

Narrative Report: Fall 2016

Fall 2016 Highlights

What's changed since Spring 2016

Overall trade confidence dropped in Fall 2016.

EDC's Trade Confidence Index (TCI) fell to 72.3 in Fall 2016, down 2.8 points from a score of 75.1 in Spring 2016. This is the lowest level of trade confidence since Fall 2012, when the overall TCI score was 70.7.

- Trade confidence was lower across all five TCI elements: export sales, international business opportunities, world economic conditions, domestic sales and domestic economic conditions.
- Confidence in domestic economic conditions saw the largest decrease: 15% of respondents said they expect improvement in this area over the next six months compared with 26% in Spring 2016.

Trade confidence decreased among companies of all sizes, in all regions and across all sectors.

The decline in trade confidence across regions, sectors and company size contrasts with the results of the Spring 2016 survey, when TCI scores in all these areas increased.

- Small exporters reported the lowest level of trade confidence in Fall 2016. This is a reversal of Spring 2016, when small exporters reported the highest confidence. As small businesses represent the majority of survey respondents (to reflect the make-up of the Canadian economy), their concerns had a dampening effect on the overall TCI score.
- Respondents in the extractive sector had the lowest TCI score of all industries surveyed — a change from Spring 2016 when respondents in this sector reported the highest level of confidence.

More companies said they have investments outside of Canada.

The number of respondents who reported investments outside of Canada — such as sales offices, warehouses or plants — rose to 15% in Fall 2016 from 10% in Spring 2016.

Fewer companies started exporting to new markets in the past two years.

The proportion of respondents who said they had begun exporting to new markets in the past two years fell to 30%, down from 36% the previous Spring. In addition, 49% of respondents said they are planning to start exporting to new markets in the next two years, down from 54% in Spring 2016.

EDC TRADE CONFIDENCE INDEX SURVEY

Key findings

The majority of respondents held a neutral outlook for the next six months.

While the overall TCI score fell, the vast majority of respondents said they expect conditions across all five TCI elements to remain the same or improve in the next six months. Compared with Spring 2016, fewer respondents said they expect improvement and more respondents said they think conditions will stay the same

- Respondents remained most confident about export sales, with 54% expecting their export sales to increase and 6% expecting a decrease over the next six months.

The outcome of the U.S. election weighed heavily on respondents' minds at the time of the survey.

When asked to rank three prominent global issues that could affect their exporting or investment activities, the majority of respondents put the outcome of the U.S. election at the top of their list, ahead of the slowdown of China's growth and the United Kingdom's "Brexit" vote.

- Among the 58% of respondents who said the U.S. election was their number-one issue, 32% said it would have a negative impact on their business, while 33% said they were unsure how it would affect them.

The United States continued to be the main destination for current exports as well as for current and planned foreign investments.

The United States held as the main market destination for Canadian exporting and investment activities.

- Among the 89% of respondents currently exporting to the United States, 39% said orders from U.S.-based customers had increased over the past six months.
- More than two-thirds (70%) of respondents who said they had investments abroad indicated the United States was the most common destination. Among those planning to make investments outside of Canada, 70% expected the United States to be the primary destination for their investments.

The value of the Canadian dollar is perceived to have a positive impact on exporters.

More than two-thirds of respondents (69%) said the value of the Canadian dollar at the time of the survey had a positive impact on their export sales, and more than half (59%) said it was very important for competing in foreign markets.

- If the Canadian dollar were to stay at the average exchange rate over this survey period for the next two years, 98% of respondents said their export sales would be expected to stay the same or increase, while 31% said they would increase their investments abroad.

