GLOBAL EXPORT FORECAST
FALL 2014

What's Driving Growth?

Canada

EDC
Realize a World of Opportunity

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1.1 What's Driving Growth?

Canada has been pretty lucky lately. Crisis hit in 2009, and overnight we lost a quarter of our international sales. Normally, this would have been enough to sink the rest of the economy. But miraculously, that didn't happen. Instead of following exports into the abyss, the domestic economy – consumption, housing, internal business investment and the government sector – came to the rescue.

Why so different this time? In short, Canada didn't carry US-style excesses into the recession. Sure, our pre-crisis activity was arguably as excessive in relative terms as America's, but with one key difference: when Americans started over-consuming and -investing, their market was roughly balanced; every bit of over-activity from 2004-08 accumulated into a mountain of pure excess. In contrast, Canada began in deficit; fiscal consolidation and a prolonged jobless recovery through much of the 1990s created a vacuum in the economy that we desperately needed to fill in during the early years of the new millennium. When crisis hit, we were far more balanced than our US neighbours. This was seen in our housing market, which slumped in 2009, but to levels three times greater than those in the US, in relative terms.

Canada's relative internal strength enabled it to respond quickly to stimulus, and activity – particularly in housing – rebounded rapidly. Other OECD economies looked on in wonder. But our luck seems to be running out. Sadly, we didn't learn from the pain of our southern neighbours. Our rapid post-crisis rebound encouraged excesses, and five years on, our domestic economy is in trouble. Consumers are over-leveraged, saddled with a debt-to-income ratio that has soared to over 151%. The US equivalent peaked at 163% just before the crisis. It gets worse: Canadian housing appears to be overbuilt. High-profile investments with strong ties to internal activity are not paying off. And in the wake of huge stimulus, the federal and provincial governments are busy trying to balance the books, an activity that, all told, will still take years to complete. Austerity isn't over yet.

A grim situation. Are we in for a delayed economic drubbing? Maybe – but not if there are other parts of the economy that can help out. What's left? International trade, and trade-related business investment. Can these sectors now return the favour, coming to the rescue of the domestic economy? Since both depend on foreign demand, the international outlook is taking on greater-than-normal importance.

Once again, Canada's timing could be impeccable. Global growth is beginning to accelerate, and our number one customer is the driver. It didn't look that way early this year. Winter weather interrupted a strengthening US growth trend, clobbering first quarter activity. Undaunted, the economy came roaring back, notching an impressive 4.6 % gain in the second quarter. So far, the third quarter is also looking strong. Naysayers are quick to suggest that it won't last, trotting out structural reasons that point to a lower-growth "new normal." But there is a growing list of reasons to believe that this time, it's the real thing.

First, signals are pointing to significant pent-up demand. Few factors give greater credence to the sustainability of growth. It's becoming more obvious every month, and across a number of key sectors. Take the housing sector, for example. Although housing starts have doubled over the last three years, they are still well below the net demand for new houses. This market was in surplus for at least 12 years, but now finds itself with a sizable supply deficit that is growing every month. Building activity needs to rise another 40 to 50 % just to keep pace with demand. That's exciting enough, but the clincher is that housing is itself a leading indicator – if history repeats itself, there's a lot of activity that is likely to follow the same aggressive growth path.

Added to this are multiple signs of pent-up consumer demand. Surging home construction will translate into higher sales of furniture, appliances and other home finishings. Auto sales are high already, but they will remain so as Americans replace their aged auto fleet. What is more, they'll be able to do this sustainably. Significant deleveraging together with accelerating employment growth are enabling US consumers to get back in the spending game without racking up pre-crisis-type debt loads. Since consumption is 68% of the US economy, this renewal goes a long way to restoring the economy.

But it doesn't stop there. Evidence also points to a groundswell of business demand. Before the crisis, businesses had to invest at a frenzied pace to keep up with the excessive global activity of the time. When the economy crashed, they were left with a monstrous glut of spare capacity. As such, investment virtually shut down, and has remained unusually quiet since. But as demand began to revive, companies brought that spare capacity back to life. Industrial capacity is now marginally below the levels of utilization seen just before the crash. Given the acceleration of new orders that business is currently facing, investment is going to need to rise, and quickly. It has already begun. Construction put-in-place is up 20% year-on-year in the manufacturing sector, and for the energy industry, it's up 29%. That's impressive, and it's likely only the beginning.

1.0 GEF EXECUTIVE SUMMARY

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If pent-up demand means that consumers and businesses have to get out there and spend, a second critical development means that they actually want to. For the first time in five years, confidence has returned to levels consistent with sustained economic growth. In the past year, indexes of both consumer and business confidence have clearly shifted upward from recessionary levels without the aid of a flashy policy announcement or a dramatic shift in any other key signal. The movement is especially significant given long-entrenched global pessimism.

The list of reasons goes on. A third factor is the rise in broadly based trend growth. A fourth is lower government austerity. As growth is rising, fiscal targets are being achieved well ahead of schedule – a development that's not unique to America. A fifth factor is the move toward monetary tightening. Tapering is fast turning into the need for higher interest rates, which would not be necessary absent a strengthening in fundamental growth. A sixth factor is a weaker one, but it is notable that most analysts concede that higher US growth is now here to stay. EDC's forecast calls for the US economy to accelerate from 2.2% growth this year to 3.6% in 2015.

If true, this good-news story takes care of 17% of world GDP. But the European Union – itself about 17% of the world economy – is faltering. Italy is back in recession, and German growth has faltered. France has "stabilized" at zero growth, and is struggling with political impasse. The setback is serious, but will it last? That likely depends on what caused it in the first place. The Russia-Ukraine conflict is a plausible reason. Investment is a volatile indicator at the best of times, and it's possible that military action on the EU's doorstep shut down nascent investment activity. However, if so, one would have expected a much sharper drop in confidence than Europe has seen to date. If investment is indeed a casualty, then current sentiment suggests it could be back as quickly as it vanished.

Some suggest that Europe's recent economic woes simply reflect its ongoing structural challenges; that is, its fiscal, financial sector and competitiveness issues. However, these were already well known, and were in fact improving well ahead of initial projections. True, nascent weakening threatens progress, but in that case the causality is reversed; it doesn't explain the onset of weakness. A lesser-known possibility is that neo-slowing in Europe is a delayed reaction to the temporary first-quarter setback in the US. If so, there's no real reason to expect that EU weakness will be any less temporary. Time will tell, but the bulk of Euro-pundits seem to agree that region-wide growth will resume a steady, moderate trajectory. Our call is for Eurozone growth of 1.4% next year.

Is the rest of the world in the US camp, or is it more like the EU? Key emerging markets are a mixed bag. Brazil is suffering under slower investment, pervasive infrastructure bottlenecks and policy uncertainty, with its negative influence spreading to the rest of the continent. Russia's economy has stagnated in the wake of tightening Western sanctions. On the other hand, India's prospects have brightened somewhat with the election of the Modi government; there's good reason to believe that the reform agenda will be revitalized, rekindling business investment and key infrastructure projects. China is bumping along, but stands to gain from the US revival. China's trade remains a much lower share of its economy in the post-crisis period, but higher US demand will give Chinese exports a long-awaited boost, lifting overall growth to 8% in 2015. Finally, Mexico's growth has been a disappointment this year, but growth is expected to increase significantly next year, thanks to improved US demand.

Add it all up, and it comes to 4% global growth in 2015, up from 3.2% this year. It's good news for Canadian exporters, but it doesn't guarantee growth, which depends on a lot of additional factors. Fortunately, there's more good news. Recent weakness of the Canadian dollar seems set to continue. Commodity prices – a key driver of the Canadian dollar – are expected to weaken modestly in the near term. A second driver is the short-term interest rate differential between Canada and the US. Rate hikes are expected to commence sooner in the US, further weighing on the loonie. With the US driving world growth, the greenback is expected to strengthen gradually against all currencies, including ours. And finally, the loonie's post-crisis halo is dimming, thanks to our softening domestic sector. As such the Canadian dollar should hover in the low-US-90-cent level for the next two years.

The resurgent US economy and the lower loonie have already paid dividends to exporters. Real merchandise exports are on an eight-month surge, and are currently up 12% year-on-year. And in spite of its weaknesses, the Eurozone is importing from Canada at a respectable rate as well. Export growth is forecast to reach 10% this year and 6% in 2015. Gains span a wide variety of industries, and extend across almost every province. Momentum is strong, and it is expected to be a boost to trade-related business investment. Capacity has tightened up in recent months, and Canadian firms will soon be faced with significant expansion decisions. In spite of domestic weakening, Canada's GDP growth is forecast to accelerate to 2.8% next year.

The bottom line? US consumers and businesses are back, and this is already translating into solid Canadian export growth. It has been a long time coming, but there is more. Knock-on effects of US growth will soon translate into higher activity in other OECD economies and in emerging markets. The driver is the US, but the rest of the world is in gear, with very few exceptions. It will be critical for Canadian exporters to make sure they're in gear, too.

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Table 1: Key Economic Estimates (KEEs)

EXPORT FORECAST OVERVIEW	2011	2012	2013	2014 (f)	2015 (f)
GDP (%y/y)					
Canada	2.5	1.7	2.0	2.2	2.8
United States	1.6	2.3	2.2	2.2	3.6
Euro Area	1.6	-0.7	-0.4	0.9	1.4
Japan	-0.5	1.5	1.5	1.4	1.2
Developed Markets	**1.7**	**1.2**	**1.4**	**1.9**	**2.6**
Emerging Asia	7.7	6.7	6.6	6.4	7.1
Latin America and the Caribbean	4.5	2.9	2.7	1.4	2.5
Emerging Europe	8.2	5.5	3.4	0.7	1.5
Africa and Middle East	4.8	4.9	3.1	3.1	4.4
Emerging Markets	**6.2**	**5.1**	**4.7**	**4.2**	**5.0**
World Total	**4.1**	**3.4**	**3.3**	**3.2**	**4.0**
Currencies					
USD/CAD	1.01	1.00	0.97	0.91	0.90
Commodity Prices					
WTI	$95	$94	$98	$100	$92
Lumber	$255	$318	$355	$360	$369
Copper (USD/MT, LME)	$8,810	$7,947	$7,322	$6,882	$6,482
Other					
US housing starts ('000s)	611.92	783.75	929.67	1,030.00	1,320.00

Sources: Statistics Canada, EDC Economics

Table 2: Canadian Merchandise Exports Forecast by Region

	CAD bn	% Share of Total Exports	Export Outlook (% growth)		
EXPORT FORECAST OVERVIEW	2013	2013	2013	2014 (f)	2015 (f)
Developed Markets					
United States	335.1	75.6	5.5	12	6
Western Europe	33.9	7.7	-12.2	9	5
Japan, Oceania and Developed Asia	22.7	5.1	10.8	5	0
Emerging Markets					
Latin America and the Caribbean	12.4	2.8	-3.9	13	6
Emerging Europe and Central Asia	3.7	0.8	-3.8	-6	4
Africa and the Middle East	7.1	1.6	-6.3	12	5
Emerging Asia	28.4	6.4	7.0	2	10
Total Goods Exports	**443.5**	**100.0**	**3.7**	**11**	**6**
Total Emerging Markets	**51.7**	**11.7**	**1.4**	**5**	**8**
Total Developed Markets	**391.8**	**88.3**	**4.0**	**11**	**6**

Sources: Statistics Canada, EDC Economics

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1.2 US Business: Spending Again!

Spending. Isn't that what consumers do? Sure, but they're not the only ones. Businesses spend too – although you don't find them in line-ups at the mall. When businesses spend, it's often on some type of machinery, or a new building, or both. This kind of spending is investment – creating the capacity to crank out a business' product or service. Crisis arrested US business investment, and it stayed in the slammer for a long time. But it has been seen in public recently; is it just on parole, or is it bursting on the scene again with its characteristic flair?

As economic indicators go, the crisis was pretty tough for US business investment. After adjusting for inflation, total private investment fell by 20% in just 18 months, and from there it took 48 months just to climb back to pre-crisis levels. While a relief, that's really not a huge achievement. Trend investment growth would have had it well above that level by now; as a share of GDP, investment is still 500 basis points below where it ought to be, so there is still a lot of catch-up to do. Are US businesses up to the task?

Perhaps a little context will help. Before the global crisis, US businesses were investing at a breakneck pace. They had to, in order to keep up with frenzied global activity. Consumers everywhere were overspending, housing markets were impossibly hot, and businesses the world over had to keep pace, regardless of the fact that activity was ultimately unsustainable. When the bubble finally burst, it left businesses with a massive surplus of capacity that was obviously going to take a long time to get used up. As such, investment shut down; why increase capacity when there is already far too much? Since the crisis, US business has been doing just that: growth in the economy has in large part been serviced by existing industrial capacity. Trouble is, this below-trend investment growth has persisted for quite a few years, and has become sort of normal. Does that mean it will never get back to the higher trend growth of yesteryear?

Some believe so, but this opinion flies in the face of current data. Over the past four years, even the tepid economic growth we have seen has steadily used up spare capacity stateside. Now, the total capacity utilization rate is just 1% below the previous peak, and rising. Capacity is almost as tight as it was, without the frenzied pace of pre-crisis activity. Multiple indicators suggest that investment is sub-par and needs to rise. But is all this evidence enough to jolt businesses out of their post-crisis, hesitant, "you-first" investment mentality?

Only if activity proves it to them. The moment US businesses sense that tight capacity is cheating them out of potential profit, they are likely to open up the coffers. At the current pace that purchasing managers see orders flowing in, businesses already appear to be behind the curve. The Duncan leading indicator agrees, as does the MNI-Chicago Business Barometer and the Economic Policy Uncertainty index. A more direct indication of business investment intentions is the Philly Fed's capex orders index – which thankfully is on a strong up-trend and consistent with levels of rapid investment growth.

There's additional evidence in construction spending. In the energy sector, construction put-in-place is currently up 29% year-over-year, an impressive increase. For all the naysaying that it takes, US manufacturing is also active. The same indicator for this sector is up 20% over 2013 levels. What is striking about these industries is their rapid response to conditions. Typically, it takes a couple of years for needed construction to get put in place. This time around, capacity is likely turning this kind of investment on much more quickly. If so, suppliers could be facing a great dilemma. If demands are surging, will they actually have the capacity to create the capacity that these industries need? With capacity particularly tight in the machinery industry, it's not entirely clear.

The bottom line? The US industrial machine is facing very tight capacity at the same time as growth is ramping up. This has unshackled investment, and this time, it's no day pass. Firms have already begun to invest, so their suppliers need to wake up. Their competitors also need to take note, as they may soon have an opportunity to "help" fill the capacity gap.

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1.3 The "D" Word Resurrected

You thought it was dead for good. So did I. It's a proven misfit in an ever-globalizing world. But the "D" word is back. The US economy is on the move, but Europe is stuck in the mud. Suddenly, there's lots of talk – once again – about decoupling. Plot the indicators, and they are compelling. Could the forecasters be right this time? And if so, is monetary policy likely to take opposing paths within these two economic behemoths?

This verbal battle is a dangerous one. It resurfaced in early 2008, just weeks after the Fed began an aggressive spate of rate-cutting. Convinced that Europe had decoupled from the weakening of US output, European Central Bank (ECB) President Trichet famously raised interest rates on July 9 – at precisely the same moment as the EU started to sink into the global economic mire. What then followed was a dramatic about-face – a sequence of rate cuts that from start to finish was almost twice the speed of US rate movements. In the relatively short (and volatile) history of the ECB, it has consistently moved rates – both upward and downward – in synch with the US Fed, but with a multi-month delay. In short, there's no recent evidence that demonstrates decoupling, in spite of the pronouncements.

Is today any different? Markets appear to think so. Consensus expectations hold that the US Fed is likely to begin a rate-tightening cycle sometime in the first half of 2015, a view that has been steady now for a number of months. Recent developments have market-watchers in Europe convinced that the ECB is unlikely to move rates upward until early 2017. If so, it would be the longest lag between US and EU moves since the creation in 1999 of the ECB, and it would sure look like some form of decoupling had indeed occurred. Although the weight of recent history begs to differ, could decoupling really be in the works? Are the rule-books about to be rewritten?

One look at GDP data gets a "yes" vote. The US suffered in the first quarter, but when the weather improved, the economy snapped back at an outsized 4.6% annualized pace. In contrast, Italy sunk back into recession, Germany posted a negative quarter in the April to June period, and all France could say was that it was "stable" – at zero growth, literally teetering on the edge of recession. While shocking, what is puzzling about this nascent turn is the absence of a clear reason for it. And while sentiment can turn on a dime, surveys show that European consumers and businesses are still relatively upbeat. In addition, it's not as if Europe has a long way to drop; the elevator never got far from the ground floor; growth is in fact more likely than another economic dip.

Pundits seem to agree. As of September, the average forecast still held that growth through the remainder of this year will revive, enough to notch a 1.2% gain next year. It doesn't sound like much compared with US growth – until it's compared with estimates of long-run potential growth. The OECD figures that the current rate for Europe is about 1.1%; the US rate is just over twice that. If so, spare capacity is getting used up in both zones, although admittedly it's tighter in the US. Thus far, forecasters have both economies growing in tandem. If so, then monetary policy should take a roughly similar path. The recent extraordinary measures announced by the ECB are still only contingent tools – almost as if the Bank feels that ultimately it may not need to put them to use.

Time will tell whether the two monetary powerhouses will head in opposite directions. Given the recent history of co-movement, it's hard to believe that this is the precedent-setting moment. And a limited list of reasons for divergence makes it even harder.

The bottom line? For all the damage it has done to the reputations of brilliant analysts and policymakers over the years, "decoupling" is still in the economic vernacular. It's not likely to ever die a decent death, but unless the radical economic intertwining we have witnessed over the past quarter century can be undone, it is becoming less likely over time that this word will be anything other than a fleeting headline-grabber. Given the world's need for sustained growth, we can only hope so.

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1.4 The Rise of Political Risk

Ask anyone you meet on the street whether political risk has risen in the last few years, and you'd likely get a convincing yes. Crisis has fed our appetite for media sensation, and on the global political front there has been no lack of material. What appeared to be rock-solid regimes fell in mere days, triggering copycat events elsewhere with very similar results, and sending tremors across the planet's political landscape. Prolonged stagnation seems only to have exacerbated tensions, suggesting a new era of heightened political instability. Have unrest and upheaval really risen, or have we fallen prey to media hype?

Several measures attempt to provide an answer. Consider the Aon Political Risk Map, a tool for assessing political risks across the planet. Back in 2005, it seemed that political risks were ebbing, making the world a safer place. Three years later, upgrades to risk assessments outpaced downgrades almost threefold. Then in 2009, an about-face: not only did downgrades outpace upgrades, but a new "very high" risk category was created. By 2012, there were seven times more downgrades than upgrades. Things got better in 2013 – briefly. But this year is again tilted deeply toward downgrades, with each of the BRICS countries negatively affected.

Further evidence is provided by the Global Business Barometer. In its latest survey, it indicates that 44% of the 1,500 executives surveyed cited political risk as a key risk they face, the highest result in the survey's short history. While the results have fluctuated in the past few years, it is noteworthy that the recent result is higher than the level of concern registered immediately following the onset of the Arab Spring.

The MIGA-EIU Political Risk Survey points to increased concern among international investors. When asked about the constraints to their foreign investments, they ranked political risk second only to macroeconomic instability. This is substantiated by a reference to the UNCTAD World Investment Report, which has been recording disputes between investors and states since the mid-1980s. The number has surged in that time from almost no activity to 50 to 60 new disputes annually.

