GLOBALIZATION AT THE BRINK?

Global Export Forecast
Spring 2017 – Executive Summary

Canada

EDC
Realize a World of Opportunity

This one is really big. It touches every region, every country, every firm. In fact, it is so big, it likely touches every individual on the planet. It has steadily grown into the fabric of everything we do, and to many, almost unnoticed. And now we are talking about undoing it all. It is hard to fully estimate the entire reach and impact of this thing we call globalization. And yet in our frustration with a sluggish post-recession economy that has left many behind, a slim majority seems to believe that globalization is the culprit. This development has rapidly zoomed up the global risk list, and currently occupies top spot. Is globalization over?

Undoing globalization would be very costly. That's what makes it such a key risk. For decades now, consumers the planet over have benefited greatly from purchasing goods made in lower-cost locales. The cumulative savings globalization has brought to consumers everywhere are inestimable. Undoing that? The cost increases are at least as inestimable. A second cost is related. Globalization has lifted millions out of poverty, all the while helping wealthy nations achieve some of the lowest unemployment rates on recent record. Revert to an insular, localized economic system, and the net employment effect would be far lower. The case goes on; the gains from freer trade that accrue to countries efficiently exploiting their true comparative advantage are well documented in international trade literature.

So much for immediate costs; what about the logical feasibility of reversing globalization? First off, it's a whole lot easier to impose trade-inhibiting policies than it is to gear up the domestic investment that replaces the interrupted trade flows. Regular folk might just run out of patience with the policies. Second, global trade connections have been enabled by a technology that is not going to disappear in a more protectionist world. Third, trade restrictions ultimately benefit those they are aimed at. Bent on survival, protectionism's victims are forced to be ever-leaner and more competitive – far more than those resting behind a tariff wall. As such, trade restrictions are the ultimate enemy of those they purport to protect. Fourth, the voice of the shareholder has been strangely silent. When it starts to speak up, it is likely to cast its increasingly powerful vote for globalization. A fifth and weighty consideration is that a revisit of the architecture isn't really needed now; ultimately, the dissenting votes are about making the economy great again – and that's now happening, all on its own.

America is the best example. After a particularly long seven-year wait, key groups sidelined by sluggish growth – both older workers and millennials – are now rushing back into the job market. Industrial capacity is tightening up again, and several industries are bursting at the seams. With confidence riding high, business investment is set for a strong increase. The only thing standing in the way of solid total performance is greenback-inhibited exports. Across the pond, the EU is catching on. Area-wide unemployment has declined steadily since mid-2013, and is now just 1.2 percentage points above the pre-recession low – quite an achievement. As in the U.S., labour force participation is on the rise again after a long lull. EU-wide capacity utilization is at its highest level since the Great Recession, one among several signs of pent-up demand in the market.

This is probably the best news emerging markets have seen in years. Tightening U.S. and EU markets can only mean better times on the export front in the emerging world, which will be a help to markets struggling with lack of capacity, over-capacity, softer commodity prices and rising borrowing costs.

Putting all this together, EDC's Global Export Forecast calls for world growth to rise from 3.5 per cent in 2017 to 3.8 per cent next year. Canada's total exports are projected to increase by six per cent this year thanks to a bump in commodity prices, and by five per cent in 2018 as global growth accelerates.

The bottom line? Scan current data, and the global economy is serving up what the people say they really want: growth, jobs and a green light for continued expansion. But this isn't 1983. Freer trade is now firmly embedded into the picture; dismantling that architecture puts today's growth story at great risk. But if that risk is ultimately unlikely, this could be one of the greatest moments of opportunity in the New Millennium.

Peter G. Hall
Vice-President and Chief Economist

Table 1: Emerging and Developed Markets Outlook

Emerging and Developed Markets	CAD bn 2016	% Share of Total Exports 2016	Export Outlook (% growth) 2016	2017 (f)	2018 (f)
Emerging Markets					
Total Services	17.78	3.1%	4.8%	5%	6%
Total Goods	54.17	9.4%	-2.0%	13%	7%
Total Volumes			0.4%	12%	7%
Developed Markets					
Total Services	89.39	15.5%	4.8%	5%	6%
Total Goods	414.85	72.0%	-2.7%	6%	4%
Total Volumes			0.1%	1%	3%
Emerging and Developed Markets					
Total Exports (Goods and Services)	576.18	100%	-1.3%	6%	5%

Sources: Statistics Canada, EDC Economics, 2016 is actual data while 2017 and 2018 are forecast.

