

Country Insight Snapshot

Canada

January 2017



Written 27 January 2017

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OVERVIEW

OVERALL COUNTRY RISK RATING: DB2c

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

G

Rating Outlook: Stable

CORE OUTLOOK

- + Canada is an open economy and is actively seeking 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.
- Canada is experiencing a period of unfavourable terms of trade brought about by low oil and gas prices on international markets.

KEY DEVELOPMENT

Canada looks to shift its focus as international trade deals start to unravel, while new US executive orders provide a lifeline for the Canadian hydrocarbon sector.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

G

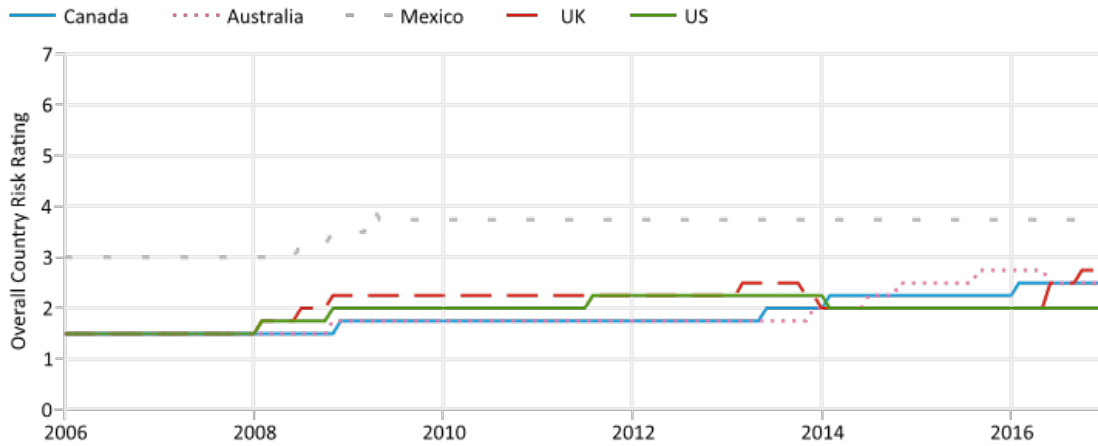
Trend: Stable

Key Development has had a positive impact on the outlook.



