VOLATILE IS THE NEW UP

Global Export Forecast
Fall 2015

Canada

EDC
Realize a World of Opportunity

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EDC ECONOMICS

Peter Hall, Vice-President and Chief Economist
Tina Drew, Administrator

Economic and Political Intelligence Centre

Stuart Bergman
Daniel Benatuil
John Bitzan
Catherine Couture
Nadia Frazzoni
Andrea Gardella
Todd MacDonald
Ross Prusakowski
Indika Joy Rankothge
Motria Savaryn-Roy
Richard Schuster
Geoff Stone
Ian Tobman
Peter Whelan

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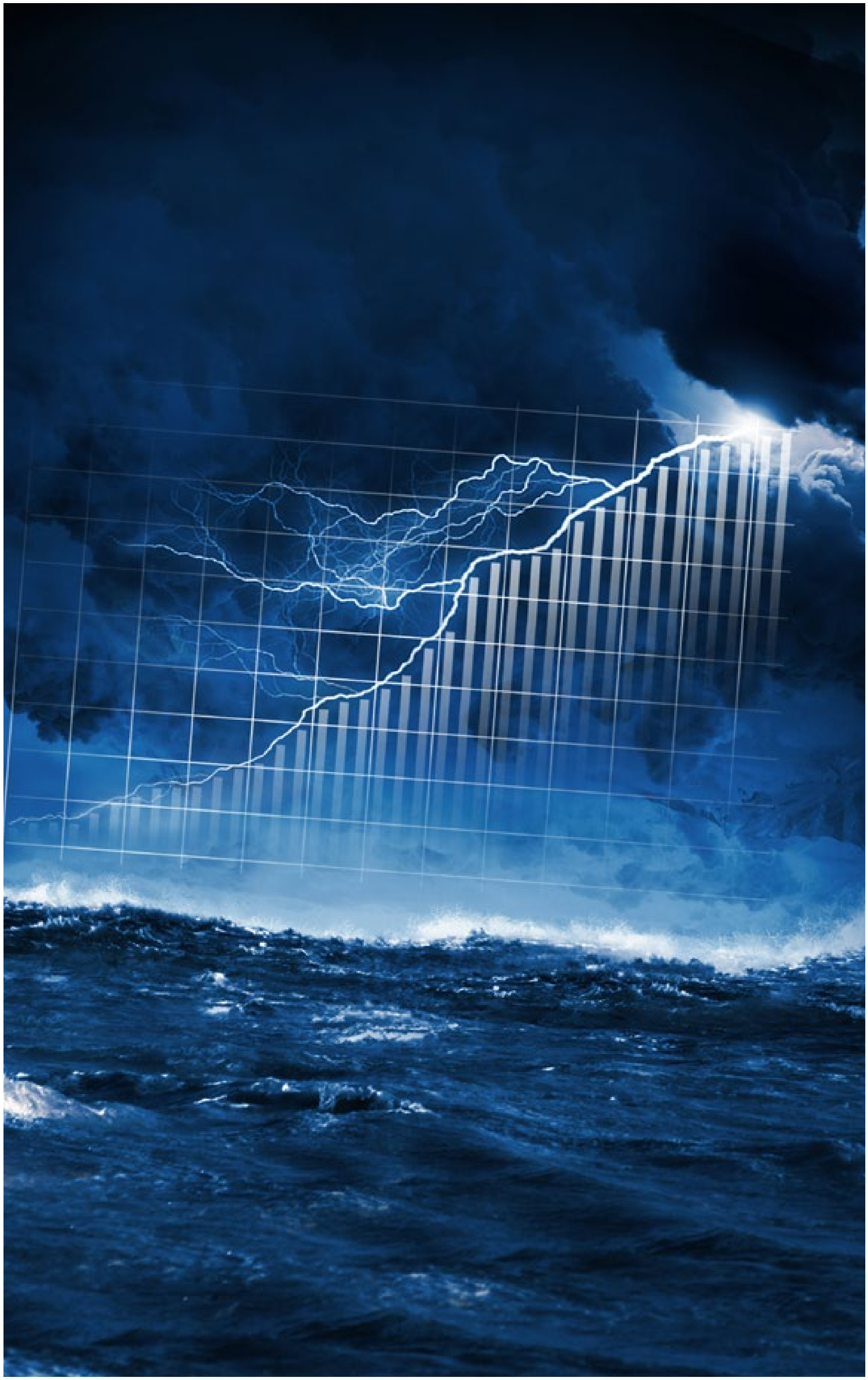

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1.1 Volatile Is the New Up

Up is supposed to be smooth. In economy-speak, it's the moment when the recent past nasties are shaken off, and we get on with our lives again. We expect turbulence when the economy is in freefall. It's also to be expected when the economy is in a directionless funk, making it more vulnerable to surprises. But in a rising economy, even if there are bumps, they don't feel the same. Hopes are up, resilience is higher, money is being made – all factors that smooth the experience. Not so at the moment. Growth is rising, but at the same time, there are some pretty outsized setbacks. What's going on?

Doubtless, some of the recent turbulence is weather-related. There's not much we can do about this, so we have to take it as it comes, and hope for a return to normal. Recent labour disruptions have shaken things up, but in a globalized world, these could well be less frequent. Unanticipated government policy moves have also been a source of upheaval, but as growth returns and fiscal conditions improve, things will be quieter on this front. Tighter regulation and control ought to calm turbulence in financial markets, especially as growth resumes. Higher confidence scores in large developed countries suggest that the fear factor should be diminishing.

Great in theory, but in practice, we seem to be going the other way. One look at the Chicago Board Options Exchange (CBOE) volatility index tells the tale: market volatility is now higher than at any point in the last three years, and it's rising. And that's US market volatility; what about other markets that are experiencing much wilder swings? And it doesn't stop with equity markets; in the past year, oil prices have more than halved. Base metal prices have also plunged, and the precious metals aren't having much fun either. Currencies fill out the turbulence list. Against the currencies of US trading partners, the greenback is up on average by 17% in just over a year. Commodity-based currencies have generally moved by more. If the world is truly returning to growth, then why the mayhem?

Many doubt the world is indeed returning to growth. True, growth has faltered in Brazil, Russia and in certain key commodity-producing countries. China's recent numbers have caused a lot of concern. And if these big players are having a hard time, what of the smaller economies with which they have close ties? Counting headlines, it would be easy to surmise that the world is actually going the other way. However, a critical fact is that these aren't "driver" economies; they essentially still follow activity in other parts of the world – the growth that comes from the large, developed economies. How are they doing?

Let's start with the US. Here, the story is strongest. Weather and a debilitating port strike on the West Coast interrupted a strong underlying economy in the first quarter. The "glass-half-empty" crowd jumped on this as evidence of the secular stagnation it believed is governing the economy. However, the temporary interruption served only to intensify pent-up demand, proven by the 3.7% surge in the second quarter. Thus far, things are also looking good for the second half of the year. Potential growth remains strong on three broad fronts: consumers are in a strong position, thanks to solid job growth, higher real wage gains, restored confidence, better-managed household budgets and a $100 billion bonus from lower gasoline prices; housing markets are rising smartly, as demand is still well ahead of new building activity; and cash-rich businesses are bumping up against very tight capacity constraints as orders continue to rise. Imports are taking some of the pressure off, but there's no question that on balance, underlying conditions can sustain above-trend growth for at least the next two years.

Western Europe's situation has also brightened. Austerity is generally doing its work. Public deficits are shrinking as a share of GDP – some faster than others – limiting or eliminating the need for further fiscal cutbacks. This is generally allowing economies to breathe again, and in the process they are discovering pent-up demand of their own. Moreover, exporters are capitalizing on a weaker currency and revived US demand. Annualized growth in the Euro Area has been above trend for the past three quarters, weathering the spring Greco-gauntlet admirably. Purchasing managers in Europe remained upbeat through the ordeal, and gained momentum through the summer months. Although structural challenges remain, Europe as a whole is steadily emerging from its protracted hibernation, resulting in an increase in demand that will clearly boost the rest of the world.

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Things seem less clear for key emerging markets. One by one, the once-mighty BRICS economies are faltering. Russia's growth has been hamstrung by sanctions and plunging oil prices. It's experiencing a devastating drop in demand this year, and its GDP growth is forecast to decline again next year. Brazil's growth has ground to a halt. Its huge infrastructure deficit was already a sclerotic constraint on the economy, but the corruption scandal in the construction sector has magnified the problem. In addition, tumbling commodity prices and weakening Chinese demand have further softened Brazil's short-term outlook. South Africa, hugely dependent on key commodity markets, isn't reacting well to the price plunge. Infrastructure woes are also holding the economy back.

These and other emerging markets are reacting to a blend of global factors beyond their control and internal issues that were easier to paper over in the higher-growth years. But of all emerging markets, China's recent experience seems the most perplexing. While the world has dragged itself from crisis to crisis over the past seven years, by contrast China has been a rock of stability. Its record caused pundit after pundit to laud its emergence and predict its ascension in the world economy with increasingly glowing adjectives. Suddenly, that has soured. Stories of empty state-of-the-art industrial parks, glitzy malls that nobody shops in and just-built ghost cities are casting doubt on China-style economic stimulus. Then there are the corresponding financial-side stories of easy credit, shadow banks, Monte Carlo equity markets, and so on that have raised questions about liquidity bubbles. Have new revelations turned the miracle into a mess?

Actually, there's nothing new about these revelations. It has been abundantly clear that China has been aggressively stimulating its economy since economic crisis first hit in 2008. Its current struggle is all about weaning the economy off stimulus and back onto more normal, world-driven activity. What is new to our story is that China's stubbornly high currency is limiting its participation in the Western revival. There are growing signs that a wider group of countries – ones whose currencies have fallen versus the US dollar – is actually seeing the first signs of spreading world growth. China's indicators, on the other hand, are continuing to weaken, and its late-summer devaluations of the yuan did little to assuage fears about the near-term outlook. Those devaluations lowered the RMB-USD rate by about 4.6%, provoking howls of protest from the usual suspects stateside. To put this in perspective, the RMB was very stable against the USD over the past year, while against all its trading partners, the USD has appreciated 17%. China's competitiveness, which was already fast eroding against emerging market up-and-comers, took an additional 17% hit in the past 12 months. As opposed to seeking an unfair advantage, China's currency move seemed overdue. It should help China to cash in on global recovery, if only partially.

So growth is returning, bit by bit. If so, why the turbulence? Isn't market mayhem a sign that things are going the other way? In normal circumstances, yes – but in one key respect, circumstances are far from normal. During the world economy's slow years, the US Federal Reserve Board wandered into virgin territory, initiating the world's first quantitative easing program. It was successful in preventing both a collapse of confidence and a liquidity crisis, but there were unintended consequences. Surplus liquidity made it into a variety of financial instruments – equities, risky bonds, currencies, commodities, to name a few – and successive waves of liquidity created the illusion that the elevated prices of these instruments were realistic. Now that growth is returning, that extra liquidity is a danger. If it all finds its way back into regular activity, there will be far too much money in the system compared with the available goods and services – a prescription for runaway inflation. Clearly, that won't be allowed, and markets know it. To them, growth means that the Fed's vacuum cleaner gets turned on, sucking up the surplus cash and bringing those artificially inflated assets back to earth. This was obvious in the "taper tantrum" period following Ben Bernanke's pivotal May 2013 announcement, and is likely a catalyst in the current unwind. The key point here? Market mayhem is not about weakness; it's the fraternal twin of renewed growth. In the current context, you can't have one without the other.

What does this mean for world growth? Developed markets will lead the charge, if not in the rate of growth, then in acceleration. Collectively, growth in the developed world is forecast to increase from 2.0% this year to 2.4% in 2016. Emerging markets will post growth of 3.8% this year and 4.4% next, continuing to contribute a higher share of overall output, but clearly following the lead of the advanced economies. This will bring world growth to 3.0% this year and 3.6% for 2016, marking a steady march into the new growth cycle.

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If up means volatility, what will that look like? On a day-to-day basis, it's hard to say, but it seems clear that what we are experiencing now is going to persist through next year as the economy truly lifts off. The Fed will start tightening interest rates this fall, creating a buzz of speculative moves as markets try to guess what it means for asset allocations. Credit will continue to tighten in riskier markets and industries, as the easy-credit years come to an end. Commodity markets will remain suppressed. Oil prices are forecast to remain in the USD 50 to 60 range over the next 18 months. Base metals will rise, but modestly. Precious metals will continue a longer unwind as the risk of systemic failure in advanced economies diminishes.

The impact on the home front is considerable. Low commodity prices will push resource companies to rationalize further. Volume output will continue to grow, thanks to increases from project completions, but margins will suffer. It will be most obvious in the oil and gas industry, given the dramatic price swings. Lower resource prices have a direct impact on the Canadian dollar. We have revised down our projections, and we now see the loonie averaging USD 0.79 through 2016.

These shifts have translated directly to Canada's export picture. Growth in trade was squelched in the first half of the year by weakness stateside. However, there was a remarkable rebound mid-year, especially in non-energy exports. By industry, this year's results are dramatic. Although bottom-line performance is weak, down 1% overall, the industrial composition could hardly be less polarized. Fertilizers, aerospace, consumer goods, automotive, advanced technology, and industrial machinery and equipment are all seeing double-digit increases, while energy will sustain deep declines this year. There's a greater sense of calm next year, as growth is more even across industries. More stable resource prices will allow volume gains to shine through, and a more stable Canadian dollar together with capacity constraints will smooth out growth in non-energy exports. Altogether, exports are forecast to increase by 8% next year. As a result of exports driving Canadian performance over the near term, GDP growth is projected to rise 1.3% this year before increasing to 2.3% in 2016.

The bottom line? Growth is back, but with a twist: markets will be more volatile, and the trick to surviving and thriving will be adept management of the volatility. Given Canada's strong structural position – well-managed fiscal policy, solid financial institutions and a diverse export base – we are well positioned to take advantage of global opportunities. But given the slow pace of investment growth in the post-crisis period, a feature Canada shares with the rest of the world, it will be critical to ensure that we have the capacity to handle the new growth, and to manage the accompanying volatility.

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Table 1: Key Economic Estimates (KEEs)

EXPORT FORECAST OVERVIEW	2012	2013	2014	2015 (f)	2016 (f)
GDP (% y/y)					
Canada	1.9	2.0	2.4	1.3	2.3
United States	2.2	1.5	2.4	2.5	2.9
Euro Area	-0.8	-0.4	0.8	1.4	1.8
Japan	1.8	1.6	-0.1	0.9	1.5
Developed Markets	**1.2**	**1.4**	**1.8**	**2.0**	**2.4**
Emerging Asia	6.8	7.0	6.8	6.6	6.7
Latin America and the Caribbean	3.1	2.9	1.3	0.3	1.6
Emerging Europe	3.3	4.2	3.4	-1.2	0.7
Africa and Middle East	4.8	2.5	2.7	2.6	3.8
Emerging Markets	**5.2**	**5.0**	**4.6**	**3.8**	**4.4**
World Total	**3.4**	**3.4**	**3.4**	**3.0**	**3.6**
Currencies					
USD/CAD	1.00	0.97	0.91	0.79	0.79
Commodity Prices					
WTI	$94	$98	$93	$51	$56
Lumber (WSPF, US$ per thbf)	$255	$318	$349	$333	$392
Copper (USD/MT, LME)	$7,947	$7,322	$6,862	$5,616	$5,838
Other					
US housing starts ('000s)	781	925	1,006	1,160	1,435

Sources: Statistics Canada, EDC Economics

Table 2: Canadian Merchandise Export Forecast by Region

EXPORT FORECAST OVERVIEW	CAD bn 2014	% Share of Total 2014	Export Outlook (% growth) 2014	2015 (f)	2016 (f)
Developed Markets					
United States	376.2	76.4	12.2	-3	9
Western Europe	39.2	8.0	15.5	2	8
Japan, Oceania and Developed Asia	23.4	4.8	3.1	-6	4
Emerging Markets					
Latin America and the Caribbean	13.4	2.7	7.4	1	5
Emerging Europe and Central Asia	3.5	0.7	-5.5	-6	5
Africa and the Middle East	8.5	1.7	18.4	5	8
Emerging Asia	28.0	5.7	-1.3	9	5
Total Goods Exports	**492.1**	**100.0**	**11.0**	**-2**	**8**
Total Emerging Markets	**53.3**	**10.8**	**3.2**	**5**	**5**
Total Developed Markets	**438.8**	**89.2**	**12.0**	**-3**	**8**

Sources: Statistics Canada, EDC Economics

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1.2 Growth's Great Reversal

No, this is not a rewriting of the forecast outlook. We remain convinced that the US market is fundamentally strong, and that it's leading the world back to a new global growth cycle. It's the growth itself that is prompting a reversal that many in today's workforce have never experienced. In fact, in one very great respect, the reversal is almost unique in history. In that sense, it creates a huge grey zone for the planet's immediate growth path. What is the reversal, and how is it likely to affect global conditions in the coming months and years?

It's probably the most anticipated economic event of the decade. Interest rates, dormant for over six years, are slowly stirring. In past cycles, the tightening of monetary policy has been a big event, but nothing like today's drama. Credit has been so cheap for so long that there is a fear we have become addicted to it. Just look at Japan – that addiction is a 25-year tale, with no real end in sight. Some would argue vociferously that rate hikes are exactly what the Fed should not do, given domestic and global conditions. Is there a good reason for a rate liftoff?

The domestic evidence for higher rates is compelling. First, the labour market is getting tight. Fundamental analysis screams out that there should still be abundant labour; roll in the post-crisis disaffected and displaced workers, and the effective unemployment rate is much higher than the official one. Trouble is, many of those who left the labour force in the downtimes aren't coming back. The US unemployment rate is getting down to the zone that usually triggers inflation-spurring gains in real wages. These are so close at hand that the Fed may well have delayed rate hikes too long. The current momentum of US consumer spending together with an industrial sector that capacity-wise is bursting at the seams suggests that demand for labour isn't abating. US conditions strongly suggest the need for higher rates to manage nascent growth. So far, this doesn't sound like reversal.

What of those who fear that higher rates will bring on a recession? They are in good company; there is always a group that raises this fear on the eve of rate hikes. Sometimes it is proved right. If the economy is overheating in a mature growth cycle, there's a real danger that rate hikes will reveal – and burst – bubbles that have formed. However, when an economy is emerging from a recession or a period of stagnation, there are few, if any, bubbles to burst. Higher rates are there to keep a take-off economy from getting out of control, which can easily happen if there's lots of cheap credit lying around. So, interest-rate-induced recession isn't the reversal we are talking about.

Here's a conundrum, though. If the new rate-tightening cycle is about growth, then why all the turmoil? Speculation about monetary tightening began in mid-2013, and since then financial markets have been in a tizzy: equity market gyrations, global risk recalibrations, currency swings, commodity price plunges – what's going on? The answer is that the twin sister of rate hikes is the sopping up of the extra liquidity made available through the Fed's (and the world's) first quantitative easing (QE) program. Like rate hikes themselves, quantitative tightening (QT) is triggered by growth. If QE distorted financial markets – and we are convinced it did – then QT ought logically to un-distort markets. Trouble is, in this environment, nobody really knows what the normal is that we are trying to get back to. It's a Great Reversal that's really a matter of trial and error. As such, it is by definition volatile. And its inextricable link to renewed growth makes it an unfortunate necessity.

The link between volatility and growth doesn't make the process risk free. There are winners and losers. For example, commodity producers generally feel on the losing end of growth. So might higher-risk emerging markets. Current volatility is unearthing tales of localized weakening that are significant enough to spread elsewhere. In fact, there is no guarantee that growth will actually prevail over its own negative consequences.

However, we believe that the balance is tipped in favour of growth. First, growth is generally spurring higher volumes of trade. Prices may be falling for a number of goods, but actual throughput is increasing – and the last time we looked, the movement of stuff is what creates jobs. Second, lower prices themselves stimulate activity. Plunging gasoline prices have given US consumers a $100 billion bonus this year. Net importers of fossil fuels around the globe are benefiting greatly. Third, if the US economy is the source of growth, then its irrepressible greenback is actually helping to spread the growth worldwide. Fourth, there are limits to financial market volatility. After all, the aging of the population has created huge demand for higher-yielding assets. Although credit is tightening, the pool of available capital is still deeper than normal, and should have a moderating effect on markets. And finally, volatility is contingent on the deftness the Fed shows in ring-fencing liquidity. For the Fed, this is also experimental, but the ultimate objective is a return to normal through a process that minimizes disruption as much as possible. Time will tell how successful the Fed is.

Growth and the Great Reversal are under way. It's the necessarily bumpy path to and through the next growth cycle, and there's a lot riding on the Fed to get it right.

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1.3 All But Quiet on the Currency Front

Having fun yet? The global currency jolt over the past 15 months is making theme parks jealous. Try as we may, we just don't seem to have the formula for ending large shifts like this. Keynes tried his best back in the 1930s. Globalization was supposed to help. Derivatives were thought to be the latest remedy. Instead, movements seem to have become more dramatic. Why are we on this wild ride, and is it about to end anytime soon?

How wild is it? Fasten your seat belts. Emerging market currencies are collectively down almost 13% over the past 15 months against the US dollar, with some fluctuating much more than others. Ah, the usual suspects; but with their structural weaknesses, doesn't this make sense? Far from it; many have learned the lessons of the past and substantially strengthened "their structural currency drivers." At the same time, many developed countries have seen deeper currency swings. Europe is down 14% in the same time frame, and Canada is down by over 18%. Clearly this is not just an emerging market thing. What's going on?

Simply put, a Great Reversal is in the works (see accompanying article with the same title). For years, quantitative easing (QE) has flooded the market with US dollars, ultimately boosting the value of assets from equities to commodities to currencies, and others besides. In the case of currencies, the attraction of surplus financial capital to a country's stock market, bonds, resource plays and such, boosted demand for domestic dough. And as the currency rose, that itself attracted additional portfolio inflows that lifted its value further. With the first hints in mid-2013 that QE was coming to an end, the reversal began. To date, its intensity has increased, with obvious effects on currency movements.

At the onset of QE, high-yield markets were in many cases the most attractive. By extension, that now makes them in general more vulnerable. As such, EDC Economics has developed a list of countries that we believe are most exposed to external conditions. Four indicators were used in our assessment: growth in private credit; the current account balance; portfolio flows; and the strength of the country's commercial environment. We narrowed the list to 43 of the larger emerging markets, and ranked them on overall vulnerability. Argentina and Venezuela made the top 10, for obvious reasons. EU hopeful Turkey ranked third, also unsurprising: throughout the post-crisis period it has been high on our vulnerability watchlist. More surprising results are Colombia and Peru, countries that have made great strides in their recent development.

In general, we can expect more currency volatility. But the volatility on its own does not necessarily point to a particular country's structural weakness, for a number of reasons. First, in great part, this is a US thing. As the tide of liquidity retreats, the backward current is affecting almost all non-US markets – it's almost impossible to resist. In fact, those that are resisting are paying the price. China's heavily managed renminbi is down only 4% against the USD, on a year to date basis, mostly because of the August devaluation, and it looks like China's exports are getting hammered. Second, past fallout from market swings has led many emerging markets to restructure in ways that are insulating them more from current movements. Among these changes are beefing up foreign currency reserves; minimizing hard-currency debt exposure; reducing foreign-held debt ratios; and creating rainy day funds. On the corporate side, among the BRICS, all but one country have foreign-currency debt at less than 40% of total outstanding debt. Third, the currencies of commodity-dependent markets fluctuate with prices, which have also plunged in recent months. A good few emerging markets have constructed financial shock absorbers for this, but the fallout is almost impossible to neutralize.

