

DECLINING NATURAL GAS SALES CONTRIBUTE TO THE FIRST EXPORT FALL IN NINE MONTHS

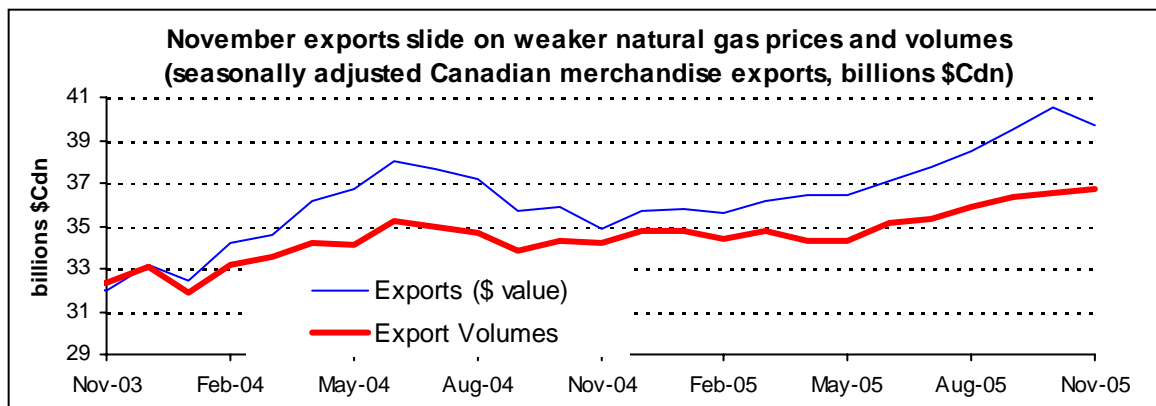
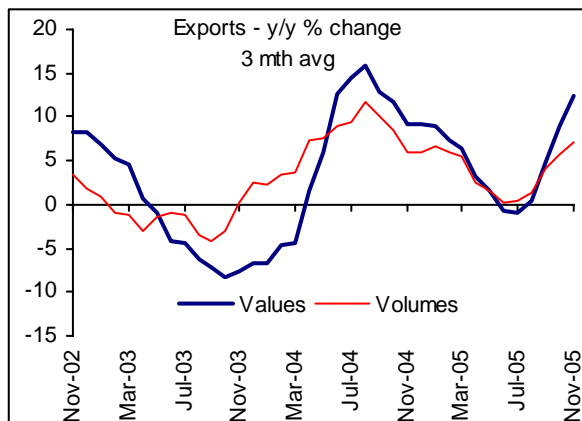
After reaching a record \$40.5bn in October, the dollar value of Canadian merchandise exports fell 2.0% m/m in November (+13.9% y/y). Much of the decline was a result of lower shipments of natural gas as prices and volumes fell as US domestic supply continued to recover from the effects of last years hurricanes. Removing energy, exports actually rose 0.8% m/m. The data revealed decent gains for agriculture/fisheries, industrial goods and materials, autos and machinery and equipment. Forestry and consumer goods came in on the negative side.

Geographically, the decline in shipments was broad based with exports to the US Japan, EU and other OECD down 1.6%, 4.5%, 4.2%, and 12.3% respectively (m/m). Exports to these regions remain up on a y/y basis led by a 14.7% energy driven expansion to the US (although many other sectors are also reporting gains in the US market). Canadian companies continue to do well in most developing economies. Exports to Central and Eastern have risen 36.1% y/y in the first 11 months of 2005, while exports to the Middle East and South America are up 13.7% and 13.9% respectively. In absolute terms export growth to these regions is dwarfed by the \$1.6bn expansion in other Asia. Among emerging markets, notable increases for the first 11 months of 2005 include \$490mn for China, \$523mn for South Korea, \$232mn for India, \$137mn for Brazil and \$141mn for Russia. Nevertheless, the pace of growth in Canadian exports to emerging markets is beginning to ease here and there, reflecting the leveling in global economic growth.

Price effects dominated the overall exports figure as the volume of exports (holding prices constant) rose 0.5% m/m in November. Most of November's volume increase is attributed to higher shipments of fish, metal ores, industrial machinery, other transportation equipment and passenger autos/chassis, while forestry and natural gas volumes slid. Compared to one year ago total export volumes are up 7.3% (and 2005 year-to-date (ytd) growth of 3.8%). Energy's 0.1% y/y growth in the first 11 months of 2005 has contributed very little to gains last year. Meanwhile, machinery and equipment, agri-food/fishing, autos and industrial goods are up 8.4%, 6.3%, 3.4% and 3.1% respectively. Growth in export volumes suggest Canadian exporters are having some success in absorbing the higher CAD (up over 30% against the USD since early 2003), although a strong currency has put margins for many companies under pressure.

