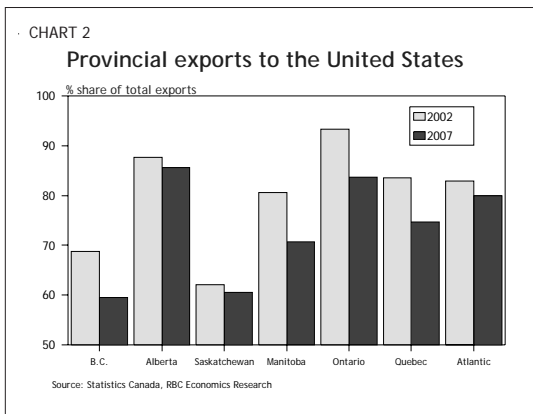
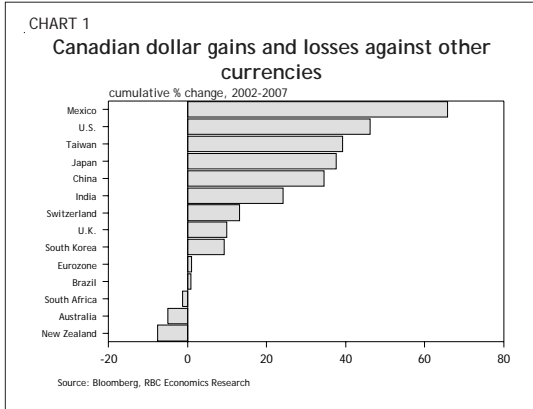


PROVINCIAL DIVERSIFICATION OF EXPORT MARKETS

February 2008



From trough to peak, the Canadian dollar rose from \$0.62US (January 2002) to a high of \$1.10US (November 2007) and appreciated against all its key trading partners. The sharp appreciation, although down from its peak, continues to challenge Canadian exporters. The combination of a strong Canadian dollar and a sharply slower U.S. economy, which is dampening demand for Canadian exports, sets up for the trade sector to continue to restrain Canada's GDP growth this year. Strong export prices have weighed on export volumes, resulting in a trade drag and we expect it to limit growth to 1.7% this year. Central Canada, a net importer of commodities, will continue to bear the brunt as it teeters on the brink of recession, while many parts of western Canada will continue to benefit from the rising value of their commodity exports.

Provincial economies reduce their U.S. exposure

Most provinces have seen sizeable declines in their share of U.S.-bound exports. The slip in market share for the commodity-based provinces of Alberta and Saskatchewan has been fairly muted; the impact in central Canada has been more substantial. Ontario's U.S. export market share slipped from 93% in 2002 to 84% in 2007. The number of non-U.S. destinations for Canada's exports is still relatively small, but these destinations (see charts on page 2) help to mitigate the impact of weaker U.S. prospects on overall trade and GDP growth. Geographic diversification of Canadian exports has helped lessen our U.S. exposure but in no way immunizes us from the effects of a U.S. slowdown.

Some divergence to emerging markets

Many emerging markets have been gaining market share for Canadian exports, with China leading the way. The broad-based increase in exports to China is largely accounted for by the surge in demand for and value of commodity exports, including pulp exports in British Columbia, energy-linked exports in Alberta, and non-ferrous metals and oilseeds in Manitoba. Other emerging markets rapidly acquiring market share include South Korea, Taiwan and India.

