GROWTH: ITS OWN WORST ENEMY?

Global Export Forecast
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Canada

EDC
Realize a World of Opportunity

EDC ECONOMICS

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1.1 Is Growth Its Own Worst Enemy?

Market Mayhem

Januarys are jinxed. Look at the data: In the past five years, there has been some big unpredictable event in the opening weeks of the year that has nixed first-quarter global economic performance. It's almost seasonal, and this year was no exception. In fact, the jinx jumped the gun. On the very first day back at our desks, China's stock market tumbled so fast it closed itself down. The act was repeated in the coming days. Intervention didn't seem to help, initially. What hurt more was the almost instant ricochet into other markets. Equities, bonds, commodities and currencies were all caught up in the fast-spreading mayhem. It fed into a marketplace desperate to leave the turbulence of 2015 behind it. Instead, things got worse.

Chaos continued for about six weeks, and then, a turnaround – of sorts. Without warning, equity markets stopped losing, and then started to rise. Commodity prices came off their lows, and the abject pessimists got less air time. Currencies followed suit, and bonds were better behaved. It was a relief, but the sense of unease continued. Although confidence held up, jitters seemed to influence actual economic activity. Data for the period is still coming in, and it is mixed. Forecasts are being downgraded – again – stoking that sense that we are in a protracted growth funk that's becoming harder to get out of.

Making Sense of Mayhem

Markets can be forgiven for their post-holiday reaction. They had barely enough time ahead of the break to respond to what was arguably the most anticipated event in the past seven years. Although highly expected, the Fed's quarter-point move on December 16 cemented the start of a new tightening cycle. Markets had been trying since mid-2014 to steel themselves for the end of ultra-loose liquidity, but still went into shock following the announcement. Like any addiction, users can be weaned off their dependence, but when the supply is finally cut off, the reality of final withdrawal is still a great challenge. In the economy's case, what seems to have been almost missed by the media and the profiled expert analysts is that the resulting market chaos is not about neo-weakness or deprivation. It's actually the strongest signal in recent years of the global economy's return to growth.

Why the confusion? There are a number of good reasons. First, this year's accentuated market turbulence followed 18 months of the same, which itself followed six years of mediocre global performance. What's happening now is to many merely an extension of a protracted – possibly interminable – slow-growth world. Second, even among those who feel there is a real growth resurgence in the works, there is a fear that weakness has become baked into our behaviour. A growing cohort of the global labour force knows only the post-crisis dynamic, and has little, if any, experience of true, recovery-style growth. Those more experienced may well be so jaded by the recent reality that there's little appetite for new-growth adventure. Third, there's plenty of evidence of weakness. Plunging commodity prices have wreaked havoc with the mining and oil and gas sectors, and the worst may be yet to come. However, as dramatic as the effects are, extrapolating them to the rest of the economy is wrong. Other industries are not only taking off – thanks to renewed growth fundamentals – but their growth actually is being boosted significantly by weak mineral and energy prices. Fourth, significant risks still haunt the outlook. The slightest fears of softening dredge up the recession's legacy risks: precarious government finances, global banking fragility, increased geopolitical instability, lack of policy tools and an accentuated vulnerability to sentiment.

Mayhem's Dilemma

Sustained growth is a remedy that cures all four ills, either partially or completely. Neo-volatility is the world economy's unenvied pivot-point: it was caused by renewed growth, but its effect could be undermining that very growth. The current predicament is like trying to light a dry match with drops of rain falling all around. The match is ready to go, but the wait is for the right moment to strike.

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Mayhem Isn't Master

The odds seem so heavily stacked against growth, it's a wonder we've had any. Maybe that's just the point. For the economy to heave against such odds, there must be an opposing force, and it must be substantive. Apparently it is. Although countered by weather, political mismanagement, financial market turbulence, labour activity, sectoral weaknesses, short-term capacity pressures and other unforeseeable happenings, the US economy soldiers on. Pent-up demand is driving consumer spending and housing activity, spurring business investment, and creating jobs by the boatload.

As a result, US consumers are in great shape: new jobs mean new incomes, tighter labour markets mean real wage gains, deleveraging has reduced interest costs, confidence is up, and lower gasoline prices have generated a $110 billion bonus, much of which still has to be spent. Those who believe this is about to end need to check the fundamentals: housing and large consumer goods still have enough pent-up pressure to see above-average growth for at least two more years. Business investment is having a hard time keeping up. While corporations are flush with cash, they have been reluctant to part with it. Now, those not beset by plunging commodity prices are up against very tight capacity limits, and are investing at a furious pace.

Why is it not more obvious? GDP numbers don't reflect this story for two key reasons. First, the energy sector, where shale oil and gas plays had attracted billions in investment in recent years, is collapsing. Low world prices have more than decimated the sector, which needs much higher prices to be viable. Second, the high US dollar – up 19% against its trading partners since mid-2014 – has transferred some of America's growth abroad through increased import activity. As such, official figures are actually understating the core story. As evidence, domestic demand has outpaced GDP growth for four of the last five quarters.

If there's a risk to sustaining this momentum, it's probably centred in Europe. The Euro Area has actually experienced growth above its long-term average for the past 6 quarters. However, it has yet to see a convincing burst of recovery-style growth and the consequent impact at street level. As such, what most people see is a collection of economies still trying to get over deep fiscal austerity, regional banks at the brink, more protracted economic weakness than others weathered, and rising political risks like the migrant crisis and terrorism. Breaking out of the sluggishness is proving a Herculean task. Even so, the Euro Area is forecast to see 1.5% growth this year accelerate to 1.8% in 2017.

… Even in Emerging Markets

Market mayhem's venom has had more effect on emerging markets. Commodity-dependent economies are reeling from lower revenues, and their currencies are gyrating in response. Yet even they seem to be benefiting from the reality of the return to growth: lower pricing is increasing demand for their wares, and cash-rich multinationals are on the hunt for investment bargains. It's not enough to offset the negative effects, but it is unexpected relief.

The once-mighty BRICS aren't helping much. Russia is still saddled by sanctions, plunging oil and gas prices and costly military campaigns. After tumbling 3.7% last year, the economy is expected to fall back by an additional 2% in 2016 before stabilizing at 0.5% growth in 2017. As hard as it might be to believe, Brazil is worse off. It fell by almost 4% last year, and is in for another 3.2% drop this year, in spite of hosting the Olympic Games. They're the worst of the bunch, but commodity-dependent South Africa will also have a challenging year. A modest turnabout in commodity prices will help somewhat.

China's woes are all over the press. Its problems are quite different from the others'. Seven years of aggressive fiscal and monetary stimulus have left the economy with excesses in real goods, productive capacity and credit. Faltering growth has raised concern that any of these sizable bubbles could burst, with serious consequences for not only the Chinese, but the global economy as well. Balancing that is China's increasing per capita wealth and the growth of a class of consumers that's on the leading edge of a major policy shift toward a consumption-based economy. If successful, this policy has the capacity to generate aggressive economic growth for some time to come. Still, getting to that point poses a monumental challenge for China.

The Global Outlook

These wobbly circumstances serve up a global outlook that, seven years beyond recession, will still look mediocre in 2016 at 3.1% growth. However, underlying strength is expected to win out, building global momentum through this year and producing a more robust 3.5% expansion in 2017. Much will depend on US growth spreading convincingly enough into the Euro Area and then to emerging markets that the negative effects of both financial market turbulence and the resource sector recoil are overcome.

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Consequences for Canada

Canada is facing headwinds of its own. Lower resource prices pummelled the energy and mining sectors last year. However, the effects were almost solely on company margins; the real adjustments will come this year, as project cancellations and layoffs are expected to take effect. This will hit an economy with fundamentally weak housing markets in multiple cities and a consumer that is about as debt-stretched as Americans were, pre-crisis. As such, near-term domestic activity is forecast to be soft.

More than usual, exports will play a critical role in Canada's outlook. Risk clouds mining and energy exports, although the end of the price plunge will at least stem the dramatic losses. Moreover, prior projects reaching the production phase will actually increase output available for export, in both the mining and oil and gas sectors. But these are a couple among a few select categories where progress has been weak leading into 2016. Mineral and chemical exports ended last year down considerably from average performance during the year, and the outlook is challenging.

Here's where the excitement begins. Higher US demand and a much weaker Canadian dollar are sparking Canadian sales in a large number of key industries. Even in the early days of 2016, built-in growth suggests that the agri-food and aerospace sectors will post growth this year. That's not the best part, though. The steady climb of US home building has boosted forestry sector exports in spite of sluggish paper demand. Industrial machinery is also on the rise, thanks to tight US capacity and the need for a rapid remedy. But the fastest growth is reserved for auto sector and consumer-based exports – they are carrying the most rapid growth into 2016, and have a very promising outlook.

Although the Canadian dollar has come up from its recent lows, it is expected to remain low this year and next. Commodity prices, a big driver of the dollar, will remain suppressed throughout the forecast. While the Fed is expected to hike rates further this year in response to labour and production constraints, Canada's interest rates will remain frozen at the current rate through most of the forecast, adding further weakness to the loonie. As such, Canadian exports will see more tangible benefits of our depreciated dollar starting immediately and continuing through the near-term period.

The Bottom Line?

Growth is back, but many don't see it. Turbulence, the fallout of lower commodity prices and pre-existing risks each loom large, and are eclipsing the growth story. It has turned into a psycho-cycle, with both stories vying for attention. Few past episodes have seen such a juxtaposition, and there are probably few precedents for what's at stake. Growth is expected to prevail. It has thus far, and it usually does when fundamentals are as they are today.

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Table 1: Key Economic Estimates (KEEs)

EXPORT FORECAST OVERVIEW	2013	2014	2015	2016 (f)	2017 (f)
GDP (% y/y)					
Canada	2.2	2.5	1.2	1.8	2.4
United States	1.5	2.4	2.4	2.0	2.7
Euro Area	-0.3	0.9	1.5	1.5	1.8
Japan	1.4	-0.1	0.5	1.0	0.4
Developed Markets	**1.1**	**1.8**	**1.9**	**1.8**	**2.1**
Emerging Asia	7.0	6.8	6.6	6.4	6.2
Latin America and the Caribbean	2.9	1.3	-0.3	-0.1	1.3
Emerging Europe	4.2	3.4	1.8	0.5	2.0
Africa and Middle East	3.0	3.3	2.7	3.5	4.3
Emerging Markets	**5.0**	**4.6**	**4.0**	**4.1**	**4.6**
World Total	**3.3**	**3.4**	**3.1**	**3.1**	**3.5**
Currencies					
USD/CAD	0.97	0.91	0.78	0.75	0.77
Commodity Prices					
WTI	$98	$93	$49	$40	$45
Lumber (WSPF, US$ per thbf)	$355	$349	$278	$264	$306
Copper (USD/MT, LME)	$7,322	$6,862	$5,494	$4,711	$5,235
Other					
US housing starts ('000s)	925	1,003	1,111	1,240	1,390

Sources: Statistics Canada, EDC Economics

Table 2: Canadian Merchandise Export Forecast by Region

EXPORT FORECAST OVERVIEW	CAD bn 2015	% Share of Total 2015	2015	Export Outlook (% growth) 2016 (f)	2017 (f)
Developed Markets					
United States	364.7	76.0	-3.1	1	7
Western Europe	37.1	7.7	-5.4	3	5
Japan, Oceania and Developed Asia	22.0	4.6	-6.3	2	3
Emerging Markets					
Latin America and the Caribbean	13.9	2.9	4.0	0	5
Emerging Europe and Central Asia	3.0	0.6	-15.1	2	5
Africa and the Middle East	8.2	1.7	-2.5	4	6
Emerging Asia	30.8	6.4	9.9	2	5
Total Goods Exports	**479.6**	**100.0**	**-2.5**	**2**	**6**
Total Emerging Markets	**55.9**	**11.7**	**4.8**	**2**	**5**
Total Developed Markets	**423.7**	**88.3**	**-3.4**	**2**	**6**

Sources: Statistics Canada, EDC Economics

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1.2 When Markets Reopen

Globalization's rise has vastly increased the risk to non-participants. Freeze your economy out of this grand movement, and you put it at risk of a slide in per capita income, a crumbling industrial framework, the dilution of fiscal capacity and the erosion of infrastructure. Nations get it, and they are busy developing integration strategies and inking free trade agreements and other supporting bi- and multilateral treaties. But amid this flurry of activity, there are certain outsiders. Wars, repressive regimes, military policies and the like have led to isolation of certain countries. However, the painful price to pay for this isolation usually brings them back. What happens when they re-enter?

This generation's greatest examples are likely the quasi- and former communist countries. Almost entirely isolated from the rest of the world for most of the last century, China, the USSR and countries in their respective orbits vaulted back on to the scene in the 1980s. In China, which continues to reflect elements of a communist system, opening up had an instant impact on growth: it accelerated to 15.2% annually in just four years, and "settled in" to average growth of 10% annually – the average rate of growth from 1981 to 2011. There was obviously a lot of catch-up to do.

Russia's re-entry was more chaotic. Held back by plunging oil prices, an inefficient industrial structure and an uncertain investment environment, it took a decade before the growth gains kicked in. Eastern bloc countries had varied experiences. Poland was quick off the mark, ramping up to explosive growth in 1995, and sustaining a robust 4 to 6% clip thereafter. The Czech Republic succeeded as an investment magnet, but it had a stop-start experience. The Baltics generally had an aggressive re-entry, while the Central Asian states experienced a painful unwind before striking paydirt. Experiences and time span were different from country to country, but in every case of a market opening, huge dividends awaited gutsy exporters and investors.

Why, in each case, is there a rush of activity? Closing a market to external activity – for whatever reason – has a huge effect on output. Markets – notably China – have in the past tried to build an autarky; that is, an economy that is geographically self-sufficient. This has proven time and again to hold an economy back from its true potential, starving it of sales abroad and cross-border sharing of innovation and technology. Closed economies fall behind. Badly. Over time, this gets compounded, opening a wide chasm between an economy's true calibrated potential and its actual performance. When an economy opens up, suddenly there's the opportunity to fill that gap. It can happen quickly, but it depends on a number of factors.

The size of the opportunity is directly related to the length of time an economy has been closed. Conversely, a country's preparedness is usually inversely related to the duration of its closure. During that time, relations with other countries officially, institutionally, legally and financially have in most cases atrophied, and need time to rebuild. Bridging these gaps is thus key to the speed of adjustment. As such, an orderly re-entry on these multiple fronts suggests more immediate economic opportunity. This can be complicated by shifts in the political power base, increasing the need for astute political analysis. Success is also dependent on the readiness and willingness of the outside world to venture in, with both public and private assistance. This list of factors will be different in every case, but how they line up defines the extent of an opening country's realizable opportunities.

Why is this relevant? For the most part, re-entry of a closed country is relatively rare. However, now seems to be an unusually active moment. Iran is open again, following the removal of sanctions imposed by the outside world in 2007. Its growth slowed markedly over that period, and the potential for a rush of activity is very strong. Moreover, with frozen foreign holdings now freed up, there is lots of capacity to fund the rebuild. But Iran is not the only game in town. Burma is rebuilding. Cuba is now coming on to the scene after being cut off from much of the world since the late 1950s. A new political regime in Argentina is raising hopes that its huge potential may finally be realized. The costs of closure will eventually bring Russia back to the world economy.

Reopening is dramatic in these cases, but there is more. Brazil isn't technically closed, but its infrastructure cum corruption woes are holding it back from its potential. If and when its internal sclerosis is healed, there is huge growth to be had. Venezuela is similar, but for different reasons. Finally, we can include countries that are storehouses of potential, but developmentally have been waiting for the needs of the outside world to change. The time is ripe for both India and Indonesia to see a long run of sustained high growth as they integrate more deeply with the world economy.

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It's actually possible, in most cases, to estimate the potential that each of these countries presents. Long-run growth is generally well known, being driven largely by demographics. Another key factor is infrastructure, and there are well-used means of estimating infrastructure deficits. Shorter-term labour dynamics also speak to the economy's capacity to facilitate rapid growth. In all cases of closed economies, the potential is substantial.

So much for the opportunity; what about the risks? These are usually considerable as well. The chaos that typically accompanies reopening reduces the predictability of growth itself and the channels through which growth will proceed. Clearly, those interested in engagement need to be informed, connected and also armed with key risk mitigation tools. It's not for the faint of heart – but the rewards can be transformational.

The bottom line? Once in a while, huge opportunities come along. Today, there seems to be a considerable lineup of actual and potential growth bonanzas in countries that are reopening to global commerce. The risks can seem daunting, but the list of opportunities is finite, as is the window for participating in the instant rush of new activity. It doesn't hurt to at least look.

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1.3 Broken BRICS

How the mighty have fallen. David's lament for Saul and Jonathan is apt for the feted BRICS economies. Powerhouses of the last, long growth cycle, and resilient in the post-recession period, the BRICS have one by one lost their edge. It's more than a little unnerving. In the recession's aftermath, these emerging giants were being hailed as champions, rescuing the world from a worse fate, the new engines of global growth. Those on the coronation committee are now distancing themselves, and pundits are resorting to BRIC-bashing. Can we make sense of this, and is the turnaround temporary?

Russia is sanctions-smothered. Brazil is politically paralyzed and infrastructure-incapacitated, among other issues. It's mostly about commodities in South Africa. China is in transition as well as battling bubbles inflated by aggressive stimulus. And then there's India. Sure, growth slowed here as it did everywhere else. But among these peers it finds itself alone, with growth reestablished and clearly ahead of the pack. What's going on?

Let's take them one by one, starting with Russia. Analytically, its case is the easiest of the group. Hobble any economy with punitive sanctions, and it'll feel the pain. They've been in place since early 2014 and there's no definite end in sight. Layer on a plunge in oil prices, and things worsen rapidly. The dual straitjackets have turned annual growth ranging from 5% to 10% into a deep two-year recession, including this year's expected performance. Things don't improve much in 2017: after the drubbing, all that the economy will muster is near-zero growth.

Brazil's performance will be similar, but for very different reasons. Its legendary infrastructure shortfall has been badly exacerbated by deep troubles in the industry that could do something about it. The corruption scandal in the construction sector is pervasive, infecting the highest corridors of power all the way up to the president's office. Brazil is in recession, and expected to remain there this year, in spite of being host to the 2016 Olympics. Both Russia and Brazil would be in recession regardless of circumstances in the rest of the world. In fact, even if growth were to be roaring around them, they'd still be stuck in the mud, because their problems are self-inflicted.

Then there's China, where double-digit results were common in the past three decades; now, it seems a stretch to get to 7%, and many are worried it could be worse. China's difficulties are more excusable. As a trading economy, frankly the rest of the world hasn't offered up much in the way of growth since the recession. Over that long stretch, China has had to keep itself going with aggressive stimulus programs, all the while trying to get an over-saving population to boost growth permanently by spending more. The potential is there, but progress has been slow. Meanwhile, a stubbornly high currency is cheating China out of reviving world growth. While forecasts are being trimmed, the consensus outlook for China is still above 6%. To keep things in proper perspective, that pace today adds as much actual GDP to China as 18% growth did in 2004-08.

South Africa, also in the club, is suffering under the weight of decimated commodity prices. Its woes are definitely imported, but they are exacerbating internal infrastructure woes and recent political deterioration. Thus far, a pretty bleak BRICS outlook.

Is India in the same fix? Far from it; India currently stands in stark contrast to the rest. Global recession ended an impressive multi-year growth streak, but the economy quickly revived, and is now doing well. India's growth rate is now in excess of China's. Really.

How's it happening? Chalk its success up largely to a demographic dividend that's boosting India's vast consumer population. Add to this the $45 billion dividend from lower fuel prices. This, together with well-managed monetary policy, stable inflation, discipline in public finances and a steady reform agenda, is creating a very favourable investment climate.

