $250-million investment in its CAMI plant in Ingersoll will provide some upside potential as the enhanced flexibility and tooling capabilities will enable the plant to support a broader range of models. Meanwhile, Toyota is investing $100 million to expand production of its Lexus model by 30,000 units.

Parts suppliers are benefiting from ramped-up vehicle production in the US; however, the industry is currently operating at capacity, and growth rates are declining this year in line with original equipment manufacturer (OEM) activity. Many new investments in parts manufacturing are concentrated in Mexico and the southern US, in order to co-locate near top OEMs. This will dampen exports over the medium term, but will provide opportunities for Canadian direct investment abroad.

Sector Stats

International Exports
2012: CAD 63.0 bn

Share of Sector Exports to Emerging Markets
2008: 3
2012: 2

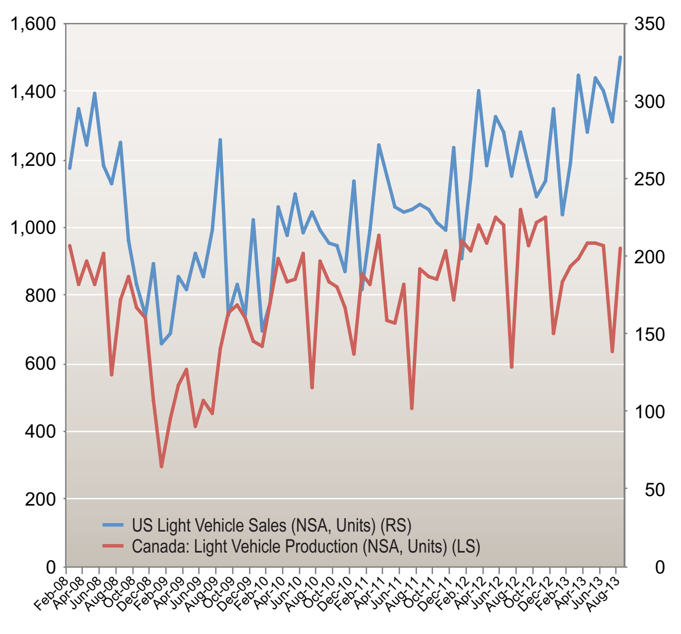
Share of Total Canadian Merchandise Exports
2012: 14.7%

Sector Distribution Across Provinces:
NL 0.0%
NB 0.0%
NS 1.7%
PE 0.0%
QC 3.6%
ON 92.8%
MB 0.9%
SK 0.1%
AB 0.5%
BC 0.5%

Canadian Direct Investment Abroad (2011)
CAD 26 bn

Source: Statistics Canada

Figure 28: US Vehicle Sales and Canadian Supply



Source: Haver Analytics

Table 10: Automotive Export Outlook by Region

Top Markets	CAD bn 2012	% Share of Exports 2012	Export Outlook (% growth) 2012	2013(f)	2014(f)
Developed Markets					
United States	61.1	97.0	15.8	-3	1
Western Europe	0.3	0.4	14.4	-15	4
Japan, Oceania and Developed Asia	0.2	0.3	31.5	-12	4
Emerging Markets					
Latin America and the Caribbean	0.9	1.4	12.8	17	7
Emerging Europe and Central Asia	0.1	0.1	-23.9	3	8
Africa and the Middle East	0.4	0.6	54.3	8	7
Emerging Asia	0.1	0.2	-17.1	68	11
Total Developed Markets	61.6	97.7	15.8	-3	1
Total Emerging Markets	1.4	2.3	15.9	18	8
Total World	63.0	100.0	15.8	-2	1

Source: Statistics Canada, EDC Economics

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3.7 Industrial Machinery and Equipment

Exports of industrial machinery and equipment (M&E) have been weaker than expected this year, causing a downward revision to the forecast. EDC Economics now projects more moderate growth of 1% this year before accelerating to 9% in 2014. The demand drivers for M&E are pulling growth in opposite directions through 2014. US construction and manufacturing activity will pick up steam due to the economic recovery. However, this will be partly offset by reduced demand from the mining, oil and gas sectors which are struggling with reduced capital expenditure and tighter margins alongside softening industrial activity in key emerging markets.

Exports of agricultural M&E will dip to 4% growth this year after the searing-hot growth rate seen over the past couple of years. Next year, international sales will rebound to 10%. Although agricultural commodity prices will retreat from record highs, they will still remain well above historical averages, thereby providing producers with a strong incentive to continue investing.

Metals and woodworking machinery will be the star performer this year, with growth soaring to 20% this year and 27% in 2014. The US housing sector is in the midst of a healthy recovery, and housing starts are projected to grow 25% this year and another near 28% next year. We expect strong demand from US and Mexico to continue and to be offset by weakness from Europe.

Sales of mining, oil and gas M&E are slated for a sharp 23% decline in 2013 before bouncing back to 7% growth in 2014. Notwithstanding the continued global effort to boost oil and natural gas production, the correction in most metals and ore prices has seen a retrenchment in mining M&E sales that will continue into 2014. Emerging Asia has been the only destination with significant growth this year; next year the emerging markets should lead a more robust recovery.

Sector Stats

International Exports
2012: CAD 28.7 bn

Share of Sector Exports to Emerging Markets
2008: 16
2012: 19

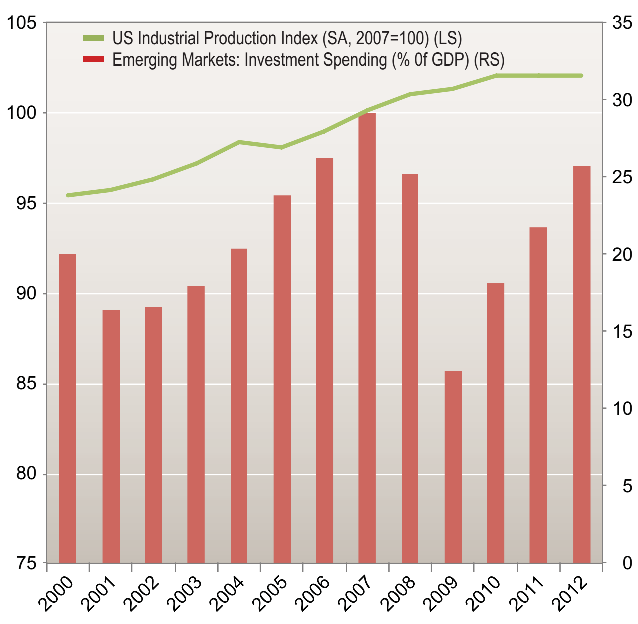
Share of Total Canadian Merchandise Exports
2012: 6.7%

Sector Distribution Across Provinces:
NL 0.1%
NB 0.7%
NS 0.8%
PE 0.2%
QC 22.2%
ON 52.7%
MB 3.7%
SK 2.0%
AB 11.1%
BC 6.5%

Canadian Direct Investment Abroad (2011)
CAD 4.5 bn

Source: Statistics Canada

Figure 29: Demand Indicators for M&E



Source: Haver Analytics

Table 11: Industrial Machinery and Equipment Export Outlook by Region

Top Markets	CAD bn 2012	% Share of Exports 2012	Export Outlook (% growth) 2012	2013(f)	2014(f)
Developed Markets					
United States	19.5	68.1	5.5	2	10
Western Europe	2.2	7.7	-2.4	-2	5
Japan, Oceania and Developed Asia	1.4	4.8	17.4	-1	6
Emerging Markets					
Latin America and the Caribbean	1.7	6.0	19.5	-4	10
Emerging Europe and Central Asia	1.0	3.4	12.5	-14	10
Africa and the Middle East	1.5	5.3	64.7	4	8
Emerging Asia	1.4	4.8	-0.6	-5	11
Total Developed Markets	23	81	5.3	2	9
Total Emerging Markets	5.6	19	21.2	-4	9
Total World	29	100	8.0	1	9

Source: Statistics Canada, EDC Economics

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3.8 Advanced Technology

Advanced technology exports are expected to fall 1% this year before returning to 1% growth next year. Export volumes to developed markets are growing moderately overall in spite of increasing competition and a continued trend of shifting manufacturing to lower-cost economies. 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.

Despite rising consumer spending and increasing corporate investment in network upgrades, exports to the US have been uneven throughout the technology subsectors. Overall, exports will mainly see growth through heightened prices due to the weakening CAD. Sales to Europe, Canada's number two market, will remain suppressed due to the continuing economic weakness in the region. Meanwhile, shipments to Asia are well positioned for rapid growth over the medium term where wireless subscribers are growing at exponential rates; estimates show that India and China combined are adding 75 million new wireless subscribers per quarter. Emerging markets are expected to be the fastest-growing destination for Canadian telecommunications exports; however, the US will remain by far the most important market for Canadian telecoms for many years.

In 2013, exports of consumer electronics should benefit from a positive outlook for US housing starts (up 25%) and renovations. But, market saturation in the US will cause firms to begin shifting focus toward regions experiencing strong consumer demand with lower market penetration such as Latin America and Asia. Exports of semiconductors had a particularly strong 2012, but this is not expected to develop into a major 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 to emerging markets, particularly Asia. However, there are growing opportunities in the navigational and measuring instrument subsector.

Sector Stats

International Exports
2012: CAD 14 bn

Share of Sector Exports to Emerging Markets
2008: 13
2012: 15

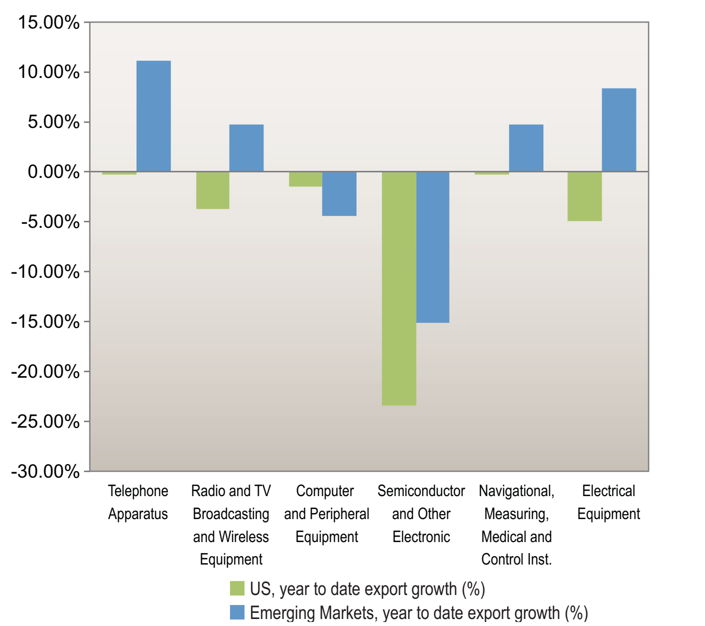
Share of Total Canadian Merchandise Exports
2012: 3.3%

Sector Distribution Across Provinces:
NL 0.1%
NB 0.3%
NS 1.1%
PE 0.1%
QC 25.8%
ON 55.6%
MB 2.0%
SK 1.0%
AB 6.1%
BC 7.8%

Canadian Direct Investment Abroad (2011)
CAD 22 bn

Source: Statistics Canada

Figure 30: Opportunities Outside of the US



Source: Statistics Canada

Table 12: Advanced Technology Export Outlook by Region

Top Markets	CAD bn 2012	% Share of Exports 2012	Export Outlook (% growth) 2012	2013(f)	2014(f)
Developed Markets					
United States	9.3	66.8	2.1	-3	0
Western Europe	1.7	11.9	-3.4	-4	-1
Japan, Oceania and Developed Asia	0.9	6.6	0.6	9	5
Emerging Markets					
Latin America and the Caribbean	0.6	4.4	-17.3	9	7
Emerging Europe and Central Asia	0.3	2.1	13.9	-12	8
Africa and the Middle East	0.4	2.9	7.8	8	7
Emerging Asia	0.8	5.4	-4.3	11	6
Total Developed Markets	11.9	85.2	1.2	-2	0
Total Emerging Markets	2.1	14.8	-4.6	7	7
Total World	13.9	100.0	0.3	-1	1

Source: Statistics Canada, EDC Economics

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3.9 Aerospace

Aerospace exports are forecast to grow by 6% in 2013 and 9% in 2014 with demand being propelled by rising air travel due to the global economic recovery, and the need to replace aging aircraft after investment plummeted in the wake of the global financial crisis.

Sales to emerging markets are expected to occur at a slower rate than previously forecast as the pace of economic growth has slowed modestly. However, in developed markets growth is expected to increase with the US economy showing signs of strength and growth reappearing in the Eurozone. This, combined with better private financing conditions and strong jet fuel prices, is supporting aerospace demand.

Commercial aircraft orders have experienced strength in 2013 and the International Air Transport Association's outlook for airline industry profits remains positive. Past orders are expected to lift sales for Bombardier while the successful start of test flights for the C-Series suggests that planes will begin to enter service at the end of 2014. This, along with higher fuel prices and forecast growth in global revenue passenger kilometres, should increase order activity in 2014 and beyond.

While the market for business jets remains subdued compared with pre-recession levels, activity has increased in the second half of 2013. Bombardier has announced the purchase of 20 Challenger 350 jets for spring 2014 by VistaJet as well as the firm order of 85 business aircraft by Flexjet. When US companies stop hoarding cash as business confidence increases, we anticipate they will resume spending on big-ticket items, including business jets. This and the expected entry into service of the Learjet 85 in 2014 support a positive outlook.

Demand for aircraft parts and simulators is expected to post respectable growth, supported by rising air travel in emerging markets and the delivery of newer and more technologically advanced aircraft.

Sector Stats

International Exports
2012: CAD 10.8 bn

Share of Sector Exports to Emerging Markets
2008: 12
2012: 20

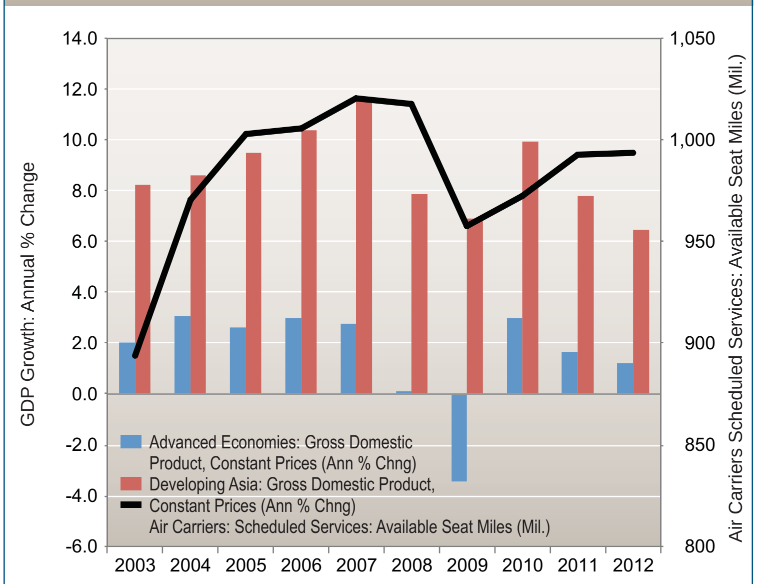
Share of Total Canadian Merchandise Exports
2012: 2.5%

Sector Distribution Across Provinces:
NL 2.4%
NB 0.1%
NS 0.5%
PE 0.6%
QC 59.0%
ON 29.6%
MB 4.3%
SK 0.0%
AB 1.3%
BC 2.2%

Canadian Direct Investment Abroad (2011)
CAD 26.0 bn

Source: Statistics Canada

Figure 31: Growth in Passenger Service and Aircraft Demand Relies on Global Growth



Source:: Haver Analytics

Table 13: Aerospace Export Outlook by Region

Top Markets	CAD bn 2012	% Share of Exports 2012	Export Outlook (% growth) 2012	2013(f)	2014(f)
Developed Markets					
United States	6.1	57.1	13.3	15	8
Western Europe	2.2	20.0	-7.7	-8	6
Japan, Oceania and Developed Asia	0.3	3.1	-52.5	18	13
Emerging Markets					
Latin America and the Caribbean	0.2	2.1	-44.6	25	13
Emerging Europe and Central Asia	0.3	3.2	12.1	31	15
Africa and the Middle East	0.8	7.0	100.0	-57	14
Emerging Asia	0.8	7.6	34.6	-13	-18
Total Developed Markets	8.6	80.1	2.0	9	8
Total Emerging Markets	2.1	19.9	26.0	-7	16
Total World	10.8	100.0	6.0	6	9

Source: Statistics Canada, EDC Economics

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3.10 Chemicals and Plastics

Canada's exports of chemicals and plastics are on the rebound, increasing by 8% this year, but moderating to 3% growth in 2014. As Canadian capacity will remain fairly stable over the next 2 years, the forecast is guided by commodity prices and the outlook for international demand, particularly in the US, which is the destination for 80% of total shipments.

Petrochemical exports have taken a surprisingly positive turn as shipments to the US and China return to near pre-crisis levels. As prices remain relatively weak over the forecast horizon in tandem with the price of crude oil, the growth driver will be higher volumes to the US as manufacturing ramps up. The key challenge for the industry is tough competition in the US as booming production of cheap shale gas is driving a surge in petrochemicals south of the border, which is pushing down prices. We expect Canadian companies will continue to shift toward natural gas feedstock and diversify their petrochemical product mix. However, capacity utilization and labour constraints will continue to restrain growth.

Meanwhile, exports of pharmaceuticals are expected to remain stagnant partially due to the expiration of several drug patents and increasing US consumer demand for generic and lower-cost alternatives. Overall, Canada's chemical exports should rise 10% this year before settling down to 3% in 2014.

Exports of plastics have been revised downwards slightly to 3% growth this year due to lower-than-expected pricing. Volumes remain in line with our bullish outlook for the US economy and consumer demand, which is partially driven by a jump in housing starts of 25% this year and a projected near 28% increase for 2014. The packaging industry is also expected to continue benefiting from rising exports to the US as healthy consumer demand is boosting retail sales. Investing in R&D to develop environmentally friendly production methods will be a major growth opportunity for the sector.

