

## Fall 2011

### Highlights

- The TCI sustained a dramatic plunge in the fall of 2011.
- Views of global and domestic economic conditions over the next six months are key factors contributing to this decline. Countries of particular concern are Canada, the U.S., and Europe overall.
- Despite exporters' concerns about the global economy, their optimism about future sales remains strong.
- Canadian exporters are better prepared to function with a strong dollar and have been resilient in adapting to the strong dollar.
- Trade activity continues to be focused in the U.S., Europe, Japan, Australia and BRICM (Brazil, Russia, India, China and Mexico) markets, with results indicating the continued trend toward market diversification.

<sup>1</sup> The Trade Confidence Index is a semi-annual survey of exporters' confidence about the future of the trade environment. It is a composite score based on responses to five questions about future global and domestic sales, economic conditions and trade opportunities. These latest findings are based on 785 responses to a telephone survey conducted between October 3 and October 14, 2011.

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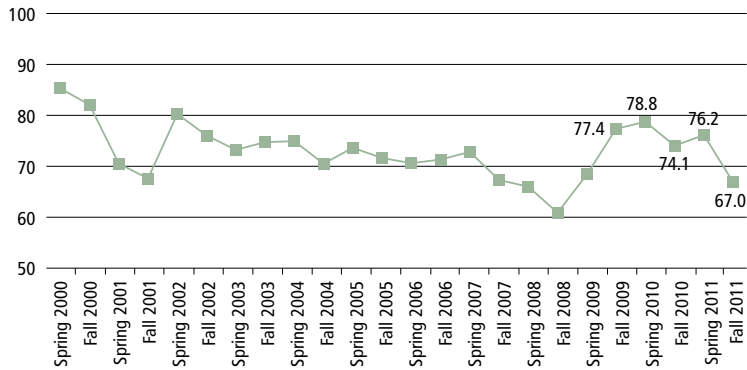
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## Overview

Canadian exporters recorded a severe decrease in confidence, with the Trade Confidence Index (TCI) moving from 76.2 in the spring to 67.0 in the fall of 2011. Results from the latest survey reveal that the significant downward shift in opinion is mostly tied to views about

Figure 1: Trade Confidence Index



domestic and global economic conditions. In contrast, attitudes toward domestic and export sales over the coming six months are relatively resilient. This resilience helped to stem the plunge of the TCI.

Attitudes toward the global economy stem from uncertainties in the euro-zone and the slower-than-expected U.S. recovery. The fears and worries over these economic conditions are ultimately responsible for the dramatic downturn in the TCI.

## TCI Elements

Of the five TCI elements, perceptions of difficult domestic and global economic conditions explain 71% of the decline in the fall 2011 TCI. The impact is less severe for the other three elements of the TCI: international business opportunities accounts for 15%; and export and domestic sales each account for 7% of the TCI decrease.

Exporters' views of world economic conditions experienced the most significant drop, with six out of 10 exporters indicating that these conditions will worsen over the next six months. When respondents were asked about their deteriorating view, they primarily referenced world instability, unease over the European economy, and a slow U.S. recovery.

The fall 2011 survey also explored the effect of two world events on Canadian companies' trade activities. The first was the European crisis. Roughly three out of 10 exporters said this is having a moderate impact on their trade flows, and two out of 10 mentioned that the impact is strong. The second was the devastating earthquake in Japan last March. Seventeen percent of all respondents gave an affirmative response, indicating that their companies' trade flows were disrupted; however, for those companies where Japan is one of their market destinations, 38% said their trade flows were disrupted. The majority of companies also indicated that the disruption caused by the earthquake and tsunami in Japan is temporary.

Perceptions that domestic economic conditions will worsen moved from 8% in the spring to 24% in the fall. Concerns about a possible return to recession in Canada, and continued slow recovery of the U.S. economy were the main reasons for their negative perception. Positive attitudes toward international business opportunities also decreased from 35% in the spring to 27% in the fall. This drop is due to an over-riding concern that continued instability of the global economy could negatively impact new international contracts. Perceptions that sales will increase over the next six months declined slightly from the spring. This decline stems partly from the belief that demand for export products will weaken, the domestic economy will be sluggish and the Canadian dollar will remain high.

