

Country Insight Snapshot

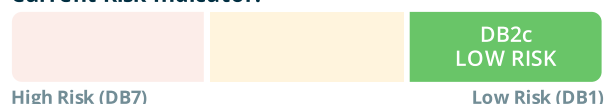
Canada

June 2023



OVERALL COUNTRY/REGION RISK INDICATOR

Current Risk Indicator:



- Last change: June 2021 (DB2d → DB2c)
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is **STABLE**

LOW RISK Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

WorldWatch Headline

The central bank surprises markets with a rate hike citing persistent inflation and a hotter-than-expected economy, while wildfires continue to disrupt businesses in large parts of the country.

Recent Changes

- The economy grew 0.8% q/q in Q1 2023 (3.1% annualised); a flash estimate of April output put growth at 0.2% m/m.
- CPI inflation accelerated in April, rising to 4.4% y/y, while underlying price pressures continued to ease gradually to 4.3%.
- The Central Bank of Canada raised interest rates by 25 bps at its meeting on 7 June; the bank said that stronger-than-expected growth and sticky inflation were the main reasons behind its decision.
- Unseasonably warm weather continues to cause widespread wildfires in huge parts of Canada; extreme heat and poor air quality are damaging the health of residents, and power outages and road closures are creating disruption for businesses.
- Close to 3m hectares have caught fire, already surpassing the previous three decades' annual average in June, and with the typical wildfire season yet to begin in July. Alberta, home to Canada's oil reserves, has been badly affected.
- Canada has placed sanctions on seven politicians and businesspeople and a political party in Moldova, citing links to Russia.

Events to Watch

- Food prices will remain high in 2023, despite the growing consumer burden due to high prices and increasing scrutiny of grocers' record profits.
- Firms are planning to increase wages, which will cushion spending but add to inflation; an April labour force survey showed hourly wage growth of 5.2% y/y. Data over the last three months indicates that the pace of wage growth has been slowly decelerating.
- Recent legislation changes to applications for international nurses has allowed thousands of healthcare workers to work in provinces - addressing problems in the overwhelmed healthcare system.

Call to Action

- Plan for elevated production input prices, including wages, which may have a negative impact on profit expectations in H2.
- Be aware that ongoing geopolitical tension with China is affecting the primary goods sector, as barriers to export to China remain in place; relations have deteriorated further as a result of increased diplomatic tensions with China.
- Note that Canada is solidifying its position as a major player in the lithium-ion battery supply chain.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT

Current Risk Indicator:



- Last change: April 2022 (DB2d → DB3a)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Risks and Opportunities

- The economy grew 0.8% q/q in Q1 2023 (3.1% annualised); a flash estimate for April output puts growth at 0.2% m/m, meaning that Q2 will likely start on a weak footing.
- The deputy governor of the central bank, Toni Gravelle, has said in a speech that Canadian banks were stronger now than in the financial crisis of 2008-09, but that the bank was 'ready to act' against market-wide financial sector stress.
- Employment was strong in April as 41,000 jobs were added, while the unemployment rate held steady at 5.0%.
- Unseasonably warm weather continues to cause widespread wildfires in huge parts of Canada; extreme heat and poor air quality are damaging the health of residents, and power outages and road closures are disrupting businesses.
- The Canadian dollar traded at 1.33 per USD in early June, stronger than in May (1.36) amid US dollar weakness.
- Short-term support came from the Bank of Canada's surprise decision to hike rates by 25 bps on 7 June, marking the resumption of its tightening cycle and implying that borrowing costs were not as restrictive as policymakers had expected.
- Total business insolvencies for the 12-month period ending 31 March 2023 grew 36.5% y/y.

Trade Terms

Description	Terms
Minimum Terms	OA
Recommended Terms	SD
Usual Terms	30 days

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CIA: Cash in Advance. **Source:** Dun & Bradstreet

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Eksport Kredit Fonden (EKF)	Full cover available, conditions apply
ECGD	Medium- or long- term cover only
Euler Hermes AG	Medium- or long- term cover available, limited short-term cover

Source: Export Credit Agencies

Call to Action

- Be aware that business failure remains a medium-term risk, with tighter financial conditions ahead.
- Prepare for a potential housing market slowdown amid higher mortgage rates; consider the effect of higher interest rates on highly indebted households.
- Be aware that, given the long-term disruption to supply chains, supplier and vendor due diligence is crucial.
- Expect global oil prices to keep the currency path relatively volatile in the coming months.
- Tighten payment terms for counterparties with weak financial profiles.