Sector Stats

International Exports
2012: CAD 34 bn

Share of Sector Exports to Emerging Markets
2008: 10
2012: 9

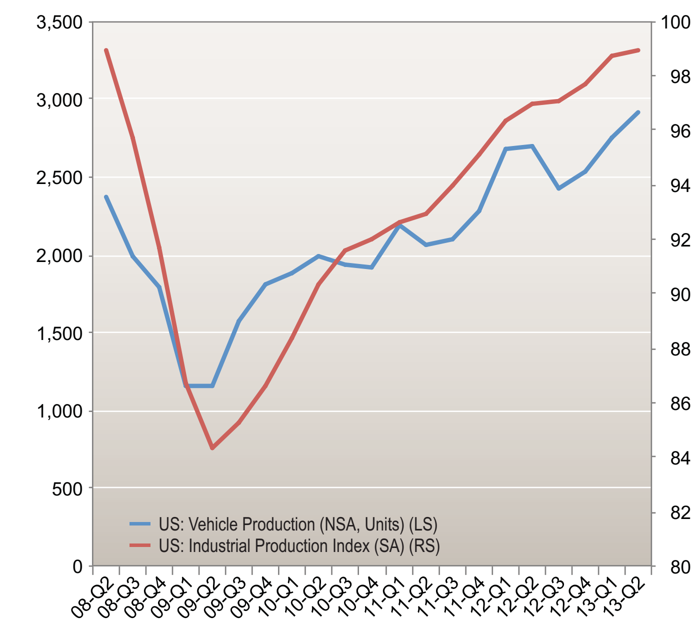
Share of Total Canadian Merchandise Exports
2012: 8.1%

Sector Distribution Across Provinces:
NL 0.0%
NB 0.3%
NS 0.9%
PE 0.1%
QC 18.7%
ON 54.7%
MB 2.8%
SK 2.0%
AB 17.0%
BC 3.4%

Canadian Direct Investment Abroad (2011)
CAD 17,9 bn

Source: Statistics Canada

Figure 32: Production Ramping Up



Source: Haver Analytics

Table 14: Chemicals and Plastics Export Outlook by Region

Top Markets	CAD bn 2012	% Share of Exports 2012	Export Outlook (% growth) 2012	2013(f)	2014(f)
Developed Markets					
United States	27.4	79.4	-1.9	9	2
Western Europe	2.7	7.9	-10.1	6	2
Japan, Oceania and Developed Asia	1.1	3.3	1.4	-10	5
Emerging Markets					
Latin America and the Caribbean	1.2	3.5	4.1	1	3
Emerging Europe and Central Asia	0.2	0.5	-11.2	29	3
Africa and the Middle East	0.4	1.1	1.9	-2	3
Emerging Asia	1.5	4.3	4.6	19	4
Total Developed Markets	31.2	90.6	-2.6	8	2
Total Emerging Markets	3.2	9.4	3.1	11	4
Total World	34.5	100.0	-2.1	8	3

Source: Statistics Canada, EDC Economics

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3.11 Consumer Goods

EDC Economics is forecasting that exports of consumer goods will increase by 16% this year and 8% in 2014. This sector is made up of a very diverse group of categories, but over 80% of shipments will go to the US, and with the American economy entering recovery mode, the outlook for consumer goods is positive.

The largest growth driver this year is the unusually sharp rise in jewellery and silverware exports, which are up 75% year to date, somewhat surprising given that precious metal prices have on aggregate fallen. In fact, this rise can be attributed to an increase in the volume of a particular subsector, specifically coins and bullion where shipments have soared. The Royal Canadian Mint is reporting its best quarters ever, supported by major multi-year contracts with countries across Asia and Europe.

Although US housing starts are expected to increase by over 25% this year, the spillover into housing-related consumer goods has yet to take hold and exports from this sector will be fairly flat this year. Housing-related goods such as furniture and cabinets have historically tracked closely with house starts, and rising demand is expected to finally kick in next year after an initial lag. Given that over 90% of housing-related exports go to the US, the recovering real estate market will drive this subsector.

Clothing exports will continue to decline modestly, part of a long-term trend that has characterized the industry as it shifts toward fashion and design, with manufacturing overseas. Finally, in the other consumer goods category, medical equipment and supplies manufacturing is showing strength and will be a source of growth in the future.

While the US and European markets continue to absorb the bulk of these exports, we expect that over the longer term, the fastest growth in the consumer goods sector will increasingly come from Emerging Asia and Latin America.

Sector Stats

International Exports
2012: CAD 7.2 bn

Share of Sector Exports to Emerging Markets
2008: 6
2012: 5

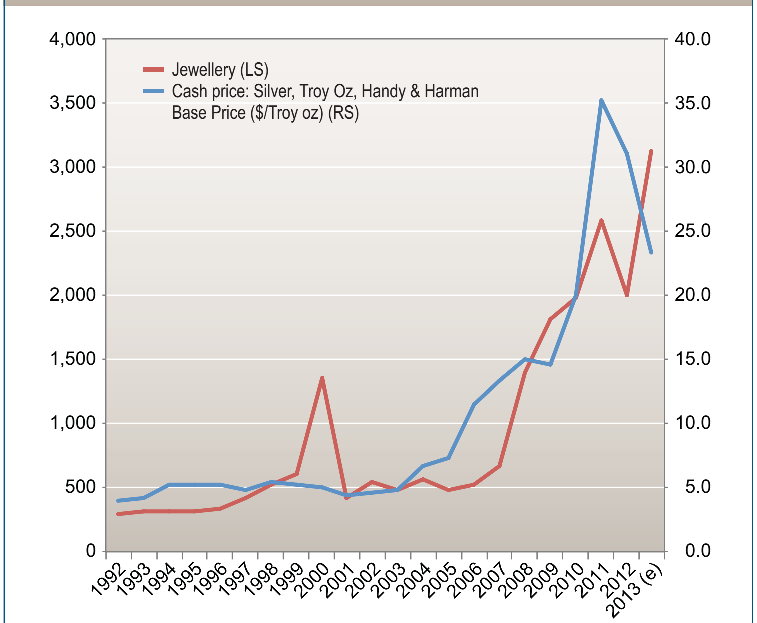
Share of Total Canadian Merchandise Exports
2012: 1.7%

Sector Distribution Across Provinces:
NL 0.1%
NB 0.2%
NS 0.9%
PE 0.0%
QC 31.9%
ON 54.2%
MB 2.4%
SK 0.2%
AB 1.9%
BC 8.1%

Canadian Direct Investment Abroad (2011)
CAD 9.7 bn

Source: Statistics Canada

Figure 33: Jewellery and Silverware Manufacturing Exports



Source: Haver Analytics. e = estimate

Table 15: Consumer Goods Export Outlook by Region

Top Markets	CAD bn 2012	% Share of Exports 2012	Export Outlook (% growth) 2012	2013(f)	2014(f)
Developed Markets					
United States	5.6	77.4	-11.4	16	12
Western Europe	1.0	13.8	-12.7	24	-6
Japan, Oceania and Developed Asia	0.3	4.1	-11.1	15	1
Emerging Markets					
Latin America and the Caribbean	0.1	1.2	-16.5	-18	-15
Emerging Europe and Central Asia	0.0	0.7	3.9	-2	0
Africa and the Middle East	0.1	1.3	14.5	6	5
Emerging Asia	0.1	1.5	7.2	-13	-6
Total Developed Markets	6.8	95.3	-11.6	17	9
Total Emerging Markets	0.3	4.7	0.9	-8	-4
Total World	7.2	100.0	-11.0	16	8

Source: Statistics Canada, EDC Economics

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3.12 Services

Canadian services exports will increase by 3% this year and 4% in 2014. After a disappointingly flat performance last year, the sector will resume growing its increasingly important share of international sales, accounting for 16% of Canadian trade in 2013. The Canadian dollar's slide below parity this year will persist into the coming years, providing a welcome boost to export receipts, because so many sectors are highly competitive. There is also a very high correlation between Canadian direct investment abroad and services exports as Canadian businesses that set up shop abroad are likely to rely on Canadian providers of support services.

Travel services continue to be the star performer in the category as a very strong increase in tourism receipts will drive gains this year while 2014 will see equal contributions from the business traveller segment. The overall number of US travellers to Canada has been falling since mid-2012 so the jump in tourism receipts is due to non-US visitors and a higher spend per visitor (partly due to the favourable effect of a weaker loonie). This trend of growing non-US tourists will continue into 2014; however, next year's uptick in business travellers will be driven by US demand.

Exports of transportation services have been revised down slightly this year as overall merchandise trade with the US has been slower than expected, thereby denting demand for the associated trucking and warehousing. Next year, these will pick up in line with the overall modest improvement in trade within North America.

Commercial services show fairly mixed growth performance over the forecast horizon but will increase to almost 5% in 2014 thanks to strong contributions from almost all subsectors. Financial services continue to stand out with the strongest growth because of large Canadian investments in the financial industry south of the border, which have also resulted in a spike in demand for related services exports.

Sector Stats

International Exports
2012: CAD 84.1 bn

Share of Sector Exports to Emerging Markets
2008: N/A
2012: N/A

Share of Total Canadian Exports
2012: 15.5%

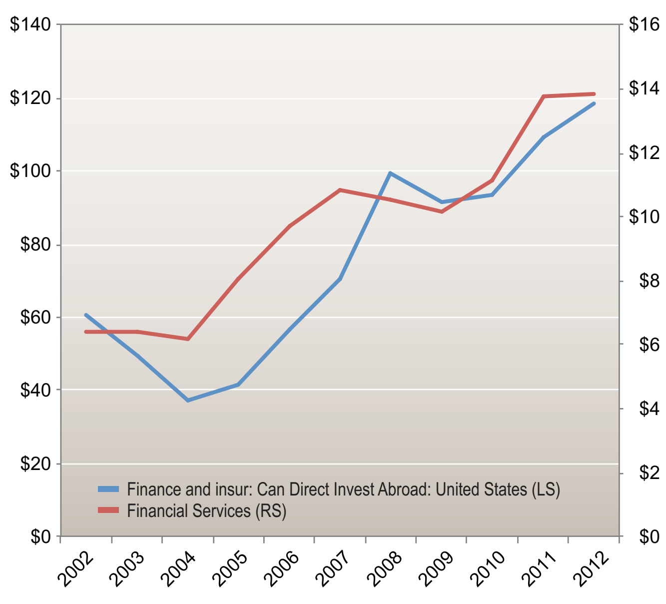
Sector Distribution Across Provinces:

NL	N/A
NB	N/A
NS	N/A
PE	N/A
QC	N/A
ON	N/A
MB	N/A
SK	N/A
AB	N/A
BC	N/A

Canadian Direct Investment Abroad (2011)
CAD 75 bn

Source: Statistics Canada

Figure 34: Growth in Financial Services Exports Tied to CDIA in US Financial Sector



Source: Haver Analytics

Table 16: Canadian Export Services Outlook

	2010	2011	2012	2013(f)	2014(f)
Total Service Exports ($ mn)	79,247	83,850	84,086	86,449	90,256
Annual % change	1.0	5.8	0.3	2.8	4.4
Commercial Services ($ mn)	48,490	52,072	51,597	52,887	55,388
annual % change	-2.0	7.4	-0.9	2.5	4.7
Transportation Services ($ mn)	12,757	13,587	13,508	13,900	14,386
annual % change	9.7	6.5	-0.6	2.9	3.5
Travel Services ($ mn)	16,320	16,624	17,387	18,117	18,897
annual % change	5.0	1.9	4.6	4.2	4.3
Government Services ($ mn)	1,679	1,567	1,593	1,545	1,584
annual % change	-7.0	-6.7	1.7	-3.0	2.5

Source: Statistics Canada, EDC Economics

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EDC Economics has made downward revisions to all but one of the provincial export forecasts originally produced in spring 2013. As a result, Canadian goods exports are now expected to grow by 5% overall in 2013, down from the initial estimate of 9%. The main reason for the adjustment to our 2013 forecast is lower than anticipated commodity prices, particularly in metals, as well as weaker export growth in Ontario and Quebec, where exports of machinery and equipment, motor vehicles and industrial goods underperformed. Our 2014 forecast for Canadian goods exports remains unchanged from last spring, with growth predicted to stay at 5%.

British Columbia's export outlook for 2013 remains strong at 8% in 2013 and 12% in the following year. These high growth rates reflect the expansion of forestry exports in response to the strengthening housing market south of the border. Metals and ores exports are also likely to increase as stronger volumes compensate for soft prices. The outlook for the growth of exports from **Alberta** remains unchanged from last spring. The province will benefit from energy exports to achieve 9% growth in 2013 and a smaller 5% in 2014. **Saskatchewan** will see growth pared back to 4% in 2013 and 2% in 2014 on the back of weak fertilizer prices. As is the case with other provinces, **Manitoba** will see industrial goods exports decline in 2013, bringing the projected 2013 export growth rate down to 4%. A rebound in demand for manufactured goods will occur in 2014 and drive growth of 6%.

In both **Ontario** and **Quebec**, exports of most manufactured goods and metals will be lower in 2013 than originally forecast, only to recover in 2014 with the help of a weaker Canadian dollar value and increased metals production. Ontario exports will grow 3% this year and 5% in 2014. In Quebec, 4% export growth is forecast for 2013, 6% the year thereafter.

Newfoundland and Labrador goods exports are now expected to expand by a mere 3% in 2013, followed by a 7% rise in 2014. Maintenance work has affected crude petroleum exports, while insufficient production capacity is curtailing industrial goods exports in 2013. In **Nova Scotia**, exports will increase by 7% in both 2013 and 2014 on the back of natural gas exports. **New Brunswick** is the only province that will actually see the value of goods exports shrink by 2% in 2013, only to expand by the same percentage in 2014. Here, lower energy prices and lower refined petroleum and mining production levels are to blame for the downturn in 2013. Finally, **Prince Edward Island** exports are set to see 1% growth in 2013, far short of earlier estimates, due to disappointing overall numbers from aerospace-related manufacturing. In 2014, the sector will stage a recovery backed by agri-food, bringing island export growth to 6%.

Table 17: Canadian Merchandise Export Forecast by Province

Provinces	CAD bn	% Share of Province's Total Exports	Export Outlook (% growth)		
	2012	2012	2012	2013(f)	2014(f)
Newfoundland and Labrador*	11.3	2.7	-6.6	3	7
Prince Edward Island	0.8	0.2	14.9	1	6
Nova Scotia	3.8	0.9	-14.4	7	7
New Brunswick	14.7	3.5	-0.3	-2	2
Quebec	62.2	14.6	-0.1	4	6
Ontario	162.6	38.1	4.6	3	5
Manitoba	11.1	2.6	-4.8	4	6
Saskatchewan	32.5	7.6	9.9	4	2
Alberta	94.9	22.2	1.8	9	5
British Columbia	31.3	7.3	-4.2	8	12
Total Goods Exports	427.3	100.0	1.9	5	5

Source: Statistics Canada, EDC Economics, 2012 is actual data, while 2013 and 2014 are forecast.

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

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4.1 Newfoundland and Labrador

EDC Economics expects Newfoundland and Labrador's exports to grow a modest 3% this year followed by a rise of 7% in 2014. The adjustment is due to a noticeable reduction in energy and industrial goods output, as maintenance and retrenched production that started in 2012 have dragged on into 2013. Increasing demand for iron ore from China and the Netherlands will continue to compensate for the drop in US and other Western Europe-bound shipments.

In the energy sector, maintenance work in 2013 curtailed crude production and refinery output. Oil exports are experiencing lower-than-expected growth and are forecast to drop to 8% in 2013 and 7% in 2014. Crude production that was offline in 2013 will come back in 2014, but the impact of this will be offset by prices falling from USD 99/bbl in 2013 to USD 96/bbl in 2014. In the long term, however, new exploration and development efforts that began in 2012 are likely to compensate for production declines caused by maturing wells. The Hebron field, for example, will start to contribute to production volumes in 2018.

The outlook for industrial goods exports has dampened with downward revisions in 2013 and 2014 to 1% and 9%, respectively. This revision is mostly driven by the fact that capacity increases at IOC and Labrador Iron Mines have had a lower-than-expected impact on production. However, metal ore prospects beyond 2013 are promising, thanks to significant investment by New Millennium Capital Corporation and Tata Steel. Moving forward, the sector will be weighed down somewhat by declining output at Voisey's Bay and Wabush. Export prices for iron ore will increase in 2013 but enter a downward trajectory the year after.

Newfoundland and Labrador's agri-food sector, dominated by seafood, is bearing the brunt of lower volumes, but moderate growth is nonetheless expected in 2013 and 2014, with aquaculture slated to increase. The balance of the province's exports includes a broad mix of goods, including forestry, machinery and equipment and aerospace, which are shipped by numerous small and medium-sized companies. We expect exports in this broad category to experience a significant drop compared with foreign sales in 2012, which were inflated by one-off shipments.

Provincial Stats

GDP
CAD 34 bn

International Exports/GDP
40%

Number of Exporters
267

Canada's Total Exporters
40,771

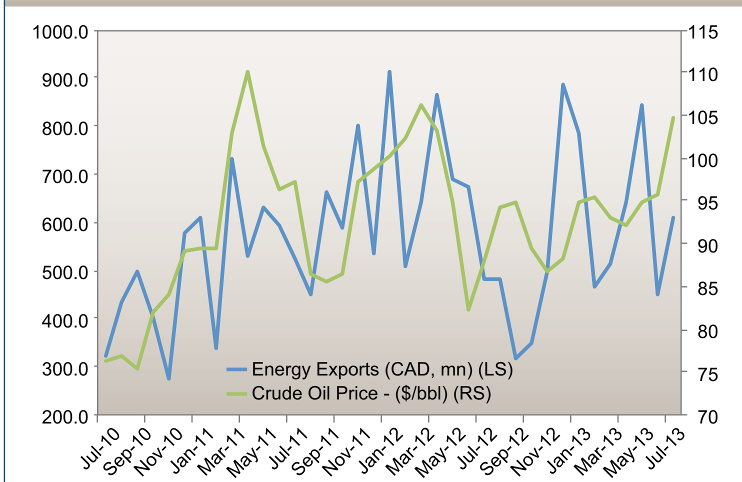
Trade Balance
CAD 6 bn

Largest Export Destinations
United States 58%
China 12%
Netherlands 6%
United Kingdom 4%
France 4%

Share of Exports to Emerging Markets
2012: 21%
2008: 10%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 50%
Regional Diversification: 36%

Figure 35: Volumes to Rebound After a Blip



Source: Haver Analytics, CANSIM

Table 18: Newfoundland and Labrador Merchandise Outlook

Top Sectors	CAD mn	% Share of Province's Total Exports	Export Outlook (% growth)		
	2012	2012	2012	2013(f)	2014(f)
Energy	7,337	64.8	-8.2	8	7
Industrial Goods	2,755	24.3	-8.8	1	9
Agri-Food	793	7.0	-9.5	2	3
Forestry	120	1.1	-25.6	-9	-1
All Others	320	2.8	350.0	-80	7
Total	11,325	100.0	-6.6	3	7
Total excl. energy	3,988	35.2	-3.4	-5	7

Source: Statistics Canada, EDC Economics

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

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4.2 Prince Edward Island

Following a stellar 15% expansion in 2012, exports from Prince Edward Island are set to decelerate sharply to 1% growth in 2013. Poor sales results for machinery and equipment (M&E) and transportation as well as a tough year for agri-food are the main drags on growth. Prospects for 2014, however, are much better with those same sectors likely to power export growth of 6% on the back of greater confidence in the US market.