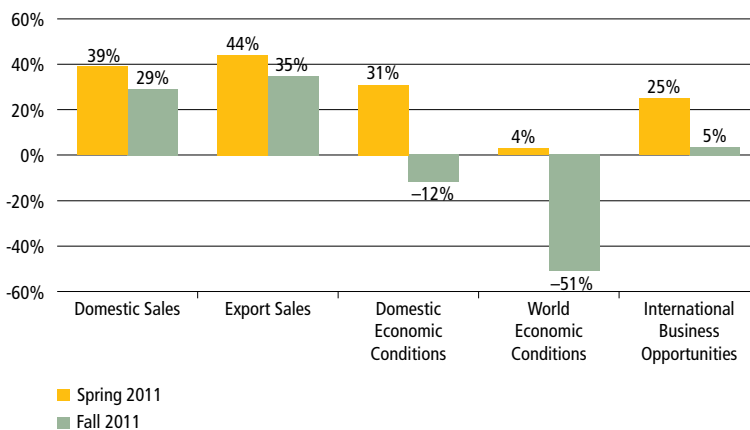
## Balance of Opinion

Looking at the five TCI elements from a different perspective, it can be seen that the balance of opinion – the percentage of “improving conditions” perception minus the “worsening conditions” perception – shows the dramatic swing in views of domestic and world economic conditions.

Balance of opinion (Figure 2) also demonstrates the relative positive strength of domestic and export sales perceptions. In essence, domestic and global economic conditions have a negative balance of opinion, with more exporters indicating that conditions for these elements will

worsen rather than improve. For the other three elements, conditions are still seen as improving, but all to a lesser degree than the spring 2011 results. Although there was a drop in expectations about future sales, the balance of opinion remains positive. Exporters that favour a positive sales outlook cite a growing demand for products, a greater number of customers, and expansion into new markets as the main reasons for their outlook.

**Figure 2: Balance of Opinion**



## TCI by Market Sector

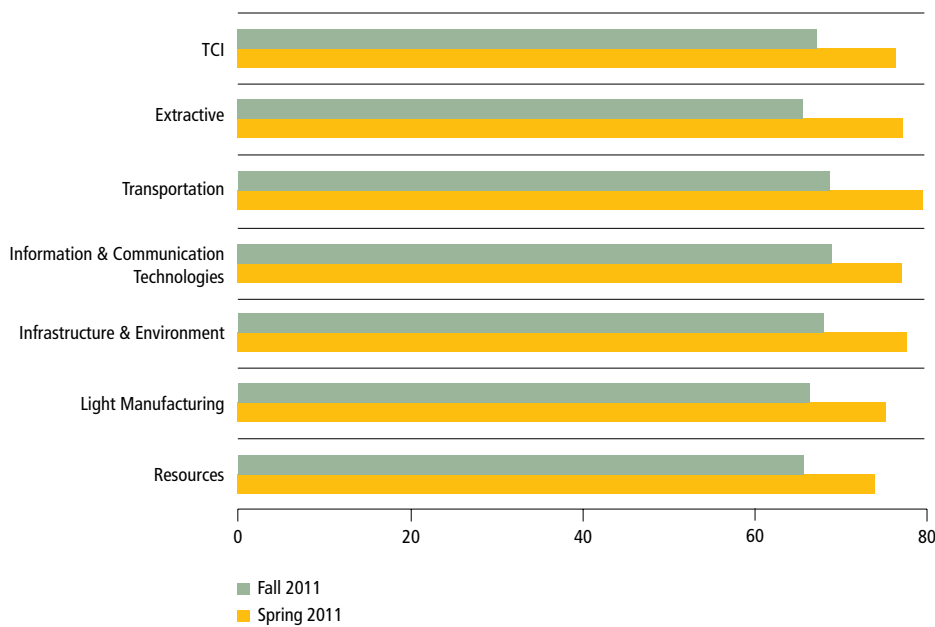
All market sectors recorded significant reductions in trade confidence, but sectors registering the greatest declines were extractive, transportation, and infrastructure and environment.

