

# PROVINCIAL OUTLOOK

---

## 8.0 Provincial Export Outlook

### Interprovincial Versus International Exports

It is important to point out that our export outlook is for international exports only. Interprovincial exports can make up a significant share of a province's shipments but are not included in international exports data from EDC or Statistics Canada. Shipments of raw materials or goods to other provinces for additional value-added processing are recorded as an international export from the province where the final good is eventually shipped. The distinction is significant as interprovincial exports do create jobs and gross domestic product in the province of origin. Perhaps the best example where this discrepancy has the most impact is in Newfoundland and Labrador where roughly 50% of offshore crude and all of Voisey's Bay nickel are shipped interprovincially and therefore do not show up as international exports.



# PROVINCIAL OUTLOOK



## 8.1 Newfoundland and Labrador

International exports from Newfoundland and Labrador will surge 17% this year and a further 5% in 2008. This year is being led by higher energy and ore shipments, and to a much smaller degree, transportation equipment. Next year, a weaker Canadian dollar will help give exports a kick. Seafood will moderate slightly but energy, forestry and industrial goods should rise. Note that our forecast covers international exports only. As such, most Voisey's Bay and some other mining activity does not show up in our data.

**Table 47: Newfoundland and Labrador Merchandise Export Outlook**

Top Sectors	CAD mn 2006	% Share of Province's Total Exports (2006)	Export Outlook (% growth)		
			2006	2007(f)	2008(f)
Energy*	5,941	70.5	8.9	16.4	7.1
Industrial Goods	1,063	12.6	13.6	40.2	1.8
Agri-Food	803	9.5	-10.8	3.2	-2.5
Forestry	475	5.6	-11.8	-12.8	5.3
All Others	145	1.7	17.4	-1.0	0.4
<b>Total</b>	<b>8,427</b>	<b>100.0</b>	<b>5.9</b>	<b>16.7</b>	<b>5.1</b>
<b>Total excl. energy</b>	<b>2,486</b>	<b>29.5</b>	<b>-0.5</b>	<b>17.5</b>	<b>0.5</b>

Source: Statistics Canada; EDC Economics.

\* NOTE – Energy exports history and forecast estimated by EDC Economics.

EDC is forecasting a 16% increase in energy exports this year and another 7% increase in 2008. We forecast total production of 130 million barrels of crude this year with about half destined for international markets. Next year, production is expected to rise to nearly 150 million barrels on higher output from White Rose and Hibernia. With no planned production increases slated for the Come-by-Chance refinery, we expect export receipts to move in line with refined petroleum product prices. EDC Economics is forecasting WTI crude to average US\$64/barrel in 2008, down slightly from 2007. The longer term outlook for energy is positive, with possible consideration being given to construction of a second refinery and the go-ahead given for Hebron.

Seafood exports rebounded slightly in 2007, but are expected to drop modestly in 2008. Higher prices for crab are the principal driver this year and could surprise on the upside. Shrimp exports to Europe should improve as the autonomous tariff rate quota for that market was increased from 10,000 tons to 20,000 tons in July 2007. While there are no major quota reductions expected for next year, consumers in the US, Japan and Europe appear fatigued, leading to lower seafood prices and a 2.5% drop in agri-food exports in 2008.

Competition from overseas, a strong dollar and high energy costs are hitting the bottom lines of paper manufacturers. Demand is also suffering as North American newspapers get 10% of their revenues from real estate classifieds. Newfoundland paper often goes to European markets, so exports could fare better for the province than was previously expected. While lumber prices are expected to increase slightly in 2008, this comes after significant price declines in each of the previous 3 years. Regardless, lumber will have little impact on the forestry sector as it accounts for only 6% of the sector's exports. In sum, forestry exports are expected to rise 5% in 2008 after dropping 13% in 2007.

Exports of industrial goods posted a massive increase this year, as summer shipments of nickel and copper totalled \$400 million. This ore is normally processed within Canada but was instead sent to customers in Europe, so while the impact on international exports will be large there will be no extra kick to the province's real GDP. With respect to iron ore, even with global economic activity slowing, Asian steel demand should remain fairly high, supporting iron ore prices. This, along with a lower C\$ and higher production levels, are expected to boost exports of iron ore by 14% in 2008, after a healthy increase in 2007.

Transportation equipment surged in 2007. Increases came from shipbuilding activities and aerospace parts manufacturing, which could hit \$60 million this year versus \$15 million in 2006. Next year is difficult to gauge, with growth coming from only a few companies and information scarce. Either way, the gain is impressive and bodes well for future exports of higher value-added manufactured goods.

# PROVINCIAL OUTLOOK



## 8.2 Prince Edward Island

The value of international exports from Prince Edward Island is expected to rebound by 5% in 2007 before moderating to growth of 2% in 2008. Two thirds of the Island's exports come from the agri-food sector which, in turn, is dominated by potato and lobster exports. The softer outlook in 2008 is mainly due to weaker lobster and frozen potato exports, partially offset by continued strength in aerospace and pharmaceutical exports.