The most striking development this year has been the slow to negative growth in aerospace-related exports. In 2013, M&E will expand by a relatively meagre 2% while transportation is forecast to shrink by 2%. However, a bounce-back is likely as US companies spooked by the impact of sequestration-related cuts earlier in the year should increase orders in 2014. Furthermore, island exporters have consistently managed to attract sales in new markets. Countries as far flung as Israel and Australia were some of the biggest contributors to the growth of aerospace-related exports in 2013, while African customers have been important buyers in recent years. Global demand as well as new capacity set to come online in 2013 will drive growth of 10% in M&E and 12% in transportation in 2014.

In agri-food, exports are expected to shrink by 1% in 2013, and then to rebound 5% in 2014. The 2013 contraction is due to a dry spell in August, which is affecting fresh potato export volumes. Potato exports should recover in 2014. Exports of frozen lobster are already on track to perform well in 2013. Sales to Japan surged in 2013, contributing to growth in the low double digits for exporters of the product. In 2014, increased imports by China will likely drive additional gains. An increase in the price of potatoes next year will likely be passed along by French fry manufacturers, pushing up sales receipts for exporters.

Standing out this year, in terms of growth, will be the industrial goods sector, which includes the biotechnology and pharmaceutical industries. Exports from the sector will grow 12% this year and slow down in 2014 to a more moderate 4%, in line with global trends in pharmaceuticals.

Provincial Stats

GDP
CAD 5 bn

International Exports/GDP
18%

Number of Exporters
189

Canada's Total Exporters
40,771

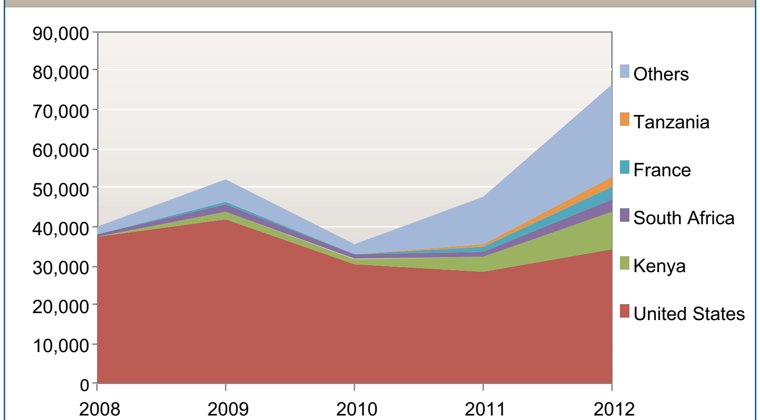
Trade Balance
CAD 1 bn

Largest Export Destinations
United States 69%
Kenya 2%
Indonesia 2%
China 2%
United Kingdom 1%

Share of Exports to Emerging Markets
2012: 16%
2008: 9%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 46%
Regional Diversification: 51%

Figure 36: PEI Aerospace Exports: Growing Diversification **(Thousands of C$, Annual totals)**



Source: Industry Canada (Trade Data Online)

Table 19: Prince Edward Island Merchandise Outlook

Top Sectors	CAD mn 2012	% Share of Province's Total Exports 2012	Export Outlook (% growth) 2012	2013(f)	2014(f)
Agri-Food	502.3	59.8	5.5	-1	5
M&E	91.5	10.9	76.5	2	10
Transportation	75.4	9.0	50.2	-2	12
Industrial Goods	61.9	7.4	13.0	12	4
All Others	109.1	13.0	10.6	6	6
Total	840.2	100.0	14.9	1	6
Total excl. energy	840	100.0	14.9	1	6

Source: Statistics Canada, EDC Economics

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4.3 Nova Scotia

EDC Economics sees exports from Nova Scotia recording 7% growth in 2014. This forecast depends greatly on when Deep Panuke begins producing gas and on where that gas ends up being sold. While energy will drive strong headline growth, exports from Nova Scotia's other sectors are expected to expand by a modest 3 to 4%. With the exception of Deep Panuke, no new major export projects are slated to come online next year.

Energy is forecast to have an outsize impact on export growth because Deep Panuke will re-establish the resource as a major Nova Scotian export. The reason is that, with the start of first gas at Deep Panuke, total gas production will more than satisfy Nova Scotia's domestic needs, allowing excess to be exported. However, as Deep Panuke reaches capacity in late 2014, combined gas production will start to fall. Although there are no other major projects slated over the medium to long term, seismic work being conducted by BP and Shell Canada could provide a reason for optimism beyond the forecast period.

In the agri-food sector, exports are expected to rise 4% next year. The somewhat erratic lobster market is likely to see continued growth in prices for premium live product, which has allowed the province to record higher exports while other provinces experience declines. Growth in US demand for lobster should be steady, while we expect demand from China and other parts of Asia to continue surging. Scallops will likely see little change in 2014 after prices surged this year following a massive US quota cut.

Forestry exports will rise a modest 4% in 2014 as pulp and newsprint sales move sideways. Lumber, the smallest subsector within forestry, will be the main driver within the sector thanks to a near 28% increase in US housing starts. The auto parts sector, led by Michelin, is expected to see modest production growth on small gains in US vehicle production and sales. Closing out the forecast, exports of machinery and equipment (M&E) are expected to rise 5% in 2014 based on a general rebound in US investment spending. EDC Economics expects demand for M&E to be healthy but at the time this forecast was completed, no major new contracts that would lift 2014 sales had been announced.

Provincial Stats

GDP
CAD 37 bn

International Exports/GDP
21%

Number of Exporters
778

Canada's Total Exporters
40,771

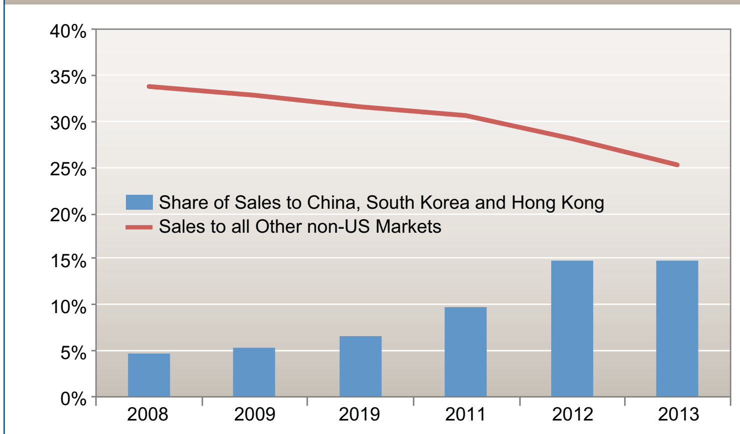
Trade Balance
CAD (4) bn

Largest Export Destinations
United States 72%
China 4%
France 2%
Japan 2%
United Kingdom 2%

Share of Exports to Emerging Markets
2012: 12%
2008: 7%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 22%
Regional Diversification: 54%

Figure 37: Emerging Asia, the Growth Engine for Seafood Exports



Source: Industry Canada

Table 20: Nova Scotia Merchandise Outlook

Top Sectors	CAD mn	% Share of Province's Total Exports	Export Outlook (% growth)		
	2012	2012	2012	2013(f)	2014(f)
Energy	95	2.5	-79.3	-49	316
Agri-Food	1,175	31.2	2.0	8	4
Forestry	387	10.3	-46.3	40	4
Motor Vehicle	1,055	28.0	1.0	2	4
Industrial goods	107	2.8	-6.3	-3	6
All Others	1,052	27.9	3.2	5	3
Total	3,764	100.0	-14.4	7	7
Total excl. energy	3,669	97.5	-6.8	8	4

Source: Statistics Canada, EDC Economics

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4.4 New Brunswick

EDC Economics expects exports to fall 2% this year before rebounding by 2% in 2014. Lower refined petroleum prices and flat production levels are the main reason for the slump.

Exports of LNG, another product in the energy category, are also down, despite the price of LNG shooting up this year. The decline in exports suggests Canaport is operating at reduced capacity. One positive energy development this year is that the Point Lepreau power plant is up and running at near capacity, resulting in an over 100% increase in electricity exports in 2013. Growth will be more moderate going forward.

The forestry sector is a bright spot in the economy, with lumber export prices rising steadily, driven by the increase in US housing starts. Growth will clock in at 7% in 2013. The re-opening of two mills this year will provide the capacity for an increase in production, driving growth of 6% in 2014. However, industry output remains far behind what it was in the mid-2000s. There is also less optimism around pulp and paper.

In the agri-food sector, exports will plummet 9% in 2013 and will inch up by only 1% in 2014. Despite solid catches, fish exports have been hurt by low prices which will start reversing only in 2014. Blueberry harvests have been steadily increasing due to milder weather, and expectations are that cranberry exports will gradually ramp up over the coming years.

Industrial goods exports are slated to shrink 7% in 2013 but grow 3% in 2014. Potash production has been hurt by project delays as well as a steep decline in global prices due to the breakup of the industry cartel. This could impact PotashCorp's Sussex mine, which is set to considerably ramp up production in 2014-15 following an expansion of its operations.

Another drag on sector exports is that the Brunswick Mine will come to a complete shutdown year, resulting in a drop in zinc production. This loss will be partially offset by the opening in 2014 of the Caribou and Half Mile Lake mines. One large mining project coming down the pipeline is the Sisson Brook mine, which is set to begin production in 2016 and could represent more than 8% of the global supply of tungsten.

Provincial Stats

GDP
CAD 32 bn

International Exports/GDP
47%

Number of Exporters
551

Canada's Total Exporters
40,771

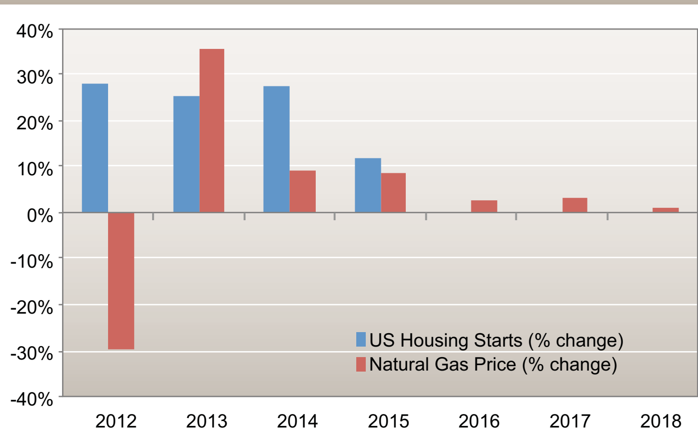
Trade Balance
CAD (8) bn

Largest Export Destinations
United States 86%
Netherlands 2%
Bahamas 1%
Brazil 1%
France 1%

Share of Exports to Emerging Markets
2012: 7%
2008: 7%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 51%
Regional Diversification: 75%

Figure 38: New Brunswick: Rise in US Housing and Natural Gas Prices Help Lift Exports



Source: Haver Analytics, EDC Economics

Table 21: New Brunswick Merchandise Outlook

Top Sectors	CAD mn 2012	% Share of Province's Total Exports 2012	Export Outlook (% growth) 2012	2013(f)	2014(f)
Energy	10,544	71.5	-0.7	-2	2
Forestry	1,450	9.8	-4.1	7	6
Agri-Food	1,411	9.6	2.2	-9	1
Industrial Goods	941	6.4	-1.9	-7	3
M&E	281	1.9	44.8	-2	7
All Others	122	0.8	-2.1	18	7
Total	14,749	100.0	-0.3	-2	2
Total excl. energy	4,205	28.5	0.8	-2	4

Source: Statistics Canada, EDC Economics

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4.5 Quebec

Quebec's export sector is strengthening following muted growth in 2011 and 2012. Exports will expand by 4% in 2013 and 6% in 2014. Two major factors driving this growth are rising demand in the US and the lower Canadian dollar. The US remains the number one destination for Quebec exports (two-thirds of the total) with China, a distant second, absorbing 4% of exports.

The industrial goods sector, comprising ores, minerals and metals exports, is set to see exports grow by 4% in 2013 and another 5% in 2014. This growth comes even though aluminum exports have been lethargic in 2013 due to weak prices and supply-side adjustments by Quebec producers. For example, Rio Tinto Alcan plans to halt production at its Shawinigan smelter by the end of 2013. However, a slight rebound in prices, coupled with increased US demand, will benefit exports in 2014.

As is the case with aluminum, mineral and iron ore exports will be flat this year with growth projected in 2014 when production is expected to rebound. Contributing factors to the 2013 flat line include the decision of Cliffs Natural Resources to idle its Wabush Pointe-Noire pellet plant in mid-2013 and its downward adjustment of production at Bloom Lake. These negative developments were partially offset by the first iron ore shipments from Tata Steel Minerals Canada's Millennium Iron Range.

In the transportation sector, exports are set to surge 13% in 2013 and another 11% in 2014. Steady demand for business jets is driving good results for aerospace manufacturers. Most exports will go to the US, which accounts for 50% of all sales abroad. Demand from India and China is climbing but they still account for less than 10% of aerospace exports. An additional factor that will contribute to export growth toward the end of 2014 is the expected start of deliveries of Bombardier's C-Series jet.

Quebec's newsprint and other paper exports, which account for roughly 50% of Canada's exports of this kind, experienced growth in 2013 but this is expected to taper off in 2014. The 2013 growth is driven by increased demand in emerging markets (notably emerging Asia and Latin America), as well as some increase in supply owing to mill restarts (Resolute's Gatineau and Dolbeau mills).

Provincial Stats

GDP
CAD 346 bn

International Exports/GDP
26%

Number of Exporters
8,558

Canada's Total Exporters
40,771

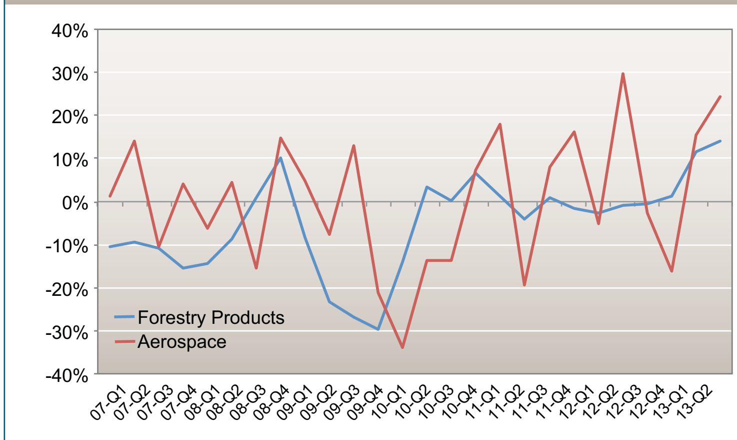
Trade Balance
CAD (8) bn

Largest Export Destinations
United States 70%
China 4%
Germany 2%
Netherlands 2%
France 2%

Share of Exports to Emerging Markets
2012: 13%
2008: 9%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 24%
Regional Diversification: 51%

Figure 39: Forestry and Aerospace Leading Export Growth in Quebec Growth Rates YoY (%)



Source: Haver Analytics

Table 22: Quebec Merchandise Outlook

Top Sectors	CAD mn 2012	% Share of Province's Total Exports 2012	2012	Export Outlook (% growth) 2013(f)	2014(f)
Industrial Goods	23,516	37.8	-4.0	4	5
M&E	9,001	14.5	7.8	-3	6
Forestry	7,156	11.5	-3.3	15	6
Transportation	7,209	11.6	-3.3	13	11
Agri-Food	6,068	9.8	8.4	2	7
Consumer Goods	2,288	3.7	-7.6	-2	3
All Others	6,938	11.2	7.3	1	8
Total	62,177	100.0	-0.1	4	6
Total excl. energy	58,249	93.7	-0.9	5	6

Source: Statistics Canada, EDC Economics

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4.6 Ontario

Ontario's export sales have fared worse than expected this year mainly due to much weaker sales of manufactured goods and the significant price correction that dominated the metals industry mid-year. Thus, EDC Economics has revised down the forecast to export growth of just 3% in 2013 with an uptick to almost 5% in 2014.

The province's largest export sector, the automotive industry, will see a decline in foreign sales in 2013 for the first time since the financial crisis in 2008-09. The weakness is not due to lack of demand; US auto sales are on track for a 15% jump this year. Rather, capacity constraints have limited the ability of Canadian-based manufacturers to benefit from the robust demand in North America. The softening Canadian loonie will provide some cushion to export receipts next year as the USD regains momentum on the world markets and pushes the loonie down to USD 0.96.

The industrial goods sector has been the cause of the most significant downward revision to the outlook this year. While a weak pricing environment had been anticipated, we did not foresee the large and immediate market reaction to the US Fed's announcement in the summer that it would begin tapering quantitative easing at the end of 2013. This, combined with a mid-year weakening in demand from emerging markets (particularly China), sent prices across the board tumbling. Nevertheless, gold production will still be up significantly this year and sales will bounce back in the second half of the year as prices recover. Exports of steel have been weak this year despite the robust growth in the US construction and automotive sectors – two key end users of steel. The lockout at US Steel's Lake Erie mill has been resolved and a resumption of production there will provide some uplift in the tail end of 2013 and in 2014.

The robust rebound in exports of machinery and equipment from Ontario will be deferred until next year, as weakness in agricultural and mining as well as oil and gas machinery is offsetting very strong demand for metal- and wood-working machinery. Next year's outlook for North American construction and auto production will fuel 8% growth in exports.

