ECONOMIC VIEWPOINT

Doubling Down on Diversification: More than an Export Target

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HIGHLIGHTS

- Trade tensions with the United States are weighing heavily on the Canadian economy, reinforcing the need to broaden Canada's trade partners across the world. With this objective in mind, the federal government set out a seemingly ambitious goal of doubling non-US exports—an increase of roughly $300B—over the next decade.
- Rapid growth in non-US goods exports in recent years has offered encouragement but largely reflects commodity price gains rather than higher export volumes. Our baseline forecast suggests Canada can meet the 2035 target with historical rates of export volume growth and projected export prices. Furthering diversification in value-added manufactured goods would provide a more balanced trade profile and reduce concentration risk, and is likely to go hand in hand with productivity gains.
- Services offer another route to overseas growth. Their export markets are already more diversified than those for goods, and digitally delivered services offer further potential.
- The dollar target alone is an incomplete measure of diversification. Ultimately, meaningful diversification will require significant improvement in productivity, competitiveness and trade infrastructure, building a broader and more resilient export base rather than simply doubling the dollar value of exports to other markets.

With trade tensions with the US weighing heavily on the Canadian economy, the federal government has stepped up efforts to reduce trade dependence on our southern neighbour and secure greater market access in other regions. In Budget 2025, the federal government set out a target of doubling non-US exports of goods and services by 2035.

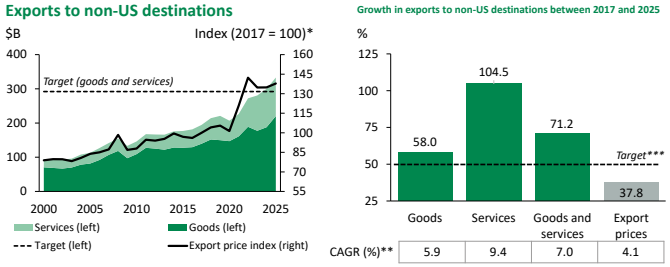
But reaching a dollar target and building a broader export base are not the same thing. In this Economic Viewpoint, we examine what has driven recent gains, how progress differs across industries and provinces, and whether meeting the target requires a structural shift in Canada's export base. We then consider how to better measure progress toward meaningful trade diversification.

A Target Met, with a Lift from Prices

It's not the first time the Government of Canada has set diversification targets. In its 2018 Fall Economic Statement, the federal government set out to increase non-US exports by 50% between 2017 and 2025. In the end, Canada surpassed its target one year ahead of schedule (Global Affairs Canada, 2024). It's worth noting that the target was expressed in current dollars (as opposed to volumes or constant, inflation-adjusted dollars), so the post-pandemic surge in prices helped bring this goal within reach (graph 1). Much of the performance was supported by services exports (up 9.4% per year in dollar or value terms, and

Graph 1

Canada Surpassed Its Previous Target of Increasing Non-US Exports by 50% in 8 Years



* The export price index is based on total exports (US and non-US). Laspeyres index. ** Compound annual growth rate. *** 5.2% CAGR.

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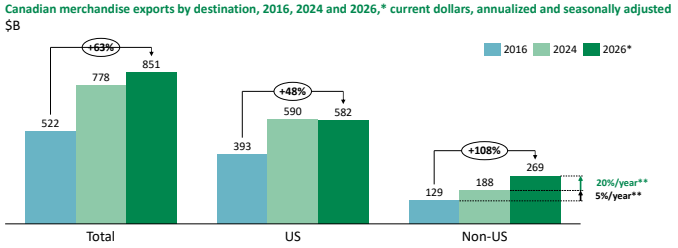
about 5.3% per year in constant or volume terms[1]), particularly commercial and travel services. The latter was fuelled by the rise of international students in Canada—living expenses and tuition of international students are included in travel services. On the goods side, growth was more subdued, at 5.9% per year in value, driven largely by energy products and metal and non-metallic mineral products. At about 1.8% per year in volume terms from 2017 to 2025, goods export growth was slightly slower than average real GDP growth over the period (2.2%).

