

Provincial Merchandise Trade—December and 2017

- **Rising import receipts during 2017 are expected to carry into this year, and testify to strengthening industrial production and business investment alongside buoyant consumer spending.**

Statistics Canada's [international merchandise trade report](#) for December indicated a 7.4% national surge in international merchandise import receipts—the third consecutive monthly y/y increase. The December rise mirrored import growth in every province except Prince Edward Island. In contrast, export receipts advanced just 2.8% y/y in December, with gains in six provinces, leaving net export receipts ahead of year-earlier levels in only five. In the majority of jurisdictions, December data reinforced the Q4 drag from net merchandise exports.

For all of 2017, the 6.9% annual increase in Canada's nominal exports was paced by a 5.2% jump in imports. The contribution of net international merchandise exports to nominal GDP was material in Newfoundland and Labrador, Alberta, PEI and British Columbia (chart 1).

The first half surge in energy export receipts spurred robust annual expansions of almost 35% in Alberta, 54½% in Saskatchewan and 20½% in Newfoundland and Labrador (p.2, table). Alongside Alberta's 9% rise in oil production in 2017, gains were supported by an annual advance in the WTI oil price of nearly 18%, a 24½% climb in Brent, and an increase over 30% in the oil sands' Western Canadian Select benchmark, even with the weakness in late 2017. In New Brunswick, energy export receipts soared almost 29%, reflecting stronger product prices and additional refinery capacity in Saint John.

Growth in nominal energy exports is expected to moderate in 2018 with a smaller production boost and a projected WTI oil price increase of less than 12%. Ongoing NAFTA negotiations likely present limited downside for Canada's oil & natural gas industry, as discussed [here](#).

Excluding energy, export receipts climbed in eight provinces last year, but rising imports limited non-energy balance improvements to just four provinces.

Machinery export receipts rose a hefty 10% in 2017, with Ontario providing just over half the increase alongside advances in seven other provinces. With 71% of Canadian machinery exports destined for the US during 2013–17, additional gains are projected this year given that multiple US industries are encountering capacity constraints and the US industrial order backlog is up 30% y/y through November 2017. Recent US tax reform should provide a further boost.

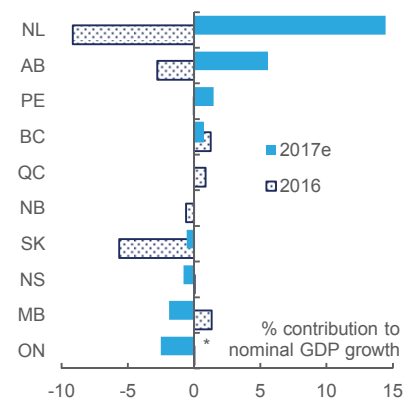
Forest product export receipts climbed in nine provinces last year, with lumber and building products buoyed by US residential construction gains. A further 3.3% rise in US housing starts is expected this year. The strength of US demand should continue to mitigate the impact of countervailing and anti-dumping duties on Canada's softwood lumber producers, but more serious consequences are likely from recent levies on Canada's newsprint exports.

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Chart 1

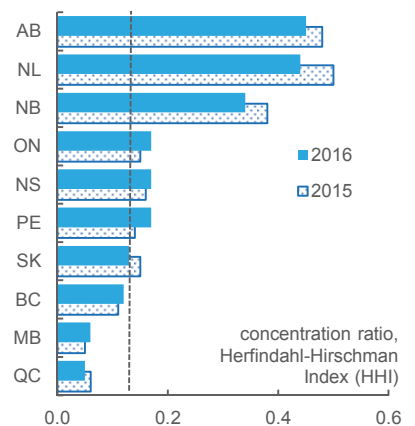
Net International Merchandise Exports' Contribution to GDP



Sources: Scotiabank Economics, Statistics Canada.

Chart 2

Provinces' Product Export Diversification¹



Source: Statistics Canada.

¹ HHI values range between 0 and 1. Exports are separated into high diversification (HHI < 0.15), moderate diversification (0.15 ≤ HHI < 0.25), and high diversification (HHI ≥ 0.25) categories.

Ontario's merchandise trade sector weighed on the province's 2017 nominal growth. Motor vehicles & parts export receipts dropped 6.2% last year following a strike and an auto plant retooling in the second half, while other shipments edged 0.7% lower. In the first half of 2018, motor vehicle units assembled are expected to return to their level in the three months prior to the strike and retooling, but less than the early 2017 highs. The rebound will be assisted by the higher pick-up truck output scheduled in February. For all of 2018, US motor vehicle sales are expected to climb back by 1%.

The Q4 y/y rebound in merchandise imports reflects inputs purchased outside of Canada to support the estimated 5.3% jump in national industrial production spread across most regions. The rise in imports also mirrors higher business investment, particularly machinery & equipment. Reflecting buoyant household spending, consumer products accounted for 12.6% of the rise in national imports, with eight provinces reporting gains in 2017.

