

MAN OF STEEL ...

TRADING IN AN UNCERTAIN, THREATENING, TARIFFIED WORLD

CIM – September 25, 2019

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Canada



EDC

David Parker 2018

OVERVIEW

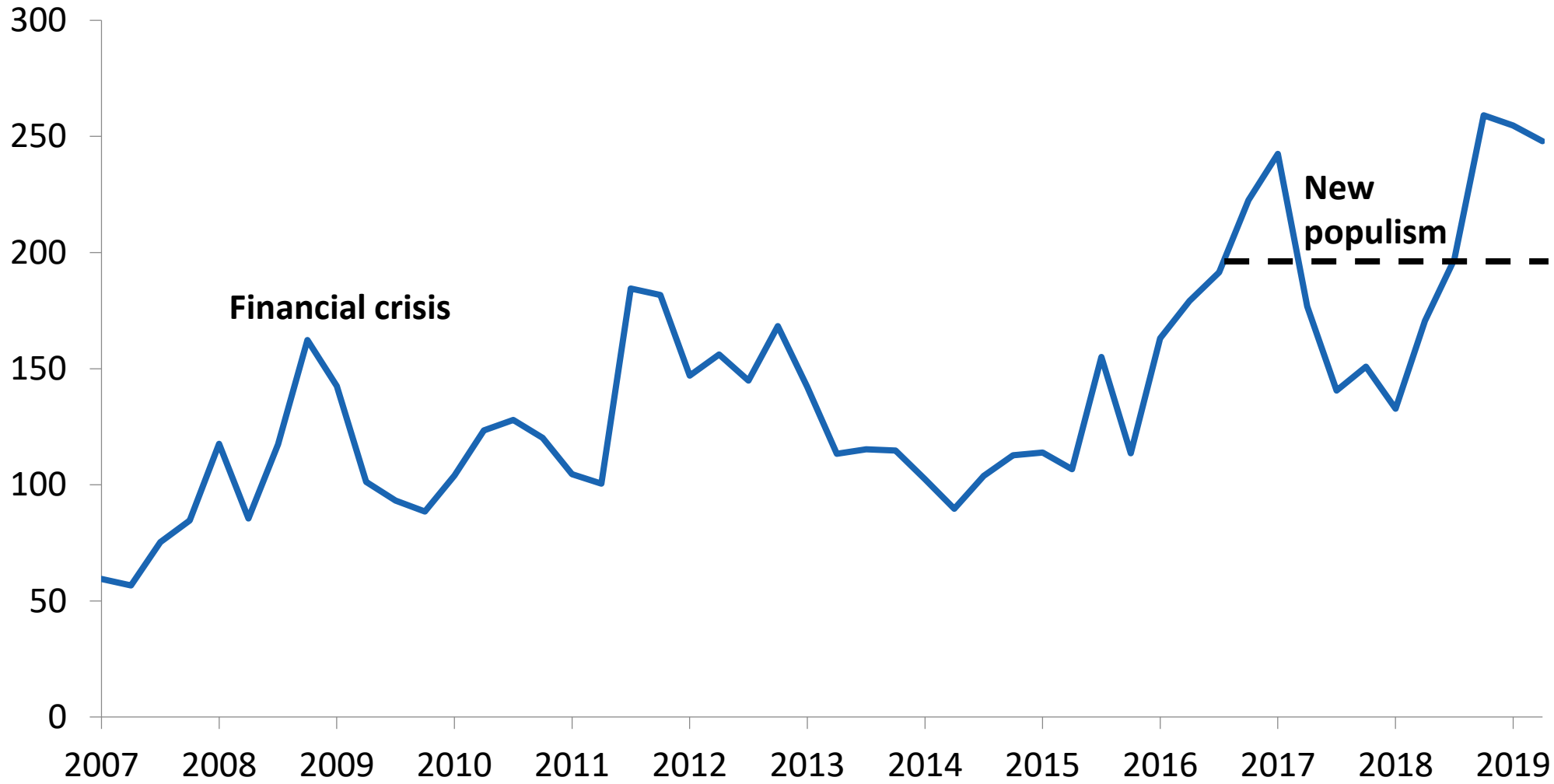
- 1. Challenging trade environment for Canadian exporters**
- 2. Global Trade becoming more regional**
- 3. Outlook for China-US trade dispute**
- 4. Implications for Canada**



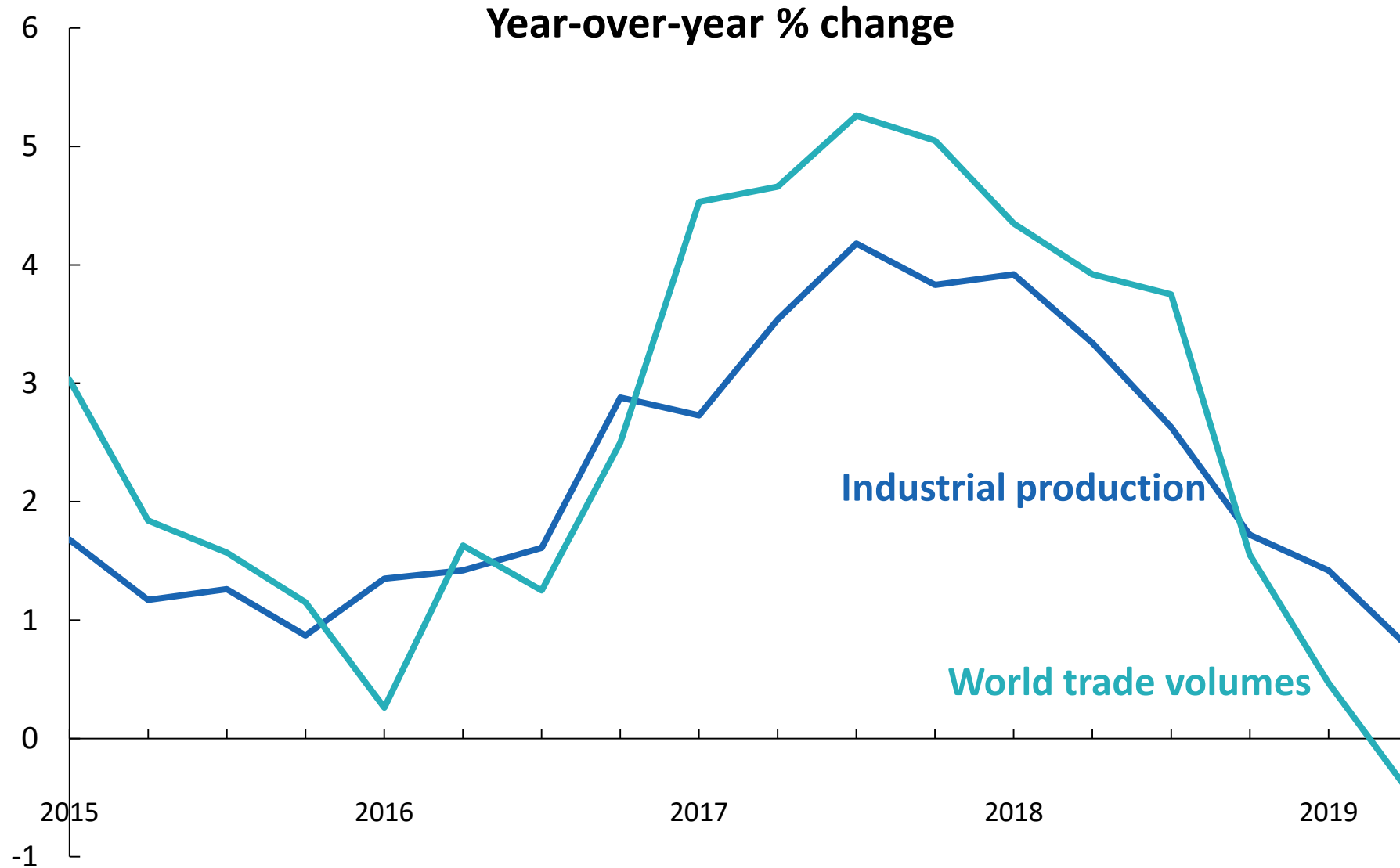
CHALLENGING TRADE ENVIRONMENT FOR CANADIAN EXPORTERS

