



2018 State of Trade

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CONNECTING SASKATCHEWAN BUSINESS WITH THE WORLD



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Saskatchewan Trade and Export Partnership (STEP) was officially launched on August 21, 1996 with a mandate to increase Saskatchewan's exports to existing markets and to tap into new markets by initiating sales, contracts, and projects for Saskatchewan exporters.

Operating as a government/industry partnership, STEP champions the province's export industry and assists provincial businesses in realizing global marketing opportunities while finding custom solutions for Saskatchewan exporters.

As an independent, membership-based organization, STEP brings these resources together to provide world-class specially tailored services and programs that are of primary value to companies who are exporting outside the borders of Saskatchewan. These services include Trade Development, Market Intelligence, International Finance and Logistics, and International Development Projects.

For over 20 years, STEP has been providing Saskatchewan exporters with market research on-demand. Each year STEP provides its members with over 300 customized Market Intelligence reports. Recently STEP has expanded its set of offerings to include prepared Market Intelligence reports related to some of the most commonly requested exporting information. These reports are available to our members.

STEP's reports are primarily based on secondary research accessed from our various licensed database subscriptions, Internet sources and STEP's wide network of worldwide contacts.

For more information on our organization, please check out our web site at www.sasktrade.sk.ca.

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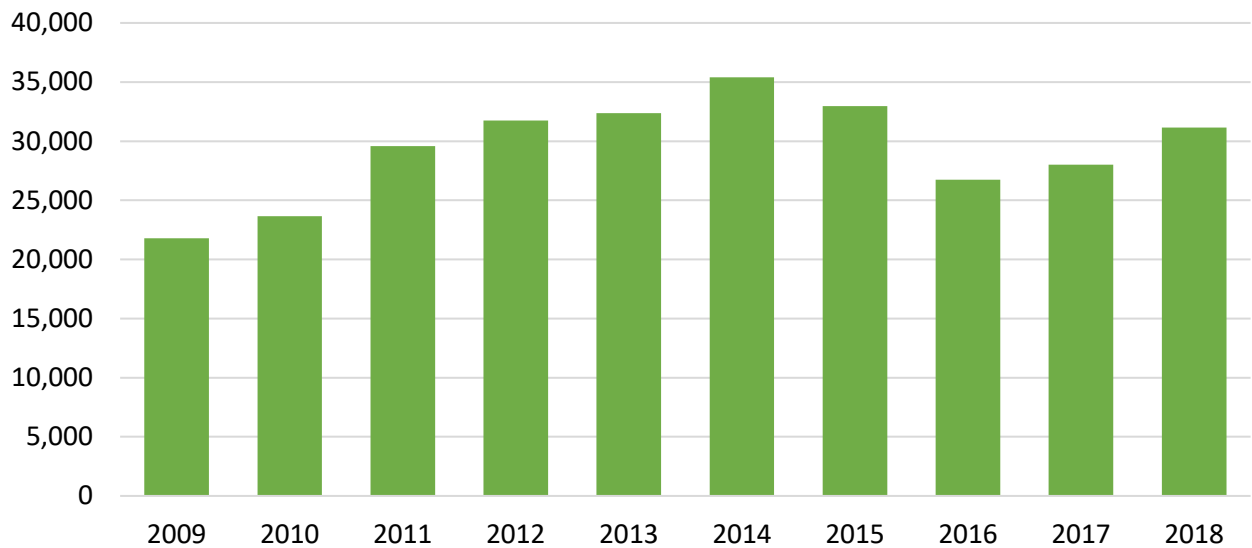
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Historical Export Performance

One of the key pillars in Saskatchewan's economy is the province's exports. The overall performance of Saskatchewan's exports and exporters is one of the leading indicators of the province's economic strength and resiliency. Following difficult years since reaching Saskatchewan historic highs in 2014, exports have been in recovery mode posting healthy gains over the last two years. Overall, the value of Saskatchewan's exports rose 11.2 percent to approximately \$31.2 billion, an increase of approximately \$3.1 billion from 2017. This placed 2018 above the 10-year average of approximately \$29.3 billion.