Provincial Stats

GDP
CAD 655 bn

International Exports/GDP
33%

Number of Exporters
18,244

Canada's Total Exporters
40,771

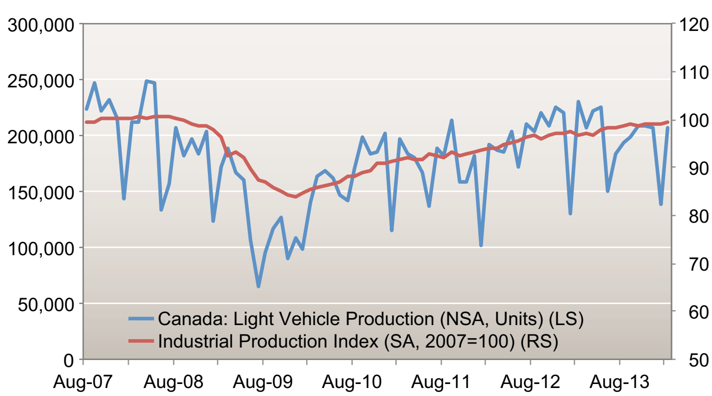
Trade Balance
CAD (74) bn

Largest Export Destinations
United States 78%
United Kingdom 9%
Norway 1%
China 1%
Mexico 1%

Share of Exports to Emerging Markets
2012: 6%
2008: 5%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 26%
Regional Diversification: 62%

Figure 40: Vehicle Production to Moderate While US Industrial Production Drives Ontario's Export Performance



Source: Haver Analytics, Wards Automotive

Table 23: Ontario Merchandise Outlook

Top Sectors	CAD mn 2012	% Share of Province's Total Exports 2012	2012	Export Outlook (% growth) 2013(f)	2014(f)
Industrial Goods	58,452	36.0	-4.3	7	5
Motor Vehicle	54,975	33.8	16.6	-2	1
M&E	21,304	13.1	1.9	1	8
Agri-Food	10,694	6.6	9.3	10	7
Forestry	4,315	2.7	-6.0	3	6
Consumer Goods	3,894	2.4	-15.2	28	11
All Others	8,953	5.5	11.7	-3	8
Total	162,587	100.0	4.6	3	5

Source: Statistics Canada, EDC Economics

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4.7 Manitoba

Manitoban trade continues to advance with exports forecast to grow by 4% this year before rising to 6% in 2014. In particular, Manitoba's transportation, energy and aerospace sectors will see a boost to trade activity as the US economic recovery gains traction and Europe emerges from recession.

The expected increase in US state-level demand for public transit vehicles will be a boon for the province's transportation industry. Truck and other motor vehicle exports will rise by 3% this year and 5% in 2014. Winnipeg-based New Flyer Industries announced it had 513 new bus orders in Q2 2013 compared to 90 in the same quarter last year. The province's aerospace industry is also set to see growth of 6% this year and 8% in 2014. Boeing Canada's Winnipeg operations have record-level workforce numbers with plans to ramp up production levels of parts for the Boeing 787 Dreamliner into 2014.

In the agri-food sector, exports will rise by 9% this year before moderating to 5% in 2014. Crop production surged to record levels this year. While farmers replenished inventories in 2012-13, the latter part of this year will see stronger agricultural exports with wheat exports forecast to grow by 15% in 2013 and 6% in 2014. We are also seeing impressive growth in soybean exports, as Manitoban farmers seek to diversify their crops. The outlook for the meat industry is also positive with pork exports growing by 7% this year. Finally, strong export gains are predicted for the province's food and beverage exports industry both this year and next.

In the energy sector, growth will clock in at 14% in 2013 and 10% the following year. This expansion will be driven by electricity exports as crude petroleum production levels are forecast to flatten in 2014 owing to capacity and oversupply issues.

This year's lower metal prices dampened production values for metal producers, and copper ore exports will drop sharply in 2013. Better times are ahead, with 8% export growth forecast for 2014 following the completion of the Reed Copper Project near Flin Flon and planned production increases at Hudbay's Lalor gold-zinc-copper mine. Nickel prices will also strengthen modestly.

Provincial Stats

GDP
CAD 56 bn

International Exports/GDP
28%

Number of Exporters
1,361

Canada's Total Exporters
40,771

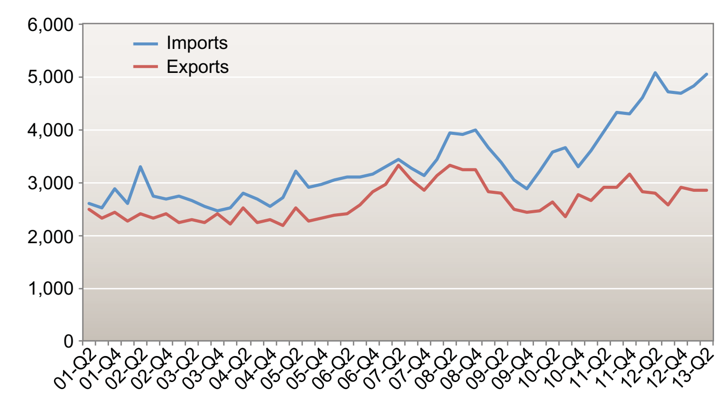
Trade Balance
CAD (3.5) bn

Largest Export Destinations
United States 67%
China 9%
Japan 5%
Mexico 3%
Hong Kong 1%

Share of Exports to Emerging Markets
2012: 20%
2008: 19%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 23%
Regional Diversification: 47%

Figure 41: Manitoban Imports Back to Pre-Crisis Levels, While Exports Are Still Catching Up **(Millions of C$, quarterly)**



Source: Statistics Canada

Table 24: Manitoba Merchandise Outlook

Top Sectors	CAD mn 2012	% Share of Province's Total Exports 2012	Export Outlook (% growth) 2012	2013(f)	2014(f)
Agri-Food	3,922	35.3	-8.4	9	5
Industrial Goods	2,778	25.0	-13.4	-5	5
M&E	1,503	13.5	4.1	-6	8
Energy	969	8.7	-2.6	14	10
Motor Vehicle	566	5.1	20.7	3	3
Forestry	423	3.8	5.6	10	7
All Others	959	8.6	8.6	9	8
Total	11,120	100.0	-4.8	4	6
Total excl. energy	10,150	91.3	-5.0	3	6

Source: Statistics Canada, EDC Economics

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4.8 Saskatchewan

Saskatchewan's exports will rise by 4% in 2013, followed by a moderate 2% gain in 2014. The province's fertilizer and agriculture exports will see impressive volume increases, while energy shipments will rise only modestly. However, prices for a variety of commodities, particularly fertilizer, are weakening which will reduce export receipts.

Saskatchewan's top performing export sector will be agri-food, which is forecast to grow by 8% this year, driven by record wheat and canola production. In 2014, agricultural exports will rise by only 4% as prices decline due to world supplies returning to balance. Global grain production has recovered from the devastating 2012 US drought and weather conditions are generally favourable; however, grain stocks are still being rebuilt and will remain below normal historical levels. Over the long term, prices of grains and oilseeds will remain at healthy levels because the long-term trend for global agriculture is consistently rising demand growth. Demand for food in emerging markets continues to rise rapidly and more cultivators all over the world are shifting toward grain for biofuels, creating pressure on supplies.

Given this context, it is not surprising that long-term demand conditions for fertilizer exports are very positive and that Saskatchewan will benefit from this growing industry. The volume of Saskatchewan fertilizer exports is forecast to rise by 17% this year before levelling off in 2014, driven by surging potash. Canada's potash production is set for major increases with the Cory and Allan mine expansions coming online and thanks to BHP Billiton's decision to invest USD 2.6 billion in its Jansen potash mine. However, the short-term forecast is challenged by falling prices and global oversupply. Potash prices have fallen because of fears about the potential Russian departure from the potash market's supply-managing arrangement. Saskatchewan will see an impressive rise in fertilizer shipment volumes, driven by a rebound in US and Indian demand for potash, however because of falling prices, overall export growth will be essentially flat for 2013 followed by a 6% decline next year.

Energy exports will expand by a modest 2% this year before accelerating to 4% in 2014, as small increases in crude volumes are counterbalanced by softening prices. Robust investment and drilling activity will continue through the forecast horizon; however, major additions to production capacity will come online only after 2014.

Provincial Stats

GDP
CAD 75 bn

International Exports/GDP
44%

Number of Exporters
912

Canada's Total Exporters
40,771

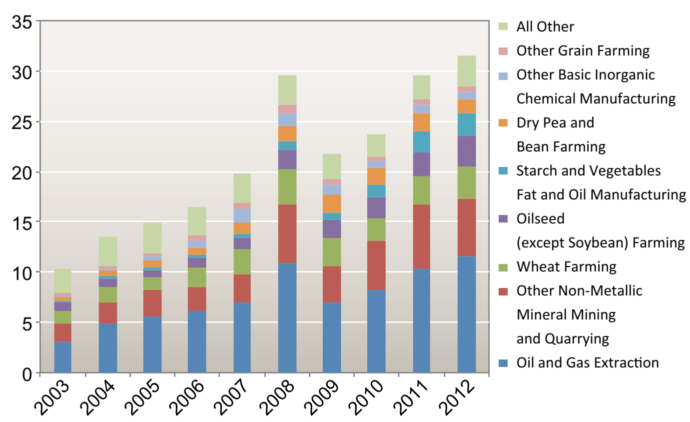
Trade Balance
CAD 20.3 bn

Largest Export Destinations
United States 64%
China 8%
Japan 4%
Indonesia 3%
Mexico 2%

Share of Exports to Emerging Markets
2012: 25%
2008: 24%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 31%
Regional Diversification: 43%

Figure 42: Saskatchewan Exports Back Above Pre-Crisis Levels



Source: Statistics Canada

Table 25: Saskatchewan Merchandise Outlook

Top Sectors	CAD mn 2012	% Share of Province's Total Exports 2012	Export Outlook (% growth) 2012	2013(f)	2014(f)
Energy	12,918	39.8	22.7	2	4
Agri-Food	11,139	34.3	9.5	8	4
Fertilizers	5,905	18.2	-9.9	0	-6
Chemicals/Plastics	688	2.1	-21.0	-15	3
All Others	1,836	5.7	28.6	8	9
Total	32,486	100.0	9.9	4	2
Total excl. energy	19,567	60.2	2.9	5	2

Source: Statistics Canada, EDC Economics

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4.9 Alberta

Alberta's exports will expand by a healthy 9% in 2013, in spite of the severe flooding that stalled economic activity this past summer. A further 5% gain is expected in 2014. Energy will drive the increases in both years, though foreign sales in all subsectors will benefit from a combination of stronger volumes, pricing and a weaker Canadian dollar. The discount between the price of Alberta crude and West Texas Intermediate (WTI) will gradually narrow while natural gas price gains will also lift energy sales. Most key subsectors with the exception of agri-food and machinery and equipment (M&E) will show solid gains this year followed by moderation in 2014.

The transportation and refinery constraints that led to sharp crude discounting are being addressed. The industry is managing to increase shipments to the US through expanding rail capacity and creative use of existing pipelines. However, PAD 2 refiners have not yet reconfigured to take on heavier crude. As a result, the spread between Alberta crude and WTI will narrow only gradually, decreasing to about USD 10/bbl by late 2015. Despite these challenges, the value of Alberta crude exports will rise by 7% in 2013 and 7% in 2014.

US natural gas prices have settled around USD 3.70/mmbtu on the Henry Hub. This alongside the weaker Canadian dollar will lift Alberta's natural gas export earnings by 36% this year and 4% next year. Nevertheless, export volumes will decline in 2014 as natural gas rigs are redeployed to more profitable crude oil production.

Industrial goods exports will jump 14% this year and 2% next year driven largely by the increase in chemical shipments. China's growing presence in the fertilizer market is denting prices, and the province will be hard pressed to boost volumes next year due to global oversupply. Softer pricing will also reduce exports of metals and minerals both this year, and again next year. The agri-food sector will show mixed results, with cattle and wheat exports up significantly this year while pulse crop sales are slipping. Overall agri-food sales will be flat in 2013 and post a modest gain in 2014. Notwithstanding the US industrial recovery, overall sales of M&E are being dragged lower due to slumping global mining activity.

Provincial Stats

GDP
CAD 295 bn

International Exports/GDP
33%

Number of Exporters
3,851

Canada's Total Exporters
40,771

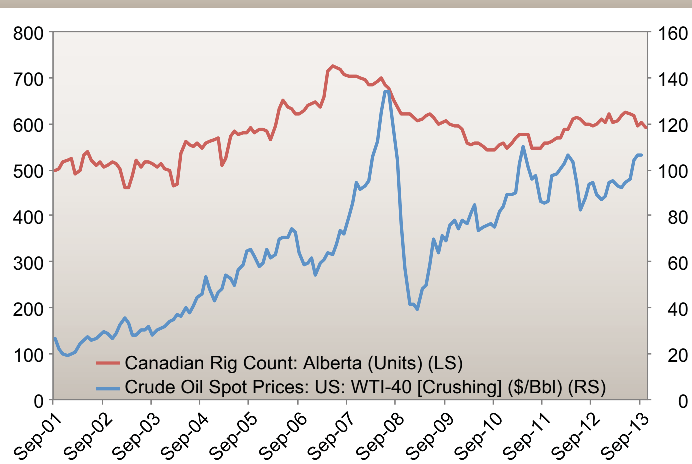
Trade Balance
CAD 69.8 bn

Largest Export Destinations
United States 87%
China 4%
Japan 2%
Mexico 1%
South Korea 1%

Share of Exports to Emerging Markets
2012: 8%
2008: 7%

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

Figure 43: Alberta Rig Count vs. WTI Prices



Source: Haver Analytics.

Table 26: Alberta Merchandise Outlook

Top Sectors	CAD mn	% Share of Province's Total Exports		Export Outlook (% growth)	
	2012	2012	2012	2013(f)	2014(f)
Energy	68,753	72.5	1.5	10	6
Industrial Goods	9,480	10.0	-7.1	14	2
Agri-Food	9,101	9.6	13.9	0	2
M&E	4,496	4.7	2.9	0	6
Forestry	2,160	2.3	5.6	8	8
All Others	883	0.9	-1.7	3	6
Total	94,873	100.0	1.8	9	5
Total excl. energy	26,120	27.5	2.4	6	3

Source: Statistics Canada, EDC Economics

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4.10 British Columbia

British Columbia's export growth is expected to be among the strongest of all provinces: 8% and 12% forecast for 2013 and 2014, respectively. This forecast is driven by projected double-digit, back-to-back growth surges in the forestry sector and in the industrial goods sector, which includes ores, metals and other merchandise. Energy exports, which are set to decline in 2013, are expected to bounce back in 2014 as coal demand recovers.

The continuing recovery of the US housing market is the source of the impressive growth of BC's forestry exports. US housing starts are forecast to grow by 25% in 2013 and then by nearly 28% in 2014, driving demand and prices for lumber. A recovery in China's construction sector after a slowdown in 2012 is also increasing demand. However, the final regulations that Japan settles on for its "wood points stimulus program" may hamper lumber exports to the country in 2014 and beyond.

Energy exports will decline by 4% in 2013 before bouncing back to 7% growth in 2014. A decline in prices has led to a sharp drop in exports for coal, the largest energy subsector. After shrinking by nearly 25% this year, we expect that coal exports will grow by more than 5% in 2014 as Asian demand for metallurgical coal strengthens and global coal supply shrinks due to the closure of higher-cost mines. Natural gas exports will also grow by a whopping 39% in 2013 and another 9% the following year, due to price increases.

Additional capacity and the opening of new mines are expected to lead to growth in the industrial goods sector of 10% in 2013 and a 14% gain in 2014. Specifically, the Mt. Milligan mine will enter commercial production of copper ore and gold in the fall of 2013, Gibraltar expanded its capacity in 2013 and Red Chris is expected to open in the first half of 2014. In addition, Rio Tinto has announced future plans to expand its aluminum smelter in Kitimat. The recovery of the US economy and a weakened Canadian dollar will result in solid growth for the province's M&E and agri-food sales in both 2013 and 2014.

Provincial Stats

GDP
CAD 218 bn

International Exports/GDP
23%

Number of Exporters
6,060

Canada's Total Exporters
40,771

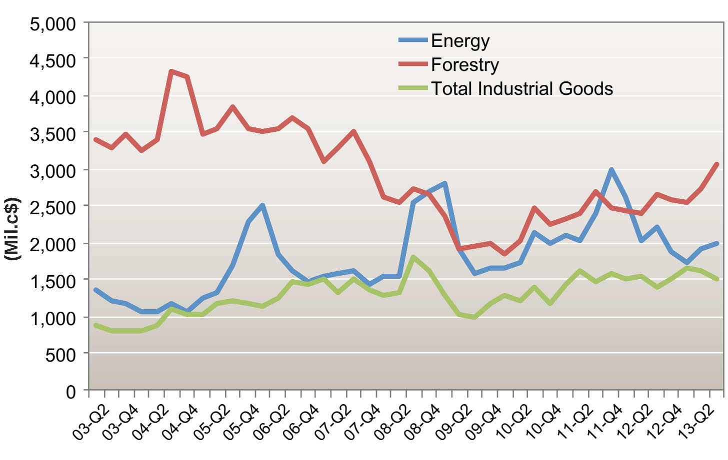
Trade Balance
CAD (6.4) bn

Largest Export Destinations
United States 45%
China 18%
Japan 13%
South Korea 6%
Taiwan 2%

Share of Exports to Emerging Markets
2012: 28%
2008: 15%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 23%
Regional Diversification: 27%

Figure 44: Key Export Sectors



Source: Haver Analytics

Table 27: British Columbia Merchandise Outlook

Top Sectors	CAD mn 2012	% Share of Province's Total Exports 2012	Export Outlook (% growth) 2012	2013(f)	2014(f)
Forestry	10,116	32.3	1.8	16	18
Energy	8,120	25.9	-19.2	-4	7
Industrial Goods	6,256	20.0	-4.1	10	14
M&E	2,645	8.4	10.0	6	6
Agri-Food	2,729	8.7	9.4	11	6
All Others	1,441	4.6	12.1	8	7
Total	31,307	100.0	-4.2	8	12
Total excl. energy	23,187	74.1	2.4	12	13

Source: Statistics Canada, EDC Economics

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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 O

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

negative –

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

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negative

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

5.1 Experience and Attitude

Algeria

Risk Level

Short-term commercial:	Medium
EDC payment experience 2012:	Negative: (–)

Comments

The economy will see average growth of approximately 3% in 2013, driven by modest projected increases in oil and gas production. The non-hydrocarbons sector of the economy will see higher growth, driven by continued government spending on infrastructure projects. FX reserves remain very high at an estimated 37 months' import cover. Negative factors include high inflation and payment delays from public sector entities. Delays are being exacerbated by political uncertainty resulting from presidential succession concerns.

Angola

Risk Level

Short-term commercial:	Medium-High
EDC payment experience 2012:	Positive: (+)

Comments

Angola's impressive economic growth (9% in 2012) is driven by increases in oil production and buoyant prices. However, the economy remains highly dependent on oil (50% of GDP and 90% of foreign exchange earnings) and is thus exposed to price fluctuations; oil price drops have often led to foreign exchange shortages and payment difficulties in Angola. The August 2012 elections led to the re-election of the ruling party and president, providing a degree of short-term continuity. High levels of corruption and a cumbersome bureaucracy pose challenges to commercial operations.

