

Navigator

Now, next and how for business

Canada



Canada

Canadian firms move through uncertainty to opportunity

The renegotiated United States-Mexico-Canada Agreement (USMCA) has reduced the risks of an adverse trade policy shock for Canadian businesses in the immediate future. Overall, Canadian firms remain upbeat and see key opportunities to invest in technologies, their employees, and supply chains, to drive further growth and capture market share.

What is happening now

Upbeat sentiment in Canada slightly lags global optimism

The pace of economic expansion in Canada has remained solid, with real GDP growth averaging around 2% annualized in recent quarters. Export performance has been lacklustre, but we expect that reasonably healthy external demand and a still fairly competitive currency will support exports in coming quarters. Indeed, the latest news on the trade front has been rather positive, with Canada reaching a last-minute trilateral agreement with the US and Mexico. Though some legislative hurdles remain, the risks of an adverse trade policy shock are therefore reduced.

Encouragingly, the HSBC Navigator survey shows that more than two thirds (71%) of Canadian businesses have a positive outlook regarding the global trading environment, underpinned by favourable views on global growth and upbeat consumer confidence domestically. However, positive sentiment amongst Canadian companies was slightly less common than the global average of 78% of respondents. Probable causes of such guarded optimism, at the time of the survey, include the uncertain political environment (in particular, the outcome of the NAFTA renegotiation had not been announced) and expectations about exchange rates and interest rates – the top three factors cited for companies' negative outlooks. Still, 80% of Canadian companies were confident of success in the current environment, in line with the 81% global average. Canada's NAFTA partners - the US and Mexico - were most frequently cited by respondents as markets where they are looking to expand business.(Fig. 1).

Fig. 1: Which are the top 3 markets where your business will look to expand in the next 3-5 years? (Share of respondents identifying each market)



Source: TNS Kantar

How your business can respond

- ◆ Identify how the USMCA will affect your supply chain to understand the implications for your business strategy.
- ◆ Re-evaluate the relative merits of serving domestic and international customers in the region, keeping in mind the changes in market access for your products under the revised agreement.

Policy Developments

Canadian firms cognizant of prevailing protectionist winds

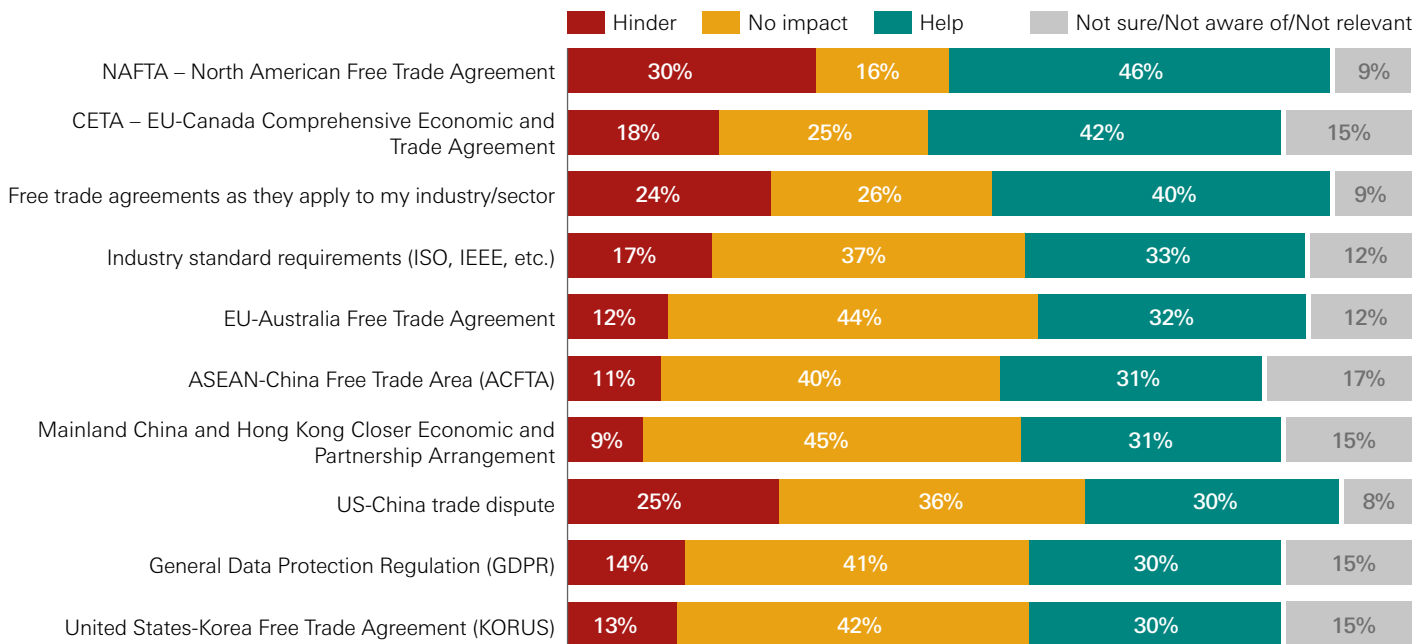
Over two-thirds (68%) of Canadian firms believe governments their key trading partners are becoming more protective of domestic businesses – around five percentage points higher than the global average (63%). A round of minor retaliatory tariffs with the US over the past year might have contributed to this response in Canada, although the NAFTA renegotiation was also likely a key factor. Many Canadian firms also have direct or indirect exposure to the escalating US-China trade war. Views regarding the impact of regulations were more varied - while 31% of Canadian firms see regulation increasing their cost of doing business, around one in four suggest it increases their competitiveness (27%) or their business' value (23%).