Frozen potato products (french fries) account for 70% of the value of the Island's potato exports, or 25% of the province's total exports. Frozen potato exports are expected to increase 20% in 2007, benefiting from a poor 2006 potato crop in Europe and from solid US demand. The number of fast food outlets in the United States is still growing, and this is expected to continue. Irrespective of a slowdown in the US economy, exports of frozen fries to the US are expected to remain on an upward trend. On the other hand, this

year's potato crop in Europe has been good despite some minor losses resulting from flooding in the UK. This will produce some downward price pressures in non-US markets. In total, frozen potato exports are expected to increase by a more modest 5% in 2008. Nevertheless, PEI exporters are continuing to make inroads into emerging markets such as Saudi Arabia, China and the United Arab Emirates.

The Island's lobster fishery accounts for over 60% of total fishing exports. Lobster exports are set to decline in 2007 based on two factors. First, lobster landings were abnormally high in 2006. Secondly, cold waters this spring reduced early lobster landings by 10%. But east coast lobster landings in the US were also down this year, leading to a tight supply-demand balance. While PEI's fresh lobster shipments should hold fairly steady, frozen lobster will see lower export levels this year as European countries, with the exception of France and Norway, have significantly reduced their purchases. Nevertheless, fishing exports are expected to rise a modest 2.8% in 2007, as significant increases in exports of mussels and frozen crab more than offset the decline in lobster shipments. EDC Economics expects fishing exports to fall by 4.0% in 2008 based on a less favourable pricing environment and sluggish US consumer spending.

Prince Edward Island has become the first province in Canada to export wind power to the United States. On May 7, 2007, wind-generated electricity was exported to the New England Power Pool via the international interconnection node located at Keswick, New Brunswick. The majority of the province's wind-generated electricity is ear-marked for export. The aerospace sector continues to grow in importance. Exports of turbo propellers and parts of turbo jets recorded strong growth in 2007. EDC expects healthy growth in 2008, as manufacturers of aerospace parts continue to see busy order books. Pharmaceutical exports have grown consistently over the past 5 years, and this trend is expected to continue in 2008, in particular exports of vaccines for veterinary medicine. Shipbuilding is also doing quite well, as global seaborne transportation, expanding port facilities and offshore oil exploration drive an active order book for tug boats until the end of 2008. Exports of rail equipment, on the other hand, will continue to see significant declining numbers in 2007 before leveling off in 2008.

**Table 48: PEI Merchandise Export Outlook**

Top Sectors	CAD mn 2006	% Share of Province's Total Exports (2006)	Export Outlook (% growth)		
			2006	2007(f)	2008(f)
Agri-Food	522.1	66.4	5.0	2.6	1.3
Industrial Goods	46.9	6.0	-13.2	10.1	-1.7
Transportation	41.3	5.2	0.3	37.4	9.2
M&E	27.1	3.4	-5.9	56.8	3.4
Forestry	12.0	1.5	-45.7	-30.0	6.1
All Others	137.2	17.4	5.6	-5.9	1.9
<b>Total</b>	<b>786.5</b>	<b>100.0</b>	<b>1.8</b>	<b>4.8</b>	<b>1.9</b>
<b>Total excl. energy</b>	<b>786.4</b>	<b>100.0</b>	<b>1.8</b>	<b>4.8</b>	<b>1.9</b>

Source: EDC Economics. 2006 actual, 2007 and 2008 are forecast.

# PROVINCIAL OUTLOOK



## 8.3 Nova Scotia

Nova Scotia's exporters experienced a tough year in 2006. While the stronger Canadian dollar continued to hurt competitiveness, lower natural gas production, newsprint shutdowns and weaker seafood landings and prices dampened the value of exports. Looking forward, international exports recovered somewhat this year, and should post a further modest gain in 2008. The Sable offshore compression deck platform has enabled natural gas production to increase, which will boost export growth significantly in 2007 and 2008. Stora Enso's resumed paper mill operations have been a major boost to export growth. Michelin's tire plant operations have also supported exports and are expected to contribute further in 2008. Exports will also be supported by growth in food and beverage, pulp processing, rubber and plastics and some machinery equipment manufacturing. However, the province's large seafood industry is not expected to show any export gains through the coming year. Overall, the value of exports is forecast to grow by 7% in 2007 and by a modest 3% in 2008.

Natural gas production at the Sable offshore energy facility is expected to ramp up in the second half of this year – production was restrained earlier in 2007 due to commissioning delays following the installation of the compression deck platform. The ramp-up will result in export growth of 17% in 2007 and 12% in 2008. While stronger gas shipments contributed to export growth this year, rising natural gas prices and a weaker Canadian dollar will boost export earnings next year. The price for Henry Hub natural gas is forecast to average US\$7.0/mmbtu in 2007 before increasing to US\$7.5/mmbtu in 2008.