With elevated uncertainty due to the ongoing NAFTA negotiations, the diversification indicated across seven provinces (p.1, chart 2) should help these regional economies to weather potential trade disruptions. Data on value-added in exports also report a significant contribution of services to merchandise exports in Ontario, Quebec and BC, underlining the complex consequences of current trade discussions.

Merchandise Trade by Province and Industry, 2017

% change unless otherwise noted

	Canada	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
Total Exports	6.9	21.0	4.9	3.7	20.4	6.0	-2.8	2.7	8.4	26.5	13.0
Farm, Fishing & Intermediate Food	4.2	-27.0	-3.7	2.6	-4.8	2.7	-5.5	8.8	1.6	16.2	3.0
Energy (incl. oil & gas, biofuels, electricity & coal)	34.0	20.4	n.a.*	-87.5	28.7	18.0	-2.4	-16.8	54.5	34.9	45.5
Metal Ores & Non-Metallic Minerals	9.7	41.8	23.4	-7.4	7.9	9.9	-9.2	101.8	6.9	-14.9	1.2
Metal & Non-Metallic Minerals	10.7	24.4	14.7	26.3	43.7	19.8	4.8	-6.7	63.0	16.5	19.9
Basic/Industrial Chemical/Plastics/Rubber	3.9	109.2	-26.3	7.2	33.6	6.5	-2.0	-7.5	-28.8	3.8	-5.1
Forestry Products/Building/Packaging Materials	4.2	-17.9	7.6	9.6	11.5	2.0	2.3	5.9	15.9	11.8	3.4
Industrial Machinery, Equipment & Parts	10.1	18.3	18.2	-8.0	-10.0	6.0	9.4	18.0	21.1	38.8	0.0
Electronic and Electrical Equipment & Parts	1.4	-16.7	209.7	-9.0	-2.0	-0.2	0.5	-4.6	-27.2	13.9	10.8
Motor Vehicles & Parts	-5.3	-50.0	27.4	-2.2	3.4	6.5	-6.2	2.0	20.3	20.4	-3.3
Aircraft, Other Transportation Equipment & Parts	-2.6	26.0	53.0	-14.4	58.2	0.0	-10.3	-0.7	326.3	-9.7	-8.6
Consumer Goods	-4.5	-3.7	3.7	13.0	4.5	0.8	-8.7	-0.7	-29.0	7.0	9.0
Total Imports	5.2	-44.2	-21.2	9.5	23.6	4.8	4.0	8.6	28.2	12.6	6.7
Farm, Fishing & Intermediate Food	0.2	50.0	n.a.*	19.3	-28.9	-10.6	4.5	-2.5	-2.4	10.2	0.2
Energy (incl. oil & gas, biofuels, electricity & coal)	14.9	11.0	n.a.*	-14.2	49.5	-4.6	30.0	-48.5	92.4	9.9	-6.6
Metal Ores & Non-Metallic Minerals	19.3	-64.7	n.a.*	28.2	-0.9	16.2	24.0	70.7	14.0	31.7	9.7
Metal & Non-Metallic Minerals	5.2	-14.8	0.0	1.9	-3.6	11.0	-0.1	20.2	33.4	48.7	11.3
Basic/Industrial Chemical/Plastics/Rubber	7.1	-82.7	-11.1	85.4	-13.5	13.5	1.1	10.6	26.2	17.8	6.9
Forestry Products/Building/Packaging Materials	3.8	-25.9	-80.0	-31.8	2.0	5.5	2.4	9.2	23.9	11.7	2.2
Industrial Machinery, Equipment & Parts	2.1	-96.9	376.2	2.3	8.9	6.8	5.4	20.3	28.5	-0.8	9.2
Electronic and Electrical Equipment & Parts	4.5	-18.1	-95.9	-16.6	-8.4	-1.3	5.6	-0.4	-14.9	6.8	9.3
Motor Vehicles & Parts	4.9	32.5	n.a.*	12.2	7.2	7.0	3.3	15.4	45.1	28.6	8.3
Aircraft, Other Transportation Equipment & Parts	11.2	177.4	n.a.*	67.3	-22.0	9.1	1.9	3.5	3.2	10.2	46.5
Consumer Goods	3.4	-6.7	16.9	7.6	-1.7	5.5	2.7	3.7	1.4	5.0	4.0
Net Exports (\$bn)											
2015	-54.8	5.4	1.2	-2.9	1.6	1.4	-128.5	-7.0	22.4	63.1	-13.3
2016	-63.9	2.6	1.2	-2.9	1.4	4.9	-128.2	-6.3	17.6	54.2	-10.0
2017	-59.6	6.9	1.3	-3.5	1.4	6.0	-147.2	-7.6	17.4	72.0	-8.2

* Data not available. Source: Statistics Canada.

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