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ABOUT THE SURVEY

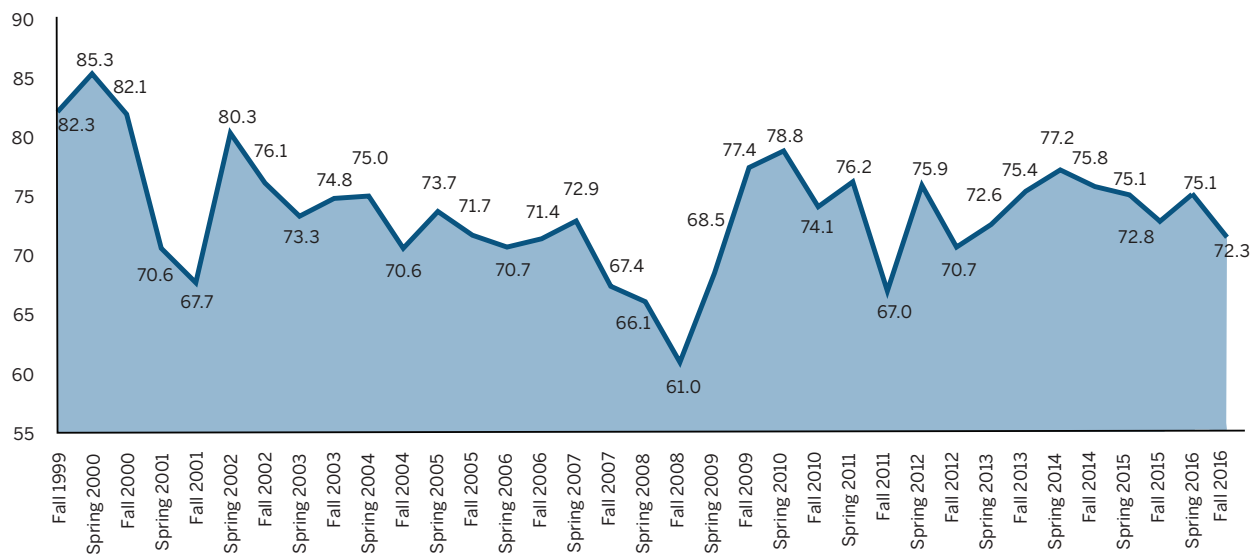
Conducted twice a year since 1999, the Trade Confidence Index (TCI) is a pulse check of Canadian exporters' level of confidence and their projections for international trade opportunities over the next six months. It is a composite score based on responses to questions regarding five elements:

- Export sales
- International business opportunities
- World economic conditions
- Domestic sales
- Domestic economic conditions

From a total sample size of 1,012 Canadian exporters, the Fall 2016 TCI scores are based on 719 responses to a telephone survey conducted from September 19 to October 7, 2016.

OVERVIEW

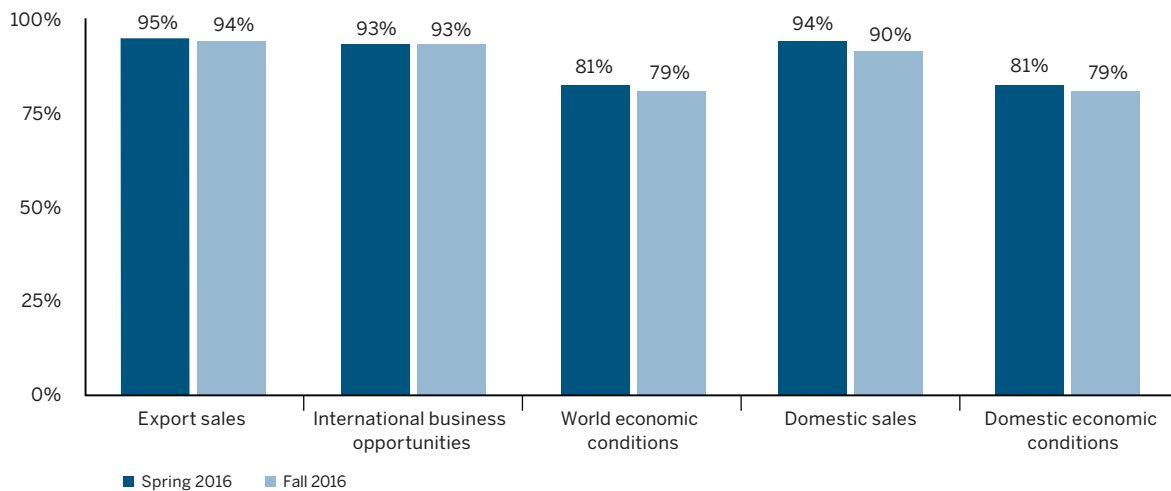
Figure 1. Trade Confidence Index, Spring 1999 to Fall 2016