Argentina

Risk Level

Short-term commercial:	Medium-High
EDC payment experience 2012:	Positive: (+)

Comments

Imports and convertibility controls in place require importers to request permission from the Tax Agency (AFIP) to be able to import goods and to access USDs for payment to exporters. This process increases the uncertainty around what goods would be allowed into the country as well as the risk of payment delays or default to exporters. The Economics and Political Intelligence Centre (EPIC) does not rule out a devaluation of the currency in the next 12 months. The business environment is vulnerable to unpredictable regulatory changes.

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positive +

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

neutral O

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

negative –

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

Armenia

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2012: Insufficient Data

Comments

The Armenian economy is slowing in 2013 after a very robust 7% growth rate last year. Inflation will likely remain within the central bank's target, and some monetary easing is likely during the year – which could put some downward pressure on the dram. Country conditions are strongly tied to the Russian economy.

Australia

Risk Level

Short-term commercial: Low
EDC payment experience 2012: Positive: (+)

Comments

Despite last year's announced cutbacks to large resource sector projects, the economy and operational environment remain sound. Companies feeding into large resource and infrastructure projects could experience delays or scope reductions. The strong AUD and high wages continue to pose problems for the non-mining sector industries, especially manufacturing, tourism and retail. Payment experience remains excellent.

Azerbaijan

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2012: Positive: (+)

Comments

Energy production has been slowing, thus weighing on growth; however, the non-energy component of the economy has been expanding rapidly and will underpin growth this year and next. The current account is quite liberal; the country is awash in foreign currency reserves, and there are, therefore, minimal risks to the manat peg (USD/EUR peg).

Bahamas

Risk Level

Short-term commercial: Low
EDC payment experience 2012: Positive: (+)

Comments

Real GDP growth ratios are expected to reach over 2% in 2013 and payment experience remains positive; however, downside risks to the economy include rising debt levels, a weak outlook for the country's important tourism sector and growing debt levels.

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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 O

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

negative –

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

Bahrain

Risk Level

Short-term commercial:	Medium
EDC payment experience 2012:	Negative: (–)

Comments

Short-term risks are somewhat shaped by frequent protests; however, demonstrations are unlikely to cause significant business disruptions in the short term as protests are generally confined to areas outside the capital. Little progress has been made by the government to achieve political reconciliation and ease communal tensions, but a serious deterioration in the local economy and the credit worthiness of local buyers is unlikely. The currency peg is not expected to change and FX reserves will remain sufficient at 3.5 months' import cover.

Bangladesh

Risk Level

Short-term commercial:	Medium-High
EDC payment experience 2012:	Positive: (+)

Comments

Import cover has improved, but even with the buffer of an IMF program (April 2012) markets could react negatively to unexpected shocks – meaning capital flows could leave the market abruptly. Firm oil prices, oil subsidies and soft global growth (EU) are key risks.

Barbados

Risk Level

Short-term commercial:	Medium
EDC payment experience 2012:	Positive: (+)

Comments

The economic profile is weakening, reflected by high unemployment, tepid growth and rising debt levels. However, there is consensus on pursuing fiscal consolidation policies and payment experience remains positive.

Bolivia

Risk Level

Short-term commercial:	Medium-High
EDC payment experience 2012:	Positive: (+)

Comments

Dollarization remains high, which constrains monetary policy and constitutes a vulnerability to the banking system. Political fragmentation and the potential for social unrest have negative impacts on private sector operations. Indicators for regulatory quality, rule of law, and ease of doing business depict a very challenging business environment.

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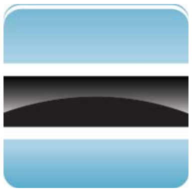

Botswana

Risk Level

Short-term commercial: Low
EDC payment experience 2012: Positive: (+)

Comments

Weak demand for diamonds, given the recession in Europe, has weighed on growth, but the economy has picked up in 2013. FX reserves are sufficient and the domestic currency (Pula) is expected to remain stable. Botswana stands out as having a good operating environment, and the country ranks as one of Africa's least corrupt countries. The banking sector is also relatively stable.

Brazil

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Negative: (–)

Comments

A high level of international reserves and a well-capitalized banking sector will result in overall benign liquidity conditions for the commercial sector. Non-performing loans have stabilized but remain relatively high, which warrants continuous monitoring. Payment experience varies considerably, depending on the sector. For instance, the fertilizers- and forestry-related sectors tend to experience payment delays when there are downward pressures on the currency.

Bulgaria

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments

Political stability has deteriorated and ongoing anti-government protests are expected to persist; however, EU membership will provide a solid policy anchor. Economic conditions will remain weak with growth in 2013 expected to be a tepid 1%. High unemployment, fiscal austerity, tight credit conditions and weak demand from Europe are all contributing to the challenging economic situation. FX reserves remain at comfortable levels and the currency peg to the euro is stable.

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Cameroon

Risk Level

Short-term commercial:	Medium
EDC payment experience 2012:	Insufficient Data

Comments

Cameroon runs persistent current account deficits and its principal exports (oil exports, wood and cocoa) are sensitive to changes in global prices. The regulatory environment and legal system can be unreliable. Cameroon's financial sector also remains fragile. A positive factor is that Cameroon's membership in the CFA franc zone provides a degree of stability related to exchange rate fluctuations and access to foreign exchange. The political system is dominated by President Biya, with the opposition resigned to the status quo. Policy continuity is likely to be maintained in the short term.

Chile

Risk Level

Short-term commercial:	Low
EDC payment experience 2012:	Positive: (+)

Comments

The commercial sector benefits from strong liquidity (international reserves equivalent to 5 months of imports), as well as a developed banking system and a stable currency. The economy is very dependent on copper exports (50% of total exports); however, the existence of a counter cyclical policy framework together with the Stabilization Fund should help mitigate against external shocks.

China

Risk Level

Short-term commercial:	Medium
EDC payment experience 2012:	Positive: (+)

Comments

Monetary and credit loosening has begun as economic growth appears to be softening – settling around 7.5% this year. Certain sectors, like the residential property and downstream sectors, as well as SMEs, remain under stress. Localized protests over free speech, working conditions, environmental issues, and land ownership can be expected, but should not pose a threat to the commercial environment.

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Colombia

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments
Liquidity and access to the USD is good. Economic growth will remain around potential (4 to 4.5%). The Colombian peso has finally begun softening after being one of the fastest-appreciating currencies over the past decade. Recent payment experience is reported as good.

Costa Rica

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments
Short-Term Commercial risk is assessed as Medium, as liquidity and access to FX are good (almost 6 months of import cover). The central bank intervention will ensure exchange rate stability. The rating reflects a balance between positive conditions (growing economy and improving business conditions) and a positive EDC payment experience.

Côte d'Ivoire

Risk Level

Short-term commercial: High*
EDC payment experience 2012: Insufficient Data

Comments
The government is supportive of FDI, but it will take some time before transparency and accountability take root. Arrears have also been an issue and will take time to clear. Payment delays of up to 3 months are not out of the ordinary. GDP growth rates are strong (7% for 2013) as the economy continues to recover from the 2011 political crisis. Foreign exchange reserve levels are at a comfortable 3.6 months.

Croatia

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments
The economy has been in recession for 5 years but is projected to return to positive growth in 2014. The financial sector is dominated by foreign banks, and is quite sound; however, NPLs are on the uptick and many companies have significant exposure to FX risk. The kuna will face downside risk in 2013, as high foreign debt servicing requirements and mounting risk aversion result in selling pressure. Croatia joined the EU in July 2013.

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Czech Republic

Risk Level

Short-term commercial:	Low
EDC payment experience 2012:	Positive: (+)

Comments

GDP growth has weakened and the economy is expected to grow just 0.1% in 2013. Ongoing fiscal austerity, anemic employment conditions and weak demand from Eurozone trading partners will weigh on growth over the coming quarters, and an uptick in NPLs is expected. The weaker Koruna has helped export competiveness and, while further downside risk in 2013 is possible, minimal FX-denominated debt among households and business mean a limited impact on the domestic economy. Payment experience has been reported as good.

Dominican Republic

Risk Level

Short-term commercial:	Medium
EDC payment experience 2012:	Positive: (+)

Comments

Liquidity concerns are present with import cover below 3 months; however, access to capital markets will prevent any crisis. A withdrawal of government spending has meant low growth this year while inflation stays within the 4 to 6% target. Payment experience is considered fair to good.

Ecuador

Risk Level

Short-term commercial:	Medium-High*
EDC payment experience 2012:	Positive: (+)

Comments

International reserves are equivalent to 2 months of import cover, leading to cash flow issues for private buyers when the country faces oil price fluctuations. This is exacerbated by the country's limited access to international capital markets. That said, it is unlikely that Ecuador will abandon dollarization over the short term. Due to these cash flow issues, payment experience tends to be better with buyers that are also exporters.

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Egypt

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2012: Insufficient Data

Comments

Aid inflows from the conservative Gulf monarchies, who supported the July 2013 military overthrow of Egypt's first elected Islamist president following massive street protests, have propped up foreign reserves to an amount equal to 4 months' import cover. However, Egyptian society is still deeply polarized and political violence risk has increased. Currency controls are still in effect, lengthening the time it takes for companies in Egypt to acquire hard currency and driving up the risk of non-payment from Egyptian buyers.

El Salvador

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments

As a result of low investment, weak competitiveness and weather-related incidents, depressed growth of only 1.6% is expected this year. The start of a recovery in the US should help boost remittances from foreign workers, which the Salvadoran economy is dependent upon.

Equatorial Guinea

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2012: Insufficient Data

Comments

This country is relatively oil-rich, producing 250,000 to 300,000 barrels per day, but elevated levels of public and private corruption increase risks. Oil exports account for about 75% of GDP, exposing the country to price volatility. Wealth and power is concentrated in the hands of a small elite surrounding the president, who has been in power since 1979. Authorities appear to be moving toward diversifying their revenue stream and creating growth-enhancing investments to address growing domestic tensions and pressure from the IMF and the African Union.

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Estonia

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments

The economy is projected to continue expanding at a healthy pace – around 3% this year and again in 2014. Estonia's main trading partners are the Nordic countries and Germany, which makes it less exposed to the crisis in Europe. Non-performing loans are falling and domestic credit conditions improving. Estonia's currency is the euro and FX risk is minimal.

Ethiopia

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2012: Positive: (+)

Comments

Hard currency has become increasingly scarce, with the country's FX reserves hovering below 3 months' import cover. Despite soaring gold exports, the current account will remain in deficit due to falling sales of coffee and other agricultural products. The Ethiopian birr (local currency) is set to devalue by another 20% against the USD. Economic growth will, however, continue to be robust with estimates for 2013 growth at 7%.

France

Risk Level

Short-term commercial: Low
EDC payment experience 2012: Positive: (+)

Comments

The French economy has slowed markedly with GDP expected to grow just 0.2% in 2013, while business confidence is weak. Lending remains tight and the top French banks have been downgraded because of exposure to the troubled countries of Peripheral Europe.

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Gabon

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Negative: (–)

Comments
Short-term risk is driven primarily by the economy's small size and lack of economic diversification. Oil production accounts for 50% of GDP, 60% of government revenue and 80% of exports. Payment delays of 1 to 2 months are reported to be the norm. On the upside, Gabon's level of FX reserves is high at 6 months' import cover.

Georgia

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2012: Insufficient Data

Comments
Georgia's large current account deficit, its dependence on private capital inflows and a challenging external environment are the key risk drivers. However, the economic outlook is positive, thanks to an improving business climate, reduced corruption, and a relatively healthy banking sector. Growth is expected to decelerate slightly this year due to ongoing weak demand from regional export markets.

Germany

Risk Level

Short-term commercial: Low
EDC payment experience 2012: Positive: (+)

Comments
Germany is the safe haven of Europe with its healthy public finances, large current account surpluses, and highly competitive and dynamic business sector. German GDP growth will slow to around 1% in 2013. Payment experience is excellent.

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Ghana

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2012: Positive: (+)

Comments

Short-term risks are heightened by Ghana's commodity export-dependent economy. FX reserves are low at an estimated 2.5 months' import cover and are not expected to improve in the short term. High interest rates and short-term issues with the domestic power supply are taking a toll on the private sector. Arrears by the government to local contractors are also a pain point for local companies. That said, increased oil production will likely drive growth to the tune of 8% in 2013.

Greece

Risk Level

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

Comments

The Greek economy is in the midst of a severe recession, with GDP contracting by 20% over the previous 4 years; this contraction is expected to continue in 2013. Record numbers of businesses are closing and unemployment has reached 25%. Between 15% and 20% of business loans are non-performing, as companies are dealing with a collapse of domestic demand. The business environment remains highly stressed.

Guinea

Risk Level

Short-term commercial: High
EDC payment experience 2012: Insufficient Data

Comments

Guinea's import cover is only slightly above 1 month, increasing the likelihood of payment delays. A poor regulatory regime and weak rule of law create an environment that presents transparency and accountability challenges. Renewed political instability has flared up as a result of legislative elections held in September 2013.

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Haiti

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2012: Positive: (+)

Comments

The economy is highly dependent on international donor funds. Foreign exchange reserves are at adequate levels.

Hong Kong

Risk Level

Short-term commercial: Low
EDC payment experience 2012: Positive: (+)

Comments

FX reserves are more than adequate to finance roughly 4X external debt – thus access to capital (foreign exchange) should not be a problem for local companies. The money supply is also covered by FX reserves, so currency stability will remain.

Hungary

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments

The Hungarian economy slipped back into recession in 2012 and will continue to contract in 2013. Alongside the challenging economic conditions, financial pressures are also mounting, which will put downward pressure on the forint and increase pressure on the beleaguered banking sector, where non-performing loans are rising to high levels. The possibility of assistance from the IMF has evaporated, and the country will need to roll over significant amounts in the international financial markets in 2013.

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India

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments

Fairly high inflation rates and an already large fiscal shortfall leave the authorities little room to significantly stimulate growth through either a credit loosening or a boost in government spending. Fortunately, FX reserves are quite high, suggesting that companies should be able to service foreign debt obligations on time. The currency will remain weak over the coming 12 to 24 months.

Indonesia

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments

The currency is likely to remain under pressure in the short term due to capital market volatility and weaker Indonesian exports. The central bank will intervene in FX markets to stabilize the currency as well as use administrative tools to control sudden portfolio swings. FX reserves remain adequate. High levels of corruption, weak rule of law and regulatory ambiguity pose challenges for foreign businesses. Obtaining permits/approvals across government departments and provinces could become complicated.

Iraq

Risk Level

Short-term commercial: High*
EDC payment experience 2012: Positive: (+)

Comments

Poor commercial morality, high levels of corruption and administrative inefficiencies drive up payment risks. Payments from government entities are often delayed due to slow approval systems. However, the ability to pay is strong, in the case of government entities. Iraq has ample FX reserves and is benefiting from increases in crude production. Outlooks for currency and inflation are stable.

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Israel

Risk Level

Short-term commercial:	Low
EDC payment experience 2012:	Neutral: (O)

Comments

Israel will continue to see growth, albeit at a slower pace than in recent years, due to the slow-down in Europe, one of the country's main trade partners. The current account balance will see an improvement this year as new offshore gas production comes online. FX reserves remain strong at 9 months' import cover. While political violence levels are elevated, the Israeli economy has shown itself to be highly resilient during recent conflicts, which had relatively low impacts on commercial activity.

Italy

Risk Level

Short-term commercial:	Medium
EDC payment experience 2012:	Neutral: (O)

Comments

Italy is challenged by a weak economy, with GDP forecast to contract again – by 1.2% in 2013. The recent decline in risk spreads on Italian debt has reduced the pressure on Italian banks, but markets remain nervous and the domestic credit conditions are tight.

Jamaica

Risk Level

Short-term commercial:	Medium
EDC payment experience 2012:	Positive: (+)

Comments

The Jamaican dollar has depreciated slightly on the back of uncertainty with respect to the implementation of an IMF program; any significant loss in confidence could negatively impact the currency and ultimately the liquidity profile. Banks should continue to be monitored for signs of stress, given their significant exposure to sovereign debt.

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Japan

Risk Level

Short-term commercial:	Low
EDC payment experience 2012:	Positive: (+)

Comments

Embattled Japanese exporters who have been complaining of a strong yen are welcoming the recent depreciation of the currency due to aggressive and unorthodox central bank policies. However, the yen's safe haven status will prevent the currency from depreciating continuously throughout the outlook period, and more volatility is likely. Credit risks could increase among SMEs connected to some large electronic companies undergoing restructuring and cost cutting. Finances of companies heavily reliant on China may come under pressure due to tensions over territorial disputes.

Jordan

Risk Level

Short-term commercial:	Medium
EDC payment experience 2012:	Neutral: (O)

Comments

Import cover (4.5 months) remains below the recent historical average, as the interruption of fuel deliveries from Egypt has required the government to make purchases on the open market. A decline in tourism and the closing of some land trade routes to the country ensure that economic growth is expected to remain below 3.5% in the short term. The large number of refugees from Syria continue to exert a large burden on government services and existing infrastructure.

Kazakhstan

Risk Level

Short-term commercial:	Medium-High
EDC payment experience 2012:	Positive: (+)

Comments

The banking sector has yet to fully recover from its 2009 crisis, and at the end of 2012 over one-third of banks' loans were non-performing. Poor credit quality will continue to limit banks' willingness to lend; thus, access to credit will remain tight in 2013. However, overall macroeconomic conditions are robust, and economic growth is projected to accelerate slightly this year (to 6%) due to an increase in oil production. A large current account surplus and steady foreign investment into the country have allowed for a significant build-up in FX reserves, which minimizes exchange rate risk.

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Kenya

Risk Level

Short-term commercial:	Insufficient Data
EDC payment experience 2012:	Positive: (+)

Comments

Kenya's economy will continue to expand at a healthy pace with a forecast of 5% GDP growth for 2013. Consumer demand will drive the economy as interest rates moderate in line with inflation. The shilling is also expected to remain stable and FX reserves remain comfortable at over 4 months of import cover. The March elections passed smoothly as concerns around election-related violence did not materialize; however, the September terror attack underlines ongoing security risks.

Kuwait

Risk Level

Short-term commercial:	Low
EDC payment experience 2012:	Negative: (–)

Comments

Softening global oil prices and somewhat lower crude oil exports will reduce growth to around 1% in 2013. There is ample import cover and the current account is expected to remain in surplus. Kuwait's politics are volatile, with constant power struggles between Parliament and the executive causing frequent Cabinet shuffles and elections. Tensions between the government and opposition politicians who boycotted the election in December 2012 remain elevated, but disruptions to commerce are unlikely to result.