So, what's the effect of all this mayhem on Canadian exporters? First, a huge gain in competitiveness with our key customer. It also helps Canada that the US is leading the global growth charge. Second, our success in the US shouldn't give the impression that it's the same everywhere else. Far from it; while on balance, Canada has actually depreciated against all our non-US trading partners, it's by just 4.2% in the past 15 months. Against Mexico, we are up by over 4%, and we have also appreciated against Brazil, Russia and South Africa. Granted, a lot of trade with non-US markets is conducted in USD, but buyers are savvy enough to do the bilateral math and ask for appropriate discounts. Exporters should still expect strong price competition. Finally, currency fluctuations can dissuade already-tentative exporters from pursuing foreign sales, and even more skittish international investors from finalizing direct investment projects abroad. But inside this threat is also an opportunity.

In the current context, currency volatility isn't exactly helpful. After six years of post-crisis stagnation, caution seems to reign supreme as a business and consumer watchword. What's different about today's currency swings is that they can be directly traced to renewed growth – and as that's in an upswing, volatility is here to stay, for now. Those with the stomach and creativity to manage through the mayhem stand to gain – perhaps like never before.

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1.4 Gravity … What a Concept!

What goes up must come down. The adage, of course, is a nod to Sir Isaac Newton's seminal 17th century elucidation of the well-known naturally occurring physical phenomenon, gravity. Of course, a look at the recent history of commodity prices would suggest that values, too, are subject to this fundamental interaction of nature. Although crude oil floods the media headlines these days, similar gyrations have come to characterize other industrial commodities as well. What can Newton teach us about commodity prices?

In the lead-up to the 2008 financial crisis, the price of West Texas Intermediate (WTI) crude oil climbed to a peak of USD 145 per barrel. But fears of global economic depression brought prices back down to USD 30, before the end of that year. Then, as the global economy remained in the throes of recession, and without much change in production, prices surged more than 270% over the next two and one-half years. Traders were convinced that persistently high prices meant that crude and other commodities were breaking from historical rules. However, in 2014, WTI began a 65% plunge, which would take it as low as $38, in August 2015. For its part, copper climbed from USD 0.80 a pound in January 2000, to USD 4.34 in January 2011, before slipping to USD 2.33 in August 2015. So what gives?

The massive and unprecedentedly coordinated public policy response to the crisis is an often-overlooked driver of commodity prices during the most recent cycle. Apart from the impact that fiscal stimulus had on demand, central bank asset purchases in the US, UK, EU and Japan prompted dramatic portfolio rebalancing by injecting liquidity into the system and reducing interest rates. Having access to cheaper credit, emerging markets experienced rising growth, increasing their demand for commodities. Indeed, China's share of global consumption for commodities across the spectrum is now at least one-third of the global total. Some global commodity consumers had even been accused of stockpiling. In addition, investors, now making peanuts on their traditional savings, began funnelling some cash into the commodities trade, among other higher-yielding assets, artificially boosting prices.

But, as the saying goes, there's no cure to high prices quite like high prices. In 2000, US production averaged about 5.8 million barrels per day, falling to a low of 5mb/d in 2008. In response to this new price environment, however, producers invested heavily and US crude production shot skyward. In fact, by 2014, the US became the world's top crude producer. While it is clear that increased rig count played a role in lifting output, rig productivity also increased thanks to technology. Shale oil became more economical by employing techniques similar to those developed for shale gas, lifting proved reserves to over 48 billion barrels in 2014. Vertical rigs now sit idle, as horizontal rigs drill multiple wells, some as long as 11 kilometres. Offshore rigs have moved further offshore, drilling to depths of over 12 kilometres. Not to be left behind, steam technology helped Canadian crude production climb by over 1mb/d this past decade.

As mentioned, natural gas production also benefited from unconventional technologies. The US has known for years about its shale gas potential. Proven reserves in 2005 stood at 5 trillion cubic metres, but thanks to the perfecting of techniques like fracking and horizontal drilling, shale gas has become more economical. This lifted proven reserves to 9.8 trillion cubic metres by 2014. Over that period, US production climbed from 511 to 728 billion cubic metres. And daily production continues to rise, even with natural gas prices trading at currently depressed levels. The US is even converting former LNG import facilities into LNG export facilities.

Meanwhile, advancements in technology have simultaneously tempered demand for energy. Universally, countries require less than one-half of a barrel of crude oil today to produce USD 1,000 of GDP, compared with almost one barrel in 2000. We need look no further than the ever-rising miles per gallon statistics for vehicles, to confirm the role that technology plays in curbing demand. Consequently, US consumption has slipped by about 1 million barrels per day since 2007.

On the copper side, producers seeking to cut costs have resorted to recycling. Since the metal is fully reusable, about one-third of the global copper supply is now made up of recycled material. As a result, the world has mined less than 15% of known resources to date. For their part, builders have cut the amount of copper pipe used in the average two-story North American home by 150 pounds, over the past 30 years, by substituting it with cross-linked polyethylene pipe.

The quantitative easing (QE)-assisted surge in demand for commodities laid the groundwork for the supply-demand imbalances that are now behind the rout in prices. Producers reacted by increasing investment and employing newer technologies to improve extraction techniques. Consumers, meanwhile, reacted to higher prices by conserving or substituting. In addition, as the US Federal Reserve signals a reversal of the various forms of QE, a reversal of investment flows in anticipation of liftoff has created an over-reaction to current supply – demand imbalances. And the interplay of all these forces has caused prices to tumble right back down to earth.

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1.5 Bumpy Ride to Shangri-La?

"The great fall of China," the title of an article in *The Economist*, sums up recent market sentiment toward China. To point, there's a lot of falling going on. Equity markets crashed hard. The Chinese yuan was devalued, sparking fears of a currency war. Some speculate that China's massive debt bomb is about to explode. To top it off, economic growth is sputtering and there are palpable fears that China will face a recession. Is China in serious trouble?

Let's put it in perspective. China was in trouble back in 2008, and it had to act fast to avert a tumble. Faced with collapsing exports and an unheard-of property market reversal, China responded with an enormous stimulus package equivalent to about 13% of GDP. As a result, investment as a share of GDP, which had averaged 37% from 2000 to 2008, accelerated to 44% from 2009 to 2014. At the same time, private sector credit grew by a staggering 99% from 2008 to 2009 and has been growing at rapid rates since. The ensuing binge in private and public sector investments has led to overcapacity and over-leverage within China's economic system. Local government debt is considered especially concerning.

Slowdown complicates the situation. It's partly policy-driven, as China itself is concerned about excesses and sustainability of growth. It's also population-driven. China doesn't have the giant surplus of labourers it began with 30 years ago, and total population growth has stalled. Slowdown is also a result of underwhelming trade performance, which stands in contrast to the pick-up in US activity. Does this spell disaster for debt management?

Clearly the trajectory is not sustainable, but the level of debt and pace of growth alone do not outright suggest a full-blown crisis if properly managed. Recent policies undertaken by authorities suggest an acknowledgment of the problem, and they are devising mechanisms to address it. China's public debt was 15% of GDP in 2014. If we assume all identified local government debt, which the latest government estimates put at 38% of GDP, to be liabilities on the sovereign, it would bring the aggregate ratio closer to about 54% of GDP. Granted, the sovereign may be on the hook for more liabilities, but the debt share still indicates the government has some room to manœuver. For instance, it's notable that most of China's debt is domestically held; external debt is just 9% of GDP. Sure, debt service costs will increase, and deleveraging amid a slowdown will expose other vulnerabilities, but on balance the risks appear manageable given the many levers at the government's disposal. Put another way, China is unlikely to experience a "Lehman" moment given its political and economic realities.

Even so, growth is still required to keep the overall situation from deteriorating. Can exports take the lead, leveraging nascent US and European growth? There is a glimmer of hope stemming from one of the recent sources of volatility. China's currency depreciations in August, totalling 4.6%, shocked markets and led to immediate "currency war" banter. As discussed in our Top 4 currency piece, the renminbi actually saw a significant appreciation in trade-weighted terms. Although the Chinese Central Bank had earlier changed the currency mechanism to allow market forces to influence the daily fixing rate of the currency, it was maintained in a narrow band against the USD, appreciating significantly against many other currencies, including the euro. Given China's trade dependence, it is actually surprising that the authorities didn't intervene earlier to stem the appreciation. China is continuing down the path of internationalizing its currency, capital market and financial sector reforms. But it bumped into an economic reality, and the currency response unnerved markets, spurring capital outflows. However, the outlook for China would actually be somewhat worse if the depreciations had not occurred.

Will investment spending chip in? Its growth has slowed since late 2013, but keen to avoid a "hard landing" policymakers are busy providing various forms of stimulus to stabilize the economy to allow growth to get close to the 7% target range. Consumption may also help. At 38% of GDP, it has maintained a stable presence throughout the turmoil, and economic strategy is aimed squarely at increasing its contribution to growth. Adding these factors together, we estimate headline GDP growth for China to come in at 6.9% this year and 6.8% in 2016.

What of the equity market slump? Sure, the Shanghai Composite Index is down 31% from its peak in June, but significantly, it is still up about 40% on a year-on-year basis at the time of writing. While the correction is significant, unlike in developed markets, equity markets in China play a very limited role in the real economy. Equity markets account for less than 5% of capital for corporates and approximately 9% of Chinese households own equities, not surprising given the stage of China's overall market development. As such, despite the volatility and the headlines, the economic impact of equity market movements will likely be contained.

Despite today's bumpy performance, China remains the world's second-largest economy and a strong prospect for Canadian exporters. Canadian exports to China grew on average by 13% annually from 2000 to 2014, while Canada's overall export performance on the same basis was a modest 2%. China was a USD 10 trillion economy in nominal terms in 2014, compared with a USD 1.2 trillion economy in 2000. Here's a quick sense of what that change means: even if China were to grow by 5% annually over the next few years, the additional annual GDP would be the same as it was averaging from 2005 to 2008. As such, even a slow-growth China remains a huge opportunity for Canadian exporters.

China's economy is going through a complex transitional phase on a number of fronts. The measured slowdown is bound to unearth a few more surprises down the road and lead to a bumpier ride than we are accustomed to. Given the opportunity, the bumps will, in general, be worth it.

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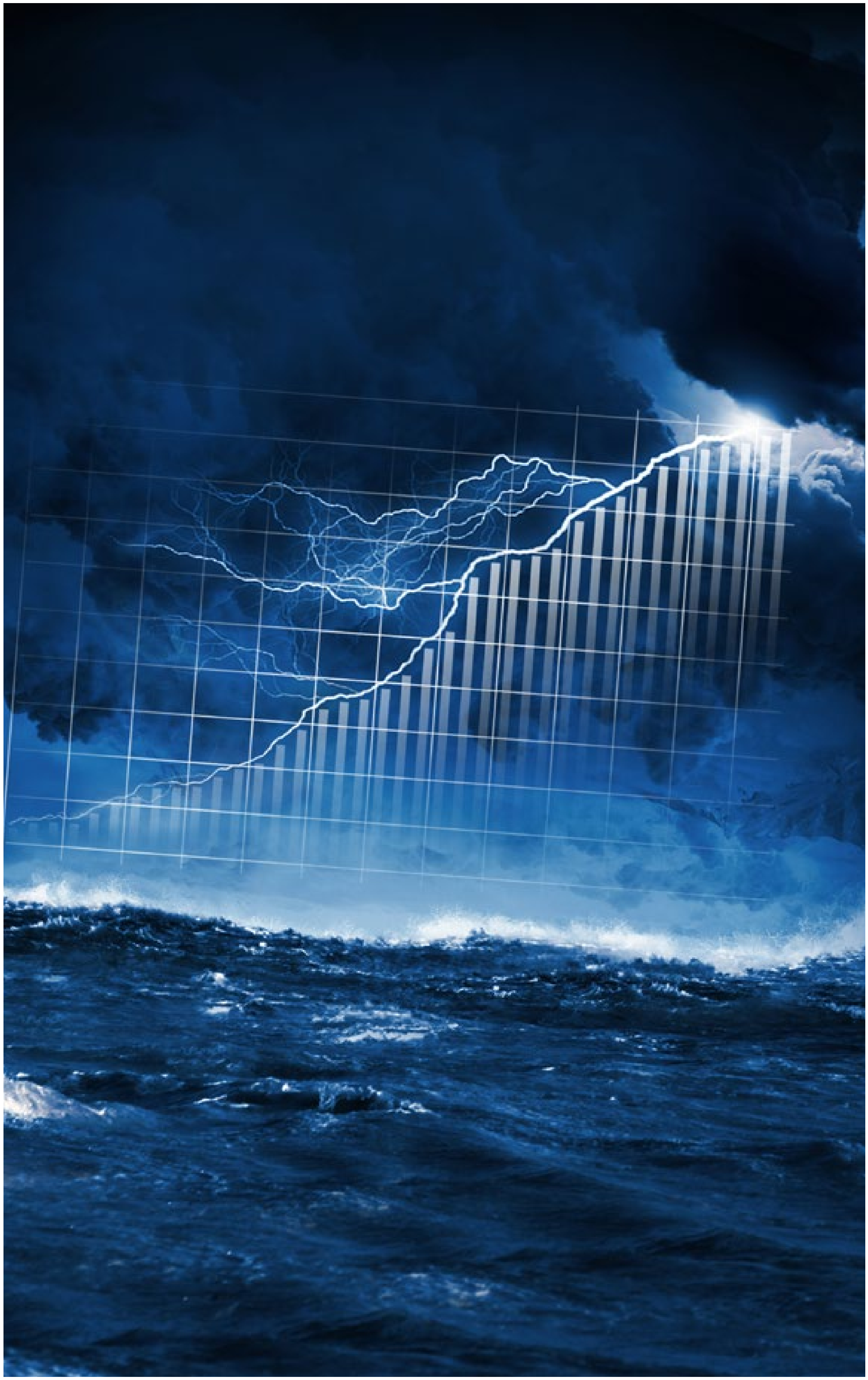

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Risk Rating Lexicon

- Low
- Low-Medium
- Medium
- Medium-High
- High
- Prohibitive
- No Information

Risk Rating Lexicon

- Positive
- Neutral
- Negative

Glossary of Terms

Short-Term Commercial

Risk Rating

Average default rate on credit commitments of one year or less on the part of commercial obligors in a country.

Payment Experience

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

- Positive: The number of claims, or the amounts claimed have decreased in proportion to EDC business volume growth.
- Neutral: The number of claims, or the amounts claimed have remained unchanged in proportion to EDC business volume growth.
- Negative: The number of claims, or the amounts claimed have increased in proportion to EDC business volume growth.

Medium-Long-Term Commercial

Commercial Country Ceiling

The Commercial Country Ceiling (CCC) is meant to represent the best possible rating that can be assigned to commercial obligors domiciled in a country. The CCC is impacted by the Sovereign Probability of Default, political risks (transfer and inconvertibility, political violence, expropriation) and other mitigating or exacerbating factors.

Expropriation

The likelihood, over the medium to long term of government action (e.g. outright seizure of an asset/investment or less pronounced interference such as unjustified non-renewal of required permits or licences) or weak governance conditions (e.g. a weak rule of law or high levels of corruption) having a significant impact on a country's commercial environment.

Transfer and Conversion

The likelihood, over the medium to long term, of a government imposing conversion or transfer restrictions that significantly affect the commercial environment. Conversion restrictions could include measures that prevent companies from converting local currency to hard currency, while transfer restrictions would be measures that inhibit the transfer of said hard currency out of the host country by legal means.

Political Violence

The likelihood, over the medium to long term, of an act of political violence occurring in a country that significantly impacts the country's commercial environment. Political violence events can include acts of war (declared or undeclared), insurrection, revolution, rebellion, riot, terrorism, sabotage, civil disturbance, or other such violent acts that are politically motivated.

Sovereign

The Sovereign Probability of Default (SPD) measures the ability and willingness of a sovereign to honour its financial obligations over the medium to long term.

Risk Rating Lexicon

- Low
- Low-Medium
- Medium
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- No Information

Risk Rating Lexicon

- Positive
- Neutral
- Negative

2.1 Brazil

Short-Term Commercial

Risk Rating
Payment Experience

In order to normalize its highly overvalued currency and increase competiveness, the Central Bank is attempting to address ineffective monetary policies. That said, the real will continue experiencing downward pressures in 2015 due to bearish economic activity and as the Lava Jato scandal spreads beyond Petrobras. A high level of foreign exchange reserves continue to result in overall benign liquidity conditions for the commercial sector. Sweeping reforms affecting the business sector are unlikely, but investors should expect moderate policy shifts over the next 12 months. These reforms will reduce some of the challenges of doing business in Brazil.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

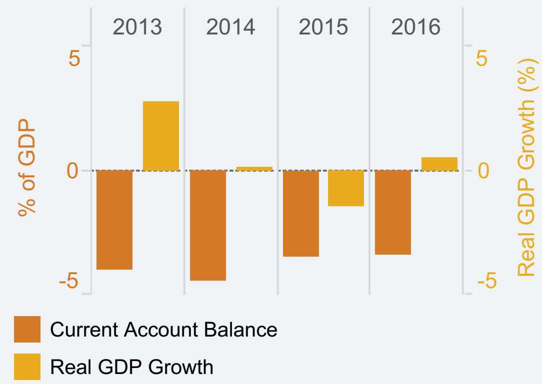
The commercial environment is characterized by a strong banking sector, lack of financial dollarization, and low dependence on foreign borrowing. However, poor infrastructure, heavy bureaucracy, and high costs of doing business continue to dampen growth and investment. Efforts to implement reforms and to stimulate the economy may be over-shadowed by the ongoing corruption investigations relating to Petrobras. With many Brazilian firms implicated in the Lava Jato scandal, the government has had to open competition to include foreign companies largely in the construction sector.

Sovereign

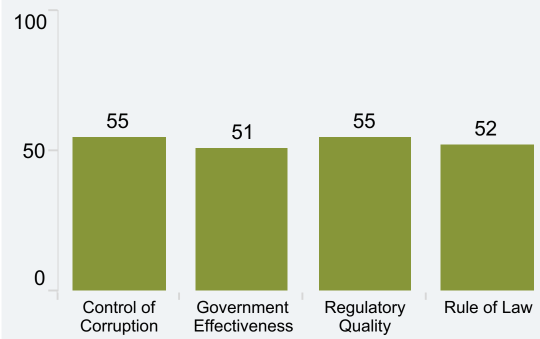
Sovereign Probability of Default

Although increasing, external debt metrics remain relatively healthy and financing needs will continue to be mostly absorbed by the domestic market. Foreign currency-denominated debt is a very small portion of total public debt and, as a result, exchange rate risk is minimal. The government continues to feel tremendous pressure to implement much-needed fiscal and regulatory reforms in order to reverse slow growth and investment activity, as well as improve fiscal management. However, reforms will face increasing roadblocks as efforts meet with strong congressional opposition, and will be made more challenging with the political fallout of the Lava Jato scandal.

Current Account and Economic Growth



World Bank Governance Indicators



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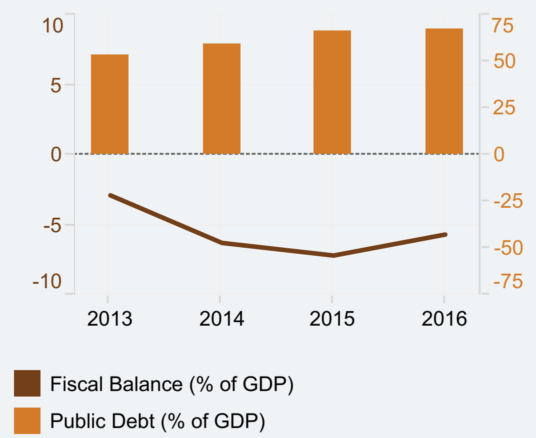
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

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- No Information

Risk Rating Lexicon

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- Negative

2.2 China

Short-Term Commercial

Risk Rating
Payment Experience

Equity market volatility and a surprise change to China's foreign exchange currency framework along with continuing sluggishness in the macro economy is impacting business confidence. The downturn in the real estate sector, which had been a significant growth driver, is finally starting to show some early signs of stabilization. Private consumption continues to hum along even as other growth drivers downshift to accommodate China's economic transformation and deleveraging process. Macroeconomic growth will be supported by monetary easing and fiscal stimulus. Ample foreign exchange reserves, a closed capital account, and a relatively stable currency should moderate commercial risks.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

China's growth model is undergoing a multi-year fundamental transformation as the authorities attempt to reorient the economy. China's ambitious One Belt, One-Road connectivity initiative as well as plans to boost services, research and development, and focus on innovation should open new opportunities even as traditional growth sectors moderate. The unwinding of high levels of debt across public and private sectors as well as overcapacity in real estate and heavy industry will dominate the near-term picture. Political violence risks are driven by localized protests and ethnic based tensions. Expropriation risks are driven by governance-related indicators.

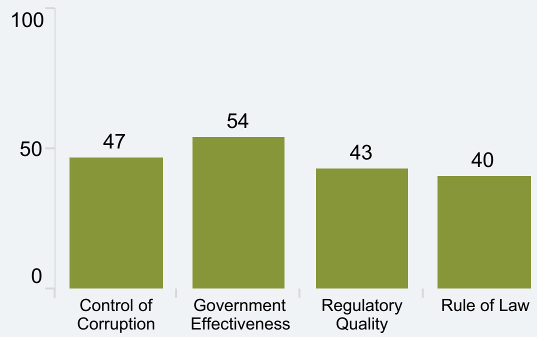
Sovereign

Sovereign Probability of Default

Government finances appear to have the capacity to absorb contingent liabilities arising from overleveraged state-owned enterprises including banks, as well as local governments. While foreign-denominated debt has increased in recent years, total external debt in China remains low; China is a net creditor nation. Ample foreign exchange reserves provide a comfortable buffer to absorb most shocks. The authorities' ability to balance near-term stability while implementing much-needed structural reforms will determine China's medium-long term growth potential including the economy's ability to withstand future shocks.

Current Account and Economic Growth

World Bank Governance Indicators



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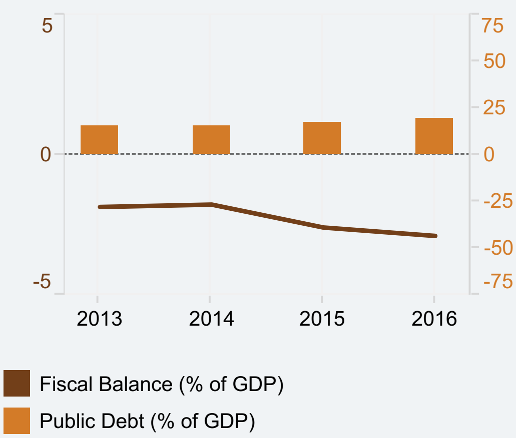
Public Finances



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- No Information

Risk Rating Lexicon

- Positive
- Neutral
- Negative

2.3 France

Short-Term Commercial

Risk Rating
Payment Experience

The French economy surprised on the upside in the first quarter of 2015, driven by robust domestic demand growth. Upgraded short-term growth prospects are driven by a favourable backdrop, with low oil prices, low interest rates, monetary policy quantitative easing and a depreciated euro. The outlook is set to improve but remain lackluster, underperforming regional peers. The recent approval of measures such as the Macron Law labour market reform will support competitiveness gains; however, deeper reforms are needed to reduce market rigidities and high unemployment. Lending remains tight but has potential to ease in the near term.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

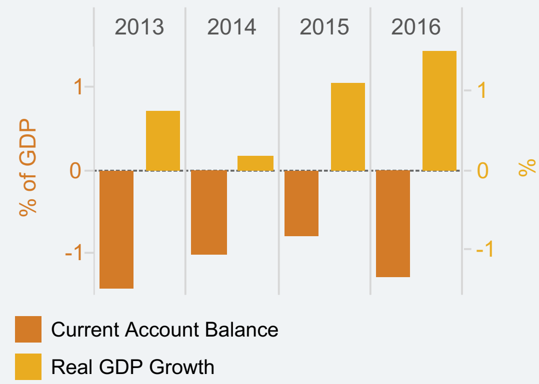
France has a great number of highly successful world-class companies. However, most are struggling with the weak export demand that lingers from the Eurozone crisis. Many of the factors supporting the current economic upswing are expected to fade over time, making the mediumto long-term growth prospects contingent on the implementation of deeper structural reforms.

