



Decide with Confidence

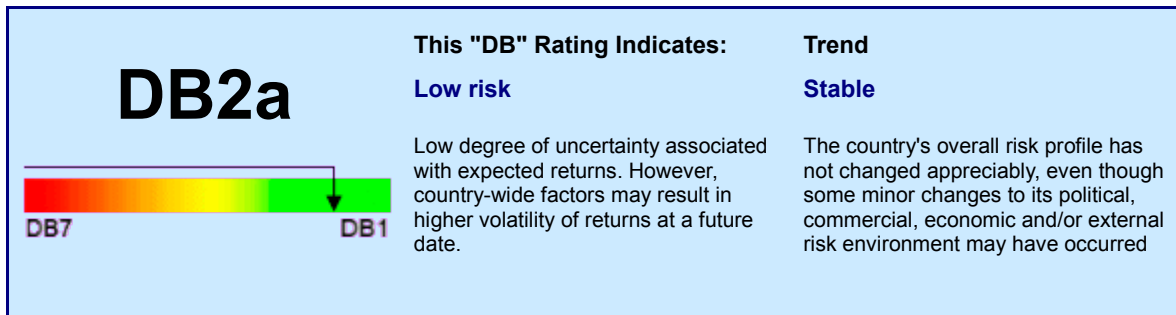
## D&B Country RiskLine Report

# CANADA

Region : The Americas

Edition : November 2013

### D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

*Political risk* - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

*Commercial risk* - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

*External risk* - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

*Macroeconomic risk* - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

## Key Facts

<b>Population:</b>	34.7m
<b>Surface area (sq km):</b>	9,984,670
<b>Capital:</b>	Ottawa
<b>Timezone:</b>	GMT -05:00
<b>Official languages:</b>	English; French
<b>Head of government:</b>	Prime Minister Stephen HARPER
<b>GDP (USD):</b>	1.8trn
<b>GDP per capita (USD):</b>	52,331
<b>Life expectancy (years):</b>	81
<b>Literacy (% of adult pop.):</b>	99.9

### Country 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.

As an affluent, high-tech industrial society, Canada closely resembles the US in its market-oriented economic system, pattern of production and high living standards. Since the Second World War, the growth of the manufacturing, mining and service sectors has transformed the nation from a much more rural economy into a primarily industrial and urban economy. With abundant natural resources (including hydrocarbons), a skilled workforce and modern capital endowments, Canada has solid economic prospects.

## Trade & Commercial Environment

### Trade Terms

<b>Minimum Terms:</b>	OA
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

<b>Recommended Terms:</b>	OA
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D&B'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.

<b>Usual Terms:</b>	30 days
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Normal period of credit associated with transactions with companies in the stated country.

### Transfer Situation

<b>Local Delays:</b>	0-1 month
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

<b>FX/Bank Delays:</b>	0-1 month
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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.

### Trade & Commercial Environment

D&B continues to recommend OA terms for the majority of transactions with Canadian customers. However, credit checks are advised when trading with customers in struggling sectors. Business insolvencies rose by just 0.6% year on year in August 2013; the transportation, wholesale trade, construction, manufacturing, mining and oil and gas, and agricultural sectors all saw failures rise. Meanwhile, Canada-EU trade relations are set to change considerably in the medium term with the finalisation of a bilateral comprehensive economic and trade agreement in October; officials have suggested that the deal will boost Canada-EU trade by as much as 23% to USD35bn per year. However, in the immediate term little will change as the deal will not go into effect before 2015.

### Export Credit Agencies

<b>US Eximbank</b>	Full cover available
<b>Atradius</b>	Full cover available
<b>ECGD</b>	Full cover available
<b>Euler Hermes UK</b>	Full ST cover available

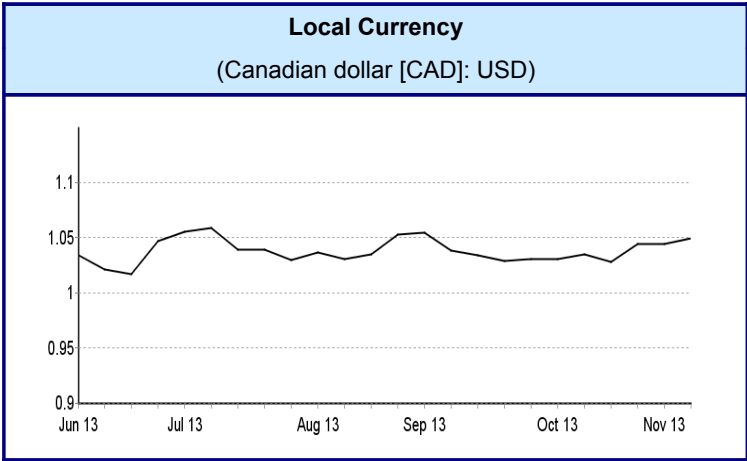
### Economic Indicators

	2010	2011	2012	2013f	2014f
<b>Real GDP growth, %</b>	3.4	2.5	1.7	1.5	2.5
<b>Inflation, annual ave, %</b>	1.8	2.9	1.5	1.0	1.7
<b>Govt balance, % GDP</b>	-2.1	-1.3	-1.1	-0.6	-0.5
<b>Unemployment, %</b>	8.0	7.5	7.3	7.3	7.1
<b>C/A balance, % GDP</b>	-3.5	-2.8	-3.4	-3.5	-3.4

All economic indicators except inflation follow OECD definitions.