Table 2: Global Economic Outlook (GEO)

Key Economic Indicators	2014	2015	2016	2017 (f)	2018 (f)
GDP (% y/y)					
World Total	**3.4**	**3.2**	**3.1**	**3.5**	**3.8**
Developed Markets	**1.9**	**2.1**	**1.6**	**2.0**	**2.1**
Canada	2.5	0.9	1.3	2.4	2.2
United States	2.4	2.6	1.6	2.4	2.7
Euro Area	1.1	2.0	1.7	1.7	1.6
Japan	0.0	1.2	0.9	1.0	1.1
Emerging Markets	**4.6**	**4.1**	**4.1**	**4.6**	**5.0**
China	7.3	6.9	6.7	6.6	6.4
India	7.2	7.6	6.6	7.4	7.6
Brazil	0.1	-3.8	-3.5	0.4	2.5
Mexico	2.2	2.6	2.2	1.8	2.1
Russia	0.7	-3.7	-0.6	1.4	1.8
South Africa	1.6	1.3	0.3	0.8	1.4
Currencies					
CAD/USD	0.91	0.78	0.76	0.76	0.78
Commodity Prices					
Crude Oil (WTI, US$/bbl)	93.2	48.7	43.3	53.9	56.6
Natural Gas (Henry Hub, US$/mmbtu)	4.3	2.6	2.5	2.8	3.1
Copper (USD/MT, LME)	6,861.5	5,493.9	4,862.1	5,677.0	5,895.0
Gold (USD/oz, LME)	1,266.2	1,160.3	1,250.3	1,245.0	1,210.0
Others					
US Housing Starts (000s)	1,003.3	1,111.9	1,173.7	1,325.0	1,425.0
Fed Funds Target Rate (%)	0.1	0.1	0.4	0.9	1.8

Sources: Statistics Canada, Haver Analytics, EDC Economics, 2016 is actual data while 2017 and 2018 are forecast.

Canadian exports of goods and services are projected to see a strong rebound in 2017 and 2018, with goods exports growing by six per cent and four per cent respectively. Service exports will follow a similar growth trajectory, averaging five per cent over the forecast period.

A main driver of export growth this year will be energy, with exports growing by an incredible 18 per cent after a very weak 2016. This is owing in part to price increases and a return to more normal export volumes following Alberta's wildfires. The ores and metals sector is also enjoying double-digit growth in 2017 following a contraction last year. Looking out to 2018, aerospace will be the stand-out sector, forecast to grow by a spectacular 17 per cent.

The growth in exports over the forecast period is being driven by price increases across many sectors, with increased commodity prices for many sub-sectors in energy, metals and ores, and forestry, driving strong export gains. Ongoing strengthening of the U.S. economy and an export-competitive Canadian dollar remain pillars of the export growth story in 2017-2018.

The vast majority of Canada's goods exports (88 per cent) are destined for developed markets (DMs). As such, the U.S. and European growth stories remain critical to Canada's export performance, which translates into a pick-up of exports of goods to DMs of six per cent in 2017 and another four per cent next year. However, the percentage of exports to DMs continues trending downward and will be hovering at 85 per cent by 2020. Canadian exports to emerging markets (EMs) is a much smaller share at 12 per cent, but post a very impressive growth rate of 13 per cent in 2017 before settling in at seven per cent next year, an annual growth rate expected over the medium term.

Table 3: Canadian Merchandise Export Forecast by Sector

Export Forecast Overview	CAD bn 2016	% Share of Total Exports 2016	2016	Export Outlook (% growth) 2017 (f)	2018 (f)
Advanced Technology	17.4	3.7%	1.6%	1%	-2%
Aerospace	16.3	3.5%	-11.1%	4%	17%
Agri-food	61.9	13.2%	1.4%	2%	4%
Automotive	89.7	19.1%	8.7%	-1%	2%
Chemicals and Plastics	43.2	9.2%	-1.5%	7%	8%
Consumer Goods	24.0	5.1%	4.5%	3%	2%
Energy	76.7	16.4%	-17.1%	18%	7%
Fertilizers	6.6	1.4%	-25.8%	4%	4%
Forestry Products	31.8	6.8%	5.1%	7%	-2%
Industrial Machinery and Equipment	24.3	5.2%	-3.0%	5%	5%
Ores and Metals	71.3	15.2%	-2.7%	11%	5%
Special Transactions*	5.7	1.2%	1.4%	-3%	2%
Total Goods	**469.0**	**81.4%**	**-2.6%**	**6%**	**4%**
Total Services	**107.2**	**18.6%**	**4.8%**	**5%**	**6%**
Total Exports	**576.2**	**100.0%**	**-1.3%**	**6%**	**5%**
Memorandum					
Total Goods Nominal (excl. Energy)	**392.3**	**68.1%**	**0.8%**	**4%**	**4%**
Total Goods Nominal (excl. Autos and Energy)	**302.6**	**52.5%**	**-1.3%**	**5%**	**5%**

