HSBC

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News Release

Canada's trade growth to rebound to pre-financial crisis levels on emerging market expansion, trade accords

According to the latest HSBC Trade Forecast, Canada's historic trade ties with the US and a growing presence in emerging markets, together with past trade agreements, will serve to boost trade flows in the longer term. At the same time, amid a low dollar environment and a plunge in world oil prices, greater diversification of Canada's economy towards exports and business investment will mitigate the impact of sluggish energy export growth, should companies make the most of that opportunity.

Tepid growth in world oil demand and a need to rebalance global supply will lead to subdued Canadian oil prospects and impede growth into the long-term - accordingly, we forecast real GDP growth in Canada to average 2.1 per cent over the medium term (from 2021 to 2030).

From an average of 1.5 per cent annual growth between 2012 and 2014, world merchandise trade should increase by about 8 per cent a year from 2017, according to the report. Trade agreements still in negotiation have the potential to further underpin growth in trade flows in the years ahead.

For example, the proposed Trans-Pacific Partnership (TPP), a trade deal with South Korea, and potential bilateral trade accords under negotiation with other countries all have the potential to underpin export growth, as they expand access to, and liberalize trade with, fast-growing economies in Asia. The TPP and Transatlantic Trade and Investment Partnership (TTIP) agreements also have the potential to bring down trade barriers and expand Canada's reach in existing markets.

Andrew Skinner, Head of Global Trade and Receivables Finance at HSBC Bank Canada, said: "With faster growth in developed economies and a recovery in emerging markets on the horizon, Canadian trade growth looks set to accelerate back to pre-financial crisis levels. But we shouldn't limit ourselves to returning to status quo levels – uncovering opportunities for new product development and trade partners, in fields like electronics, pharmaceuticals and hi-tech, would provide meaningful support to Canada's long-term economic health beyond traditional industries and trade routes."

Import/Export corridors to watch

At the sector level, the mix of goods imports is not expected to change much in the coming years. Industrial machinery will remain the most important import sector, and is expected to contribute more than 20% to total import growth over 2015-30. Further, we expect Canada to import less petroleum products over the forecast period, and that this sector will be less important for imports as domestic supplies and increased refinement ability curb the need to import energy.

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With energy accounting for about a quarter of total export growth from 2015 to 2030, low oil prices and expectations of only a subdued rebound will weigh on exports in the coming years. However, a weaker Canadian dollar and lower oil prices will support non-energy export growth in the years ahead. Machinery and transportation exports are also expected to grow in importance in export flows, particularly as US demand rises, although the automotive sector faces some competitiveness issues.

Downside risks to the outlook include delays to the negotiation and implementation of trade liberalisation agreements and the continued shortening of global supply chains (the trend to re-shore production and so reduce cross-border traffic in intermediate manufactured goods).

Electrifying trade

This HSBC Trade Forecast places a special focus on plans for the electronics industry.

Canada's electronics industry is diversifying away from a narrow focus on communications equipment, a trend we expect to continue in coming years, underpinning electronics exports growth. Indeed, there has been a surge in patent applications in Canada's information and communications technology (ICT) industries according to the World Economic Forum. From a geographic perspective, Canada is expected to benefit from strong demand in emerging markets as these economies develop and their demand for electronic goods increases.

We also expect electronics imports to rise in the long-term, driven by Canada's knowledge-based economy, its highly-skilled workforce, and rising household spending and business investment as the economic mix becomes more diversified. In fact, electronics exports are forecast to grow about 4% per annum on average over the period 2015-30, but this will be outpaced by growth in imports of electronics averaging more than 6% a year as domestic demand remains firm. As a result, there will be a widening trade deficit in electronics goods.

Through Canada's membership in the WTO's Information Technology Agreement (ITA), tariffs on most of the electronics products covered by the agreement have been removed. An expansion of the agreement to cover an additional 200 products is expected to gradually reduce the average rate of duty on these goods applied in Canada from the current level of 6% to zero-tariff and duty-free guarantees.

Finally, research cited by the Information Technology and Innovation Foundation shows that sectors of the economy that adopted ICT have seen a rise in labour productivity. The report expects that businesses will increasingly adopt ICT where possible, contributing positively to long-term growth prospects.

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Notes to Editors:

About the 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/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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