Atradius Country Report

North America countries – February 2020

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Canada

Main import sources (2018, % of total)	
USA:	51.1 %
China:	12.7 %
Mexico:	6.2 %
Germany:	3.2 %
Japan:	2.8 %

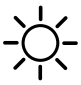
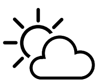
Main export markets (2018, % of total)	
USA:	75.0 %
China:	4.7 %
United Kingdom:	2.8 %
Japan:	2.2 %
Mexico:	1.4 %

Key indicators	2017	2018	2019*	2020**	2021**
Real GDP growth (y-on-y, % change)	3.2	2.0	1.7	1.4	1.6
Inflation (y-on-y, % change)	1.6	2.2	1.9	1.9	2.0
Real private consumption (y-on-y, % change)	3.6	2.1	1.6	1.6	1.9
Real government consumption (y-on-y, % change)	2.3	3.0	2.2	1.2	1.5
Industrial production (y-on-y, % change)	4.5	3.1	-0.7	1.1	1.5
Unemployment rate (%)	6.3	5.8	5.7	5.8	6.0
Real fixed investment (y-on-y, % change)	3.6	1.2	-0.1	2.4	1.3
Real export of goods and services (y-on-y, % change)	1.4	3.1	2.0	0.9	0.6
Fiscal balance (% of GDP)	0.5	0.3	0.0	-0.1	-0.2
Current account (% of GDP)	-2.8	-2.5	-2.1	-2.6	-2.6

*estimate **forecast Source: Oxford Economics

Canadian industries performance forecast

February 2020

	Excellent: The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.
	Good: The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.
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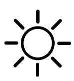
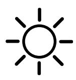
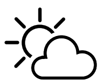
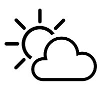
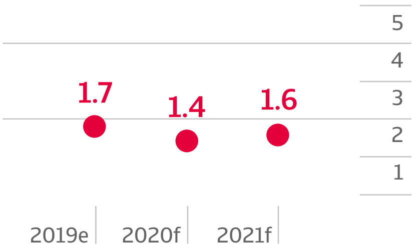
	Bleak: The credit risk situation in the sector is poor / business performance in the sector is weak compared to its long-term trend.

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Consumer Durables
				
Electronics/ICT	**Financial Services**	**Food**	**Machines/ Engineering**	**Metals**
				
Oil/gas	**Paper**	**Services**	**Steel**	**Textiles**
				

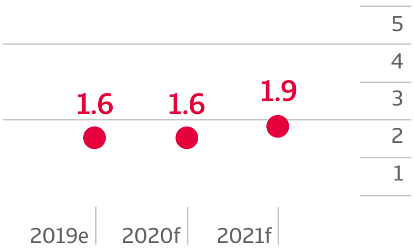
Main economic developments

Real GDP growth (y-on-y, % change)



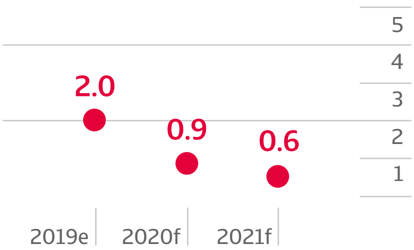
Source: Oxford Economics

Real private consumption (y-on-y, % change)



Source: Oxford Economics

Real exports of goods and services (y-on-y, % change)



Source: Oxford Economics

Subdued growth expectations in 2020

As in 2019, Canada´s GDP growth is expected to remain below its long-term trend in 2020 due to sluggish domestic demand and lower export growth. While private consumption is sustained by a robust job market and wage growth, high levels of household debt continue to weigh on consumer spending. The federal government has already enacted a tax cut for the middle class and is expected to increase spending, however most provincial governments will maintain a high degree of spending restraint.

Global economic uncertainty and ongoing trade tensions continue to dampen business sentiment and investment activity in most sectors, apart from the energy industry. Export growth is hampered by the slowdown in the US as Canada´s main export market. The closure of a large automotive assembly plant in Oshawa in December 2019 will have an impact, as cars and car parts are Canada´s largest non-energy exports.

