SECTORS IN FOCUS

EDC Economics
December 2024

Canada

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TAKE ON THE WORLD

CONTENTS

EXECUTIVE SUMMARY

This Export Development Canada's *Sectors in focus* (SIF) autumn 2024 report offers an exclusive, in-depth analysis of pivotal sectors in the Canadian economy, spotlighting unique trends, challenges and opportunities.

Key highlights include:

Automotive sector
Facing hurdles from declining U.S. demand and production disruptions, the sector is also navigating shifts in electric vehicle (EV) strategies.

Nuclear energy
With renewed global interest due to its low-emission and reliable energy benefits, Canada is strategically positioned to capitalize on growth.

Ores and metals
This section explores the driving factors and future prospects, including the pipeline of mining projects in Canada.

Environmental and clean technology (ECT)
A complex yet significant contributor, ECT added $80 billion to Canadian gross domestic product (GDP) in 2022, with record exports of $20.9 billion. This section delves into the forces behind this growth.

Service sector
As a significant share of Canada's economy and exports, this section compares Canada's service exports with global counterparts and identifies future opportunities.

ASEAN region
Highlighting significant market opportunities, this section details EDC's expanded support for Canadian exporters in this dynamic Southeast Asia region.

Value-add agriculture
This chapter examines the contributions of key subsectors to the economy and employment.

Global trade and Canadian export outlook

Despite global economic uncertainties and geopolitical risks, the report remains optimistic about the future of Canadian exports and provides a detailed forecast of key sectors.

December 2024
EDC Economics

SECTION 1: SECTORS IN FOCUS

A review of Canada's automotive sector: How electric vehicle trends are impacting Canadian production

—Karicia Quiroz, economist

Canada has had an interesting year in the automotive sector, with $56.4 billion in nominal exports for motor vehicles and parts through the first two-thirds of the year—a decrease of nearly 5% year-over-year (YOY),[1] according to Statistics Canada. This is driven by declines in exports of passenger cars and light trucks (historically, two-thirds of exports), falling 9% YOY; and motor vehicle engines and parts (historically, one-fourth of exports), falling 2% YOY.

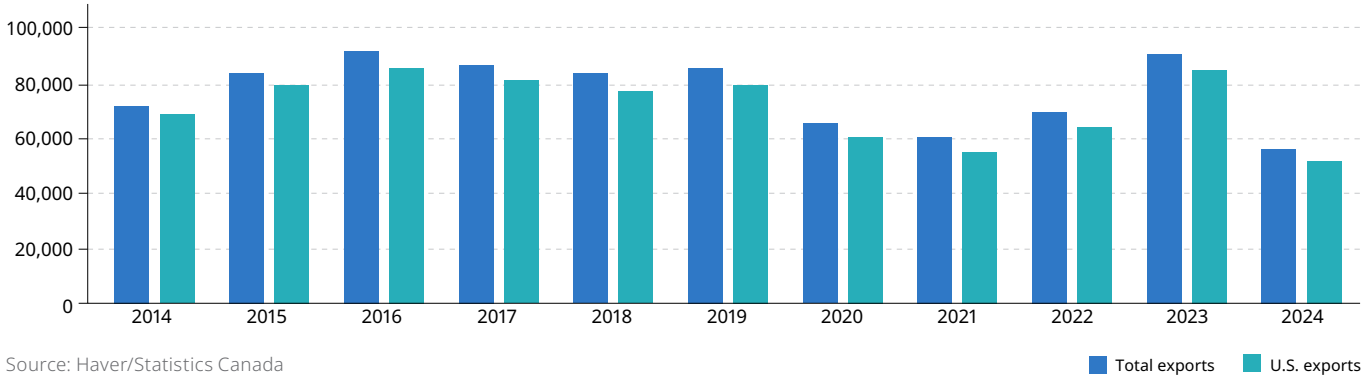
Canadian automotive exports are a United States demand story, with nearly $52.4 billion—or 93% of the total—motor vehicles and parts exports going to that country.

From 2020-2023, Canadian automotive exports averaged $72.1 billion annually, almost 17% lower than the pre-pandemic (2015-2019) average of $86.4 billion a year. During the same pre-pandemic period, Canadian vehicle production (an indicator of supply) and U.S. vehicle sales (an indicator of potential demand) averaged 2.2 million vehicles and 17.7 million vehicles, respectively.

This was 64% and 17% higher than current post-pandemic averages (2020-2023)[2] as the Canadian automotive sector is still recovering from the drop in U.S. demand and previous disruptions in North American original equipment manufacturer (OEM) production. Another factor currently impacting the Canadian automotive export outlook is the transition to electric vehicles (EVs).

1 This compares exports in January-August 2024 to January-August 2023.
2 Wards.

Figure 1: Canadian motor vehicles and parts exports (million $)



Source: Haver/Statistics Canada
Statistics Canada, Table 12-10-0175-01

EV transition impacts on production

The pace of EV sales growth has begun to decline this year due to consumer concerns with EV pricing, charging infrastructure, and driving range. Indeed, the first half of 2024 saw U.S. plug-in electric vehicles (PEV) sales[3] increase by only 10% compared to the same period a year ago and sales are expected to fall below the 40% total U.S. PEV sales in 2023.

Lower sales growth, higher costs, and potential competition from China has enabled OEMs to scale back on EV production. This is on top of the potential losses in annual production that some OEMs have sustained due to retooling their facilities to transition from internal combustion engine vehicles (ICEVs) to EVs.

Within Canada, some examples include:

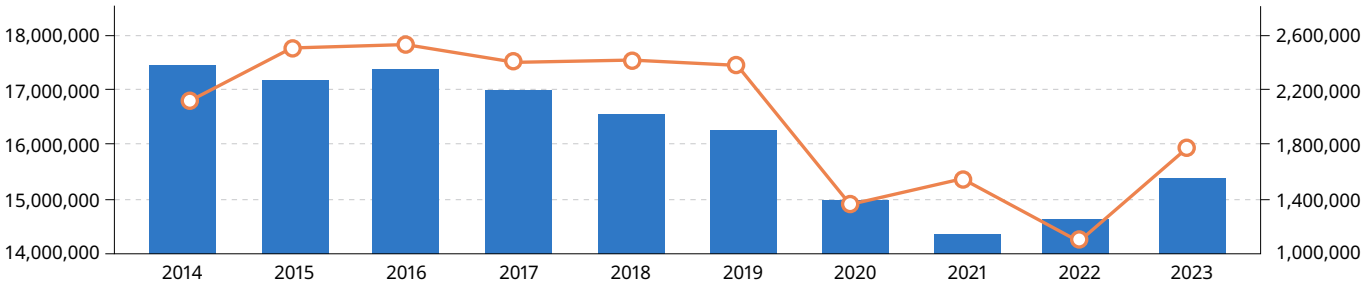
- **Ford**: While Ford had plans to retool their Oakville, ON, plant to transition to EV production in 2027, an uncertain EV market environment has changed its plans. Ford has pivoted to planning to produce a gas-powered F-Series Super Duty pickup truck in 2026 instead.
- **Stellantis**: A positive contributor to the outlook is Stellantis's plans to produce four vehicles at its Windsor plant by the end of 2026, including the all-electric Dodge Charger in 2024[4]. To curb the risk of slower EV adoption on sales, the company will also produce gas-powered versions of the Dodge Charger in 2025.
- **General Motors (GM)**: Between 2023 and 2024, GM halted production of its BrightDrop electric delivery vans in Ingersoll for six months due to battery shortages. By starting battery assembly on-site in the second half of 2024 and moving the electric vans under the Chevrolet brand, GM is looking to increase production and sales of these electric vans in 2025.

Despite notable delays in key EV battery projects such as Northvolt's and Umicore's project delays, OEMs are still heavily investing in co-developing the EV battery space in Canada, which will support Canadian EV production in the long term. NextStar (LG Energy and Stellantis' $5-billion joint venture) just began production of battery cells in Windsor with a capacity to support 450,000 EVs and 40% of the OEM's planned EV production requirements in North America. Ultium CAM (GM and POSCO Future M's $600-million joint venture) in Bécancour, QC, is targeted to start production of cathode active materials (CAM), a key component in EV batteries, in 2025.

Honda will also invest $15 billion (the biggest EV supply chain investment in Canada from an OEM) to create a large-scale EV supply chain, including an EV assembly plant and battery manufacturing plant in Alliston, ON. Once operational in 2028, the EV assembly plant is targeting production of 240,000 EVs per year.

3 PEV sales (volume) refer to the sales of battery electric vehicles and plug-in hybrid electric vehicle (PHEV) for the passenger segment.
4 The first passenger EV car produced in Canada since Toyota's limited RAV4 EVs in 2012-2014

Figure 2: Key indicators of supply and demand for Canadian motor vehicles and parts exports



Source: Ward's Automotive Group/Haver

Value-add agriculture: Current and emerging sectors

—Prince Owusu, senior economist

In 2023, Canada's primary agricultural sector contributed 1.6% to both overall gross domestic product (GDP) and employment. However, its impact on the broader economy through the value-added food supply chain is even more significant. In fact, food processing is the largest manufacturing sector in Canada, accounting for 14% of real manufacturing output and 16% of manufacturing employment in 2023.