KEY INDICATORS

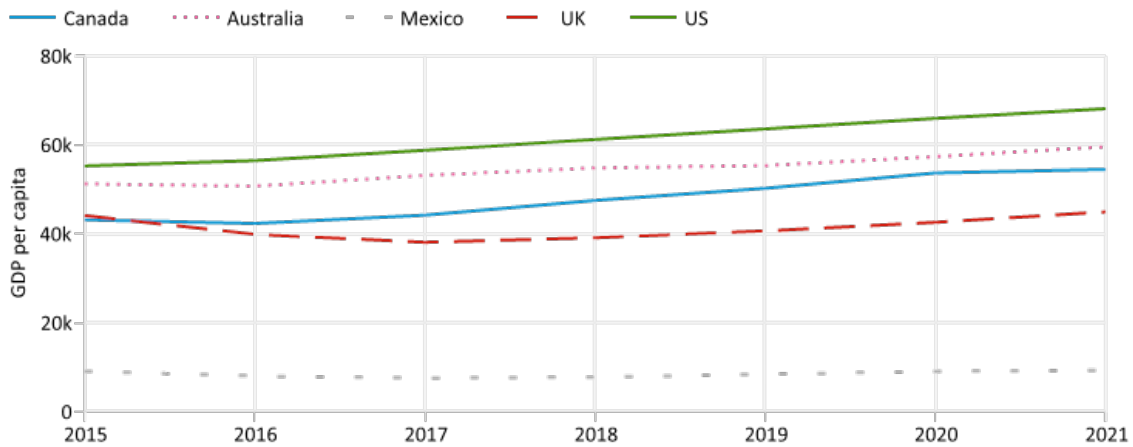
Rating History and Comparison



Source : Dun & Bradstreet

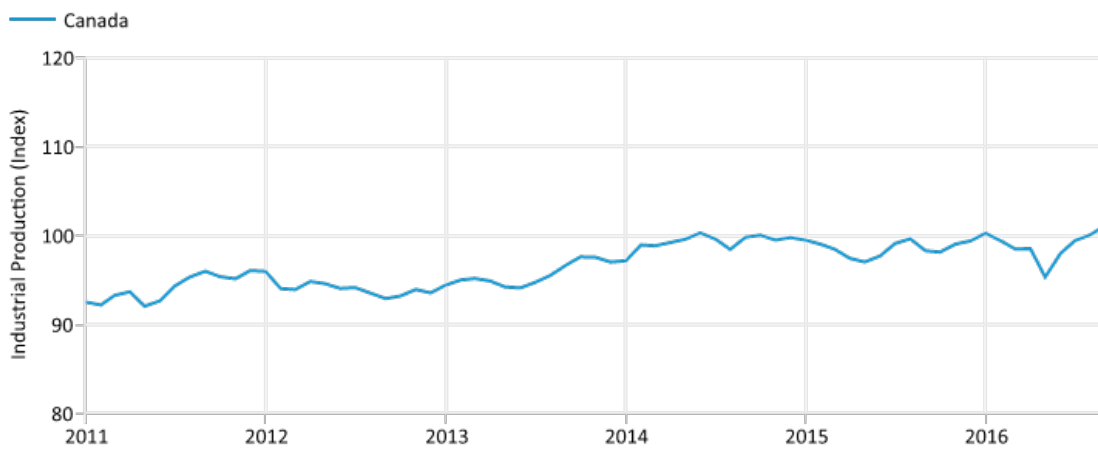
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production (Index)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2014	2015	2016e	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	-2.4	-3.4	-3.3	-2.8	-2.0	-1.5	-1.1	-0.7
Govt balance, % GDP	0.0	0.4	-0.8	-1.5	-1.2	-0.8	-0.6	-0.5
Inflation, annual avge %	1.9	1.1	1.5	1.8	2.2	2.1	2.2	2.2
Real GDP Growth, %	2.6	0.9	1.3	2.1	2.2	2.0	2.1	2.1
Unemployment, %	6.9	6.9	7.0	6.8	6.4	6.3	6.3	6.5

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Further negotiations regarding trade with the US are expected, as Prime Minister Justin Trudeau has shuffled his cabinet and appointed Chrystia Freeland to the Ministry of Foreign Affairs; she will retain the Canada-US relations file. Freeland has experience negotiating multilateral trade deals, as she previously negotiated an impasse regarding CETA last year. Trudeau's cabinet shuffle moves a key negotiator into a post designed to ensure that Canada preserves preferential access to the US market. Additionally, trade ties are likely to be expanded in Asia as Canada attempts to deepen trade linkages with the region, continuing its policy of openness and free trade. Bilateral agreements are under negotiation with Asian nations including Singapore, India and Japan.

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

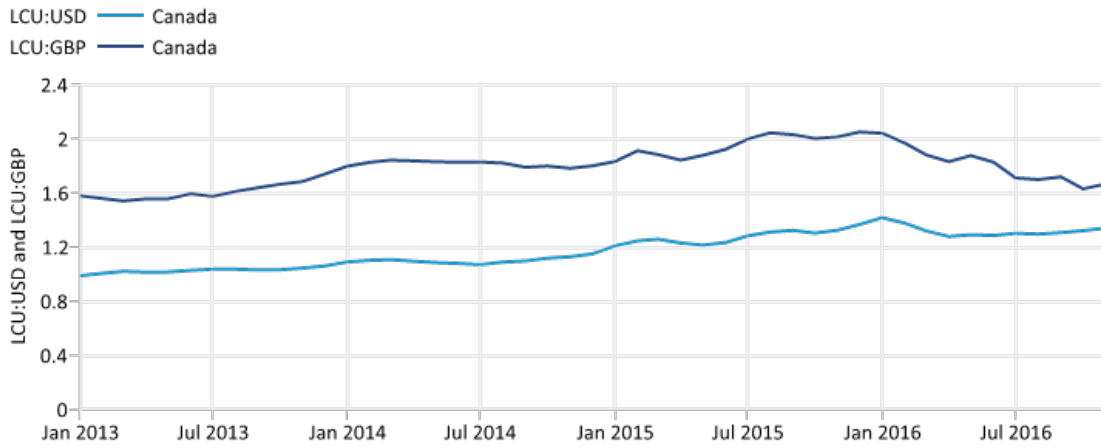
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



