

HSBC Trade Connections:

Trade Forecast Update: Canada

February 2012

Forecast exploring the future of world trade and the opportunities for international businesses

- World trade to grow by 86% in the next 15 years (2012-2026)
- International trade growth will accelerate from 2014
- Companies to increase trade activity by 4.70% annually to achieve projected growth
- Fastest growing emerging sectors support trade infrastructure and the transportation of goods around the world
- Canada's trade growth 2012 to 2026 will be 68.44%
- Canadian companies to increase trade activity annually by 2.97% over the next 15 years
- Canada's fastest emerging export sector is vacuum flasks and parts (23.07% annualized over the next five years). The fastest growing large export sector will be in rape seed (8.39% over the next five years)

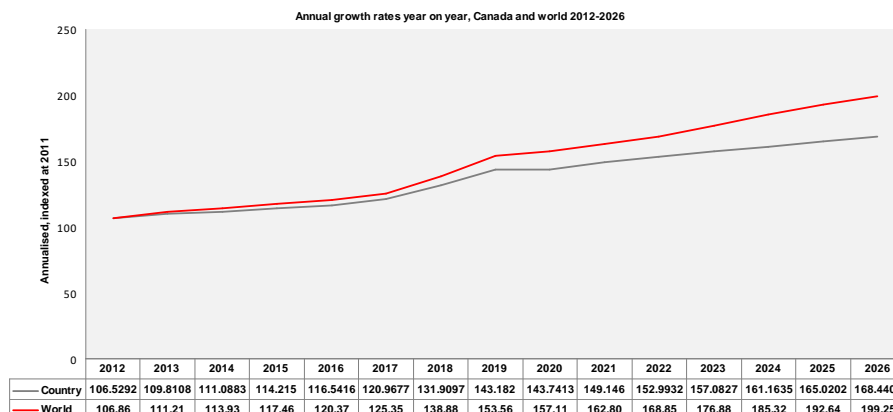
Trade overview

As the world continues to face well-documented economic challenges, the Trade Forecast suggests grounds for optimism for international businesses. Despite the current climate the overall trend for international trade is positive with growth acceleration sooner than expected from 2014, rather than 2015. After 2014 the global economy ends a period of slow growth and contraction and sees an upturn in trade in line with GDP forecasts. Over the next five years it is forecast that world trade will grow at an annualised rate of 3.78% (see below graph for year-on-year predictions), due primarily to the expectation of an earlier recovery of the overall global economy. In the period 2017-2021, the Forecast predicts even more rapid annualised growth at 6.23%, as world demand for traded goods recovers its dynamism. As a result world trade is predicted to grow by 86.00% in the next 15 years, taking total trade activity in that year to \$53.8 trillion.

The Trade Forecast predicts that Canadian trade growth, at an annualized rate of 1.40% over the next five years, will be slower than world trade growth. However, this increases to 4.15% between 2017 and 2021. It equates to growth of 68.44% over the whole period, which is higher than the 58.90% forecast in October 2011 as a result of higher imports throughout the period. Canadian companies will need to increase trade activity annually by 2.97% over the next 15 years if they are to keep pace.

Canada's trade outlook

Canada's trade will grow at a rate very similar to the USA's over the period to 2026. An uplift in trade is predicted after 2014 for both the world and Canada. Although Canada has a similar growth in trade in 2012 - fueled largely by a 2.31% annualized increase in imports in the first five years - the overall picture is that the pace of growth will fall behind the world average by 2013. World growth is set to accelerate after 2015, with Latin America and Asia Pacific regions driving world trade.



The 2012 outlook for the Canadian economy remains uncertain. The cautious optimism of 2011 has been replaced with a feeling that a loss of economic momentum will make the economy fragile and negatively affect growth. There are worries that 2012 may see Canada become a 'two-speed economy', with stronger growth in areas such as the Prairies, which would be able to rely on the strength of its commodities, but slower in areas such as Ontario and Quebec, where deteriorations are anticipated in the housing market.

Alan Keir, Group Managing Director and Global Head, HSBC Commercial Banking:

"Where once businesses followed economic investment, now, forward-thinking companies lead, taking matters into their own hands and making business happen. Whether that's taking advantage of shorter-term growth in international trade, which despite economic uncertainty sits at \$1trillion a year, or by creating new supply chains that open up trade corridors, businesses are connecting themselves to future opportunities. The reality is that growth opportunities lie internationally. The companies that succeed will be planning for that today."

Trade corridors and trends

Canada's largest export partners are the USA, China and the UK, while its largest import partners are the USA, China and Mexico. Intra-regional trade is significant for Canada, not least because trade within the North American Free Trade Association accounts for some 48% of trade between its member countries. Canada will increase its imports from China at an annualized rate of 4.92% over the next five years, while increasing its exports to China by 7.14% annually. This will be fueled by both strong growth in the Canadian export sector as well as the strengthening of trade relations with China. Latin America is a large and important trading region for Canada and exports to Brazil are forecast to increase by 8.12% annually to 2016, while imports from Peru, especially of gold, will grow at an annualized rate of 8.05% as a result of increased demand for these products.