The Canadian landscape

Canada produces and exports high-quality primary agriculture products such as canola, wheat, cattle and hogs. In addition to being loaded into shipping containers and exported directly, many of these products are processed and packaged here before being sold in local and international markets. The value-add, which includes processing, packaging and marketing of our agricultural products, enhances the economic impact of the sector.

When we think about agricultural products, fields of wheat or herds of cattle come to mind. However, value-added agriculture, which involves altering the physical form or shape of these products, can be more complex to grasp.

Below, we explore key subsectors such as meat processing, dairy products, grains and oilseed milling, bakeries, as well as beverages, tobacco and cannabis products.

Meat processing

Meat processing is the largest food manufacturing subsector in Canada, contributing one-quarter of the sector's economic output and employment. This includes processing beef, pork, poultry and other meats into products, like sausages, deli meats and frozen meals. Alberta beef and Manitoba pork are key players in this space. Canadian meat processors are known for their safety and quality standards, which helps enhance their global market appeal.

The United States is the primary destination for Canadian meat products. However, a new U.S. Department of Agriculture rule set for 2026, will prohibit Canadian meat from being labelled as "USA Product" or "Made in America," which could impact the sector. The Indo-Pacific region, with its growing middle class and increasing demand for protein-rich foods, may offer alternative export opportunities.

Dairy

Canada's dairy industry is renowned for its high standards and quality. Value-add activities include producing cheese, yogurt, butter, milk and other dairy products. Known for their rich taste and nutritional value, Canadian dairy products are popular both domestically and internationally. The industry benefits from supply management systems that ensure stable domestic prices and consistent quality. However, this system has been a contentious issue with trading partners, like the U.S and New Zealand.[5]

The sector accounted for 12% of Canada's food manufacturing real GDP and 11% of food manufacturing employment in 2023.

Grains and oilseeds

Canada is a major producer of grains and oilseeds, including wheat, canola and soybeans. Value-add activities involve processing these raw materials into products such as flour, breakfast cereals, cooking oils and animal feed. Canadian processors benefit from high-quality crops and advanced technologies, enabling them to produce a wide range of products to meet diverse market needs. Grains and oilseed milling accounts for 8% of Canada's food manufacturing real GDP and 3% of food manufacturing jobs.

Bakeries and tortilla industry

The bakeries and tortilla industry is the third-largest food manufacturing sector, contributing 16% to Canada's food manufacturing real GDP and 20% to employment in the sector. The industry produces various products, including bread, cookies, crackers, pasta, pastries, cakes and tortillas.

Other value-added agri-food subsectors include specialty foods, fruit and vegetable manufacturers, snack foods, syrups, seasonings, dressings and other perishable prepared foods.

However, beverages and tobacco account for only a small share of economic activity and employment in the overall manufacturing sector.

Outlook and emerging sectors

Canada's agri-food value-added sector has shown incredible adaptability to changing consumer demands. A growing trend towards healthier food options, such as whole grain and gluten-free products, and plant-based and alternative proteins, is prompting Canadian manufacturers to expand their product lines and adopt innovative processing and packaging technologies to boost production and exports.

5 In October 2024, New Zealand triggered a mandatory negotiation with Canada under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) rules, after a CPTPP panel of arbitrators found Canada's dairy quota system is inconsistent with its obligations in 2023.

Figure 3: Share in food manufacturing

Canada's high-quality raw grains, oilseeds and live-farmed animals are exported globally. In 2023, Canada exported nearly $3 billion worth of live animals and $17.6 billion of wheat and canola. However, more can be done. These raw agricultural products could undergo further processing into intermediate or final products before export, given the promising outlook for value-added agri-food processing in Canada.

An emerging sector to watch is grains and oilseed processing. Several canola crushing plants are under construction in the Prairies, which will increase Canadian crushing capacity from 11.3 million tonnes to 18 million tonnes over the next five years. This expansion is driven by rising demand for biofuels, like renewable diesel[6] and biodiesel[7]. The push to reduce carbon emissions presents an opportunity for increased grain production and processing, including crushing and milling plants. In Canada, biofuel production could increase by four billion litres per year by 2027[8], based on publicly announced plans for new processing plants. An increase in biofuels presents a key opportunity for purpose-grown energy crops, as producing one billion litres of biodiesel from canola requires about 2.5 million metric tonnes of canola seed as feedstock.

A growing middle class in the Indo-Pacific region bodes well for increased demand for grain and meat exports, making wheat, canola and meat processing key subsectors to watch. Businesses are already looking to expand production capacity.

JBS Foods Canada announced a $90-million investment in Alberta to process more beef, while Winkler Meat is expanding its Manitoba pork processing plant with a $52.8-million investment. The federal government is supporting agri-food processing capacity and competitiveness through a five-year, $3.5-billion Canadian Agriculture Partnership program.[9]

Other key subsectors to watch include plant-based protein foods that process pulses, soy and other plant-based ingredients into products such as meat alternatives, protein powders and dairy substitutes. Demand for organic and specialty foods is also gaining popularity, prompting Canada's value-added agriculture sector to produce a wide range of organic and specialty products, including gluten-free, non-GMO and allergen-free foods. This subsector is supported by stringent organic certification standards and a growing number of organic farms across the country.

Value-added agriculture is a vital component of Canada's agricultural landscape, contributing significantly to the economy and providing high-quality products to consumers. As consumer preferences evolve and new market opportunities emerge, Canada's value-added agriculture sector is well-positioned to continue its trajectory of innovation and success.

6 Renewable diesel is a diesel derived from plant and animal sources, which is chemically the same as petroleum diesel and is 100% fuel and can be used to power engines

7 Biodiesel is a diesel derived from plant and animal sources that must be blended with petroleum diesel.

8 https://www.cer-rec.gc.ca/en/data-analysis/energy-markets/market-snapshots/2023/market-snapshot-new-renewable-diesel-facilities-will-help-reduce-carbon-intensity-fuels-canada.html & https://www.marketsandmarkets.com/Market-Reports/north-america-renewable-diesel-market-55663882.html?gad_source=1&gclid=Cj0KCQjwyL24BhCtARIsALo0fSCTH1BL2V-3qjhh0Ci7YFmss6yxzlIH6T3AE6nlvhrksKj6T01dgdcaAljmEALw_wcB

9 This year, the Canadian government earmarked $18.4 million to support expansion of grain milling capacity in southern Ontario.

Global nuclear renaissance: Unleashing Canada's potential

—Zhenzhen Ye, country risk analyst

Nuclear power provides about 10% of global electricity, making it the second-largest low-emitting energy source after hydropower. It's also helped reduce CO2 emissions by almost 55 gigatonnes in the past five decades, which is about two years' worth of global energy-related emissions.[10] Nuclear power's stability and dispatchability also make it more reliable compared to renewable energies such as solar and wind.

Despite these benefits, traditional nuclear projects often require large upfront installation costs and long lead times, posing significant barriers to wide adoption, especially among developing countries. Nuclear safety and waste management concerns have also been a key issue for the public.

In recent years, the world has seen a revival of nuclear energy expansion. Following the energy crisis exacerbated by Russia's invasion of Ukraine in 2022, several countries adjusted their energy policies to enhance energy security and reduce their reliance on fossil fuels. South Korea reversed its nuclear phase-out policy and aims to increase its share of generation capacity from nuclear power to at least 30% by 2030, while France plans to build up to 14 new reactors by 2050. Canada is also increasing investments in nuclear energy, particularly in small modular reactors (SMRs).

Another driving factor is the rapid advancement and increasing adoption of artificial intelligence (AI) across various sectors. AI development, particularly training large models, requires immense computational power, leading to high energy consumption. It also requires a stable and continuous energy supply to power data centres.

10 Canada's National Statement on Nuclear Energy - Canada.ca

By 2027, the AI sector could consume between 85 to 134 terawatt-hours annually, comparable to the annual energy demand of a country, like the Netherlands. This is why big tech companies are turning to nuclear power to meet their growing energy demands for AI.[11]

In addition to drivers, like energy security and AI development, a renewed interest in nuclear power can be attributed to SMRs. These advanced nuclear reactors have a power capacity of up to 300 megawatts electric per unit. Their size and format mean lower upfront investment costs, greater scalability and enhanced safety features.

Amidst this global nuclear energy renaissance, Canada has the potential to play a crucial role in supplying clean and reliable nuclear power domestically and globally.

Canada benefits from the following:

- **Third-largest uranium reserves globally:** Canada is the second-largest producer and exporter of uranium. In 2022, 80% of Canada's uranium production was exported for use in nuclear power generation worldwide.
- **Advanced Indigenous nuclear technology**: Canada deuterium uranium (CANDU) is a world-class reactor, making Canada one of the few countries offering domestically designed reactors to the commercial market. CANDU reactors are licensed in India, Pakistan, Argentina, South Korea, Romania and China.
- **Supportive policies:** The federal government introduced an investment tax credit of up to 30% for clean technologies, including SMRs. Additionally, Canada's Infrastructure Bank (CIB) expanded its role to invest in projects that accelerate the transition to a low-carbon economy, including SMRs.[12]

Nuclear power is a crucial component of the global energy mix, offering a stable and low-greenhouse, gas-emitting source of electricity. The recent global energy crisis and technological advancements have renewed interest in nuclear energy, particularly in the form of SMRs. With its vast uranium reserves, advanced nuclear technology and supportive government policies, Canada is well-positioned to play a key role in supplying reliable and sustainable nuclear power globally.

