-- Speaker 0   00:00:03   Welcome to the trade security podcast. Every year, a trade is releases a payment practices, barometer survey, which so shows the international behaviors for payment practices in countries around the world. This year, his findings released in early July show the impact thus far of the COVID-19 pandemic, though. One's going to take some time to determine the full impact of the pandemic on the Canadian economy. The surveys initial findings show Canadian GDP contracting in the first half of 2020, and a rise in the value of B2B sales made on credit compared to last year. However, the majority of businesses in the country are expecting sales and profits to grow. I'm Janet Eastman. And on this episode of the trade security podcast, we look at the results for Canada, with my guests, Chris short who's country manager for a tradie as Canada, Chris. Great to have you back on the show. Thanks for joining us

Speaker 1   00:00:55   And thanks for having me once again, Janet.

Speaker 0   00:00:58   My pleasure. So, uh, it's been quite a 2020, your overall thoughts on the current climate for business in Canada.

Speaker 1   00:01:07   Uh, well, it's, it's funny when you talked about the payment practices barometer, which was, uh, in fact early July, uh, I would say the world has changed yet again. Uh, so this is a good opportunity to update, uh, thoughts on the economy. Um, in quarter two, uh, the Canadian economy had a record contraction of about 38% on an annualized basis as compared to 2019. Um, as you will recall, when this initially started in March, the entire world seemed to just stop on a dime, um, which created all kinds of pressure and all kinds of really unprecedented activity and statistics and whatever you want to say, everything was bad. Um, 38% contraction has never, ever happened in our life lifetimes. And it was really a kind of reminiscent of the great depression in the, in the thirties. Um, since that time, uh, may June, July, the economy has kind of come back and, uh, again, not at record levels, but at really strong levels in may close to 5%, June 6%, July 3%.

Speaker 1   00:02:21   Um, so in that time on an annualized basis, we're, we're starting to recover. Uh, we're starting to come back. Um, you've heard, we've heard a lot of discussion about job losses, about economic, uh, support from the government and that continues. And it, it kind of puts a sense of uncertainty as far as what's going to happen going into the fall. Um, I think everybody is concerned that if there's a, a surge in cases in Canada, uh, the economy will slow down once again, I don't know if that's going to, none of us know if that's gonna happen. Um, but we seem to be ahead the curve on the reaction to the virus itself. But anytime you have a very quick recovery, you run the risk of burning out. And, um, I think we're at that point coming into the fall, or that would be the concern.

Speaker 1   00:03:13   Uh, we also need to add well over a million jobs to get back to where we were pre Corona pre COVID. So that is a really a big concern. And, and we've heard about, um, comments on the shape of the recovery. And we had heard initially that people thought it would be what they were calling a V shape recovery, which would be a very quick descent and a very quick recovery. Um, but I saw recently that a notable economist is starting to talk about a case shape recovery. And I had to think about that for a little bit, cause I'd never heard the term, what is a K shape and what it really means is that the fear is, is that parts, well, maybe not the fear of the reality is that the recovery will be inconsistent across industries, that some industries have already begun coming back.

Speaker 1   00:04:06   And in some ways, um, exceeded where they were before. Uh, it is a very telling time, anytime you have economic disruption or anything that changes the norm, people have to change and adapt, and new industries will emerge from this, um, more efficient industries. I think, you know, we're talking on a, on a zoom meeting and zoom is a good example that I think before COVID not many people knew what it was. And now all of a sudden everybody is on one of these types of platforms. So, um, the K recovery, I would say that, uh, one part of the K is going up in one part obviously is going down. Uh, we will see economic fallout. There will be a shakeout and a kind of reordering. I think of the economy as we come --

