

**CURRENT ANALYSIS**

August 2016

**Divergent Patterns of Export Growth – Ontario versus Quebec**

**Overview**

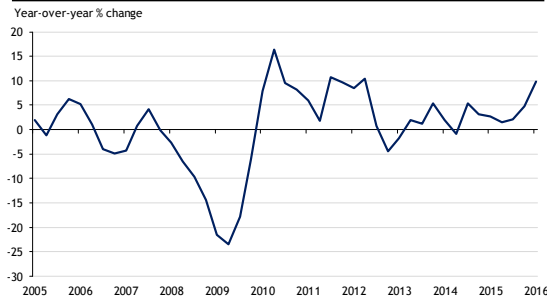
Two provincial governments, Ontario and Quebec, provide quarterly trade data on both an international and interprovincial basis. The data indicates very divergent patterns of growth among these export measures. Growth in Ontario’s international exports have been very volatile though have seen a modest upward trend in year-over-year growth since late-2012. In contrast, Ontario’s interprovincial exports have seen a slowing trend since the first quarter of 2014 that turned negative in the fourth quarter of that year with declines generally intensifying going into early 2016. A different pattern also emerged for growth in Quebec exports internationally which peaked strongly late in 2014 after which the pace of activity has steadily moderated through the end of 2015 with a modest pick-up the first quarter of this year. Growth in exports from Quebec to other provinces also displayed a unique pattern declining for seven consecutive quarters through the first quarter of 2015 before turning moderately positive with growth persisting through the first quarter of 2016. What explains these differing patterns of growth?

**Analysis**

In terms of sizing the importance of these two provinces in international trade, the combined nominal value of exports from Ontario and Quebec in 2015 accounted for 60% of overall Canadian international exports. Ontario accounts for 43% of the total while Quebec accounts for 17%. In Ontario international exports represents 68% of total exports (i.e., including both international and interprovincial exports). In Quebec the importance of international exports is a slightly lesser 61%.

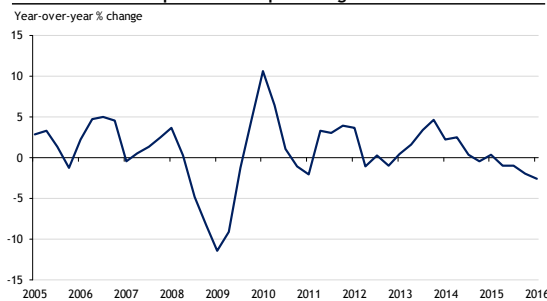
The recent pattern of growth in these various export categories is markedly divergent. The year-over-year growth rate in Ontario’s international export volumes has shown an upward trend from the fourth quarter of 2012 through the first quarter of 2016 though the pace has been volatile and disappointingly weak. There was a strong surge in exports in the first quarter of this year though preliminary national trade data suggest the risk that Q2 will show a sizeable retracement of this increase. The disappointment with the lacklustre growth in Ontario’s international exports contributed to the weak trend in international exports nationally. The Ontario numbers do suggest support coming from the traditional drivers of exports, i.e., rising U.S. domestic spending and a weaker Canadian dollar, though

**Ontario: Real international exports of goods and services**



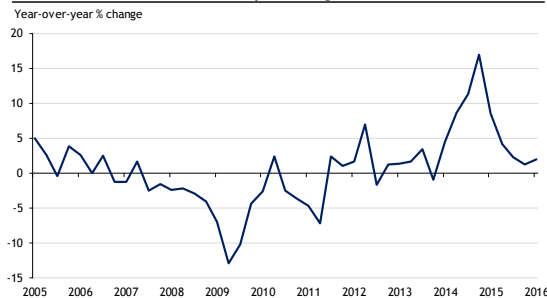
Source: Ontario Ministry of Finance, RBC Economics Research

**Ontario: Real interprovincial exports of goods and services**



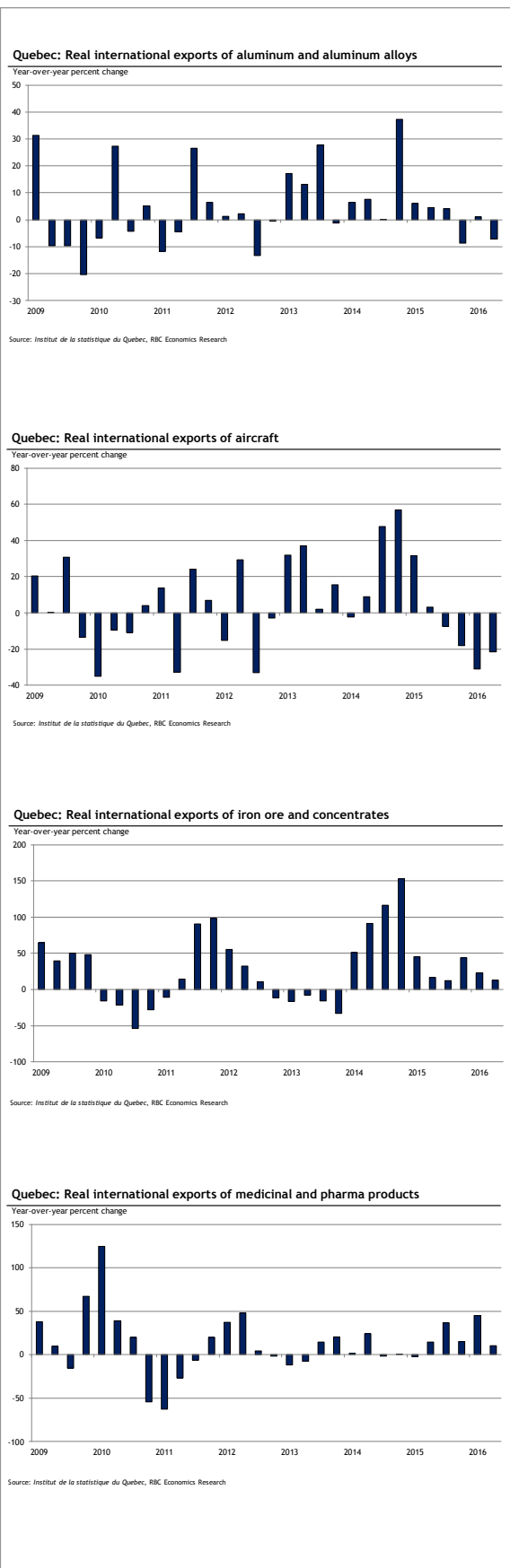
Source: Ontario Ministry of Finance, RBC Economics Research