Kyrgyzstan

Risk Level

Short-term commercial:	High
EDC payment experience 2012:	Positive: (+)

Comments

The security situation has been deteriorating in 2013, with the president declaring a state of emergency in May following violent protests against the largest gold mine in the country (Canadian owned). Heightened political uncertainty and a deteriorating operating environment will weigh on growth this year and next. Plummeting gold prices will also be a major drag on export receipts – an important source of FX inflows for Kyrgyzstan.

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Lebanon

Risk Level

Short-term commercial: Medium-High*
EDC payment experience 2012: Positive: (+)

Comments

The country remains deeply divided along religious lines, with Parliament unable to form a stable government. Elections initially scheduled for July 2013 have been delayed 17 months, to November 2014. A number of Lebanese groups are actively involved in the Syrian civil war. The country recorded a record budget deficit of 9.1% of GDP in 2012. Domestic banks hold a large share of the country's debt, limiting the scope for growth in private sector credit.

Libya

Risk Level

Short-term commercial: High
EDC payment experience 2012: Negative: (–)

Comments

Despite substantial FX reserves, payment risk remains elevated. In some cases, public sector entities have not shown a capacity to make timely payments, possibly due to administrative disorder and poor public management. In addition, the private sector will remain constrained by limited access to bank financing. Ongoing political and criminal violence as well as strikes also pose a challenge to the commercial environment, specifically in the oil sector.

Lithuania

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Negative: (–)

Comments

Economic growth has been healthy, especially considering the crisis in Europe, but leading indicators point to a slowdown in the second half of 2013. Strong investment inflows have more than offset the small current account deficit, leaving liquidity conditions comfortable. Domestic credit conditions, however, remain strained and data show a spike in bankruptcies during the first half of 2013. Euro adoption remains on the agenda and is expected in 2014.

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Malaysia

Risk Level

Short-term commercial: Low
EDC payment experience 2012: Positive: (+)

Comments

Economic growth is supported by exports and FDI that feeds into the export sector. The business environment is maturing and ranks quite favourably compared to regional peers. Infrastructure in particular and close links to Singapore are strong points. A slowdown in the global economy can impact exports, as seen over the first half of 2013. Balance of payment risks are unlikely given FX reserves and external debt profile. Even though the opposition may continue to agitate, the conclusion of the elections will be welcome news to businesses.

Mali

Risk Level

Short-term commercial: High
EDC payment experience 2012: Positive: (+)

Comments

Mali is a commodity export-dependent, low-income economy that has only recently emerged from a military coup (2012) as well as conflict with Islamist rebels in the country's north (2013). Continued tension between the central government and a northern minority group could trigger additional crises. However, the recent election of a new civilian president is a positive step forward. Mali's economy, which contracted in 2012, has also recovered from the crisis, bolstered by the resumption of donor support as well as increased gold and cotton production. Reserves are at over 3 months' import cover.

Mauritania

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2012: Positive: (+)

Comments

Mauritania is heavily reliant on its oil, fish and iron ore exports, though output varies greatly and revenue from these activities is unstable. On a positive note, previously hefty current account deficits, stemming from oil sector-related capital imports and activities, have narrowed in recent years and are slated to stay well below historic levels over the medium term. Still, political instability and regional Islamist militant activity by Al-Qaeda in the Islamic Maghreb (AQIM) mark some of the most serious domestic challenges facing the country and make for a challenging environment in which to do business.

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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

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Mauritius

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments
The small dynamic economy avoided recession during the last crisis, and while growth is currently slowing from adverse global conditions (particularly strong trade links with Europe), it will continue to post healthy GDP growth rates of around 4% in 2013. FX reserves remain comfortable, and with inflation subdued currency stability is expected over the next year.

Mexico

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments
Economic growth was slow this year driven by a fall in construction spending and stagnant manufacturing exports to the US. The country has an adequate level of foreign reserves (equivalent to 3.9 months of import cover), a flexible exchange rate, low financial dollarization, and a sound banking sector.

Mongolia

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2012: Positive: (+)

Comments
Inflation moderated from double-digit highs in 2012, but remains a concern for authorities and companies. The fifth-largest bank was taken over by the central bank in July 2013, highlighting banking sector weaknesses due to excessive credit growth over the past few years. FX reserves were boosted by a large international bond issuance in late 2012. The current account deficit is surging due to machinery and equipment imports, which were typically financed by FDI – although FDI has dwindled down in H1-13 due to populist rhetoric and policies.

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negative −

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Morocco

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments

Real GDP is forecast to grow over 3% in 2013, an improvement on last year's lackluster 2.5% growth. The main drag on growth is the reduced demand for Moroccan minerals (phosphates) from trade partners in Europe and lower tourism receipts due to the economic downturn in Europe. Agricultural exports are likely to recover from low 2012 levels which were linked to drought. FX reserves are expected to remain comfortable at 4 months' import cover.

Mozambique

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2012: Insufficient Data

Comments

Robust economic growth will persist over the medium term, and opportunities in the extractive (gas and coal) and infrastructure sectors are significant. The key risks are related to the weak commercial environment, which is characterized by corruption, a weak legal system and some FX surrender requirements. The development of the oil and gas sectors and related infrastructure has led to a spike in imports and in a growing current account deficit.

Namibia

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments

The economy will continue to expand at a healthy, albeit decelerating, pace for the next 24 months, with a forecast of approximately 4% GDP growth in 2013. As part of the Common Monetary Area, FX risks are mitigated and Namibia's peg to the South African rand is expected to remain in place over the next 24 months. The economy is heavily dependent on mining sector production and is closely intertwined with that of South Africa, which is the country's main trading partner.

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Netherlands

Risk Level

Short-term commercial:	Low
EDC payment experience 2012:	Positive: (+)

Comments

Payment experience is excellent.

Nigeria

Risk Level

Short-term commercial:	Medium-High
EDC payment experience 2012:	Positive: (+)

Comments

Short-term risks are driven by poor governance (e.g. heightened corruption and lack of transparency) and a weak regulatory environment. That said, Nigeria's economic fundamentals are generally strong. Sustained oil production and non-oil activity will drive overall growth at a rate of 7% in 2013. Nigeria's infrastructure, including but not limited to its electricity supply, is considered inadequate and will remain a drag on overall growth in the short term.

Oman

Risk Level

Short-term commercial:	Low
EDC payment experience 2012:	Positive: (+)

Comments

The government responded to the Arab Spring by increasing public sector wages and unemployment benefits, expanding the number of subsidies and creating more than 36,000 public sector jobs in 2012. In addition to this fiscal stimulus, the economy is also benefiting from loose monetary conditions and a continued peg to the US dollar. Growth is expected to remain around 5% in 2013. Oil exports, which underpin the economy, are primarily oriented to Asia. FX reserves remain stable, with import cover at 5 months.

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Pakistan

Risk Level

Short-term commercial: Medium-High*
EDC payment experience 2012: Positive: (+)

Comments

Economic, security, and political risks all remain elevated. Pressure on FX reserves will continue to intensify with heavy debt repayments coming due in 2013. Risks of a balance of payment crisis are rising, and failure to secure an IMF agreement will mean rising payment delays at the very minimum.

Panama

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2012: Positive: (+)

Comments

Panama's fully integrated banking system remains sound. Credit quality, capitalization and liquidity levels are comfortable, and it's highly unlikely for the country to abandon dollarization. The drop in food and fuel prices has reduced inflation, which remains above 5%. Strong growth is expected to continue with canal expansion. Good payment experience is reported.

Peru

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2012: Positive: (+)

Comments

Despite a relative deceleration due to a slowdown in China and a slump in metal prices, growth is expected to reach 6% this year driven by continued consumption and investment. Ample FX reserves mitigate the economy's vulnerability to commodity price fluctuations. The sol will continue to depreciate as US quantitative easing is reduced.

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Philippines

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments

Domestic demand and remittances have cushioned the slack from slowing external demand. Access to peso liquidity appears comfortable and FX reserves remain very robust. Hot money inflows and strong remittance flows are boosting the peso; the central bank has relaxed FX rules for locals in an effort to stem this appreciation. Growth prospects remain quite strong until 2016. Outside main cities, the business environment can pose challenges: bureaucratic and local-level government capacity issues can cause considerable delays and challenges. Corruption is still a challenge for foreign businesses.

Poland

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments

Despite the challenges of a tough economic environment in Europe, GDP growth will slow to only about 1.7% in 2013; Poland will remain one of the rare bright lights of Europe, thanks primarily to still-healthy domestic demand. However, Poland is not immune to spillover effects from the European debt crisis.

Portugal

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Negative: (–)

Comments

Portuguese companies are struggling with a tough recession, as GDP is expected to contract by 2.8% in 2013 and a further 0.5% next year. A tight credit environment is also expected because the country's banks are mostly cut off from private sector funding. Payment experience has deteriorated but is still reported as fair.

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Qatar

Risk Level

Short-term commercial:	Low
EDC payment experience 2012:	Positive: (+)

Comments

Growth has slowed compared with double-digit peaks in 2011 and will remain around the 5% mark in 2013. The currency peg to the US dollar is highly likely to be maintained. FX reserves are comfortable (over 10 months' import cover) and the current account is highly likely to remain in surplus. Domestic politics are likely to remain stable.

Romania

Risk Level

Short-term commercial:	Medium
EDC payment experience 2012:	Positive: (+)

Comments

Growth in 2012 was flat, but projections show growth picking up to 1.6% in 2013, driven mainly by domestic demand. Access to credit remains constrained as the domestic banking sector is affected by Eurozone parent banks' deleveraging; the banking sector is dominated (83%) by foreign banks, leaving the country vulnerable to spillover effects from the EMU. Caution is advised when dealing with local governments and SOEs as arrears continue to be a problem with public sector buyers.

Russia

Risk Level

Short-term commercial:	Medium
EDC payment experience 2012:	Positive: (+)

Comments

Economic growth has been weaker than expected so far in 2013 as credit growth and wage gains slow. The ruble will remain stable; changes are under way that will see the central bank allow the currency to move more freely (i.e. the bank is moving to inflation targeting rather than managing the FX rate), but this will be a gradual process and no major movements are expected this year. Liquidity conditions will continue to be favourable barring a significant drop in the oil price (which is not expected).

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Saudi Arabia

Risk Level

Short-term commercial: Low
EDC payment experience 2012: Neutral: (O)

Comments

Due to ample FX reserves, import cover is expected to remain high at 35 months. The currency peg to the US dollar is highly likely to be maintained. Despite increased geopolitical risk, major commercial disruptions are unlikely. The banking sector remains well capitalized. Growth will continue levelling off to 4% in 2013, compared with the 8.5% growth in 2011 which was driven primarily by large government spending increases.

Senegal

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Negative: (–)

Comments

Senegal's economy depends on European tourism and primary commodity exports (mostly agricultural products and seafood). Economic growth has been modest in recent years but is expected to pick up to 4% in 2013. Growth is constrained by unreliable energy and transportation networks. Relatively high fuel prices in recent years have posed a burden on the government and on businesses, forcing the state utility, which provides subsidized electricity, to run rolling blackouts. The situation is expected to improve in 2013. Reserves are sufficient at approximately 3 months' import cover.

Singapore

Risk Level

Short-term commercial: Low
EDC payment experience 2012: Positive: (+)

Comments

Singapore is a high-income, competitive, investor-friendly market. Its openess to trade and investment can also pose challenges as weakness in demand in the US, EU and other key trading partners impact domestic growth. The BoP position is expected to remain excellent given large FX reserves and trade surpluses.

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South Africa

Risk Level

Short-term commercial:	Low
EDC payment experience 2012:	Positive: (+)

Comments

The Eurozone crisis and slowing Asian demand have been weighing on South Africa's export sector, and strike action in the mining industry further dented growth in 2012. However, the banking sector is healthy and South Africa has one of the strongest commercial operating environments on the continent. The rand lost 10% of its value during 2012 and continues to depreciate, reflecting weakened investor sentiment.

South Korea

Risk Level

Short-term commercial:	Low
EDC payment experience 2012:	Positive: (+)

Comments

The economy and business environment is mature and is able to absorb most shocks. Currency volatility and potential external slowdown are key risks to the economy and export-oriented manufacturers. Banks are still dependent on short-term external credit, but substantial FX reserves and swap lines with US, Japan and China provide an adequate buffer. The trade regime is becoming more liberal, yet some trade barriers still remain – notably high tariffs for agricultural products. Greater short-term volatility could emerge should tensions further increase with North Korea.

Spain

Risk Level

Short-term commercial:	Medium
EDC payment experience 2012:	Positive: (+)

Comments

Spain is challenged by a weak economy with GDP forecast to contract again, by 1.6% in 2013, before returning to modest growth next year. Businesses face a tight credit environment as banks have struggled with huge losses from a real estate bubble. Intervention by the European Central Bank has prevented bond yields from rising to unsustainable levels, but markets remain nervous and the domestic credit conditions are tight. Payments to exporters abroad continue to be fair.

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Sri Lanka

Risk Level

Short-term commercial: Medium-High*
EDC payment experience 2012: Negative: (–)

Comments

FX reserves provide adequate import cover. Growth will rebound in 2014 and beyond. The government's fiscal and current account deficits are very large but will be mostly financed by FDI and new MLT borrowing. President Rajapaksa's back-to-back election victories (2005 and 2010), coupled with his focus on the economy after the end of the civil war, ensures political stability and policy continuity. So far, the population tolerates his autocratic leanings given the strong economic performance. Local companies may have an edge over foreign suppliers in construction.

Taiwan, Province of China

Risk Level

Short-term commercial: Low
EDC payment experience 2012: Positive: (+)

Comments

Growth appears to be recovering due to the gradually improved global outlook, while improved cross-strait relations with China are due to the KMT's improved political foothold. FX reserves cover more than 1 year of imports and a solid net creditor status will mean that payment delays should be rare.

Tanzania

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Insufficient Data

Comments

Despite ongoing acute power shortages, the economy is expected to grow by 7% in 2013, which is well above the regional average. Inflation began to moderate toward the end of 2012, and this trend is expected to continue. Growing energy needs will put pressure on the current account, FX reserves and potentially the shilling over the coming year. High levels of corruption plague the trade and commercial environment; however, the regulatory environment has undergone positive reforms recently and has resulted in a more favourable environment for foreign investors.

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Thailand

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments
The export-dependent economy remains vulnerable to global economic downturns; still, FX reserves remain adequate and BoP risks are unlikely. Rising wages and the appreciating baht appear to be causing problems for SMEs and increase payment risks. Political instability remains a concern, although business disruptions have generally been short-lived in the past.

Trinidad and Tobago

Risk Level

Short-term commercial: Low
EDC payment experience 2012: Positive: (+)

Comments
Short-term liquidity risks are considered low given the country's high levels of reserves, including the Heritage and Stabilization Fund. Downside risks to the economy include a heavy reliance on energy exports.

Tunisia

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments
FX reserves remain relatively low. Economic growth is only slowly recovering from the 2011 contraction that occurred after the revolution. Growth levels will remain subdued due to trouble in the Eurozone, which is the main destination for Tunisian exports and a source of tourists and remittance flows. Strikes and localized protests, mostly about socio-economic issues and, in some cases, related to constitutional controversies, will continue to occur frequently, sometimes causing brief business disruptions.

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Turkey

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments

Political protests were sparked in late May, when a police crackdown on an environmental group protesting the demolition of a park in Istanbul led to a public outcry. Turkey is vulnerable to a shift in investor sentiment; a reversal in the short-term capital inflows would put significant pressure on the commercial sector's ability to roll over debt. In addition to the political risks, the US Fed's indication that quantitative easing will soon be withdrawn has adversely affected the value of the lira, forcing the central bank to intervene in the market.

Turkmenistan

Risk Level

Short-term commercial: High
EDC payment experience 2012: Insufficient Data

Comments

Economic growth has been, and will continue to be, very robust (2012 GDP growth of around 10%) due mainly to investment and production in the energy sector. However, transfer restrictions are in place and the government maintains very strict control over all aspects of the economy and financial sector.

Uganda

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2012: Positive: (+)

Comments

Short-term risk is driven by the country's continued dependence on donors for financial assistance, and the recent strains on these relations. Fluctuations in the currency and chronic current account deficits place some strain on the economy, particularly given its narrow export base. The growth outlook is bright, but strong import demand related to the nascent oil industry will keep the current account deep in the red (over 10% of GDP).

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Ukraine

Risk Level

Short-term commercial: Medium-High*
EDC payment experience 2012: Insufficient Data

Comments

With the IMF program off track and market access prohibitively expensive, liquidity conditions within Ukraine are worsening (import cover is now below 3 months). The central bank has been intervening heavily in the FX market to enforce the hrynia's peg, and capital controls were introduced in late 2012. Given weak growth and large external financing needs, a devaluation of 10 to 20% is inevitable. Recent elections have done little to improve political stability and policy predictability.

United Arab Emirates

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Positive: (+)

Comments

Growth has recovered since the Dubai debt crisis, which was triggered by the global trade slowdown. It is expected to average about 2.5% in 2013. The country is highly likely to maintain a current account surplus and FX reserves, while low at between 2 and 3 months, are adequate. Some state-owned corporations in Dubai continue to face refinancing risk and could be allowed to default if they are deemed to be non-strategic by the Dubai government and fail to come to an agreement with their creditors.

United Kingdom

Risk Level

Short-term commercial: Low
EDC payment experience 2012: Positive: (+)

Comments

British companies are challenged by a weak economy, with GDP forecast to grow by just 0.5% in 2013. Businesses face a tight credit environment, as banks have struggled with huge losses from a real estate bubble. Intervention by the Bank of England has provided enormous amounts of liquidity, but markets remain nervous and the domestic credit conditions are tight. Payments to exporters abroad continue to be good.

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United States

Risk Level

Short-term commercial: Low
EDC payment experience 2012: Positive: (+)

Comments

The American private sector is in great shape, with corporate profitability at an all-time high and record amounts of cash; however, it remains cautious about investment and hiring due to uncertainty and the still fragile recovery. The housing sector is rebounding and access to credit is good, even for small business. The key risks to the outlook are cutbacks in the government sector, which could have a dampening effect on growth.

Uruguay

Risk Level

Short-term commercial: Medium
EDC payment experience 2012: Negative: (–)

Comments

A high level of dollarization leaves the country vulnerable to downward pressures on the exchange rate. In addition, many private sector buyers are exposed to Argentine risk (tourism, real estate, leather and apparel, etc.) – albeit to an increasingly lesser extent. Nonetheless, these risks are mitigated by strong bank supervision and high levels of international reserves (11 months of imports). There are currently no transfer and convertibility controls in place and the capital account is open.