Concerns about both global and domestic economic conditions largely explain the decline of TCI scores for all sectors. The extractive, transportation and resources sectors were the most affected by the concern over global economic conditions. These sectors recorded 4.5, 4.3 and 4.1 point drops, respectively, in their TCI scores from this single element. Growing pessimism over

domestic economic conditions was instrumental in further lowering TCI scores in the transportation, infrastructure and environment, and extractive sectors.

Positive expectations over domestic and export sales recorded slight declines compared with the previous survey period. Consequently, the sales outlook elements have less of an impact on the downward movement of the TCI by sector. Light manufacturing, resources, and infrastructure and environment registered less severe drops in exports sales growth, while information and communication technology and transportation recorded less dramatic declines in expectations for domestic sales over the next six months.

**Figure 3: TCI Score by Market Sector**

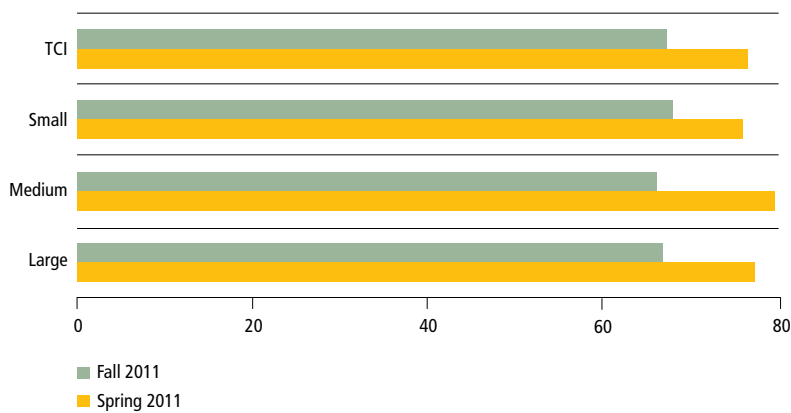


## TCI by Business Size

Businesses of all sizes registered significant reductions in their TCI scores, but the decline is more severe for medium and large-sized businesses. Their TCI scores are below the overall TCI; they registered significant drops of 16.9% and 13.5% in their indexes, respectively.

The significant declines are driven by concerns associated with global economic conditions and increasing doubts about the domestic economy. These attitudes explain between two-thirds and three-quarters of the drop in their TCI scores. Moreover, medium-sized businesses also

**Figure 4: TCI Score by Business Size**



registered the most dramatic downward shifts in opinion relative to the Canadian economy and the prospects they see for future international contracts.

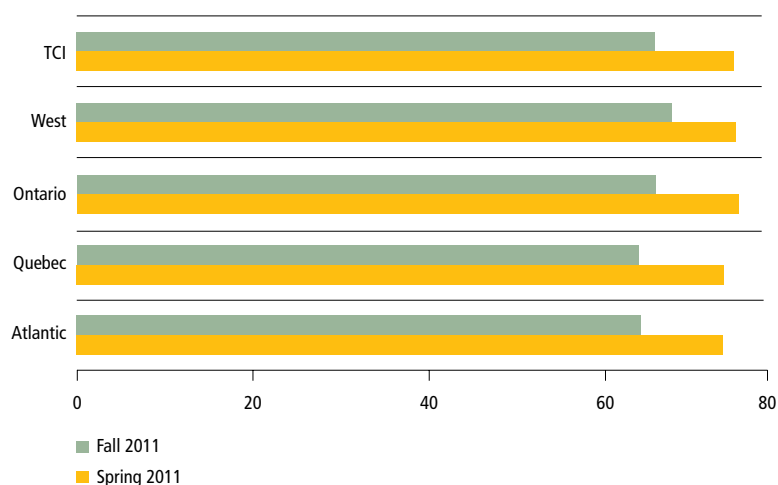
The TCI decline for small businesses is 10.6% for the fall survey period, and although this is a major decrease, its drop is less than the overall TCI decline. Survey feedback indicates that small exporters perceive a less negative forecast of export sales over the coming six months.

## TCI by Region

TCI by region records significant declines in their scores as the levels of confidence deteriorated across all TCI elements.

