



Economic Flash!

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Canada's Merchandise Trade: Energy and Autos Drive Surplus

	11:Q1*	11:Q2*	11:Q3*	Sep	Oct	Nov
<i>\$Million</i>						
Merch.Trade Balance—Annual Rate	4,932	-14,338	1,113	13,417	-5,850	12,884
—Monthly Rate				1,118	-488	1,074
<i>Per/Per % chg</i>						
Exports	18.9	-2.2	17.9	4.3	-2.0	3.2
Imports	15.3	16.2	2.7	-0.2	2.2	-0.8
Export volumes (chain Fisher)	8.3	-9.1	17.8	1.0	-2.5	1.9
Import volumes (chain Fisher)	10.0	11.9	-1.2	-1.5	1.7	-0.9

* annualized

- With US auto sales speeding up, it's only natural that some of the bounty should trickle across the border. As we had expected, Canada's trade balance registered a surplus in November, hitting \$1.1bn on rising vehicle exports and soaring petroleum prices. That's much better than the street's expectation of a -\$0.5bn deficit. Adding to the good news, the prior month's deficit was shaved by \$400mn to -\$0.49bn. Exports rose by 3.2%, while imports declined by 0.8%. In real terms, exports were up by a slimmer 1.9%, with imports declining by 0.9%. As the surplus reading was not too far from our forecast, today's report suggests that net trade will exert only a slightly weaker drag on Q4 GDP relative to our prior expectations. However, offsetting that, weak readings in machinery and equipment imports suggest that business capital expenditures may not have made a strong recovery in Q4, holding GDP growth in that quarter to around 2.0%.
- Energy exports led the gains, rising by 6.4%. However, that was more of a price story, with export volumes more or less flat from the prior month. Exports of coal and crude petroleum soared at double-digit rates, while natural gas exports plunged by nearly 20% on falling volumes and prices. Continued declines in natural gas prices through the start of 2012 suggest further weakness in that category of exports in subsequent months' reports.
- Exports of autos boomed by 4.9%, due to soaring passenger auto shipments. Much of that likely fed into the latest US auto sales boom, with vehicles sales growing at a near-40% annualized pace in the past six months. Although Canadian auto imports were down by 4.4%, imports of vehicle parts rose by nearly 4%, suggesting that a near-term increase in factory production is underway.
- The 0.8% fall in imports was largely due to autos as well as industrial goods and materials. Machinery and equipment imports declined by 1.1%, now tracking a negative quarterly reading,

following that category's Q3 decline. Given the strong correlation between business capital spending and M&E imports, today's data suggest that the rebound in capital spending in Q4 may not be as strong as previously anticipated.

- Exports to the US increased, and imports fell, boosting the surplus with the states by \$1.1bn to \$4.6bn, the highest reading in nine months. Canada's trade deficit with the rest of the world narrowed by \$3.5bn, helped by soaring exports to the EU. However, that region cannot be relied on as a source of strength for Canada's trade sector going forward, as it faces an economic slowdown driven by fiscal austerity and slowing credit.

Implications & Actions

Re: Economic Forecast — Today's surplus reading wasn't much of a surprise to us, so the implications for our GDP call are limited. Net trade should exert a mild drag on Q4 GDP after providing a sharp lift in the prior quarter. However, the slow pace of machinery imports suggests that businesses may be more cautious in boosting capital expenditures. Beyond a near-term rebound in auto sales, Canada's exports face the headwinds of weaker global demand as well as downward pressure on commodity prices—factors that should see the goods trade balance back in the red in coming quarters.

Re: Markets — The C\$ initially strengthened on the better-than-expected report; however, reports of European downgrades dented risk sentiment, cutting short the loonie's rally.

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