11 For example, Microsoft recently signed a deal with Constellation Energy to revive a dormant reactor at the Three Mile Island nuclear power plant, while Google is partnering with Kairos Power, a developer of SMRs, to support its AI advancements.

12 In 2022, the Canada Infrastructure Bank (CIB) announced a $970-million loan to develop Canada's first commercial small modular reactor (SMR), a 300-megawatt project in Darlington, ON. In 2023, Canada's Small Modular Reactor Action Plan was launched, providing $30 million to support the industry.

Gold boosts Canadian exports short term, EV battery minerals long term

—Karicia Quiroz, economist

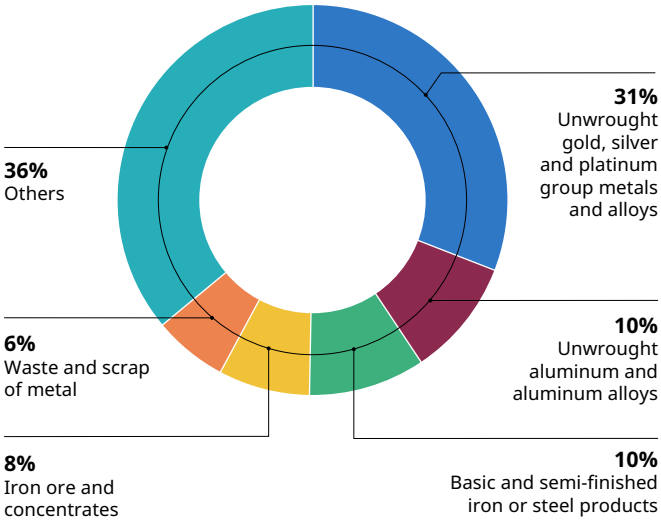
Canadian ores and metals exports

Despite lower global steel and iron ore prices[13] due to China's weaker property market, Canadian nominal exports for ores and metals reached $76.8 billion year-to-date (YTD) (January-August 2024), a 3.7% increase compared to the same period in 2023.

This growth was driven by a 33% year-over-year (YOY) increase in unwrought gold, silver and platinum group metals (PGMs) and alloys exports. This category—mainly gold[14]—accounted for 31% of exports in 2024 YTD, up from 24% the previous year.

Gold prices have hit new record highs throughout 2024, surpassing US$2,700 per troy ounce in October due to geopolitical uncertainties, interest rate cuts and the U.S. election. With this price momentum it's no surprise to see a surge in Canadian gold exports as producers benefit.

Figure 4: Canadian ores and metals exports, 2024 YTD



Source: Statistics Canada/Haver

13 Steel sector: Global steel prices under pressure amid China's real estate downturn | Credendo

14 Gold took a 96% share of 2024 YTD exports on unwrought gold, silver, and PGMs, using the HS code system (Statistics Canada).

Critical minerals are essential to Canada's transition to a low-carbon and digital economy. Regarding Canada's critical minerals[15], our country exports a relatively high share of:

- **Unwrought aluminum and alloys (10%):** A "cross-cutting" metal used in many in low-carbon technologies.
- **Iron ores and concentrates (8%):** A potential feedstock for green steelmaking if iron ore is of high purity.
- **Copper ores and concentrates (4%) and unwrought copper and alloys (2%)**: Key inputs in multiple applications, including renewables, energy storage systems (ESS) and electric vehicles (EVs).
- **Unwrought nickel and alloys (3%):** Potential inputs in EV batteries and ESS.

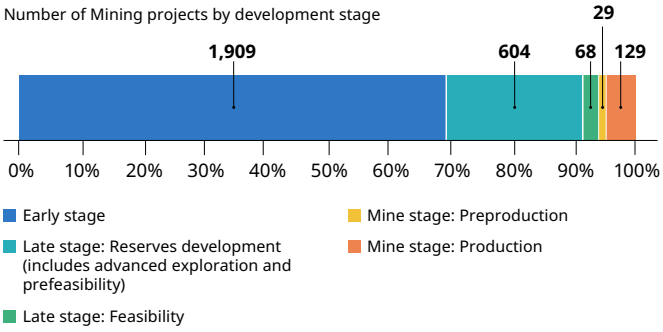
Exports of other critical minerals, including cobalt, graphite, lithium and rare earth elements (REEs), are relatively small, partly due to fewer mining projects.

Canada's projects pipeline and export outlook

According to S&P Global Market Intelligence, Canada has 2,739 active mining projects, with 129 projects in production (supporting exports); and 29 projects in preproduction, which are "construction ready" or have started construction.[16]

Currently, 61 projects produce gold,[17] which will continue to support Canadian exports in the short term given a higher 2025 gold price forecasted in our latest *Global Economic Outlook*[18].

Figure 5: Breakdown of 2,739 active mining projects in Canada, October 2024



Source: S&P Global Market Intelligence

Within key critical minerals, 21 projects produce either copper, nickel, lithium, cobalt, graphite or rare earth elements (REEs),[19] a smaller share of producing projects.

Among the six critical minerals, nine projects are in pre-production and likely to come online in the next three to five years. Projects in preproduction still face potential barriers that could impact the timeline of construction and start of production, including a lower-price environment, limited financing, and insufficient processing facilities. For example, Arcadium Lithium reportedly paused its Galaxy spodumene concentrate project earlier this year due to lower lithium prices. However, Rio Tinto's announced acquisition of Arcadium Lithium might bring in additional capital to support the project.

15 For list, see https://www.canada.ca/en/campaign/critical-minerals-in-canada/critical-minerals-an-opportunity-for-canada.html

16 There are 672 projects with a defined resource estimate that haven't decided to produce (late stage); and 1,909 projects with no defined resource estimate (early stage). These are long-term plays given Canada's average mine lead time of 18 years between discovery and production, according to discussions with internal experts.

17 In the analysis, mining projects will be presented on a primary commodity basis.

18 EDC Economics Global Economic Outlook (GEO), October 2024

19 This article will focus on the federal government's six critical mineral priorities. See: The Canadian Critical Minerals Strategy - Canada.ca

To mitigate barriers, producers are integrating production and refining of critical minerals. Notable examples include EV battery supply chain projects, which could boost Canadian exports in the long term.

Nemaska Lithium's Quebec-based Whabouchi Mine project

Targeting commercial production in 2025, the mine will likely generate 235,000 tonnes of spodumene concentrate. This feedstock will be converted into lithium hydroxide, a key chemical in EV batteries, at the planned Bécancour Conversion Facility. The facility is slated to produce 32,000 tonnes per year (TPY) in lithium hydroxide by 2026.

Northern Graphite's Ontario-based Bissett Creek project

Once online (tentatively 2026) this graphite mine will supply up to 44,000 TPY in high-quality, battery-grade graphite concentrate.

Some of the feedstock will likely supply Northern Graphite's planned battery anode plant (a key component of EV batteries) in Quebec

Nouveau Monde Graphite's (NMG's) Quebec-based Matawinie Mine project

In the second phase of construction, with expected production of 103,000 TPY of graphite concentrate (97% pure flake graphite) by 2027. Most of the production will be used as feedstock in NMG's Bécancour Battery Materials Plant, which is expected to generate 43,000 TPY of active anode materials by 2027.

Unlocking Canada's cleantech advantage

—Prerna Sharma, senior economist

Environmental and clean technologies (ECT) are widely recognized as a critical component in mitigating climate change and meeting net zero goals. Each year, EDC writes an annual cleantech report focusing on trends in the sector and the latest developments in the field. Here, we provide a deep dive into the ECT sector in Canada, highlighting its rising prominence in our export outlook.

So, what exactly does the environmental and clean technology (cleantech) sector encompass? The Government of Canada taxonomy includes more than 300 activities considered ECT.