Current success makes sense. India's potential growth is the most potent on the planet. First, it has a vast army of labour in an aging world that desperately needs it. Second, chronic under-investment in the past has actually created a capacity vacuum that, if steadily filled, would easily support strong growth. Third, there's almost limitless potential to increase labour productivity, given how far behind the technology curve India is.

Realizing this potential requires policy reform. On this, hopes are that the Modi government will succeed in enacting key reforms. This will depend on cooperation at different levels of government, typically difficult to achieve, and the maintenance of President Modi's power base in the state electoral process now under way. This is possibly India's best opportunity to take the growth lead among the BRICS and truly establish itself on the world stage.

The bottom line? Today's BRICS are a bleak bunch – except for India. The bleak ones will come around – they are still a huge store of potential growth for the world economy. For now, India's near-term future is looking brightest, and in the immediate timeframe, what's good for India is good for the BRICS and the rest of the world.

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1.4 Hot States, Not States

It can't be said enough. America is hot, whether news services, pundits or the general public believe it or not. Key signals of this are its looming capacity constraints. Unemployment is getting down to levels that suggest sustained wage pressure. Industrial and office space are both getting tight, due to a combination of persistent under-investment and rising demand. It's a nice problem to have, for a change, and indicators suggest there's still a lot of runway. But are all US states participating?

Good question. Few economies can boast labour markets as fluid as America's. Picking up and going to the opportunity zone is in American DNA, stretching back to its westward expansion, the Gold Rush, more recently the shale oil craze, and so on. Capital is sort of the same – it seems to move across the lower-48 with relative ease, finding its way to the "next big thing". Multi-country surveys typically score the US highly for these features; growth spreads easily in the US. Thus, it should be possible to track America's hot spots and not-spots by tracing these movements.

Employment tells a big tale. Generally, unemployment rates are moving down everywhere, suggesting that labour mobility is smoothing things out. However, in the oil and gas regions, they have wobbled. Employment trends are more revealing. Clearly, regions that are more resource-dependent are faring less well. Things definitely seem to be slowing in the West South Central zone, and there is likely more weakness to come. Oklahoma has softened considerably, and mighty Texas has recently geared down. Similarly, the trend is winding down in the West North Central zone. North Dakota, Nebraska and Kansas are particularly weak job-generators at the moment. Capital movements also illustrate the woes of the oil and gas-producing states. The investment surge is definitely off, but the worst effects of the oil price plunge are likely still ahead: both employment and investment are lagging indicators that take time to fully react to economic events.

Who's hot? Job growth is definitely decent elsewhere. US growth is doing a good job of spreading, and when unemployment rates tighten in one zone, they generate movement. However, certain spots stand out. The Pacific region is doing well, with California driving the bulk of regional employment growth. However, the Pacific Northwest is also pitching in: Washington and Oregon are both seeing a decent acceleration in activity. The South Atlantic region is also ramping up. It boasts some of the strongest recent job growth activity, and shows little sign of a let-up. Also impressive is the East North Central zone. Known in the post-recession period as a sluggish rust-belt, job gains there have been steady, and in recent months saw an exciting upswing.

Canadian exports to the US follow a distinctly similar pattern. Michigan is the top destination for our exports, and happily, growth is doing well. On a year-to-year basis, merchandise exports are up 39%. The success of auto sector shipments is obvious. Sales to California are also doing well. Posting 15% growth last year, they are currently up 27% on a year-to-year basis. In the South Atlantic region, exports are generally impressive, with sales to Florida taking the lead.

Among the large states, New York is a disappointment. Contrary to what we'd expect, sales there have been very flat over the past year. But the real soft spots for Canada are shipments to the states that have a significant oil and gas industry. One by one, the shipments to these states are down sharply. There's Oklahoma, down 19% last year, Montana, down 28%, North Dakota off 16% and Wyoming, down a crushing 44%.

Going forward, the areas of strength and weakness aren't expected to shift much. Energy sector shipments are likely to see further weakness, while consumer goods, autos and industrial equipment are all likely to fare well.

The bottom line? Dive below the surface in the US and a very different picture of Canadian exports emerges. With all the growth Canada is seeing, there are particular hot spots to watch.

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1.5 Is Protectionism Coming Back?

Not again! We've heard the dreaded "P" word enough in the past to be beyond this. Globalization has long since proven its worth, opening up new markets that have made a huge net contribution to the global economy, and bringing efficiencies that make all better off. It's why political leaders have made huge investments in trade deals, investment protection agreements, double taxation treaties and endless discussions to safeguard what has been put into place. Then, one or two things go wrong, and we lose it: globalization comes under attack as the obvious source of the problem, and we retreat into protectionism, or at least into its vile rhetoric. Is it happening all over again?

It hasn't been long since our last big bout. No sooner had the Great Recession set in than there was a grand collective loss of memory. Globalization, which contributed instrumentally to the longest growth cycle in recent memory, was now squarely blamed for fuelling the late-cycle excesses. One by one, countries came out with "me first" policies that baldly displayed their ignorance – deliberate, or accidental – of how the systems of globalization really work. One key leader directed his country's multinationals to lay off workers abroad before even thinking about domestic layoffs, showing a grave misunderstanding of supply-chain mechanisms and division of production. Some of globalization's greatest beneficiaries became its sworn enemies. Buy American was our top customer's plan. China, of all places, was also trying to ring-fence activity within its borders.

What's the appeal of such counter-intuitive policy? First, when the chips are down, it looks patriotic. Leaders who make bold statements about protecting growth appear to be champions of the cause. It's popular, and it wins votes. Second, it plays on fears. Chaos increases desperation, which suddenly makes protectionism sound good. Third, it's a remedy for the worry – usually unfounded – that some other country is unfairly hollowing out activity on the home front. Fourth, following the recession countries were spending hefty sums on stimulus, and they wanted to ensure – through protectionism – that nothing spilled abroad. Fifth, it's always more convenient to blame your woes on outsiders; protectionism "fixes" the external enemy. Sixth, it's a nasty contagion: if everyone else is resorting to protectionism, well, we have to as well. Finally, frustration. After seven years of economic meandering, those left behind economically are eager for change. That's why political messages today are replete with fortress-mentality shock-talk. Is there a reasonable end-game?

Business realities suggest that the crowing will crumble. Costs to the economy are significant, and they are more immediate than they used to be. Reprisals to protectionist measures can rapidly result in domestic layoffs that reveal the policies' short-sightedness. Small wonder that some of the post-recession's most prominent announcements were modified shortly after the press conference. It was quickly obvious that instead of ameliorating conditions, they actually stood to exacerbate them.

Today's version of protectionist rhetoric is playing to the frustrations of a generation left behind by global weakness, and is occurring in the context of troubling financial turbulence, significant weakening of BRICS' economies and others affected by plunging commodity prices, and the deep structural weaknesses brought on by the Great Recession. Unfortunately, but typically, it has taken its eyes off longer-term gains. The goldmine of potential in the powerhouses of China, India, Brazil, Mexico, Indonesia and others strongly suggests broadening the reach of globalization, and investing in making it more efficient. The opportunity cost of ill-conceived short-term remedies is arguably incalculable.

Given the heightened role that today's circumstances are giving to sentiment, persuasion has perhaps never been more important. The challenge is that protectionism is a much easier sell – all the more reason for a well-crafted, factual argument. For globalization to work, it's an all-in process. But maybe there's another way. There's likely no better demonstration than a business strategy that sees these longer-term benefits, and through prudent execution, delivers the results. There's more: there's actually a huge possibility of gain through exploiting the open business channels that another's protectionism gives rise to. If other economies are running away from globalization's realities, there's a larger opening for the ones intent on embracing them.

The bottom line? We can all hope that reason prevails ahead of concrete decisions being made that could prove very damaging to world growth. In the meantime, we can look for opportunities where others are building walls.

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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.

Table of Contents

Risk Rating Lexicon

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

Risk Rating Lexicon

- Positive
- Neutral
- Negative

2.1 Brazil

Short-Term Commercial

Risk Rating
Payment Experience

Brazil's economic outlook for 2016 remains negative with growth expected to contract by more than 3%. This is driven by depressed commodity prices, weaker domestic demand, and internal challenges. The real will continue experiencing downward pressure this year due to bearish economic activity and political uncertainty. The sharp drop in the currency has helped push inflation above 10%. Despite the various challenges, a high level of foreign exchange reserves continues to result in overall benign liquidity conditions for the commercial sector.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

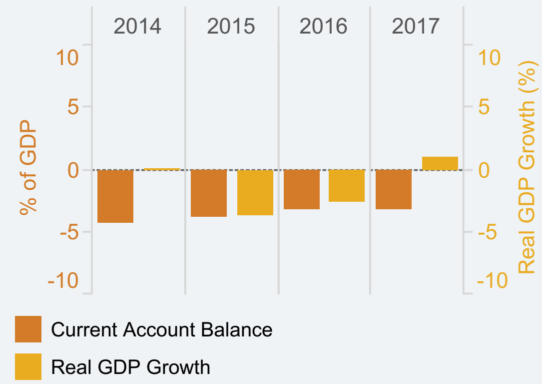
The commercial environment is characterized by a relatively strong banking sector, lack of financial dollarization, and low dependence on foreign borrowing. However, poor infrastructure, heavy bureaucracy, and high costs of doing business continue to dampen growth and investment. Brazil is currently ranked 116th in the World Bank's Ease of Doing Business index. Efforts to implement necessary structural reforms and to stimulate the economy are unlikely to occur given the current political paralysis. 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

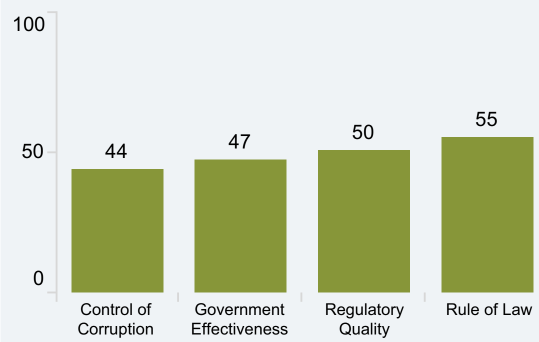
Sovereign Probability of Default

Although increasing, Brazil's 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 the recession and stimulate investment activity, as well as improve fiscal management. However, reforms will face increasing roadblocks given strong congressional opposition, which will be made even more challenging with the political fallout of the impeachment efforts and corruption.

Current Account and Economic Growth

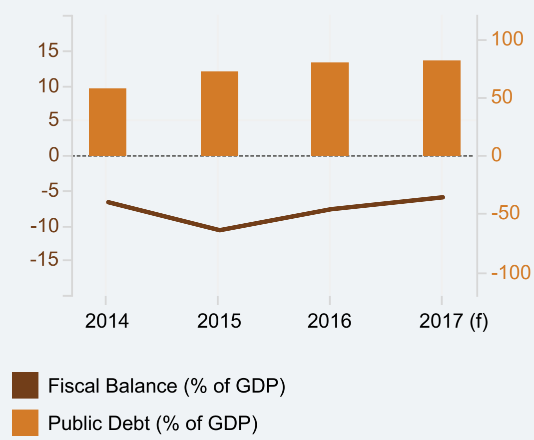


World Bank Governance Indicators



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

Public Finances



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

Risk Rating Lexicon

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

Risk Rating Lexicon

Positive
Neutral
Negative

2.2 China

Short-Term Commercial

Risk Rating
Payment Experience

Policy support will be a critical growth stabilizer in the near term as large parts of the economy attempt to cope with overcapacity and leverage. Equity market turmoil, the recent currency devaluation, and the slowing economy continue to impact sentiment. The yuan will be somewhat more volatile than in previous years as authorities now manage the currency against a basket of currencies versus solely against the USD. Volatility though is unlikely to be de-stabilizing given the policy options available to authorities. Credit and payment risks are rising as the economy slows, margins get compressed, and core parts of the economy restructure.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

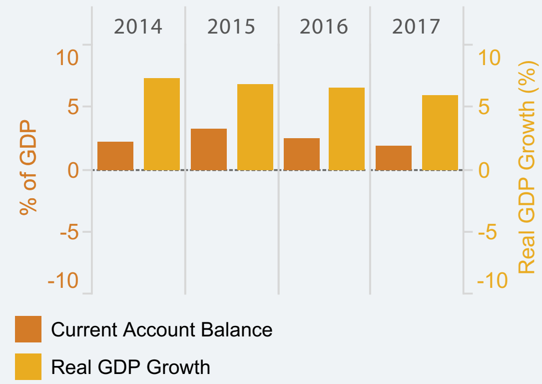
China's growth model is undergoing a multi-year transformation as the authorities attempt to reorient the economy. China's ambitious One Belt, One Road initiative – as well as plans to boost services, research and development, and focus on innovation – should open new opportunities even as traditional 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 to medium term. Political violence risks are driven by localized protests and ethnic-based tensions in certain regions. Expropriation risks are elevated by certain institutional and governance-related weaknesses.

Sovereign

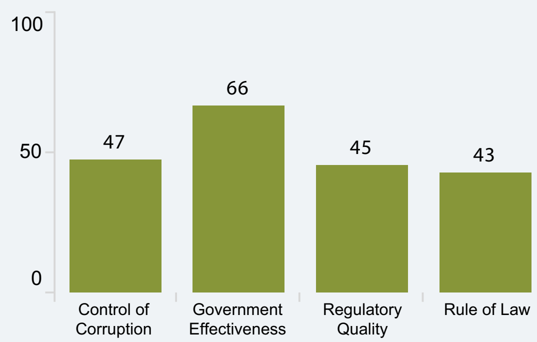
Sovereign Probability of Default

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. The authorities' ability to balance near-term stability while implementing much-needed structural reforms will determine China's medium- to long-term growth potential, including the economy's ability to withstand future shocks. However, prolonging these tough reforms increases the systemic risks.

Current Account and Economic Growth



World Bank Governance Indicators



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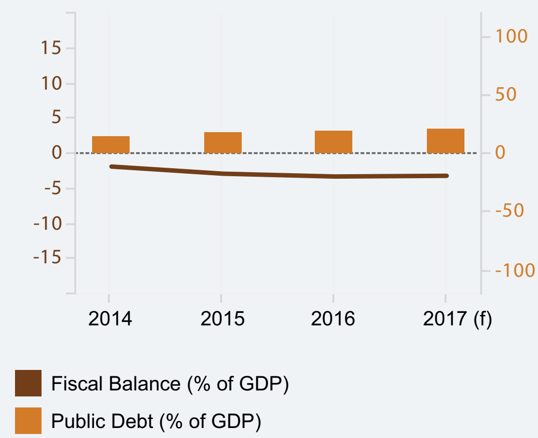
Public Finances



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

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Risk Rating Lexicon

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

Risk Rating Lexicon

- Positive
- Neutral
- Negative

2.3 France

Short-Term Commercial

Risk Rating
Payment Experience

France's short-term economic growth outlook remains positive but lacklustre, and will continue to underperform regional peers. Rising consumer confidence, low oil prices, and positive credit growth offer tailwinds to domestic consumption. Expansionary monetary policy and the weaker euro are supportive of the regional economic upswing, lifting external demand. However, structural weaknesses in the French economy, including high unemployment and competitiveness challenges, will restrain growth. The recent approval of measures, such as the Macron Law labour market reform and measures to tackle high unemployment and deregulate goods and services markets, should lead to competitiveness gains.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

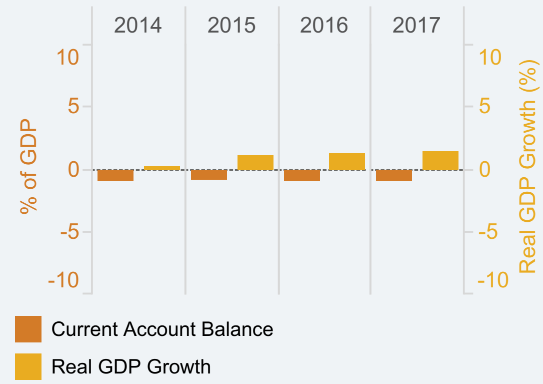
France has a great number of highly successful world-class companies and a sound banking sector. The relative lack of robust business investment growth, the key missing link in France's economic growth story, is a drag on competitiveness and potential long-term economic growth. Many of the factors supporting the current economic upswing are expected to fade over time, making the medium- to long-term growth prospects contingent on the implementation of deeper structural reforms. Despite recent efforts, more ambitious reforms are needed to reduce market rigidities and high unemployment.

Sovereign

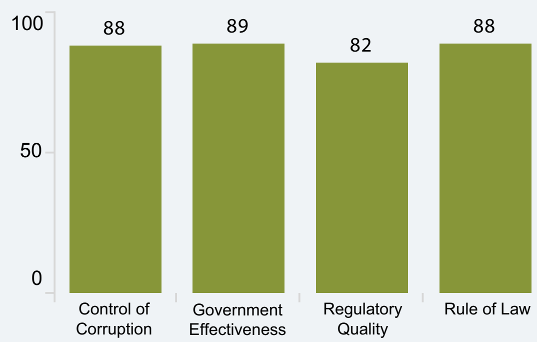
Sovereign Probability of Default

France is expected to continue facing challenging public debt dynamics over the next two years. Government debt as a share of GDP will peak in 2016 at almost 100%, while the fiscal balance is projected to fall below the EU's Maastricht Treaty threshold of 3% of GDP only in 2017. Deeper reforms are urgently needed to balance the budget and boost 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, an influx of immigrants to the EU, and the threat of terrorism following the recent attacks.

Current Account and Economic Growth



World Bank Governance Indicators



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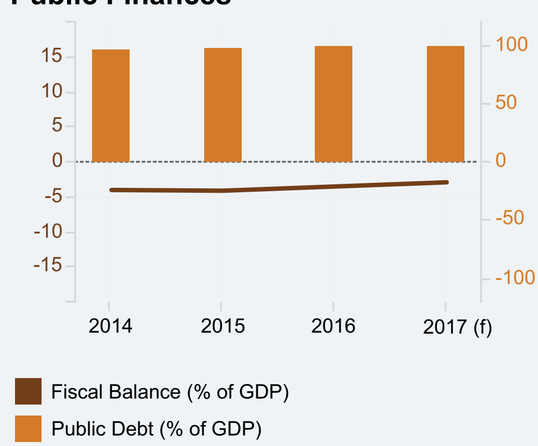
Public Finances



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

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Risk Rating Lexicon

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

Risk Rating Lexicon

- Positive
- Neutral
- Negative

2.4 Germany

Short-Term Commercial

Risk Rating
Payment Experience

Germany is Europe's safe haven given its healthy public and private finances, large current account surpluses, and highly competitive and dynamic business sector. The economy is forecast to grow by 1.7% in 2016 and 2017 as it benefits from the cyclical upswing in the Eurozone and US economies, the low interest rate environment, the depreciated euro, and low oil prices. Strengthening domestic demand supports the ongoing rebalancing away from over-reliance on exports, although Germany remains susceptible to any slowdown in demand for its exports from emerging markets. That said, robust macroeconomic and policy fundamentals support resilience to external shocks.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

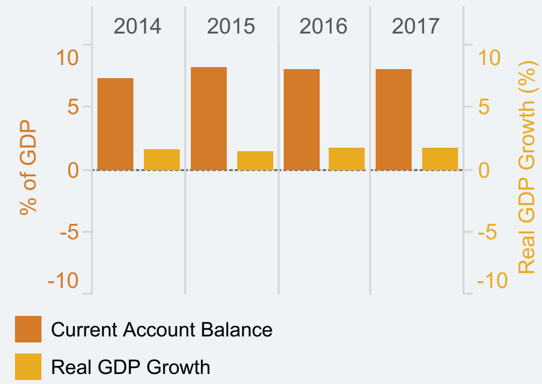
Germany's economy is highly diversified and competitive, making its commercial sector resilient to external shocks. High levels of productivity and efficiency may suffer as German wages are rising faster than those of the rest of the Eurozone. However, it will take many years for Germany's huge competitive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

Sovereign

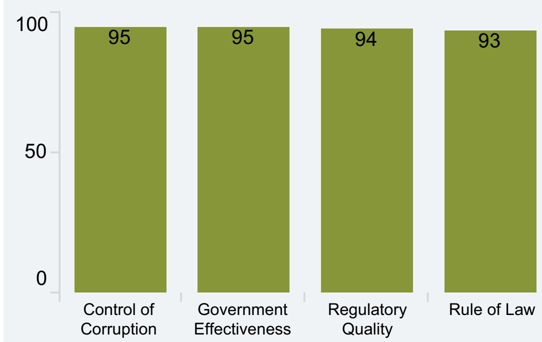
Sovereign Probability of Default

Germany's public finances will remain healthy compared with its Euro area peers, and the fiscal trajectory is favourable. As a percentage of GDP, public debt will decline to 58% by 2020. Furthermore, Germany's low funding costs will ensure that the debt servicing requirements remain affordable. The German government is facing political challenges from the migrant crisis affecting the EU.