ELEVATED POLICY UNCERTAINTY

Global economic policy uncertainty index



GLOBAL MOMENTUM SLOWING

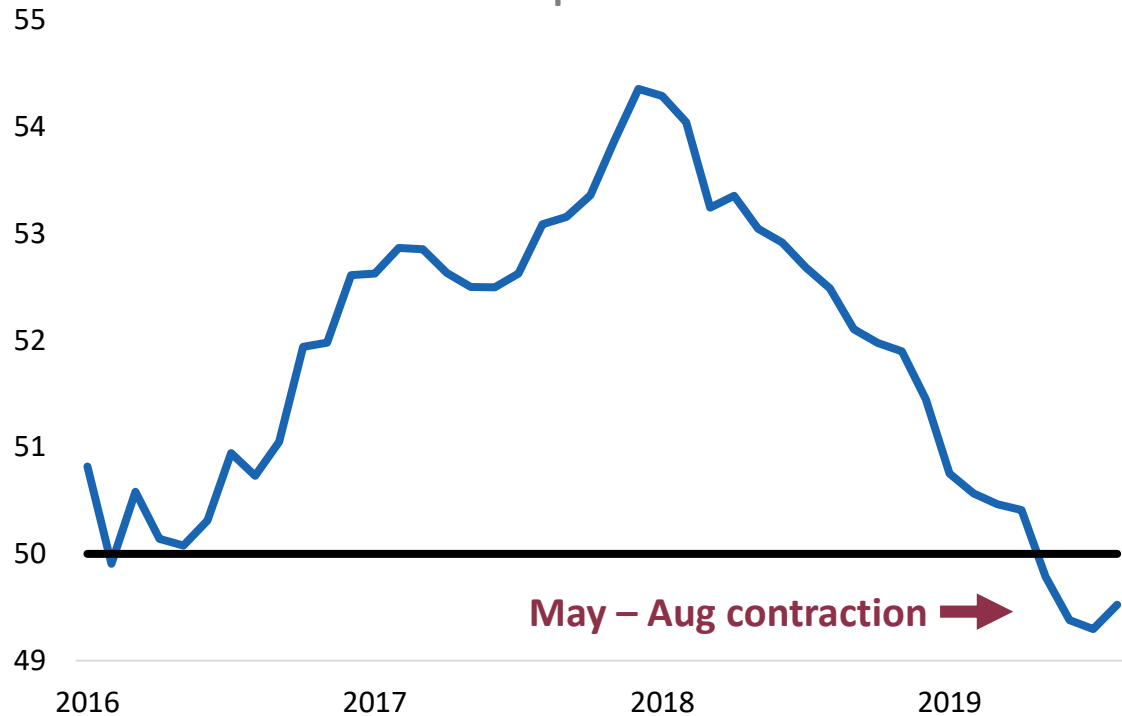


Source: Haver Analytics

ORDERS CONTRACTING

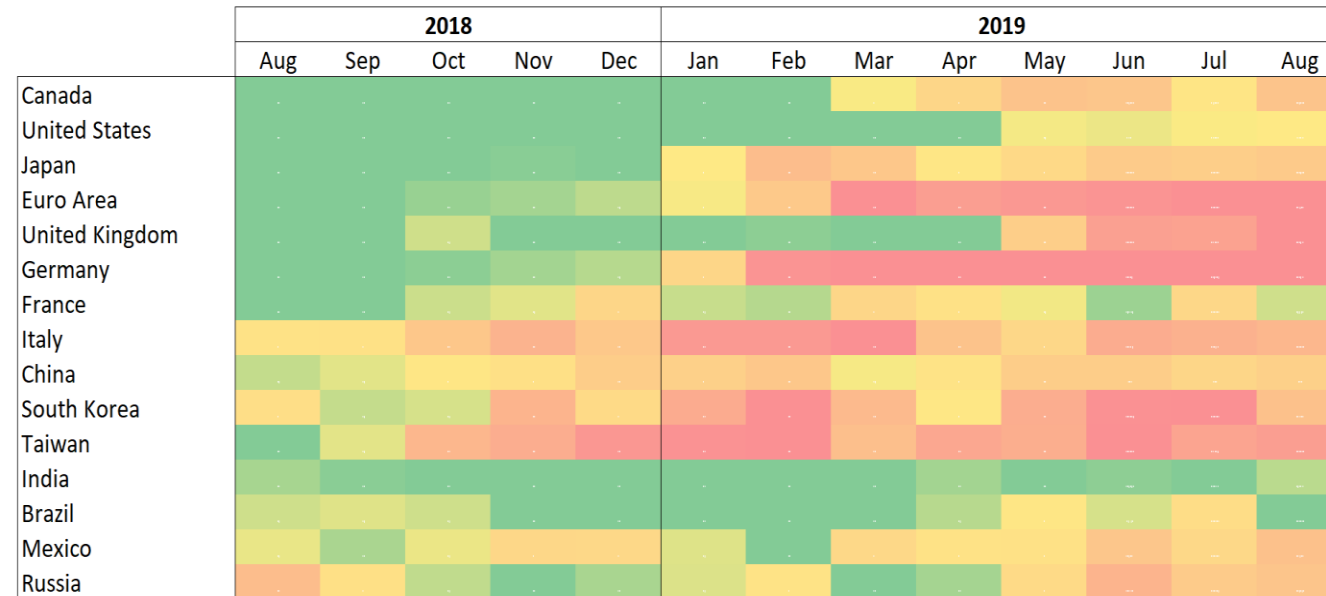
Slowing growth since 2018...

