Perspective

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QUEBEC — UNITED STATES SPECIAL

Reconciling the past with the future

Beyond merchandise trade

Desjardins
Economic Studies

DESJARDINS GROUP

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Economic Studies

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NOTE TO READERS: In this text, the symbols **M** and **B** are used respectively to refer to millions and billions of dollars.

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CONTENTS

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EDITORIAL

Quebec and the U.S. have strong ties

Quebec and the U.S. have historical and economic ties that date back centuries. However, their bilateral relationship has not been easy since the new millennium and has been put to the test in almost every respect.

The fact is that Quebec lost its trading momentum in the 2000s. The tenuous economic situation and the strong Canadian dollar have certainly played a role. Furthermore, the growing presence of emerging economies such as China as suppliers of goods, replacing Quebec's exports, has only made matters worse. This, along with the restructuring of the information and communications technology (ICT) industry, softer demand for certain products and the softwood lumber dispute, are just some of the reasons trade with the U.S. has fallen off. But all is not lost. After a sharp contraction at the end of the 2000s, U.S.-bound exports recovered after the recession.

There are many reasons to nurture our relations with the U.S. First, it's the biggest and most diversified economy in the world. Doing business with Uncle Sam has its advantages, especially in terms of jobs. Moreover, our supply chains are intertwined, with 30% to 50% of the trade stemming from companies with plants on both sides of the border.

Quebec is not the only province to have close ties with Uncle Sam. A number of provinces, including Ontario and Alberta, are even more dependent on the U.S. for their shipments of goods. Energy is the top export for five out of the 10 provinces. Quebec has an edge in that it can count on more diversified trade with our neighbours to the south.

In terms of foreign investment, the U.S. is Canada's number one partner, both here and in the rest of Canada, according to data from 2009 to 2011. Regardless of what we hear about the surge of Asian and other investors, they have not managed to take Uncle Sam's place.

Trade and investment are but one aspect of Quebec-U.S. relations. Tourism is another way of showing our affinity for each other. However, in the first decade of the millenium, fewer Americans came here while more Quebecers headed south, causing a deterioration in the tourism trade balance. So, just as for exports, we'll have to put our nose to the grindstone to regain the lost ground.

Our relationship with the U.S. also extends to less traditional but equally crucial matters. Energy and environmental issues are examples of topics to be put on the table. Quebec is a participant in continental talks on climate change, controlling greenhouse gas emissions, and water quality and related matters. These issues have to be addressed, as does border security.

Lastly, while Quebec has crafted a strategy to guide its relations with the U.S., we must also ensure that ties are being forged between universities, business associations, public and private organizations, and businesses on both sides of the border. There are many alliances and there is certainly a desire to maintain our links with the U.S. economy. However, at the same time, Quebec is trying to capitalize on the emergence of new markets. It will be difficult to choose between the proximity offered by the U.S. and the appeal of overseas markets. Be that as it may, the U.S. will remain our number one economic partner for at least the next 10 years.

François Dupuis
Vice-President and Chief Economist

THE ECONOMIC SITUATION

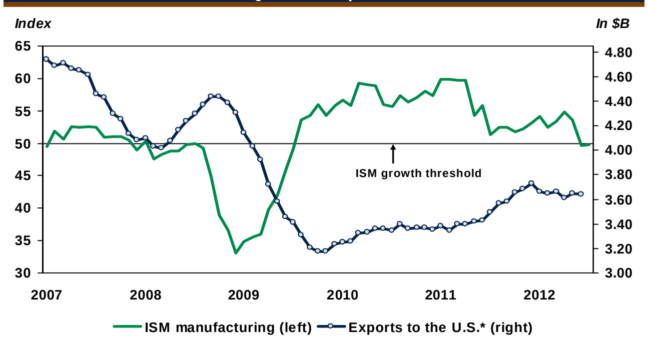
2012 not a good year for exports

This year has been marked by uncertain economic and financial conditions all over the world and, based on the latest forecasts, they are not likely to improve before the end of 2013.

This uncertainty is doing little to help the U.S. economy, which is struggling to get a second wind after the recession. Like 2011, this year is shaping up to be one of moderate growth, held back by weak job creation and persistently high unemployment. That said, U.S. household spending is up, although nothing resembling the spending sprees of the 2000s. And while the housing market is slowly emerging from the doldrums, there is no indication that it will resume the unbridled pace seen in the mid-2000s decade. In short, although signs are not very encouraging for Quebec exports to the U.S., they are not totally unfavourable.

Fortunately, 2013 and 2014 should be somewhat better, but we will have to make it through the current tough period first. In the near term, conditions are not conducive to the exchange of goods. The ISM manufacturing index (an index based on surveys of manufacturing firms) is hovering at 50%, signalling tepid growth and soft demand (graph 1).

Graph 1 The recent weakness of the ISM manufacturing index will affect Quebec exports to the U.S.



* Six-month moving average
Sources: Institute for Supply Management, Institut de la statistique du Québec and Desjardins, Economic Studies

Despite a lacklustre economic environment, Quebec exports of goods to the U.S. were still up in the first half of the year, growing 3.9% (in current dollars) over the same period in 2011. The strongest gains were in, among other areas, semi-conductors and other electronic components, aerospace products, heavy-duty truck manufacturing, and pharmaceutical and medicine manufacturing. That said, the monthly increases have not been dramatic.

Few indicators are available for services other than the ISM non-manufacturing index. Although its progress is less worrisome than that of its manufacturing counterpart, it does not signal demand for the export of Quebec services. A similar observation can be made on the tourism side, be it overnight or same-day visitors. The indicators are too fragmented to be able to discern a clear picture, but the strength of our dollar and the increase in the price of gas over the summer may have put U.S. visitors off. The weak U.S. labour market is another reason not to expect a record-breaking year on the tourism front.

Why are 2013 and 2014 going to be better? First, the clouds over the U.S. economy are expected to lift, especially in 2014, which should revive consumer and business confidence and help the economy grow at a better clip than this year. It also means more jobs. The success of Quebec exporters hinges on their ability to take on the competition and overcome the challenges of a strong dollar because this is the new world order. In the meantime, our exporters are also looking to develop business overseas in an effort to reduce their dependence on a single, albeit massive market. However, when all is said and done, the United States will remain a preferred partner.

Joëlle Noreau
Senior Economist

QUEBEC — UNITED STATES

Reconciling the past with the future

Quebec and the U.S. have a long trading history that spans centuries. However, since the early 2000s, Quebec exports to our southern neighbours have fallen off sharply. Although we still export more to the U.S. than we import from them, the question is for how much longer. Other changes are in the offing and while it's hard to estimate how much trade there will be between the two partners in the decade ahead, we can still look at the factors that could change the landscape.

TRADING MOMENTUM LOST IN THE 2000s

Exports are a good indicator of Quebec-U.S. relations. Although there are many other yardsticks, we've chosen to analyze the export of goods because it allows us to quantify and measure trade intensity.

Between 2002 and 2011, the value of Quebec goods exported to the U.S., in Canadian dollars, fell from $57.2 billion to $43.0 billion (current dollars), a decline of nearly 25% in just 10 years. Many studies have been conducted to explain this worrisome turn of events. The thoughts of the Ministère du Développement économique, de l'Innovation et de l'Exportation (MDEIE) are enlightening in this regard.[1] The fact of the matter is that since the turn of the century, the value of exports has decreased on two separate occasions; first, between 2000 and 2003, in the wake of the 2001 U.S. economic slowdown, and again during the 2008–2009 global recession. Between these two periods, exports stagnated; they then picked up in 2011.

