

Country Insight Snapshot

Canada

July 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

Canada's market potential for US exporters shrinks amid newly implemented trade barriers as Canada targets metals and various consumable products.

CREDIT ENVIRONMENT OUTLOOK



Trend: Stable

Key Development has had a positive 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 negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK



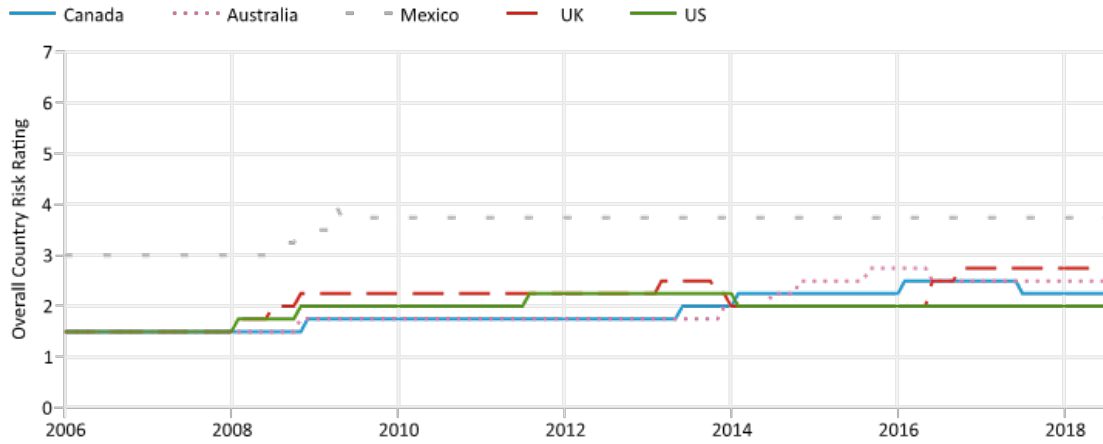
Trend: Stable

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

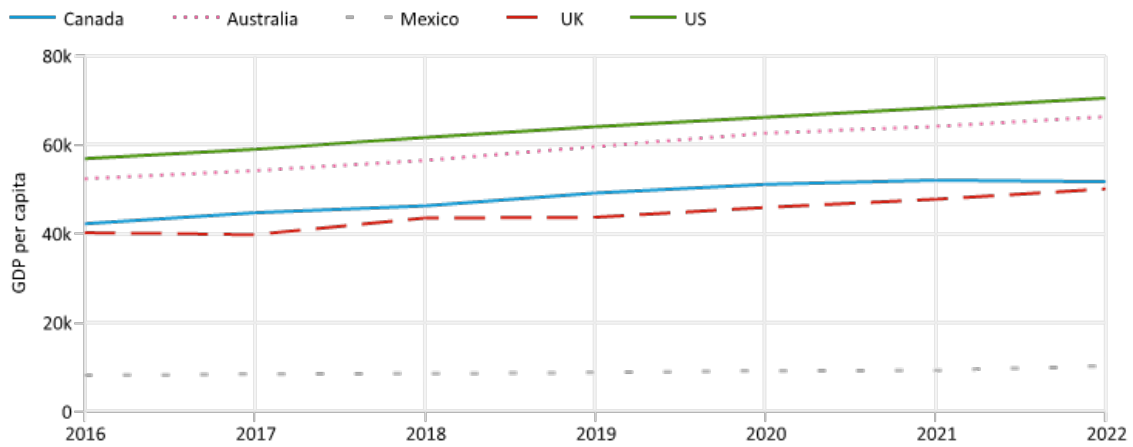
Rating History and Comparison



Source : Dun & Bradstreet

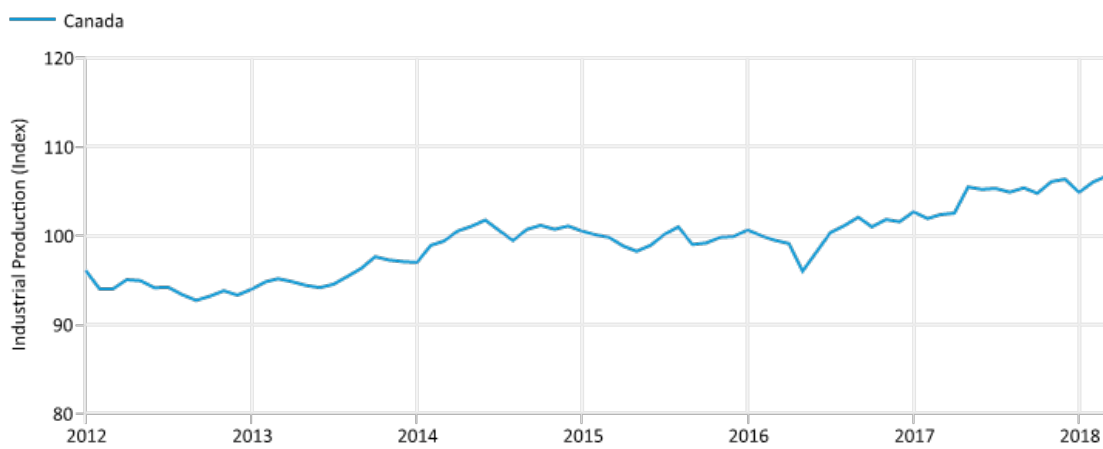
Note: 1 = Low Risk, 7 = High Risk

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	-2.5	-1.9	-1.6	-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	2.0	2.3	2.4	2.1
Real GDP Growth, %	1.0	1.4	3.0	2.2	2.1	2.6	2.3	2.1
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