-- out of this. Um, some industries are going to do very well and some not so much.
Speaker 0 00:05:01 So more B to B sales are being made on credit this year, according to this, this latest report, uh, that's up to 63% from 57% last year, as well as more sales are being made domestically and not to the export market. So what can we surmise from this Canadian businesses lacking confidence in this export market, uh, payment practices or a foreign markets being unable and unwilling to get supplies from Canadian suppliers what's going on here?
Speaker 1 00:05:29 Yeah, I, I would say overall, um, the increase in sales made on credit, uh, is probably just a reaction to the inability to transact buy by cash is part of it. Um, you know, we don't, we're not allowed to use cash very in, in large segments of the economy or we're discouraged by it. So either use a debit card or a credit card from a personal standpoint, I think it's kinda the, uh, when it comes to businesses, you're just not having as much face to face. So it would make sense that terms are changing. Um, I don't know that that will continue. It's kind of hard to tell. Um, maybe it will, maybe it won't. Um, but when it comes to the changing to the domestic market versus, uh, international for, for purchases, I think a lot of that is just not being able to be a product across the border restrictions are way up. I think people are concerned with products coming from off shore. Uh, and I think as part of the, the shutdown or the, the close, well, the, the orderly closing of the border, I think it was natural that there would be more domestic sales being done.
Speaker 0 00:06:44 And this is maybe a crazy question, but this isn't a de-globalization of the economy. Is it like people where this is we've made adjustments? And whether things go back to what we considered the normal, um, you know, people are going to go back and, and those export markets are going to open up again as the borders open up. That's your expected. Yeah,
Speaker 1 00:07:08 Absolutely. I think that, uh, in a true global economy, um, the purchases will come from the markets that are most successful and most efficient in providing that. So, um, for an example, from a fruit and vegetables in Canada, um, you can do that. You can buy fruit from Canada in July, but you can't in December. So, uh, things like that, it will get back to somewhat of the old, uh, way of doing business and the, and the new normal, I guess we'll, we'll certainly change some of that. Um, I think that, um, you know, imports from certain parts of the world may not recover as quickly because there are concerns about whatever, uh, you name it. Uh, and I think those have all come to the fore. I do think the closing of the border with the U S has changed patterns of how you buy and where you buy from a little bit, and that, you know, it will settle in at a new normal that we don't really know what that will look like, but I do expect that it will get back closer to the old norm than it is today.
Speaker 0 00:08:20 It's interesting. You talk about fruits and vegetables and things. I was at the grocery store yesterday and, um, I actually was astounded. I walked in there and there were all these signs for Ontario produce and at reasonably good prices, right. We're in the past, um, this one store had just, you know, they'd had good produce, but it wasn't necessarily from Ontario because they were always going for the better price. And there was just tons of Ontario projects with these big signs. So yeah, that's an indication of, of what is happening out there right now. And it is great to see that Ontario produce. Yeah. So it could be good for business, um, for the time being when those that produce is available.
Speaker 1 00:09:06 Yeah. I think that, and other, uh, products that you hear, uh, from time to time backlash about where products originate from, and it is a decision that has to be made by the consumer, is, are you willing to spend more, uh, and if you are great, but if not, we're going back to where we were before. And when it comes to the products being purchased in a grocery store, you can buy interior fruit in the summer, like I said, but what happens when we get into October, November, you're still buying from Chile or Mexico or the U S or where have you, whereas fresh. So, um, it'll be interesting as we'd get into next year when hopefully we come out the other side of this, whe --

-- ther we continue to support, uh, you know, Ontario fruit growers, for example, um, and spend the extra little bit, and I would agree they tend to be more expensive, but, uh, if more people buy and there's more production, then maybe it comes back. I don't know. Yeah.

Speaker 0 00:10:05 Yeah. So there's also been a bit of a tightening of payment terms by Canadian businesses hasn't there. So, um, I guess this is just, just the impact of the uncertainty, right?

Speaker 1 00:10:16 Uh, yeah, I would say, uh, partly, um, when you say that more sales are being done on credit, um, I would assume, and I don't know if I'm going to be a hundred percent accurate on this, is that the new entrance that are being sold or the people that are now being sold on credit would tend to be less credit worthy than the people that then than the stock of companies before. Right. All good companies can demand credit and get it. As you start moving down the food chain, it gets a little bit more difficult and that would, uh, reflect people tightening credit terms without a doubt, um, you know, giving some terms, but keeping a pretty tight reign on it. Um, also, uh, there is kind of a counter pressure because people are having difficulty with cashflow. So they're asking for longer terms. So it's really kind of a, uh, a reshift, a little bit in this, um, good companies again, can demand it and get it. Um, the poor companies are, so you're probably seeing this moving in two directions, tightening of credit terms for people that are not as credit worthy while lengthening credit terms for people that are

Speaker 0 00:11:25 Okay. So there's been an 86% increase in the value of past due payments since the previous year. So that's something from the study. Can you break that down for us?

