

Country Insight Snapshot

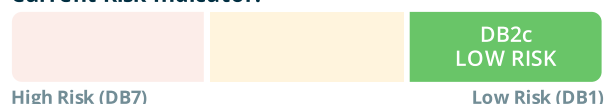
Canada

August 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 wildfires that have been raging across large parts of Canada are slowly retreating – a welcome development as the country struggles with high prices and elevated interest rates.

Recent Changes

- Real GDP expanded 0.3% m/m in May, a little under an advanced estimate of 0.4%; growth was partly supported by 120,000 striking federal government workers returning to work for most of the month. Early estimates put growth in June at 0.2%.
- CPI inflation fell to 2.8% y/y in June, from 3.4% in May. The deceleration was broad based but food prices remain high (9.1%).
- Wildfires continue to burn on the Canada-US border; however, hotspots as recorded by the Canadian Wildland Fire Information System have shrunk in size compared with June and July.
- The improved outlook for wildfires means that we have upgraded our business continuity outlook to 'improving'.
- Prime Minister Justin Trudeau's government's approval ratings are near all-time lows; half of Canadians favour a new government, with only one-fifth of poll respondents willing to vote for Trudeau.

Events to Watch

- Inflation in general, but food prices more specifically, will remain high in 2023, despite the growing consumer burden caused by high prices and increasing scrutiny of grocers' record profits.
- A June labour force survey showed hourly wage growth of 4.2% y/y (up CAD1.32, to CAD33.12), after 5.1% growth in May.
- The UK has joined the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), of which Canada is a member, opening up another export market with lower tariffs.
- Recent provincial legislation changes allow international nurses to practice in Canada, and make it easier for nurses to work in different provinces, addressing problems in the overwhelmed healthcare system. The Commons Health Committee predicts a shortfall of 100,000 nurses by the end of the decade.

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 Mainland China is affecting the primary goods sector, as barriers to export there remain in place; relations have deteriorated further as a result of increased diplomatic tension with Mainland 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

- Real GDP expanded 0.3% m/m in May, a little under an advanced estimate of 0.4%; growth was partly supported by 120,000 striking federal government workers returning to work for most of the month.
- Growth in June is set to come in at 0.2%, according to a flash estimate by Statistics Canada.
- CPI inflation fell to 2.8% y/y in June, from 3.4% in May. The deceleration was broad based, but food prices remain high (9.1%).
- The Bank of Canada (the central bank) raised interest rates by 25 bps at its meeting in June and again in July, to 5.0%, explaining that the recent fall in inflation was less from underlying price pressures and more from lower energy prices this year compared with last.
- The Canadian dollar traded at CAD1.34:USD1 in early August, stronger than in May (CAD1.36:USD1).
- Household debt reached a new record high in May of almost CAD3.0trn, representing a 0.2% increase on the month; mortgage debt accounted for the vast majority, totalling CAD2.3trn.

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

- 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 business failure remains a medium-term risk, with tighter financial conditions ahead.
- Note 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

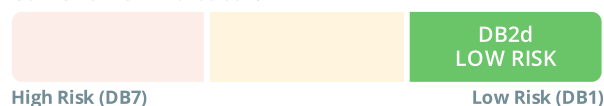
- Wildfires continue on the Canada-US border, largely in southern Alberta, British Columbia and Saskatchewan; however, hotspots as recorded by the Canadian Wildland Fire Information System have shrunk in size compared with June and July. Nonetheless, this year is set to be the worst-ever wildfire season on record.
- Employment increased by 60,000 in June and was little changed in July (-6,000), while unemployment rose to 5.5% in July.
- However, the country is facing a critical labour shortage, with almost 1m vacancies, and a historical visa-processing backlog, with about 2.6m applications stuck in the pipeline; most demand is for labour with lower qualifications.
- Construction continues to find itself up against the rising labour shortage. The Laborers' International Union of North America states there are tens of thousands of unfilled construction jobs across the country. Some 20% of Canada's construction workers are set to retire in the next ten years.
- Prime Minister Justin Trudeau's approval ratings are near all-time lows; half of Canadians favour a new government, with only one-fifth of poll respondents willing to vote for Trudeau.

