

## Spring 2014 Highlights

The Trade Confidence Index (TCI) climbed 1.8 points in spring 2014 – up to 77.2 from 75.4 in fall 2013. This marks the third consecutive increase since fall 2012 and is the highest level of trade confidence of the post-stimulus (post-2010) period.

The balance of opinion rose once again for many of the five TCI components in spring 2014, climbing most for **export sales**, **international business opportunities** and **domestic sales**. For **domestic economic conditions** and **world economic conditions**, the balance of opinion held relatively steady. (The balance of opinion refers to the percentage of respondents reporting improving conditions minus the percentage reporting worsening conditions.)

### Other key findings:

- The clear majority (61%) of survey respondents expect export sales to increase over the next six months, citing increased activity and production as well as new services and products as the top reasons. The percentage of those expecting export sales to decrease fell to 4%, continuing a six-year downward trend from a high of 24% in fall 2008.
- Exporters see the U.S. as a global economic engine. Forty-three percent of respondents who export to the U.S. said orders from U.S. customers have increased in the past six months – up from 35% in spring 2013. Additionally, of the 24% of respondents who said world economic conditions will improve in the next six months, 32% attributed their confidence to the strengthening U.S. economy.
- A lower-value Canadian dollar is the prime reason respondents are increasingly positive about international business opportunities. The percentage of respondents who feel international business opportunities will improve rose to 43% in spring 2014 from 34% the previous fall. Thirty-seven percent of those with a positive outlook pointed to the fall of the Canadian dollar as a reason for this. During the survey period, the Canadian dollar averaged 90 cents compared with the U.S. dollar.

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## ABOUT THE SURVEY

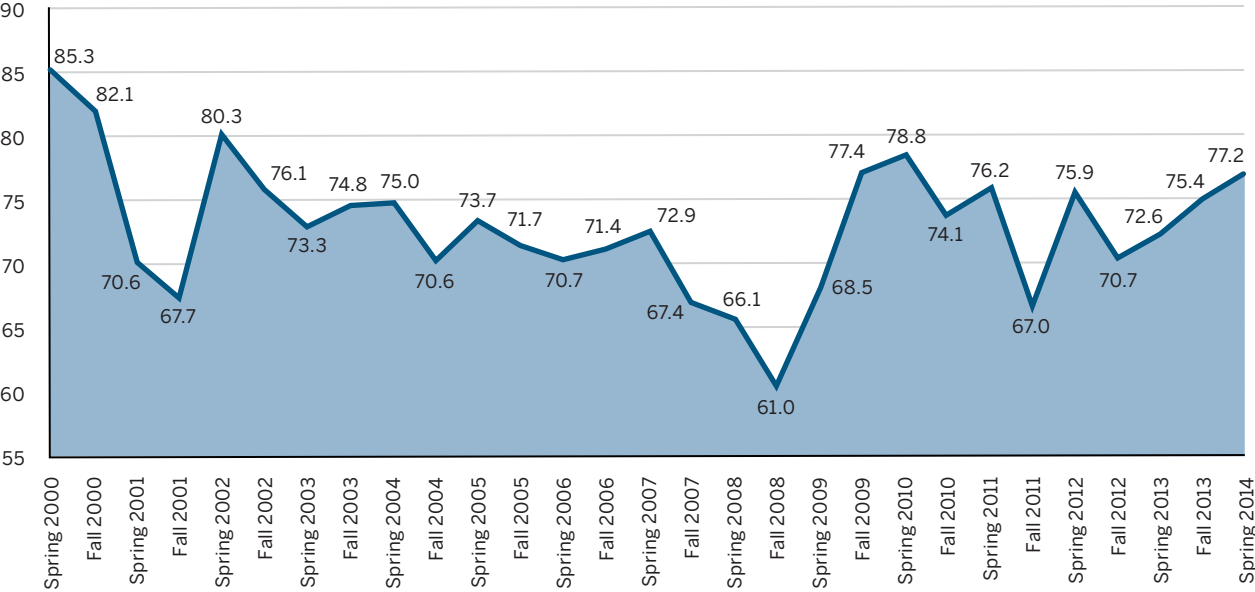
Conducted twice a year since 1999, the Trade Confidence Index (TCI) is a pulse check of Canadian exporters' level of confidence and their projections for international trade opportunities in the next six months. It is a composite score based on responses to questions regarding five elements:

