

Imports surge on solid demand

November trade balance:

Latest: -\$2.54 bn (actual), -\$1.13 bn (expected)

Previous: -\$1.55 bn (revised from -\$1.47 bn)

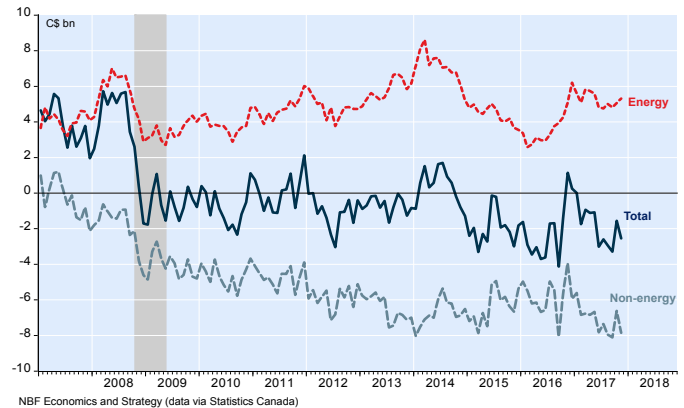
FACTS: Canada's merchandise trade deficit widened from C\$1.55 bn in October to C\$2.54 bn in November (top chart). The deterioration was due to surging imports (+5.8%, the largest increase in over 7 years) expanding at a faster pace than exports (+3.7%). Exports were up in no less than 8 of the 11 categories surveyed including motor vehicles/parts (+14.6%), consumer goods (+7.4%) and electronic and electrical equipment/parts (+5.2%). These gains were more than offset by imports, which were up in 10 of the 11 broad sectors, including aircraft and other transportation equipment/parts (+18.7%), and electronic and electrical equipment/parts (+10.9%). The energy trade surplus increased to C\$5.3 bn, as exports were up while imports fell. The non-energy trade deficit widened to C\$7.9 bn. The goods trade surplus with the U.S. fell slightly to C\$3.3 bn. In real terms, Canada's exports rose 1.2% while imports grew 4.7%.

OPINION: While Canada's November trade deficit was larger than expected, the deterioration is not as bad as it seems. We take encouragement from the increase in two-way trade, i.e. increases in both exports and imports. The import surge was partly due to a rebound in the motor vehicles and parts sector which was to be expected following earlier shutdowns and a strike which affected a GM plant in Ontario. More importantly, the jump in imports can be attributed to strong domestic demand. Not only were consumer goods imports up a healthy 2.2%, but imports of machinery and equipment surged in November, pointing to solid business investment spending during Q4 (middle chart). That, however, will be offset by a likely drag on the economy coming from trade. Indeed, thanks to November's surge, real imports are on track to grow faster than real exports in Q4, continuing a trend which started in 2017Q1 (bottom chart). All told, the data is consistent with our view that Canada's GDP growth was near 2% annualized in the last quarter of 2017.

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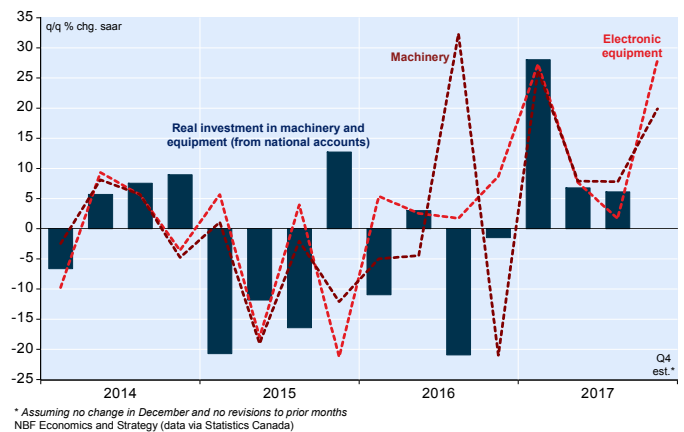
Canada: Trade deficit broadened in November

Merchandise trade balance. Last observation: November 2017



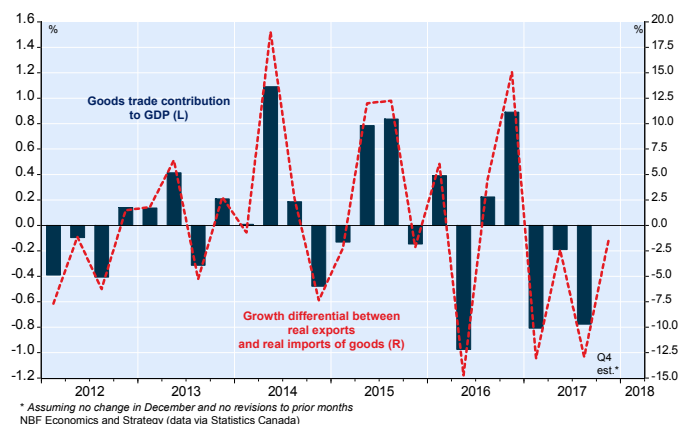
Canada: Business investment resilient in Q4

Real business investment versus Real imports of machinery



Canada: Trade likely a drag on the economy in Q4

Real exports and imports of goods versus Goods trade contribution to GDP



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