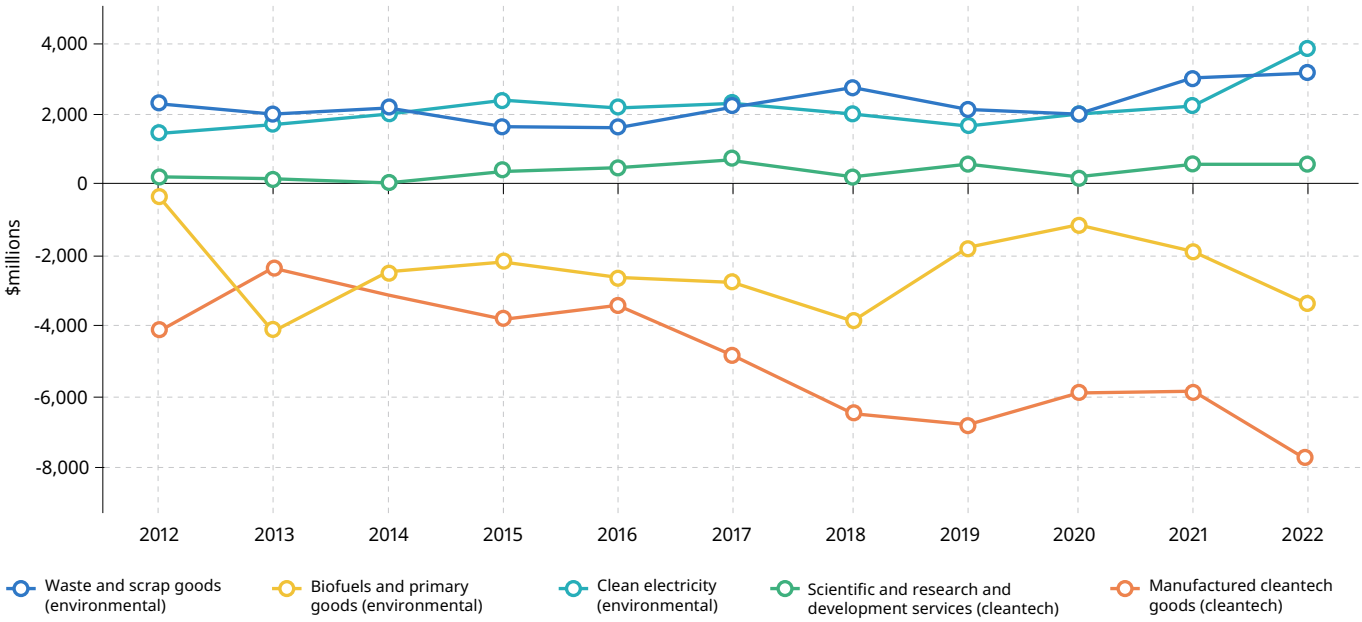
According to Statistics Canada, the ECT sector is classified as any good, service or activity that reduces environmental impacts through one or more of the following:

- Environmental protection activities (e.g., CO_2 emissions filters used in a plant)
- Sustainable use of natural resources (e.g., using less wood to produce the same chair)
- Use of goods specifically modified to be less energy or resource-intensive than the industry standard (e.g., electric vehicles)

ECT has played an outsized role in Canada's economy. In 2022, the ECT sector contributed $80 billion to Canadian gross domestic product (GDP), constituting 3.5% of GDP. ECT's contribution to Canadian GDP has been steadily rising since 2012. Historically, the growing prominence of this sector in Canada was driven by the intersection of clean technologies with Canada's strong resource and utilities sectors.

In fact, utilities accounted for about 40% of ECT's GDP contribution in 2022, given their important role in our economy.

Figure 6: Canadian ECT trade balance by select sub-category*



*A positive number showcases a positive net trade balance or trade surplus whereas a negative number showcases a negative trade balance or trade deficit.

Source: Haver/Statistics Canada

A vibrant startup ecosystem, supported by strong innovation centres in academic institutions, has also led to the development of crucial expertise in the space, creating export opportunities for many cleantech players in Canada. Canadian ECT exports have been consistently growing since 2012, excluding the pandemic-induced slump in 2020. Canadian ECT exports hit their highest level on record in 2022, at $20.9 billion or 2.2% of total Canadian exports. This was a notable 17% year-over-year (YOY) increase over 2021, driven by a 73% YOY growth in clean electricity exports as more Canadian renewable capacity came online.

Though only a small portion of Canadian ECT exports, clean electricity exports bode well for Canadian exporters, thanks to cross-border integration of electricity grids with the U.S. Electrification remains a big part of the Canadian ECT story, with most of these exports derived from renewable and low-carbon sources (including nuclear). Beyond clean electricity, cleantech product exports (including cleantech goods and services) rose 9% YOY between 2021 and 2022. Overall, ECT exports enjoyed a compound annual growth rate (CAGR) of 0.49% over the last decade.

Due to a reliance on ECT imports, Canada's trade balance has experienced a consistent deficit since 2012. The main contributor to Canada's ECT trade deficit is the import of manufactured clean technology goods and primary environmental goods (e.g., biofuels).

However, barring these two categories, most ECT trade shows relatively stable patterns, with double-digit growth in trade surpluses in some comparatively large categories, like waste and scrap goods and electricity exports.

A key weakness also appears to be the limited capacity to generate exports or trade surpluses in ECT services (e.g., waste management services and cleantech support services). As services account for most output and value-added in the Canadian economy,[20] Canadian businesses active in ECT will need to focus on these areas to capture a greater share of the global cleantech market (see Figure 10).

20 See more from edc-explore-canada-cleantech-sector.pdf where we have calculated output and value-added figures.

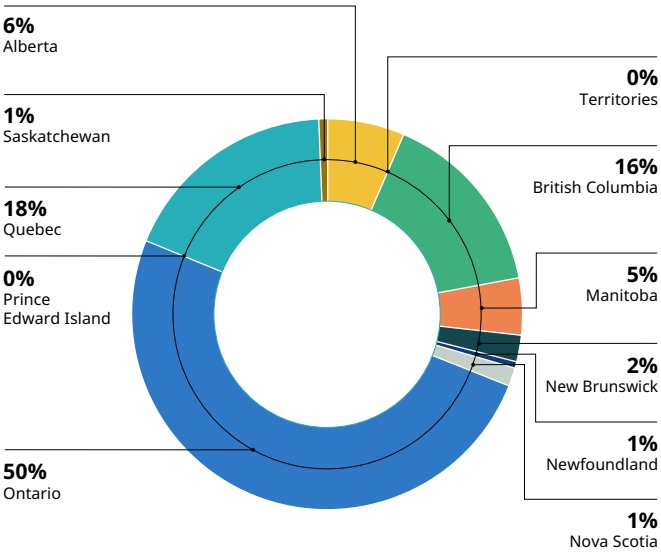
Provincial highlights

In 2022, Ontario accounted for 50% of Canada's ECT exports, totalling more than $10 billion, followed by Quebec at 18% and British Columbia at 16% (see Figure 11). Ontario's prominence in the ECT sector isn't surprising, given its importance in Canada's overall economy, industrial diversification, and large population.

Ontario is by far Canada's largest exporter, accounting for nearly half of total ECT exports between 2012 and 2022. Specifically, Ontario holds the strongest provincial position in cleantech product exports, accounting for 61% of all Canadian cleantech exports during this period. As such, Ontario's prominence in cleantech exports continues to be greater than its overall ECT export profile, which includes both cleantech and environmental goods and services. Recently, Quebec, Alberta and British Columbia have increased their shares of ECT exports as new hubs of expertise, knowledge and innovation develop in these provinces. For example, BC and Alberta benefit from a vibrant ecosystem in new clean technologies such as hydrogen and carbon capture, storage and utilization.

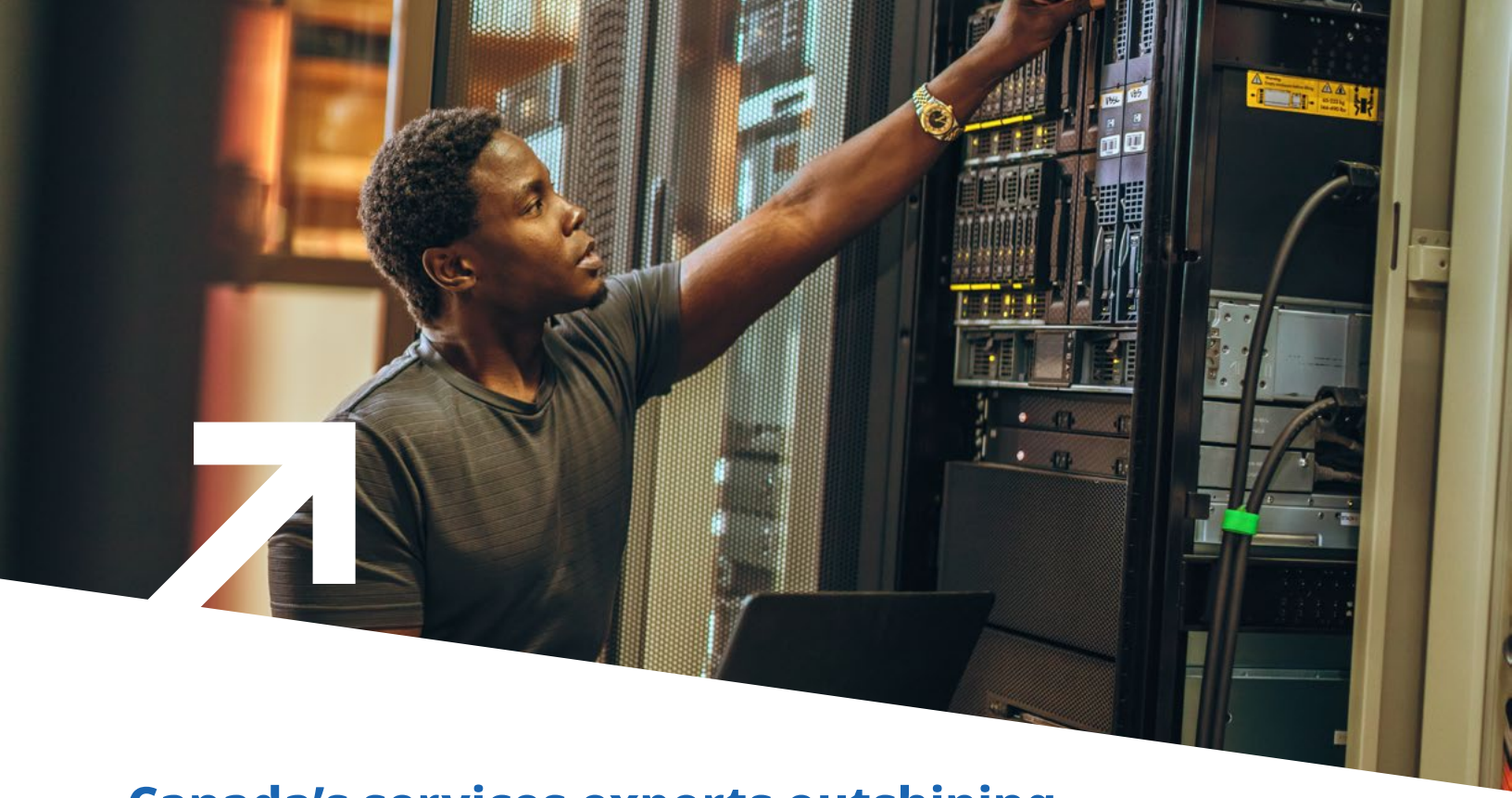
Unlocking value from low-carbon resources in a manner consistent with climate objectives and promoting technologies for broader decarbonization is crucial. Environmental and clean technology exports hold much promise for Canada as different sectors of expertise and innovation develop across provinces.