Value of Total Exports from Saskatchewan, 2010 – 2018 (CAD Millions)*

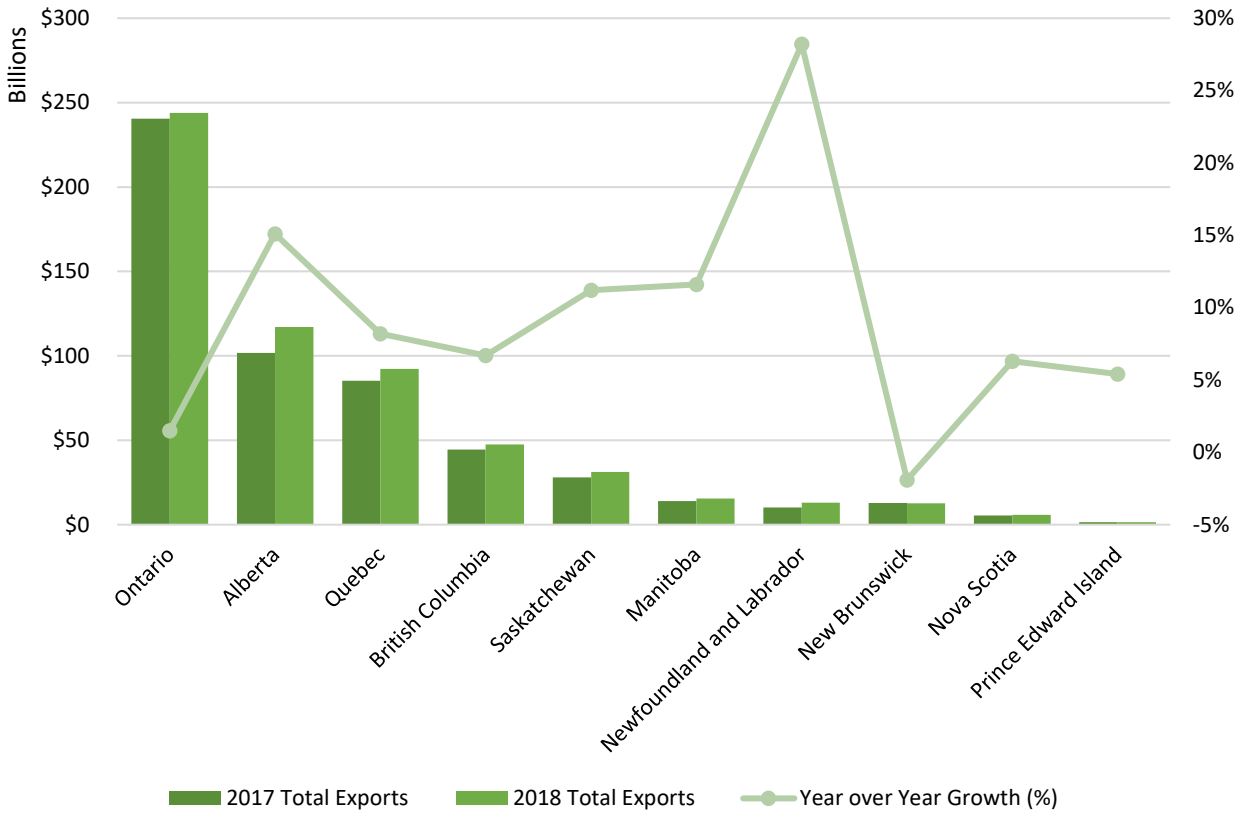


Source: Trade Data Online

*The trade data contained within this report was sourced from the Government of Canada's Trade Data Online database. This data consists of merchandise exports only. The released trade data for 2018 contained within this report is to be considered as preliminary data and is subject to adjustment over the upcoming months as further information is acquired.

Across Canada, exports rose approximately 6.7 percent. Provincially, most jurisdictions fared well, with New Brunswick being the only province to record a decrease in exports. Although, it is worth noting that Northwest Territories and Yukon Territory also recorded decreases in exports.

Provincial Total Export Comparison, 2017 - 2018



| Province | 2017 Total Exports (CAD Thousands) | 2018 Total Exports (CAD Thousands) | Year over Year Growth (%) |
|---------------------------|------------------------------------|------------------------------------|---------------------------|
| Ontario | \$240,413,924 | \$243,913,555 | ↑1.5% |
| Alberta | \$101,755,086 | \$117,099,117 | ↑15.1% |
| Quebec | \$85,272,542 | \$92,237,310 | ↑8.2% |
| British Columbia | \$44,486,200 | \$47,486,712 | ↑6.7% |
| Saskatchewan | \$28,024,230 | \$31,157,849 | ↑11.2% |
| Manitoba | \$13,932,098 | \$15,542,246 | ↑11.6% |
| Newfoundland and Labrador | \$10,183,230 | \$13,052,353 | ↑28.2% |
| New Brunswick | \$12,873,864 | \$12,630,844 | ↓1.9% |
| Nova Scotia | \$5,459,350 | \$5,804,862 | ↑6.3% |
| Prince Edward Island | \$1,382,887 | \$1,457,197 | ↑5.4% |

Source: Trade Data Online

Top Export Markets

In 2018, there were some notable shifts among Saskatchewan's top export markets. The United States and China continued to hold top spots as their importance to Saskatchewan continued to grow. Exports to India fell dramatically while exports to Algeria and Bangladesh also were tempered. Brazil, Indonesia and Morocco witnessed significant gains. Export shipments to Saskatchewan's top 10 export markets accounted for approximately 87.1 percent of the province's export sales.

