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Delta Economics | Regional Trade Profiles | North America

2nd Quarter 2013

About Delta Economics

Delta Economics is a pre-eminent source of specialist forecasting and economic research. We provide unique global market insight and analysis through our trade, trade payments and GDP forecasts and conduct economic research that allows our clients to anticipate market developments across a comprehensive range of sectors and continents.

About the Delta Economics World Trade Outlook

Delta Economics looks at the world from the perspective of the drivers of trade. Unlike other forecasts, we look at the things that affect businesses when they decide to trade abroad: the costs of trade in terms of capital, people and locating in a different country. We also look at reasons for trade: for example, differential economic conditions, investment and comparative advantage (including skills and education, innovation and ease of doing business) and indicators of long term economic development such as population growth and the Human Development Index.

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1.

North America | Overview

Delta Economics forecasts 2.3% growth in North American total trade in 2013. This is 0.3% faster than last forecast and is the result of a 0.7% surge in trade in Canada, to 2.4% compared with 1.7% in our previous forecast. Growth has been helped by an improvement in the underlying trade conditions in the region. Intra-regional trade is the dynamo of trade in North America and we are expecting regional exports to Mexico to grow by over 5%, to Canada by 1.9% and to the US by 0.7%. The higher growth to Mexico shows how central the country is to the trade economy of the region.

China is a vital trade partner for the region and in 2013 we see exports to the Asian powerhouse growing by nearly 7%. In previous years, this growth has largely been fuelled by pharmaceuticals and cars. However, our previous forecast for North American exports to China was 7.6%. The marked slowdown suggests demand conditions are weakening.

The region's fastest growing export destinations are Turkey, Brazil and Peru with forecast growth in 2013 of 11.4%, 11.1% and 10.9%, respectively. All of these economies are heavy importers of commodities from North America, particularly oil. However, we are also seeing an increase in imports of fertiliser products from these countries as they look to increase their agricultural production. Brazil, for example, is forecast to increase its imports of fertiliser minerals and polycarboxylic acid (used in the production of fertiliser) by nearly 15% and 13%, respectively, suggesting that its fertiliser production sector is growing strong and fuelling Brazil's exports of soya or sugar.

Table 1 | North American Total Trade Growth

North America	2012 Value (bn)	Last Forecast YoY 2013	This Forecast YoY 2013	% Change
Export Growth	2,039	3.9	4.2	0.3
Import growth	2,804	2.2	2.5	0.3
Total Trade Growth	4,843	2.9	3.2	0.3

Table 2 | North America's top 3 Economies by GDP

Top- 3 economies (by GDP)	2012 market size (bn)	Total Trade last forecast	Total Trade this forecast	% Change
USA	3,655	2.4	2.3	-0.1
Canada	837	1.7	2.4	0.7
Mexico	707	6.6	4.8	-1.7