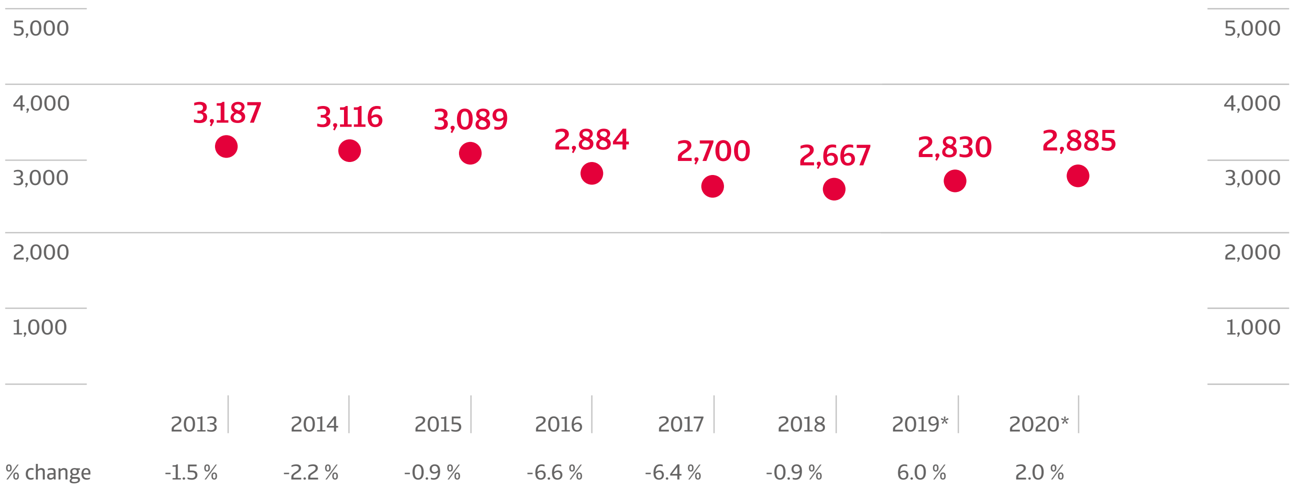
The new US-Mexico-Canada Agreement (USMCA) has reduced trade policy uncertainty in North America. Together with Mexico, Canada is shielded from any global tariffs on cars the US might impose on national security grounds by means of a tariff-free quota well above current export levels.

The insolvency environment

Insolvencies increase again in 2019 and 2020

Due to the modest economic growth and increased business uncertainty corporate bankruptcies are expected to increase 6% in 2019 and 2% in 2020 after several years of annual decreases.

Canadian business bankruptcies
(Calendar year: % change on previous year)



*forecast Sources: Office of the Superintendent of Bankruptcy Canada; Atradius Economic Research

Mexico

Main import sources (2018, % of total)	
USA:	46.6 %
China:	18.0 %
Japan:	3.9 %
Germany:	3.8 %
South Korea:	3.6 %

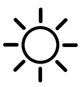
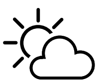
Main export markets (2018, % of total)	
USA:	76.5 %
Canada:	3.1 %
Germany:	1.6 %
China:	1.6 %
Brazil:	1.0 %

Key indicators	2017	2018	2019*	2020**	2021**
Real GDP growth (y-on-y, % change)	2.4	2.1	0.0	0.9	1.9
Inflation (y-on-y, % change)	6.0	4.9	3.6	3.2	3.4
Real private consumption (y-on-y, % change)	3.5	2.2	0.5	1.6	2.3
Industrial production (y-on-y, % change)	0.0	0.4	-1.4	0.1	1.5
Real fixed investment (y-on-y, % change)	-1.6	0.6	-4.4	-0.5	1.6
Unemployment rate (%)	3.4	3.3	3.6	3.9	4.0
Real export of goods and services (y-on-y, % change)	4.2	5.6	3.1	1.6	1.7
Fiscal balance (% of GDP)	-1.0	-2.0	-2.0	-2.4	-2.5
Public debt (% of GDP)	46.9	46.8	48.1	48.4	48.6
Current account (% of GDP)	-1.8	-1.8	0.0	-0.9	-0.8