Sources: Statistics Canada, EDC Economics, 2016 is actual data while 2017 and 2018 are forecast.
Special Transactions* mainly low-valued transactions, value of repairs to equipment and goods returned to country of origin.

Canadian merchandise export growth is forecast to grow by six per cent in 2017 as higher commodity prices, coupled with stronger exports of consumer goods result in a rebound after a contraction in nominal exports in 2016. With commodity price growth expected to moderate in 2018, Canadian exports are expected to increase by four per cent as volume gains propel export growth.

With oil prices opening 2017 on stronger footing, Canada's energy-producing provinces are forecast to experience a robust recovery in exports. In addition to the recovery in prices, we expect growth in the volume of crude and refined oil products from **Alberta** as projects planned before the collapse in oil prices come online. **Newfoundland and Labrador** will also see double-digit export growth as Husky Energy increases oil exports to China. In **New Brunswick**, the value of exports in refined products is expected to recover with an additional boost in growth due to an increase in production at Trevali's Caribou mine and an increase in the crab quota for fisheries in the Gulf of St. Lawrence.

Compared to its peers in Atlantic Canada, **Nova Scotia** is forecast to see very modest growth in 2017. While Michelin is currently expanding its tire plant in the province, lower lobster landings due to a weather-impaired start to the season, the reduction in the shrimp quota, and the gradual move towards decommissioning of two natural gas projects will weigh on export growth. **Prince Edward Island**'s exports will grow as U.S. and Asian demand for its frozen french fries and seafood products remains robust.

Unlike crude oil, fertilizer is not expected to see a significant price recovery in 2017. However, for **Saskatchewan**, the stronger oil outlook coupled with an increase in potash production from the K+S Legacy mine and expected re-opening of Mosaic's Colonsay will result in near double-digit export growth.

The diversified manufacturing provinces of **Ontario**, **Quebec** and **Manitoba** will see more modest growth compared to their resource-dependent peers. However, planned investments from automotive manufacturers, the ramp-up in production of Bombardier's C Series aircraft and a strong order book at the Manitoba-based bus manufacturer New Flyer will support growth respectively.

British Columbia is also forecast to see modest export growth in 2017. However, the looming prospect of the U.S. imposing countervailing duties on softwood lumber exports increases the uncertainty for the forestry industry.

Table 4: Canadian Merchandise Export Forecast by Province

Provinces	CAD bn 2016	% Share of Total Goods Exports 2016	2016	Export Outlook (% growth) 2017 (f)	2018 (f)
Alberta	78.9	16.8%	-14.7%	19%	4%
British Columbia	39.5	8.4%	9.9%	4%	3%
Manitoba	13.4	2.9%	-2.1%	5%	2%
New Brunswick	10.6	2.3%	-13.0%	7%	9%
Newfoundland and Labrador	8.4	1.8%	-8.2%	13%	17%
Northwest Territories	1.3	0.3%	-28.4%	8%	4%
Nova Scotia	5.2	1.1%	-2.3%	1%	5%
Nunavut	0.0	0.0%	23.0%	3%	3%
Ontario	205.3	43.8%	4.2%	2%	4%
Prince Edward Island	1.3	0.3%	1.1%	7%	4%
Quebec	78.5	16.7%	-2.1%	5%	7%
Saskatchewan	26.4	5.6%	-18.9%	9%	3%
Yukon	0.2	0.0%	101.4%	6%	4%
Total Goods Exports	**469.0**	**100%**	**-2.6%**	**6%**	**4%**

Sources: Statistics Canada, EDC Economics, 2016 is actual data while 2017 and 2018 are forecast.

For the complete Spring 2017 Global Economic Forecast, visit

www.edc.ca/gef

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