

Country Insight Snapshot Canada

August 2018





OVERVIEW

OVERALL COUNTRY RISK RATING: DB2b

Low risk: Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns in future.



Rating Outlook: Stable

CORE OUTLOOK

- + Canada is an open economy and actively seeks to build on its international trade and investment agreements with the US, Europe, Asia and Latin America.
- + The country enjoys extensive logistics and market integration with the US, as well as preferential terms under NAFTA.
- The fiscal and regulatory regimes involve separate federal and provincial layers, which can complicate trade and investment projects.
- Over-reliance on specific export clusters and countries leaves Canada vulnerable to periodic terms-of-trade shocks.
- Doubts over NAFTA's survival are growing, creating uncertainty about the trade environment.

KEY DEVELOPMENT

The shifting political landscape is creating instability as CETA becomes endangered, Saudi Arabia rocks Canada, and the US and Mexico hold negotiations without Canada.

CREDIT ENVIRONMENT OUTLOOK



Trend: Stable

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK



Trend: Stable

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK



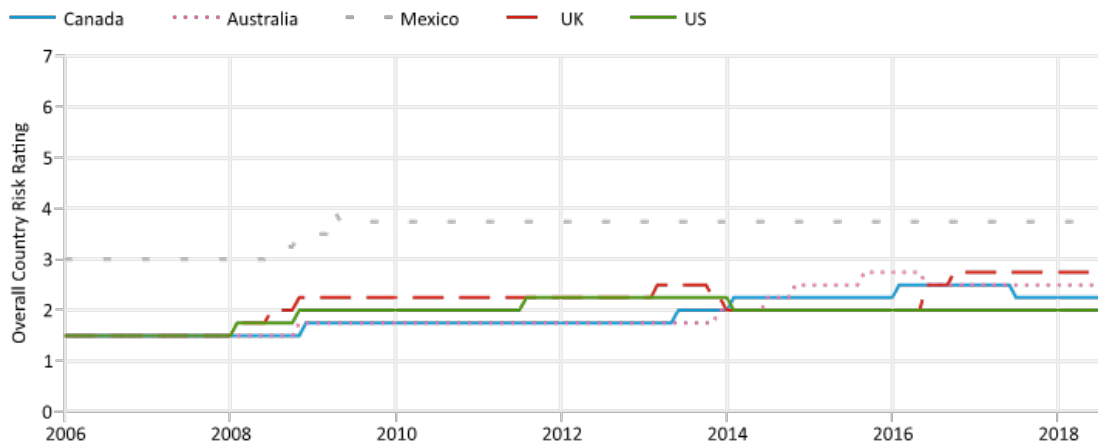
Trend: Stable

Key Development has had a negative impact on the outlook.