Looking ahead, the federal government's new goal entails doubling goods and services exports to non-US markets between 2024 (base year) and 2035, in current dollars. This corresponds to an average annual growth rate of 6.5%,[2] compared with the average of 5.2% per year[3] needed to meet the previous target of a 50% increase over eight years. On its face, this may appear like an ambitious target, but the required growth rate is below the 7.0% that was actually achieved annually between 2017 and 2025. The next section examines how non-US exports have evolved so far against this new target.

Goods Exports: A Tale of Commodities

With respect to goods exports, Canada *has* doubled the value of its exports to non-US destinations in the last decade (graph 2). But much of that growth came in the last two years amid trade turmoil with the United States. Based on data so far in 2026, goods exports to non-US markets are up over 100% from 2016, but the yearly growth rate was 5% per year for the first eight years and 20% in the last two. Meanwhile, annualized exports to the US have been close to their 2024 level so far this year.

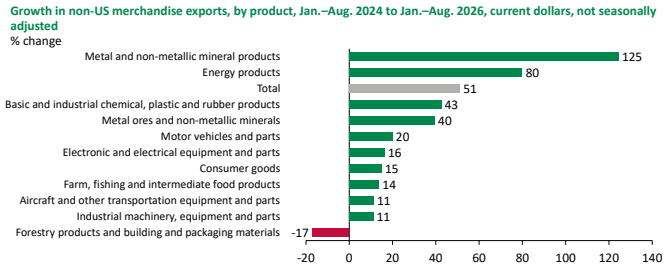
Graph 2
Exports to Non-US Destinations Have Doubled Since 2016, but Most Diversification Has Occurred in the Last 2 Years



* 12 months ending August 2026. ** Compound annual growth rate (CAGR).
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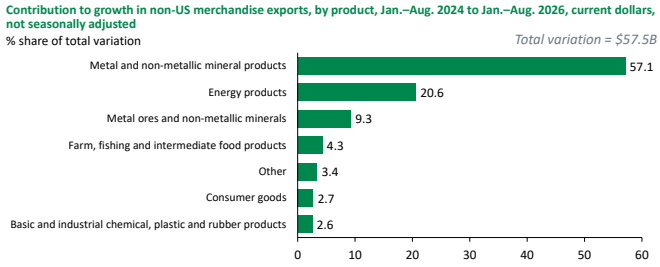
Commodities account for most of the recent acceleration in diversification. Much of the advance since 2024 is attributable to metals and non-metallic mineral products (up 125%), led by gold and energy products (graphs 3 and 4). During this period, gold prices surged by 90.7%.

Graph 3
Goods Export Diversification: A Tale of Commodities



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Graph 4
Mineral Products and Metals Account for Most Non-US Diversification Gains Since 2024



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Drilling down at the country level, the sharpest increase between 2024 and 2026[4] has been to the UK, driven by gold (graph 5). Exports to France and Germany have been boosted

Graph 5
Exports to the UK, France and Germany Have Been Particularly Strong



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[1] Compound average growth rate (CAGR). Volume growth is an estimate. As a reference, real GDP grew by 2.2% per year from 2017 to 2025 (CAGR).

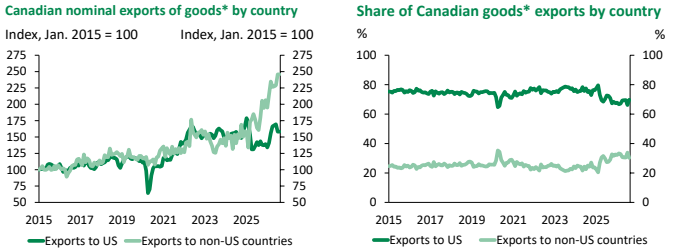
[2] CAGR of 6.5% based on the increase from $296.0B in 2024 to $591.9B in 2035 (Budget 2025).

[3] CAGR of 5.2% based on the increase from $194.5B in 2017 to $291.8B in 2025 (Global Affairs Canada, 2024).

[4] January to August.

by petroleum oils, metals, ores, pharmaceutical products and aircraft. The US share of Canadian goods exports fell from 76% to 68% since 2024—an 8 percentage point decline in just two years. The share of Canadian goods exports to the US reached 66% in July 2026, its lowest level outside the pandemic period (graph 6). But despite increasing, the share of nominal goods exports to non-US countries was roughly half that of exports to the US.

