Atradius
Managing risk, enabling trade

# Atradius Country Report

## North American countries – February 2019

# Contents

# Canada

| Main import sources (2017, % of total) | |
|---|---|
| USA: | 51.3 % |
| China: | 12.6 % |
| Mexico: | 6.3 % |
| Germany: | 3.2 % |
| Japan: | 3.1 % |

| Main export markets (2017, % of total) | |
|---|---|
| USA: | 75.9 % |
| China: | 4.3 % |
| United Kingdom: | 3.2 % |
| Japan: | 2.2 % |
| Mexico: | 1.4 % |

| Key indicators | 2015 | 2016 | 2017 | 2018* | 2019** |
|---|---|---|---|---|---|
| Real GDP growth (y-on-y, % change) | 0.7 | 1.1 | 3.0 | 2.1 | 1.9 |
| Inflation (y-on-y, % change) | 1.1 | 1.4 | 1.6 | 2.3 | 2.4 |
| Real private consumption (y-on-y, % change) | 2.3 | 2.2 | 3.5 | 2.2 | 1.6 |
| Real government consumption (y-on-y, % change) | 1.4 | 1.8 | 2.1 | 2.8 | 1.5 |
| Industrial production (y-on-y, % change) | -0.5 | -0.3 | 4.9 | 2.8 | 2.0 |
| Unemployment rate (%) | 6.9 | 7.0 | 6.3 | 5.9 | 6.0 |
| Real fixed investment (y-on-y, % change) | -5.2 | -4.3 | 3.0 | 2.7 | 0.8 |
| Real exports of goods and services (y-on-y, % change) | 3.4 | 1.3 | 1.1 | 3.0 | 1.0 |
| Fiscal balance (% of GDP) | 0.3 | 0.0 | 0.3 | 0.1 | -0.5 |
| Current account (% of GDP) | -3.6 | -3.2 | -2.8 | -2.7 | -2.7 |

* estimate  **forecast  Source: Oxford Economics

# Canadian industries performance forecast

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.

Fair:
The credit risk credit situation in the sector is average / business performance in the sector is stable.

Poor:
The credit risk situation in the sector is relatively high / business performance in the sector is below long-term trend.

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

## February 2019

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

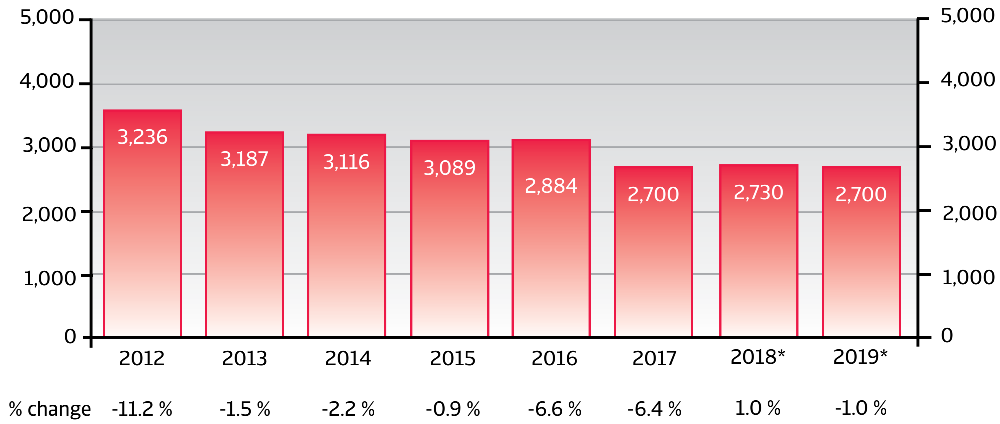
# The insolvency environment

### No major decrease expected in 2019

After decreases of more than 5% in 2016 and 2017, the number of corporate bankruptcies is expected to level-off in 2018 and 2019. This is mainly due to lower economic growth and higher interest rates.