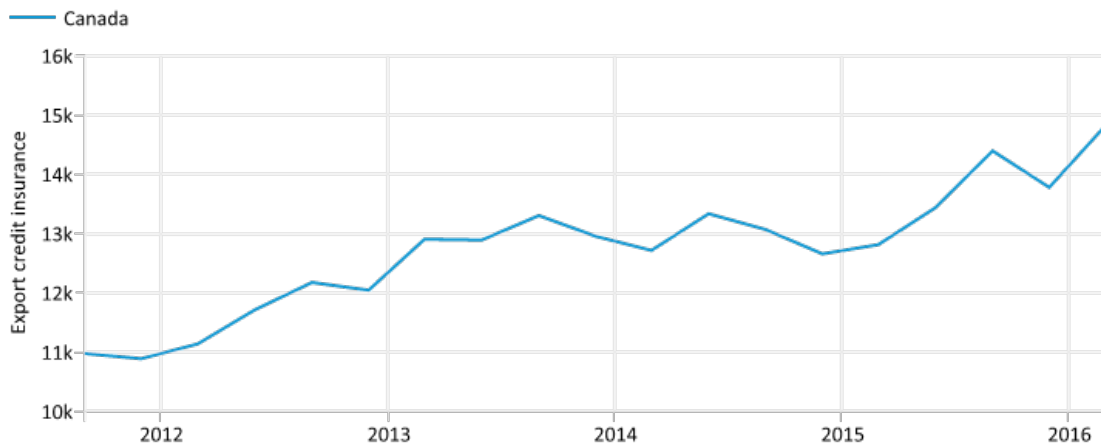
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Canadian dollar

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Market Potential

While agreement falters, Canada pivots

Trade incentives and opportunities for Canadian businesses have grown less certain as, in a well-telegraphed move, the US has officially withdrawn from the Trans-Pacific Partnership (TPP). While there is still a slight possibility that the agreement could be implemented as an 11-member pact without the US, the American withdrawal from the pact represents a sudden shift in its historical approach regarding free trade, and is a pivot toward protectionism. Canadian businesses have long relied on the US as an export destination and a supplier of goods: nearly three-quarters of the value of Canada's goods exports are earned from the US, while around half of the value of Canadian imports come from the US. (Canadian goods imports from the US have been in a secular downtrend over the past 30 years.) Canada currently enjoys preferential access to the US market by way of NAFTA, an agreement preceded by the 1989 US-Canada Free Trade Agreement; although both agreements remain in place, Canadian officials are progressing alternative trade agreements to provide additional incentives and opportunities for Canadian businesses through free trade.

First, the Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU has been approved by the International Trade Committee - an important step toward implementation. While it still needing to pass approval by the European Parliament in February, CETA will remove tariffs on goods and services, provide mutual recognition of product certification (allowing for less red tape), and allow symmetrical federal and local access to public procurement markets. Second, negotiations concerning an inter-provincial free-trade agreement have been concluded and the agreement will likely be implemented in July. The agreement will build upon the 1994 Agreement on Internal Trade, reducing interprovincial barriers by reducing bureaucratic costs associated with the cost of doing business while allowing for greater labour market mobility.

