Economics

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Canadian trade (Dec): Ending the year on a high note

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Merchandise trade, in million ($)	Oct	Nov	**Dec**
Merch. trade balance—Annual rate	-4,801	-11,836	8,498
• Monthly rate	-400	-986	708

Merchandise trade (period/period % chg)	Oct	Nov	**Dec**
Exports	1.8	1.9	4.9
Imports	0.5	2.8	2.3
Export volumes (chain Fisher)	0.6	0.8	2.4
Import volumes (chain Fisher)	0.9	1.5	0.6

Source: Statistics Canada

- Canadian exports ended the year on a high note, with the trade balance moving into a surplus position, but the increase in demand appeared to reflect some tariff front-running, and more turbulent conditions lie ahead for exporters. Canada's international trade balance moved into a surplus of $0.71bn in December, which was a little lower than the $1.0bn surplus expected by the consensus. That reflected a 5% increase in exports against a 2% rise in imports, with the continued depreciation of the Canadian dollar contributing to higher trade activity in C$ terms. For the fourth quarter overall, net exports supported growth slightly, with real export volumes up by 12% annualized and import volumes increasing by 9% annualized.
- Exports of energy products led the increases in outbound shipments to end the year, but 8 of 11 export categories showed increases. The operation of the Trans Mountain pipeline that began in the first half of the year helped to boost energy shipment volumes, which were sitting 2.5% above year-ago levels in December. Outbound shipments of metal and non-metallic mineral products rose to a record high to end the year, and auto shipments were also up strongly. Exports to the US rose by 5% m/m, and likely reflected some front-running of potential tariffs, combined with higher oil prices. For 2024 as a whole, Canada's trade surplus with the US narrowed to $102.3bn from $108.3bn in 2023, although the surplus is entirely accounted for by energy products.
- On the import side, a surge in consumer goods products drove the increase, but the gain mostly reflected prices as volumes were up by only 0.6%. For the quarter as a whole, inbound shipment volumes of industrial machinery and equipment contracted at a 6% annualized pace, a negative indicator of business investment, while consumer goods volumes surged by 13% annualized in a sign that lower interest rates are starting to work to boost demand.
- The import data for the prior month was subject to notable revisions due to data collection delays, and showed higher receipts than previously reported, which left the November trade deficit wider at $0.99bn, relative to the $0.32bn shortfall that was initially reported. The trade in services deficit narrowed in December as imports dropped off and exports rose, and the overall trade balance with the world moved to a surplus of $0.64bn from a deficit of $1.4bn in the prior month.

Implications & actions

Re: Economic forecast — While tariffs on Canada are now on hold for thirty days, the uncertainty will likely continue to result in US importers front-running potential tariffs in the near term. The uncertainty is clearly a negative for business investment in Canada, and supports our call for further Bank of Canada cuts as the weakness is occurring at a time when the economy is still operating with slack.

Re: Markets — There was no material market reaction to the data.

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