### Canadian business bankruptcies

(Calendar year: % change on previous year)

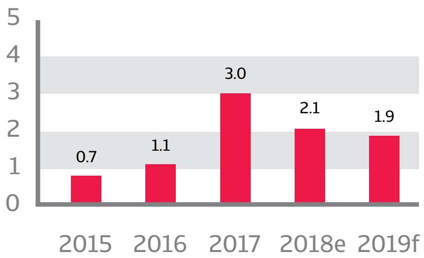



*forecast

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

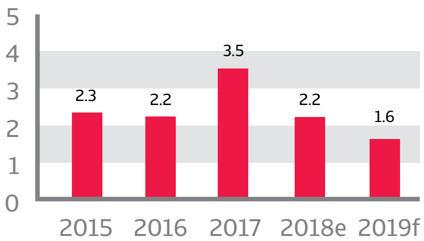
# Main economic developments

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




Source: Oxford Economics

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




Source: Oxford Economics

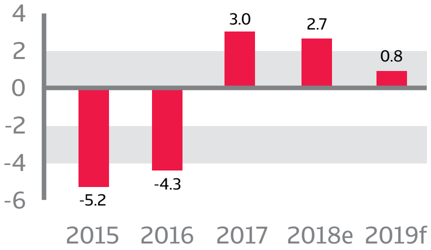
### Economic growth expected to slow down in 2019

After expanding 3% in 2017, Canada´s GDP growth slowed down to about 2% in 2018 as private consumption growth decreased due to lower wage growth and rising interest rates.

The Canadian economy continues to operate near its potential and the composition of growth is more balanced. In 2019 GDP is forecast to grow below 2% as export, household consumption and investment growth further ease. However, the Canadian economy should still experience positive momentum, with low unemployment, manageable inflation and rising, but historically low interest rates.

The new US-Mexico-Canada Agreement (USMCA) has reduced trade policy uncertainty in North America, which has been an important curb to business confidence and investment. 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.

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




Source: Oxford Economics

However, despite the agreement, US import tariffs on Canadian steel and aluminium imports remain in place for the time being. Additionally current trade conflicts, particularly between the United States and China, continue to weigh on global growth and commodity prices.

# Mexico

| Main import sources (2017, % of total) | |
|---|---|
| USA: | 46.4 % |
| China: | 17.6% |
| Japan: | 4.3 % |
| Germany: | 3.9 % |
| South Korea: | 3.7 % |

| Main export markets (2017, % of total) | |
|---|---|
| USA: | 80.0 % |
| Canada: | 2.8 % |
| Germany: | 1.7 % |
| China: | 1.6 % |
| Spain: | 1.0 % |

| Key indicators | 2015 | 2016 | 2017 | 2018* | 2019** |
|---|---|---|---|---|---|
| Real GDP growth (y-on-y, % change) | 3.3 | 2.7 | 2.3 | 2.0 | 2.0 |
| Inflation (y-on-y, % change) | 2.7 | 2.8 | 6.0 | 4.9 | 4.3 |
| Real private consumption (y-on-y, % change) | 2.7 | 3.5 | 3.3 | 2.6 | 2.0 |
| Industrial production (y-on-y, % change) | 1.3 | 0.3 | -0.1 | 0.5 | 1.7 |
| Real fixed investment (y-on-y, % change) | 5.1 | 1.1 | -1.5 | 2.0 | 1.4 |
| Unemployment rate (%) | 4.3 | 3.9 | 3.4 | 3.4 | 3.7 |
| Real export of goods and services (y-on-y, % change) | 8.5 | 3.5 | 3.9 | 7.4 | 3.8 |
| Fiscal balance (% of GDP) | -3.5 | -2.5 | -1.0 | -2.2 | -2.8 |
| Public debt (% of GDP) | 45.4 | 49.4 | 46.9 | 51.9 | 51.2 |
| Current account (% of GDP) | -2.6 | -2.2 | -1.7 | -1.7 | -1.7 |