Ten years of data in the Fragile State Index indicate a disturbing trend. Since 2005, the number of states in the "high alert" and "very high alert" categories more than doubled. This Index measures the degree of control a state has over its territory and the ability of the government to implement policies and provide reasonable public services.

Put these indexes together, and a general picture of increasing political risk emerges. Our hybrid index is up by over 50% since 2005, a dramatic increase that, if sustained, paints a scary picture for future international transactions.

Firms that are active internationally are signalling that these messages are registering with them. The higher perception of this class of risks has led to increased demand for political risk insurance. This suggests that the increased concern is not necessarily inhibiting international activity, but that firms are still active and desiring to mitigate their risks through available financial instruments.

If this is indeed the attitude, it's a relief. International investment flows are a critical piece of the evolving global trade landscape. As the world gets back to the business of growing, international investments are not just expected to resume, but to grow more intense – for normal reasons like access to resources, lucrative markets, production clusters, and research and development centres – but also for access to large pools of labour.

Although the rising risk trend is clear, there is still not enough data to conclude that the change is structural, and will be sustained into the future. Sure, the ability to mass-organize is unprecedented, thanks to communication technology. But another well-known driver of dissent is prolonged economic weakness. Time will tell which factors dominate in the future.

The bottom line? Political risk is clearly on the rise, and Canadian firms active in foreign markets need to be aware – of the risks, and of the means available to mitigate them. And if we're fortunate, renewed growth may reverse the trend.

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1.5 Lower Oil Prices: Really?

The planet was on red alert. No, not a threat of imminent invasion. Not a global epidemic. And it wasn't about a geopolitical unravelling. Not even impending economic and financial collapse. It was all about energy. In early 2008, the messages were clear. We are running out of oil. All the easy stuff has been discovered. A larger share of production is in politically difficult countries. Higher oil costs spell the end of globalization. The messages flashed across the globe repeatedly, and were so believable that speculation heightened the havoc. But the bubble burst, and six years on, prices are south of USD 90 per barrel and falling. Do lower prices make sense, or is this just temporary?

First off, we need to understand the hyperanalysis of 2008. Oil prices began to rise in early 2007 from the low-USD 50 level to just under USD 75 by the fall. That's pretty dramatic, although prices had hit USD 75 in 2006. Yet those gyrations paled in comparison to what was coming. Oil sold for over USD 90 per barrel by year-end, and continued a steady march through July 2008, hitting USD 145. Unclear of the reasons for the run-up, markets presumed that it was a reaction to the significant current and near-future needs of emerging markets, together with steady increases in demand from the rest of the world. It sure looked as if prices were unstoppable, surging toward USD 200 per barrel.

It's easy to forget now, but the drama didn't end there. Prices hit a low of USD 30 just before Christmas as financial and then economic crisis swept over the globe. Most analysts were red-faced and befuddled, and energy investors were livid. Fortunately for both camps, there was a quasi-recovery. Prices were back to USD 75 by late-2009. What followed this was, once again, extraordinary. The rebound in 2009-10 made sense in light of the precedent-setting deluge of global fiscal stimulus. But the flat economic performance that soon ensued – and persisted for four years – suggested prices much lower than the 2011-13 average of USD 96. So, were the "supply-bears" right?

Actually, the data proved them quite wrong. Inventories soared in the wake of crisis, as production increases clashed with significantly lower usage worldwide. Moreover, the price scare encouraged lower energy intensity – oil usage per unit of GDP continued to fall in developed and emerging markets alike. But the price spike also encouraged higher exploration and development. Oil plays that were previously uneconomic became viable, and spurred on innovation that continues to lower the cost of recovery. Since 2005, US production has soared by 4.5 million barrels per day (mmbd), thanks to the significant contribution from shale deposits. At the same time, Canadian supply is up 1.2 mmbd, and there have been significant increases in Brazil, the Middle East and other key producers. We should hardly be surprised; production increases always follow price spikes. Pre-crisis, peak global production was pegged to sometime toward the end of the last decade. That date, always a moving target, has been shifted out to 2025.

Why, then, were prices so resilient? In a word, liquidity. The vast amounts of cash reserves amassed by corporations in addition to unprecedented cash injections by the Fed occurred at a moment when the world didn't really need them. Corporations weren't investing. Consumers weren't borrowing; indeed, they were deleveraging in a big way. But the cash still had to earn a return, and it seems that in the general search for yield, it made its way to the periphery of the market, including commodities. It's possible that prices have been artificially high for a long time.

Now, with the economy recovering and geopolitical tensions compromising key oil flows, we should expect prices to be rising. However, the opposite is happening. Increased supplies are a key factor, but they don't explain everything. Lower prices are also roughly in synch with the Fed's tapering program. If so, then we can expect oil prices to continue weakening as tapering morphs into other forms of monetary tightening.

The bottom line? It's clearly abnormal, but it looks like higher world growth will mean lower oil prices. It's not the best news for oil producers. But here's a neat upside: the growth that leads to lower oil prices will be further fuelled by them – a timely and badly needed bit of "growth insurance."


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2001
UNITED STATES OF AMER
E PLURIBUS UNUM
QUARTER DOLLAR
CANADA
DOLLAR
BRASIL

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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 has been slow and the passage of fundamental reforms such as tax policies, widely considered necessary to maintain fiscal sustainability and to accelerate growth, has stagnated. Despite the government's efforts, Brazil's structural problems will not likely be resolved over the short term. Although Rousseff's popularity has suffered since the public protests, she remains ahead of opposition candidates and is likely to be re-elected for a second term. Brazil's economic slowdown continued into 2013, and EDC Economics expects the economy to experience lacklustre growth mostly driven by falling consumer and business confidence and recently sluggish industrial production. GDP is forecast to expand by 0.5% in 2014 and 2.0% in 2015.

Trade and Investment Environment: Massive capital inflows and FX intervention allowed FX reserves to grow to over USD 366 billion in May 2014, which supports a strong liquidity ratio; however, slow investment and softer commodity prices have 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 continued exchange rate movements – albeit relatively contained. Despite forecasting a current account deficit and relatively weak inflows of investment, Brazil's external financing requirements are comfortably covered by net foreign direct investment (FDI) and portfolio inflows. In sum, Brazil's net external creditor position and strong external liquidity will continue to mitigate against the risk of external shocks.

Outlook: Over the short term, downside risks include dampened consumer and business confidence, as well as its impacts on domestic consumption, the largest contributor to GDP, and investment outlook. 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, structural reforms need to be undertaken to ensure sustainable growth and improved fiscal flexibility. The government is attempting to address infrastructure constraints by increasing concessions, but is likely to continue dragging down potential growth unless significant investments materialize.

COUNTRY STATS

President
Dilma Rousseff

Next Elections
October 2014

Nominal GDP (2013)
USD 2.25 tr

Total Trade/GDP (2013)
28%

Exchange Regime
Free float

Canadian Merchandise Exports to Brazil (2013)
CAD 2.3 bn

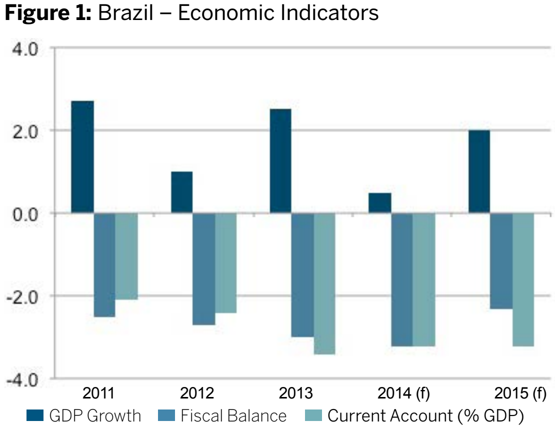
Top Sectors
Machinery, Other industrial goods, Energy

Sources: Haver Analytics, Industry Canada

Risks to the Outlook:

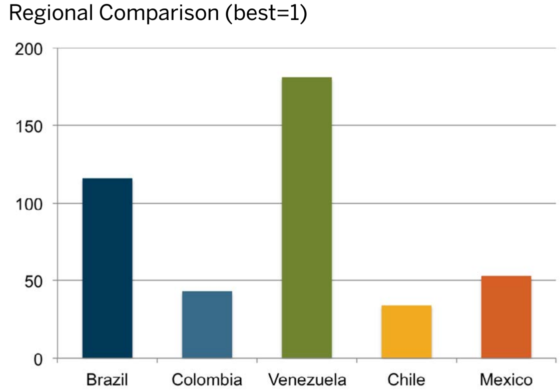
- ⌃ Further progress on microeconomic reforms
- ⌄ A sharp reversal in capital flows or asset bubble formation

Figure 1: Brazil – Economic Indicators



Sources: Haver Analytics, EDC Economics

Figure 2: Ease of Doing Business: Regional Comparison (best=1)



Source: World Bank

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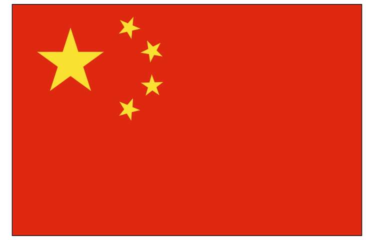
2.2 China

Country Overview: The Chinese Communist Party (CCP) maintains a firm grip on society and all levels of government, including significant control over the economy through various SOEs and the banking system. Amid China's shift to slower growth, the new administration is unlikely to spur economic expansion beyond 7.5%. The days of easy credit and rampant fixed asset investment are over. Looking ahead, growth will be driven in part by an export recovery, while real estate investment languishes due to inventory over-hang. The CCP plans to shift growth inland. Linking these newer urban centres in the west to the east will offer investment opportunities in infrastructure and industry. The Shanghai Free Trade Zone will serve as an incubator for economic reform.

Trade and Investment Environment: The country is a top destination for FDI despite capital account restrictions. The complicated commercial environment poses challenges for foreign investors, ranging from a lack of legal protection and intellectual property rights, inconsistent application of regulations, and a burdensome bureaucracy. However, the CCP is aware of the need to tackle corruption and shift to a rule-based business environment, though implementation and enforcement may be inconsistent across regions and industries. The Canada China Foreign Investment Protection Agreement was ratified and came into force October 2014.

Outlook: China's shift to consumption-driven growth and an aging population portends a more moderate growth profile in coming years. China will continue to move up the value chain with greater emphasis on home-grown R&D and higher value-added sectors. Last November's plenary session saw policy pronouncements targeting deregulation and liberalization to allow private competition and foreign investment, relaxation of the one-child policy, the development of a municipal bond market, and reforms encompassing the fiscal areas, the financial sector, land ownership, social security, resource pricing, and SOEs. To date, there has been some reform progress, including the liberalization of lending rates, although deposit rates need a similar effort. The CCP is also targeting provincial and municipal government debt management and addressing the implicit support mechanism for the debts by these various levels of government as well as SOEs. The CCP views continued and regionally balanced economic growth as the key to prosperity and legitimacy, and political stability remains the CCP's top priority. Localized unrest over various social issues, such as corruption, land seizures, wages and working conditions, will continue and will likely increase in number if economic growth and income redistribution falters.



COUNTRY STATS

President
Xi Jinping

Next Elections
Not applicable

Nominal GDP (2013)
USD 9.4 tr

Total Trade/GDP (2013)
54%

Exchange Regime
Crawling peg

Canadian Merchandise Exports to China (2013)
CAD 20.2 bn

Top Sectors
Pulses, Coal, Wood pulp, Lumber, Iron ore, Mineral fuels

Sources: Haver Analytics, Industry Canada

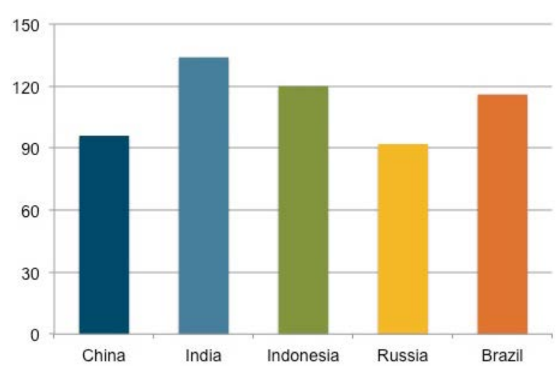
Risks to the Outlook:

- Successful financial sector reforms, effective anti-corruption policy
- Property sector collapse and impact on banking sector, rise in social unrest

Figure 3: China – Economic Indicators

Sources: Haver Analytics, EDC Economics

Figure 4: Ease of Doing Business: Regional Comparison (best=1)



Source: World Bank

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2.3 Euro Area

Country Overview: The Euro Area emerged from recession in the second quarter of 2013, and much of the fear about a break-up of the euro dissipated following the European Central Bank's announcement that it would undertake unlimited bond purchases. Investors are re-entering European capital markets; however, growth remains tepid and unemployment, though improving, still remains at historically high levels above 11%. The EU, in concert with the International Monetary Fund, have 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 one of the world's largest economies, accounting for 13% 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 now agreed on the text of a Comprehensive Economic and Trade Agreement (CETA). Once the deal is implemented, this will be Canada's most significant trade agreement since the Canada-US free trade deal in the late 1980s. There are more than 9,000 EU tariff lines and once the agreement is in effect, 98% will be duty-free for Canadian goods. This will significantly improve market access for Canadian companies, thereby boosting bilateral trade and fostering even more investment.

Outlook: The Eurozone growth outlook has been revised down following the weaker-than-expected economic performance in the second quarter of the year. Escalating tensions with Russia over the conflict in Ukraine have led to sanctions being imposed by both sides, and growth in the second half of 2014 will be impacted depending on the extent and duration of the trade measures. The euro is weakening due to expectations that the European Central Bank will begin some form of quantitative easing; falling inflation and languishing bank lending have fuelled a more dovish stance by the central bank and markets (at the end of August) are expecting more liquidity support. The central bank has played a key role in safeguarding the system and stabilizing markets, but much needs to be done at the national levels to restore competitiveness and address structural imbalances. On the political front, rising austerity fatigue and anti-EU sentiment are rising in many countries across the region and changing governments and political instability will persist over the near term.

COUNTRY STATS

Prime Minister/President
José Manuel Barroso

Nominal GDP (2013)
USD 13.4 tr

Total Trade/GDP (2013)
88%

Exchange Regime
Currency Union – the euro

Canadian Merchandise Exports to European Union (2013)
CAD 35.7 bn

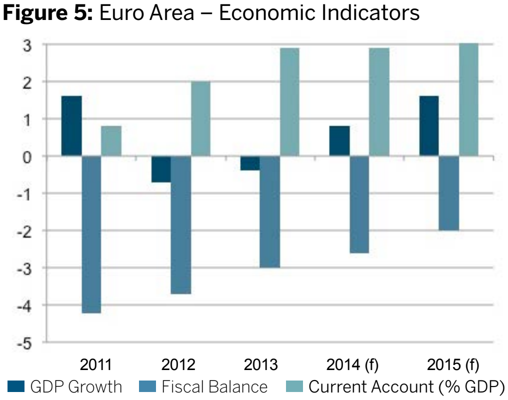
Top Sectors
Metals, Aerospace products, Iron ore

Sources: Haver Analytics, Industry Canada

Risks to the Outlook:

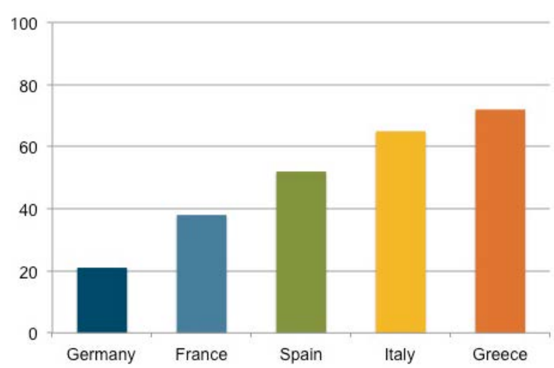
- ˄ Greater political union, mutualized debt
- ˅ Countries exiting the euro geopolitical risks

Figure 5: Euro Area – Economic Indicators



Sources: Haver Analytics, EDC Economics

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



Source: World Bank

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2.4 India

Country Overview: Economic momentum is expected to gradually return following national elections. Prime Minister Modi and the BJP's decisive simple majority in the lower house should result in greater policy decisiveness and thereby give a boost to investment. A gentle global rebound will add to the demand picture. Democracy remains a cornerstone of Indian politics. Despite past decades of mostly coalition politics that often resulted in policy missteps, the most recent election was about putting India on a higher growth trajectory by removing administrative roadblocks, delivering more jobs and opportunities, and taming inflation. However, the path to an economic rebound is not straightforward. Agricultural output this year will be sub-par due to inadequate rains. Furthermore, there are a few states where the BJP and the NDA alliance do not have significant representation. It may prove challenging to usher in reforms that require all states to be on board. Meanwhile, inflationary pressures remain problematic and the capacity of the Reserve Bank of India to lower interest rates is limited now that global rates are trending higher. The FY2014/15 fiscal budget highlighted the need to restrain spending and to broaden revenues. Expect consolidation to gradually kick in over the coming five years.

Trade and Investment Environment: Foreign ownership of up to 100% is allowed in many sectors, and the recent budget proposes increases to 49% from 26% in insurance and defence. Yet FDI remains weak due to a combination of policy reversals, corruption and bureaucratic delays. However, the recent election results should boost both FDI and domestic investment. The rupee is expected to remain fairly volatile in coming months as foreign investors continue to rebalance their portfolios and election euphoria wears thin.

Outlook: The mid- to longer-term growth trajectory remains fairly robust at over 6%. India's workforce is projected to grow by about 2% annually over the coming decade, and this young workforce will deliver a growth dividend. Meanwhile, the country will gradually 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 and market-opening measures are anticipated going forward.

COUNTRY STATS

Prime Minister
Narendra Modi

Next Elections
July 2017

Nominal GDP (2013)
USD 1,900 bn

Total Trade/GDP (2013)
56%

Exchange Regime
Managed float

Canadian Merchandise Exports to India (2013)
CAD 2,800 mn

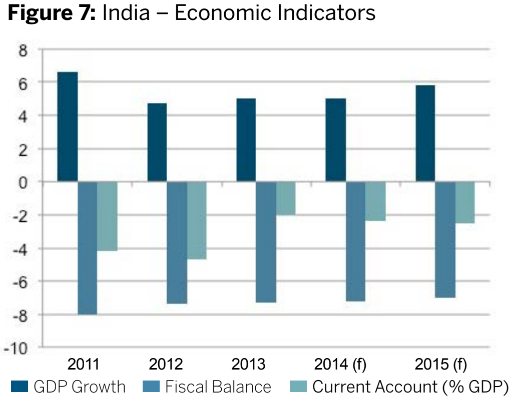
Top Sectors
Pulses, Aircraft, Newsprint, Coal

Sources: Haver Analytics, Industry Canada

Risks to the Outlook:

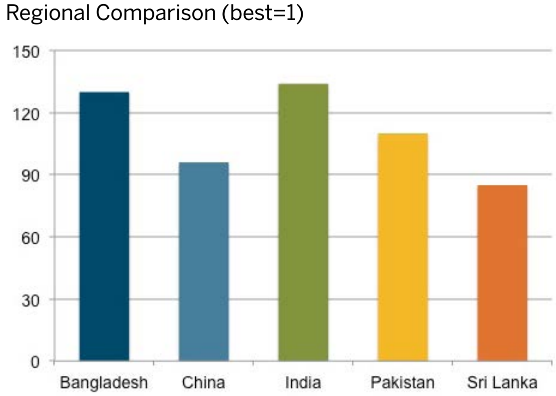
- ⌃ Growth recovery, improved FDI inflows, declining inflation (food)
- ⌄ Rise in communal unrest, inability to consolidate budgetary outlays and lift revenues

Figure 7: India – Economic Indicators



Sources: Haver Analytics, EDC Economics

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



Source: World Bank

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2.5 Japan

Country Overview: Japan remains 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 and reform momentum due to a conservative political culture and powerful vested interests. Armed with a strong electoral performance, including a majority position in parliament, 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 in a sustainable manner. 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 bases. Relations with China over disputed maritime territory remains strained, and have begun to impact trade and investment.

