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## UNITED STATES – CANADA

### Canada's share in U.S. imports shrinks

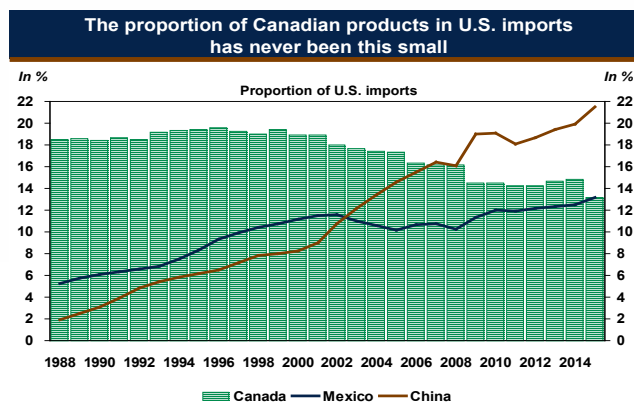
The data on U.S. foreign trade for 2015 as a whole show it was a tough year for net U.S. exports. The greenback's rise and relatively strong domestic demand favoured imports to the detriment of exports.

This thorn in the side of the U.S. economy is usually an advantage for its main trade partners. However, Canada is not benefiting from it. In 2015, the value of U.S. imports of Canadian goods fell by 15.1% in U.S. dollars. Their proportion of total U.S. imports fell to 13.2%, its lowest point since the Free Trade Agreement was implemented at the end of the 1980s. In 1990 and 2000, the weights were 18.5% and 19.0% respectively.

Who has taken Canada's place? There are two main culprits. First, there's China. Since 2007, this country has been the U.S.' primary goods supplier, unseating Canada. In 1990, only 3.1% of U.S. imports came from China. This proportion rose to 8.2% in 2000, then to 21.5% in 2015. To achieve this, China leveraged a very low cost structure and an artificially weak currency to grab major shares of the U.S. market from the rest of the world, including Canada. Since 2004, U.S. import prices for Canadian manufactured products have risen 17.0%. Imports prices from China have only gone up 3.3%.

Mexico also increased its market share, especially in the 1990s, when it benefited from the expanded Free Trade Agreement. U.S. imports from Mexico went from 6.1% in 1990 to 11.2% in 2000, then 13.2% in 2015. We have to look at the second decimal place to check that imported Canadian products still have a bigger share than Mexico's. This situation could change soon.

Note that the sharp drop in Canada's share of U.S. imports in 2015 was magnified by plunging oil prices, which lopped a lot of the value from Canadian exports. Also note that, in U.S. dollars, Canadian oil and natural gas exports fell 42.4% in 2015, although the number of barrels exported increased.



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Canada exports four times more oil to the United States than Mexico, so the price effect affects it even more. Given the impact of the loonie's drop on the value of Canadian products expressed in U.S. dollars, this is an important factor that explains the recent situation. However, it does not explain the constant decline by Canada's share of the U.S. market since the year 2000.

**Implications:** In 2016, the lower loonie should help real exports of other Canadian non-oil goods. In the long term, however, Canada will have to look to other factors, in particular better productivity, to keep from losing more of the U.S. market.

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