Speaker 1 00:11:36 Uh, well that one, uh, when I said earlier on that the statistics from July, uh, have kind of taken a little bit of a turn, I would say that, uh, if you break the COVID world reality into it's really in kind of three buckets, the first bucket was what happened, uh, as we were getting to mid-March when everything shut down. And until that point, I think we had a concern that the economy may be slowing. Um, but it wasn't certainly not what it would have became. Um, but so, so when you got to March, I think it was March 16th when the world stopped. Um, you had a very high level of, of amounts owing to companies. So receivables were, were at the normal level. Um, I think there was certainly a slow down in payments because again, the world stopped and, uh, people were worried about making payroll, making rent, keeping the lights on.

Speaker 1 00:12:37 So they naturally slowed down on payments. Um, and in the case of my company and others in my industry, they were kind of, we were allowing extended terms because people had to reset and they had to figure out how to survive in the new environment. So that was what you would have seen getting into the June, July kind of data gathering for the payment practices barometer. There was a very, very high increase in nonpayment. We got into the second phase where people were well, like, like I said, first phase was kind of gung-ho second phase was figuring out how to survive. And I would say beginning in June, July, we started to see the recovery begin where people were, went from selling at a hundred percent to people selling it 30% of the normal, and then they were coming back somewhere in between. I would think at that point, uh, if we did this practice, uh, payment practices barometer again, and just took second quarter into the end of August, I think those numbers would have gone down. So the 86% wasn't, um, unexpected in, in our world. And that doesn't mean that 86% of clients were in financial difficulty. It just meant they were taking advantage of being able to not pay, um, to survive. And once they figure it out, how to do that, I think things are starting to come back to normal.

Speaker 0 00:14:08 Yeah. Yeah. Okay. So could there also be an impact due to the time it took people to get their work processes in order for working from home, et cetera, you know, it's like all of a sudden you're not allowed to go to the office. You maybe don't have the stuff you need. It's like, how do I actually even operate my role in the company because I don't have my stuff?

Speaker 1 00:14:33 Uh, yes, absolutely. Absolutely. And, and I can talk from personal experience --

-- and, and, you know, radiuses is an insurance company. We don't make things, we don't make widgets. We don't make cars. We're, uh, uh, really already pretty much paperless and in the cloud. Right. So we were able to, uh, fairly quickly get back to back up to speed by all working from home. And we've been working from home for almost six months now. Um, but it took a while to get there and being an international company. Uh, we had a very simple problem when this all started. And that was how do you get 4,000 people that are spread across 50 countries and virtually every time zone, pretty much in the world. Um, how do you get them on the system at the same time? So we, for example, started working in shifts where, uh, you know, North America was after Europe.
Speaker 1 00:15:33 So Europe had to kind of shut down before we were able to access, just because we couldn't get on the system. There wasn't enough capacity to do it, but it was pretty remarkable within, I would say, two to three weeks, all those problems went away and then it became not survival, but how do we figure out how to really do this with an eye on how do we support customers? How do we support our employees who were going through mentally very difficult times, or it was, it was scary. So it took us, I would say a month, uh, overall to get back up to speed 99, 95 to 99% of what we were able to do. And we've continued that over the last bit of time. So absolutely. Um, you know, when you're not in the office, you can't cut checks, you can't have the proper people together to approve things. So it did, it did slow things down things down without a doubt. And, um, but I think, uh, it's remarkable, as I said before, when you have a crisis time, this is a really good opportunity for people to figure out how to do things differently. And I think we've all done that. So it's a kind of exciting times. It's just scary, but kind of exciting.