The housing bust south of the border has been deeper than previously thought and is expected to inflict a prolonged period of weakness in US housing construction. The glut of new homes on the market will take some time to work through – a process that will be hampered by more restrictive bank lending standards. As a result, Nova Scotia's shipments of lumber and wood products are forecast to weaken this year and well into next year.

Refurbished newsprint operations in Port Hawkesbury have injected a new lease of life into the province's paper mill industry. After shutting down newsprint operations for almost one year, operations resumed late last year and have boosted export growth in 2007. The production of high quality newsprint and supercalendered paper lines is expected to contribute positively to export growth in 2008.

North American motor vehicle sales and production are expected to deteriorate heading into next year. However, the impact of this slowdown on auto parts suppliers will be limited thanks to Michelin's development of its fuel and energy-efficient X-One generation of heavy truck tires in Waterville. The Michelin X-One replaces a truck's traditional dual tires with a single wide tire, creating fuel and energy savings.

Higher seafood prices this year have helped buffer the effects of lower landings. Higher crab prices have been the highlight, up 20 to 30% in the first half of 2007. Lobster exports should drop slightly this year on slightly lower catches, but we expect earlier weakness in the year to dissipate through the final months of 2007. In 2008, slightly lower prices for crab, lobster and salmon (shrimp prices should remain steady) and lower overall landings will result in lower seafood earnings.

**Table 49: Nova Scotia Merchandise Export Outlook**

Top Sectors	CAD mn 2006	% Share of Province's Total Exports (2006)	Export Outlook (% growth)		
			2006	2007(f)	2008(f)
Energy	1,008	20.2	-29.9	14.9	10.9
Agri-Food	1,244	25.0	-5.2	-2.2	-0.4
Forestry	713	14.3	-31.6	27.6	2.3
Motor Vehicle	848	17.0	1.5	7.3	1.8
Industrial Goods	562	11.3	3.1	5.0	-2.8
All Others	609	12.2	23.9	-9.9	2.1
<b>Total</b>	<b>4,985</b>	<b>100.0</b>	<b>-12.0</b>	<b>7.0</b>	<b>2.9</b>
<b>Total excl. energy</b>	<b>3,976</b>	<b>79.8</b>	<b>-6.0</b>	<b>5.0</b>	<b>0.7</b>

Source: EDC Economics. 2006 actual, 2007 and 2008 are forecast.

# PROVINCIAL OUTLOOK



## 8.4 New Brunswick

After declining 3% last year, New Brunswick's exports are geared toward growth in 2007, with greater energy, pulp, paper and fertilizer exports offsetting the collapse of lumber shipments. Overall, New Brunswick's international exports are expected to grow 5% in 2007 and accelerate modestly to 6% in 2008.

Saint John is positioning itself to become an energy hub in the Maritimes. While crude prices have increased rapidly since January, gasoline prices have been much weaker. Export sales have also been tempered by the rise in the Canadian dollar. Nonetheless, we expect energy exports to expand 5.5% in 2007 with greater volume from the Irving Oil refinery. Additionally, the province started shipping natural gas this year, with Corridor Resources connecting the McCully natural gas field to the Maritimes & Northeast pipeline. With the Irving Canaport LNG terminal expected to start operating late next year, natural gas exports will surge, boosting growth in total energy exports to 12% in 2008, despite softer US demand for refined petroleum products. Electricity exports however, will contract in 2007 and again in 2008, due to shutdowns at the Point Lepreau nuclear power plant, largely related to its refitting, which is due to be completed late in 2009.

Wood product exports have taken a beating this year, declining faster than in most other provinces. The collapse of the US housing market has resulted in a sharp contraction in lumber demand, causing a number of shutdowns and curtailments in the province. As a consequence, wood product exports will fall 35% in 2007, but rise by 7% next year as better prices will be supported by supply management and a softer Canadian dollar. Driven by strong market fundamentals, higher prices, and capacity expansion in Edmundston and Nackawic, pulp exports will expand 26% this year and another 7% next year. The increase in paper exports so far this year however, is mostly related to the 3-month closure of the Miramichi mill early in 2006. This increase will unwind through the remainder of this year and into 2008, as the company recently began a 9-month shutdown due to weak market conditions. We expect the mill to remain closed for much of next year, resulting in paper exports contracting 23% in 2008 after expanding 12% this year.

Agri-food exports will decline slightly in 2007, as better potato prices and higher processed food exports are offset by weaker seafood shipments. Softer lobster landings and prices, a reduced crab quota and a reduction in farmed salmon production will offset a rise in processed food exports. A disappointing potato harvest will be partly offset by higher prices. A further 1% contraction in agri-food exports is expected in 2008, as US demand for prepared food products wanes, while global seafood prices remain generally depressed.