As illustrated by Fig. 2, more Canadian firms expect the US-China trade dispute to have a positive near-term impact on their business (30%) than expect a negative effect (25%). While the dispute could slow growth and raise prices in the US, supply chains and business activity may also redirect toward Canada. A relatively high proportion of respondents have a favourable view of NAFTA (46%) as well as relevant free-trade agreements (40%) – although it is worth highlighting that this survey was conducted before the renegotiation was concluded and so reflects the terms of the old NAFTA accord.

How your business can respond

- ◆ Identify which data would best fill your customer, supplier, and employee knowledge gaps in the future. Invest in those necessary technologies.
- ◆ Benchmark your company's ethical and sustainability goals and progress against competitors.

Fig. 2: Relevance and impact of policy developments in the next 3 years



Source: TNS Kantar

*May not total 100% due to rounding

What is happening next for business strategy

Firms look to productivity enhancements to capture new market share

In light of the shifting trade environment, the HSBC Navigator survey indicates that Canadian firms are looking to capitalize on potential disruptions to grow their market share with an increased emphasis on local and regional markets over the next two years (Fig. 3). Many Canadian firms also intend to invest in upskilling their workforces to focus on key skills development and productivity growth, perhaps in light of historically low unemployment and a tight labour market.

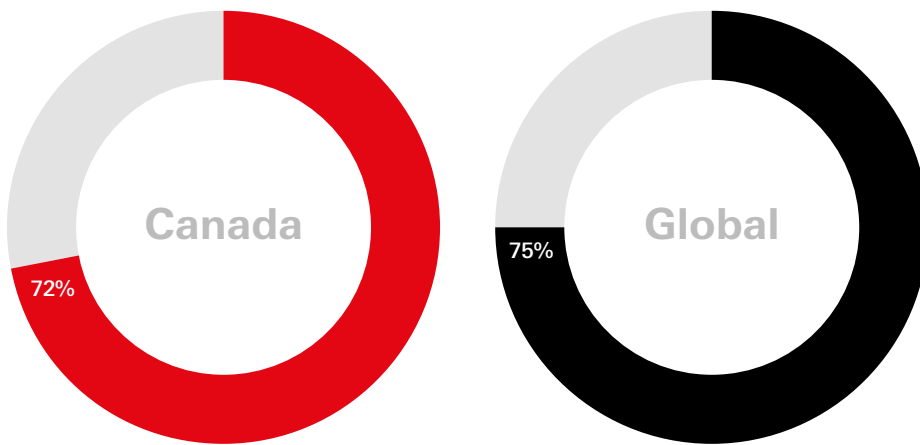
Data is one key enabler of these business strategies. Just under three-quarters (72%) of Canadian firms are using data to optimize performance (Fig. 4). Operational and transactional data (each used by 47% of firms) were the most common type of data sets employed by businesses. While customer personal data was the next most popular type of data (used by 46% of firms), data privacy was cited as both a key risk and opportunity for Canadian businesses.