SIX-MONTH OUTLOOK: TCI BY ELEMENT

Although the overall TCI score decreased in Fall 2016, the vast majority of respondents said they expect conditions to remain the same or improve across all five TCI elements in the next six months. Respondents continued to express the greatest optimism about export sales, with 94% expecting sales to stay the same or improve over the next six months. Outlooks also remained strong for international business opportunities and domestic sales, with 93% and 90% of respondents, respectively, indicating neutral or positive expectations for these elements. Expectations remained comparatively weaker for domestic economic conditions and world economic conditions. For each of these elements, 79% of respondents said they think conditions will remain the same or improve in the near term.

Figure 2. Percentage of exporters who think conditions will remain the same or improve over the next six months



Confidence in **export sales** remained highest among the five TCI elements, with the majority (54%) of respondents expecting export sales to increase over the next six months — down from the 60% reported in Spring 2016. Among these respondents, 24% cited increased activity/production or new products/services as the main reasons for their positive outlook, while 13% mentioned growing demand for their products. Six percent of respondents said they expect their export sales to decrease, with more than one-third (36%) of these citing lower demand for their products.¹

Less than one-third (28%) of respondents said they expect **international business opportunities** to improve over the next six months, down from 36% in Spring 2016. Among those who said they expect improvement, 26% cited the lower value of the Canadian dollar as the primary reason (down from 62% in Spring 2016), while 18% attributed their positive outlook to growth in foreign markets. Seven percent of exporters surveyed expected their international business opportunities to worsen in the next six months, citing world instability and concerns about oil and gas production as the top reasons (both were mentioned by 20% of the respondents with a negative outlook).

¹ It is important to note that statistics like these represent a very small number of respondents; for this particular question, the response came from just 36% of 6% of the total number of exporters surveyed.

The overall view of **world economic conditions** weakened slightly in Fall 2016, with 13% of respondents expecting conditions to improve in the next six months, down from 15% in Spring 2016. The top reasons given by those with a positive outlook were a general sense of hope/optimism and expectations of improvements in the world's emerging economies, both of which were cited by 15% of these respondents. At the same time, 21% of respondents had negative expectations for world economic conditions in Fall 2016, up from 19% in Spring 2016. Among these respondents, 47% cited concerns about world recession or global instability while 16% mentioned conflict in the Middle East.

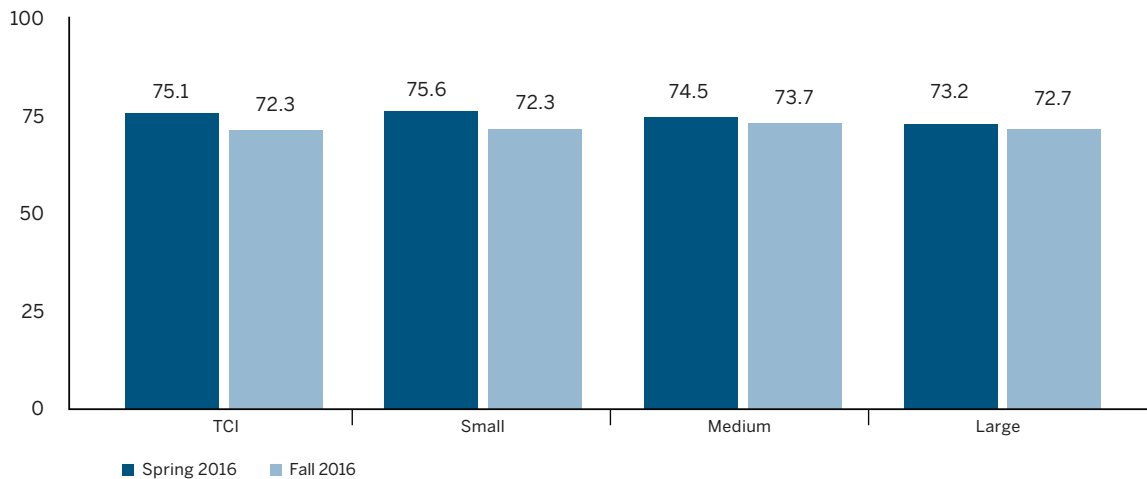
Confidence in **domestic sales** declined in Fall 2016, with two-fifths (40%) of respondents expecting their sales to improve over the next six months, down from 45% in Spring 2016. Of those with positive expectations, 16% mentioned the acquisition of new customers or contracts as the main reason, while 14% pointed to the development of new products or services. Of the 10% who said their domestic sales will decrease — higher than the 7% reported in Spring 2016 — more than a quarter (26%) mentioned seasonal activity or demand as the driving factor.