Stronger fundamentals for metals and fertilizers have propelled exports of industrial goods up by an estimated 32% in 2007. Metal mining exports will be supported by the reopening of the Cariboo and Restigouche mines this year, which will help offset the zinc price correction expected next year. Potash prices and provincial exports are also up significantly with the expansion of ethanol capacity in the US and Brazil, and record high wheat prices. Potash exports should post further increases in 2008. Despite increased mining output and continued growth in fertilizer shipments, a pullback in metal prices is expected to see exports of industrial goods stabilize in 2008.

**Table 50: New Brunswick Merchandise Export Outlook**

Top Sectors	CAD mn 2006	% Share of Province's Total Exports (2006)	Export Outlook (% growth)		
			2006	2007(f)	2008(f)
Energy	5,995	57.8	-5.8	5.5	12.2
Forestry	2,007	19.4	4.5	-2.2	-7.1
Agri-Food	1,146	11.1	-5.5	-2.3	-1.0
Industrial Goods	811	7.8	6.7	32.0	-0.4
M&E	190	1.8	-12.2	-4.7	3.8
All Others	216	2.1	8.6	2.6	0.1
<b>Total</b>	<b>10,366</b>	<b>100.0</b>	<b>-2.9</b>	<b>5.0</b>	<b>5.7</b>
<b>Total excl. energy</b>	<b>4,371</b>	<b>42.2</b>	<b>1.4</b>	<b>4.2</b>	<b>-3.2</b>

Source: EDC Economics. 2006 actual, 2007 and 2008 are forecast.

# PROVINCIAL OUTLOOK



## 8.5 Quebec

Quebec export growth slowed to an estimated 2.7% this year, due to lower forestry prices and falling sales of motor vehicle products and consumer goods. The outlook for 2008 will be dogged by a weakening global economic environment, which will cause foreign-bound shipments to pull back by 1.4%. Industrial goods and consumer products will be the main drags on overall provincial export sales, with most other sectors registering modest growth.

On the heels of a 20.3% surge in 2006, exports of industrial goods will rise by only 9% this year, completely on the back of robust gains in metal and chemical prices – shipped volumes will actually contract. Looking forward to 2008, slower global industrial production will weaken the pricing environment considerably, causing the value of exports to fall by almost 10%.

Prospects are hardly better for the forestry industry, where depressed lumber and newsprint prices will accentuate already falling sales of these commodities. The decline in US residential construction and a government-mandated 20% reduction in allowable cuts (Bill 71) will dampen exports of Quebec timber. Furthermore, global oversupply and weak demand from US dailies and advertisers will drag down provincial newsprint sales. Looking to 2008, conditions will improve somewhat, but mostly because current plant closures will rebalance supply conditions and thereby buttress prices. Also, a weaker Canadian dollar will provide some relief to forestry exporters, which should see shipments rise by a modest 3.5%.

Meanwhile, a healthy aerospace sector will propel provincial exports of transportation equipment ahead by 8% this year. A revival in prospects for Bombardier's regional jets, as well as continued strong demand for corporate airplanes, helicopters, engines, aircraft parts and avionics products will offset declines in the railway equipment segment. Next year, the same trend is likely to be repeated, with the aerospace-side of the business driving overall transportation exports up by a further 5%. Recent contract wins by Quebec companies introduce some upside risk to the 2008 outlook for aerospace.

Despite low interest rates and high corporate profits setting the stage for capital investment, exports of Quebec machinery and equipment (M&E) will drop another 0.3% this year, below the national average of nearly 2% growth. A price-induced decline in exports of telecommunications and advanced technology will be the main drag on provincial M&E exports, offsetting modest gains in overall industrial machinery sales. Looking forward to 2008, the M&E sector should see a 3% rebound that would put the province at par with the rest of the country. However, the pick-up in exports will be principally due to a lower base in 2007 instead of a real turnaround in demand conditions.

Increasing competition from low-wage countries and a strong Canadian dollar will be the main factors dragging down Quebec's apparel and furniture industry, two major sub-sectors of the provincial consumer goods industry. At the same time, slowing economic activity and high energy costs will concur to cap household consumer spending growth, reducing demand for consumer goods south of the border. In Europe and in the UK, where local currencies are expected to hold their ground vis-à-vis the Canadian dollar, we see some upward potential for the industry as a whole. In aggregate, however, EDC Economics forecasts that exports of consumer goods will decline over the next 2 years.

**Table 51: Quebec Merchandise Export Outlook**

Top Sectors	CAD mn 2006	% Share of Province's Total Exports (2006)	Export Outlook (% growth)		
			2006	2007(f)	2008(f)
Industrial Goods	25,016	36.2	20.3	8.9	-9.5
Forestry	11,383	16.5	-5.2	-9.4	3.5
M&E	9,523	13.8	-6.2	-0.3	3.3
Transportation	8,524	12.3	-8.4	8.0	4.8
Consumer Goods	3,775	5.5	-9.7	-11.1	-7.0
Agri-Food	3,815	5.5	-0.1	9.4	7.6
All Others	7,047	10.2	5.9	1.8	5.6
<b>Total</b>	<b>69,083</b>	<b>100.0</b>	<b>3.2</b>	<b>2.7</b>	<b>-1.4</b>
<b>Total excl. energy</b>	<b>66,870</b>	<b>96.8</b>	<b>3.4</b>	<b>2.2</b>	<b>-1.8</b>

Source: EDC Economics. 2006 actual, 2007 and 2008 are forecast.