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 lags behind other G7 countries and even some less developed markets. Japan's 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 Partnership Agreement and are both party to the ambitious Trans-Pacific Trade Partnership Agreement.

Outlook: Macro-growth will pick up in the third and fourth quarter despite tax-related decline in 2014Q2. Prime Minister Abe's ability to shepherd through structural reforms will determine Japan's future growth trajectory. Additional tax hikes proposed for 2015, while not sufficient to ease the debt burden, will be another positive step. The tight labour market is expected to boost real wages. The Bank of Japan will increase quantitative easing should it determine its 2% inflation target will not be met by 2015. An increases in capital investment and hiring of new permanent employees (versus temporary staff) are key areas to watch. The resumption of some nuclear power plants will ease current account stresses over the medium to long term.

COUNTRY STATS

Prime Minister
Shinzo Abe

Next Elections
Parliamentary: 2016

Nominal GDP (2013)
USD 4,905 bn

Total Trade/GDP (2013)
35%

Exchange Regime
Free float

Merchandise Imports from Canada (2013)
CAD 10.7 bn

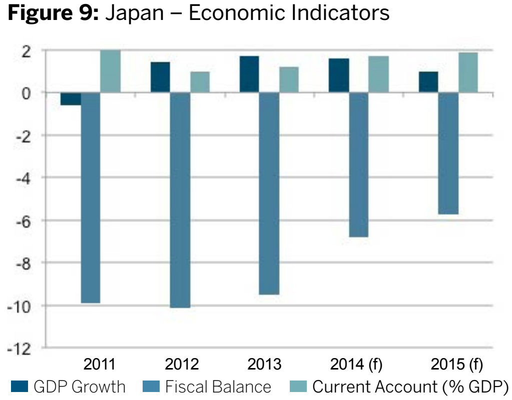
Top Sectors
Mineral fuels, Non-ferrous metals, Plant oils, Lumber

Source: Haver Analytics

Risks to the Outlook:

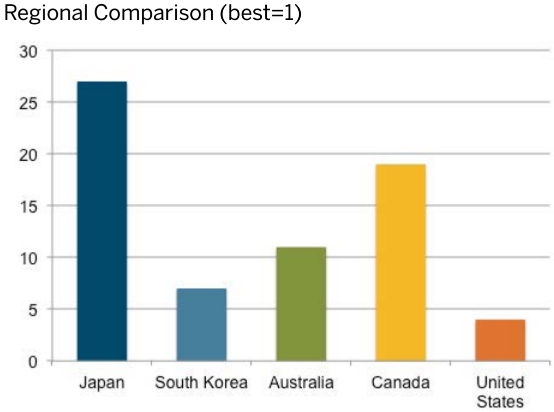
- ▲ Wage and capital investments increase, restarting of nuclear plants, exports
- ▼ Escalation of maritime tensions, structural reforms watered down

Figure 9: Japan – Economic Indicators



Sources: Haver Analytics, EDC Economics

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



Source: 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, telecommunications and energy. Secondary legislation on energy reform was recently passed, opening the sector to much-needed private investment that will help increase PEMEX's production and refining capacity. This should increase business opportunities for foreign investors. One outcome of the recent fiscal reform has been higher royalty taxes for mining companies.

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. The Pacific Alliance, a regional integration initiative comprising high growth and open Latin American economies, including Mexico, offers opportunities for Canadian Direct Investment Abroad (CDIA). A number of foreign companies, such as in the auto sector, 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.

Criminal violence, including a rising number of extortion cases by criminal groups, negatively impacts the business environment and raises the cost of doing business. With key structural reforms now under way, the government is shifting its focus on significantly reducing the violence from these groups. Other challenges to improving the country's long-term competitiveness include the lack of credit to small and medium-sized business, the relatively high cost of labour and energy, poor education and high levels of corruption (Mexico is ranked 106/177 by Transparency International).

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 recent wave of reforms, energy in particular, has spurred market interest and has resulted in upgrades of Mexico by some of the rating agencies. While the government has begun implementing this ambitious agenda, expect the pace of reform to soon slow as parties start to focus on mid-term elections in 2015.

COUNTRY STATS

President
Enrique Peña Nieto

Next Elections
Presidential: July 2018
Legislative: July 2015

Nominal GDP (2013)
USD 1.2 tr

Total Trade/GDP (2013)
63%

Exchange Regime
Free float

Canadian Merchandise Exports to Mexico (2013)
CAD 4.8 bn

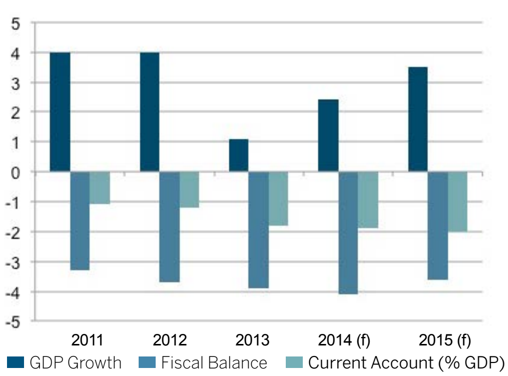
Top Sectors
Electronic and ICT, Aerospace, Machinery & Equipment

Source: Haver Analytics

Risks to the Outlook:

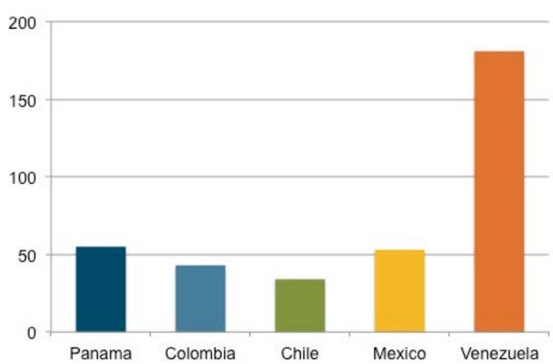
- Domestic economy proves stronger than expected
- US recovery doesn't take shape

Figure 11: Mexico – Economic Indicators



Sources: Haver Analytics, EDC Economics

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



Source: World Bank

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2.7 Russia

Country Overview: Economic growth has been moderate, particularly in comparison to fellow BRCIM peers. Even before the political crisis in Ukraine this year, the Russian economy was operating near capacity, with unemployment at an historical low of below 6%, wages growing rapidly, capacity utilization at pre-crisis highs and oil production peaking at post-Soviet highs. Capital flight has long been a challenge for the Russian economy, and recent geopolitical tensions have only served to increase the pressures on the capital account. While the Central Bank of Russia (CBR) has begun moving toward a policy of inflation targeting- letting the ruble “float” more freely which will help cushion the economy from macroeconomic shocks recent financial pressures have forced the central bank to reverse some of these measures.

Trade and Investment Environment: Western countries, including Canada, the US and the European Union, have been escalating restrictive measures against Russia. In late July the European Community, in addition to other measures, moved to limit access to EU capital markets for Russian state-owned financial institutions. On August 6, 2014, the Russian President signed a Decree imposing a full embargo on certain foods, agricultural products and raw materials which originate from any country that has imposed sanctions against Russia, or that has acceded to such sanctions. This import ban is effective from August 7, 2014 and will last for one year. It follows a series of import bans on certain products from Ukraine, Poland and Romania.

Outlook: The economic outlook has deteriorated markedly over the past few months, as geopolitical tensions persist. Investor nervousness has led to a drop in the stock market, a spike in bond yields and a weaker ruble. Capital flight has slowed, but continued in the second quarter; total outflows for the first half of the year reached $72 billion, already exceeding the full-year total in 2013. Selling pressure on the ruble has forced the CBR to intervene in the FX market (spending about $41 billion in currency support) and the bank has tightened up management of the peg. The CBR increased all of its main policy rates by 50bps at the end of April, bringing cumulative hikes to 200bps this year. The CBR’s statement provides a more pessimistic assessment of the inflation outlook, relative to last month, and explained that investment is falling because of declining profits, worsening financing conditions, and producer pessimism.

COUNTRY STATS

President
Vladimir Putin

Next Elections
Parliamentary: December 2017
Presidential: March 2018

Nominal GDP (2013)
USD 2.1 tr

Total Trade/GDP (2013)
51%

Exchange Regime
Managed float

Canadian Merchandise Exports to Russia (2013)
CAD 1.4 bn

Top Sectors
Animal products, Aerospace products, Mining, Oil and Gas, Machinery & Equipment

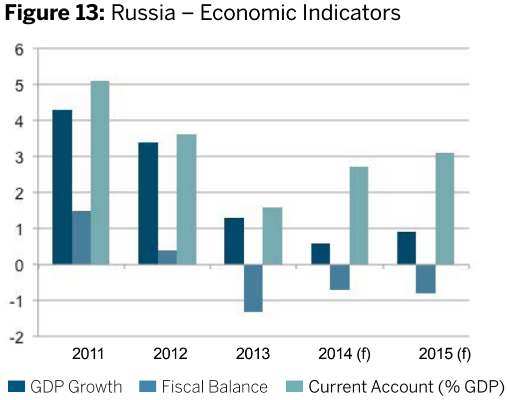
Source: Haver Analytics

Risks to the Outlook:

Resolution to the crisis in Ukraine, Increased oil prices

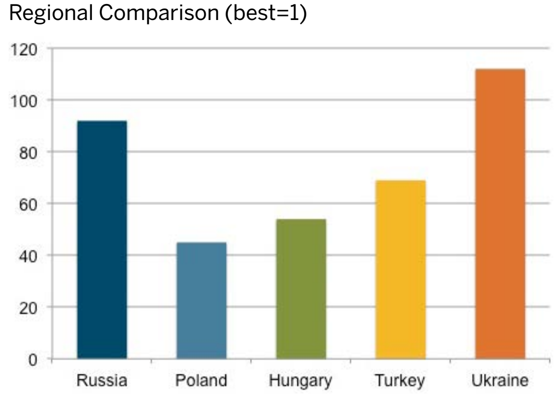
Capital flight, additional sanctions

Figure 13: Russia – Economic Indicators



Sources: Haver Analytics,EDC Economics

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



Source: World Bank

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 and the ruling African National Congress fared well in the May 2014 elections, with the ANC retaining its majority position. However, the president and the party have come under pressure owing to public displeasure with the government over corruption scandals and weak public service delivery. South Africa's 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 (25%), an ineffective and inadequate education system and growing income inequality. These are priorities for the government which has outlined plans to reduce unemployment and 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.

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. Organized labour action is a major consideration for companies operating in South Africa or considering doing so. In the worst violence seen since Apartheid ended, over 30 were left dead following clashes between striking miners and police in 2012 and a platinum strike throughout the first half of 2014 undermined economic growth. Militant unions and growing populist politics risk eroding competitiveness and damaging the attraction of FDI. This could spell trouble for the economy given the need for foreign funds to cover the sizable current account deficit.

Outlook: Growth in 2013 and into 2014 was dragged lower due to ongoing strike action in key industries and weaker-than-expected demand from key export markets. President Zuma and the ANC solidified their positions in May elections but there is growing opposition to the ruling party and to President Zuma. 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: 2018
Presidential: 2018

Nominal GDP (2013)
USD 353 bn

Total Trade/GDP (2013)
71%

Exchange Regime
Free float

Canadian Merchandise Exports to South Africa (2013)
CAD 471 million

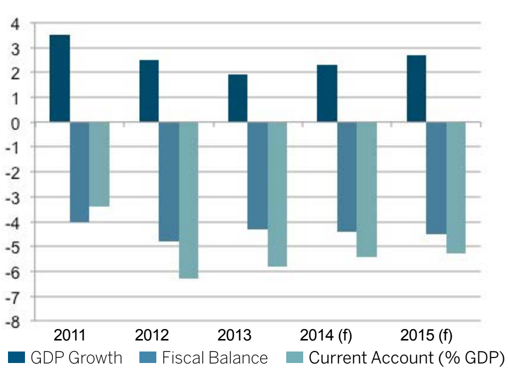
Top Sectors
Machinery and mechanical appliances, Chemical and pharmaceutical products

Sources: IMF, Statistics Canada

Risks to the Outlook:

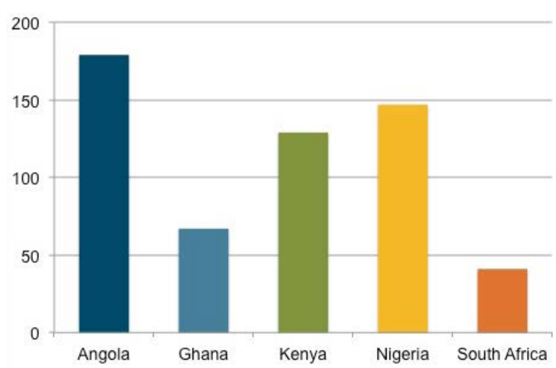
- Manageable external and government debt burden
- Large current account shortfall and declining investor sentiment

Figure 15: South Africa – Economic Indicators



Sources: Haver Analytics, EDC Economics

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



Source: World Bank

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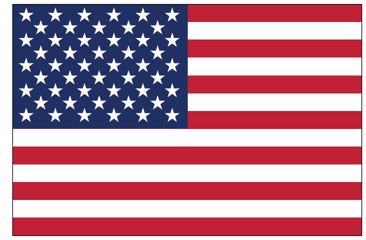
2.9 United States

Country Overview: The US is the world's largest economy, accounting for 17% of global GDP and is ranked the 4th best country in the world in terms of ease of doing business (World Bank). A volatile first half of the year will weigh on the annual headline GDP growth for 2014, with the US economy projected to grow by 2.2% this year and 3.6% in 2015. Meanwhile, the deficit will fall to just over 3.0% of GDP in 2014, as tax revenues are rising because of the strengthening economy.

Trade and Investment Environment: : Exports of Canadian goods to the US are projected to grow by just over 12% in 2014 and 6% in 2015. The US accounts for over 75% of our merchandise exports, 41% 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 21st, 11th and 17th respectively (World Bank).

Outlook: The outlook for the US economy is very positive. American business is performing well: corporate profits are near an all-time high of $2.1 trillion, while businesses are estimated to hold cash and equivalents in excess of US$6 trillion. Businesses have been 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 on record since 1980 and retail sales are strengthening. The housing market is improving with prices and home sales showing sustained growth. Because of pent-up demand, we expect that home starts will rise approximately 11% in 2014 and 28% in 2015, while 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.



COUNTRY STATS

President
Barack Obama

Next Elections
November 2016

Nominal GDP (2013)
USD 16.8 tr

Total Trade/GDP (2013)
30%

Exchange Regime
Free float

Canadian Merchandise Exports to the United States (2013)
CAD 335.1 bn

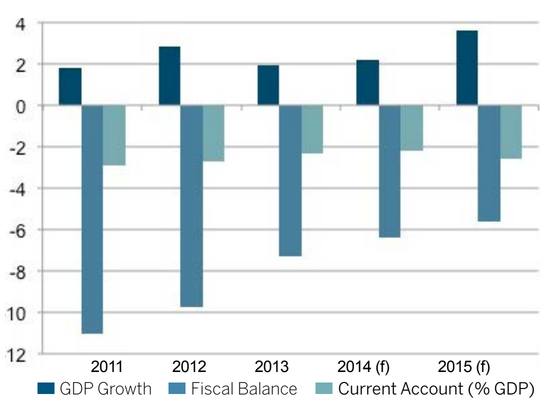
Top Sectors
Energy, Automotive, Ores

Source: Haver Analytics

Risks to the Outlook:

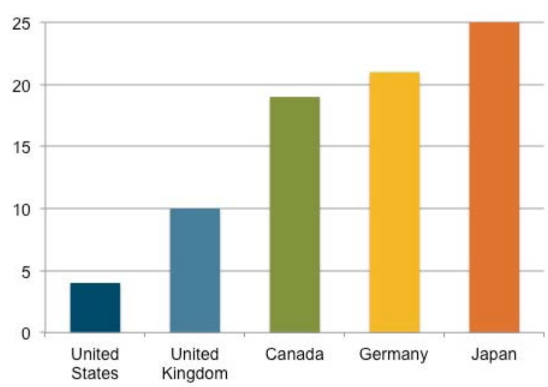
- US business begins to spend massive cash reserves
- Geopolitical events and market reaction to end of monetary easing

Figure 17: United States – Economic Indicators



Sources: Haver Analytics, EDC Economics

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



Source: World Bank

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The forecast for Canadian exports of goods and services has been revised upwards from 6% to over 10% growth this year. This change comes as the chemicals and plastics, energy and motor vehicles sectors are set to outperform compared with last spring's projections. The low Canadian dollar, projected to average 91 cents US this year and 90 cents in 2015, as well as an upsurge in US economic activity, remain key growth drivers. For 2015, we now expect exports to grow 6%, due to crude and metal prices falling. Stripping out the impact of prices tells a much more positive story as export volume growth hits 5%.

The top performing export sector this year will be energy, chalking up double-digit gains. Powering growth are better prices and increased volumes, facilitated by the easing of transportation bottlenecks and by US refinery reconfigurations that allow American facilities to handle Alberta crudes. In 2015, energy export growth will be subdued at 4% as crude prices drop, offsetting volume gains.

The second runner-up is forestry. In 2014, new home construction in the US will increase by 13% to just over 1 million in 2014 and in 2015 that number will rise to 1.3 million, sustaining 10% export growth for the sector. Motor vehicles and parts will also turn in robust growth of 9% this year, but plant capacity is stretched to the maximum, limiting growth in 2015 to 3%. The highlight of our 2015 outlook will be industrial machinery and equipment (M&E), with growth in that sector hitting 16%. Exporters will see US demand increase significantly as American companies ramp up investment. Canadian goods exports are set to finally surpass pre-crisis levels in 2014. In 2015, merchandise exports to the US will slow to 6% as lower prices mask acceleration in output. Sales to Western Europe and emerging markets will come in at 5% and 8%, respectively. Growth in Emerging Europe will be constrained by sanctions limiting trade with Russia.