Besides the tough economic times, many factors can explain why our U.S.-bound exports have tapered off. First, the United States has become more open to emerging economies, relegating its traditional partners like Canada and Quebec to second place, so to speak. Second, the dismantling of the World Trade Organization's (WTO's) Agreement on Textiles and Clothing (ATC) in 2005 (and 2008 for China), which had for 30-odd years imposed export quotas by country and by product on the textile and clothing industries, took a toll on the province's U.S.-bound exports. Third is the collapse of the dot-com bubble at the start of the new millennium which hammered various industries and Quebec exports (e.g. Nortel).

Then there were the woes of the lumber industry (trade dispute over softwood lumber, collapse of the U.S. housing market, and so forth), the steady decline in demand for newsprint, and the rise of the Canadian dollar. For their part, the MDEIE and the Institut de la statistique du Québec (ISQ) state that "Almost one-third of the decline in U.S. imports of Quebec goods between 2000 and 2008 can be explained by the concentration of Quebec exports in low-growth import sectors in the U.S."[2] Later, we will discuss the impact of the presence of emerging nations in the U.S. market and the consequences thereof for Quebec.

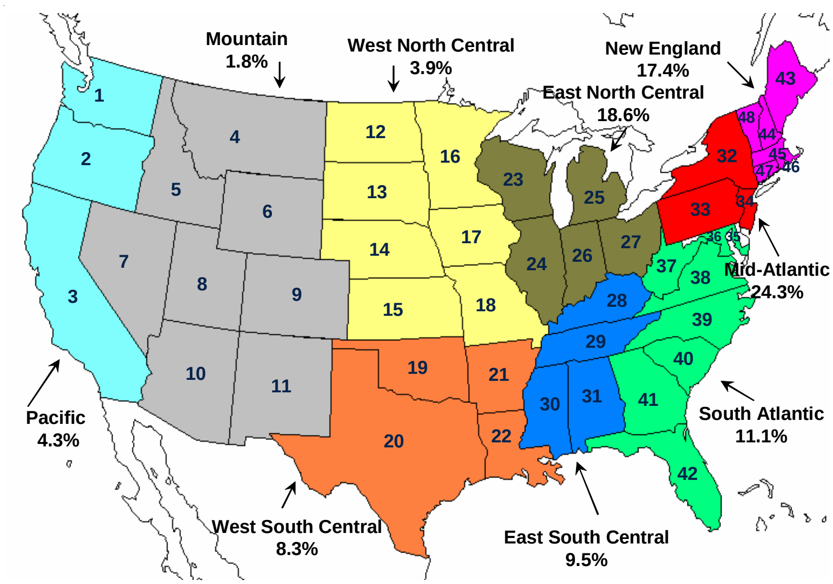
MOST QUEBEC EXPORTS HEAD TO THE EASTERN UNITED STATES

Understandably, our physical proximity to the eastern United States has favoured trade with this part of the country. As such, three of the nine regions identified by the ISQ (graph 2 on page 6) accounted for more than 60.3% of Quebec's U.S.-bound exports in 2011: Mid-Atlantic (New York State, Pennsylvania and New Jersey) at 24.3%, East North Central (Illinois, Ohio, Michigan, Wisconsin and Indiana) at 18.6%, and New England (Connecticut, Vermont, New Hampshire, Massachusetts, Maine and Rhode Island) at 17.4%. In 2002, these three regions accounted for 57.5% of such exports. The relative proportion of each region has not changed much, with the exception of New England, which rose from 13.9% to 17.4%.

If we focus on these three areas, we find that between 2002 and 2011, Quebec exports fell by 26.1% to the Mid-Atlantic, by 26.6% to the East North Central and by 6.5% to New England. According to the ISQ breakdown, exports fell in almost every major U.S. region except in East South Central (Tennessee, Kentucky, Mississippi and Alabama), where they grew 23.9%, and in West South Central (Texas, Arkansas, Oklahoma and Louisiana), where they remained stable. In East South Central, more specifically Tennessee, Memphis is home to the second largest CN yard in the United States, making it an important destination.

However, the tide turned in 2011—putting an end to the decline seen since the early 2000s—with exports rising in six of the nine regions identified by the ISQ. In some cases, the turnaround began as early as 2010 after the financial crisis. This pick-up has silenced the pessimists who were sure that Quebec exports to the U.S. were headed into a long and inevitable decline.

Graph 2 Breakdown of Quebec exports to the U.S. by region, 2011 (as a %)



Pacific 4.3%
Hawaii - Alaska - Washington (1) - Oregon (2) - California (3)

Mountain 1.8%
Montana (4) - Idaho (5) - Wyoming (6) - Nevada (7) - Utah (8) - Colorado (9) - Arizona (10) - New Mexico (11)

West North Central 3.9%
North Dakota (12) - South Dakota (13) - Nebraska (14) - Kansas (15) - Minnesota (16) - Iowa (17) - Missouri (18)

West South Central 8.3%
Oklahoma (19) - Texas (20) - Arkansas (21) - Louisiana (22)

East North Central 18.6%
Wisconsin (23) - Illinois (24) - Michigan (25) - Indiana (26) - Ohio (27)

East South Central 9.5%
Kentucky (28) - Tennessee (29) - Mississippi (30) - Alabama (31)

Mid-Atlantic 24.3%
New York (32) - Pennsylvania (33) - New Jersey (34)

South Atlantic 11.1%
Delaware (35) - Maryland (36) - West Virginia (37) - Virginia (38) - North Carolina (39) - District of Columbia - South Carolina (40) - Georgia (41) - Florida (42)

New England 17.4%
Maine (43) - New Hampshire (44) - Massachusetts (45) - Rhode Island (46) - Connecticut (47) - Vermont (48)

Sources: Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

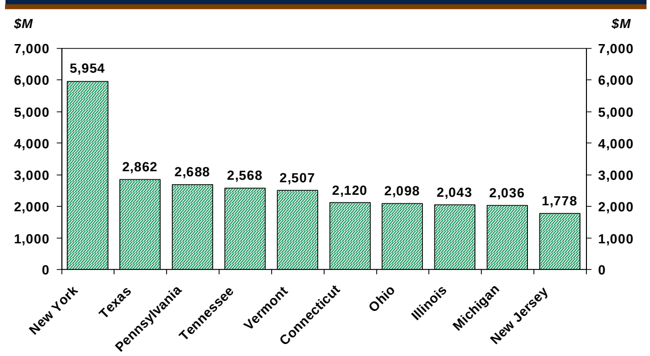
THE INS AND OUTS OF EXPORTS TO THE U.S.

A more detailed analysis shows where in the United States Quebec sent most of its manufactured goods last year. Graph 3 shows New York State at the top of the list due to its imports of metal production and processing, refined petroleum products, alumina and aluminium products, as well as laminates and copper products, and electricity. Of note, Bombardier and Nova Bus have plants in Plattsburgh.

Texas ranks second due to its imports of aerospace products and parts. Bombardier and CAE both have plants in Dallas, which most likely encourages trade. Next is Pennsylvania, which buys paper products from Quebec. The fact that Cascades and Domtar, among other companies, have facilities in both Texas and Pennsylvania is conducive to trade. In fourth place, Tennessee buys alumina and aluminium products from us. In this regard, Alcoa, which has a branch in Quebec, also has an aluminium foil plant that makes beverage cans. Quebec exports semi-conductors and other electronic components to Vermont, which is fifth in the ranking. The fact is that the IBM plants in Bromont and Burlington work together and the trade in components between them most likely fuelled shipments to that state.