Share of exports headed to Japan dwindling

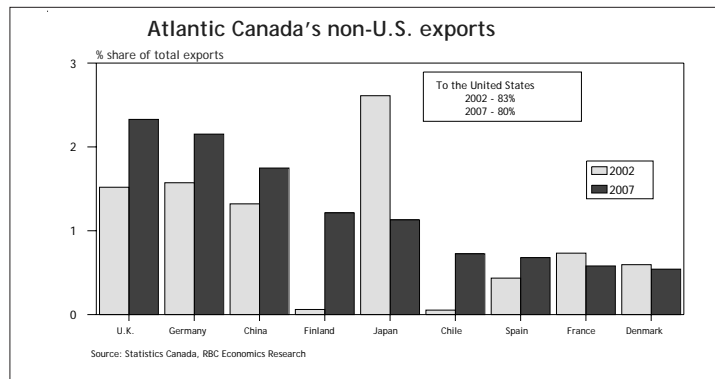
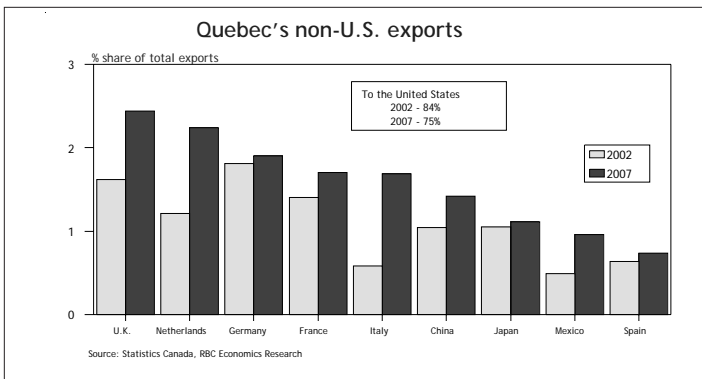
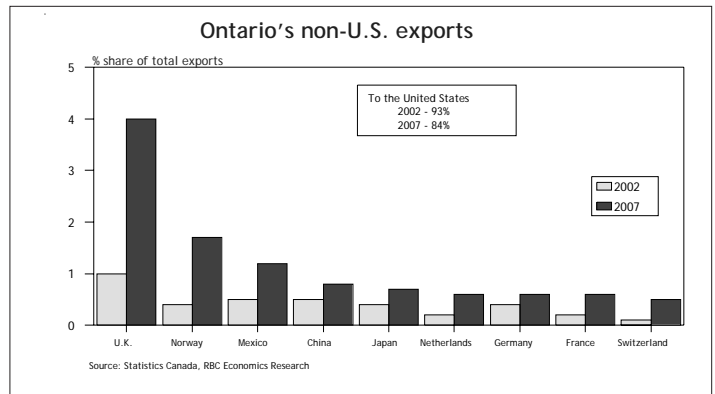
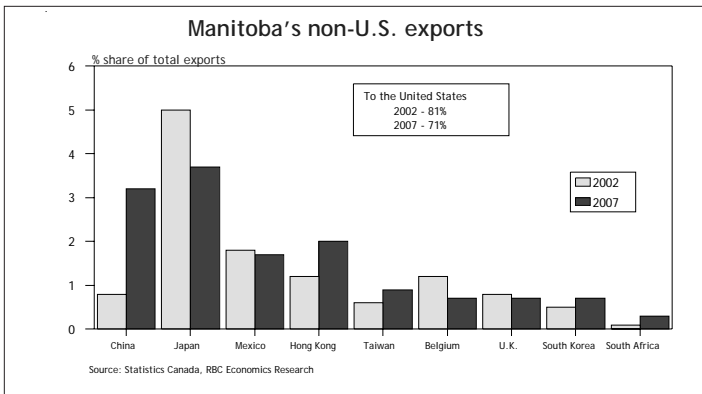
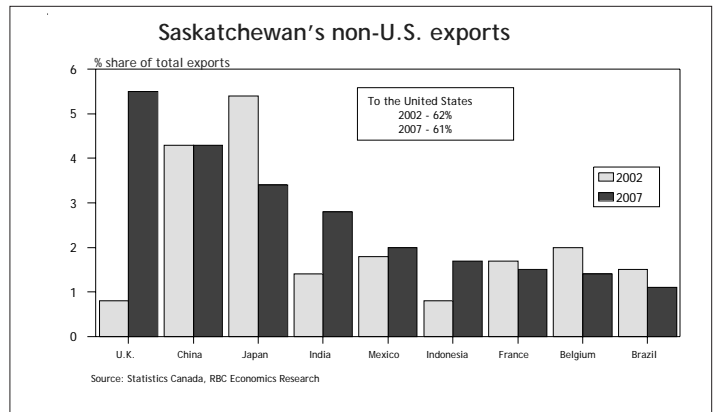
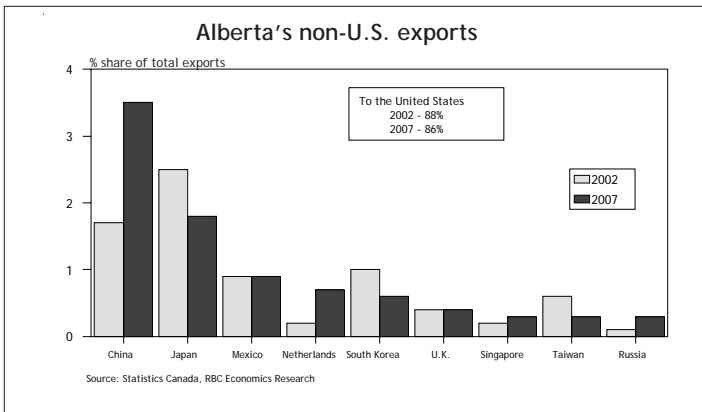
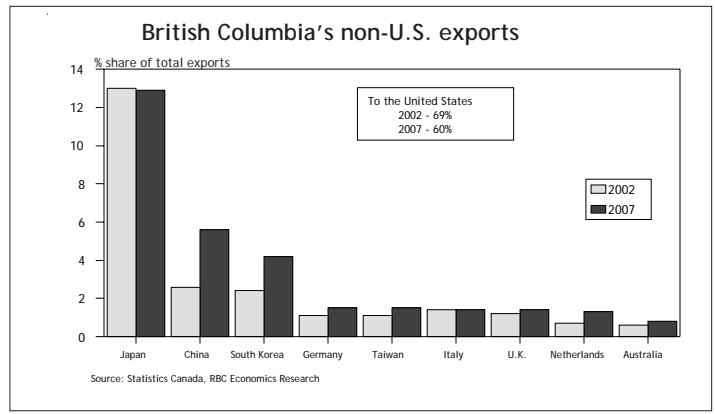
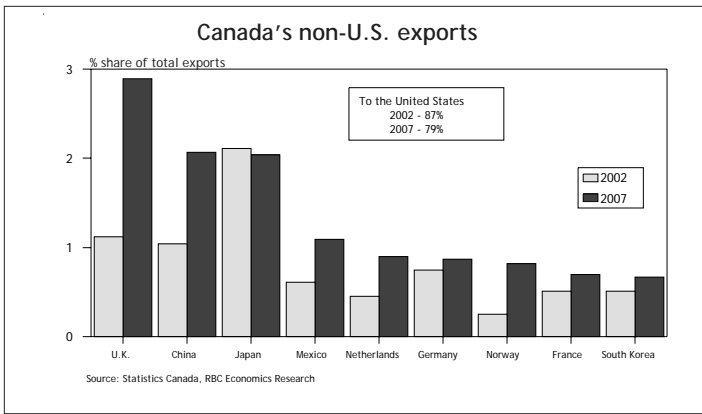
Many province's lost relative market share of their Japanese-destined exports during the five-year span, with the largest declines recorded in Saskatchewan, Manitoba and the Atlantic region. Ontario and Quebec were the only exceptions as several of their manufacturing sectors maintained gains in the Japanese market.

Commodities explain surge in value of U.K.-bound exports

Several provinces increased the value of their U.K. exports, most notably Saskatchewan where exports to the United Kingdom gained an additional 5% market share largely because of the rising value of uranium and wheat exports. The value of Ontario's exports to the United Kingdom also surged, which can be explained by exports of gold, nickel and uranium. Commodity exports from Ontario have been a key offset to declines in its struggling automotive sector.

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Non-U.S. export destinations



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