Graph 6
Canadian Goods Exports Have Become Increasingly Diversified



* Goods are on a balance of payments basis, while merchandise is on a customs basis. ** Latest data: August 2026.
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Quebec has seen a similar diversification trend to Canada overall (graph 7). Specifically, the province has accelerated exports of aircraft and parts to France and Germany, as well as exports of aluminum to the Netherlands and Italy. Shipments of refined petroleum products to Dutch terminals this year also helped accelerate the diversification trend, fuelled by higher energy prices.

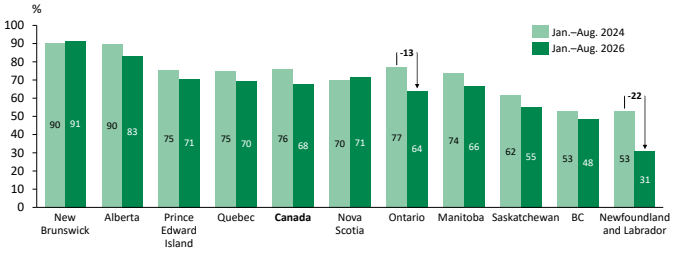
Graph 7
Quebec Is Selling Less to the US and More to the Rest of the World



* International exports including re-exports.
Institut de la statistique du Québec and Desjardins Economic Studies

Capacity to diversify exports varies considerably across provinces, reflecting their industry mix, established customers and access to transportation infrastructure. Canada's shift toward non-US markets has been uneven across provinces, with much of the headline progress driven by oil and gas and mining. Newfoundland and Labrador is the least reliant on the US for goods exports and also saw the largest reduction in that reliance since 2024 (graph 8). Ontario ranks second, but its shift is less encouraging than the headline suggests: increased gold shipments to the UK have coincided with weaker US-bound exports from industries such as autos and steel.

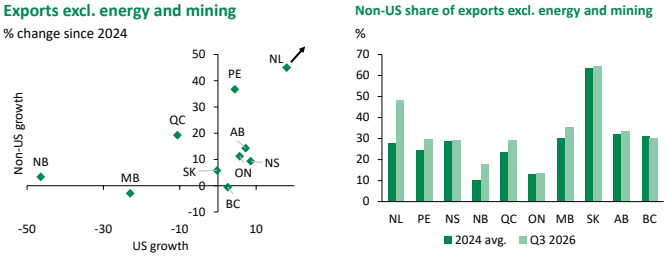
Graph 8
Newfoundland and Labrador and Ontario Diversified the Most



* Domestic exports excluding re-exports.
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Outside energy and mining, diversification has been slower and less widespread (graph 9). Alberta has increased exports to both US and non-US markets. Saskatchewan was already well diversified, with roughly 63% of exports outside energy and mining going to non-US destinations, supported by agri-food and fertilizer trade. Quebec has also made progress, with non-US exports outside energy and mining rising as US shipments declined. Newfoundland and Labrador and PEI have posted strong non-US export growth outside energy and mining, although their smaller export bases make the results more sensitive to individual shipments.

Graph 9
Diversification Is Not One-Size-Fits-All



Statistics Canada, U.S. International Trade Commission and Desjardins Economic Studies

Elsewhere, diversification lacks real progress. Manitoba's increased non-US share largely reflects falling US exports rather than meaningful growth in other markets. New Brunswick shows a similar pattern, with modest non-US gains alongside a much sharper contraction in US shipments. Nova Scotia has expanded

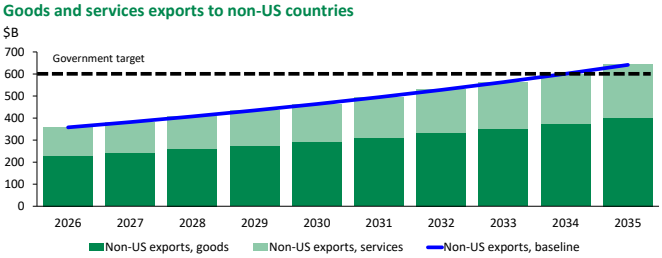
sales to both markets without materially changing its export mix. Meanwhile, Ontario's non-US share outside energy and mining remains near 14%, with only modest growth abroad. BC's share has edged lower as growth in US exports has outpaced non-US gains.