*estimate **forecast Source: Oxford Economics

Mexico industries performance forecast

February 2020

	Excellent: The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.
	Good: The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.
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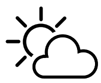
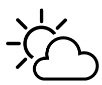
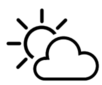
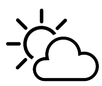
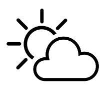
Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Consumer Durables
				
Electronics/ICT	**Financial Services**	**Food**	**Machines/ Engineering**	**Metals**
				
Oil/gas	**Paper**	**Services**	**Steel**	**Textiles**
				

Political situation

Head of state/government

President Andrés Manuel López Obrador (since December 2018)

Population:

131.0 million

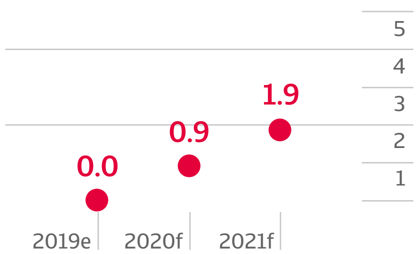
President governs with a strong political mandate

Andrés Manuel López Obrador of the the leftist Morena party governs with a strong political mandate, as a Morena-led coalition has a majority in both houses of Congress. He has taken some popular measures, including raising the minimum wage, reducing government salaries (including his own) and creating a national guard to combat drug trafficking.

However, it seems that President López Obrador will struggle to meet the high expectations for a fundamental change among voters and political allies, given the intractable nature of Mexico's social ills, such as poverty, violence and corruption. High crime rates and endemic corruption continue to undermine the business environment and state functions.

Main economic developments

Real GDP growth (y-on-y, % change)



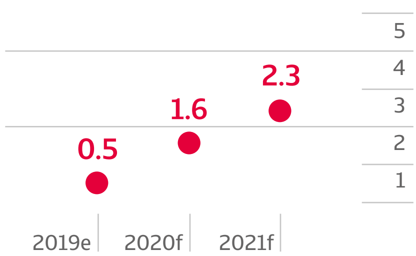
Source: Oxford Economics

Some structural economic vulnerabilities

While Mexico's economy is generally diversified, it remains closely synchronized with the US business cycle. The US accounts for more than 75% of exports (more than 25% of Mexican GDP) and is the main source of remittances (about 2% of GDP). Mexico´s dependence on oil revenues has further decreased, but is still significant (6% of goods exports, 8% of GDP and 18% of government revenues).

The Mexican peso is vulnerable to shifts in market sentiment, due to a large stock of inward portfolio investments (more than 270% of official reserves) and the fact that it is the most traded emerging market currency. The peso is expected to remain volatile in 2020, while a sound policy framework, a healthy banking system and solid external balances underpin strong shock resistance.

Real private consumption (y-on-y, % change)



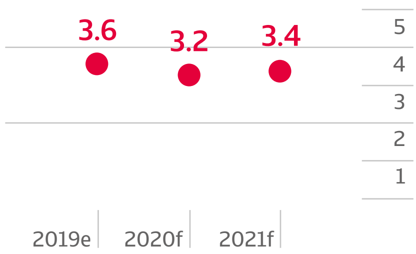
Source: Oxford Economics

Subdued economic performance in 2019 and 2020

Since 1994, average annual real GDP growth was just 2.5%, mainly due to low investments and weak productivity. GDP is forecast to level off in 2020 and to grow only about 1.0% in 2020, partly due to fiscal austerity and a slowing US economy. However, the main reason for subdued growth is increased uncertainty, which has led to lower private consumption, a weakening of business sentiment and a contraction of private investments and factory activity.