Canada's current account deficit widened during Q1, falling to -3.6% of GDP - close to an historic low. A fall in the primary income account was the main contributor toward this quarter's widening of the current account deficit. Receipts from Canadian investment abroad declined after a record uptick during Q4. The goods and services account deficit also widened as Canada's goods surplus with the US shrank by CAD2.7bn on higher imports; goods exports remained essentially unchanged from Q4. As new tariffs come into effect during Q2 we expect exports to the US to drop significantly. Additionally, a broad-based decline in manufacturing sales during April confirms that the external sector is weakening and will likely become weaker once the new tariff measures are enacted.

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

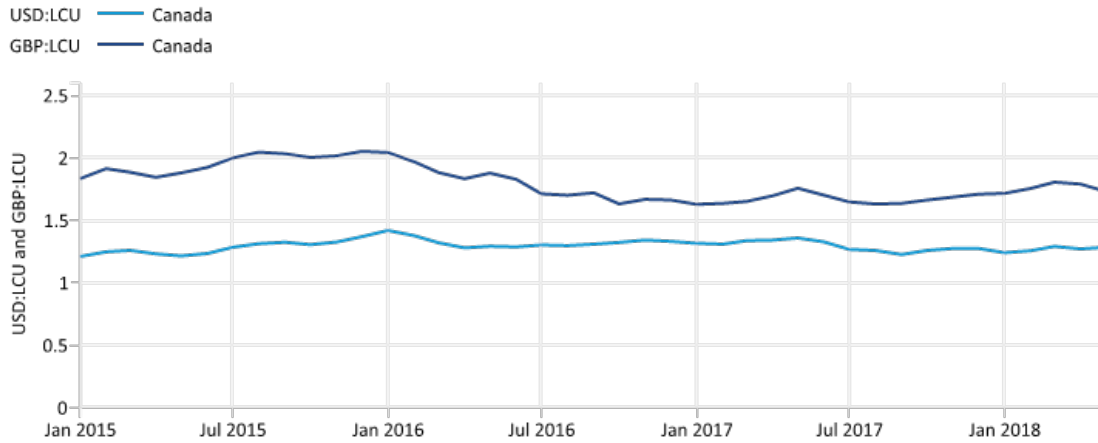
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