# PROVINCIAL OUTLOOK



## 8.6 Ontario

Following a year of declining sales, Ontario's exporters are on track to make a modest rebound in 2007 despite the continued struggles of the manufacturing sector and, in particular, the automotive sector. Ontario's exports are expected to increase 2.4% in 2007 which is driven, in large part, by an excellent performance in the metals and chemicals sectors. The metal sector is riding a wave of strong global demand, and benefiting from the associated high commodity prices. Looking forward, we expect Ontario's exports to decline by almost 1% in 2008 as commodity prices ease amid softer US and global demand conditions.

**Table 52: Ontario Merchandise Export Outlook**

Top Sectors	CAD mn 2006	% Share of Province's Total Exports (2006)	Export Outlook (% growth)		
			2006	2007(f)	2008(f)
Motor Vehicle	70,442.9	39.7	-7.3	-6.7	1.3
Industrial Goods	47,784.2	26.9	8.4	18.3	-7.2
M&E	28,916.1	16.3	0.0	0.3	2.6
Forestry	7,595.9	4.3	-16.5	-16.5	3.6
Agri-Food	8,519.3	4.8	0.1	5.7	9.2
Consumer Goods	4,165.9	2.3	-3.3	-6.6	-6.8
All Others	9,940.9	5.6	7.1	12.3	4.1
<b>Total</b>	<b>177,365.3</b>	<b>100.0</b>	<b>-1.6</b>	<b>2.4</b>	<b>-0.7</b>
<b>Total excl. energy</b>	<b>174,344.5</b>	<b>98.3</b>	<b>-1.5</b>	<b>2.0</b>	<b>-0.8</b>

Source: EDC Economics. 2006 actual, 2007 and 2008 are forecast.

Auto exports, including passenger cars, auto parts and trucks, represent Ontario's largest tradable goods sector, accounting for close to 40% of total exports. Passenger cars alone account for over 25% of the province's export sales. As the Detroit Three continue to lose market share and US auto sales drop to a 9-year low in 2007, passenger vehicle exports are forecast to decline 6.2% in 2007 before leveling off in 2008. The start-up of a new Toyota plant in 2008 will provide a welcome boost to auto exports. But the continuing loss of market share of the Detroit Three will hurt exports of auto parts. Combined with continued intense foreign competition, exports of auto parts are expected to fall by 1.4% in 2007 before increasing modestly by 1.9% in 2008. Finally, exports of heavy-duty trucks were hit hard in 2007 by the significant pre-buying that occurred in 2006. New US emission standards caused the pre-buying. Although heavy truck exports are expected to drop by 33% in 2007, the corresponding pent-up demand will see shipments partially recover in 2008 with growth of 8.2%.

The industrial goods sector is expected to more than offset weakness in the automotive sector. With foreign shipments on track to grow 18% in 2007, the industrial sector will be the largest contributor to the province's export growth this year. In particular, export receipts for metals and metals manufacturing are expected to expand 24% in 2007, with most of the growth coming from the mining sector. Mining is benefiting from strong global demand and high commodity prices. However, EDC Economics expects commodity prices to moderate next year. As such, industrial goods are set to make a negative contribution in 2008. In contrast, pharmaceuticals have been a stellar performer over the past 5 years, and this trend is expected to continue through 2008 with particularly strong growth to European markets.

Another bright spot is the transportation sector, which is made up of aircraft and parts, and railroad equipment. Transportation exports are expected to grow by 15% in 2007, driven by rising shipments of aircraft and parts, and solid gains in railroad equipment. Both sectors are expected to come off exceptional growth rates but to remain in positive territory in 2008. As such, the transportation sector is expected to see more subdued growth of 3 to 4% in 2008.

Ontario's forestry exports are down an estimated 17% in 2007. Sales should start to improve a little in 2008, with growth forecast at 3.6%. But most of the risk is still on the downside. The newsprint sector will experience another challenging year in 2008 as intense foreign competition, especially from China, has a negative impact on market share and prices. In addition, lumber exports will continue to be impacted by the fallout in the US housing market, which is likely to extend into 2008.

# PROVINCIAL OUTLOOK



## 8.7 Manitoba

With gains chiefly concentrated in primary industries, Manitoba ranks among the best export performers across the country this year. Although the export outlook going forward is generally positive, waning US consumer demand combined with a strengthening of the Canadian dollar are beginning to take a toll on exports. Given that these variables are expected to intensify over the remainder of the year, export growth is envisaged to moderate, ending the year at a still-impressive 15%. This moderation will permeate into 2008, with growth slowing to 7%.

Exports to non-US destinations continue to be strong, led by shipments of metals, with major increases in sales to Japan, Taiwan and Hong Kong.