This uncertainty partly stemmed from policy and trade issues with the US in 2019. President Trump called off threatened tariffs on all Mexican imports in June 2019 only after the Mexican government agreed to curb rising Central American migration through Mexico to the US.

Inflation
(y-on-y, % change)

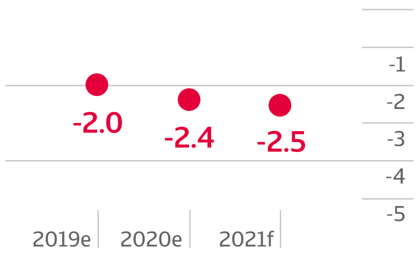


Source: Oxford Economics

Another issue that has negatively impacted business and consumer sentiment is ongoing concerns about President López Obrador´s economic policy direction. Doubts over the enforcement of contracts have increased, especially after the decision to cancel Mexico City's new airport plans following a (controversial) public opinion poll. President López Obrador also started to reverse landmark energy reforms made by his predecessor Peña Nieto. Oil auctions were suspended amid other moves to reassert the dominance of the state-owned oil company Pemex.

The modest economic rebound expected in 2020 will be supported by public investments and a looser monetary policy. Declining inflation enabled the central bank to cut its policy rate several times since August 2019. Additionally the US ratification of the USMCA agreement should help to support growth. USMCA is effectively a small modification of the pre-existing NAFTA agreement.

Fiscal balance
(% of GDP)



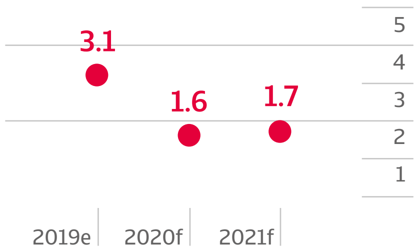
Source: Oxford Economics

A prudent fiscal policy for the time being

Despite some controversial economic policy actions by the government, its fiscal policy has been prudent so far. However, there is a risk that the government´s commitment to fiscal discipline will fade should the economy fail to recover.

The government debt structure is generally favourable (68% in local currency). The main vulnerability is a relatively high share of debt held by non-residents (48%), but refinancing risks are mitigated by a favourable maturity structure (average maturity of more than ten years), and prudent debt management. The vulnerability to oil price declines has been mitigated by fiscal reform and an oil price hedge. However, the financial situation at Pemex has become more uncertain following the shift from exploration to loss-making refining. A potential need of further financial support for Pemex constitutes a risk for government finances.

Real export of goods and
services (y-on-y, % change)



Source: Oxford Economics

Strong shock resistance of the economy

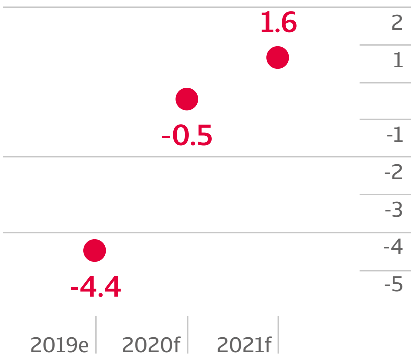
Despite the ongoing economic policy uncertainties, Mexico seems to be quite resilient when dealing with them due to strong economic fundamentals. A steep deterioration of the economy seems to be rather unlikely.

Exchange rate fluctuations serve as a shock absorber for the economy, helped by the fact that Mexico´s foreign currency debt held by the public and private sector remains limited.

The (mainly foreign-owned) banking system is profitable, well regulated, supervised and capitalised. Non-performing loans are stable at 2.1% and fully provisioned, while dollarization (14% of credits and 20% of deposits) and reliance on foreign funding are low, reducing exposure to external shocks.