Table 3: Canadian Merchandise Export Forecast by Sector

EXPORT FORECAST OVERVIEW	CAD bn 2013	% Share of Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Agri-Food	50.2	9.5	5.6	10	5
Energy	123.9	23.4	6.5	19	4
Forestry	29.8	5.6	12.4	13	10
Chemical and Plastics	37.0	7.0	7.4	12	5
Fertilizers	7.7	1.5	-4.9	-10	14
Metals, Ores and Other Industrial Products	61.9	11.7	-0.1	2	7
Industrial Machinery and Equipment	28.0	5.3	-2.4	8	16
Aircraft and Parts	11.3	2.1	4.6	12	10
Advanced Technology	13.8	2.6	-0.6	3	4
Motor Vehicles and Parts	62.5	11.8	-0.9	9	3
Consumer Goods	8.0	1.5	11.0	-3	5
Special Transactions*	3.6	0.7	10.2	20	9
Total Goods Sector	**443.5**	**83.7**	**3.7**	**11**	**6**
Total Service Sector	**86.5**	**16.3**	**2.9**	**4**	**4**
Total Exports	**530.0**	**100.0**	**3.6**	**10**	**6**
Memorandum					
Total Volumes		**100.0**	**1.9**	**4**	**5**
Total Goods Nominal (excl. Energy)	**319.6**	**60.3**	**2.6**	**8**	**7**
Total Goods Nominal (excl. Autos and Energy)	**257.1**	**48.5**	**3.5**	**7**	**8**

Sources: Statistics Canada, EDC Economics, 2013 is actual data while 2014 and 2015 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

Energy exports will surge 19% in 2014 due to a combination of price and volume improvements. Energy exports in 2015 will advance a more subdued 4%, however, as the forecast decline in crude prices will significantly offset volume gains. Coal sales will slip this year but add to the energy sector bottom line next year.

Crude oil exports are projected to grow 17% in 2014 and a mere 4% in 2015. Industry bottlenecks related to transportation and refining are easing due to additions to rail and pipeline capacity like the Alberta Clipper-1 pipeline that is slated for 2015. US refinery reconfigurations can now handle heavier crudes like those produced in Canada. As these chokepoints are addressed, the spread between West Texas Intermediate (WTI) and Western Canada Select Crude (WCSC) will continue to narrow to about USD18/bbl by the end of 2015. Longer-term narrowing hinges on substantial pipeline additions to be completed. This year, Canadian crude exports will be supported by both price lift and volume gains, but as the price of WTI comes down sharply next year, prices will slip for WCSC, thereby limiting the crude export improvement to volume gains.

Abundant relatively low-cost US shale natural gas will constrain prices at Henry Hub to a projected average of USD4.55/mmbtu in 2014 and USD$4.65/mmbtu in 2015, respectively. The cold snap at the start of this year delivered a price spike as US inventories were run down, allowing Canadian producers to ship more gas. But a cooler summer meant less demand for air conditioning and a trend reversal as power consumption dipped. This means Canadian exports of natural gas will benefit from a significant price spike and modest volume lift this year, followed by a relatively flat performance in 2015 due to a soft price gain that is offset by a volume decline.

Coal exports will slide 14% in 2014 due to weaker volume shipments to both emerging and developed markets. However, a slight recovery in prices alongside improved demand conditions in both the emerging and developed markets will lift exports over 7% in 2015.

SECTOR STATS

International Exports (2013):
CAD 124 bn

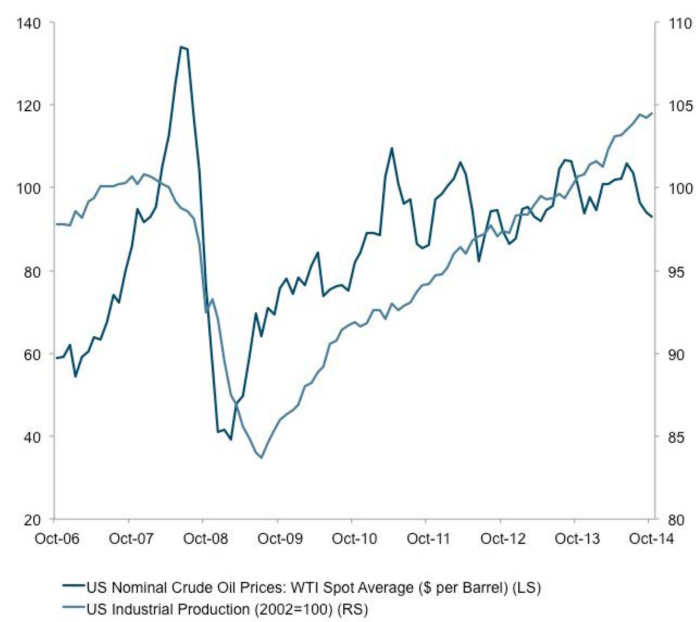
Share of Sector Exports to Emerging Markets
2009: 3%
2013: 2%

Share of Total Canadian Merchandise Exports (2013):
28%

Sector Distribution Across Provinces:
NL 6.2%
NB 8.3%
NS 0.1%
PE 0.0%
QC 3.0%
ON 2.4%
MN 1.1%
SK 10.0%
AB 62.4%
BC 6.5%

Sources: Statistics Canada, EDC Economics

Figure 19: US Industrial Activity Drives Crude Prices



Sources: Haver Analytics, Energy Information Administration

Table 4: Energy Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	115.7	93.4	9.1	18	4
Western Europe	2.3	1.9	-23.3	93	-1
Japan, Oceania and Developed Asia	3.0	2.4	-10.5	-11	5
Emerging Markets					
Latin America and the Caribbean	0.7	0.6	-39.2	107	3
Emerging Europe and Central Asia	0.2	0.1	-30.4	12	6
Africa and the Middle East	0.1	0.0	-60.3	119	3
Emerging Asia	2.0	1.6	-16.7	-17	10
Total Developed Markets	**121.0**	**97.7**	**7.6**	**19**	**3**
Total Emerging Markets	**2.9**	**2.3**	**-26.0**	**18**	**6**
Total World	**123.9**	**100.0**	**6.5**	**19**	**4**

Sources: Statistics Canada, EDC Economics

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3.2 Ores and Metals

Despite a rebounding US economy and sustained robust industrial demand for ores and metals, the Canadian export outlook continues to be shaped by a bearish global pricing environment and supply side constraints. Overall industry exports are forecast to grow 2% this year before ramping up to 7% in 2015, with volume gains underpinning momentum in both years as prices fall.

Developments in the iron ore industry, since the spring, have led to a downward revision in our export forecast as production is now expected to contract slightly in 2014. The Wabush (Scully) mine closure earlier this year due to high costs and low prices was followed in July by the announcement that Labrador Iron Mines had idled production at its Stage 1 DSO operation earlier this year. It is also now expected that financing constraints will delay progress at Tata Steel's New Millennium Mine. Volume growth from Quebec's Mont-Wright project will partially offset this closure and sales from inventory will leave exports for the year in positive territory. However, if iron ore prices remain at their current low levels for a prolonged period of time, the economic viability of other projects may be tested.

In the metals category, the forecast remains largely unchanged from our spring outlook, with the steel industry contributing very modest gains to the export story over the coming years. Low steel prices constrain the growth outlook for the industry, which has a significant amount of slack and is currently operating at around 75% capacity. The bright spot for the industry is the lower cost of inputs. Iron ore, the primary input for blast furnace producers, accounts for about two-thirds of Canada's steel production. However, margins will continue to be pressured by low-cost producers dumping steel products in the North American market. The gold mining industry in Canada still faces a volatile pricing environment as investors react to global geopolitical events and monetary and macroeconomic developments in the US. EDC Economics expects the US quantitative easing program to wind down and the US Fed to begin hiking its policy rate in 2015; this will lead to further unwinding of investment positions in the gold industry that had pushed prices up to an unprecedented high of almost USD 1,900/oz during the financial crisis.

SECTOR STATS

International Exports (2013):
CAD 67.8 bn

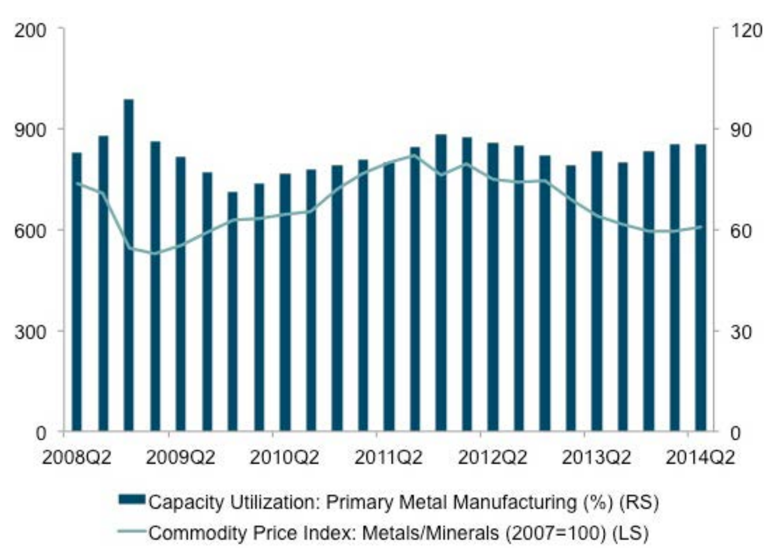
Share of Sector Exports to Emerging Markets
2009: 13%
2013: 13%

Share of Total Canadian Merchandise Exports (2013):
15%

Sector Distribution Across Provinces:
NL 4.7%
NB 0.8%
NS 0.4%
PE 0.0%
QC 24.7%
ON 53.1%
MN 2.0%
SK 0.7%
AB 3.1%
BC 7.9%

Sources: Statistics Canada, EDC Economics

Figure 20: Metals and Mining: Pricing and Activity (Quarterly Data)



Source: Haver Analytics

Table 5: Ores and Metals Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	31.3	50.6	2.0	6	10
Western Europe	15.8	25.6	-19.1	0	7
Japan, Oceania and Developed Asia	6.7	10.8	61.3	6	-13
Emerging Markets					
Latin America and the Caribbean	1.3	2.0	-18.1	7	9
Emerging Europe and Central Asia	0.5	0.8	-2.0	-26	3
Africa and the Middle East	1.0	1.6	51.8	-38	2
Emerging Asia	5.3	8.5	9.8	-8	6
Total Developed Markets	**53.8**	**87.0**	**-1.1**	**4**	**7**
Total Emerging Markets	**8.0**	**13.0**	**7.1**	**-11**	**6**
Total World	**61.9**	**100.0**	**-0.1**	**2**	**7**

Sources: Statistics Canada, EDC Economics

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3.3 Agri-Food

Canada's agricultural and food exports will rise by 10% in 2014 and a further 5% in 2015. Despite weak prices, shipments of Canada's principal field crops to overseas markets will register above-average annual growth in 2014, following last year's surprising production bonanza. The current crop year's harvest is estimated to be in retreat due to normalizing yields and adverse weather patterns in parts of Western Canada. However, even with a lower harvest this year, 2015 will still see growth as export volumes are propped up by massive carry-over stocks from the rail system backlog that disrupted transportation during the 2013-14 crop year.

Years of sustained high prices have pushed up global investment and production. For the 2014-15 crop year, estimates of abundant production in a number of key regions around the world will result in oversupply and depressed prices generally. For example, the International Grains Council expects record or near-record production of corn in the US; soybean production in Argentina, Brazil and the US; and wheat production in China, the EU and Russia. The demand outlook will remain positive, supplemented by moderate growth in the use of grains in biofuels. In the meat sector, the impact on export volumes from disease outbreaks and the lingering effect of the US drought will be more than offset by surging prices, resulting in a strong year for Canadian exports in 2014. Next year, as global economic conditions continue to improve, the combination of stable prices and increasing consumer demand for meat will encourage production increases, contributing to an additional moderate advance in exports.

The improving outlook for the US consumer and 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 rise 8% this year and a further 3% in 2015. A more confident US consumer will also boost Canadian seafood exports, which should see a 11% rise this year due to the Canadian dollar effect and a further 7% increase in 2015 supported by higher economic growth in the US, Asia and Europe.

SECTOR STATS

International Exports (2013):
CAD 50.2 bn

Share of Sector Exports to Emerging Markets
2009: 30%
2013: 31%

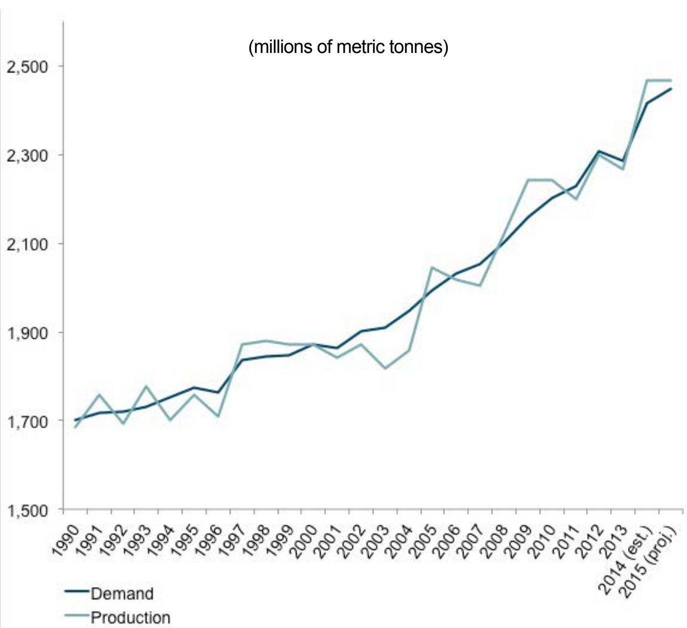
Share of Total Canadian Merchandise Exports (2013):
11%

Sector Distribution Across Provinces:

NL	1.7%
NB	2.8%
NS	2.7%
PE	1.1%
QC	12.1%
ON	23.3%
MN	10.2%
SK	23.2%
AB	17.2%
BC	5.9%

Sources: Statistics Canada, EDC Economics

Figure 21: Global Grain Production Catching Up with Demand



Source: USDA World Agriculture Supply and Demand Estimates

Table 6: Agri-Food Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	25.8	51.4	10.0	12	6
Western Europe	2.8	5.6	2.0	26	-5
Japan, Oceania and Developed Asia	6.0	12.0	-1.8	3	6
Emerging Markets					
Latin America and the Caribbean	3.8	7.6	6.8	13	6
Emerging Europe and Central Asia	1.0	1.9	-5.6	20	2
Africa and the Middle East	2.4	4.7	-14.1	20	4
Emerging Asia	8.4	16.7	7.1	1	7
Total Developed Markets	**34.7**	**69.1**	**7.1**	**11**	**5**
Total Emerging Markets	**15.5**	**30.9**	**2.3**	**8**	**6**
Total World	**50.2**	**100.0**	**5.6**	**10**	**5**

Sources: Statistics Canada, EDC Economics

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3.4 Fertilizers

Low prices and favourable farm economics will drive strong global demand for potash, with the US and Brazil leading in terms of their imports of the material. However, despite the resulting boom in export volumes, overall fertilizer exports will decline by 10% in 2014. Exports will rise by 14% in 2015 as prices stabilize and as Indian demand lifts global demand.

Brazil's potash imports will hit another record in 2014, paving the way for Canadian exports to follow suit. Going forward, however, demand will remain flat as developed crop acreage plateaus. Canada will export close to 10 million metric tons to the US, as consumers restock depleted potash inventories. Continued logistics-related delays in the US Midwest will likely change the recent trend to purchase fertilizers just-in-time. Canadian nitrogen-based fertilizer exports to the US, however, will continue to weaken as new US-based supply comes online.

For 2015, we expect India's new government to revise the Nutrient Based Subsidy (NBS) scheme which favours nitrogen-based fertilizer at the expense of potash (K) and phosphates (P). As such, India will gradually transition to more balanced use of N, P, K, which ultimately will increase demand for Canadian potash. A significant downside risk to our forecast remains that India's subsidy reforms get pushed to 2016-17 due to domestic political considerations.

Despite aggressive supply management by the major potash producers, the industry remains over-supplied into the medium to long term. For example, in Canada, multiple brownfield projects will come online over the next one to four years, including the Rocanville, Vanscoy, and Belle Plaine plants in Saskatchewan. These additions as well as new capacity from junior potash miners will surpass global demand, preventing large upward price movements. As such, recent improvements in spot market prices are unlikely to translate into significantly higher prices next year for the all-important benchmark-setting Chinese contracts.

The relatively low price environment will also encourage companies to look for ways to streamline operations and increase efficiencies. For example, K+S Potash Canada intends to use state-of the art automation technology to optimize mine operations at the Legacy project currently under construction.

SECTOR STATS

International Exports (2013):
CAD 7.7 bn

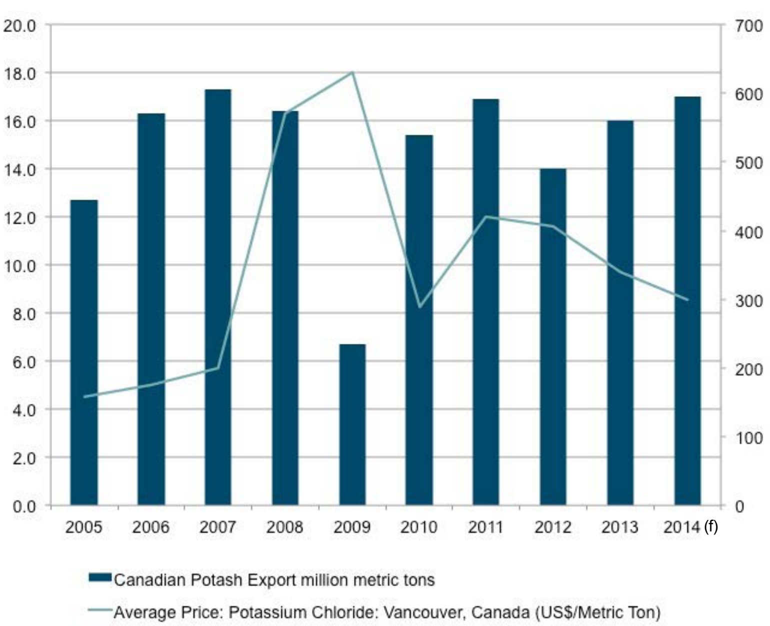
Share of Sector Exports to Emerging Markets
2009: 25%
2013: 33%

Share of Total Canadian Merchandise Exports (2013):
2%

Sector Distribution Across Provinces:
NL 0.0%
NB 3.3%
NS 0.0%
PE 0.0%
QC 0.2%
ON 4.4%
MN 1.6%
SK 74.2%
AB 15.4%
BC 1.0%

Sources: Statistics Canada, EDC Economics

Figure 22: Price Drops, Demand Rises



Sources: Bloomberg Green Markets, Haver Analytics, EDC Economics

Table 7: Fertilizers Export Outlook by Region

TOP MARKETS	CAD mn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	5.1	65.5	-4.6	-7	9
Western Europe	0.0	0.5	-44.0	-6	15
Japan, Oceania and Developed Asia	0.0	0.6	-55.3	-6	15
Emerging Markets					
Latin America and the Caribbean	0.9	11.6	-6.1	-5	12
Emerging Europe and Central Asia	0.0	0.0	-14.2	-6	15
Africa and the Middle East	0.0	0.1	-9.1	63	15
Emerging Asia	1.7	21.8	-0.3	-20	34
Total Developed Markets	**5.1**	**66.6**	**-6.1**	**-7**	**9**
Total Emerging Markets	**2.6**	**33.4**	**-2.4**	**-14**	**25**
Total World	**7.7**	**100.0**	**-4.9**	**-10**	**14**

Sources: Statistics Canada, EDC Economics

3.5 Forestry Products

A weaker Canadian dollar throughout 2014 has combined with solid demand from the recovering US housing sector to sustain strong growth in Canadian forestry exports. While the currency effects are expected to fade in 2015 as the value of the dollar stabilizes, strong export growth is expected to continue, driven by global demand for Canadian lumber and logs. In 2014, forestry exports will grow by 13%, followed by an additional 10% in 2015.