Global purchasing managers index
>50 = expansion



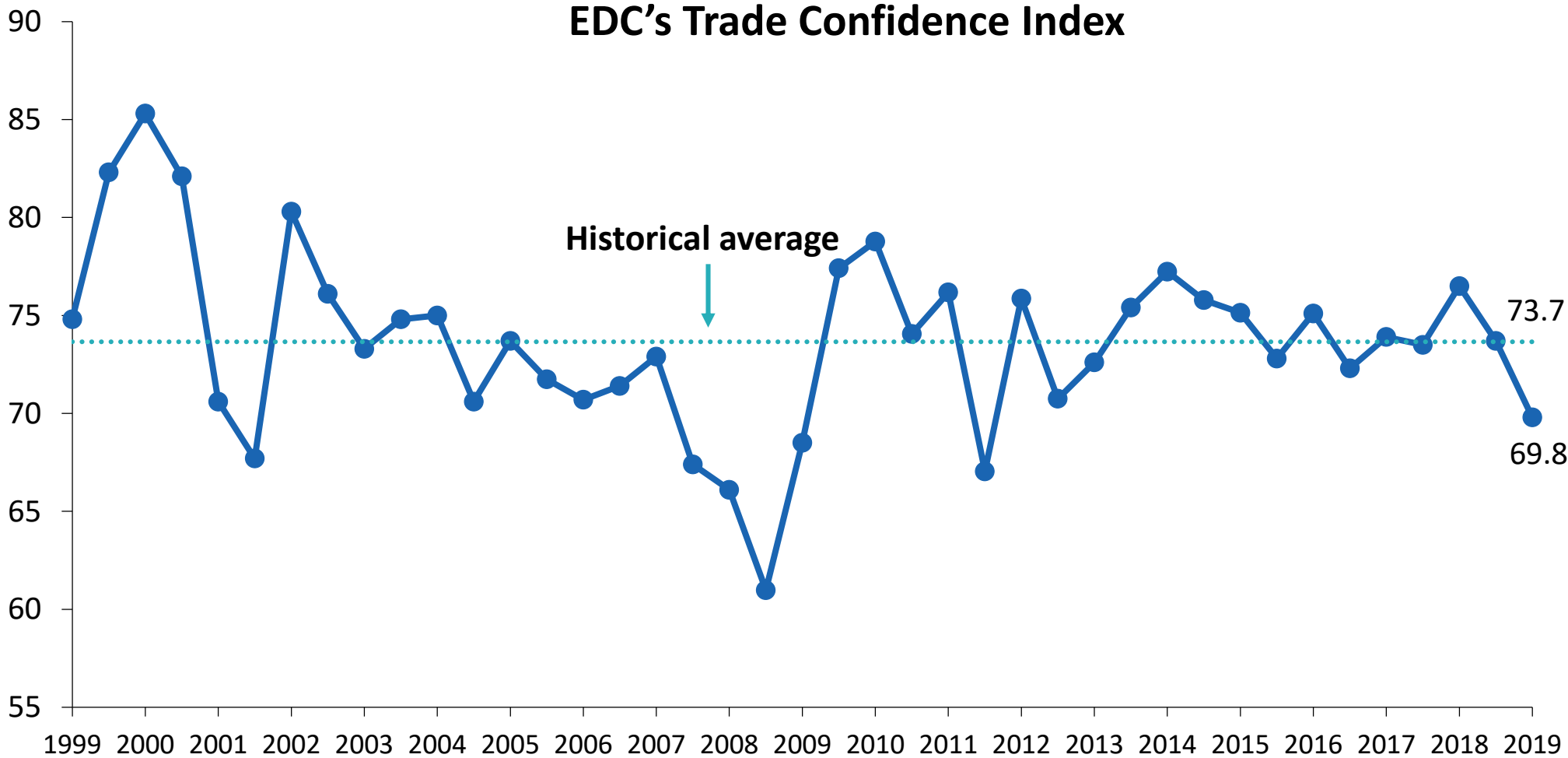
...slowdown synchronized.

Purchasing managers index
Heatmap: green >50; red <50





CANADIAN TRADE CONFIDENCE FELL TO ITS LOWEST LEVEL IN SEVEN YEARS...