Current Account and Economic Growth



World Bank Governance Indicators



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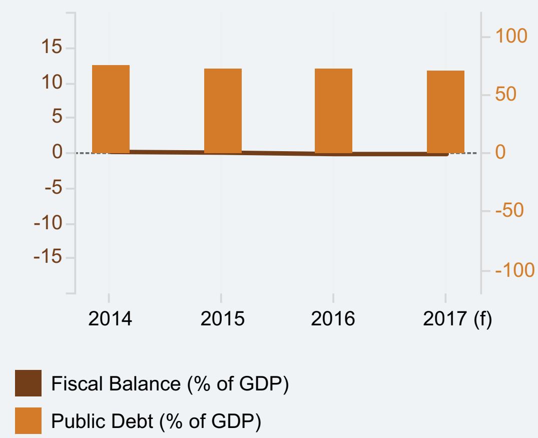
Public Finances



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

Risk Rating Lexicon

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

Risk Rating Lexicon

- Positive
- Neutral
- Negative

2.5 India

Short-Term Commercial

Risk Rating
Payment Experience

Low oil prices continue to have a positive effect on India's current account and have alleviated inflationary pressures. This has allowed for a larger-than-anticipated rate cut to boost growth and investment. Growth is expected to be relatively robust in 2016, in the 7% range. Foreign exchange (FX) reserves, reflecting accommodative monetary conditions and oil prices, are up. Given its FX build-up (around nine months of import cover), India is now more prepared to deal with currency volatility that may arise as a result of global instability.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

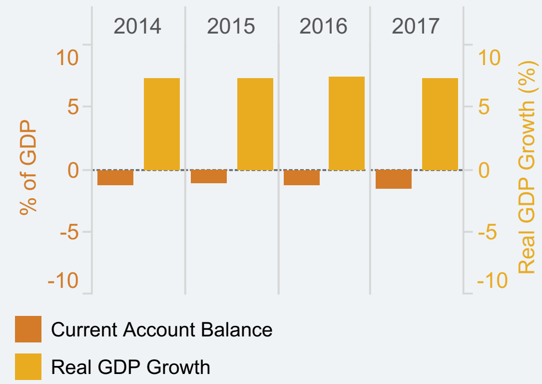
Foreign Direct Investment is expected to continue rising due to a sense of an improved business and investment environment. After more than a year, though, lack of political support at the state level and absence of any structural reforms (such as taxation, land ownership, and labour laws) have dampened earlier optimism about PM Modi. Political violence remains concentrated in the northeastern states, and cross-border skirmishes with Pakistan continue to be localized.

Sovereign

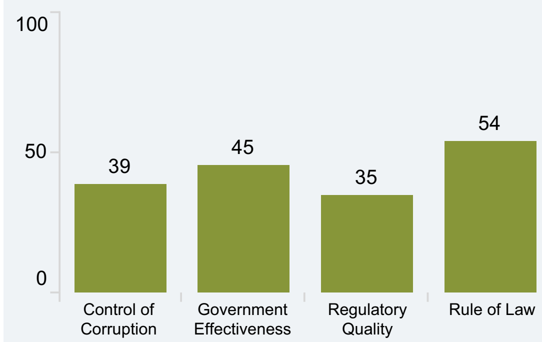
Sovereign Probability of Default

Fiscal consolidation is anticipated in coming years. Public debt levels are much higher for India than for economies with similar ratings and non-performing loans, especially related to state-owned banks, continue to be a troubling factor, but the strong medium- to long-term growth projection will afford the government some policy space. What is needed are fiscal reforms regarding subsidies, privatization of government-related entities, and improvements in the tax system to strengthen revenue generation. Nevertheless, external sovereign debt obligations are quite small, which insulates the Indian government.

Current Account and Economic Growth



World Bank Governance Indicators



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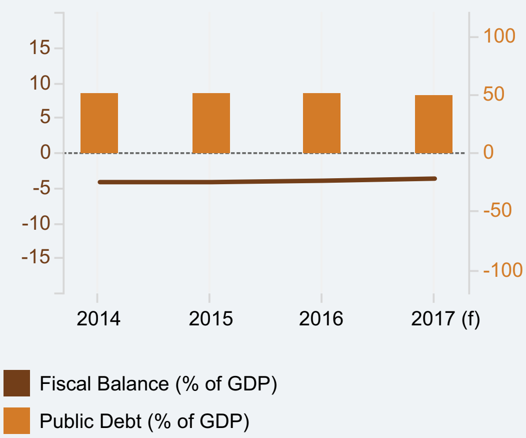
Public Finances



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

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Risk Rating Lexicon

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

Risk Rating Lexicon

- Positive
- Neutral
- Negative

2.6 Japan

Short-Term Commercial

Risk Rating
Payment Experience

Japan managed to post weak GDP growth in 2015 following the 2014 recession. Looking ahead, conditions remain subdued, and growth in 2016 is expected to be lacklustre. Aggressive monetary easing – along with some structural reforms – has somewhat restored domestic confidence in the economy, but it remains fragile. Real wage rates continue to disappoint, even though unemployment is at a 20-year low, increasing policy challenges. The government's target of achieving 2% inflation continues to get pushed back. Realizing these challenges, the BOJ moved further into unchartered territory and introduced negative interest rates.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

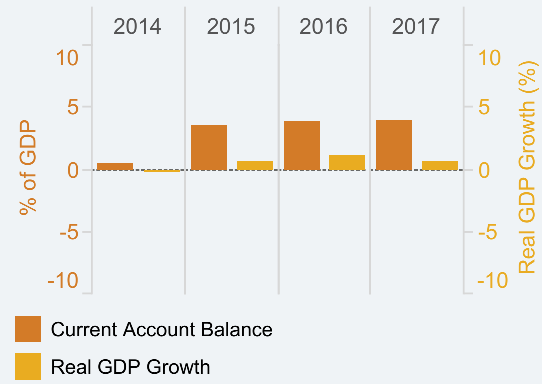
The economy is mature, and real GDP is expected to grow tepidly over the medium to long term. Japan enjoys an exceptionally strong business environment, low levels of corruption, an independent judiciary, and an entrenched rule of law and democratic institutions. While the rate of corporate failure has 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 Economic Partnership Agreement (CJEPA), is positive for Canadian companies.

Sovereign

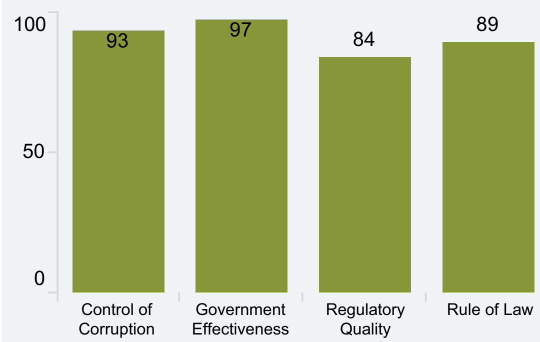
Sovereign Probability of Default

At over 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 this weighs heavily on long-term growth. The central bank's massive quantitative easing program and continued domestic investor preference for government securities reduce 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. Structural reforms that improve productivity are critical to changing debt sustainability dynamics maintaining medium- to long-term growth prospects.

Current Account and Economic Growth



World Bank Governance Indicators



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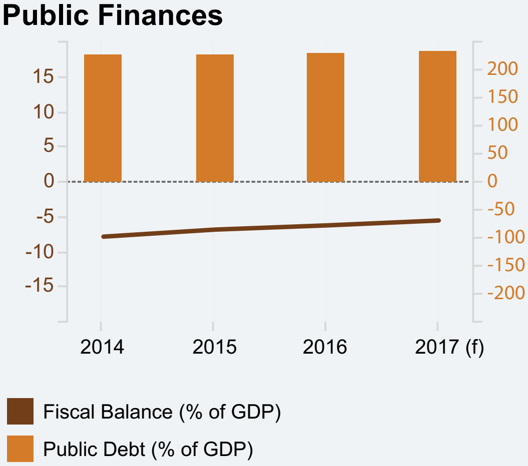
Public Finances



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

Table of Contents

Risk Rating Lexicon

- 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 modestly in 2016 to under 3%, driven by the US recovery and demand for Mexican manufacturing exports. A sharp decline in oil prices has dented public spending plans for the coming year and has also driven the peso to depreciate by almost 20%. This has been a good shock absorber for external volatility and has not pushed inflation up yet. Liquidity concerns are low as foreign currency reserves are high. All eyes will remain focused on the impact of the US Federal Reserve's rate hike, which may see further capital flows exiting the emerging markets, including Mexico.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

The commercial environment is supported by a stable macroeconomic landscape, an improving business climate, and strong banking sector. High levels of corruption and government bureaucracy, as well as an inefficient legal system, drive expropriation risks. 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. The structural reforms being implemented over the coming years will open up the energy and telecommunications sectors to increased competition and foreign investment.

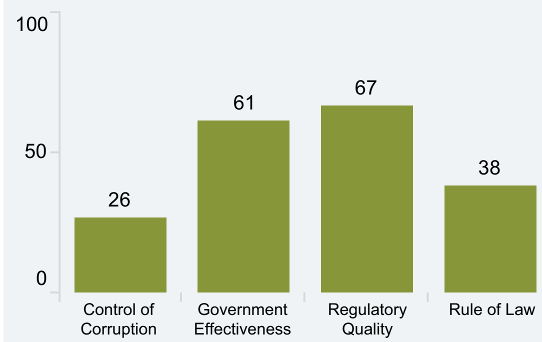
Sovereign

Sovereign Probability of Default

A relatively low level of government indebtedness with a manageable debt service ratio supports the sovereign rating. The country's small current account deficit is easily financed by Foreign Direct Investment inflows Significant structural reforms, most notably on energy, will continue to be implemented over the coming years. This will improve Mexico's medium- to long-term growth prospects, competitiveness, and creditworthiness. Sustained low oil prices would pose a risk to public finances as oil revenues account for approximately one-third of federal spending.

Current Account and Economic Growth

World Bank Governance Indicators



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

Public Finances

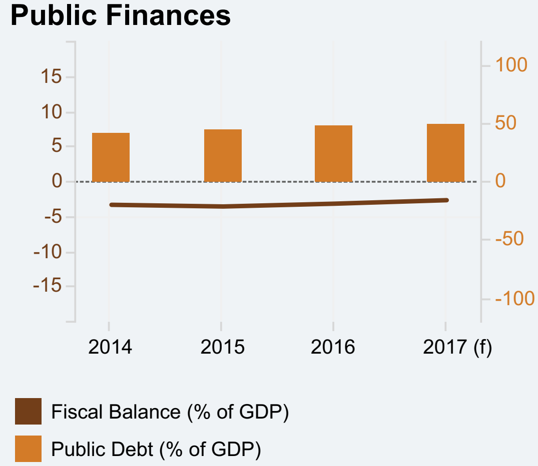


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Table of Contents

Risk Rating Lexicon

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

Risk Rating Lexicon

- Positive
- Neutral
- 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 bn since 2014, 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

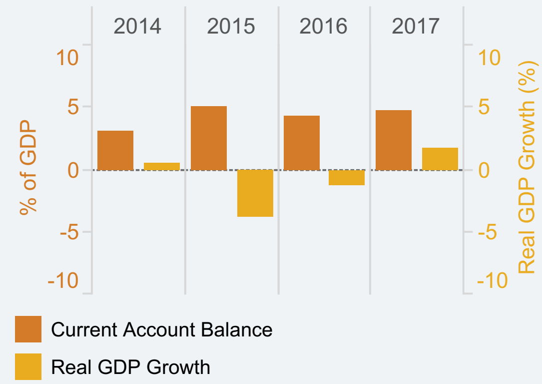
The business environment is challenging due to high levels of corruption and heavy government regulation. The ongoing geopolitical crisis is having a significant impact on the commercial sector in several ways. Deteriorating relations between Russia and the West have resulted in several adverse developments in the investment environment – particularly regarding Foreign Direct Investment. 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 Caucasus region.

Sovereign

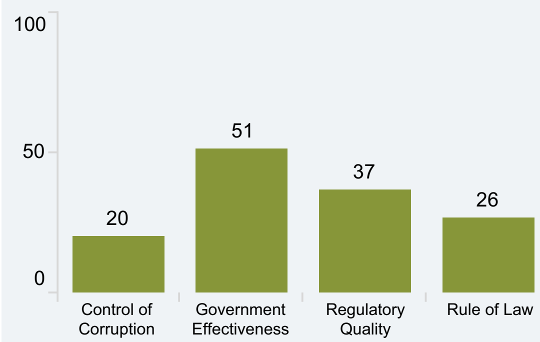
Sovereign Probability of Default

Public sector debt is just 15% of GDP and the government 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 USD100/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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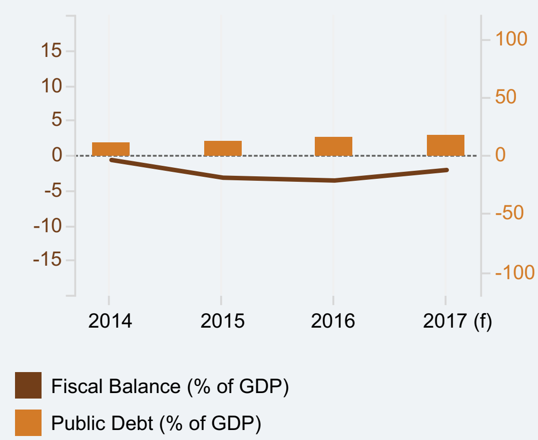
Public Finances



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Risk Rating Lexicon

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

Risk Rating Lexicon

- Positive
- Neutral
- 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 over the short term. GDP growth hovered around 2% in recent years but will drop to 1.5% in 2016.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

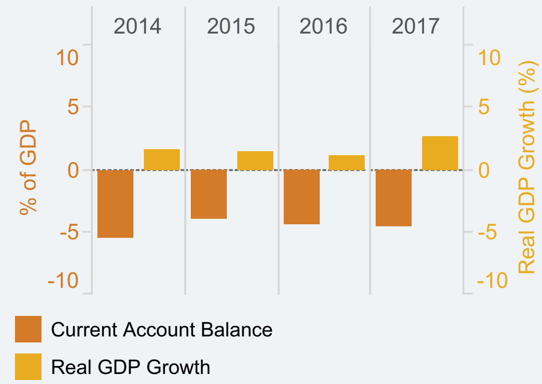
South Africa enjoys a strong business operating environment, including a healthy banking sector. Political violence and expropriation risks are driven by social and economic disparities, which have occasionally manifested themselves through violent labour disputes and populist/nationalistic rhetoric 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

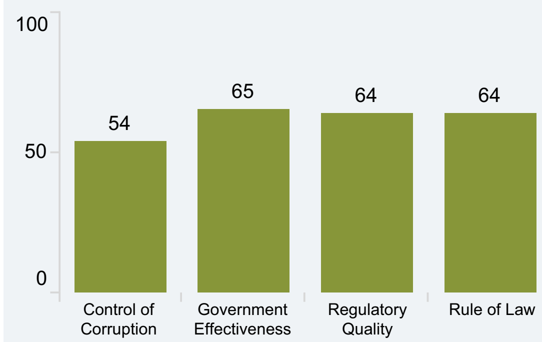
Sovereign Probability of Default

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 at roughly 5% of GDP). 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 and may be scaled back given the sovereign's weakened position owing to sluggish growth.

Current Account and Economic Growth



World Bank Governance Indicators



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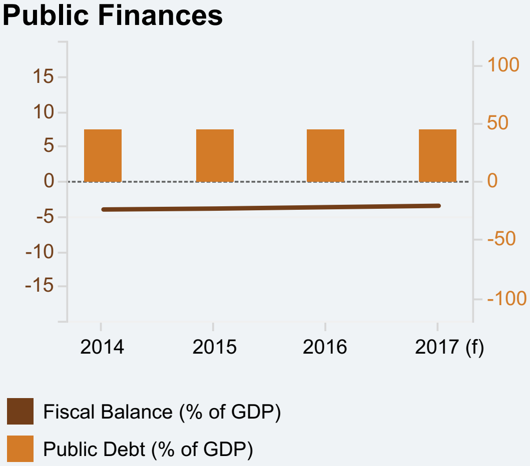
Public Finances



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Risk Rating Lexicon

- Low
- Low-Medium
- Medium
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- 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 2.3% 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 European Central Bank'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 in 2016.

Medium-Long-Term Commercial

Commercial Country Ceiling
Expropriation
Transfer and Conversion
Political Violence

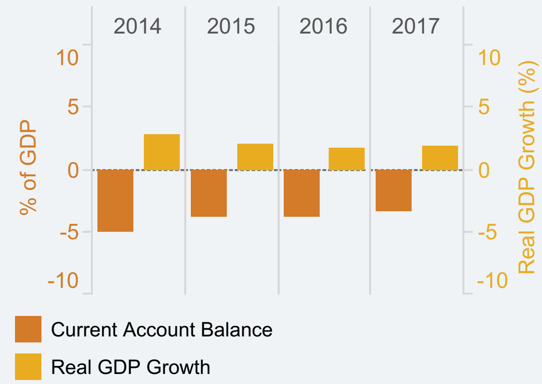
The UK was particularly hit hard by the global financial crisis, due to the size and importance of the financial sector. Additionally, problems were compounded by an overvalued housing market and elevated consumer debt levels. There is a clear need for the country to rebalance and become less dependent on consumer spending. Since the crisis, significant structural reforms to the financial sector have been implemented, including higher bank capital requirements, and provisioning and liquidity backstops. Following the Conservative's electoral victory in May 2015, a referendum on EU membership over the next 24 months is likely to increase policy uncertainty.

Sovereign

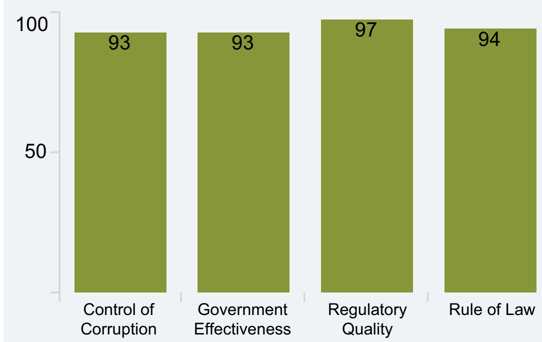
Sovereign Probability of Default

The UK public sector debt has increased dramatically over the past few years, rising from 52% in 2008 to over 90% of GDP in 2015. The government is projecting a return to a balanced budget by 2018, and public debt should peak in 2016. 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 (to take place before the end of 2017) 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

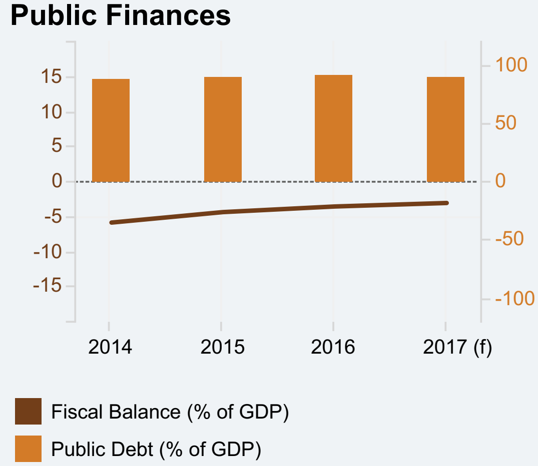


World Bank Governance Indicators



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 slowed in the second half of 2015 but is expected to withstand the current market turbulence, which has sparked fears over a broader economic slowdown. Growth over the next few years is projected to remain robust, driven primarily by solid domestic demand fundamentals, particularly by household consumption and a recovering housing market. Net exports are dragging on growth amid tepid foreign demand and a strong greenback. Following its first rate hike in December 2015, the Federal Reserve is expected to continue raising rates this year amid tight labour market conditions, but the pace of increases is a key uncertainty given renewed market volatility.