Meanwhile, there are some concerns over the strength of the hog and cattle industry. While robust crop prices drove a 23.2% advance in farm cash receipts during the first half of 2007, higher feed costs have cut heavily into the pockets of livestock producers. Relatively weak prices for hogs and pork products during the first few months of this year partially explain the fragile export growth in the hog industry. There appears to be an excess supply of hogs within the North American market in general, and many farmers have been hoping for Chinese sales to come through. But the recent rejection of pork shipments from Canada and the US portend continued softness in the market through the coming months. With hopes for a pick-up in export volumes to China dashed, pork tonnage is anticipated to overrun demand and in turn depress prices. On the domestic front, the Manitoba government has currently put a freeze on the building of new barns, making it difficult for hog producers to combat rising input costs with volume gains.

Although the US border has been reopened to Canadian cattle shipments, restrictions remain. For instance, only boxed beef and cattle under 30 months of age are allowed entry whereas older cattle and breeding stock remain banned. This does not bode well for Manitoba's cattle producers who send much of their stocks south for processing. However, the recent announcement by US authorities to remove these restrictions late in 2007 will serve as a boon for cattle farmers. According to the *Winnipeg Free Press*, as a result of these trade constraints the industry loses about \$1.25 million per day, even after receiving a certification from the World Health Organization that the BSE (mad cow disease) risk in Canada is under control.

Biofuel demand has bolstered the price of the province's leading crops. Thus far, export earnings of coarse grains, wheat and oilseed have been impressive, posting year-to-date gains of 41%, 45% and 59% respectively. The continued expansion of US ethanol capacity will apply upward pressure on coarse grain prices and volumes through the end of 2007. Likewise, wheat prices are likely to remain relatively high but are likely to soften in 2008, eroding export earnings. Overall, major grain prices are poised to remain strong and Manitoba exporters stand to gain from tight global supplies and firm demand. Agri-food exports are set to rise 20% in 2007 and by 13% in 2008.

Notwithstanding the current challenges in the hog and cattle sectors, Manitoba's export prospects look optimistic. With a nickel mine coming online in 2008; the expected start-up of production by Boeing Winnipeg for parts associated with Boeing's Dreamliner 787, which has already attracted record orders; a diverse export base; and a softer C\$ in 2008, exports are well placed to weather the US and global economic slowdown.

**Table 53: Manitoba Merchandise Export Outlook**

Top Sectors	CAD mn 2006	% Share of Province's Total Exports (2006)	Export Outlook (% growth)		
			2006	2007(f)	2008(f)
Industrial Goods	3,208	29.5	62.1	31.6	6.2
Agri-Food	2,661	24.5	-5.2	20.0	13.1
Energy	1,504	13.8	22.0	-2.6	-1.4
M&E	1,027	9.4	-3.2	11.5	11.5
Forestry	742	6.8	-13.3	-9.6	6.8
Motor Vehicle	690	6.4	1.7	2.3	7.0
All Others	1,038	9.5	-2.3	7.0	2.3
<b>Total</b>	<b>10,870</b>	<b>100.0</b>	<b>12.3</b>	<b>15.1</b>	<b>7.3</b>
<b>Total excl. energy</b>	<b>9,367</b>	<b>86.2</b>	<b>10.9</b>	<b>17.9</b>	<b>8.5</b>

Source: EDC Economics. 2006 actual, 2007 and 2008 are forecast.



# PROVINCIAL OUTLOOK



## 8.8 Saskatchewan

Saskatchewan's economy is booming and the export sector is no exception. Total exports increased by 11.5% y/y during the first 7 months of this year, while non-energy sales have grown by more than 30%. Overall export growth for the province should remain fairly robust through the forecast period as cattle and beef import restrictions to the US are lifted, potash production bounces back, and crop prices remain strong. EDC Economics forecasts that total exports for Saskatchewan will finish 2007 with annual growth of 15%. Export growth will moderate in 2008, to a still respectable 12%.

The agri-food sector shows great export potential for the next couple of years as demand for crops used in ethanol production remains strong and cattle markets re-open. The province continues to expand its seeded acreage, while projects such as Great West Beef and Bison Inc. will expand export capabilities. EDC Economics expects exports of agri-food products will grow by 38% in 2007 and by a further 21% in 2008.

Saskatchewan's exports of agricultural machinery are also benefiting from the strong global demand for crops and the ensuing run-up in prices. Farmers around the world are increasing their acreage, which requires investing in new equipment – and high crop prices give them the cashflow to finance these purchases. The province's shipments of agricultural equipment are on track to rise by 8 to 10% in 2007. A more modest, but still solid gain of around 5% can be expected for 2008.