Figure 7: Environmental and clean technology export by province



Source: Statistics Canada and EDC Economics

With strong industrial integration in the auto and other sectors, geographic proximity to the U.S., and strong trade ties with the rest of the world, Canada stands to capture substantial economic benefits from its environmental and clean technology sector.



Canada's services exports outshining competitors' exports

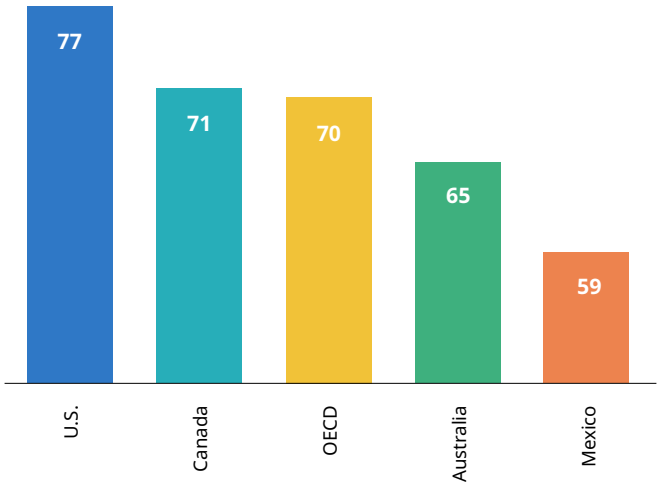
— Hassan Goreja, senior economist, and Aya Id.ihya, junior associate

While there's a historical vision of Canada's economy as being based on "hewers of wood and drawers of water," it has significantly shifted toward services. In recent years[21], 71% of gross domestic product (GDP)—close to the 70% average for members of the Organisation for Economic Co-operation and Development (OECD)—has been derived from the service sector.

While services accounted for about 5% of Canada's GDP in 2023, services still lag behind goods exports in total value, comprising 17% of total exports. This disparity between the two forms of exports is consistent across G7 countries, as well as Australia and Mexico, where services similarly play a key role in their overall economies.

Services exports include transportation, travel, telecommunications, financial services and other commercial services. Commercial services, which include management consulting, intellectual property and IT services, account for the largest share at 64% of total services exports between 2015 and 2024. Travel services make up 23%, while transportation services contribute 12%.

Figure 8: Average services to GDP ratio % (2018-2023)



Source: World Bank, Statistics Canada, EDC Economics
Note: For U.S. and OECD, we use data from 2018 to 2021

21 Average between 2018-2023

In contrast, Australia—a similarly resource-rich country—has a services export composition heavily reliant on travel services, which make up 58% of the total. Commercial services account for a smaller share, at 32%, highlighting the country's lesser focus on sectors, like financial services and insurance, compared to Canada.

Transportation services represent just 8% of Australia's services exports, also lower than that of Canada's. Australia's concentration on travel is likely driven by its tourism industry and the distance required to reach the country.

The United States is by far Canada's top trading partner for services, consistently accounting for around 54% of services exports from 2015 to 2024. The U.S. is also the largest source of inbound tourists to Canada, making up approximately 80% of all international visitors. The European Union (EU) and the Indo-Pacific region account for about 13% each of Canada's service exports.

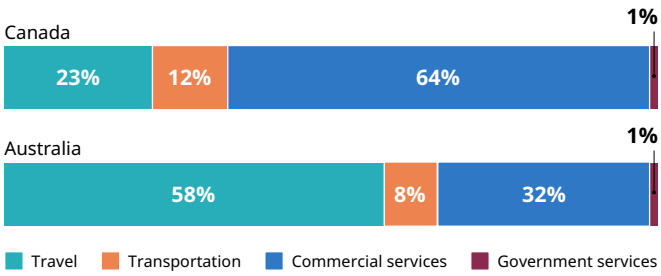
Canada's service export growth has been consistent over the past few years. From 2015 to 2023, Canada achieved a compound annual growth rate (CAGR) of 0.72% in services exports, slightly ahead of the OECD average of 0.69% and the G7 average of 0.70%. This steady rise places Canada among the stronger performers within developed economies, with the second-highest growth rate of services exports within the G7 from 2015 to 2023, surpassed only by the U.S.

Canada's services exports sector also outperformed Australia, which had a slightly lower services export growth rate at 0.65% and Mexico—Canada's partner in the Canada-United States-Mexico Agreement (CUSMA)—at 0.66%.

This consistent growth in Canada's services exports comes at a time when global markets are increasingly recognizing the value of services. Between 2022 and 2023, services export growth for the G7 was 8.6%, vastly outpacing overall export growth for the OECD at only 1.2%. This trend reflects a broader global shift toward high-value service-based economies, in which Canada is gradually finding its place.

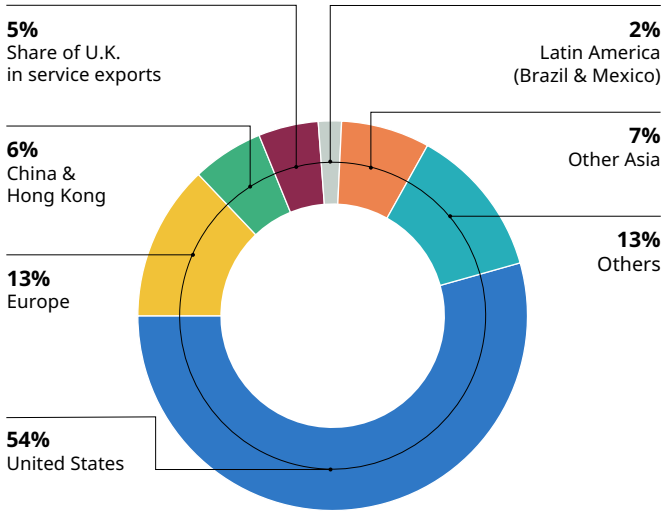
Despite these gains, there's still ample room for further growth by expanding into high-growth areas such as cleantech, research and digital services. Expanding trade with markets outside of traditional trading partners, like the Indo-Pacific, also presents another key opportunity.