Venezuela

Risk Level

Short-term commercial: Medium-High*
EDC payment experience 2012: Negative: (–)

Comments

The existence of strict controls on the convertibility and transfer of hard currency for payment of imports remains the largest strain on the business environment. With just a few exceptions, most private buyers require a "certificate of insufficient domestic production" to be able to import. State-owned buyers are not subject to this requirement. Payment delays are common and problems caused by poor port infrastructure may affect shipments, especially in the food sector. Notwithstanding the devaluation in early 2013, pressures are expected to persist.

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Viet Nam

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2012: Positive: (+)

Comments

Economic activity remains subdued given banking/financial sector weaknesses and tight credit conditions. Business failure rates still remain high. Inflationary pressures have eased, but the recent round of easing could re-kindle expectations. FX reserves have improved, though they still provide inadequate import cover. Viet Nam remains vulnerable to domestic and external economic shocks; a drop in FDI can pose a significant FX crunch and lead to increased payment delays.

Yemen

Risk Level

Short-term commercial: High
EDC payment experience 2012: Insufficient Data

Comments

The country is still experiencing a difficult transition toward democracy. Crude oil and local refined petroleum production will continue to be depressed due to pipeline outages caused by terrorist and tribal attacks. Pressure on the riyal will continue, due to the projected current account deficit. However, the economic situation will improve compared with the abysmal situation in 2011-12, with growth forecast at 4% for 2013. Transfers from Gulf donor states will also help offset the trade deficit, preventing a disorderly devaluation and supporting government spending.

Zambia

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2012: Positive: (+)

Comments

The country's heavy reliance on copper exports (70% of export earnings) leaves it vulnerable to a price correction, and rising mine production is putting a strain on infrastructure. Significant challenges in the operating environment, including corruption, also contribute to the short-term risk profile. However, macroeconomic fundamentals have been improving, and the government's success in raising USD 750 million in the Eurobond market is indicative of strong investor appetite for Zambian risk. The economy is projected to grow by almost 8% in 2013, and international reserves and debt will remain at comfortable levels.

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Latin America

Short-term payment risk

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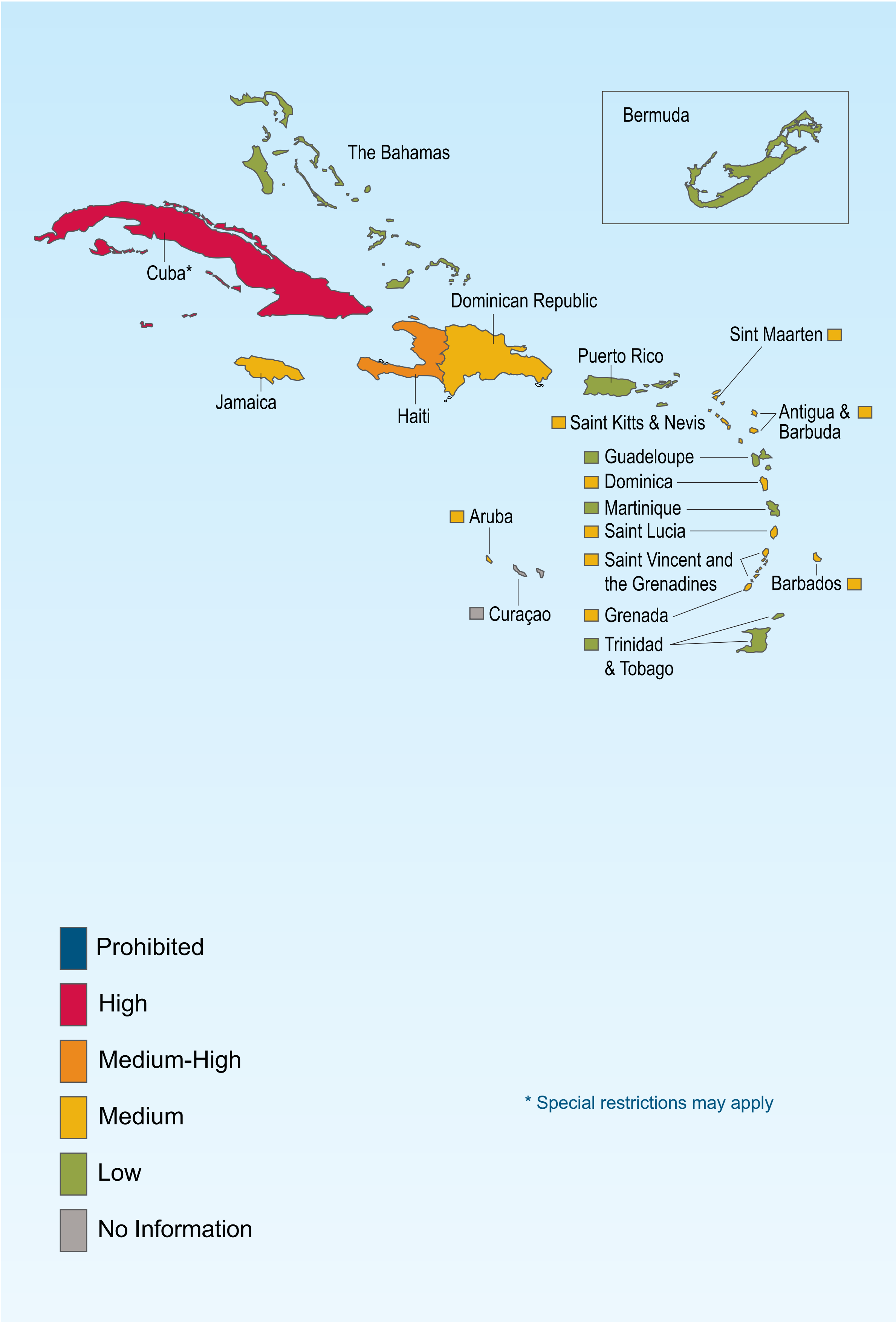
Caribbean

Short-term payment risk



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Asia/Pacific

Short-term payment risk

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Central Europe

Short-term payment risk

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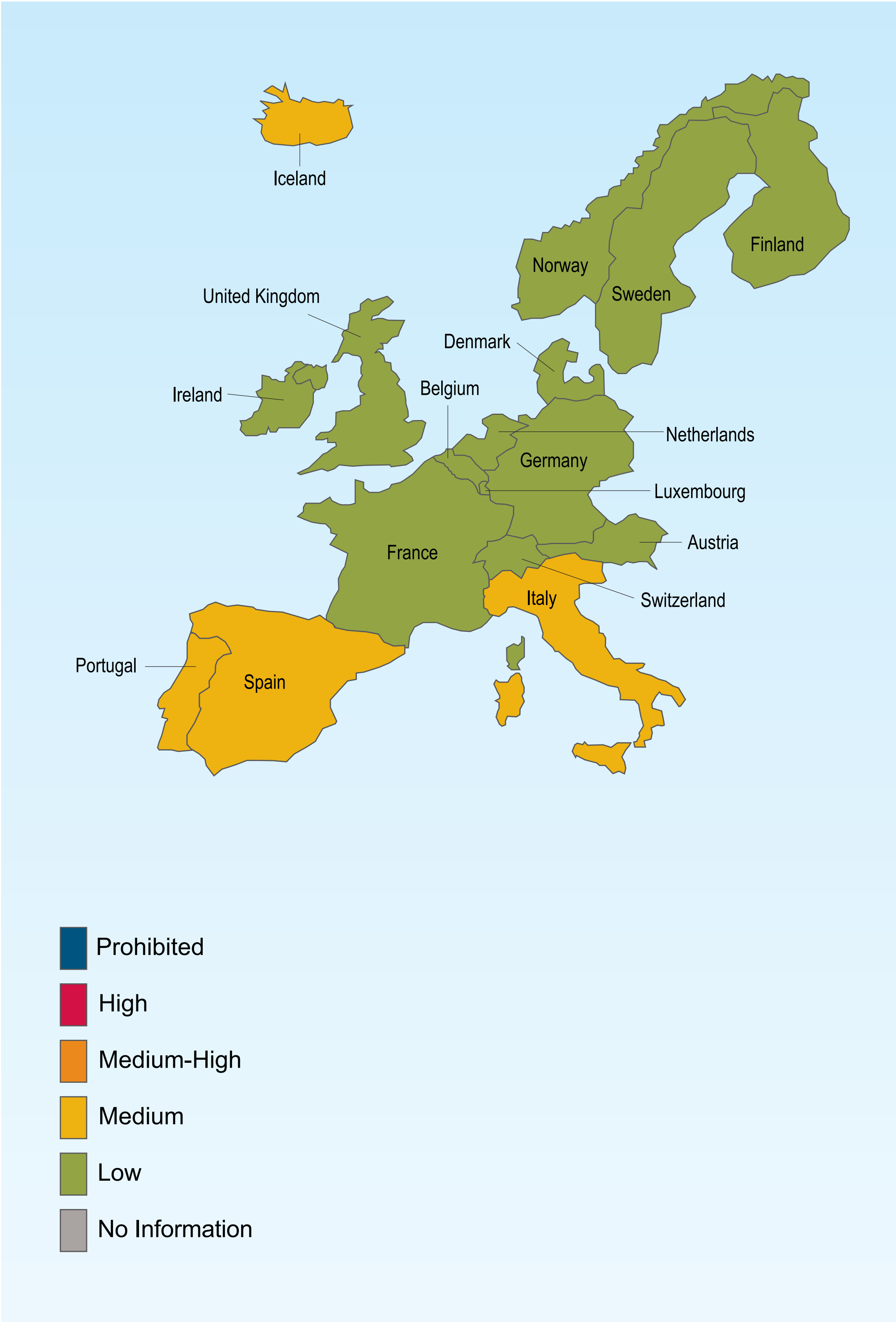
Western Europe

Short-term payment risk



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Former Soviet Union

Short-term payment risk

* Special restrictions may apply

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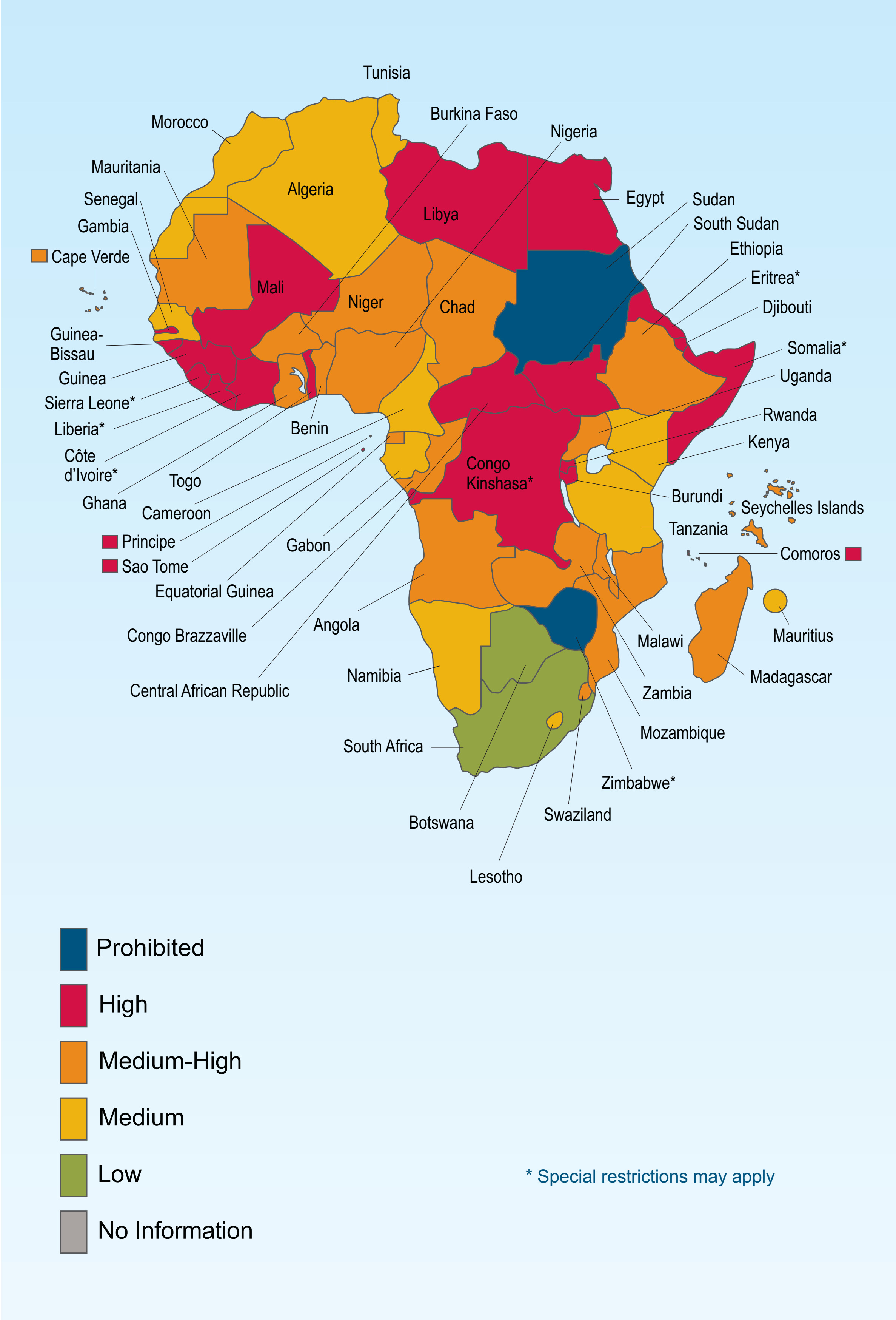
Africa

Short-term payment risk



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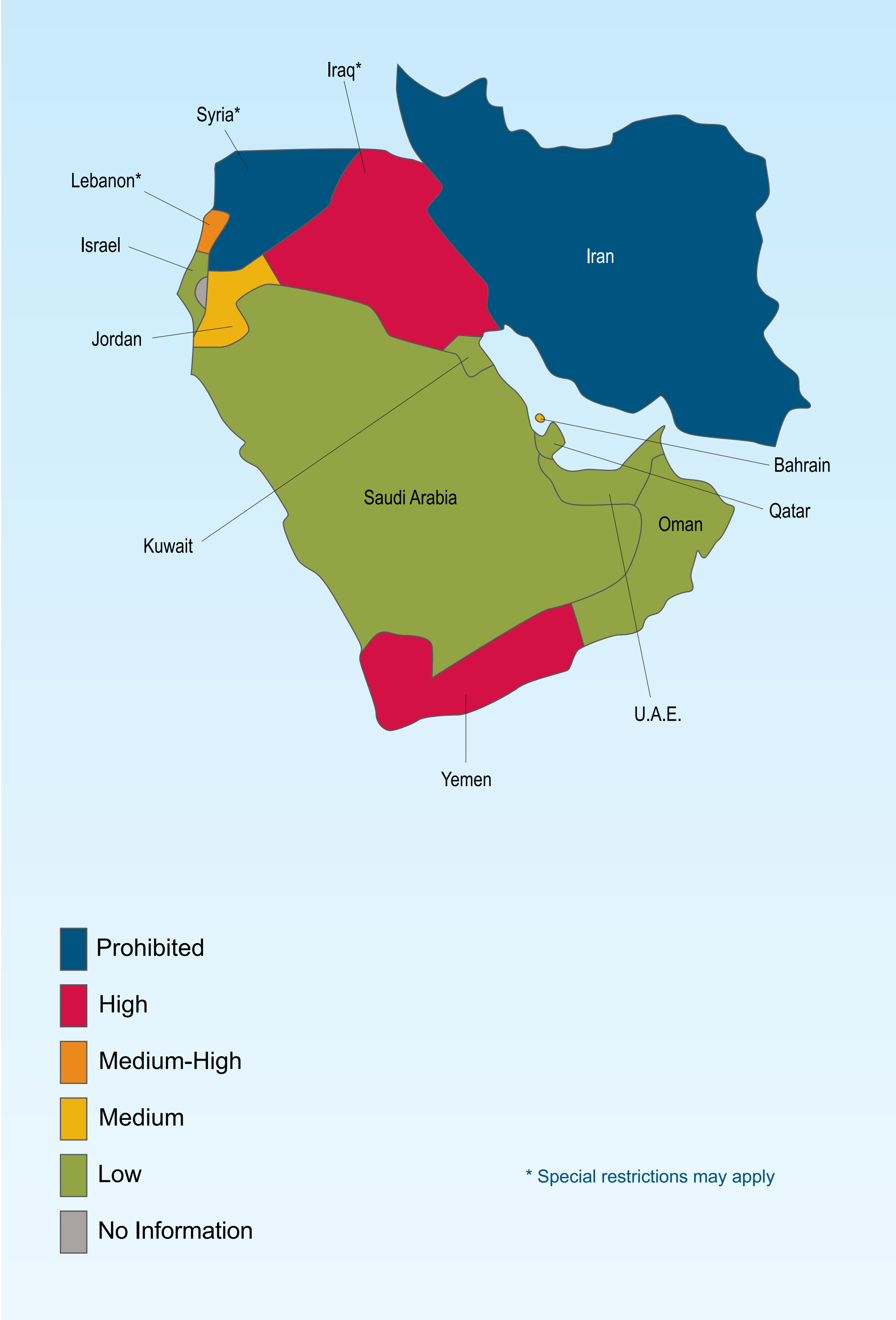
Middle East