Fig. 3: Top 3 actions for future company direction



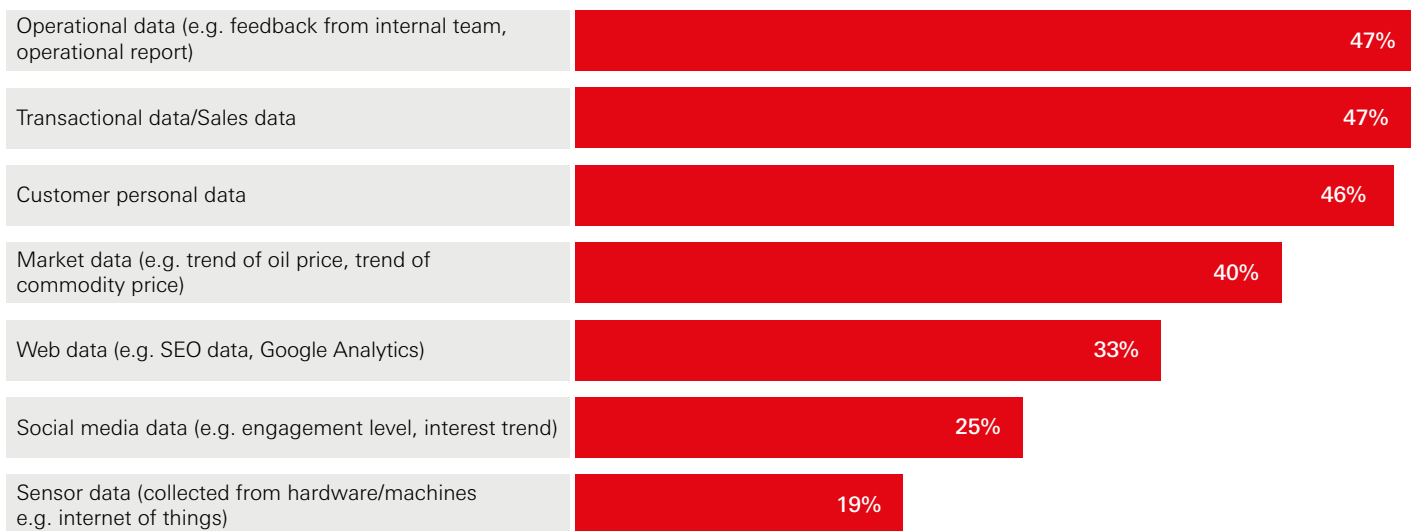
Fig. 4: Using data in business

Share of respondent firms using data to optimise performance



Source: TNS Kantar

Data sets currently being used



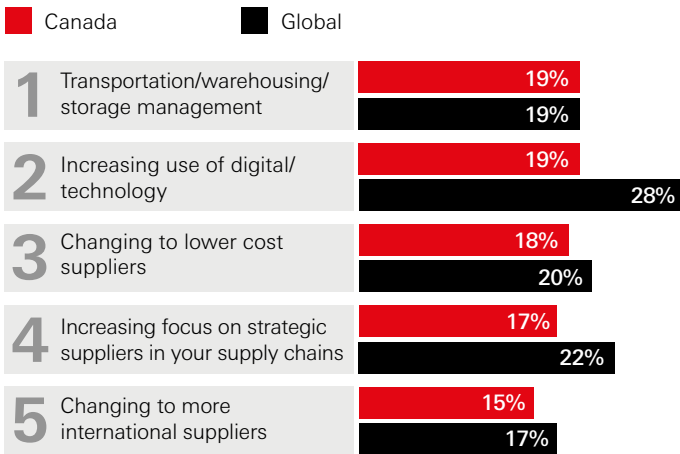
Source: TNS Kantar

Supply chain technology seen as the route to lower costs, higher sales

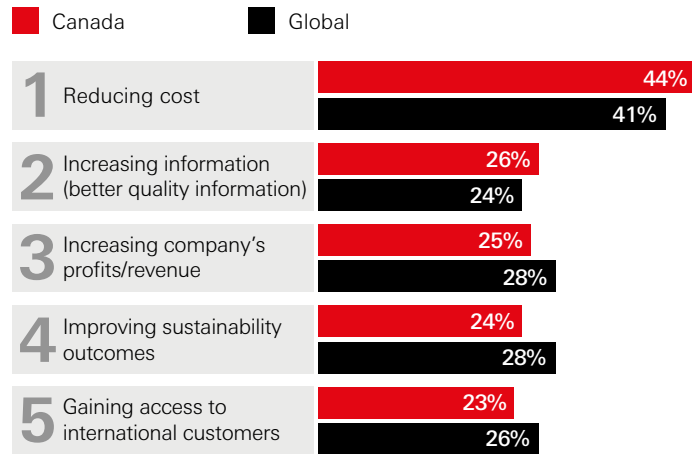
Shifting their approach to transportation and warehousing was the most frequently cited supply-chain focus for Canadian businesses, followed by increasing the use of technology in the supply chain for goods and changing to lower cost suppliers (Fig. 5). Many firms (44%) cited these objectives with the goal of reducing cost, though others saw potential to either increase information on their supply chain (26%) or increase sales (25%). Sustainability was another key objective for about one in four (24%) businesses, although a majority (63%) of firms reported they were already either on par or ahead of their peers with respect to an ethical and environmentally sustainable focus.

Fig. 5: Supply chain changes for goods

Top 5 planned supply chain changes in the next 3 years



Top 5 objectives behind the changes

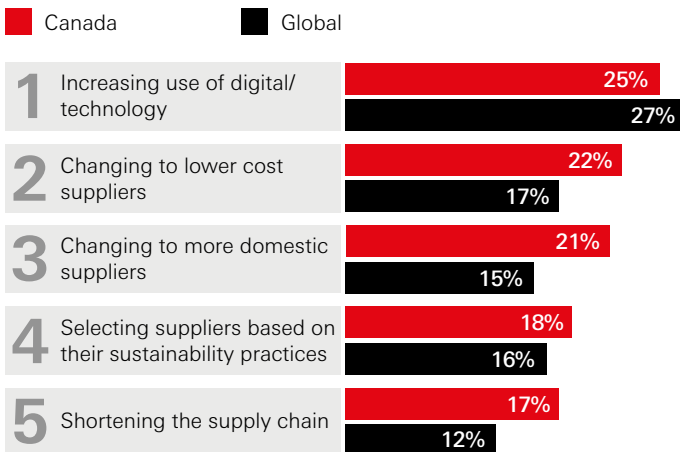


Source: TNS Kantar