1. Domestic sales
2. Export sales
3. Domestic economic conditions
4. World economic conditions
5. International business opportunities

The Spring 2014 TCI is based on 752 responses to a telephone survey conducted from March 24 to April 4, 2014.

# OVERVIEW

Figure 1. Trade Confidence Index scores, spring 2000 to spring 2014

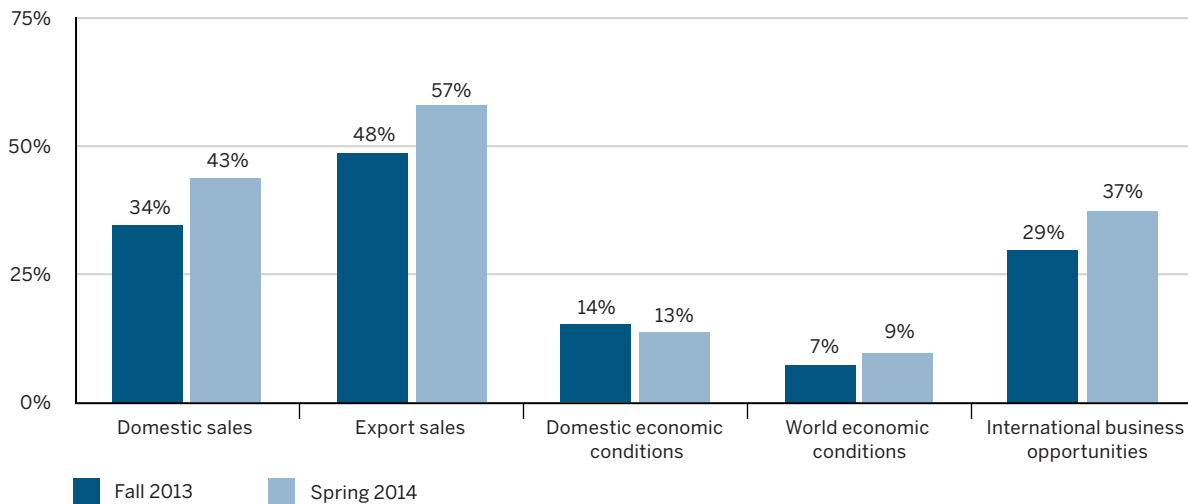


The TCI is a survey of 1,000 respondents conducted twice a year and serves as a pulse check of Canadian exporters' level of confidence. Survey respondents are decision-makers who are knowledgeable about the company's export activities.

## TCI BY ELEMENT

The balance of opinion rose for nearly all components of the TCI in spring 2014. (The balance of opinion refers to the percentage of respondents reporting improving conditions minus the percentage reporting worsening conditions.) The balance of opinion on export sales and international business opportunities reached 57% and 37%, respectively, and also rose for domestic sales to 43%. Regarding world economic conditions, the balance of opinion increased very slightly to 9%. It remained essentially unchanged for domestic economic conditions at 13%.

**Figure 2. Balance of opinion**



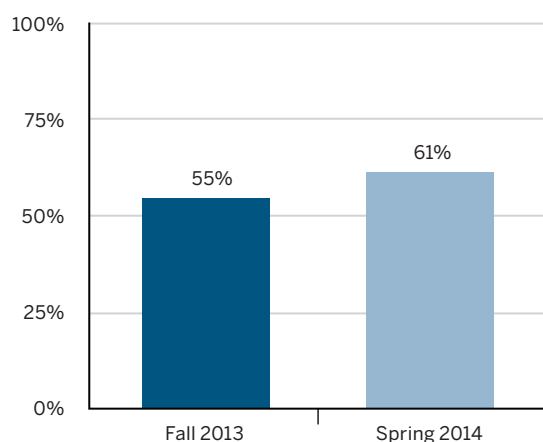
\* Balance of opinion: percentage of respondents who say conditions will improve, minus the percentage who say conditions will worsen over the next six months.