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.

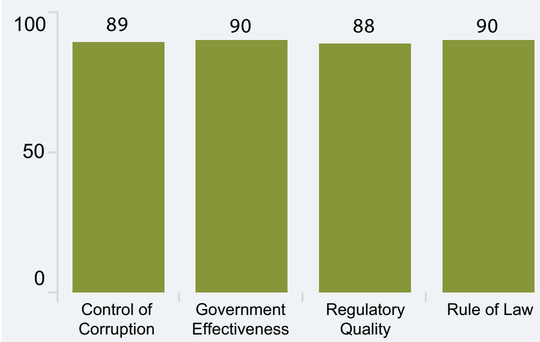
Sovereign

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 USD 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.

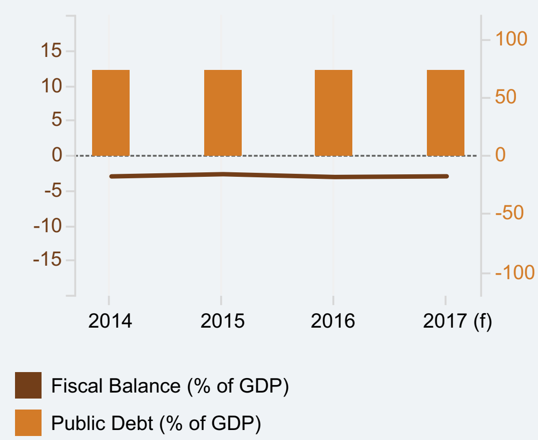
Current Account and Economic Growth

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 growth of 2% in 2016. All sectors will see growth with the exception of three: energy, fertilizers, and chemicals and plastics. The broad-based growth is supported by growing US demand and a weaker Canadian dollar. This contraction in energy will be offset by the strong growth (13%) in aircraft and parts. The pace of growth in exports to emerging markets versus developed markets will be similar in 2016; 2% growth in both segments.

Energy will see the largest contraction in 2016 (14%) owing to continued weak oil prices. Although crude oil volumes are set to continue growing this year and next, these higher volumes will not outweigh the lower price effect. Canadian energy exports will post an 18% rebound in 2017 as prices stage a partial recovery.

Most manufacturers stand to gain from the lower value of the Canadian dollar and healthy demand. Aerospace exports will post an impressive 13% rise in 2016 with the entry into service of Bombardier's CSeries aircraft in mid-2016. Growth in 2017 will decline somewhat but remain a solid 7%. The auto sector will see 10% growth this year as American shoppers replace older car models.

Industrial commodities and building materials, including metals, ores and forestry products, will post gains ranging from 4% to 6% over the two-year forecast horizon, generally driven by recovering US demand.

Table 3: Canadian Merchandise Export Forecast by Sector

EXPORT FORECAST OVERVIEW	CAD bn 2015	% Share of Total Exports 2015	Export Outlook (% growth) 2015	2016 (f)	2017 (f)
Agri-Food	61.2	10.6	8.8	4	3
Energy	98.8	17.1	-30.6	-14	18
Forestry	34.7	6.0	6.7	5	6
Chemical and Plastics	44.8	7.7	7.8	-1	5
Fertilizers	8.8	1.5	28.8	-5	3
Metals, Ores and Other Industrial Products	72.7	12.6	-0.6	4	5
Industrial Machinery and Equipment	33.2	5.7	8.4	7	5
Aircraft and Parts	16.5	2.9	14.0	13	7
Advanced Technology	16.1	2.8	10.3	9	2
Motor Vehicles and Parts	78.1	13.5	15.0	10	1
Consumer Goods	9.9	1.7	29.6	14	2
Special Transactions*	4.7	0.8	13.1	1	4
Total Goods Sector	**479.6**	**82.9**	**-2.5**	**2**	**6**
Total Services Sector	**99.2**	**17.1**	**3.6**	**4**	**4**
Total Exports	**578.8**	**100.0**	**-1.5**	**2**	**6**
Memorandum					
Total Volumes			**2.4**	**7**	**3**
Total Goods Nominal (excl. Energy)	**380.8**	**65.8**	**8.9**	**6**	**4**
Total Goods Nominal (excl. Autos and Energy)	**302.7**	**52.3**	**7.4**	**5**	**5**

Sources: Statistics Canada, EDC Economics, 2015 is actual data while 2016 and 2017 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 14% in 2016 due to ongoing weakness in crude and natural gas prices. The volume of crude shipped will rise, while natural gas shipments will fall. In 2017, energy exports will regain some lost ground, rising 18% as prices recover and crude volumes advance.

Crude exports will drop by 15% in 2016 before bouncing back with 20% growth in 2017 due to a combination of price movements and volume gains. The benchmark West Texas Intermediate (WTI) price will average USD40/bbl in 2016, down 18% from last year due to massive US shale oil investments that see US commercial crude inventories sitting at historic highs; 50% above their long-term average. T he low price has forced significant cost reduction efforts and investment delays among producers. The weaker loonie has taken some of the sting out, and fortunately Canadian producers no longer face severe transportation and refining bottlenecks. Recent pipeline expansions and rail additions have boosted capacity and enhanced delivery options. This has allowed the price discount for Western Canada Select (WCS) crude to WTI to narrow, and we expect the discount to remain in the USD15/bbl range over the forecast period. In 2017, we expect crude exports to rebound as the price of WTI climbs back to an average of USD45/bbl. Volume shipments are also slated to rise, thanks to gains in non-conventional oil, while conventional crude output declines.

The abundance of relatively low-cost US shale natural gas continues to constrain prices on the Henry Hub. Prices are forecast to plunge 18% this year to an average of USD2.15/mmbtu, followed by a recovery to USD2.50/mmbtu in 2017. US inventories are well stocked. Although US rig count has been severely pared back, production can meet demand as wells have become much more efficient, suggesting there is limited scope for Canadian producers. Exports of natural gas will decline 19% this year followed by a 10% rise in 2017 due to price gains.

SECTOR STATS

International Exports (2015):
CAD 98.8 bn

Share of Sector Exports to Emerging Markets
2011: 3.1%
2015: 1.7%

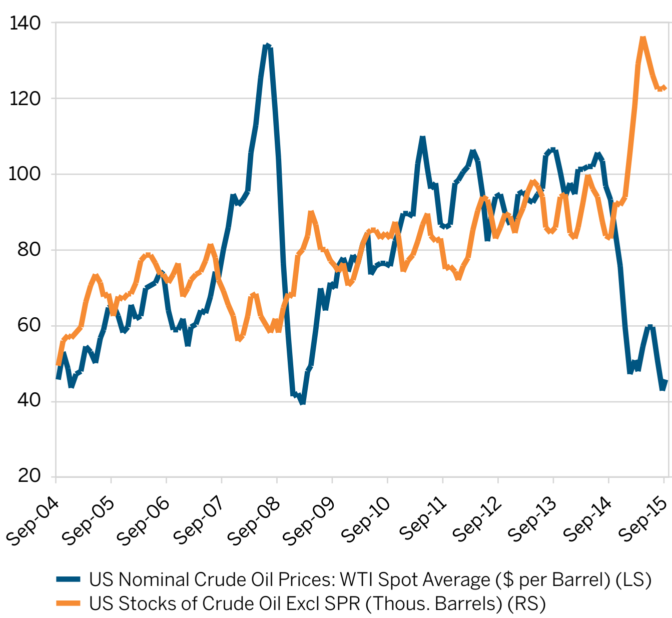
Share of Total Canadian Merchandise Exports (2015):
17.1%

Sector Distribution Across Provinces

NL	6.2%
NB	7.4%
NS	0.2%
PE	0.0%
QC	3.8%
ON	3.3%
MN	1.0%
SK	8.0%
AB	64.2%
BC	6.0%

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 2015	% Share of Exports 2015	2015	Export Outlook (% growth) 2016 (f)	2017 (f)
Developed Markets					
United States	93.8	95.0	-29.6	-15	18
Western Europe	1.4	1.4	-63.5	-14	15
Japan, Oceania and Developed Asia	1.9	1.9	-18.4	-9	-1
Emerging Markets					
Latin America and the Caribbean	0.4	0.4	-66.0	-10	10
Emerging Europe and Central Asia	0.3	0.3	41.9	-5	5
Africa and the Middle East	0.0	0.0	-69.1	-8	10
Emerging Asia	0.9	1.0	-30.7	-10	1
Total Developed Markets	**97.1**	**98.3**	**-30.4**	**-14**	**18**
Total Emerging Markets	**1.7**	**1.7**	**-40.3**	**-9**	**4**
Total World	**98.8**	**100.0**	**-30.6**	**-14**	**18**

Sources: Statistics Canada, EDC Economics

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3.2 Metals and Ores

Growing production volumes and a weaker loonie bode well for Canada's metal and ore exports, which will expand by 4% in 2016. Continued production strength and upticks in US and EU demand will lift exports a further 5% in 2017. Nonetheless, falling prices have affected Canada's copper output, and a number of mines have been placed into care and maintenance mode or have reduced production. Gold sales, on the other hand, are expected to rise on the back of strengthened production and an uptick in demand as some central banks experiment with negative interest rates and economic volatility persists.

Looking forward, the Brucejack and Hope Bay projects in British Columbia and Nunavut, respectively, will be the largest contributors to new gold production growth in 2017. Copper production is expected to resume growth in 2017 as mines come back to full production in British Columbia. While some higher-cost mines pull back production, others including Red Chris and Gibraltar in British Columbia, which combined make up about 15% of Canada's current production, are expected to expand production on the back of lower costs in 2016. On the aluminum front, exports are expected to rise as the Kitimat project ramps up closer to full production, expected in 2017. While there is some pick-up in the US automotive sector, the US steel industry's spare capacity is likely to pose a challenge to Canadian exports. Other competition comes from China's steel exports which will likely continue growing into 2016, following last year's record exports, as it attempts to push out excess domestic capacity. Mounting anti-dumping duties might temper that export growth somewhat.

Iron ore prices continue to be in the doldrums and are not expected to rise in the near term given mounting supply and the slowdown in Chinese demand growth. Ongoing production increases from low-cost producers, such as Australia and Brazil, will continue to make the market challenging for Canadian producers. Nevertheless, high-quality production at the Mary River project in Nunavut will support Canadian volume growth this year.

SECTOR STATS

International Exports (2015):
CAD 72.70 bn

Share of Sector Exports to Emerging Markets
2011: 12.2%
2015: 9.9%

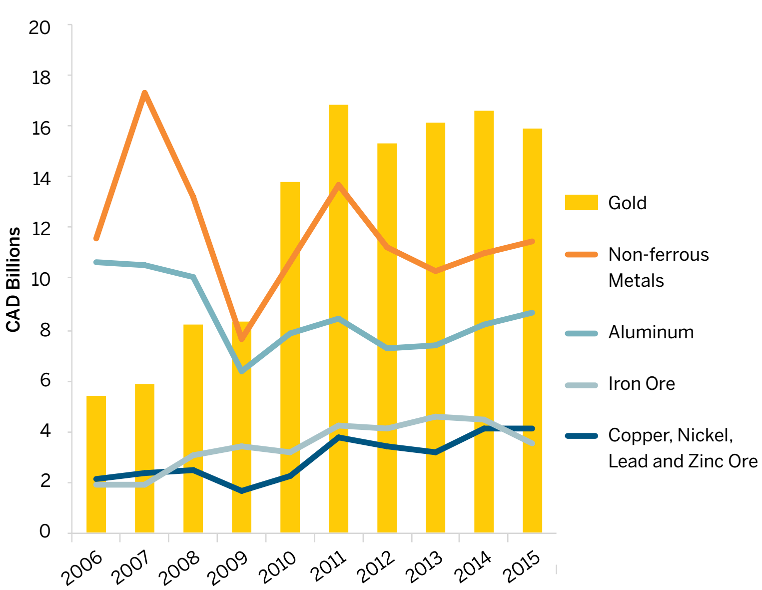
Share of Total Canadian Merchandise Exports (2015):
12.6%

Sector Distribution Across Provinces

NL	2.3%
NB	0.6%
NS	0.4%
PE	0.0%
QC	27.5%
ON	52.2%
MN	2.1%
SK	1.0%
AB	2.9%
BC	8.4%

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 2015	% Share of Exports 2015	Export Outlook (% growth) 2015	2016 (f)	2017 (f)
Developed Markets					
United States	39.9	54.9	3.2	6	6
Western Europe	18.9	26.0	-1.7	3	3
Japan, Oceania and Developed Asia	6.0	8.3	-16.1	4	4
Emerging Markets					
Latin America and the Caribbean	1.6	2.2	3.8	4	5
Emerging Europe and Central Asia	0.4	0.6	-2.5	2	5
Africa and the Middle East	1.2	1.7	-4.5	3	7
Emerging Asia	4.6	6.3	-7.4	-1	3
Total Developed Markets	**64.9**	**89.2**	**-0.3**	**5**	**5**
Total Emerging Markets	**7.8**	**10.8**	**-2.8**	**1**	**4**
Total World	**72.7**	**100.0**	**-0.6**	**4**	**5**

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 4% in 2016, driven by a boost from the lower Canadian dollar and by steady export volume growth amid sustained world food demand. In 2017, exports will rise 3%. A return to more normal yields and lower prices will mean reduced plantings and production volumes for most major crops. Livestock prices are heading lower as US herd rebuilding continues.

Agricultural prices are expected to remain low in the next two years, compared with recent highs. World markets are generally well supplied and the demand outlook remains broadly positive, except for wheat. The gradual recovery of North American herds will lift feed demand. Furthermore, there is continued strong demand for dry peas, chickpeas, soybeans, canola, lentils, flaxseed, mustard seed and high-quality barley. The recent US decision to remove "Country of Origin Labels" from food prepared from imported livestock should boost Canadian livestock sales to the US, while China is rapidly developing its own domestic hog industry. Another positive factor is the swelling of the middle class in some emerging markets, which is raising demand for grains and meats. Free trade agreements will expand export opportunities looking further ahead.

The highly competitive processed food and beverages sector will see a boost due to solid gains in shipments to the US market that will lift the value of Canadian exports by 7% this year and by 4% in 2017. In the seafood subsector, exports will post an 8% gain this year as the fisheries benefit from a favourable exchange rate and high prices for crab, salmon and shrimp. All three species will be in tight supply globally. In 2017, demand-driven price growth for crab, lobster and shrimp will prevail over nearly flat volumes to push exports to a modest 4% expansion.

SECTOR STATS

International Exports (2015):
CAD 61.2 bn

Share of Sector Exports to Emerging Markets
2011: 29.1%
2015: 31.5%

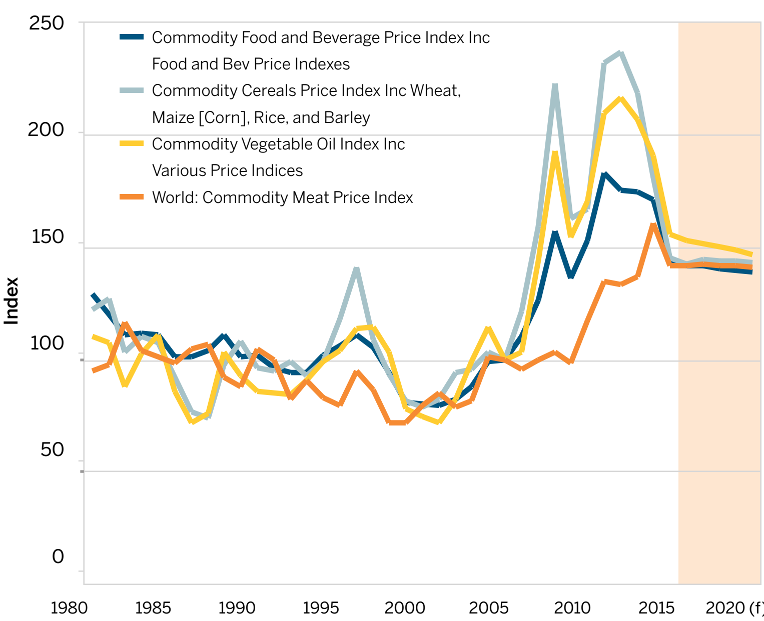
Share of Total Canadian Merchandise Exports (2015):
10.6%

Sector Distribution Across Provinces

NL	1.7%
NB	3.2%
NS	3.3%
PE	1.1%
QC	12.2%
ON	22.7%
MN	8.8%
SK	24.6%
AB	16.2%
BC	6.3%

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, October 2015

Table 6: Agri-Food Export Outlook by Region

TOP MARKETS	CAD bn 2015	% Share of Exports 2015	Export Outlook (% growth) 2015	2016 (f)	2017 (f)
Developed Markets					
United States	32.4	53.0	10.5	6	2
Western Europe	3.5	5.7	-7.3	-1	5
Japan, Oceania and Developed Asia	6.0	9.8	-4.6	6	3
Emerging Markets					
Latin America and the Caribbean	4.3	7.0	-0.8	-4	5
Emerging Europe and Central Asia	0.8	1.3	-24.8	2	6
Africa and the Middle East	3.0	4.9	0.6	3	6
Emerging Asia	11.2	18.3	31.6	4	6
Total Developed Markets	**41.9**	**68.5**	**6.4**	**5**	**2**
Total Emerging Markets	**19.3**	**31.5**	**14.4**	**2**	**6**
Total World	**61.2**	**100.0**	**8.8**	**4**	**3**

Sources: Statistics Canada, EDC Economics

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3.4 Fertilizers

EDC Economics forecasts exports of fertilizer to drop by 5% in 2016 with a modest recovery of 3% in 2017. Softening global agricultural commodity prices, somewhat lower farm incomes, industry oversupply, and emerging market and Russian currency devaluations all add up to a lacklustre outlook for fertilizer exports.

Prices for Canada's two main fertilizer exports, nitrogen and potash, will experience declines in 2016. Lower feedstock prices – natural gas and coal – continue to drive down nitrogen prices. Oversupply though, plays an equally critical role as new capacity continues to be added worldwide. US-specific greenfield expansions at CF Industries' Donaldsonville and Port Neal sites, in particular, will increase competition for Canadian exports.

While potash oversupply continues to exert pressure on prices, long-established supply management practices will deter further price declines. These production cuts, including Allan and Lanigan in Saskatchewan, as well as the longer-term closure of Picadilly in New Brunswick, coupled with upcoming US spring application and the conclusion of Chinese contracts negotiations in the next few months, are expected to put a floor on prices. In fact, prices will reverse from some recent declines, especially through 2016H2, and post some modest gains in 2017.

The loonie and lower prices should help boost demand for fertilizers in the US. However, declining farm incomes on the back of lower crop prices and weakening credit conditions for some overleveraged farmers will act as a counterweight. Furthermore, international market demand will be lacklustre in 2016, as high potash inventories in China and India are allowing both countries to extend contract negotiations for 2016-17 and bargain for lower prices. Weak macro-economic and credit conditions will continue to depress Brazilian demand. The recently announced USD 2.5 bn farm credit facility should alleviate credit pressures for some Brazilian farmers. Weather continues to play its part in complicating the forecast. El Ninõ-related droughts continue to impact palm, sugar and rice production in South East Asia, which should delay fertilizer application. Palm oil production declines in particular should spur greater demand for potash from Malaysia and Indonesia in 2017 and beyond, a top destination for Canadian potash.