Call to Action

- Expect supply chain bottlenecks to abate slowly this year, but to pose challenges for businesses in the short term; monitor developments regarding the striking dock workers at Port of Vancouver and Port of Prince Rupert, with the government set to intervene to keep the ports open.
- 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 Canadian exporters have access to an additional 20,000 rail miles.
- Make supply chains more resilient by identifying alternative sources and reconsidering strategies to minimise vulnerability to sudden disruption, to help mitigate risks.

MARKET ENVIRONMENT

Current Risk Indicator:



- Last change: August 2023 (DB2c → DB2d)
- 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

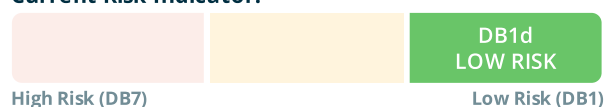
- CPI inflation fell to 2.8% y/y in June, from 3.4% in May. The deceleration was broad based, but food prices remain high (9.1%).
- Having been one of the first larger central banks to pause its tightening cycle in January, the Bank of Canada raised interest rates by 25 bps at its meeting in June and again in July, to 5.0%, explaining that the recent fall in inflation was less from underlying price pressures and more from lower energy prices this year compared with last.
- Employment was virtually unchanged in July, following a small rise in June of 0.3% m/m.
- The government has decided to press ahead with a 3.0% digital services tax on big tech firms. It will take effect from 1 January 2024, should the OECD's plan to harmonise tax across jurisdictions not come into effect by 31 December 2023. The policy targets large multinational corporations that pay most of their taxes in the US or tax havens.
- Retail sales rose 0.2% m/m in May, led by increases at motor vehicle and parts dealers; sales were up in five out of nine subsectors, representing around 95% of total retail trade.
- Business insolvencies rose in Q2, reaching their highest level since 2014; 1,090 commercial bankruptcies and proposals were recorded, a 37% y/y increase. High interest rates and the removal of pandemic support were blamed.
- The UK has joined the CPTPP, of which Canada is a member, opening up a significant export market with lower tariffs.

Call to Action

- Be cognisant of Canada's immigration-friendly policies to recruit skilled labour.
- Factor into business planning continued elevated core inflation and solid wage growth in 2023.
- Note that rising interest rates have contributed to a sharp rise in business insolvencies, threatening market potential.
- Expect the services sector to maintain strong activity in the warmer months.
- Note that the reimposition of strict containment measures is unlikely even if there are new Covid surges in the upcoming winter months.

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

- Beginning on 1 August, and following many months of warnings, Meta has started to block access to news links for Facebook and Instagram users in Canada. The move follows legislation passed by parliament in June that requires digital platforms to compensate media outlets for publishing links to media and news content.
- Prime Minister Justin Trudeau's government's approval ratings are near all-time lows; half of Canadians favour a new government, with only one-fifth of poll respondents willing to vote for Trudeau.
- The government is coming under pressure to explain alleged Chinese election interference, and how it has handled high inflation. The weight on Trudeau's shoulders is amplified because he heads up a minority government and relies on the continued support of the New Democratic Party to stay in power.
- In May, David Johnston, the former government-appointed independent special rapporteur on foreign interference, completed his investigation into foreign intrusion of Canadian elections; although 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. Johnston's full report, due in October 2023, will include specific recommendations.
- A large Canadian pension fund, Caisse de dépôts et placement du Québec (CDPQ), has decided to pull back from investment in Mainland China amid a wider deterioration in relations between the West and Beijing.

Call to Action

- Follow developments around Meta withdrawing news content from its platforms.
- Keep abreast of the government's falling approval ratings amid signs of strain in the minority administration.
- Note that the tension between Mainland China and Canada, which has increased since the reciprocal expulsion of diplomats in May, 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 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	2,197	2,310	2,433	2,544	2,649
Nominal GDP in local currency	2.2tn	2.3tn	2.2tn	2.5tn	2.8tn	2.9tn	3.0tn	3.2tn	3.3tn	3.4tn
GDP per Capita in USD	46,577	46,470	43,479	52,469	55,590	56,641	59,058	61,714	63,987	66,104
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 ave, 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 ave, %)	2.2	2	0.7	3.4	6.8	3.3	2.5	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)	56,641	64,907	12,849	48,615	78,925
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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User Guide

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