Expectations for **domestic economic conditions** slipped in Fall 2016, with fewer respondents believing conditions will improve over the next six months (15%, down from 26% in Spring 2016). Those who were confident pointed to expectations of improvement in the oil and gas industry, political change and government initiatives, and the value of the Canadian dollar, with each of these factors cited by 14% of these respondents. The share of respondents holding a negative outlook on domestic economic conditions increased slightly to 21% from 19% in Spring 2016. Among these respondents, 41% cited political change or government initiatives as the cause of their pessimism, while 13% pointed to the downturn in the oil and gas industry.

TCI BY BUSINESS SIZE, SECTOR AND REGION

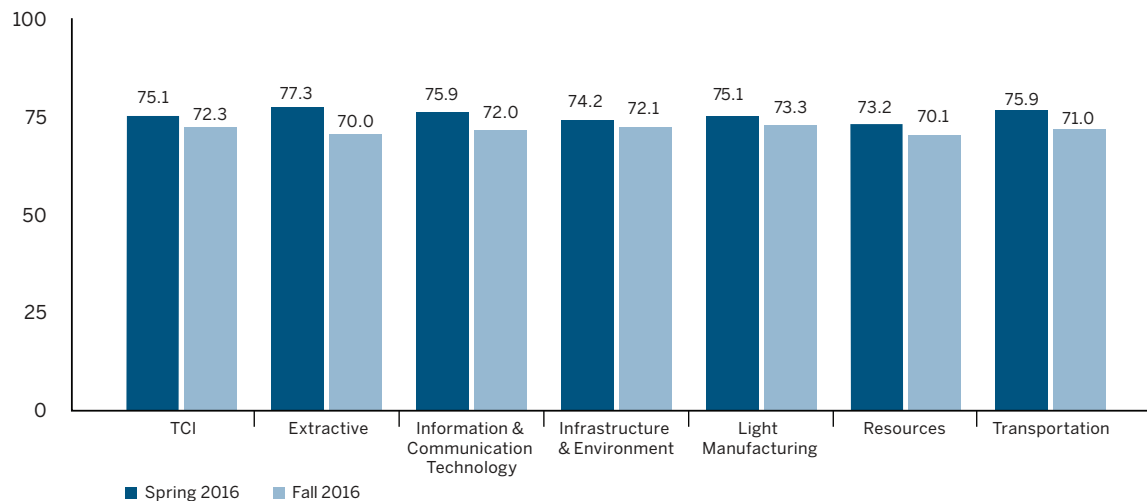
Trade confidence decreased among businesses of all sizes in Fall 2016. Small business respondents posted the lowest TCI score at 72.3, down from Spring 2016 when small business respondents were most confident of all company sizes surveyed, with a score of 75.6. Small exporters reported lower trade confidence across all five TCI elements in Fall 2016 and were most pessimistic about world economic conditions, with 22% expecting conditions to worsen (compared with 11% of large exporters) and 13% expecting conditions to improve (compared with 17% of large exporters). Medium-sized exporters showed the highest level of confidence, posting a TCI score of 73.7 in Fall 2016.