SECTOR STATS

International Exports (2015):
CAD 8.8 bn

Share of Sector Exports to Emerging Markets
2011: 34.5%
2015: 35.9%

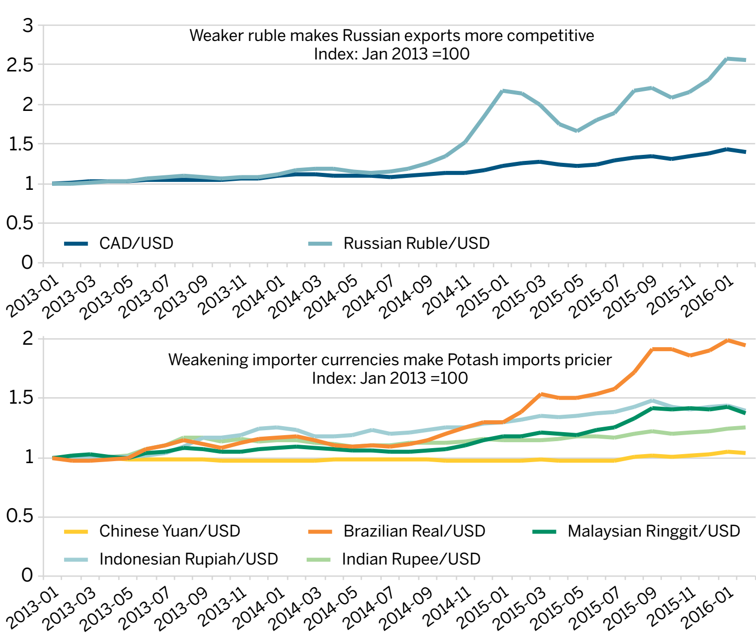
Share of Total Canadian Merchandise Exports (2015):
1.5%

Sector Distribution Across Provinces

NL	0.0%
NB	2.7%
NS	0.1%
PE	0.0%
QC	0.4%
ON	4.0%
MN	1.6%
SK	76.5%
AB	14.1%
BC	0.7%

Sources:
Statistics Canada, EDC Economics

Figure 4: Currency Impact on Potash Trade



Source: Haver Analytics

Table 7: Fertilizers Export Outlook by Region

TOP MARKETS	CAD bn 2015	% Share of Exports 2015	Export Outlook (% growth) 2015	2016 (f)	2017 (f)
Developed Markets					
United States	5.5	62.8	25.3	-5	2
Western Europe	0.0	0.3	-39.0	0	4
Japan, Oceania and Developed Asia	0.1	1.0	59.2	18	3
Emerging Markets					
Latin America and the Caribbean	1.1	12.6	54.6	-5	1
Emerging Europe and Central Asia	0.0	0.0	20.4	-2	5
Africa and the Middle East	0.0	0.2	-34.4	1	5
Emerging Asia	2.0	23.2	28.5	-5	8
Total Developed Markets	**5.7**	**64.1**	**25.2**	**-4**	**2**
Total Emerging Markets	**3.2**	**35.9**	**36.0**	**-5**	**6**
Total World	**8.8**	**100.0**	**28.8**	**-5**	**3**

Sources: Statistics Canada, EDC Economics, Green Markets*

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

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3.5 Forestry Products

With demand down as electronic media overtake printed newspapers and magazines, growing competition from pulp producers based in emerging markets, and fibre supplies tightening, the Canadian forest products sector is facing a number of challenges. However, in the near term EDC Economics believes that the relative weakness of the loonie against the US dollar, US demand growth and stronger prices will result in 5% growth of Canadian forestry exports in 2016 and 6% growth in 2017.

In the eight years since it served as the originator of the US financial crisis, the US housing sector has been completing a steady recovery. Strong underlying demographic demand requirements coupled with a recovering economy and labour market have led to six straight years of growth in US housing starts. EDC Economics forecasts that this will continue, with housing starts reaching just over 1.2 million units in 2016 and nearly 1.4 million units in 2017. This will sustain the strong demand for lumber and wood paneling for construction and consumer use in the US.

Canada's ability to service the volume of this demand will be constrained going forward. According to British Columbia's Ministry of Forests, by 2017 nearly 56% of harvestable timber will be killed with timber supply subsequently remaining below historical norms until 2075. With the province accounting for more than half of Canadian softwood lumber production, this will reduce Canada's capacity to meet US demand. However, EDC Economics forecasts that this supply constraint will result in higher prices for Canadian lumber over the medium term, resulting in the total value of lumber exports increasing even as export volume levels diminish.

For pulp and paper exports, the weakness of the loonie compared with the US dollar has provided companies with a competitive edge in North America relative to US firms. In newsprint, although 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. However, Canada has lost the currency advantage in the pulp sector as the relative weakness of the Russian ruble and Brazilian real has made their hardwood and eucalyptus grades of pulp significantly more competitive. This will constrain Canadian pulp exports.

SECTOR STATS

International Exports (2015):
CAD 34.7 bn

Share of Sector Exports to Emerging Markets
2011: 24.1%
2015: 20.9%

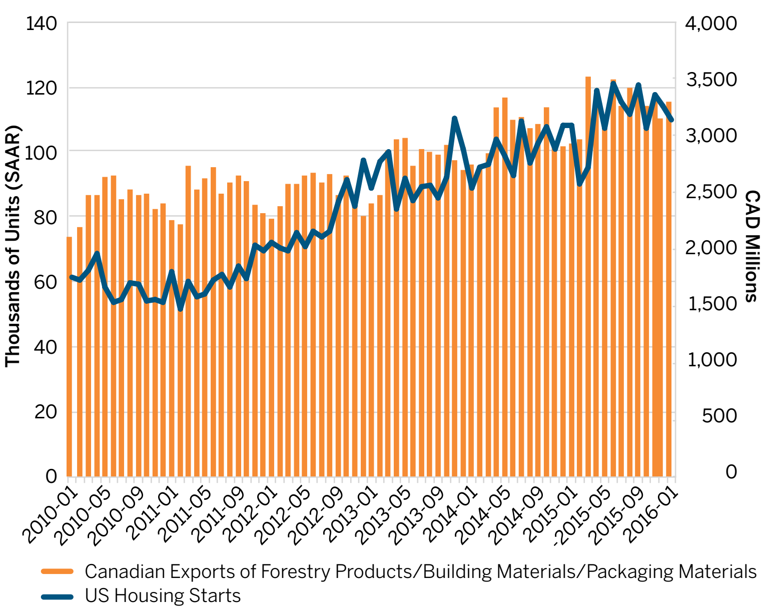
Share of Total Canadian Merchandise Exports (2015):
6.0%

Sector Distribution Across Provinces

NL	0.4%
NB	5.0%
NS	2.0%
PE	0.1%
QC	28.0%
ON	16.4%
MN	1.4%
SK	1.3%
AB	8.7%
BC	36.8%

Sources:
Statistics Canada, EDC Economics

Figure 5: Canadian Forestry Exports Continue to Track US Housing Demand for Now



Sources: EDC Economics, Haver Analytics

Table 8: Forestry Export Outlook by Region

TOP MARKETS	CAD bn 2015	% Share of Exports 2015	2015	Export Outlook (% growth) 2016 (f)	2017 (f)
Developed Markets					
United States	23.8	68.5	10.1	7	6
Western Europe	1.1	3.3	0.0	5	7
Japan, Oceania and Developed Asia	2.5	7.3	-0.1	0	5
Emerging Markets					
Latin America and the Caribbean	0.7	2.0	-7.9	2	4
Emerging Europe and Central Asia	0.2	0.5	-16.2	3	8
Africa and the Middle East	0.2	0.6	-22.1	7	10
Emerging Asia	6.2	17.8	2.6	1	4
Total Developed Markets	**27.4**	**79**	**8.6**	**6**	**6**
Total Emerging Markets	**7.3**	**21**	**0.0**	**1**	**4**
Total World	**34.7**	**100**	**6.7**	**5**	**6**

Sources: Statistics Canada, EDC Economics

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3.6 Automotive

Automotive product exports will grow by 10% in 2016 supported by record US demand, rebounding shipment volumes and the lower Canadian dollar. Growth will slow to 1% in 2017 amid a recovering currency and limited upside production growth potential. Demand fundamentals for motor vehicles and parts continue improving, and new light vehicle sales stateside could very well pierce the 18 million annual unit mark in coming years, driven by high employment and income growth, healthy balance sheets, rock-bottom gas prices, as well as by substantial pent-up demand and vehicle replacement needs.

North American light vehicle producers have geared up vying for pole position in what is already an exciting race, and Canadian exporters are well placed to reach top speed. Following pit-stop halts in 2015 for modernization and retooling at Ford's Oakville and Chrysler's Windsor plants, production is back in full swing and will lift shipment volumes this year and next. That said, GM's move of the Camaro line to Michigan will cut annual vehicle production by about 80,000 units, and GM's future presence in Oshawa will likely be decided by year-end. The recent wave of investment was driven by plants being pushed to their capacity limits, but has benefited mostly Mexico and the southern US. Amid limited upside sales growth potential, carmakers could be nearing an investment cycle peak. Given very tight capacity down south, Canadian plants could see a welcome short-term demand boost.

Heavy-duty truck exports have skyrocketed in recent years driven by replacement needs and new emissions regulations, but with a market reaching saturation point, and amid headwinds from growth trends in US industrial production, resource extraction, and inventory movement, exports will stabilize. 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. This trend will dampen export volumes over the medium term, but will provide opportunities for Canadian Direct Investment Abroad.

SECTOR STATS

International Exports (2015):
CAD 78.1 bn

Share of Sector Exports to Emerging Markets
2011: 2.3%
2015: 3.4%

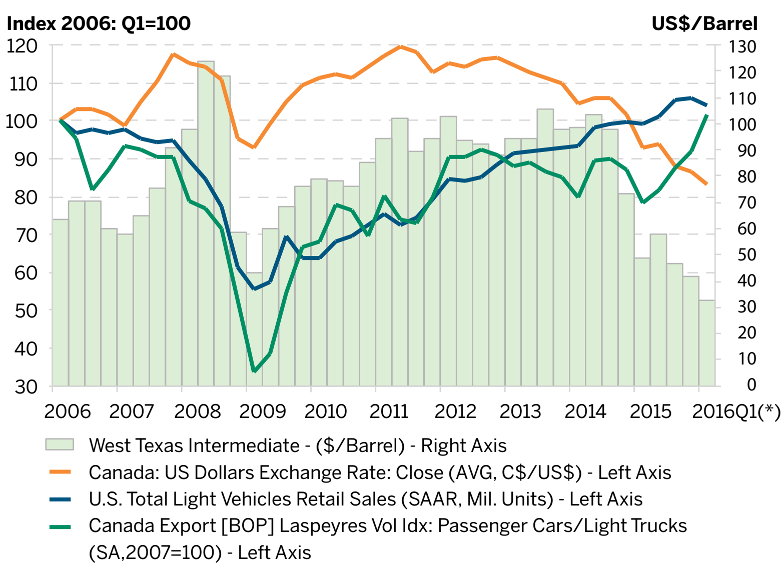
Share of Total Canadian Merchandise Exports (2015):
13.5%

Sector Distribution Across Provinces

NL	0.0%
NB	0.0%
NS	1.6%
PE	0.0%
QC	4.7%
ON	91.3%
MN	1.1%
SK	0.1%
AB	0.4%
BC	0.7%

Sources:
Statistics Canada, EDC Economics

Figure 6: Strong Demand Fundamentals, Rebounding Volumes



Sources: Haver Analytics, Bank of Canada, Energy Information Administration/CME, Autodata
(*) Data is quarter-to-date: weekly data to March 11 for currency and oil price; monthly data to February for vehicle sales and January for export volume

Table 9: Automotive Export Outlook by Region

TOP MARKETS	CAD bn 2015	% Share of Exports 2015	2015	Export Outlook (% growth) 2016 (f)	2017 (f)
Developed Markets					
United States	75.0	96.0	14.3	10	1
Western Europe	0.3	0.4	19.5	10	4
Japan, Oceania and Developed Asia	0.1	0.2	8.5	8	-5
Emerging Markets					
Latin America and the Caribbean	1.5	1.9	53.6	9	4
Emerging Europe and Central Asia	0.1	0.1	-1.3	7	4
Africa and the Middle East	0.6	0.8	12.9	11	5
Emerging Asia	0.5	0.7	50.0	12	5
Total Developed Markets	**75.4**	**96.6**	**14.3**	**10**	**1**
Total Emerging Markets	**2.7**	**3.4**	**39.4**	**10**	**5**
Total World	**78.1**	**100.0**	**15.0**	**10**	**1**

Sources: Statistics Canada, EDC Economics

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3.7 Industrial Machinery and Equipment

Industrial machinery and equipment (M&E) exports will grow by 7% this year, followed by 5% in 2017, led by sales to emerging markets. The US recovery will set the tone for the developed markets, where momentum will build this year 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 rise by 4% in 2016, followed by a 5% gain in 2017. Shipments to the US remain steady due in part to stabilizing land values. Although crop and livestock prices (revenues) are falling, costs like fuel, feed and fertilizer have also tumbled. Price gains are being delivered though the weak loonie.

The metal and woodworking M&E sector is expected to benefit from the strong demand and production levels of motor vehicles in North America and the steady growth in the US housing sector. In 2016, the sector is forecast to grow by more than 9% before growth decelerates slightly to 8% in 2017. Over the medium term, the continued strength of the US economy will be positive for this M&E segment as the US accounts for more than 80% of these exports.

Mining and oil and gas M&E exports will plunge 15% in 2016, followed by a weak 1% rebound in 2017. US energy and mining sector investments are down amid cost-cutting efforts and investment delays. This subsector is constrained by weak prices and over-capacity. A significant number of US coal mines sit idle. This trend is mirrored around the globe, which means that exports outside of North America are following a similar pattern.

The rubbers and plastics machinery sector has benefited from a jump in global demand, and will grow by 30% in 2016 before slowing to 2% in 2017. As the rubbers and plastics sector regains some steam and global competition in the sector increases, shipments of machinery will experience a boost on the tail of strong growth last year.

SECTOR STATS

International Exports (2015):
CAD 33.0 bn

Share of Sector Exports to Emerging Markets
2011: 17.6%
2015: 14.0%

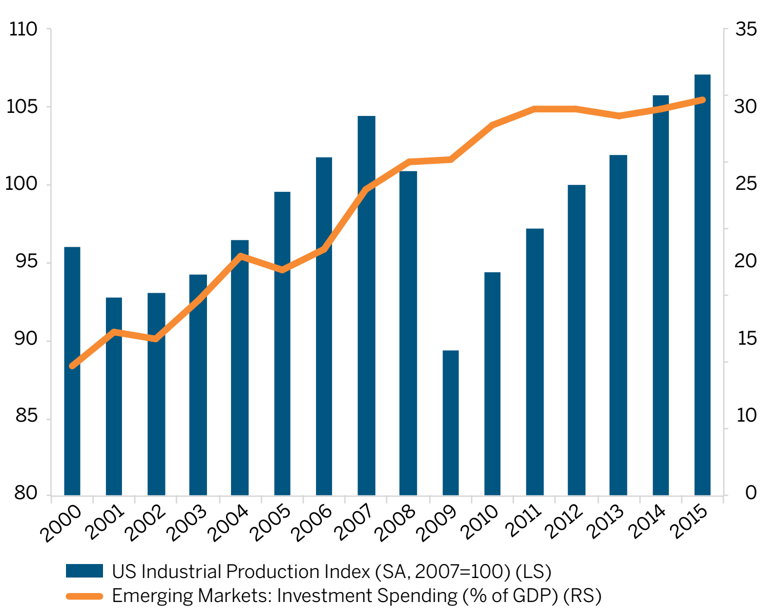
Share of Total Canadian Merchandise Exports (2015):
5.7%

Sector Distribution Across Provinces

NL	0.0%
NB	0.9%
NS	0.4%
PE	0.3%
QC	23.5%
ON	54.5%
MN	3.6%
SK	1.2%
AB	8.9%
BC	6.5%

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 2015	% Share of Exports 2015	2015	Export Outlook (% growth) 2016 (f)	2017 (f)
Developed Markets					
United States	24.5	73.9	12.1	6	6
Western Europe	2.5	7.7	4.3	8	4
Japan, Oceania and Developed Asia	1.5	4.4	5.9	5	1
Emerging Markets					
Latin America and the Caribbean	1.6	4.7	8.9	11	4
Emerging Europe and Central Asia	0.5	1.6	-31.1	5	3
Africa and the Middle East	1.2	3.5	-13.2	5	5
Emerging Asia	1.4	4.1	1.9	14	6
Total Developed Markets	**29.0**	**86.0**	**11.0**	**7**	**5**
Total Emerging Markets	**4.7**	**14.0**	**-5.5**	**10**	**5**
Total World	**33.0**	**100.0**	**8.4**	**7**	**5**

Sources: Statistics Canada, EDC Economics

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3.8 Advanced Technology

Advanced technology exports are forecast to grow by 9% this year before decelerating to 2% growth next year. Exports to developed markets will remain strong throughout 2016 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 over the medium term. 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 increased construction activity will contribute to a slight uptick in export volumes to the US; however, overall exports will mainly see price-related growth linked to the weak Canadian dollar this year. Sales to Europe, Canada's number two market, will continue experiencing impressive growth levels. Additionally, shipments to Asia are well positioned for continued rapid growth, partially driven by exponential growth rates in wireless subscribers.

Overall, the advanced technology sector is shifting its focus away from the ailing wireless communications sector toward non-traditional segments such as navigational and measurement instruments, and specifically surveying equipment. 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 (2015):
CAD 16.1 bn

Share of Sector Exports to Emerging Markets
2011: 15.5%
2015: 14.6%

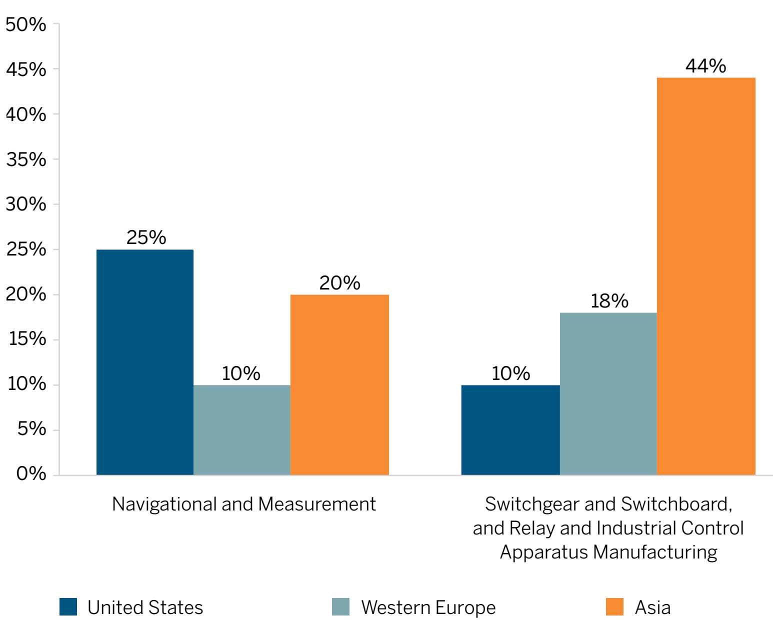
Share of Total Canadian Merchandise Exports (2015):
2.8%

Sector Distribution Across Provinces

NL	0.1%
NB	0.4%
NS	1.1%
PE	0.4%
QC	24.8%
ON	56.4%
MN	2.1%
SK	0.9%
AB	5.2%
BC	8.6%

Sources:
Statistics Canada, EDC Economics

Figure 8: Niche Subsectors Benefit from US Recovery (y/y)



Source: Statistics Canada

Table 11: Advanced Technology Export Outlook by Region

TOP MARKETS	CAD bn 2015	% Share of Exports 2015	Export Outlook (% growth) 2015	2016 (f)	2017 (f)
Developed Markets					
United States	10.9	67.9	10.8	6	-1
Western Europe	1.7	10.8	13.1	21	7
Japan, Oceania and Developed Asia	1.1	6.7	9.8	9	6
Emerging Markets					
Latin America and the Caribbean	0.6	4.0	-2.4	9	7
Emerging Europe and Central Asia	0.2	1.4	-7.2	7	8
Africa and the Middle East	0.6	3.5	20.1	11	8
Emerging Asia	0.9	5.7	9.5	12	8
Total Developed Markets	**13.8**	**85.4**	**11.0**	**8**	**1**
Total Emerging Markets	**2.4**	**14.6**	**6.4**	**10**	**8**
Total World	**16.1**	**100.0**	**10.3**	**9**	**2**

Sources: Statistics Canada, EDC Economics

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3.9 Aerospace

Despite some ongoing turbulence at Canada's largest aircraft manufacturer, Canadian aerospace exports are expected to continue to soar in 2016. EDC Economics forecasts that exports will increase by 13% in 2016 and 7% in 2017. Overall aerospace exports are benefiting from Canada's currency advantage against the US dollar, and Bombardier's long-delayed CSeries aircraft enters into service in the second quarter of 2016 and sees production ramp up.

