

Prospects for trade contingent on economic developments in the United States and abroad.

- ◆ Canada's long-standing reliance on trade with the United States exposed Canada directly and quickly to the slowdown in U.S. economic activity in 2001. By the same token, Canada stands to benefit from the current recovery in economic growth in the United States. At present, the consensus forecast calls for an acceleration in U.S. economic growth, particularly in the second half of this year.
- ◆ Historically, any rebound in the U.S. economy is also likely to propagate quickly also through the economies of Canada's other major trading partners. Most forecasters are expecting a rebound in economic growth in the European economy this year and next. In addition, economic prospects in most Asian economies other than that of Japan have also improved. In effect, the current upswing in U.S. economic growth will, in turn, impact indirectly but favourably on Canada's exports of goods and services to the EU, Asia and the rest of the world.
- ◆ The forceful actions taken by the U.S. monetary and fiscal authorities throughout 2001 to revitalize economic expansion continue to bolster the housing sector and big-ticket consumer purchases via reduced mortgage payments, lower financing costs, and higher after-tax income. These interest rate sensitive sectors figure prominently in Canada's exports of building materials and consumer products such as motor vehicles and parts. In addition, exports of machinery and equipment, which were hard hit by the decline in high-tech spending in 2001, will most likely rebound strongly in the cyclically strengthening international economy.
- ◆ Canada's energy trade will continue to contribute increasingly to Canada's overall trade surplus with the United States, given high demand for Canada's energy exports and growing production from tar sand and offshore sources as well as increased pipeline capacities in Canada. In 2001, fully 100 percent of Canada's \$45 billion worth of exports of crude petroleum, natural gas and electricity was shipped to the United States, accounting for 13 percent of Canada's merchandise exports to the United States.