Looking at Quebec's total exports to the U.S. in 2011 using the North American Industry Classification System (NAICS), we find alumina and aluminium production and processing at the head of the list ($5.4 billion), followed by aerospace products and parts ($3.3 billion), non-ferrous metal (except aluminium) production and processing ($2.3 billion), paper products ($2.6 billion) and refined petroleum products ($2.1 billion). Although the products are associated with raw materials in four out of the five cases, the fact is Quebec does not only export low-tech products.

Graph 3 Most of Quebec's exports to the U.S. in 2011 head to New York State



Sources: Statistics Canada and Institut de la statistique du Québec, International Trade Data Online

TECHNOLOGY: LOW, HIGH AND IN BETWEEN

Exports can be grouped by technology level (table 1). Using this classification, we find that high-tech products (aerospace, pharmaceutical, computing machinery, etc.) made up 15.2% of U.S.-bound shipments in 2011. However, the largest group was "medium-low-technology" products (refined petroleum products, non-metallic mineral products, metal products, etc.), accounting for 37.0% of all exports that year. Next in line at 23.3% were "low-tech" goods (paper, paperboard, wood, furniture, food, clothing, etc.), and lastly, at 16.9% were "medium-high-technology" products (machinery and electrical appliances, chemical products, railroad rolling stock, etc.).

Between 2002 and 2011, exports declined (in current dollars) in all groups with the exception of medium-low-technology. In terms of high-tech, the value of aerospace products and parts exports dropped by just over 50% while that of radio, television, telecommunications equipment and apparatus also declined. The biggest drop in low-tech exports was observed in textiles, clothing, fur and leather, whose value was four times lower in 2011 than in 2002. Shipments of paper, paperboard, printing products and wood fell by almost 50% during the same period.

THE STUFF OF BIG BUSINESS?

The data on the technological content of U.S.-bound exports and products shipped to our main trade partner states would be incomplete without a look at the top 10 products (according to NAICS) shipped in 2011. These alone accounted for some 50% of the value of shipments to the U.S. in 2011, compared with 41% in 2002. With the exception of aerospace products and parts, the top five involve natural resources and therefore are destined for large companies and big industry. And as for the products shipped to our top 10 trade partner states, they too are destined for big business. In fact, we estimate that between 30% and 50% of the bilateral trade between Quebec and the U.S. is attributable to trade between subsidiaries of the same company.

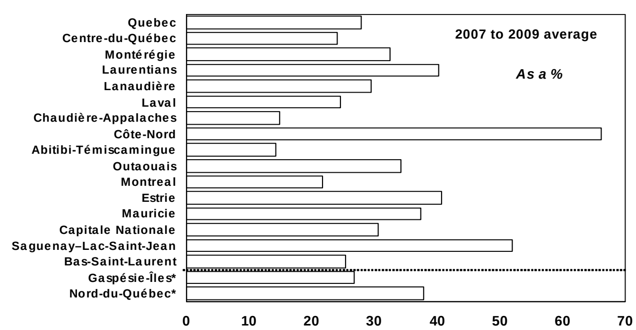
WHERE DO THE REGIONS FIT IN?

The central regions are not the only ones that export, as graph 4 clearly shows. This graph presents an average of 2007–2009 direct sales to the U.S. as a percentage of revenue from manufactured goods by administrative region. Statistics for U.S.-bound shipments are available for every region except Nord-du-Québec and Gaspésie and Îles-de-la-Madeleine for which only total international sales are published. This ranking shows just how much manufacturing sales are tied to U.S. demand.

What we see is that five out of the 17 regions derive more than a third of their revenue from selling their manufactured goods to the United States. Côte-Nord leads the way (alumina and aluminium products, forestry products), followed by Saguenay—Lac-Saint-Jean, which sells the same products. Estrie is next due to the large manufacturers of paper, doors and windows on its territory. In fourth place are the Laurentians, home to large truck, food, paper and aerospace plants, to name just a few. Mauricie is in fifth place for its paper, paperboard, aluminium and fabricated metal product manufacturing.

In short, the regions are very much involved in the business of exporting goods to the U.S.

Graph 4 Direct sales to the U.S. as a percentage of revenue from manufactured goods



*: Foreign sales
Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

Table 1 – U.S.-bound Quebec exports by technology level, 2011

	$M	Change 2002-2011 (%)	Relative Importance in 2011 (%)
High-technology	**6,537**	**-47.7**	**15.2**
Medium-high-technology	7,244	-24.8	16.9
Medium-low-technology	15,887	27.5	37.0
Low-technology	3,265	-47.3	23.3
Non-manufacturing	3,265	-9.1	7.6

Sources: Institut de la statistique du Québec, Ministère du Développement économique, de l'Innovation et de l'Exportation and Desjardins, Economic Studies

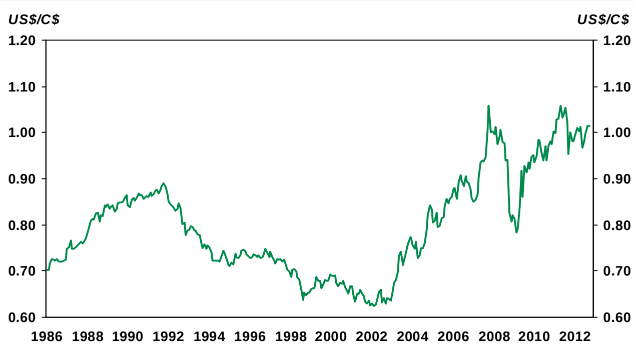
WHEN THE U.S. BUYS FROM OTHERS

Since the turn of the century, Uncle Sam has been increasingly courted by many economies eager to meet the appetite of the American giant. Quebec has had to compete in its export markets with rivals that have much lower production costs. As a result, according to MDEIE estimates, the share of Quebec products purchased by the U.S. fell from 3.5% in 2000 to 2.3% in 2009 while China's share increased from 8.2% to 19.0%. The ministry pegs the value of the "gradual decline" between 2000 and 2008 at $25.3 billion.

There are two reasons for this decline. The first is the competitiveness effect, estimated at $17.4 billion, caused in part by the loonie's strength (graph 5). The fact is that more than 50% of the competitiveness loss can be attributed to China and 15% to Mexico (India was not as big a player during this period). The remaining $7.9 billion loss is due to the fact that "the bulk of Quebec's exports to the U.S. are products with weak demand growth, but mostly because its exports have become so much less competitive."

The loss ($13.1 billion) for 2008 and 2009 is attributed to weak U.S. demand during the recession.

Graph 5 The loonie's meteoric rise



Sources: Datastream and Desjardins, Economic Studies

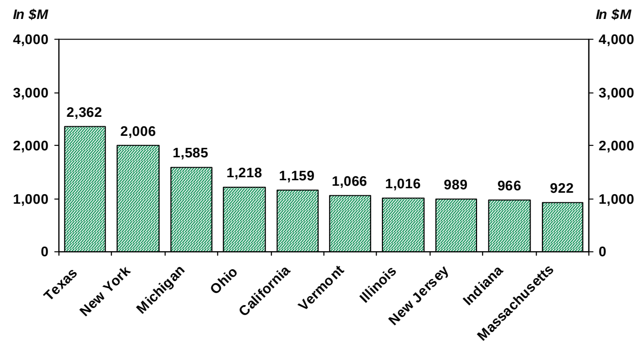
THE FLIP SIDE OF THE COIN: IMPORTS

While exports to the U.S. have fallen dramatically, Quebec imports of U.S. goods have decreased only slightly, slipping from $26.2 billion to $24.7 billion between 2002 and 2011. The export to import ratio decreased from 2.1 in 2002 to 1.7 in 2011, meaning that Quebec's trade balance with the U.S. fell somewhat, but is still in positive territory.