Speaker 0 00:16:48 Yeah. And it's kind of shocking just how resilient we are. It's like, okay, when you got to do something, you just kind of figure out how to get it done and you do it. So, yeah. So overall the majority of Canadian businesses are expecting payment practices to decline further. Um, this is based on what the survey had indicated when it came out in early July. So there is, there was in that survey, um, an indication of a significant optimism for sales and profits growth. So, so what does this mean to us?
Speaker 1 00:17:19 Uh, well, I would say, uh, certainly, uh, efficient companies will come out of this better, um, then weaker companies, because a lot of the weaker companies just won't reopen. Um, they didn't have the wherewithal to survive this so capacity will move to better companies. And that means that I think sales will come back with a different mix, I guess, um, than perhaps it was before. Uh, I, this is a very, very odd, uh, recession. Uh, when we we've looked back, um, to prior recessions, you know, we had, uh, the nine 11 in 2001 that kind of continued a fairly deep recession and made it different. Uh, we've had LBO problems in, in the nineties when, uh, that led to a recession. And then of course we had the 2007 and eight and nine, uh, recession that was, uh, very much bank driven. Um, what's really happened.
Speaker 1 00:18:21 I think that was, is unknown. Um, there was nothing that caused this. It wasn't a fundamental, uh, weakness in the economy that was causing this to happen. Um, it likely would have come, uh, sometime in 2020, 21, something like that as the normal flow of downturns and the normal ebb and flow of the economy, but this really, really put the hammer down very quickly. So I think the question is, does this replace what would have happened or will that happen in the next several years? Anyway, I kind of think it's the first, but who knows, we've never been through a pandemic like this at least in the last a hundred years. So, uh, even though there's optimism for growth, I think that, uh, any time, as I said before, anytime you have a fast recovery, you run the risk of burning out. And I think that's the concern as we get into the fall, as people start to, uh, to kind of come back to work, go back to school, start to mingle with people more, uh, is this going to be a good or bad thing? And that's, that's really an unknown.
Speaker 0 00:19:28 Okay. Can you give a quick overview of what's actually happening, uh, with Canada's North American t --

-- rading partners, like what's happening down in the U S and down in Mexico?
Speaker 1 00:19:37 Well, in, in the U S I think that they're at a very different part of the curve, uh, in Mexico as well, uh, with the COVID, uh, reality than Canada, we're talking, um, you know, a hundred new cases a day in the U S and Mexico it's it's way higher. Um, I, I think that Canada has taken it, um, has been more conservative or depending how you look at it more conservative or aggressive, but has certainly reacted differently to the risk. And I think we're seeing the benefit of that, um, in the number of cases of, uh, so the recovery of the us and Mexico may take a different shape than Canada. Uh, again, it's a little bit of an unknown, but there's an interesting, um, thing that, uh, is done a study called the back to normal index, and they compared the U S to March when it was the base of a hundred, it dropped to 59% in April.
Speaker 1 00:20:34 Meaning that business activity was 59% of normal, um, kind of a perception, but it was, it was pretty low. And now it's back to about 79%. So they're getting there, they're getting back. Um, it, you know, the, as the us economy goes, it does impact Canada pretty, pretty significantly. So I do think that, um, uh, the return normal in the U S is really important, uh, when I'd said the contraction in Canada was 38% in quarter two, uh, in the U S it was 31%. So still really, really significant, uh, in a reduction in GDP. Um, hopefully, uh, I think that, um, certainly the political situation and the election have, uh, kind of muddied the waters in this, hopefully as that gets resolved. And, uh, the case has come under control. That'll be a big driver of the return to normal. Uh, Mexico is different from the U S and Canada fundamentally on the economic side, but also on the level of support that the government was able to give.
Speaker 1 00:21:43 There were really no government incentives, uh, like in Canada, in the U S um, there's a lot of money being spent in, in the Northern part of the hemisphere, um, as opposed to Mexico, which was basically, you have to figure it out. Uh, their reduction, uh, was 17% in Kutu, it's coming off a lower per capita basis. So that's really, really significant in Mexico. Um, I would say the three markets that would be perhaps the, the most unknown, um, and because I think we've seen the massive government stimulus, uh, results throughout the world. We haven't really seen an economy that size, uh, comparable to that economy where, um, where the government has not provided the initiative or the incentive. Um, so it'll be interesting, but, uh, hopefully again, Mexico very often follows the U S and Canada to a smaller extent, but yeah, I think, um, uh, I think, uh, the Mexican economy, I think a big thing there is, is controlling the spread and they are starting to reopen, and we'll see if there's a surge and that will certainly have a, uh, an impact on the economy for the happens.
Speaker 0 00:22:53 And they also have significant tourism that runs their economy. If, if you know, my impression is, is true too. So if people can't get down there for their summer month or their winter months, that will also impact their economy. Yeah, absolutely. We're lucky to be in Canada.
Speaker 1 00:23:09 I think we are. Yes.
Speaker 0 00:23:11 So, Chris, one final question for you, what are you really going to be watching over the coming months? Like you've given us a pretty good idea, um, of how things have shaped since that survey came out in July. Uh, but what are your watching in the coming months?
Speaker 1 00:23:28 Oh, everything. Um, I will say that, um, you know, from when I said that we kind of were going through three, uh, kind of stages of this, and we're in the, hopefully the growth emergence stage, um, I would say it's the same thing with the amount information of information that is coming across my desk. And I'm assuming virtually everybody else in a management position, the amount of information has expanded, um, and, uh, early on the amount of information and their requests for information, because everybody was trying to figure out where we were, was really mind boggling and then it kind of settled into, okay, we have to figure out how to use that and move forward. Um, and I would say that we're better, certainly better informed now than we've ever been Ben, uh, as, as a management group of Canadian, you kno --

