

ECONOMIC VIEWPOINT

Canadian goods exports to the United States

Problems in some sectors and regions muddy the picture

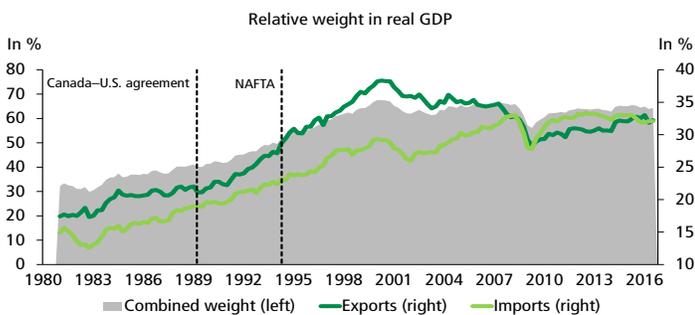
As trade has opened up in the last few decades, the place of exports and imports in Canada's economy has grown, attesting to greater industrial integration between Canada and its major partners. The United States obviously ranks first as both destination and provenance for Canada's international trade. Here, the recent slowdown in Canadian exports to the United States is worrisome, especially in the context of a potential surge by protectionism. However, despite some major uncertainties, the fact is that the trend for Canadian exports to the United States is fairly positive in most sectors and regions. Of course, some one-off problems have muddied the picture recently, particularly in the energy and some other commodity sectors, but these problems should largely fade in 2017.

It is very clear that Canada has benefited greatly from trade liberalization in recent decades. Since 1989, when Canada's first free trade agreement with the United States came into effect—it was replaced in 1994 with the North American Free Trade Agreement (NAFTA), which included Mexico—the relative weight of exports and imports in Canadian output has increased sharply (graph 1). Among other things, the stronger dependence on international trade attests to greater industrial integration between Canada and the United States over the last few decades.

production has even decreased slightly from where it peaked in the spring of 2000.

This is largely explained by the fact that, as of the 2000s, the value of goods exports from Canada to the United States has been stabilizing (graph 2). Canadian exports to the United States fell during the 2008–2009 Great Recession, then did a lot of catching up in the years that followed. However, growth by Canadian exports to the United States has crested once more in recent years, putting concerns about the vitality of Canada's international trade front and centre again, particularly in the new context of rising protectionism in the United States.

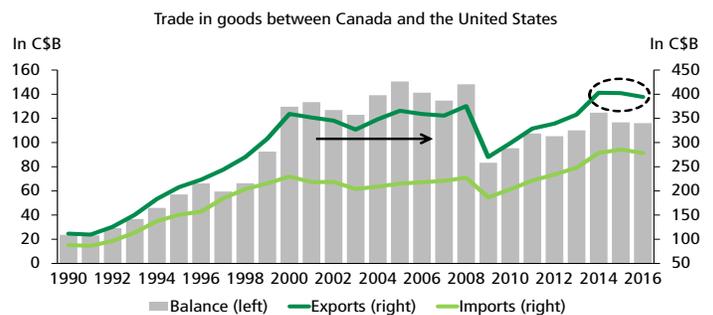
GRAPH 1
Canada has been much more open to international trade since free trade with the United States



NAFTA: North American Free Trade Agreement
Sources: Statistics Canada and Desjardins, Economic Studies

However, since the start of the 2000s, the combined relative weight of exports and imports in Canada's economy has stabilized. Among other things, the magnitude of exports in