Last year, 50% of Quebec's imports came from three U.S. regions: East North Central (20.3%), Mid-Atlantic (15.6%) and New England (14.1%). The relative importance of these three regions remained essentially unchanged between 2002 and 2011, except for East North Central, which shrank slightly.

Graph 6 shows the breakdown of these U.S. imports. Texas places first with its Quebec-bound shipments of refined petroleum products, synthetic resin products and alumina and aluminium products. New York State takes second place with its exports of petrochemical and refined petroleum products. Coming in third, Michigan stands out for its automotive products, as do Ohio (fourth place) and Illinois (seventh). California was fifth on the list, with its aerospace products and parts.

Graph 6 – Texas top source of Quebec imports from the U.S., 2011



Sources: Statistics Canada and Institut de la statistique du Québec, International Trade Data Online

A look at Quebec's total merchandise imports from the U.S. reveals that they are made up of the following products, in decreasing order: vehicles and light automotive vehicles, aerospace products and parts, refined petroleum products, semi-conductors and other electronic components, and resin and synthetic rubber products. The top 10 imports accounted for 50.8% of all U.S. imports in 2011, compared with 44.5% in 2002. Of the top five, only one involved raw materials; the remainder were finished or semi-finished goods.

Although Quebec exports to the U.S. declined from 2002 to 2011, the same is also true for its U.S. imports, which fell from 41.2% of all international imports to 30% during the same period. China and Germany, among other countries, picked up some of the slack.

THE IMPACT OF EXPORTS ON THE ECONOMY

At the end of the 2000s, the MDEIE and the ISQ conducted a study on the economic impact of Quebec's exports. The study concluded that in 2007, international and interprovincial exports of goods and services contributed $144.6 billion to the economy and supported 1.1 million jobs. Each million dollars of exports created, either directly or indirectly, 7.6 jobs (table 2), and the wealth generated by trade (added value) was reckoned at $87.7 billion or 31.6% of GDP. These findings were valid for exports overall.

The study also found that each million dollars of interprovincial exports created more jobs (8.5) than international exports (7.0) and that service exports (regardless of destination) created twice as many jobs (12.9) as merchandise exports (6.3).

Another finding was that the proportion of export-dependent jobs has decreased since the beginning of the decade. Although interprovincial exports were performing well, it was not enough to offset the loss on the international side.

In 2007, international merchandise exports supported six jobs per million dollars of shipments. If we apply this ratio to the $43 billion of goods headed south of the border in 2011, we find that they supported 258,000 jobs in Quebec last year, and that is for merchandise exports only. If we assume that this ratio decreased, as it did in previous years, and estimate that 5.7 jobs were created per million dollars of exports, then the number of jobs becomes 245,000. While this is a rough estimate, it gives us an idea of the magnitude.

Table 2 – Jobs associated with international and interprovincial goods and service exports*, 2007

	Total Exports		Jobs		
	$B	%	Total number	%	Per $M of exports
Goods	**115.7**	**80.0**	**726,378**	**66.1**	**6.3**
Services	28.9	20.0	373,328	33.9	12.9
Total	**144.6**	**100.0**	**1,099,706**	**100.0**	**7.6**

* : Excluding re-exports, in current dollars.
Sources: Institut de la statistique du Québec and Ministère du Développement économique de l'Innovation et de l'Exportation

We can also attempt this exercise for services, although no accurate figures are available for the proportion of services exported to our southern neighbours. Assuming roughly 60% of all service exports were headed for the U.S., and knowing that Canada exported $13.9 billion in services abroad in 2011, we can deduce that the U.S. accounted for about $8.3 billion that year. In 2005, 14.1 jobs were created for each million dollars of international exports of services. This figure fell to 13.5 in 2007. So as not to overestimate the number of jobs supported, we could set the ratio at 13 for 2011. Based on this assumption, approximately 109,000 Quebec jobs depended on service exports to the U.S. last year. Had we instead pegged the proportion at 55%, then 99,000 jobs would have been created.

In short, exports to the U.S. have a major impact on the economy, at least where jobs are concerned, and therefore their decline is cause for concern since it affects Quebec's prosperity.

BIG CHALLENGES

Faced with plummeting exports to the U.S., Quebec began cultivating new markets several years ago. Still, we cannot ignore the fact that the U.S. is still the largest and most diversified economy in the world and that North American supply chains are inter-connected. Consequently, it will remain our most important foreign customer in the decade ahead.

Quebec exporters will have to watch out for the elements that caused the downturn in the 2000s because they are not about to disappear any time soon, notably the strong Canadian dollar, buoyed by high energy prices, and a federal government that is more fiscally and financially sound than that of the U.S. There is also the matter of emerging nations, which are shaping up to be formidable economic powerhouses. Their presence will only intensify and their tactics to elbow out the competition on the U.S. market will hit Quebec exporters hard. Lastly, although measures such as the Buy American provision in the *American Recovery and Reinvestment Act* (ARRA) aimed at limiting the access of foreign firms to projects previously open to them and the mandatory country of origin labelling requirement have been eased, they have had a negative effect on this side of the border and will not go away on their own.

Lastly, the security and energy issues should bring us together rather than divide us. These are vital issues on both sides that are closely linked to trade relations and that will assume growing importance in the discussions and concerns that unite us. This topic is covered in more detail on pages 11 to 16. Quebec exporters will also have to work even harder on raising productivity to ward off competition from China, India and, increasingly, South America. Quebec will have to leverage all its assets: proximity, the flexibility offered by its SMEs, its similar legal systems and compatible time zones, to name but these.

NEW MARKETS WAITING TO BE TAPPED

Quebec will have to do much more than react to the economic climate: there is already no shortage of challenges on other fronts. Although the province is already capitalizing on rich, densely populated states, some untapped markets still remain. For instance, in terms of consumer goods, Quebec has a very strong presence in four states (Connecticut, New Jersey, New York and Illinois) out of the 15 that had the highest disposable income per capita in 2011 (table 3). That said, most of its merchandise exports are still geared to industrial rather than personal use.

Looking at demographic projections (2000 to 2030), we find that Quebec exporters are not always active in the fastest-growing areas and, by extension, where economic activity will be most robust. Of the 17 states where population growth by 2030 is expected to surpass the U.S. average (+29.2%), Quebec exports heavily to just two of them: Texas, where the population is expected to increase by 60%, and Tennessee (29.7%). These are areas that should be explored.

Table 3 – GDP per capita for the 15 richest states,* 2011

State	*In US$*
United States	42,070
Delaware	63,159
Alaska	61,853
Connecticut	56,242
Wyoming	55,516
Massachusetts	52,915
New York	52,214
North Dakota	50,096
New Jersey	48,380
Oregon	48,098
Virginia	46,408
California	46,041
Minnesota	45,822
Colorado	45,792
Washington	45,520
Maryland	45,360

*: Excluding the District of Columbia
Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Turning to GDP per capita, we see that Quebec actively exported to three of the 15 wealthiest states in 2011, namely Connecticut, New York and New Jersey, which have the third, sixth and eighth highest GDP per capita in the United States. Although Quebec exporters were present in these states last year, it appears that there are still untapped business opportunities in the vast U.S. market.

A NEVER-ENDING MARATHON

Conquering the U.S. market is a never-ending marathon in which perseverance is essential, no matter how long and bumpy the road. Although U.S. sales were hard to come by in the last decade, and while it is clear that our exporters need to find new places to sell their goods and services, the reality is that the U.S. will remain at the heart of Quebec's economic and trade strategy for at least the next 10 years.

