

# Narrative Report: Spring 2016

# Spring 2016 Highlights

The Trade Confidence Index (TCI) rose for the first time in two years, climbing 2.3 points to 75.1 in Spring 2016 — up from 72.8 in Fall 2015. Following three consecutive surveys that showed declining confidence among Canadian exporters, the overall increase reported in Spring 2016 corresponds to improved outlooks across all five TCI elements.

In particular, this survey saw a greater number of respondents believing domestic sales, domestic economic conditions and world economic conditions will stay the same or improve over the next six months.

### Key findings

Trade confidence increased across the board in Spring 2016, with TCI scores improving among businesses of all sizes, in all regions of the country and among all market sectors represented by survey respondents.

- Small exporters led the way with a TCI score of 75.6 in Spring 2016. The extractive sector posted the largest survey-to-survey increase in trade confidence, climbing to 77.3 from 66.5 in Fall 2015 (when it was the lowest among all sectors). Quebec is the most confident region in Canada, posting a TCI score of 77.4.

While the United States remains the primary market destination for current exports and foreign investments, fewer respondents see the U.S. economy as the main driver of improved world economic conditions — and more are expressing confidence in the performance of emerging economies, notably India and China.

- Of the 15% of respondents who believe world economic conditions will improve over the next six months, only 13% cited the U.S. economy as the reason (compared with 25% in Fall 2015 and 40% in Spring 2015), while 15% mentioned improvements in emerging economies. Among the 19% of respondents who think conditions will worsen, only 7% mentioned emerging economies as the reason why, down from 31% in Fall 2015.

Two-thirds of respondents (66%) believe the lower Canadian dollar has had a positive impact on their export sales, with 40% saying it benefits their business by allowing them to offer their products at lower prices.

- Should the Canadian dollar stay at this survey period's average exchange rate over the next two years, 53% of respondents expect their export sales to increase and 33% said they would increase their investments abroad.



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## ABOUT THE SURVEY

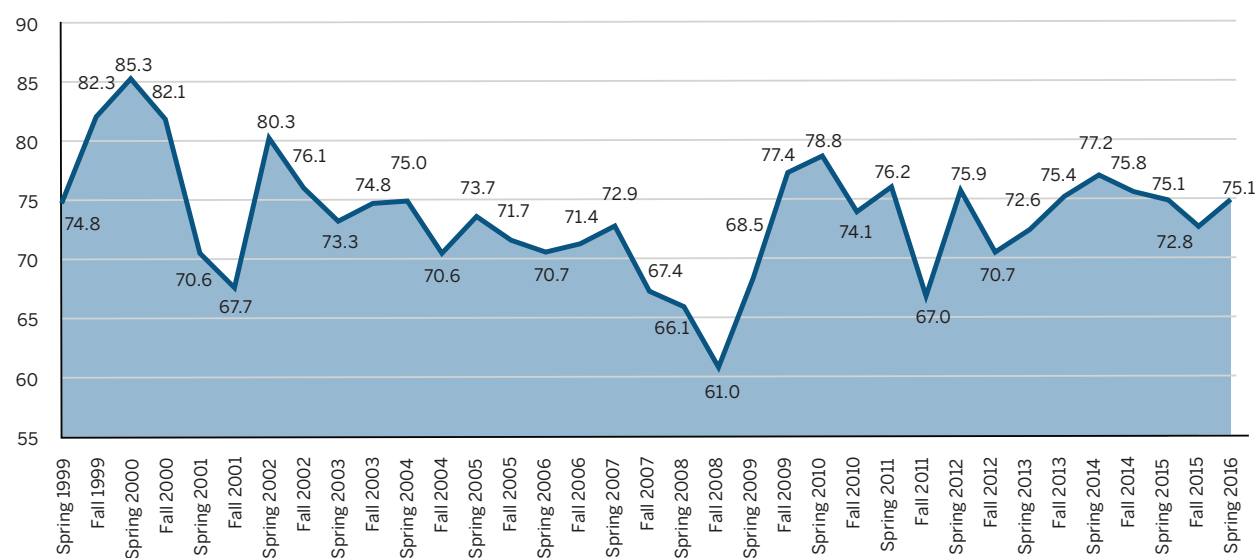
Conducted twice a year since 1999, the Trade Confidence Index (TCI) is a pulse check of Canadian exporters' level of confidence and their projections for international trade opportunities over the next six months. It is a composite score based on responses to questions regarding five elements:

