A Case Study in what Canada Trades

It seems many Canadians are in denial of what we actually do as a county to create wealth. A majority of the Canadian population have voted for federal politicians to extract us from the carbon economy. This may sound like a good idea except we don't really have a substitute non-carbon economy ready to replace it, just yet. Our conclusion is that the sum total of these taxes and regulations is increasingly making it too expensive to manufacture products in Canada. Our only remaining competitive advantage will likely come from having a weak currency.

Here is the list of the top ten items Canada exports:

Sector	Export Value ($Billion USD)	% of Canadian Exports
Energy	$84.6	20.1%
Vehicles	$62.3	14.8%
Machinery	$32.4	7.7%
Precious Metals	$18.6	4.4%
Wood	$14.1	3.3%
Electrical Machinery	$13.0	3.1%
Plastic	$12.6	3.0%
Aluminum	$9.8	2.3%
Aerospace	$9.7	2.3%
Oil Seed	$7.9	1.9%

The top ten categories represent 63% of our total exports that we sell to other countries to create wealth. These top ten categories total $265 billion in export value, or 14% of the Canadian economy. This is the wealth which can then be taxed to pay for our generous social welfare system. However, looking at the list, all of these goods require a carbon footprint. Also, all of these items can be bought from someone else. You will notice that wheat does not even make the list.

It feels like the government didn't even look at the list of what we sell before introducing rules and complexity that will surely put Canada out of business. These costs to manufacturing include: the high cost of electricity (in Ontario, this is a big one), the overall level of tax, density of regulations and permits, social license, minimum wage, and carbon tax. If we keep going down this road, we are not going to have anything to sell.

When we are looking for Canadian public companies who are making money, other than energy and lumber, we rarely invest in Canadian exporters. It is service businesses and transportation companies that have much better and consistent margins. Also, we have argued that owning an existing pipeline is probably a profitable asset given that it is almost impossible to build a new one. There are lots of individual investments in Canada that will do well but as a whole, Canada as an exporter of goods is in trouble.

Given Canada's overall lack of competitiveness, our economy will likely lag behind the US. This is the core argument for why we believe the Canadian dollar will remain weak versus the US, even with the benefit of a higher oil price. This is why we continue to maintain a core position in US dollar stocks.