

- While Canada's exports will not escape unscathed from the slowdown in U.S. economic growth, the impact will be cushioned by Canada's competitive exchange rate. In 2000, fully 100 percent of Canada's \$51 billion worth of exports of crude petroleum, natural gas and electricity was shipped to the United States, representing more than 14 percent of Canada's merchandise exports to the United States. With the energy shortage in the United States, the high demand for Canada's energy exports will most likely be sustained, particularly in an environment of increased production and pipeline capacities in Canada.
- The forceful actions taken by the U.S. monetary and fiscal authorities to revitalize the economic expansion, now in its 10th year, will over the course of the year 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. In effect, 50 percent of Canada's merchandise exports, taken up in the form of energy, forest products as well as autos and other consumer goods, can be expected to remain strong over the next year or two. In addition, information technology, and the machinery and equipment that accompany it, will most likely recover quickly in this dynamic international economy.
- Historically, the weakness in the U.S. economy is quickly propagated through the economies of Canada's major trading partners. Most forecasters are thus expecting a slowdown in economic growth in the European economy to around 2.5 percent in 2001, from about 3.5 percent in 2000. As well, economic prospects in Japan remain uncertain. In effect, the propagation of the weakness in the U.S. economy would, in turn, have an impact on Canada's exports of goods and services to the EU and to Japan, the destinations of 6.3 percent and 2.4 percent, respectively, of Canada's exports in 2000. This situation makes it clear that, even with greater emphasis on these markets, Canada would not be shielded from the impact of a downturn in economic growth in the United States.