Figure 9: Share of services exports by subcomponent, 2015-2024 (Canada versus Australia)



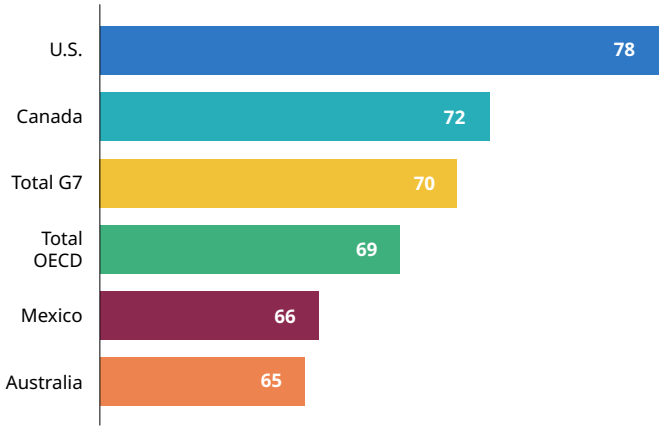
Source: Statistics Canada, Australian Bureau of Statistics, EDC Economics

Figure 10: Share of Canada's services exports by destination (2015-2024)



Source: Statistics Canada, EDC Economics

Figure 11: CAGR of services exports (2015-2023)



Source: World Bank, Statistics Canada, EDC Economics.
Note: For U.S. and OECD, we use data from 2018 to 2021.
*Not elsewhere specified (NES)

Market demand in Southeast Asia: Trends and opportunities

—Nadeem Rizwan, country risk analyst, and Gabriel Vermette, senior associate country risk analyst

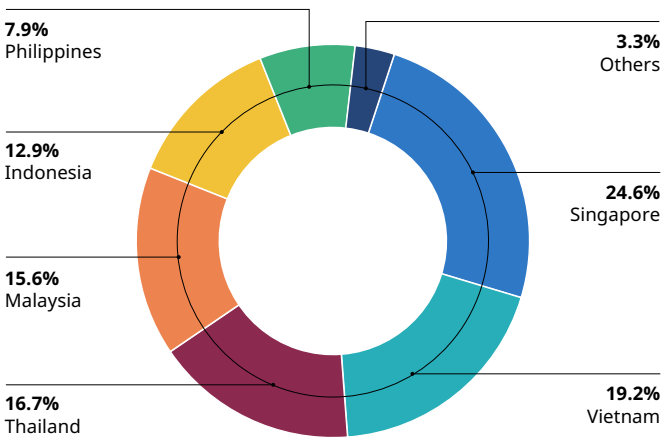
The Association of Southeast Asian Nations (ASEAN) is an economic bloc in Southeast Asia comprising 10 member countries: Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. With a collective gross domestic product (GDP) exceeding US$3.78 trillion in 2023 and a combined population of more than 689 million in 2023, ASEAN is a major hub for global manufacturing and trade. It's also one of the fastest-growing consumer markets, driven by a burgeoning middle class.

As ASEAN continues its impressive growth trajectory, deepening trade relations with the region is crucial for Canada to diversify its trade portfolio and reduce dependency on traditional markets. Below, we explore the evolution of ASEAN imports from Canada and the world, identifying trends and opportunities for Canadian exporters in the region.

The ASEAN region is experiencing rapid growth in merchandise imports, creating significant opportunities for Canadian exporters. From 2017 to 2023, ASEAN merchandise imports increased by slightly more than 36%, reaching approximately US$1.7 trillion in 2023 and accounting for 7.8% of the world's merchandise imports. On a compound annual basis, ASEAN's average goods import growth rate of 5.3% outpaced both the global rate of 3.9% and the United States' rate of 4.7% during the same period.

Singapore is the largest goods import market in ASEAN, accounting for nearly one-quarter of the region's total imports from the world in 2023. It's followed by Vietnam (19.2%), Thailand (16.2%), Malaysia (15.6%), Indonesia (12.9%), and the Philippines (7.9%). Export Development Canada (EDC) has a regional office in Singapore and representation in Indonesia, Japan, Vietnam and the Philippines to support Canadian exporters entering these markets.

Figure 12: ASEAN imports by country



Source: UN Comtrade, EDC Economics

Most ASEAN imports are from Asia, with China being the largest supplier. China's share of ASEAN imports grew from 20.3% in 2017 to 23.1% in 2022. Imports from other unspecified Asian countries[22] also rose from 5.6% to 7% of total imports. In contrast, import shares from South Korea, Japan, and the United States all declined (see Figure 13) over the same period. Although ASEAN imports from Canada grew by 54.9% from 2017 to 2022, Canada's market share remained stagnant at 0.5%, ranking as the 26th-largest import source in 2022. This underscores the potential for growth in Canadian exports to the ASEAN region.

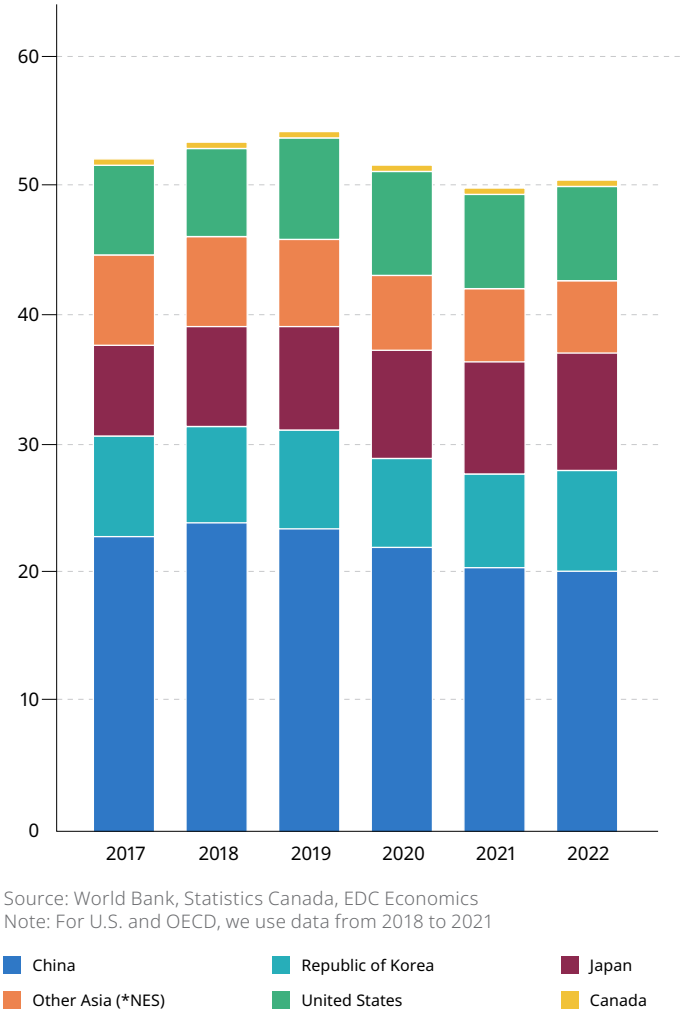
In 2022, more than 50% of ASEAN imports were electronics, machinery and mineral fuels, reflecting a strong demand for manufacturing and technology products. The share of electronics in ASEAN imports increased from 23.7% in 2017 to 25.9% in 2022, while machinery's share declined from 12.5% to 10.4%.

As ASEAN industrializes and moves up the value chain, demand for sophisticated industrial products will grow. High sourcing concentration from China makes ASEAN vulnerable to supply chain disruptions, highlighting the need for import diversification and a potential opportunity for Canadian exporters.

Import demand for agriculture and food products (including cereal, meat, seafood, processed food, etc.) has remained stable, marginally increasing from 7.5% of total ASEAN imports in 2017 to 7.7% in 2022. The outlook is expected to remain steady, driven by rising incomes and food security needs.

The market share of the leading ASEAN imports from Canada is nuanced. Fertilizers and wood pulp are the top categories, with Canada holding 18.1% and 10.9% market share, respectively, ranking second in both. Cereals, meat and edible meat offal, and oilseeds show decent market positions, ranking within the Top 10 (Table 2).

Figure 13: Top 5 ASEAN import sources and Canada



Source: World Bank, Statistics Canada, EDC Economics
Note: For U.S. and OECD, we use data from 2018 to 2021

22 The UN doesn't disseminate trade statistics referring to Taiwan. However, trade data of "Other Asia, not elsewhere specified" may be a good proxy for Taiwan trade. In theory, trade data for territories belonging to Asia, but not specified by country, could end up in this category, but in practice, only trade of Taiwan is included under this code. Source: https://www.cepii.fr/CEPII/en/bdd_modele/bdd_modele_item.asp?id=37

Table 1: Top 10 product categories imported by ASEAN, 2022

Harmonized System (HS) code 2-digit	Product category	Import share % of total import
85	Electrical machinery and equipment	25.9
27	Mineral fuels and oils	18.0
84	Nuclear reactors, boilers and machinery	10.4
39	Plastics and articles thereof	3.7
72	Iron and steel	3.2
71	Pearls, precious stones and metals	3.2
87	Vehicles other than railway or tramway	2.8
90	Optical, photographic, cinematographic apparatus	2.3
29	Organic chemicals	2.0
38	Miscellaneous chemical products	1.6

Source: UN Comtrade, EDC Economics

Table 2: Top 10 product category imported from Canada by ASEAN and their status, 2022

Harmonized System (HS) code 2-digit	Product category	% of ASEAN total import from Canada	Canadian market share per product in ASEAN (%)	Rank in the market in terms of market share
31	Fertilizers	24.4	18.1	2
84	Nuclear reactors, boilers and machinery	13.7	0.7	19
10	Cereals	10.4	5.2	7
47	Pulp of wood	6.4	10.9	2
85	Electrical machinery and equipment	5.6	0.1	25
71	Pearls, precious stones and metals	4.6	0.7	20
02	Meat and edible meat offal	3.8	4.5	6
12	Oilseeds	3.7	4.6	5
44	Wood and articles of wood	2.4	3.4	7
90	Optical, photographic, cinematographic apparatus	2.3	0.5	24

Source: UN Comtrade, EDC Economics

However, in nuclear reactors, boilers and machinery and in electronics, Canada ranks 19th and 25th, respectively, in terms of market share. Given Canada's competitive advantage in broad categories such as machineries, electronics, oilseeds and wood products, there's significant potential for Canada to further increase its market share in these categories.