* estimate **forecast Source: Oxford Economics

## Mexican industries performance forecast


Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.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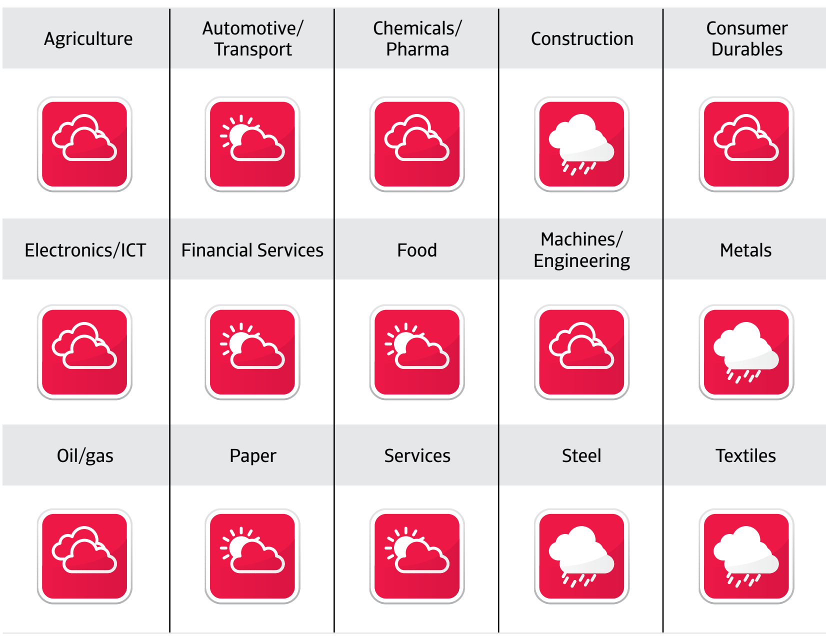
### February 2019



# Political situation

**Head of state/government:**
President Andrés Manuel López Obrador (since December 2018)

**Population:**
131.0 million

### A new president with a strong political mandate

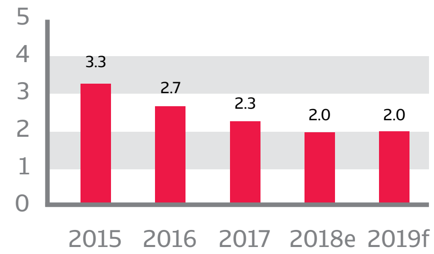
Andrés Manuel López Obrador of the left-wing Morena party won the July 2018 presidential elections with over 50% of the popular vote. He will govern with a strong political mandate, as a Morena-led coalition also gained a majority in both houses of Congress in the parliamentary elections.

A main reason for López Obrador´s landslide victory was his promise to decisively combat crime, corruption and poverty. Ahead of the election the credibility of the political establishment severely suffered from public discontent over institutional defects, several major corruption and security scandals and the persistently high crime rate.

More needs to be done to tackle the poor domestic security linked to drug-related violence and rampant corruption, which severely affect the business climate and hamper economic performance by discouraging investment. For a solid recovery of the country's medium-term earnings capacity, Mexico would need to improve its law enforcement, the independence of the judiciary system and to overhaul police institutions.

# Main economic developments

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



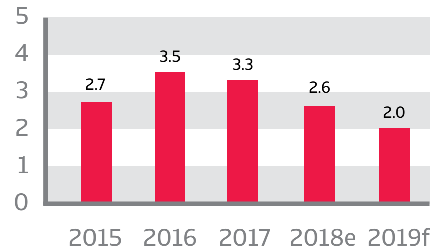

Source: Oxford Economics

### Some structural economic vulnerabilities

While Mexico's economy is generally diversified, it remains closely synchronized with the US business cycle. The US accounts for 80% of exports (more than 25% of Mexican GDP) and is the main source of remittances (2% of GDP). Mexico´s dependence on oil revenues has decreased, but is still significant (7% of goods exports, 8% of GDP and 20% of government revenues).

