

PLANNING ENVIRONMENT FOR 1998-2001

2.1 Export Environment

2.1.1 Overview

In 1997, the global economy enjoyed favourable conditions. Both the Canadian and US economies posted strong growth, providing a solid base for continued growth into 1998. While a somewhat slower performance is expected during the latter half of the planning period, the medium-term growth prospects for North America, European Union, Central and Eastern Europe, and developing economies remain bright. The recent financial market turbulence in Asia will likely be the only serious shadow over this generally positive outlook, and even in this region, growth is expected as national economies address some of their underlying structural problems.

Overall, the global economy can be characterised by relatively tight fiscal policies, low levels of inflation, low interest rates, continued globalization of production, and moderate growth.

Canadian exports are expected to grow by 7.3% over the planning period. A summary of our export forecast by geographic region is found in Chart 1, while our forecast growth by industry sector is found in Chart 2.

2.1.2 Outlook in Industrialized Countries

OECD growth will likely remain unchanged in 1998 — at around 2%. However, performance will be uneven across countries and sectors.

In the **United States**, excellent macroeconomic conditions indicate continued growth. Canadian exports to the United States are expected to increase by an average of 7% over the 1998-2001 planning period. Strong US domestic demand will support key exports such as autos and parts over the near term. A somewhat more cautious investment climate will moderate growth in capital equipment exports, while economic conditions will support limited growth in many resource exports.

At the other end of the spectrum, **Japanese** market activity remains muted, in spite of numerous monetary and fiscal attempts to invigorate the economy over the past four years. Nevertheless, structural problems have begun to be corrected by the on-going, albeit slow, deregulation and liberalization of the Japanese economy. Canadian exports to Japan are expected to average 5.7% growth per annum over the planning period, with strong performance by Canadian computer and telecommunication equipment exports. On the other hand, Canadian exporters

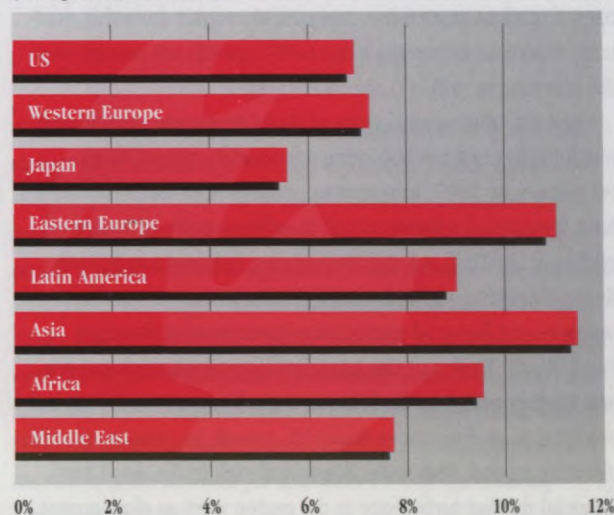
of consumer goods will likely see their Japanese markets diminish as the yen's depreciation makes such imports more expensive.

Activity in **Western Europe** should pickup in 1998, despite the continued force of heavy cost-cutting on the part of the private and public sectors. Some uncertainty remains with respect to the introduction of the European Monetary Unit (EMU). Canadian minerals and forestry exports will face a weak but improving pricing environment in the near term. A somewhat improved investment outlook should also strengthen exports of capital goods this year. Overall, Canadian exports to Western Europe are expected to grow by an average of 7.2% per annum over the planning period.

Export Outlook by Geographic Region

(Average Annual % Growth)

Chart 1

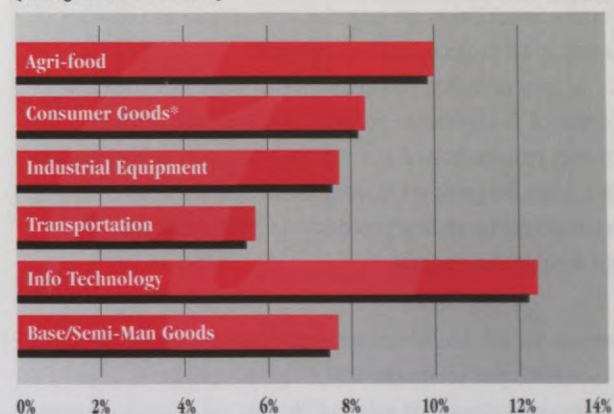


Source: Export Development Corporation (1997)

Export Outlook by Industry Sector

(Average Annual % Growth)

Chart 2



Source: Export Development Corporation (1997)
(* Value for Consumer Goods includes Agri-Food)