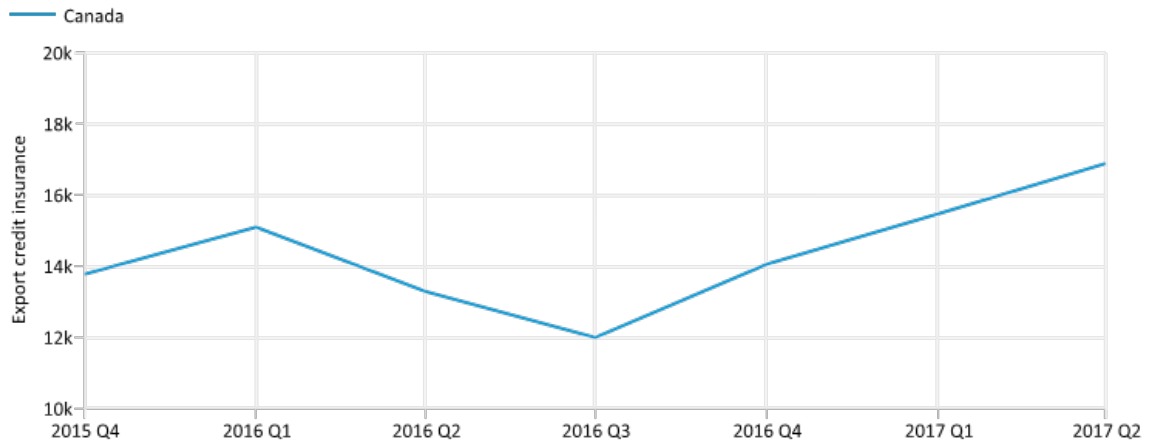
Exchange Rate



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

US exporters face more barriers

In response to the tariffs the US has put on Canadian steel and aluminium goods imports, Canada has in turn implemented countermeasures on US goods coming into Canada. Imports of US metal products will face a 25% tariff and 250 consumable products will face a 10% tariff, matching the 2017 value of Canadian metal exports affected by the US measures (CAD16.6bn). Since the onset of the protective trade measures in 2017, total levies have been successfully enacted on smaller segments of Canada's total value of exports, totalling about CAD14.7bn worth of annual exports. In the US's latest action, the targeted tariffs against Canadian goods have nearly doubled.

To put the US's latest round of restrictions into context, the combined tariffs will affect 4.6% of Canada's global annual goods and services exports, 5.6% of Canada's global annual goods exports, and 7.5% of Canada's total goods exports to the US alone. The Canadian government has increased the level of aid being made available to domestic industries affected by the US measures by increasing financial aid through new loans, loan guarantees and special financing arrangements - helping to limit the impact of the tariffs.

According to Statistics Canada, export diversification has improved in terms of destination market over the last 18 years, but remains highly concentrated. The export trade Herfindahl Index has fallen from 0.75 in 2002 to 0.57 in 2016 (where a reading of 1.0 represents a higher concentration and 0 represents greater diversification). Even though Canada has moved toward greater diversification since 2000, the length of time to adjust, combined with the rapidity of tariff implementation, means any escalation will significantly disrupt the economy. The dairy or automotive sectors are likely to be the next target.

Short-Term Economic Outlook

Household debt vulnerability easing

Despite the current external trade risk, Canada's financial stability is improving. According to the semi-annual *Financial System Review*, vulnerability from high household indebtedness remains elevated, but is easing. The improvement in stability stems from a combination of macroprudential measures (which have limited speculative buyers' ability to access mortgage borrowing), rising income, and slowing household credit growth. While household debt as a percentage of disposable income remains elevated (161.3% as of Q4 2017) the ratio has remained nearly flat since the regulations came into effect.

Nationwide home sales fell to a five-year low in May and remain muted, which has also helped to limit borrowing. Our expectations are for a 25-basis point hike to the overnight rate during this month's policy review. Raising the rate would put upwards pressure on borrowing rates and increase the debt servicing ratio (DSR), but a hypothetical rise of between 1-2% in mortgage rates over the next two years would result in only a 1-3 percentage point (pp) rise in the DSR rate in 2019 and 1-5 pp rise in the DSR in 2020 among most of the renewals. With nominal wages rising by more than 14% since 2014, most households should generally be able to adjust to the higher rates.



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	2.6	2.3	2.1
Nominal GDP in USDbn	1,713	1,835	1,924	1,976	1,980
Nominal GDP in local currency (bn)	2,278	2,349	2,405	2,470	2,574
GDP per Capita in USD	46,357	49,227	51,174	52,111	51,777
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	-42.8	-34.9	-30.8	-29.6	-39.6
Current Account (% of GDP)	-2.5	-1.9	-1.6	-1.5	-2.0
FX reserves (year-end, USDbn)	84.0	88.0	84.9	85.9	93.2
Import Cover (months)	1.7	1.7	1.7	1.7	1.8
Inflation (annual avge, %)	2.3	2.0	2.3	2.4	2.1
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	56,576	8,652	43,622	61,735
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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