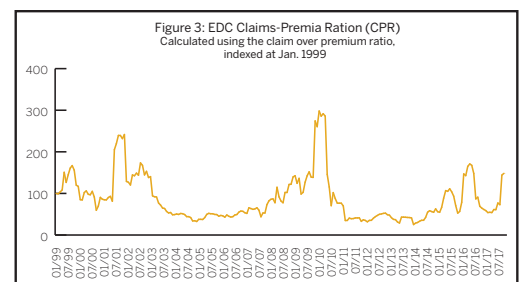
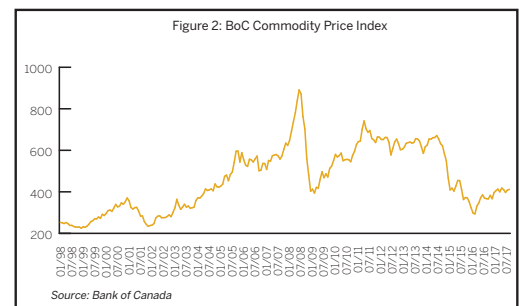
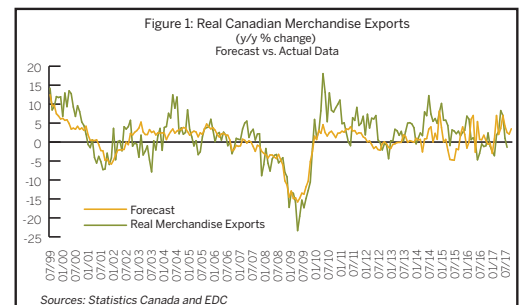


EXPORTS FALL FOR THE THIRD CONSECUTIVE MONTH IN AUGUST

Based on research¹ 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 August to reach the lowest volume since October 2016. Though forecast to rise by 0.5% m/m, exports actually fell by 1.5%. Similarly, compared to year-ago figures, exports declined by 1.4%, though they were expected to rise by 2.5%.
- Monthly declines were broad-based and noted in eight of the eleven major industry groups. Metal ores and non-metallic minerals led the way, recording a 12% decline. This was followed by basic and industrial chemical, plastic, and rubber products, which declined by 6.1%. Though exports of energy products declined by 1.6% m/m, they rose by over 8% compared to year-ago levels. Monthly increases were noted in forestry products; electronic and electrical equipment and parts; and aircraft and other transportation equipment and parts. Indeed, aircraft and parts exports rose by 3% compared to last month and over 5% compared to last year.
- Over the next two months, we expect year-on-year improvements in exports. We forecast a 2.1% increase in September and a 3.5% increase in October. On a month-to-month basis, we predict a 0.8% decline in September and a 0.5% increase in October.
- In September, the Claims-to-Premia ratio (CPR) decreased slightly to 147.5 from 148.2. 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](#)"

LEADING EXPORT INDICATOR

EDC Corporate Research Department

OCTOBER 2017

- The Bank of Canada Commodity Price Index (BCPI) increased in August to 411.81 from 408.24 in July. This marks a 12.3% 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](#).

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