SUPPLY ENVIRONMENT

Current Risk Indicator:



- Last change: June 2023 (DB2d → DB3a)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Risks and Opportunities

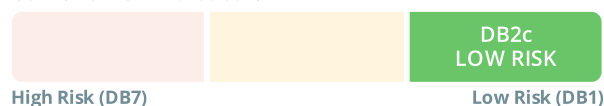
- Unseasonably warm weather continues to cause widespread wildfires in huge parts of Canada; extreme heat and poor air quality are damaging the health of residents, and power outages and road closures are creating disruption for businesses.
- Close to 3m hectares have caught fire, already surpassing the previous three decades' annual average in June, and with the typical wildfire season yet to begin in July. Alberta, home to Canada's oil reserves, has been badly affected.
- The country is facing a critical labour shortage, with almost 1m vacancies, and has a historical visa-processing backlog, with about 2.6m applications stuck in the pipeline.
- Provinces are licensing thousands of internationally trained nurses following legislation changes to applications making it easier to work in Canada as the government addresses staff shortages in healthcare. Uptake in Alberta has been dramatic.
- Core inflation remains elevated, keeping monetary policy tight and financing rates high, making capital expenditure more difficult to fund; wage growth and rising input costs are threatening company margins.
- Government-appointed special rapporteur David Johnston has completed his investigation into foreign intrusion in Canadian elections. Though he found no basis to lack confidence in the 2019 and 2021 results, he recommended urgent measures be put in place to avoid foreign interference. His full report is due in October 2023, which will include specific recommendations.

Call to Action

- Expect supply chain bottlenecks to slowly abate through 2023, posing some challenges for businesses in the short term.
- Note that the government is unwinding pandemic relief to businesses as COVID-led hospitalisations are declining.
- Note that fiscal spending in Canada is being geared towards the reduction of greenhouse gases; adapt your business to move towards compliance.
- Be aware that Canada's rail capacity will improve considerably once the merger of Kansas City South and Canadian National Railway is completed.
- Note that the increased rail capacity will mean that Canadian exporters will have access to an additional 20,000 rail miles.

MARKET ENVIRONMENT

Current Risk Indicator:



- Last change: November 2022 (DB2b → DB2c)
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is **STABLE**

LOW RISK Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

Risks and Opportunities

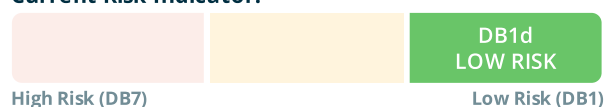
- CPI inflation accelerated in April by 4.4% y/y - bucking a ten-month run of falling price rises - while underlying price pressures continued to ease gradually, to 4.3%.
- Having been one of the first larger central banks to pause its tightening cycle in January, the Central Bank of Canada raised interest rates by 25 bps at its meeting on 7 June. The bank said that stronger-than-expected growth and sticky inflation were the main reasons behind its decision.
- Businesses have said they expect to make large increases in selling prices over the next 12 months, but that the frequency of those changes will decline, implying the start of a return to more normal price-setting behaviour.
- Employment was strong in April as 41,000 jobs were added, while the unemployment rate held steady at 5.0%.
- Retail sales growth fell to 2.4% y/y in March; consumers cut back spending on big ticket items.
- There are no longer any COVID-19 border requirements to present a negative test result prior to boarding flights from the People's Republic of China, Hong Kong (S.A.R.) or Macau.
- The proposal to tax corporate stock buybacks is unlikely to spur investments and may put Canadian companies at a competitive disadvantage; the new tax will take effect in January 2024.
- Canada has announced sanctions on individuals and a political party in Moldova, claiming links to Russia.

Call to Action

- Factor into business planning elevated core inflation and solid wage growth in 2023.
- Expect the services sector to continue to register strong activity in warmer months.
- Note that the reimposition of strict containment measures is unlikely even if there are new COVID surges in warmer months.
- Make supply chains more resilient by identifying alternative sources and reconsidering strategies to minimise vulnerability to sudden disruption, to help mitigate risks.
- Be cognisant of Canada's immigration-friendly policies to recruit skilled labour.

POLITICAL ENVIRONMENT

Current Risk Indicator:



- Last change: January 2022 (DB2a → DB1d)
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is **STABLE**

LOW RISK Lowest degree of uncertainty associated with expected returns, such as export payments, and foreign debt and equity servicing.