North America | Top Economies

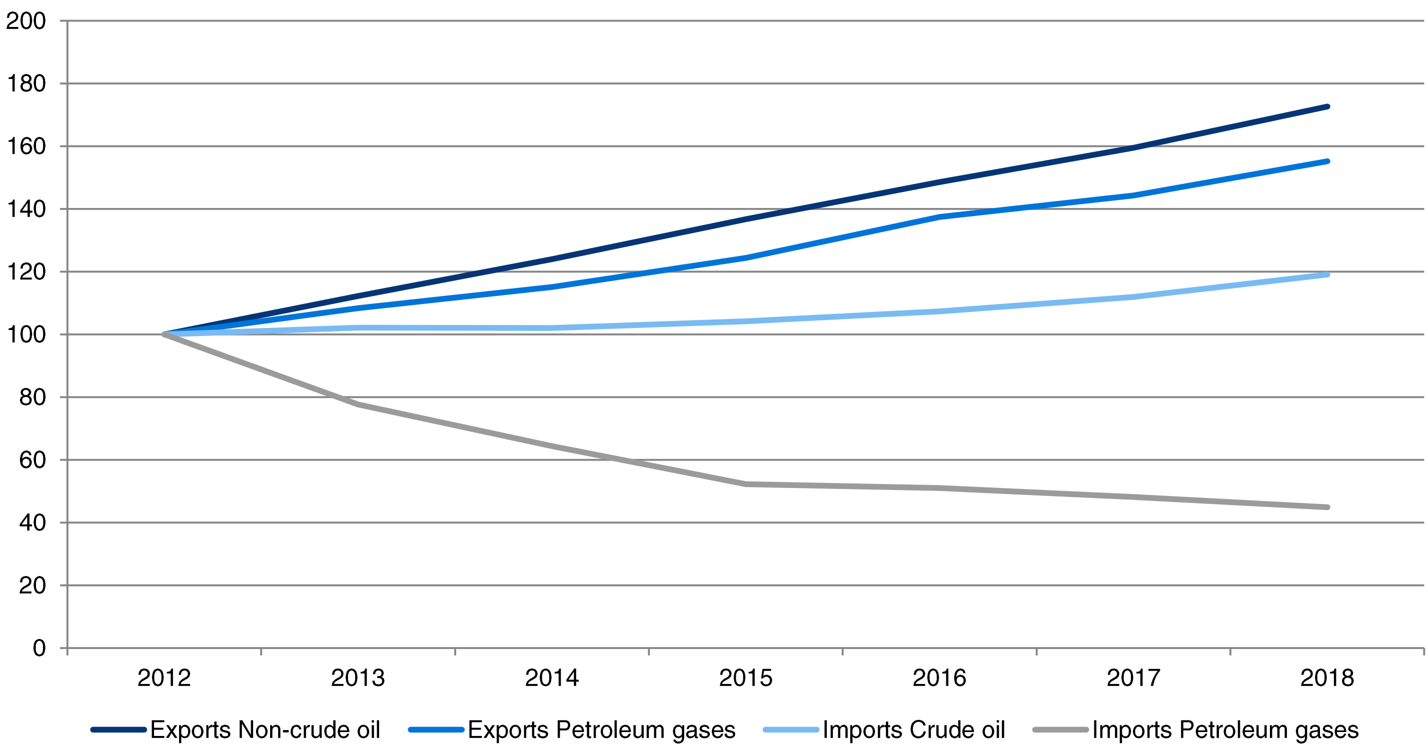
United States

We have revised our forecast down for expected growth in 2013 from 2.4% growth to 2.3% growth as a result of slowing in both exports and imports. We expect exports to continue to grow more quickly than imports at 4.3% compared with 1.0%. Most notably, imports from Canada, Germany, and Japan are forecast to decline by 0.9%, 1.9% and 1.9% suggesting a redistribution of major supply chains in oil, automotives, and aerospace parts. The US's focus seems to be on domestic production and export rather than importing from elsewhere.

For example, during 2013 we are expecting crude oil imports to increase by 2.4% and natural gas imports to increase by 1.3%, but exports in these sectors to increase by 12.2% and 8.3% respectively as the US looks to increase its self-sufficiency. Canada is a major oil importer into the US, but we are forecasting that import growth in crude oil from Canada will halve between 2012 and 2013 (from nearly 12% growth in 2012 to 6% growth in 2013) and in natural gas will drop from over 16% growth in 2012 to just over 2% growth in 2013.

Similarly, we are forecasting that imports of compression ignition engines from Germany will decline by nearly 7% this year. Despite a general slowdown in car trade globally, we expect US car exports to increase by 1.6%, with much of the increase in trade accounted for by an anticipated expansion in exports to China of over 17% in 2013. This demand is likely to be met from within North America since Mexico's imports of car parts are forecast to grow by over 3% and of cars by nearly 15% during the course of the year while Japan's imports will decrease by a similar amount in the same sectors.

Graph 1 | US petroleum imports and exports 2012-2018 (based to 2012)