Top 10 Saskatchewan Export Destinations (CAD Millions)

| Country | 2017 | 2018 | % of Total Exports (2018) | Year over Year Growth (%) |
|---------------|-----------------|-----------------|---------------------------|---------------------------|
| United States | \$15,093 | \$17,306 | 55.5% | ↑14.7% |
| China | \$3,528 | \$4,626 | 14.8% | ↑31.1% |
| Japan | \$1,125 | \$1,123 | 3.6% | ↓0.2% |
| Brazil | \$552 | \$931 | 3.0% | ↑68.7% |
| Mexico | \$780 | \$825 | 2.6% | ↑5.8% |
| Indonesia | \$586 | \$792 | 2.5% | ↑35.1% |
| India | \$1,146 | \$618 | 2.0% | ↓46.1% |
| Morocco | \$241 | \$310 | 1.0% | ↑28.7% |
| Bangladesh | \$332 | \$306 | 1.0% | ↓7.7% |
| Algeria | \$424 | \$297 | 1.0% | ↓30.0% |
| Others | \$4,218 | \$4,024 | 12.9% | ↓4.6% |
| Total | \$28,024 | \$31,158 | 100% | ↑11.2% |

Source: Trade Data Online

*Totals may not add due to rounding

The United States continues to be Saskatchewan's largest trading partner by accounting for 55.5 percent of the province's total exports in 2018. This percentage remained unchanged from 2017, which is significant given that exports grew overall. Exports of many products witnessed notable growth. However, growth among the province's two largest exports, crude oil and potash, accounted for the largest proportion of the gains.

In 2018, Saskatchewan exports to China experienced robust growth of 31.1%, further strengthening the importance of the province's number two trading partner. Agri-food products to China witnessed strong growth, notably dried peas, canola oil/cake, soybeans and wheat. However, increased potash exports also significantly contributed to growth in Saskatchewan exports to the market.

India, who was Saskatchewan's third largest trading partner in 2016 and 2017, fell to the seventh spot, primarily due to market restrictions around pulse products. Brazil, Indonesia and Morocco were important growth markets in 2018. Increased potash exports were the key drivers of growth in Brazil and Indonesia, while improved wheat shipments led export growth to Morocco while also contributing to growth in exports to Indonesia.

Top Export Products

Overall, exports continue to be driven by Saskatchewan's main economic sectors, diversified between the oil & gas, agriculture & food, mining & minerals, manufacturing and technology sectors. The province's top exports in terms of value are listed in the figure below. Oil, potash, agricultural products and uranium products were among Saskatchewan's top 10 exported products in 2018.

Top 10 Saskatchewan Exports by Product (CAD Thousands)

| Product | 2017 | 2018 | % Change |
|---------------------------------|--------------|--------------|----------|
| Crude Oil | \$6,035,983 | \$7,646,940 | ↑26.7% |
| Potassium Chloride | \$5,062,154 | \$6,377,932 | ↑26.0% |
| Canola (Seed, Oil and Meal) | \$5,288,660 | \$4,836,263 | ↓8.6% |
| Wheat: Other | \$1,889,467 | \$2,372,164 | ↑25.6% |
| Durum Wheat: Other | \$1,179,241 | \$1,193,074 | ↑1.2% |
| Lentils | \$1,239,494 | \$848,683 | ↓31.5% |
| Dried Peas | \$1,022,173 | \$772,554 | ↓24.4% |
| Natural Uranium & Its Compounds | \$823,822 | \$555,829 | ↓32.5% |
| Soybeans: Other | \$246,816 | \$447,173 | ↑81.2% |
| Barley: Other | \$259,851 | \$373,128 | ↑43.6% |
| Others | \$4,976,569 | \$5,734,109 | ↑15.2% |
| Total | \$28,024,230 | \$31,157,849 | ↑11.2% |

Source: Trade Data Online

The value of crude oil shipments increased by 26.7 percent in 2018 following large growth in 2017. Potash exports strengthened considerably in 2018, with large increases in key markets. Other notable increases included wheat (25.6 percent), soybeans (81.2 percent) and barley (43.6 percent). Outside of the top 10, healthy growth among the top 25 exports included: wood pulp, flax, line pipe, propane, cattle and no-till agricultural seeders. Notable decreases included canola, lentils, peas and uranium.

