HSBC

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HSBC: INTEREST RATES AND OIL PRICES HURT LOCAL GROWTH, YET CANADIAN COMPANIES SEE OPPORTUNITY AS U.S. ECONOMY SHINES

***Low dollar to boost Canadian manufacturing competitiveness over medium-term*

*** Trade volumes projected to quadruple by 2050*

After a sharp slowdown this year as emerging market demand stalled, businesses globally expect to see the United States and Europe lead a tentative recovery in global trade that should broaden and accelerate over the medium term, according to the latest edition of HSBC's semi-annual Global Trade Forecast.

In contrast to low oil prices continuing to weigh heavily on the Canadian economy, the Canadian dollar will likely remain cheap on a historical basis versus the US dollar, which should boost Canadian competitiveness, particularly for manufacturers. Solid US prospects on the back of strengthening fundamentals should also deliver an additional boost from Canada's traditional and most important export market.

Andrew Skinner, Head of Global Trade and Receivables Finance at HSBC Bank Canada, said: "Although trade has been hampered by a number of factors this year, Canadian companies expect cyclical factors, including upbeat US prospects, a weak dollar and low interest rates, to bolster Canadian exports into the medium term and will help mitigate the impact of falling activity in the energy sector."

Forward oil prices are below where they were earlier this year and HSBC expects energy sector investment and employment to drag on overall growth. This is supported by the view that the glut in oil supply markets is unlikely to be used up and that the US (where almost all of Canada's energy exports are shipped) will likely continue replacing foreign energy with domestic sources.

Outlining key drivers for the recovery of trade, the Forecast points to five global trends that will have a positive impact:

- The stabilisation of China's economy
- Stronger investment spending supporting solid growth of import demand in the developed markets
- Cyclical recovery in key sectors
- Trade liberalisation gaining traction
- Expanding opportunities for growth in services trade

The Trade Forecast serves to forecast bilateral trade for total exports / imports of goods over the medium to longer term. Yet a separate report issued recently, titled *Trade Winds: shaping the future of international trade*, provides a much longer term view on how firms can plan forward by building on lessons learned at HSBC over 150 years of world trade.

Broadly, over the next few decades, HSBC expects a rising global population, new trade agreements, better logistics and improvements in business operating models to fuel a sharp rise in exports. Technology too will play an increasing role in a new phase of globalisation. By 2050, goods exported are expected to reach US$68.5 trillion, with China, the US and Germany serving as the world's leading trading nations.

The pace of trade liberalisation will continue with the extension of free trade and continuing harmonisation of standards and regulations to reduce barriers to trade – ratification of the draft agreement for the Trans-Pacific Partnership, for instance, will bring forth the largest

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new trade pact in 20 years. And finally, a more stable political and currency environment will make trading easier for companies around the world.

Trade Winds highlights the following future opportunities for business:

- **The rise of the collaborating specialist:** Our experts point to a future for specialists who collaborate with other best-in-class organisations to compete.
- **Small players compete globally:** Big won't always be best, or even necessary, to interact internationally.
- **Location less important:** Where you are born or based will become less important as the gap between emerging and developed countries narrows.
- **Sustainability is key:** Understanding the future demands on the planet and what consumers want will create new businesses based on fulfilling their goals sustainably.
- **Operating models based on leasing not purchasing:** New revenue models will fundamentally shift how companies operate, invest for the future and grow.
- **Data, data, data:** Our increasing ability to use data to track the world today, and forecast the future, will enable businesses to build intelligent systems to track information and consumer demand.
- **Building the workforce of the future:** Recognising the shift in skills that the economy requires provides huge opportunities for businesses to adapt talent management strategies.

Added Skinner: "A very small number of companies in Canada currently generate sales abroad, and just 550 firms account for nearly three quarters (70%) of all goods exported – in order to maintain today's standard of living well into the future, we need to tap into growth outside of Canada. The global economy, and Canada in particular, needs more trade, not less."

A copy of HSBC Trade Winds is available here.

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Notes to Editors:

HSBC Trade Forecast - Modelled by Oxford Economics
Oxford Economics has tailored a unique service for HSBC which forecasts bilateral trade for total exports / imports of goods, based on HSBC's own analysis and forecasts of the world economy to generate a full bilateral set of trade flows for total imports and exports of goods, and balances between 180 pairs of countries.

Oxford Economics employs a global modelling framework that ensures full consistency between all economies, in part driven by trade linkages. The forecasts take into account factors such as the rate of demand growth in the destination market and the exporter's competitiveness. Exports, imports and trade balances are identified, with both historical estimates and forecasts for the periods 2014-16, 2017-20 and 2021-30. Sectors are classified according to the UN's Standard International Trade Classifications (SITC) and grouped into 30 sector headings. More information about the sector modeling can be found on http://www.globalconnections.hsbc.com/

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