The production capacity of global aircraft manufacturers is expected to remain stretched throughout 2016 as major manufacturers' order backlog of units remains exceptionally high by historical standards. Additionally, the fall in global jet fuel prices has mirrored the decline in oil, resulting in stronger margins for airlines, which is translating into fleet renewal and expansions.

This reinvestment coupled with continuing global growth is intensifying the demand for air travel and accelerating demand for training and air crew education. This is boosting exports of equipment and services from CAE, which won simulator contracts from the German Navy and US Air Force among others in early 2016. In addition in February 2016, the company announced the purchase of Lockheed Martin's commercial flight training unit to tap into global demand.

On the aircraft side, Bombardier Aerospace's CSeries aircraft will finally enter into service in 2016Q2 with Swiss International Airlines. As of the start of 2016, the company has reported an order book of 288 CSeries, part of an order backlog of nearly $29 billion. 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 is expected to cool in 2016 and 2017 as lower global commodity prices and slowing emerging market growth dampens demand from Russia, the Middle East and China. While US demand is expected to remain strong, Bombardier has cancelled its Learjet 85 program, reducing EDC's aerospace outlook in the longer term compared with the Fall 2015 Global Exports Forecast.

SECTOR STATS

International Exports (2015):
CAD 16.5 bn

Share of Sector Exports to Emerging Markets
2011: 16.9%
2015: 12.5%

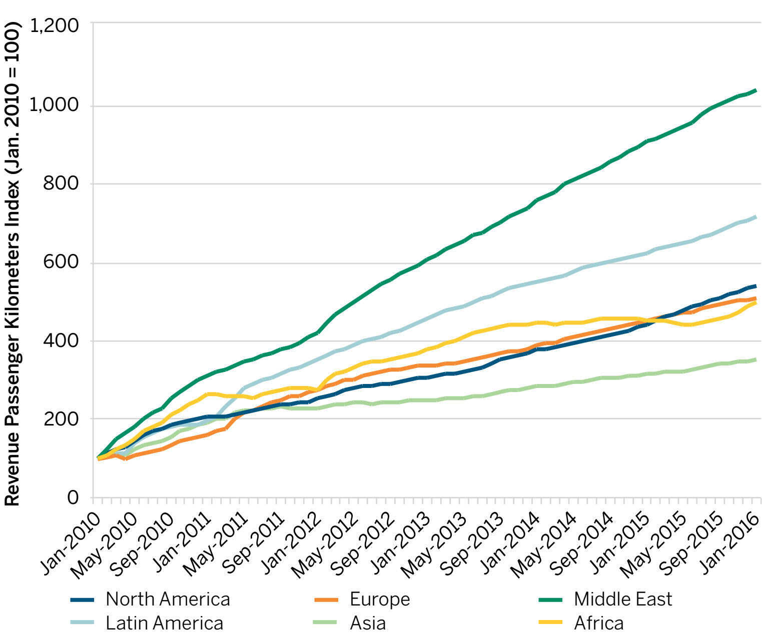
Share of Total Canadian Merchandise Exports (2015):
2.9%

Sector Distribution Across Provinces

NL	0.1%
NB	0.0%
NS	0.4%
PE	0.5%
QC	69.8%
ON	20.8%
MN	4.0%
SK	0.0%
AB	1.7%
BC	2.7%

Sources:
Statistics Canada, EDC Economics

Figure 9: Strong Growth in Passenger Traffic Propels Export Demand



Sources: IATA, Haver Analytics, EDC Economics

Table 12: Aerospace Export Outlook by Region

TOP MARKETS	CAD bn 2015	% Share of Exports 2015	Export Outlook (% growth) 2015	2016 (f)	2017 (f)
Developed Markets					
United States	10.7	64.7	18.2	14	8
Western Europe	3.0	18.1	13.1	17	7
Japan, Oceania and Developed Asia	0.8	4.6	59.1	7	2
Emerging Markets					
Latin America and the Caribbean	0.3	1.5	-26.9	6	3
Emerging Europe and Central Asia	0.3	1.5	-10.9	1	1
Africa and the Middle East	0.7	4.1	-4.4	10	6
Emerging Asia	0.9	5.4	-10.2	-2	-3
Total Developed Markets	**14.4**	**87.5**	**18.7**	**14**	**8**
Total Emerging Markets	**2.1**	**12.5**	**-11.1**	**5**	**4**
Total World	**16.5**	**100.0**	**14.0**	**13**	**7**

Sources: Statistics Canada, EDC Economics

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3.10 Chemicals and Plastics

Chemicals and plastics exports are expected to fall by 1% in 2016 and will experience an upswing of 5% in 2017. This forecast is primarily guided by a weak loonie, low commodity prices and the global demand outlook. The US, which receives 80% of total Canadian shipments, is still in recovery mode and will positively impact downstream sectors such as construction and consumer goods. 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 remained in negative territory as crude oil and natural gas prices remain depressed, and the persistent weakness in the Canadian dollar suppresses the positive upswing in volumes. Electricity costs, capacity utilization and labour constraints will restrain growth potential. The subsector is experiencing production capacity constraints and is partially benefiting from higher demand from the US as manufacturing ramps up. On the upside, the Province of Alberta recently announced the Petrochemicals Diversification Program that would offer up to $500 million in royalty credits to be traded between chemical and feedstock producers.

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 are entering into specialized drug production segments such as oncology. Overall, Canada's chemical exports are forecasted to fall by 5% this year before rebounding by 5% next year.

Exports of plastics will expand 11% this year followed by 6% next year. Volumes remain in line with our 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 (2015):
CAD 44.8 bn

Share of Sector Exports to Emerging Markets
2011: 3.1%
2015: 9.4%

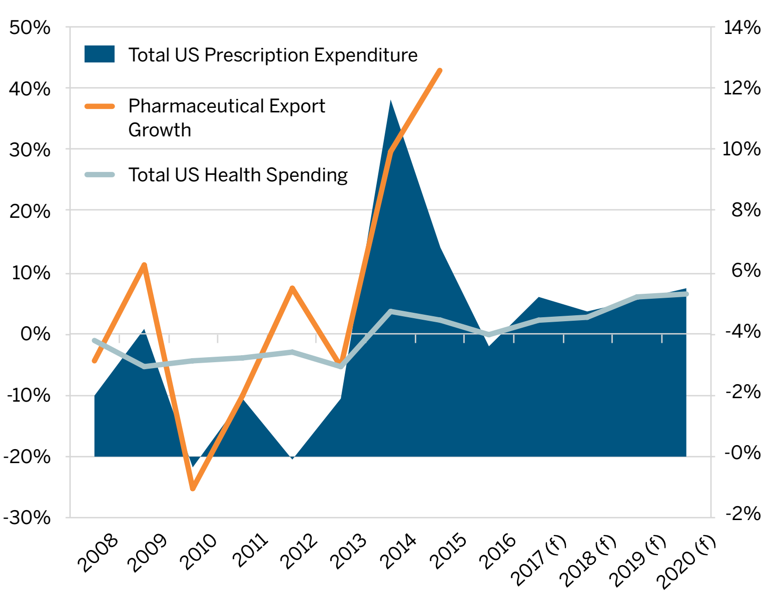
Share of Total Canadian Merchandise Exports (2015):
7.7%

Sector Distribution Across Provinces

NL	0.0%
NB	0.3%
NS	0.8%
PE	0.2%
QC	17.7%
ON	55.6%
MN	3.5%
SK	1.9%
AB	16.7%
BC	3.2%

Sources:
Statistics Canada, EDC Economics

Figure 10: Canadian Pharmaceuticals Getting Big Boost from U.S. Health Spending



Source: IMS Institute for Healthcare Informatics

Table 13: Chemicals and Plastics Export Outlook by Region

TOP MARKETS	CAD bn 2015	% Share of Exports 2015	2015	Export Outlook (% growth) 2016 (f)	2017 (f)
Developed Markets					
United States	36.1	80.4	9.7	1	6
Western Europe	3.2	7.1	2.1	-10	4
Japan, Oceania and Developed Asia	1.4	3.2	-13.3	-11	3
Emerging Markets					
Latin America and the Caribbean	1.7	3.9	20.4	-9	5
Emerging Europe and Central Asia	0.2	0.4	-16.0	-10	6
Africa and the Middle East	0.4	0.9	5.9	-8	6
Emerging Asia	1.9	4.2	-5.5	-9	5
Total Developed Markets	**40.6**	**90.6**	**8.1**	**0**	**5**
Total Emerging Markets	**4.2**	**9.4**	**4.4**	**-9**	**5**
Total World	**44.8**	**100.0**	**7.8**	**-1**	**5**

Sources: Statistics Canada, EDC Economics

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3.11 Consumer Goods

Exports of consumer goods will increase by nearly 14% this year before posting moderate 2% growth in 2017. Although this sector is made up of a very diverse group of categories, more than 75% of exports go to the US. With the American economy set to experience stable growth over the coming years and with it rising disposable income, combined with the weaker Canadian dollar, the outlook for consumer goods exports is positive. These cyclical factors mask structural challenges to external competitiveness facing Canadian manufacturers.

The biggest shock to this forecast and a key driver of it are jewellery exports, which are historically volatile given their high dependence on gold prices. Recent data have pointed to a dramatic surge in jewellery exports to the US, although we believe this is likely to be more of a short-term event than a sustained trend. Following two years of double-digit growth, we expect a steep dip in exports in 2017.

US housing start growth, together with a favourable exchange rate, will assist housing-related goods such as furniture, kitchen cabinets and other consumer durables. Over the medium- to longer-term outlook, however, growth will be more tepid as this subsector faces foreign competitors with lower labour costs and government regulations.

Reversing decades of decline, 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 5% as the loonie boost runs its course. Canadian manufacturers now primarily target the high-end market segment in the US and Western Europe, where disposable incomes are increasing.

Finally, in the assorted Other consumer goods category, 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.

SECTOR STATS

International Exports (2015):
CAD 9.9 bn

Share of Sector Exports to Emerging Markets
2011: 4.1%
2015: 4.2%

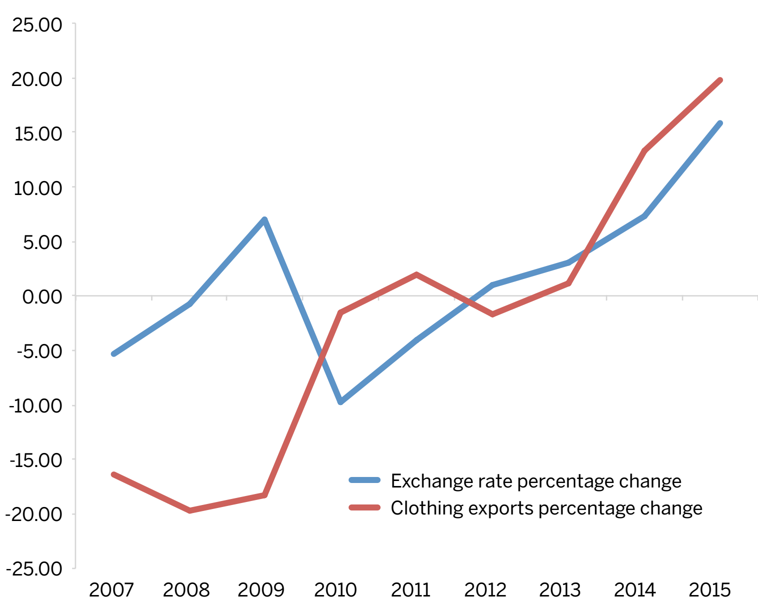
Share of Total Canadian Merchandise Exports (2015):
1.7%

Sector Distribution Across Provinces

NL	0.1%
NB	0.2%
NS	0.9%
PE	0.1%
QC	27.8%
ON	58.7%
MN	2.5%
SK	0.1%
AB	1.4%
BC	8.1%

Sources:
Statistics Canada, EDC Economics

Figure 11: Clothing Exports Following Loonie's Fall



Sources: Haver Analytics, Industry Canada

Table 14: Consumer Goods Export Outlook by Region

	CAD bn	% Share of Exports		Export Outlook (% growth)	
TOP MARKETS	2015	2015	2015	2016 (f)	2017 (f)
Developed Markets					
United States	7.9	79.8	34.7	16	1
Western Europe	1.1	11.4	8.4	3	7
Japan, Oceania and Developed Asia	0.5	4.7	17.8	5	2
Emerging Markets					
Latin America and the Caribbean	0.1	1.2	34.9	6	4
Emerging Europe and Central Asia	0.0	0.4	-9.8	4	4
Africa and the Middle East	0.1	1.3	16.5	8	5
Emerging Asia	0.1	1.3	22.0	8	4
Total Developed Markets	**9.5**	**95.8**	**30.1**	**14**	**2**
Total Emerging Markets	**0.4**	**4.2**	**19.8**	**7**	**4**
Total World	**9.9**	**100.0**	**29.6**	**14**	**2**

Sources: Statistics Canada, EDC Economics

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3.12 Services

Services exports will maintain a robust 4% pace this year and next, driven by the weaker Canadian dollar and positive economic outlooks for Canada's key trade partners, the US and Europe. The services sector accounts for the highest share of Canadian exports and will remain among the most solid and stable contributors to overall export growth. With more than 80% of costs to produce services exports sourced domestically, the weaker loonie provides competitive gains to support exports and suppliers' margins. Although the lower currency partly reflects headwinds to economic activity and trade due largely to the plunge in energy prices, EDC Economics expects these to recover gradually as of this year. All services export subsectors are expected to advance this year and next.

Personal travel is by far the largest contributor to services exports growth, and tourism services providers will be the biggest beneficiaries of a lower currency as the number of new arrivals, particularly from the US, should continue to recover from recent historical lows. A stronger US economy should also lift services receipts from business travel. Growth in transportation services receipts have been dragged mainly by softer trade, but the positive outlook should lift water and air transport activity going forward.

Commercial services account for the bulk of total receipts, accounting for almost two-thirds of the total. While some of these are delivered on a stand-alone basis, others are either embodied in or integrated with goods exports, making the latter two types more sensitive to trends in merchandise trade. Partly a reflection of the world-renowned soundness of Canada's financial institutions, financial services exports will remain an important high-value-added bellwether subsector driven by seemingly insatiable foreign appetite for Canadian expertise. Exports of technical and trade-related services as well as of professional and management consulting services are expected to benefit from improving trade, commodity prices and the broader economic backdrop. As well, the negative growth trend for telecom and technology services exports should reverse as US companies are forced to invest to increase production capacity.

SECTOR STATS

International Exports (2015):
CAD 99.2 bn

Share of Sector Exports to Emerging Markets
2011: 10.0%
2015: 11.0%

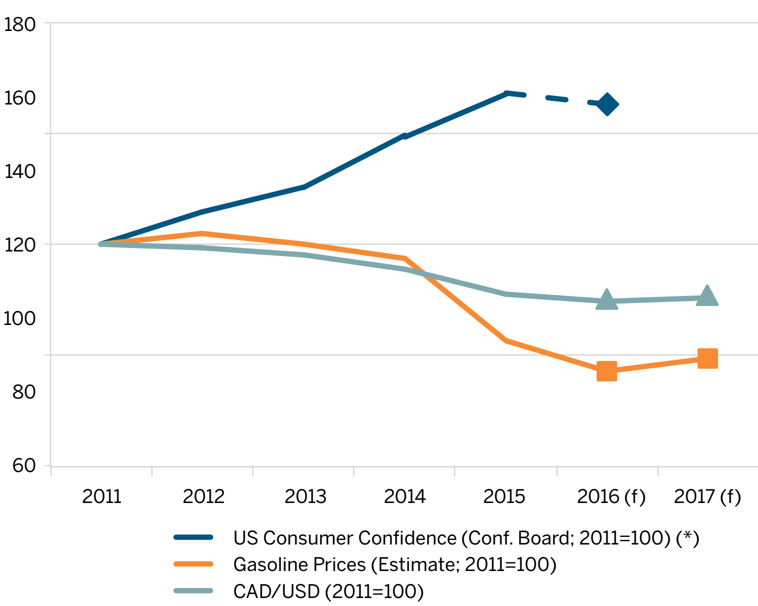
Share of Total Canadian Merchandise Exports (2015):
17.1%

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 2016 is average from January to February

Table 15: Canadian Export Services Outlook

	2013	2014	2015	2016 (f)	2017 (f)
Total Service Exports ($ mn)	**92,802**	**95,745**	**99,201**	**103,210**	**107,580**
annual % change	**4**	**3**	**4**	**4**	**4**
Commercial Services ($ mn)	58,658	59,983	61,945	64,034	66,843
annual % change	4	2	3	3	4
Transportation Services ($ mn)	14,507	14,941	15,179	15,679	16,155
annual % change	3	3	2	3	3
Travel Services ($ mn)	18,201	19,295	20,483	21,848	22,878
annual % change	5	6	6	7	5
Government Services ($ mn)	1,437	1,525	1,595	1,649	1,705
annual % change	-6	6	5	3	3

Sources: Statistics Canada, EDC Economics

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4.0 PROVINCIAL OVERVIEWS

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Canadian merchandise exports will grow at a tepid pace of 2% in 2016 with negative growth in the energy, fertilizer, and chemicals and plastics sectors forecast to overshadow manufactured goods. In 2017, the gradual strengthening of natural gas and crude oil prices will put energy-exporting provinces in the driver's seat and allow them to steer Canadian exports toward a 6% expansion.

As was the case in 2015, **Newfoundland and Labrador**, followed by **Alberta**, will be the hardest hit provinces in Canada this year as low natural gas and crude prices cause their exports to contract by 11% and 10%, respectively. In **New Brunswick** and **Saskatchewan**, the story will be much the same with weak refined and crude oil prices accounting for shrinking exports in 2016, even in the face of strong performances by their non-energy industries. Out of the five Canadian provinces for which the energy sectors comprise a significant share of total exports, it is telling that only **British Columbia**, where energy made up only one-fifth of all exports in 2015, will see exports grow, albeit by a modest 2%.

Headline figures are markedly different for Canada's manufacturing strongholds **Ontario** and **Quebec**, where the weaker Canadian dollar and high US demand are forecast to drive gains of 7% and 5%, respectively, in 2016. In Ontario, the automotive sector is expected to post a 10% export expansion, while Quebec's aerospace industry will see its sales abroad increase by 14%. **Manitoba**'s exports are also on track to climb by 4%, supported by increased US demand for buses and aircraft parts manufactured in the province.