The most severe changes occur with Quebec exporters, whose views of global and domestic economies resulted in a drop of 13.2% in their TCI. The TCI decrease in Ontario and the

**Figure 5: TCI Score by Region**



Atlantic region were similar to the overall total. Meanwhile, Western exporters registered better-than-average TCI scores, as their concerns over economic conditions are offset by continued confidence in domestic and export sales over the next six months.

## Hiring Intentions and Terms and Conditions for Obtaining Financing

The TCI survey also gathers insights from Canadian exporters about other important trade-related topics, such as hiring intentions, terms and conditions for obtaining financing, the effect of the strong Canadian dollar, export activity, and foreign investment. Following is a brief synopsis of the results for these areas.

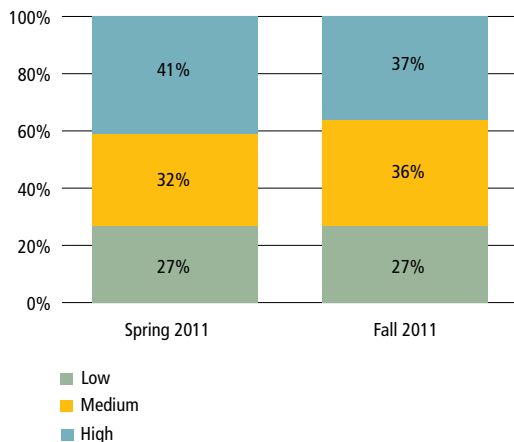
Hiring intentions and conditions for obtaining financing also showed changes from the spring to fall survey period. Generally, 5% to 6% fewer exporters felt that these elements would improve over the coming six months and, conversely, 3% to 6% of businesses said they would worsen. These concerns were slightly more pronounced with medium and large exporters, with no significant differences by region or industry sector.

## The Canadian Dollar

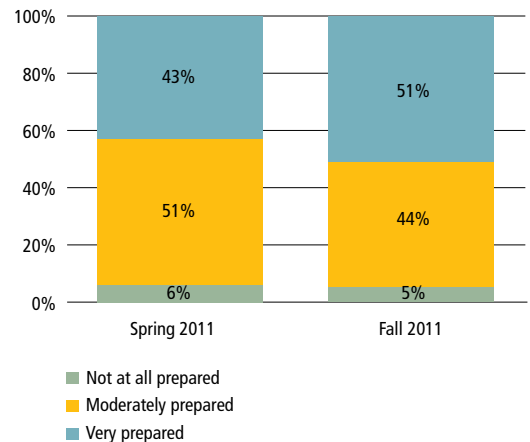
The importance and impact of the high Canadian dollar in export sales, as well as the overall preparedness of businesses to deal with its value, showed how adaptable and resilient the exporter community has become to this ongoing reality.

While the overall importance of the dollar to exporters' ability to compete remains largely unchanged, the level of high impact of the strong dollar on export sales decreased in the fall compared with the spring survey period.

**Figure 6: Impact of a Strong Canadian Dollar on Companies' Export Sales**



**Figure 7: Companies' Level of Preparedness with a Canadian Dollar at or Around U.S. Parity**



The level of preparedness of Canadian exporters to a high dollar has also changed for the better. There is a shift toward more exporters being very prepared to deal with a Canadian dollar that remains at or around parity with the U.S. dollar. In the fall 2011 survey, more than half of the exporters indicated they are very prepared to function with a high Canadian dollar.

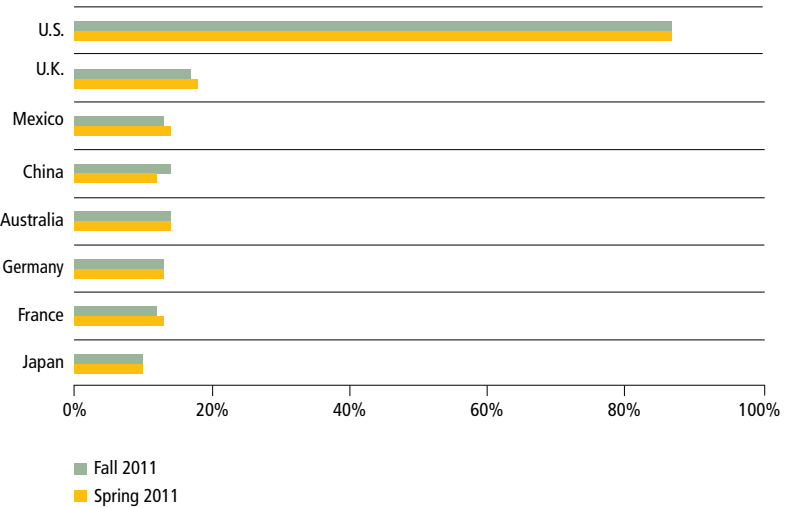
Cutting costs continues to be the main action for companies that have implemented measures to adapt to the strong dollar. Currency hedging is the second most important action, and it is the most important action for large businesses compared with medium and small businesses. Increasing export prices is the third most common action for companies to adapt to the strong dollar, regardless of company size.