Canadian exporters face significant competition from both regional and global players in the ASEAN market. ASEAN operates as a free trade area, allowing member countries to trade among themselves under minimal to no tariffs. ASEAN has free trade agreements with China, Japan, Korea, India, Australia and New Zealand.

The United States already has a substantial presence in ASEAN, while Australia views Southeast Asia as vital to reduce its economic dependence on China. Although a Canada-ASEAN free trade agreement is under negotiation, Canada benefits from preferential access in Brunei, Malaysia, Singapore and Vietnam as a signatory of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Canadian exporters can capitalize on opportunities in the ASEAN market by offering their high-quality products and innovative solutions, comprehensive market research and developing strategic partnerships. Leveraging the growing EDC representations in the region will also help Canadian exporters expand their market presence, diversify their trade portfolio, and reduce reliance on traditional markets.

SECTION 2:
GLOBAL EXPORT FORECAST

Global exports rebound, but uncertainties remain

—Meena Aier, manager

EDC Economics forecasts global real export growth to hit 4.1% in 2024, sharply up from only 1% in 2023. As inflationary pressures have eased, and central banks have started to cut key policy rates, goods and services exports have rebounded.

In 2024, we project global real goods exports to grow by 3.6%, and real services exports to continue growing at a brisk pace at 6.5%. (Figure 14) The rebound in goods exports is remarkable, given the almost flat performance in 2023. The loosening of supply chain pressures[23], especially in the first half of this year, helped temper commodity prices, which will likely aid goods exports growth through the rest of 2024.

However, it was China's strong export performance in the first half of 2024 that provided a significant boost to global exports. China accounts for roughly 15% of the global exports market—so any change in Chinese exports is felt globally. In 2024, EDC Economics forecasts Chinese real export growth to top 12% (Figure 15).

The ongoing development of artificial intelligence technologies, coupled with China's stronghold on other computing hardware, has enabled the country's exports to stay strong amid other economic weaknesses.

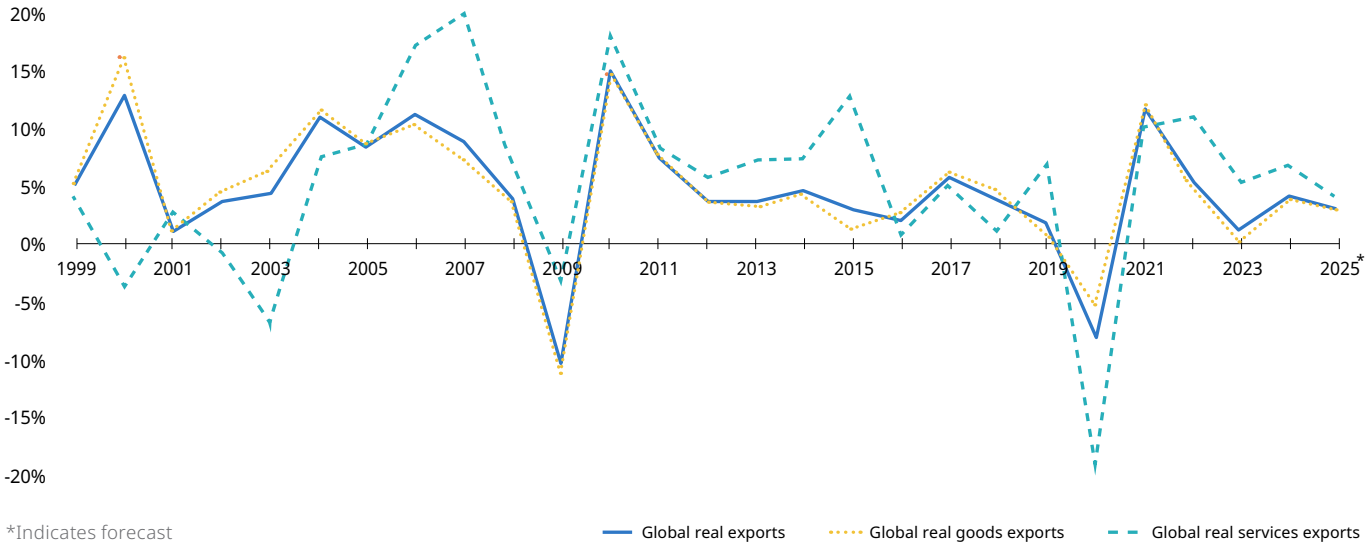
The Eurozone's exports have similarly recovered, although progress remains slow due to underlying structural issues centred on investments, productivity and reliable, low-cost energy access. The U.S. continues to stay strong, with its relatively diversified exports basket performing well.

While the outlook for 2024 remains positive, EDC Economics expects growth in 2025 to be muted. We forecast real global export growth of 2.8% in 2025, with weaknesses across goods (2.6%) and services exports (3.7%).

As in 2024, the biggest impact on global export growth comes from China—though export performance has been strong for most of this year, China's forward-looking indicators have started flashing red[24]. Much also depends on the incoming U.S. administration. While there appears to be a broad-based bipartisan support for imposing tariffs on certain Chinese goods, the extent, duration, and depth of tariffs remain highly uncertain.

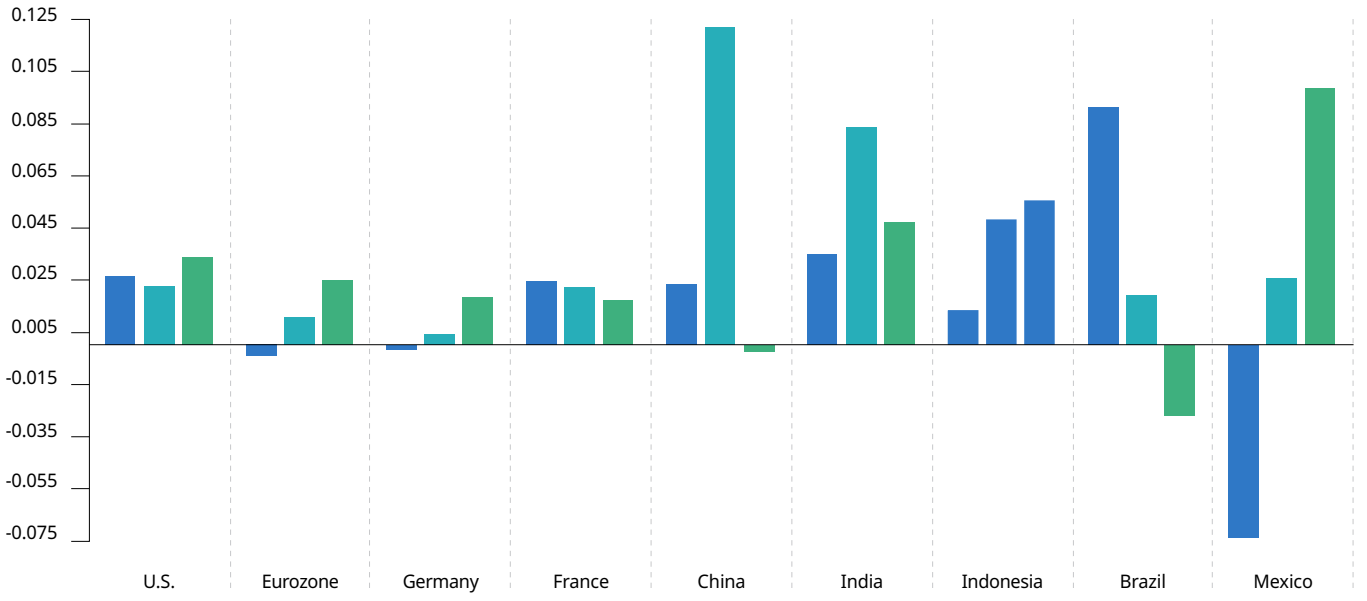
23 Global Supply Chain Pressure Index, Federal Reserve Bank of New York. https://www.newyorkfed.org/research/policy/gscpi#/interactive
24 Campagna, S. China country page, Global Economic Outlook, EDC Economics. EDC Global Economic Outlook

Figure 14: Global real exports growth



*Indicates forecast
Sources: EDC Economics, Oxford Economics

Figure 15: Total real exports growth rates—major economies



*Indicates forecast. Eurozone includes Germany's and France's growth rates.
Sources: EDC Economics, Oxford Economics

The ongoing wars in Russia-Ukraine and the Middle East could deepen geopolitical rifts, introducing fault lines in the global trading system.

Cracks have already begun to appear—goods trade between geopolitically distant blocs from 2022 through the first quarter of 2024, compared to the averages between 2017 and 2022—declined by five percentage points. But during the same comparative period, goods trade within blocs declined by only 2.5 percentage points[25]. So, while the overall global exports growth rate—especially as a ratio of global GDP—has held steady, the flow of goods at least, has started to shift.

