Navigating Canada’s Post-Pandemic Economy

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Coface

Economic Outlook
Pandemic Uncertainty Still Hovers Over Global Economic Recovery

Share of the Population Vaccinated Against COVID-19 in Selected Countries (%, as of September 10, 2021)

Sources: Our World in Data, Refinitiv Datastream, Coface
The U.S. is Leading the Recovery, Supported by Stimulus

G7 countries
Real GDP, Index, Q4 ‘19=100

United States
Germany
France
United Kingdom
Italy
Canada
Japan
Q4 ‘19 level = 100

Sources: National sources, Refinitiv Datastream, Coface

U.S.: Real Personal Consumption Expenditures Index, February 2020 = 100

Sources: U.S. Bureau of Economic Analysis, Refinitiv Datastream, Coface
Supply Chain Disruptions and Inflation are Main Headwinds to Recovery

U.S.: Average Lead Times For Production Materials
Number of Days

Sources: Institute for Supply Management, Refinitiv Datastream, Coface

U.S.: Number of Unemployed Per Job Opening

Source: Bureau of Labor Statistics, FRED, Coface
Shipping Rates and Commodities Prices are Surging Amid Global Recovery

World Bank Commodity Price Indices
Based on Nominal U.S. Dollar Prices, 2010 = 100

Source: World Bank, Coface

HARPEX Shipping Index
Price Index

Source: Harper Petersen & Co, Refinitiv Datastream, Coface
Navigating Canada’s Post-Pandemic Economy

Automotive Sector, Most Impacted by Supply Chain Disruptions

**Global: Estimated Light Vehicle Production Losses Associated With Semiconductor Shortages**

- **Europe**
- **North America**
- **Greater China**
- **Japan/Korea**
- **Middle East/Africa**
- **South America**
- **South Asia**

**United States: Passenger Vehicle Sales, Seasonally Adjusted Annual Rate, Millions of Units**

- Apr. '20: 8.6
- Aug. '21: 13.1
- Apr. '21: 18.3

Source: JP Morgan, IHS Markit, Coface
Coface Sector Risk Assessments – Q2 2021

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<th>BUSINESS DEFAULT RISK</th>
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GDP Growth Will Slow, But Recovery Will Continue in 2022

World GDP growth (Coface's forecast, %)

Sources: IMF, National authorities, Datastream, Coface

Coface’s GDP growth forecasts (%)

China 2022 (f) 6.1% 7.5%
Russia 2021 (f) -3.1% 3.4%
Brazil 2020 -4.1% 4.8%
South Africa 2020 -4.1% 4.8%
Mexico 2020 -7.0% 5.3%
India 2020 -8.5% 8.0%
Germany 2020 -8.0% 8.0%
France 2020 -8.2% 5.4%
Italy 2020 -4.9% 4.9%
Spain 2020 -8.9% 4.5%
United Kingdom 2020 -11.0% 6.1%
United States 2020 -9.9% 4.5%
Japan 2020 -9.9% 6.5%
Canada 2020 -5.4% 6.2%

Sources: IMF, National authorities, Datastream, Coface
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Emerging Markets – Rising Interest Rates and Political Risks on Watch in 2022

Emerging Markets
Coface Social Risk Index

Selected Emerging Markets
Central Banks’ Benchmark Interest Rate

Source: Coface Social Risk Index
Source: Central Banks, Datastream
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• Market Forces
  – Strong demand from consumers and businesses worldwide.

• Supply Chain Issues
  – Shipping containers are scarce (delays of 3-4 weeks+).
  – Cost to ship product up 400% ($10K+ for 40ft shipping container from China).
  – Order stock for 6 months vs. 3 months (just in case vs. just in time).
  – Multi-sourcing and looking for alternative suppliers (China + 1).
  – Sales are up and profits are down.

• Supply Chain Finance Program – Supplier Payment Program and Accounts Receivable Financing

• Trade Finance Program
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Access to Working Capital

• Leveraging advance rates against accounts receivables in order to have access to more funding.

• Loan programs to assist with working capital needs by way of:
  – Classic Export Guarantee Program (EGP) provided by Export Development Canada (EDC).
  – Trade Expansion Lending Program (TELP) provided in conjunction with EDC.
  – Business Credit Availability Program (BCAP).
  – Highly Affected Sections Credit Availability Program (HASCAP) provided in partnership with Business Development Canada (BDC).
We Are a Team of Experts That Pride Ourselves on Being Leaders in Our Field of Expertise

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Post-COVID Trade Credit Risks and Solutions
Most companies insure against every unpredictable event with high potential for a loss, but have no insurance for excessive credit write-offs.

Trade Credit Risks Post-Covid?

Liquidity Concerns
- Covid losses weakened balance sheets
- Elimination of Covid Subsidies
- Higher Inflation and Interest Rates
- Growth Requires Working Capital

Need for Much Higher Credit Limits
- Supply Chain Bottlenecks and Volatile Commodity Prices

Zombie Company Defaults
- Delayed by Low Interest Rates and Covid Subsidies
- Slow or Fragile Recovery Internationally

Fragile International Recovery

Uncertain Customer Risk
- Limited Financial Disclosure of Private Companies
- Reliance on Payment Experience
Trade Credit Insurance Solution – Case Study

**Commodity Distributor:** High volume, low 3% to 5% margin business; Experiencing strong growth of 10% - 15% p.a.; Buyers are private companies with minimal financial disclosure; Rely on the client’s payment experience to establish limits and mitigate risk.

**Increased Bank Liquidity** was primary driver to establish program.
- Increased bank availability by $3.0 million to 90% from 75% of receivables.
- Helped fund working capital needed to grow.
- Strengthened policyholder balance sheet and credit worthiness.
- Improved return on equity.

**Support Credit Management**
- Obtained financials and/or banking information on 40 of 82 buyers.
- Analyzed financials and recommended coverage to underwriter.
- Established limits to maximize sales or identified higher risk uninsurable clients.

**Coverage For Unexpected Customer Default**
- First two years had $3.2 million of bad debts from 9 customer defaults.
- If uninsured, the losses could have bankrupted the policyholder.

**Cost of Credit Insurance** usually comes in between 0.1% to 0.3% of sales. **Net Cost often offset** by gross margin from increased sales and operating efficiencies. Application process gives **insight on top 10 buyers** & requires a short application.
For In-Depth Current Issues See the Recent NFP Insights Series

Visit: [Trade Credit and Political Risk Insurance @NFP](#)

- **Trade Credit:** Evolving risks in the post-pandemic economy?
- **Trade Credit:** International trade in the Post-pandemic Economy?
- **Trade Credit:** Securing buyer coverage in the Post-pandemic Economy?
- **Receivables and the Bottom Line:** Are boardrooms prepared for higher losses?
More on How NFP Can Help With Post-Covid Trade Credit Risks and Solutions

Speak with our experts in confidence:
• Tom and the six-person trade credit team have 100+ years of specialist trade credit experience.
• NFP is a leader with large portfolio of domestic and international clients benefiting from our services.
• Arrange a custom solution with a structure and ongoing service to ensure the payment of claims.
• Access market intelligence and over 18 markets in Canada and the USA for a competitively priced program.
• Maximize coverage with the support of NFP securing confidential buyer financial information.

Visit our NFP webpages and view our Insights series on current trade credit issues – Trade Credit and Political Risk Insurance @NFP
Thank You

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