

Canadian Market Share in the U.S.
and the roles of Product Mix and Competitiveness
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Summary

Canada's share of the U.S. market declined steadily over the past decade due to a number of factors (the higher dollar, competition from China and the troubled auto sector). This process was accentuated by the recession in 2009, to end the decade with a nearly one-quarter lower share of the U.S. import market than in 2000.

Market share loss can be explained by either *product mix* (concentration in slower-growing sectors) or *loss of competitiveness* at the sector level. This paper shows that before 2009, product mix had little net effect on Canada's market share in the U.S., as the negative effect of the concentration in the auto sector was more than offset by the positive effect of fast-growing U.S. energy imports. These offsetting effects leave the loss of competitiveness across all sectors as the dominant factor explaining Canada's loss of market share. Product mix did play a larger role during the recession, as energy prices came down causing the value of energy exports to shrink, but the competitiveness effect was still negative across almost all sectors. Combined with the market shrinkage caused by the recession, Canadian exports to the U.S. fell sharply.

As both the competition from China and other emerging markets as well as a higher dollar are likely to be ongoing factors, this analysis underscores the need for raising Canadian competitiveness through increased productivity and the entry of new exporters into the U.S. market.

Background

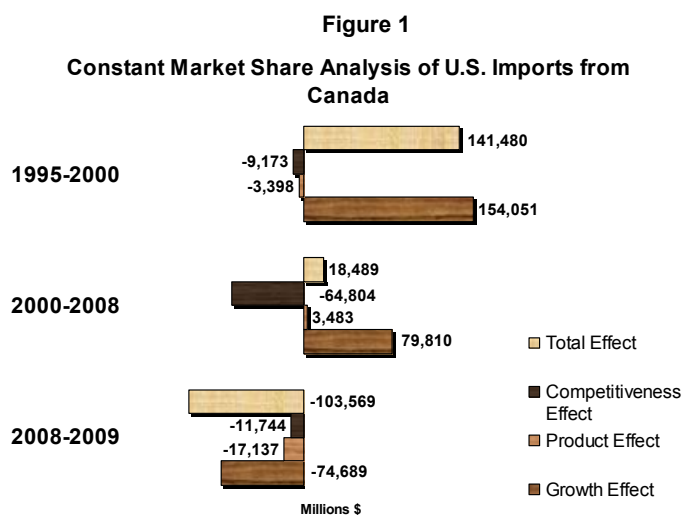
Growth in Canadian exports of both goods and services to the U.S., well above 10 percent a year in the 1990's, slowed down to a fraction of a percentage point in the 2000-2008 period. As a result, Canada's share of U.S. merchandise imports fell from 18.8 percent in 2000 to 16.1 percent in 2008. In 2009, Canadian merchandise exports to the U.S. dropped 29 percent, more sharply than those of our competitors. This performance was strongly affected by weakened commodity prices, bringing our market share in the U.S. down to 14.5 percent. This amounts to a loss of nearly **one-quarter** of our market share in 9 years.

To better understand these events, we decompose the total change in U.S. imports from Canada into three separate effects: the growth effect (or market size effect), the product effect, and the pure competitiveness effect. This decomposition is a form of **constant market share analysis (CMSA)**, widely used in trade and economic policy research. The growth effect (GE) refers to the potential growth in U.S. imports from Canada had they grown at the same rate as total U.S. imports from the world over that period. The product effect (PE) indicates how much of the change in imports is explained by Canada's export product mix. Concentration in fast-growing product sectors would increase this effect, and vice versa. Finally, the competitiveness effect (CE) illustrates the gain/loss in U.S. imports

from Canada due to Canada gaining/losing market share in a particular sector over the period. This represents the change in Canada’s competitiveness against other sources of U.S. imports.

Results

In the 1995-2000 period, Canada performed well in the U.S. market, increasing its exports by \$141 billion. All of this growth came from the booming U.S. economy, while competitiveness and product mix were a small drag on U.S. imports from Canada. The competitiveness loss was small and cost Canada only \$9 billion in potential U.S. imports. The negative effect of product mix was even smaller. The combined impact of these two effects shaved just 8 percent off Canada’s export growth.



In the 2000-2008 period, however, the picture changed dramatically. Growth in U.S. demand slowed - the growth effect for this period (\$80 billion over 8 years) was only about half that of the previous period (\$154 billion over 5 years). And this effect was largely offset by Canada’s declining competitiveness and a consequently shrinking market share. The effect of the product mix, positive but small, was not sufficient to influence the outcome to any strong degree (a \$3 billion gain, largely due to growth in commodity prices – in fact, commodity-related gains have just managed to offset substantial product mix losses in manufacturing). The negative competitiveness effect (CE) was seen across all sectors over this period (with the exception of aerospace). The automotive sector exhibited the worst CE of negative \$20 billion, and large losses also occurred in the machinery and equipment and miscellaneous manufacturing sectors.

In 2009, all of the effects combined to produce a \$104-billion fall in Canadian exports to the U.S. The bulk of it was due to the overall decline in the U.S. market, which cost us \$75 billion in exports, and that was made worse by weakening competitiveness as well as an unfavourable product mix (largely due to moderation in commodity prices).

Conclusions

While in the 1995-2000 period Canada mostly kept its slice of a rapidly growing pie, in 2000-2009 Canada received a shrinking slice of the same pie. The *product mix* effect has been significant in particular sectors, but its overall contribution was significant only in 2009, mostly due to weakening prices for energy and some other resources. Almost all of the market share decline that took place before 2009 can be traced to weakening competitiveness, reinforcing the need for Canadian businesses to increase productivity.

For more information and detailed analysis by sector, please see *CANADIAN PERFORMANCE IN THE U.S. MARKET, 1995-2009: Product Mix, Competitiveness and Market Share*, available at <http://www.international.gc.ca/economist-economiste/>