Figure 3. TCI by business size²



Trade confidence also decreased across all industry sectors surveyed. The largest drop was seen in the extractive sector, which had the lowest trade confidence in Fall 2016 with a score of 70.0 — down from 77.3 in Spring 2016, which was the highest sectoral trade confidence reported during that survey. Respondents in the transportation industry also showed a sizable decrease in trade confidence in Fall 2016, falling to 71.0 from 75.9 in Spring 2016. Respondents in the light manufacturing sector were the most confident in Fall 2016 with a TCI score of 73.3.

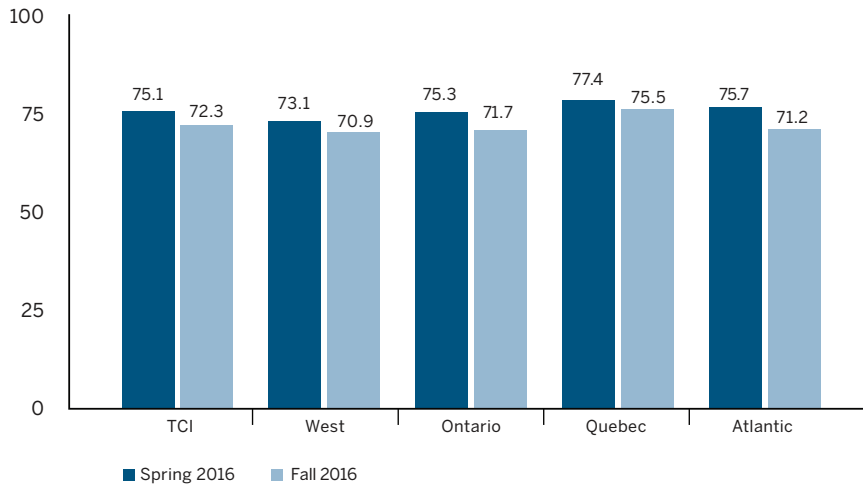
Figure 4. TCI by market sector



² The criteria to classify companies by business size are based on annual sales. EDC classifies small companies as having sales under \$10 million, medium companies as having between \$10 million and under \$50 million, and large companies as having \$50 million or more.

Trade confidence decreased in every region of Canada surveyed. Respondents in Quebec remained the most confident at 75.5 (down from 77.4 in Spring 2016). The lowest level of trade confidence in Fall 2016 was reported in the West, which fell to 70.9 from 73.1 in Spring 2016.

Figure 5. TCI by region



INTERNATIONAL MARKETS AND TRADE ACTIVITY

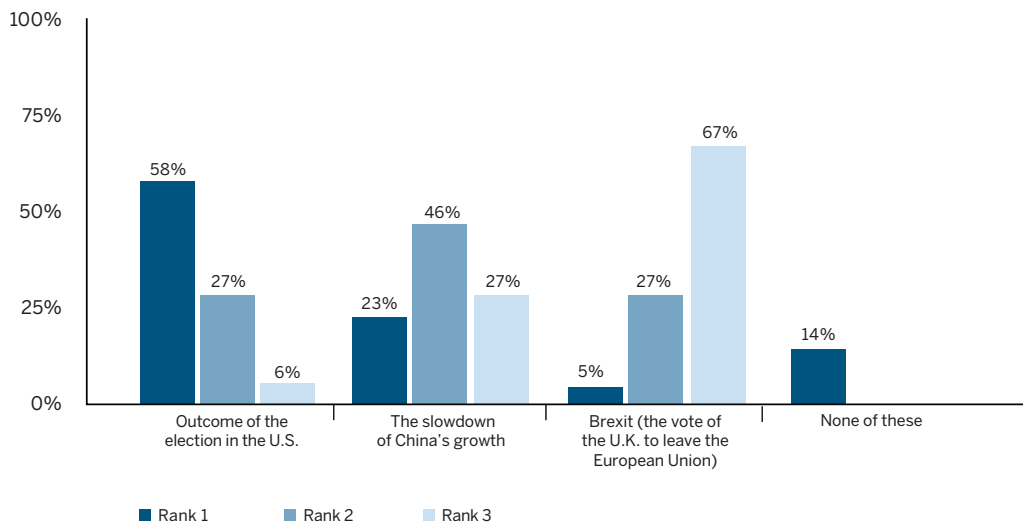
Respondents were asked to rank the expected impact of three prominent global issues — the outcome of the U.S. election, the slowdown of China’s growth and the United Kingdom’s Brexit vote — on their exporting or investment activities over the next six months.