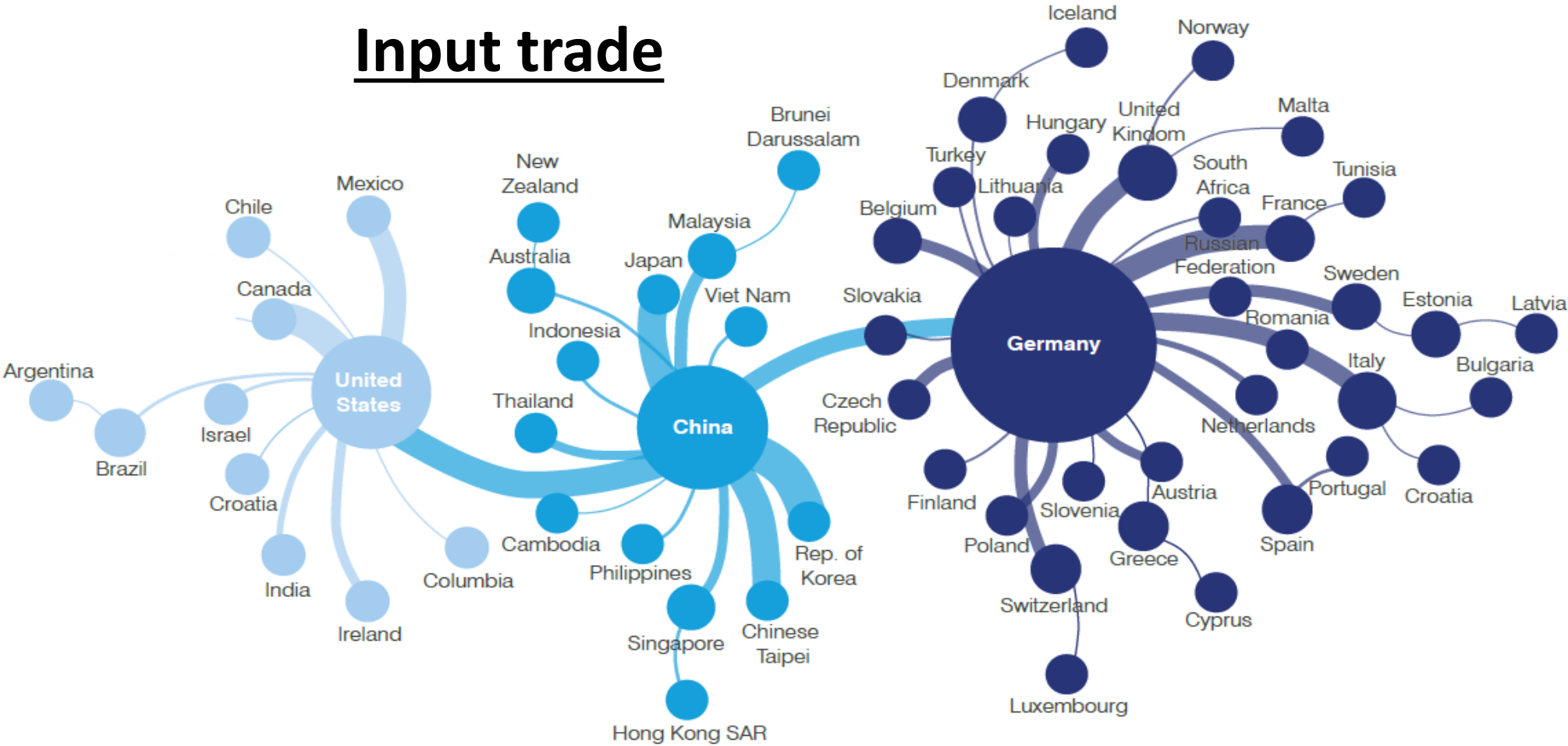




GLOBAL TRADE BECOMING MORE REGIONAL

GLOBAL TRADE HAS EVOLVED INTO THREE PRIMARY SUPPLY CHAIN HUBS

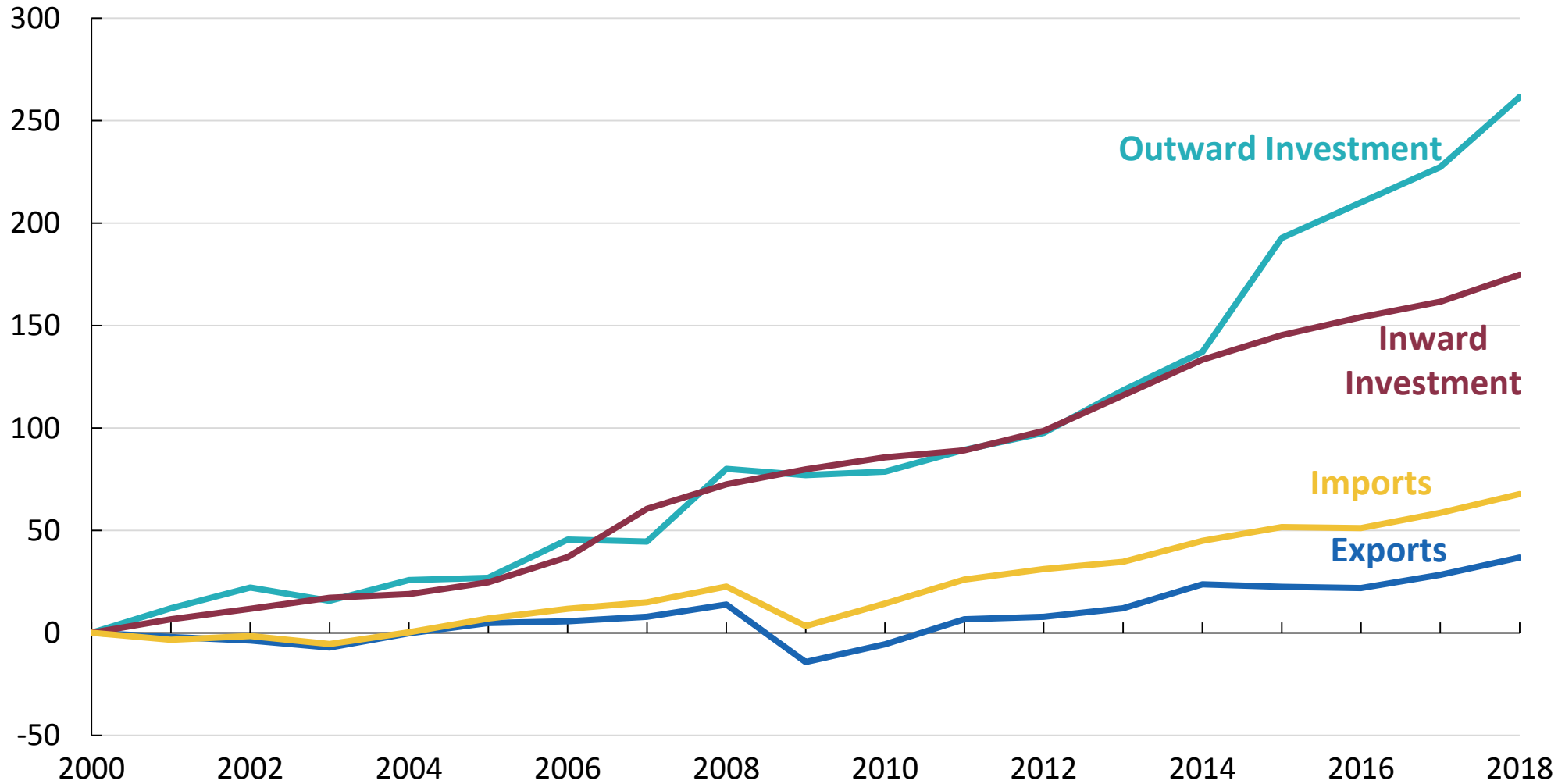
Input trade



Source: Santoni, Gianluca, Dari Taglioni (2015)

CANADA'S OUTWARD AND INWARD INVESTMENT GROWING MUCH FASTER THAN TRADE

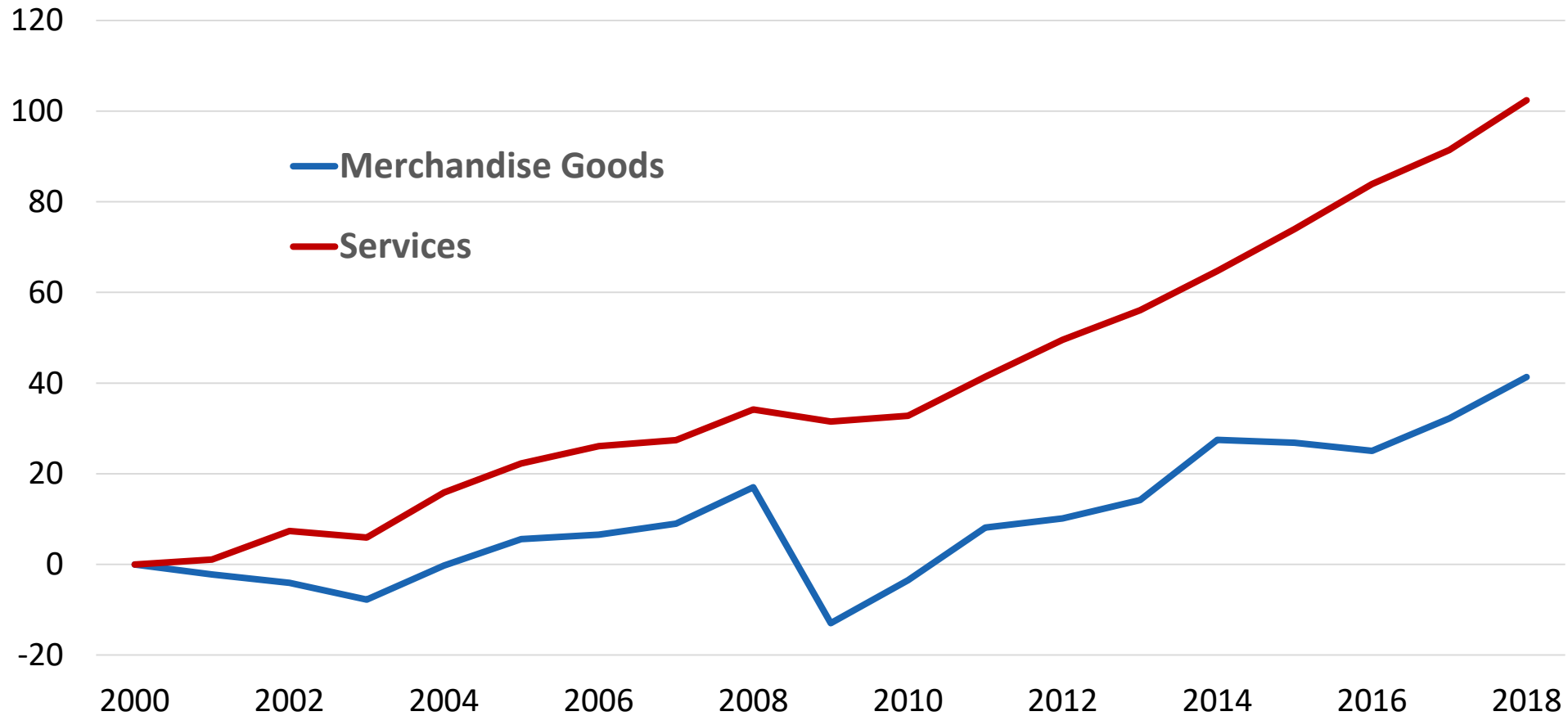
2000-18, cumulative nominal percent change