Sovereign

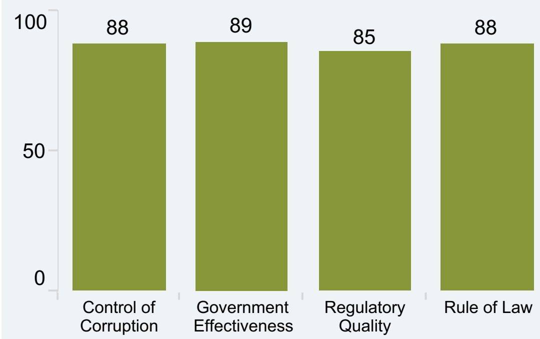
Sovereign Probability of Default

France is expected to continue facing challenging public debt dynamics over the next two years. Around 2017, government debt as a share of GDP is expected to peak at about 100%, while the fiscal balance is projected to fall below the EU's Maastricht Treaty threshold of 3% of GDP. Deeper reforms are urgently needed to balance the budget and improve debt sustainability. Improved economic and fiscal prospects are among key priorities for a government facing increasingly popular opposition parties ahead of the 2017 presidential election.

Current Account and Economic Growth



World Bank Governance Indicators



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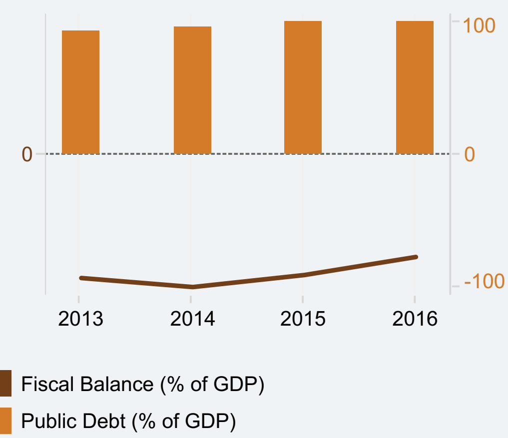
Public Finances



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- No Information

Risk Rating Lexicon

- Positive
- Neutral
- Negative

2.4 Germany

Short-Term Commercial

Risk Rating
Payment Experience

Germany is the safe haven of Europe with its healthy public and private finances, large current account surpluses, and highly competitive and dynamic business sector. Improving consumer demand will power GDP growth to 1.8% both this year and in 2016. The nascent economic upswing in the Eurozone, the low interest rate environment and persistent low oil prices will provide broad benefits to the German economy. Foreign exchange risk is minimal given its core role in the Eurozone. Business confidence and export demand is recovering as the Eurozone crisis wanes, albeit with bouts of volatility associated with uncertainty over Greece's sovereign debt crisis.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

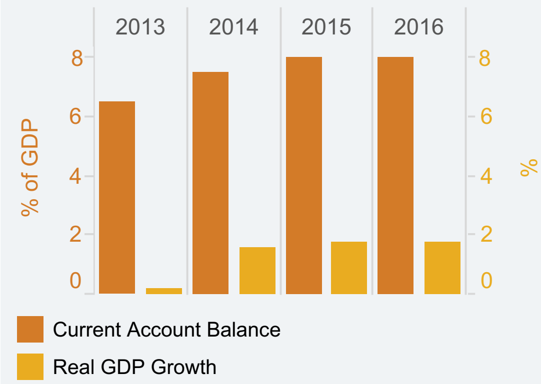
Germany's economy is highly diversified and competitive, making its commercial sector resilient to external shocks. High levels of productivity and efficiency may suffer as German wages are rising faster than those of the rest of the Eurozone. However, it will take many years for Germany's huge competitive advantage to erode.

Sovereign

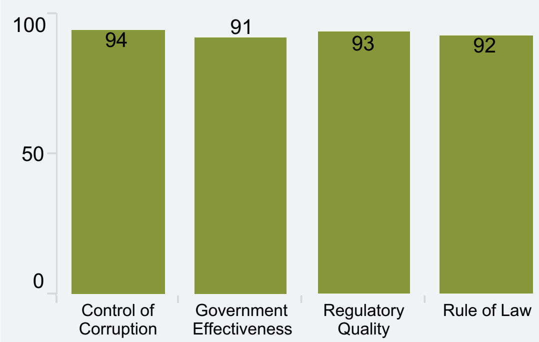
Sovereign Probability of Default

Germany's public finances will remain healthy compared to Euro area peers. The increase in public debt recorded during the global financial and Euro area debt crises was lower than that of many other major developed market economies, and the trajectory is favourable. As a percentage of GDP, public debt will reach 69.5% this year, but decline to 56.9% by 2020. Furthermore, Germany's low funding costs will ensure that the debt servicing requirements remain affordable. Over the long term, solutions to the Eurozone crisis, such as mutualized debt and fiscal transfers, all require Germany to take on more liabilities for its neighbours to the south.

Current Account and Economic Growth



World Bank Governance Indicators



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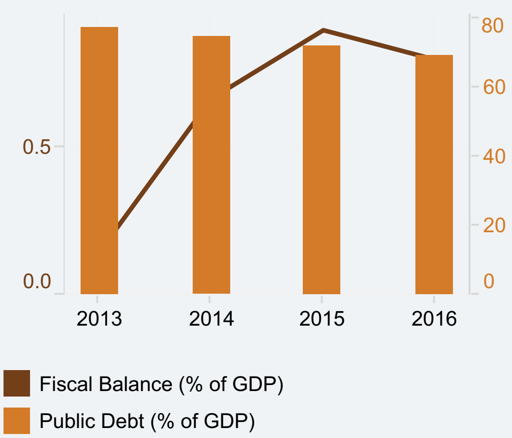
Public Finances



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- Medium
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- No Information

Risk Rating Lexicon

- Positive
- Neutral
- Negative

2.5 India

Short-Term Commercial

Risk Rating
Payment Experience

Inflationary pressure is down and worries about the monsoon season have been alleviated, which have raised the likelihood of interest rate easing. Fiscal and current account deficits have likewise improved. Growth has been robust in 2015, in the 7% range, supported by policy reform and lower oil prices. Foreign exchange (FX) reserves have increased, reflecting accommodative monetary conditions and low oil prices. As such, India is now more prepared to deal with currency volatility that could arise when the US raises interest rates.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

Business investment, including foreign direct investment, is expected to rise due to a sense of improved policy decisiveness on regulatory issues given Prime Minister Narendra Modi's strong initial mandate. More than one year in though, the lack of big-bang reforms have dampened earlier optimism. PM Modi does not have a majority in the upper house, which has held up important developments in the legislature such as the introduction of a goods and services tax (GST). Land reform, another key policy development for infrastructure growth, has also hit roadblocks. Political violence remains location-centric, and challenges may still arise in some southern and north-eastern states.

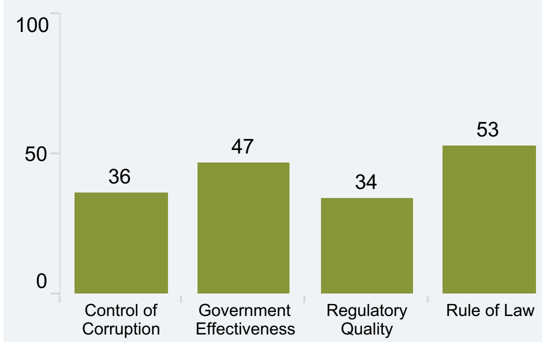
Sovereign

Sovereign Probability of Default

Fiscal consolidation is anticipated in coming years under PM Modi. Debt levels are much higher for India than for economies with similar ratings, but the strong medium- to long-term growth projection will afford the government some policy space. External sovereign debt obligations are quite small.

Current Account and Economic Growth

World Bank Governance Indicators



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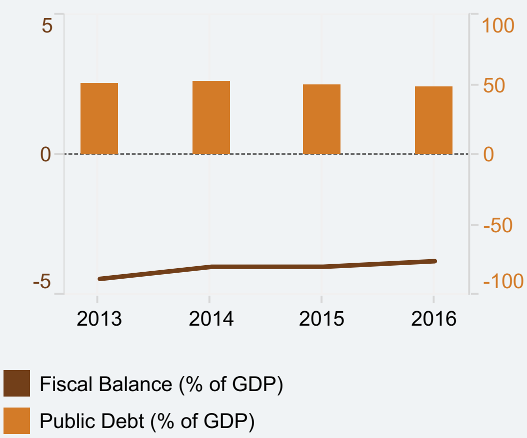
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

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Risk Rating Lexicon

- Low
- Low-Medium
- Medium
- Medium-High
- High
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- No Information

Risk Rating Lexicon

- Positive
- Neutral
- Negative

2.6 Japan

Short-Term Commercial

Risk Rating
Payment Experience

The commercial environment is excellent. The economy is showing some signs of stabilization following last year's sales tax hike (from five to 8%) and ensuing recession. Prime Minister Shinzo Abe's economic policy platform (dubbed Abenomics), which is geared to resuscitate Japan's ailing economy consisting of fiscal stimulus, unorthodox monetary easing and structural reforms, is showing moderate signs of progress. Wages and inflation have picked up since 2013, but are still sluggish. Externally oriented firms have benefited from a weaker yen, but this has not translated into higher spending at home, while domestically oriented companies have seen their margins shrink.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

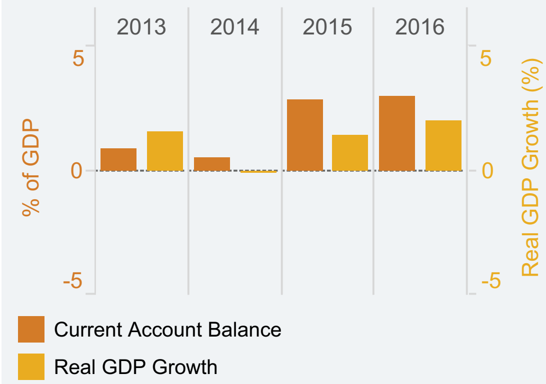
The economy is mature, but real GDP is expected to grow tepidly over the medium to long term. Japan enjoys an exceptionally strong business environment, low levels of corruption, independent judiciary, and entrenched rule of law and democratic institutions. While the rate of corporate failure has declined, the competitiveness of corporate Japan has again come into question. A shrinking and aging pool of both consumers and workers will continue to push Japanese companies to expand in the Asia-Pacific region. Japan's participation in the Trans-Pacific Partnership (TPP) trade agreement, as well as the Canada-Japan free trade agreement, is positive for Canadian companies.

Sovereign

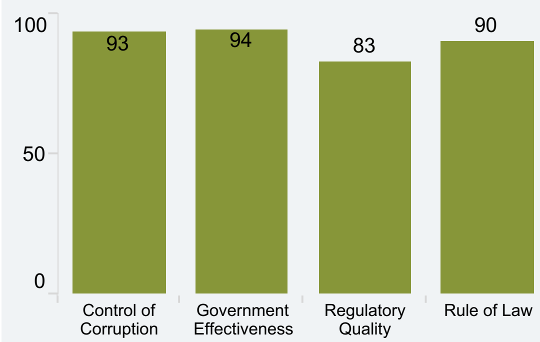
Sovereign Probability of Default

At 230% of GDP, Japan's debt burden is by far the highest in the world, and its debt servicing costs take up a quarter of the government's budget, all of which weighs heavily on long-term growth. The central bank's massive quantitative easing program and continued investor interest in public debt reduces the sense of urgency to tackle the debt issue. However, should the Bank of Japan succeed in raising inflation, it could also drastically alter bond investor expectations and increase debt service burdens. PM Abe's ability to implement structural reforms – while placating vested interests – will determine the success of Abenomics as well as Japan's medium- to long-term growth.

Current Account and Economic Growth



World Bank Governance Indicators



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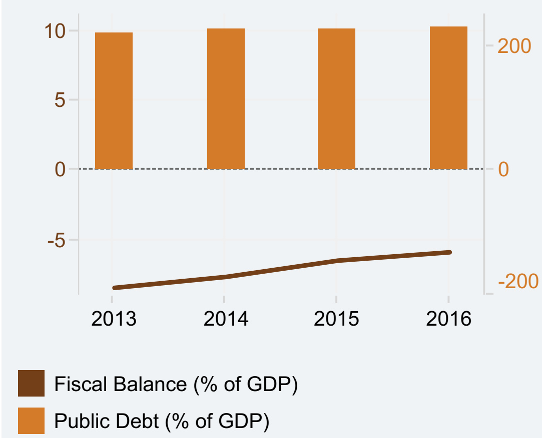
Public Finances



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- Low
- Low-Medium
- Medium
- Medium-High
- High
- Prohibitive
- No Information

Risk Rating Lexicon

- Positive
- Neutral
- Negative

2.7 Mexico

Short-Term Commercial

Risk Rating
Payment Experience

Economic growth will increase only modestly in 2015 driven by a US recovery and demand for Mexican manufacturing exports. A sharp decline in oil prices has dented public spending plans. With the peso down almost 20% year/year, all eyes will be focused on the impact of the US Federal Reserve's rate hike expected later this year. Key focus this year will be on the first round of tenders as the opening of the energy sector to private investment has begun.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

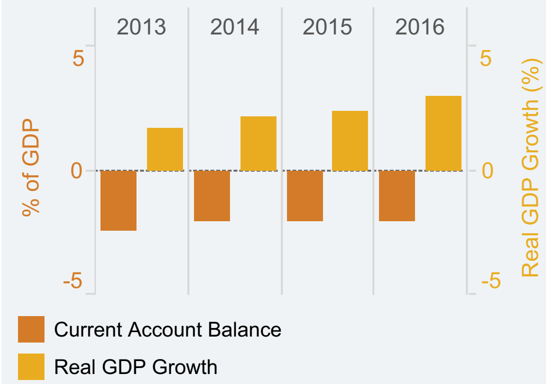
The commercial environment is supported by a stable macroeconomic environment, an improving business climate, in addition to a healthy banking system. High levels of corruption and government bureaucracy, as well as an inefficient legal system, drive expropriation risk. The main source of violence in Mexico is criminal rather than political, which poses a significant threat to the country's security. Localized environmental opposition is increasingly an area of concern for extractive companies.

Sovereign

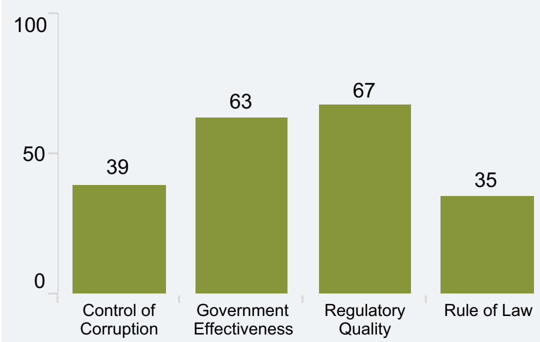
Sovereign Probability of Default

The sovereign rating is supported by a relatively low level of government indebtedness with a manageable debt service ratio. The country's small current account deficit is easily financed by foreign direct investment inflows, and foreign exchange reserves remain near record levels. Major structural reforms, most notably on energy, will continue to be implemented over the coming years, improving Mexico's medium- to long-term growth prospects, competitiveness, and creditworthiness. One risk to public finances is oil prices remaining low beyond 2015; oil revenues account for approximately a third of federal spending.

Current Account and Economic Growth



World Bank Governance Indicators



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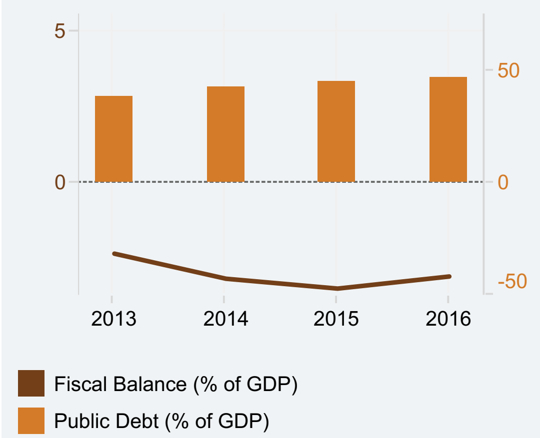
Public Finances



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- Negative

2.8 Russia

Short-Term Commercial

Risk Rating
Payment Experience

Persistent weakness in global oil prices continues to weigh on the ruble, which is down 30% against the USD from the start of 2015. Foreign exchange reserves are down roughly USD 100 billion since last year, as the Central Bank had intervened in the FX markets in an attempt to shore up the currency. Non-performing loans are expected to rise as access to credit is tightened. Continued currency weakness is likely given the current weak oil price outlook

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

The business environment is challenging due to high levels of corruption and heavy government regulation. The ongoing geopolitical crisis is having a significant impact on the commercial sector in several ways. Deteriorating relations between Russia and the West has resulted in several adverse developments in the investment environment – particularly regarding FDI. While capital controls are likely to be avoided at all costs, prolonged restrictions to international financial markets will become an issue. Political violence risks continue to be related to terrorist incidents in the Caucus region.

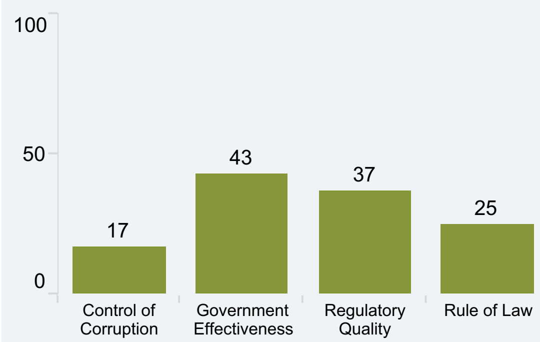
Sovereign

Sovereign Probability of Default

Public sector debt is just 15% of GDP and the authorities should be able to manage to finance budget deficits brought on by lower oil prices for the time being. However, the oft-cited vulnerability of energy dependence is front and centre as the current oil price is far below the government's "break-even" price of over USD 100/bbl. Ongoing geopolitical risks and low oil prices will continue to fuel capital flight, erode external buffers, and weigh on growth.

Current Account and Economic Growth

World Bank Governance Indicators



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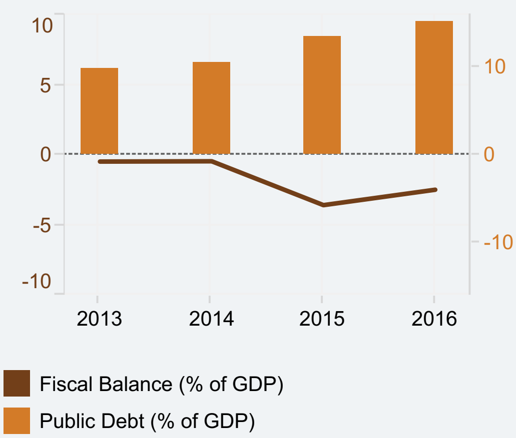
Public Finances



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Risk Rating Lexicon

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- Negative

2.9 South Africa

Short-Term Commercial

Risk Rating
Payment Experience

South Africa's banking sector is healthy, and the country has one of the strongest commercial operating environments on the continent. Nevertheless, economic and export growth has been sluggish. The volatility of the rand, reflecting weakened investor sentiment due to persistent strike action, high labour costs, and low growth prospects, remains a risk. GDP growth hovered around 2% in recent years and is expected to remain in this vicinity in 2015.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

A strong business operating environment, including a healthy banking sector, pushes the commercial ceiling above the sovereign rating. Political violence and expropriation risks are driven by social and economic disparities, which have occasionally manifested themselves through violent labour disputes and populist/nationalistic rhetoric from elements of South African society. Organized labour militancy poses a business interruption risk, as witnessed during the wave of mining strikes in recent years.

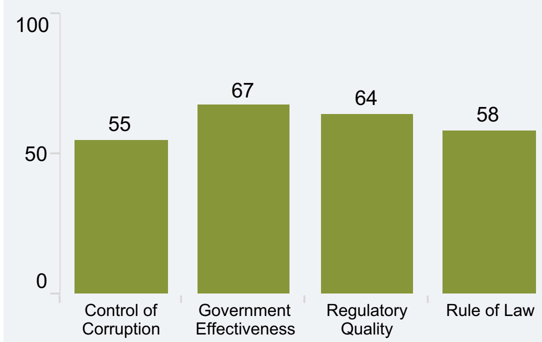
Sovereign

Sovereign Probability of Default

The government's moderate debt burden and its status as a net external creditor are key rating supports, but are offset by the significant structural challenges that face the country. The growth outlook is frail by regional standards, and weakened investor sentiment could drive away foreign capital flows required to fund the current account deficit (which remains in the 5 to 5% of GDP range). The government's massive infrastructure plan should contribute to the productive capacity of the economy in the coming decades, but will increase state-held debt in the short term.

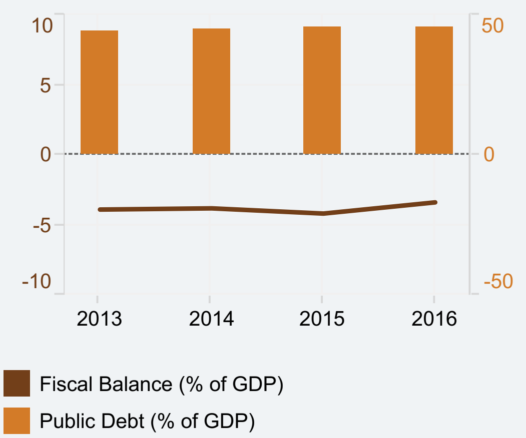
Current Account and Economic Growth

World Bank Governance Indicators



The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

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Risk Rating Lexicon

- Low
- Low-Medium
- Medium
- Medium-High
- High
- Prohibitive
- No Information

Risk Rating Lexicon

- Positive
- Neutral
- Negative

2.10 United Kingdom

Short-Term Commercial

Risk Rating
Payment Experience

UK's economy has surprised on the upside, and growth is expected to reach 2.7% this year and 2.3% in 2016, outperforming most of its European peers. Although the relatively robust pace of expansion will reduce excess capacity, growth remains driven mainly by domestic consumption amid supply-side disinflationary pressures. The British pound has been appreciating against the euro – particularly since the announcement of the ECB's quantitative easing program, and inflation remains well below target. In this context, the Bank of England is likely to refrain from raising interest rates until later this year or early 2016.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

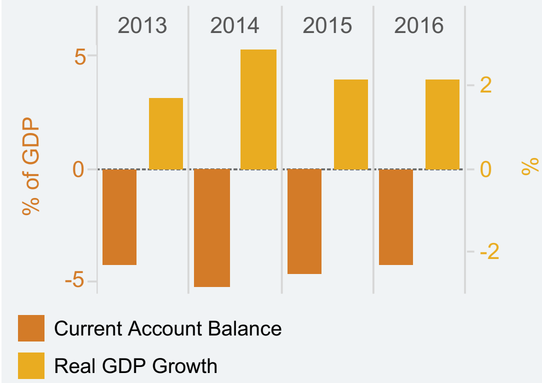
The UK was particularly hit hard by the global financial crisis, due to the size and importance of the financial sector, and problems were compounded by an overvalued housing market and elevated consumer debt levels. There is a clear need for the country to rebalance and become less dependent on consumer spending. Since the crisis, significant structural reforms to the financial sector have been implemented, including higher bank capital, and provisioning and liquidity backstops. Following the Conservative's electoral victory, a referendum on EU membership over the next 24 months is likely to increase policy uncertainty.