Key Trade Events & Issues

The past year has proven to be an eventful period for Saskatchewan's export economy and several key challenges have introduced themselves, while others continue to persist. However, total exports continue to grow and there are bright spots.

| Positives | Challenges |
|---------------|-------------------------------------|
| CETA | Relations with Key Trading Partners |
| CPTPP | Export Infrastructure |
| Potash | Uranium |
| Exchange Rate | Pulses |
| Manufacturing | Oil & Gas |

Trade and international relations were one of the central themes affecting Saskatchewan exporters in 2018. On the positive side, between late 2017 and early 2019, two key free trade agreements were brought into force paving the way towards stronger trade ties with many markets in three key export regions: Europe, Asia and Latin America. The establishment of the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) in late 2017 created a favourable environment; notably around agricultural commodities, food products, fertilizer and agricultural machinery; for Saskatchewan exporters in an important geographic market.

On the heels of CETA, the Comprehensive and Progressive Agreement of Trans-Pacific Partnership (CPTPP) saw six countries ratify the agreement in late 2018 (Canada, Australia, Japan, Mexico, New Zealand and Singapore) and Vietnam sign on in January of this year. CPTPP benefits Saskatchewan as many of the markets, notably the Asian markets, have traditionally levied prohibitive tariffs and quotas on key Saskatchewan exports. When the remaining four countries sign on to the agreement Saskatchewan exporters will benefit greater access to a trading bloc representing 495 million consumers.¹

2018 also saw the leaders of Canada, the U.S. and Mexico sign the Canada-United States-Mexico Agreement (CUSMA), which will ultimately replace the North American Free Trade Agreement (NAFTA) as the primary agreement governing trade throughout North America. However, CUSMA has yet to be brought into force and NAFTA remains in place. Within CUSMA, market access for most Saskatchewan goods is maintained in the U.S. and Mexico. However, recent tariffs of steel and aluminum remain in place and continue to impact Saskatchewan. Moreover, the lack of a Softwood Lumber Agreement with the U.S. continues to have detrimental impact to the export lumber industry.

Beyond CUSMA, international political relations continue to create uncertainty. Canadian relations with the U.S., while having remained relatively positive, could potentially be impacted if not properly maintained. STEP is confident that Canada and the U.S. will continue to maintain a positive trading relationship overall.

While relations with our largest trading partner, the U.S., were strained in 2018, relations with our second largest export market, China, started to derail in late 2018. On December 1, 2018, Canadian authorities arrested a senior official of Chinese telecommunications giant Huawei Technologies under a U.S. court issued warrant. This detention has placed Canada square in the middle of rising tensions between our two largest trading partners, the U.S. and China. Following this incident, two Canadian citizens were detained. Most recently, China revoked canola giant Richardson International's registration to ship canola seed to China. How Canada handles this situation may have lasting impacts with one or both of Saskatchewan's largest trading partners.

In 2018, Saskatchewan pulse producers and exporters continued to face significant market challenges as India (historically the largest and most import market for Saskatchewan pulses) continued to severely limit market access for key pulses, namely peas and lentils, which experienced drops in exports of 87.2 percent and 83.0 percent in 2018 respectively. However, India remained an important market for potash and uranium in 2018. With little hope on the horizon for expedited pulse access to this market Saskatchewan pulse exporters are continually looking towards alternative markets and uses for pulses.

Saskatchewan oil & gas and mining industries continue to be under pressure. Weak commodity prices, notably for oil and uranium continue to strain the industry, including the large supporting industry. From miners and producers to environmental & service firms, contract metal manufacturers and technology companies, among others, Saskatchewan exporters continue to feel the pinch of low prices, which have restrained industry spending even in the face of rising exports. On a positive note, some analysts are calling for stronger prices around oil in 2019 and the outlook for uranium prices is more positive than it was a year ago, primarily due to production cuts. In addition, 2018 was a favourable year for potash producers as prices continued to strengthen throughout the year resulting in strengthened exports.

As a land-locked province, Saskatchewan relies on road, rail, and pipeline infrastructure to ship products to international markets. STEP members have expressed growing concern regarding rail car access, port capacity, and the lack of new and upgraded pipelines for oil and gas shipments. Without significant improvements, delayed and inconsistent delivery will continue to hamper Saskatchewan exports and the Canadian brand abroad.