2000-18	CAGR
CDIA	7.4%
FDI	5.8%
Imports	2.9%
Exports	1.8%

CANADA'S SERVICE EXPORTS GROWING MUCH FASTER THAN MERCHANDISE GOODS EXPORTS

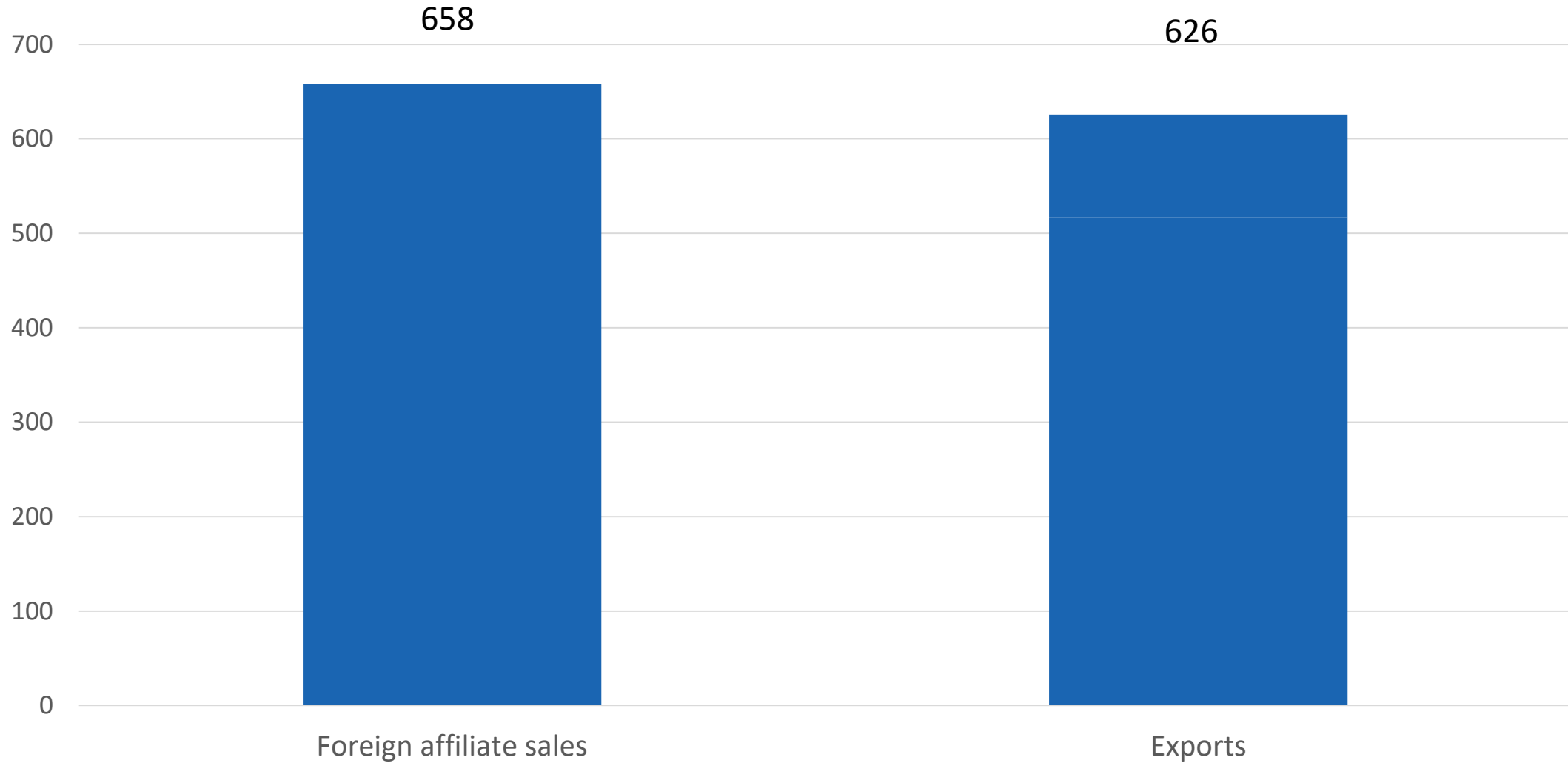
2000-18, cumulative nominal percent change



2000-18	CAGR
Goods	1.7%
Services	4.0%
Canada 2018 Exports	
Goods	\$584 bn
Services	\$121 bn

