

Economics

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Canadian trade (November); Dipping a toe into deficit waters

by **Andrew Grantham** andrew.grantham@cibc.com

Merchandise trade, in million (\$)	22:Q1 ¹	22:Q2 ¹	22:Q3 ¹	Sep	Oct	Nov
Merch. trade balance—Annual rate	33,454	38,489	7,249	6,696	1,561	-492
• Monthly rate	-	-	-	558	130	-41

Merchandise trade (period/period % chg)	22:Q1 ²	22:Q2 ¹	22:Q3 ¹	Sep	Oct	Nov
Exports	30.0	51.8	-10.8	1.4	-0.2	-2.3
Imports	14.3	50.8	4.4	-0.1	0.5	-2.1
Export volumes (chain Fisher)	-7.8	11.9	4.7	1.2	0.1	-1.3
Import volumes (chain Fisher)	2.0	28.5	-2.6	-1.2	-1.0	-1.1

Source: Statistics Canada

- Canada's goods trade balance dipped a toe into deficit waters in November, with the \$0.04bn shortfall coming against consensus expectations for a modest surplus of \$0.5bn. However, with exports and imports both declining by similar magnitudes over the month, the surprise deficit stemmed mainly from a downward revision to energy exports in the prior month which dramatically narrowed the surplus for October (now \$0.13bn relative to \$1.21bn first reported). The weakness in import and export volumes in November could be a signpost of weakening domestic and global demand, as well as the continuation of supply disruptions in some areas.
- In November, exports and imports both declined by a little over 2% in nominal terms. On the export side, weakness in energy prices played a part. However, even in inflation-adjusted terms, exports were still down by 1.3% compared to the prior month, including declines in consumer goods and autos. In real terms, auto exports were the weakest since September 2021, with Statistics Canada noting a particularly sharp decline in engines & parts exports which coincided with weaker production in the US. The sharp decline in consumer goods exports largely reflected a normalisation in pharmaceutical products which had been bolstered in the prior month by large shipments of antibiotics and other medication to the US. A sizeable reduction in exports of copper ores and concentrates, to their lowest since April 2011, stemmed from shipping delays and therefore could rebound in the months ahead.
- Partly offsetting the declines seen in 8 of the 11 sectors covered by Statistics Canada, exports of metal & non-metallic mineral products rose by nearly 12%. Exports of agricultural products also remained strong, thanks to the better crop produced last year and still-strong global demand.
- On the import side, trade was 2.1% lower in nominal terms and 1.1% down in inflation-adjusted terms. Consumer goods saw a steep 5.7% drop. While this partly reflected a decline in COVID-19 vaccination shipments, Statistics Canada also noted a sharp drop in imports of toys and games. Imports in that area had been strong throughout most of 2022, and the decline likely reflects a weakening of domestic demand for more discretionary goods purchases.

¹ Annualized.

² Annualized.

- The downward revision to the prior months' trade balance mainly reflected weaker exports, and in particular energy exports.
- While the goods trade balance deteriorated slightly, the deficit in services narrowed to more than offset that move, with services exports rising during the month but imports declining. As a result, the overall trade deficit narrowed modestly to -\$1.5bn in November, from -\$1.9bn in the prior month.

Implications & actions

Re: Economic forecast — Weakness in exports and imports during November appear to largely reflect lower energy prices and monthly volatility within areas such as pharmaceutical products. However, there are some signposts of weakening global and domestic demand as well, particularly the decline in imports of toys and games suggesting that more discretionary goods spending is weakening in line with the rise in interest rates.

Re: Markets — The Canadian dollar was weakening prior to the trade data release, due largely to US\$ strength following a strong ADP employment report 15 minutes prior, and this modest weakening continued following the Canadian trade data release.

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