GRAPH 2
Canada has a trade surplus with the United States



Sources: Industry Canada and Desjardins, Economic Studies

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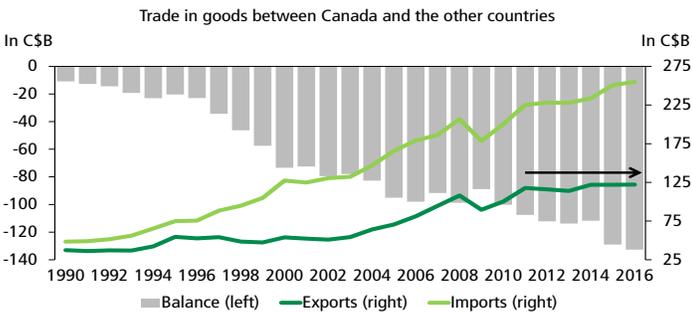
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These concerns have also been fanned in recent years by the cresting in the value of Canadian goods exports to countries other than the United States (graph 3). The trade deficit with the other countries has also increased sharply in the last few years. The weaker global growth recorded in the last few years does play a role in this performance. Among other things, exports to China have advanced more slowly, as have exports to Europe. In this context, a lot of hope rests on the looming implementation of the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) for giving Canadian exports beyond the United States a boost. For this to happen, however, Canadian exporters will have to manage to take advantage of the opening of these new markets in Europe. In the long run, this could lead to better geographic diversification for Canada's international trade.

in Canada's international trade; however, at 76% in 2016, the weight of exports to the United States was still very high. The European Union (graph 5) comes second, with 7.7% of Canada's exports (3.3% to the United Kingdom and 4.4% to other European Union nations), followed by China (4.1%), Japan (2.1%) and Mexico (1.5%).

GRAPH 3
Canada has a trade deficit with the rest of the world



Sources: Industry Canada and Desjardins, Economic Studies

That being said, due to the proximity and extensive industrial integration of the two countries, the United States is and will remain Canada's primary trade partner. Prior to the stagnation of the early 2000s, the United States accounted for up to 87% of Canada's total goods exports (graph 4). In recent years, the problems have somewhat trimmed the U.S.'s relative weight

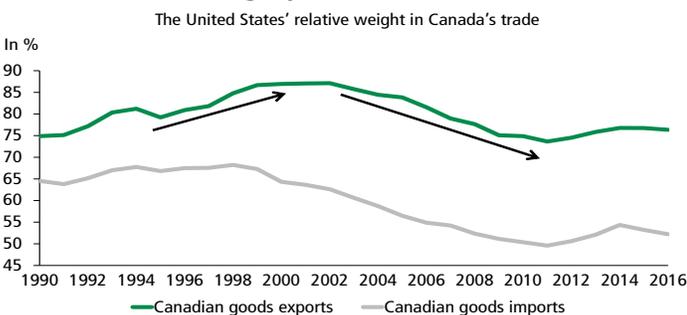
GRAPH 5
The United States is, hands down, Canada's leading trade partner



Sources: Industry Canada and Desjardins, Economic Studies

The problems in the energy sector muddy the picture
Canada's main exports to the United States are automotive products and fuel minerals. These two sectors accounted for nearly 40% of Canada's goods exports to the United States in 2016 (graph 6). The North American automobile industry is highly integrated, which accounts for this result as well as strong U.S. demand for Canadian oil and gas.

GRAPH 4
The United States' relative weight in Canada's international trade has decreased slightly



Sources: Industry Canada and Desjardins, Economic Studies

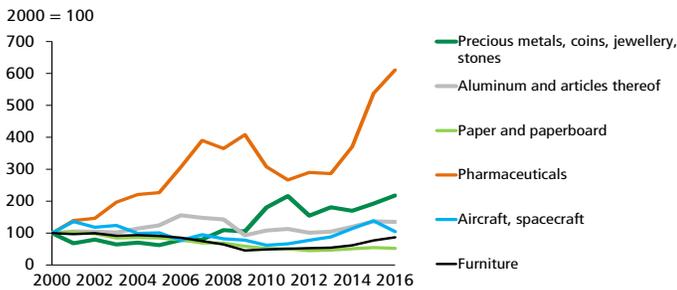
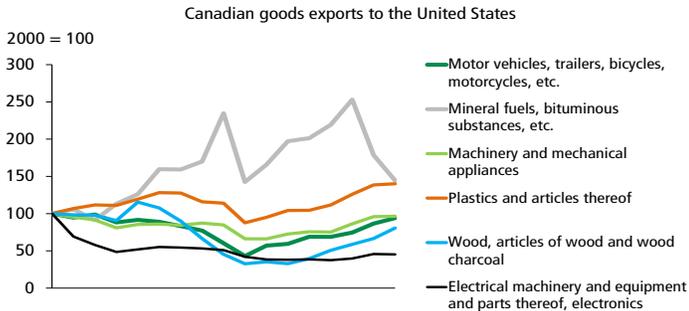
GRAPH 6
Automotive products and energy account for nearly 40% of Canada's exports to the United States



Sources: Industry Canada and Desjardins, Economic Studies

2015 and 2016 were fairly tough years for Canada's energy product exports to the United States, as a result of the drop in oil prices (graph 7 on page 3). Crude oil prices have slowly been going up, however, suggesting that the value of energy product exports should start to increase again as of 2017.