Sovereign

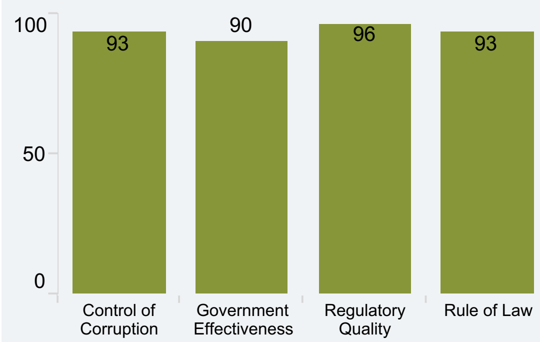
Sovereign Probability of Default

The UK public sector debt has increased dramatically over the past few years, rising from 52% in 2008 to 90% of GDP in 2014. The government is projecting a return to a balanced budget by 2018, and debt should peak next year before dropping to 83% of GDP by 2020. However, like many of its EU neighbours, structural reforms are necessary to ensure long-term robust growth. Priority areas are infrastructure (transportation and energy), education and training, immigration, and financial intermediation. The planned referendum on EU membership is likely to result in medium- to long-term uncertainty and accentuate divisions within the UK's political landscape.

Current Account and Economic Growth

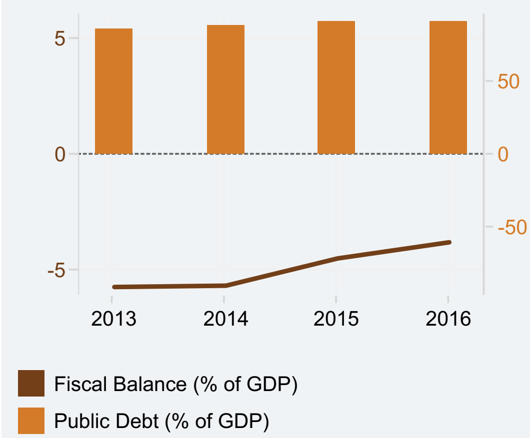


World Bank Governance Indicators



The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

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Risk Rating Lexicon

- Low
- Low-Medium
- Medium
- Medium-High
- High
- Prohibitive
- No Information

Risk Rating Lexicon

- Positive
- Neutral
- Negative

2.11 United States

Short-Term Commercial

Risk Rating
Payment Experience

Economic growth momentum in the US will remain robust, with growth in domestic demand driven by improved balance sheet fundamentals and sentiment. These gains are led by the household sector consumption and the recovering housing market. Net exports are dragging on the economy amid tepid growth in developed and key emerging economies, as well as a strengthening Greenback. The Federal Reserve is expected to raise the key federal funds rate in 2015 amid a strengthening labour market. That said, persistent disinflationary pressures, jittery global financial markets, and external headwinds add uncertainty ahead of the first interest rate increase in almost a decade.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

The US is the world's most dynamic and innovative economy with the top multinational corporations. The World Bank ranks it as the seventh best market in terms of ease of doing business.

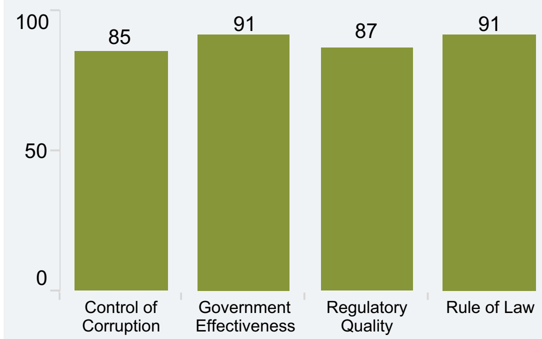
Sovereign

Sovereign Probability of Default

Although the government has a large debt load, the fiscal deficit is falling because a strengthening economy is generating higher tax revenues. With the US dollar as the world's reserve currency, the US enjoys low debt-servicing costs, and an unencumbered ability to borrow. Political gridlock remains a challenge. The Republicans control both Houses of Congress since last year's mid-term election, and the race toward the November 2016 presidential elections is now in full swing. This introduces a level of policy uncertainty, as any significant reform legislation could prove challenging in the current environment.

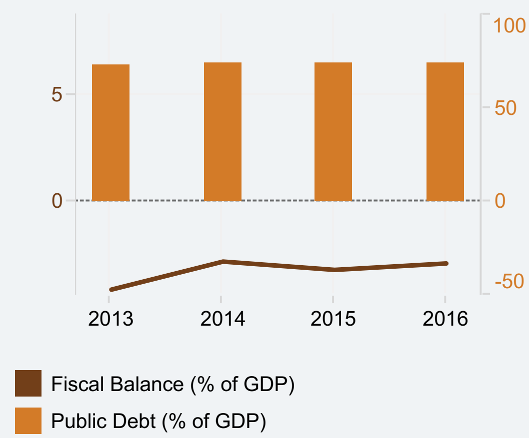
Current Account and Economic Growth

World Bank Governance Indicators



The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

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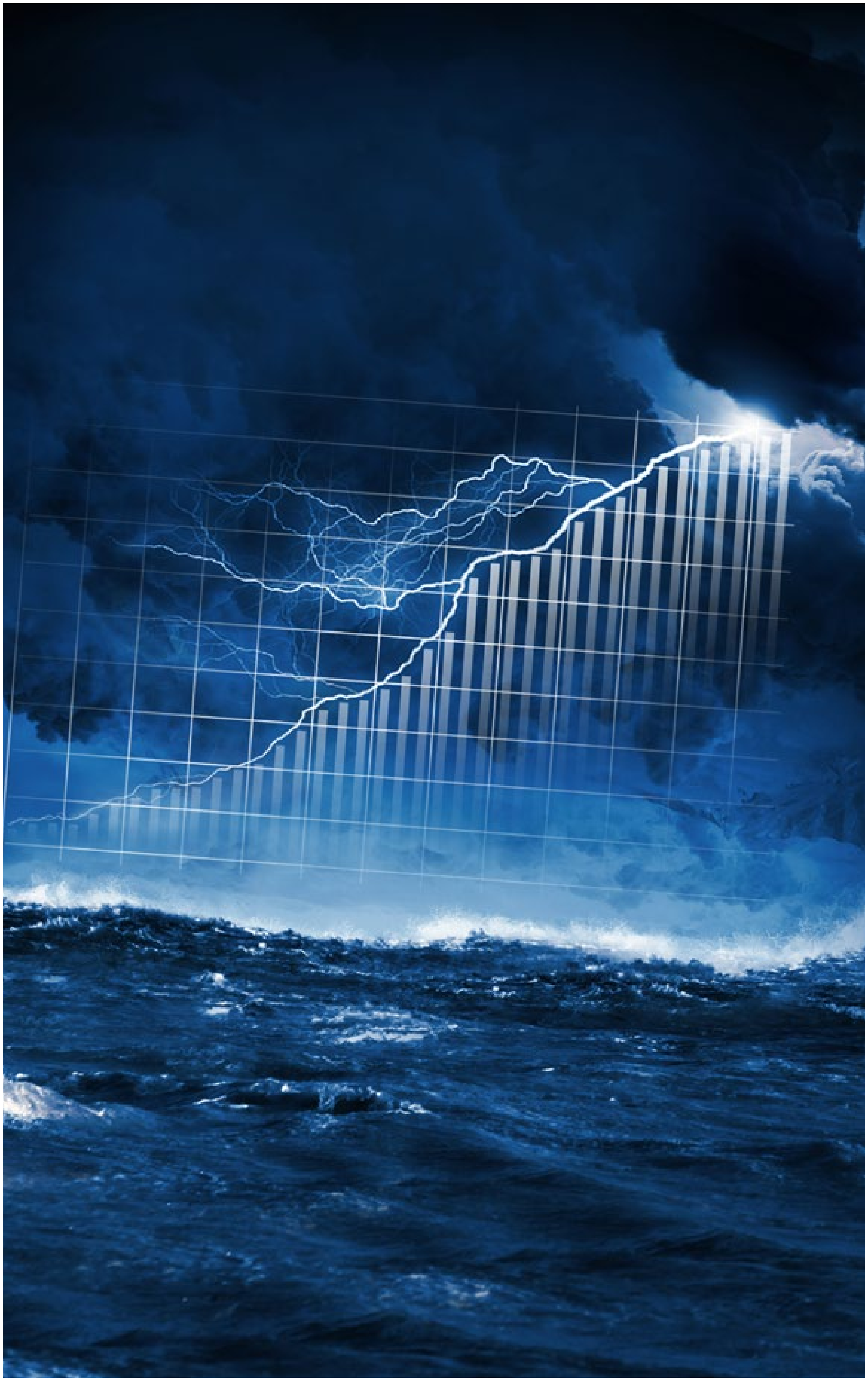

Canadian exports of goods and services are projected to see a mild 1% contraction in 2015 due largely to plunging oil prices. Excluding energy and special transactions, all categories of goods as well as services exports will post gains supported by growing US demand and a weaker Canadian dollar. Exports to emerging markets will grow faster than to developed markets this year. But next year, developed markets led by the US will gain traction as strong demand growth and rebounding energy prices are forecast to lead to a 7% export recovery.

Energy exports will drop CAD 43 billion this year due to sharply lower crude oil and natural gas prices, resulting in a 31% contraction. Although crude oil volumes are set to increase over the forecast, this will not outweigh the effect of the projected 37% price drop this year. Canadian energy exports will post a 17% rebound in 2016 as prices stage a partial recovery.

Industrial commodities and building materials, including metals, ores, petrochemicals, plastics and forestry products will post gains ranging from 4% to 8% over the forecast horizon, generally driven by recovering US demand. Pharmaceuticals and forestry gains are tied to rising US consumer demand.

Most manufacturers stand to gain from the lower value of the Canadian dollar and healthy demand. The auto sector will see a solid 14% gain this year followed by a 5% rise in 2016, as American shoppers replace older car models. US manufacturers are running at record capacity levels, offering an opportunity to the less stressed Canadian sector. Aerospace exports will also post a whopping 29% rise in 2015, as Bombardier takes advantage of a global industry that has rising order backlogs. The entry into service of the CSeries aircraft in early 2016 supports a further 17% gain in sector exports next year.

Fertilizers and agri-food exports will also receive support from rising global demand. Fertilizers will jump 36% this year benefiting from exceptionally strong demand, but exports will moderate to 2% next year as market supplies catch up. Agri-food exports will rise by 8% in 2015 and 3% in 2016. Amid sustained world food demand, global crop production and stock levels are on the rise. However, Canadian crop yields are expected to be lower this year, which will translate into softer export volumes.

Table 3: Canadian Merchandise Export Forecast by Sector

EXPORT FORECAST OVERVIEW	CAD bn 2014	% Share of Total Exports 2014	Export Outlook (% growth) 2014	2015 (f)	2016 (f)
Agri-Food	56.2	9.6	12.0	8	3
Energy	142.3	24.2	14.9	-31	17
Forestry	32.5	5.5	9.1	6	4
Chemical and Plastics	41.6	7.1	12.5	8	7
Fertilizers	6.9	1.2	-11.4	36	2
Metals, Ores and Other Industrial Products	73.2	12.5	8.0	4	7
Industrial Machinery and Equipment	30.6	5.2	9.6	10	5
Aircraft and Parts	14.5	2.5	28.7	29	17
Advanced Technology	14.6	2.5	5.5	13	5
Motor Vehicles and Parts	67.9	11.6	8.7	14	5
Consumer Goods	7.7	1.3	-3.8	27	4
Special Transactions*	4.2	0.7	16.6	-16	6
Total Goods Sector	**492.1**	**83.8**	**11.0**	**-2**	**8**
Total Services Sector	**95.4**	**16.2**	**3.0**	**2**	**4**
Total Exports	**587.5**	**100.0**	**9.6**	**-1**	**7**
Memorandum					
Total Volumes			**5.4**	**6**	**4**
Total Goods Nominal (excl. Energy)	**349.8**	**59.5**	**9.5**	**10**	**6**
Total Goods Nominal (excl. Autos and Energy)	**282.0**	**48.0**	**9.7**	**9**	**6**

Sources: Statistics Canada, EDC Economics. 2014 is actual data while 2015 and 2016 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 plunge 31% in 2015 due to sharply weaker crude and natural gas prices. The volume of crude shipped will rise by double digits but natural gas shipments will be relatively flat. Looking at 2016, energy exports will regain some lost ground, rising 17% as prices recover and crude volumes advance.

Crude exports will drop 31% in 2015 and bounce back 18% in 2016 due to a combination of price movements and volume gains. The benchmark West Texas Intermediate (WTI) price is projected to average USD51/bbl in 2015, down 45% from last year due to massive US shale oil investments that now see US crude inventories running about 25% above the five-year average. This lower price has forced a significant cost reduction effort alongside delays in new investments. The weaker loonie has taken some of the sting out, and fortunately Canadian producers are no longer facing severe transportation and refining bottlenecks, which have allowed the price discount for Western Canada Select (WCS) Crude to WTI to narrow. The Alberta Clipper-1 and Clipper-2 pipeline expansions have boosted capacity by 350,000 bbl/d. Rail has also done its share, thereby enhancing delivery options. The Alberta barrel can now make it to the Gulf Coast by rail at a premium over pipeline of about USD1.25/bbl. Looking ahead, the WTI to WCS price gap is expected to remain in the USD13-15/bbl range over the forecast. In 2016, exports are projected to recover because the price of WTI will rise to an average of USD56/bbl while volume shipments rise in tandem.

Abundant relatively low-cost US shale natural gas is constraining prices on the Henry Hub. Prices are forecast to plunge 35% this year to an average USD2.78/mmbtu, though a modest recovery to USD3.10/mmbtu is projected for 2016. US inventories are once again well stocked. Although US producers have cut back rig count, production can meet demand as wells have become much more efficient, suggesting there is limited scope for Canadian producers. We expect exports of natural gas will decline 37% this year followed by an 18% rise in 2016 due to price gains.

SECTOR STATS

International Exports (2014):
CAD 142.3 bn

Share of Sector Exports to Emerging Markets
2010: 2.7%
2014: 2.0%

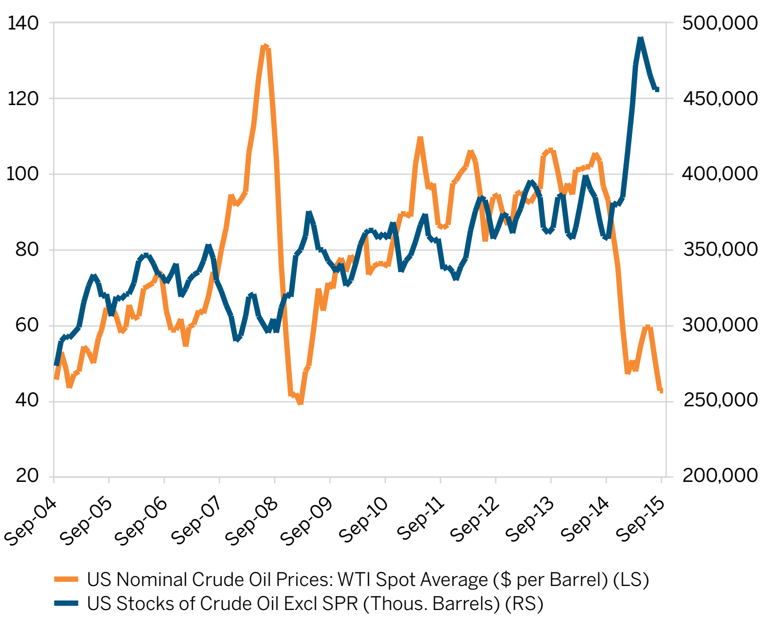
Share of Total Canadian Merchandise Exports (2014):
28.9%

Sector Distribution Across Provinces

NL	6.9%
NB	6.1%
NS	0.5%
PE	0.0%
QC	2.9%
ON	2.5%
MN	1.0%
SK	9.7%
AB	64.8%
BC	5.5%

Sources:
Statistics Canada, EDC Economics

Figure 1: US Oil Inventory Drives Oil Price Lower



Sources: Haver Analytics, Energy Information Administration

Table 4: Energy Export Outlook by Region

TOP MARKETS	CAD bn 2014	% Share of Exports 2014	2014	Export Outlook (% growth) 2015 (f)	2016 (f)
Developed Markets					
United States	133.3	93.7	15.3	-29	18
Western Europe	3.8	2.7	65.6	-71	10
Japan, Oceania and Developed Asia	2.3	1.6	-22.9	-20	1
Emerging Markets					
Latin America and the Caribbean	1.0	0.7	44.2	-71	8
Emerging Europe and Central Asia	0.2	0.2	43.5	141	7
Africa and the Middle East	0.1	0.1	154.5	-65	9
Emerging Asia	1.4	1.0	-30.0	-32	4
Total Developed Markets	**139.5**	**98.0**	**15.3**	**-30**	**17**
Total Emerging Markets	**2.8**	**2.0**	**-3.7**	**-34**	**6**
Total World	**142.3**	**100.0**	**14.9**	**-31**	**17**

Sources: Statistics Canada, EDC Economics

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3.2 Metals and Ores

Canada's metal and ore exports will expand by 4% in 2015, supported by higher production volumes and the weak loonie. A production uptick and strengthened demand in the US and EU will lift exports by 7% in 2016. Falling prices have affected Canada's iron ore output. However, both copper and gold sales – which account for one-fifth of total sector exports – are expected to rise, despite weak prices.

The Éléonore gold mine located in northern Quebec will be the largest contributor to this year's production volume gains. Having come online in late 2014, the mine produced its first commercial shipment in 2015. As with gold, copper will post double-digit growth this year, due to a number of BC mines. The only new production expansion of copper comes from the new Red Chris mine, which is estimated to add 3% to Canada's copper production. On the aluminum front, exports will be stable this year, rising only in 2016 when the Kitimat project ramps up. The pick-up in the US automotive sector continues to bolster the Canadian steel industry as well. Nonetheless, going forward, the US steel industry's spare capacity may pose a challenge to Canadian exports. Further, China is pushing out more steel into international markets given its domestic weakness – with fewer buyers at home, China is hoping the international market will buy its steel.

In 2015, iron ore prices plunged to levels not seen since the 2009 global recession in response to mounting supply and a fall-off in Chinese demand. Ongoing production increases from low-cost producers, such as Australia, will continue to make the market challenging for Canadian producers. Closures of the Bloom Lake operation in Quebec and Wabush Scully mine in Labrador will weigh on this year's output. Going forward, the Mary River project will support Canadian production. Indeed, with higher output expected at a number of mines, iron ore volumes are expected to begin growing again in 2016.

SECTOR STATS

International Exports (2014):
CAD 73.15 bn

Share of Sector Exports to Emerging Markets
2010: 10.4%
2014: 10.2%

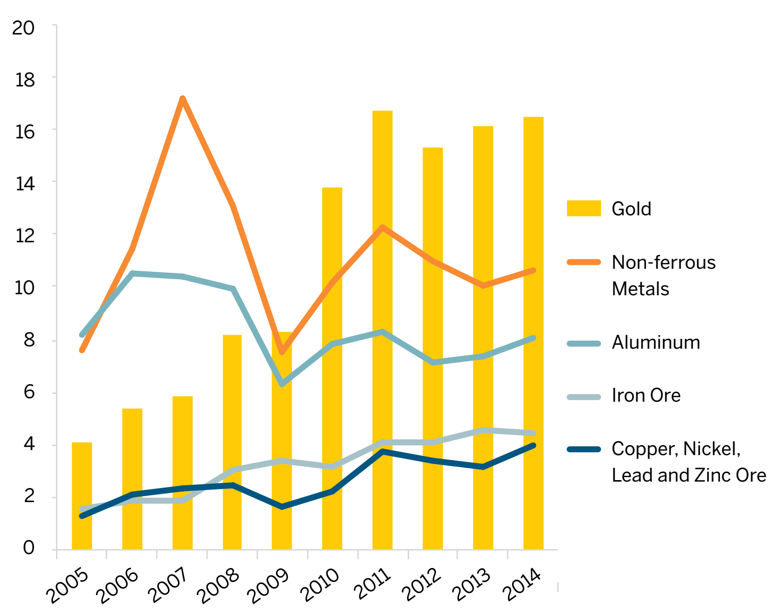
Share of Total Canadian Merchandise Exports (2014):
14.9%

Sector Distribution Across Provinces

NL	2.9%
NB	0.7%
NS	0.4%
PE	0.0%
QC	26.6%
ON	52.2%
MN	2.0%
SK	0.6%
AB	3.2%
BC	8.5%

Sources:
Statistics Canada, EDC Economics

Figure 2: Canadian Major Metal and Ore Exports



Source: Statistics Canada

Table 5: Metals and Ores Export Outlook by Region

TOP MARKETS	CAD bn 2014	% Share of Exports 2014	Export Outlook (% growth) 2014	2015 (f)	2016 (f)
Developed Markets					
United States	38.7	52.9	11.8	8	6
Western Europe	19.2	26.3	10.4	9	7
Japan, Oceania and Developed Asia	7.2	9.8	5.3	-10	8
Emerging Markets					
Latin America and the Caribbean	1.5	2.1	10.3	6	7
Emerging Europe and Central Asia	0.4	0.6	-18.2	-7	7
Africa and the Middle East	1.3	1.8	-12.8	-4	10
Emerging Asia	4.8	6.6	-16.4	-19	4
Total Developed Markets	**65.1**	**89.0**	**10.6**	**6**	**7**
Total Emerging Markets	**8.1**	**11.0**	**-9.7**	**-10**	**6**
Total World	**73.2**	**100.0**	**8.0**	**4**	**7**

Sources: Statistics Canada, EDC Economics

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3.3 Agri-Food

The value of Canada's agricultural and food exports will rise by 8% in 2015, driven by a boost from the lower Canadian dollar and by moderate export volume growth amid sustained world food demand. In 2016, exports will rise 3%. A return to more normal yields amid low prices will mean reduced plantings and production volumes for most major crops, weighing on crop exports this year and next.

Agricultural prices are expected to remain low in the next two years (compared with recent highs) according to the US Department of Agriculture. World markets are generally well supplied but this will be partly balanced by the broadly positive demand outlook, except for wheat. The gradual recovery of North American herds will lift feed demand. Furthermore, there is continued strong demand for soybeans, lentils and flaxseed. In the meat sector, the nascent recovery in Canada's cattle herds has been challenged by the discovery in February of a case of BSE disease in Alberta; although shipment volumes weakened earlier this year, Canadian meat exports are expected to post a modest rebound because the case has been contained and the US has not imposed bans. Another positive factor is the swelling of the middle class in some emerging markets, which is raising demand for grains and meats. As well, free trade agreements with the European Union (pending ratification) and with Korea (in force) will expand export opportunities.