The Mexican peso is vulnerable to shifts in market sentiment, due to a high stock of inward portfolio investments (more than 250% of official reserves) and the fact that it is the most traded emerging market currency.

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

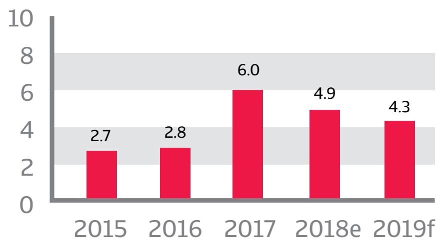



Source: Oxford Economics

### Short-term trade risks have decreased after the NAFTA-renegotiation

With the signing of the USMCA agreement, short-term uncertainty over North American trade has decreased. Overall, the economic impact of USMCA on Mexican-US trade is likely to be limited, as it is effectively a small modification of the pre-existing NAFTA agreement. However, US steel and aluminium tariffs imposed on Mexico remain in place for the time being, and longer-term uncertainties still linger. USMCA still has to be ratified by the national parliaments of its three members.

**Inflation (y-on-y, % change)**

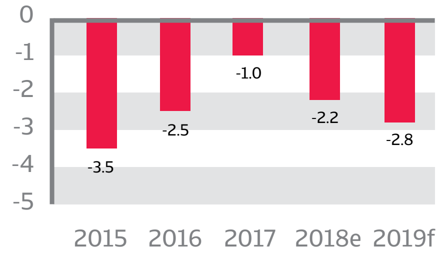



Source: Oxford Economics

### Increased uncertainty over the economic policy of the new government

Concerns about President López Obrador´s economic policy direction and the enforcement of contracts have increased, especially after the decision to cancel Mexico City's new airport plans after a (controversial) public opinion poll - despite the fact that one-third has already been built and nearly 70% of the project is already financed. The new president also announced to suspend oil auctions for three years, slowing down the landmark energy reforms made by his predecessor Peña Nieto.

Fiscal balance (% of GDP)

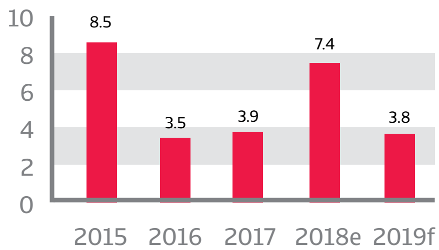



Source: Oxford Economics

The 2019 budget plan introduced in December 2018 dispelled doubts about the new government´s commitment to financial stability, at least for the time being. While the President Lopéz Obrador´s plan includes more spending on social programs and infrastructure, it is still preserving the prudent fiscal framework established by his predecessors. However, it remains to be seen if the government will stick to its commitments in 2019, especially if revenues are lower than expected (in case of lower than forecast economic growth and dropping oil prices).

The government debt structure is generally favourable (67% in local currency). The main vulnerability is a relatively high share of debt held by non-residents (50%), 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. The financial situation at Pemex has stabilised, which has mitigated the risk of contingent liabilities. However, uncertainty has increased over the future of the Pemex consolidation process under the new administration.

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




Source: Oxford Economics

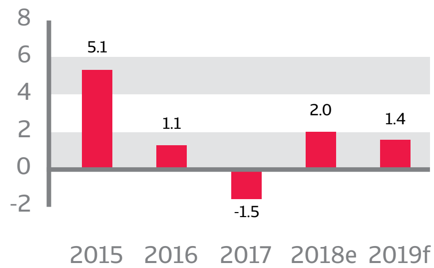
## Stable macroeconomic environment, but slow economic growth

Since 1994, average annual real GDP growth was just 2.6%, mainly due to low investments and weak productivity. While uncertainty about the future trade relationship with the US has eased, economic policy uncertainty has increased, which could further dampen investments in 2019. While in 2018 stable private consumption and accelerating exports compensated for lower investments, this might not be the case in 2019. Consumer confidence has decreased, which is expected to weigh negatively on consumption growth going forward.