Doubling Exports Without Doubling Ambition?

As mentioned above, between 2017 and 2025, non-US export volumes grew by 1.8% on average annually for goods and 5.3% for services. Looking ahead at the government's new target, we estimate that meeting it would require average annual growth of just 1.8% in total non-US export volumes through 2035. This is based on available data and our latest outlook for export prices. (See methodology in Box.)

Looking at our baseline scenario, the value of Canada's exports to non-US countries could rise to nearly $650B by 2035—slightly better than the government's target (graph 10). Over 2030–2035, we assume annual volume growth of 1.8% for goods and 3.1% for services, broadly consistent with their longer-run performance. Goods volume growth would match the pace recorded between 2017 and 2025, while services growth would be slower. Meeting the target would therefore not necessarily require a step change in Canada's export performance. Under our baseline forecast, historical volume growth and projected export prices would be enough to exceed it.

Graph 10
Non-US Exports May Exceed the Government's Target Before 2035

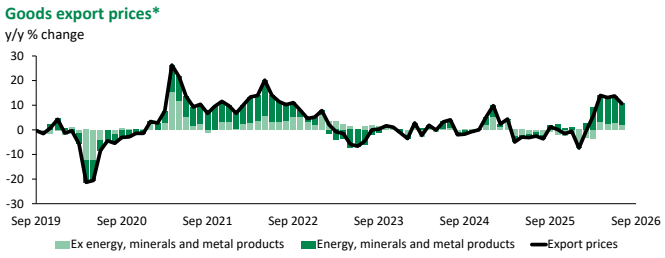


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Risks Around the Baseline Forecast

Although our baseline forecast suggests that Canada is likely to achieve its non-US export target by 2035, the outlook is subject to considerable uncertainty, particularly around export prices. Historically, much of the growth in Canadian merchandise export prices has been driven by commodities, particularly for energy, minerals and metal products (graph 11). As a result, stronger-than-expected commodity prices could provide a meaningful upside to the export outlook. This risk is particularly relevant in the near term, especially as geopolitical tensions in the Middle East persist, potentially supporting higher energy prices and boosting the value of Canadian goods exports.

Graph 11
Energy, Minerals and Metal Products Have Driven Goods Export Price Growth in Recent Years



* Chain Fisher prices.
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Beyond prices, achieving the government's goal of export diversification will also depend on sustained growth in export volumes, particularly outside the energy sector. Research from the Bank of Canada has shown that firms with stronger productivity growth, greater scale and a larger export footprint are generally better positioned to enter and expand in foreign

BOX
Assumptions Around Our Baseline Trade Forecast

Drawing on our October Economic and Financial Outlook (EFO), we developed a baseline forecast to examine how the government can achieve its export target to non-US countries. Under this forecast, nominal goods export values are shaped by our outlook for headline export prices and volumes, both of which are driven primarily by commodity prices and the exchange rate in addition to external demand in the latter case. We then impose assumptions on the growth of total exports and of nominal exports to non-US countries while US exports are effectively determined as a residual. Commodity prices, including West Texas Intermediate (WTI) crude oil and gold, are assumed to evolve in line with our latest projections, while the Canadian dollar follows the path outlined in the October EFO before remaining unchanged after 2030. In addition, we used services prices from National Accounts as a signal of how services export prices may behave over time. Lastly, we assume that growth of nominal non-US services exports gets closer to the long-term average.

markets (Brouillette et al., 2018). Ultimately, diversifying trade beyond the United States therefore requires more than access to new markets. It depends on Canada's ability to expand productive capacity through investment in transport infrastructure and other trade-enabling assets. It also hinges upon Canadian exporters' capacity to compete abroad with value-added goods and services that display an innovative edge. Based on recent trends, the aerospace and pharmaceutical sectors are examples of successful diversification into Europe. With the right investment in productivity, other manufacturing sectors could follow suit.