The highly competitive processed food and beverages sector will see a boost due to solid gains in shipments to the key US market that will lift the value of Canadian exports by 17% this year and by 5% in 2016. In the seafood subsector, exports are forecast to grow nearly 19% in 2015 on the back of soaring farmed salmon shipments to the US and strong price growth for lobster and shrimp driven by tighter supplies and US and Asian demand. In 2016, exports are expected to stay static as lobster prices experience a downward correction in line with historical norms and other seafood products see only marginal gains.

SECTOR STATS

International Exports (2014):
CAD 56.2 bn

Share of Sector Exports to Emerging Markets
2010: 29.7%
2014: 30.0%

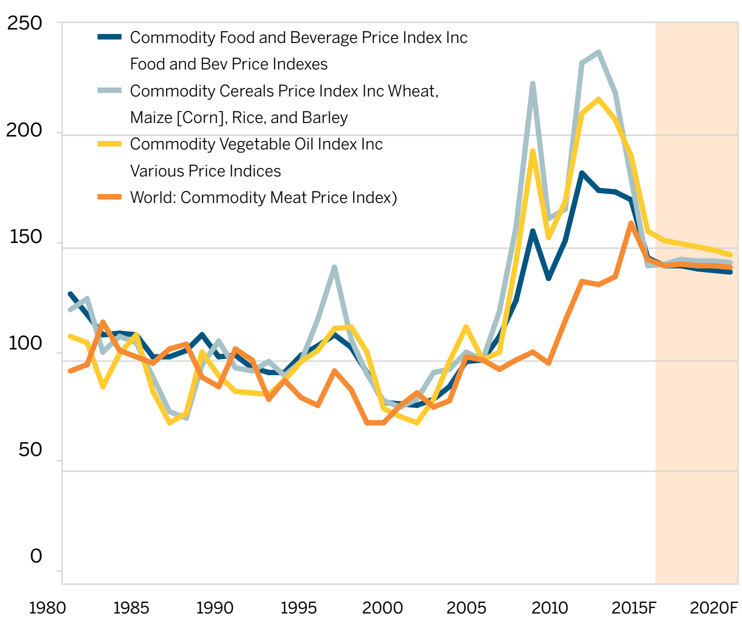
Share of Total Canadian Merchandise Exports (2014):
11.4%

Sector Distribution Across Provinces

NL	1.6%
NB	2.7%
NS	2.8%
PE	1.0%
QC	12.4%
ON	21.9%
MN	9.9%
SK	24.8%
AB	17.1%
BC	5.8%

Sources:
Statistics Canada, EDC Economics

Figure 3: World Supply and Demand Rebalancing After Price Super-Cycle High (2005=100)



Sources: International Monetary Fund/World Economic Outlook Database, April 2015

Table 6: Agri-Food Export Outlook by Region

TOP MARKETS	CAD bn 2014	% Share of Exports 2014	2014	Export Outlook (% growth) 2015 (f)	2016 (f)
Developed Markets					
United States	29.4	52.2	13.6	9	3
Western Europe	3.8	6.7	32.9	0	3
Japan, Oceania and Developed Asia	6.3	11.1	3.8	-4	0
Emerging Markets					
Latin America and the Caribbean	4.3	7.6	11.9	0	3
Emerging Europe and Central Asia	1.0	1.8	8.1	-31	3
Africa and the Middle East	3.0	5.4	27.4	-3	4
Emerging Asia	8.5	15.2	1.9	27	3
Total Developed Markets	**39.4**	**70.0**	**13.5**	**6**	**2**
Total Emerging Markets	**16.9**	**30.0**	**8.7**	**11**	**3**
Total World	**56.2**	**100.0**	**12.0**	**8**	**3**

Sources: Statistics Canada, EDC Economics

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3.4 Fertilizers

Near historic emerging market demand for potash, a rebound in exports of nitrogen-based fertilizers to the US and the lower Canadian dollar will help fertilizer exports grow by 36% in 2015. Exports will moderate and only grow by 2% in 2016.

While the loonie's decline helps boosts nominal export growth, the rising US dollar compared with many emerging market currencies, especially the Brazilian real, will drag down overall exports as the resulting higher prices will depress demand going forward and into 2016.

Both potash and the nitrogen fertilizer are expected to be in oversupply over the near term. According to Green Markets, brownfield expansion at potash facilities at Sussex, Rocanville and Vanscoy has added approximately 2.5 to 3.5 million tonnes of capacity. Very aggressive competition between potash suppliers to gain market share will further tame upward price momentum.

Overall demand conditions will remain subdued. The uptick in exports to the US in 2015, predominantly a base effect of nitrogen-based fertilizer exports, will not last. As such, exports will be a notch lower to the US going forward due to high dealer inventory levels for potash and increasing concerns about farm income, which this year is projected to drop 36% to the lowest level in nine years according to the USDA.

While exports to China will be strong in 2015, the outlook remains shrouded by uncertainty over the introduction of the 13% value-added tax on fertilizer imports. Indian demand is expected to stagnate due to poor monsoon rains. India's subsidy scheme that favours nitrogen-based fertilizer will not be changed until 2017 at the earliest. Lower palm oil and rice prices and weak currencies will depress Indonesian and Malaysian imports of potash. Despite impressive Brazilian potash demand momentum through the first half of 2015, a weak economic environment alongside soft commodity prices will depress fertilizer sales sharply into 2016.

Weaker prices may also be prompting consolidation as seen by recent acquisitions by CF Industries and PotashCorp's abandoned bid for K+ S.

SECTOR STATS

International Exports (2014):
CAD 6.9 bn

Share of Sector Exports to Emerging Markets
2010: 29.8%
2014: 34.0%

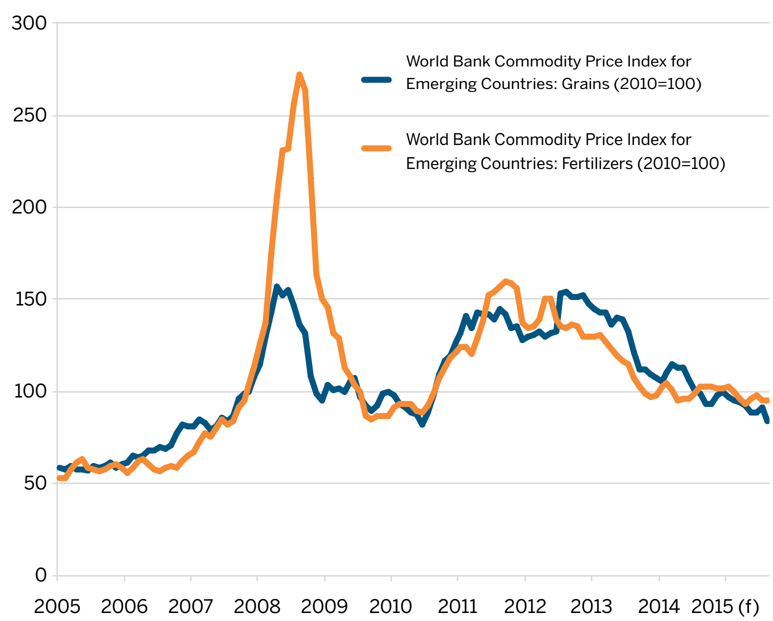
Share of Total Canadian Merchandise Exports (2014):
1.4%

Sector Distribution Across Provinces

NL	0.0%
NB	3.4%
NS	0.0%
PE	0.0%
QC	0.3%
ON	5.5%
MN	1.6%
SK	74.7%
AB	13.4%
BC	1.0%

Sources:
Statistics Canada, EDC Economics

Figure 4: Grains Leading the Way?



Source: Haver Analytics

Table 7: Fertilizers Export Outlook by Region

TOP MARKETS	CAD bn 2014	% Share of Exports 2014	Export Outlook (% growth) 2014	2015 (f)	2016 (f)
Developed Markets					
United States	4.4	64.6	-12.6	32	2
Western Europe	0.0	0.6	29.0	-28	3
Japan, Oceania and Developed Asia	0.1	0.8	13.5	-17	1
Emerging Markets					
Latin America and the Caribbean	0.7	10.5	-20.1	53	3
Emerging Europe and Central Asia	0.0	0.0	-3.6	-15	3
Africa and the Middle East	0.0	0.3	309.7	75	5
Emerging Asia	1.6	23.2	-5.5	42	2
Total Developed Markets	**4.5**	**66.0**	**-12.1**	**31**	**2**
Total Emerging Markets	**2.3**	**34.0**	**-9.9**	**46**	**2**
Total World	**6.9**	**100.0**	**-11.4**	**36**	**2**

Sources: Statistics Canada, EDC Economics, Green Markets*

* Global Potash Supply and Demand Model is reproduced with full written permission of Kenedy information, LLC © 2015.

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3.5 Forestry Products

The weak loonie combined with continued strong US economic and housing growth is forecast to boost Canadian forestry exports by 6% in 2015. EDC Economics is forecasting the value of the Canadian dollar to be relatively stable in 2016, resulting in a fading effect of the currency on trade. When combined with a tightening Canadian fibre supply, forestry products export growth will slow to 4% in 2016.

In the aftermath of the US financial crisis, US housing starts languished well below the requirements required by demographics and household formation. However, as economic growth has strengthened and the deficit of houses has increased, US housing starts have increased. EDC Economics believes this will continue, forecasting that housing starts will grow by 15% in 2015 and by 24% in 2016. This will boost already strong demand for lumber and wood paneling for construction and consumer use in the US.

However, Canadian ability to satisfy this demand will be constrained as the cost of the mountain pine beetle infestation in British Columbia hits available supply. In 2013, 70.9 million cubic meters (m^3) were harvested. As the long-term effects of the pine beetle afflict BC's forests, the provincial government is forecasting that harvest levels will decline to 50 to 60 million m^3 by 2025 and it will take until 2075 until timber supply will return to 65 to 70 million m^3. With the province accounting for more than half of Canadian softwood production, this decline significantly squeezes Canadian export capacity into the long term.

For pulp and paper exports, the weak loonie has provided companies with a competitive edge in North America relative to US firms. In newsprint, though the overall size of the market is expected to decline, the Canadian share of the total is forecast to increase as a result of this currency edge. The pulp sector is expected to see a similar effect, though production and demand have remained relatively stable. Over the medium term, Canadian production may come under pressure due to the development of international supplies of lower-cost hardwood and eucalyptus grades of pulp.

SECTOR STATS

International Exports (2014):
CAD 32.5 bn

Share of Sector Exports to Emerging Markets
2010: 20.4%
2014: 22.3%

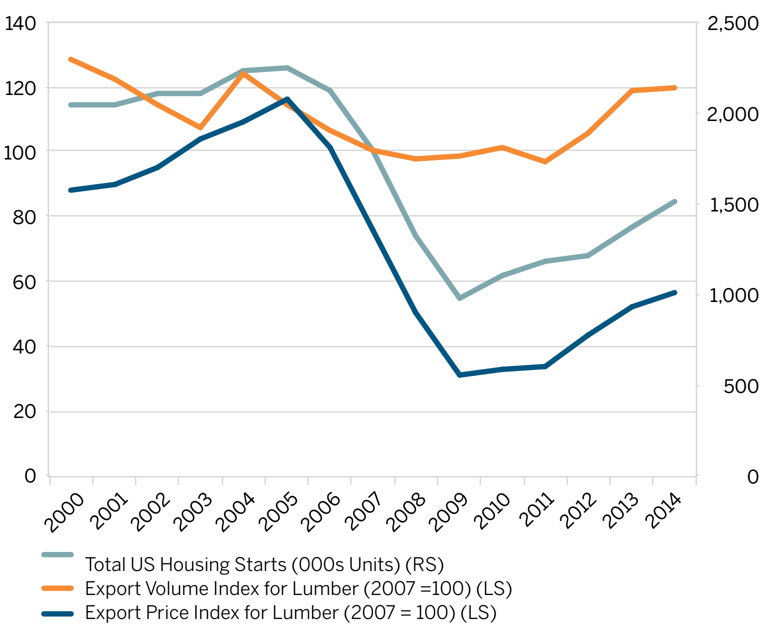
Share of Total Canadian Merchandise Exports (2014):
6.6%

Sector Distribution Across Provinces

NL	0.4%
NB	5.1%
NS	2.1%
PE	0.0%
QC	27.9%
ON	15.4%
MN	1.5%
SK	1.4%
AB	8.4%
BC	37.9%

Sources:
Statistics Canada, EDC Economics

Figure 5: US Housing Market Recovery Builds Up Canadian Lumber Exports



Sources: Statistics Canada, Haver Analytics

Table 8: Forestry Export Outlook by Region

TOP MARKETS	CAD bn 2014	% Share of Exports 2014	Export Outlook (% growth) 2014	2015 (f)	2016 (f)
Developed Markets					
United States	21.6	66.4	12.4	8	4
Western Europe	1.1	3.5	8.0	0	6
Japan, Oceania and Developed Asia	2.5	7.8	-1.1	-4	4
Emerging Markets					
Latin America and the Caribbean	0.7	2.3	-2.4	-5	6
Emerging Europe and Central Asia	0.2	0.6	-22.5	11	7
Africa and the Middle East	0.3	0.9	-4.9	-12	10
Emerging Asia	6.0	18.5	6.6	7	5
Total Developed Markets	**25.3**	**78**	**10.7**	**6**	**4**
Total Emerging Markets	**7.3**	**22**	**4.1**	**5**	**5**
Total World	**32.5**	**100**	**9.1**	**6**	**4**

Sources: Statistics Canada, EDC Economics

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3.6 Automotive

The value of Canadian motor vehicles and parts exports will grow by 14% in 2015 lifted by the lower Canadian dollar, despite a slight dip in shipment volumes. As the currency stabilizes, EDC Economics expects exports to expand a moderate 5% in 2016 as demand tailwinds lift production volumes going forward. Canadian exporters will ride the wave of surging demand in the US, as vehicle sales soar to pre-recession levels. Vehicle replacement needs are high following years of under-spending. Rapid employment growth, repaired balance sheets, accessible financing, and lower gas prices will be release valves for pent-up demand.

While the majority of new investments in North America continue to take place in Mexico and the southern US, recent announcements in Canada by GM, Ford, Chrysler and Honda show a domestic automotive industry driven to retool assembly lines to better cater to consumer preferences. Notably, the resumption of production following temporary halts earlier this year at Ford's Oakville and Chrysler's Windsor plants, the latter due to a $2-billion investment in modernization, are expected to drive volume growth for the sector. On the downside, GM is slated to move production of its Chevy Camaro from Oshawa to Michigan by year-end. Strong demand, tight capacity and the lower Canadian dollar should incentivize new investments. That said, lags from future announcements to production largely preclude significant volume gains over 2015 and 2016. Canadian assembly plants have proven resilient in their ability to churn out vehicles despite tight capacity constraints. Presently, capacity utilization is off recent highs, pointing to room for growth.

Heavy-duty truck exports will grow strongly driven by replacement needs, rising road freight tonnage and new emissions regulations. As parts manufacturers tend to co-locate near top automaker hubs to meet just-in-time deliveries, they will remain active in line with production trends in the US and Mexico. However, like automakers they also need to expand their productive capacity; Linamar's $500-million investment to produce new environmentally friendly transmissions and powertrain parts is a step in this direction. This trend will dampen export volumes over the medium term, but will provide opportunities for Canadian Direct Investment Abroad.

SECTOR STATS

International Exports (2014):
CAD 67.9 bn

Share of Sector Exports to Emerging Markets
2010: 2.3%
2014: 2.8%

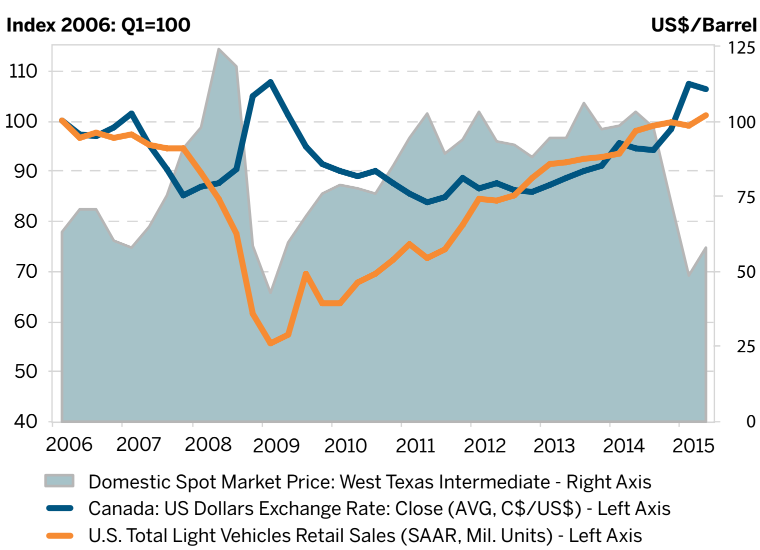
Share of Total Canadian Merchandise Exports (2014):
13.8%

Sector Distribution Across Provinces

NL	0.0%
NB	0.0%
NS	1.7%
PE	0.0%
QC	4.2%
ON	92.0%
MN	1.0%
SK	0.1%
AB	0.5%
BC	0.6%

Sources:
Statistics Canada, EDC Economics

Figure 6: Strong Fundamentals for Automotive Exports, Except for Stronger CAD vs. Mexican Peso



Sources: Haver Analytics, Bank of Canada, Energy Information Administration/CME, Autodata

Table 9: Automotive Export Outlook by Region

TOP MARKETS	CAD bn 2014	% Share of Exports 2014	2014	Export Outlook (% growth) 2015 (f)	2016 (f)
Developed Markets					
United States	65.6	96.6	8.6	14	4
Western Europe	0.2	0.4	7.5	16	6
Japan, Oceania and Developed Asia	0.1	0.2	2.1	5	4
Emerging Markets					
Latin America and the Caribbean	0.9	1.4	5.3	19	6
Emerging Europe and Central Asia	0.1	0.1	3.4	90	2
Africa and the Middle East	0.5	0.8	4.8	18	8
Emerging Asia	0.4	0.5	61.5	26	8
Total Developed Markets	**66.0**	**97.2**	**8.5**	**14**	**4**
Total Emerging Markets	**1.9**	**2.8**	**12.4**	**22**	**7**
Total World	**67.9**	**100.0**	**8.7**	**14**	**5**

Sources: Statistics Canada, EDC Economics

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3.7 Industrial Machinery and Equipment

Industrial machinery and equipment (M&E) will grow by 10% this year, followed by 5% in 2016 led by sales to developed markets. The US recovery is expected to gain further momentum, translating into stronger global growth and ultimately gains in investment. However, different subsectors face varying demand conditions, which will mean delays in investment until demand and prices recover.

Agricultural M&E exports will slide by 6% in 2015 due to a fall-off in shipments, although some price gains are evident due to the loonie's impact. Demand for tractors in the US is being tempered by lower farm incomes, and farmland values will subsequently constrain farmers' collateral and borrowing capacity amid higher interest rates. A subtle 2% recovery is expected in 2016.

Metal and woodworking M&E will increase almost 22% in 2015 as a weaker Canadian dollar, strong growth in US housing starts and extremely high production and capacity utilization in the US automotive industry drive export growth. Growth in 2016 is expected to remain strong at nearly 12% as economic conditions remain robust in the US (the destination for over 80% of metal and woodworking M&E exports) and US housing starts are forecast to increase by 24%.

Mining and oil and gas M&E exports will slide 4% in 2015, followed by a 5% recovery in 2016. US crude oil and mining sector investments are down amid cost-cutting efforts. Generally, this subsector is constrained by weak prices and over-capacity. A significant number of US coal mines have been idled. This trend is mirrored around the globe, which means that exports to other regional markets will follow a similar pattern.

Shipments of rubber and plastic M&E will gain lift to both emerging and developed markets over the forecast, due largely to a pick-up in the plastic industry from growing consumer demand and strong growth in the construction and automotive sectors. The CAD value will have a positive impact. However, there will be a large boost on the volumes side as well with growing sales to the US, Latin America, and Africa and the Middle East.

SECTOR STATS

International Exports (2014):
CAD 30.6 bn

Share of Sector Exports to Emerging Markets
2010: 17.1%
2014: 16.1%

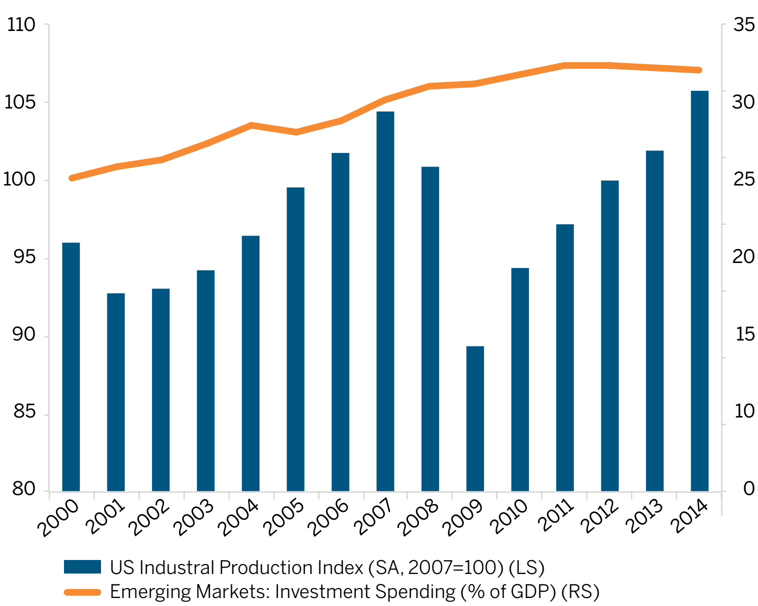
Share of Total Canadian Merchandise Exports (2014):
6.2%

Sector Distribution Across Provinces

NL	0.1%
NB	0.8%
NS	0.5%
PE	0.3%
QC	23.7%
ON	50.4%
MN	4.5%
SK	1.9%
AB	11.8%
BC	6.0%

Sources:
Statistics Canada, EDC Economics

Figure 7: Demand Indicators for M&E



Source: Haver Analytics

Table 10: Industrial M&E Export Outlook by Region

TOP MARKETS	CAD bn 2014	% Share of Exports 2014	2014	Export Outlook (% growth) 2015 (f)	2016 (f)
Developed Markets					
United States	21.9	71.4	10.7	14	6
Western Europe	2.4	8.0	12.8	7	5
Japan, Oceania and Developed Asia	1.4	4.5	5.9	4	3
Emerging Markets					
Latin America and the Caribbean	1.4	4.7	-2.0	1	5
Emerging Europe and Central Asia	0.8	2.6	-0.7	-26	3
Africa and the Middle East	1.4	4.4	19.3	-5	6
Emerging Asia	1.3	4.4	1.8	-2	8
Total Developed Markets	**25.7**	**83.9**	**10.6**	**12**	**5**
Total Emerging Markets	**4.9**	**16.1**	**4.4**	**-6**	**6**
Total World	**30.6**	**100.0**	**9.6**	**10**	**5**

Sources: Statistics Canada, EDC Economics

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3.8 Advanced Technology

Advanced technology exports are forecast to grow by 13% this year before decelerating to 5% growth next year. Export volumes to developed markets will experience a large jump in 2015 on the back of a weak Canadian dollar and reviving US economy. However, fierce competition in the sector and a continued trend of shifting manufacturing to lower-cost economies will bring nominal growth back to more moderate levels in 2016. That said, increasing opportunities to develop high-value-added technologies for the US and European markets in niche segments will partially compensate for the drop in traditional subsectors.

Rising consumer spending and increasing corporate investment in equipment and network upgrades will contribute to a slight uptick in export volumes to the US; however, overall exports will mainly see price-related growth linked to the weakening Canadian dollar this year. Sales to Europe, Canada's number two market, have experienced impressive and relatively unforeseen growth levels in the region. Additionally, shipments to Asia are well positioned for rapid growth. Wireless subscribers in Asia are growing at exponential rates. 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.