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

From a sample of 1,002 Canadian exporters, the Spring 2016 TCI scores are based on 719 responses to a telephone survey conducted from March 29 to April 20, 2016.<sup>1</sup>

## OVERVIEW

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

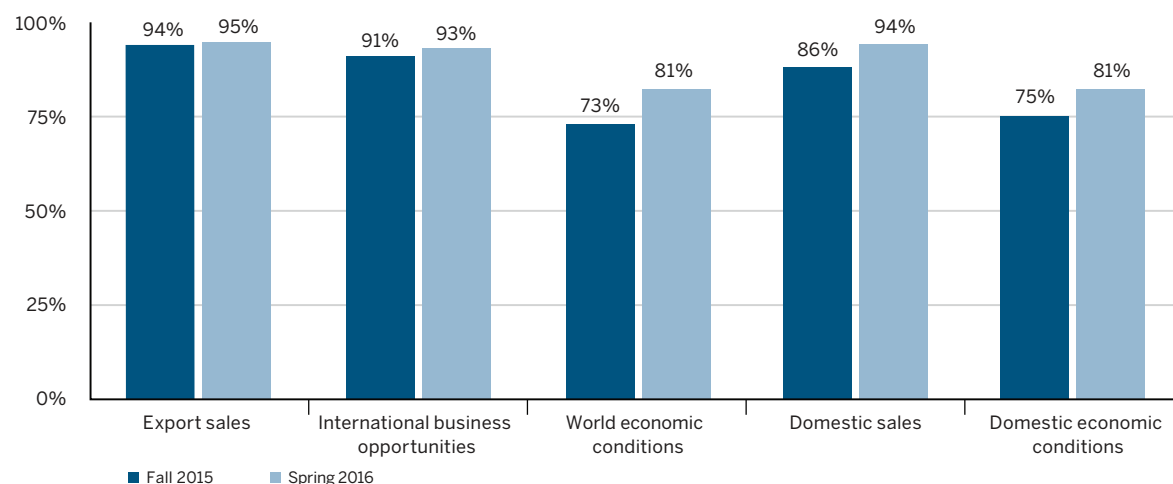


<sup>1</sup> All "Don't know" responses have been removed from both Spring 2016 and Fall 2015. As a result, the Fall 2015 data expressed in this report may be slightly different than the data published in the Fall 2015 report.

## SIX-MONTH OUTLOOK: TCI BY ELEMENT

The majority of respondents believe conditions will remain the same or improve across all five TCI elements. The most optimistic outlook was reported in export sales, with 95% of respondents expecting export sales to improve or stay the same over the next six months. Similarly strong outlooks were found in domestic sales and international business opportunities, with 94% and 93% of respondents, respectively, indicating neutral or favourable expectations for these elements. While expectations were comparatively weaker for domestic economic conditions and world economic conditions (where 81% of respondents believe conditions will remain the same or improve in the near term), exporters' outlooks for these two elements have improved considerably since the previous survey.

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



Confidence in export sales remains high, with the majority (60%) of respondents expecting **export sales** to increase over the next six months — down slightly from the 62% reported in Fall 2015. Among these respondents, 21% cited expansion into new markets as the main reason for their positive outlook, followed by growing demand for their products (18%) and the acquisition of new customers or contracts (15%). Only 5% of respondents think their export sales will decrease, with one-quarter (25%) of these respondents mentioning decreased demand for their products.<sup>2</sup>

More than one-third (36%) of respondents think their **international business opportunities** will improve over the next six months, down from 40% in Fall 2015. Among those with a positive outlook, 62% cited the lower value of the Canadian dollar as the primary reason for their optimism. Only 7% of the exporters surveyed expect international business opportunities to worsen in the near term, with 41% of these respondents citing concerns about the general conditions or stability of the world economy.

<sup>2</sup>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 25% of 5% of the total number of exporters surveyed.

Confidence in **world economic conditions** increased the most of any TCI element compared with the previous survey. However, respondents continue to be concerned about this area, with positive expectations improving only modestly in Spring 2016: 15% of respondents feel conditions will improve in the next six months, up from 12% in Fall 2015. Among those with a positive outlook, 15% cited improvements in emerging countries, with specific reference to India and China. Fewer exporters see improvements in the U.S. economy as the main reason to be optimistic about world economic conditions: this response was mentioned by just 13% of these respondents in Spring 2016, down from 25% in Fall 2015 and 40% in Spring 2015. In addition, 13% cited overall world economic recovery as the rationale for their favourable expectations — a response that did not come up at all in Fall 2015.