Joëlle Noreau
Senior Economist

[1] MDEIE, *La dynamique des exportations de biens et de services du Québec sur les marchés extérieurs*, 2011, 12 pages.

[2] MDEIE and ISQ, *Étude d'impact de la concurrence de la Chine, de l'Inde et du Mexique sur les ventes de biens du Québec aux États-Unis et au Canada : 2000–2008 et 2008–2009*. 2010, 31 pages.

QUEBEC — UNITED STATES

Beyond merchandise trade

When we think about our relationship with the U.S., merchandise trade is often the first thing that comes to mind; however, the ties that Quebec has forged over the centuries go well beyond the exchange of goods. For example, tourism is another type of connection we have with our southern neighbours. Investments offer another yardstick with which to measure their presence on Quebec soil. All to say that there are many ways to interact with the U.S. To coordinate this process, Quebec has adopted a strategy to harmonize the actions of its various ministries and organizations. The business community, for its part, has found its own ways to take advantage of this economic giant's proximity. As we will see in this article, merchandise trade is only one aspect of our dealings with the U.S.

THE SOUTH'S APPEAL

Quebecers' attraction to the U.S. dates way back. From 1861 to 1900, more than half a million Quebecers flocked to the south to work in cotton mills. Between 1830 and 1930, about 900,000 French Canadians, as they were called in those days, packed their bags and moved to the northern states of Maine, Vermont, Massachusetts, New Hampshire, Rhode Island and Connecticut, earning these states the moniker of "Little Canada." While many left Canada to avoid the reprisals of having sided with the Americans during the revolution or to avoid the consequences of their involvement in the Rebellions of 1837 and 1838, the vast majority left for economic reasons. Farmers, who were heavily indebted, accounted for a large number of the expats. Newspaper ads, the work of recruiters who arranged transportation and helped newcomers find lodging, along with testimonials from those who had successfully started over, all encouraged this exodus to the south. However, in 1930, following the stock market crash and the dawn of the Great Depression, the U.S. government enacted a strict immigration law that stemmed the flow of Canadians into the country.

While massive migrations have stopped, the fascination with the U.S. has not, with countless Quebecers flocking to vacation in the U.S.

Table 4 – Tourism trade between Quebec and the United States, 2006 to 2010

Number of U.S. Visitors to and Spending in Quebec								
	Number (province-visits)				Spending ($)			
	Tourists[1]	Same-Day Visitors[2]	Visitors[3]	△(%)	Tourists	Same-Day Visitors	Visitors	△(%)
2006	2,108,400	1,041,200	3,149,600	n/a	1,196,830,000	64,971,000	1,261,800,900	n/a
2007	1,979,400	887,000	2,866,400	-9.0	1,146,685,800	43,910,600	1,190,596,400	-5.6
2008	1,837,400	723,500	2,560,900	-10.7	1,067,382,000	32,863,600	1,100,245,600	-7.6
2009	1,727,000	667,700	2,394,700	-6.5	984,354,300	33,030,900	1,017,385,300	-7.5
2010	1,804,800	614,300	2,419,100	1.0	1,026,654,000	35,905,900	1,062,560,000	4.4
Number of Quebec Visitors to and Spending in the U.S.								
	Number (person-visits)				Spending ($)			
	Tourists	Same-Day Visitors	Visitors	△(%)	Tourists	Same-Day Visitors	Visitors	△(%)
2006	3,946,000	4,470,800	7,966,800	n/a	1,603,823,500	110,830,400	1,714,653,900	n/a
2007	3,742,900	4,750,600	8,493,500	6.6	1,707,627,500	171,504,200	1,879,131,800	9.6
2008	3,748,000	4,846,500	8,594,500	1.2	1,752,755,200	184,835,800	1,937,591,000	3.1
2009	3,751,000	4,552,100	8,303,100	-3.4	1,773,756,700	143,799,600	1,917,556,400	-1.0
2010	4,439,100	5,423,600	9,862,700	18.8	2,321,404,300	149,475,300	2,470,879,600	28.9

1: Tourists: Persons travelling outside their city for one night or more but less than one year and who stay in commercial or private accommodations.
2: Same-Day visitors: Persons who make a return trip on the same day to a destination at least 40 kilometres away from their city.
3: Visitors: Includes both tourists and same-day visitors.
△: Change over the previous year. n/a: not available
Note: Due to rounding, the total may not equal the sum of the parts.
Sources: Statistics Canada, International Travel Survey, Ministère du Tourisme du Québec and Direction de l'évaluation et de l'analyse stratégique

TOURISM: ANOTHER WAY OF SHOWING OUR AFFINITY FOR EACH OTHER

Recent tourism statistics can be analyzed in different ways, for example, by looking at the trend in the second half of the last decade and then seeing whether, like merchandise exports, tourism rebounded in 2010 after the recession. As such, from 2006 to 2009, we find that the number of U.S. visitors (tourists and same-day visitors[1]) fell steadily, a trend that had in fact already begun at the turn of the century (table 4 on page 11). Notwithstanding the decline, 2.4 million Americans visited Quebec in 2010.

Conversely, a much greater number of Quebecers travelled to the U.S. that year, more specifically, 9.9 million or four times more than the number of Americans who came here. Since our population is about 8 million, it means that many Quebecers crossed the border more than once in 2010. Between 2006 and 2010, the number of Quebec visitors continued to increase, except during the recession in 2009.

WHAT ABOUT SPENDING?

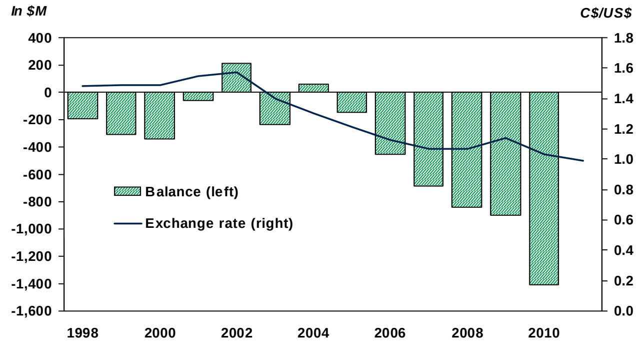
Tourism trade can also be analyzed from a spending angle. From that perspective, we find that between 2006 and 2010, Americans spent considerably less in Quebec than Quebecers spent in the U.S. (table 4 on page 11). In 2010, this figure was just over $1 billion. Tourists (who stay at least one night) accounted for 96.6% of the spending by all U.S. visitors, who accounted for 14.2% of all tourist spending (including by Quebecers) in Quebec. U.S. visitors accounted for 18.3% and 27% of all tourism spending in the Montreal and Quebec City regions respectively. These last two figures show that these two regions attract a large number of American visitors.

Meanwhile, at $2.5 billion, Quebecers spent 2.3 times more in the U.S. in 2010 than Americans did in Quebec the same year.

There is also a difference between U.S. and Quebec tourists in terms of same-day visitors. The latter, who do not stay overnight, accounted for 25.4% of U.S. visitors to Quebec and 55% of Quebec visitors to the U.S., or at least twice as many.

In short, we find a growing tourism deficit between Quebec and the U.S. since 2006 (graph 7). However, we are not alone. The same trend can be seen in Ontario and Canada overall.