The trade surplus narrowed to \$6.9bn in November from an adjusted \$7.6bn in October as the decline in exports outpaced a relatively unchanged level of imports. With oil and natural gas prices expected to remain elevated, Canada's trade surplus could widen in the near term. However, with energy prices expected to level off by late 2006 combined with a slowing global economy, the trade balance should stabilize and start to narrow by then – a situation which should remove some of the upward pressure on the loonie.

The dollar value of imports was roughly unchanged m/m with a modest 0.1% decline on mixed results across the sectors (import volumes were down 1.2%). In the first 11 months of 2005, M&E volume imports were up 15.9% y/y (led by industrial machinery and computer equipment) indicating Canadian companies continue to invest in productivity-enhancing capital equipment.



Source: Statistics Canada

EXPORT PERFORMANCE MONITOR

What's Up and What's Down in November

What's Up –

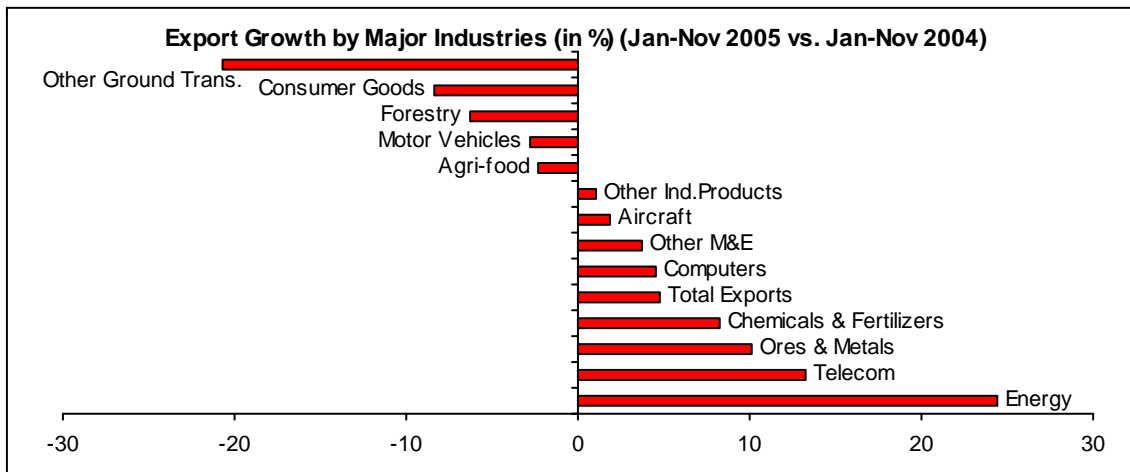
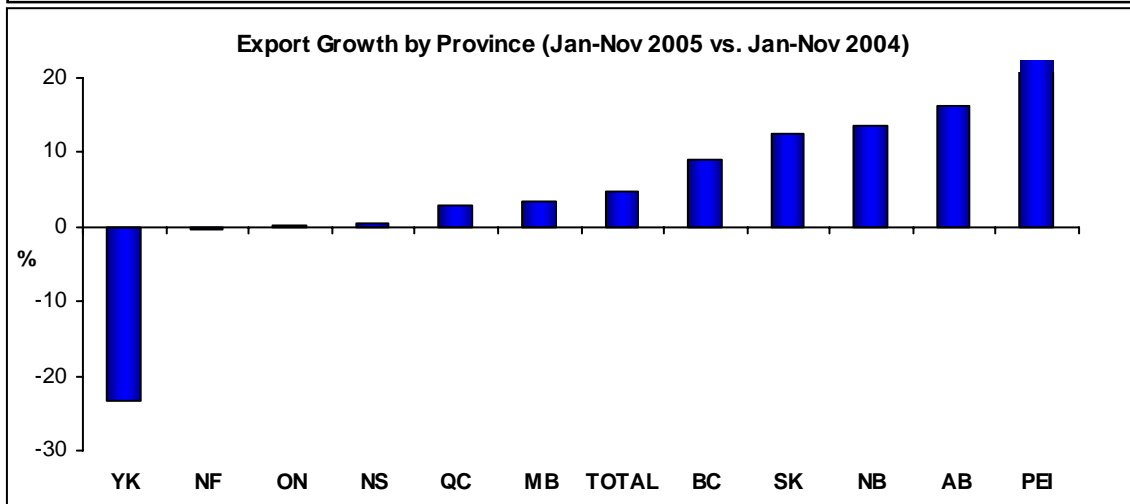
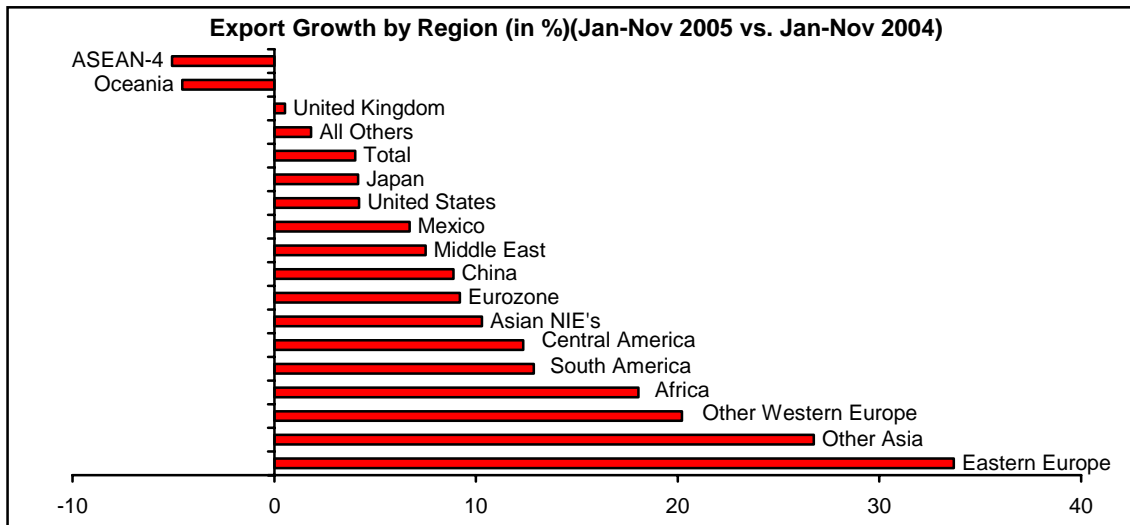
Agri-Food, Crude Petroleum, Newsprint and Other Paper Products, Industrial Goods and Materials, Metals and Ores, Chemicals Plastics and Fertilizers, Metals and Alloys, Machinery and Equipment, Industrial and Agricultural, Telecom, Computers, Other M&E, Automotive Products, Passenger Autos and Chassis