Inflation has eased, following interest rate hikes, and should return to the Central Bank´s target band of 2%-4% this year.

Concerns over the policies of the new administration and the ongoing normalisation of US monetary policy are weighing on the currency, with the peso exchange rate expected to remain volatile in 2019.

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




Source: Oxford Economics

## Strong shock resistance of the economy

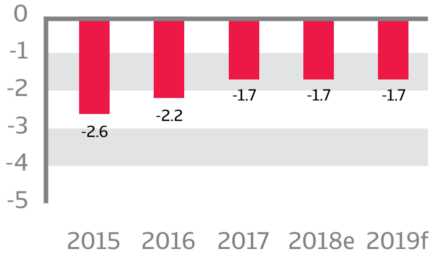
Despite the ongoing political and economic uncertainties, Mexico seems to be quite resilient in dealing with them due to strong economic fundamentals. Any steep deterioration of the economy seems to be rather unlikely.

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 (13%) 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 40% of GDP (45% owed by the sovereign). The debt service ratio remains low, which also reflects a lengthening of maturities by both the government and corporation. Current account imbalances remain modest; however, the coverage of the current account deficit by foreign direct investment is expected to decrease to 80% in 2019, from over 100% previously.

### Current account (% of GDP)




Source: Oxford Economics

The international liquidity position is adequate with abundant official reserves (more than four months of imports, abundant to cover 2019 external refinancing needs). There is additional liquidity potential from a precautionary IMF credit line of USD 74 billion (until November 2019), on which Mexico can draw in times of adverse global credit conditions. This reduces transfer and convertibility risks.

Access to capital markets is still solid, which is reflected in several international bond issues in 2018 by the sovereign and the private sector, including Pemex. However, financing costs are rising, as spreads vis-a-vis US Treasuries have substantially increased since end of last year.

# USA

| Main import sources (2017, % of total) | |
|---|---|
| China: | 21.9 % |
| Mexico: | 13.2 % |
| Canada: | 12.7 % |
| Japan: | 5.8 % |
| Germany: | 5.0 % |

| Main export markets (2017, % of total) | |
|---|---|
| Canada: | 18.3 % |
| Mexico: | 15.7 % |
| China: | 8.4 % |
| Japan: | 4.4 % |
| United Kingdom: | 3.6 % |

| Key indicators | 2015 | 2016 | 2017 | 2018* | 2019** |
|---|---|---|---|---|---|
| Real GDP growth (y-on-y, % change) | 2.9 | 1.6 | 2.2 | 2.9 | 2.5 |
| Inflation (y-on-y, % change) | 0.1 | 1.3 | 2.2 | 2.4 | 1.8 |
| Real private consumption (y-on-y, % change) | 3.7 | 2.7 | 2.5 | 2.7 | 2.8 |
| Real government consumption (y-on-y, % change) | 1.7 | 1.5 | -0.1 | 1.3 | 1.8 |
| Industrial production (y-on-y, % change) | -1.0 | -2.0 | 1.6 | 3.9 | 2.9 |
| Real fixed investment (y-on-y, % change) | 3.3 | 1.7 | 4.0 | 4.9 | 2.8 |
| Unemployment rate (%) | 5.3 | 4.9 | 4.4 | 3.9 | 3.5 |
| Real exports of goods and services (y-on-y, % change) | 0.6 | -0.1 | 3.0 | 4.1 | 2.0 |
| Fiscal balance (% of GDP) | -4.8 | -5.3 | -4.1 | -6.4 | -6.4 |
| Current account (% of GDP) | -2.2 | -2.3 | -2.3 | -2.4 | -2.7 |