The following section looks at each of the TCI elements in greater detail and highlights why respondents feel conditions are improving (have a positive outlook) or are worsening (have a negative outlook).

Ninety-six percent of respondents said they expect **export sales** to increase or remain the same over the next six months. The proportion of those anticipating higher export sales rose to 61% – up from 55% in fall 2013. An additional 35% of respondents expected export sales to remain the same. Fifteen percent of respondents who expected sales to increase attributed their outlook to increased activity/production and new services/products, with 11% citing expansion to new markets and another 11% pointing to growing demand for products. The percentage of respondents believing export sales will decrease in the next six months fell to 4%.

**Figure 3. Expectation that export sales will increase**

Export sales will increase over the next six months  
(percentage of respondents)



Nearly half (49%) of all respondents said they expect **domestic sales** to increase in the next six months due to a range of relatively evenly distributed reasons: growing demand for products, development of new products, seasonal activity and new customers/clients/contracts. Despite this, the outlook on **domestic economic conditions** remained roughly the same, with 23% expecting improvement in the next six months. Those who felt domestic economic conditions would improve cited the falling Canadian dollar and a stronger U.S. economy as main reasons, at 12% each. The percentage of respondents believing domestic economic conditions will worsen remained unchanged at 10%.

The positive outlook on **world economic conditions** also held constant at 24%. Respondents with a positive view see the U.S. as a key driver: 32% said economic improvement in the U.S. was their main reason for expecting improved world economic conditions over the next six months. An additional 17% said they think the economy is generally improving, while 12% pointed to improvements in the European economy.

The proportion of respondents expecting **international business opportunities** to improve rose in spring 2014 to 43% from 34% in fall 2013. The declining relative value of the Canadian dollar topped the list of reasons at 37%. Among those few respondents (6%) who believe international business opportunities will worsen, world instability and worries about a higher Canadian dollar topped the list of reasons at 30% and 20%, respectively.

## TCI BY BUSINESS SIZE, INDUSTRY SECTOR AND REGION

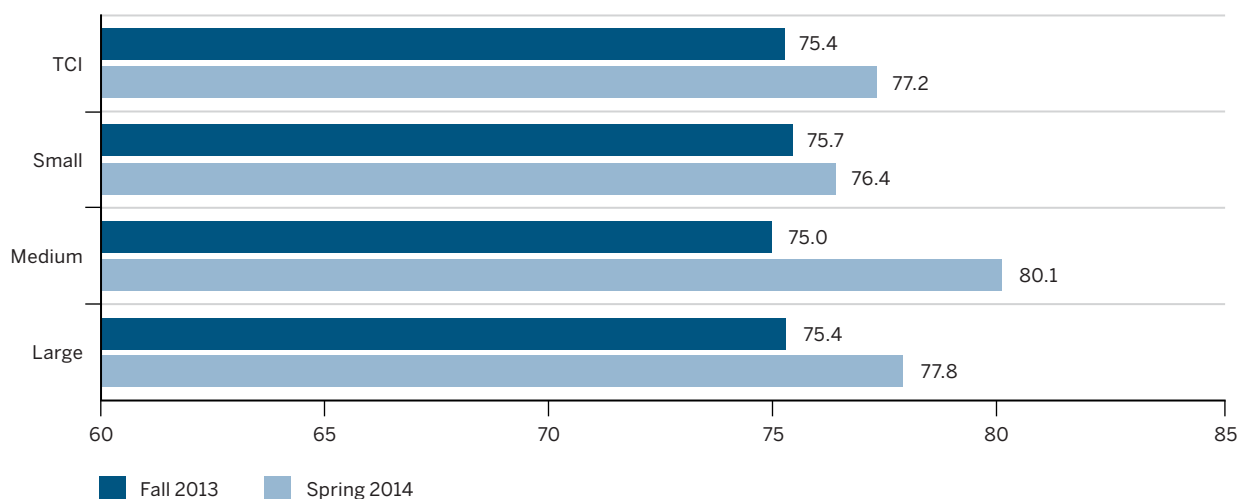
Overall, the TCI climbed to 77.2 in spring 2014 from 75.4 in fall 2013. Scores increased for companies of all sizes. The highest gain was among medium-sized exporters, whose trade confidence leapt 5.1 points to 80.1. Trade confidence among small companies rose to 76.4 from 75.7, and among large companies to 77.8 from 75.4.