What's Down – Energy Products, Natural Gas, Coal and other energy products, Forestry Products, Lumber and Sawmill products, Other Industrial Goods, Aircraft and other Trans. Equipment, Motor Vehicle Parts, Consumer Goods

Table 1: Monthly Exports by Major Industrial Sectors for November, Seasonally Adjusted

Industry Sectors	Values (\$C)				Physical Volumes		
	YTD (\$Mn)	% Change over month	Year to date Growth (%)	Nov '05/ Nov '04	% Change over month	Year to date Growth (%)	Nov '05/ Nov '04
Agri-Food	27,722	2.2	-2.2	9.3	3.7	5.1	13.6
Energy Products	78,159	-11.1	25.8	44.0	-3.8	0.1	4.1
▪ Crude Petroleum	27,048	7.2	15.0	29.4	9.7	-3.1	7.7
▪ Natural Gas	32,504	-18.5	30.9	60.6	-9.9	1.7	-1.3
▪ Coal and other energy products	18,607	-18.3	35.1	39.5	-13.3	2.9	4.9
Forestry Products	33,457	-2.3	-7.6	-2.0	-1.4	-1.6	-3.1
▪ Lumber and Sawmill products	17,465	-5.0	-8.0	-0.1	-2.8	2.6	-0.4
▪ Newsprint and Other Paper Prod.	10,780	2.4	-1.9	1.2	2.3	-3.1	-2.8
Industrial Goods and Materials	77,247	1.7	8.9	9.5	0.3	3.1	2.4
▪ Metals and Ores	8,033	19.6	20.6	23.3	19.6	8.3	17.0
▪ Chemicals Plastics and Fertilizers	27,708	0.2	12.9	11.8	-0.3	0.6	2.7
▪ Metals and Alloys	24,631	3.3	7.8	5.6	2.8	6.8	4.6
▪ Other Industrial Goods	16,875	-4.8	-0.1	5.5	-7.3	0.3	2.0
Machinery and Equipment	87,006	0.6	3.6	8.4	1.0	8.4	11.6
▪ Industrial and Agricultural	18,836	2.3	6.4	10.8	2.4	4.8	8.2
▪ Aircraft and other Trans. Equipment	18,585	-3.2	2.5	3.5	-2.6	7.7	5.5
▪ Telecom, Computers, Other M&E	49,585	1.2	2.9	9.1	1.5	9.5	14.0
Automotive Products	80,903	1.9	-2.5	12.8	1.8	3.4	16.0
▪ Passenger Autos and Chassis	40,708	5.9	-5.8	15.8	5.3	3.1	19.9
▪ Motor Vehicle Parts	25,516	-6.1	0.2	1.9	-6.3	2.6	2.5
Consumer Goods	15,906	-0.4	0.3	3.0	0.1	-0.5	2.8
Total	413,700	-2.0	5.1	13.9	0.5	3.8	7.3

Source: Statistics Canada, Canadian International Merchandise Trade, November 2005. Cat. No. 65-001-XIB



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