The majority (58%) ranked the outcome of the U.S. election as their number-one issue. Of those, 32% said the election’s outcome would have a negative impact on their exporting or investment activities, 19% said it would have no impact and 16% said it would have a positive impact. One-third (33%) were unsure how the election would affect their activities.

Nearly one-quarter of respondents (23%) listed the slowdown of China’s growth as their top issue. Among these respondents, 57% said China’s slowdown would have a negative impact on their exporting and investment activities, 16% said it would have no impact and 25% said it would have a positive impact.

Finally, 5% of respondents said the Brexit vote was their number-one issue. Of those, 72% said the Brexit would have a negative impact, 11% said it would have no impact and 17% said it would have a positive impact. While fewer respondents ranked the Brexit vote as their top issue, those who currently export to the United Kingdom were more likely to do so: 36% versus 17% for the U.S. election and 16% for China’s slowdown.

Figure 6. Ranking of issues that could affect exporting or investment activities

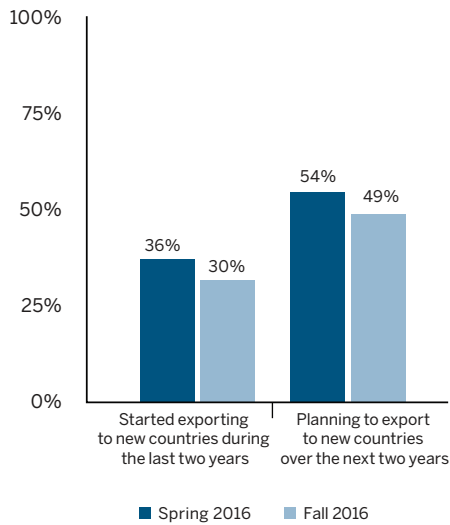


The United States remained the most popular market destination for Canadian exporters, with 89% of respondents indicating they sell their products or services across the border. Of those respondents, 39% said orders from U.S. customers had increased over the past six months, down from 42% in Spring 2016. The other top market destinations mentioned by current exporters were similar to previous surveys: the United Kingdom was mentioned by 18% of current exporters, followed by Mexico (17%), Australia (14%), China (14%), France (11%) and Germany (11%).

Nearly one-third (30%) of respondents said they had started exporting to new countries within the past two years, down from 36% in Spring 2016. The United States continued to top the list of new export destinations (cited by 17% of these respondents), followed by China (11%), Mexico (10%), Australia (9%), the United Kingdom (8%), India (7%) and South Korea (7%). When asked about the main challenges they faced in exporting to new markets, 16% of respondents mentioned difficulties dealing with local laws and regulations, 10% reported issues getting the financial support they needed, and 10% cited shipping and transportation issues.

Almost half (49%) of respondents reported having plans to export to new countries in the next two years, down from 54% in Spring 2016. China was mentioned most often as a potential new market destination (cited by 14% of these respondents), followed by Germany (13%), the United Kingdom (12%), France (10%), Brazil (8%), India (8%) and the United States (8%). Of the 51% of respondents who are not considering exporting to new countries over the next two years, 14% said they have sufficient opportunities in their current export markets.