**Quebec: Real international exports of goods and services**



Source: Institut de la Statistique du Québec, RBC Economics Research

**Paul Ferley**  
 Assistant Chief Economist  
 (416)-974-7231  
 paul.ferley@rbc.com



the response is much more muted than what has historically been the case. (For a discussion of recent Canadian export performance see [Canadian export outlook: explaining recent challenges.](#))

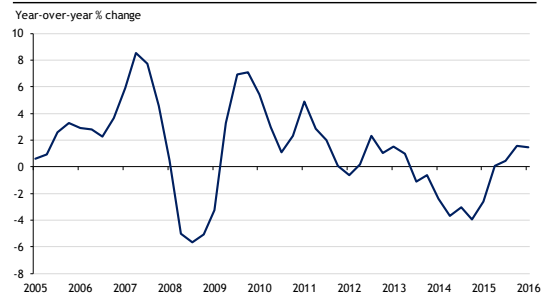
The growth trend in Ontario interprovincial exports has shown a completely different profile. Modest growth was evident through 2013 and over the first half of 2014, albeit with the growth rate trending lower. However, growth then stalled in the third quarter of 2014, turned slightly negative in the final quarter of that year and then recorded more significant declines through most of 2015 and into the first quarter of 2016.

While the quarterly interprovincial trade data does not break down the flows province-by-province, historical annual data within the input-output tables suggest that over one-half of Ontario’s exports go to Quebec (35%) and Alberta (20%) The emergence of declining interprovincial exports late in 2014 coincided with the negative oil price shock and attendant weakening oil-producing provinces with Alberta going into recession. As discussed below, weakening non-energy commodities, after a peak in 2014Q4, weighed on Quebec exports and thus overall growth in that province. With no offsetting exchange rate effect possible, it is likely that interprovincial exports sank responding to this weakening demand outside of Ontario.

Export growth in Quebec shows a markedly different pattern between international and interprovincial trade both within the province and relative to Ontario. Quebec international export growth peaked at a very high rate of 17% in the final quarter of 2014. From that peak, positive growth has been maintained though with the rate dropping steadily lower through the final quarter of 2015 with a slight pick-up the first quarter of this year. The Quebec government does provide a detailed breakdown of international export volumes by commodity. This data suggests that the surge in exports in the final quarter of 2014 is largely attributable to a massive coincident jump in growth in three of the province’s largest export components, namely, aluminum, aircraft and iron ore. In all cases after this surge growth moderated sharply with two of components (aluminum and aircraft) indicating declining exports. The weakening in growth in export volumes of aluminum and iron ore after Q42014 coincided with a generalized weakening in commodity prices, led by oil, and a weakening in demand. The pattern of export growth for aircraft is often buffeted by the “lumpiness” of aircraft exports which were seemingly in play over most of the period following the 2008/09 recession. However, it is of note how sustained the weakening trend has been through 2015 and the first half of this year. One sizeable Quebec export component that did not surge at the end of 2014 but has shown a sustained upward trend in growth over the past six months is exports of medicinal and pharma products. Demand for this commodity is possibly benefitting from a faster depreciation of the Canadian dollar over this period and solid growth in U.S. household spending.

Growth of Quebec interprovincial exports indicates another unique

Quebec: Real international exports of goods and services



Source: Institut de la Statistique du Québec, RBC Economics Research

growth pattern. This export measure has declined from the third quarter of 2013 up until the first quarter of 2015 before showing modest positive growth through the first quarter of this year. A disaggregation of the interprovincial data is not available either by commodity or region though the recent uptrend could reflect strengthening growth and rising export demand by the oil-consuming provinces, such as Ontario, offsetting the weak demand from the oil-producing provinces such as Alberta.

## Conclusion

The disaggregation of the provincial data for both Ontario and Quebec does provide some insights as to the varying influences on export performance. Ontario international exports provide evidence that that area of the Canadian economy is responding to U.S. growth and the Canadian exchange rate. However, it is the case that the response is relatively muted relative to export performance historically. Ontario's interprovincial export numbers are indicative of external Canadian demand outside of Ontario weighing on interprovincial exports with no offsetting 'exchange rate effect' available. This likely reflects Alberta falling into recession in the face of the plunge in oil prices. As well, Quebec's economy was weighed down by a number of non-energy mining sectors. The overall trend in Quebec exports internationally is seemingly more influenced by the performance of single large categories that are more related to commodity-specific global demand, such as for aircraft and natural resources, rather than more diversified external demand as would be proxied by U.S. GDP and/or U.S. industrial production. In terms of Quebec's interprovincial exports, a strengthening Ontario economy may be starting to have a more dominant impact.

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.