Graph 7 – Tourism trade balance between Quebec and the U.S. follows the loonie's mood



Sources: Ministère du Tourisme du Québec, Bank of Canada and Desjardins, Economic Studies

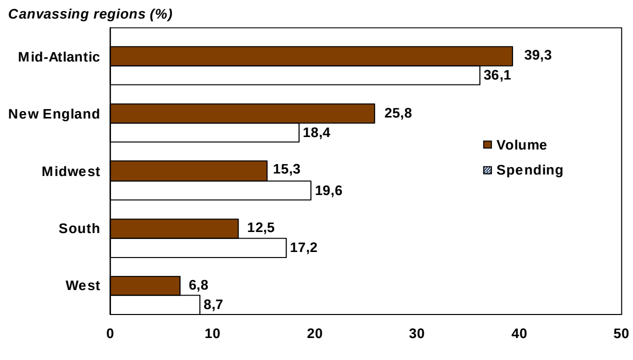
WHY IS THE TOURISM DEFICIT DEEPENING?

There are a number of reasons why the tourism deficit is deepening. First, Quebecers are spending more in the U.S. because our strong dollar makes travel south of the border more affordable. Conversely, it makes it more expensive for Americans to come here. With the exception of 2010, spending by Americans in Quebec declined in the 2000s. The tourism deficit in Quebec was $1.4 billion in 2010. The corresponding figures for Ontario and Canada overall were $7.3 billion and $14.1 billion respectively.

Why do Americans come to Quebec? While it is impossible to know everyone's reasons, according to the preliminary statistics for 2010 and 2011 and the reports of the Ministère du Tourisme du Québec, slightly more than half of the tourists who visit Quebec come on pleasure trips. Just over 20% come to visit family and friends, while 17% to 18% travel here for business and/or conferences. The remaining 6% to 7% have other reasons. Those who come for business and/or conferences are the biggest spenders.

Where do they come from? Almost 40% of U.S. tourists hail from the Atlantic Centre canvassing region, which includes Connecticut, Delaware, Maryland, New Jersey, New York State, Pennsylvania, Virginia, West Virginia and Washington D.C. (graph 8 on page 13), while just over 25% come from New England (Maine, Massachusetts, New Hampshire, Rhode Island and Vermont). The remainder are from the Midwest (Colorado, North and South Dakota, Illinois, etc.).

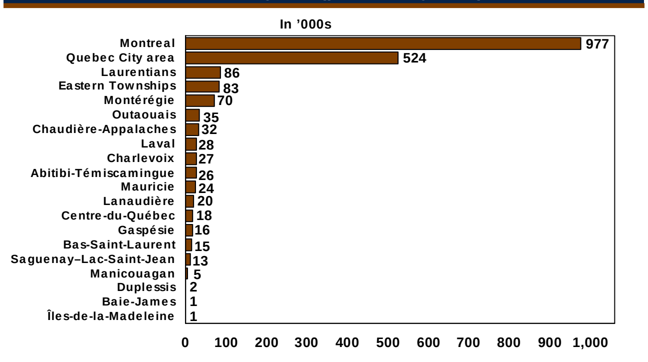
Graph 8 Portrait of U.S. tourists in Quebec, 2010



Sources: Statistics Canada and Ministère du Tourisme du Québec

Graph 9 provides some insight as to what parts of Quebec Americans prefer. However, this data has to be interpreted with caution. First, tourist regions are not exactly the same as administrative regions. Second, the statistics vary sharply from one year to the next. Lastly, we should not try to reconcile the number of visits to the province with region-visits because tourists could decide to visit more than one region.

Graph 9 U.S. tourists (region-visits) in the tourism regions (preliminary data), 2011



Source: Statistics Canada, Internal Travel Survey

With these caveats in mind, we see that the Montreal and Quebec City areas are by far the most popular destinations, with the Laurentians, Eastern Townships and Montérégie lagging far behind.

WHY ARE FEWER AMERICANS VISITING?

The steady decline in U.S. visitors, despite an increase in international travel by Americans, is not only being felt in Quebec. The other provinces have experienced the same decline since 2002. The losses for Quebec stem mostly from neighbouring markets such as New England and Atlantic Centre. There are many reasons for this besides the economic situation (2001 U.S. recession and financial crisis that began in 2007). First, with the loonie's rise since 2002, Quebec and the other provinces are no longer a bargain. Higher gas prices have certainly played a role. Even the Minister of Tourism has admitted that a trip to Canada is an expensive proposition for an American when you add up the cost of a flight, the price of gas, taxes and other travel expenses. According to the Conference Board of Canada, "U.S. tourists are especially price-sensitive and look for the best deal by comparing prices online."[2] In this regard, tourism is booming around the world and the number of affordable exotic destinations has multiplied since the end of the 20th century. This competition has undoubtedly contributed to the decline in the number of U.S. tourists coming here.

Aside from the economic reasons, beefed up security measures at the border are irritating many travellers. Since 9/11, tighter controls, long waits and more and more red tape have turned off many travellers. Although various measures to speed up border crossings have been implemented since the mid-2000s, not everyone is aware of them. As a result, many people may still feel that crossing the Canada-U.S. border is very complicated and always will be.

WHY ARE U.S. TOURISTS SO IMPORTANT?

Because they bring in money. Table 5 shows tourist spending per stay and per night, based on place of origin. Thus, we see that Americans spent an average of $569 per stay in 2010, well above the amount spent by residents of other provinces ($359) and Quebecers in general ($190). They also spent $153 per night on overnight stays, substantially more than the other categories of visitors.

Table 5 – Tourists who visited Quebec in 2010

	Average Spending	
	Per stay	Per night
Origin		
Quebec	190	77
Rest of Canada	359	106
United States	**569**	**153**
Other countries	1,051	84
Average	270	88

Sources: Statistics Canada and Ministère du Tourisme, Le tourisme en bref - 2010

These statistics show just how strategic U.S. tourists are for Quebec. The province has been aware for some time that their numbers have declined and has been working to win them back by restructuring its tourist offer, launching initiatives, setting objectives and developing measurement tools.

INVESTMENT: ANOTHER ASPECT OF THE U.S. PRESENCE

There are various ways of analyzing U.S. investment in Quebec. One is to look at raw data (table 6). As such, according to Statistics Canada, the value of U.S. investments in Quebec peaked at $4.9 billion in 2007, after which it began to slide until 2010, when it bottomed out at $2.4 billion or half of the amount recorded three years earlier. Last year was better, with an increase of 20.9%.

Another way is to look at U.S. investment as a share of total foreign private investment in Quebec. In this case, we see that its share ranged from 62.3% in 2004 to 48.9% in 2011, averaging 52.7% from 2009 to 2011. Despite the decrease, the proportion is still significant.

A comparison of U.S. investments out of total private and non-residential spending in Quebec shows that the proportion reached a high of 22.6% in 2005 and a low of 11.9% in 2010, before settling at 13.5% in 2011. Once again, a substantial proportion is observed.

Lastly, a comparison of capital spending by Quebec, Canadian and foreign interests including the public sector and residential activity, reveals that the share of U.S. interests fell to 4.4% in 2011. However, it's all a question of perspective. The fact remains that no matter how you look at it, U.S. investments account for about 50% of total foreign investments, making Uncle Sam a major player in our economy.