Fertilizer exporters will continue benefiting from the biofuel boom as farmers around the world increase the use of fertilizers in related crop production (corn is the largest end-user of potash and other fertilizers). Moreover, the provincial government is expected to invest around \$80 million in expanding biofuel production facilities through the SaskBIO Program. Potash exports in particular, have been very strong so far this year, and even though growth is expected to slow in the second half as the pricing dispute between PotashCorp, China and India has now been resolved, the overall results are very promising. It is expected that global demand for potash, especially from China, will continue growing at a rapid pace. Overall, fertilizer exports are expected to rise by 33% in 2007 and by an additional 11% next year.

On the downside, even though prospects for uranium are very positive, there are some concerns regarding production capacities in the province as the Cigar Lake mine will probably not be operative until 2011.

Crude petroleum exports have been weak so far in 2007, decreasing by some 25% y/y during the first 7 months of the year. For the next few months, drilling activity will be sluggish at the national level and will likely remain flat in Saskatchewan, according to predictions from the Petroleum Association of Canada. For that reason, exports for the energy sector are expected to decline by 9% in 2007 before rebounding by 5% in 2008.

Finally, exports of lumber and wood manufacturing products are down significantly this year as a result of the housing crisis across the border and the high Canadian dollar that has hurt producers in the sector. The weakness in wood exports will continue through much of 2008, although some improvement should be seen by the second half as the US construction sector slowly recovers. Exports of lumber and wood manufacturing products are down an estimated 16% in 2007, but a partial rebound is expected in 2008 with growth of 7%.

**Table 54: Saskatchewan Merchandise Export Outlook**

Top Sectors	CAD mn 2006	% Share of Province's Total Exports (2006)	Export Outlook (% growth)		
			2006	2007(f)	2008(f)
Energy	6,078	38.4	22.6	-9.1	5.4
Agri-Food	4,939	31.2	32.1	38.2	21.3
Industrial Goods	3,574	22.6	-1.8	27.9	6.5
Forestry	511	3.2	-43.5	-3.7	5.3
M&E	517	3.3	-0.1	1.8	9.2
All Others	220	1.4	2.8	-4.1	1.7
<b>Total</b>	<b>15,839</b>	<b>100.0</b>	<b>13.4</b>	<b>14.6</b>	<b>11.7</b>
<b>Total excl. energy</b>	<b>9,761</b>	<b>61.6</b>	<b>8.3</b>	<b>29.4</b>	<b>14.5</b>

Source: EDC Economics. 2006 actual, 2007 and 2008 are forecast.

# PROVINCIAL OUTLOOK



## 8.9 Alberta

International merchandise exports should grow 7% in 2007 and 4% in 2008. M&E, industrial goods and agri-food all posted solid gains this year. For next year, EDC Economics expects respectable gains for energy, forestry and M&E to contribute to the bottom line. Agri-food will be head and shoulders above all others though, as the stellar export growth experienced in 2007 is expected to continue next year.

With a WTI crude oil price forecast of US\$66/barrel and US\$64/barrel in 2007 and 2008 respectively, crude and related exports will have solid price support through the forecast period.

The price of crude set several new records in September, and there is sizable upside risk to our price forecast. With some oil sands investments nearing completion, and more in development, non-conventional crude production is on a steady rising path. Additional strength will come from increased refinery output, but gains here will be modest. While we are forecasting a 5% increase in crude and related product exports in 2008, pipeline capacity constraints may limit volume gains. Natural gas exports are expected to fall in 2007 and 2008 on lower production, greater diversion toward domestic consumption and high exploration and development costs. Moreover, if prices don't recover from recent lows (August-September), our outlook for drilling activity could prove over-optimistic, resulting in lower export volumes. Our current forecast for Henry Hub gas calls for prices to average US\$7.5/mmbtu in 2008. The outlook for coal exports is solid, with higher prices in 2008 supported by robust emerging market steel production, as well as supply constraints that are limiting Australia's coal export potential.

Oilseeds, pulse and wheat exports jumped significantly in 2007, and we expect the latter to see another large price-induced increase in 2008. Demand for biofuels, poor weather conditions and strong developing market demand will be the key drivers. World demand for grain has been high, while supply is being curtailed by weather-related crop damage that has trimmed global stocks to lows not seen since the early 1970s. This will work its way downstream into higher feed prices where 10% increases have already been seen, boosting costs for Alberta's \$2.5 billion live animal and meat processing export industries. Alberta's fertilizer, chemicals and plastics exports will turn in mixed performances in 2008. Fertilizers should continue to show strength as high grain prices lift global planting intentions. Chemicals and plastics, however, will face headwinds from slowing US housing and consumer demand along with a more generalized softening of the global economy. Emerging market growth is expected to limit downside risks.

Machinery and equipment exports are expected to grow 5% in 2008 after an estimated gain of 16% in 2007. Exports of mining and oil and gas equipment should prove solid through 2008 while high crop prices lift sales of agricultural equipment. However, the outlook for telecommunications and other electronic equipment calls for moderating growth with investment intentions in the US and other key markets expected to soften through the first half of 2008.