Positive signs can also be seen in the lower share of respondents who believe world economic conditions will worsen over the next six months: only 19% of respondents expressed negative expectations for this element in Spring 2016, down from 27% in Fall 2015. Among these respondents, 29% cited concerns about world recession or global instability as the main reasons for their pessimistic outlook, and 20% mentioned debt and overspending. Only 7% cited concerns about the performance of emerging economies, down from 31% in Fall 2015.

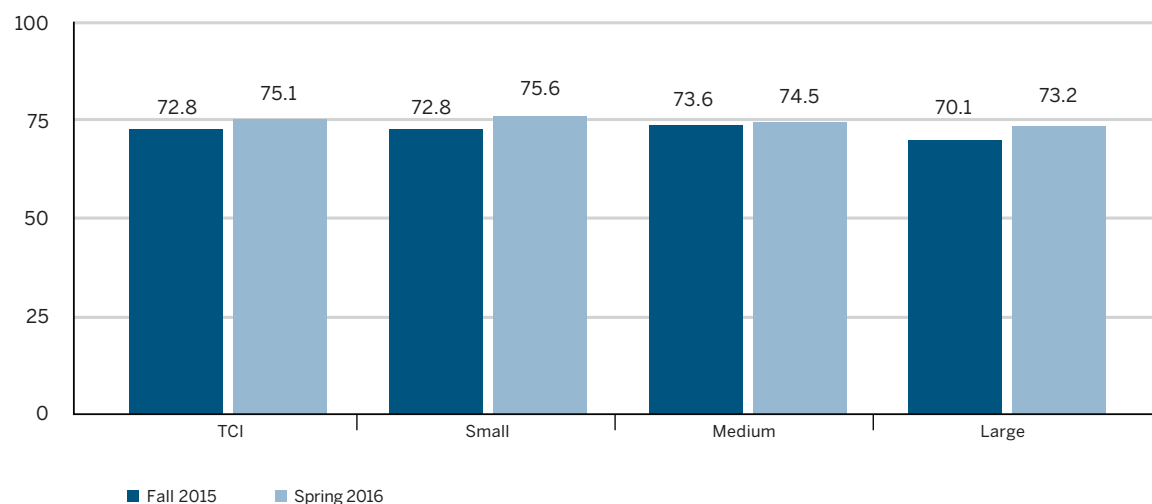
Confidence in **domestic sales** increased in Spring 2016. Nearly one-half (45%) of respondents expect their sales to improve over the next six months, up from 42% in Fall 2015. Of those with positive expectations, 17% mentioned the acquisition of new customers or contracts as the main reason, while 13% pointed to the development of new products or services. Of the 7% of respondents who think domestic sales will decrease — down from 14% in Fall 2015 — 17% cited oil and gas prices while 15% mentioned seasonal activity or demand as the driving factor behind their negative expectations.

Respondents' expectations with regard to **domestic economic conditions** also improved. More than one-quarter (26%) of respondents believe conditions will improve over the next six months, up from 16% in Fall 2015. Among these respondents, 23% cited an improving oil and gas industry as the main reason for their confidence. The percentage of respondents with a negative outlook on domestic economic conditions decreased, falling to 19% from 25% in Fall 2015. Among those respondents, nearly half (43%) cited political change or government initiatives as the cause of their pessimism.

## TCI BY BUSINESS SIZE, SECTOR AND REGION

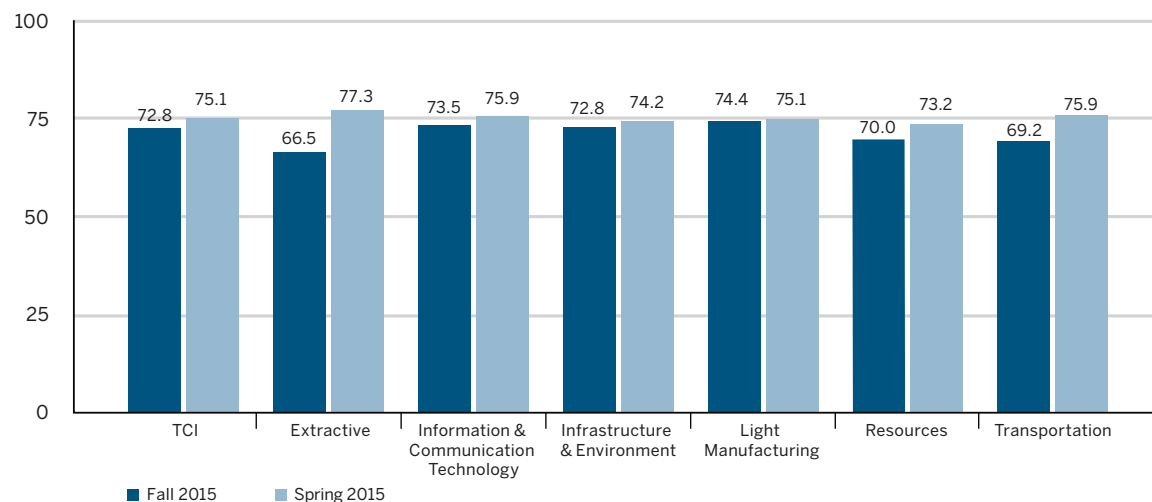
Trade confidence increased among businesses of all sizes in Spring 2016. Respondents from small businesses had the highest levels of trade confidence during this survey period, at 75.6. The greatest increase was seen among respondents from large companies, where trade confidence climbed to 73.2 from 70.1 in Fall 2015.