Overall, the advanced technology sector is experiencing a shift away from the ailing wireless communications and telephone apparatus sector toward non-traditional segments such as navigational and measurement instruments. Export shares are growing in several subsectors, such as electrical components and measuring and testing devices, presenting significant opportunities for Canadian companies on the back of recovering US housing starts. A growing number of small and medium-sized Canadian enterprises developing products in niche subsectors will significantly benefit from the US recovery. Navigational and measuring instruments have experienced the highest levels of growth in the advanced technology sector, with most exports heading to the US. However, 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.

SECTOR STATS

International Exports (2014):
CAD 14.6 bn

Share of Sector Exports to Emerging Markets
2010: 15.3%
2014: 15.2%

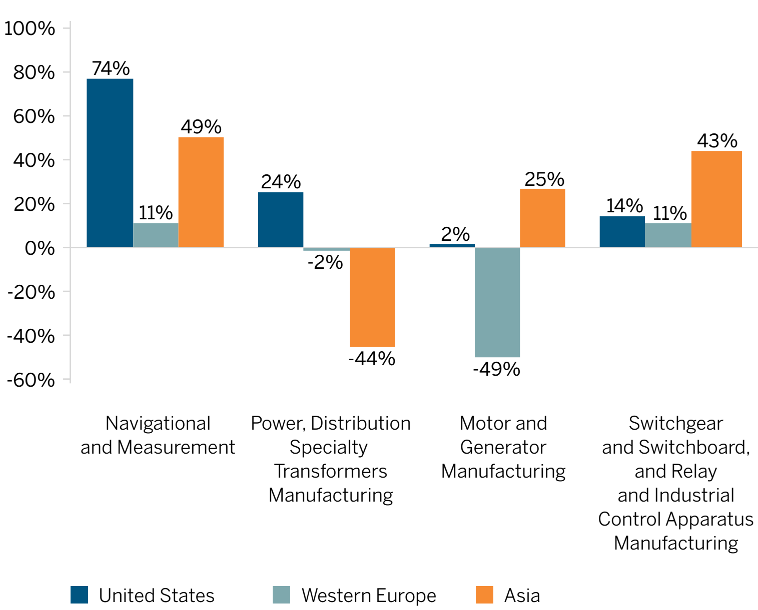
Share of Total Canadian Merchandise Exports (2014):
3.0%

Sector Distribution Across Provinces

NL	0.1%
NB	0.3%
NS	1.2%
PE	0.3%
QC	27.4%
ON	53.0%
MN	2.0%
SK	0.8%
AB	6.2%
BC	8.8%

Sources:
Statistics Canada, EDC Economics

Figure 8: Niche Subsectors Leading the Growth Charge (YTD, y/y)



Source: Statistics Canada

Table 11: Advanced Technology Export Outlook by Region

TOP MARKETS	CAD bn 2014	% Share of Exports 2014	Export Outlook (% growth) 2014	2015 (f)	2016 (f)
Developed Markets					
United States	9.9	67.6	5.9	14	3
Western Europe	1.5	10.5	4.4	14	9
Japan, Oceania and Developed Asia	1.0	6.7	9.9	12	7
Emerging Markets					
Latin America and the Caribbean	0.7	4.5	0.5	-2	9
Emerging Europe and Central Asia	0.2	1.7	-7.8	-3	9
Africa and the Middle East	0.5	3.2	6.8	28	11
Emerging Asia	0.8	5.7	5.6	13	11
Total Developed Markets	**12.4**	**84.8**	**6.0**	**14**	**4**
Total Emerging Markets	**2.2**	**15.2**	**2.7**	**10**	**11**
Total World	**14.6**	**100.0**	**5.5**	**13**	**5**

Sources: Statistics Canada, EDC Economics

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3.9 Aerospace

The decline of the dollar, combined with stronger aircraft deliveries from Bombardier as the company eats into its order backlog, are expected to lead to 29% growth in exports in 2015. In 2016, EDC Economics forecasts the value of the Canadian dollar to be essentially unchanged. However, the production and entry into service of Bombardier's CSeries aircraft along with improved global growth are expected to propel aerospace exports up by 17%.

The production capacity of global aircraft manufacturers is expected to remain stretched into 2016 as major manufacturers' order backlog of units remains exceptionally high by historical standards. Halfway through 2015, Bombardier Aerospace reported an order backlog of more than USD 34 billion, which includes 243 firm orders for its new CSeries aircraft. After delays, certification of the aircraft is expected to occur by the end of 2015, with the first deliveries occurring early in 2016. The number of aircraft manufactured is expected to ramp up through 2017 and beyond, which will provide a strong boost to the volume of aerospace exports over the medium term.

The market for business jets continues to recover, and high levels of US corporate profits and business jet utilization are expected to boost demand in the near term. The slow recovery of some segments of the business jet market since the global financial crisis has caused Bombardier to "pause" its Learjet 85 program. While this will diminish the contribution of business jets to aerospace exports in the longer term, Bombardier has reported a sizable order backlog which will ensure steady volumes into the next few years.

Global growth – which is supporting rising air travel in emerging markets and the delivery of newer and more technologically advanced aircraft – are boosting Canadian exports of aircraft parts, training services and simulators. CAE Inc. is tapping into this global demand, landing simulator orders with a number of major airlines and military forces.

SECTOR STATS

International Exports (2014):
CAD 14.5 bn

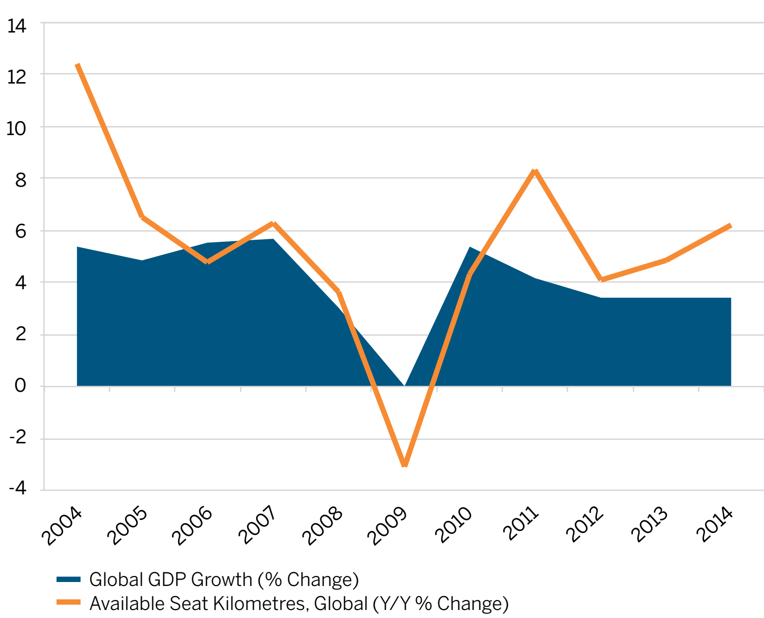
Share of Sector Exports to Emerging Markets
2010: 17.1%
2014: 16.0%

Share of Total Canadian Merchandise Exports (2014):
2.9%

Sector Distribution Across Provinces
NL 0.1%
NB 0.0%
NS 0.4%
PE 0.5%
QC 69.8%
ON 21.2%
MN 4.1%
SK 0.0%
AB 1.7%
BC 2.3%

Sources:
Statistics Canada, EDC Economics

Figure 9: Global Growth Propels Growth of Aerospace Volume



Sources: IATA, IMF, Haver Analytics

Table 12: Aerospace Export Outlook by Region

TOP MARKETS	CAD bn 2014	% Share of Exports 2014	Export Outlook (% growth) 2014	2015 (f)	2016 (f)
Developed Markets					
United States	9.0	62.4	30.6	23	19
Western Europe	2.6	18.3	39.8	42	20
Japan, Oceania and Developed Asia	0.5	3.3	-7.7	31	3
Emerging Markets					
Latin America and the Caribbean	0.3	2.4	2.3	25	4
Emerging Europe and Central Asia	0.3	2.0	-37.0	-6	3
Africa and the Middle East	0.7	4.9	132.9	66	16
Emerging Asia	1.0	6.8	18.0	-23	-9
Total Developed Markets	**12.2**	**84.0**	**30.4**	**28**	**19**
Total Emerging Markets	**2.3**	**16.0**	**20.5**	**33**	**10**
Total World	**14.5**	**100.0**	**28.7**	**29**	**17**

Sources: Statistics Canada, EDC Economics

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3.10 Chemicals and Plastics

Chemicals and plastics exports are expected to grow by 8% in 2015 and 7% in 2016. This forecast is primarily guided by a weaker loonie, commodity price swings and the global demand outlook. Fortunately, the US, which receives 80% of total Canadian shipments, is in recovery mode. Export volumes will remain relatively stagnant over the short term as companies focus on reducing input costs and increasing efficiency and environmental sustainability.

Petrochemical exports have veered into negative territory as crude oil prices remain depressed and the fall in the Canadian dollar reduces the positive upswing in volumes by keeping prices sufficiently weak. The subsector is experiencing production capacity constraints and is partially benefiting from higher demand from the US as manufacturing ramps up. However, the sharp fall in prices will be a drag on exports. Additionally, electricity costs, capacity utilization and labour constraints will restrain growth potential. On the upside, over the medium to long term, potential expansions and product diversification, largely in the packaging subsector, could boost petrochemical production.

Pharmaceuticals is benefiting significantly from increased health spending in the US, as well as further expansion into the generic drug subsector. As a considerable amount of patents expire, Canadian manufacturers are increasing their presence in the generic space, whereas brand name producers enter into specialized drug production segments such as oncology. An uptick in R&D partnerships and agreements between pharmaceutical companies and universities will lift the sector's medium- to long-term prospects. Overall, Canada's chemical exports should rise by 5% this year and next.

Exports of plastics will expand 16% this year followed by an equally strong 13% next year. Volumes remain in line with our bullish outlook for the US economy and consumer demand, which is partially driven by a double-digit jump in housing starts this year and next. 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 in line with shifting consumer preferences will be a potential growth opportunity for the sector.

SECTOR STATS

International Exports (2014):
CAD 41.6 bn

Share of Sector Exports to Emerging Markets
2010: 9.4%
2014: 9.7%

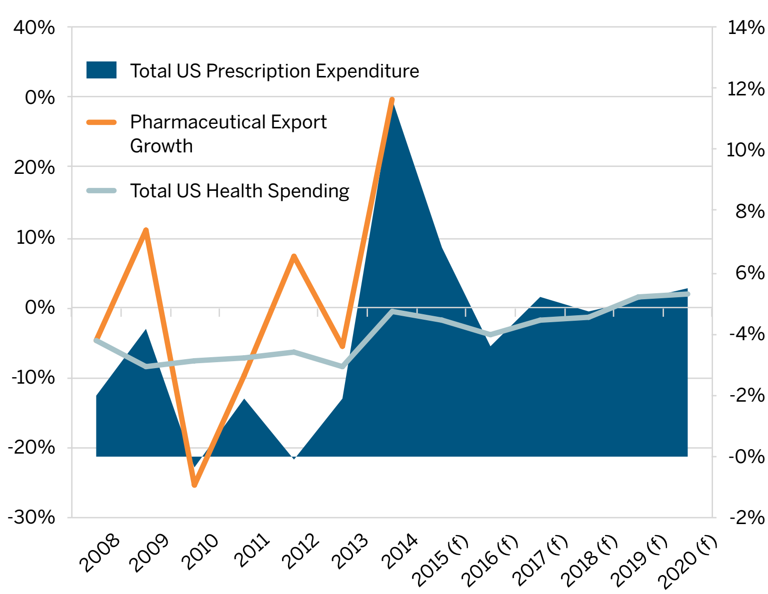
Share of Total Canadian Merchandise Exports (2014):
8.5%

Sector Distribution Across Provinces

NL	0.0%
NB	0.3%
NS	0.9%
PE	0.2%
QC	17.5%
ON	54.8%
MN	2.2%
SK	1.7%
AB	19.3%
BC	3.1%

Sources:
Statistics Canada, EDC Economics

Figure 10: Canadian Pharmaceuticals Largely Driven by US Health Spending - More Growth to Come



Source: IMS Institute for Healthcare Informatics

Table 13: Chemicals and Plastics Export Outlook by Region

TOP MARKETS	CAD bn 2014	% Share of Exports 2014	2014	Export Outlook (% growth) 2015 (f)	2016 (f)
Developed Markets					
United States	32.9	79.0	13.2	11	7
Western Europe	3.1	7.5	-2.6	0	7
Japan, Oceania and Developed Asia	1.6	3.9	57.4	-16	4
Emerging Markets					
Latin America and the Caribbean	1.4	3.5	9.7	6	8
Emerging Europe and Central Asia	0.2	0.5	-2.7	-12	8
Africa and the Middle East	0.4	1.0	17.3	1	10
Emerging Asia	2.0	4.8	5.8	-8	9
Total Developed Markets	**37.6**	**90.3**	**13.0**	**9**	**7**
Total Emerging Markets	**4.0**	**9.7**	**7.8**	**-2**	**8**
Total World	**41.6**	**100.0**	**12.5**	**8**	**7**

Sources: Statistics Canada, EDC Economics

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3.11 Consumer Goods

Exports of consumer goods will increase by nearly 27% this year before posting moderate 4% growth in 2016. This sector is made up of a very diverse group of categories, but close to 80% of shipments go to the US. With the American economy set to experience strong gains over the coming years, combined with the weaker Canadian dollar boosting external competitiveness, the outlook for consumer goods exports is positive.

The biggest shock to this forecast is jewellery and silverware exports, which are historically volatile given their high dependence on precious metal prices, especially gold. Recent data have pointed to a dramatic surge in jewellery exports to the US, though we believe this is likely to be more of a short-term event than a sustained trend.

The largest component of this sector is housing-related goods such as furniture, kitchen cabinets and other consumer durables. With US housing starts expected to increase by double digits this year and next, export growth will correspondingly pick up.

After falling for much of the past decade, clothing exports appear to have finally bottomed out and are once again on a growth path. We expect clothing sales to rise by 10% this year as the appreciating US dollar and lower cotton prices make Canadian apparel manufacturers more competitive. Next year, growth will level off to 2% as the loonie boost runs its course. Increasingly, Canadian-made products are targeting the high-end market segment in the US and Western Europe, where disposable incomes are increasing.

Finally, in the other consumer goods category, small niche industries like medical equipment will continue to experience growth as an aging US consumer drives higher health spending.

While the US and European markets continue to absorb the bulk of these exports, we expect that over the longer term, the fastest-growth rates in the consumer goods sector will increasingly come from Emerging Asia and Latin America. An increasing challenge for Canadian manufacturers across the sector is the re-shoring of companies to the US to take advantage of its rising consumer demand.

SECTOR STATS

International Exports (2014):
CAD 7.7 bn

Share of Sector Exports to Emerging Markets
2010: 4.3%
2014: 4.6%

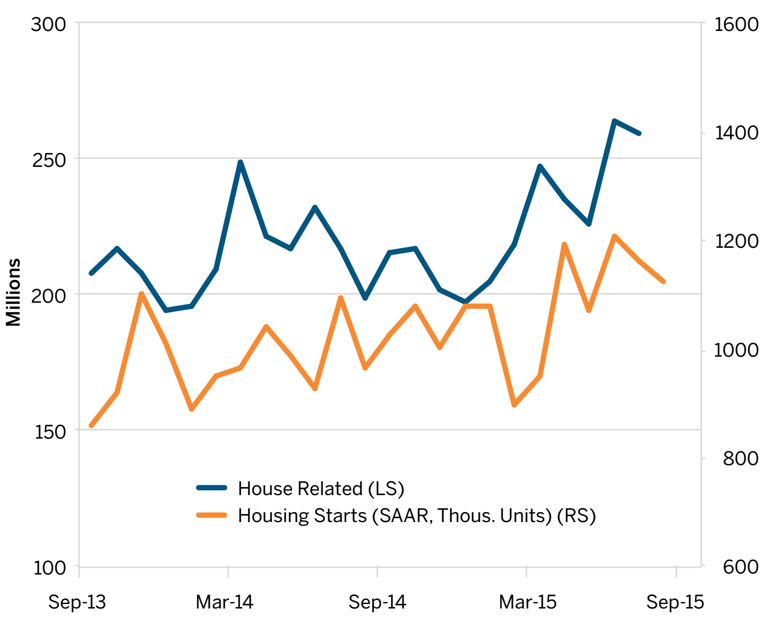
Share of Total Canadian Merchandise Exports (2014):
1.6%

Sector Distribution Across Provinces

NL	0.1%
NB	0.2%
NS	1.0%
PE	0.1%
QC	29.5%
ON	55.1%
MN	2.8%
SK	0.2%
AB	1.9%
BC	8.9%

Sources:
Statistics Canada, EDC Economics

Figure 11: Housing-Related Exports



Sources: Haver Analytics, Industry Canada

Table 14: Consumer Goods Export Outlook by Region

TOP MARKETS	CAD bn 2014	% Share of Exports 2014	Export Outlook (% growth) 2014	2015 (f)	2016 (f)
Developed Markets					
United States	5.9	76.7	-4.1	32	4
Western Europe	1.0	13.6	-12.9	11	8
Japan, Oceania and Developed Asia	0.4	5.1	18.2	3	2
Emerging Markets					
Latin America and the Caribbean	0.1	1.2	17.3	22	4
Emerging Europe and Central Asia	0.0	0.6	-10.9	-4	4
Africa and the Middle East	0.1	1.4	17.4	18	6
Emerging Asia	0.1	1.4	20.5	10	6
Total Developed Markets	**7.3**	**95.4**	**-4.5**	**28**	**4**
Total Emerging Markets	**0.3**	**4.6**	**13.9**	**14**	**6**
Total World	**7.7**	**100.0**	**-3.8**	**27**	**4**

Sources: Statistics Canada, EDC Economics

3.12 Services

Services export growth will slow to 2% this year. With more than 80% of costs to produce services exports sourced domestically, the weaker Canadian dollar provides fertile ground for competitive gains to boost services exports. This, combined with nine positive economic outlooks for Canada's key trade partners, the US and Europe, will lift services exports by 4% in 2016. The weaker performance for this year is due to a number of inter-related headwinds that are expected to dissipate gradually.

Solid services export growth over the 2010-14 economic recovery period was achieved despite the strong currency and underwhelming economic growth among Canada's key export destinations for services. In part, such resilience was likely due to the high foreign demand for technical and management consulting services for resource sectors such as mining and hydrocarbons, in which Canadian companies excel. That said, the current broad-based rout in global commodities is denting growth in services exports. Additionally, merchandise trade flows have weakened during the first half of 2015, impacting services exports that are embodied, or complement, exported goods.

Commercial services make up by far the largest sub-segment in Canada's services exports, accounting for two-thirds of the total. EDC Economics forecasts that growing financial services exports will continue to surge ahead, while the construction boom in the US will lead to rebounding management, consulting and real estate services exports. There has been no growth for telecom and technology services exports over the last two years, but growth will return this year as US companies are forced to invest to increase productive capacity. Growth in transportation services is also expected to recover going forward.

Notably, the weaker loonie has increased the attractiveness of travel to Canada, with international arrivals rising to pre-recession trend. A stronger US economy will lift services receipts from both business and personal travel going into 2016.

SECTOR STATS

International Exports (2014):
CAD 95.4 bn

Share of Sector Exports to Emerging Markets
2010: N/A
2014: N/A

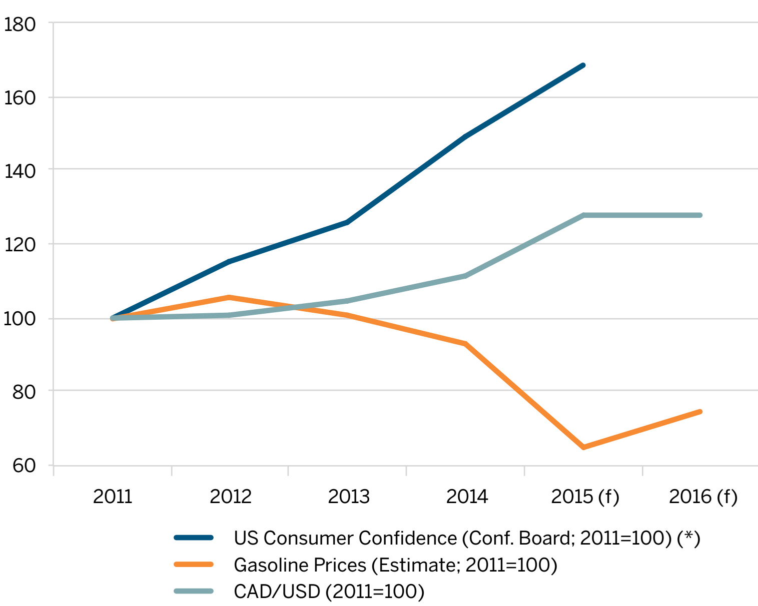
Share of Total Canadian Merchandise Exports (2014):
19%

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 12: Tourism Boosted by Confidence, Lower Gas Prices and Stronger USD



Sources: Haver Analytics, The Conference Board, Energy Information Administration, EDC Economics
(*) US Consumer Confidence data for 2015 is average from January to August

Table 15: Canadian Export Services Outlook

	2012	2013	2014	2015 (f)	2016 (f)
Total Service Exports ($ mn)	**89,995**	**92,542**	**95,357**	**96,903**	**100,708**
annual % change	**6.7**	**2.8**	**3.0**	**2**	**4**
Commercial Services ($ mn)	57,046	58,697	59,869	60,099	62,235
annual % change	8.5	2.9	2.0	0	4
Transportation Services ($ mn)	14,031	14,194	14,663	14,865	15,412
annual % change	3.3	1.2	3.3	1	4
Travel Services ($ mn)	17,388	18,200	19,296	20,335	21,455
annual % change	4.6	4.7	6.0	5	6
Government Services ($ mn)	1,530	1,451	1,530	1,604	1,606
annual % change	-2.4	-5.2	5.4	5	0

Sources: Statistics Canada, EDC Economics

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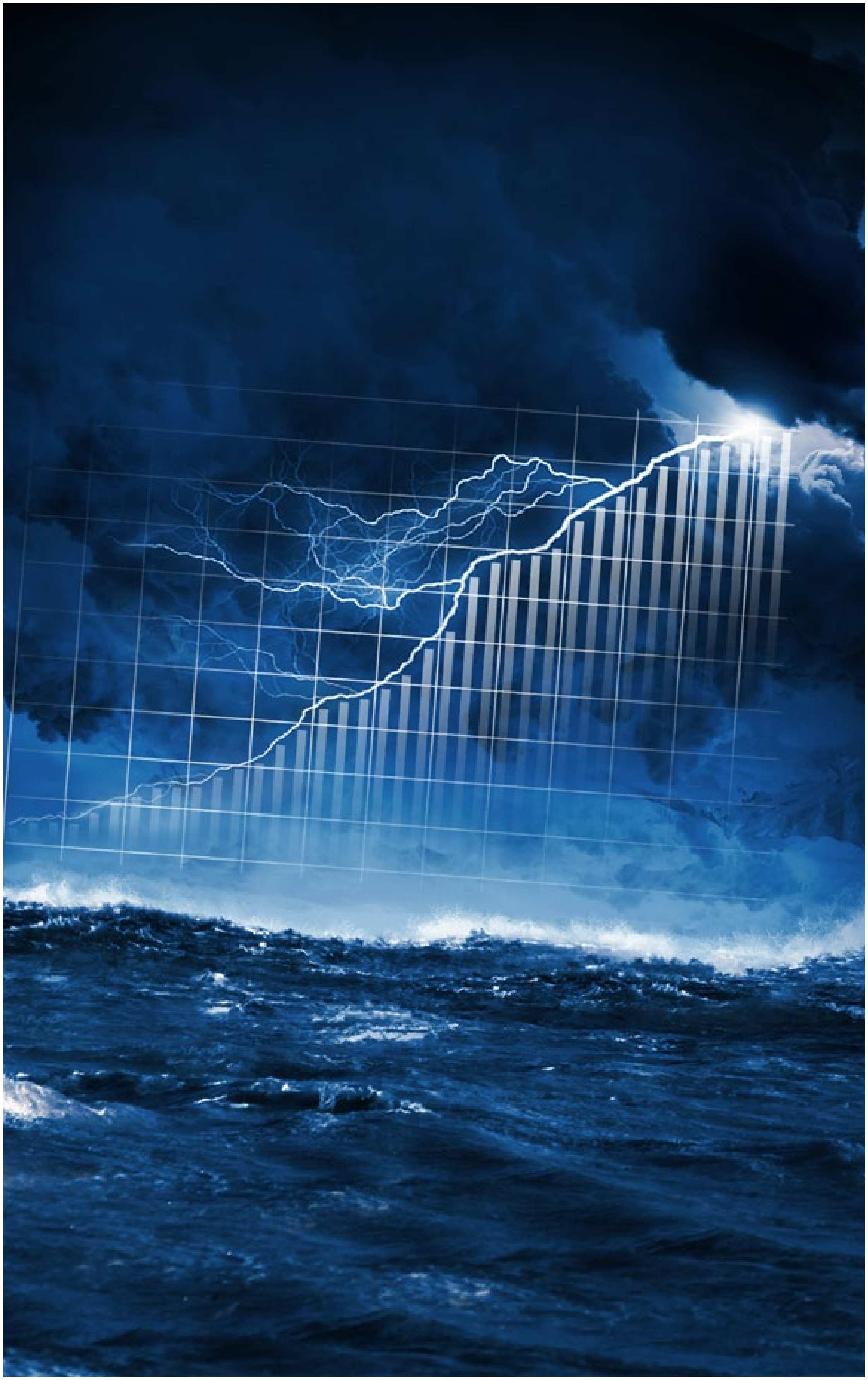

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Crashing energy prices will overshadow very strong gains in fertilizers, aerospace and consumer goods this year, causing Canada's goods exports to shrink by 2%. In 2016, overall export growth will be a brisk 8%, driven by strengthening energy prices and sustained US and global demand for aircraft, chemicals and plastics as well as metals and ores.