KEY INDICATORS

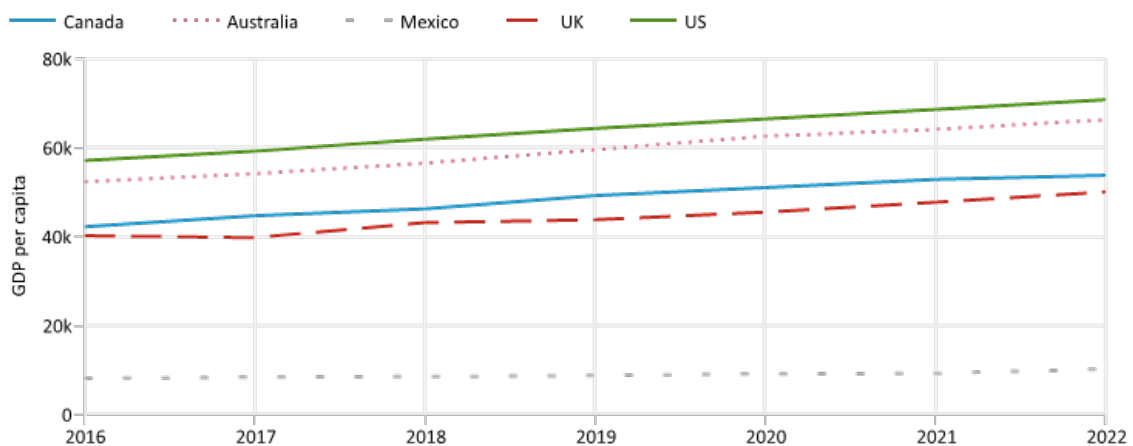
Rating History and Comparison



Source : Dun & Bradstreet

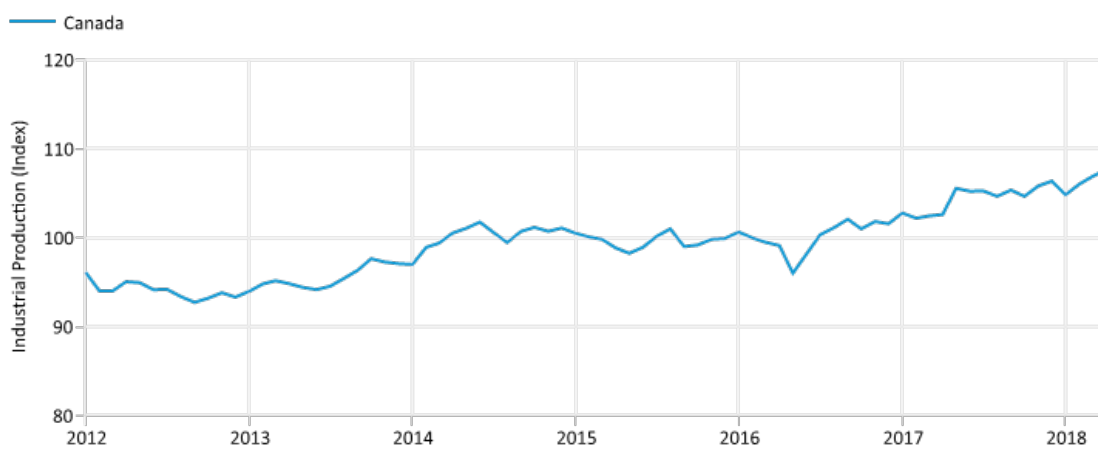
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production (Index)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2015	2016	2017	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	-3.6	-3.2	-3.0	-2.7	-2.2	-1.7	-1.5	-2.0
Govt balance, % GDP	0.4	-0.9	-0.8	-1.1	-1.0	-1.1	-1.2	-1.3
Inflation, annual avge %	1.1	1.4	1.6	2.3	2.2	2.3	2.2	1.9
Real GDP Growth, %	1.0	1.4	3.0	2.2	2.1	2.3	2.3	1.8
Unemployment, %	6.9	7.0	6.3	6.0	5.9	6.1	6.2	6.4

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

According to data from the WTO, global trade momentum is likely to slow during Q3 amid slowing export orders. A reading for Q3 of 100.3 is slightly above the baseline that represents typical medium-term growth in trade. Slower momentum will mean that a pick-up in the trade component of global economic growth, which we put at 3.1% in 2018 and 3.0% in 2019, will be unlikely. Meanwhile, survey participants in the Canada Ivey Purchasing Managers Index are saying that supplier deliveries are slowing at an increasing rate, as indicated by a sub-50 score of 46.6. According to the July *Monetary Policy Report* from the Bank of Canada, escalating trade tensions pose significant risks to the overall economic outlook, and with net exports traditionally providing a positive quarterly contribution toward overall real GDP growth, a deteriorating trade environment raises the risks that softening trade growth will prompt a reduction in our real GDP forecast.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: OA

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: OA

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-1 month

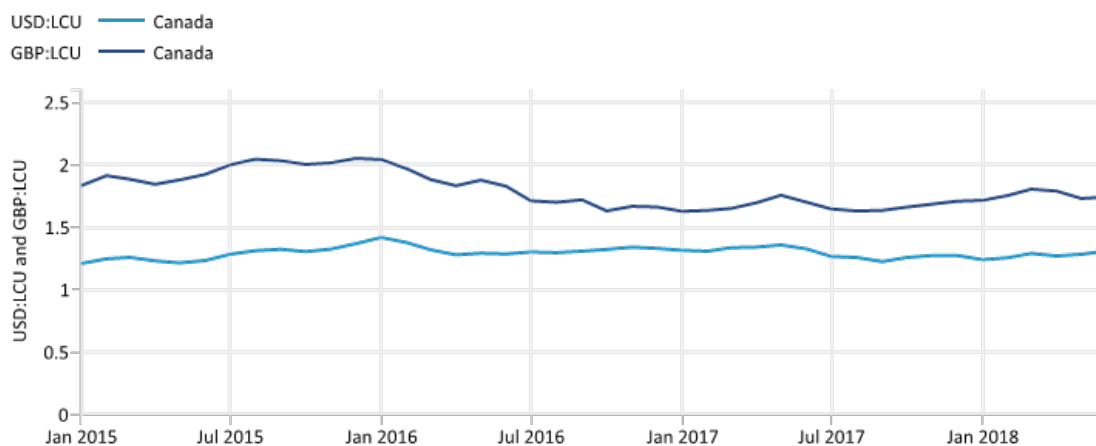
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