* estimate **forecast Source: Oxford Economics

# US industries performance forecast

Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

Good:
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## February 2019

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

# The insolvency environment

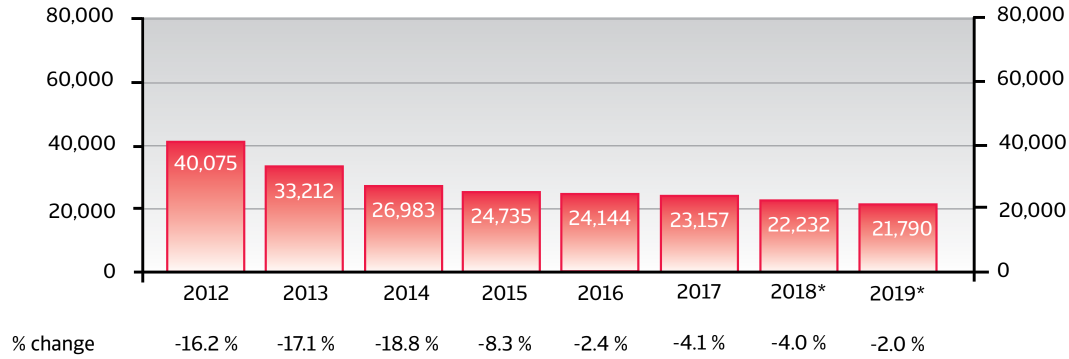
## Insolvencies expected to decrease further, but downside risks have increased

In 2018 many US businesses benefited from robust economic growth, tax reforms and buoyed business confidence, leading to a 4% decrease in corporate insolvencies.

However, despite a still solid GDP growth outlook risks for the corporate sector are increasing in 2019. The strengthening USD and potential trade barriers strain US exporters. Domestically, changing shopping patterns, especially the shift away from mall shopping, has already caused major bankruptcies in the retail sector – a pattern which should persist in the coming years. Additionally, higher interest rates are increasingly making financing more expensive. Therefore, US business insolvencies are forecast to decrease only 2% or to level off in 2019.

### US business insolvencies

(Calendar year: % change on previous year)

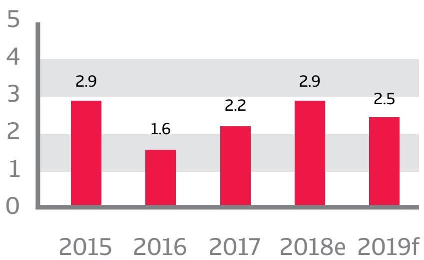



*forecast

Sources: Administrative Office of the US Courts; Atradius Economic Research

# Main economic developments

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




Source: Oxford Economics

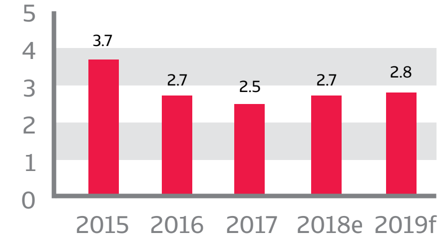
## Robust growth to continue in 2019

US economic growth was broad-based in 2018, with private consumption as the primary driver, as unemployment decreased to less than 4% in 2018. Despite trade policy uncertainty, business investment continued to grow steadily, supported by tax cuts, deregulation and higher government spending. A GDP growth rate of 2.9% is expected in 2018.

In 2019 the economy is forecast to grow 2.5%, underpinned by persistently strong household and business confidence. Domestic demand is expected to remain robust, and private consumption is set to grow by more than 2.5%, supported by a very tight labour market, as employment growth remains robust across a wide range of sectors.

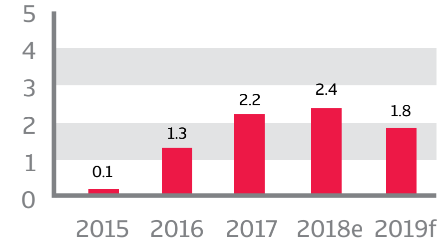
While energy sector activity remains a key driver of the strong business outlook the overall momentum is beginning to wane, as the lagged effects of tax cuts fade out, the strong USD weighs on export competitiveness, and higher oil prices and import tariffs increase domestic price pressures. Therefore, investment growth is forecast to slow down in 2019.