Almost every one of Canada's energy-rich provinces will see their export receipts shrink in 2015. **Newfoundland and Labrador** will be the hardest hit of all provinces as exports plunge 38% followed by **Alberta**'s export contraction of 23%. Goods exports from **New Brunswick**, **Nova Scotia** and **Saskatchewan** are all expected to suffer losses in the low single digits. Their more diversified export base will help **British Columbia** and **Manitoba**'s exports to register a very small expansion.

In 2016, this trend will be reversed in all energy-exporting provinces as prices inch upwards. In Newfoundland and Labrador as well as Alberta, the price recovery will coincide with capacity and production volume increases, powering growth of 11% and 15%, respectively. British Columbia, Manitoba, New Brunswick, Nova Scotia and Saskatchewan will see more modest upward movement averaging just under 6%.

Headline figures are markedly different for the manufacturing heartland where a weaker Canadian dollar and resurgent US demand are the key drivers. **Ontario** will lead all provinces save for **Prince Edward Island** in 2015 as exports advance 11%. Growth will gear back to 6% in 2016 as automotive capacity constraints take hold and the impact of the Canadian dollar on export prices wanes.

Quebec will follow closely behind Ontario, with sales abroad expected to increase 10% in 2015 on the back of a banner performance by the aerospace sector. In 2016, the expected entry into service of Bombardier's CSeries aircraft will allow la belle province to overtake rival Ontario with the value of goods sold abroad increasing another 8%.

Finally, leading the pack in 2015 is **Prince Edward Island**, where high seafood prices and explosive growth for chemicals will translate into a 12% export surge. In 2016, chemicals and manufacturing will tap into strengthening European and US demand to add another 6% to the bottom line.

Table 16: Canadian Merchandise Export Forecast by Province

	CAD bn	% Share of Province's Total Exports	Export Outlook (% growth)		
PROVINCES	2014	2014	2014	2015 (f)	2016 (f)
Newfoundland and Labrador*	13.0	2.6	9	-38	11
Prince Edward Island	1.1	0.2	19	12	6
Nova Scotia	5.3	1.1	25	-4	4
New Brunswick	13.0	2.6	-10	-5	7
Quebec	74.3	15.1	15	10	8
Ontario	177.3	36.0	8	11	6
Manitoba	13.5	2.7	7	2	6
Saskatchewan	35.3	7.2	9	-6	5
Alberta	121.4	24.7	18	-23	15
British Columbia	35.8	7.3	7	1	6
Territories	2.2	0.4	27	-18	6
Total Goods Exports	**492.1**	**100.0**	**11**	**-2**	**8**

Sources: Statistics Canada, EDC Economics. 2014 is actual data while 2015 and 2016 are forecast.

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

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4.1 Newfoundland and Labrador

Newfoundland and Labrador's exports are forecast to experience a large drop in 2015, falling by 38% before recovering by 11% in 2016. Weak commodity prices will take a toll on shipments despite volume growth in the mining sector. A large proportion of the drop will be recovered in 2016 as prices moderately rebound and new capacity comes online after delays.

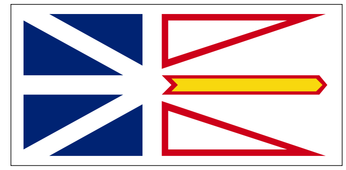
In the energy sector, longer-than-expected maintenance and weak oil prices coupled with falling production in mature wells result in oil exports declining 47% in 2015. Shipments will rebound in 2016, growing by 13%, as production returns to normal levels. In the long term, new exploration and development 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 metals, ores and other industrial goods exports will remain depressed as receipts are expected to fall by 19% in 2015. The drop is due to halted production at Labrador Iron Mines and the closure of Wabush; however, the largest contributor is lower prices. While export prices for iron ore continue to fall, Tata Steel's investments in metal ore prospects are forecast to offset some of the recent volume declines and to boost production this year and beyond. The new capacity will compensate for declining output at maturing mines, contributing to 12% growth in 2016.

Newfoundland and Labrador's agri-food sector, dominated by seafood, will experience robust growth of 9% in 2015 before slowing to 1% in 2016. The positive movement in 2015 is due to a major uptick in the price of shrimp and somewhat higher prices for crab, as well as the weak Canadian dollar. In 2016, seafood prices will see only modest gains.

The balance of the province's exports includes a broad basket of goods, including machinery, motor vehicle parts and aerospace. Manufacturing, except for petroleum-related exports, will continue to see strong activity going into 2016. We expect exports in this diversified category to benefit significantly from the drop in the Canadian dollar in 2015 before moderating in 2016.

PROVINCIAL STATS



GDP
CAD 35.8 bn

International Exports/GDP
43.0%

Canada's Total Exporters
38,855

Trade Balance
CAD 8.6 bn

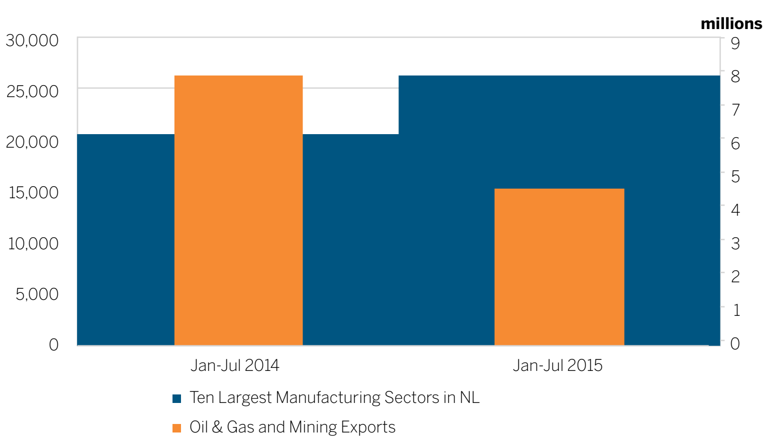
Largest Export Destinations
United States 52.7%
Italy 11.5%
United Kingdom 7.0%
Netherlands 5.0%
China 4.7%

Share of Exports to Emerging Markets
2014: 12.1%
2009: 14.7%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 59.6%
Regional Diversification: 31.1%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 13: Manufacturing: Small but Taking a Leap



Sources: Statistics Canada

Table 17: Newfoundland and Labrador Merchandise Outlook

TOP SECTORS	CAD mn 2014	% Share of Province's Total Exports 2014	Export Outlook (% growth) 2014	2015 (f)	2016 (f)
Energy*	9,799	75.3	27.0	-47	13
Metals, Ores and Other Industrial Products	2,114	16.2	-33.7	-19	12
Agri-Food	893	6.9	5.9	9	1
Forestry	117	0.9	14.4	14	3
All Others	93	0.7	31.2	-2	7
Total	**13,016**	**100.0**	**9.2**	**-38**	**11**
Total excl. energy	**3,217**	**24.7**	**-23.5**	**-10**	**8**

Sources: Statistics Canada, EDC Economics

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

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4.2 Prince Edward Island

High lobster prices and increasing volumes of French fry shipments are forecast to power Prince Edward Island exports to expand by 12% this year. In 2016, accelerating economic growth in Europe and the US will allow Island French fry producers as well as the chemicals and manufacturing sectors to grow exports by another 6%.

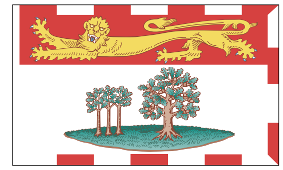
Higher prices for French fries will be the main growth driver in the agri-food sector in 2016. Prices are likely to get a boost because potato supplies south of the border are expected to be tighter in the first half of 2016 due to weather factors and blight concerns in the American mid-west. French fry volumes will also be up. With the Canadian dollar value still down, Cavendish Farms is likely to maximize production at its Island plants, rather than its US facility.

Lobster exports, which benefited from high prices this year as prolonged cold weather crimped supplies in Maine and the Maritimes, will grow more slowly in 2016. Lobster is expected to be more plentiful next year, resulting in downward pressure on prices. Prices will not drop dramatically, though, because growing awareness of Canadian product in China is providing some support. Volumes of processed lobster will not see a significant increase in 2016 because of labour constraints faced by the industry.

The sector that is forecast to post the biggest export gains in 2016 will be the Island's up-and-coming chemicals industry. Industry investments are enabling steady increases in the volume of exports shipped to global pharmaceutical and bioscience companies based in Europe. Demand, which is driven by aging populations in developed countries, will power overall export growth to a 10% expansion in 2016.

In contrast to chemicals, the Island's aerospace and related industrial machinery exports are facing headwinds in 2015 due to the slow-down in the US oil and gas sector where turbo-prop planes are widely used. Export growth will be a tepid 4% for aerospace and industrial machinery in 2015. In 2016, a facility upgrade by one major aerospace player, a slightly improved outlook for oil prices, and somewhat higher economic growth rates in Asia, Europe and the US will allow machinery and aerospace to recover to 5% and 10% growth, respectively.

PROVINCIAL STATS



GDP
CAD 5.8 bn

International Exports/GDP
20.2%

Canada's Total Exporters
38,855

Trade Balance
CAD 0 bn

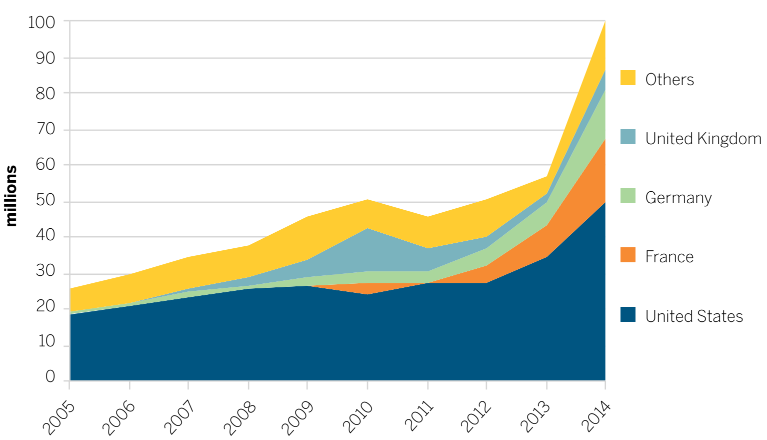
Largest Export Destinations
United States 64.2%
France 4.0%
South Korea 3.6%
Australia 2.7%
Japan 2.3%

Share of Exports to Emerging Markets
2014: 12.6%
2009: 10.9%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 28.1%
Regional Diversification: 44.1%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 14: PEI Chemicals Exports: Growing Rapidly (CAD, annual totals)



Sources: Industry Canada, EDC Economics

Table 18: Prince Edward Island Merchandise Outlook

TOP SECTORS	CAD mn 2014	% Share of Province's Total Exports 2014	Export Outlook (% growth) 2014	2015 (f)	2016 (f)
Agri-Food	584.5	55.1	10.2	14	5
Chemical and Plastics	101.5	9.6	75.1	15	10
Industrial Machinery and Equipment	95.7	9.0	0.2	4	5
Aircraft and Parts	72.5	6.8	11.4	4	10
All Others	279.0	26.3	132.0	47	5
Total	**1,060.71**	**100.0**	**19.2**	**12**	**6**
Total excl. energy	**1,060.63**	**100.0**	**19.2**	**12**	**6**

Sources: Statistics Canada, EDC Economics

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4.3 Nova Scotia

EDC Economics sees exports from Nova Scotia falling by 4% in 2015 before rising 4% in 2016 due in large measure to a weaker Canadian dollar and strong US demand. The decline this year reflects a sharp plunge in natural gas exports. It is therefore the non-energy sectors, specifically motor vehicle tires, seafood and forestry, which will drive export growth in Nova Scotia over the next few years.

In the agri-food sector, exports will rise 14% this year thanks to a lower Canadian dollar and high prices for live lobster. Even with a deceleration in China, strong demand from Asia for seafood will continue driving the diversification of export destinations as well as growth. Investment by Chinese firms in the province's seafood manufacturing industry is indicative of this trend. Agri-food exports will fall 2% next year but this comes mainly as a result of slightly lower prices.

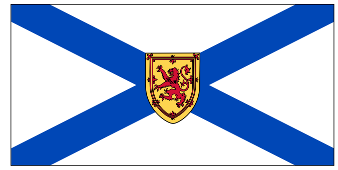
The motor vehicles and parts sector, led by Michelin sales, will increase by 9% this year and 7% next year. Despite the job losses at the Granton plant, the company is investing in upgrades to another facility to meet the growing demand in the US for heavy trucks and SUVs, which will come into effect next year.

Average annual growth in forestry exports will come in at 5% this year and 4% in 2016. Lumber mills in Nova Scotia are working non-stop, driven by the increase in US housing starts. These housing starts are expected to rise by 15% in 2015 and 24% next year.

Natural gas exports are entering a declining phase in Nova Scotia as exports fall substantially this year, and both the Deep Panuke and Sable projects look set to be retired within a few years. There is greater optimism for this sector in the medium to long term as offshore exploration by Shell and BP moves toward production and a proposed LNG facility gets going.

One sector to continue watching in Nova Scotia is the aerospace and the related defence industry, which is seeing investments by companies looking to expand their production operations to meet growing foreign demand.

PROVINCIAL STATS



GDP
CAD 39.1 bn

International Exports/GDP
20.0%

Canada's Total Exporters
38,855

Trade Balance
CAD (2.5) bn

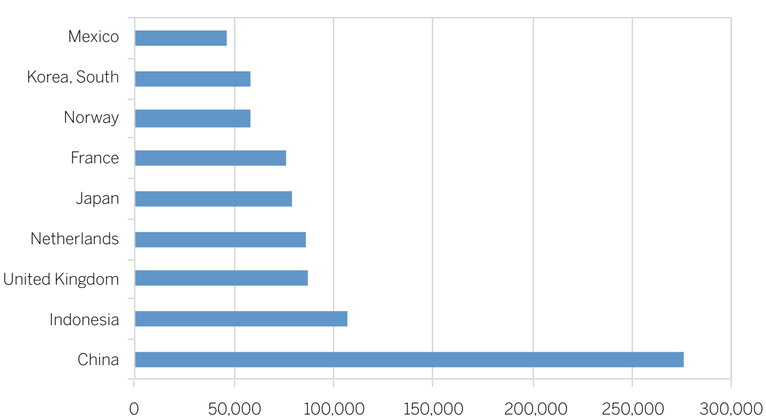
Largest Export Destinations
United States 72.9%
China 5.3%
Indonesia 2.0%
United Kingdom 1.6%
Netherlands 1.6%

Share of Exports to Emerging Markets
2014: 12.6%
2009: 6.9%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 14.6%
Regional Diversification: 54.7%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 15: Nova Scotia's Main Non-US Export Destinations



Sources: Statistics Canada

Table 19: Nova Scotia Merchandise Outlook

TOP SECTORS	CAD mn 2014	% Share of Province's Total Exports 2014	Export Outlook (% growth) 2014	2015 (f)	2016 (f)
Agri-Food	1,579	29.8	18.4	14	-2
Motor Vehicles and Parts	1,124	21.2	9.1	9	7
Energy	737	13.9	348.8	-69	9
Forestry	672	12.7	5.1	5	4
All Others	1,178	22.3	11.2	-5	8
Total	**5,290**	**100.0**	**25.1**	**-4**	**4**
Total excl. energy	**4,553**	**86.1**	**12.1**	**7**	**4**

Sources: Statistics Canada, EDC Economics

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4.4 New Brunswick

EDC Economics forecasts New Brunswick exports to decrease by 5% this year, before rebounding by 7% in 2016. Although export growth in 2015 is being dragged down by depressed energy prices, non-energy sectors are poised for growth in both 2015 and 2016, at 15% and 4%, respectively. A weaker Canadian dollar and strong demand from the US are the major drivers for the generally positive outlook forecast for the forestry, agri-food and metals sectors.

Refined crude product volumes should bounce back after an unplanned shutdown at the Irving refinery in 2014. Nevertheless, low energy prices will result in energy exports plunging by 15% in 2015. Once prices begin their recovery in 2016, growth of 9% is expected. In the medium to long term, a new LNG export facility at Canaport would be an energy exporting game changer.

The forestry sector will grow at a healthy rate of 5% in 2015 and 4% in 2016, profiting from robust housing starts growth in the US. The increase in allowable cut has yet to be implemented, but, if it were, the resulting increase in supply would help the industry capitalize on market opportunities. J.D. Irving's planned mill upgrades of $513 million will continue to be a factor that will support growth. Pulp and paper products will experience moderate growth during the forecast horizon.

Agri-food exports will be supported by both American demand and the weaker Canadian dollar, boosting exports by 25% in 2015. Higher prices for lobster and larger salmon volumes are propelling growth. These trends should level off in 2016 and could be further tempered by labour constraints stemming from the supply of temporary foreign workers.

Potash exports will see aggressive growth in 2015 and will plateau in 2016. Benefiting from an increase in prices in 2015 and a now fully operational Picadilly mine, exports are set to hit 24% growth in 2015.

In the metal mining sector, the start of operations at Caribou mine will result in strong export growth in both 2015 and 2016.

PROVINCIAL STATS

GDP
CAD 31.9 bn

International Exports/GDP
47.3%

Canada's Total Exporters
38,855

Trade Balance
CAD 1 bn

Largest Export Destinations
United States 91.9%
India 0.7%
China 0.7%
Turkey 0.6%
Japan 0.6%

Share of Exports to Emerging Markets
2014: 5.8%
2009: 7.4%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 24.6%
Regional Diversification: 84.5%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 16: Increasing Importance of Non-Energy Exports

Sources: Statistics Canada, EDC Economics

Table 20: New Brunswick Merchandise Outlook

TOP SECTORS	CAD mn 2014	% Share of Province's Total Exports 2014	Export Outlook (% growth) 2014	2015 (f)	2016 (f)
Energy	8,635	66.4	-15.8	-15	9
Forestry	1,665	12.8	8.3	5	4
Agri-Food	1,517	11.7	7.5	25	1
Fertilizers	479	3.7	-11.4	9	15
All Others	713	5.5	0.1	21	5
Total	**13,010**	**100.0**	**-10.0**	**-5**	**7**
Total excl. energy	**4,375**	**33.6**	**4.1**	**15**	**4**

Sources: Statistics Canada, EDC Economics

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4.5 Quebec

Quebec's exports will see continued growth in 2015 (10%) but slow slightly in 2016 to 8%, driven primarily by the continued lower Canadian dollar and ongoing demand from the US. Continuing a recent trend, the aerospace sector will contribute the most to export growth over the forecast period.

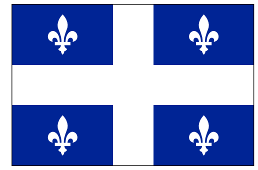
The increase in the aircraft and parts sector in 2015, an impressive 33%, will be fuelled by the low Canadian dollar and a few key contracts picked up by Canadian companies, including Pratt & Whitney Canada's contract to supply engines to Gulfstream's new business jets. Growth in 2016 will remain robust at 17%, supported in part by the entry into service of Bombardier's new CSeries aircraft.

Metals, ores and other industrial products make up the largest group of Quebec's exports, representing roughly one-quarter of all exports from the province. Expansion in this group of exports will reach 5% this year and 6% in 2016. Aluminum remains the main sub-component of this sector and will be largely flat this year and next with minor increases in output at certain smelters, including Alouette, offset by decreases elsewhere. Iron ore exports remain depressed owing to continued price weaknesses and the closure of Cliffs Natural Resources' Bloom Lake mine. The Éléonore gold mine produced its first commercial shipment in 2015 and is a key contributor to Quebec's metals output in 2015 and over the forecast period.

Quebec's forestry sector will see 6% export growth in 2015, dropping to 4% in 2016. The strongest segment remains lumber exports driven by US housing demand. Newsprint and pulp exports remain on a downward trend owing to an increase in non-tariff trade barriers in several importing countries, and supply side considerations, including recent closures at several Quebec mills.

The US remains the primary destination for Quebec exports, taking in three-quarters of the total, with China a distant second. In breaking down Quebec exports to the US, seven US states account for over 30% of all Quebec exports, with New York topping the list. While the US remains the top destination for Quebec exports, there is great variance in the intensity of export penetration across states based on geographic proximity and import needs.

