ECONOMIC NEWS

Canada: December Trade Data Point to Underlying Weakness

By Randall Bartlett, Senior Director of Canadian Economics

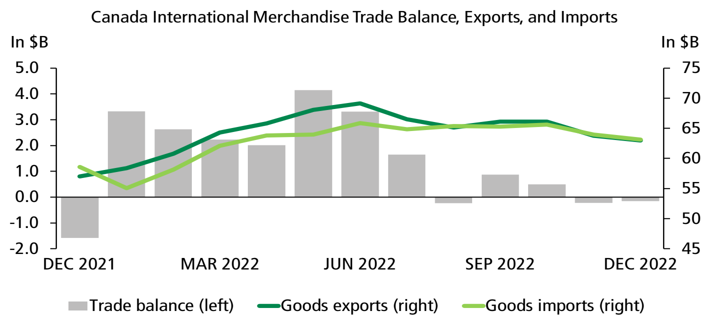
HIGHLIGHTS

- Canada's international merchandise trade deficit narrowed in December, coming in at $160 million from a downwardly revised $219 million in November.
- Exports fell 1.2% to $63.0 billion, to lowest level since February 2022. The decline was concentrated in energy products (-7.6%), while non-energy exports moved in the opposite direction (0.8%), largely on the back of higher auto exports. But with 7 of 11 export categories contracting in the month, December's decline can be reasonably characterized as broad based. This said, the decline was entirely a prices story (-1.9%), as export volumes advanced by 0.7% in the month. On a quarterly basis, Q4 export volumes were down 1.9% annualized.
- At the same time, imports also fell 1.3% to $63.1 billion in December, posting a similarly broad-based decline. Imports of consumer goods led the charge lower (-6.4%), although motor vehicle imports weren't far behind (-6.0%). These categories led the decline in import volumes 1.7% in the month, offset by a modest 0.4% increase in prices. Imports volumes were down 11.7% annualized in Q4.
- Canada's trade surplus with the United States narrowed for a seventh consecutive month, moving to $7.0 billion in December from $7.1 billion in November.

COMMENTS

Today's trade release came as a bit of surprise, as the consensus view was for a further widening in the trade deficit in December. While the decline in energy export volumes was expected, the surge in motor vehicle exports may be more a reflection of supply chains constraints easing as opposed to genuine strength south of the boarder. At the same time, weaker imports of consumer goods and motor vehicles could be a harbinger of a rougher ride ahead for Canadian consumers.

GRAPH
Canada's trade surplus has fallen along with energy prices



Sources : Statistics Canada and Desjardins Economic Studies

IMPLICATIONS

Today's trade release left our tracking for the Canadian real GDP growth in Q4 broadly unchanged. At 1.6%, we continue to expect growth to come in above the 1.3% in the Bank of Canada's January 2023 Monetary Policy Report (MPR). But what it means for Q1 2023 is less clear. Higher export and lower import volumes will mathematically boost the contribution to growth from net exports. But the decline in import volumes point to a consumer that is struggling. And the monthly bump in auto exports may not be sustained. As such, today's release doesn't impact our call for the Bank of Canada to remain on hold before cutting by the end of the year.