### Currency Information

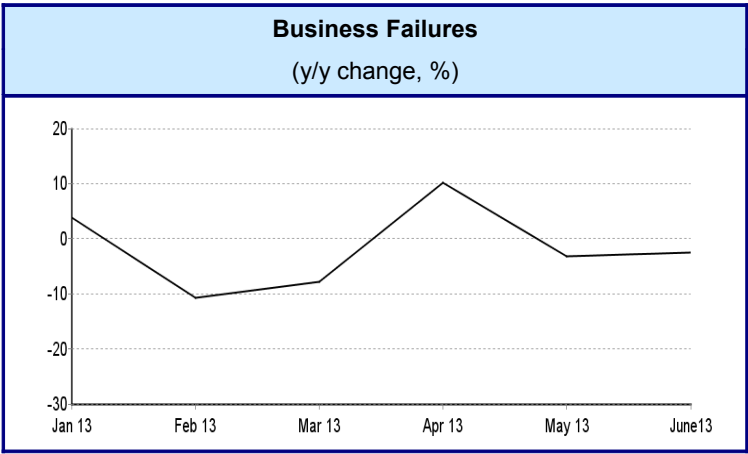
<b>Exchange Rates</b>	
(London, 11 Nov 13)	
EUR	1.4003
GBP	1.6777
JPY*	1.0587
USD	1.049
*(x 100)	



**Local Currency**  
(Canadian dollar [CAD]: USD)

	Jun 13	Jul 13	Aug 13	Sep 13	Oct 13	Nov 13
<b>Week 1</b>	1.034	1.055	1.037	1.055	1.030	1.044
<b>Week 2</b>	1.021	1.059	1.030	1.038	1.035	1.049
<b>Week 3</b>	1.017	1.039	1.035	1.034	1.028	
<b>Week 4</b>	1.047	1.039	1.052	1.029	1.044	
<b>Week 5</b>		1.030		1.030		

**Business Failures**



**Data Table**

Jan 13	Feb 13	Mar 13	Apr 13	May 13	June 13
3.8	-10.8	-7.9	10.2	-3.2	-2.6

## Risk Factor

Economic indicators are mixed but suggest that the economy will experience a modest rise in activity through to the end of 2013. Forward-looking indicators are consistent with relatively favourable growth. In October, the manufacturing *Purchasing Managers' Index* (PMI, compiled by Markit) signaled another improvement in business conditions for the seventh consecutive month; the PMI remained above the 50.0 non-change mark and climbed to 55.6 from 54.2 in September. Output and new orders grew robustly, implying that firms will ramp up production in the months ahead.

Labour market indicators are more mixed; we do not expect to see any substantial improvement on the jobs front before the end of the year. The labour market gained 13,200 new jobs in October after adding 11,900 in the previous month; the unemployment rate remained steady at 6.9%. While the headline jobs' numbers for October showed a slight uptick, the longer-term trend and the composition of the job growth continue to point to a softer labour market. The average monthly job growth over the January-October period was just 12,600 compared with 20,200 over the same period in 2012. The labour participation rate (at 66.4%) and the employment rate (at 61.8%) were both at their lowest levels in a decade. Moreover, the types of jobs created are again a cause for concern; job growth was driven by public-sector hiring. Overall the private sector lost 22,100 jobs, which were concentrated in the office-administration, trade, manufacturing and construction sectors.

High levels of household indebtedness and an overvalued housing market still represent the most serious domestic economic risks. The ratio of Canadian household debt-to-income rose to an all-time high of 163.4% in Q2, approaching levels seen in the US just before the 2007-08 housing-market crash. Worryingly, the housing market looks increasingly overstretched, with prices having grown strongly since 2009. House prices had eased somewhat in late-2012/early-2013 but are again on the rise: they increased by 3.1% year on year in September, and building permits rose by 1.7% in seasonally-adjusted month-on-month terms. House price-to-income ratios are about 40.0% higher than their long-term average and house prices could be overvalued in some regions by as much as 15.0%. A price correction could transmit rapidly through financial channels to consumers, the banking sector and the broader economy. For now, loose monetary policy will help to prevent higher interest rates from testing household-debt dynamics. The central bank left its benchmark policy interest rate at 1.0% in October. In its forward guidance, the Bank removed its bias towards tightening. Given this, as well as the dovishness of the US Federal Reserve and ECB, we expect the Bank to refrain from tightening until 2015.

## Glossary & Definitions

### DEFINITIONS

#### Minimum Terms:

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

#### Recommended Terms:

D&B'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:

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

#### Local Delays:

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

#### F/X Bank Delays:

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.

C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

## GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

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#### USA Inquiry

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Email: [CustomerHelp@dnb.com](mailto:CustomerHelp@dnb.com)

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