After a prolonged period during which the excess supply of homes built in the run-up to the financial crisis was absorbed, US housing starts are forecast to break the 1 million mark this year. Housing starts have been languishing below demographic replacement requirements since 2008. In 2015, new home construction is expected to accelerate to 1.3 million, spurring demand for lumber and panels. With demand from China forecast to be relatively strong in 2015, a number of producers have reopened shuttered mills and begun new investments, including Tolko starting sales from its Athabasca plant near Slave Lake, Alberta.

While demand for lumber products is expected to be robust, fibre supply constraints from damage caused by the mountain pine beetle are starting to hit the forestry sector in British Columbia. More closings are expected in the medium term, which will reduce the volume of that province's lumber exports, but increase prices, just as demand is growing. Producers in Alberta are expected to fill some of the gaps as their focus has shifted from solely supplying domestic demand to also shipping to international markets.

Pulp and paper exports are expected to be subdued in 2015 as the pricing and competitive edge of the lower Canadian dollar fades. With high levels of excess capacity available globally and the development of international supplies of hardwood pulp adding to global supply, growth will be subdued into the medium term even as demand from emerging economies increases.

SECTOR STATS

International Exports (2013):
CAD 29.8 bn

Share of Sector Exports to Emerging Markets
2009: 15%
2013: 23%

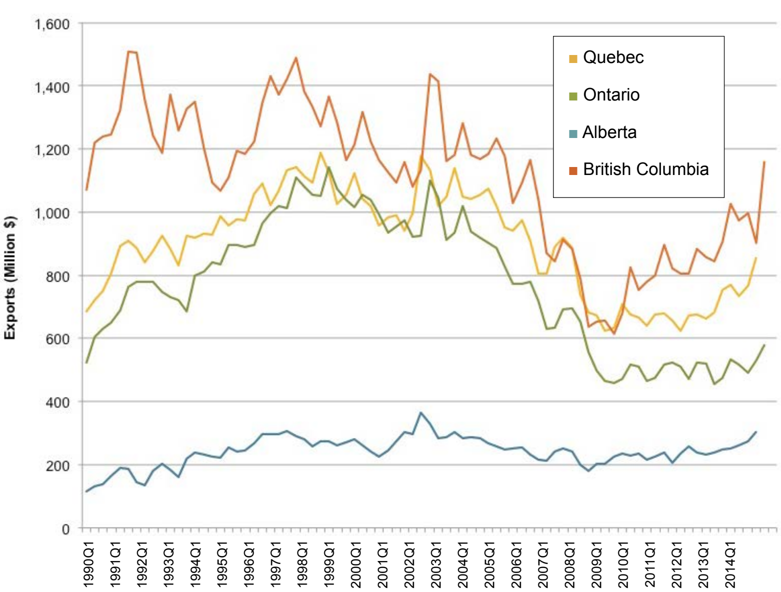
Share of Total Canadian Merchandise Exports (2013):
7%

Sector Distribution Across Provinces:

NL	0.3%
NB	5.2%
NS	2.1%
PE	0.0%
QC	27.4%
ON	15.0%
MN	1.5%
SK	1.5%
AB	7.9%
BC	38.9%

Sources: Statistics Canada, EDC Economics

Figure 23: Canadian Forestry Exports: Top Four Provinces



Source: Statistics Canada

Table 8: Forestry Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	19.2	64.4	13.3	13	10
Western Europe	1.1	3.6	-3.8	17	4
Japan, Oceania and Developed Asia	2.6	8.6	9.5	4	8
Emerging Markets					
Latin America and the Caribbean	0.8	2.6	-0.1	3	5
Emerging Europe and Central Asia	0.3	0.9	19.0	-10	10
Africa and the Middle East	0.3	1.0	20.5	22	20
Emerging Asia	5.7	19.0	15.6	18	14
Total Developed Markets	**22.8**	**77**	**11.9**	**12**	**9**
Total Emerging Markets	**7.0**	**23**	**14.0**	**15**	**14**
Total World	**29.8**	**100**	**12.4**	**13**	**10**

Sources: Statistics Canada, EDC Economics

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3.6 Automotive

Canadian automotive exports will surge 9% in 2014 before downshifting to 3% in 2015. A booming recovery is under way in the US, with auto sales expected to reach well over 16 million in 2014 and potentially 18 million by 2018. Canadian manufacturers are poised to capitalize on high demand in 2014 but will hit a capacity wall in 2015 that will restrict their export growth potential, leaving them with a lower share of the growing industry pie.

Ample credit and enticing financing arrangements will support demand from increasingly confident US buyers. With high pent-up demand, positive employment prospects and healthier household finances, the current rally will continue well into 2015.

Unfortunately, investment to further increase production capacity in Canada's auto sector has lagged the rest of North America, largely due to comparatively higher production costs. While Canadian manufacturers have lifted capacity utilization to record highs in 2014, there is little scope for additional output growth. Unlike in 2014, price gains from a lower Canadian dollar are also not in the cards for 2015, with the Canadian dollar forecast to average 91 cents in 2014 and 90 cents in 2015.

The auto industry is modernizing and improving efficiency rather than increasing capacity. Ford is investing $800 million to retool its assembly plant in Oakville to improve manufacturing capability and allow the plant to produce new models. GM's $250-million investment in its CAMI plant in Ingersoll will enhance flexibility and tooling capabilities in support of a broader range of models. Toyota is investing $100 million to expand production of its Lexus model by 30,000 units. On the downside, GM is slated to move production of its Chevy Camaro from Oshawa to Michigan in late 2015.

Part suppliers are benefiting from ramped-up vehicle production in the US. However, the industry is currently operating at capacity, and while this year will exceed previous expectations, growth rates will slow in 2015 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 (2013):
CAD 62.5 bn

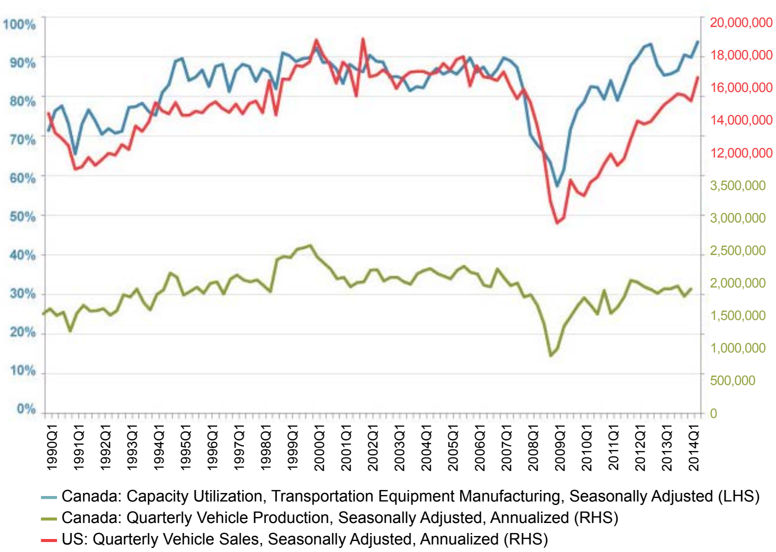
Share of Sector Exports to Emerging Markets
2009: 2.8%
2013: 2.7%

Share of Total Canadian Merchandise Exports (2013):
14%

Sector Distribution Across Provinces:
NL 0.0%
NB 0.0%
NS 1.6%
PE 0.0%
QC 3.8%
ON 92.5%
MN 1.0%
SK 0.1%
AB 0.4%
BC 0.5%

Sources: Statistics Canada, EDC Economics

Figure 24: Record Tight Capacity Constraining Canadian Vehicle Export Potential to Growing US Market



Source: Haver Analytics

Table 9: Automotive Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	60.4	96.7	-1.2	9	3
Western Europe	0.2	0.4	-10.7	7	10
Japan, Oceania and Developed Asia	0.1	0.2	-16.4	6	5
Emerging Markets					
Latin America and the Caribbean	0.9	1.4	4.2	6	-1
Emerging Europe and Central Asia	0.1	0.1	5.4	-3	10
Africa and the Middle East	0.5	0.8	27.2	-1	-2
Emerging Asia	0.2	0.4	100.6	42	-14
Total Developed Markets	**60.8**	**97.3**	**-1.3**	**9**	**3**
Total Emerging Markets	**1.7**	**2.7**	**18.2**	**8**	**-3**
Total World	**62.5**	**100.0**	**-0.9**	**9**	**3**

Sources: Statistics Canada, EDC Economics

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3.7 Industrial Machinery and Equipment

Exports of industrial machinery and equipment (M&E) will be one of the fastest-growing segments of Canada's trade sector over the forecast horizon, with foreign sales expected to top 8% this year followed by a 16% surge in 2015 as the global economy gains strength and investment increases. Different subsectors continue to face widely varying demand conditions with certain industries contracting this year, while next year robust growth will be broad-based.

Exports of agricultural M&E will accelerate to almost 8% growth this year and 9% in 2015. Although agricultural commodity prices will retreat from record highs, they will still remain well above historical averages, thereby providing producers around the world strong incentive to continue investing in equipment.

Canadian manufacturers of metals and woodworking machinery are enjoying strong demand from the US residential construction industry and the booming automotive industry. Export growth of 7% this year and 16% next year is expected. EDC Economics has revised down its outlook for US residential construction. However, housing starts are still forecast to top 1 million units this year, before accelerating to 1.3 million units in 2015.

Mining and oil and gas M&E exports will record a 4% decline in 2014, followed by a more robust 12% recovery in 2015. US natural gas investment appears to have levelled off, while the mining sector and metals fabrication are challenged with falling prices and over-capacity. A significant number of US coal mines were recently idled, leading to declining M&E demand. Other regional markets show similar over-capacity that has led to a slump in investments this year, but our forecast calls for an improvement next year.

Shipments of rubber and plastics M&E will see a decline of 3% this year, as sales to the US take a plunge and more than offset strong demand from the European market. While Canada's plastics manufacturing industry is expected to remain lacklustre due to significant new supply coming online in the US, Canadian manufacturers and exporters of rubbers and plastics M&E will benefit as they see rising demand from the growing US industry next year.

SECTOR STATS

International Exports (2013):
CAD 28 bn

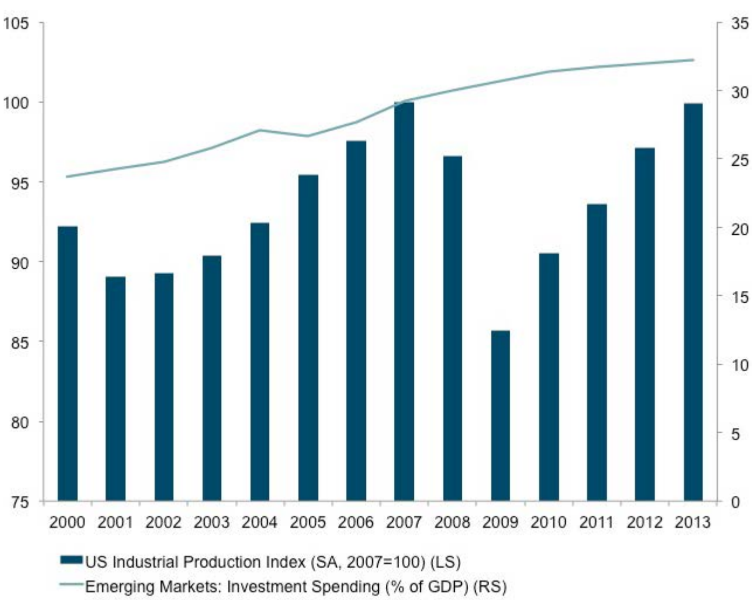
Share of Sector Exports to Emerging Markets
2009: 19%
2013: 17%

Share of Total Canadian Merchandise Exports (2013):
6%

Sector Distribution Across Provinces:
NL 0.0%
NB 0.9%
NS 0.5%
PE 0.3%
QC 22.3%
ON 51.2%
MN 4.5%
SK 2.4%
AB 11.9%
BC 6.0%

Sources: Statistics Canada, EDC Economics

Figure 25: Demand Indicators for Machinery and Equipment



Source: Haver Analytics

Table 10: Industrial Machinery and Equipment Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	19.8	70.7	1.4	9	19
Western Europe	2.2	7.7	-1.3	8	8
Japan, Oceania and Developed Asia	1.3	4.6	-5.4	2	5
Emerging Markets					
Latin America and the Caribbean	1.5	5.3	-13.8	1	9
Emerging Europe and Central Asia	0.8	2.9	-17.0	-1	2
Africa and the Middle East	1.1	4.1	-24.8	5	12
Emerging Asia	1.3	4.7	-4.9	8	7
Total Developed Markets	**23**	**83**	**0.7**	**9**	**18**
Total Emerging Markets	**4.7**	**17**	**-15.2**	**4**	**8**
Total World	**28**	**100**	**-2.4**	**8**	**16**

Sources: Statistics Canada, EDC Economics

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3.8 Advanced Technology

Advanced technology exports are expected to rise by 3% this year and 4% growth next year. Export volumes to developed markets are growing moderately overall in spite of increasing competition, and there is a continued trend to shift manufacturing to lower-cost economies. The sector is experiencing a shift away from the ailing wireless communications sector toward non-traditional segments such as measurement instruments. Export shares are growing in several subsectors, such as electrical components and measuring and testing devices, presenting significant opportunities for Canadian companies.

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 due to the weakening Canadian dollar this year and in 2015. Sales to Europe, Canada's number two market, will remain suppressed due to meagre growth levels in the region. Meanwhile, shipments to Asia are well positioned for rapid growth over the medium term. Wireless subscribers in Asia are growing at exponential rates. According to estimates, India and China combined are adding 75 million new wireless subscribers per quarter. While emerging markets are expected to be the fastest-growing destination for Canadian telecommunications exports, the US will remain by far the most important market for Canadian telecoms for many years, outpacing gains in emerging markets.

In 2014 and 2015, exports of consumer electronics should continue to benefit from a positive outlook for US housing starts (up nearly 11%) 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. The navigational and measuring instrument subsectors have consistently increased their share of Canadian exports, representing almost 25% of total exports in the advanced technology sector. Medical and measuring instruments have experienced the highest levels of growth in the sector, most of which are heading to the US; however, Asia will remain a region of growth.

SECTOR STATS

International Exports (2013):
CAD 14 bn

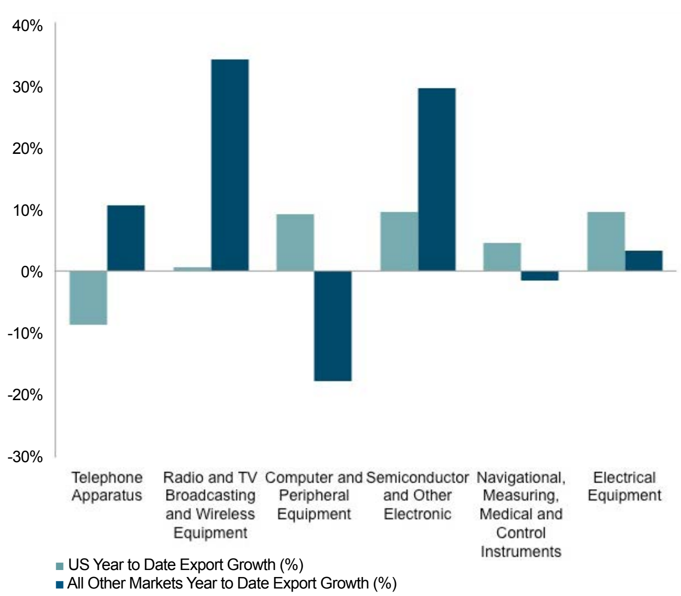
Share of Sector Exports to Emerging Markets
2009: 14%
2013: 16%

Share of Total Canadian Merchandise Exports (2013):
3%

Sector Distribution Across Provinces:
NL 0.1%
NB 0.2%
NS 1.0%
PE 0.1%
QC 26.8%
ON 54.1%
MN 1.9%
SK 0.7%
AB 6.5%
BC 8.6%

Sources: Statistics Canada, EDC Economics

Figure 26: Opportunities Outside of the US



Source: Statistics Canada

Table 11: Advanced Technology Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	9.3	67.3	0.2	4	4
Western Europe	1.5	10.6	-10.8	-1	0
Japan, Oceania and Developed Asia	0.9	6.4	-2.7	6	5
Emerging Markets					
Latin America and the Caribbean	0.7	4.8	6.7	8	8
Emerging Europe and Central Asia	0.3	1.9	-7.0	-5	9
Africa and the Middle East	0.4	3.2	10.9	3	10
Emerging Asia	0.8	5.7	5.1	1	4
Total Developed Markets	**11.7**	**84.4**	**-1.5**	**3**	**4**
Total Emerging Markets	**2.2**	**15.6**	**5.1**	**3**	**7**
Total World	**13.8**	**100.0**	**-0.6**	**3**	**4**

Sources: Statistics Canada, EDC Economics

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3.9 Aerospace

Canada's aerospace sector will soar in 2014, with the lower value of the Canadian dollar enabling exports to grow 12%. While the value of the loonie is expected to stabilize in 2015, continued global growth and tightness in airline capacity are forecast to support strong growth of 10%. Other factors driving aerospace export expansion are improved private sector financing conditions in developed economies and the search by carriers for more efficient fleets to adapt to high jet fuel prices.

Aircraft production capacity is stretched with the major manufacturers' order backlog of units at an all-time high. Bombardier has reported more than $38 billion in order backlogs, while testing of the new CSeries line continues. With CSeries planes expected to enter service in the second half of 2015, demand for the new plane combined with elevated jet fuel prices and high industry load factor rates should increase order activity through 2014 and into 2015.

The market for business jets continues to recover, though it remains below pre-recession levels as corporations remain focused on administrative costs. However, the order of 20 Challenger 350 jets for the first half of 2014 by VistaJet as well as a firm order of 85 business aircraft by Flexjet will provide a welcome boost to Bombardier's international sales. The development and entry into service of Bombardier's Learjet 85, which is also expected to occur in the second half of 2015, will likewise support a positive outlook.

Demand for aircraft parts and simulators is expected to post impressive growth supported by rising air travel in emerging markets and the delivery of newer and more technologically advanced aircraft. The lower value of the Canadian dollar has allowed some Canadian manufacturers to integrate themselves into Boeing and Airbus's global supply chains, including Héroux-Devtek which has signed an agreement to provide Boeing with landing gear assemblies.