Short-Term Economic Outlook

Hydrocarbon sector clears hurdle

While the new US administration adjusts its tone toward global free trade, Canada and the US have moved closer in terms of energy co-operation. The slowly healing Alberta hydrocarbon sector received a boost as TransCanada received permission, based upon future conditions, to finish Phase 4 of the Keystone XL pipeline. Although it still faces opposition from environmental groups, once completed the pipeline will allow for more Canadian bitumen to flow to the US, allowing for higher export revenues in Canada. Additionally, the new US administration has adopted an 'America first' energy policy in an attempt to shift US hydrocarbon dependence away from OPEC; this means that Canadian exports may get a boost. In its January 2017 Monetary Policy report, the Bank of Canada forecasts significant drawdowns on world oil inventories during the second half of 2017 as demand outpaces production.



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. The low-lying region of southeastern Canada has more than half of the nation's population. Canada borders 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.

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 provide Canada with 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)	36.3
GDP (USD billions)	1,537.7
GDP per capita (USD)	42,377
Life expectancy (years)	82
Literacy (% of adult pop.)	99.9
Surface area (sq km)	9,984,670

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2012	2013	2014	2015	2016e
Real GDP growth (%)	1.7	2.5	2.6	0.9	1.3
Nominal GDP in USDbn	1,824	1,842	1,795	1,553	1,538
Nominal GDP in local currency (bn)	1,823	1,898	1,983	1,986	2,038
GDP per Capita in USD	52,308	52,292	50,444	43,215	42,377
Population (year-end, m)	34.9	35.2	35.6	35.9	36.3
Exchange rate (yr avge, USD-LCU)	1.0	1.03	1.1	1.28	1.33
Current Account in USDbn	-65.7	-59.4	-43.6	-53.1	-50.7
Current Account (% of GDP)	-3.6	-3.2	-2.4	-3.4	-3.3
FX reserves (year-end, USDbn)	68.4	71.8	74.6	79.7	82.7
Import Cover (months)	1.4	1.5	1.5	1.8	1.9
Inflation (annual avge, %)	1.5	0.9	1.9	1.1	1.5
Govt Balance (% GDP)	-1.1	-0.9	0.0	0.4	-0.8

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	2.1	2.2	2.0	2.1	2.1
Nominal GDP in USDbn	1,621	1,758	1,875	2,020	2,068
Nominal GDP in local currency (bn)	2,108	2,180	2,250	2,323	2,399
GDP per Capita in USD	44,265	47,572	50,289	53,725	54,551
Population (year-end, m)	36.6	37.0	37.3	37.6	37.9
Exchange rate (yr avge, USD-LCU)	1.3	1.24	1.2	1.15	1.16
Current Account in USDbn	-45.4	-35.2	-28.1	-22.2	-14.5
Current Account (% of GDP)	-2.8	-2.0	-1.5	-1.1	-0.7
FX reserves (year-end, USDbn)	82.7	77.4	75.0	72.7	79.6
Import Cover (months)	1.8	1.6	1.5	1.4	1.6
Inflation (annual avge, %)	1.8	2.2	2.1	2.2	2.2
Govt Balance (% GDP)	-1.5	-1.2	-0.8	-0.6	-0.5

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Canada	Australia	Mexico	UK	US
Income per Capita (USD)	43,215	51,287	9,127	44,162	55,326
Country Population (m)	35.9	24	127	64.7	321.8
Internet users (% of population)	88.5	84.6	57.4	92	74.5
Real GDP Growth (% p.a., 2017 - 2026)	1.25 - 2.25	0.9 - 3.3	2.5 - 5	1.8 - 3.5	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



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Email: countryinsight@dnb.com

Telephone

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Publisher

Dun & Bradstreet

Marlow International

Parkway

Marlow

Bucks SL7 1AJ

United Kingdom

Tel: 01628 492000

Fax: 01628 492929

Email: countryinsight@dnb.com

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