With a potential escalation in trade wars and other strains in global geopolitical structure, the future growth trajectory for global exports remains highly uncertain. This could have far-reaching impacts—resulting in a dynamic reorientation of global supply chains and investment flows

History shows that when the free flow of goods gets disrupted, it tends to have ripple effects on investments, knowledge transfer, productivity and ultimately, global growth prospects. For now, while 2024 will likely end on a relatively higher note, sustained growth in global trade remains at risk.

25 World Economic Outlook, International Monetary Fund. World Economic Outlook, October 2024: Policy pivot, rising threats

Canadian export outlook: Solid U.S. growth, energy investments boost Canadian export prospects

—Ross Prusakowski, deputy chief economist & director

As 2024 draws to a close, the year has been full of surprises, with myriad events that even the best forecasters missed. But the anticipated drop in inflation and the onset of interest rate cuts by central banks were spot on. These trends have been pivotal in shaping our *Global Economic Outlook* (GEO) forecasts throughout the year.

Looking ahead to 2025, we foresee a brighter global economic landscape, with growth projected at 3.5% in 2025 and 3.3% in 2026. These projections, along with the key assumptions from EDC's autumn 2024 GEO, for the basis of our outlook for Canadian exports.

As captured earlier within this report[26], the outlook for global trade flows is expected to be somewhat muted due to the weak outlook for China's economy and geopolitical uncertainty. As a result, while the gains from the new energy project and some stronger demand from a U.S. economy that continues to chug along, in this edition EDC Economics' *Global Exports Forecast* (GEF) forecasts for total export growth to be 2% in 2024 and 2025 before doubling to 4% growth in 2026. In real, inflation adjusted terms, we expect Canadian exports to grow by 1.4 % in 2024, around 2.6% in 2025 and 5.2% in 2026.

26 See SIF Section 2, Chapter 1: Global exports rebound, though considerable uncertainties remain

Energy sector

The energy sector, Canada's largest merchandise export contributor, is set to significantly to boost exports. With the Trans Mountain Pipeline expansion operational from May 2024 and LNG Canada starting shipments in mid-2025, export capacity for oil and liquefied natural gas (LNG) will surge over the next two years. Energy exports are expected to grow by 11% in 2024, 5% in 2025 and 2% in 2026. Real-term growth will be higher, though nominal exports will be affected by the flagging global energy prices outlook.

Ores and metals

Despite economic weakness in China impacting global steel and iron ore prices and demand, high policy uncertainty and interest rate changes have driven gold prices to record peaks in 2024[27]. While gold prices will normalize, demand for other metals to support power demand and new technologies will sustain growth. Overall, ores and metals exports are expected to grow by 4% in 2024 and 1% annually in 2025 and 2026.

Automotive

Shifting production plans in response to electric vehicles (EV) demand are causing fluctuations in automotive exports[28]. Significant investments in battery technology and EV production are delayed, which is impacting near-term exports. Consequently, we forecast automotive exports to decline by 6% in 2024 and 8% in 2025, before rebounding by 15% in 2026.

Agri-food

After experiencing surging production and prices over the past two years, the agri-food sector now faces a more modest outlook. Prices for wheat, corn and canola have dropped to multi-year lows, while inflation and a strong U.S. dollar have dampened global demand for key commodities. Potential headwinds include China's anti-dumping investigation into Canadian canola, with a decision expected in 2025, and the U.S. implementing voluntary country-of-original labelling in 2026. Agri-food exports are forecasted to decline by 1% in 2024, remain flat in 2025, and grow modestly 2% in 2026.

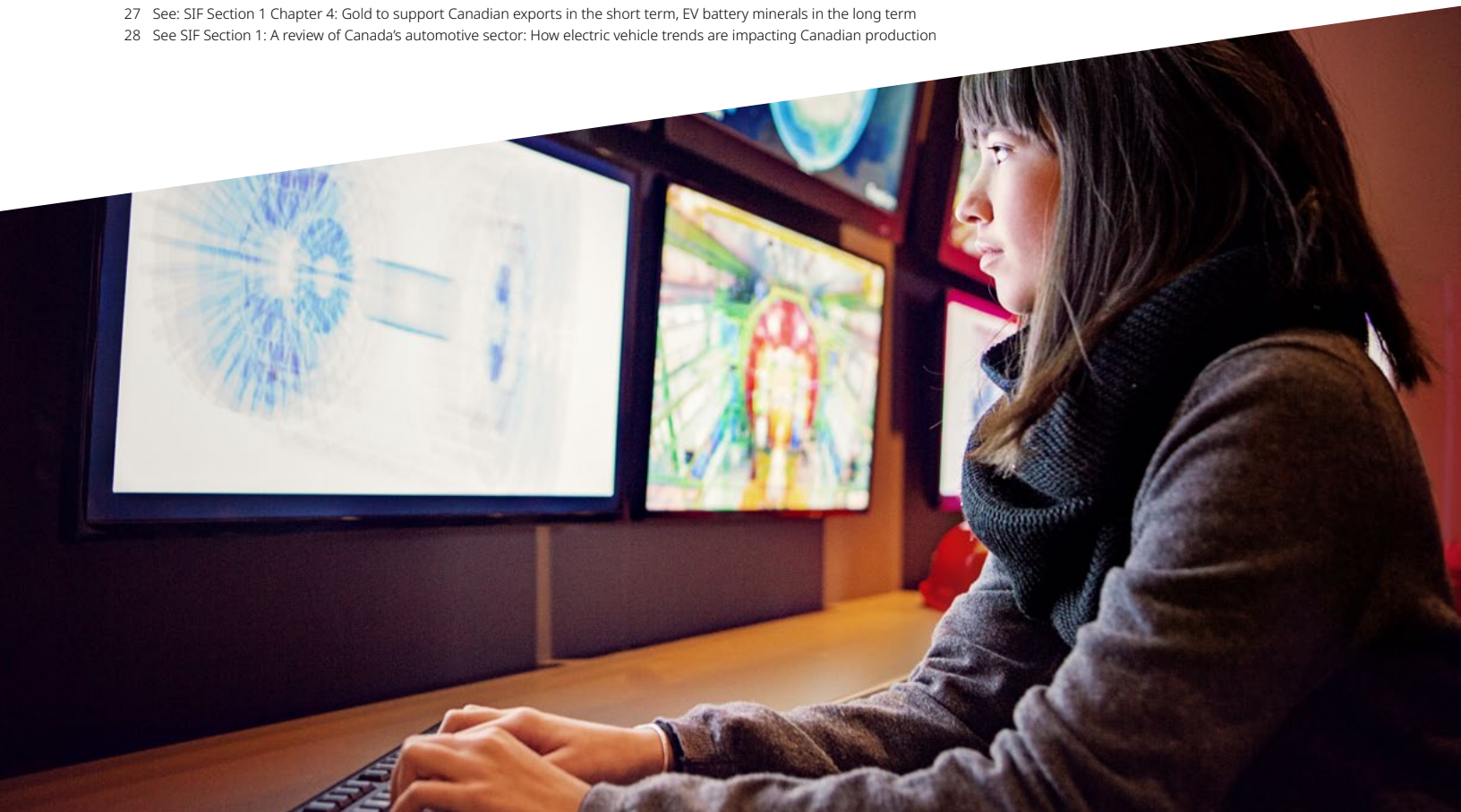
Services

Services export growth is expected to gradually accelerate, with a 3% increase in 2024, followed by 6% in 2025 and 8% in 2026. This growth is supported by Canada's strong digital service capabilities and a positive outlook for U.S. tourism as the loonie's value continues to lag.

Other sectors

For sectors such as consumer goods, forestry products, and industrial machinery and equipment, a positive U.S. economic outlook and a modest Canadian dollar value will support exports. The aerospace sector has a positive outlook due to strong shipment forecasts, though there's a downside risk if Boeing's struggles reduce demand for parts and equipment.

27 See: SIF Section 1 Chapter 4: Gold to support Canadian exports in the short term, EV battery minerals in the long term
28 See SIF Section 1: A review of Canada's automotive sector: How electric vehicle trends are impacting Canadian production



The bottom line?

Canadian exports will benefit from solid growth in our largest trading partner—the U.S. Additionally, as investments in the energy sector come online in the near term, the outlook for Canadian exports remains positive. However, some challenges in the automotive and agri-food sectors may pose risks.

About this report

This EDC Economics' report is part of a publication series of concise writings by EDC Economics staff. The views expressed in this report are those of the authors and shouldn't be attributed to Export Development Canada or our Board of Directors. This report was authored by Karicia Quiroz, Prince Owusu, Nadeem Rizwan, Hassan Goreja, Aya Id.Ihya, Prerna Sharma, Meena Aier, Ross Prusakowski, Gabriel Vermette and Zhenzhen Ye. The report was copy edited by Susanna Campagna, Ross Prusakowski, Janet Wilson and Hani Wannamaker, with French translation by Gilles Brault.

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About Export Development Canada

Who are we?

Export Development Canada (EDC) is a financial Crown corporation dedicated to helping Canadian businesses make an impact at home and abroad. EDC has the financial products and knowledge Canadian companies need to confidently enter new markets, reduce financial risk and grow their business as they go from local to global. Together, EDC and Canadian companies are building a more prosperous, stronger and sustainable economy for all Canadians.

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