Canada's Emerging Growth Importers and Exporters (2012-2016)

Canada's Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Export Partners	%	Canada's Largest Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Import Partners	%
USA	0.38%	Malta	15.48%	USA	1.85%	Kazakhstan	16.29%
China	7.14%	Brunei Darussalam	12.17%	China	4.92%	Qatar	14.89%
United Kingdom	3.81%	Latvia	12.03%	Mexico	5.58%	Nigeria	11.48%
Japan	3.15%	Bangladesh	11.49%	Germany	2.63%	Bolivia	11.19%
Mexico	5.66%	Bulgaria	11.12%	Japan	1.29%	Argentina	10.90%
Germany	4.79%	Uruguay	10.84%	United Kingdom	3.04%	UAE	10.35%
South Korea	5.58%	Cyprus	10.78%	South Korea	3.66%	Rwanda	10.16%
Netherlands	5.67%	Bolivia	10.22%	France	3.44%	Cayman Islands	9.72%
Norway	4.94%	Libya	9.98%	Italy	2.34%	Egypt	9.19%
France	3.21%	Laos	9.57%	Peru	8.05%	Georgia	8.99%

N.B. Emerging Growth Import and Export Partners are trade partners that are growing most quickly over the period, albeit potentially from a small base. CAGR stands for compound annual growth rate.

Sector watch

The table below shows Canada's fastest growing export and import sectors by partner:

Canada's Fastest Growing Export and Import Sectors by Partner (2012-2016)

Export Sector	Export Partner	CAGR (2012-16)	Import Sector	Import Partner	CAGR (2012-16)
Coal, briquettes, ovoids etc. made from coal	Japan	9.81%	Electric apparatus for line telephony, telegraphy	China	10.40%
Diamonds, not mounted or set	United Kingdom	9.01%	Gold, unwrought, semi-manufactured, powder form	Peru	9.66%
Parts of aircraft, spacecraft, etc	USA	7.21%	Petroleum oils, oils from bituminous minerals, crude	USA	7.49%
Turbo-jets, turbo-propellers/other gas turbine engines	USA	7.13%	Radio and TV transmitters, television cameras	China	7.21%
Mineral or chemical fertilizers, potassic	USA	6.80%	Waste or scrap of precious metal	USA	7.10%
Radioactive elements, isotopes, compounds and mixtures	United Kingdom	4.95%	Television receivers, video monitors, projectors	Mexico	6.48%
Nickel matte, interim products of nickel metallurgy	Norway	4.68%	Petroleum oils, oils from bituminous minerals, crude	Saudi Arabia	4.59%
Gold, unwrought, semi-manufactured, powder form	United Kingdom	4.33%	Motor vehicles for transport of persons (except buses)	Germany	4.19%
Baked bread, pastry, wafers, rice paper, biscuits, etc	USA	3.94%	Oils petroleum, bituminous, distillates, except crude	USA	3.15%
Electrical energy	USA	3.94%	Turbo-jets, turbo propellers/other gas turbine engines	USA	2.93%

N.B. The fastest growing import and export sectors by partner are developed from the top 50 export and import partners and are selected alongside the trade sectors that constituted values of above \$100 million at the end of 2010. The top ten fastest growing partners by sector were selected for this table.

The sector opportunity

Alternative energy: This sector is set to grow for the world as a whole by 9.14% over the next five years, so there are big opportunities for business. Canada is one of the world's largest producers of uranium and as new mines open, such as the Cigar Lake Mine in 2013, this capacity, and the key role that Canada will play in alternative energies, is set to grow. For example, the Trade Forecast predicts that exports of uranium to the UK will increase annually over the next five years to 2016 by 4.95%. In a related sector, electrical energy controls, exports to the USA are forecast to increase by 3.94%. These are significant developments in large trade corridors; however, company growth of above 4.00% will be required in order for businesses to keep pace with sector growth and therefore take advantage of this well-established trade corridor.

Coal: Canada is a major producer and exporter of coal; a major contributor to Canada's trade surplus. Japan is the third-largest export destination for Canadian coal and metallurgical coal, used in steel making, is the major product exported. Trade was negatively affected when the Tsunami in 2011 hit Japan, but the Trade Forecast predicts that exports to Japan are set to increase by 9.81% over the next five years. Japan is one of Canada's major trade partners and trade routes and infrastructures are well established. Businesses in the coal and related infrastructure sectors can take advantage of this by growing their international activities in this area by 10.00% annually.

Manufacturing: Two of the top-three growth sectors for imports are electrical appliances for telephones and computer and data processing equipment, these sectors are set to increase over the next five years by 10.40% and 6.48%, respectively. China is emerging as Canada's key import partner in the manufacturing sector. Mexico is a major importer of TV receivers, videos and projectors and imports of these are set to grow by 6.48%. Canada exports aircraft and turbo jets from its manufacturing sector and these are set to grow by 6.71% and 6.68%, respectively. Canada's strong innovation and skills base is reflected by the fact that it is a net exporter in the manufacturing sector at the high value end of the market.

HSBC Trade Connections Trade Forecast

The Trade Forecast predicts how trade is going to develop over the next five, 10 and 15 years. It forecasts overall trade growth (exports, imports and total trade) globally, in global regions, and individual countries. Spanning 37 countries, it covers the top 10 sectors for exports and imports for each of these. The forecast has a unique approach to understanding the drivers of trade from a business perspective, informed by: trade trends, macroeconomic and market influences trade (for example GDP, oil prices, inflation, foreign direct investment), and business environment influences on trade (including regulation, demographics, access to capital and finance). The research has been commissioned by HSBC and undertaken by Delta Economics.

The economic and business narratives stem from a broader documentary search that includes material from National Statistical Offices, the World Bank and International Monetary Fund, economic blogs, the Economist Intelligence Unit, Bloomberg, the Financial Times and other professional and financial services news websites.

About HSBC Commercial Banking

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. HSBC is one of the world's most international commercial banks with over three million customers in more than 60 markets.