

Economics

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Canadian trade deficit narrowed slightly in December

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Merchandise trade, in million (\$)	22:Q2 ¹	22:Q3 ¹	22:Q4 ¹	Oct	Nov	Dec
Merch. trade balance—Annual rate	37,903	9,113	482	5,984	-2,624	-1,914
• Monthly rate	-	-	-	499	-219	-160

Merchandise trade (period/period % chg)	22:Q2 ²	22:Q3 ¹	22:Q4 ¹	Oct	Nov	Dec
Exports	50.2	-10.1	-9.5	0.0	-3.6	-1.2
Imports	48.9	3.9	-5.5	0.6	-2.5	-1.3
Export volumes (chain Fisher)	12.2	5.1	-1.9	0.2	-2.1	0.7
Import volumes (chain Fisher)	26.8	-3.2	-11.7	-0.9	-1.8	-1.7

Source: Statistics Canada

- Canada's goods trade deficit narrowed to \$0.16bn in December, with a steep drop in consumer goods imports suggesting that domestic demand is softening. Exports also dropped off in 7 of the 11 product sections tracked by Statistics Canada, but the overall drop was magnified by lower oil prices. In volume terms, exports rose by 0.7%, and imports fell by 1.7%. This came amidst a revised November deficit (now \$0.22bn vs. \$0.04bn prior), on lower exports than previously reported. The increase in export volumes in December was helped by a surge in auto parts, as supply chain issues faded.
- In December, exports and imports both dropped off by just over 1% in nominal terms. On the export side, excluding energy product shipments that were hindered by a pipeline closure and lower prices, exports would have increased by 0.8%. Oil prices averaged higher in January, which should bolster shipments ahead. Farm and intermediate food product shipments fell sharply, following three strong months of production. An impressive 21% gain in auto shipments left exports in that category at the highest level seen since September of 2020, as the ongoing fading of supply chain issues supported activity.
- On the import side, while lower purchases of Covid-related medications were a contributing factor to the decline, imports of other consumer goods were still down by 3.4% when excluding the pharmaceutical category. Declining imports were seen in 7 of 11 product sections tracked by Statistics Canada, leaving imports at the lowest level seen since March 2022. The broad-based weakness includes heightened caution amongst consumers that are adjusting to higher interest rates. In contrast to the export side, inbound auto shipments shifted into reverse following two strong months.
- Adding services back into the mix showed a further narrowing of the deficit, as service exports were up by 1.1% and service imports were down by 0.6%. That resulted in the overall goods and services trade balance narrowing to \$1.3bn in December, from \$1.6bn in November.

¹ Annualized.

² Annualized.

Implications & actions

Re: Economic forecast — Over Q4, export volumes fell by 1.9% annualized, while import volumes dropped off by 11.7% annualized, reflecting a softening in both global and domestic demand for goods, and supply chain disruptions at the start of the quarter that held back outbound shipments. Looking ahead, export growth could continue as supply chain issues fade, while import growth could be slower as domestic demand weakens.

Re: Markets — There was little market reaction to this data.

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