GRAPH 7
Exports to the United States are rising in several sectors



Sources: Industry Canada and Desjardins, Economic Studies

As for most of the other major products exported to the United States, the trend is fairly positive. Following several tough years, the auto industry is recovering and exports have been going up steadily since 2009. The same applies to wood products and woodwork, as the improvement in the housing market south of the border makes itself felt. Exports to the United States are also on the rise in pharmaceutical products and aeronautics (except for a one-off downturn in 2016). The only dark spot in the picture is that exports of some natural resources remain lacklustre, such as precious metals, aluminum, and paper and paperboard. All in all, the trend for most of the major products exported to the United States is positive. If we exclude mineral fuels, Canadian exports to the United States have been trending up for several years, which is consistent with increasingly lively U.S. demand (graph 8).

Trade relations are critical for several regions

Most regions of Canada and the United States are clearly highly dependent on trade between the two countries. Canada is the leading export destination (graph 9) for the vast majority of U.S. states. For imports from the United States, Canada is also the leading trade partner for several U.S. states (graph 10), although China ranks first in more states.

Overall, in 2016, Canada had a surplus in its goods trade with 30 of the 50 U.S. states (graph 11 on page 4). With a surplus of CAN\$37.4B, thanks to exports of CAN\$66.2B and imports of CAN\$28.8B, Michigan was the front runner in trade with

GRAPH 8
Except for energy products, exports to the United States are up



Sources: Industry Canada and Desjardins, Economic Studies

GRAPH 9
United States: Canada remains its leading trade partner for exports



* Hong Kong, Switzerland, France, Brazil, Australia, Belgium.
Sources: The Globe and Mail and Desjardins, Economic Studies

GRAPH 10
China and Canada are major U.S. trade partners for imports



* Germany, Switzerland, United Kingdom, Ireland, Indonesia, Belgium, South Korea, Japan, Saudi Arabia.
Sources: The Globe and Mail and Desjardins, Economic Studies

Canada. The auto industry dominates in this region, which has a lot to do with this result. California follows, with a surplus of CAN\$24.1B (with heavy exports of Canadian automobiles and imports of fruits of vegetables), then Illinois, with a surplus of CAN\$17.8B (mainly oil exports due to a major U.S. hub), and New York, with a surplus of CAN\$9.6B (its trade with Canada is fairly diversified).

GRAPH 11
Canada has a trade surplus with 30 of 50 U.S. states



* The missing states have less trade with Canada.
Sources: Industry Canada and Desjardins, Economic Studies

Canada has a deficit in its trade in goods with 20 out of 50 U.S. states. In 2016, the biggest deficit was with Ohio (-CAN\$6.7B), as the auto industry plays a dominant role in trade with that state.

As for Canada's provinces, the United States is of course the leading destination for international exports across the country (graph 12). New Brunswick is the most dependent on trade with the United States, particularly due to the province's exports of refined oil products. Alberta comes second, with exports concentrated in energy products, followed by Ontario and the heavy integration of the North American auto industry. Saskatchewan is less dependent on trade with the United States thanks to fairly high exports of cereals and fertilizer to other parts of the world. For geographic reasons, the Asian nations have a bigger role in British Columbia's exports, while Newfoundland and Labrador has more dealings with several European and Asian nations (primarily oil exports).