Table 6 – Capital spending by the non-residential private sector in Quebec

U.S.-Controlled Companies

	Capital Spending $M
2004	4,581.8
2005	4,601.3
2006	4,679.1
2007	4,879.6
2008	4,283.6
2009	3,013.5
2010	2,441.9
2011	2,952.4

Sources: Statistics Canada and Institut de la statistique du Québec

LIVING NEXT TO A SUPERPOWER TAKES GOOD PLANNING

The U.S. and Quebec have been neighbours for centuries. Although their economies are linked through integrated manufacturing sectors, the relationship with Uncle Sam goes beyond this. Over the last few hundred years, the people of North America have had a common history. Still, it takes more than living side by side to foster mutually beneficial relationships. Consequently, in the 1980s and 1990s, Quebec adopted guidelines while negotiating the Canada-United States Free Trade Agreement (FTA) and the North American Free Trade Agreement (NAFTA). More recently, as part of a government strategy that stems from Quebec's international policy, the province defined five priorities concerning the U.S. in its 2010–2013 action plan.

The Quebec Government's U.S. Strategy involves 17 ministries and agencies, showing just how much the relationship with that country affects every sphere of the government's activities, the economy and society. As expected, the Ministère des Relations internationales will be in charge of implementing the strategy. Other stakeholders include the Ministère de l'Agriculture, the Ministère du Développement économique, de l'Innovation et de l'Exportation, the Ministère des Ressources naturelles et de la Faune, and the Ministère du Développement durable, de l'Environnement et des Parcs. While not exhaustive, this list gives us an idea of the interests we share with our neighbours to the south. In addition to the ministries, the Office of Canadian Intergovernmental Affairs, the Director of Criminal and Penal Prosecutions, the Aboriginal Affairs Secretariat and others branches will also be involved.

Quebec maintains six Government Offices in the U.S., including four delegations: Atlanta, Boston, Chicago and Los Angeles, and a General Delegation in New York. It also has an Office in Washington, D.C. The delegations offer services in areas such as business, education, culture, immigration and public affairs. They employ advisors who are seconded by their ministries for the duration of the assignment, as well as locally recruited attachés and support staff. The General Delegation is Quebec's most important position abroad and differs from the Offices, which are headed by delegate generals appointed by the Minister of International Relations, and whose services cover fewer areas.

Relationships are therefore built on both sides of the border and are nurtured by participation in regional forums such as the Western Climate Initiative, the Regional Greenhouse Gas Initiative and the New England Governors and Eastern Canadian Premiers' Conference, among others.

TRADE: NO WAY AROUND IT

One of the priorities in the Quebec strategy is to "foster trade." To this end, 14 actions have been defined and assigned to various ministries. This aspect of trade relations was discussed at length earlier (pages 5 to 10). Although trade relations seem to be a given, the fading effects of the FTA and NAFTA in the 2000s, the rise of the Canadian dollar, heightened foreign competition and growing protectionist tendencies since the recession (including the use of the "Buy American" clause) require more effort to ensure the free flow of trade and unfettered access to the U.S. market for both small and big business.

NEW CONCERNS GOING FORWARD

In the new millennium, energy and the environment are at the top of the agenda for everyone. They are also a priority in our relations with Uncle Sam, as evidenced by one of the U.S. strategy objectives, which call for "ensuring Quebec's leadership regarding energy and the environment." With energy becoming a development issue all over the world, Quebec intends to play an active role in North America on this front. Clean energy and hydroelectricity are assets that Quebec is working to promote in the U.S.

As regards the environment, it quickly became apparent that environmental problems transcend borders. For its part, Quebec enacted regulations and made strides in this area a long time ago. The province is ahead of the pack on many fronts, particularly greenhouse gas reduction, and has participated with U.S. states in such regional initiatives as the New England Governors and Eastern Canadian Premier's (NEG/ECP) Conference, the Western Climate Initiative (WCI) and the Climate Registry.

Far from complete, this list offers but a glimpse of the many non-economic aspects of Quebec's relationship with the U.S. Its cooperative dealings also extend to water management. The St. Lawrence River is vital to Quebecers, 80% of whom live near its shores. This waterway also supplies drinking water to half of those residents. However, the river is part of a larger seaway that connects it to the Great Lakes. In this regard, Quebec contributes to the activities of the Council of Great Lakes Governors and is an associate member of the Great Lakes Commission.

SECURITY: A BIGGER ISSUE SINCE 9/11

Another aspect of Quebec-U.S. relations, border security has taken on a new dimension since the turn of the millennium. Security affects a host of activities, including trade. Debated at length, this delicate matter has also led to many initiatives. Programs to speed up border crossing for both goods and people (e.g. C-TPAT, FAST, NEXUS, Driver's Licence Plus) have helped find a balance between border security and the smooth flow of people and goods. That said, security remains an important issue, with continuous negotiations between Canadian and U.S. authorities.

Security is also a priority in Quebec's action plan, where the objective is to "contribute to the security of the North American continent." In addition to the tools mentioned earlier, Quebec has entered into agreements with neighbouring states and is involved in the Northeast Regional Homeland Security Directors Consortium, an organization consisting of 10 U.S. states and 3 Canadian provinces.

QUEBEC: MANIFESTING ITS PRESENCE IN A DIFFERENT WAY

Quebec and the U.S. interact on many levels, which is why one of the five priorities of Quebec's U.S. strategy is to "encourage the sharing and promotion of Quebec's culture and identity." Several actions have been defined to achieve this objective, including developing the U.S. market for Quebec creators and cultural companies, promoting our producers to the American public and ensuring the survival of the French language in the U.S.

Lastly, the ministerial, administrative, economic and institutional assignments, combined with the establishment of bilateral relations with many states and members of Congress, all attest to the Quebec government's willingness to "increase Quebec's capacity to take action and support the development of expertise." All these initiatives are rounded out by funding for chairs and university research centres whose work focuses on the U.S. These actions are just a few examples of the diversity of Quebec-U.S. relations.

THE BUSINESS COMMUNITY IS ALSO ON BOARD

In the early 2000s, the Fédération des chambres de commerce du Québec (FCCQ) came up with a concept called "trade corridors" that "reflect the emergence and recognition of new international, transborder economic zones." Thus in 2001, the Quebec–New York Corridor was created following an agreement between the FCCQ and the Plattsburg–North Country Chamber of Commerce. More corridors subsequently followed: Quebec–Vermont, Quebec–New-England, Quebec–Massachusetts, Quebec–Connecticut and others with Maine, New Hampshire and Rhode Island. Although activities have decreased since the 2008 recession, they are expected to pick up this fall in order to help Quebec SMEs forge ties with New England states.

The relationship that exists between Quebec and the U.S. also owes a great deal to the concerted efforts by business communities on both sides of the border. Aside from workshops and trade missions offered by various ministries to help companies break into the U.S. market, the province's chambers of commerce and regional economic development agencies have developed tools to help businesses navigate the U.S. market.

An example is the Board of Trade of Metropolitan Montreal, which has taken a number of concrete initiatives in this regard. One is a training session consisting of a day trip to the border to see how goods are processed, followed by a meeting with the Plattsburgh Chamber of Commerce to learn the basics of doing business in the U.S. (incorporation procedure, banking, taxes, warehouse and office rental, and so forth). Another is trade missions by specific theme, for instance, construction or cruise ship procurement. Lastly, the organization offers workshops to help business owners sharpen their skills by explaining the legal aspects of doing business across the border and organizes seminars on business opportunities in the U.S.

In the Quebec City area, the regional economic development agency, Quebec International, offers a variety of tools, including sector-based trade missions that are directly linked to the region's niches, including life sciences, applied technology and insurance, along with workshops on U.S. taxation and customs compliance and seminars on business opportunities. The agency also has a strategy to penetrate the U.S. market.

On top of the initiatives taken by Quebec business associations and economic development agencies are those undertaken by companies trying to do it on their own. The efforts to "conquer the south" coincide with projects to break into overseas markets (most often Europe and Asia), the goal being to capitalize on emerging markets and reduce dependence on a single customer like the United States.