Short-term payment risk



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Latin America

Medium and long-term payment risk

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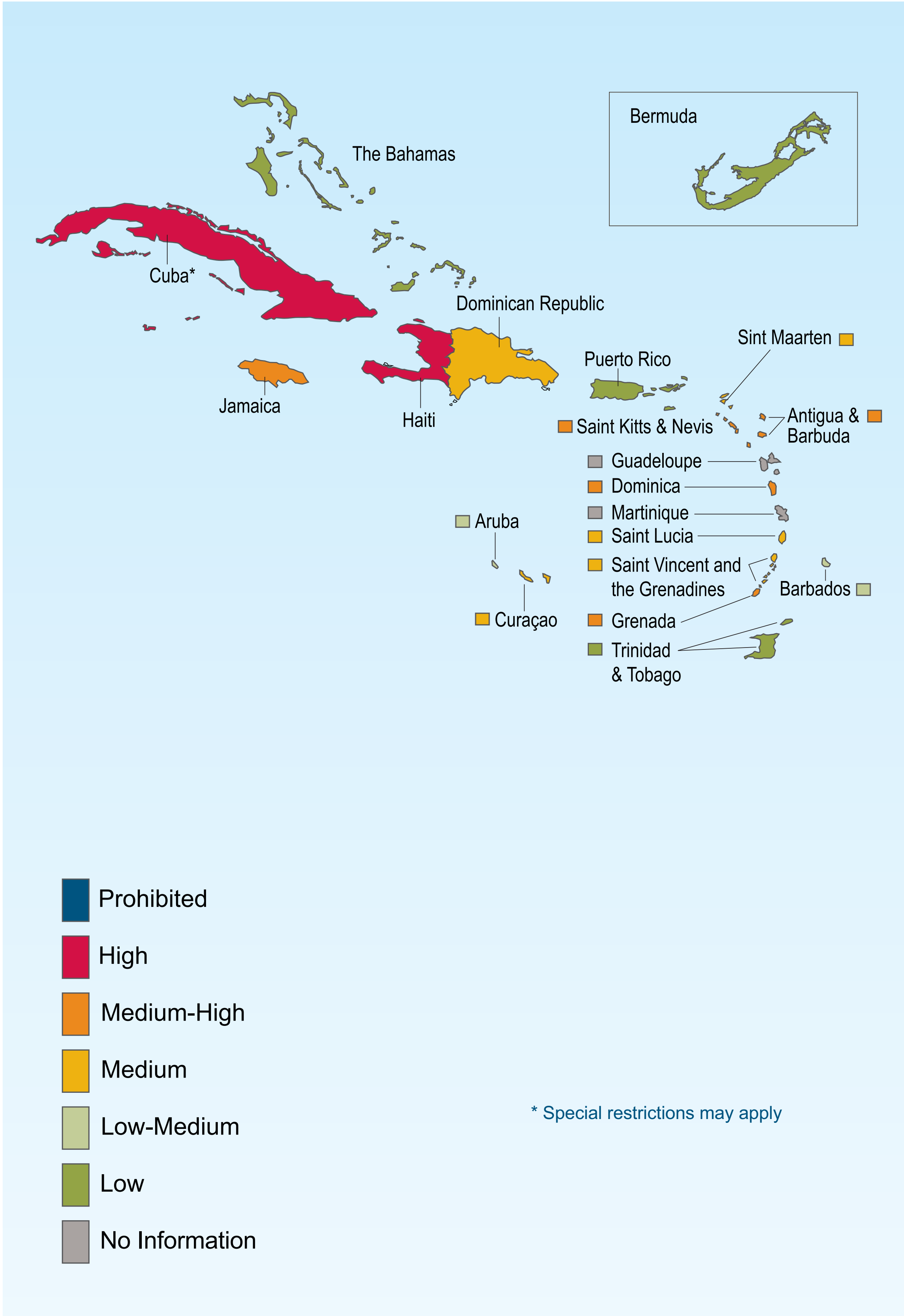
Caribbean

Medium and long-term payment risk



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Asia/Pacific

Medium and long-term payment risk

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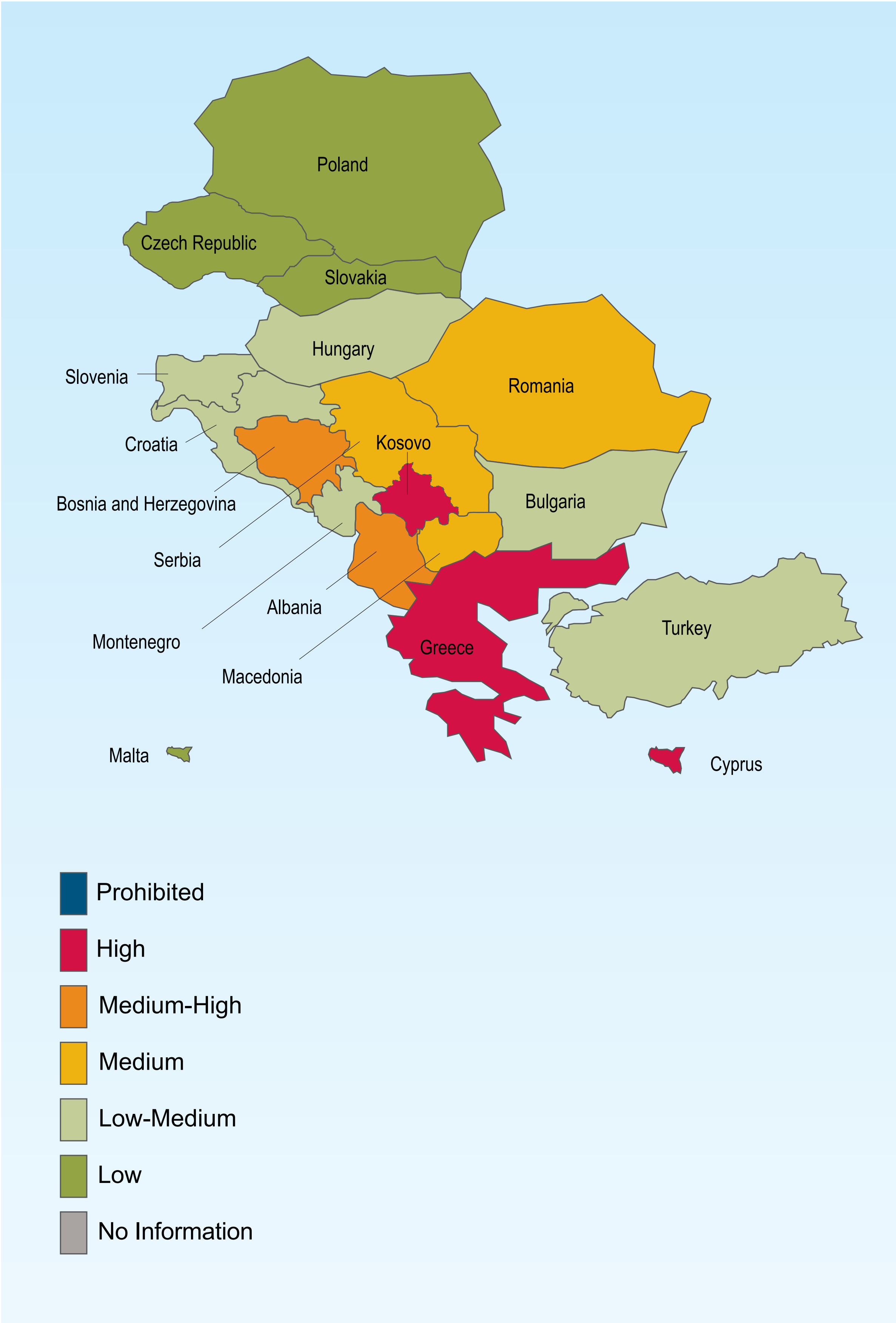
Central Europe

Medium and long-term payment risk



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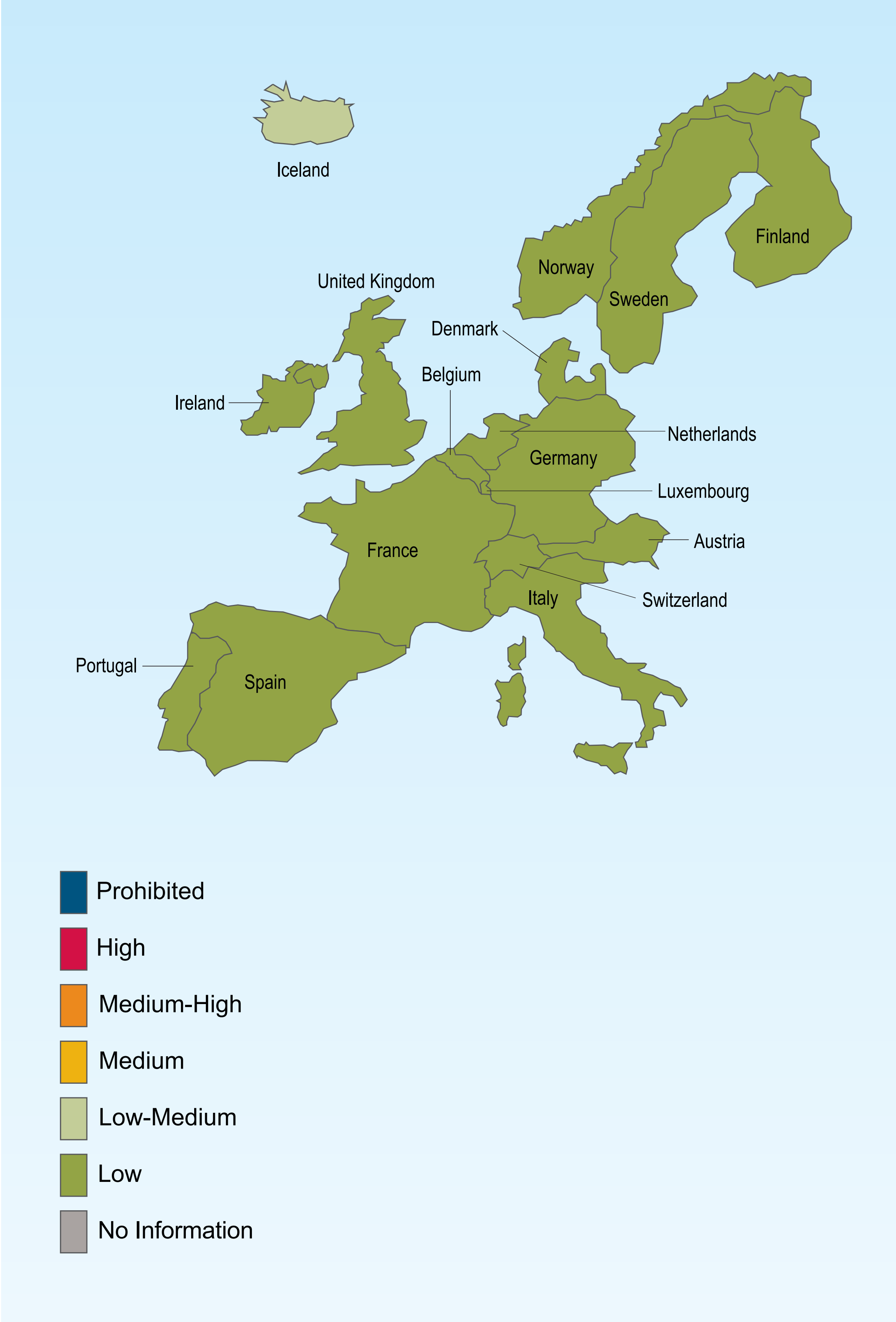
Western Europe

Medium and long-term payment risk



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Former Soviet Union

Medium and long-term payment risk

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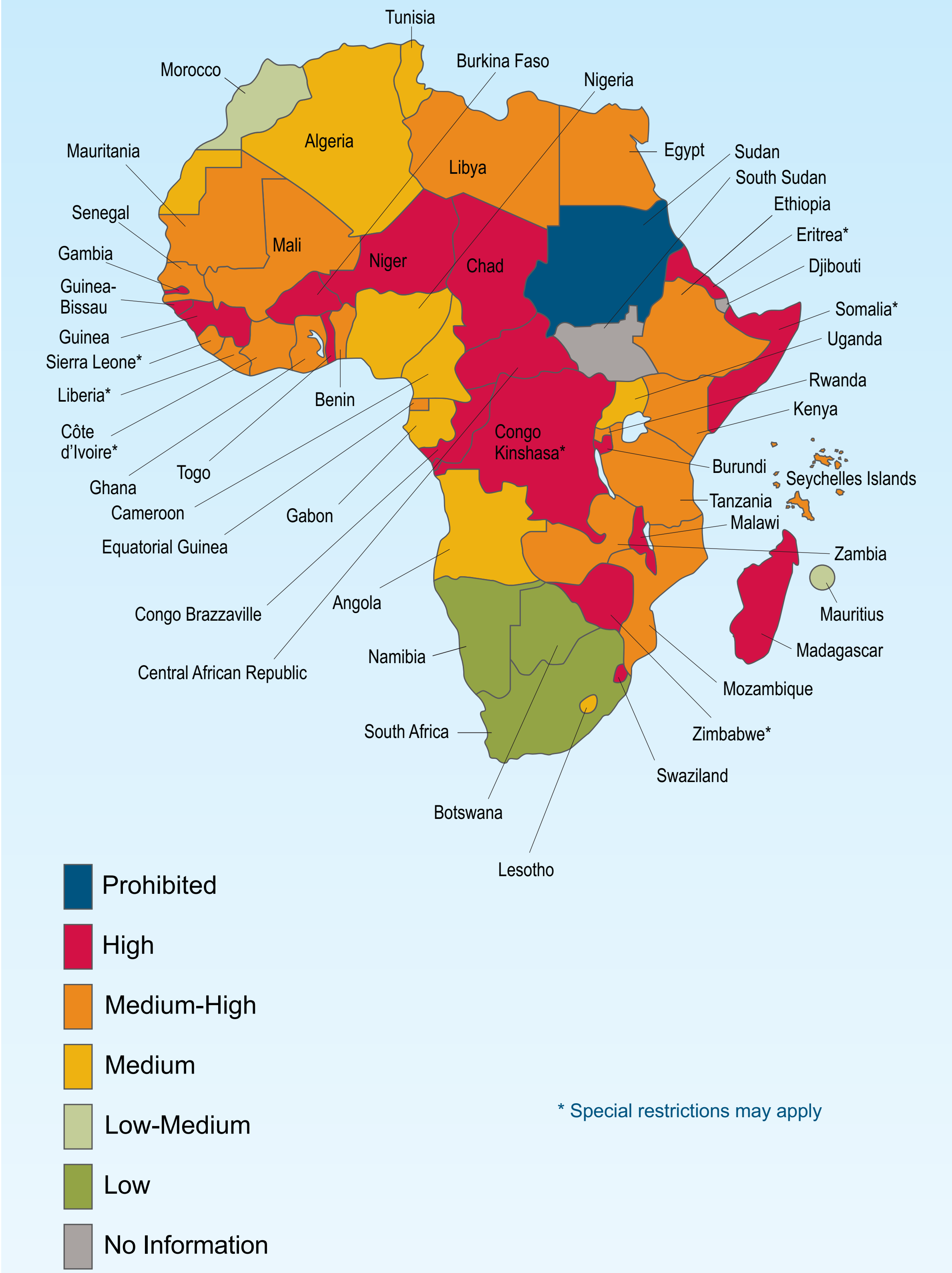
Africa

Medium and long-term payment risk



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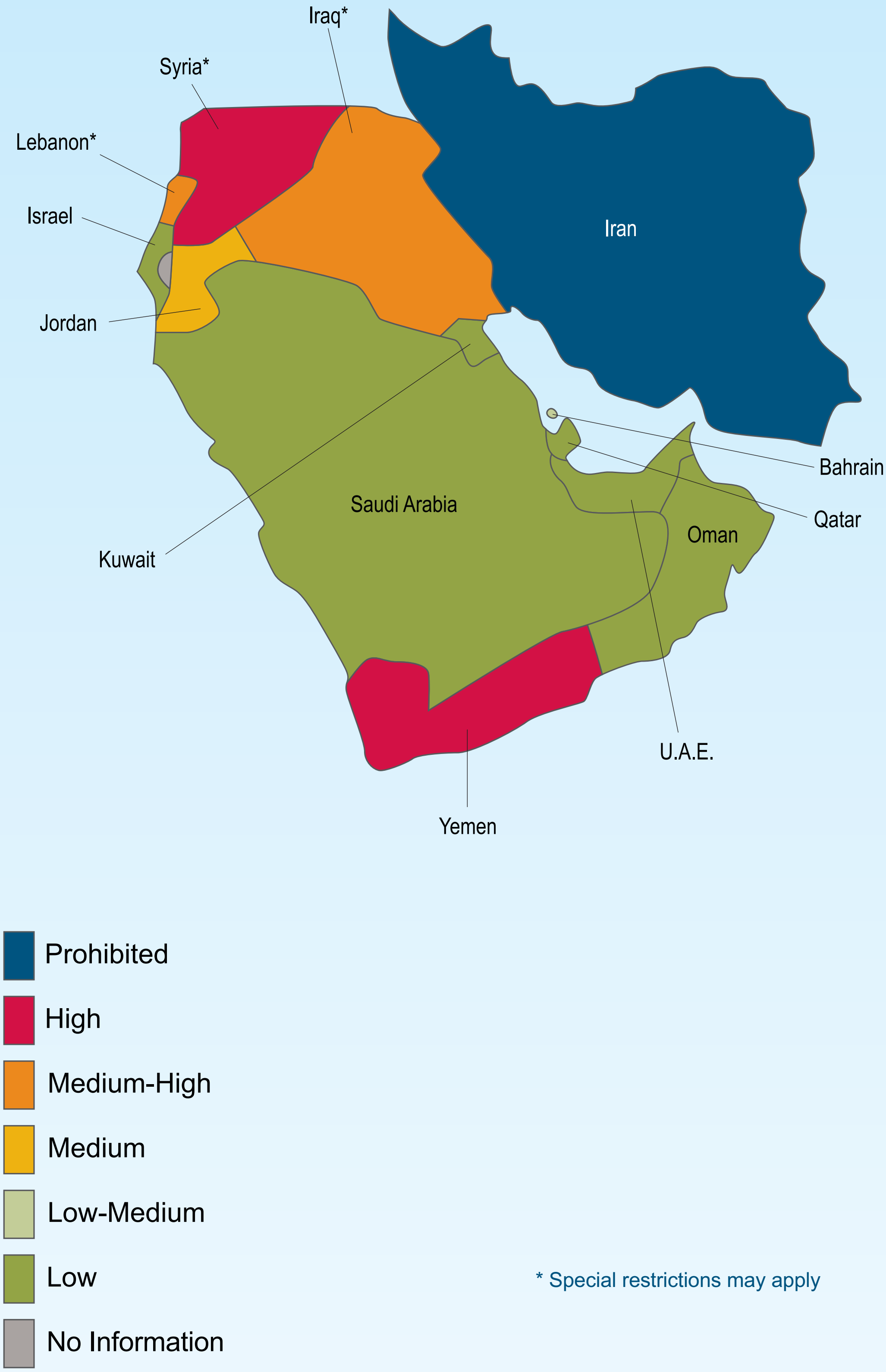
Middle East

Medium and long-term payment risk



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Country Snapshots

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- Japan Country Overview
- Euro Area Overview
- Brazil Country Overview
- Mexico Country Overview
- China Country Overview
- India Country Overview
- Russia Country Overview
- South Africa Country Overview

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