GRAPH 12
Of all provinces, New Brunswick is the most dependent on trade with the United States



Sources: Industry Canada and Desjardins, Economic Studies

In the different Canadian provinces, the trend for exports to the United States is largely dependent on the type of goods traded (see appendix on page 6). The drop in the value of energy product exports had a major impact on the movement by exports of provinces that are heavily into the energy product trade, i.e. Alberta, Saskatchewan, New Brunswick and Newfoundland and Labrador (graph 13). Conversely, Ontario's and British Columbia's exports to the United States have been showing strong growth in the last few years, particularly as a result of the improvement in the North American auto industry and comeback by homebuilding in the United States (the main goods British Columbia exports south of the border are wood products). In Quebec and the other provinces, the trend for exports to the United States was fairly positive until quite recently. However, these provinces' exports to the United States slowed somewhat in 2016. The difficulties are primarily due to problems that are specific to certain sectors that are especially important in these regions. For example, the value of Quebec's aluminum exports to the United States fell 8.5% in 2016, while aeronautics product exports fell 27.8%, and paper and paperboard product exports retreated 2.5%. If not for the decline in these three sectors, the value of Quebec's exports to the United States would have been nearly flat in 2016.

GRAPH 13
The trend in exports deteriorated in energy-producing provinces



* Alberta, Saskatchewan, New Brunswick and Newfoundland and Labrador;
** Manitoba, Nova Scotia and Prince Edward Island.
Sources: Industry Canada and Desjardins, Economic Studies

Optimism marked by uncertainty

The trend for trade between Canada and the United States shows some major differences that depend on the regions and the types of goods they trade in. The trade in energy products, mainly in regions that depend on it, has of course slowed substantially in recent years subsequent to the drop in oil prices. Oil prices have been rising gradually over the past few months, which augurs well and suggests that this type of export could be back on track for growth in 2017.

As for most of the other sectors, the upswing in U.S. demand, uptrend in trade within the auto industry, and more lively

housing market south of the border are positive factors. In Quebec, the aeronautics industry is gradually improving, as shown by the 19.5% increase in sales by aerospace product manufacturers over the last four months of 2016.

That being said, even if, in principle, the overall outlook for Canadian exports to the United States is, all in all, fairly positive for the next few years, the surge in U.S. protectionism is a major risk. It could seriously undermine the export uptrend forecast for the coming years.

Not enough information is available at this time on the protectionist measures the Trump administration could order next to make any pronouncement on what regions or sectors could take big hits.

Benoit P. Durocher, Senior Economist

Appendix

TABLE 1
Top 3 goods traded between the provinces and the United States in 2016

	EXPORTS			IMPORTS			
	Category ¹	C\$B	Relative weight (%)	Category ¹	C\$B	Relative weight (%)	
British Columbia	1	HS 44 – Wood and articles of wood, wood charcoal	6.2	29.4	HS 84 – Nuclear reactors, boilers, machinery and mechanical appliances	2.3	12.0
	2	HS 27 – Mineral fuels, mineral oils, bituminous substances and mineral waxes	3.5	16.3	HS 27 – Mineral fuels, mineral oils, bituminous substances and mineral waxes	2.1	10.5
	3	HS 84 – Nuclear reactors, boilers, machinery and mechanical appliances	1.4	6.6	HS 87 – Vehicles other than railway or tramway rolling stock	1.4	7.1
Alberta	1	HS 27 – Mineral fuels, mineral oils, bituminous substances and mineral waxes	51.8	76.2	HS 27 – Mineral fuels, mineral oils, bituminous substances and mineral waxes	5.0	30.7
	2	HS 39 – Plastics and articles thereof	3.8	5.6	HS 84 – Nuclear reactors, boilers, machinery and mechanical appliances	2.1	12.6
	3	HS 29 – Organic chemicals	1.4	2.1	HS 88 – Aircraft, spacecraft and parts thereof	0.9	5.5
Saskatchewan	1	HS 27 – Mineral fuels, mineral oils, bituminous substances and mineral waxes	5.0	38.7	HS 84 – Nuclear reactors, boilers, machinery and mechanical appliances	2.1	28.4
	2	HS 31 – Fertilizers	2.5	19.6	HS 87 – Vehicles other than railway or tramway rolling stock	1.1	14.5
	3	HS 15 – Fat, oils, their cleavage products and waxes	1.3	9.9	HS 27 – Mineral fuels, mineral oils, bituminous substances and mineral waxes	0.9	11.8
Manitoba	1	HS 87 – Vehicles other than railway or tramway rolling stock	1.1	12.4	HS 84 – Nuclear reactors, boilers, machinery and mechanical appliances	3.3	21.7
	2	HS 84 – Nuclear reactors, boilers, machinery and mechanical appliances	0.9	9.3	HS 87 – Vehicles other than railway or tramway rolling stock	2.2	14.4
	3	HS 27 – Mineral fuels, mineral oils, bituminous substances and mineral waxes	0.8	8.7	HS 27 – Mineral fuels, mineral oils, bituminous substances and mineral waxes	1.0	6.8
Ontario	1	HS 87 – Vehicles other than railway or tramway rolling stock	74.4	36.0	HS 87 – Vehicles other than railway or tramway rolling stock	51.5	27.2
	2	HS 84 – Nuclear reactors, boilers, machinery and mechanical appliances	20.3	9.8	HS 84 – Nuclear reactors, boilers, machinery and mechanical appliances	24.7	13.0
	3	HS 85 – Electrical machinery and equipment and parts thereof, electronics	8.9	4.3	HS 85 – Electrical machinery and equipment and parts thereof, electronics	10.4	5.5