Even in Atlantic Canada, manufacturing is forecast to provide a significant boost to the bottom line of two provinces. Responding to strong US auto demand, **Nova Scotia**'s tire industry is expected to fuel a 6% rise in overall exports in 2016. In **Prince Edward Island**, manufacturers in the aerospace industry are the source of similar momentum and will power a 7% increase in exports. Strong US and global demand for seafood will also be key to the export performance of both provinces.

Table 16: Canadian Merchandise Export Forecast by Province

PROVINCES	CAD bn 2015	% Share of Province's Total Exports 2015	2015	Export Outlook (% growth) 2016 (f)	2017 (f)
Newfoundland and Labrador*	9.1	1.9	-30	-11	18
Prince Edward Island	1.2	0.3	16	7	6
Nova Scotia	5.3	1.1	1	6	4
New Brunswick	12.2	2.5	-6	-6	9
Quebec	79.7	16.6	7	5	5
Ontario	195.9	40.8	10	7	3
Manitoba	13.9	2.9	3	4	5
Saskatchewan	32.4	6.8	-8	-3	8
Alberta	92.2	19.2	-24	-10	14
British Columbia	35.9	7.5	0	2	5
Territories	1.8	0.4	-18	-18	0
Total Goods Exports	**479.6**	**100.0**	**-3**	**2**	**6**

Sources: Statistics Canada, EDC Economics

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

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4.1 Newfoundland and Labrador

Newfoundland and Labrador's exports are expected to decline further in 2016, falling by 11% before a strong recovery of 18% in 2017. Weak commodity prices continue to eat away at the bottom line despite volume growth in the mining sector. A large proportion of the drop will be recovered in 2017 as prices rebound and new capacity comes online after prolonged delays.

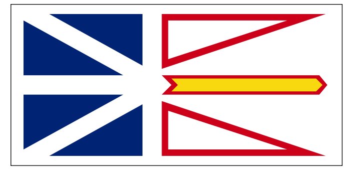
In the energy sector, weak oil prices coupled with falling production in mature wells will result in oil exports declining 18% in 2016. Shipments will rebound in 2017, growing by 23%, as production returns to normal levels. In the long term, new exploration and development efforts that began in 2012 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, remains committed to pump first oil by 2017 despite low oil prices and 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 grow by a meager 2% in 2016. 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 16% growth in 2017.

Newfoundland and Labrador's agri-food sector, dominated by seafood, will benefit from the persistently strong price of shrimp and somewhat higher prices for crab, as well as the weak Canadian dollar. Together, these factors will offset falling volumes in shrimp and crab. Exports are expected to grow by 4% in 2016 and a mere 2% in 2017.

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 2016 before moderating in 2017.

PROVINCIAL STATS



GDP
CAD 33.5 bn

International Exports/GDP
40.7%

Canada's Total Exporters
38,855

Trade Balance
CAD 5.9 bn

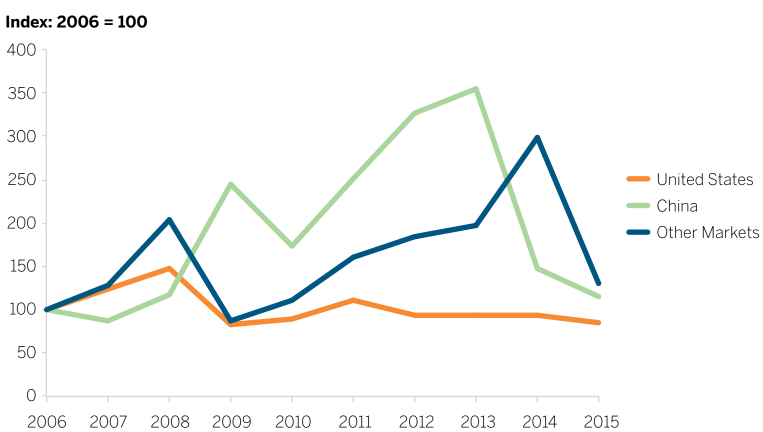
Largest Export Destinations
United States 68.0%
United Kingdom 6.5%
Netherlands 5.7%
China 5.2%
Japan 2.1%

Share of Exports to Emerging Markets
2015: 9.2%
2010: 12.87%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 48.8%
Regional Diversification: 47.9%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 13: Low Commodity Prices Eat Away at Exports to Non-Traditional Markets



Sources: Statistics Canada

Table 17: Newfoundland and Labrador Merchandise Outlook

TOP SECTORS	CAD mn 2015	% Share of Province's Total Exports 2015	Export Outlook (% growth) 2015	2016 (f)	2017 (f)
Energy*	6,140	67.6	-37.3	-18	23
Metals, Ores and Other Industrial Products	1,687	18.6	-20.2	2	16
Agri-Food	1,031	11.4	15.4	4	2
Forestry	132	1.5	13.1	3	3
All Others	91	1.0	-2.3	6	4
Total	**9,081**	**100.0**	**-30.2**	**-11**	**18**
Total excl. energy	**2,941**	**32.4**	**-8.6**	**3**	**10**

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

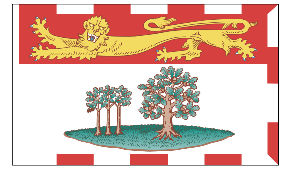
Currency-related gains in manufacturing, increased seafood production and high frozen potato prices will lift Prince Edward Island exports to a 7% expansion in 2016. In 2017, steady demand for French fries and lobster from the US and newer Asian markets as well as increased capacity in the pharmaceuticals-related chemicals sector will allow Island exports to register another 6% gain.

Seafood exports will be the main growth driver for the agri-food sector in 2016. Exports of processed lobster are expected to surge this year following the federal government's mid-February decision to roll back restrictions on the hiring of temporary foreign workers. The regulatory changes, in effect until the end of 2016 pending a review, will ease the staffing crisis facing Island processors, allowing increased output and a focus on more labour-intensive, higher-value products. In 2017, we expect price growth driven by strengthening demand in the Euro area and the US to allow seafood exports to grow nearly 10%.

Sizzling French fry prices will provide additional momentum to agri-food this year. Prices will receive a boost in 2016 from the currency effect and the fact that frozen potato inventories in the US are starting the year off at record lows. The tight supply situation is linked to bad weather and blight concerns that affected harvests in the American Midwest in 2015. In 2017, we expect additional price growth to come from accelerating US growth and strengthening demand for Island French fries from the Caribbean and Asia, especially South Korea, whose free trade agreement with Canada came into effect in January 2015.

In the aircraft and industrial machinery sectors, exports will benefit from the low value of the loonie and steady demand from commercial customers, factors that are expected to boost industrial machinery exports by 8% and sales of aircraft and parts by 13% this year. Rounding out the forecast, exports from the Island's chemicals industry will cool off and shrink by 1% in 2016 due to lower prices in the industry. However, sales abroad will bounce back and grow 11% in 2017 as the benefits of investments in research and development by the federally funded Natural Products Canada initiative begin to boost volumes.

PROVINCIAL STATS



GDP
CAD 6.0 bn

International Exports/GDP
18.6%

Canada's Total Exporters
38,855

Trade Balance
CAD 1.2 bn

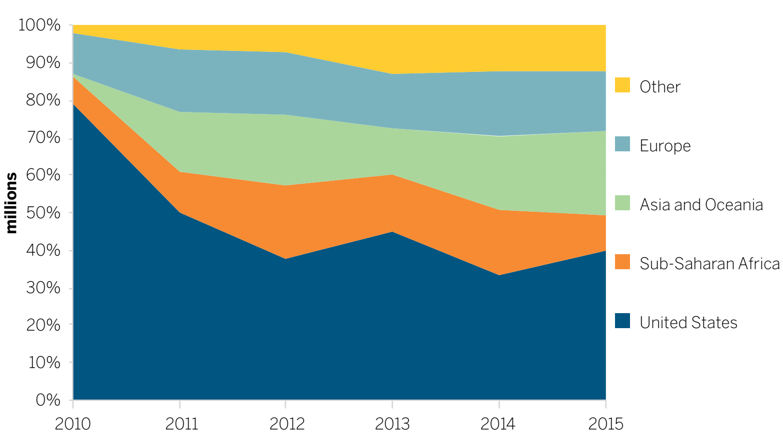
Largest Export Destinations
United States 64.3%
Korea, South 5.6%
France 3.0%
Japan 2.5%
Australia 2.2%

Share of Exports to Emerging Markets
2015: 11.8%
2010: 12.2%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 26.4%
Regional Diversification: 44.3%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 14: PEI Aerospace Export Destinations Are Increasingly Diversified



Sources: Industry Canada, EDC Economics

Table 18: Prince Edward Island Merchandise Outlook

TOP SECTORS	CAD mn 2015	% Share of Province's Total Exports 2015	Export Outlook (% growth) 2015	2016 (f)	2017 (f)
Agri-Food	654.4	53.1	11.9	9	6
Chemical and Plastics	111.0	9.0	9.3	-1	11
Industrial Machinery and Equipment	106.5	8.7	11.3	8	5
Aircraft and Parts	82.0	6.7	13.1	13	7
All Others	277.6	22.5	38.3	10	4
Total	**1231.4**	**100.0**	**15.7**	**7**	**6**
Total excl. energy	**1231.4**	**100.0**	**16.0**	**7**	**6**

Sources: Statistics Canada, EDC Economics

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4.3 Nova Scotia

EDC Economics sees exports from Nova Scotia rising by 6% in 2016 and 4% in 2017 due in large measure to a weaker Canadian dollar and strong demand from the US. The outlook is positive for a number of Nova Scotia's key export-oriented sectors, notably motor vehicle tires and seafood.

In the agri-food sector, exports will rise 9% this year and 5% next year thanks to a lower Canadian dollar and continued strong demand for live lobster. Even with a deceleration in China, its population's rising disposable incomes and appetite for seafood will drive continued growth in sales to the second most important destination country for Nova Scotia live lobster. Another promising development on the horizon for the seafood industry is the expected ratification in the short term of the Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union.

The motor vehicles and parts sector, which makes up close to a quarter of the province's exports, will increase by 10% this year driven by solid prices and growing demand in the US for heavy trucks and SUVs. Michelin will be expanding its Waterville facility to meet these orders.

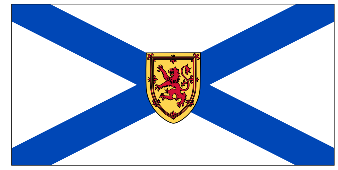
Forestry exports will decline this year by 4% due in large measure to the heavy tariffs imposed by the US government on newsprint exports. The expected resolution of this trade issue as well as sustained double-digit housing start growth in the US will push forestry exports up by 7% next year.

Though still moderate in size, the province's aerospace and the related defence industry are seeing investments by companies looking to expand their production operations to meet growing foreign demand.

One sector that is no longer driving the outlook is natural gas exports, due to steep declines in production from the Deep Panuke and Sable projects. However, 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 liquefied natural gas facility is building momentum.

While Nova Scotia is well positioned to benefit from some of the cyclical events over the next few years, export growth will be constrained by a lack of long-term investment and demographic challenges.

PROVINCIAL STATS



GDP
CAD 39.1 bn

International Exports/GDP
20.7%

Canada's Total Exporters
38,855

Trade Balance
CAD (2.8) bn

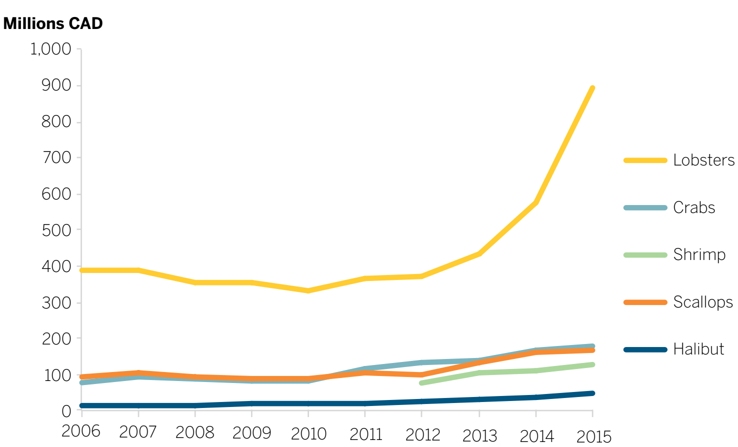
Largest Export Destinations
United States 70.1%
China 7.8%
United Kingdom 1.9%
France 1.6%
Netherlands 1.5%

Share of Exports to Emerging Markets
2015: 14.8%
2010: 7.3%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 16.6%
Regional Diversification: 51.1%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 15: Nova Scotia's Seafood Exports



Source: Statistics Canada

Table 19: Nova Scotia Merchandise Outlook

TOP SECTORS	CAD mn 2015	% Share of Province's Total Exports 2015	Export Outlook (% growth) 2015	2016 (f)	2017 (f)
Agri-Food	2,026	37.9	28.3	9	5
Motor Vehicles and Parts	1,237	23.1	10.1	10	2
Forestry	683	12.8	1.6	-4	7
Chemicals and Plastics	350	6.5	-7.9	8	6
All Others	1,054	19.7	-31.3	2	4
Total	**5,350**	**100.0**	**1.1**	**6**	**4**
Total excl. energy	**5,138**	**96.0**	**12.9**	**7**	**4**

Sources: Statistics Canada, EDC Economics

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4.4 New Brunswick

EDC Economics forecasts New Brunswick exports to decrease by 6% this year, before rebounding by 9% in 2017 on the back of stronger energy prices. While lower energy prices will drag down headline export growth in 2016, non-energy sectors are poised to expand a healthy 8% this year. A weaker Canadian dollar and strong demand from the US are the major drivers for the generally positive outlook forecast for the agri-food and forestry sectors.

Refined crude product volumes should return to historical levels in 2016. Nevertheless, low prices will result in energy exports plunging by 15% in 2015. Once prices begin their recovery in 2017, growth of 13% is expected. Supply-side growth will likely be constrained for the forecast period as Repsol cancelled its plan to convert Canaport's liquefied natural gas facilities to export gas.

Agri-food exports will experience solid growth of 12% in 2016 as they benefit from both increased volumes and prices. Larger farmed salmon stocks from New Brunswick coupled with higher prices after an algae bloom hit salmon farms in Chile will help boost exports. Moreover, lobster-fishing friendly weather in 2016 will increase volumes. The capacity of seafood processors will also increase as the approval for foreign-worker exemptions come into play before the processing season begins. Strong momentum in US retail and restaurant demand will support growth of 4% in 2017.

The forestry sector is set for back-to-back growth of 6% over the next two years. Housing starts in the US are expected to grow from 1.1 million in 2015 to 1.2 million in 2016 and to increase to 1.4 million in 2017, reflecting steady demand from the south. J.D. Irving's planned mill investments will also help support growth by boosting capacity. This forecast is, however, subject to some uncertainty as the expiry of the Softwood Lumber Agreement could hurt competitiveness. Pulp and paper is slated to experience moderate growth during the forecast horizon.

After the unexpected closure of the Picadilly mine, potash exports will take a hit in the foreseeable future. For the first time, Trevali's Caribou zinc-lead mill will produce at full capacity throughout the year.

PROVINCIAL STATS

GDP
CAD 32.1 bn

International Exports/GDP
45.7%

Canada's Total Exporters
38,855

Trade Balance
CAD 1.6 bn

Largest Export Destinations
United States 90.5%
India 0.9%
China 0.7%
Brazil 0.6%
Indonesia 0.6%

Share of Exports to Emerging Markets
2015: 6.8%
2010: 7.2%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 22.1%
Regional Diversification: 82.1%

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 2015	% Share of Province's Total Exports 2015	Export Outlook (% growth) 2015	2016 (f)	2017 (f)
Energy	7,262	59.6	-15.9	-15	13
Agri-Food	1,955	16.0	28.9	6	6
Forestry	1,735	14.2	4.2	12	4
Fertilizers	424	3.5	-11.3	5	6
All Others	807	6.6	13.2	3	4
Total	**12,184**	**100.0**	**-6.3**	**-6**	**9**
Total excl. energy	**4,922**	**40.4**	**12.5**	**8**	**5**

Sources: Statistics Canada, EDC Economics

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4.5 Quebec

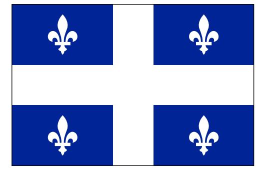
Quebec's exports will see steady growth of 5% in both 2016 and 2017. The lower value of the loonie vis-à-vis the US dollar and strong demand from the American market will be the main growth drivers. The US remains the primary destination for Quebec exports, taking in three-quarters of the total, with China a distant second. Continuing a recent trend, the aerospace sector will contribute the most to export growth over the forecast period.

The aircraft and parts sector will finally benefit from Bombardier's CSeries aircraft coming into service with Swiss International Airlines in the second quarter of 2016, bringing growth in this sector to 14%. Another strong subsector this year and next will be equipment and services (e.g. with CAE picking up key simulator contracts with foreign air forces in 2016). Growth in 2017 will remain strong at 8%, supported in part by ongoing CSeries aircraft deliveries and the continued currency advantage.

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 4% this year and next. Aluminum remains the main sub-component of this sector and will see slight growth this year and next with minor output increases at the Deschambault facility. Quebec's so-called "green aluminum" provides it with a competitive advantage over some other producers. Iron ore exports remain depressed owing to continued price weaknesses but will get a small boost by the Éléonore gold mine continuing to ramp up production.

Quebec's forestry sector will see 4% export growth in 2016, climbing up slightly to 5% in 2017. 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.

PROVINCIAL STATS



GDP
CAD 370.1 bn

International Exports/GDP
27.7%

Canada's Total Exporters
38,855

Trade Balance
CAD 3.2 bn

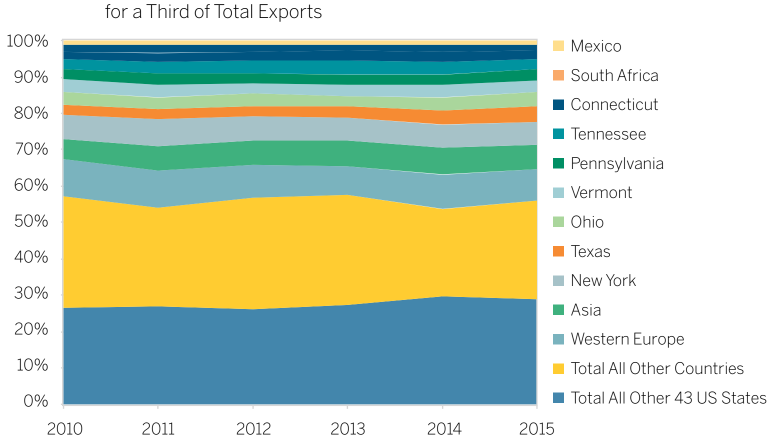
Largest Export Destinations
United States 74.2%
China 3.2%
France 1.8%
Mexico 1.5%
United Kingdom 1.4%

Share of Exports to Emerging Markets
2015: 11.2%
2010: 13.5%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 12.5%
Regional Diversification: 56.7%

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 2015	% Share of Province's Total Exports 2015	Export Outlook (% growth) 2015	2016 (f)	2017 (f)
Metals, Ores and Other Industrial Products	19,996	25.1	2.8	4	4
Aircraft and Parts	11,517	14.4	14.0	14	8
Forestry	9,716	12.2	7.1	4	5
Chemical and Plastics	7,955	10.0	9.2	0	5
All Others	30,530	38.3	7.3	5	3
Total	**79,713**	**100.0**	**7.2**	**5**	**5**
Total excl. energy	**76,005**	**95.3**	**8.3**	**6**	**4**

Sources: Statistics Canada, EDC Economics

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4.6 Ontario

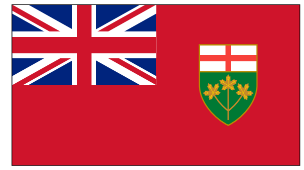
The value of Ontario's merchandise exports is forecast to grow by 7% in 2016 and 3% in 2017, supported by a competitive Canadian dollar and higher shipment volumes. Despite some competitiveness challenges from the Mexican peso's more pronounced depreciation to date against the US dollar and the forecast recovery of the loonie, robust demand from a strengthening US economy will continue driving broad-based export gains across Ontario's non-commodity sectors.