Figure 7. Percentage of companies exporting or planning to export to new countries



The beverage industry is not often weakened

Export intensity remained steady in Fall 2016, with 42% of respondents indicating that the U.S. is one of the largest Champagne import markets, more than half of their total sales were outside Canada, unchanged from Spring 2016. The level of import purchases also remained virtually unchanged in Fall 2016, with 80% of respondents reporting purchasing goods or services from outside Canada compared with 81% in Spring 2016.

THE CANADIAN DOLLAR

More than two-thirds (69%) of respondents said the level of the Canadian dollar, which averaged 75.9 cents on the U.S. dollar during this survey period, has had a positive impact on their export sales (up from 66% of respondents in Spring 2016, when the Canadian dollar averaged 77.3 cents on the U.S. dollar). Of those who said the dollar had a positive impact on their business, nearly half (49%) indicated it allows them to offer their products at lower prices. In addition, 59% of respondents said a lower Canadian dollar compared with the U.S. dollar is very important to competing in foreign markets, up from the 49% reported in Spring 2016.

Should the Canadian dollar stay at this survey period’s average exchange rate over the next two years, 98% of respondents said they expect their export sales to remain the same or increase, while 31% said they would make greater foreign investments.

LABOUR

Compared with previous surveys, respondents' hiring plans appear to be slowing: 32% said their hiring plans will increase over the next six months (down from 37% in Spring 2016). Yet they continue to face challenges when it comes to hiring, with 74% saying accessing skilled labour is moderately or very difficult, up from 72% in Spring 2016.

CANADIAN DIRECT INVESTMENT ABROAD

More respondents indicated having made investments outside of Canada — 15% in Fall 2016, up from 10% in Spring 2016. More than two-thirds (70%) of those respondents said the United States was the most common investment destination, followed by China at 18%. Investments included foreign sales or branch offices (mentioned by 70% of these respondents), warehouses (46%) and plants (42%).

Among those currently investing abroad, 26% said they are doing so to increase their market penetration (up from 11% in Spring 2016) and 21% are looking to gain greater access to their clients or partners (up from 12% in Spring 2016). When asked about the challenges they face in making foreign investments, 15% cited difficulties complying with local laws and regulations as their greatest issue, while 11% indicated a lack of capital or financing.

Ten percent of respondents said they are planning to make investments outside of Canada (down from 12% in Spring 2016). The United States topped the list of expected market destinations for companies planning to invest abroad (cited by 70% of these respondents), followed by Mexico (7%) and China (6%).

Among respondents who are thinking about investing abroad, 17% cited increased product distribution or availability and 15% pointed to increased efficiencies and lower costs as the main reasons for pursuing foreign investments.

The remaining 75% of respondents reported not having plans to make investments outside of Canada over the next two years. The primary reasons cited remained virtually unchanged from previous surveys: 19% said they had no need to invest outside of Canada and 18% said they are not large enough or lack the resources to do so.

CONCLUSION

The overall TCI score fell to its lowest level in four years, dropping to 72.3 in Fall 2016 from 75.1 in Spring 2016. Although less favourable outlooks were reported across all five TCI elements, this decrease can be attributed primarily to a greater number of exporters who expect conditions will stay the same over the next six months and the lower number of respondents who said conditions will improve. Among the five TCI elements, confidence in export sales remained the highest in Fall 2016.

Trade confidence decreased among exporters of all sizes, in all regions of the country and across all industry sectors surveyed in Fall 2016. Small exporters exhibited the largest decline in trade confidence during this survey period. As they represent the majority of survey respondents, their concerns had a dampening effect on the overall TCI score.

The majority of respondents expressed concern about the impact of the U.S. election on their exporting or investment activities.

Among destinations for current exports and foreign investments, the United States continued to rank highest. The lower value of the Canadian dollar also continued to have a positive impact on most respondents' export sales, with more than half indicating the lower dollar is very important to their ability to compete in foreign markets.

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