Expanding our services exports presents a downside risk and an opportunity. Early post-pandemic growth was fuelled by a strong inflow of non-permanent residents, especially international students. This trend reversed course recently as the federal government sought to reduce immigration levels. Travel services exports to non-US destinations may therefore register more moderate growth over the next decade than recent performance suggests. On the flip side, total services exports may pick up speed over the next decade, helped by digitalization and the rise of digitally enabled services traded across borders (Goldfarb and Suominen, 2025). Globally, rising services trade has been outpacing goods trade by a wide margin. Canadian services have a wide reach to global markets: 47% of services exports are destined for non-US markets compared to 28% for goods exports. They therefore hold a lot of potential when it comes to increasing trade diversification beyond the US in the coming decade. Their greater resilience to global shocks and lower susceptibility to tariff-related frictions also make them a stabilizing force.

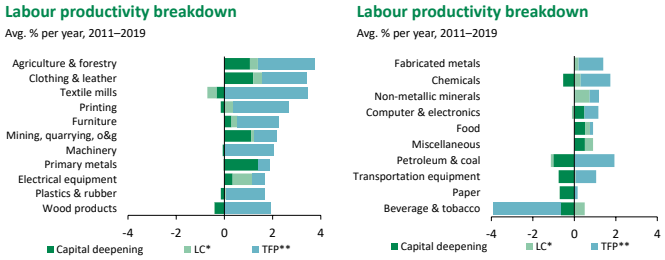
Beyond Market Access, Diversification Needs a Productivity Lift

Doubling non-US exports would be a milestone, but not necessarily a breakthrough. Historical volume growth and higher prices could be enough to meet the target. But building the productive capacity to sustain broader export growth is a tougher task, particularly in industries where competitiveness has weakened.

Distant markets place greater demands on exporters' cost competitiveness, with less of the proximity advantage they enjoy in the US. Productivity can help bridge that gap by lowering production costs and strengthening firms' ability to compete farther afield. Productivity and diversification can also reinforce each other. A broader customer base can support further productivity gains through economies of scale, greater competition and investment.

The Canadian productivity record during the decade prior to the pandemic offers some encouragement, but the gains have largely reversed in recent years. Agriculture and many manufacturing industries recorded solid labour productivity gains during 2011–2019 through more efficient use of labour and capital, captured by an improvement in total factor productivity (TFP). Capital deepening contributed relatively little in many sectors (graph 12). These efficiency gains improved the starting point for competing internationally, but stronger investment is needed to expand productive capacity and sustain competitiveness overseas.

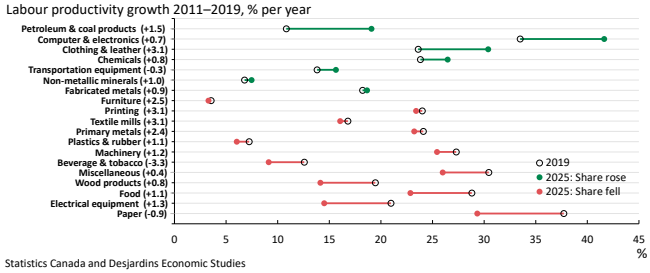
Graph 12
Pre-Pandemic Productivity Gains Relied More on TFP than Capital Investment



* Labour composition. ** Total factor productivity.
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Since 2019, international trade diversification has been concentrated: mining, quarrying, oil and gas, petroleum products, clothing and leather, chemicals, and computer and electronics have increased their share of exports going to non-US markets. Most of these industries managed to improve their labour productivity prior to 2019 (graph 13). However, several industries that improved productivity before the pandemic, including furniture, primary metals, electrical equipment, food, and plastics and rubber, became more concentrated in the US market. Their gains suggest a potential foundation for competing elsewhere but at the same time don't guarantee an easy pivot outside the US: transport costs, supply-chain integration and customer preferences also matter.

