

EGDI INTERROGATORY

Interrogatory #41

Please refer to the Evidence of Lawrence D. Booth, Section V, Financial and Economic Outlook, pp. 45-72, and specifically regarding macroeconomic comparisons between Canada and the U.S.:

- a. Please confirm: the United States is Canada's largest trading partner, and in 2011 73.7% of Canada's total exports went to the U.S., and imports from the U.S. accounted for 49.5% of Canada's total imports. (Trade Data Online – Canadian Trade by Industry, Industry Canada).
- b. Please confirm: Ontario is by far the largest provincial exporter to the United States, and in 2010 the value of merchandise exports to the United States was \$134.6 billion, \$67.4 billion and \$40.2 billion respectively for Ontario, Alberta and Quebec (Library of the Parliament of Canada, Canadian Trade and Investment Activity: Canada–United States).
- c. Please confirm: the United States is Canada's largest source of, and most significant destination for, foreign direct investment. Canadian direct investment in the United States was valued at \$249.9 billion in 2010 and accounted for 40% of Canada's total stock of direct investment abroad. With a value of \$306.1 billion in that year, the United States' investment in Canada represented 54% of foreign direct investment in Canada. (Library of the Parliament of Canada, Canadian Trade and Investment Activity: Canada–United States).
- d. Please confirm: The World Economic Forum which publishes its annual Global Competitiveness Report, ranks 142 countries on twelve economic factors, including institutions, infrastructure, the macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation. According to the 2011-2012 report, Canada is ranked 12th and the U.S. is ranked 5th in competitiveness and productivity. The report describes the Global Competitiveness Index as “a comprehensive tool that measures the microeconomic and macroeconomic foundations of national competitiveness.” The

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report further explains: "We define competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country." (The Global Competitiveness Report: 2011-2012, World Economic Forum, Centre for Global Competitiveness and Performance).

- e. Please confirm: the economic and business environments of Canada and the U.S. are highly integrated and exhibit strong correlation across a variety of metrics over time, including GDP growth, inflation, treasury yields, stock market returns, and unemployment rates. If Dr. Booth cannot confirm, please explain.
 - f. Please confirm that the province of Ontario, of all Canadian provinces, is the most highly integrated with the economy of the U.S. given its stature as the largest provincial exporter to the United States. If Dr. Booth cannot confirm, please explain.
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- a) Confirmed. Although the Federal government wants Canada to diversify away from the US, proximity is still the best predictor for trade relations (gravity models).
- b) Confirmed. Ontario is Canada's largest province so we would expect, ceteris paribus, for Ontario to have the largest trade with the US.
- c) Confirmed, but also note the share of investment with the US has been consistently declining, that is the US is not as important as it was ten or twenty years ago.
- d) Not confirmed as Dr. Booth does not have access to the World Competitiveness Report as it is a fee based publication. Accordingly, the information does not help explain any portion of the evidence that Dr. Booth has provided.
- e) Dr. Booth will confirm that the global economy is becoming more integrated and that as a result this correlation is increasing. Currently the correlation is being driven the Euro crisis which is affecting both the US and Canada. Further correlation does not necessarily mean causation, while the correlation of equity markets was quite low until the period prior to the financial crisis, particularly if we take FX changes into account.

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- f) Dr. Booth would confirm that Ontario is more directly affected by the US than any other province mainly due to the integration of the car industries between the US and Canada. However a qualification to a)-f) above is that none of this has anything to do with Dr. Booth's testimony and further that contrary to the assumption preceding the questions, pages 45-72 do not represent a macro-economic comparison of Canada with the US, that is only a very minor part of the discussion. The main part of that section is the state of the financial markets in Canada, the stage in the business cycle and the financial problems of the respective national governments. As the Governor of the Bank of Canada, Mark Carney, recently noted, Canada's financial markets are "firing on all cylinders" Dr. Booth wishes we could say the same for the US, but we can't. Otherwise the US wouldn't be bracing for a third round of quantitative easing.