# LEADING EXPORT INDICATOR

EDC Corporate Research Department

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## SEPTEMBER SEES EXPORT SLIDE CONTINUE

Based on research[1] examining the causal link between EDC's short-term insurance business and Canadian export volumes, EDC has developed a leading indicator of Canadian real merchandise exports, using internal EDC Claims-to-Premia (CPR) data and the Bank of Canada's commodity price index (BCPI).[2] The CPR typically has an inverse relationship with exports, subject to risk appetite limitations. Under normal operating circumstances, a rise in the numerator or a decline in the denominator of the ratio will point to a decrease in exports. Higher premium revenue should be a sign of expanding EDC business and may indicate stronger export volumes. Symmetrically, rising claims may reflect a more difficult trade environment and/or falling exports once the cost of claims is accounted for.  As such, a declining CPR ratio generally indicates improving exports. In 1H 2016, the CPR declined, while the rate of export growth also declined. Therefore, the relationship is not always inverse.

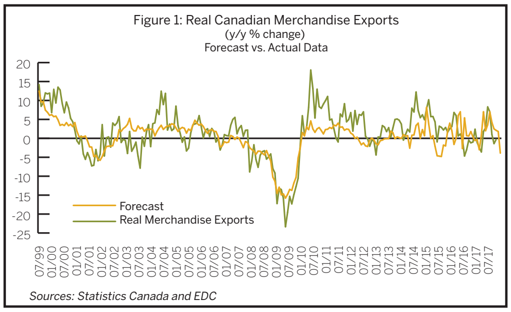
- Canadian inflation-adjusted merchandise exports* decreased in September for the fourth consecutive month. Though forecast to fall by 0.8% m/m, exports performed better than expected as they fell by 0.2%. Compared to year-ago figures, exports declined by 0.3%, though they were expected to rise by 2.1%.

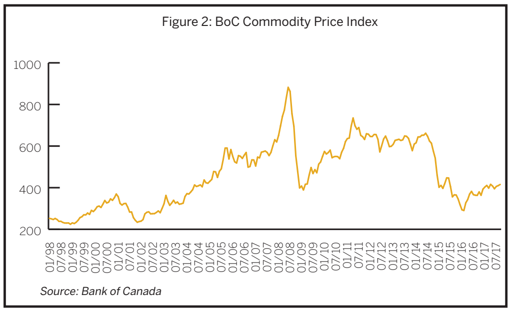
- Though overall exports declined, monthly declines were noted in only four of eleven major industry groups. Motor vehicles and parts experienced the sharpest declines, with exports falling over 9% from August. Compared to last year, this marks a 13% decline. This was followed by farm, fishing, and intermediate food products, which fell 4.5% m/m. Declines were also noted among electronic and electrical equipment and parts, and consumer goods. More favourably, energy exports reached the second highest level on record, growing over 4% m/m and more than 15% y/y. Exports of metal ores and non-metallic minerals also increased by 7.4% compared to last month and 15.7% compared to last year.

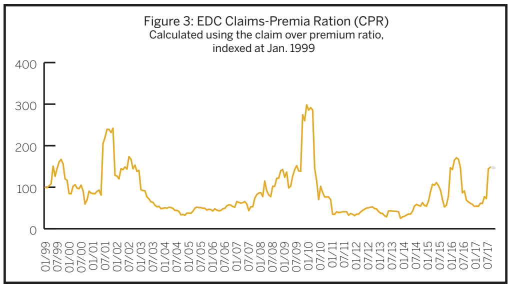
- Looking ahead, we predict a 0.6% m/m rise in October but a 1.5% m/m decline in November. Similarly, on a yearly basis, we predict a 1.8% rise in October, followed by a 3.9% decline in November.

- In October, the Claims-to-Premia ratio (CPR) decreased slightly to 146.6 from 147.5. While the CPR was on a steady decline for most of last year, 2017 continues to be characterized by monthly swings. Given that the CPR typically has an inverse relationship with the headline exports figure, this month's decrease portends a positive trend for future Canadian exports.

* Note that the Leading Export Indicator utilizes *real* export figures, which are adjusted for price or inflation. Real exports indicate a change in quantity, or volume, enabling comparison with past figures as if prices had not changed. This is opposed to *nominal* export figures, which do not account for inflation.




1 van der Veer (2010) "The Private Credit Insurance Effect on Trade", DNB Working Paper no. 264
2 For more details on the methodology see our technical paper: "[Forecasting Canadian Exports using EDC's claims-to-premium ratios]"

- The Bank of Canada Commodity Price Index (BCPI) increased in September to 415.48 from 410.05 in August. This marks the third consecutive monthly gain and a 14.5% increase compared to year-ago levels. Given the BCPI's positive correlation with export performance, this provides a positive signal for future exports.

FIND OUT MORE

Additional information on Canada's recent export performance, along with a medium-term outlook can be found in our Export Performance Monitor and Global Export Forecast.