

# Economic Spotlight

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## Provincial Reaction to a Slowdown in the United States

In recent months, the American economy has slowed sharply, particularly in the manufacturing and industrial sectors. Any slowdown in the United States will have an impact on Canada, since it is our largest trading partner. On a regional level, different provinces will react in different ways to a slowdown in the U.S. economy. All provinces are quite reliant on the United States, but some more than others.

The following table shows how reliant each province is on the U.S. economy.

Province	1999 Exports to U.S. (As % of GDP)
Ontario	48.0
Quebec	29.6
Alberta	28.6
New Brunswick	28.0
Newfoundland	24.6
Manitoba	23.3
Saskatchewan	21.0
British Columbia	20.6
Prince Edward Island	19.5
Nova Scotia	18.1

Ontario has the highest exposure to a slowdown in the United States, especially as its main industry, auto manufacturing, is quite sensitive to economic slowdowns. About 60% of American households have purchased a new car or light truck in the past four years and the average household has two cars, suggesting that the market is well-saturated, and that consumers will be able to delay purchases of new vehicles. Auto sales in the United States have already slowed, and the impact is being felt, with auto manufacturers announcing plans to layoff workers. Nova Scotia would also be affected by an auto industry slowdown, as its biggest export is tires.

Quebec has the second-highest reliance on the U.S. economy. It has some auto manufacturing and lumber exports, but it also has strong electronic products and telecommunications products industries, both of which are expected to slow in 2001, in the wake of the dot-com shutdowns and declines in business investment.

As the third-most reliant province on the United States, Alberta will be most affected through energy exports. A slowdown in the American industrial and manufacturing sectors could have a negative impact on energy demand, since they are the biggest users.

Although energy exports from Alberta dropped sharply during the 1982 recession in the United States, they rose during the milder 1991 recession. At the moment, energy stocks are tight and analysts are not predicting a significant drop in energy demand. This suggests that Alberta and the other major energy-exporting provinces (Saskatchewan, New Brunswick and Newfoundland) will not be as strongly affected by the U.S. slowdown.

Provinces with significant lumber production would also be heavily impacted, if American housing starts slow. During the past two recessions, housing starts dropped substantially, although those recessions also coincided with periods of high interest rates. Housing starts in the United States slowed in the later part of 2000, and while they remain relatively healthy, are not expected to increase in 2001. British Columbia and New Brunswick would be the provinces most heavily affected.

Other provinces, such as Manitoba and Prince Edward Island, would likely be less affected. While Manitoba would be impacted by slowdowns in manufacturing of transportation equipment, its export base is fairly diverse, and the reliance on any one industry is not great. Prince Edward Island's exports are concentrated in food products. However, a recession may reduce the number of American tourists.