Risks and Opportunities

- Government-appointed special rapporteur David Johnston has completed his investigation into foreign intrusion in Canadian elections. Though he found no basis to lack confidence in the 2019 and 2021 results, he recommended urgent measures be put in place to avoid foreign interference. His full report is due in October 2023, which will include specific recommendations.
- Canada's Indo-Pacific strategy outlines the China challenge, with concerns about China's strategic and motivated investments, and aims to cooperate and partner with China where needed and push back where necessary.
- A private survey conducted in June 2023 revealed that if an election were to be called today, the opposition Conservatives (CPC) had a 64% chance of winning the most seats, compared with a 42% chance in June 2022.
- The United Conservative Party under Premier Danielle Smith was re-elected to run Alberta in provincial elections held on 29 May, but with a reduced majority and having lost key seats.
- The LNG companies behind GNL Québec and Gazoduq are claiming CAD20bn in compensation from the government for denying a natural gas liquefaction terminal and gas pipeline projects in Saguenay, Quebec.
- The FY2023-24 budget focuses heavily on business incentives to enhance investment in clean technology and energy.
- The government will mandate payment from internet companies for content created by local news agencies, alongside stronger environmental protections.
- Justin Trudeau's Liberal government is likely to seek support for its legislative agenda from the NDP and the Bloc Québécois.
- A large Canadian pension fund, Caisse de dépôts et placement du Québec (CDPQ), has decided to pull back from investment in China amid a wider deterioration in relations between the West and Beijing.

Call to Action

- Note that the tension between China and Canada, which has increased since the reciprocal expulsion of diplomats, could have economic consequences, especially for exporters of primary products.
- Be aware that takeovers may occur in lieu of giving fiscal support, although plans to nationalise private sector companies do not fit with the government's long-term plans.
- Keep up to date with information regarding entities and individuals that threaten national security or that bypass lawful trade and commerce.

STATISTICAL REFERENCE

KEY INDICATORS AND FORECASTS

Historical Data/Forecasts

Metric	2018	2019	2020	2021	2022	2023f	2024f	2025f	2026f	2027f
Real GDP growth (%)	2.8	1.9	-5.1	5	3.4	0.9	1.8	2.1	2.1	2.1
Nominal GDP in USDbn	1,725	1,744	1,647	2,002	2,138	2,218	2,336	2,462	2,573	2,679
Nominal GDP in local currency	2.2tn	2.3tn	2.2tn	2.5tn	2.8tn	2.9tn	3.1tn	3.2tn	3.3tn	3.5tn
GDP per Capita in USD	46,577	46,470	43,479	52,469	55,590	57,184	59,739	62,426	64,725	66,866
Population (year-end, m)	37	37.5	37.9	38.2	38.5	38.8	39.1	39.4	39.8	40.1
Exchange rate (yr avge, USD-LCU)	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Current Account in USDbn	-41.1	-34	-35.4	-5.5	-6.7	-7.3	-21.1	-25.5	-31.1	-29.2
Current Account (% of GDP)	-2.4	-2	-2.1	-0.3	-0.3	-0.3	-0.9	-1	-1.2	-1.1
FX reserves (year-end, USDbn)	83.9	85.3	90.4	106.6	107	105.9	106.9	107.9	109	107.9
Import Cover (months)	1.7	1.7	2.1	2.1	1.9	1.8	1.7	1.6	1.5	1.3
Inflation (annual avge, %)	2.2	2	0.7	3.4	6.8	4.3	2.7	2.5	2.4	2
Govt Balance (% GDP)	-0.3	-1	-11.7	-5.4	-1.1	-3.5	-3.8	-3.5	-3.5	-3.5

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Canada	Australia	Mexico	UK	US
Income per Capita (USD)	57,184	64,932	12,768	48,515	78,674
Country Population (m)	38.8	26.4	128.5	67.7	340
Internet users (% of population)	92.3	89.6	72	94.8	90.9

Source: Various sources/Dun & Bradstreet

Transfer Situation

Type	Delay
FX/Bank Delays	No delays reported
Local Delays	0-3 month

Note: Length of delay for completion of local and foreign transfers Source: Dun & Bradstreet

Trade Payment Restrictions

Trade Payment Restriction	Canada	North America	OECD Average
Restrictions on non-Residents' Accounts	0	0	0.06
Restrictions on Payments for Imports	0	0	0.06
Restrictions on Payments for Invisible and other Current Transfers	0	0	0.35

Note: for a definition of the Trade Payment Restrictions please see the online [user guide](#) Source: International Monetary Fund



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