SECTOR STATS

International Exports (2013):
CAD 11.3 bn

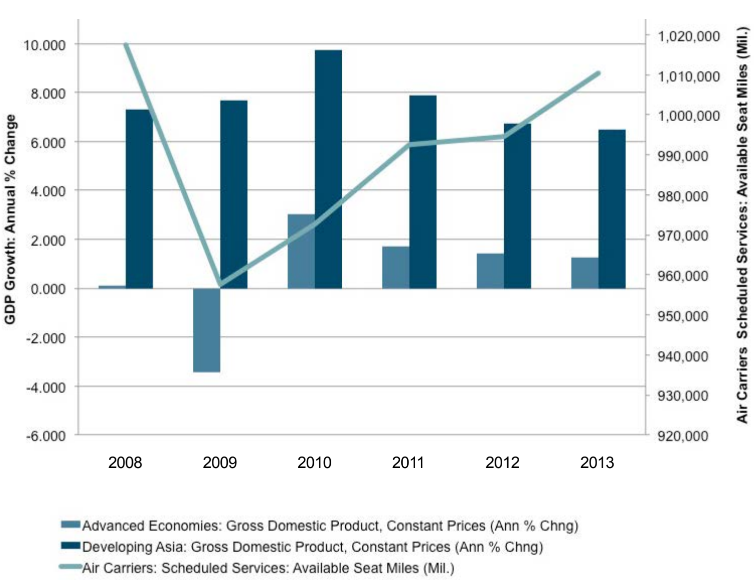
Share of Sector Exports to Emerging Markets
2009: 11%
2013: 17%

Share of Total Canadian Merchandise Exports (2013):
3%

Sector Distribution Across Provinces:
NL 0.1%
NB 0.1%
NS 0.5%
PE 0.6%
QC 66.5%
ON 23.6%
MN 4.5%
SK 0.0%
AB 1.7%
BC 2.4%

Sources: Statistics Canada, EDC Economics

Figure 27: Passenger Service and Aircraft Demand Growing with the Recovery



Sources: Haver Analytics, International Air Transport Association, International Monetary Fund

Table 12: Aerospace Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	6.9	61.4	12.6	22	9
Western Europe	1.9	16.8	-12.0	14	12
Japan, Oceania and Developed Asia	0.5	4.6	55.7	-1	12
Emerging Markets					
Latin America and the Caribbean	0.3	3.0	50.7	-31	19
Emerging Europe and Central Asia	0.4	4.0	31.0	-56	10
Africa and the Middle East	0.3	2.7	-59.7	33	15
Emerging Asia	0.8	7.4	2.1	15	-9
Total Developed Markets	**9.3**	**82.9**	**8.2**	**19**	**10**
Total Emerging Markets	**1.9**	**17.1**	**-9.8**	**-20**	**12**
Total World	**11.3**	**100.0**	**4.6**	**12**	**10**

Sources: Statistics Canada, EDC Economics

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3.10 Chemicals and Plastics

Our forecast for chemicals and plastics has seen a significant upward revision, with exports expected to grow by 12% in 2014 before settling back down to 5% in 2015. This forecast is primarily guided by commodity prices and the outlook for international demand, particularly in the US, which is the destination for 80% of total shipments. Export volumes will remain relatively stagnant over the short term as companies continue to focus on reducing input costs and increasing efficiency and environmental sustainability.

Petrochemical exports have taken a surprisingly positive direction as shipments to the US return to near pre-crisis levels. Although crude oil prices have been relatively stable, petrochemical prices have jumped and are expected to remain high over the two-year forecast horizon due to production capacity constraints and higher demand from the US as manufacturing ramps up. The key challenge for the industry is tough competition in the US; booming production of cheap shale gas is driving a surge in petrochemicals south of the border, which is pushing down prices. We expect that Canadian companies will continue to shift toward natural gas feedstock and diversify their petrochemical product mix. However, electricity costs, capacity utilization and labour constraints will continue to restrain growth. On the upside, over the medium to long term, potential expansions and product diversification largely in the packaging subsector could boost petrochemical production. Overall, Canada's chemical exports should rise by 13% this year but will see much tamer growth of 3% in 2015.

Exports of plastics will expand by 7% this year before softening to 5% growth next year. 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 11% this year and a projected 28% increase for 2015. 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 (2013):
CAD 37 bn

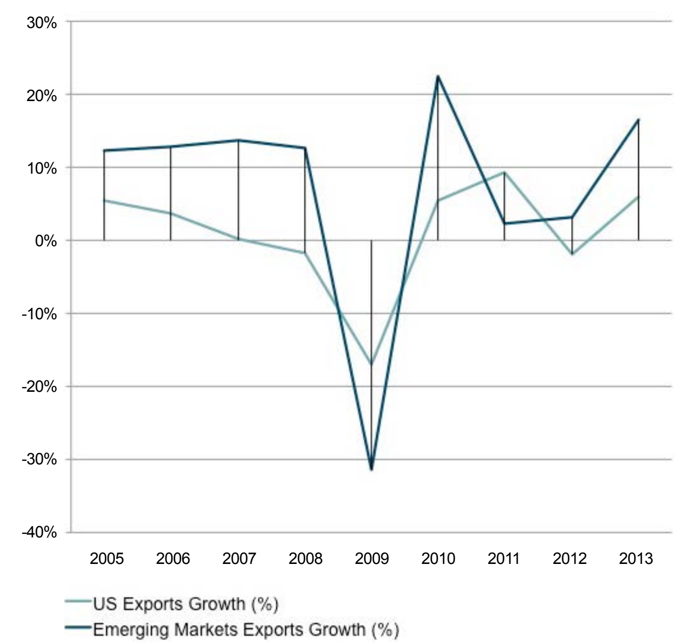
Share of Sector Exports to Emerging Markets
2009: 8%
2013: 10%

Share of Total Canadian Merchandise Exports (2013):
8%

Sector Distribution Across Provinces:
NL 0.0%
NB 0.3%
NS 0.9%
PE 0.2%
QC 18.0%
ON 54.4%
MN 2.7%
SK 2.0%
AB 18.7%
BC 2.9%

Sources: Statistics Canada, EDC Economics

Figure 28: Emerging Market Growth Surpassing US



Sources: Statistics Canada, EDC Economics

Table 13: Chemicals and Plastics Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	29.0	78.5	6.0	10	5
Western Europe	3.2	8.6	17.3	2	4
Japan, Oceania and Developed Asia	1.0	2.8	-7.6	63	6
Emerging Markets					
Latin America and the Caribbean	1.3	3.6	9.5	12	4
Emerging Europe and Central Asia	0.2	0.5	18.0	0	5
Africa and the Middle East	0.3	0.9	-10.0	13	6
Emerging Asia	1.9	5.1	27.2	24	5
Total Developed Markets	**33.3**	**89.9**	**6.5**	**11**	**5**
Total Emerging Markets	**3.7**	**10.1**	**15.7**	**18**	**5**
Total World	**37.0**	**100.0**	**7.4**	**12**	**5**

Sources: Statistics Canada, EDC Economics

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3.11 Consumer Goods

Exports of consumer goods will decrease by nearly 3% this year and then bounce back to 5% growth in 2015. This sector is made up of a very diverse group of categories, but more than 75% of shipments will go to the US. With the American economy in recovery mode, the outlook for consumer goods is generally positive.

With US housing starts expected to increase by slightly less than 11% this year, the spillover into housing-related consumer goods has finally taken hold and exports from this sector will be up. Furniture, kitchen cabinets and other consumer durables have historically tracked closely with housing starts and, with over 90% of housing-related exports going to the US, the recovering real estate market will drive this subsector.

After falling for much of the past decade, clothing exports appear to have finally bottomed out and are once again on a growth path. While exports are up 16% as of September 2014, this is expected to moderate to 2 to 3% growth going forward as the Canadian dollar stabilizes. The shift in the industry has been away from high volumes toward niche markets selling upscale goods such as Canada Goose branded outerwear. Finally, in the other consumer goods category, medical equipment exports continue to rise while newspapers and book publisher exports are seeing a recent surge.

Although the other subsectors are showing solid growth, jewellery and silverware exports, which make up more than a third of this sector, are down significantly, bringing down the overall growth forecast for 2014. Part of the decrease this year is due to depressed silver and gold prices and comes after a year when the Royal Canadian Mint had one of its strongest years in sales of coins.

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 (2013):
CAD 8.0 bn

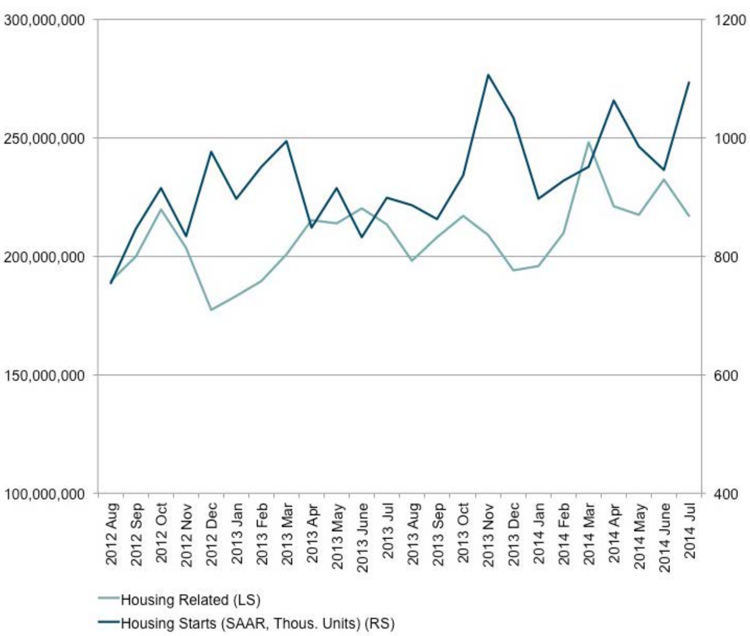
Share of Sector Exports to Emerging Markets
2009: 5%
2013: 4%

Share of Total Canadian Merchandise Exports (2013):
2%

Sector Distribution Across Provinces:
NL 0.1%
NB 0.2%
NS 0.8%
PE 0.0%
QC 29.2%
ON 57.4%
MN 2.5%
SK 0.2%
AB 1.9%
BC 7.6%

Sources: Statistics Canada, EDC Economics

Figure 29: Housing-Related Exports



Sources: Industry Canada

Table 14: Consumer Goods Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	6.1	77.0	10.4	-3	6
Western Europe	1.2	15.0	20.5	-11	-5
Japan, Oceania and Developed Asia	0.3	4.2	12.0	17	6
Emerging Markets					
Latin America and the Caribbean	0.1	1.0	-12.6	23	-3
Emerging Europe and Central Asia	0.0	0.6	-0.2	-11	2
Africa and the Middle East	0.1	1.1	-1.2	18	11
Emerging Asia	0.1	1.1	-17.0	35	17
Total Developed Markets	**7.7**	**96.2**	**12.0**	**-3**	**5**
Total Emerging Markets	**0.3**	**3.8**	**-9.2**	**20**	**8**
Total World	**8.0**	**100.0**	**11.0**	**-3**	**5**

Sources: Statistics Canada, EDC Economics

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3.12 Services

Similar to the performance of merchandise trade so far this year, Canada's services sector exports are also surprising on the upside, leading to a revision from our spring outlook. The Canadian dollar has been trading in the low 90-cent range throughout the first half of 2014 and is projected to average 91 cents this year and 90 cents next, continuing to provide a healthy boost to services exports. Overall services exports will expand by approximately 4.5% this year and 4% in 2015.

Healthy gains in the travel segment seen in the first half of 2014 are projected to extend out through 2015. While business travel has been lacklustre, the growth of personal travel has been surging and will expand at a rate of 4% this year and next. The momentum in the travel sector is primarily due to the weaker loonie, which makes Canada a more economical travel destination, and the strong recovery that is under way in the US, which is being fueled by an improving labour market, wage gains and lower debt levels that are contributing to higher household spending. Transportation services exports will accelerate in line with rising commodity exports that have swamped Canada's rail system, and demand is spilling over into ground transportation as trucking companies are stretched to find the resources to accommodate all the demand.

While gains are being enjoyed across the services subsectors, the sale of commercial services abroad will be the key contributor to growth over the forecast horizon. The sector's performance so far points to gains of above 5% this year and indicators suggest that, while things may slow slightly in 2015, continued strong performance is likely. Exports of financial services, which have been the segment's star performer, will decelerate this year but the years of foreign investments made by the Canadian industry over the past five years will translate into higher support for sales over the medium term. The construction boom under way in the US will feed into higher management, consulting and real estate services exports while the projected rise in US business investment will benefit almost all of the commercial

SECTOR STATS

International Exports (2013):
CAD 86.8 bn

Share of Sector Exports to Emerging Markets
2009: N/A
2013: N/A

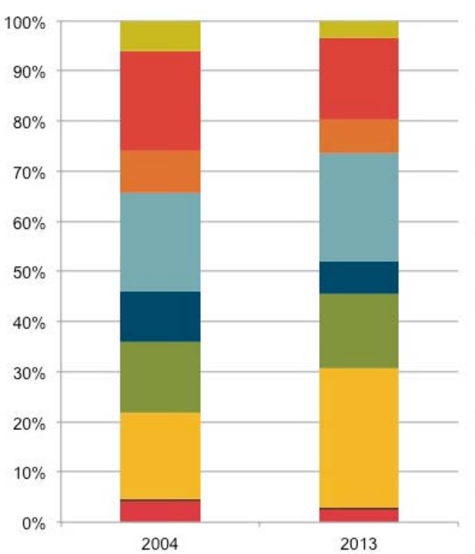
Share of Total Canadian Merchandise Exports (2013):
16.4%

Sector Distribution Across Provinces:

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

Sources: Statistics Canada, EDC Economics

Figure 30: Changing Makeup of Canadian Commerical Services Exports



Source: Haver Analytics, EDC Canada

Table 15: Canadian Export Services Outlook

	2011	2012	2013	2014 (f)	2015 (f)
Total Service Exports ($ mn)	**83,850**	**84,086**	**86,456**	**90,404**	**93,984**
annual % change	**5.8**	**0.3**	**2.9**	**4.5**	**4.0**
Commercial Services ($ mn)	52,072	51,597	53,001	55,651	57,877
annual % change	7.4	-0.9	2.7	5.0	4.0
Transportation Services ($ mn)	13,587	13,508	13,909	14,312	14,813
annual % change	6.5	-0.6	3.0	2.9	3.5
Travel Services ($ mn)	16,624	17,387	18,201	18,965	19,782
annual % change	1.9	4.6	4.7	4.2	4.3
Government Services ($ mn)	1,567	1,593	1,435	1,475	1,512
annual % change	-6.7	1.7	-9.9	2.8	2.5

Sources: Statistics Canada, EDC Economics

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Since our spring 2014 edition, EDC Economics has made upward revisions to all but two provinces' export forecasts. Canadian goods exports are now expected to grow by 11% overall in 2014, up from the original 6% estimate. Exporters of energy, forestry products and manufactured goods are benefiting from stronger US demand and the lower value of the Canadian dollar to a greater degree than anticipated. In 2015, growth will come in at 6% as energy prices weaken and as the Canadian dollar depreciates only slightly.

British Columbia's export growth for 2014 is now forecast to reach 10%, fuelled by increased lumber exports to the US in light of the housing recovery. In 2015, exports will increase by 8%, with the growth coming, again, from the forestry industry. **Alberta's** exports will expand 17% in 2014, driven by crude oil sales to the US. The weaker oil price and slower growth for agri-food will limit exports to a 4% increase in 2015. In **Saskatchewan**, energy exports as well as agri-food will set the tone, leading to 9% growth in 2014. Next year, weaker energy and agricultural exports will curb export growth at 5%. **Manitoba** will repeat its strong 2013 performance, as agri-food, energy and industrial machinery sectors push exports up by 12% this year. In 2015, lower average agricultural yields will result in exports expanding by 7%.

Exports from **Ontario** and **Quebec** will see increases of 7 and 8% in 2014. In Ontario, manufactured goods sales and chemicals and plastics are the main drivers of growth this year, while in Quebec, forestry and aircraft are the most buoyant. In 2015, Quebec will get additional momentum from metals and ores, powering a 9% increase in exports. Ontario, on the other hand, will be held back at 5% as the auto industry lacks capacity to further increase production.

Newfoundland and Labrador will see sky-high export growth of 28% this year, only to drop off to a mere 4% in 2015 as crude oil prices weaken and production levels off. Nearby **Nova Scotia** is set to top the charts in 2014 with 35% export growth due in large measure to soaring natural gas exports. In 2015, with the loonie expected to stay almost constant and subdued growth forecast for seafood and tire production, export receipts will increase by just 3%. In **New Brunswick**, exports will experience a 3% uptick in 2014, followed by somewhat higher growth of 7% next year. These changes are due mainly to fluctuations in crude petroleum prices and output. Finally, **Prince Edward Island's** exports will grow 15% in 2014 as the chemicals, aerospace and machinery industries benefit from a lower Canadian dollar, higher output and global demand. In 2015, manufacturing will continue to flourish but overall export growth will be held back at 6% by agri-food industry challenges.

Table 16: Canadian Merchandise Export Forecast by Province

PROVINCES	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Newfoundland and Labrador*	11.9	2.7	5.9	28	4
Prince Edward Island	0.9	0.2	5.9	15	6
Nova Scotia	4.2	0.9	10.8	35	3
New Brunswick	14.5	3.3	-2.3	3	7
Quebec	64.4	14.5	3.5	8	9
Ontario	164.1	37.0	0.9	7	5
Manitoba	12.5	2.8	10.4	12	7
Saskatchewan	32.2	7.3	2.5	9	5
Alberta	103.6	23.4	8.1	17	4
British Columbia	33.4	7.5	6.2	10	8
Territories	1.7	0.4	-15.5	7	11
Total Goods Exports	**443.5**	**100.0**	**3.7**	**11**	**6**

Sources: Statistics Canada, EDC Economics

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

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4.1 Newfoundland and Labrador

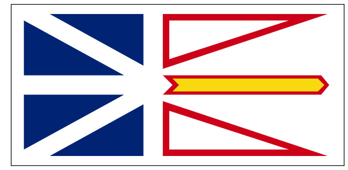
Newfoundland and Labrador's exports are forecast to experience bullish growth in 2014, expanding by 28%, before falling to 4% in 2015. Shipment growth will largely be driven by continued expansion in the energy sector in 2014. Growth will fall sharply to 4% in 2015 due to weak commodity prices and a redirection of shipments.

In the energy sector, the proportion of shipments heading to international markets rather than domestic has significantly increased oil exports in 2014 and this will grow by 49% followed by a drop to 3% growth in 2015. In addition, 2015 new production growth will be offset by prices falling from USD99.55/bbl in 2014 to USD92/bbl in 2015 and by falling production in mature wells. In the long term, however, new exploration and development efforts that began in 2012 are likely to compensate for production declines caused by the maturing wells. The Hebron field, one of the biggest capital injections in the province this year, will start to contribute to production volumes in 2018.

The outlook for ore exports has turned negative for 2014, declining by 19%. The fall is due to curtailed production at Labrador Iron Mines and Wabush, in addition to lower prices. While export prices for iron ore continue to decline, Tata Steel's investments in metal ore prospects are forecast to boost production this year and beyond. The new capacity will compensate for declining output at maturing wells. Dropping ore prices will dampen growth in 2015, reaching a mere 5%.

Newfoundland and Labrador's agri-food sector, dominated by seafood, is bearing the brunt of lower volumes, but moderate growth of 5 and 7% is nonetheless expected in 2014 and 2015, respectively, mostly driven by a slight uptick in crab exports. Once ratified, the recently concluded Canada-South Korea Free Trade Agreement will boost exports, especially in the seafood segment such as shrimp and crab. However, the agreement is unlikely to come into force before the end of 2015, so the impact would be felt only in the medium term.

The balance of the province's exports includes a broad basket of goods, including forestry, motor vehicle parts and aerospace. We expect exports in this diversified category to experience a modest boost compared with the significant drop in 2013.