**Figure 3. TCI by business size<sup>3</sup>**



All market sectors showed increased trade confidence as well. Respondents operating in the extractive sector reported the highest level of trade confidence in Spring 2016, at 77.3. This represents a 10.8-point turnaround over Fall 2015, when respondents in this sector posted the lowest confidence (66.5). This increase was driven largely by a more favourable outlook on domestic economic conditions compared with respondents in the other five sectors. Respondents in the transportation industry also showed considerable gains in trade confidence in Spring 2016, increasing by 6.7 points to 75.9 from 69.2 in Fall 2015.

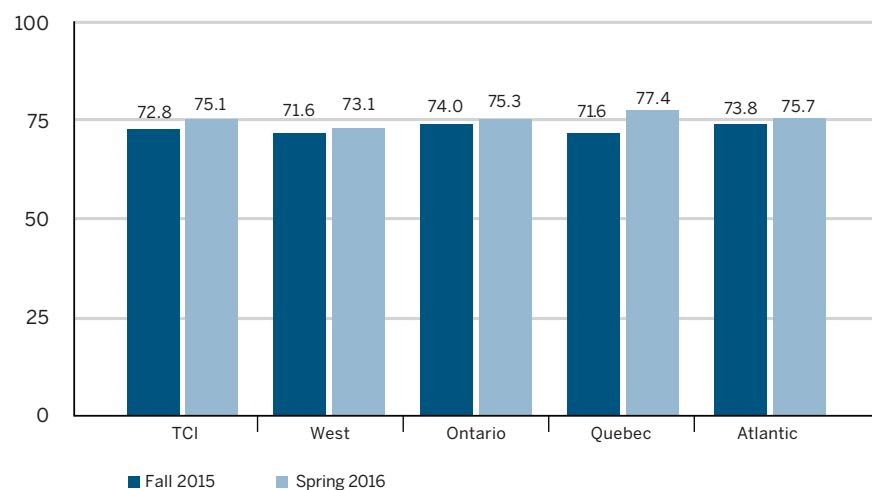
**Figure 4. TCI by market sector**



<sup>3</sup> 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 increased in every region across Canada. Respondents in Quebec reported the highest level of trade confidence at 77.4, up from 71.6 in Fall 2015, as well as the largest survey-to-survey increase in trade confidence, rising by 5.8 points — thereby moving from the least confident to most confident region in the country.

**Figure 5. TCI by region**



## INTERNATIONAL MARKETS

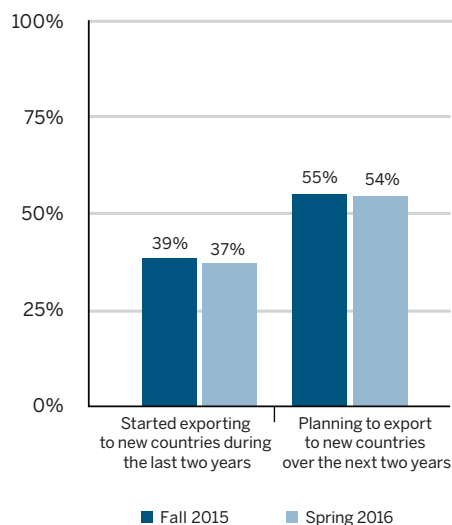
The United States remains the most popular market destination for Canadian exporters, with 84% of respondents selling their products or services across the border. Of those respondents, 42% said orders from U.S. customers had increased over the past six months, down from the 47% in Fall 2015. The other market destinations mentioned by respondents who are currently exporting remain relatively unchanged from previous surveys: the United Kingdom was mentioned by 17% of current exporters, followed by China (16%), Australia (14%), France (13%), Germany (12%), Mexico (12%) and Japan (11%).

