The trade balance surged in September

HIGHLIGHTS

- The balance of merchandise trade jumped from -$1.1B in August to -$0.4B in September.
- This improvement was driven by a 1.8% increase in exports, with the energy and aerospace product industries contributing the most.
- Imports were up only 0.2% for the month.
- In real terms, exports grew 1.9%, while imports slipped 0.5%, shifting the balance from -$1.7B in 2007 dollars to -$0.8B in 2007 dollars.

COMMENTS

Rising exports and the improving trade balance in September are good news as a lot of hope rests on international trade driving Canadian economic growth. Improved U.S. demand certainly has something to do with it, as exports headed south of the border have posted a 5.4% cumulative increase since May.

That said, there is still a large cloud of uncertainty and growth by exports remains fragile. September’s improvement is far from being widespread among industries. In addition, despite the increase of September, the results for the third quarter are not very reassuring. Exports have decreased 3.6% in real terms, while imports have risen 1.3%, resulting in a $1.4B retreat, in 2007 dollars, by merchandise trade balance in the third quarter.

Implications: The growing deficit in merchandise trade will undoubtedly have a negative impact on economic growth in the third quarter. If we also factor in the chronic deficit for services, net exports of goods and services could be close to -$46.5B in 2007 dollars in the third quarter, compared with -$44.6B in 2007 dollars for the previous period. International trade should therefore trim around 0.5% of growth in real GDP in the third quarter. With a positive contribution from domestic demand and inventories, real GDP should still grow slightly more than 2.5%.