QUEBEC-U.S. RELATIONS: A KALEIDOSCOPE

The myriad facets of the relationship between Quebec and the U.S. evoke the image of a kaleidoscope. Although economic matters stand out because they are measurable and quantifiable, the relationship is much more than just about trade. The security and sustainable development imperatives that are now the order of the day have added new dimensions to our relationship with this economic heavyweight and not only because of trade, although this aspect is difficult to exclude in the medium term.

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Senior Economist

[1] Same-day visitor: A person who visits a tourist destination, but returns home the same day.

[2] Conference Board of Canada, Travel Exclusive, Winter 2006, p. 3, cited in Ministère du Tourisme, Notes explicatives sur l'évolution du marché touristique américain au Canada et au Québec, 2007, 9 pages.

INTERPROVINCIAL SHOWCASE

Uncle Sam's presence is felt everywhere in Canada

With its huge economy and close proximity, it is not surprising that the U.S. is Canada's biggest trading partner. However, the reverse cannot be said, at least not since 2009 when China overtook Canada as Uncle Sam's most important trading partner. At the provincial level, the picture is anything but homogeneous, with some provinces intensifying and others reducing their trade with the U.S. in the last decade. Here is a brief look at trade between the United States and the provinces.

THE U.S. IS A DESTINATION OF CHOICE FOR CANADIAN EXPORTERS

In terms of exports to the U.S. by province of origin, Ontario easily leads the way as a result of its auto industry, racking up $142,400 million in exports last year (table 7). Alberta came in a distant second ($80,600 million), followed by Quebec ($43,000 million). These three provinces alone accounted for just over 80% of Canadian exports south of the border. Saskatchewan took fourth place ($18,300 million) while British Columbia came in fifth despite being the third most populous province and generating the fourth largest GDP in the country. As the main gateway for shipments to and from Asia, it's understandable that more of its exports would be bound for Asian markets.

Some provinces rely more on the U.S. than others. Alberta was the most dependent in 2011, with 86.2% of its international merchandise heading south. New Brunswick was next (84.3%), followed by Ontario (78.5%) and Nova Scotia (73.3%). Trailing behind were Prince Edward Island (67.9%), Quebec (67.6%), Newfoundland and Labrador (66.4%), Saskatchewan (61.9%), Manitoba (60.7%) and British Columbia (42.1%).

Table 7 – Exports to the United States, 2011

	$M	*As a % of international exports*
Canada	330,088	73.7
Newfoundland & Labrador	8,048	66.4
Prince Edward Island	512	67.9
Nova Scotia	3,277	73.3
New Brunswick	12,555	84.3
Quebec	42,960	67.6
Ontario	142,433	78.5
Manitoba	7,246	60.7
Saskatchewan	18,301	61.9
Alberta	80,646	86.2
British Columbia	14,002	42.1

Sources: Statistics Canada, Industry Canada and Desjardins, Economic Studies

AN UNEVEN TRAJECTORY

Exports fluctuated sharply in the first decade of the 2000s depending on the strength of the economy, industry (lumber, auto, energy, etc.) and the loonie. For the four provinces whose exports are driven by energy production (Alberta, Saskatchewan, Manitoba, and Newfoundland and Labrador), U.S.-bound exports peaked in 2008, compared with 2002 for Ontario and 2011 for New Brunswick.

ENERGY IS OUR TOP EXPORT

Energy products account for a large proportion of our U.S.-bound shipments and are the leading export in five out of the 10 provinces. According to the North American Industry Classification System (NAICS), oil and gas extraction products accounted for more than 75% of Alberta's exports last year and were also at the top of the list for Saskatchewan, Newfoundland and Labrador, British Columbia and Manitoba. In New Brunswick, refined petroleum products dominated exports. Our infrastructures (oil and gas pipelines) are also shaping the breakdown of Canadian exports to the U.S. In Ontario, auto exports led the way, while aluminium processing products were Quebec's top export.

IMPORTS COMPLEMENT PROVINCIAL ECONOMIC ACTIVITY

Overall, Canada exports more than it imports. However, as we will see later, this is not true for all the provinces. In terms of merchandise imports, Ontario and Quebec ranked first and second in 2011 (table 8 on page 18). Because the U.S. and Canadian auto industries are so closely tied, Ontario largely outpaced the other provinces, representing 64% of the country's merchandise imports that year.

Table 8 – Imports from the United States, 2011

	$M	As a % of international imports
Canada	220,879	49.5
Newfoundland & Labrador	434	11.9
Prince Edward Island	47	76.0
Nova Scotia	386	4.6
New Brunswick	2,815	20.6
Quebec	21,036	28.2
Ontario	141,543	55.5
Manitoba	13,133	81.1
Saskatchewan	8,149	86.6
Alberta	15,727	64.2
British Columbia	17,419	43.1

Sources: Statistics Canada, Industry Canada and Desjardins, Economic Studies

In terms of the share of U.S. imports in relation to total international imports, Saskatchewan led the way with 86.6%. Following close behind were Manitoba and Prince Edward Island with 80.0% and 76.0% respectively. The proportion falls off significantly after that – for example, it accounts for just 30% in Quebec that year.

Imports fluctuated through the last decade, cresting in 2008 and bottoming in 2009. The peaks vary by province and, unlike exports, trends are difficult to discern.

Last year, Canada had a trade surplus of about $109,208 million with the U.S., mainly owing to the $64,919 million surplus racked up by Alberta. Quebec is the second biggest contributor with about $21,000 million. In fact, eight out of the 10 provinces exported more than they imported. At around $800 million, Ontario had a small surplus. Only Manitoba and British Columbia recorded a trade deficit ($5,900 million and $3,400 million respectively).

FOREIGN INVESTMENT: THE U.S. LEADS THE WAY

Two provinces captured the lion's share of U.S. investments (table 9) between 2009 and 2011. Since investments have been rather uneven since the end of the recession, we thought it best to work with an average of the last three years. Thus, Alberta and Ontario tied at around $9,000 million. According to Statistics Canada, the U.S. accounted for 61.3% of foreign investments in Canada. With 81.6%, Prince Edward Island took the lead in this regard. Alberta was next (71.3%), followed by British Columbia (66.3%), Nova Scotia (65.8%) and Saskatchewan (64.1%). In nine out of the 10 provinces, U.S. investment made up more than half of foreign investments while in five out of the 10 provinces, it accounted for almost two-thirds. Regardless of what we hear about the surge in Asian investors, Uncle Sam is still very much present in Canada.

Table 9 – Average U.S. investments, 2009–2011

	$M	As a % of total foreign investments
Canada	26,903.0	61.3
Newfoundland & Labrador	712.0	29.9
Prince Edward Island	22.4	81.6
Nova Scotia	405.5	65.8
New Brunswick	266.2	55.3
Quebec	2,802.6	52.7
Ontario	8,822.3	60.2
Manitoba	512.3	61.0
Saskatchewan	597.3	64.1
Alberta	8,966.2	71.3
British Columbia	3,599.8	66.3
Northwest Territories,Yukon and Nunavut	196.4	29.6

Sources: Statistics Canada, Foreign and Domestic Investment in Canada, and Desjardins, Economic Studies

Be it in terms of exports, imports or investments, the U.S. plays a big if not dominant role in all the provinces. Although energy is big business in western Canada and the Atlantic Provinces, it doesn't completely overshadow the export contributions of the other provinces. What remains to be seen is whether the ties between the provinces and the U.S. remain as strong in the next decade given that closer ties are being forged with Europe and Asia.

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