TCI scores increased for all industry sectors except transportation. The resources sector posted the highest increase – rising 5.2 points to 76.0 – and reversing last fall’s survey result, when it was the only sector to show a decrease.

The sectors with the highest trade confidence scores in spring 2014 were infrastructure and environment at 79.0 and information and communications technology at 78.8. Trade confidence among transportation companies dropped to 75.6 from 78.1.

All regions show increasing trade confidence in spring 2014, with the Atlantic region being the most bullish. Trade confidence among Atlantic region exporters rose to 78.1 from 74.4. Quebec showed a similarly strong increase, rising to 77.7 from 74.1.

**Figure 4. TCI by business size**



\* The criteria to classify companies by business size are based on annual sales. Small-sized companies are under \$10 million, medium-sized are \$10 million to \$25 million, and large-sized are over \$25 million in sales annually.

## INTERNATIONAL MARKETS

Fifty-one percent of all respondents said they plan to export to new countries over the next two years; 34% have already started to do so. The main challenges facing these exporters are dealing with local laws and regulations (11%) and dealing with border customs (9%). Financial support was the least of their challenges, at just 6%. Eighty-five percent of respondents said the U.S. is their main export destination. Eighty-seven percent of respondents who export to the U.S. said U.S. orders either increased or held steady in the past six months, with 43% reporting an increase and 44% saying orders had remained the same.

The U.S., China, Australia and the U.K. top the list of destinations companies have started exporting to in the past two years. The U.S. and China both ranked first at 13%, while Australia and the U.K. ranked second at 9%. Among new market destinations, Brazil, China, Germany, Australia, U.K. and Mexico were cited as the main destinations to which respondents plan to export over the next two years. Brazil and China both ranked first at 11%, Germany ranked second at 8% and Australia, U.K. and Mexico ranked third at 7%.

## THE CANADIAN DOLLAR

More than half (58%) of all respondents indicated the lower Canadian dollar had a positive impact on their companies' export sales. (The dollar averaged 90 cents on the U.S. dollar during the survey period.) Eighty-seven percent said the current level of the Canadian dollar was very or somewhat important to competing in foreign markets, up slightly from 84% in fall 2013. Among those who view a lower dollar as positive, 40% said it would allow them to lower prices or offer cheaper products. Of the 13% who see a lower dollar as negative, 26% point to increased costs as the reason why.

## LABOUR

As with the previous survey, in spring 2014 companies indicated they are looking to hire but have concerns about accessing the labour they need. Approximately one-third of respondents (36%) said they expect hiring requirements to increase over the next six months, yet the majority (72%) said accessing skilled labour is moderately or very difficult.

## CANADIAN DIRECT INVESTMENT ABROAD

Twenty-three percent of surveyed companies said they plan to have or already do have investments outside of Canada. This is essentially unchanged from fall 2013. At 10%, exchange rates top the list of challenges facing companies when it comes to investing in foreign markets.

## CONCLUSION

Canadian exporters' trade confidence continues to rise, with the majority of TCI survey respondents expecting export sales to increase in the next six months. The U.S. economic recovery is seen as a major driver of Canadian export growth, with the lower dollar being a prime reason why exporters are increasingly positive about international business opportunities.



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