CANADA'S FOREIGN AFFILIATE SALES EXCEED ITS EXPORTS

Canada 2016, billions of dollars

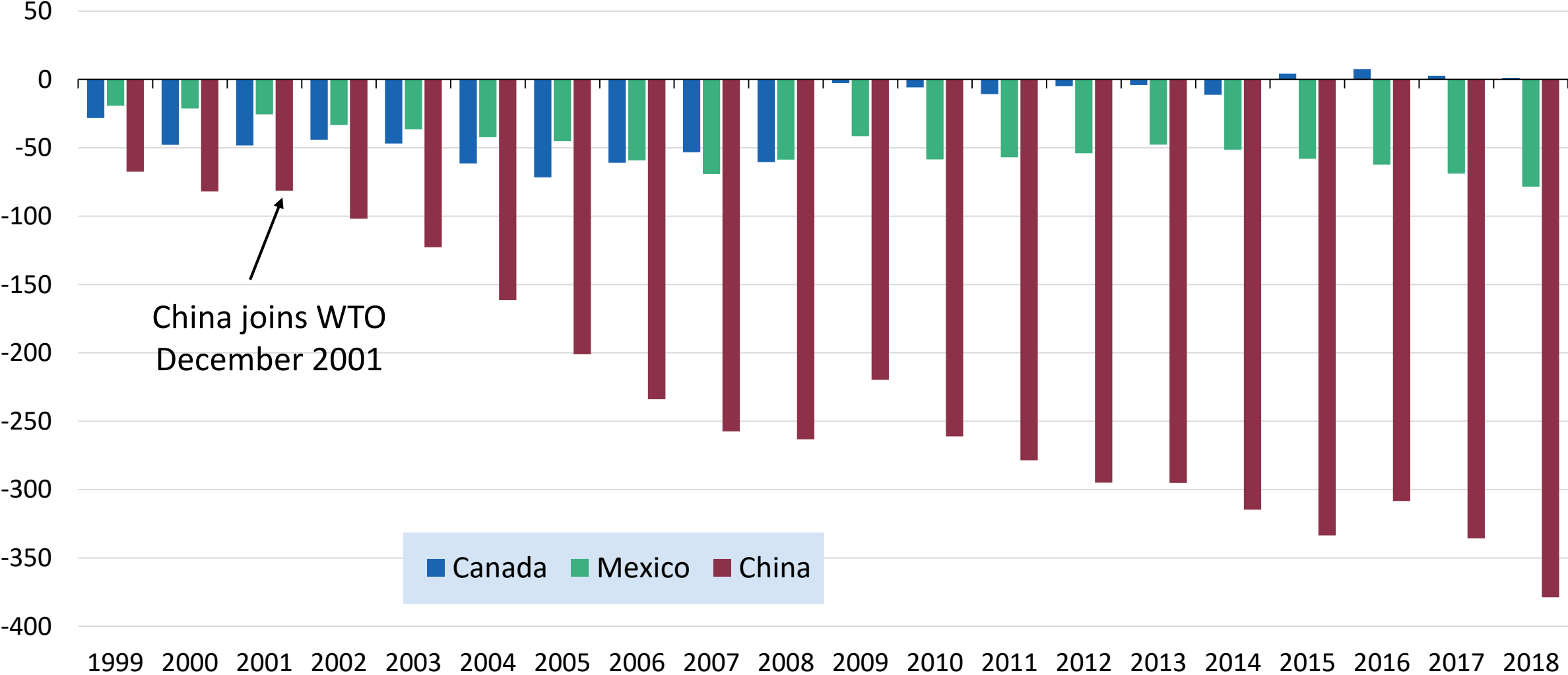




OUTLOOK FOR CHINA-US TRADE DISPUTE

US ADMINISTRATION NOT HAPPY WITH THIS PICTURE

Annual US trade balance in goods and services, billions USD

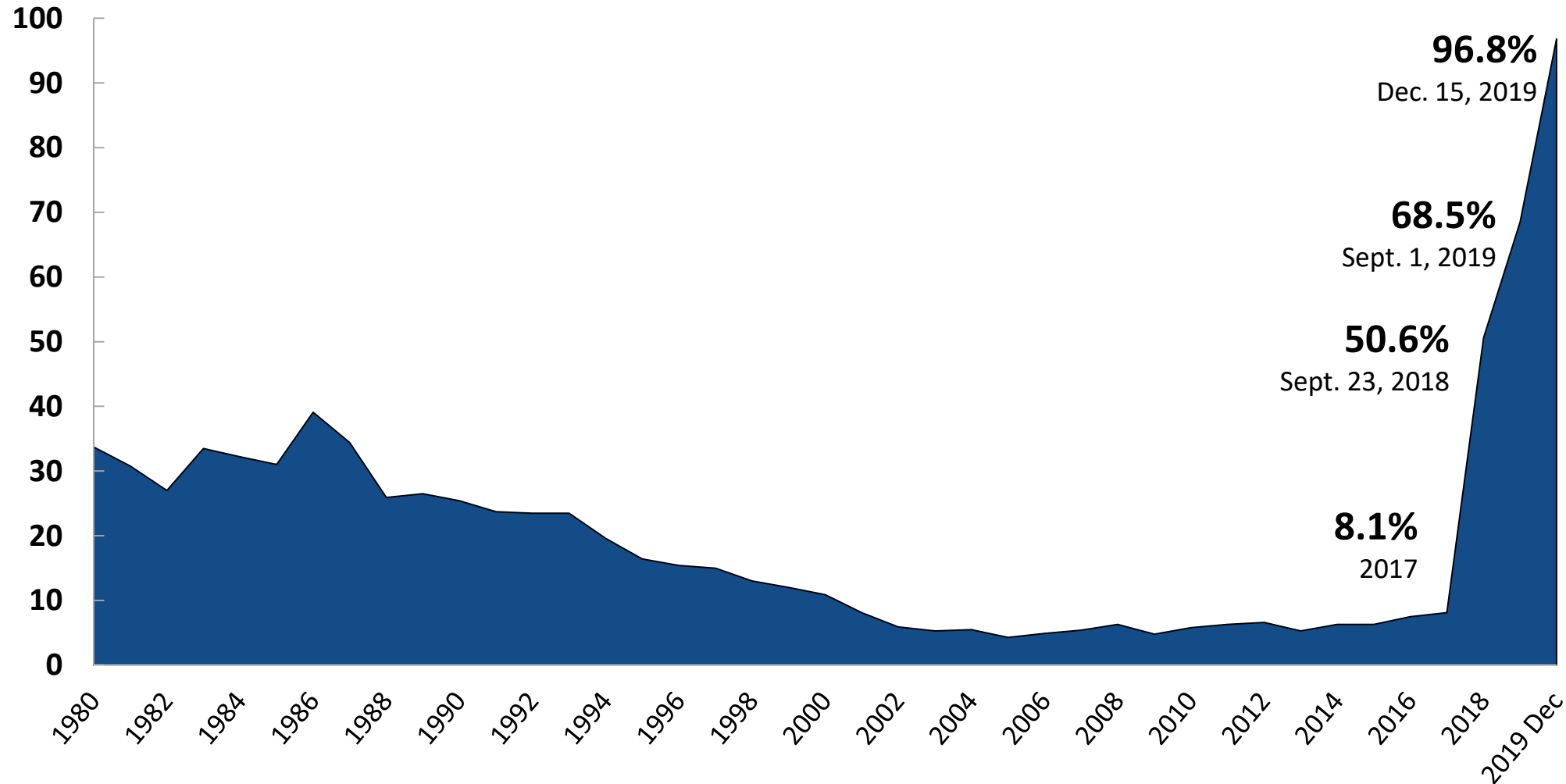


Source: Bureau of Economic Analysis, US Department of Commerce.

U.S. RESPONSE: MORE TARIFFS ON CHINA

Percent

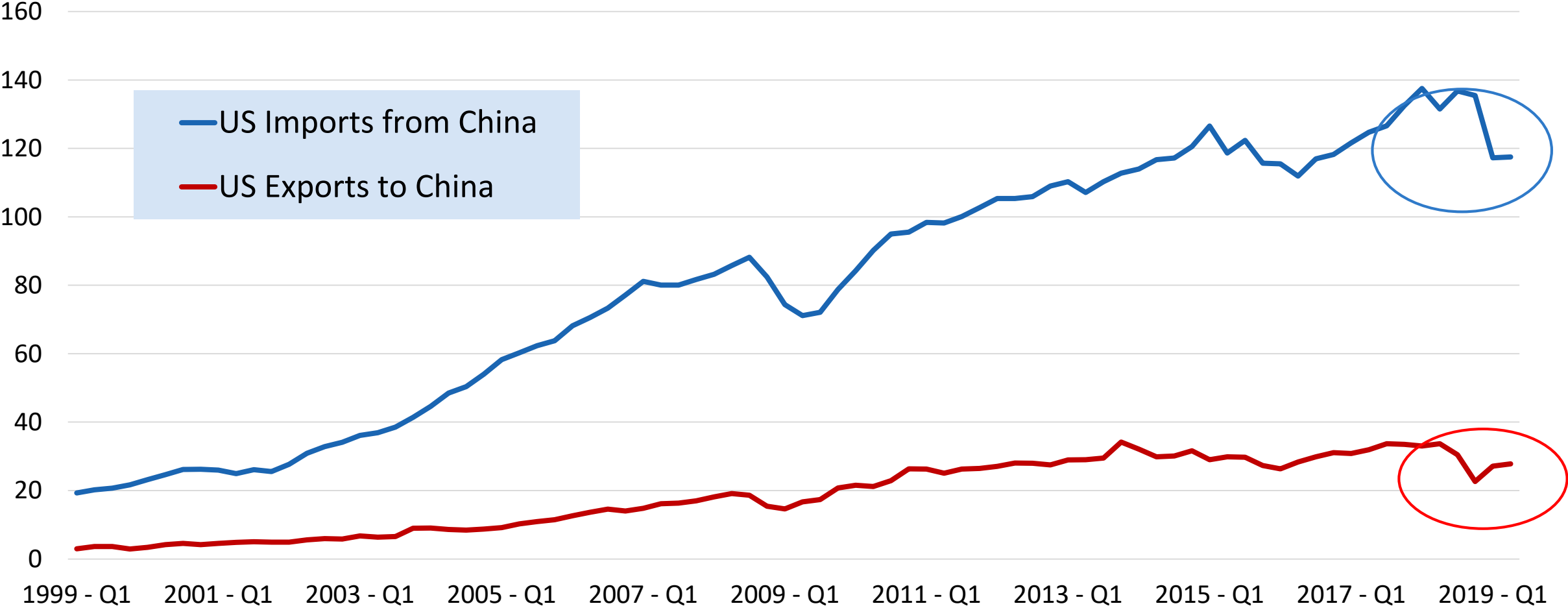
Share of US goods imports from China covered by special protection (%)



Source: Peterson Institute of International Economics.

TARIFFS ARE HAVING AN IMPACT ON TWO-WAY TRADE

US – China quarterly merchandise trade, billions USD



Source: US Bureau of Economic Analysis.

LOOKING AHEAD

- 1. Comprehensive China-US agreement removing all tariffs a low probability outcome for 2019**
- 2. US demands are key sticking points for China**
 - 1. Guarantees for IP and investment protection requires changes to Chinese domestic laws**
 - 2. So does establishment of trade enforcement mechanisms**
- 3. Trump needs a foreign adversary to help him win the 2020 election – China fits the bill**
- 4. Reaching a deal likely to drag well into 2020 – false starts, uncertainty (CUSMA experience)**