-- w, uh, business managers, um, it's what we do with it.
Speaker 1 00:24:26 Cause it can get a little bit mind boggling and you have a lot of information that is coming at you and you have to figure out how to sit through it. Um, but I would say really what we're looking at, um, from our standpoint, um, it's like a lot of people, uh, a low base, like 1% growth of GDP. Everybody can react to that, right? Better companies, you're going, gonna react better. Uh it's when you go from, you know, say 4% growth, the one, or if we've 3% growth to 1% can be more devastating than going from one to zero because you're assuming things that aren't coming true. So we're trying to forecast, uh, in our minds, the overall economic impact, and if it's steady, it's good. And if it's choppy there's opportunities, but there's also a lot of downside. Um, so we're looking at, uh, trying to figure out are people going to be able to pay their bills?
Speaker 1 00:25:24 Um, are people insolvencies are certainly going to climb? Um, the concern that we have is that when people went out, when business stopped in March, there were a lot of companies that just kind of closed their doors and are hoping to reopen, but those companies are reopening in a weaker state. So we're concerned that the weaker companies will reopen and then close again pretty quickly. So we do see as economic activity comes back, that there will be people that will not be able to, to capitalize on the improving economy. So we're trying to figure that that's really what we're looking at is, um, the, the initial level of business failures or continuing, uh, the 86% where I said, I think that number dropped that could go back up very quickly, um, as we get into the recovery stage. Other than that, I think we're certainly looking daily at the number of new cases, which, you know, fortunately in Canada have been pretty low, but that if there isn't a major spike, I don't know what we will do cause I don't think we can shut the economy again.
Speaker 1 00:26:31 I don't think there would be a lot of support for it, so we have to learn to live with it. And, um, that's certainly a challenge and I know for myself, uh, locally, the big challenge is when the kids go back to school, when do go back to the office, uh, when do you know, when do restaurants really open and as we get into colder weather, you can't sit outside. So how do you, how do you have people in a crowded restaurant? Again? I don't know. So there's a lot of unknowns that hopefully we'll find out soon. Um, but that's just kind of a flavor of what we're looking at.
Speaker 0 00:27:03 Any key takeaways for business owners.
Speaker 1 00:27:07 Uh, Oh, I try to stay as informed as you can. Um, knowing that, uh, the Canadian, um, community has pulled together as we would expect. Uh, we're not seeing the kind of, uh, like, uh, I don't remember the last time I walked into a store and didn't see everybody wearing a mask, no one wants to, but I think everybody assumes that that's a good thing. So I would say keep an eye on that, on the mood of, of the country, which is always a big, big factor in business, right? The, uh, the confidence that we're going to be able to come out of this. And I think, um, I think people are more confident today than they were in April. I think April was really, really tough, right? Because we didn't know what was going to happen. Um, I think that we've weathered the storm. I think, uh, there's still risks. There's still bumps in the road that will come. So just stay informed and, uh, keep your, uh, your eye on what you want to do and stay focused.

Speaker 0 00:28:07 Chris really appreciate your insights. It's always great to get your perspective. So thank you very much for being on the trade securely podcast. It's my pleasure. Chris shard is country manager for a trade. He is in Canada and he joined me from their offices and or his probably home office on Katherine and in Toronto somewhere. So that's our show. This month, you can follow the receivables insurance association of Canada on Twitter and LinkedIn, and you can find links to our social channels that trade securely taught CA and brought iTunes, Google play, and Spotify. So you can listen by your favorite podcast app until next time. I'm Janet Eastman. Thanks for listening to the trade securely podcast.
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