PROVINCIAL STATS

GDP
CAD 34 bn

International Exports/GDP
36%

Number of Exporters
240

Canada's Total Exporters
42,199

Trade Balance
CAD 7 bn

Largest Export Destinations
United States 55%
China 13%
United Kingdom 8%
Netherlands 7%
France 4%

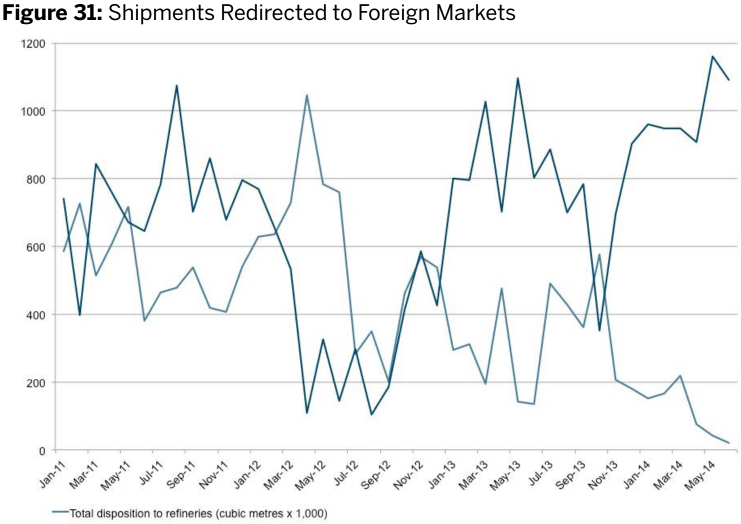
Share of Exports to Emerging Markets (Non-OECD)
2013: 19%
2009: 18%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 49%

Regional Diversification: 34%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 31: Shipments Redirected to Foreign Markets



Source: Haver Analytics

Table 17: Newfoundland and Labrador Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Energy	7,715	64.7	6.1	49	3
Ores and Metals	3,189	26.8	16.1	-19	5
Agri-Food	843	7.1	6.3	5	7
Forestry	102	0.9	-14.7	14	5
All Others	71	0.6	-78.4	38	9
Total	**11,920**	**100.0**	**5.9**	**28**	**4**
Total excl. energy	**4,205**	**35.3**	**5.5**	**-12**	**6**

Sources: Statistics Canada, EDC Economics

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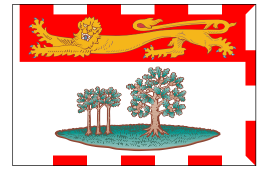
4.2 Prince Edward Island

Prince Edward Island's exports will grow 15% in 2014. The chemicals, aerospace and machinery industries, which are benefiting from a lower Canadian dollar as well as higher demand and output, will provide most of the momentum. In 2015, economic expansion in the US, Asia and Europe will push up prices and boost exports for the manufacturing sector, but challenges in agri-food will curb overall export growth for the province at 6%.

The chemicals sector is leading the charge, with provincial manufacturers of organic chemicals, pharmaceutical components and animal vaccines witnessing 84% export growth in 2014. Strong demand for inputs from pharmaceutical companies in Western Europe accompanied by the ongoing expansion at BioVector, one of the Island's main producers, should drive additional gains of 55% in 2015. In 2015, increasing traction in new Asian markets and a likely bounce-back of orders for vaccines from aquaculture hub Chile will support additional growth.

Following closely will be aerospace and industrial machinery. The two industries will grow 12% and 10%, respectively, in 2014, followed by a 16% spurt in 2015. The exchange rate effect is providing a significant boost in 2014. For 2015, export gains will be propelled by the 3.6% GDP growth forecast for the US and improved prospects in Europe. Expansions and a planned facility catering to unmanned aerial vehicle servicing will further increase export volumes.

In the agri-food sector, export prospects are more modest, with sales increasing 5% this year, followed by a 3% contraction in 2015. Frozen lobster exports will drive the increase in 2014. Prolonged cold weather delayed the start of the season in Maine, reducing supplies and boosting prices for provincial processors. In 2015, challenges facing French fry and lobster producers will result in negative export growth for agri-food. New fryers coming online in the US will exert downward pressure on prices. In the seafood industry, lobster processing plants will likely have reduced output as they adjust to new federal temporary foreign worker caps. By 2016, however, the prospects for agri-food will improve markedly, with demand for processed and live lobster growing in Asia due to increased consumer awareness. Market access for both seafood and frozen potatoes should also improve on the back of trade pacts with the European Union and South Korea.



PROVINCIAL STATS

GDP
CAD 6 bn

International Exports/GDP
18%

Number of Exporters
180

Canada's Total Exporters
42,199

Trade Balance
CAD 1 bn

Largest Export Destinations
United States 71%
France 2%
Japan 2%
Indonesia 2%
Kenya 2%

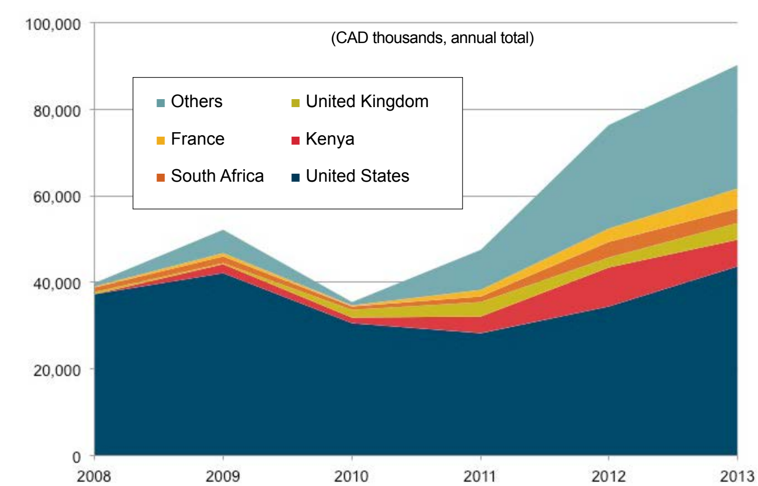
Share of Exports to Emerging Markets (Non-OECD)
2013: 16%
2009: 10%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 30%

Regional Diversification: 53%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 32: PEI Aerospace Exports: Diversification Continues



Source: Industry Canada

Table 18: Prince Edward Island Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Agri-Food	530.3	59.6	5.6	5	-3
Industrial Machinery	95.5	10.7	8.6	10	16
Aircraft and Parts	65.1	7.3	2.6	12	16
Chemicals and Plastics	58.0	6.5	12.1	84	55
All Others	141.0	15.8	4.5	31	-3
Total	**889.9**	**100.0**	**5.9**	**15**	**6**
Total excl. energy	**889.9**	**100.0**	**5.9**	**15**	**7**

Sources: Statistics Canada, EDC Economics

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4.3 Nova Scotia

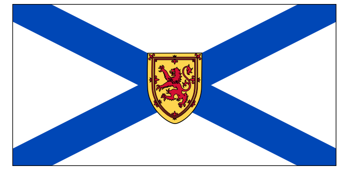
EDC Economics sees exports from Nova Scotia recording a whopping 35% growth increase in 2014 due in large measure to a dramatic rise in natural gas exports as well as a weaker Canadian dollar. In 2015, with the loonie expected to depreciate only slightly, and with subdued growth forecast for seafood and tire production, overall increases in export receipts will be limited to 3%.

Energy exports should jump from $137 million in 2013 to over $1 billion in 2014. Natural gas gets some lift this year from the resolution of production problems at Sable but the biggest gains will come from a full year of production at Deep Panuke. The outlook for the sector will remain strong even beyond the forecast; both BP and Shell Canada have committed $2 billion to offshore exploration activities.

In the agri-food sector, exports will rise 25% this year thanks to a weaker Canadian dollar and higher prices for live lobster. Demand from Asia for seafood will continue driving the diversification of export destinations. These same demand conditions will continue in 2015 but exports will nudge upward by only 6%, as the Canadian dollar stabilizes. One downside risk to production is the effect of the new temporary foreign worker regulations. Beyond the forecast period, the Comprehensive Economic and Trade Agreement (CETA) agreement with Europe will bring down tariffs and provide opportunities for the sector.

Average annual growth in forestry exports will come in at 13% this year and 8% in 2015. Nearly all of the growth is expected to come from lumber as US housing starts rise by 28% in 2015. However, capacity constraints at existing mills allow little room for expansion in this sector. Elsewhere, we assume production at Port Hawkesbury (super calendar paper) and Abercrombie (pulp) to hold steady.

The motor vehicles and parts sector, led by Michelin sales, will rise this year by 5% before declining 2% next year when the Granton plant scales back production. Upgrades at the Waterville facility will boost medium-term production. The natural gas boom in the US has spawned demand for truck tires. One sector that is projected to continue growing is aircraft and parts, which will expand by 19% this year.



PROVINCIAL STATS

GDP
CAD 38 bn

International Exports/GDP
19%

Number of Exporters
765

Canada's Total Exporters
42,199

Trade Balance
CAD (2) bn

Largest Export Destinations
United States 72%
China 5%
Japan 2%
United Kingdom 2%
France 2%

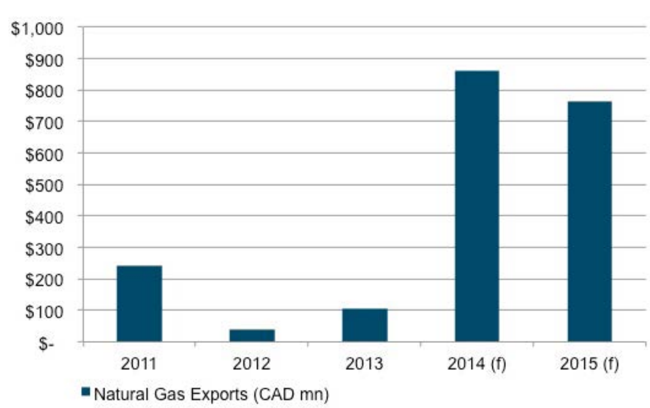
Share of Exports to Emerging Markets (Non-OECD)
2013: 13%
2009: 7%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 17%

Regional Diversification: 54%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 33: Nova Scotia Gas Exports to Surge



Source: Statistics Canada

Table 19: Nova Scotia Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Agri-Food	1,333	31.7	13.4	25	6
Motor Vehicle, Parts	1,030	24.5	-2.3	5	-2
Forestry	639	15.2	65.2	13	8
Chemicals/Plastics	340	8.1	8.6	4	5
All Others	857	20.4	-0.4	115	1
Total	**4,200**	**100.0**	**10.8**	**35**	**3**
Total excl. energy	**4,063**	**96.7**	**10.7**	**14**	**3**

Sources: Statistics Canada, EDC Economics

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4.4 New Brunswick

EDC Economics expects New Brunswick exports to increase by 3% this year followed by 7% growth in 2015. The forecast is driven by fluctuations in crude petroleum prices and output.

Following maintenance-related shutdowns, the Irving refinery has resumed producing at full capacity, which will boost exports in 2015. Upcoming projects, such as the East-West pipeline or the plan to convert the Canaport LNG terminal into an export facility, which are set to be completed in the medium to long term, would be game changers.

The forestry sector will grow at 13% in 2014 and 10% in 2015, in tandem with the US recovery and the related rise in housing starts. Lumber exports will further benefit from the 20% increase in allowable timber cuts, which should start to show dividends next year. J.D. Irving is investing $513 million over the next two years to upgrade its mills. The only constraints on the sector are pulp and newsprint exports, which will see lower growth as the process of refitting some mills begins in late 2015.

In the agri-food sector, driven by higher prices, fish and seafood exports will grow by 1% this year and almost 9% in 2015. New temporary foreign worker regulations could start to squeeze output next year but their full impact is more likely to be felt in 2016. On the upside, the recently signed free trade agreement with South Korea and in the coming years with Europe will have a positive impact for this subsector. One niche industry with growth potential is oysters.

Potash production will be down substantially this year as a result of the closure of the mine at Penobsquis and low prices. This will be partly offset by the gradual ramping up of production at the new Picadilly facility.

The metal mining sector has been hurt by lower commodity prices and access to financing. The impact of the Brunswick Mine closure will continue to be felt, resulting in a drop in zinc production by 90% this year. Exports will shrink by 16% in 2014. However, this loss will be partially balanced by the Caribou mine. Growth of 12% should return in 2015.

PROVINCIAL STATS

GDP
CAD 32 bn

International Exports/GDP
50%

Number of Exporters
608

Canada's Total Exporters
42,199

Trade Balance
CAD (1) bn

Largest Export Destinations
United States 90%
Brazil 1%
China 1%
Turkey 1%
Japan 1%

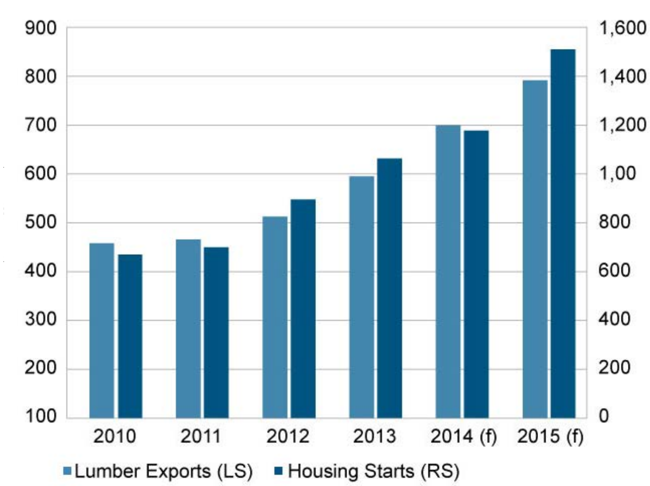
Share of Exports to Emerging Markets (Non-OECD)
2013: 6%
2009: 7%

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

Regional Diversification: 81%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 34: Impact of Housing Starts on Lumber Exports



Source: Industry Canada

Table 20: New Brunswick Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Energy	10,254	70.9	-3.1	4	6
Forestry	1,538	10.6	6.0	13	10
Agri-Food	1,412	9.8	0.1	1	9
Ores and Metals	540	3.7	4.1	-16	12
All Others	712	4.9	-13.6	-7	12
Total	**14,457**	**100.0**	**-2.3**	**3**	**7**
Total excl. energy	**4,289**	**29.7**	**-0.1**	**2**	**10**

Sources: Statistics Canada, EDC Economics

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4.5 Quebec

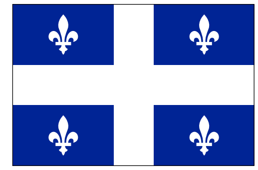
Quebec's exports will expand by 8% in 2014 and 9% next year, with the lower Canadian dollar and the strengthening recovery in the US driving most of that growth. Forestry, specifically lumber, will contribute the most to export growth in 2014 on the back of strong US housing demand. Aircraft and parts will make strong contributions in both 2014 and 2015. However, the strongest export growth in 2015 will come from the metals and ores sector, which will benefit from increased output and US demand next year.

Quebec's forestry sector, including the subsectors of newsprint, pulp and lumber, will see 15% export growth in 2014, before dropping to 9% in 2015. The strongest segment remains lumber exports, experiencing double-digit growth throughout the forecast period, driven by US housing demand. Newsprint and pulp exports remain on a downward trend, which will persist as screens of all sizes continue to prevail in their battle against the paper page.

In 2015, metals and ores exports will have one of the biggest impacts on Quebec's sales abroad, expanding by 10%. Aluminum is the main engine behind this surge, with increased output in 2014 and 2015 at several smelters, including Alouette, offsetting the closure of Rio Tinto Alcan's Shawinigan smelter. Iron ore exports are also set to increase in 2015 as production ramps up at Mont-Wright. On the demand side, aluminum use by the US automotive sector is on a steady upward trend and will power export growth through the forecast horizon and beyond.

In the medium to long term, the Quebec government's recently re-launched Plan Nord aimed at stimulating mining and infrastructure investment in northern Quebec is likely to further boost exports from the sector.

The aircraft and parts sector is also set for a robust performance in 2014 and 2015 as Quebec manufacturers benefit from the lower Canadian dollar value this year and from steady international demand for aircraft. With the dollar dipping only slightly in 2015, Quebec exporters will not benefit from significant exchange rate-driven price gains next year. However, the long-awaited Bombardier C-Series jet will provide a boost as it is scheduled to enter into service toward the end of 2015.



PROVINCIAL STATS

GDP
CAD 358 bn

International Exports/GDP
26%

Number of Exporters
8,759

Canada's Total Exporters
42,199

Trade Balance
CAD (12) bn

Largest Export Destinations
United States 72%
China 4%
France 2%
Netherlands 2%
Germany 2%

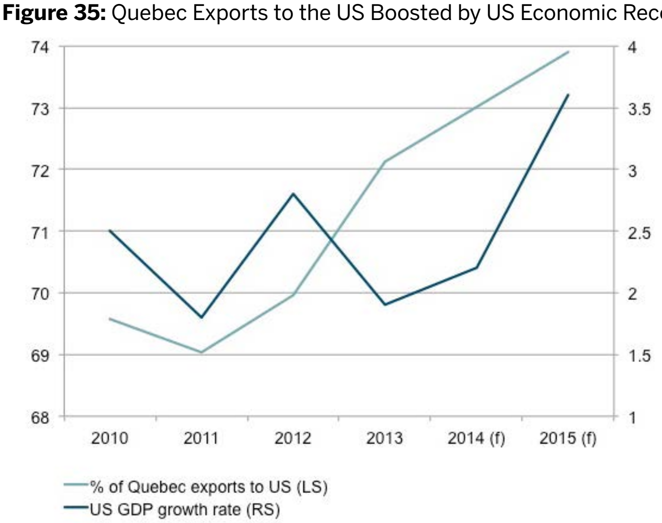
Share of Exports to Emerging Markets (Non-OECD)
2013: 13%
2009: 10%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 13%

Regional Diversification: 54%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 35: Quebec Exports to the US Boosted by US Economic Recovery



Source: Industry Canada, EDC Economics

Table 21: Quebec Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Ores and Metals	16,774	26.1	-1.8	4	10
Forestry	8,177	12.7	14.3	15	9
Aircraft and Parts	7,492	11.6	17.9	11	10
Chemicals/Plastics	6,640	10.3	3.0	7	5
All Others	25,276	39.3	0.5	7	8
Total	**64,359**	**100.0**	**3.5**	**8**	**9**
Total excl. energy	**60,608**	**94.2**	**4.0**	**8**	**9**

Sources: Statistics Canada, EDC Economics

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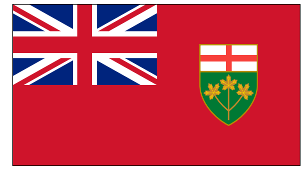
4.6 Ontario

Ontario's export sector is set to improve upon last year's lacklustre performance, thanks to accelerating US demand and a weak loonie. Headline figures will be slightly weaker than the national in 2014, with export growth forecast at 7%. Next year, foreign sales growth will slow to 5% as Ontario's automotive industry dips from its current above-capacity levels of output and commodity prices remain flat.

Export growth in Ontario's motor vehicles and parts sector will reach 8% in 2014 but will then slow to 3% the next year due to capacity constraints. The strong recovery under way in the US is likely to allow US auto sales to reach all-time highs of 18 million over the coming years. Canadian vehicle manufacturers have lifted capacity utilization to record highs in 2014 in response to this strong demand; however, there is limited scope for additional output growth in the absence of further investment. Part suppliers are also benefiting from ramped-up vehicle production in the US. However, the industry is currently operating at capacity, and while this year will exceed previous expectations, growth rates will slow in 2015 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. Unlike in 2014, price gains from a lower Canadian dollar are limited in 2015, with the Canadian dollar forecast falling slightly to 90 cents.

The metals story continues to be positive albeit muted over the forecast horizon, with exports increasing 3% this year and 6% in 2015. Despite the significant weakening in gold prices, the Canadian gold mining industry will continue to see strong growth in production in 2014 and 2015. Demand for steel in the US is rising; however, the North American market is attracting imports from low-cost producers in Asia and the Middle East, which is cutting into opportunities for Canadian producers. Also, capacity utilization rates in the US steel industry are relatively low, leaving ample capacity for domestic US producers to meet demand.