## Export Markets

The U.S. continues to be the main market destination for Canadian companies. This is followed by the U.K., Germany, France, Japan and Australia. Meanwhile, Brazil, Russia, India, China and Mexico (BRICM) markets continue to be important market destinations for Canadian exporters. There are another 50 market destinations identified by respondents. Although the percentage of companies exporting to these countries is low, they are showing steady and

growing influence. These include countries such as South Korea, Chile, and South Africa.

**Figure 8: Main Export Destinations, Percentage of Companies Exporting to...**



Markets that will contribute the most to companies' foreign sales over the next six months are similar to the main market destinations. The U.S is most often cited by Canadian companies, followed by European countries, Japan and Australia. BRICM, especially Brazil and China, are increasing in importance as markets contributing to export sales over the next six months. As mentioned above, other markets are showing a higher incidence of mentions, suggesting the path of market diversification and expansion is well under way.

## Canadian Direct Investment Abroad

Canadian Direct Investment Abroad (CDIA) remains consistent with around 12% of companies currently investing and 11% planning foreign investment.

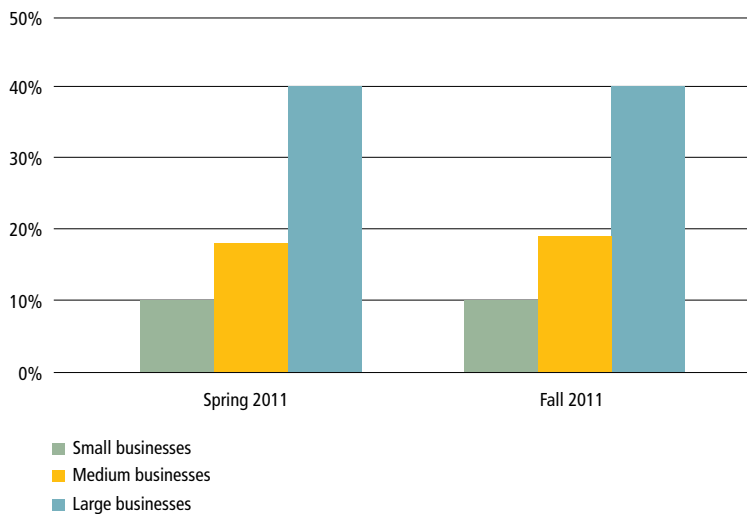
CDIA level varies depending on business size or market sector. CDIA for small companies is currently around 9%, 18% for medium companies and 40% for large businesses. Extractive is the most active sector with CDIA levels around 25%, infrastructure and environment with levels

around 20%, and all other sectors with levels of CDIA less than 20%.

While the U.S. remains the dominant market, the fall 2011 survey finds increasing developments in Asian and European markets.

Companies not having CDIA claim sufficient business opportunities in the domestic market as the main reason. However, this reason is declining over time. In spring 2010, close to 45% of companies mentioned this reason compared with 25% in fall 2011.

Figure 9: Percentage of Companies Having CDIA, by Business Size



## Conclusion

Canadian exporters expressed concerns over the domestic and global economic environments, as well as international business opportunities. These concerns have driven the TCI down. However, despite this downturn, their level of confidence in their sales over the next six months remains relatively unchanged. Companies are fairly optimistic about their export sales because they feel there is growing demand for their products. In addition, they are proactively expanding into new markets.

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