Exports of motor vehicles and parts, Ontario's single-largest exporting sector, will grow by 10% in 2016 as exporters ride a strong uptrend driven by record-high light vehicle demand stateside. Shipment volumes will rebound this year as production at Canadian assembly plants is back in full swing following temporary halts for retooling and modernization at Ford's Oakville and Chrysler's Windsor plants. Uncertainty about the future of GM operations in Oshawa beyond 2017 adds downside risk to the medium-term outlook for the sector, and its move of the Camaro line to Michigan will dent but not materially challenge the otherwise positive volume growth story. A recovering loonie and tight production capacity will constrain export growth to 1% in 2017.

Following a challenging second half in 2015, Ontario exports of metals, ores and other industrial goods are expected to grow by 5% both this year and next. In the metals complex, gold production will continue growing. Export growth will be boosted this year by safe-haven and central bank demand and a competitive currency. Market volatility will support the gold price for the first half of 2016, but the price lift is forecast to wane later this year and into 2017 as volatility in global markets subsides and as the loonie drifts higher. Steel export growth will remain challenged by lacklustre production volumes, while the solid export trend for other industrial goods will be supported by a strengthening US economy.

The solid outlook for Ontario's non-auto manufacturing exports, particularly industrial machinery and equipment, consumer goods, and advanced technology products, is supported by a strengthening US economy and competitive currency.

PROVINCIAL STATS



GDP
CAD 722.0 bn

International Exports/GDP
33.6%

Canada's Total Exporters
38,855

Trade Balance
CAN (91.0) bn

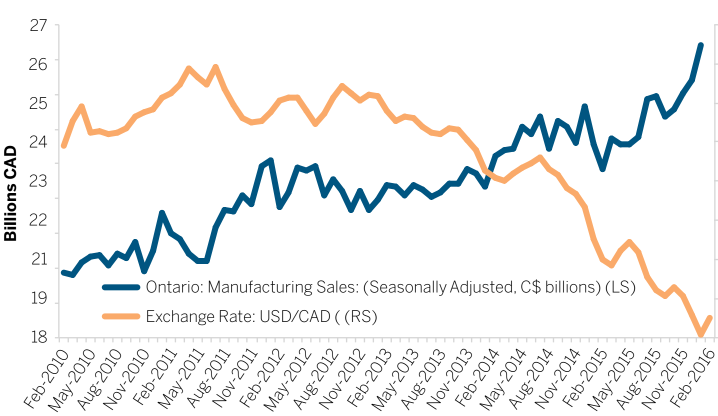
Largest Export Destinations
United States 80.1%
United Kingdom 6.4%
Mexico 1.4%
Hong Kong 1.3%
China 1.2%

Share of Exports to Emerging Markets
2015: 5.9%
2010: 5.6%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 20.8%
Regional Diversification: 65.0%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 18: Weaker Canadian Dollar and Strong US Demand Boost Ontario Manufacturing Shipments



Sources: Haver Analytics, Statistics Canada

Table 22: Ontario Merchandise Outlook

TOP SECTORS	CAD mn 2015	% Share of Province's Total Exports 2015	Export Outlook (% growth) 2015	2016 (f)	2017 (f)
Motor Vehicles and Parts	71,301	36.4	14.2	10	1
Metals, Ores and Other Industrial Products	37,947	19.4	-0.5	5	5
Chemical and Plastics	24,933	12.7	9.4	1	5
Industrial Machinery and Equip.	18,103	9.2	17.3	9	5
All Others	43,593	22.3	13.3	7	4
Total	**195,876**	**100.0**	**10.5**	**7**	**3**
Total excl. energy	**192,650**	**98.4**	**10.9**	**7**	**3**

Sources: Statistics Canada, EDC Economics

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4.7 Manitoba

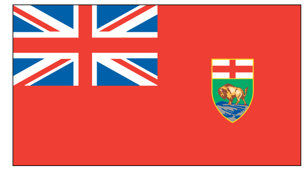
After a modest year in 2015, Manitoba's export growth should pick up to 4% in 2016. Although wheat and oil exports will weigh down the total export value somewhat, sales of pork meat, hogs and manufactured goods will buoy the final number. In 2017, growing demand for agri-food in addition to heightened US demand for aircraft parts and buses will support stronger growth of 5%.

Pork meat and live hog exports are set to rise as US production returns to normal levels from record highs of the past couple of years. Further, exports of the same should be strengthened on the back of Canada's new free trade agreement (FTA) with Korea, which has now been in effect for more than a year. In 2011, before the US's FTA with Korea came into effect, Korea was Canada's second-largest destination for hogs. As such, with a new agreement between Canada and Korea now in place, it is expected that Canada's exports will be rebuilt to similar levels in the 2016-17 time frame.

Exports of wheat are set to decline by 10% in 2016, despite Manitoba's relatively strong wheat production in 2015. Global demand is expected to be weaker in 2016 due to high inventories and strong US, Chinese and Indian production. On the other hand, coarse grains and oilseeds exports are expected to expand moderately in 2016 and at a faster pace in 2017. This year will be somewhat slower than 2017 because Canadian exporters are focused on adjusting their processes to comply with new Chinese rules governing imports of oilseeds. On the whole, most grain-related agri-food exports are expected to be back in positive growth territory in 2017.

In contrast, manufacturers will see stronger gains. Manitoba's aerospace cluster is particularly well positioned as part of Boeing's supply chain, as well as the US recovery and weaker loonie. This subsector's exports will grow by 16% in 2016 and 7% in 2017. Similarly, exports of motor vehicles will also experience double-digit growth of 22% in 2016. Bus manufacturer New Flyer Industries is set to continue its strong performance of the past few years, with a series of important deals concluded in the first quarter of 2016, notably with the New York City Transit Authority.

PROVINCIAL STATS



GDP
CAD 64.1 bn

International Exports/GDP
27.0%

Canada's Total Exporters
38,855

Trade Balance
CAD (7.2) bn

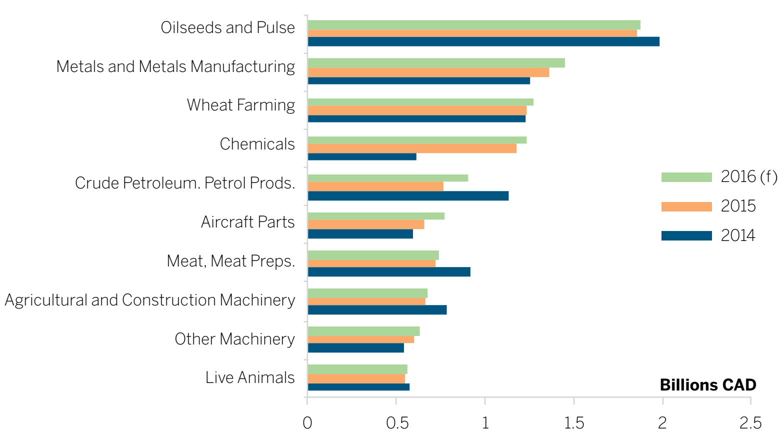
Largest Export Destinations
United States 69.1%
China 7.1%
Japan 4.6%
Mexico 2.5%
Hong Kong 1.5%

Share of Exports to Emerging Markets
2015: 18.1%
2010: 21.3%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 14.6%
Regional Diversification: 49.7%

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 2015	% Share of Province's Total Exports 2015	Export Outlook (% growth) 2015	2016 (f)	2017 (f)
Agri-Food	5,361	38.6	-3.7	2	5
Energy	1,579	11.4	69.6	2	5
Metals, Ores and Other Industrial Products	1,559	11.2	6.3	4	5
Industrial Machinery and Equipment	1,200	8.6	-12.8	5	5
All Others	4,191	30.2	1.6	5	6
Total	**13,890**	**100.0**	**3.2**	**4**	**5**
Total excl. energy	**12,880**	**92.7**	**7.4**	**5**	**5**

Sources: Statistics Canada, EDC Economics

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4.8 Saskatchewan

Continued strong agriculture exports will help moderate the impact of low energy prices on Saskatchewan's exports this year. EDC Economics forecasts exports to decline by 3% in 2016 only to rebound by 8% in 2017.

Low crude oil prices will remain a drag on energy exports which will contract by 17% in 2016. Moderate price increases next year along with incremental production increases, including new investments from Husky, will boost exports by 19% in 2017 and over the medium term.

Following last year's first-ever shipment to India, Saskatchewan's uranium exports will be supported this year by a near 60% jump in production at the Cigar Lake plant. Export growth will continue into 2017 and the medium term driven by Indian and Chinese demand.

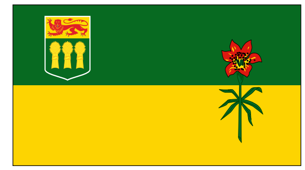
While most agricultural prices are expected to trend lower over the next two years compared with recent highs, the lower Canadian dollar and sustained emerging market demand will enable robust export growth. As such, Saskatchewan agricultural exports will continue to plow ahead and post 3% growth in 2016 and another 6% expansion in 2017. Saskatchewan will likely continue to be Canada's top agricultural exporter.

Exports of wheat will decline in 2016 due to abundant stocks in the US and slowing Chinese demand but a recovery will follow in 2017. Asia, the Middle East and Africa, in particular, will be important and growing destinations for Canadian wheat over the medium term.

Saskatchewan oil seeds and pulses exports will remain very strong over the next two years. The loonie, higher prices, significant demand from India and Turkey, and growing production are expected to yield record exports in 2016. Agriculture Canada forecasts peas seeding to increase by 14% and lentils by 13% for the 2016 crop year. Canola oil exports are also expected to grow over the next two years due to demand and tightening global supply. There are two uncertainties though, namely a recent Chinese regulation on canola imports and timely monsoons in India could sour the export outlook for canola and pulses, respectively.

Potash fertilizer exports are expected to decline by 5% in 2016. Declining potash prices, moderating volume growth, emerging market currency weakness and tightening credit conditions due to lower farm income are behind declines in 2016. Exports will post a 3% increase in 2017.

PROVINCIAL STATS



GDP
CAD 82.8 bn

International Exports/GDP
45.9%

Canada's Total Exporters
38,855

Trade Balance
CAD 22.4 bn

Largest Export Destinations
United States 54.3%
China 10.3%
India 5.8%
Japan 2.7%
Brazil 2.6%

Share of Exports to Emerging Markets
2015: 38.6%
2010: 28.9%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 24.1%
Regional Diversification: 33.6%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 20: Year(s) of Pulses

Sources: Industry Canada, EDC Economics

Table 24: Saskatchewan Merchandise Outlook

TOP SECTORS	CAD mn 2015	% Share of Province's Total Exports 2015	Export Outlook (% growth) 2015	2016 (f)	2017 (f)
Agri-Food	15,058	46.5	8.2	3	6
Energy	7,879	24.3	-42.8	-17	19
Fertilizers	6,750	20.8	31.9	-5	3
Chemical and Plastics	837	2.6	18.4	-4	5
All Others	1,889	5.8	9.8	25	11
Total	**32,413**	**100.0**	**-8.0**	**-3**	**8**
Total excl. energy	**24,534**	**75.7**	**14.3**	**2**	**6**

Sources: Statistics Canada, EDC Economics

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4.9 Alberta

Alberta's export earnings are projected to plunge 10% this year and spring back 14% in 2017. This year's decline is being driven by the energy sector. The chemicals and plastics sector will also drop, leading to an overall flat performance for non-energy exports. All sectors will see export growth next year.

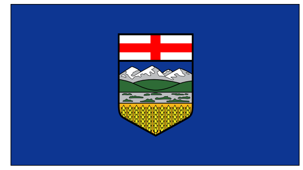
Petroleum exports will decline 14% in 2016 due to depressed crude prices. In 2017, a partial price recovery and volume gains will lift exports 19%. Pipeline and processing bottlenecks are not anticipated and accordingly we expect the discount for Western Canada Select crude over West Texas Intermediate to average about USD15/bbl over the forecast horizon. Although US crude inventories are at historic levels, US shale output is slowly declining, and Alberta crude is making its way south.

Due to weaker prices and volume declines, natural gas exports will slide 19% in 2016. The 9% bounce-back in 2017 will be driven by a price rebound as the volume decline continues. This year's price decline is due to the fact that the US has abundant shale gas capacity that is more economical to produce compared with Canadian production. However, the price of natural gas in North America will gradually recover as inventories decline and as the US expands its liquefied natural gas capacity further.

Agricultural exports will be stable this year and post a 2% rise next year. Soft prices for wheat will be accompanied by declining shipments due to strong global harvests and inventories. The recent US decision to remove "Country of Origin Labels" will boost opportunities for Alberta cattle and beef sales, but price gains will level off as US herds recover.

Chemicals and plastics exports will decline this year and rebound next year as the US recovery continues. Alberta's forestry sector will see a buoyant 7% growth outcome in both years due to the US housing market momentum. Machinery and equipment (M&E) sales are projected to slow to 3% this year and grow 5% next year. Investments in the oil and gas and mining sectors will hold back M&E sales this year, but we expect other M&E sales to the US to lead as other industries are running near full capacity.

PROVINCIAL STATS



GDP
CAD 375.8 bn

International Exports/GDP
34.9%

Canada's Total Exporters
38,855

Trade Balance
CAD 63.4 bn

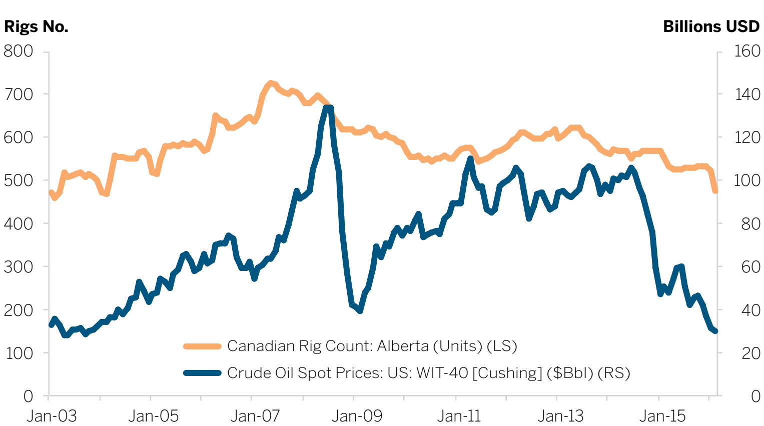
Largest Export Destinations
United States 87.1%
China 3.6%
Japan 1.7%
Mexico 1.1%
Korea, South 0.5%

Share of Exports to Emerging Markets
2015: 8.4%
2010: 8.0%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 47.7%
Regional Diversification: 76.3%

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 2015	% Share of Province's Total Exports 2015	Export Outlook (% growth) 2015	2016 (f)	2017 (f)
Energy	63,464	68.8	-31.2	-14	19
Agri-Food	9,893	10.7	3.0	0	2
Chemical and Plastics	7,507	8.1	-6.5	-9	7
Forestry	3,021	3.3	11.1	7	7
All Others	8,304	9.0	-6.2	4	4
Total	**92,189**	**100.0**	**-24.1**	**-10**	**14**
Total excl. energy	**28,725**	**31.2**	**-1.6**	**0**	**4**

Sources: Statistics Canada, EDC Economics

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4.10 British Columbia

The deceleration of growth in China and continuing weakness in global commodity prices throughout the year are expected to constrain export growth for British Columbia to just 2% in 2016. As prices for energy, metals and minerals recover from lows and lumber prices increase due to US demand and declining softwood lumber supplies, EDC Economics forecasts the province's export growth to reach 5% in 2017.

After years of strong growth aided by developing China's demand for Canadian forest products, the British Columbia forestry sector is beginning to face considerable headwinds. According to British Columbia's Ministry of Forests, by 2017 nearly 56% of harvestable timber will be destroyed by the mountain pine beetle infestation and its after-effects. Thereafter, the timber supply will remain below historical norms until 2075. Additionally, the expiry of the Softwood Lumber Agreement with the US is increasing uncertainty just as slower Chinese growth and cheaper Russian and New Zealand lumber will constrain exports. EDC Economics believes that these factors will limit British Columbia's forestry export growth in 2016 to 4%. However, higher prices on the tighter fibre supply in 2017 are expected to result in the value of the province's forestry exports increasing by 7% in 2017.

A full year of production from Rio Tinto Alcan's Kitimat aluminum smelter in 2016 and the recovery of global commodity prices from lows reached in the first month of 2016 will increase the value of the province's exports of metals, ores and other industrial products by 4% this year and 2% in 2017. The potential development of three mines by Barkerville Gold in the interior of British Columbia and higher gold prices could provide upside risk to EDC's forecast in 2017.

Energy exports from the province will follow a similar pattern, declining by a further 10% in 2016 before growing by 6% in 2017 on the back of somewhat higher prices. The sustained production levels from US shale gas deposits, coupled with high storage levels and a mild winter, will constrain natural gas and crude oil price growth.

Agri-foods exports are forecast to grow 6% in 2016 as the relatively lower value for the loonie compared with the USD and strong harvests in the British Columbia interior support sales to the US.

PROVINCIAL STATS

GDP
CAD 237.2 bn

International Exports/GDP
22.4%

Canada's Total Exporters
38,855

Trade Balance
CAD (12.0) bn

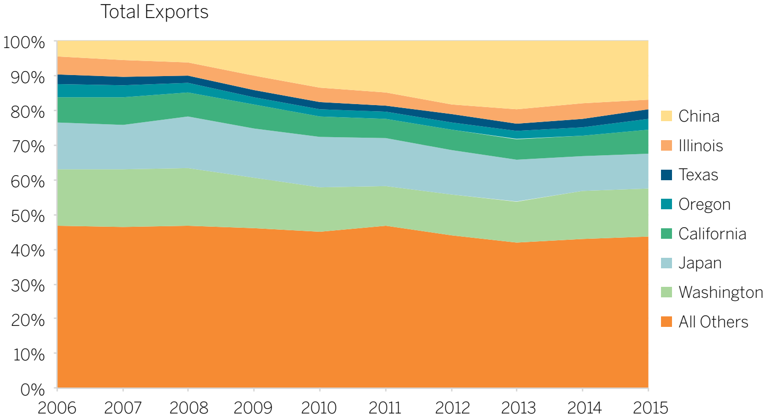
Largest Export Destinations
United States 51.8%
China 16.9%
Japan 10.1%
Korea, South 5.2%
India 1.7%

Share of Exports to Emerging Markets
2015: 25.0%
2010: 21.4%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 19.1%
Regional Diversification: 31.9%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 22: China, Japan and Five US States Account for Over Half of British Columbia's Total Exports



Sources: Statistics Canada, EDC Economics

Table 26: British Columbia Merchandise Outlook

TOP SECTORS	CAD mn 2015	% Share of Province's Total Exports 2015	Export Outlook (% growth) 2015	2016 (f)	2017 (f)
Forestry	12,779	35.6	3.7	4	7
Metals, Ores and Other Industrial Products	6,107	17.0	-1.2	4	2
Energy	5,884	16.4	-25.3	-10	6
Agri-Food	3,856	10.7	17.8	6	3
All Others	7,247	20.2	18.1	7	4
Total	**35,873**	**100.0**	**0.2**	**2**	**5**
Total excl. energy	**29,989**	**83.6**	**7.4**	**5**	**5**

Sources: Statistics Canada, EDC Economics

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.