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



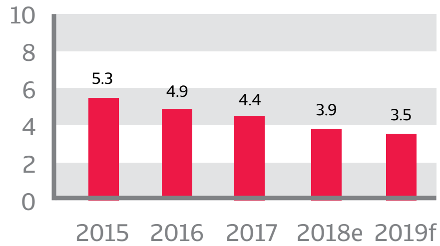

Source: Oxford Economics

### Inflation (y-on-y, % change)



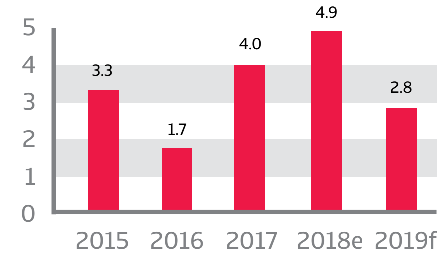

Source: Oxford Economics

### Unemployment rate (%)



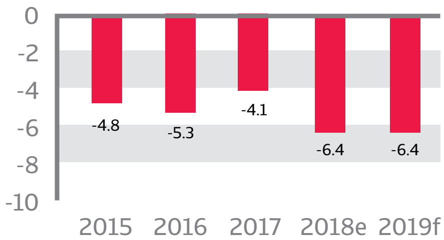

Source: Oxford Economics

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




Source: Oxford Economics

### Fiscal balance (% of GDP)




Source: Oxford Economics

Higher wage pressures have led to rising inflation, which is expected to remain around 2% in 2019. As wages are rising further this should not weigh too heavily on consumers spending power. The US Federal Reserve (Fed) increased interest rates in December to a range of 2.25% to 2.5%, reflecting the strength of the domestic economy. While this will make borrowing more expensive and potentially weigh on business activity and purchasing power, current credit conditions remain looser than their long-run average.

## Elevated fiscal and trade policy risks

Monetary policy risk (rapid interest hikes in 2019 could adversely affect businesses finances and investment) has abated somewhat, as the Fed is expected to slow its pace of monetary tightening in 2019, due to increased uncertainty in the global economy.

However, fiscal, and trade policy risks have increased, posing a double threat in the face of an exceptionally strong domestic economy. There is still confidence that the next recession is not coming up just yet in 2019. However, the risk that a downturn comes sooner than expected has increased, possibly reducing the government's levers to address it.

While robust economic growth and low unemployment should help rein in the fiscal deficit, massive tax cuts and increased public spending are sharply widening it. The stimulus is indeed contributing to higher GDP growth, but not sufficiently fast enough to keep the deficit in check, which is expected to have widened to more than 6% of GDP in 2018 and to stay at this high level in 2019. Most critically, less fiscal space and higher debt levels will limit the government's policy options to support the economy in case of a recession, potentially leading to a deeper downturn.

Trade policy uncertainty is one of the top risks to US businesses and consumers in 2019 that may bring the next downturn on more quickly than expected in the face of current economic strength. Retaliatory tariffs are already having a negative impact on US exports. While the USMCA agreement reduces trade risks with Mexico and Canada and a trade dialogue with the EU is ongoing, the incumbent administration's trade policy stance remains highly uncertain. Moreover, with all the focus on China, the risk of further retaliation continues to increase.

The negative consequences for some sectors like technology, ICT and agriculture could spell serious damage for businesses. At the same time, US import tariffs are set to increase inflation by making imports more expensive.

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**Atradius N.V.**
David Ricardostraat 1– 1066 JS Amsterdam
Postbus 8982 – 1006 JD Amsterdam
The Netherlands
Phone: +31 20 553 9111
info@atradius.com
www.atradius.com