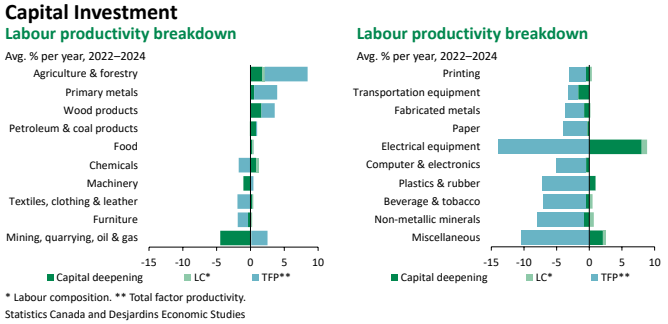
Graph 13
Certain Industries with Stronger Productivity Gains Lead Export Diversification



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Meanwhile, the supply-side backdrop has become less supportive post-pandemic. Labour productivity fell across many manufacturing industries during 2022–2024 as TFP declined with little offset from capital deepening. This is particularly evident in US-oriented sectors such as transportation equipment, fabricated metals, plastics and rubber, and electrical equipment (graph 14). These productivity setbacks leave exporters less well positioned to compete in alternative markets. Lower productivity means more labour is needed to produce the same output, putting upward pressure on unit labour costs—the labour cost per unit produced—weakening the cost competitiveness of Canadian exporters.

Graph 14
Post-Pandemic Labour Productivity Losses Reflect Falling TFP and Weak Capital Investment



* Labour composition. ** Total factor productivity.
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Reaching new markets is therefore only part of the task. Stronger investment and productivity are also needed to sustain capacity growth and compete beyond the US.

Transportation Infrastructure: An Essential Backbone to Diversify Trade

If 2025 is any indication of what's to come, we can expect diversification to change the landscape of trade routes and supply chains in Canada going forward. According to Transport Canada, merchandise truck crossings from the US dropped by 5% in 2025 compared to 2024. Meanwhile, rail shipments to Mexico increased 25%, air freight to Europe grew by 8% and bulk commodity exports to Asia from the Port of Vancouver jumped by 11%. If these trends continue, transportation demand would gradually shift from land border crossings to ports and airports. This also underscores the importance of seamless intermodal connections, as well as rail and road links connecting inland producers to export infrastructure along an east–west corridor.

Canada's planned port expansions should add substantial capacity, but the payoffs will take time. Roberts Bank Terminal 2 would increase Vancouver's annual container capacity by about 50%, with operations targeted for 2035. Montreal's Contrecœur terminal would increase capacity by roughly 55%. Port of Churchill Plus could add another overseas route for Prairie exports, although its timing remains uncertain. Atlantic corridor improvements could help sooner by making better use of existing terminals. The Saint John corridor package targets increased annual throughput via improvements to rail, marine access and cargo handling. Halifax's inter-terminal rail project aims to ease container transfers and reduce truck congestion.

Meanwhile, expanding port capacity should come with better shipping connections and greater vessel carrying capacity. According to Bank of Canada research, Canada's leading ports experienced fewer connections to global shipping networks between 2016 and 2023 (Dunbar et al., 2026). Consequently, a larger share of trade may travel through indirect routes and larger foreign hubs before reaching Canada's shores, adding transit time, complicating logistics and increasing exposure to disruptions. For exporters trying to compete beyond the US, those costs can erode the benefits of improved market access. Additional terminal capacity, better rail connections and fewer marine access restrictions can make Canadian ports more attractive to shipping lines. But these investments should also support larger vessels and more frequent, direct overseas services, making shipping more reliable and cost competitive. There are also credible concerns about the timeline on some of these upgrades to transport capacity, given still-ongoing labour shortages in areas such as construction, engineering and manufacturing.

Conclusion

Canada has made notable progress in diversifying its exports beyond the United States. The latest surge in non-US exports demonstrates that Canada can expand its exports to overseas markets given the right conditions. However, much of the recent success has been driven by commodity-related sectors and higher export prices rather than broad-based gains in export volumes. While this has helped reduce Canada's reliance on the US market, it also highlights the challenge of achieving long-lasting diversification. This is relevant, especially when addressing Canada's poor productivity performance. As our research suggests, trade diversification is essential to help boost productivity in our firms and the broader economy.