North America | Top Economies

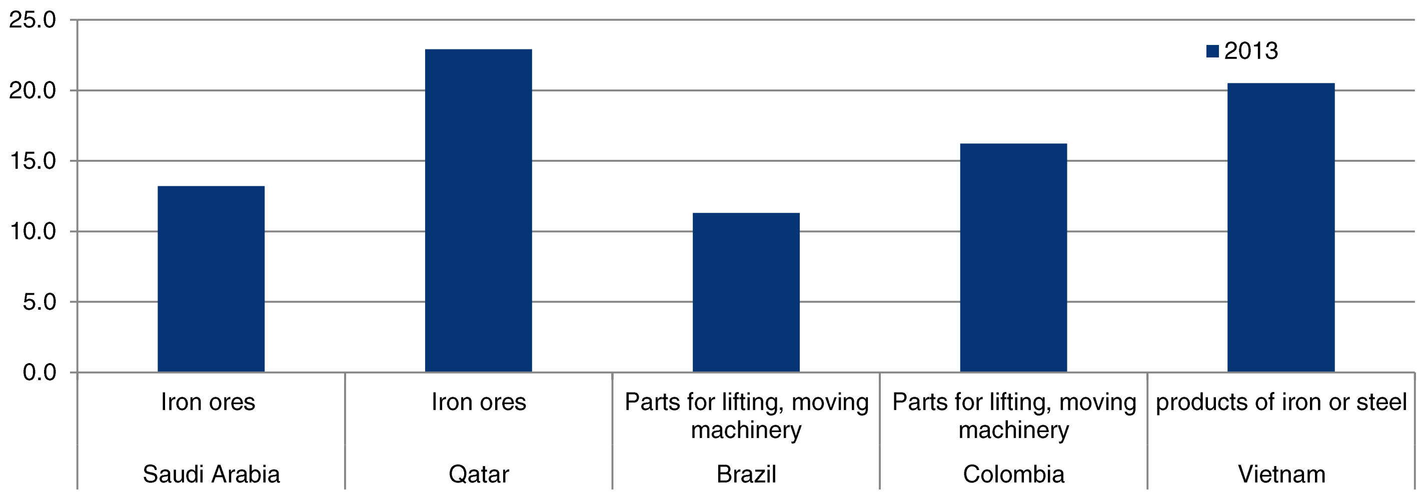
Canada

Our forecast for Canada is 0.7% higher than last time around at 2.4% growth compared with 1.7% last quarter. The stronger growth reflects an improvement in trade conditions for example better jobs statistics and higher demand performance in Q2 of 2013. We are forecasting that exports will increase by 1.9% and imports by 2.9%. Major growth in exports will be to the UK (7.7%), China (9.4%) and Mexico (5.9%) who are among Canada's largest export partners. The fastest growing export partners among Canada's top-30 export partners are Brazil, Turkey and Saudi Arabia; we are expecting export growth to be nearly 10% for all three of these countries.

The oil trade is vital to Canada's economy. Crude oil is their largest export sector and will increase by nearly 7% in 2013. Non-crude oil is its fifth-largest export sector and will grow by nearly 4%. However, we expect slowdowns in these sectors in terms of exports to the US as it looks to be more energy self-sufficient. We also expect a decline in Canada's exports of cars by 3% and of natural gas by 15%. Both of these slowdowns are accounted for by the redistribution of supply chains within the North America region rather than an absolute decline in the productivity of Canada's car manufacturers. Accordingly, we expect imports of cars and car parts to decline only marginally during the course of the year by 0.1% and 0.5% respectively, while imports of road haulage vehicles will increase by 1.1%.

Canada is a resource-rich nation and its exports to emerging economies reflect that. Coal features strongly with exports to Brazil forecast to increase by nearly 13% over the year and to Turkey by 8%. However there are export channels between the countries that reflect their unique development requirements: for example, in 2013 we are expecting Canada's exports of biopharmaceuticals (blood, antisera and vaccines) to Brazil to increase by over 20%. Exports of iron ore to Turkey and Saudi Arabia will increase by 23% and 14%, respectively, reflecting a surge in infrastructure development in these countries.

Graph 2 | Canada's exports of infrastructure-related products to developing economies