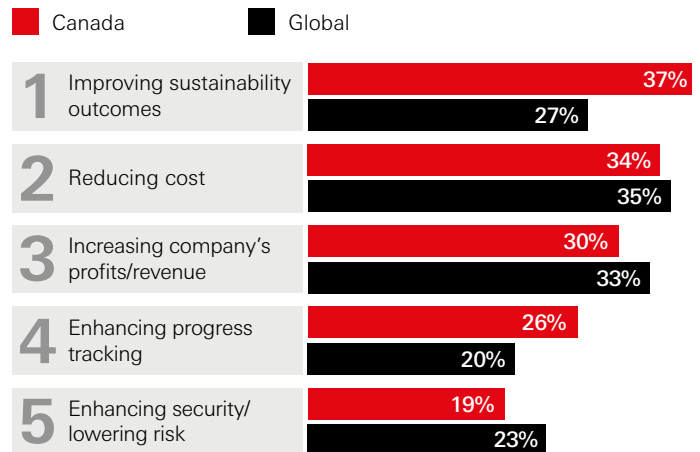
Technology also topped the list of planned changes for service supply chains (Fig. 6), although a relatively higher proportion of firms had the goal of improved sustainability in mind (37%) than had the goal of reduced costs (34%). While changing to lower cost suppliers was also a common change cited, localizing service supply chains toward more domestic suppliers was also a common planned change. Around two-thirds of Canadian businesses in the services sector (64%) characterized an ethical and environmentally sustainable focus as being important to their organization.

Fig. 6: Supply chain changes for services

Top 5 planned supply chain changes in the next 3 years



Top 5 objectives behind the changes



Source: TNS Kantar

About HSBC Navigator Canada

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 8,650 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 34 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 200 businesses surveyed in Canada. Global results are based on an average of the 34 markets (using weights based on each market's share of world trade). The survey was conducted over a six-week period from July to September 2018.

Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

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