Continued on page 7...

		EXPORTS			IMPORTS		
		Category ¹	C\$B	Relative weight (%)	Category ¹	C\$B	Relative weight (%)
Quebec	1	HS 76 – Aluminum and articles thereof	5.9	10.3	HS 84 – Nuclear reactors, boilers, machinery and mechanical appliances	3.9	16.5
	2	HS 84 – Nuclear reactors, boilers, machinery and mechanical appliances	5.1	8.9	HS 27 – Mineral fuels, mineral oils, bituminous substances and mineral waxes	3.5	14.7
	3	HS 88 – Aircraft, spacecraft and parts thereof	4.5	7.8	HS 85 – Electrical machinery and equipment and parts thereof, electronics	2.2	9.4
New Brunswick	1	HS 27 – Mineral fuels, mineral oils, bituminous substances and mineral waxes	5.9	60.5	HS 27 – Mineral fuels, mineral oils, bituminous substances and mineral waxes	1.0	24.3
	2	HS 03 – Fish, crustaceans, molluscs and other aquatic invertebrates	1.0	10.2	HS 03 – Fish, crustaceans, molluscs and other aquatic invertebrates	0.6	15.1
	3	HS 44 – Wood and articles of wood, wood charcoal	0.6	6.6	HS 84 – Nuclear reactors, boilers, machinery and mechanical appliances	0.3	8.0
Nova Scotia	1	HS 40 – Rubber and articles thereof	1.2	31.8	HS 27 – Mineral fuels, mineral oils, bituminous substances and mineral waxes	0.8	73.9
	2	HS 03 – Fish, crustaceans, molluscs and other aquatic invertebrates	0.9	24.3	HS 88 – Aircraft, spacecraft and parts thereof	0.1	9.7
	3	HS 48 – Paper and paperboard, articles of paper pulp, of paper or of paperboard	0.2	4.5	HS 84 – Nuclear reactors, boilers, machinery and mechanical appliances	0.1	6.5
Prince edward Island	1	HS 20 – Preparation of vegetables, fruit, nuts or other parts of plants	0.3	27.9	HS 31 – Fertilizers	0.023	74.9
	2	HS 03 – Fish, crustaceans, molluscs and other aquatic invertebrates	0.2	17.1	HS 22 – Beverages, spirits and vinegars	0.001	4.7
	3	HS 84 – Nuclear reactors, boilers, machinery and mechanical appliances	0.1	15.9	HS 84 – Nuclear reactors, boilers, machinery and mechanical appliances	0.001	3.3
Newfoundland and Labrador	1	HS 27 – Mineral fuels, mineral oils, bituminous substances and mineral waxes	4.3	86.1	HS 27 – Mineral fuels, mineral oils, bituminous substances and mineral waxes	1.198	93.1
	2	HS 03 – Fish, crustaceans, molluscs and other aquatic invertebrates	0.4	9.0	HS 84 – Nuclear reactors, boilers, machinery and mechanical appliances	0.041	3.2
	3	HS 48 – Paper and paperboard, articles of paper pulp, of paper or of paperboard	0.1	1.6	HS 73 – Articles of iron or steel	0.026	2.0

¹ Based on the international commodity classification HS code.
Sources: Industry Canada and Desjardins, Economic Studies