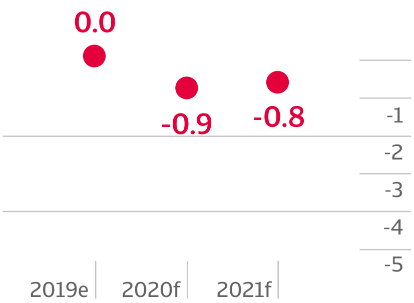
Both government debt and external debt are sustainable, with the latter having stabilised around a relatively low 37% of GDP (65% owed by the sovereign). The debt service ratio remains low, which also reflects a lengthening of maturities by both the government and corporations. Current account imbalances remain modest and fully financed by foreign direct investment (FDI).

Real fixed investment
(y-on-y, % change)



Source: Oxford Economics

Current account
(% of GDP)



Source: Oxford Economics

The international liquidity position is adequate with abundant official reserves (about four months of imports, abundant to cover 2020 external refinancing needs). Reserves are underpinned by a precautionary IMF Flexible Credit Line, which in November 2019 was extended for another two years (upon request of the Mexican authorities it was further reduced to USD 61 billion, down from USD 74 billion). The Flexible Credit Line reduces transfer and convertibility risks. Access to capital markets is still solid, which is reflected in several international bond issues, in 2019, by the sovereign and the private sector, including Pemex.

USA

Main import sources (2018, % of total)	
China:	21.6 %
Mexico:	13.4 %
Canada:	12.5 %
Japan:	5.6 %
Germany:	4.9 %

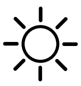
Main export markets (2018, % of total)	
Canada:	18.0 %
Mexico:	15.9 %
China:	7.2 %
Japan:	4.5 %
United Kingdom:	4.0 %

Key indicators	2017	2018	2019*	2020**	2021**
Real GDP growth (y-on-y, % change)	2.4	2.9	2.3	1.7	1.7
Inflation (y-on-y, % change)	2.1	2.4	1.8	1.9	2.0
Real private consumption (y-on-y, % change)	2.6	3.0	2.6	2.2	2.0
Real government consumption (y-on-y, % change)	0.6	1.7	1.8	1.0	1.6
Industrial production (y-on-y, % change)	2.3	4.0	0.8	0.2	1.5
Real fixed investment (y-on-y, % change)	3.7	4.1	1.8	1.1	1.7
Unemployment rate (%)	4.4	3.9	3.7	3.5	3.7
Real export of goods and services (y-on-y, % change)	3.5	3.0	-0.2	0.6	2.3
Fiscal balance (% of GDP)	-4.2	-6.5	-7.0	-6.7	-6.5
Currant account (% of GDP)	-2.3	-2.4	-2.4	-2.4	-2.5

*estimate **forecast Source: Oxford Economics

US industries performance forecast

February 2020



Excellent:
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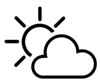
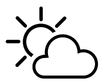
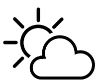
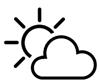
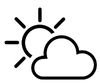
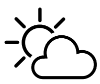
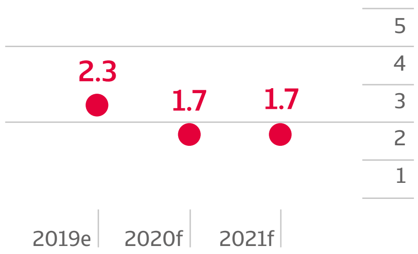
Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Consumer Durables
				
Electronics/ICT	**Financial Services**	**Food**	**Machines/ Engineering**	**Metals**
				
Oil/gas	**Paper**	**Services**	**Steel**	**Textiles**
				

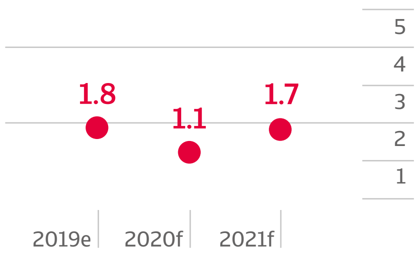
Main economic developments

Real GDP growth (y-on-y, % change)