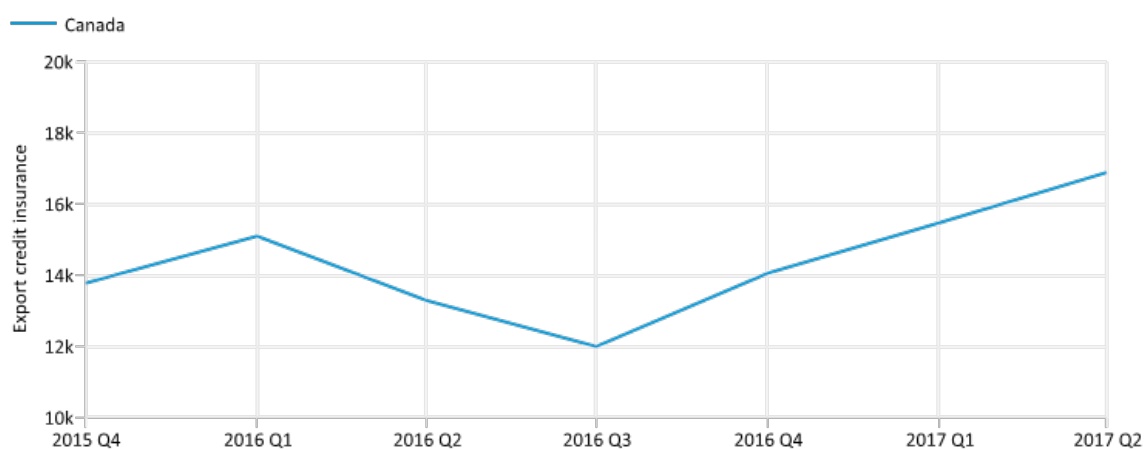
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Canadian dollar

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm; increase going into 2017 is partly due to methodology changes.



RISKS AND OPPORTUNITIES

Market Potential

External environment remains unstable

The external environment remains unstable on several fronts: geopolitical developments threaten to disrupt existing deals and relationships, while another market is closing entirely. Firstly, the Comprehensive Economic and Trade Agreement (CETA), concluded in 2016 and provisionally in force since late 2017, is under pressure from the newly empowered Italian government. The agreement between Canada and the EU needs parliamentary ratification from all EU member states to become permanent, and Italy is threatening to veto the pact over Canada's controversial dairy industry. Canada's domestic dairy industry has frequently been a contentious focal point in recent months, beginning with President Trump's critique of the industry and now extending to Italy. Since CETA came into force Canadian imports of Italian goods have increased by CAD241m, indicating benefits for Italy, but EU dairy imports from Canada also recorded an immediate boost, indicating that substitutions for dairy products are taking place within the EU. If Italy terminates CETA it would remain provisionally in place until it is terminated by the EU. A termination would further shrink market access for Canadian exporters amid uncertainty over other deals.

Secondly, the US and Mexico are engaged in negotiations for a separate auto deal without Canada, with NAFTA renegotiations having stalled. The deal, which is focused around minimum wages, could end the current logjam on NAFTA renegotiations. The auto industry has been a crucial bargaining chip during negotiations, and the current bilateral approach to fixing contentious issues in an existing trilateral agreement seems to be achieving some resolution on previous sticking points. Given that the Trump administration does not have authorisation from Congress to strike a separate bilateral agreement, the auto deal will serve as more of a symbolic agreement that will make its way into NAFTA. While Canada is being omitted from this stage of negotiation, it is promising for NAFTA overall, which will take on increased importance if CETA fails.