PROVINCIAL STATS



GDP
CAD 362.8 bn

International Exports/GDP
25.7%

Canada's Total Exporters
38,855

Trade Balance
CAD (10.5) bn

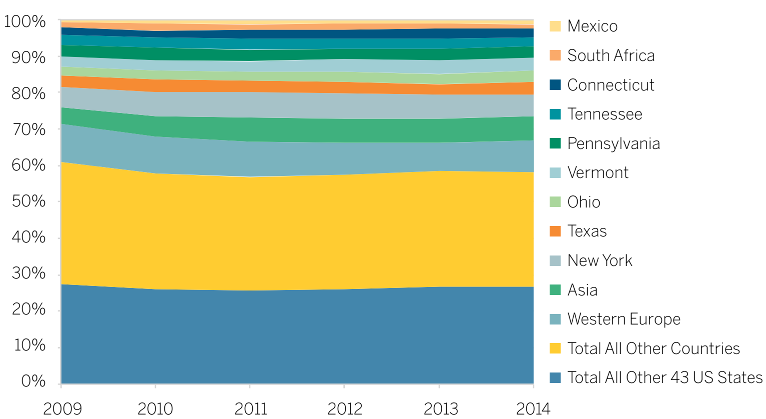
Largest Export Destinations
United States 71.2%
China 3.7%
France 1.9%
Netherlands 1.8%
Japan 1.6%

Share of Exports to Emerging Markets
2014: 13.0%
2009: 11.1%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 12.2%
Regional Diversification: 52.8%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 17: While Quebec Trade Is Diversifying, Seven US States Still Account for a Third of Total Exports



Sources: Industry Canada, EDC Economics

Table 21: Quebec Merchandise Outlook

TOP SECTORS	CAD mn 2014	% Share of Province's Total Exports 2014	Export Outlook (% growth) 2014	2015 (f)	2016 (f)
Metals, Ores and Other Industrial Products	19,443	26.2	16.1	5	6
Aircraft and Parts	10,106	13.6	34.9	33	17
Forestry	9,071	12.2	10.9	6	4
Chemical and Plastics	7,284	9.8	9.7	11	7
All Others	28,417	38.2	10.2	8	6
Total	**74,322**	**100.0**	**14.6**	**10**	**8**
Total excl. energy	**70,162**	**94.4**	**15.8**	**12**	**8**

Sources: Statistics Canada, EDC Economics

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4.6 Ontario

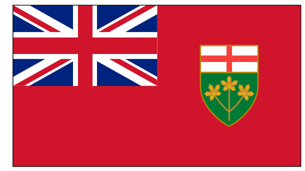
As the US economy gathers speed, strengthening demand for goods made in Ontario will drive broad-based gains across the province's export sectors, particularly manufacturing, both this year and next. The value of Ontario's merchandise exports will grow by 11% in 2015 and by 6% in 2016. Shipment values this year will predominantly be lifted by currency-related price gains. Next year, the positive price effect will wane, but supply-side dynamics will still support robust export growth.

The motor vehicle and parts industry, Ontario's single-largest exporting sector, is on track to race past the 2015 finish line 13% ahead of last year, and supportive fundamentals will propel the sector 4% higher in 2016. Demand conditions will remain very favourable as the US economic acceleration will keep US vehicle sales at multi-year highs. Among motor vehicle manufacturers, investments announced in late 2014 and early 2015 will result in the retooling and modernization of plants but not the expansion of production capacity. Temporary halts at plants in Windsor and Oakville in the first half of 2015 will weigh on volume growth in 2015, but with production now back in full swing, 2016 will see volumes recover.

Exports from Ontario's metals complex will continue to post positive growth rates over the forecast horizon, with shipment values increasing 7% this year and in 2016. Ontario's gold exports are rising robustly despite softer prices, and will remain supported by growing demand and production volumes. Steel export growth will remain subdued due to lacklustre production volumes; the lower Canadian dollar and cheaper input costs will improve profitability for steel plants, but the growing supply of Chinese steel on the market will keep pressure on the pricing environment.

Stronger US demand and the weaker loonie are also expected to benefit a number of other key manufacturing sectors in Ontario. The value of chemical and plastic products, and of industrial machinery and equipment will see solid growth rates this year supported by rising shipment volumes, followed by lower but still robust growth in 2016, as the currency effect dissipates and demand growth moderates.

PROVINCIAL STATS



GDP
CAD 695.7 bn

International Exports/GDP
32.6%

Canada's Total Exporters
38,855

Trade Balance
CAN (87.9) bn

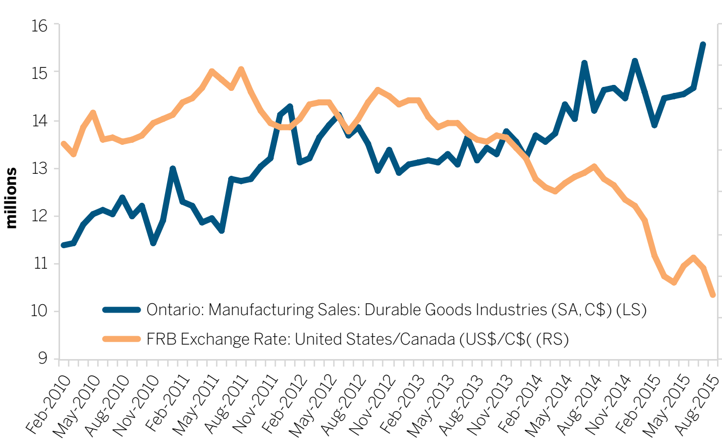
Largest Export Destinations
United States 79.2%
United Kingdom 6.4%
Hong Kong 1.8%
China 1.2%
Mexico 1.2%

Share of Exports to Emerging Markets
2014: 5.6%
2009: 6.0%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 20.4%
Regional Diversification: 63.7%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 18: Weaker Canadian Dollar and US Demand Fuel Manufacturing Sales



Sources: Haver Analytics, Statistics Canada

Table 22: Ontario Merchandise Outlook

	CAD mn	% Share of Province's Total Exports	Export Outlook (% growth)		
TOP SECTORS	2014	2014	2014	2015 (f)	2016 (f)
Motor Vehicles and Parts	62,416	35.2	8.0	13	4
Metals, Ores and Other Industrial Products	38,155	21.5	6.0	7	7
Chemical and Plastics	22,794	12.9	13.3	8	7
Industrial Machinery and Equip.	15,445	8.7	7.8	16	6
All Others	38,465	21.7	7.1	10	6
Total	**177,276**	**100.0**	**8.0**	**11**	**6**
Total excl. energy	**173,657**	**98.0**	**7.8**	**11**	**6**

Sources: Statistics Canada, EDC Economics

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4.7 Manitoba

Export growth from Manitoba should slow to just over 2% in 2015. Depressed oil prices and weakening international demand for Manitoban meat, wheat and oilseed exports will weigh heavily on the total export value in 2015, overshadowing strong performance in pharmaceuticals and manufacturing. In 2016, a higher oil price and growing US demand for metals, ores and other industrial products as well as industrial machinery and equipment will allow exports to bounce back to a 6% expansion in 2016.

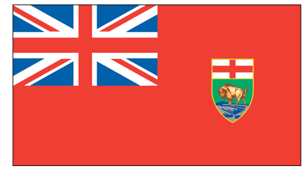
The oil price decline will constitute the biggest negative export shock for Manitoba in 2015. Energy exports are expected to fall over 24% this year. Oil exports should recover somewhat in 2016, allowing energy exports to bounce back. However, with stalled projects contributing to lower levels of production, the recovery in energy exports will be held at 15%.

Exports of agri-food will also be down for 2015. Pork meat and live hog exports are set to decline as US producers have rebuilt their herds after a devastating 2013 swine epidemic, which has had the effect of pushing US import demand down. In a similar vein, wheat exports are not set to grow much in 2015 due to subdued international import demand as global production expands. This is not expected to be a lasting trend though, and most agri-food exports are expected to be back in positive growth territory in 2016.

The greatest positive contribution to Manitoba's exports this year will come from shipments of pharmaceutical products. Pharmaceutical exports will almost double in 2015 due primarily to Valeant's new investment in a line of natural products at its Steinbach plant. This investment is set to support higher production of pharmaceuticals in Manitoba into 2016 and beyond.

Likewise, manufacturers will also see gains over the next couple of years. New Flyer Industries, a leader in green technologies, is set to continue its strong performance with a series of important contracts with US state governments to provide coach buses. In a similar fashion, Manitoban aerospace manufacturers continue to be well positioned to take advantage of the US recovery and the weaker loonie. Exports in this subsector are expected to grow at double digits over the next couple of years – by 11% in 2015 and 17% in 2016.

PROVINCIAL STATS



GDP
CAD 61.3 bn

International Exports/GDP
25.7%

Canada's Total Exporters
38,855

Trade Balance
CAD (3.2) bn

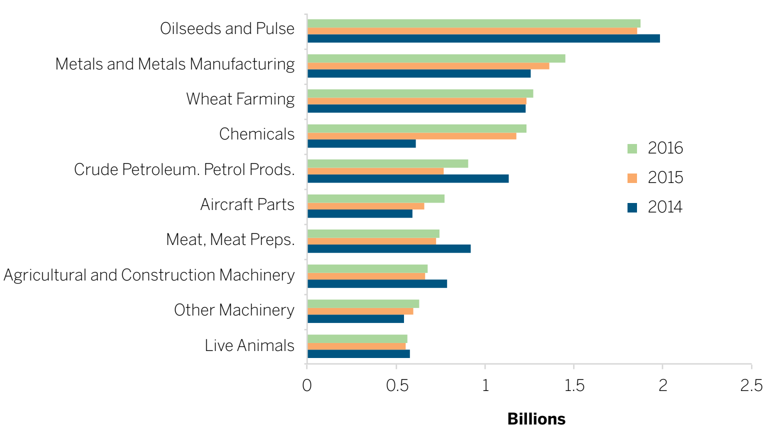
Largest Export Destinations
United States 67.4%
China 7.5%
Japan 5.3%
Mexico 2.6%
Russia 1.0%

Share of Exports to Emerging Markets
2014: 20.3%
2009: 20.3%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 15.8%
Regional Diversification: 48.0%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 19: Manitoba's Top 10 Exports



Sources: Statistics Canada, EDC Economics

Table 23: Manitoba Merchandise Outlook

TOP SECTORS	CAD mn 2014	% Share of Province's Total Exports 2014	Export Outlook (% growth) 2014	2015 (f)	2016 (f)
Agri-Food	5,566	41.3	9.0	-6	2
Energy	1,468	10.9	10.1	-24	15
Metals, Ores and Other Industrial Products	1,467	10.9	7.0	8	7
Industrial Machinery and Equipment	1,377	10.2	9.0	-5	4
All Others	3,588	26.6	3.2	27	8
Total	**13,465**	**100.0**	**7.3**	**2**	**6**
Total excl. energy	**11,997**	**89.1**	**7.0**	**6**	**5**

Sources: Statistics Canada, EDC Economics

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4.8 Saskatchewan

Overall exports from Saskatchewan will decline by 6% as fertilizer, agri-food and mining exports are unable to fully counter the declines caused by energy sector weakness. A modest recovery in energy prices along with stable ex-energy exports will lead to a 5% rise in exports in 2016.

Strong emerging market demand will lead to a massive 38% growth in potash exports in 2015. Weak emerging markets currencies will drag down exports next year as farmers will have to pay more for potash when crop prices are softening. The outlook for Brazil in particular is weak. Expected low farm incomes in the US will dent potash demand in 2016. We expect potash exports from Saskatchewan to be 2% in 2016. The USD 4-billion K+S greenfield Legacy project is expected to start producing toward the end of 2016, further adding to industry oversupply and intensifying competition for markets.

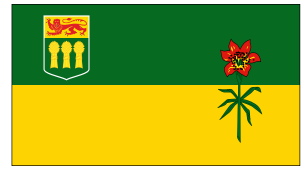
The lower Canadian dollar will especially help agri-food competitiveness. Where price competitiveness is not a factor, Canada's reputation for higher-quality premium products will offer lift. For example, traceability of Canadian beef – the animal ID system – will continue to be an edge as consumers' behaviour changes globally. Canadian canola oil may also be able to better weather the downward pricing pressures brought on by changes to China's rapeseed policies due to quality credentials.

Lower yields may be the only thing preventing another record year for lentil and pea exports. Demand is expected to remain extremely strong, especially from India where poor rains and growing incomes both add to demand. While the outlook for prices remain soft for agri-foods, lentils, cattle and meat stand out as subsectors that will see upward pricing momentum. Overall, we expect Saskatchewan agri-food exports to clock in at 10% this year followed by modest 2% growth in 2016.

Crude oil exports will tank sharply, dropping -43% this year driven by both lower prices and production. The latter results from producers' ability to shut down and turn on conventional drills much faster than unconventional producers. Exports will rebound by 13% in 2016.

Resumption in nuclear power production in Japan as well as the recent USD 350-million supply agreement between Canada and India should boost the export outlook for uranium.

PROVINCIAL STATS



GDP
CAD 83.2 bn

International Exports/GDP
41.6%

Canada's Total Exporters
38,855

Trade Balance
CAD 23.1 bn

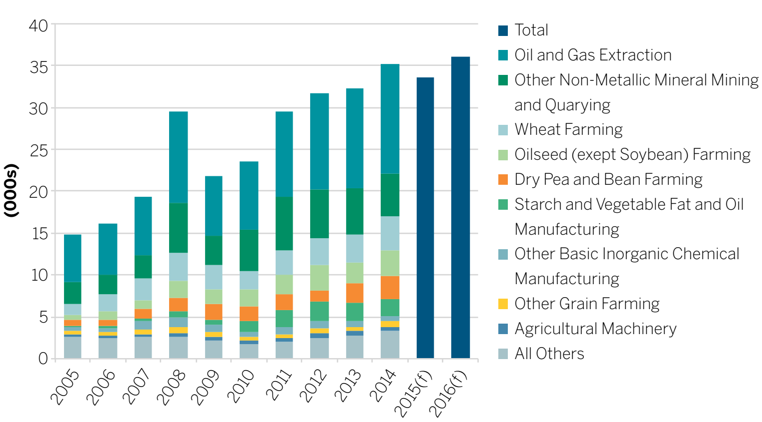
Largest Export Destinations
United States 64.3%
China 8.0%
India 3.3%
Japan 2.8%
Indonesia 2.0%

Share of Exports to Emerging Markets
2014: 28.6%
2009: 29.2%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 27.6%
Regional Diversification: 43.9%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 20: Lower Oil Prices Will Have Moderate and Short-Lived Impact on Saskatchewan Exports



Sources: Industry Canada, EDC Economics

Table 24: Saskatchewan Merchandise Outlook

TOP SECTORS	CAD mn 2014	% Share of Province's Total Exports 2014	Export Outlook (% growth) 2014	2015 (f)	2016 (f)
Agri-Food	13,940	39.5	19.6	10	2
Energy	13,769	39.1	11.7	-43	13
Fertilizers	5,117	14.5	-10.7	38	2
Chemical and Plastics	707	2.0	-3.7	-13	5
All Others	1,721	4.9	-4.0	32	6
Total	**35,253**	**100.0**	**9.3**	**-6**	**5**
Total excl. energy	**21,485**	**60.9**	**7.9**	**18**	**2**

Sources: Statistics Canada, EDC Economics

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4.9 Alberta

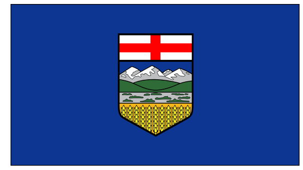
Alberta's export earnings are projected to slump 24% this year, followed by a 14% gain in 2016. The energy sector drives the province's poor performance, but even non-energy sector exports will see little growth and post a mere 1% gain in 2015 followed by a 4% increase in 2016. All sectors will record export growth next year.

Petroleum exports will plunge 32% in 2015 due to depressed crude prices, though a partial price recovery and more volume gains will lift exports 18% in 2016. Pipeline bottlenecks and refinery reconversions in the US have helped trim the price discount for Western Canada Select compared with the benchmark West Texas Intermediate. The discount will remain in the USD13/bbl to 15/bbl range over the forecast horizon, down from over USD24/bbl in 2013. However, US commercial crude inventories are running at historic highs and as US storage capacity shrinks, Alberta crude may face renewed price discounting until rising demand draws inventory down.

Natural gas exports will slide 37% in 2015, and bounce back 18% in 2016. Sharply weaker prices alongside soft volumes will dent sales this year. North American natural gas prices remain depressed due to significant US shale gas capacity, and Canadian producers have limited LNG capacity. Modest sales gains to California are possible as that state deals with the need to boost electricity output amid an extended drought that has lowered water levels at dams.

A mixed performance across subsectors overall will see agricultural exports rise 2% this year and next. Special crops, wheat and grain prices were sideswiped this year due to sizable gains in global inventories resulting in lower exports. A partial recovery is expected in 2016. The recent BSE case is proving to be a distant memory as cattle and beef shipments to the US are forecast to recover in 2016. Chemicals and plastics will see export declines this year and rebound next year as the recovery in the US continues. This narrative will also hold for machinery and equipment sales that are projected to decline 10% in 2015 largely due to a decline in oil and gas, and mining and other machinery and equipment sales linked to the sharp fall-off in investment spending by the US oil and gas sector.

PROVINCIAL STATS



GDP
CAD 338.2 bn

International Exports/GDP
32.5%

Canada's Total Exporters
38,855

Trade Balance
CAD 89.7 bn

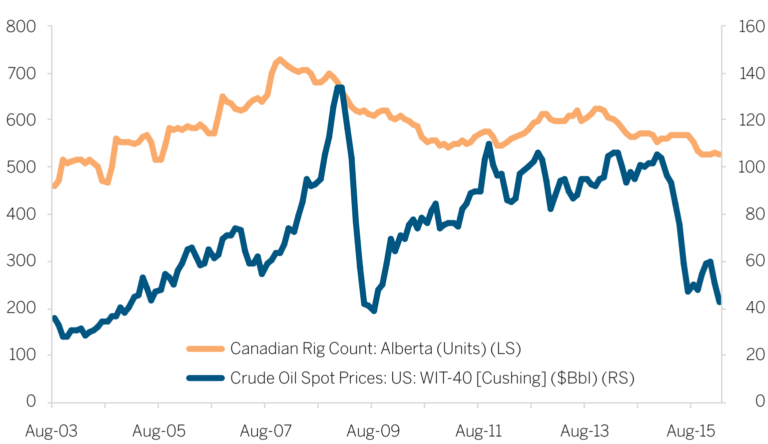
Largest Export Destinations
United States 90.2%
China 2.4%
Japan 1.4%
Mexico 0.8%
South Korea 0.4%

Share of Exports to Emerging Markets
2014: 6.0%
2009: 10.0%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 57.7%
Regional Diversification: 81.6%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 21: Alberta Rig Count vs. WTI Prices



Source: Haver Analytics

Table 25: Alberta Merchandise Outlook

TOP SECTORS	CAD mn 2014	% Share of Province's Total Exports 2014	Export Outlook (% growth) 2014	2015 (f)	2016 (f)
Energy	92,218	75.9	20.3	-30	20
Agri-Food	9,608	7.9	11.5	2	2
Chemical and Plastics	8,028	6.6	16.0	-2	5
Industrial Machinery and Equipment	3,629	3.0	9.0	-11	5
All Others	7,946	6.5	6.2	8	5
Total	**121,429**	**100.0**	**17.9**	**-23**	**15**
Total excl. energy	**29,211**	**24.1**	**10.8**	**1**	**4**

Sources: Statistics Canada, EDC Economics

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4.10 British Columbia

Slumping global prices for energy, metals and minerals are expected to result in subdued export growth of just 1% in 2015 for British Columbia. In 2016, stabilizing commodity prices and continued growth in the US will allow exports to expand by 6%.

After exceptionally strong export growth at the start of the decade, BC's forestry sector is gradually decelerating. Very tight fibre supply conditions in BC's interior resulting from the mountain pine beetle infestation are beginning to weigh on the province's forestry sector. Harvest levels are trending downward and will continue to decrease into the long term. Other factors curbing growth this year include competition from cheaper Russian logs in China and lingering uncertainty among producers in the aftermath of the expiry of the Softwood Lumber Agreement with the US in the fall of 2015. Together, these factors will hold BC's forestry exports to 5% in 2015 and in 2016.

While the value of BC's exports of metals, ores and other industrial products is forecast to decline by 5% in 2015, this is the result of weakness in global commodity prices, not production levels. The total volume of exports is actually forecast to grow. Rio Tinto Alcan's USD 4.8-billion modernization of its Kitimat aluminum smelter is expected to reach completion in the short term, with the smelter starting production in the second half of 2015. Other mines will also reach full capacity in 2016. As prices improve in 2016, production increases will lift BC's exports of metals, ores and other industrial products to a 5% increase.

Energy exports from BC will follow a similar pattern, declining by 21% in 2015 before growing by 8% in 2016 on the back of somewhat higher prices. This year's drop is due to the fall in North American crude oil and natural gas prices caused by elevated US production and storage levels. While the total value of exports is falling, the volume of natural gas and electricity exports to the US is expected to be positive as a continued drought constrains hydroelectric power generation capacity in the western US.

Agri-foods exports are forecast to grow 23% in 2015 as a weak Canadian dollar and smaller, drought-induced harvests in the western US increase demand for BC's products.

PROVINCIAL STATS

GDP
CAD 229.7 bn

International Exports/GDP
21.7%

Canada's Total Exporters
38,855

Trade Balance
CAD (6.9) bn

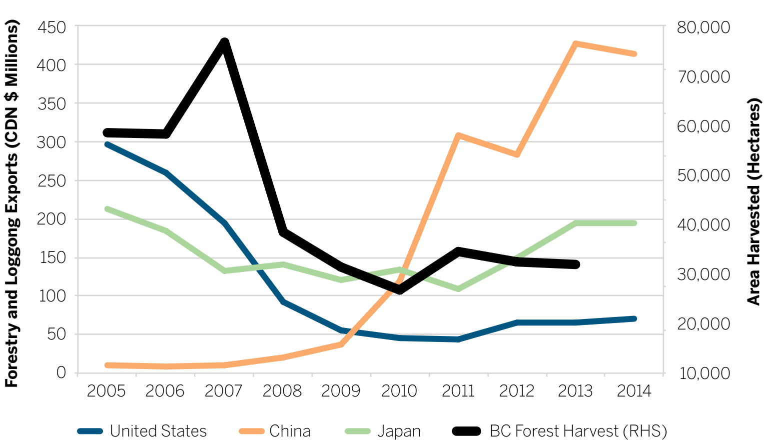
Largest Export Destinations
United States 50.6%
China 17.7%
Japan 10.3%
South Korea 5.8%
Taiwan 1.5%

Share of Exports to Emerging Markets
2014: 25.7%
2009: 17.6%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 19.8%
Regional Diversification: 31.0%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 22: Fibre Supply Tightness to BC's Forestry Exports



Sources: Industry Canada (Trade Data Online), BC's Ministry of Forests, Lands and Natural Resource Operations

Table 26: British Columbia Merchandise Outlook

TOP SECTORS	CAD mn 2014	% Share of Province's Total Exports 2014	Export Outlook (% growth) 2014	2015 (f)	2016 (f)
Forestry	12,322	34.4	6.3	5	5
Energy	7,877	22.0	-2.3	-21	8
Metals, Ores and Other Industrial Products	6,183	17.3	15.5	-5	5
Agri-Food	3,265	9.1	10.9	23	3
All Others	6,136	17.1	12.0	16	6
Total	**35,784**	**100.0**	**7.1**	**1**	**6**
Total excl. energy	**27,906**	**78.0**	**10.0**	**7**	**5**

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.

Commodity Tracker

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

Weekly Commentary by Peter G. Hall

Short, intuitive insights into this week's hot economic issues.

Country 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.

Global Financial Markets

The Global Financial Markets (GFM) is a weekly publication that reports key financial and macroeconomic information for both developed and emerging markets. Currency exchange rates, stock markets and government bond spreads are included for over 50 countries in Latin America, Asia, Africa Middle East and Emerging Europe as well as other key external vulnerability indicators. For the US, Europe and Japan graphics and tables present information on the health of credit and financial markets.

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