Rounding out the forecast is the expectation that Ontario's industrial machinery exports will benefit from robust demand in the next two years, again due to positive private sector momentum in the US. The weaker Canadian dollar will also contribute to sales growth of 10% in 2014 and 17% in 2015.



PROVINCIAL STATS

GDP
CAD 674 bn

International Exports/GDP
33%

Number of Exporters
18,681

Canada's Total Exporters
42,199

Trade Balance
CAD (78) bn

Largest Export Destinations
United States 78%
United Kingdom 6%
Hong Kong 2%
China 1%
Mexico 1%

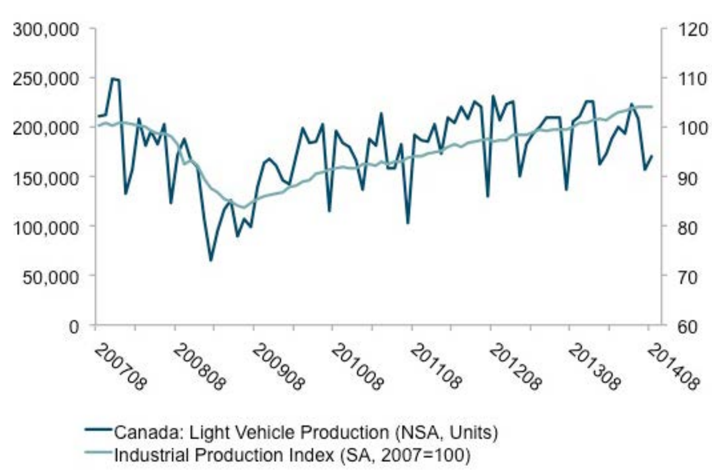
Share of Exports to Emerging Markets (Non-OECD)
2013: 7%
2009: 5%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 20%

Regional Diversification: 62%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 36: Vehicle Production to Moderate While US Industrial Production Drives Ontario's Export Performance



Sources: Haver Analytics, Wards Automotive

Table 22: Ontario Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Motor Vehicle, Parts	57,795	35.2	-1.1	8	3
Ores and Metals	35,989	21.9	0.8	3	6
Chemicals/Plastics	20,113	12.3	6.6	12	5
Industrial Machinery	14,325	8.7	-2.1	10	17
All Others	35,827	21.8	2.6	6	5
Total	**164,050**	**100.0**	**0.9**	**7**	**5**
Total excl. energy	**161,052**	**98.2**	**1.1**	**7**	**5**

Sources: Statistics Canada, EDC Economics

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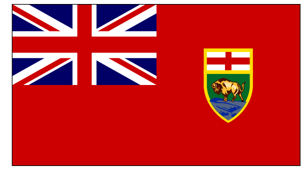
4.7 Manitoba

Manitoba is set to repeat its strong 2013 performance, with the agri-food, energy and industrial machinery sectors driving an 12% surge in exports in 2014. In 2015, lower average agricultural yields will lead agricultural exports to grow at a slower pace. However, this will be partially offset by stronger manufacturing sector export growth as the US economic recovery accelerates. On balance, export growth is forecast to slow to 7% in 2015.

In agri-food, cattle and hog exports are set for double-digit growth in 2014. Buoyed by strong international demand, lower feed costs and record pork prices, the Manitoba pork industry enjoyed a banner 2014. However, growth is expected to slow in 2015. The one-year ban on Canadian pork imports by Russia – Manitoba's fourth-largest export market for live swine and pork exports – will require some redirection of exports to other markets. While the 2013 bumper crop translated into record exports in 2013-14, agricultural output will return to more moderate levels in the year ahead due to this year's summer flooding, excessive moisture and less seeded area to canola and wheat. As such, while carryover stocks from last year's crop and rapidly expanding soybean production will drive agri-food exports to grow 17% in 2014, growth will slow to 5% next year. Turning to the aerospace sector, 2014 witnessed steady growth, and the strengthening recovery in the US bodes well for continued expansion in 2015. Our positive US outlook and the weaker Canadian dollar are also expected to lift manufacturing exports, with industrial machinery growth forecast at 10% this year and 13% in 2015.

The metals mining industry offers strong upside potential with a number of mining operations starting or expanding production in 2014, such as the Hudbay-VMS Venture Reed Lake Copper Mine and the Hudbay Lalor mine, contributing to solid gains of 10% growth in 2015. The outlook for the transportation sector also remains bright with reports that order books remain full at Winnipeg-based New Flyer Industries and the recent purchase announcement by Massachusetts Bay Transportation Authority of 60 of the company's new heavy-duty buses.

In energy, expect continued steady export growth for the province's electricity and crude exports, with a new crude rail car oil terminal near Cromer set to improve market access for Manitoban light oil producers.



PROVINCIAL STATS

GDP
CAD 58 bn

International Exports/GDP
26%

Number of Exporters
1,395

Canada's Total Exporters
42,199

Trade Balance
CAD (6.3) bn

Largest Export Destinations
United States 67%
China 8%
Japan 5%
Mexico 2%
Germany 1%

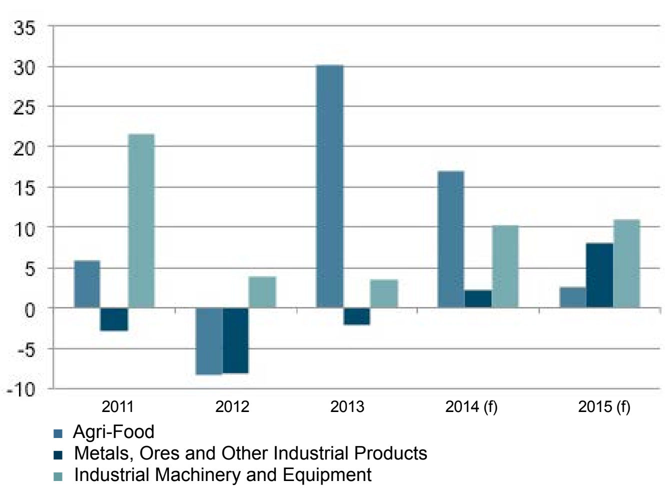
Share of Exports to Emerging Markets (Non-OECD)
2013: 19%
2009: 20%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 16%

Regional Diversification: 48%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 37: The Diversification Dividend



Source: Statistics Canada, EDC Economics

Table 23: Manitoba Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Agri-Food	5,103	40.7	30.1	17	5
Ores and Metals	1,371	10.9	-17.3	1	10
Energy	1,328	10.6	9.7	14	4
Industrial Machinery	1,263	10.1	1.2	10	13
All others	3,476	27.7	4.6	7	7
Total	**12,541**	**100.0**	**10.4**	**12**	**7**
Total excl. energy	**11,212**	**89.4**	**10.5**	**11**	**7**

Sources: Statistics Canada, EDC Economics

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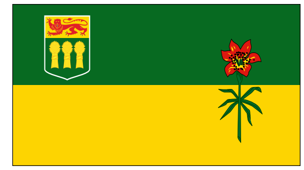
4.8 Saskatchewan

Saskatchewan's exports will rise by 9% in 2014, followed by a 5% uptick in 2015. Energy and fertilizer exports will see robust export volume increases in both years. Benefiting from the strong oil price and lower value of the Canadian dollar, crude oil sales will fuel Saskatchewan's export growth in 2014. In 2015, the fertilizer sector will be the province's main growth driver as fertilizer prices increase from their current low level.

Saskatchewan's oil sector, which is forecast to see exports grow by 17%, will lead all other key industries this year. While crude oil production will continue to expand this year and next, a weak pricing outlook for 2015 will slow exports to a 3% crawl. Despite robust investment and drilling activity, major additions to production capacity will come online only after 2015. Saskatchewan metals exports will weaken significantly due to falling gold prices but will improve with the massive Cigar Lake mine, which began production in March and will gradually ramp up to full production of 18 million pounds of uranium annually in 2018.

In the fertilizer sector, exports are forecast to fall by 8% this year before rebounding by 14% in 2015 on strong potash demand from Brazil, India and the US. While the short-term forecast is challenged by global oversupply and falling prices, partly due to the break-up of the Russia-Belarus potash partnership, production will recover late this year and into 2015. Multiple brownfield projects will come online in Saskatchewan over the next four years, including Rocanville, Vanscoy, and Belle Plaine plants.

A global glut of many principal field crops will depress price growth in the agri-food sector in 2014 and 2015. Nevertheless, high volumes from Saskatchewan's 2013 record crop, which saw outsize canola, lentil, oat and wheat harvests, will still allow agricultural exports to grow by 10% in 2014. This year's harvest, most of which will be exported in 2015, is back to historical levels as farmers have faced severe winter weather, a wet spring and early summer floods that hampered seeding. Despite reduced prices and output, carryover stocks are likely to support a 4% increase in export growth in 2015. The rail system backlog, which hampered crop shipments last year, will also not pose serious difficulties going forward.



PROVINCIAL STATS

GDP
CAD 78 bn

International Exports/GDP
42%

Number of Exporters
1,036

Canada's Total Exporters
42,199

Trade Balance
CAD 21.9 bn

Largest Export Destinations
United States 66%
China 8%
Japan 3%
India 3%
Indonesia 2%

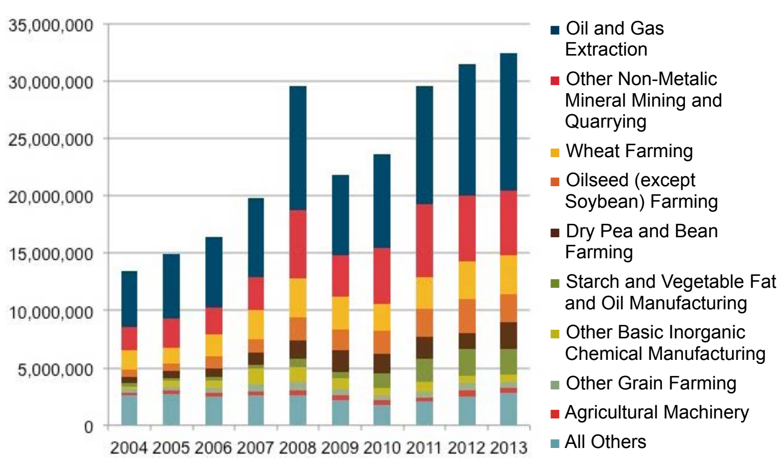
Share of Exports to Emerging Markets (Non-OECD)
2013: 25%
2009: 27%

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

Regional Diversification: 45%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 38: Saskatchewan Exports at Record Levels



Source: Industry Canada

Table 24: Saskatchewan Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Energy	12,330	38.2	3.8	17	3
Agri-Food	11,655	36.1	4.6	10	4
Fertilizers	5,733	17.8	-2.9	-8	14
Chemicals and Plastics	734	2.3	6.8	20	5
All Others	1,792	5.6	-2.4	-9	10
Total	**32,243**	**100.0**	**2.5**	**9**	**5**
Total excl. energy	**19,913**	**61.8**	**1.8**	**3**	**7**

Sources: Statistics Canada, EDC Economics

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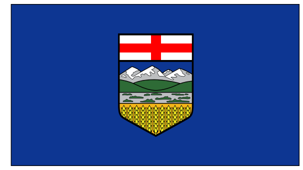
4.9 Alberta

In 2014, Alberta's resource-based industries are benefiting from the lower value of the Canadian dollar which is helping drive robust export growth of 17%. Export growth of just 4% is forecast for 2015 as agricultural expansion slows down from the highs reached as a result of recent bumper crops.

Total crude oil exports are forecast to increase 17% in 2014 due to the lower value of the loonie. In 2015, nominal oil export growth will slow to 4% as the Canadian dollar stabilizes. Alberta's oil sector has already seen some benefit in volume terms from new rail and truck transportation capacity that came online this year. The completion of refinery reconfigurations in the US and pipeline capacity additions, like the 120,000 bbl/d Alberta Clipper expansion, which is expected to begin operating in 2015, will boost volumes further, compensating for the weaker price forecast for next year. As additional export capacity comes online, this will reduce the USD24/bbl gap between Western Canada Select Crude (WCSC) and the higher-priced West Texas Intermediate (WTI), increasing export earnings potential once the crude price recovers.

After an extremely cold winter caused natural gas demand and prices to pop up, a cooler summer has allowed gas storage capacity to rebuild, causing prices to soften. As a result, Alberta's natural gas export growth of 37% in 2014 is being driven largely by the lower Canadian dollar. Faced with a nearly stable dollar and continued strong US shale gas output, Alberta producers are expected to trim production in 2015, slowing export growth to 2%.

Despite headwinds posed by Russian agricultural sanctions over the summer and the US's country of origin labelling requirements, Alberta's agri-food sector exports are expected to grow by more than 37% in 2014. Storage levels remained high into 2014 following excellent harvests, ensuring that the province had significant carryover export capacity available this year despite weaker plantings. While agri-food exports are expected to increase by only 4% in 2015, there remains significant potential for stronger growth in future years as the Canada-South Korea and Canada-EU free trade agreements come into force, reducing or removing barriers to Alberta's meat and live animal exports to those markets.



PROVINCIAL STATS

GDP
CAD 312 bn

International Exports/GDP
32%

Number of Exporters
4,226

Canada's Total Exporters
42,199

Trade Balance
CAD 73.2 bn

Largest Export Destinations
United States 88%
China 3%
Japan 2%
Mexico 1%
South Korea 0%

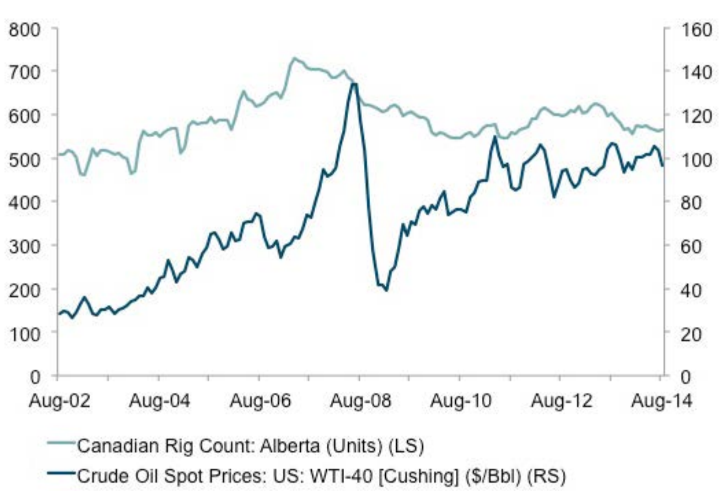
Share of Exports to Emerging Markets (Non-OECD)
2013: 7%
2009: 9%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 55%

Regional Diversification: 78%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 39: Alberta Rig Count vs. WTI Prices



Source: Haver Analytics

Table 25: Alberta Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Energy	77,295	74.6	10.8	19	3
Agri-Food	8,614	8.3	-5.6	19	4
Chemicals/Plastics	6,921	6.7	18.7	15	5
Industrial Machinery	3,329	3.2	-8.9	3	16
All Others	7,480	7.2	-0.4	6	10
Total	**103,639**	**100.0**	**8.1**	**17**	**4**
Total excl. energy	**26,344**	**25.4**	**0.9**	**12**	**7**

Sources: Statistics Canada, EDC Economics

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4.10 British Columbia

The ongoing boom in the forestry sector and the pricing benefits provided to commodities from the weaker Canadian dollar will allow British Columbia's exports to grow by 10% in 2014. With the value of the loonie expected to remain almost constant in 2015, BC's exports will lose some pricing support, but are still forecast to increase by 8%.

US housing starts are forecast to cross the 1 million mark in 2014 for the first time since the financial crisis. This continuing recovery of the US housing market underlies the strong 11% growth in BC's forestry exports in 2014. Strong demand from China, which now accounts for more than a quarter of the province's forestry exports, is also boosting demand.

While demand remains strong, the mountain pine beetle infestation is weighing on the BC forestry sector's potential output. According to the province's Ministry of Forests, by the end of last year, more than half of the pine volume in the province had been killed by the infestation. BC's forestry sector is starting to feel the effects of the reduced fibre supply, though with international demand expected to remain strong, higher prices should offset the lower volume production.

The abnormally cold winter to start 2014 coupled with the pass-through effect from the lower Canadian dollar has boosted BC's energy sector. Coal, gas and crude exports are expected to grow by 4% in 2014. In 2015, exports will expand another 5% due to increased volumes, even as the Canadian dollar value stays almost flat. Natural gas and electricity, the smallest subsector of energy, are expected to see growth into 2015 as a continued drought constrains hydroelectric power generation capacity in the western US.

The opening of new mines and the expansion of several existing ones are expected to lead to 13% export growth in BC's metals and ores sector in 2014. The ramp-up of the Mt. Milligan mine's copper and gold production will continue until it reaches full production in 2015. A weaker global price outlook for minerals and metals will dampen growth to just 3% in 2015.

PROVINCIAL STATS

GDP
CAD 220 bn

International Exports/GDP
22%

Number of Exporters
6,309

Canada's Total Exporters
42,199

Trade Balance
CAD (10.8) bn

Largest Export Destinations
United States 47%
China 20%
Japan 12%
South Korea 5%
Taiwan 2%

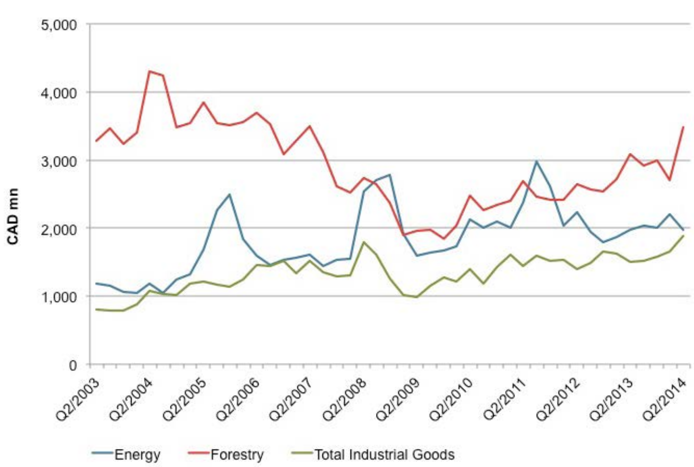
Share of Exports to Emerging Markets (Non-OECD)
2013: 29%
2009: 19%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 20%

Regional Diversification: 28%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 40: Key Export Sectors



Sources: Haver Analytics, Statistics Canada

Table 26: British Columbia Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Forestry	11,590	34.7	14.6	11	12
Energy	8,061	24.1	-2.8	4	5
Ores and Metals	5,354	16.0	6.2	13	3
Agri-Food	2,943	8.8	7.9	11	6
All Others	5,478	16.4	3.4	11	9
Total	**33,426**	**100.0**	**6.2**	**10**	**8**
Total excl. energy	**25,364**	**75.9**	**9.4**	**11**	**9**

Sources: Statistics Canada, EDC Economics

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Export Performance Monitor
The Export Performance Monitor is a monthly publication which tracks recent movements in Canadian exports by industry and geographic market. The monitor also assesses EDC's main export forecast, which is produced twice yearly.

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Country Risk Quarterly
The **Country Risk Quarterly** is an electronic publication aimed at Canadian companies looking to explore high potential markets. It provides valuable information on over 100 countries, helping to inform trade and investment decisions. A mix of text and visual graphics present the reader with the risks and opportunities of doing business in Europe, Asia, Africa, the Middle East and the Americas, including key insights on payment experience and risk rating drivers. The Country Risk Quarterly is published in January, April, July and October.

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