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Canadian trade swings back into deficit territory

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Merchandise trade, in million ($)	23:Q2[1]	23Q3[1]	23:Q4[1]	Oct	Nov	**Dec**
Merch. trade balance—Annual rate	-8,635	707	4,520	31,680	12,734	-3,738
• Monthly rate	-	-	-	2,640	1,061	-312

Merchandise trade (period/period % chg)	23:Q2[2]	23:Q3[1]	23:Q4[1]	Oct	Nov	**Dec**
Exports	-13.3	11.6	6.7	0.3	-1.0	-1.9
Imports	1.6	-3.7	0.6	-2.6	1.4	0.2
Export volumes (chain Fisher)	1.4	-1.8	4.2	0.5	-0.5	0.2
Import volumes (chain Fisher)	5.6	-1.8	-1.8	-3.5	1.7	0.8

Source: Statistics Canada

- Canada's international goods trade balance swung into a deficit in December, for the first time since July, with the $312mn deficit following a surplus of $1.1bn in November (previously reported at $1.6bn). That contrasted with the consensus expectation for a surplus of $1.0bn, and reflected a 1.9% decrease in exports and a 0.2% increase in imports. The drop in exports included declines in 7 of 11 product sections, but largely reflected lower energy prices, with export volumes up by a modest 0.2% in chain Fisher terms, while import volumes were up by 0.8%. Net exports were a growth contributor over the fourth quarter overall, owing to higher energy export volumes, but we don't expect net trade to remain a driver of growth in early 2024 given deteriorating foreign demand.
- An 8% drop off in auto shipments was the largest contributor to the fall in nominal exports, as production of some car models is being wound down at Canadian plants, but is expected to be replaced by the production of new models and EVs in the future. That coincided with a drop in exports to the US, despite continued upside surprises in growth there, marking the third monthly drop in US-bound shipments a row. Exports to countries outside of the US were up by 3%.
- The modest increase in imports masked a 9% jump in consumer goods products, as imports would have been down by 2% excluding that category, with 8 of 11 product sections dropping off. That captured a 28% increase in pharmaceutical products, but discretionary categories including clothing, footwear/accessories, and miscellaneous goods also posted respectable increases. That leaves consumer goods imports 7% above year-ago levels, but given sluggish domestic demand, we don't expect inbound shipments of discretionary consumer products to continue at that pace, especially given how elevated the inventory-to-sales ratio already is.
- On the services side, the deficit narrowed slightly to $0.7bn, from $0.9bn in the prior month, owing to an increase in exports that masked a more modest rise in imports. Including services trade, Canada's trade balance with the world moved from a surplus of $0.2bn in November, to a deficit of $1.0bn in December.

[1] Annualized.

[2] Annualized.

- In 2023 as a whole, nominal imports increased by 1.4% and exports decreased by 1.4%, with the rise in imports driven by supply chain normalization in the auto sector, and the drop in exports driven by a retrenchment in energy products, which reflected both supply-side constraints from wildfires and lower oil prices.

Implications & actions

Re: Economic forecast — Net trade will be a positive for what we expect to be modest Q4 GDP growth, with export volumes bouncing back following Q3 supply-side disruptions, and imports dropping off. The latter implies weaker inventory accumulation for the quarter, however. Looking ahead, Canada's trade balance is likely to remain in deficit territory as global demand softens.

Re: Markets — Bond yields were down slightly following the surprise return to a trade deficit.

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