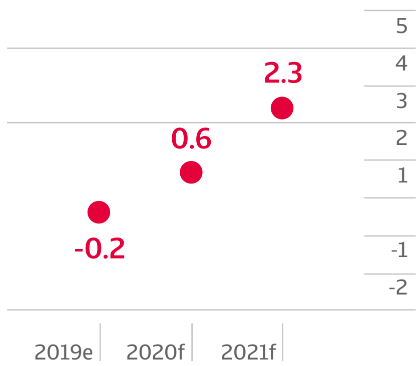
Source: Oxford Economics

Real fixed investment (y-on-y, % change)



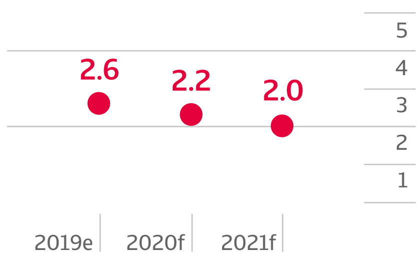
Source: Oxford Economics

Real exports of goods and services (y-on-y, % change)



Source: Oxford Economics

Real private consumption (y-on-y, % change)



Source: Oxford Economics

The economic expansion is losing steam

US economic growth started to slow down last year, with GDP expected to expand 2.3% in 2019 and 1.7% in 2020. An ongoing slowdown across investment, government consumption and exports increases the dependence on further robust private consumption growth. Several downside risks could accelerate the economic slowdown in 2020.

A marked downturn in investment growth expected

In 2020, the prospect for further fiscal stimulatory spending is limited by other political priorities amid the impeachment inquiry and challenges to cross-party policymaking in the run-up to the 2020 elections. At the same time, an industrial production downturn and trade-related uncertainty have impacted investment growth. Despite the recent "phase one" trade deal between the US and China the business environment will remain weak, as the surface-level agreement fails to offer significant clarity on future trade policy.

Business investments contracted in Q2 and Q3 of 2019, and no substantial rebound is expected in 2020. Corporate profits have been squeezed by rising import prices due to higher tariffs, increased labour costs, and lower external demand. US exports are affected by the ongoing trade uncertainty, lower demand in key export markets including China and the Eurozone, a global slowdown in manufacturing and the competitive disadvantage of a strong USD for US exporters.

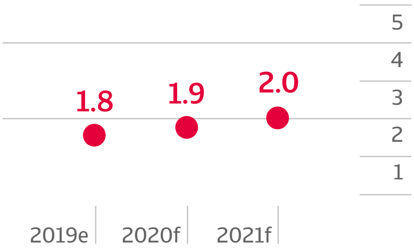
Consumer spending remains robust for the time being

Private consumption accounts for more than two-thirds of US economic activity and has steadily increased over the past years, averaging 1.9% year-on-year growth since 2016. While the 2020 outlook for private consumption is less buoyant only a gradual slowdown is expected, as low unemployment, continued wage growth (although lower than in the past two years) and still modest inflation are sustaining further growth. The recent "Phase One" trade agreement between the US and China should also support household consumption growth, as looming tariffs on consumer goods were scrapped for the time being.

The resilience of private consumption is sustained by the fact that household finances are in much better shape than in the lead-up to the 2008 credit crisis. US households have been deleveraging, decreasing household debt as a percentage of GDP to 75% from nearly 100%. Personal saving rates have increased substantially, from 3% in the mid-2000s to about 8% in 2019.

Given low inflation expectations, the Federal Reserve has cut the benchmark interest rate several times since July 2019. These rate cuts are largely perceived as an 'insurance policy' for the US economy against the global slowdown and should help to sustain private consumption growth.