IMPLICATIONS FOR CANADA

CANADA'S GLOBAL 'TRADE' RELATIONSHIP GOES WELL BEYOND MERCHANDISE EXPORTS

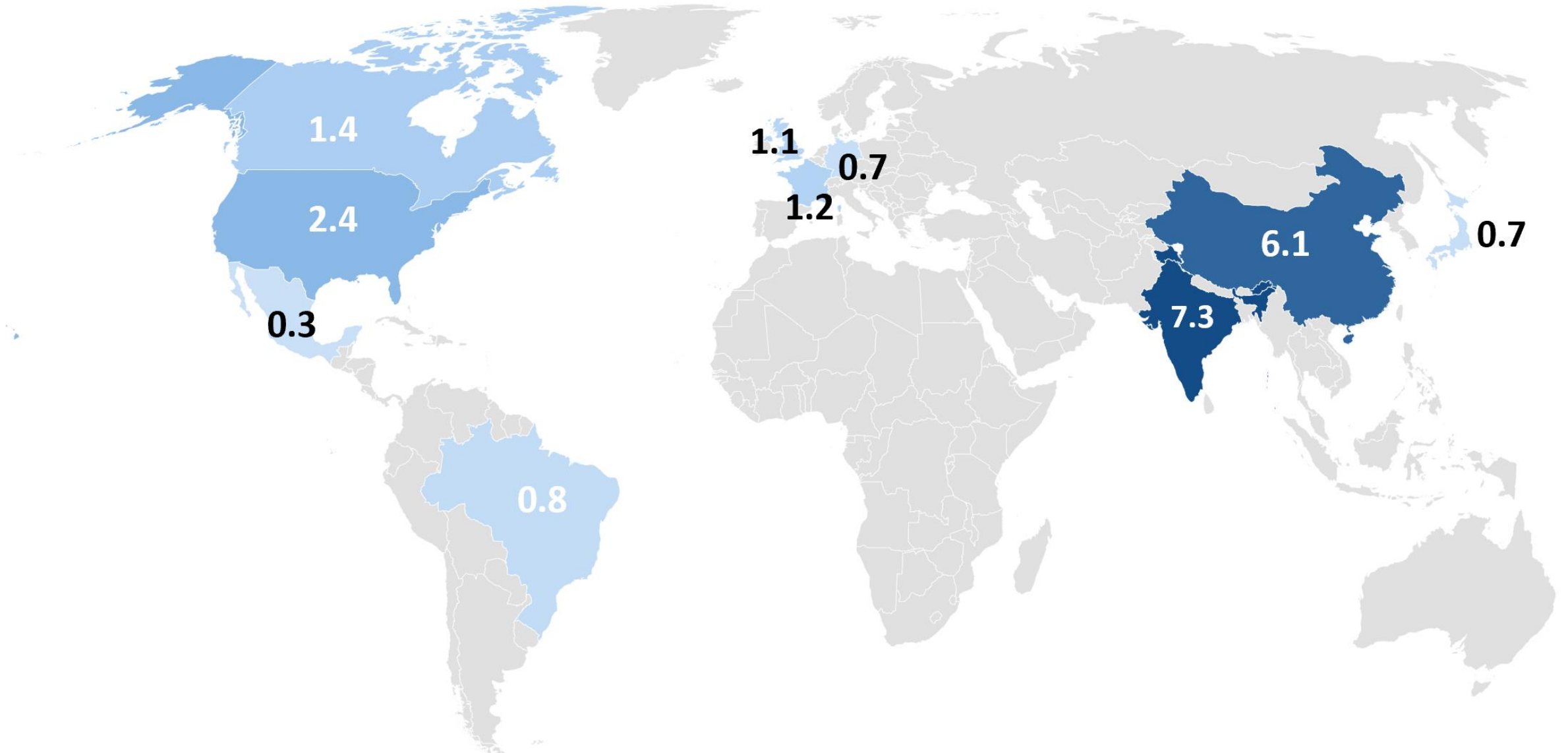


Goods Exports = \$584 bn
Service Exports = \$121 bn
Direct Investment Stock = \$1,340 bn
Foreign Affiliate Sales = \$658 bn

Goods Imports = \$596 bn
Service Imports = \$146 bn
Direct Investment Stock = \$970 bn
Foreign Affiliate Sales = \$1,104 bn

**A \$C 5.5 trillion
commercial
relationship!**

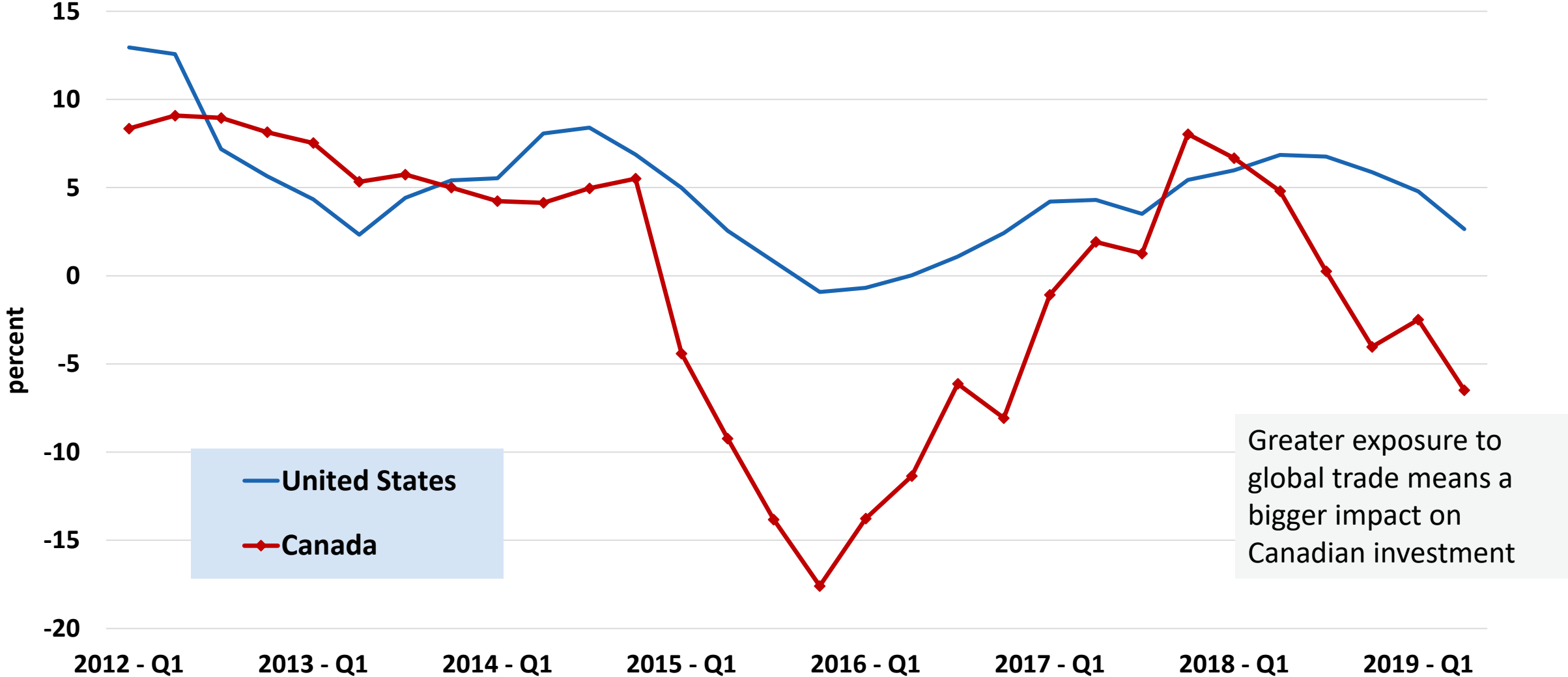
2019 GROWTH OUTLOOK



Source: EDC Global Economic Outlook, Fall 2019.

UNCERTAINTY, LOWER CONFIDENCE IMPACTING BUSINESS SPENDING

US and Canada business investment: structures and equipment (year/year % change)



Source: EDC Economics, Haver Analytics.