Export earnings are heavily dependent on energy as it represents 70% of the province's total merchandise exports. While 90% of Alberta's shipments go to the US, excluding energy shows some geographic diversification is evident, with 64% of non-energy sales going to non-US markets in 2006.

**Table 55: Alberta Merchandise Export Outlook**

Top Sectors	CAD mn 2006	% Share of Province's Total Exports (2006)	Export Outlook (% growth)		
			2006	2007(f)	2008(f)
Energy	54,997	70.0	0.0	4.9	4.4
Industrial Goods	9,766	12.4	11.3	9.1	-2.7
Agri-Food	5,756	7.3	9.1	22.6	15.1
M&E	3,850	4.9	18.4	16.1	4.6
Forestry	2,675	3.4	-12.8	-3.5	5.4
All Others	1,470	1.9	4.2	0.7	0.8
<b>Total</b>	<b>78,513</b>	<b>100.0</b>	<b>2.3</b>	<b>6.9</b>	<b>4.3</b>
<b>Total excl. energy</b>	<b>23,516</b>	<b>30.0</b>	<b>8.0</b>	<b>11.6</b>	<b>4.3</b>

Source: EDC Economics. 2006 actual, 2007 and 2008 are forecast.

# PROVINCIAL OUTLOOK



## 8.10 British Columbia

British Columbia's exports declined 2% in 2006, following impressive growth of 10% in the previous 2 years. So far this year, exports have fallen further, down 3.6% y/y during the first 7 months. Declining values of wood products and natural gas exports have been the main sources of weakness so far this year, with some softness also witnessed in coal and newsprint. Helping to mitigate this weakness has been exports of food and beverages, pulp, manufactured metal products and computer equipment.

The housing-led economic slowdown in the US is a major challenge facing forestry and wood product manufacturers. The province's forestry sector, which accounts for half of Canada's entire forestry industry, will continue to suffer from the US housing recession this year and next. On a more positive note, demand from emerging markets will limit the downside. In particular, exports to China (BC's third largest export market) should remain robust, particularly exports of pulp, metal ores and machinery and electrical equipment. Total exports are forecast to decline 2.4% in 2007. In 2008, the value of exports will rebound partially (up 1.7%), thanks to higher export prices and steady export shipments.

The housing bust south of the border has been deeper than previously thought and is expected to inflict a prolonged period of weakness in US housing construction. The glut of new homes on the market will take some time to work through – a process that will be hampered by more restrictive bank lending standards. As a result, shipments of lumber and wood products are forecast to decline by around 15% in 2007. A partial recovery of 6% is projected for 2008 (concentrated in the second half). Firmer prices next year will help offset the effects of lower volume shipments. But even with next year's expected improvement, annual export earnings for lumber and wood products would still be more than \$2 billion below their 2004 level.

With natural gas supply and demand conditions fairly tight and crude oil prices higher, natural gas prices are expected to average higher through the remainder of 2007 and rise further in 2008. These stronger fundamentals will help support the value of gas exports, with dollar depreciation adding to export earnings in 2008. The value of coal exports also suffered this year due to weaker prices and shipments. Higher export prices combined with stronger shipments are forecast to boost coal exports by almost 22% in 2008.

The contrast in export performance between pulp and paper export growth is due primarily to the emergence of China, which is offsetting weaker pulp demand elsewhere (US). China's demand for raw materials (pulp included) is expected to remain fairly robust in 2008, supporting BC's exports of pulp products. In contrast, paper exports (destined almost entirely to the US) continue to exhibit softness, largely in response to the rapid growth of Chinese paper production and global paper capacity.

Strong global demand for industrial metals, led by China, will ensure healthy activity in metal mining and industrial metal exports. However, easing base metal prices will prevent positive export growth in 2008. Even so, the dollar value of export earnings is expected to remain above historical levels.

The economic slowdown unfolding in the US will act to moderate exports of agri-food (including seafood) and machinery and equipment in 2007 and 2008. In addition, exporters of consumer goods, broadly speaking, can expect weaker levels of orders over the next 12 to 18 months.

**Table 56: British Columbia Merchandise Export Outlook**

Top Sectors	CAD mn 2006	% Share of Province's Total Exports (2006)	Export Outlook (% growth)		
			2006	2007(f)	2008(f)
Forestry	13,461	40.3	-3.7	-6.5	4.4
Energy	6,410	19.2	-17.5	-4.2	12.4
Industrial Goods	6,368	19.1	17.0	3.2	-14.1
M&E	2,664	8.0	8.3	2.9	4.3
Agri-Food	2,461	7.4	1.8	3.5	3.6
All Others	2,057	6.2	1.2	-0.9	-1.9
<b>Total</b>	<b>33,421</b>	<b>100.0</b>	<b>-2.0</b>	<b>-2.4</b>	<b>1.7</b>
<b>Total excl. energy</b>	<b>27,011</b>	<b>80.8</b>	<b>2.6</b>	<b>-1.9</b>	<b>-0.8</b>

Source: EDC Economics. 2006 actual, 2007 and 2008 are forecast.