Political/Insecurity Risk

Saudi Arabia rocks Canada

Meanwhile, relations between Canada and Saudi Arabia have deteriorated dramatically. Saudi Arabia has frozen all new trade and investment with Canada and has begun to sell off Canadian holdings in its state pension fund. Saudi Arabia remains a minor player in terms of FDI stock in Canada, holding annual stocks on average of less than 0.25% of total FDI since 2011, while the share of Canadian direct investment in Saudi Arabia has barely registered above 0.01% since 2011. Additionally, Canada's share of total trade with Saudi Arabia has averaged around 0.4% annually, signifying only a minor economic dependence between the countries. This event will be minor in terms of economic impact, but there is risk that this negative sentiment toward Canadian foreign policy could spread to other Middle Eastern countries, producing a greater negative economic impact.



COUNTRY PROFILE AND STATISTICS

Overview

Canada comprises ten provinces and three territories, and has the second-largest surface area of any country in the world, bordering the continental US in the south and Alaska in the west. The climate varies from temperate in the south to sub-arctic and arctic in the north; the terrain is mostly plains, with mountains in the west and lowlands in the southeast; the low-lying region of southeastern Canada has more than half of the nation's population.

Canada is an affluent, high-tech, industrial society with a market-oriented economic system. A diversified economy, abundant natural resources (including hydrocarbons), a skilled workforce and modern capital endowments give Canada strong economic potential. The central and eastern provinces of Ontario and Quebec account for more than half of gross domestic product and are home to large manufacturing and service industries. Extensive upstream and downstream oil and gas sector activity is concentrated in the western provinces, particularly Alberta. Canada's trade and logistics environment is closely integrated with the US market, and the country also has a focus on reaching out to other foreign markets through free-trade deals.

Key Facts

Key Fact	Detail
Head of government	Prime Minister Justin Trudeau
Capital	Ottawa
Timezone	GMT -05-00
Official languages	English, French
Population (millions)	36.6
GDP (USD billions)	1,640.7
GDP per capita (USD)	44,797
Life expectancy (years)	82.1
Literacy (% of adult pop.)	99.9
Surface area (sq km)	9,984,670

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2013	2014	2015	2016	2017
Real GDP growth (%)	2.5	2.9	1.0	1.4	3.0
Nominal GDP in USDbn	1,842	1,802	1,560	1,536	1,641
Nominal GDP in local currency (bn)	1,898	1,990	1,995	2,036	2,129
GDP per Capita in USD	52,255	50,600	43,393	42,314	44,797
Population (year-end, m)	35.3	35.6	35.9	36.3	36.6
Exchange rate (yr avge, USD-LCU)	1.0	1.1	1.3	1.3	1.3
Current Account in USDbn	-59.4	-43.2	-56.2	-49.4	-48.8
Current Account (% of GDP)	-3.2	-2.4	-3.6	-3.2	-3.0
FX reserves (year-end, USDbn)	71.8	74.6	79.7	82.7	86.7
Import Cover (months)	1.5	1.5	1.8	1.9	2.0
Inflation (annual avge, %)	0.9	1.9	1.1	1.4	1.6
Govt Balance (% GDP)	-0.9	0.0	0.4	-0.9	-0.8

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	2.2	2.1	2.3	2.3	1.8
Nominal GDP in USDbn	1,713	1,839	1,922	2,009	2,061
Nominal GDP in local currency (bn)	2,278	2,354	2,403	2,511	2,679
GDP per Capita in USD	46,357	49,323	51,124	52,972	53,895
Population (year-end, m)	37.0	37.3	37.6	37.9	38.2
Exchange rate (yr avge, USD-LCU)	1.3	1.3	1.3	1.3	1.3
Current Account in USDbn	-46.3	-40.5	-32.7	-30.1	-41.2
Current Account (% of GDP)	-2.7	-2.2	-1.7	-1.5	-2.0
FX reserves (year-end, USDbn)	84.0	88.1	84.8	87.3	97.0
Import Cover (months)	1.7	1.7	1.7	1.7	1.9
Inflation (annual avge, %)	2.3	2.2	2.3	2.2	1.9
Govt Balance (% GDP)	-1.1	-1.0	-1.1	-1.2	-1.3

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Canada	Australia	Mexico	UK	US
Income per Capita (USD)	46,357	56,626	8,652	43,258	62,009
Country Population (m)	37.0	24.1	132.0	66.6	326.8
Internet users (% of population)	89.8	88.2	59.5	94.8	76.2
Real GDP Growth (% p.a., 2018 - 2027)	1.3 - 2.3	0.9 - 3.3	2.5 - 5.0	1.8 - 3.5	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



LINKS

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