North America | Top Economies

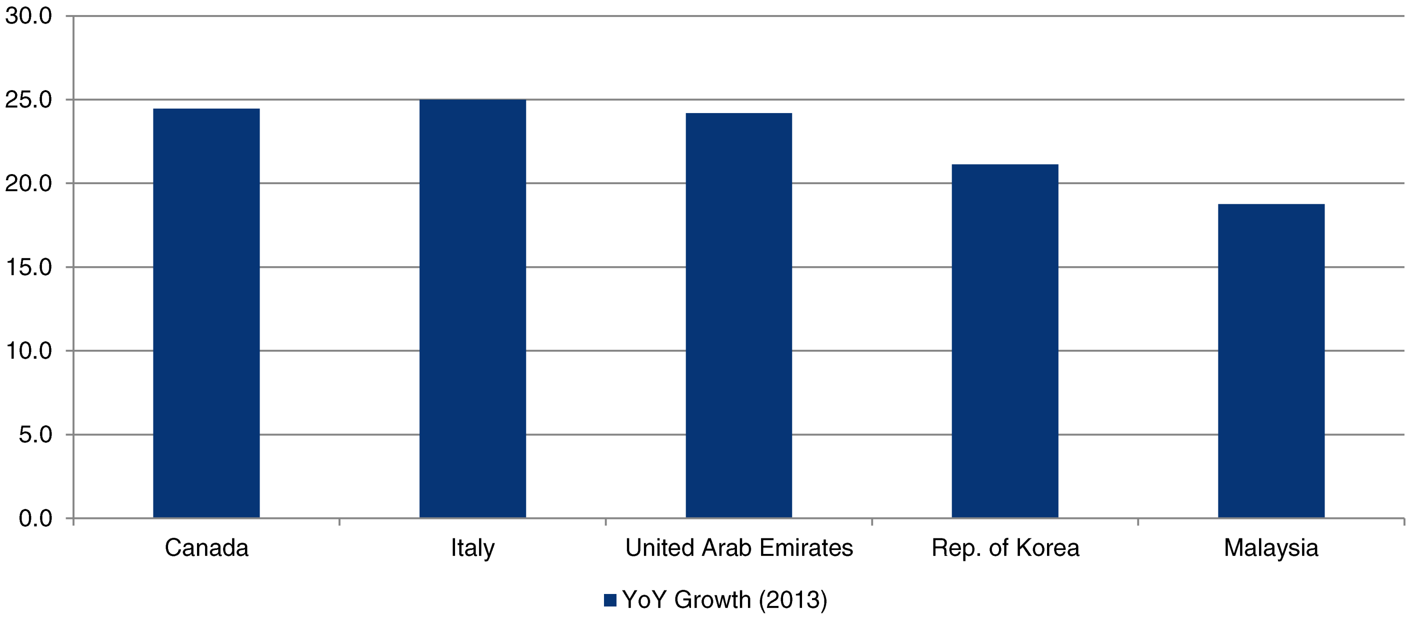
Mexico

We are forecasting that Mexico's trade growth will be the fastest of the North America region but nevertheless will be substantially slower than our previous forecast at 4.8% compared to 6.6%. This reflects a slowdown in trade growth in emerging economies generally, which is evident predominantly through a global slowdown in the car sector. We are expecting exports to grow by 4.6% this year and imports by 5.1%. The more rapid growth in imports reflects the country's persistent demand for infrastructural products and intermediate components in final assembly in its major export sectors including TV receivers, motor vehicles, and radio and TV transmitters.

Car trade across the globe is forecast to decline except in Latin America. While for the purposes of this report Mexico counts within North America, we are expecting exports of cars to increase by nearly 10%. This is accounted for by a 17% increase in exports to Brazil during the course of the year and a 15% increase in exports of cars to Argentina over the same period. Similarly, we are expecting exports of cars to China from Mexico to increase by around 20% further corroborating the fact that Mexico is increasingly providing the manufacturing hub for North American car production as major car businesses relocate or re-shore back to the continent from Asia.

Mexico's export destinations reflect its increasing integration into the global manufacturing supply chain. Exports to the US will increase by 3%, but to Canada will increase by nearly 12% during 2013 year-on-year with export growth predominantly in consumer electronics and automotives.

Graph 3 | Diverse export partners for Mexico's cars



3.

North America | Sector Watch

Oil is North America's most valuable commodity both in terms of imports and exports. While we do expect an increase in North America's crude oil and non-crude oil imports in 2013, this is largely as a result of Mexico and Canada's demand. We forecast just 2.4% growth in imports of crude oil to the US in 2013, dropping to 0.3% in 2014, and 1.3% growth in non-crude oil, dropping to -0.9 in 2014 as the shale gas revolution continues its upward trend. (continued)

Table 3 | North America's top 5 Export Sectors

Top-5 Export Sectors	2012 Value (bn)	Last Forecast	This Forecast	% Change
Crude oil	123	5.1	5.4	0.3
Motor vehicles	95	2.5	2.7	0.2
Non-crude oil	94	10.3	10.7	0.4
Parts for motor vehicles	46	-2.6	-2.5	0.1
Gold	41	12.5	12.9	0.4

Table 4 | North America's top 5 import sectors

Top-5 Import Sectors	2012 Value (bn)	Last forecast	This forecast	% Change
Crude oil	343	3.6	3.9	0.3
Non-crude oil	133	5.1	5.5	0.4
Motor vehicles	111	-3.9	-3.8	0.1
Computers	88	2.7	3	0.3
Medicaments	69	3.2	3.6	0.4

