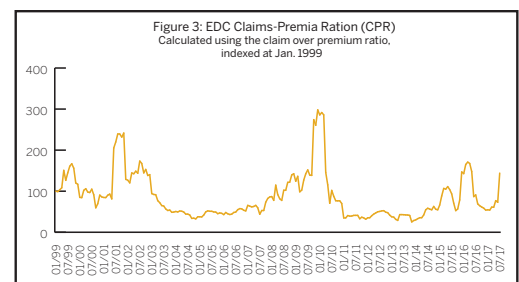
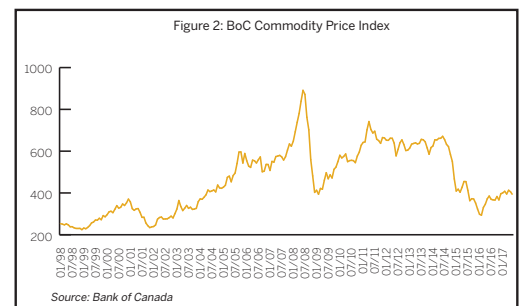
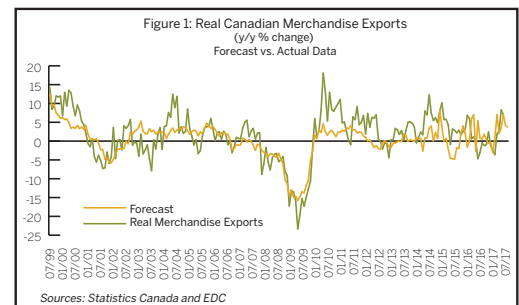


### STRONG SUMMER START FOR EXPORTS, DESPITE JUNE DECLINE

Based on research<sup>1</sup> 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).<sup>2</sup> 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 June, despite being forecast to increase. Exports fell 2.4% on a monthly basis, though they were forecast to increase by 1.2%. However, the year-over-year change was right on target. Compared to last year, exports rose 7%, as predicted. Aside from May's record high, exports reached the highest level since February 2016.
- The decrease was broad-based, with eight of the eleven major industry groups recording monthly declines in exports. Metal and non-metallic mineral products recorded the largest monthly decline at 14.2%, but nevertheless improved 10.8% year-over-year. Aside from metal and mineral products, declines among the other industry groups ranged from 0.1 to 3.7%. Yearly improvements, however, were noted across all but two industries. Aircraft and other transportation equipment and parts recorded the highest monthly increase at 13%, as well as a yearly increase of 7.4%. Exports of energy products remained high, improving nearly 24% compared to a year ago, in spite of a monthly decline of 3.7%.
- Over the next two months, we expect year-on-year improvements in exports. We forecast a 4.2% y/y increase in July and a 3.7% y/y increase in August. On a month-to-month basis, we predict a 0.9% decline in July and a 0.3% increase in August.

\* 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](#)"

- In July, the Claims-to-Premia ratio (CPR) increased considerably to 144.1 from 72.9. This marks the first time since May 2016 that the index has surged beyond 100. 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 increase portends a negative trend for future Canadian exports.
- The Bank of Canada Commodity Price Index (BCPI) decreased in June to 391.87 from 405.46 in May. Though this marks the lowest level since November 2016, this nevertheless marks a 1.7% increase compared to year-ago levels. Given the BCPI's positive correlation to export performance, this provides a negative 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](#).

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