More than one-third (37%) of respondents said they had already begun exporting to new countries within the past two years, down from 39% in Fall 2015. The United States continues to top the list of new export destinations (cited by 18% of these respondents), followed by China (14%) and Australia (9%). When asked about the main challenges they faced in exporting to new markets, 16% of respondents mentioned difficulties dealing with local laws and regulations, 13% reported issues getting the financial support they needed, and 12% said it was hard to build relationships in new markets.

The majority (54%) of respondents are planning to export to new countries within the next two years, virtually identical to the 55% reported in Fall 2015. The United Kingdom was mentioned most often as a potential new market destination (cited by 15% of these respondents), followed by Brazil (11%), Mexico (11%), China (10%) and Germany (10%). Of the 46% of respondents who are not considering exporting to new countries over the next two years, 16% said they have sufficient opportunities in their current export markets.



**Figure 6. Percentage of companies exporting or planning to export to new countries**



Export intensity fell in Spring 2016, with 42% of respondents indicating that more than half of their total sales were outside Canada, down from the 45% reported in Fall 2015. Import purchases also decreased in Spring 2016: 81% of respondents reported purchasing goods or services from outside Canada compared with 83% in Fall 2015.

## THE CANADIAN DOLLAR

Two-thirds (66%) of respondents believe the lower Canadian dollar, which averaged 77.3 cents on the U.S. dollar during this survey period, has had a positive impact on their export sales — up from 61% in Fall 2015. Of these respondents, 40% said their business benefits from a lower dollar because it allows them to offer their products at lower prices. In addition, nearly half (49%) of respondents said the lower dollar is very important to competing in foreign markets, down from the 52% reported in Fall 2015.

Should the Canadian dollar stay at this survey period's average exchange rate over the next two years, 53% of respondents expect their export sales to increase and 33% said they would make greater foreign investments.

The volatility of other currencies has had a positive or neutral impact on more than one-third (38%) of exporters' sales. However, with fewer exporters dealing only in U.S. currency (48% in Spring 2016 compared with 56% in Fall 2015), more respondents said this volatility has had a negative impact on their sales (14%, up from 8% in Fall 2015). The impact of rising global volatility (i.e., unpredictable changes in prices, currencies, commodities, etc.) is spread evenly among respondents, with 34% saying it has a positive impact on business volumes and 31% saying it has a negative impact.

## LABOUR

As reported in previous surveys, respondents are looking to hire but continue to face difficulties accessing the labour they need. In Spring 2016, 37% of respondents indicated that their hiring plans will increase over the next six months — yet 72% said accessing skilled labour is moderately or very difficult.

## CANADIAN DIRECT INVESTMENT ABROAD

Nearly one-quarter (22%) of respondents are planning to make or already have made investments outside of Canada, down from 25% in Fall 2015. The United States is by far the most common destination for both current and planned investments, cited by 72% and 70% of these respondents, respectively.

Among those currently investing abroad, 16% said they are doing so because their company is growing or expanding. When asked about the challenges they face in making their foreign investments, 12% cited exchange rates as the biggest issue and 11% mentioned difficulties complying with local laws and regulations.

Among those who are thinking about investing abroad, 16% cited greater access to their clients and 13% mentioned increased sales as the main reason for pursuing foreign investments.

The remaining 78% of respondents are not planning to make any investments outside of Canada at this time. The primary reasons cited are relatively unchanged from the previous survey: 20% said they feel no need to invest outside of Canada and 17% said they are not large enough or lack the resources to do so.

## CONCLUSION

The overall Trade Confidence Index (TCI) score increased for the first time in two years, rising to 75.1 in Spring 2016 from 72.8 in Fall 2015. While this increase corresponds to more favourable outlooks across all five TCI elements, it was driven largely by the greater number of respondents who think domestic sales, domestic economic conditions and world economic conditions will remain the same or improve over the next six months. Among the five TCI elements, confidence in export sales was once again the highest in Spring 2016. TCI scores also increased among businesses of all sizes, in all regions of the country and among all industry sectors represented by survey respondents.

While the United States remains the top destination for current exports and foreign investments, respondents are expressing more confidence in the performance of emerging economies, specifically mentioning India and China. The lower value of the Canadian dollar continues to have a positive impact on most respondents' export sales, with nearly half indicating that the lower dollar is very important to their ability to compete in foreign markets.

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