HIGHLIGHTS

• In the United States, the trade balance of goods and services improved, moving from -US$48.6B in November to -US$38.5B in December, the smallest trade deficit since January 2010. Exports jumped by 2.1% while imports fell by 2.7%. Contributions from the energy sector are behind this shift.

• In Canada, merchandise exports declined by 0.9% while imports fell 2.8%. As such, the trade balance shifted from -C$1.7B to -C$0.9B. Expressed in real terms, the trade balance improved by C$0.5B in 2007 dollars.

COMMENTS

In the United States, the improvement in the trade balance was much stronger than expected, thanks primarily to the oil trade. In real terms, exports of petroleum products rose by 8.5% in December and imports tumbled by 10.5%. The results posted for December contrast with the estimates of the Bureau of Economic Analysis; this should wipe out most of the negative contribution made by foreign trade, meaning that the change in real GDP for Q4 will have to be revised upwards.

In Canada, the improvement in the trade balance is satisfactory, but it is hiding two bits of bad news. On one hand, the volume of exports continued to trend downwards, with a total decline of 2.5% (annualized) for Q4 2012 as a whole. Canada’s economy remains visibly affected by the weakness in global demand. On the other, imports fell by 2.6%, suggesting that some components of domestic demand have run into difficulties.

Implications: In the United States, the good performance by net exports in December should enable the next estimate of the change in real GDP to move from negative to positive. In Canada, the balance of goods (expressed in real terms) for the fourth quarter is almost exactly at the same level as it was in Q3. The contribution of net exports to real GDP growth will be almost nil for the period, a better-than-anticipated result. However, changes in non-residential business investment could disappoint given the 14% annualized drop in the volume of imported machinery and equipment.