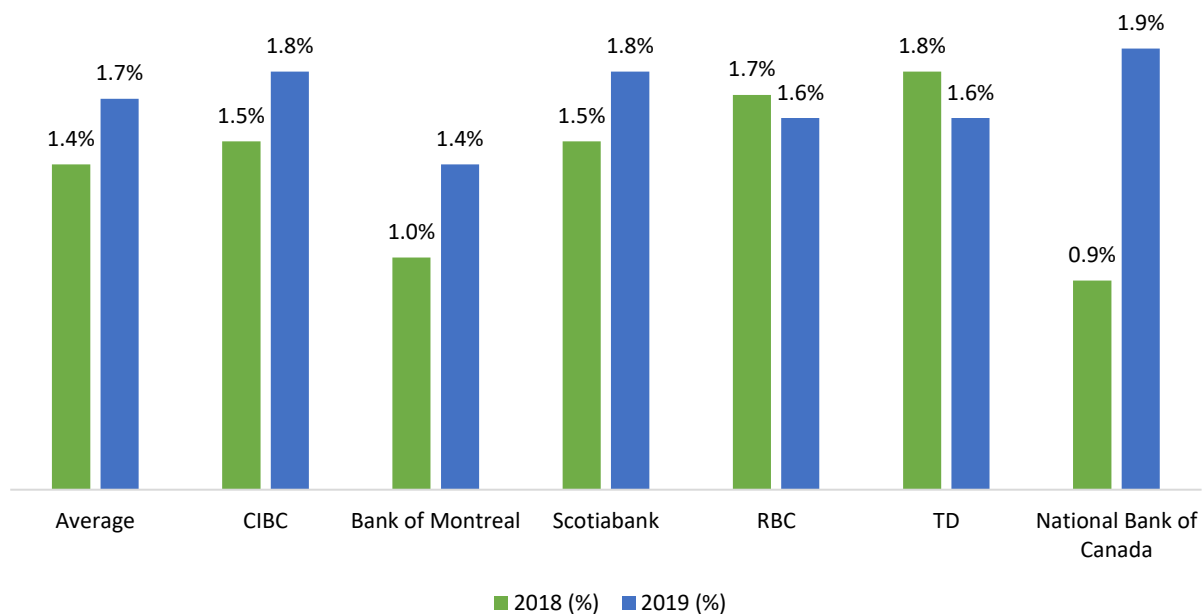
The manufacturing sector witnessed significant export gains in 2018. Agricultural machinery exports saw shipments to the U.S. market soar in 2018. This continued recovery of the agricultural machinery market in the U.S. is most welcome since the market bottomed out in 2016.

On the exchange rate front, the Canadian Dollar currently sits at USD\$0.76 (February 4, 2019) and most forecasts call for steady rates or a slight appreciation of the Canadian Dollar through 2019, continuing into 2020. This is good news for Saskatchewan exporters, as our dollar will continue to represent an advantage and opportunity, most notably in the U.S. market.

Provincial Economic & Export Forecast

Looking ahead to 2019, economists from Canada’s major financial institutions are predicting Saskatchewan’s real gross domestic product (GDP) will grow by an average of 1.7 percent in 2019 following estimated growth of 1.4 percent in 2018.

Saskatchewan Economic Growth Forecast, 2018 – 2019 (Annual Real GDP % change)



Private sector economists are forecasting oil prices to recovery slightly in 2019, but overall the sector has contributed to downgraded growth in 2018. Saskatchewan’s mining is a bit of a mixed bag, with potash seeing growth, but uranium continues to face challenges. The agriculture and manufacturing sectors represent bright spots.

In terms of the year ahead, Export Development Canada (EDC) forecasts that Saskatchewan exports will grow by 4.0 percent in 2019.ⁱⁱ STEP supports this forecast. Further, the Conference Board of Canada, forecasts positive economic growth in Saskatchewan supported by increased export demand for commodities, notably potash, oil and agri-food products.ⁱⁱⁱ Many Saskatchewan exporting sectors experienced significant challenges in 2018 and many of these sectors continue to deal with these challenges. However, the provinces diversified export base supports continued growth and minimizes overall exposure to individual market and sectoral challenges.

ⁱ Government of Canada, “What is the CPTPP?,” <https://international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/index.aspx?lang=eng>, accessed February 5, 2019.

ⁱⁱ Export Development Canada, “Global Export Forecast, Fall 2018”, <https://www.edc.ca/en/guide/global-export-forecast.html>, accessed February 5, 2019.

ⁱⁱⁱ Conference Board of Canada, “Provincial Outlook Executive Summary: Winter 2019 (PDF),” <https://www.conferenceboard.ca/e-library/abstract.aspx?did=10135>, Accessed March 8, 2019.