Inflation
(y-on-y, % change)



Source: Oxford Economics

Substantial downside risks could lead to a recession

The forecast economic slowdown in 2020 remains susceptible to downside risks. In absence of substantial growth contribution from investments and exports, any shock that would trigger a major deterioration of household consumption growth could send the US economy into a recession. One spark could be a stock market crash, triggered by Sino-US competition to dominate the high-tech industry. An oil price spike would also be a direct blow to US consumers as energy and fuel prices would increase. As the incumbent administration's trade policy stance remains highly uncertain, serious trade disputes with Mexico and/or the EU would significantly strain US manufacturers.

The insolvency environment

Insolvencies increasing again after nine years of decrease

After nine years of annual decreases, the number of US business bankruptcy filings increased again in 2019, by 2.5% year-on-year. Companies faced higher financing costs (due to the previous Fed tightening policy in 2018 and early 2019), while a strong USD and the unwinding of pro-cyclical fiscal policy had an impact. Additionally trade policy uncertainty has increasingly affected business investment as higher import costs cut into profits.

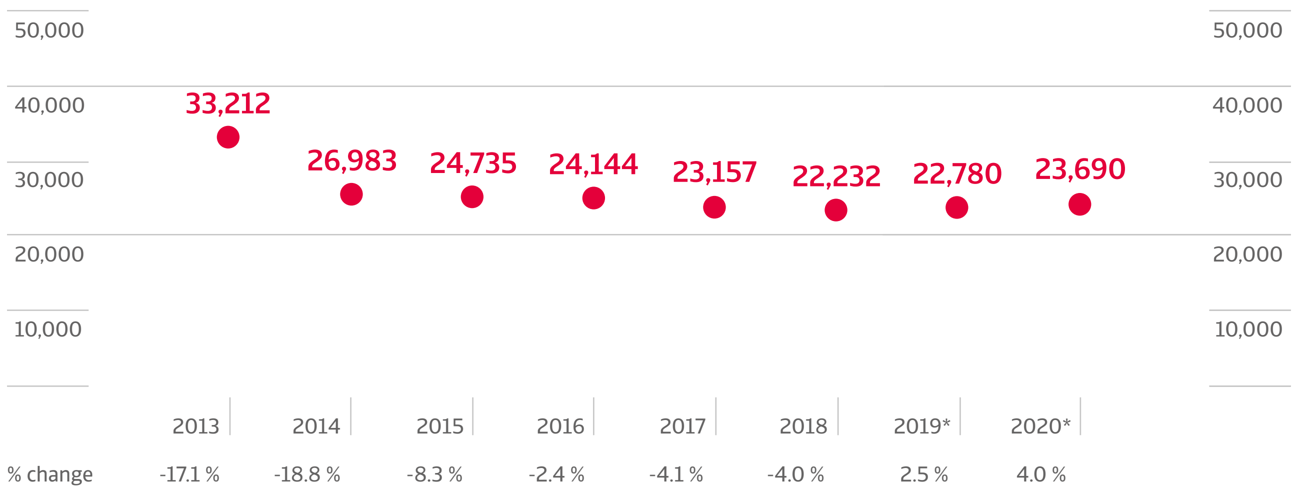
While the monetary policy loosening, underway since July 2019, should cushion US companies from a deeper downturn, this might not be sufficient to prevent a rise in bankruptcy filings of up to 4% in 2020. Higher import costs and lower investment due to the ongoing uncertainty over trade issues continue to affect businesses. Bilateral trade barriers are causing more insolvencies in the agricultural sector, while retailers, in particular, are vulnerable to higher import costs.

Increased corporate debt poses a downside risk

US corporate debt has been increasing again over the past couple of years, as businesses have had easy access to finance at low interest rates. There is evidence that many companies have taken advantage of the wide availability of capital to pay out larger sums to shareholders instead of investing in the real economy, increasing their vulnerability to economic and financial shocks. While household finances are in better shape than a decade ago, higher corporate debt and deteriorating creditworthiness of businesses could lead to more insolvencies in 2020 than currently expected.

US business bankruptcies

(Calendar year: % change on previous year)



*forecast Sources: Office of the Superintendent of Bankruptcy Canada; Atradius Economic Research

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