EDC'S CANADIAN EXPORT FORECAST

	Growth		
	2018	2019 (f)	2020 (f)
Goods	7%	3%	3%
Services	6%	4%	4%

TWO ILLUSTRATIVE SCENARIOS FOR CANADA

	Protectionist “new normal”	Normalization
Trump re-elected	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
CUSMA	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Canada	1st-mover over US in CETA, CPTPP	US rejoins CPTPP
US-China dispute	Escalates → Canada collateral damage	Agreement → Chinese restrictions on Canada lifted
ROW	US battles EU, Japan, Mexico	No Brexit
WTO	Reform stalls, dispute settlement inactive	“Ottawa Group” makes progress
So what?	<ul style="list-style-type: none"> • Sector/country shocks continue → <i>Ad hoc</i> support needed (S/A, canola) • Investment: Harder to attract inward; Outward push continues • Slower trade diversifying to ROW 	<ul style="list-style-type: none"> • Easier FDI attraction • Faster growth in trade • Increased diversification



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EDC ECONOMICS FREE RESOURCES

- **Weekly Commentary**
- **Global Economic Outlook**
- **Global Export Forecast**
- **Country Risk Quarterly**
- **Trade Confidence Index**
- **Commodity and Global Market Trackers**
- **Research reports**
- **Economic Insights newsletter**



@ExportDevCanada



edc.trade/economic-insights



Sector Outlook

Most of Canada's copper exports are consumed by the big industrial economies: the U.S., China and Japan. Although volume demand is relatively balanced between a U.S. on the upswing, a lethargic Japan and China's growth normalization, prices continue to be the driving factor behind Canada's copper export movements. Despite downside disruptions seen in the copper market in mid-2018 from China, copper prices are expected to follow an upward trend given an expected gap in global supply in the next few years. In BC - the heart of Canada's copper production – there are few plans of expanded production in the near term. Further, with few new projects in the pipeline, there is little upside potential for Canada's copper export growth beyond 2020. Upside price risks include that of higher-than-expected demand from China and the U.S.

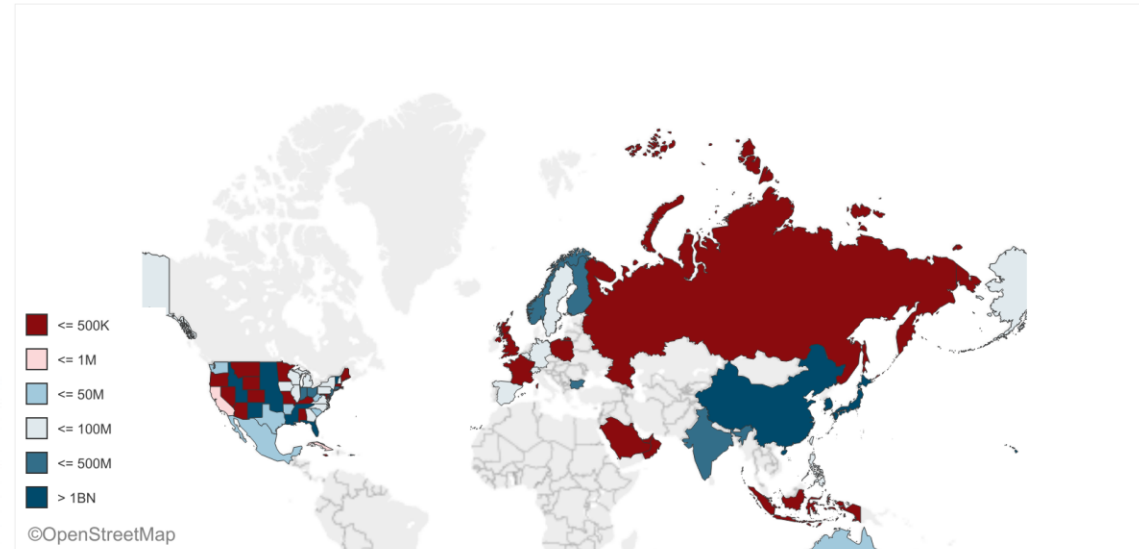
Export Forecast

	2018	2019	2020
Exports to Developed Markets	\$4.2B	\$4.3B	\$4.2B
y/y change (%)		1%	-2%
Share of Total Exports (%)	77%	75%	74%
Exports to Emerging Markets	\$1.3B	\$1.4B	\$1.5B
y/y change (%)		12%	4%
Share of Total Exports (%)	23%	25%	26%

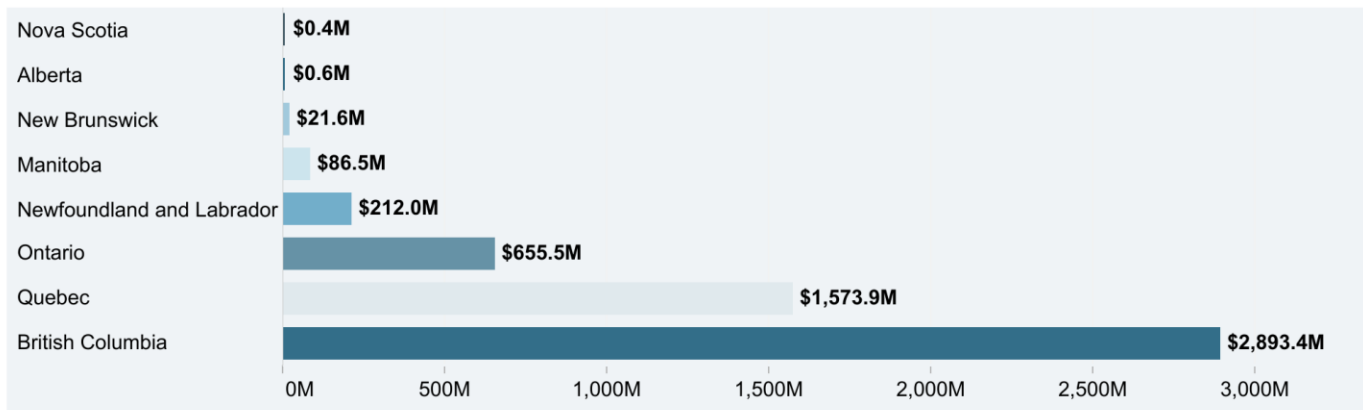
Key Economic Indicator

	2018	2019	2020
CAD/USD	0.77	0.75	0.78
Copper (USD/MT, LME)	6,526.92	6,562.16	6,739.02
US CPI (y/y, %)	2.43	2.12	2.30

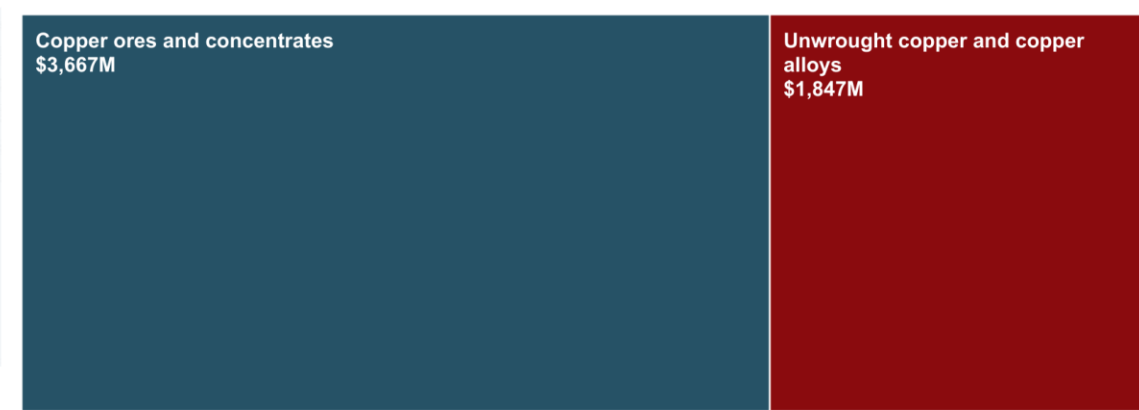
Choose a Destination



Top Provinces of Origin



Product Breakdown by Destination



Note: Historical data is based on the last year of data available from Statistics Canada. Service exports are only available at the national level.

Sources: EDC Economics, Statistics Canada, Haver

TAKE ON

THE WORLD