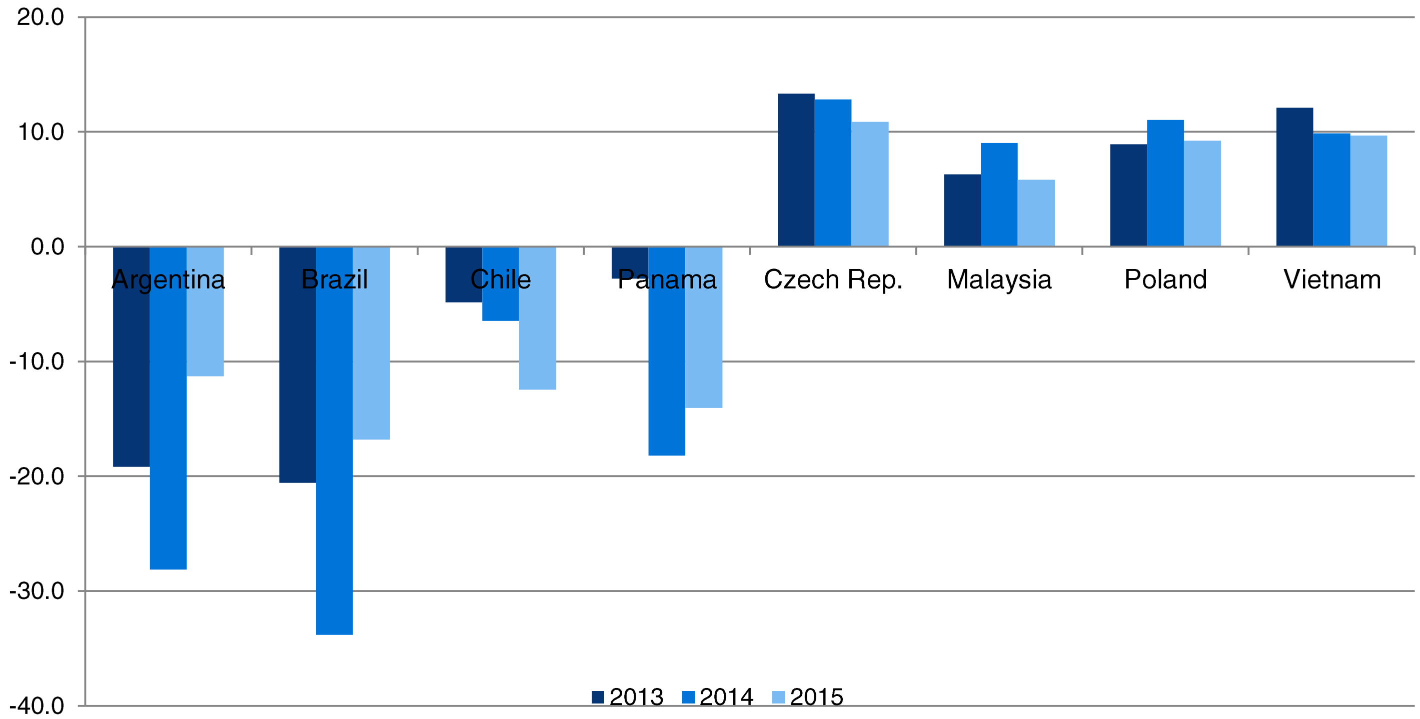
North America | Sector Watch

Automotives are North America's second-largest export sector and we forecast growth of nearly 3% in 2013 despite an overall global downturn in automotive trade. This is largely due to the fact that Mexico is improving the region's status as an automotive manufacturing hub by bringing in car parts from around the world and exporting the finished motor vehicles, largely to Latin America.

We forecast exports of cars to Brazil to increase by 17% during 2013 and to Argentina by over 14%.

However, this trade is not reciprocated: North America is reducing its imports of car parts from Latin America: In 2013, Brazil's imports of car bodies and car accessories will decline by over 20% each, while imports of car parts from Argentina will decline by 19%. Instead, car parts will come increasingly from Europe and Asia. The Czech Republic is the fastest growing import partner with import growth at nearly 13% while Polish imports will grow at nearly 9%. Vietnam is also emerging as an important trading partner with import growth set to be over 12% in this coming year.

Graph 4 | North America's imports of car parts (Year-on Year, 2013-2015)



North America | The Smart Money

North America is re-shoring its automotive and electronics supply chains away from China towards the North American Free Trade Area (NAFTA) and particularly Mexico. The opportunities for business over the next few years will be in the Mexican automotive and electronics sectors as they begin to build their factories' capacity for production on the back on US and Canadian investment.

Of course this re-shoring has clear implications for China: NAFTA will grow in importance and, as trade negotiations with Europe and non-Chinese Asia develop, there is a real threat to Chinese trade dominance.

Since the start of 2011 China's share of trade relative to Canada and Mexico's has levelled out. Mexico is the principle beneficiary of this and we are forecasting that imports from Mexico to the US will grow faster than imports from China during the course of 2013.

For example, imports from China of telephones have declined by more than 12% over the past 18 months, while they have increased by nearly 4% from Mexico. Similarly, we expect imports of motor vehicles from China to slow by 8.2% in 2013 compared with growth of 13.8% in Mexico. We see this as evidence of a re-distribution of North American supply chains. If China's share of trade relative to Mexico and Canada continues to decline we expect the dollar to strengthen further and US companies in consumer electronics and car manufacture to benefit.

Graph 5 | North America's imports from Mexico and China (2013)